Intergovernmental Fiscal Review

2001

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To obtain additional copies of this document, please contact:

National Treasury
Private Bag X115
Pretoria
0001
South Africa

Moeti Kgamanyane (Tel 012-315 5463)
e-mail: moeti.kgamanyane@treasury.gov. za

Paledi Mothapo (Tel 012-315 5948)
e-mail: paledi.mothapo@treasury.gov.za

The document is also available on the Internet at: www.treasury.gov.za

Intergovernmental Fiscal Review

2001

National Treasury

Republic of South Africa

October 2001

PREFACE

Initiated in 1999, the *Intergovernmental Fiscal Review* has become a barometer of provincial and local government fiscal trends. It complements the *Budget Review*, which provides consolidated grant information, but limited detail on provincial and municipal budgets.

This year's issue broadens the analysis to non-financial data, and offers insight into service delivery progress in provinces and municipalities. This fits in with Government's objectives to focus on outputs and service delivery, and to measure performance and ensure efficiency of expenditure. Like with financial information, initially this non-financial perspective is evolving, and will be improved in future issues. However, the *Review* offers a good start, and sets the stage for more comprehensive coverage and more robust analysis.

The broadened focus highlights the pivotal roles of provincial and local governments in the delivery of social and basic services. Through these spheres, South Africans obtain much of their access to education, health care, social development, public housing, roads and basic services like water, electricity and refuse removal. The analysis shows the trends in spending and revenue, and the challenges to ensure higher outputs, of better quality, at levels people can afford. As it seeks to achieve this, Government faces ongoing choices and trade-offs, mostly reflected in fiscal reality. A common thread is budget reform in the provincial and local spheres. Provinces are part and parcel of the multi-year budget process, and reforms are being piloted to put municipalities on the same track. The achievements, ongoing pressures, and constraints that face both spheres are portrayed and it is clear that local government, in particular, has to deal with considerable challenges.

The *Review* offers information, and analytical perspective, to facilitate understanding of these choices in the past, and direction for making them in future. The *Review* is written for non-financial policy analysts, policy makers, political representatives, implementers and academics. It is a major resource to assist stakeholders in understanding the impact of the budget allocation process and policy debates. It should particularly support the various portfolio, standing and other committees in parliament, provincial legislatures and municipal councils to debate and assess budgets and plans for critical services, whether they be school education, health services, social grant payments, housing, provincial roads, the provision of free services (electricity and water), or municipal infrastructure. Importantly, it also allows for comparability between provinces and municipalities, encouraging best-practices being implemented by innovative provinces or municipalities.

I want to thank the Intergovernmental Relations Division in the National Treasury for the extensive analysis that went into producing the publication, and the provinces, departments, municipalities and other stakeholders that so readily provided information and comments. The Social Services and Public Finance Statistics chief directorates provided significant assistance. Lastly, I want to thank Chris Heymans for all his efforts in editing the *Review* and ensuring its publication. It is a considerable contribution to informed and transparent debate, policy development and budgeting.

Maria Ramos
Director-General: National Treasury

Useful Web-sites

Development Bank of Southern Africa (DBSA)	www.dbsa.org
Financial and Fiscal Commission (FFC)	www.ffc.co.za
IDASA	www.idasa.com
Infrastructure Finance Corporation Limited (INCA)	www.inca.co.za
Legislation	
Constitution, PFMA, Division of Revenue Acts	www.parliament.gov.za
Municipal Finance Management Bill	www.treasury.gov.za
National Departments	
Education	www.education.pwv.gov.za
Government Communications (GCIS)	www.gcis.gov.za
Health	www.health.gov.za
Housing	www.housing.gov.za
Minerals and Energy	www.dme.gov.za
National Treasury	www.treasury.gov.za
Provincial and Local Government	www.local.gov.za
Public Service and Administration	www.gcis.gov.za/gov/psa.htm
Social Development	www.welfare.gov.za
Transport	www.transport.gov.za
Water Affairs and Forestry	www.dwaf.pwv.gov.za
Provinces	
Eastern Cape	www.ecprov.gov.za
Free State	www.hst.org.za
Gauteng	www.gpg.gov.za
KwaZulu-Natal	www.kwazulunatal.org
Mpumalanga	www.mpumalanga.co.za
North West	www.users.iafrica.com
Northern Cape	www.ncwebpage.ncape.gov.za
Northern Province	www.northern-province.gov.za
Western Cape	www.westcape.wcape.gov.za
South African Government Information	www.polity.org.za
South African Local Government Association (SALGA)	www.salga.org.za
South African Reserve Bank (SARB)	www.resbank.co.za
South African Revenue Services (SARS)	www.sars.gov.za
Statistics South Africa	www.statssa.gov.za

Abbreviations

CBPWP	Community-based Public Works Programme
CFO	Chief Financial Officer
CMIP	Consolidated Municipal Infrastructure Programme
CWSSP	Community Water Supply and Sanitation Programme
DBSA	Development Bank of Southern Africa
DPLG	Department of Provincial and Local Government
ECD	Early Childhood Development
GAMAP	Generally accepted municipal accounting practice
GFS	Government Financial Statistics
HIV/Aids	Human immuno-deficiency virus / Acquired immuno-deficiency syndrome
IMF	International Monetary Fund
INCA	Infrastructure Finance Corporation
INP	Integrated Nutrition Programme
LED	Local Economic Development
MDB	Municipal Demarcation Board
MEC	Member of the Provincial Executive Council
MinMEC	Meeting of National Minister with the nine Members of the provincial Executive Councils
MinComBud	Ministers Committee on the Budget
MTEF	Medium-term expenditure framework
NaTIS	National Traffic Information System
NGO	Non-governmental Organisation
PFMA	Public Finance Management Act
RAMS	Representative Association of Medical Schemes
RDP	Reconstruction and Development Programme
RSC	Regional Services Council
RTMC	Road Traffic Management Corporation
SALGA	South African Local Government Association
SARB	South African Reserve Bank
SARS	South African Revenue Services
SDDS	Special Data Dissemination Standard
SETA	Sector Education and Training Authority
SNA	System of National Accounts

Technical notes

Adjustments to facilitate comparison over time

Analysis of provincial budgets is distorted by shifts in responsibilities between the three spheres of government. To enable comparisons over time, the figures have to be adjusted to account for shifts in responsibilities between the three spheres of government. These adjustments include the local governments' equitable share, housing funds, hospital rehabilitation and the financial management and quality enhancement agency payments.

Financial years

A financial year for the local government sphere starts on 1 July and ends on 30 June of the following year whereas a financial year for the national and provincial spheres starts on 1 April and ends on 31 March of the following year. In the *Review*, financial years for the local government sphere are indicated by using a (-) between the years e.g. 2000-01 whereas (/) is used for the other two spheres of government, e.g . 2000/01.

GDP deflator

When comparing monetary values from one year to another, it is common to take account of inflation. While it is common to use the consumer price index to adjust amounts for comparison, in Government it is more appropriate to use a different measure of inflation. The GDP deflator is an index that more accurately measures the effects of inflation on the basket of goods and services that government departments buy.

GFS classification

Some technical adjustments to the appropriation account numbers were required as provinces classify expenditure for certain functions differently. This problem will be addressed by the introduction of the GFS classification, as prescribed by the IMF.

Improvements in conditions of service

In some cases, the improvements in conditions of service amounts were distributed by formula in proportion to the budgeted personnel expenditure in the programme.

Rounding off numbers

Appropriation of funds and reporting of expenditure is done in terms of Rand thousands. The majority of the tables in the *Review* reflect numbers in terms of Rand millions. As a result of rounding off, some minor deviations may occur.

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Department of Education, National Schools Register of Needs Survey, 2000, Department of Education, Pretoria

Department of Education, Report on the Senior Certificate Examination, Department of Education, Pretoria, 28 December 2000.

1

Introduction

The service delivery theme

Whether more South Africans gain access to affordable, quality services is integrally tied to the performance of the intergovernmental system. The Constitution distinctly assigns service delivery roles to the three spheres of government, and substantial spending on social, household and economic infrastructure occurs in the provincial and local government spheres. The notion of an equitable share of nationally raised revenue, allocated as entitlement to provincial and local governments, is premised on these roles.

What the Review covers

Building on the first two *Intergovernmental Fiscal Reviews,* this publication provides budget and spending information in sectors managed by provinces and municipalities:

?? While updating all the sectors covered in previous *Reviews,* the 2001 edition also deals with housing and provincial roads. Provinces' annual reports for 2000/01 were not taken into account, but final assessment of those reports should benefit from the observations and analysis here.

?? In addition to the overviews of municipal budgets, transfers to local government and capital investment trends and options in the local sphere, the *Review* also draws initial lessons from the local government transformation process. It highlights fiscal considerations relevant to this process.

?? For the first time, it presents non-financial information to facilitate the assessment of outputs and outcomes. This should support public debate, the work of parliamentary and legislature committees as well as municipal councils, and policy formulation and decision-making in national and provincial departments and municipalities.

To provide the context, this introduction outlines key features of the intergovernmental system, highlights key observations and trends from the *Review* and suggests some points for the agenda as South Africa further consolidates its intergovernmental system.

The intergovernmental system

Apartheid legacy

South Africa is a middle-income country with GDP of R896, 5 billion in 2000/01 and a population of 43,3 million. Economic and social discrimination against black South Africans under apartheid left the country with considerable income inequality along racial lines. Apartheid public budgets directed little expenditure towards education, health, housing and basic needs of black South Africans. A poverty study in 1998 found that the poorest 40 percent of the population earned only 11 percent of income, while the wealthiest 10 percent earned 40 percent.[1]

Post apartheid system

The 1994 post-apartheid system therefore aims to democratise state institutions, redress inequality and extend services to the broader population. The system comprises three "spheres" of government namely national, provincial and local. They are called spheres, rather than tiers or levels, to reflect that they are distinct governments in their own right, each accountable to its own elected legislature or council.

Components of the system

It is necessary to outline briefly the main components of the system:

- South Africa has a unitary system with three spheres, and significant decentralisation of powers, functions and budgeting.
- National Parliament comprises two houses: a national assembly, and a national council of provinces representing provincial legislatures and organised local government.
- The nine provinces each have own legislatures and executive committees, as well as administrative structures.
- There are 284 municipalities, categorised according to whether they are metropolitan, district wide or local structures, and comprised of political and administrative components.[2]
- Provinces are accountable to provincial legislatures, and local governments to councils.
- The system of election at the national and provincial level is one of proportional representation, whilst the local level is a mix of directly elected and proportional representation.
- The Constitution assigns functions to the three spheres of government[3]. National and provincial governments are concurrently responsible for functions like school education, health, welfare and housing. In practice, national government's role is primarily to determine policy, while provincial governments shape some policy and have a considerable role in implementation. Exclusive functions for provinces are not significant in budgetary terms, with the notable exception of provincial roads. Most local government functions involve user fee services like electricity, water and sanitation, but they also provide public goods such as municipal and household infrastructure, streets, streetlights, and refuse collection. Related to the redemarcation of municipal boundaries, processes are underway to decide on a final assignment of powers between district and local municipalities.

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[1] J.May (ed.), 1998, *Poverty and Inequality in South Africa*, Praxis, Durban.

[2] Local government has undergone a three-phase transformation since 1993. The pre-interim phase entailed negotiations in the Local Government Negotiating Forum; the interim phase since 1995 saw the creation of 843 *transitional* municipalities, combining adjoining white and black areas; and the post interim phase started in December 2000, with significantly changed boundaries incorporating urban and rural areas, and a reduced number of 284 municipalities. The new system consists of 6 one tiered urban metropolitan governments or metros, and 232 *primary* municipalities falling within 46 *district* municipalities.

[3] Schedules 4 and 5 of the Constitution divide functions on a concurrent and exclusive basis between the three spheres.

?? The Constitution entrenches '*cooperative governance*', obliging the three spheres of government to cooperate and to negotiate political and budgeting issues between them. Numerous intergovernmental forums, including the Budget Council[4] and Budget Forum[5], facilitate cooperation and consultation in the budget process.

?? Public servants employed by national and provincial governments comprise one single public service (with similar remuneration for similar rankings, irrespective of function). Some 70 percent are in the provinces: a total of about 740 000. Municipal employees are not part of this public service, but are employed by their respective municipalities. Municipalities (and most public entities) tend to have different remuneration scales. A key feature of the public service is the high level of unionisation, and collective and centralised bargaining. This reinforces the uniform nature of the public service, not only in the national and provincial spheres, but it also drives municipalities to converge towards similar conditions of service and salary structures.

The intergovernmental fiscal system

Revenue sharing

South Africa's fiscal system is based on a *revenue-sharing* model, with provinces largely dependent on transfers from the national government, while municipalities are only partially dependent. The underlying principles of the system are grounded in the Constitution and related legislation, and its functioning has evolved since 1994.

Expenditure patterns

Expenditure patterns reflect that national government's role is foremost one of policy making, with provincial and local governments performing major roles in social and basic service sectors (table 1.1). A major fiscal challenge is to support these roles through effective revenue mechanisms.

The actual budget of the national government for 2000/02 is R84 billion, after excluding debt service, intergovernmental grants and grants-in-kind. National government's main spending is not directed at social or basic services: this funding flows through provinces and local government. National direct expenditure is mainly targeted at the criminal justice system (police, justice, prisons) and defence, which make up around 54 percent of its expenditure, after all intergovernmental grants have been excluded. Higher education transfers to universities and technikons make up a further 8,2 percent. Smaller but significant budgets include transport (national roads and rail), water affairs (excluding all grants-in-kind), foreign affairs, administrative functions, home affairs (identity documents and passports), and revenue services.

4 The Budget Council comprises the national Minister of Finance and Members of Executives in the provinces responsible for Finance.

5 The Budget Forum consists of the members of the Budget Council and representatives of organised local government.

Table 1.1 The division of revenue between the spheres of government[1]

R million	1999/00 Actual	2000/01 Budget[2]	2000/01 Revised estimate	2001/02 Budget	2002/03 Medium-term estimate	2003/04 Medium-term estimate
National allocation[3]	66 154	75 212	74 414	84 286	89 954	95 432
Provincial allocation	99 032	106 037	108 736	117 387	126 564	135 221
Equitable share	*86 595*	*94 408*	*96 186*	*104 136*	*112 560*	*120 215*
Conditional grants	*12 437*	*11 629*	*12 551*	*13 251*	*14 004*	*15 006*
Local government allocation	4 419	3 713	5 712	6 506	7 155	7 849
Equitable share	*2 136*	*2 330*	*2 330*	*2 618*	*3 002*	*3 551*
Conditional grants	*2 243*	*1 383*	*3 382*	*3 888*	*4 153*	*4 298*
Allocated expenditure[4]	**169 605**	**184 962**	**188 863**	**208 180**	**223 672**	**238 502**
Percentage shares						
National	*39,0%*	*40,7%*	*39,4%*	*40,5%*	*40,2%*	*40,0%*
Provinces	*58,4%*	*57,3%*	*57,6%*	*56,4%*	*56,6%*	*56,7%*
Local government	*2,6%*	*2,0%*	*3,0%*	*3,1%*	*3,2%*	*3,3%*

[1] The data set out in this table are extracted from the 2001 Budget Review to show broad trends and have not been updated. The provincial figures are not strictly comparable with those contained in other parts of the Review, as they are baseline figures published in the Budget Review in February 2001.
[2]For comparative purposes, local government transfers have been shifted from provincial share to the local government share
[3]Excludes transfer to Umsobomvu Fund of R855 million
[4]Excludes the contingency reserve for the period 2001/02 to 2003/04, which was unallocated at the stage when these figures were compiled in the 2001 Budget Review.

National government's oversight role

National education, health, social development and housing departments focus on policy-making and monitoring rather than implementation, and have small budgets, once grants to provinces and transfers to universities or technikons are excluded. National government also has oversight over public entities, including government business enterprises. Whilst national government has responsibility for few per capita type expenditures, provinces and local government are responsible largely for such population-dependent functions. The more people in a province or municipality, the more pressure on their budgets to spend in order to provide services to local or provincial populations.

Provinces implement

Provincial governments have the largest spending budgets. They are responsible for the implementation of major social services, including school education, health (including academic and regional hospitals, as well as primary health care), social grants and welfare services, housing and provincial roads. Since these functions have limited or no cost recovery potential, provinces are largely dependent on transfers from nationally raised revenue.

Provincial budgets totalled R121,4 billion in 2001/02, comprising R117,5 billion of transfers from national, and R3,9 billion own revenue. The transfers came in the form of unconditional "equitable share"[6] of R104 billion, and R13,4 billion of conditional grants. The

[6] Section 214 of the Constitution provides for revenue-sharing where provincial and local spheres of government are entitled to an unconditional equitable share to enable them to provide basic services and perform the functions assigned to them.

most significant own revenue sources are motor car license fees, casino and horseracing taxes and hospital fees.

Local government has more fiscal capacity

Local government generally has more fiscal capacity than the provinces. Although there are big variances among municipalities, they raise on aggregate about 90 percent of own revenue. Municipalities can raise property tax and turnover/payroll regional levies on businesses, as well as user charges (and a surcharge) on the provision of electricity and water. However, although budgeting on the expectation of collecting all their revenue, many municipalities do not collect a significant portion of revenue due. This results in deficits at the end of the financial year.

No additional taxes (except possibly for local betterment taxes) are planned for local government: the focus is on reforming the current design of local taxes, modernising collection and billing systems and improving the efficiency of expenditure. The budgeting system is also being modernised to provide for multi-year budgets and ensure more realistic revenue projections.

A more supportive system

The Government recognises that the local sphere should be strengthened if it is to discharge its developmental mandate. It is therefore examining refinement of the intergovernmental fiscal system to improve national and provincial support to local government. There is also a concerted attempt to enhance cross-sphere linkages in local planning and budgeting, through the Integrated Sustainable Rural Development Support Programme and the Urban Renewal Strategy.

Functional shifts have fiscal implications

The system continues to evolve:

?? In line with the Constitution, many national and provincial departments are considering which of their functions are best performed in the local sphere, and should be devolved to local government. Functions under such review include housing delivery, primary health care and the district health system, water and municipal policing.

?? Decentralisation of management is also being considered, for functions like education (to regions), health (to districts and hospitals) and justice (cost centers at local court level).

?? Within the local government sphere, legislation promulgated in 2000 lay the basis for a new division of powers and functions between district and local municipalities, and policy processes continue to assign these powers.

These proposed developments have marked fiscal implications. Shifting of functions will not only involve shifts in funds, fiscal powers, assets and liabilities, but also of personnel. This challenge is all the greater, as the pressure to equalise remuneration and conditions of work introduces cost pressures. The fiscal challenge is to manage these pressures to avoid them squeezing out funding for service delivery and non-personnel expenditure.

Fiscal efficiency

Link to macro-economic objectives

Services delivered by the public sector (either directly or through a system of public regulation) are targeted at the delivery of public goods and quasi-monopolistic services, redressing poverty and stimulating economic development. These services and expenditures are directly linked to Government's macro-economic policy objectives. It is therefore critical that the greatest possible outputs are achieved at the lowest possible cost. Innovative alternatives, like private sector participation, make it possible to enhance productive efficiencies and release resources for investment in core priorities and areas of need. Fiscal management is expected to focus on outcomes and outputs, rather than inputs and on the allocation of resources on multi-year policy and strategic objectives. Each sphere is accountable for fiscal discipline, and although receiving fiscal transfers, sub-national governments are expected to improve their revenue-raising potential.

Lessons from the provincial experience

The new provincial governments had little or no time to prepare for their establishment in 1994. Initially, they spent a lot of time just becoming operational, having had to merge 17 different administrations into nine new ones. Since there was a centralised budget process before 1994, most provinces had to develop capacity, expertise and information. The pressures to extend service delivery, in order to correct past injustices, were also considerable.

Capacity problems

The new provincial treasuries were initially not in a position to monitor or control the expenditure of departments. They had to depend on the one-year input-driven budgeting system used at that time, and lacked proper management systems. There were long delays before financial statements were completed, weakening spending accountability. As a result, budget problems were not identified early enough.

Overspending, particularly in departments like education, health and welfare, was only identified late in 1997, during preparations for the 1998 budget. During this time, departments frequently ignored their budgets, and provincial treasuries proved unable to curb spending. All provinces experienced similar over-spending, albeit in varying degrees. This was also due in large part to implementing a nationally negotiated salary agreement and new national policies in the education, health and welfare sectors. Some provincial treasuries ran large overdrafts, and national government was forced to intervene when banks refused to extend additional overdraft facilities to two provinces.

Measures to address problems

Provinces, supported by national government, took a number of initiatives:

?? Spending controls, a freeze on employment, and cutbacks in non-social security expenditure reined in spending. A monthly reporting system was created and the National Treasury assisted provinces in drawing up more realistic budgets for the 1998 financial year.

?? Co-ordination was improved by creating joint intergovernmental forums, between the treasuries and with functional departments. For example, a joint MinMEC comprising the national Ministers of Finance and Education, together with their counterparts in provinces, met at least once a year to co-ordinate policy-making, budgeting and implementation. These structures are supported by technical forums from national and provincial treasuries and line function departments. These forums, referred to as "4x4s", comprise officials from the National Treasury and the national department, as well as officials from three provincial treasuries and three provincial departments. They ensure that budgets and national policy are aligned. Meanwhile, the Budget Council has served as an ongoing platform for policy debate and information flows between the Minister of Finance and MECs for Finance.

?? *Peer learning* played a significant role in the turn-around of provincial finances. When one provincial treasury piloted its three-year budgeting process, its officials were inundated by requests from other provincial treasuries to help implement similar reforms.

?? A further impetus for reform emerged through benchmarking. The publication of the first *Intergovernmental Fiscal Review* in 1999 marked the culmination of attempts to benchmark provincial budgets, especially for the education, health and welfare sectors. In 2000, the *Review* started to cover local government, and this 2001 issue takes the process further with analysis of service delivery.

Finances turned around

These measures helped turn around provincial finances. By 1998/99, a R0, 6 billion surplus replaced the R5, 6 billion deficit a year earlier. Provinces stabilised personnel expenditure, and began shifting funds towards non-personnel budgets and debt payments. The implementation of a multi-year budget from 1998 onwards also helped provinces prepare more realistic budgets in line with policy priorities. Provinces have shown surpluses every year since 1998. This put them in a strong position to eliminate or reduce debt, focus on the micro reforms necessary to improve the quality of spending in education and health, and on increasing their infrastructure budgets.

Some problems remain. Not all provincial governments have improved their revenue collection. Staff costs also remain high, and provinces have to contend with national-level wage negotiations and agreements that are not fully sensitive to their specific fiscal challenges. But the trends have been positive and provide a basis for further consolidation and for learning by all three spheres.

Local government experience

It is harder to assess local government finances. The line item budgeting system inherited in 1994 did not promote in-year management of budgets. Hence, budgets were often not adhered to, making the budget information base inconsistent, lacking uniformity, and of poor quality. There were also delays in preparation and submission of financial statements.

Variance in capacity

There is great variance in fiscal capacity and financial management between municipalities. The major urban municipalities have strong revenue-generating powers, and are only marginally dependent on transfers from national government. Many rural and smaller urban municipalities, however, have very weak fiscal capacity and depend considerably on transfers from national government. A major challenge is to align the elements of local government transformation: developmental management and service delivery; institutional reform and capacity building; the demarcation of boundaries; fiscal reform; and the creation of a vibrant borrowing environment.

Weak information

Local government budget information is often not reliable and is currently fragmented as the newly demarcated municipalities are amalgamating. Outdated budgeting systems and inconsistent accounting or budgeting practices and systems translate into poor recording of data and inaccurate planning. Budgeted and actual figures often differ considerably. Budget reforms, including three-year budgeting, are intended to facilitate improvements in these areas.

The 2001 Intergovernmental Fiscal Review

Eleven chapters focus on service delivery

Concerned with the fiscal foundations for provincial and municipal service delivery, the eleven chapters of this *Review* provide overviews of trends and analyses of key policy issues and fiscal challenges in the intergovernmental system:

Overviews

?? This *Introduction* covers broad trends and the main features and fiscal principles of the intergovernmental system.

?? Chapter 2 reviews provincial budgets and actual revenue and expenditure from 1997/98 through the current MTEF 2003/04. It shows stabilisation in provincial budgets since 1998/99.

Sectors

?? Chapters 3 to 5 deal with the role of provinces in the social sectors, showing a return to real expenditure growth in education, health and social development. Provinces are now positioned for improved service delivery. This follows two years of real declines in 1998/99 and 1999/2000 when they had to pay for their debt and establish sustainable expenditure levels.

?? Chapter 6 examines provincial expenditure on housing and roads. In both sectors, spending has been inadequate, but the MTEF provides for a turnaround.

Cross cutting issues

?? Chapter 7 discusses issues that cut across the sectors served by the provinces, such as personnel, infrastructure development, the conditional grants system, and the implementation of the PFMA.

Local transformation and service delivery

?? Chapter 8 reviews the strategic fiscal environment for local government service delivery and transformation. It highlights key expenditure pressures facing municipalities, such as personnel costs, the reallocation of powers and functions and the funding of basic service delivery, particularly to poor households. It also reviews the policy on free basic services, budget reform, capacity building, integrated development planning, the consolidation of grants, and restructuring of the service sectors.

Municipal budgets

?? Drawing on case studies and aggregate data, chapter 9 provides an overview of municipal budgets. It shows that, charged with a significant role in basic service delivery, municipalities face various budget challenges, such as the demand for services, personnel costs, poor revenue and weak information. The challenge is to plan and budget more accurately and to bolster financial management.

Transfers

?? Chapter 10 discusses transfers to local government, highlighting how national government is refining the system of intergovernmental transfers to municipalities. The chapter raises the challenges of multi-year allocations, grant consolidation, targeting and integration of transfer flows with local budgets.

Capital investment

?? Chapter 11 discusses the need for municipalities to obtain external investment to support their capital programmes. Progress with partnerships is reviewed and some policy challenges identified. Municipalities themselves will make most local capital investment in infrastructure and must be able to borrow wisely in order to make these investments. Over the recent past, there has been little new lending by the private sector to municipalities, and municipalities have come to rely more on public sources of loan finance. The challenge with both borrowing and partnerships is to establish clear and predictable rules and to build the necessary capacity to attract capital.

?? The annexures include the provincial fiscal framework adopted by national government and provinces in 1999. Though it is dated, it reflects the broad approach towards phasing in provincial fiscal powers and fiscal decentralisation. The current *Review* indicates progress made since adoption of the framework. Other annexures include an extract from the *2001 Budget Review* on the division of revenue between the spheres; provincial and local government tables; and demographic information.

Some key pointers

Based on the trends observed in the *Review*, a number of pointers and lessons become clear:

Intentions vs. outcomes

?? Intentions and outcomes are not always in sync. Provincial and local government budgets often show clear intent to address backlogs and poverty alleviation, but poor spending capacity often results in these intentions not being realised. This is particularly true of poorer provinces and weaker municipalities.

Affordability

?? Affordability is a major issue. For example, government has contributed to more than 1,1 million housing opportunities since 1994, and provided many social and basic services, but the beneficiaries can often not afford municipal service charges. The situation has been aggravated by ongoing increases in bulk prices that ultimately get passed on to consumers.

The right incentives

?? Budget choices must balance effective subsidisation of the poor with creating an enabling environment for sustainable growth and development. It is important to design incentives and benefits that minimise the risk of permanent dependency. The fiscal system must reward institutions and individuals that take responsibility, while addressing real poverty-related needs.

HIV/Aids

?? The impact of HIV/Aids is becoming more visible and is likely to be felt severely in the provincial and local spheres.

Personnel challenges

?? The public sector must prioritise managing its personnel. High personnel spending means less is available for service delivery and capital development. Provinces are beginning to break through the constraints, but municipalities face new demands as staff from previously separate structures are amalgamated and often demand remuneration on the scale of the highest common denominator.

Dedicated capacity building

?? Both local and provincial governments require dedicated capacity-building support, particularly to strengthen their financial management. The Public Finance Management Act and the Municipal Finance Management Bill introduce fundamentally new approaches, but their success depends on the ability of the respective spheres and departments to implement them.

Sequenced decentralisation

?? The challenges that confront provinces and municipalities underscore the importance of a well-considered and properly sequenced approach to decentralisation. These spheres will perform their roles better if duly accountable and empowered and not stretch beyond their capacity. When changes are introduced and new requirements set, the trade-offs involved, and the fiscal implications that follow, must be carefully considered.

Non-financial indicators must improve

?? While this *Review*, for the first time, focuses on non-financial information, there is a marked lack of such information and little common methodology for comparisons. Where information is available, it is not *readily* available, indicating many managers do not fully use such data. Reforms to modernise management, including the Public Finance Management Act, aim to change this. The ability to provide information, particularly on the cost-drivers underlying any departmental budgets, is a good indicator of the quality of management.

The need for clear principles

?? The future development of the intergovernmental system would benefit from clarity and debate about its underlying principles. On the basis of the Constitution, various policy documents, legislation and the analysis here, the following could be a point of departure for this debate:

– *Accountability and autonomy:* All governments in the three spheres are distinctive and accountable in their own right, with specific constitutionally defined powers and responsibilities. Each is accountable to its legislature/council only, and empowered to set own priorities. The power of national and provincial governments to intervene in other spheres is confined to where a sphere fails an executive obligation.

– *Good governance:* At the heart of this is the accountability of political representatives to the electorate and transparent reporting arrangements within and between spheres. This is achieved through the electoral process, due reporting to national parliament, provincial legislatures and municipal councils, and an effective flow of information. Whilst political executives are responsible for policy and outcomes, the head officials are responsible for implementation and outputs, and are thus charged with the responsibility of accounting-officer.

- *Redistribution:* All three spheres play roles in redistribution, but because inequalities spread across the national economy, the redistribution of resources is primarily a national function. The equitable share formula therefore relies heavily on poverty-related criteria and various conditional transfers to provincial and local government focus on the poor. In as far as provinces and municipalities undertake redistribution, the challenge is to do this in line with fiscal capacity and not undermine sub-national economic activity and financial viability.
- *Broadened access to services:* The Constitution and current government policy prioritise service delivery to all South Africans. The responsible spheres are expected to broaden access to services at affordable costs to consumers, designing appropriate levels of service to meet customer needs, exploring innovative and efficient modes of delivery, and leveraging public and private resources to acquire capital for investment.
- *Revenue-sharing:* The fiscal system takes into account fiscal capacity and the functions assigned to each sphere, with each empowered to determine its own budgets, collect revenue due and spend funds. Provinces and municipalities are funded through own revenue collected, equitable share allocations and conditional and unconditional grants. The grant system must be simple and comprehensive and not compensate sub-national governments who fail to collect revenue due.
- *Vertical division:* In determining allocations to each sphere, trade-offs are involved between spheres. For this reason, the budget allocation process should be comprehensive, driven by political priorities and covering governance and service delivery. Separate and ad hoc requests for funds fragment budget allocation and undermine political prioritisation.
- *Responsibility over budgets:* Each government has the right to determine its own budget and responsibility to comply with it. To reduce moral hazard and ensure fairness, national government will not bail out provinces or municipalities that mismanage, nor provide guarantees for loans.

Conclusion

Provincial and local governments are mandated to perform critical service delivery roles. The *Review* shows that both have made progress, but that many challenges remain, requiring greater fiscal efficiency across all components of the intergovernmental system. Renewed focus on core principles would add value as the system evolves to sustainably deliver services to all South Africans.

2

Trends in provincial budgets

Prudent financial management paying off

Provincial finances have seen a marked turnaround since 1998/99. Prudent financial management helped provinces turn a combined deficit of R5,6 billion in 1997/98 into a surplus of R0,6 billion in 1998/99. Provinces have since been posting surpluses, which they largely used to repay the 1997/98 deficit and other debts that they incurred in subsequent years.

A basis for expanded delivery

The newly implemented *Public Finance Management Act* (PFMA), and the expanded expenditure envelope for the 2001/02 to 2003/04 medium-term expenditure framework (MTEF), lay a base for provinces to reinforce key programmes and expand service delivery.

The effects should be visible in HIV/Aids programmes in health, the early childhood development programme in education, extended coverage of the social security safety net and infrastructure development.

This chapter provides an overview of revenue and expenditure trends in the provinces. It uses actual expenditure data for the period 1997/98 to 1999/2000, estimated expenditure for 2000/01, and budgeted spending for 2001/02 through 2003/04. Real expenditure is also used to describe trends where appropriate.

The chapter should be read with reference to chapters 2-7, where more detailed analysis covers education, health, social development, housing, roads and transport and some issues that cut across provincial functions. Certain programmes in agriculture and land affairs, the environment and nature conservation (and related tourism) are not covered in this *Review*. While relatively small in budgetary terms, it is recognised that they are critical to economic development and poverty eradication in the rural areas where many poor South Africans live. Attempts will be made to analyse them in future *Reviews.*

Institutional reform and budget performance

Intergovernmental system more streamlined

The last seven years saw significant institutional reform of South Africa's intergovernmental system. This entailed the creation and strengthening of new institutional arrangements, building management capacity and streamlining links between the different spheres of government.

More recently, the PFMA has provided a firmer legal framework for accountable and transparent governance in national and provincial government. Stable budgets and improving financial management mean that provinces can now focus more on quality of spending and value for money.

Overall fiscal position of provinces

Trends in provincial revenue

Total provincial revenue grew at about the same rate as inflation over the three years to 2000/01. National transfers, comprising the equitable share and conditional grants, grew at an average annual rate of 7,1 percent a year. Provincial own revenue grew by 9,3 percent. The growth rate in provincial revenue over this period is however exaggerated by interest revenue derived from significant bank balances held as provinces accumulated surpluses to repay debts.

Provincial expenditure down but set to grow

Because of these debt repayments, total provincial expenditure did not keep pace with inflation. Total provincial expenditure declined by an average annual rate of 1,8 percent in real terms in the three years to 2000/01, but is set to show a very strong recovery through 2003/04, and beyond. This growth will be made possible by substantially reduced provincial debt and increases in national transfers to provinces of R5,4 billion in 2001/02 and R9,4 billion in 2002/03, over baseline. It is also supported by average annual real growth of 1,8 percent in total provincial revenue over this period.

Consolidation of programmes

Focus on social services continues

Social services – health, education and welfare – are a priority. Their share of total provincial spending is expected to stabilise at around 81 percent over the MTEF.

Over the next three years, social services expenditure will grow by 3,1 percent in real terms between 2000/01 and 2001/02, and by a projected 2,6 percent per annum through 2003/04. This will correct recent sluggish growth that resulted from debt overhang, where, despite annual nominal growth of 4,9 percent since 1997/98, expenditure on social services declined in real terms by 1,6 percent.

Welfare expenditure set to rise

Social security grants are an effective mechanism against poverty. Provinces are therefore allocating more resources to welfare programmes, providing for increased take-up rates of the child support grant, while further extending coverage of all other grants. The share of welfare spending in total provincial expenditure is hence projected to rise to over 19 percent over the MTEF.

Scaling up Early Childhood Development

In education, non-personnel spending is set to increase to ensure adequate provision of learning support materials and other complementary inputs. Provincial budgets allow for the scaling up of the provision for early childhood development. Together, these changes will improve efficiency and enhance the quality of teaching and learning.

Increased spending on health and HIV/Aids

Total health spending by provinces grows by 8,8 percent between 2000/01 and 2001/02, and is budgeted to grow at an average annual rate of 7,1 percent through 2003/04. This translates to real growth rates of 2,4 and 1,6 percent, respectively, and puts the health sector in a better position to cope with cost pressures such as HIV/Aids.

Provincial revenue

National transfers

Transfers comprise 95 percent of revenue

Provinces continue to rely on national transfers for most of their revenue. Transfers from national Government comprised over 95 percent of total provincial revenue in 2000/01. These transfers are made up of two components – the equitable share, which constitutes about 84 percent of total provincial revenue, and conditional grants that are approximately 11 percent of total provincial revenue. Table 2.1 lays out trends in provincial revenue.

Table 2.1: Total provincial revenue and expenditure

	Actual			Estimated actual	Medium term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Transfers from national budget	88 874	94 266	99 576	109 220	117 548	126 784	135 452
Of which: equitable share	*83 846*	*81 542*	*86 595*	*96 186*	*104 136*	*112 560*	*120 216*
Conditional grants	*5 028*	*12 723*	*12 981*	*13 034*	*13 412*	*14 224*	*15 236*
Own revenue	3 458	3 433	4 039	4 514	3 904	4 207	4 581
Total provincial revenue	**92 332**	**97 699**	**103 614**	**113 734**	**121 452**	**130 991**	**140 032**
Education	38 492	38 723	39 828	43 255	46 947	50 164	53 335
Health	22 483	23 025	24 110	26 421	28 745	30 433	32 448
Welfare	17 554	18 441	19 373	20 929	22 840	24 620	26 530
Contingency reserve	–	–	–	–	182	632	1 070
All other expenditure	19 435	16 944	16 744	19 892	21 759	24 190	25 716
Total expenditure[1]	**97 964**	**97 133**	**100 055**	**110 498**	**120 473**	**130 039**	**139 099**
Surplus/(deficit)	**(5 632)**	**566**	**3 559**	**3 237**	**978**	**952**	**933**

[1] Total provincial expenditure includes grants earmarked for local government up to 2000/01

Strong growth in equitable share

The growth in national transfers is most marked in the equitable share component. At an average real annual growth rate of 2,2 percent over the next three years, the equitable share is projected to increase from R96,2 billion in 2000/01 to R104,1 billion in 2001/02 and R120,2 billion by 2003/04. This is significant from a fiscal management perspective, because this is the portion of national transfers over which provinces have most spending discretion.

Adjustments to provincial revenue and expenditure

Shifts in responsibilities and flow of funds

As the intergovernmental system evolves and institutional capacity of spheres improves, functions get shifted across spheres. This has had an impact on resource allocation and transfer mechanisms.

Local government equitable share

Table 2.2 shows an adjustment to provincial revenue and expenditure data to exclude grants to the local government sphere that used to flow through provincial revenue funds. These are now included under the local government equitable share allocation, while the R293 town grant has been incorporated into the provincial and local government equitable shares. The above adjustments allow comparability of the data over time, and provide an accurate picture of growth rates in spending.

Table 2.2: Adjusted provincial revenue and expenditure

	Actual			Estimated actual	Medium term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Total provincial revenue	92 332	97 699	103 614	113 734	121 452	130 991	140 032
Total provincial expenditure	97 964	97 133	100 055	110 498	120 473	130 039	139 099
Less: local govt grants[1]	1 999	1 132	463	463	–	–	–
Total adjusted revenue	**90 333**	**96 567**	**103 151**	**113 271**	**121 452**	**130 991**	**140 032**
Total adjusted expenditure	**95 965**	**96 001**	**99 592**	**110 035**	**120 473**	**130 039**	**139 099**

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

Real growth in provincial share

The strong nominal growth rates contained in table 2.3 show that the provincial sphere benefits considerably from the expanded expenditure envelope contained in the 2001 budget framework. Although as a share of nationally raised revenues the provincial share remains fairly stable around 56,5 percent over the MTEF, it grows at an average annual rate of 2,2 percent, in real terms.

Table 2.3: Average annual change in adjusted provincial revenue

	1997/98-2000/01	**2000/01-2003/04**
	% change p.a.	**% change p.a**
Transfers from national budget	7,8%	7,6%
Of which: equitable share	*5,5%*	*7,7%*
conditional grants	*35,7%*	*6,6%*
Own revenue	9,3%	0,5%
Total provincial revenue	**7,8%**	**7,3%**
Consumer Price Index	6,6%	5,1%

Lower growth in conditional grants

Simultaneously, government's policy is to rationalise conditional grants into fewer and more effective transfers. Hence, after increasing through the period to 1999/2000, conditional grants are expected to stabilise over the MTEF. Reflecting the prioritisation of infrastructure development, however, the new provincial infrastructure grant will grow from R0,8 billion in 2001/02 to R2,5 billion in 2003/04.

Provincial own revenue

Four years ago, provinces were optimistic about their own revenue collections, but they now tend to be more conservative.

Some growth in own revenue

In the three years to 2000/01, provincial own revenue grew at an average annual rate of 9,3 percent a year, from R3,5 billion in 1997/98 to R4,5 billion in 2000/01. The strong growth was due, in part, to significantly high positive bank balances that provinces held during this period, as they needed surpluses to repay debts.

…but forecasts are conservative

Due mainly to lower forecasts for interest revenue and conservative estimates of revenue collections, all provinces, except Northern Cape and Northern Province, project a fall in own revenue between 2000/01 and 2001/02. The biggest drop is in KwaZulu-Natal (34,8 percent) and Eastern Cape (15,8 percent).

Varying fiscal capacity between provinces

Table 2.4 shows marked variations in the fiscal capacities of provinces, especially in actual revenue collected by each province. With shares of 25,9 percent and 17,1 percent in 2000/01, respectively, Gauteng and Western Cape account for about 43 percent of total provincial own revenue. While the variations may partly reflect differences in fiscal effort, they show close correlation with the levels of economic activity in the provinces.

Table 2.4: Total own revenues, by province

	Actual			Estimated actual	Medium-term estimate		
R million	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Eastern Cape	222	421	374	395	332	367	399
Free State	263	251	262	306	265	275	281
Gauteng	901	929	1 046	1 168	1 042	1 106	1 177
KwaZulu-Natal	641	432	613	904	589	647	712
Mpumalanga	257	194	363	155	210	225	225
Northern Cape	102	79	79	66	82	87	93
Northern Province	202	295	247	321	324	350	433
North West	304	304	321	425	368	379	398
Western Cape	565	528	733	774	691	771	863
Total	**3 458**	**3 433**	**4 039**	**4 514**	**3 904**	**4 207**	**4 581**
Percentage growth							
Eastern Cape	–	89,2%	-11,1%	5,5%	-15,8%	10,5%	8,7%
Free State	–	-4,3%	4,3%	16,7%	-13,3%	3,7%	2,0%
Gauteng	–	3,1%	12,5%	11,7%	-10,8%	6,1%	6,4%
KwaZulu-Natal	–	-32,6%	41,9%	47,3%	-34,8%	9,8%	10,0%
Mpumalanga	–	-24,7%	87,3%	-57,2%	35,1%	7,3%	0,0%
Northern Cape	–	-23,0%	0,0%	-15,7%	23,6%	6,2%	6,7%
Northern Province	–	45,7%	-16,2%	29,8%	1,0%	8,0%	23,8%
North West	–	0,2%	5,6%	32,4%	-13,4%	2,8%	5,1%
Western Cape	–	-6,6%	39,0%	5,6%	-10,8%	11,6%	11,9%
Total	**–**	**-0,7%**	**17,6%**	**11,8%**	**-13,5%**	**7,8%**	**8,9%**
Percentage of total revenue							
Eastern Cape	1,4%	2,6%	2,2%	2,1%	1,7%	1,7%	1,8%
Free State	4,2%	3,7%	3,7%	3,9%	3,2%	3,1%	3,0%
Gauteng	5,9%	5,7%	6,0%	6,2%	5,1%	5,0%	5,0%
KwaZulu-Natal	3,4%	2,2%	3,0%	4,0%	2,5%	2,5%	2,5%
Mpumalanga	4,7%	3,2%	5,4%	2,1%	2,6%	2,5%	2,3%
Northern Cape	4,6%	3,5%	3,1%	2,6%	2,9%	2,8%	2,8%
Northern Province	1,8%	2,4%	1,9%	2,2%	2,1%	2,1%	2,4%
North West	4,0%	3,8%	3,8%	4,6%	3,7%	3,6%	3,5%
Western Cape	5,6%	4,9%	6,5%	6,5%	5,5%	5,8%	6,2%
Total	**3,7%**	**3,5%**	**3,9%**	**4,0%**	**3,2%**	**3,2%**	**3,3%**

Composition of provincial own revenue

Road Traffic fees a key source of revenue

The data in table 2.5 show that Road Traffic fees are projected to make up about 45 percent of provincial own revenue in 2001/02. These include motor vehicle licences and registrations, driver's licences and learner's permits. Although projected to decline marginally by 0,3 percent this year, road traffic fees will grow faster over the MTEF. The projections are also likely to be more accurate than in previous years, as most provinces now review and revise these every year.

Collection of hospital patient fees improving

The downward trend in hospital patient fees is reversed. The decline in recent years was mainly due to the introduction of free medical care for children under six and expectant mothers and lower numbers of paying patients. However, starting from 2001/02, provinces are projecting growth in these fees. They are making concerted efforts to enhance cost recovery in the health system, including investing in new IT systems, reviewing billing systems and improving incentives by introducing measures such as revenue retention in hospitals.

"All other revenue" disproportionately large

As the figures in table 2.5 also show, at 39,8 percent in 2000/01, the category "all other revenue" is disproportionately large. This is an agglomeration of a range of once-off revenues, most of which are not identified through the financial systems of provinces. However, in future this category of provincial revenue is expected to decrease below 30 percent of total provincial revenue, as provinces improve tax administration and systems.

Table 2.5: Total own revenues, by type of revenue

	Actual			Estimated actual	Medium-term estimate		
R million	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Road Traffic Act fees	1 198	1 256	1 514	1 745	1 739	1 875	2 071
Hospital patient fees	383	346	321	352	411	427	438
Gambling[1]	290	259	170	167	169	178	187
Interest	76	142	268	454	407	479	498
All other	1 511	1 429	1 765	1 796	1 177	1 249	1 386
Total	**3 458**	**3 433**	**4 039**	**4 514**	**3 904**	**4 207**	**4 581**
Percentage growth							
Road Traffic Act fees	–	4,9%	20,5%	15,2%	-0,3%	7,8%	10,5%
Hospital patient fees	–	-9,8%	-7,1%	9,5%	16,8%	3,9%	2,5%
Gambling[1]	–	-10,4%	-34,5%	-1,6%	1,2%	5,1%	5,2%
Interest	–	86,9%	88,4%	69,4%	-10,5%	17,7%	4,0%
All other	–	-5,4%	23,5%	1,8%	-34,5%	6,1%	11,0%
Total	**–**	**-0,7%**	**17,6%**	**11,8%**	**-13,5%**	**7,8%**	**8,9%**
Percentage of total own revenue							
Road Traffic Act fees	34,6%	36,6%	37,5%	38,6%	44,6%	44,6%	45,2%
Hospital patient fees	11,1%	10,1%	8,0%	7,8%	10,5%	10,2%	9,6%
Gambling[1]	8,4%	7,6%	4,2%	3,7%	4,3%	4,2%	4,1%
Interest	2,2%	4,1%	6,6%	10,1%	10,4%	11,4%	10,9%
All other	43,7%	41,6%	43,7%	39,8%	30,2%	29,7%	30,3%
Total	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**

[1] *Gambling includes horse racing/betting and casino levies*

Provincial Tax Regulation Process Bill

Expanded taxation powers for provinces

The *Provincial Tax Regulation Process Bill* is expected to improve the fiscal capacity of provinces. The Bill gives effect to section 228 of the Constitution by laying out a procedure for provinces to introduce new taxes.

The Bill is the outcome of extensive consultation within the Budget Council. While it does not prescribe which taxes provinces can impose, it sets out steps that a province proposing a new tax must follow. Once a tax has been approved, all provinces would be allowed to impose it.

There is wide recognition that laws alone do not mean more revenue, and that fiscal effort must also improve to yield returns. Provinces are therefore currently strengthening their tax administration capacity.

Provincial expenditure

Growth in expenditure

While provincial revenue generally kept pace with inflation over the three years to 2000/01, growth in adjusted provincial expenditure was somewhat slower. It grew at an average annual rate of 4,7 percent a year, from R96,0 billion to R110,1 billion. This is 1,8 percentage points below the average inflation rate.

Provincial liabilities now negligible

However, the lower growth must be viewed against the background of much faster growth in the period up to 1996/97. This culminated in huge budget overruns in provinces, and a combined deficit of R5,6 billion in 1997/98.

To enable provinces to deal with their liabilities, and to place spending on a sustainable trajectory in line with revenue, growth in spending was scaled down in the period up to 1999/2000. Provinces had to budget for surpluses, starting with R0,6 billion in 1998/99. The cumulative surpluses in subsequent years have reduced provincial liabilities to negligible levels.

Strong recovery in provincial expenditure

As a result, provinces are now beginning to allocate more resources to priority programmes. Total provincial expenditure rises from R110,1 billion in 2000/01 to R139,1 billion in 2003/04, an average real growth rate of 2,6 percent per annum.

Table 2.6: Adjusted provincial expenditure

	Actual			Estimated actual	Medium term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Education	38 492	38 723	39 828	43 255	46 947	50 164	53 335
Health	22 483	23 025	24 110	26 421	28 745	30 433	32 448
Welfare	17 554	18 441	19 373	20 929	22 840	24 620	26 530
Contingency reserves	–	–	–	–	182	632	1 070
All other expenditure	17 436	15 812	16 281	19 429	21 759	24 190	25 716
Total provincial expenditure	**95 965**	**96 001**	**99 592**	**110 035**	**120 473**	**130 039**	**139 099**

Provincial surpluses and reserves

Provinces are overcoming debt

Provinces had significant surpluses in the past three years. These surpluses are not purely unspent funds. In the cash based budgeting and accounting system, payments of debts for expenditures incurred in the past are scored in the year in which the payments are effected. The *Government Finance Statistic* system prescribes that funds set aside for debt repayment be recorded as a surplus.

The surpluses also include funds that are committed to specific projects that are underway or services that have been rendered for which payments could not be made by the end of the financial year.

Table 2.7: Provincial surpluses and finance reserves

	2001/02		2002/03		2003/04	
R million	**Surplus**	**Reserve**	**Surplus**	**Reserve**	**Surplus**	**Reserve**
Eastern Cape	340	–	389	–	363	–
Free State	93	50	59	100	26	138
Gauteng	218	–	239	300	304	500
KwaZulu-Natal	–	–	–	–	–	–
Mpumalanga	17	40	15	43	–	47
Northern Cape	–	20	–	21	–	21
Northern Province	219	–	169	–	190	168
North West	–	72	–	168	–	196
Western Cape	92	–	80	–	50	–
Total	**978**	**182**	**952**	**632**	**933**	**1 070**

More confidence in financial management

In addition to the surpluses, provinces set aside funds to cater for unforeseen contingencies and unanticipated expenditure. In the past, all provinces set aside substantial reserves. However, for 2001/02, five provinces – Eastern Cape, Gauteng, KwaZulu-Natal, Northern Province and Western Cape – have not set aside reserves. The other four provinces have only budgeted for a combined reserve amount of R182 million.

The coming into effect of the PFMA thus seems to have made provinces more confident that departments can manage their finances better. This will be bolstered by ongoing capacity building to improve budgeting and financial management.

Composition of provincial expenditure

Social services dominate provincial spending

Alongside municipal basic services, provincial delivery of the critical social services – education, health and welfare – constitute the core of government's pro-poor programmes. Together these social programmes account for over 80 percent of total provincial spending.

The other component of provincial spending goes to economic development programmes such as provincial agricultural support, roads and other economic and rural infrastructure, including parks and other tourism infrastructure.

Variations across provinces

Spending and service delivery trends in specific functional areas, as well as inter-provincial comparisons, are analysed in other chapters.

These analyses offer important nuances, as the aggregates presented here mask variances across the provinces. Table 2.8 shows variations in the share of social services across provinces, compared to the national average. This is explained by differences in demographic profiles, prioritisation and budgetary choices made by provinces, among other things.

Table 2.8: Expenditure on social services

	Actual			Estimated actual	Medium term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Social services	81,8%	83,5%	83,7%	82,3%	81,8%	80,9%	80,7%
Education	40,1%	40,3%	40,0%	39,3%	39,0%	38,6%	38,3%
Health	23,4%	24,0%	24,2%	24,0%	23,9%	23,4%	23,3%
Welfare	18,3%	19,2%	19,5%	19,0%	19,0%	18,9%	19,1%
Non-social services	18,2%	16,5%	16,3%	17,7%	18,2%	19,1%	19,3%
Total	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**
Percentage of provincial expenditure							
Eastern Cape	84,2%	85,9%	86,0%	83,1%	83,4%	81,0%	81,4%
Free State	77,7%	77,6%	83,4%	82,0%	78,7%	78,4%	78,4%
Gauteng	85,9%	85,2%	85,2%	84,9%	84,4%	83,1%	82,1%
KwaZulu-Natal	82,2%	86,5%	85,5%	84,4%	84,3%	83,8%	83,6%
Mpumalanga	75,5%	78,6%	78,4%	77,5%	76,3%	75,8%	76,7%
Northern Cape	79,0%	82,1%	81,7%	78,5%	77,3%	76,3%	76,3%
Northern Province	80,8%	82,4%	81,9%	80,3%	79,4%	78,7%	78,0%
North West	73,8%	76,1%	76,8%	76,8%	77,7%	78,6%	78,1%
Western Cape	85,4%	86,2%	85,4%	84,1%	83,1%	82,3%	82,7%
National Average	**81,8%**	**83,5%**	**83,7%**	**82,3%**	**81,8%**	**80,9%**	**80,7%**

Personnel expenditure

Personnel expenditure comprises 57,3 percent

Personnel expenditure comprises the bulk of total current expenditure in provinces – 57,3 percent in 2000/01. Table 2.9 shows that until 1999/2000 the share of personnel spending was on the increase, from 56,2 percent in 1997/98 to 58,8 percent in 1999/2000.

Although total personnel spending grew slightly slower than the inflation rate in this period, it still grew faster than the other components of expenditure. Growing at an average annual rate of 5,3 percent, it rose faster than total provincial expenditure (4,7 percent), and much faster than non-personnel expenditure (3,8 percent). This was largely due to increases in health, education and personnel numbers and the 1996 wage agreement.

…but personnel spending growth slowing

Personnel expenditure is however set to grow slower than total expenditure and other components of current expenditure. Its share is expected to decline to 53,8 percent by 2003/04. However, the need to fill critical posts and/or retain specialist personnel, for example in health, might impede some provinces' ability to reduce personnel costs this rapidly.

Table 2.9: Expenditure by economic classification

	Actual			Estimated actual	Medium term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Current expenditure	87 834	89 783	93 167	102 393	109 092	116 420	123 952
Personnel	*53 925*	*56 643*	*58 593*	*63 024*	*67 166*	*70 913*	*74 828*
Transfers	*21 683*	*21 534*	*21 614*	*23 940*	*25 223*	*27 444*	*29 517*
Other current	*12 226*	*11 607*	*12 959*	*15 429*	*16 703*	*18 063*	*19 608*
Capital expenditure	8 131	6 218	6 426	7 642	11 199	12 987	14 077
Contingency reserve	–	–	–	–	182	632	1 070
Total	**95 965**	**96 001**	**99 592**	**110 035**	**120 473**	**130 039**	**139 099**
Percentage composition:							
Current expenditure	91,5%	93,5%	93,5%	93,1%	90,6%	89,5%	89,1%
Personnel	*56,2%*	*59,0%*	*58,8%*	*57,3%*	*55,8%*	*54,5%*	*53,8%*
Transfers	*22,6%*	*22,4%*	*21,7%*	*21,8%*	*20,9%*	*21,1%*	*21,2%*
Other current	*12,7%*	*12,1%*	*13,0%*	*14,0%*	*13,9%*	*13,9%*	*14,1%*
Capital expenditure	8,5%	6,5%	6,5%	6,9%	9,3%	10,0%	10,1%
Contingency reserve	–	–	–	–	0,2%	0,5%	0,8%
Total	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**

The figures in table 2.10 also reflect a marked turnaround in both social transfers and "other current" expenditure – respectively projected to grow some 3,7 and 0,7 percentage points faster than inflation.

Table 2.10: Average annual change in adjusted provincial expenditure

R million	**1997/98-2000/01**	**2000/01-2003/04**
	% change p.a.	**% change p.a**
Current expenditure	5,2%	6,6%
Of which: personnel	5,3%	5,9%
Transfers	3,4%	7,2%
other current	8,1%	8,3%
Capital expenditure	-2,0%	22,6%
Total expenditure	**4,7%**	**8,1%**
Consumer Price Index	6,6%	5,1%

The higher growth in transfers is mainly due to increases in social security grants. The strong growth in "other current" expenditure is largely due to increased allocations for quality-enhancing inputs such as learning support materials in education, medicines and other consumables in health.

Non-personnel expenditure

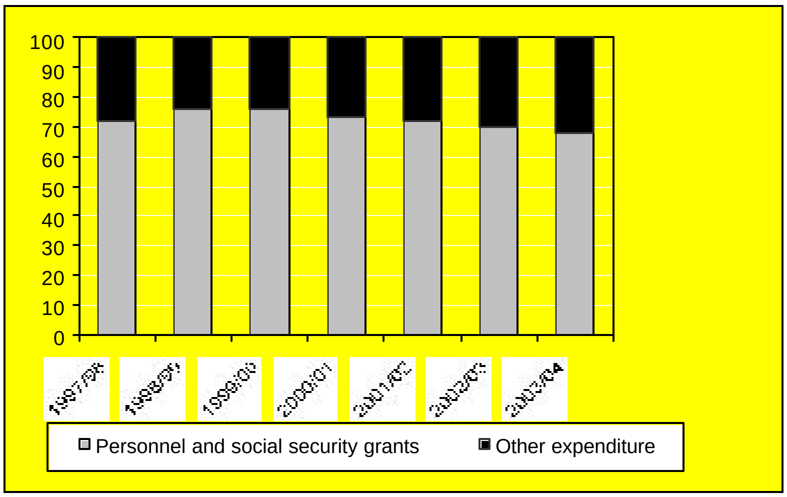
Increased allocations for non-personnel spending

The slowdown in provincial spending over the three-year period to 2000/01 was largely due to a reduction in non-personnel expenditure. The share of non-personnel expenditure dropped by about 2,8 percentage points between 1997/98 and 1998/99, from 43,8 to 41 percent. While the decline in non-personnel spending occurred in both social and non-social services, its impact is more pronounced in the latter case. Non-personnel spending in the non-social services functions dropped by over 7,7 percent between 1997/98 and 2000/01, while it increased by 0,8 percent in social services.

Capital expenditure set to increase

However, as Figure 2.1 shows, the 2000 Budget saw the beginning of a reversal in this trend. Total provincial capital expenditure grew by 18,9 percent between 1999/2000 and 2000/01, and is projected to grow at an average annual rate of 22,6 percent through 2003/04. Despite starting from a substantially lower base, growth rates of this magnitude will reduce backlogs, especially if accompanied by low debt obligations.

Figure 2.1: Fixed costs as share of adjusted expenditure



Prioritising provincial infrastructure

Falling share of capital expenditure

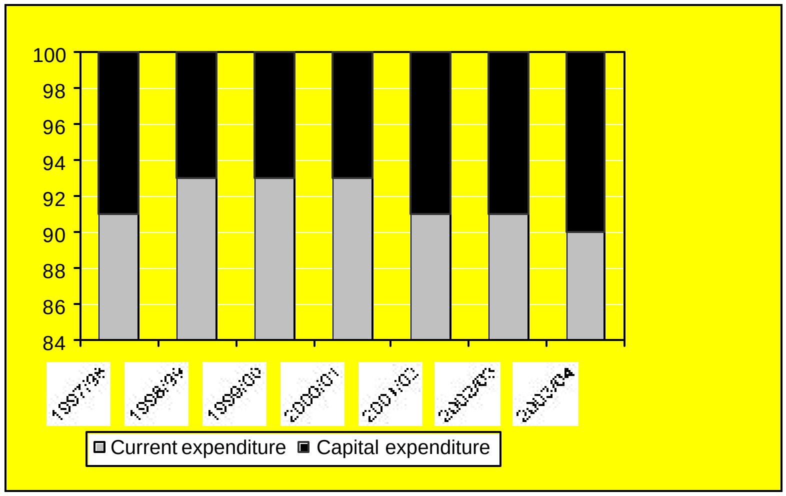
During the period up to 1999/2000, provinces sought to service their debts while simultaneously providing social services. As a result, provincial capital expenditure declined from 8,5 percent of total provincial spending to about 6,9 percent in 2000/01. Details of this are contained in chapter 7 and figure 2.2 depicts these trends.

…but marked increase over next three years

The 2001 Budget identifies infrastructure spending as one of the key priorities for the 2001-2004 MTEF. Having successfully dealt with their debts, and assisted by the expanded expenditure envelope, provinces are budgeting for substantially increased spending on infrastructure.

Budgeted capital expenditure in 2001/02 is 46,6 percent higher than the estimated outcome for 2000/01. The turnaround in provincial capital expenditure will see its share rising to about 10 percent by 2003/04, thus surpassing past levels. To achieve this requires a focused effort to enhance capacity for the planning and implementation of projects. Faced by a disappointing failure to meet budgeted expenditure projections in 2000/01, such capacity-building currently receives attention in several provinces.

Figure 2.2: Capital and current expenditure: 1997/98 to 2003/04



Budget priorities and spending pressures

Using fiscal strength to improve services

Mindful of the need to translate the benefits of a strong fiscal position into accelerated service delivery, government is consolidating delivery of social and other services.

Social security grants probably represent the most effective poverty alleviation programme of government. However, grant increases over the last three years have been below inflation, eroding their real value. Higher increases could not be effected amidst uncertainty about the full budgetary impact of the rising take-up of the child support grant.

The current budget framework makes provision for increases in social security grants that are at least equal to inflation. Nonetheless, sharp changes to beneficiary numbers, the greater dependence on grants likely to be created by HIV/Aids, and the impact of grant types not coupled with upward revisions of provincial funding, could impede these efforts.

Cost pressures arising from HIV/Aids

HIV/Aids and related diseases continue to impose pressure on provincial health budgets. Total health spending grows by 8,8 percent between 2000/01 and 2001/02, and is budgeted to grow at an average annual rate of over seven percent over the next three years. This should help put the sector on a sound footing to cope with the disease. Further upward revision may nonetheless become necessary.

Rollout of ECD programmes

Early childhood development is central to improving the efficiency and effectiveness of the education system. After running pilot programmes for a number of years, government plans to increase coverage significantly over the next ten years. In the poorer and predominantly rural provinces, this is expected to have significant budgetary implications.

More spending on infrastructure needed

Starting from 2000/01, provinces are allocating increasing amounts to infrastructure. This will reduce backlogs in maintenance of existing infrastructure and expand public capital stock to previously disadvantaged areas. Partnerships with the private sector will be necessary to leverage more investment and expertise. The Public-Private Partnership Unit in the National Treasury is playing an active role supporting the provinces in this regard.

Conclusion

Through sound financial management, provinces have placed their finances on a firm footing. The challenge now is to translate the gains of prudent fiscal management into tangible development that creates a better life for all South Africans. Current spending and budget trends suggest that provinces are consolidating social services delivery, increasing capital expenditure, and enhancing the quality of spending. Their capacity will continue to be tested by the need for social services and infrastructure.

3

Education

South Africa has made progress in turning education around. This has been an arduous task, as apartheid denied millions, especially black people, access to good education.

Transformation of education is about equity, quality and a skills base adaptable to the changing global economy. All this has to be achieved in a context of weak management experience, tight resource constraints, poorly trained teachers and a culture where learning had fallen by the wayside.

Expenditure trends

This chapter analyses expenditure trends in education, with emphasis on the forward estimates for provincial education departments. Education expenditure rose rapidly in 1996/97, partly due to the 1996 salary agreement discussed in chapter 7. This level of growth in budgets was unsustainable. In order to achieve long-term transformation of the education system, budgets had to be placed on more sustainable footing. Education expenditure has declined by about 9,5 percent in real terms since, and a concerted effort has been made to bring personnel spending under control. The 2000 Budget marked a shift towards renewed growth in provincial education spending.

Non-financial education indicators

While expenditure trends are important, measuring actual performance and outputs are more important. This requires a focus on non-financial information, like service delivery indicators. The purpose is to give the public, as well as education managers, a better sense of the quality of spending, the impact of policies and budgets and to support forward planning. The analysis of expenditure trends is followed by a brief examination of non-financial indicators in education across the provinces. This includes enrolment trends, classroom provision, water and sanitation in schools, the provision of textbooks and school-leaving exam results.

Provincial education expenditure trends

Historical trends

Aggregate education expenditure

In 1996/97, provincial education expenditure rose by 22,1 percent. Table 3.1 shows key features of this increase. This dramatic rise was due to increased salaries for teachers, new teachers appointed to ensure lower pupil-teacher ratios, the costs of amalgamating various departments, and in some cases, poor financial management systems. Education spending then stabilised in most provinces, and between 1997/98 and 2000/01 declined on aggregate by an annual average of 2,4 percent in real terms. Personnel expenditure declined by about

1,7 percent per annum, and non-personnel spending by 8,9 percent per annum in real terms.

Table 3.1: Provincial education expenditure

R million	Actual			Estimated actual	Medium-term estimate		
	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Personnel	34 095	35 252	36 118	39 237	41 215	43 376	45 734
Capital	842	481	459	501	1 162	1 791	2 099
Other recurrent	3 554	2 990	3 251	3 517	4 570	4 997	5 503
Total	**38 492**	**38 723**	**39 828**	**43 255**	**46 947**	**50 164**	**53 335**
Percentage change (av. Annual)	1997/98 – 2000/01				2000/01 – 2003/04		
Personnel	4,8%				5,2%		
Capital	-15,9%				61,2%		
Other recurrent	-0,4%				16,1%		
Total	**4,0%**				**7,2%**		

Provincial growth rates

Provinces where real declines between 1996/97 and 1999/2000 were most pronounced are Western Cape (5,3 percent), Eastern Cape (4,2 percent) and KwaZulu-Natal (2,4 percent). Table 3.2 shows that education spending has on aggregate declined as a percentage of provincial expenditure since 1997/98, although some provinces (Free State, Mpumalanga, and Northern Cape) have experienced upward movements. Table 3.3 provides nominal spending figures.

Table 3.2: Education as percentage of provincial expenditure

Percentage of total expenditure	Actual			Estimated actual	Medium-term estimate		
	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Eastern Cape	42,0%	42,6%	40,7%	39,7%	40,1%	40,1%	39,8%
Free State	37,0%	37,1%	42,0%	40,7%	39,3%	39,0%	39,0%
Gauteng	37,7%	37,3%	37,5%	37,6%	36,8%	36,4%	35,9%
KwaZulu-Natal	37,8%	38,5%	37,9%	37,8%	38,4%	37,8%	38,2%
Mpumalanga	41,8%	43,3%	43,1%	42,8%	39,5%	38,5%	39,3%
Northern Cape	35,6%	37,7%	36,4%	36,7%	36,4%	36,1%	36,4%
Northern Province	48,2%	48,2%	46,1%	44,2%	44,5%	43,8%	42,4%
North West	42,0%	41,2%	41,7%	40,3%	39,4%	39,2%	38,6%
Western Cape	36,9%	36,3%	35,7%	34,9%	34,7%	34,5%	34,3%
Total	**40,1%**	**40,3%**	**40,0%**	**39,3%**	**39,0%**	**38,6%**	**38,3%**

Improved education management

Lower spending did not necessarily mean lower quality. Financial management improved, greater equity was achieved in the deployment of teachers, and personnel costs were brought down. Budgets are now more sustainable, with more balanced ratios of personnel, capital and other recurrent spending. The introduction of the Tirisano Campaign in 1999 extended these improvements into the schoolground. Focusing on school performance, this campaign played an important role in creating stability in schools, involving parents in school management and improving the culture of learning.

Table 3.3: Provincial education expenditure

	Actual			Estimated actual	Medium-term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Eastern Cape	6 765	6 585	6 616	7 191	7 825	8 364	8 828
Free State	2 539	2 613	2 785	2 990	3 239	3 427	3 628
Gauteng	5 865	6 055	6 310	6 834	7 418	7 964	8 423
KwaZulu-Natal	7 280	7 130	7 299	8 185	9 177	9 820	10 708
Mpumalanga	2 506	2 624	2 809	2 997	3 204	3 424	3 784
Northern Cape	839	900	906	965	1 041	1 117	1 201
Northern Province	5 546	5 795	5 854	6 370	6 860	7 384	7 707
North West	3 240	3 196	3 408	3 699	3 888	4 133	4 325
Western Cape	3 912	3 823	3 840	4 023	4 296	4 531	4 732
Total	**38 492**	**38 723**	**39 828**	**43 255**	**46 947**	**50 164**	**53 335**
Percentage change (Average Annual)	**1997/98 – 2000/01**				**2000/01 – 2003/04**		
Eastern Cape	2,1%				7,1%		
Free State	5,6%				6,7%		
Gauteng	5,2%				7,2%		
KwaZulu-Natal	4,0%				9,4%		
Mpumalanga	6,1%				8,1%		
Northern Cape	4,8%				7,6%		
Northern Province	4,7%				6,6%		
North West	4,5%				5,4%		
Western Cape	0,9%				5,6%		
Total	**4,0%**				**7,2%**		

Real increases from 2000/01

After three years of decline, education spending began rising in real terms in 2000/01. Aggregate education expenditure grew by 1,4 percent in 2000/01, due to larger transfers to provinces, healthier provincial budget balances and reduced provincial debt. In KwaZulu-Natal, education spending grew 4,7 percent in real terms in 2000/01, with strong growth also achieved in Eastern Cape (1,5 percent) and Northern Province (1,6 percent). Significantly, in an important shift, both capital and non-personnel expenditure grow in real terms. Compared to a 1,1 percent real growth in capital and non-personnel expenditure, personnel expenditure grows by 1,5 percent in 2000/01. This contrast is even more significant, as personnel spending faced upward pressures due to an extraordinary payment of severance packages. These packages are discussed in the section on personnel trends elsewhere in this chapter.

Actual expenditure was R43,255 billion

Table 3.4 shows actual provincial outcome across provinces. Total provincial education budgets for 2000/01 were R43,255 billion. The original budget was adjusted by R2,557 billion to R44,7 billion, mainly because of higher than expected salary increases, and bringing forward annual bonuses normally paid in April of the next financial year to January, February and March of the 2000/01 financial year.

Total actual education spending for 2000/01 amounted to R43,255 billion. This reflects an increase of R3,4 billion or 8,6 percent compared to 1999/2000 actual expenditure, and is over

R1 billion or 2 percent lower than the adjusted budget. Actual expenditure in Gauteng and Eastern Cape is substantially lower than their adjusted budgets and closer to their voted budgets. Actual expenditure in KwaZulu-Natal is moderately lower than its adjusted budget.

Table 3.4: Actual outcome for 2000/01 in education

	2000/01 Budget	2000/01 Adjustments Estimate	2000/01 Actual Outcome	Actual Outcome as % of Adjusted Budget
Eastern Cape	7 187	7 440	7 191	96,7
Free State	2 951	3 153	2 990	94,8
Gauteng	6 835	7 418	6 834	92 1
KwaZulu-Natal	7 840	8 367	8 185	97,8
Mpumalanga	2 818	3 038	2 997	98,7
Northern Cape	914	965	965	100,0
Northern Province	5 992	6 379	6 370	99,9
North West	3 517	3 733	3 699	99,1
Western Cape	4 090	4 208	4 023	99,8
Total	**42 144**	**44 701**	**43 255**	96,7

Teacher-training colleges

Teacher-training colleges are being transferred from provincial education departments to the national education department. This is part of a strategy to create a more coherent higher education system incorporating all aspects of tertiary education. In the main, teacher-training colleges are being incorporated into existing universities. However, where this has not been possible, teacher-training colleges have been amalgamated to ensure that they are viable in the long-term.

More trained teachers required

While there has been a reduction in the number of teachers since 1997, Government is likely to maintain a teaching core of about 350 000. The present number of teachers is 346 000. Approximately 12 000 to 15 000 teachers a year leave the system due to natural attrition. This rate of about 4 percent is standard, if not low, by international standards. However, South Africa would have to increase the number of teachers that it trains to meet these requirements and replace departing teachers.

Medium-term projections

Education spending set for real rise

The boost in provincial spending in 2001/02 is reflected in education budgets too, with budgeted real growth of 2,2 percent. Over the MTEF period, 2000/01 to 2003/04, when total provincial spending is projected to grow in real terms by 2,3 percent a year, education spending will rise by an average 1,7 percent a year.

This real growth will occur especially in KwaZulu-Natal, Mpumalanga, Eastern Cape and Gauteng. In North West and Northern Cape, spending grows slightly slower than inflation. After adjusting for once-off items of expenditure – such as severance packages – all provinces project real growth higher than 2,5 percent, with KwaZulu-Natal's expenditure growing at over 6 percent a year.

Capital spending rises rapidly

Table 3.5 shows that personnel spending increases over the MTEF, while table 3.1 showed simultaneous growth in capital spending. In real terms, personnel spending stays relatively constant. Even though it may be difficult to achieve such rapid growth in capital spending, it does reflect a commitment by provincial governments to tackle classroom backlogs, the lack of water, sanitation and electricity, and the shortage of furniture in schools. Other non-personnel spending rises by 10,1 percent a year in real terms over the period. This should allow for greater provision of textbooks, equipment and teacher support programmes than during the past four years.

Table 3.5: Personnel expenditure for education by province

	Actual			Estimated actual	Medium-term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Eastern Cape	5 850	6 031	6 371	6 771	6 956	6 988	7 352
Free State	2 265	2 388	2 472	2 674	2 812	2 970	3 137
Gauteng	5 153	5 289	5 345	5 841	6 268	6 765	7 171
KwaZulu-Natal	6 531	6 503	6 721	7 535	8 273	8 753	9 338
Mpumalanga	2 289	2 434	2 587	2 788	2 853	3 015	3 220
Northern Cape	732	746	773	814	872	928	978
Northern Province	4 988	5 469	5 401	5 871	6 025	6 468	6 727
North West	2 875	3 018	3 129	3 403	3 393	3 555	3 728
Western Cape	3 412	3 374	3 318	3 542	3 764	3 932	4 082
Total	**34 095**	**35 252**	**36 118**	**39 237**	**41 215**	**43 376**	**45 734**

Provinces spend average of R3 658 per learner

The gap in spending per learner across provinces has narrowed since 1996. Nevertheless, there are still significant disparities. In 2000/01, provinces spent an average of R3 658 per learner. The provinces that spent the most per learner are Northern Cape (R4 801), Gauteng (R4 396) and Western Cape (R4 392). The Northern Cape spends 23,8 percent above the national average while Gauteng spends 16,8 percent more. Provinces that spent the least per learner are KwaZulu-Natal (R3 067), Eastern Cape (R3 436) and Northern Province (R3 453).

The reason for these disparities mainly lie in variations in the number of learners enrolled in the province as a percentage of population. Poorer provinces have a higher number of children and a legacy of high failure rates. Class sizes are larger and there are fewer qualified teachers.

14,6 percent to non-personnel spending

In 1998, provincial education departments and provincial treasuries agreed to move non-personnel budgets up to at least 15 percent of total education expenditure. The MTEF projections for 2003/04 show that all provinces with the exception of Northern Province, Free State and KwaZulu-Natal are expected to meet this target.

On average, non-personnel budgets will rise to about 14,6 percent of total expenditure by 2003/04. While provincial budgets grew relatively slowly between 1997/98 and 2000/01, healthy growth is forecast for the MTEF period. This growth, especially in capital and non-personnel expenditure, combined with developments in improved school and district management, bodes well for turning school education around.

Conditional grants in the education sector

In contrast to the health sector, conditional grant funding has not played an important role in the education sector. Amounts are relatively small and focused on specific initiatives to transform the education system. This is evident in table 3.6.

Table 3.6: Transfers and spending of education grants

	Actual	Actual Transfers and Expenditure		Estimated Actual		Medium-term estimate		
		1999/00		2000/01				
Grants	**1998/99**	**Transfers**	**Spending**	**Transfers**	**Spending**	**2001/02**	**2002/03**	**2003/04**
Classroom backlogs	39	–	–	13	–	–	–	–
ECD	–	–	–	–	–	21	52	88
Financial management	26	192	99	202	150	213	224	234
HIV/AIDs	–	–	–	26	6	64	–	–
Total	65	192	99	241	156	298	276	322
Under-spending	–	–	93	–	100[1]	–	–	–
Provincial roll overs	–	–	–	48	–	–	–	–

1 Under-spending includes R48 million provided for roll overs at provincial level

Quality improvement and financial management

The largest conditional grant was introduced in 1998/99 with an allocation of R100 million to support quality enhancement and improvement of financial management in education departments. As with several other grants, expenditure was slow to start but has improved in recent years. While transfers of money to provinces are now flowing smoothly, some delays have taken place in spending. The grant is set to increase to R234 million in 2003/04. It supports, among other things, strengthening of district management in education, financial management in departments, and projects aimed at restoring the culture of learning and teaching in schools (COLTS).

Three other conditional grants flow to provincial education departments:

HIV/Aids

?? A portion of the special allocation for an integrated strategy to confront HIV/Aids funds lifeskills training in schools, aimed at prevention through inducing behavioural change. In 2000/01, R26 million was allocated for this purpose, and R64 million in 2001/02. Amounts are set to grow over the MTEF.

Early Childhood Development

?? A new grant introduced in 2001 enables piloting of models of early childhood development (ECD). Building on earlier donor-funded projects, amounts allocated are R21 million in 2001/02, R52 million in 2002/03 and R88 million in 2003/04.

Infrastructure

?? The education sector is also set to benefit substantially from the conditional grant for infrastructure to provinces, initiated in 2001.

?? A small amount from the central poverty relief allocation supports innovation in school-building.

Personnel trends

Staff categories

As table 3.5 showed, personnel spending grew at an annual average rate of 4,8 percent from R34,1 billion in 1997/98 to R39,2 billion in 2000/01. This was below the inflation rate. Table 3.7 analyses the actual numbers of educational personnel in the provinces. Of the personnel listed below, about 346 000 are educators. The remaining 63 000 fall into two categories – those who staff the administrative sections of education departments, including provincial head offices and district offices; and staff based at schools performing a clerical, cleaning or security function.

Table 3.7: Provincial education departments personnel numbers

	2000/01	2001/02	Civil servants per 1000 people
Eastern Cape	76 754	75 339	11,2
Free State	29 841	29 338	10,5
Gauteng	60 027	57 272	7,4
KwaZulu-Natal	79 593	78 511	8,7
Mpumalanga	29 559	28 376	9,5
Northern Cape	9 389	8 888	10,0
Northern Province	61 570	60 730	11,4
North West	37 676	36 436	10,1
Western Cape	34 489	34 440	8,3
Total	**418 898**	**409 330**	**9,7**

Rationalisation and redeployment process

In early 1999, Government and teacher unions signed an agreement dealing with rationalisation and redeployment. This agreement used provincial education budgets as a basis for determining the number of educator posts available. Schools were then allocated a number of posts, based on a formula that took into account the subject mix of the school and the number of learners. Educators within schools were then absorbed into this post allocation. Temporary teachers, or teachers who could not be accommodated were asked to apply for vacant posts in schools that advertised vacancies. The contracts of temporary teachers who could not be absorbed into the system were not renewed, while permanent teachers still remain within school establishments, sometimes surplus to the school.

This process of rationalisation and redeployment has contributed towards more equal learner:educator ratios and resulted in a decrease of over 24 000 teachers. This process is drawing to an end in most provinces.

During 2000/01, personnel expenditure growth is R3 billion, or 8,6 percent higher than 1999/2000. This is slightly above inflation and mainly due to the payment of severance packages and annual service bonuses in the first three months of calendar year 2001. As the process of rationalising and right-sizing education departments draws to an end, a larger than normal total amount of severance payments were made during 2000/01. Adjusting for these anomalies, personnel spending continued to decline by about 1 percent in real terms in 2000/01.

Non-financial indicators in education

Progress with service delivery indicators

Non-financial indicators give the public additional information to judge provincial education departments' performance. Recent years have seen improvements in the data available on a range of issues such as basic components of the system (enrolment), inputs (personnel, classrooms and other infrastructural services) and outputs (matric results). Nonetheless, important gaps remain, particularly with regard to outputs and impact before the final school year and in providing indicators of effectiveness and quality.

Enrolment rates, learner:educator ratios and classrooms

Impressive school enrolment ratios

School enrolment in South Africa increased steadily throughout the late 1980s and accelerated rapidly after 1994. Enrolment went up by almost 2 million during this period. In 1996, school enrolment as a percentage of the age cohort that ought to be in school reached 101 percent. This enrolment rate signalled that Government has successfully tackled the question of access to basic education. Other indicators can assist to assess equity and quality.

Table 3.8 indicates that there has been a 4 percent decline in enrolment between 1996 and 2000. Eastern Cape, Western Cape and KwaZulu-Natal have had the largest percentage reduction in learners. Educators numbers declined too, but by less than learner enrolment rates. This has resulted in a lower learner:educator ratio in 2000 of 32,7. Provinces that have made significant reductions in learner:educator ratios are the Eastern Cape, KwaZulu-Natal and Mpumalanga.

As pass rates improve and enrolment patterns revert to normal demographic patterns, enrolment rates are likely to slow down. Preliminary estimates from 2000 Department of Education data signal that this slowdown has already begun. The policy of increasing the minimum school-going age to 7 has also helped reduce net enrolment rates. Table 3.8 shows how enrolment has decreased from 1996 levels. South Africa should experience a decline in school enrolment over the next ten years as pass rates improve and population growth slows.

Independent schools

There are 243 732 pupils (2,1 percent of all learners) in 963 independent schools. The highest number of pupils in independent schools is in Gauteng 117 531 (7,6 percent of learners in the province), followed by KwaZulu-Natal with 43 749 learners (1,6 percent). Independent schools consume 0,63 percent of total provincial education budgets. Gauteng spends 2,14 percent of its budget on independent schools. Independent schools have an average learner:educator ratio just above 16.

Table 3.8: Enrolments rates and related data 1996 and 2000

	School enrolment[1]		Learner:educator ratio		Learner:classroom	
Thousands	**1996**	**2000**	**1996**	**2000**	**1996**	**2000**
Eastern Cape	2 325	2 106	36,3	31,5	55	43
Free State	780	743	30,1	31,9	38	33
Gauteng	1 569	1 554	29,2	30,9	34	32
KwaZulu-Natal	2 772	2 669	37,1	35,7	45	40
Mpumalanga	931	894	36,0	34,8	45	48
Northern Cape	204	201	30,2	30,6	32	27
Northern Province	1 823	1 845	33,9	33,5	50	40
North West	946	909	30,2	30,3	40	34
Western Cape	963	916	32,9	30,7	33	31
Total	12 314	11 836	33,7	32,7	43	38

[1] *Includes both public and independent schools*

Increase in learner numbers in 1996

In 1996, provincial education departments acted to address teacher shortages. As enrolment increased and norms and standards on average learner:educator ratios were published by the Department of Education, provinces employed between 40 000 and 60 000 new educators. This employment and a higher entry age for grade 1 resulted in a decrease in average learner:educator ratios from about 40 to about 35. This mostly meant smaller class sizes.

However, in many cases, schools increased the numbers of educators and learners without having the classrooms to accommodate them. Lower learner:educator ratios did not necessarily translate into smaller class sizes, and many teachers were left without classrooms. This leads either to teaching outside buildings or some educators not teaching at full capacity, because there are not enough classrooms.

Learner:classroom ratios

The learner:classroom ratio is an indicator of the state of overcrowding. Table 3.9 shows that, in general, this ratio has declined from 43 to 38, reflecting both declining enrolment and an increase in the number of classes. The Northern Province, for example, has a learner:educator ratio of 33,5 which is low by international standards, but has a learner:classroom ratio of 40, which means that overcrowding is still a major problem.

Substantial numbers of teachers do not have classrooms, and are therefore not employed as productively as possible. The number of classrooms in South Africa increased by 25 102 over the period. South Africa still has a shortage of about 50 000 classrooms. The bulk of these shortages are in the Eastern Cape, Northern Province and KwaZulu-Natal.

Classroom shortages

As table 3.9 indicates, the number of schools indicating they have a shortage of classrooms has dropped from 49 percent to 41 percent between 1996 and 2000. The largest drop occurred in North West, where overcrowded schools dropped from 42 percent to 28 percent. More schools in Gauteng and Western Cape have complained about a shortage of classrooms in 2000 compared to 1996.

Table 3.9: Schools complaining of classroom shortages

Percentage	1996	2000
Eastern Cape	65	52
Free State	25	16
Gauteng	24	26
KwaZulu-Natal	61	48
Mpumalanga	49	56
Northern Cape	16	10
Northern Province	66	50
North West	42	28
Western Cape	16	17
Total percent	49	41

Source: 1996 and 2000 Schools Register of Needs

Teacher shortages

Significant teacher shortages remain in some rural provinces. However, Government's stance is generally that provinces should first build the required infrastructure and support systems before additional teachers are hired. In this way, new classrooms and schools can be adequately staffed and resourced and provincial education departments will have the capacity to support the school in its developmental phase. Hiring teachers when there are no classrooms will not result in improved quality in education.

Physical infrastructure in schools

More buildings in need of repair

While Government has made good progress in building classrooms, more work still needs to be done. The new provincial infrastructure grant, of which about 40 percent should go to education, should allow provinces to meet classroom backlogs over the next five to seven years. Success in the provision of other physical infrastructure has been more sporadic. Most improvements entailed increasing the number of schools with adequate telecommunication and sanitation and smaller improvements in the provision of water and electricity. In general, the number of buildings needing renovation has increased since 1996.

Telephones, water, sanitation and electricity

In 1996, 59 percent of schools had no telephones. With the advent of cellphones, this dropped to 34 percent in 2000. The number of children in schools without sanitation dropped from 55 percent to 17 percent. While this improvement is significant, schools reported that 15 percent of their toilets did not work, due to a lack of routine maintenance. In 1996, 40 percent of all schools had no access to running water. This number declined to 34 percent. The largest reduction in schools without water occurred in the Northern Province where there was a 12 percentage point decline. A total of 2 400 schools were electrified during this period, increasing schools that have power from 40 percent to 53 percent. Some 6,7 percent of schools use solar power, and this figure is as high as 25 percent in the Eastern Cape.

Building maintenance

Provinces have generally performed poorly in the maintenance of school buildings. It is estimated that the number of schools that are in excellent or good conditions has declined from about 11 000 to about

5 000 between 1996 and 2000. The number of schools in need of repair has increased from about 10 500 to 12 100 and those in weak condition increased from about 3 000 to 7 000. The reason for the decline in the state of buildings is that expenditure on routine maintenance generally declined during the period 1996 to 2000. In 2000, only 1 percent of all buildings were being renovated.

Spending on fixed assets

In 1996/97, provinces spent R1,4 billion on new buildings and other land improvements. By 1998/99, this figure had dropped to R432 million. Similarly, in 1996/97, provinces spent R232 million on maintenance, and by 1998/99, only R104 million. As a percentage of budget, total expenditure on fixed assets dropped from 4,5 percent in 1996/97 to 1,6 percent in 1998/99. The Eastern Cape experienced the largest drop, from 4,6 percent to 0,25 percent. Expenditure on fixed assets in KwaZulu-Natal declined from 6,8 percent in 1996/97 to 1,0 percent in 1998/99. Gauteng experienced the smallest decline in its spending on fixed assets during this period: from 3,0 percent to 2,8 percent.

Computers in schools

The number of schools with computers has increased off a low base. In 1996, 2 241 schools (8,3 percent) had 34 483 computers. This figure has increased to 6 581 schools (24 percent) with 59 333 computers. The number of schools without computers in the Northern Cape, Western Cape and Gauteng number 41 percent, 20 percent and 16 percent respectively. The remaining six provinces reported that over 70 percent of their schools had no computers for administrative or educational purposes. The province that fared the worst is the Eastern Cape with over 84 percent reported as having no computers.

Crime in schools

Criminal activity in schools is a key factor in reducing resources to schools or at least lowering standards. In 2000, there were 24 540 burglaries at schools, resulting in losses of over R155 million. Almost 5 000 assault cases were reported, with 1 860 serious crimes (such as murder and rape) occurring. KwaZulu-Natal experienced the highest levels of crime in schools followed by the Eastern Cape, Gauteng and the Western Cape.

Matric results

Improved matric results

Matric results in 2000 improved substantially over the previous three years. As table 3.10 shows, the overall matric pass rate went up from 47 percent in 1997 to 58 percent in 2000. Provinces with the best matric pass rates are Western Cape (80,6 percent), Northern Cape (71,2 percent) and Gauteng (67,5 percent). The lowest matric pass rates were recorded in Eastern Cape (49,8 percent), Northern Province (51,4 percent) and Free State (52,7 percent). All provinces saw an increase in their pass rates from 1997 to 2000 with Northern Province achieving the biggest gain from 31,9 to 51,4 percent. Overall, 61 percent of male candidates and 55 percent of female students passed.

Lower number of candidates

The improved matric results confirm continuous improvement in the standard of education across all provinces but is also due to the lower than normal number of repeaters allowed to rewrite their exams. The total number of people who wrote the exams dropped from 559 233 in 1997 to 489 941 in 2000. This is a 14 percent decline, but there are marked variances. Northern Province, for example, registered a 35 percent decline in the number of people who wrote matric.

Fewer schools have pass rates under 20 percent. Western Cape, North West and Mpumalanga showed most progress. Similarly, the number of schools producing pass rates of over 80 percent went up from 20 percent to 22 percent. Provinces that performed best in this regard were Eastern Cape and Free State.

Table 3.10: Matric pass rate by province, 1997 to 2000

Percentage	1997	1998	1999	2000
Eastern Cape	46,2	45,1	40,2	49,8
Free State	42,5	43,4	42,1	52,7
Gauteng	51,7	55,6	57,0	67,5
KwaZulu-Natal	53,7	50,3	50,7	57,2
Mpumalanga	46,0	52,7	48,3	53,2
Northern Cape	63,8	65,4	64,3	71,2
Northern Province	31,9	35,2	37,5	51,4
North West	50,0	54,6	52,1	58,3
Western Cape	76,2	79,0	78,8	80,6
Total	**47,4**	**49,3**	**48,9**	**57,9**

Mathematics and science results

Enrolments and passes in mathematics and physical science show a disconcerting decline. The number of students who wrote mathematics on the higher grade declined from 50 105 in 1999 to 38 520 in 2000 and those that passed dropped from 27 187 to 24 877. However, the number of people passing mathematics on the standard grade increased from 95 038 to 103 265.

Similarly, the number of students writing physical science on the higher grade dropped from 66 486 to 55 699, while those who passed on the higher grade dropped from 40 528 to 36 283. The low number of female students doing mathematics and physical science is a concern.

Systemic evaluation

A wider range of indicators

The national Department of Education is determined to use a broader range of education indicators for planning and is acutely aware that matric pass rates provide an imperfect measure of success.

To add to matric results as indicators for the education system as a whole, the new Systemic Evaluation programme focuses on educational outcomes and contextual factors. This programme has been tested in a random sample of some 1 400 primary schools – 5 percent of all primary schools. Currently, the focus is on educational outcomes in Grade 3, but this will soon be expanded to other levels, starting with Grades 6 and 9.

Progress with implementation of the PFMA

Provincial education departments have made substantial progress in implementing the Public Finance Management Act (PFMA), and are expected to start reaping the benefits during 2001/02.

Appointment of CFOs

All departments were to appoint a Chief Financial Officer (CFO) by 1 April 2001 as part of their top management team. Table 3.11 shows that two provinces appointed CFOs at Deputy Director-General (DDG) level, six at Chief Director (CD) level, and one in a Director position. Four provincial education departments have appointed permanent CFOs while Eastern Cape, Mpumalanga, Northern Cape and North West have acting CFOs. Northern Province made a contract appointment.

CFO forum

In order to build the capacity of provincial departments to implement the PFMA, an Education CFO forum was established in 2001/02. This forum utilises a peer-learning approach, comparing the different provincial approaches to determine (and follow) best practice. A focus area is the preparation and use of monthly management reports assessing budget performance.

Status of Internal audit and audit committees

More modern systems of internal control, and audit committees, will enable government departments to become more pro-active in identifying and resolving problems. Further, the CFO forum is expected to develop critical documents around risk management strategy, fraud prevention, and audit charters. Almost all provinces instituted a shared service arrangement or centralised audit committee. Seven education departments established internal audit units.

Table 3.11: *CFOs* appointed in education departments

Province	Full Appointment	Nature of appointment	Level of appointment
Eastern Cape	No	A	CD
Free State	Yes	P	CD
Gauteng	Yes	P	DDG
KwaZulu-Natal	Yes	C	CD
Mpumalanga	No	A	CD
Northern Cape	No	A	CD
Northern Province	Yes	C	DDG
North West	No	A	D
Western Cape	Yes	P	CD
Total	**5/9**	**3 P + 2 C + 4 A**	
		Permanent Appointment = P *Contract Appointment = C* *Acting CFO = A*	*Director = D* *Chief Director = CD* *Deputy Director-General = DDG*

Submission of financial statements

A further indication of improvement in financial management is the submission of financial statements to the Auditor-General within two months after the end of the financial year. This is in line with Section 40(1)(c) of the PFMA. In previous years, the financial statements were submitted between 6 and 18 months after the end of the financial year, adversely undermining financial accountability. Table 3.12 provides a status report on the submission of financial statements.

With the exception of Mpumalanga and Northern Cape, provincial education departments have met the deadlines.

Table 3.12: Submission of financial statements by 31 May 2001

Provinces	Vote number	Submitted Yes / No	Submitted after deadline but before 14 June 2001
Eastern Cape	6	Yes	N/A
Free State	6	Yes	N/A
Gauteng	5	Yes	N/A
KwaZulu-Natal	5	Yes	N/A
Mpumalanga	7	No	Yes
Northern Cape	4	No	Yes
Northern Province	3	Yes	N/A
North West	8	Yes	N/A
Western Cape	5	Yes	N/A

Challenges

Given the large number of personnel in education, general management, especially personnel management, is critical to the financial management strategy in education. On many issues, management responsibility is decentralised to the school level. The recent Auditor-General's report on performance of provincial education departments highlighted the need for proper management of leave and absentee registers, alignment of actual personnel expenditure with acceptable norms set for school funding, and for associated targets to be met. Other specific financial management issues relate to the management and reporting arrangements around school fees and other revenue collected by schools. School fees are exempt from depositing into provincial revenue funds in terms of section 22(1) of PFMA (Schedule 4). New budget formats would make education budgets easier to examine, with clear categories for text books, transfers to schools and maintenance.

Conclusion

Emerging from transition

Following difficult transition, there has been good progress in education in provinces since 1996. Financial management has improved budgets and their cost drivers are sustainable, and MTEF projections indicate strong real growth. Adjustments to improve the sustainability of budgets have been well managed and budgets reflect a better balance between personnel, capital and non-personnel items.

Infrastructure and quality as priorities

Strong projected growth in capital spending should help reduce backlogs and improve maintenance of existing infrastructure. Slight real growth in spending should allow for a small increase in the number of educators. Increased allocations for textbooks and other non-personnel expenditure provide resources for equipment, maintenance and media resources.

In general, the prospects of real growth in education spending, successes achieved in stabilising the system, and improved management should allow for accelerated enhancement in the quality of schooling.

4

Health

A significant private sector role

The private and public health sector comprises about 8 percent of South Africa's GDP, and the public health sector just more than 13 percent of total government expenditure. Unlike the other social sectors, the private sector plays a significant role in health, mainly through hospitals, doctors and medical aid coverage. However, only a minority of the population can rely on private health care.

The challenge to the public health sector in 1994 was to restructure service provision, providing access to appropriate services at the right locations. This necessitated a shift towards primary health care with a large clinic building program, the introduction of free primary health care services and the establishment of a district-based health system. Priority health programs such as for maternal and child health, tuberculosis, sexually transmitted infections, HIV/Aids and mental health have been reinforced.

This chapter contextualises the public sector's role in health, and more specifically that of the provinces, before analysing expenditure trends, conditional grants, personnel related issues and service delivery progress.

Public health in context

Public spending less than private

Private sector health care is provided by individual general practitioners, specialists, private clinics and hospitals. They generally provide health care for people with medical aid coverage, or who can afford direct payment.

The National Health Accounts Project reports that in 1999 less than 20 percent of the population was covered by private "institutional" financing intermediaries. These include medical schemes, covering 16 percent of the population, health insurance products, and workplace health services provided by private firms. However, as many as 30 percent of non-scheme members may use private services on a direct payment basis.

Public sector role

The fact that 84 percent of the population is not covered by medical aid or health insurance, indicates the importance of the public sector. To broaden access to appropriate services remains a major challenge where a substantial part of the population cannot afford private health care. Table 4.1 shows that with less funding the public sector has to care for a much larger number of people than the private sector.

Only 16 percent on medical aid

Another indicator of private sector size is the number of private sector hospital beds compared to the public sector. Private hospital beds increased from 16 415 in 1994 to 24 537 in 2000. In contrast, public sector hospitals have over 110 000 beds. Private health care expenditure increased at a rate double that of inflation between 1996 and 1998, from R24,7 billion to R33,3 billion. There have also been steep rises in medical aid rates, as gross contributions per member increased by 20,1 percent in 1997 and 12,9 percent in 1998. By 1999, only 16,4 percent of the population belonged to medical aids, leaving a bigger proportion of the population to rely on the public sector.

Table 4.1: South African health sector expenditure, 1998/99

	Public sector	Private sector	Total
Expenditure	R28,7 bn*	R33,3 bn (1998)	R62bn
Hospital beds (2000)	110 143	24 537	134 680
Hospital beds per 1000 population	3,08	2,94	3,06
Coverage	80%	20%	100%
Population covered (2000)	35,6m	8,4m	44m
Doctors	11 448	16 697	28 145
Doctors per 10 000 population	3,2	20	5,1
Medical schemes (1998)	–	194	194

** Full public health expenditure 1998/99 in 1999 prices, National Health Accounts project*

The limited access to private health care is illustrated by the analysis of medical aid coverage per province as shown in table 4.2. There is uncertainty as to whether the sharp declines in medical scheme coverage recorded in the October Household Survey are accurate or reflect sample errors. This matter is important to clarify, given its potentially large influence on the equitable share formula and evaluation of equity issues.

Table 4.2: Medical aid coverage by province

Province	Coverage of population by medical schemes	
	1995	1999
Eastern Cape	8,1%	10,2%
Free State	17,7%	14,8%
Gauteng	40,3%	26,9%
KwaZulu-Natal	13,1%	12,7%
Mpumalanga	14,0%	14,2%
Northern Cape	20,9%	19,1%
Northern Province	7,6%	8,7%
North West	13,6%	13,0%
Western Cape	28,5%	29,4%
Total	**18,1%**	**16,4%**

Source: October Household Survey 1995 and 1999

Pressures

Pressures on public health provision include perceptions of deteriorating quality in hospital services, escalation of HIV/Aids, squeezing out of non-personnel expenditure such as medicines and maintenance, and inadequate management decentralisation. Indicators show few signs of efficiency gains in hospitals. In response, a number of initiatives to reform the hospital sector are in place, including a programme to improve hospital management.

While these problems are often attributed to the stringent fiscal environment in the period after 1996, financing is not necessarily the dominant factor. Pressures in the system were compounded by remuneration increases, such as rank and leg promotions that escalated personnel costs, management and institutional transformation and increased demand as a result of HIV/Aids.

Is there a financing problem?

Provincial health expenditure trends

In 2000/01, provincial health expenditure grew by more than 2 percent in real terms, from R24,1 billion in the previous year to R26,4 billion (see table 4.3). This points to an upturn, after real declines in the two previous years.

Over 2 percent real spending growth in 2000/01

The downward real adjustment in health expenditure in 1998/99 and 1999/2000 resulted partially from unsustainable growth, particularly following large personnel related cost increases in 1996/97 and 1997/98. It is however not a trend, but resulted rather from a once-off correction, before real increases in expenditure resumed.

Adjustments in 1998/99 and 1999/2000

As pointed out in the *South African Health Review 2001*, "total public health sector financial resources grew substantially between 1992/93 and 1998/99 by approximately 9 percent (in real terms) per annum, reflecting similar growth in general taxation financing of the public health sector. The drop in 1998/99 is, therefore, not part of a previous trend." Expenditure figures for 2000/01 and MTEF projections confirm that the upward trend in real health expenditure has resumed. Per capita spending, however, remains under pressure.

… a strong upward trend over longer term

Table 4.3: Personnel vs other health expenditure

	Actual			Estimated actual	Medium-term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Personnel	13 772	14 826	15 489	16 385	17 458	18 435	19 411
Other	8 711	8 198	8 621	10 036	11 287	11 998	13 037
Total	**22 483**	**23 025**	**24 110**	**26 421**	**28 745**	**30 433**	**32 448**
Percentage change (average annual)	**1997/98 – 2000/01**				**2000/01 – 2003/04**		
Personnel	6,0%				5,8%		
Other	4,8%				9,1%		
Total	**5,5%**				**7,1%**		

Table 4.4 portrays expenditure by province. While the decline in health expenditure cut across all provinces in 1998/99, subsequent trends have varied.

Sharp upward adjustments in the subsequent two years in Eastern Cape and Northern Province led to average annual real growth over the period 1997/98 to 2000/01 of 1 percent and 3 percent respectively. Over the three-year period, KwaZulu-Natal saw health expenditure remain almost constant in real terms.

Real declines in Gauteng, Northern Cape and Western Cape could have been expected, given the required adjustments in health spending towards inter-provincial equity and appropriate service delivery. There were real annual declines in expenditure in Free State (4 percent), Mpumalanga (4,1 percent) and North West (2,1 percent). This suggests that further effort is required to enhance equity across the provinces. The financial dimension of such effort must be complemented by appropriate institutional support and capacity building.

Table 4.4: Provincial health expenditure

	Actual			Estimated actual	Medium-term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Eastern Cape	3 031	3 048	3 496	3 790	3 835	3 967	4 307
Free State	1 659	1 692	1 589	1 777	1 880	1 985	2 099
Gauteng	5 299	5 478	5 605	5 942	6 716	7 167	7 597
KwaZulu-Natal	4 806	4 900	5 110	5 776	6 381	6 738	7 007
Mpumalanga	1 047	1 058	1 147	1 117	1 410	1 517	1 729
Northern Cape	376	392	433	438	497	531	577
Northern Province	1 954	2 081	2 221	2 566	2 635	2 885	3 115
North West	1 375	1 342	1 384	1 561	1 732	1 871	2 024
Western Cape	2 937	3 032	3 125	3 453	3 659	3 772	3 995
Total	**22 483**	**23 025**	**24 110**	**26 421**	**28 745**	**30 433**	**32 448**

Percentage change (average annual)	*1997/98 – 2000/01*	*2000/01 – 2003/04*
Eastern Cape	7,7%	4,4%
Free State	2,3%	5,7%
Gauteng	3,9%	8,5%
KwaZulu-Natal	6,3%	6,7%
Mpumalanga	2,2%	15,7%
Northern Cape	5,3%	9,6%
Northern Province	9,5%	6,7%
North West	4,3%	9,0%
Western Cape	5,5%	5,0%
Total	**5,5%**	**7,1%**

Table 4.5 shows actual provincial outcomes for 2000/01. The total budget was adjusted by R1,8 billion to R26,8 billion, mainly because of higher than expected salary increases. Another factor was that annual bonuses that would normally have been paid in the next financial year were brought forward.

Total actual provincial health spending for 2000/01 amounted to R26,4 billion. This reflects an increase of R2,3 billion or 10,1 percent compared to 1999/2000 actual expenditure, and is over R0,8 billion or 3 percent lower than the adjusted budget. Actual expenditure in Mpumalanga, Gauteng and Northern Cape was lower than their adjusted budgets and closer to their voted budgets.

Table 4.5: Actual financial outcome for 2000/01 in health

R million	2000/01 Budget	2000/01 Adjustments estimate	2000/01 Estimated actual outcome	Actual outcome as % of adjusted budget
Eastern Cape	3 318	3 702	3 790	102,4
Free State	1 801	1 854	1 777	96,9
Gauteng	6 129	5 956	5 942	88,5
KwaZulu-Natal	5 556	5 832	5 776	99,0
Mpumalanga	1 162	1 302	1 117	85,9
Northern Cape	412	458	438	95,7
Northern Province	2 395	2 550	2 566	100,6
North West	1 565	1 576	1 561	99,1
Western Cape	3 447	3 524	3 453	101,8
Total	**25 785**	**26 754**	**26 421**	**96,6**

Medium term projections

Real growth continues over MTEF

Real growth in provincial health expenditure is projected to continue over the MTEF at an average of 1,7 percent per year. There are a number of interesting trends however between provinces with different profiles and health facilities:

- Total health expenditure is projected to rise from R26,4 billion in 2000/01 to R32,4 billion in 2003/04 (tables 4.3 and 4.4). Growth is strong in 2001/02, with provincial health expenditure set to rise by nearly 3 percent in real terms:

Provincial figures

- All provinces, except Western Cape and Eastern Cape, will see real growth in health spending over the MTEF. Eastern Cape's downward trend follows on real growth over the previous three years and some once-off payments in 2000/01, related particularly to backlog rank and leg promotion payments. Very high average annual growth is projected for Mpumalanga.

Non-personnel expenditure recovers

- Between 2000/01 and 2003/04, personnel expenditure is projected to grow fractionally faster than inflation. This leaves the bulk of real growth in non-personnel expenditure, which is set to grow in real terms by about 3,5 percent per year over the period.
- Personnel expenditure again declines to less than 60 percent of provincial health expenditure in 2003/04.
- The provinces without central hospitals/academic complexes all project personnel expenditure to decline in real terms. In contrast, the provinces with academic complexes project personnel expenditure rising faster than inflation.

Capital expenditure growth

- Between 2000/01 and 2003/04, health capital expenditure is projected to increase from 4,1 percent of expenditure to 8,9 percent. Capital expenditure grows strongly by more than 20 percent per year in all provinces except Western Cape and Free State.

Table 4.6: Health as percentage of total provincial expenditure

Percentage of total expenditure	Actual			Estimated actual	Medium term estimate		
	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Eastern Cape	18,8%	19,7%	21,5%	20,9%	19,6%	19,0%	19,4%
Free State	24,2%	24,0%	23,9%	24,2%	22,8%	22,6%	22,5%
Gauteng	34,0%	33,8%	33,3%	32,7%	33,3%	32,8%	32,4%
KwaZulu-Natal	25,0%	26,5%	26,6%	26,7%	26,7%	26,0%	25,0%
Mpumalanga	17,4%	17,4%	17,6%	15,9%	17,4%	17,1%	18,0%
Northern Cape	15,9%	16,4%	17,4%	16,7%	17,4%	17,2%	17,5%
Northern Province	17,0%	17,3%	17,5%	17,8%	17,1%	17,1%	17,1%
North West	17,8%	17,3%	16,9%	17,0%	17,6%	17,7%	18,0%
Western Cape	27,7%	28,8%	29,1%	30,0%	29,5%	28,7%	28,9%
Total	**23,4%**	**24,0%**	**24,2%**	**24,0%**	**23,9%**	**23,4%**	**23,3%**

Variances

As shown in table 4.6, the share of health expenditure compared to total expenditure for 2000/01 varies from a high of 32,7 percent in Gauteng, to a low of 15,9 percent in Mpumalanga. The provinces with central hospitals have a higher share. Over the MTEF, Mpumalanga, Northern Cape and North West will allocate relatively more to health, while this sector receives relatively less in Eastern Cape, Western Cape and Northern Province. The data in table 4.7, which excludes conditional grants, suggests that health service expenditure is below average in Mpumalanga, Northern Province and North West.

Table 4.7: Expenditure per person without private medical cover, 2000/01

Province	Total health expenditure	Expenditure excluding central hospital and training grants	Population without medical cover[1]	Health expenditure per person without medical coverage	
				Total health expenditure	Excluding grants
	R million	R million	R millions	Rand	Rand
Eastern Cape	3 790	3 766	5 657	670	666
Free State	1 777	1 475	2 243	792	658
Gauteng	5 942	3 946	5 369	1107	735
KwaZulu-Natal	5 776	5 223	7 346	786	711
Mpumalanga	1 117	1 094	2 403	465	455
Northern Cape	438	415	680	644	610
Northern Province	2 566	2 542	4 503	570	565
North West	1 561	1 538	2 920	535	527
Western Cape	3 453	2 199	2 796	1235	786
Total	**26 420**	**22 198**	**33 917**	**779**	**654**

[1] Source: OHS 1999

Equity in health spending

Initial narrowing of expenditure gap

Up to 1998/99, differences in per capita spending between provinces seem to have declined, partly as a result of reallocations between provinces through centralised health allocations. The slowdown in budget growth around 1998/99, as well as more decentralised (provincial) allocations, seem to have constrained narrowing the gap.

Large spending differentials

As indicated in table 4.7, large per capita spending differentials remain, even if central funding for tertiary services (central hospital and training grant) is excluded. The central funding of specialised services is premised on the fact that the four provinces with central hospitals provide these services to the country as a whole. Excluding this central funding, per capita expenditure on health services in Gauteng is still nearly twice that of Mpumalanga and 1,6 times that of Northern Province.

These inequalities suggest large differentials in access and point to possible variations in quality of services for inhabitants of the different provinces, as shown in table 4.8. For example:

?? Hospital beds range from 3,49 to 1,82 per thousand of population.

?? Hospital admissions range from 155 to 85 per thousand of population.

?? Inequities in expenditure are reflected in service delivery at all levels: for example, Mpumalanga, with 0,9 specialists per 100 000 population, was significantly lower than Gauteng with 30,9. Other examples of inequities are shown in table 4.8.

Table 4.8: Interprovincial inequities

	Specialists per 100 000 (public sector)	Hospital beds per 1 000 (public sector)	Hospital admissions per 1 000 (public sector)	Private hospital beds	Private doctors
Eastern Cape	2,8	3,09	76	1 224	883
Free State	10,3	2,56	94	937	730
Gauteng	30,9	3,49	155	10 605	4 915
KwaZulu-Natal	6,6	3,44	101	4 974	2 061
Mpumalanga	0,9	1,82	85	804	499
Northern Cape	0,9	2,27	133	297	207
Northern Province	2,3	2.00	81	273	363
North West	1,5	2,08	–	795	499
Western Cape	38,5	3,54	134	3 797	2 818
Total	**10,4**	**2,79**	**102**	**105 441**	**12 975**

Spending by programme

Table 4.9 demonstrates that the three years from 1997/98 saw a strong relative increase in spending on district health services. This includes primary care expenditure. In contrast to strong real annual spending growth of about 5 percent on these programmes, provincial health services and academic health services declined in real terms.

Increased spending on facilities

Over the MTEF, expenditure on district health services falls back in relative terms and declines somewhat in real terms. “Other expenditure” grows strongly, chiefly as a result of spending on new facilities, which is mirrored in rapid growth in capital expenditure.

Table 4.9: Composition of expenditure by programme and growth

Programme % of total expenditure	1997/98	2000/01	2003/04
Administration	3,9%	3,6%	4,2%
District health services	37,9%	44,4%	41,8%
Provincial hospital services	28,9%	25,6%	24,7%
Academic health services	23,0%	20,1%	19,1%
Other	6,4%	6,2%	10,3%
Total	**100,0%**	**100,0%**	**100,0%**
Average annual change in expenditure	*1997/98 to 2000/01*		*2000/01 to 2003/04*
Administration	3,1%		11,9%
District health services	11,3%		4,6%
Provincial hospital services	1,4%		5,5%
Academic health services	0,9%		4,9%
Other	4,6%		26,3%
Total	**5,5%**		**6,8%**

Conditional grants in the health sector

The provincial health sector has the largest share of conditional grants, with transfers totalling more than R6,0 billion in 2000/01 and making up 47,1 percent of the value of all conditional grants. Six of the nine health grants are hospital grants. Table 4.10 shows transfers and spending of health grants between 1998/99 and 2000/01, and budgeted allocations for the 2001 MTEF.

Table 4.10: Transfers and expenditure on health grants

R million	Actual	Actual transfers and expenditure		Estimated actual		Medium-term estimate		
		1999/00		2000/01				
Grant	**1998/99**	**Transfers**	**Spending**	**Transfers**	**Spending**	**2001/02**	**2002/03**	**2003/04**
Central hospital	3 021	3 075	3 075	3 112	3 112	3 271	3 419	3 579
HIV/Aids	–	–	–	15	10	34	–	–
Hospital Rehabilitation	87	153	140	400	323	500	520	543
Integrated Nutrition	283	713	460	582	534	582	582	582
Nkosi Luthuli	200	189	189	331	74	104	–	–
N Mandela Academic	11	41	41	112	95	–	–	–
Pretoria Academic	–	–	–	–	–	50	70	90
Redistribution	–	57	52	276	207	182	189	198
Professional training	1 060	1 118	1 118	1 174	1 174	1 234	1 291	1 351
Total	4 662	5 346	5 075	6 002	5 530	5 957	6 071	6 343
Under-spending	–	–	271	–	472	–	–	–
Provincial roll-overs	–	9	–	6	–	–	–	–

Spending trends in health grants

Estimated under-spending amounted to R271 million and R473 million in 1999/2000 and 2000/01. Underspending on the Integrated Nutrition Programme (INP) amounted to R252 million in 1999/2000 and R48 million in 2000/01. Under-spending in 2000/01 on the Nkosi Albert Luthuli hospital amounted to R257 million. More effective utilisation of grants is therefore a priority as the public sector gears up for its role in health.

The health sector has undertaken a review of its conditional grants, and it shows interesting variations between provinces. Detailed cost analysis was done in 531 tertiary units located in 62 hospitals.

Tertiary expenditure

The result shows that the proportion of tertiary expenditure funded by the central hospitals grant varies considerably between provinces. For example, 96 percent of tertiary costs in Gauteng (in central or other hospitals) are effectively funded by the central hospitals grant, as opposed to only 3 percent in the Eastern Cape. Almost a third of tertiary care expenditure in KwaZulu-Natal takes place outside the central hospitals and hence receives no conditional funding. Mpumalanga, North West and Northern Province receive no funding through the grant.

Table 4.11: Expenditure on Tertiary Services

R'000	Modelling estimate of expenditure in Central Hospitals	Actual level of Funding for Central Hospitals Grant	Difference	Modelling estimate of expenditure in Non-Central Hospitals
Eastern Cape	9 579	13 201	3 621	481 769
Free State	305 351	249 813	-55 538	156 491
Gauteng	1 432 896	1 568 945	136 048	194 376
KwaZulu Natal	461 777	427 525	-34 252	497 725
Mpumalanga	–	–	–	53 946
North West	–	–	–	53 548
Northern Cape	–	–	–	74 335
Northern Province	–	–	–	58 632
Western Cape	939 052	1 011 436	72 383	214 877
National	**3 148 657**	**3 270 920**	**122 262**	**1 785 703**

Source: Department of Health

Redistribution of specialised-services

Spending on the Redistribution of Specialised Services Grant has been slow. In 1998/99 and 1999/2000, a total of R150 million was allocated but only R52 million was spent. Under-spending in both years was reflected by non-transfer of budgeted funds.

Transfers of this grant improved significantly in 2000/01, with the total allocation (including roll-overs) amounting to R276 million. Spending also increased from R52 million in 1999/2000 to R207 million in 2000/01. The significant improvement in spending resulted from an agreement within the health sector that allowed provinces to use part of the grant to fund the operational costs of newly developed tertiary services.

Health outcomes

Poor health status and inequalities

Two generalisations about the health status of South Africans have long been accepted, namely that:

?? Health outcomes are poor relative to other middle and even some lower income countries

?? There are extensive inequalities in health status by population group, urban/rural area and province.

These two observations are connected. In spite of relatively high levels of public sector health expenditure, unequal access to services and health outcome disparities remain concerns.

Worsening health outcomes

Information on life expectancy and infant and child mortality is presented in Table 4.12. The Demographic and Health Survey estimates life expectancy at 63 in 1999. There is growing evidence that health indicators are under pressure due to HIV/AIDS.

Table 4.12: Indicators of health status of the population

	1999
Life expectancy at birth (years)	63,0
Infant mortality rate (per 1 000 life births)	45,0
Under 5-mortality rate (per 1 000 live births)	59,0
Malnutrition prevalence (% of children under 5)	–

Source: Demographic and Health Survey, Department of Health

Primary health care (PHC)

PHC dimensions

Primary health care is the most significant component of the district hospital program. The *National Primary Health Care Facilities Survey 2000* focused on a number of PHC dimensions such as services (availability), human resources, equipment, infrastructure, drugs and supplies, supervision, record keeping and support.

Facilities

Table 4.13 identifies a total of 4 428 facilities of which the bulk are "fixed facilities" (own buildings, staff and equipment and services provided on site most workdays). These main facilities are supported by 439 satellites (drawing resources from the main clinics and services and normally not provided on a continuous basis) and 899 mobile clinics. Just over 50 percent of fixed clinics serve rural areas, supported by 46 percent of satellites and 69 percent of mobile clinics.

Table 4.13: Primary health care facilities, 2000

Province	Clinics/CHCs	Satellites	Mobiles	Total
Eastern Cape	676	29	120	825
Free State	247	–	99	346
Gauteng	207	129	37	373
KwaZulu-Natal	493	78	144	715
Mpumalanga	267	13	88	368
Northern Cape	100	42	71	213
Northern Province	463	91	117	671
North West	330	1	93	424
Western Cape	307	56	130	493
Total	**3 090**	**439**	**899**	**4 428**

Source: Health Systems Trust, National Primary Health Care Facilities Survey 2000

Progress towards equity

The survey concludes that while there has been notable progress towards equity in service provision, significant inequity remains. Key points of progress noted are:

?? substantial increase in availability of antenatal care

?? improvement in turn-around times for various tests: the average turnaround time for HIV testing has decreased from 8 to 6 days

?? wide implementation (80 percent of fixed clinics) of the directly observed treatment system for tuberculosis (DOTS)

?? reduced patient loads at fixed clinics from 553 per nurse per month in 1997 to 474 (20 per day) in 2000

?? doctor availability at clinics improved between 1997 and 2000, but is still low in Eastern Cape and Northern Province and has regressed substantially in KwaZulu-Natal

?? a marked increase in availability of electricity at clinics

?? a moderate increase in availability of condoms, oxygen, penicillin and oral contraceptives.

Remaining inequities

Against this progress, problems with access to services and related to infrastructure remain. These translate into significant remaining inequities:

?? a number of important tests are often not available

?? unavailability of emergency transport

?? absence of essential, basic equipment in some cases

?? regular interruptions of telephone services and electricity and absence of piped water at many clinics

?? some key drugs are poorly stocked and certain protocols not well implemented

?? TB record-keeping is generally poor and nurse supervisor visits have declined since 1997

?? little progress has been made in facilitating community participation since 1998.

Local Government

The health sector has started an initiative to decentralise primary health care to district councils. Although this will be an appropriate approach in the long term, it is important not to underestimate the complexity of the process, which requires adequate planning. Some of the complexities involve personnel that would have to be transferred following the devolution of the functions, and the capacity of the local government to undertake increased functions given the current problems faced by municipalities associated with their transformation and pressure to effectively deliver their core functions/services (see Chapter 8). In considering the transfer of functions and personnel to municipalities, it will be important to take into consideration the experiences with the transfer of R293 personnel, which was complicated by different remuneration packages in municipalities.

Municipalities are already providing some of the primary health care services on an agency basis for the provincial government, to a varying degree. According to the gazette published by provinces on transfers to municipalities from the provincial revenue funds for 2001, with the exception of Northern Province which has not reported any transfers to municipalities, total transfers for primary health care amount to R617,9 million (discussed in Chapter 10). Part of the planning process for the transfer of functions should involve getting an accurate picture on the current level on primary health care provided by municipalities through both transfers from provinces and their budgets. Due to complexity of the process, the Division of Revenue Act requires that, prior to transfer of functions, the Ministers of Finance and Provincial and Local Government must be consulted.

HIV/Aids

Five channels of funding

Government funds the fight against HIV/Aids through at least five channels:

?? *Provincial health budgets:* A recent estimate puts provincial spending on Aids-related illnesses at nearly R4 billion, including spending on essential drugs for opportunistic infections.

?? *The Government Aids Action Plan:* On the vote of the national Department of Health, this is estimated at about R190 million in 2001/02. The aim is mostly prevention, through activities like distribution of condoms (expected to reach 310 million in 2001), piloting female condoms, support to NGOs, information, piloting of prevention of mother-to-child transmission projects in the provinces. Special allocation for integrated plan

?? *A special allocation for an integrated strategy aimed primarily at children and youth:* Funding increased from R75 million in 1999/2000 to R125 million in 2000/01 and rises further to R300 million in 2001/02. The funding is divided between the education, health and welfare departments and flows mostly as conditional grants to provinces for implementation. Three main activities are funded from this source: rollout of life-skills training to prim ary and secondary schools; expansion of capacity to provide voluntary counselling and testing at health clinics; and piloting of home-based care.

?? *Allocations from the provincial equitable share to deal with prevention and information:* Little detailed information is available about provincial allocations earmarked for HIV/Aids.

?? *Spending by individual government departments:* This aims mostly to provide information to employees and to support them. In this regard the Department of Public Service and Administration is coordinating a Public Service HIV/Aids Project and a Public Service HIV/Aids Indaba is planned for October 2001.

Social grants and HIV/Aids

In addition to the above, social grants, such as the foster care grant and the child support grant, deal with some of the impact of the disease through providing income support to, among others, orphaned children. It is, however, clear that the current social safety net is not adequately designed for dealing specifically with the impact of HIV/Aids on households and to confront the complex interaction between HIV/Aids and poverty.

Enhanced response

There has been close interaction between the Department of Health and National Treasury recently to ensure that programmes to confront the disease are expanded to the required scale in coming years. In a number of important areas, such as condom provision, life-skills provision and voluntary counselling and testing, substantial capacity has been put in place over the last couple of years.

The challenge now is to build on these initial successes in the areas of prevention, treatment, care and support. Given the close and complex relationships between HIV/Aids and other diseases, such as tuberculosis, and the links between HIV/Aids and poverty, an enhanced response cannot be implemented in isolation from these factors and concerns.

Hospitals

Hospitals still significant

Though the emphasis of the health sector has shifted towards primary health care, expenditure on hospitals still comprises at least 46 percent of total provincial health expenditure. In provinces like Gauteng, this share is even higher, set at 73,6 percent because of the number of central hospitals in that province. Significant spending is also directed at regional and district hospitals.

Information is not reliable, as hospitals are not seen as separate cost centres. Hospital decentralisation, one of the key reforms adopted in the 10 point plan in the *Health Sector Strategic Framework 1999-2004,* should help improve information.

Output trends

Hospital output trends since 1994 were documented in a recent *Annual Health Review*.

Quantitatively, in line with the rightsizing programme for hospitals, there is a clear trend towards the reduction of hospital beds. But there is marked variation in numbers of beds per 1000 of the population between provinces, from 3,54 beds per 1000 in Western Cape to 1,82 in Mpumalanga (see table 4.8).

Key measures like in-patient days, admissions and out-patient headcounts show downward trends. There is also evidence of inefficiencies with low bed occupancy, longer than desirable stay, and outputs per staff member not showing evidence of increasing efficiency. However, encouraging increases and improvements were documented in Mpumalanga, North West and Northern Province, a positive sign of equity redress.

HIV/Aids

While hospital outputs have not increased significantly, the proportion of patients admitted for HIV/Aids related problems has grown substantially. This suggests that patients with AIDS are progressively displacing or crowding out other patients.

Problems such as inefficient bed utilisation, the AIDS epidemic, and inability to address existing capital upgrading and maintenance backlogs make hospital planning complex. For this reason an Integrated National Planning Framework is being developed for the sector to guide, amongst others, decisions on affordable bed numbers.

Existing facilities

Of the 375 public sector hospitals, 247 are district hospitals, 60 regional hospitals, 10 central hospitals, 6 tertiary hospitals and 52 specialised hospitals. The latter include psychiatric, TB and various chronic illnesses hospitals. Table 4.14 provides details per province.

Table 4.14: Number of Hospitals per province, 2001/02

	National Central Hospitals	Provincial Tertiary Hospitals	Regional Hospitals	District Hospitals	Specialised Hospitals	Total
Eastern Cape	–	1	8	63	11	83
Free State	1	1	6	24	1	33
Gauteng	4	–	12	7	5	28
KwaZulu-Natal	2	1	9	40	8	60
Mpumalanga	–	1	5	18	1	25
Northern Cape	–	–	1	21	3	25
Northern Province	–	2	5	32	3	42
North West	–	–	4	15	2	21
Western Cape	3	–	10	27	18	58
Total	**10**	**6**	**60**	**247**	**52**	**375**

Source: National Department of Health

Central hospitals

Central hospitals budgets total well over R4,4 billion in 2000/01, funded by the Central Hospitals (R3,1 billion) and Health Professionals Training and Research (R1,1 billion) grants. Central hospitals cater for training of doctors and nurses. Selected data are shown in table 4.15.

Table 4.15: Expenditure on central hospitals

Provinces	Number of Beds	Total Expenditure	Personnel Costs	Medium-term estimate		
		2000/01	2000/01	2001/02	2002/03	2003/04
		R'000	R'000	R'000	R'000	R'000
Free State						
Universitas	630	335 540	230 750	383 079	401 838	404 304
Gauteng	**6 532**	**2 296 075**	**1 432 637**	**2 483 775**	**2 632 801**	**2 625 194**
Chris Hani	2 888	678 552	445 050	775 106	821 612	822 548
Baragwanath						
Ga Rankuwa	1 753	450 086	330 150	474 520	502 991	500 619
Johannesburg	967	653 749	329 600	692 963	734 541	731 076
Pretoria Academic	924	513 688	327 837	541 186	573 657	570 951
KwaZulu-Natal	**1 952**	**526 827**	**362 176**	**531 566**	**538 623**	**586 819**
King Edward VIII	1 616	402 900	289 311	403 626	408 412	441 885
Wentworth	336	123 927	72 865	127 940	130 211	144 934
Albert Luthuli	–	–	–	–	–	–
Western Cape	**2 662**	**1 275 642**	**933 775**	**1 258 374**	**1 321 292**	**1 387 356**
Groote Schuur	945	575 718	428 513	567 723	596 109	625 914
Red Cross	287	140 025	98 126	135 875	142 669	149 802
Tygerberg	1 430	559 899	407 136	554 776	582 514	611 640
Total	**11 776**	**4 434 084**	**2 959 338**	**4 656 794**	**4 492 716**	**5 003 673**

Regional and tertiary hospitals

Provinces budget significant funds for tertiary and regional hospitals (table 4.16), many with budgets over R200 million.They are in KwaZulu-Natal with Free State, Gauteng, and Northern Province.

Table 4.16: Expenditure on selected regional hospitals

Provinces	Number of Beds	Total Expenditure	Personnel Costs	Medium-term estimate		
		2000/01	2000/01	2001/02	2002/03	2003/04
		R'000	R'000	R'000	R'000	R'000
Eastern Cape	**2 378**	**379 529**	**339 032**	**–**	**–**	**–**
Umtata	637	134 318	117 741	–	–	–
Livingstone	946	119 333	109 603	–	–	–
Frere Hospital	795	125 878	111 688	–	–	–
Mpumalanga	**316**	**72 785**	**39 766**	**86 663**	**91 864**	**97 376**
Witbank						
Free State	**2 374**	**441 209**	**329 648**	**434 333**	**459 611**	**514 000**
Pelonomi	720	211 049	161 592	195 791	205 001	238 000
Psychiatric	877	83 337	67 211	88 509	93 652	97 000
Gold Fields	420	85 580	56 904	85 298	89 820	101 000
Boitumelo	357	61 243	43 941	64 735	71 138	78 000
Gauteng	**2 573**	**255 612**	**189 945**	**261 112**	**276 779**	**275 473**
Kalafong	1 022	255 612	189 945	261 112	276 779	275 473
Helen Joseph	485	–	–	–	–	–
Coronation	282	–	–	–	–	–
Natalspruit	784	–	–	–	–	–
KwaZulu-Natal	**4 163**	**892 579**	**665 237**	**853 893**	**794 870**	**789 448**
Edendale	1 645	258 285	198 136	241 412	216 348	214 444
Madadeni	608	151 588	126 235	157 962	146 083	149 403
Prince Mshiyeni	1 200	245 664	189 869	196 989	179 506	173 761
Addington	710	237 042	150 997	257 530	252 933	251 840
Northern Cape	**492**	**162 166**	**110 646**	**–**	**–**	**–**
Kimberley	492	162 166	110 646	–	–	–
Northern Province	**1 491**	**228 498**	**169 611**	**209 211**	**243 501**	**260 233**
Letaba	351	43 153	36 315	44 170	47 062	49 237
Tshilidzini	543	97 807	69 083	82 075	85 615	103 873
Mapulaneng	463	62 484	45 604	63 141	88 537	83 832
Warmbaths	134	25 054	18 609	19 825	22 287	23 291
North West	**2 274**	**299 937**	**212 480**	**291 020**	**365 720**	**387 663**
Klerksdorp/Tshepong	1045	132 453	94 834	151 071	160 135	169 743
Mafikeng	544	62 965	50 733	17 050	75 313	79 831
Rustenburg	350	58 429	39 536	69 838	74 028	78 470
Potchefstroom	335	46 090	27 377	53 061	56 244	59 619
Western Cape	**733**	**142 717**	**110 584**	**153 789**	**161 477**	**169 549**
Conradie	439	71 296	58 097	84 037	88 238	92 649
Somerset	294	71 421	52 487	69 752	73 239	76 900
Total	**16 594**	**2 875 032**	**2 166 949**	**2 290 021**	**2 393 822**	**2 493 742**

Infrastructure

The 1996 national health facilities audit found a third of hospital facilities to require replacement or major repair. This is estimated to have reached about 40 percent by 2000. The cost of backlog elimination and transformation of facilities was estimated at R12 billion over eight to ten years.

Current estimates of backlogs and transformation costs are higher, hence the current grant allocation is unlikely to meet required objectives. Adequate levels of expenditure need to complement this grant. However, maintenance expenditure is currently between 1 and 0.5 percent of asset value: well below the required 3 percent or more.

Hospital rehabilitation grant

Hospital rehabilitation grant allocations increased from R100 million in 1998/99 to R400 million in 2000/01. It is budgeted to increase from R500 million in 2001/02 to R543 million in 2003/04. Under-spending in 1998/99 and 1999/2000 showed in non-transfers to provinces, but in 2000/01, all budgeted funds were transferred to provinces.

Despite such slow expenditure over the past three years, spending on the hospital rehabilitation grant has increased from R87 million in 1998/99 to R323 million in 2000/01. Several provinces encountered difficulties that delayed expenditure. Improved spending of this grant and additional funding from the provincial infrastructure grant are anticipated to make an impact on the backlogs over time.

Personnel trends

Personnel expenditure growth

Provincial health departments faced increased salary costs as a result of broad-banding and rank and leg promotions after the 1996 wage agreements. Personnel expenditure rose to as high as 64,6 percent of health expenditure in 1998/99. Rising salary costs necessitated reductions in staff numbers as well as real declines, especially in 1998/99, in non-personnel expenditure. Table 4.17 shows a decline of 15 126 health workers in the public sector since 1997/98 (6,4 percent).

Table 4.17: Number of personnel in provincial health departments

	1997/98	1998/99	2000/01	2001/02	Change 1997/98 to 2001/02	% change 1997/98 to 2001/023	Civil servants per 1000 people
Eastern Cape	34 197	36 744	31 951	31 050	-3 147	-9,2%	4,6
Free State	–	14 483	15 246	14 899			5,3
Gauteng	46 604	45 005	43 097	42 328	-4 276	-9,2%	5,5
KwaZulu-Natal	48 885	50 039	48 191	47 361	-1 524	-3,1%	5,3
Mpumalanga	11 497	11 367	11 188	11 286	-211	-1,8%	3,8
Northern Cape	3 161	3 356	3 952	3 942	781	24,7%	4,4
Northern Province	23 345	23 993	23 607	23 433	88	0,4%	4,4
North West	17 713	16 881	16 068	15 025	-2 688	-15,2%	4,2
Western Cape	28 363	26 576	23 658	24 214	-4 149	-14,6%	5,8
Total	**213 765**	**228 444**	**216 958**	**213 538**	**-15 126**	**-6,4%**	**4,9**

Table 4.18 shows bigger declines since 1995/96 because of cost increases in 1996/97. Western Cape reduced by over 8000 employees

(25 percent) from 1995 to 2000, at a 38 percent real increase in average cost per employee. Gauteng has reduced by 6278 employees (12,1 percent). Over the three-year period non-personnel expenditure declined by approximately 1,5 percent per year in real terms.

Table 4.18: Personnel expenditure: health departments

	Actual			Estimated actual	Medium-term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Eastern Cape	1 842	1 992	2 391	2 385	2 391	2 512	2 648
Free State	995	1 126	1 096	1 176	1 262	1 289	1 368
Gauteng	3 145	3 276	3 233	3 412	3 813	4 069	4 313
KwaZulu-Natal	3 023	3 191	3 332	3 577	3 825	4 053	4 222
Mpumalanga	570	644	721	775	799	835	872
Northern Cape	196	219	269	287	326	345	365
Northern Province	1 137	1 403	1 505	1 626	1 655	1 742	1 834
North West	889	972	988	1 063	1 135	1 234	1 300
Western Cape	1 976	2 003	1 954	2 083	2 252	2 355	2 488
Total	**13 772**	**14 826**	**15 489**	**16 385**	**17 458**	**18 435**	**19 411**

Advanced skills unevenly distributed

Health personnel, especially nurses, are distributed fairly equitably, but advanced skills vary across provinces (table 4.19). Medical specialists range from 0,9 per 100 000 in Mpumalanga and Northern Cape to 38,5 in the Western Cape and pharmacy staff from 2 per 100 000 in Northern Province to 8 per 100 000 in Western Cape.

Table 4.19: Estimated professional personnel in public sector as at 31 March 2001

Personnel	**Doctors**	**Doctors per 100 000**	**Specialists**	**Specialists per 100 000**	**Dentists**	**Dentists per 100 000**	**Nurses**	**Nurses per 100 000**
Eastern Cape	792	13,0	172	2,8	47	0,8	14 051	229,9
Free State	559	24,6	235	10,3	27	1,2	5 789	254,9
Gauteng	1 750	36,6	1 480	30,9	252	5,3	15 204	317,6
KwaZulu-Natal	1 837	23,2	523	6,6	68	0,9	21 316	268,8
Mpumalanga	429	16,2	24	0,9	50	1,9	4 856	183,4
Northern Cape	658	13,0	47	0,9	37	0,7	10 801	213,8
Northern Prov	199	28,4	16	2,3	11	1,6	1 721	245,5
North West	395	12,6	47	1,5	42	1,3	6 614	211,3
Western Cape	1 123	37,2	1 162	38,5	120	4,0	9 783	324,2
Total	**7 742**	**21,7**	**3 706**	**10,4**	**654**	**1,8**	**90 135**	**252,8**

Training

Some training costs hidden

Training of health personnel is funded by the national Health and Education departments, mainly through the Health Professional Training conditional grant and transfers to medical faculties of universities. Numbers of health trainees are shown in table 4.20. Just over 1200 doctors qualify every year. Information is more accurate for doctors than for nurses and training costs. Such costs are "hidden" in hospital and nursing college budgets, bursary schemes and salaries of nurses remunerated whilst studying. Integrated human resource planning in the health sector is an urgent requirement to address staff mix, numbers of existing and required personnel by type, affordability, appropriate salary differentials and training.

Table 4.20: Number of health professionals in training

Province	Medical graduates (2000)	Registrars (Posts filled 2000)	Nursing (all students 2001)
Eastern Cape	44	–	1 577
Free State	124	184	1 000
Gauteng	677	888	4 901
Wits	*200*	*487*	–
Pretoria	*213*	*241*	–
Medunsa	*264*	*160*	–
KwaZulu-Natal	124	287	4 062
Mpumalanga	–	–	781
Northern Cape	–	–	96
Northern Province	–	–	1 489
North West	–	–	740
Western Cape	302	601	1 149
UCT	*164*	*359*	–
Stellenbosch	*138*	*242*	–
Total	**1 271**	**1 960**	**15 795**

Source: Department of Health 2001

Implementation of the PFMA

Appointment of suitable CFOs

In 2000/01, the first year of PFMA implementation, many departments focused on establishing the structures necessary for implementation, like chief financial officers, internal audit units, audit committees. Provincial health departments have made good progress in this respect, and are expected to start reaping the benefits from 2001/02.

Appointment of CFOs

All departments were to appoint a CFO by 1 April 2001 as part of their top management team. Table 4.21 shows the CFOs appointed and the levels at which appointments were made in provincial health departments. Two provinces appointed CFOs at Deputy Director-General (DDG) level, six at the Chief Director (CD) level, and one at Director level. Six provincial health departments have appointed permanent CFOs while Mpumalanga, Northern Cape and North West have acting CFOs and Northern Province made a contract appointment.

To build capacity to implement the PFMA, a Health CFO forum was established in 2001/02. This forum utilises peer-learning and comparative methods to establish and promote best-practice. It also focuses on the preparation and use of monthly management reports assessing budget performance.

Table 4.21: CFOs appointed in provincial health departments

Province	Number of *CFOs* appointed	Nature of appointment	Level of appointment
Eastern Cape	Yes	P	CD
Free State	Yes	P	CD
Gauteng	Yes	P	DDG
KwaZulu-Natal	Yes	P	CD
Mpumalanga	No	A	CD
Northern Cape	No	A	CD
Northern Province	Yes	C	DDG
North West	No	A	D
Western Cape	Yes	P	CD
Total	**6/9**	**5 P + 1 C + 3 A**	
		Permanent Appointment = P ***Contract Appointment = C*** ***Acting CFO = A***	***Director = D*** ***Chief Director = CD*** ***Deputy Director-General = DDG***

Appointing CEOs

The most urgent financial management reforms are in the hospital sector. Although provinces have begun to employ CEOs to run major hospitals, very little progress was made in devolving managerial powers and budgets to CEOs. Current CEOs are unable to hire, retrench or discipline hospital staff. Although the PFMA allows CEOs to be delegated accounting officers for hospitals, no province has done so. Once such powers are delegated, the CEOs of hospitals will need to employ more managerial staff to run hospitals more effectively.

The national government has made available a health management grant of R243 million over three years, primarily to assist CEOs to improve hospital management. However, the take-up of this grant has been slow, given the lack of progress in delegating accounting officer responsibilities to CEOs. The next phase of improving financial management will involve the district health system. This system is decentralised, and will need different management systems to make its operation more effective.

Status of internal audit and audit committees

Modern systems

Government has recognised the need to implement more modern systems of internal control and audit committees. This will enable government departments to move pro actively in identifying and resolving problems, rather than after the end of a financial year.

Further, the CFO forum is expected to develop critical documents around risk management strategy, fraud prevention and audit charters. Almost all provinces adopted shared service arrangements or centralised audit committees. Seven health departments established internal audit units.

Submission of financial statements

Submission of financial statements to the Auditor General within two months after the end of the financial year, would signal improved management. Table 4.22 provides a status report on the submission of financial statements. With the exception of Free State and Northern Cape, all provincial health departments met the deadline.

Table 4.22: Submission of financial statements by 31 May 2001

Provinces	Vote number	Submitted Yes / No	Department submitted after deadline but before 14 June 2001
Eastern Cape	3	Yes	N/A
Free State	5	No	Yes
Gauteng	4	Yes	N/A
KwaZulu-Natal	7	Yes	N/A
Mpumalanga	11	Yes	N/A
Northern Cape	10	No	Yes
Northern Province	7	Yes	N/A
North West	3	Yes	N/A
Western Cape	6	Yes	N/A

Challenges

Large personnel numbers and decentralised delivery in hospitals and clinics require sound personnel and general management. From a financial perspective, priorities are to effectively manage leave and absentee records, improve billing systems to enhance revenue collection, and strengthen stock control of medicine and pharmaceutical products in hospitals.

Conclusion

Public health funding has increased since 1994 and is projected to grow in real terms over the MTEF. However, the fiscal correction in 1998/99 and high wage costs necessitated rapid restructuring in the hospital sector. The result was a reduction of health workers and hospital beds since 1997/98.

Despite evidence of improved quality of primary health care services, many problems and inequities remain. Early budget estimates show the overall allocation to primary care (district hospital services) is set to decline in real terms over the next three years. Further investigation and monitoring is needed to ensure funds are aligned to policy priorities. HIV/Aids means that even real growth in health budgets will not be adequate to deal with the increase in demand for services and the impact of the disease on resources in the health sector.

Armed with the results of a Department of Health's review of large sectoral conditional grants, grant reconfiguration is currently under consideration. To enhance hospital efficiency and quality, issues in the sector include finalising an Integrated National Planning Framework; revenue retention, governance reform and management decentralisation in hospitals, and an appropriate staff mix, human resource and training strategies.

5

Social development

The social development or welfare departments in provinces are responsible for social security programmes and welfare services. Social grants have been the most important and direct instrument for Government's poverty alleviation efforts since 1994 and are considerably larger than those for welfare. The social grant programme in South Africa is exceptional compared to other middle-income or poor countries.

This chapter reviews trends in the financing of social grants and welfare services, compares expenditure between provinces and reviews the current access to grants. Issues related to the grant system and welfare services are highlighted.

Provincial social development expenditure trends

Real growth in 2000/01

As shown in Table 5.1, 2000/01 provincial social development expenditure grew in real terms by just over one percent to R20,9 billion from R19,4 billion the previous year. There were real expenditure declines in 1998/99 and 1999/2000 of 2,2 and 0,9 percent respectively. Over the three-year period to 2000/01 real expenditure declined by an average annual rate of 0,5 percent.

Table 5.1: Provincial social development expenditure

	Actual			Estimated actual	Medium-term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Personnel	556	719	832	921	1 010	1 070	1 127
Transfer payments	16 383	17 015	17 700	18 948	20 498	22 084	23 856
Other	615	707	842	1 060	1 332	1 465	1 548
Total	**17 554**	**18 441**	**19 373**	**20 929**	**22 840**	**24 620**	**26 530**
% change (average annual)		**1997/98 – 2000/01**				**2000/01 – 2003/04**	
Personnel		18,3%				7,0%	
Transfer payments		5,0%				8,0%	
Other		19,9%				13,4%	
Total		**6,0%**				**8,2%**	

Source: Provincial budgets

Growth in personnel and other expenditure

Transfer payments expenditure declined in real terms over the last three years while personnel and other expenditure grew rapidly. Actual expenditure on grant transfers (excluding transfers to welfare organisations) declined by nearly 1,5 percent per annum in real terms. Personnel expenditure grew by an average annual 11,0 percent in real terms, and "other" expenditure by 12,5 percent. Given the nature of welfare services, capital expenditure has been limited.

Grants comprise 90,5 percent of spending

Transfer payments shown in Table 5.2 consist mainly of social security grants to individuals, supplementing the income of poor households. These comprise 90,5 percent of total departmental expenditure in 2000/01. Other transfers include subsidies and other payments to NGOs for services like probation and adoption, family counselling and homes for children and aged people.

Table 5.2: Social development expenditure by economic classification

	Actual			Estimated actual	Medium term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Current expenditure	17 519	18 388	19 319	20 886	22 674	24 440	26 353
Transfer payments	16 383	17 015	17 700	18 948	20 498	22 084	23 856
Of which social security	*15 521*	*16 167*	*16 772*	*18 143*	*19 613*	*21 212*	*22 900*
Other current	1 136	1 373	1 619	1 938	2 176	2 355	2 497
Capital	35	52	54	43	166	180	177
Total	**17 554**	**18 441**	**19 373**	**20 929**	**22 840**	**24 620**	**26 530**
Percentage share							
Current expenditure							
Transfer payments	93,3%	92,3%	91,4%	90,5%	89,7%	89,7%	89,9%
Of which social security	*88,4%*	*87,7%*	*86,6%*	*86,7%*	*85,9%*	*86,2%*	*86,3%*
Other current	6,5%	7,4%	8,4%	9,3%	9,5%	9,6%	9,4%
Capital	0,2%	0,3%	0,3%	0,2%	0,7%	0,7%	0,7%
Total	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**

Trends by province

Tables 5.3 and 5.4 show that social development expenditure grew by 0,7 percent over the three years up to 2000/01. Adjusted for inflation, expenditure declined marginally by 0,5 percent. Government is committed to protect the real value of grants – hence increases in line with inflation provided for in baselines.

Table 5.3: Social development expenditure by province

	Actual			Estimated actual	Medium -term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Eastern Cape	3 759	3 634	3 856	4 070	4 627	4 574	4 919
Free State	1 125	1 158	1 162	1 261	1 364	1 472	1 575
Gauteng	2 214	2 295	2 425	2 656	2 880	3 055	3 238
KwaZulu-Natal	3 739	3 984	4 051	4 335	4 584	5 198	5 744
Mpumalanga	981	1 087	1 156	1 321	1 571	1 803	1 861
Northern Cape	650	669	696	659	674	708	740
Northern Province	1 803	2 031	2 329	2 642	2 754	3 004	3 347
North West	1 071	1 371	1 491	1 779	2 039	2 292	2 416
Western Cape	2 212	2 211	2 208	2 208	2 348	2 513	2 691
Total	**17 554**	**18 441**	**19 373**	**20 929**	**22 840**	**24 620**	**26 530**

Source: Provincial budgets

Increase in inter-provincial equity

Welfare expenditure shows greater inter-provincial equity. In poor provinces, where access to the former state maintenance and other grants was low, social development spending has grown. In the three years to 2000/01, real average annual growth reached 11,1 percent in North West, 6,6 percent in Northern Province and 3,6 percent in Mpumalanga. All other provinces saw real expenditure declines. Social development constituted 19 percent of the total budgets in 2000/01, but varied from 25,1 percent in Northern Cape to 14,6 percent in Gauteng.

Table 5.4: Social development as percentage of total provincial expenditure

Percentage of total expenditure	Actual			Estimated actual	Medium term estimate		
	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Eastern Cape	23,3%	23,5%	23,7%	22,5%	23,7%	21,9%	22,2%
Free State	16,4%	16,5%	17,5%	17,1%	16,6%	16,8%	16,9%
Gauteng	14,2%	14,1%	14,4%	14,6%	14,3%	14,0%	13,8%
KwaZulu-Natal	19,4%	21,5%	21,1%	20,0%	19,2%	20,0%	20,5%
Mpumalanga	16,3%	17,9%	17,7%	18,8%	19,4%	20,3%	19,4%
Northern Cape	27,5%	28,0%	27,9%	25,1%	23,5%	22,9%	22,4%
Northern Province	15,7%	16,9%	18,3%	18,3%	17,9%	17,8%	18,4%
North West	13,9%	17,7%	18,2%	19,4%	20,7%	21,7%	21,5%
Western Cape	20,9%	21,0%	20,5%	19,2%	18,9%	19,1%	19,5%
Average	**18,3%**	**19,2%**	**19,5%**	**19,0%**	**19,0%**	**18,9%**	**19,1%**

Preliminary actual outcome for 2000/01

Table 5.5 shows 2000/01 provincial social development budgets amounting to R20 billion, adjusted to R21,2 billion late in the financial year. Estimated actual social development spending for 2000/01 is R21 billion – an increase of R1,6 billion over 1999/2000. Eastern Cape and KwaZulu-Natal's adjusted estimates are over R4 billion each, while that of Northern Cape, with its relatively low population density, is R642 million.

Table 5.5: Actual outcome for 2000/01 in social development

R million	2000/01 Budget	2000/01 Adjustments Estimate	2000/01 Estimated actual outcome	Estimate actual outcome as % of adjusted budget
Eastern Cape	3 951	4 033	4 070	100,9%
Free State	1 260	1 287	1 261	98,0%
Gauteng	2 630	2 880	2 656	92,2%
KwaZulu-Natal	4 060	4 358	4 335	99,5%
Mpumalanga	1 213	1 338	1 321	98,7%
Northern Cape	634	642	659	102,6%
Northern Province	2 548	2 571	2 642	102,8%
North West	1 521	1 793	1 779	99,2%
Western Cape	2 266	2 285	2 208	96,6%
Total	**20 083**	**21 187**	**20 929**	**98,8%**

Medium term projections

Growth over the MTEF

Social development expenditure is set to grow over the MTEF by an average annual 2,6 percent in real terms. This growth is driven largely by higher transfer payments and personnel expenditure, and increased take up of the child support grant. In fact, most growth will occur where grant access has been restricted and where there is a high proportion of poor children, namely KwaZulu-Natal, Mpumalanga, Northern Province and North West.

Doubling of grant beneficiaries between 1998 and 2003 will put pressure on social development budgets, especially in poorer provinces. Only in Northern Cape is there real decline, due to stricter controls over access to disability grants and phasing out of state maintenance grants.

Gaps in per poor person welfare expenditure

While there has been a narrowing in the social development expenditure gap between provinces, the gaps remain large. As table 5.6 shows, in 2000/01 Western Cape spent R2 790 per poor person on social development compared to R855 in Free State. This does not necessarily indicate that grants are not accurately targeted. It may be because many of the poor do not qualify for grants within the safety net, which caters mainly for specific categories of the poor such as older and disabled people. These gaps are even larger in the case of other social development services, excluding social grant transfers and administration. Western Cape spends nearly twelve times more per poor person than Northern Province and Free State. Given current trends, progress towards greater inter-provincial equity will be slow, but phasing in the child support grant will support greater equity.

Table 5.6: Social development expenditure per poor person[1]

Province	Total social development expenditure	Grant Programme	Other welfare services
Rand per poor person			
Eastern Cape	1 094	1 036	58
Free State	855	740	115
Gauteng	2 409	1 972	437
KwaZulu-Natal	1 610	1 513	97
Mpumalanga	1 210	1 137	73
Northern Cape	1 668	1 492	176
Northern Province	1 094	1 053	41
North West	1 082	1 030	52
Western Cape	2 790	2 287	503
National Average	**1 365**	**1 244**	**121**

[1] A poor person is defined in terms of the poorest 40 percent of the population

Social security grants

Since 1994, beneficiaries increased as government prioritised equity, ended racial discrimination in grant distribution and introduced new programmes. Table 5.7 shows high proportions of welfare budgets spent on social security: 82 percent in Western Cape and Gauteng and over 90 percent in Eastern Cape, KwaZulu-Natal and Northern Province. The informally agreed benchmark is 80 percent.

Table 5.7: Social grants as percentage of total social development expenditure

	Actual			Estimated actual	Medium term estimate		
	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Eastern Cape	94,0%	93,8%	94,2%	94,0%	93,4%	92,8%	93,3%
Free State	89,4%	88,2%	87,0%	86,6%	88,2%	88,9%	89,3%
Gauteng	83,8%	82,0%	81,5%	81,9%	80,1%	80,1%	80,1%
KwaZulu-Natal	93,6%	93,8%	94,1%	94,0%	92,7%	93,1%	93,4%
Mpumalanga	92,6%	94,0%	93,4%	94,2%	92,2%	92,8%	93,2%
Northern Cape	89,1%	89,5%	90,2%	89,4%	86,5%	86,2%	85,8%
Northern Province	97,3%	96,8%	95,8%	96,3%	94,6%	94,8%	95,0%
North West	93,0%	90,1%	88,6%	95,2%	88,2%	89,2%	89,3%
Western Cape	85,8%	80,8%	79,2%	82,0%	81,8%	82,6%	83,1%
Total	**91,3%**	**90,3%**	**90,0%**	**91,0%**	**89,5%**	**89,7%**	**90,1%**

Rapid growth in number of beneficiaries

Table 5.8 indicates grant beneficiaries increasing to 3,9 million in July 2001. The child support grant is a major factor, with beneficiaries increasing from nearly 28 000 about two years ago to over 1,1 million in July 2001. Approximately 65 000 children gain new access to the child support grant every month.

Table 5.8: Trends in beneficiary numbers

Grant Type	April 1997	March 1998	March 1999	March 2000	July 2001	Average annual growth rate over period
Old Age	1 737 682	1 702 647	1 806 493	1 859 197	1 893 077	2,2%
War Veterans	12 047	10 441	9 292	7 676	5 957	-16,1%
Disability	732 322	660 198	631 372	611 325	633 777	-3,5%
Grant in Aid	10 082	9 113	8 574	8 687	9 830	-0,6%
Parent Allowance	152 973	173 662	161 204	142 720	285	-79,2%
Child Allowance	209 658	230 633	214 463	191 613	150 263	-8,0%
Foster Care	41 865	43 906	70 650	79 437	93 357	22,2%
Care Dependency	2 895	10 126	15 234	24 073	30 628	80,4%
Child Support Grant	–	–	27 577	321 906	1 125 277	–
Total	**2 899 524**	**2 840 726**	**2 944 859**	**3 246 634**	**3 942 451**	**8,0%**
Province						
Eastern Cape	630 514	583 705	589 010	661 432	791 211	5,8%
Free State	174 727	181 994	174 562	176 879	228 644	7,0%
Gauteng	335 721	323 947	324 758	374 785	455 090	7,9%
KwaZulu-Natal	594 916	617 568	633 627	677 898	875 021	10,1%
Mpumalanga	157 091	164 656	158 780	199 342	272 096	14,7%
Northern Cape	110 301	113 592	124 080	121 186	110 443	0,0%
Northern Province	339 555	276 465	343 875	406 858	525 306	11,5%
North West	189 980	194 579	207 211	243 931	318 432	13,8%
Western Cape	366 719	384 220	388 956	384 324	366 208	0,0%
Total	**2 899 524**	**2 840 726**	**2 944 859**	**3 246 634**	**3 942 451**	**8,0%**

Source: Socpen system

The foster care, old age and special care dependency grants also show growth in beneficiaries (see tables 5.8 to 5.10). Growth rates for the foster care and special care grants have been rapid. Although the disability grant shows a decline over the period as a whole, it is now increasing after declines in 1998 and 1999, which were related to re-registration and the clean up of welfare rolls.

Table 5.9: Number of child support grant beneficiaries

	March 1999	March 2000	July 2001
Eastern Cape	5 670	55 717	167 627
Free State	1 675	13 753	64 328
Gauteng	1 872	47 910	137 326
KwaZulu-Natal	7 853	66 836	296 317
Mpumalanga	630	28 327	95 486
Northern Cape	2 255	12 805	21 732
Northern Province	2 384	53 815	166 640
North West	1 662	31 792	106 984
Western Cape	3 576	10 951	68 837
Total	**27 577**	**321 906**	**1 125 277**

Source: Socpen system

Allocations to old age grants – reflected in table 5.10 – grow more moderately, given already high coverage. Disability grants still constitutes a big proportion, but declined from R732 322 in April 1997 to R611 325 in March 2000. Significantly, the largest number of beneficiaries -20 635- was in the Western Cape, which has the most developed system and social workers.

Table 5.10: Number of old age beneficiaries

	April 1997	March 1998	March 1999	March 2000	July 2001	Average annual growth rate
Eastern Cape	370 123	348 923	361 760	383 172	393 185	1,0%
Free State	110 153	109 264	109 152	110 706	113 832	0,0%
Gauteng	218 118	220 298	226 016	227 799	225 603	1,0%
KwaZulu-Natal	361 981	362 706	390 002	389 171	389 079	2,0%
Mpumalanga	116 878	121 448	120 282	128 656	132 354	2,0%
Northern Cape	35 447	36 594	40 392	41 370	42 049	4,0%
Northern Province	265 957	231 333	272 704	278 954	285 222	1,0%
North West	130 835	135 063	143 611	154 149	153 942	4,0%
Western Cape	128 190	132 096	142 574	145 220	146 922	3,0%
Total	**1 737 682**	**1 697 725**	**1 806 493**	**1 859 197**	**1 893 077**	**2,2%**

Source: Socpen system

Grant increases now equal inflation

Given the financial problems previously experienced in provinces, the real value of grants declined over the last five years. This trend is now being reversed, and the R30 increase (for large grants) implemented on 1 July 2001 is equal to the CPI inflation anticipated for 2001/02.

The value of the child support grant was also increased by R10 from R100 to R110, the first adjustment since its inception in 1999. As a result, there is substantial pressure to ensure real increases or at least stable real values of grants in the future.

Table 5.11: Value of social grants, by grant type

	Rand value of grants, per month, with effect from …											
Type of Grant	**01/91**	**04/92**	**07/93**	**10/94**	**07/95**	**07/96**	**07/97**	**07/98**	**10/98**	**07/99**	**07/00**	**07/01**
Old age grant	314	345	370	390	410	420	470	490	500	520	540	570
War Veterans grant	330	363	388	408	428	448	488	508	518	538	558	588
Disability grant	314	345	370	390	410	430	470	490	500	520	540	570
Maintenance:												
Parent	*314*	*345*	*370*	*390*	*410*	*430*	*430*	*323*	*323*	*225*	*107,5*	–
Child	*97*	*107*	*115*	*121*	*127*	*135*	*135*	*101*	*101*	*67*	*33,5*	–
Care Dependency	314	345	370	390	410	430	470	490	500	520	540	570
Foster Care	222	244	260	274	288	305	340	350	360	374	390	410
Grant-in-aid	50	55	60	63	66	70	80	90	90	94	100	110
Child Support Grant	–	–	–	–	–	–	–	100	100	100	100	110

1991 and 1992 are grants to white pensioners. Parity in social grants was implemented from 1 September 1993

The current system of grants does not reach all categories of the poor. The Minister of Social Development has therefore appointed a Committee to investigate a Comprehensive Social Security System. A key issue for the committee is to define options for extending the social safety net amid affordability constraints. Alternatives are a basic income grant or extension of the child support grant to older children. Both alternatives require substantial financial resources.

Welfare services are the second major programme of social development departments in provinces. Given the dominance of budgets by social grants (refer to table 5.7 above) at around 91 percent, the objective is to increase the welfare share of social development budgets to 20 percent. Only Gauteng and Western Cape – at 18 percent – appear to have made significant progress.

Progress has been slow in introducing a new funding approach for welfare services. The intention is to move to a more developmental and community based approach, and some welfare services are also expected to receive contributions form the national lottery fund. Provincial information on current services is not readily available or comparable, but table 5.12 below indicates the uneven spread of facilities between provinces.

Table 5.12: Social development facilities in provinces – 2000/01[1]

	Treatment Centres	Children's Homes	Creches (Not sub-sidised)	Places of Safety	Homes for Disabled	Protective Workshops	Homes for the Aged	Service Centres
Eastern Cape	–	–	–	–	–	–	–	–
Free State	1	5	691	–	4	9	43	12
Gauteng	9	52	152	7	34	56	102	88
KwaZulu-Natal	2	1	–	9	2	–	1	0
Mpumalanga	–	–	–	–	–	–	–	–
Northern Cape	6	23	2	3	5	32	12	12
Northern Province	–	6	172	1	1	10	9	8
North West	1	3	120	1	1	2	27	10
Western Cape	4	43	–	–	35	41	139	169

[1] *No data were received from Eastern Cape and Mpumalanga*

HIV/Aids and social security

HIV/Aids and orphans

HIV/Aids will impact dramatically on poverty and household vulnerability in South Africa, especially the need to care for orphans below 15 who lost mothers due to Aids. Current estimates are that the number of Aids orphans will increase from about 150 000 in 2000 to more than 2 million in 2010.

Institutional care and income support

Institutional care for these children will be expensive and alternative care mechanisms will have to be established. While home- and community-based care are being piloted, significant state support will be required to ensure the burden does not fall disproportionately on the poor. The current child support grant provides a means for the state to support certain poor children, including those affected by HIV/Aids. However, the current age limits as well as the grant amounts limit its role in supporting orphans and other means of support would have to be developed.

Foster care grant

The number of beneficiaries from the foster care grant grew from R48 865 in April 1997 to R79 437 in March 2000 due to increasing numbers of Aids orphans and phasing out of the state maintenance grant. The amount is substantially higher than the child support grant (R410 against R110). Administrative processes required for such grants may however limit rapid expansion of this grant. Significantly, spending – at R20 635 in 2000 – is highest in Western Cape, which has the most developed system and most social workers.

Conditional grants in social development

Grants focused on improved management

As Table 5.13 shows, conditional grants have limited importance in the social development sector. These grants initially focused on improving financial management and administration.

Table 5.13: Transfers and spending of conditional grants

R million	Actual	Actual Transfers and Expenditure		Estimated Actual		Medium-term estimate		
	1998/99	1999/00		2000/01		2001/02	2002/03	2003/04
Grants		Transfers	Spending	Transfers	Spending			
Child Support	4	17	11	17	13	–	–	–
Criminal Justice System	–	13	6	–	1	–	–	–
Financial management	6	37	31	28	14	10	11	–
HIV/Aids	–	–	–	5	2	13	–	–
Victim empowerment	–	4	2	–	–	–	–	–
Women flagship	2	1	1	2	2	–	–	–
Total	12	72	50	52	32	23	11	–
Under-spending	–	–	21	–	42[1]	–	–	–
Roll overs	–	4	–	22	–	–	–	–

[1]*Underspending includes R22 million provided for roll overs at provincial level*

Slow progress in utilising these funds saw a reduction in the allocation in the years shortly after 1994. Funds assisted in procurement of additional financial management capacity for provinces, the re-registration of grant beneficiaries and purchasing equipment.

HIV/Aids and poverty relief

A small conditional grant supported the phasing in of the child support grant. The Department of Social Development channels a portion of the special allocation for the integrated HIV/Aids plan to provinces to support the development of models of home- and community-based care.

Social development departments also received allocations from the central allocation for poverty relief. This supported a range of income-generating activities to fight poverty directly and strengthen the focus on developmental social welfare. The outcome of these projects is not assessed in this *Review*.

Personnel trends

Unlike the other social sectors, personnel makes up a small component of social development budgets.

Table 5.14 shows personnel spending to have grown at an annual average rate of 18,3 percent, from R556 million in 1997/98 to R921 million in 2000/01.

Table 5.14: Personnel expenditure by province

	Actual			Estimated actual	Medium-term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Eastern Cape	88	107	124	140	147	157	164
Free State	68	83	94	102	101	105	109
Gauteng	107	125	134	152	162	172	182
KwaZulu-Natal	122	138	149	166	180	192	203
Mpumalanga	21	27	36	39	40	42	45
Northern Cape	30	35	37	44	51	54	57
Northern Province	13	32	62	67	71	74	80
North West	20	74	84	95	113	120	126
Western Cape	86	99	113	115	145	154	161
Total	**556**	**719**	**832**	**921**	**1 010**	**1 070**	**1 127**

The strong upward trend in personnel expenditure applied to all provinces, and may point towards some strengthening of capacity to deliver. Growth in "other" expenditure may be related to the costs of outsourced payment systems. Tellingly, "other" social development expenditure did not increase dramatically in the Eastern Cape where the payment system has not been outsourced to date, although this is in progress. However, it is difficult to compare costs between provinces that outsourced and those that did not, as there may be other efficiency variants over and above outsourcing. Many of these costs are often non-financial.

Management and delivery issues

The management of the processing, approval, payment and reconciliation of social grants is critical to the successful delivery of social grant programmes. A number of other aspects of social development grant delivery have received attention in recent years, and some are reflected in table 5.15:

?? Most provinces have outsourced the payment of social grants to private firms. All Pay and Cash Payment Systems are responsible for three and four provinces respectively. Only Eastern Cape now pays most social grants with cheques. The costs per grant between provinces also differ between provinces.

?? Unsatisfactory conditions at many old age pension paypoints means grant beneficiaries are often exposed to the elements and to fraud and discomfort when queuing for pensions. Queues are often long and start early in the day, and the safety of pensioners is not fully guaranteed. Partly as a result of these observations, the national Department of Social Development is auditing its infrastructure to inform capital planning. While spending on social development infrastructure may prove necessary, resource constraints may make sharing of government infrastructure between different spheres and departments a feasible option for the short-term. Sharing with NGOs may also prove useful.

Table 5.15: Pay-points, cost per grant and relevant contractor

Province	Number of Pay-points	Costs to administer a grant per beneficiary (Rands)				Contractor operating in province
		Others		Bank		
		3rd party contractor	Post office	1 day service	5 day service	
Eastern Cape	2 075	0,00	11,39	0,72	1,82	Cheques
Free State	553	18,62	N/A	0,75	1,82	All Pay
Gauteng	315	23,06	N/A	1,60	1,82	All Pay
KwaZulu-Natal	2 172	18,15	N/A	0,75	1,82	CPS
Mpumalanga	301	21,50	11,39	0,72	1,82	Empilweni
Northern Cape	214	21,04	N/A	0,75	1,82	CPS
Northern Province	1 903	14,96	11,39	0,64	1,82	CPS
North West	807	22,75	11,39	0,75	1,82	CPS
Western Cape	283	13,99	N/A	1,43	1,82	All Pay
Total	**8 723**	**–**	**–**	**–**	**–**	**–**
Average	–	19,00	–	0,90	–	–

Source: National Department of Social Development.

Cost and number of court cases unclear

?? Administrative actions by provincial social development departments to suspend beneficiaries or discontinue grants have resulted in court actions. Poorer provinces seem to be affected relatively more often. This points to a need to strengthen administrative processes and to enforce means-testing, particularly with regard to disability grants, more rigorously. It has been difficult to gather reliable data on the cases and the financial implications for provinces.

?? Although data is weak, evidence suggests there is unevenness between the provinces in backlogs, the number of applications lodged monthly, and the time taken to process social grant applications.

No information on processing times

Progress with implementation of the PFMA

Improving management and reporting

Appointment of CFO's

Social development is confronted with a range of financial management and processing issues. The development of proper systems, and the need for internal control and effective fraud-prevention plans are important priorities.

Provincial departments continually assess the need to eliminate payment to illegitimate ("ghost") beneficiaries, including the need for frequent comparisons of databases to prevent unauthorised payments. They also need to develop their capacity to process grant applications speedily, and to apply the means test more uniformly. The practise of classifying unpaid monthly grants as new revenue must also be addressed. Given the importance of transfers to welfare organisations or institutions, great oversight is required over the monitoring of such transfers, and an assessment of whether such transfers achieve their objectives.

Setting up structures to implement the PFMA should help social development departments improve financial management capacity. Table 5.16 shows the CFOs appointed in provincial welfare/social development departments and the levels at which appointments were made. A Social Development CFO forum now facilitates capacity building, peer-learning, inter-provincial comparison and best practice, monthly budget reports, risk management, fraud prevention, audit charters and pro-active identification and resolution of problems. Eight social development departments now have internal audit units.

Table 5.16: CFOs in welfare/social development departments

Province	Appointment of CFO	Nature of appointment	Level of appointment
Eastern Cape	Yes	F	CD
Free State	Yes	F	CD
Gauteng	Yes	F	CD
KwaZulu-Natal	Yes	F	CD
Mpumalanga	Yes	F	CD
Northern Cape	Yes	F	D
Northern Province	Yes	C	DDG
North West	Yes	F	CD
Western Cape	Yes	P	CD
Total	**9/9**	**1 P + 1 C + 7 F**	
		Permanent Appointment = P ***Contract Appointment = C*** ***Acting CFO = A*** ***Firm of Consultants = F***	***Director = D*** ***Chief Director = CD*** ***Deputy DG = DDG*** ***Combination = C***

Financial management improving

Table 5.17 provides a status report on submission of financial statements to the Auditor General. The aim is submissions within two months in contrast to current practices of up to eighteen months.

Table 5.17: Submission of financial statements by 31 May 2001

Provinces	Vote number	Submitted Yes / No	Submitted after deadline but before 14 June 2001
Eastern Cape	4	Yes	N/A
Free State	7	Yes	N/A
Gauteng	6	Yes	N/A
KwaZulu-Natal	13	Yes	N/A
Mpumalanga	10	Yes	N/A
Northern Cape	11	No	Yes
Northern Province	12	Yes	N/A
North West	12	Yes	N/A
Western Cape	7	Yes	N/A

Conclusion

Significant real growth expected in future

Social development expenditure, particularly spending on social grants, will continue growing in real terms in the foreseeable future, especially as child support and higher grant enhancement are phased in. In addition, welfare grants and services will play an important role in countering the impact of HIV/Aids on household vulnerability.

6

Housing, roads and transport

Key post-apartheid challenges

Housing, roads and transport are key post-apartheid challenges. The challenge relates not only to backlogs, but also to the spatial environment and the quality of community life. Alongside national and local government, provinces play a role particularly in providing housing and roads.

This chapter provides overviews of budgetary and non-budgetary issues relating to housing, roads and transport. It focuses on expenditure on these two sectors, sources of revenue, service delivery indicators as well as strategies and ways to improve service delivery. It also examines departmental issues, like progress made with implementation of the PFMA in the housing arena.

In both sectors, it is difficult to fully isolate the information. Housing data are typically dispersed across provinces and municipalities and integrated with local government information. Because many of the provinces combine their transport budget with other departmental budgets like public works and economic affairs, it is difficult to isolate all the transport-related activities in a province.

Housing

Over 1,1 million houses

Since 1994, Government has contributed to over 1,1 million low-cost houses. It continues to explore innovative alternatives to speed up delivery and to contribute to the development of sustainable settlements.

The focus in this section is on the housing subsidy grant, the human settlement grant and rental housing. Housing is part of broader integrated development and must also be seen in relation to other infrastructure programmes. The sector faces notable institutional challenges of delivery and accountability. These include the Consolidated Municipal Infrastructure Programme (CMIP) and social and economic infrastructure that contribute to the development of sustainable settlements.

The housing subsidy grant

Total provincial housing expenditures difficult to track as most provinces have combined their housing function with either land administration or local government and traditional affairs. This *Review* focuses primarily on the housing subsidy grant as the primary vehicle funding provincial expenditure on housing.

Housing subsidy

Since 1994, Government has transferred over R16 billion of the housing subsidy grant through provinces; some R11 billion of which was spent since 1997/98. The 2000 Budget provided for R3 billion worth of subsidies. Table 6.1 outlines provincial spending on housing development between 1997/98 and 2003/04. Total provincial spending decreased at an annual average nominal rate of 0,3 percent between 1997/98 and 2000/01. Real spending decreased at an annual average rate of 6 percent over the same period.

Table 6.1: SA Housing Fund – expenditure and forward estimates

Province	Actual				Medium-term estimates		
(R million)	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Eastern Cape	245	378	341	470	498	531	550
Free State	123	184	88	218	241	257	266
Gauteng	737	639	737	610	682	727	752
KwaZulu-Natal	800	628	471	560	618	659	681
Mpumalanga	157	100	118	153	208	222	230
Northern Cape	71	55	56	58	65	70	72
Northern Province	173	231	228	272	335	357	369
North West	249	170	181	262	257	274	283
Western Cape	366	364	351	341	322	343	355
Total	**2 920**	**2 749**	**2 571**	**2 945**	**3 226**	**3 440**	**3 559**

Source: National Department of Housing

Recovery in spending expected

Housing expenditures are expected to show an average real recovery of 1 percent for the period 2000/01 to 2003/04. Nominal spending should increase by 9,5 percent from R2 945 million in 2000/01 to R3 226 million in 2001/02 and at an annual average rate of 6,5 percent to R3 559 million in 2003/04.

Table 6.2 shows actual provincial expenditure outcomes for 2000/01. The total budget was adjusted by R467 million to R3 465 million, mainly because of rollovers. Actual spending on housing subsidies for 2000/01 amounted to R2 945 million, increasing by R374 million or 14,5 percent compared to 1999/2000, but R519 million or 15 percent lower than the 2000 adjusted budget. Only Northern Cape, Northern Province and Western Cape spent their entire adjusted budgets.

Table 6.2: Actual expenditure outcome for 2000/01 for SA Housing Fund

R million	2000/01 Budget	2000/01 Adjustments estimate	2000/01 Estimated actual outcome	Actual outcome as % of adjusted budget
Eastern Cape	422	500	470	94.2%
Free State	218	362	218	60.3%
Gauteng	719	719	610	84.9%
KwaZulu-Natal	588	696	560	80.4%
Mpumalanga	173	251	153	60.8%
Northern Cape	58	58	58	100.0%
Northern Province	257	257	272	105.7%
North West	221	280	262	93.6%
Western Cape	341	341	341	100.0%
Total	**2 998**	**3 465**	**2 945**	**85.0%**

Table 6.3 shows rollovers decreased between 1995/96 and 2000/01, from R2 227 million or 71 percent of provinces' housing funds in 1995/96 to R519 million or 15 percent. Of the 2000/01 rollover,

R240 million relates to subsidies earmarked for the Job Summit Rental Programme in Gauteng, KwaZulu-Natal and Mpumalanga.

The continued rollovers can be attributed to a number of factors. There was little incentive for developers to complete projects on time, particularly during the last phase of construction. Also, weak capacity and poor planning within departments slowed down spending and the 2000 local government elections and restructuring towards newly demarcated municipalities slowed down housing development. Finally, unfavourable weather patterns interfered with construction.

Table 6.3: Rollovers on SA Housing Fund

Rollovers R'million	1995/96		2000/01	
	Actual Rollover	% of Allocation	Actual Rollover	% of Allocation
Eastern Cape	451	*88%*	29	*6%*
Free State	137	*73%*	144	*40%*
Gauteng	375	*52%*	109*	*15%*
KwaZulu-Natal	464	*77%*	136*	*20%*
Mpumalanga	124	*61%*	98*	*39%*
Northern Cape	32	*40%*	0	*0%*
Northern Province	330	*95%*	-15	*-6%*
North West	215	*88%*	18	*6%*
Western Cape	100	*39%*	0	*0%*
Total	**2 227**	***71%***	**519**	***15%***

**Includes R80 million for Job Summit Rental Housing Programme.*

Subsidies approved

Table 6.4 shows over 1,3 million housing subsidies were approved between 1994 and March 2001.

The subsidy level is currently R16 000

Table 6.4: Subsidies approved, by province

Province	1994–98	1998/99	1999/00	2000/01	Total
Eastern Cape	77 483	20 088	25 332	7 536	130 439
Free State	35 897	26 209	11 056	25 772	98 934
Gauteng	209 568	92 732	54 045	42 288	398 633
KwaZulu-Natal	158 927	25 371	8 083	26 186	218 567
Mpumalanga	27 648	16 664	8 787	19 366	72 465
Northern Cape	16 498	4 506	3 870	14 138	39 012
Northern Province	62 498	14 557	21 823	16 132	115 010
North West	36 825	39 206	16 823	32 700	125 554
Western Cape	67 144	35 849	28 528	22 592	154 113
Total	**692 488**	**275 182**	**178 347**	**206 710**	**1 352 727**

Source: National Department of Housing

The housing subsidy programme is used mainly to fund the acquisition and servicing of stands and to erect top structures. It facilitates access to tenure, provision of services and building of housing units. Introduced in 1994 with a maximum of R12 500, the current subsidy level is R16 000.

The box below explains the mechanisms and purpose of the Housing Subsidy Scheme.

The Housing Subsidy Scheme

The Housing Subsidy Scheme is the primary housing assistance vehicle. In 1994, it replaced all previous government subsidy programmes, other than where commitments under previous schemes were already made. Beneficiaries with a household income of not more than R3 500 per month, who have not owned fixed residential property previously, and who satisfy a range of other criteria, can apply for the subsidy. It is intended to help households access housing with secure tenure, at a cost that they can afford, and of a standard that satisfies the minimum health and safety requirements. Spending is typically on a serviced site, and to a limited extent on top structures. A beneficiary may only receive the subsidy once, except where the scheme allows for deviations from this provision.

Its subsidy mechanisms are:

- ***Project linked subsidies*** are offered on a stepped scale, linked to household income, and assist beneficiaries to acquire ownership of fixed residential properties for the first time on a project basis.
- ***Individual subsidies*** are also offered on a stepped scale, linked to household income. It assists beneficiaries to acquire ownership of fixed residential properties for the first time, and to buy existing homes or homes under construction.
- ***The consolidation subsidy*** provides a "top-up" amount to owners of serviced sites to provide or upgrade a top structure on such a site.
- ***The institutional subsidy*** provides subsidised accommodation through institutions for people who qualify for subsidies, on the basis of secure tenure such as rental, instalment sale, shareblock, or other tenure to households.
- ***Relocation assistance*** is offered to defaulting borrowers of mortgage loans, who were three months in arrears with their instalments on 31 May 1995 or 31 August 1997 (depending on the agreement entered into by government and the financial institution concerned), and whose loans cannot be rehabilitated. It helps them to rightsize to affordable housing. This forms an integral part of government's strategy to stabilise the housing environment.
- ***Rural subsidies*** enable households who have undisputed informal land rights in terms of the Interim Protection of Informal Land Rights Act, 1996 to access the housing subsidy to provide for their housing needs.
- ***The People's Housing Process*** provides support to people who want to build their homes themselves to access consolidated, project-linked, institutional and rural housing subsidies as well as other support measures.

Housing delivery

During the period 1994 to 2000, Government contributed towards providing over 1,1 million houses, benefiting approximately 4,9 million people (at an average of 4,1 people per household). Table 6.5 outlines, by province, the number of houses completed or under construction.

Pace of housing delivery slowing

Year specific figures for the initial period indicate that delivery peaked in 1997/98 with 322 638 houses. The high number of houses in 1997/98 may reflect carry through of projects from the previous two years, after the initiation of the new housing policy. Delivery thereafter appears to be correlated to the number of subsidies approved in the previous financial year. Thus the 170 883 houses built in 2000/01 is a result of the lower number (178 347) of subsidies approved in 1999/2000. This is well below the required rate of low-income household formation (estimated at 200 000 households per year). Of the total houses built over the period, 29,8 percent were in

Gauteng, 17,7 percent in KwaZulu-Natal, and 12,7 percent in the Western Cape. The other six provinces collectively built 40 percent.

Table 6.5: Houses completed or under construction, by province

Province	1994–98	1998/99	1999/00	2000/01	2001/02	Total
Eastern Cape	48 734	29 659	10 459	9 922	4 391	**103 165**
Free State	37 043	20 391	8 177	26 088	1 102	**92 801**
Gauteng	149 076	28 726	144 575	25 911	8 492	**356 780**
KwaZulu-Natal	96 021	53 105	28 997	28 547	2 674	**209 344**
Mpumalanga	30 757	16 838	4 808	16 457	1 653	**70 513**
Northern Cape	14 635	6 621	1 558	7 623	239	**30 676**
Northern Province	26 851	22 899	12 401	20 996	3 980	**87 127**
North West	42 264	18 367	12 944	17 609	0	**91 184**
Western Cape	69 155	34 575	26 916	17 730	92	**148 468**
Total	**514 536**	**231 181**	**250 835**	**170 883**	**22 623**	**1 190 058**

Source: National Department of Housing

Bureaucratic problems also impacted negatively on the pace of delivery. In particular, municipalities delayed approving new housing developments on the grounds that provinces had to pay property rates on new housing projects. Delays on the transfer of land, and the lack of effective co-ordination with the CMIP programme further slowed down delivery. Late finalisation of allocations also contributed to slow pace of delivery.

Housing backlog

Reducing the backlog

Backlogs in housing are defined in terms of the level of overcrowding, the need for additional dwellings, the number of inadequate dwellings, and population growth or household formation. Traditional dwellings are not included in this definition. The more than 1,1 million houses built since 1994 reduced the backlog to an estimated 2,2 million.

Other indicators

The 1999 October Household Survey shows certain patterns in access to housing, water and electricity. These patterns partially reflect the impact of housing delivery on overall quality of life.

Increase in formal dwellings

The proportion of households living in formal dwellings showed a gradual increase from 65,8 percent in 1995 to 69,9 percent in 1999. However, the real number of households living in informal dwellings has also increased, as the pressure for shelter is experienced across all types of housing.

Greater access to clean water

The impact of housing must however be viewed in an integrated context, with reference to other infrastructure. Significantly then, there has been a gradual increase in the proportion of households that have access to clean water (piped water inside a dwelling or on site, communal tap or public tanker). In 1995, 78,5 percent of households had access to clean water, rising by 4,9 percentage points to

83,4 percent in 1999. At the same time there was a decrease in the proportion of households using water from boreholes and rainwater tanks, from 10 percent in 1995 to 4,7 percent in 1999. The proportion of households obtaining water from rivers, streams and dams remained constant at 11,8 percent over the same period.

Increased use of electricity

For the period 1995 to 1999, electricity consumption increased by 6,3 percentage points from 63,5 percent to 69,8 percent of energy use, and the consumption of paraffin and candles showed a gradual decrease.

Other Conditional Grants

Human settlement grant

Improving the urban environment

The human settlement grant aims to build urban communities. It identifies and addresses the nature and underlying reasons for urban dysfunctionality and provides funding to correct such dysfunctionality while gearing other sources. The grant supports coordination of development funding to ensure holistic development.

Public Sector Hostels Redevelopment Programme

The Public Sector Hostels Redevelopment Programme provides grant funding for the upgrading and/or conversion of hostels owned by public sector institutions. The aim is to create humane living conditions and to provide affordable and sustainable housing opportunities on either a rental or ownership basis. The funding limits of the Programme amount to R16 000 per family or unit, or R4 000 per individual living in a hostel owned by a municipality or provincial government. Hostels for municipal employees are excluded from the Programme. The policy allows for three forms of re-development:

?? rental for single persons or families

?? ow nership in line with the Housing Subsidy Scheme policy

?? alternative use, such as a school or community centre.

Funding limits may be increased by up to 15% at the discretion of the relevant Provincial Housing Development Board, to compensate for development costs where hostels are in a particularly poor structural condition or where there are geophysical difficulties.

For 2000/01, R35 million of the appropriated R39 million for the human settlement grant was spent. Spending is expected to increase to R100 million in 2001/02 and to R109 million in 2003/04.

Rental housing

There is a considerable need for rental housing among low-income groups. The existing subsidy mechanisms have thus far not provided for this. Developers have therefore found it difficult to provide rental housing within the limits of the subsidy amount.

Job Summit Pilot Project on rental housing

The Presidential Job Summit Pilot Project on Rental Housing was identified as a National Presidential Lead Project. This is mainly to meet the considerable unmet need for rental housing for the R1 200 and R3 500 income per month groups as the existing subsidy mechanisms do not provide for this. The programme aims to provide

45 000 units by 2003/04. Phase 1 comprises three projects in Gauteng (Newtown, Johannesburg), Mpumalanga (Tasbat and Duvha Park in Witbank) and KwaZulu-Natal (Durban) consisting of 5 000 units each.

Inherited rental stock

Significant stock was developed prior to 1994 with loan funding from the previous National Housing Commission and various own affairs statutory bodies under the Apartheid tricameral system. Former Peri-Urban boards and the Houses of Delegates, Representatives and Assembly managed this. The properties include vacant serviced sites, single houses per stand, flats, and properties disposed on deed of sale where persons are required to repay outstanding balances.

After 1994, the housing stock was transferred to provinces and municipalities, and managed by provincial housing boards and municipal housing departments. The national Department of Housing is responsible for drawing up a framework to phase out these subsidies through the discount benefit scheme.

The Discount Benefit Scheme

The discount benefit scheme applies to all state financed housing units already constructed or contracted for before 30 June 1993 and allocated to individuals prior to 15 March 1994. Under this scheme, tenants received a discount on the price of the property to enable them to buy it.Beneficiaries received a maximum discount of up to R7 500 on the price of the property. This discount could cover the full purchase price of the property and w here there is an outstanding balance on the purchase price, the tenant will need to finance this with either savings or a mortgage loan. The scheme does not cover the service charge arrears, which are paid by the Provincial Housing Development Funds (in the case of stock held by provincial governments) to local authorities and are recovered from the tenants or debtors through the billing systems.

In terms of the "discount benefit scheme' from 1994 to January 2001, 377 720 residential properties, mainly in townships, were disposed of. As table 6.6 shows, 384 894 properties are owned by provinces, mostly in the Eastern Cape, Gauteng and Western Cape. Some housing was also transferred to municipalities. In terms of section 14(4)(b) of the Housing Act (No. 107 of 1997) the loans were phased out by 31 March 1998 while debts owed remained recoverable by the municipalities.

Rentals and loan repayments from the remainder of these debtors are still paid to provinces. Given inadequate record-keeping and administration, such rental payments on these properties have been weak over the last ten years, and large arrears exist.

Many tenants and owners have also not paid municipal rates and services. These arrears are major impediments preventing the transfer and possible disposal of the properties. The national Department of Housing is currently looking at appropriate policy interventions that would ensure the transfer and possible disposal of this stock.

Table 6.6: Inherited stock, 2001

Province	To be transferred
Eastern Cape	40 064
Free State	7 470
Gauteng	175 069
KwaZulu-Natal	24 264
Mpumalanga	22 000
Northern Cape	15 820
Northern Province	3 383
North West	19 000
Western Cape	77 824
Total	**384 894**

Local government and housing

When houses were transferred to provinces from the previous Own Affairs departments in 1994, some were also transferred to local government. Johannesburg, Cape Town and Durban have a sizeable number of houses in addition to these transfers. The extent of the stock transferred to these municipalities was not available at the time of print of this *Review*.

It is estimated however, that Johannesburg received over 130 000 houses, old age homes accommodating over 20 000 beds, public hostels accommodating 35 000 beds, staff hostels accommodating 10 000 beds and other accommodation (caretaker cottages, mayor's house, etc.) Cape Town received an estimated 15 000 houses, approximately 23 649 flats, 464 old age homes, hostels accommodation of over 15 000 beds and over 23 000 units that must still be transferred to beneficiaries. Currently rentals are collected on these properties. Johannesburg's rental collection is not as efficient as in Durban and Cape Town. The National Treasury is currently reviewing the governance arrangements for municipal housing development funds.

Normalising the housing environment

Rigidities in the housing sector

The low-income housing sector continues to be hamstrung by factors that include poor capacity, lack of finance (private and public) and inadequate planning and implementation. A more focused strategy is needed to address the challenges facing the housing sector especially to ensure access for private funding, emergency housing and rapid land release.

Access to private sector funding

Sustainable low-cost housing delivery requires a joint effort between government and the private sector. Government has initiated a number of strategies to encourage private sector participation in low-cost housing finance.

Normalising the lending environment

Through the establishment of Servcon Housing Solutions (Pty) Ltd in 1998, government aimed to normalise the lending environment by managing non-performing loans and properties repossessed by banks in areas where the normal legal process has broken down. In addition, the *Masakhane Campaign* was launched to change the perceptions and attitude of individuals, communities and local governments towards their responsibilities. It encourages the payment of rates, services and bonds and thus seeks to inculcate an overall culture of payment in affected communities.

Thubelisa Homes

Thubelisa Homes (a Section 21 company) was established in 1998 as a finance vehicle to create rightsizing stock and is linked to the

Servcon programme. Rightsizing is a process whereby occupants of bank-owned properties, who have defaulted on their mortgage loans, are assisted in relocating to more affordable houses.

Bridging finance to developers

The National Urban Reconstruction and Housing Agency *(Nurcha)*, aims to expedite housing delivery for low-income households over the short to medium-term. It provides guarantees to banks to encourage them to make bridging finance loans available to emerging developers and contractors, when banks are not prepared to approve such loans without additional security. The demand for bridging finance is also reduced with the speeding up of payments once projects have been completed.

Better ways of mobilising finance

Through the National Housing Finance Corporation, government aims to find better ways of mobilising finance for housing from sources outside government. The Corporation aims to create housing opportunities for low- and medium-income families by funding intermediaries to promote broader access to finance, building adequate and sustainable capacity within the organisations it funds and partnering with organisations to pioneer new finance and housing delivery options.

Private sector participation still limited

Despite government attempts to normalise the housing environment, poverty, unemployment and low payment rates deter the private sector from getting involved in low-cost housing. Mortgage lending in this sector is non-existent. To attract the private sector, Government acknowledges the need for a partnership to improve the housing environment in townships. It is particularly important to create a conducive environment for the housing market to operate in an orderly manner, to align subsidies and private finance and mitigate investment risk.

An integrated approach

The role of municipalities

Municipalities play a limited direct role in housing development, generally as developers and in the provision of internal bulk and connector infrastructure. Co-ordination of initiatives at the local level is often weak, and grant spending not optimised. Transferring funds directly to municipalities should help overcome existing resistance to being involved in housing delivery. It should improve local programme co-ordination, and speed up delivery.

Integrated development needed

Housing delivery requires not only bulk infrastructure (water, electricity and roads) and housing units, but also properly integrated communities and built environment. Many current housing projects do not take the total basic needs of communities into account. In many cases, housing projects are not complemented with social and economic infrastructure such as schools, roads, clinics and retail facilities. Businesses remain reluctant to invest in townships and new housing developments, mainly as a result of negative perceptions about crime and repayment rates.

The provision of emergency housing

The Grootboom case

Following the Constitutional Court judgement in the Grootboom case, Government is obliged to develop and implement, within available resources, a comprehensive and coordinated programme that progressively realises the right of access to adequate housing. This programme should include reasonable measures to provide access to people without land or housing, or who live in intolerable conditions or crisis situations.

Policy guidelines for the provision of emergency housing are being developed and provincial housing departments are reserving between 0,5 and 0,75 percent of their allocations to provide for a contingency fund.

Speeding up land release

Rapid land release

Government recognises the need to augment its housing delivery programme with a rapid land release programme, providing serviced sites where the need is becoming urgent. This process needs to be orderly and should create an environment in which future upgrading and self-improvement is possible.

Measuring service delivery in housing development

Measurement difficulty

One difficulty in measuring housing development is that not every subsidy translates into a completed house. Depending on the cost of land and infrastructure funded through the housing subsidy, the end product may be a serviced or unserviced site, with or without a top structure. Given the policy of incremental housing and other delays, a completed house may take a few years.

Housing department responsibilities

National and provincial government roles revolve around policy and implementation, respectively. The national Department of Housing is responsible for the development and co-ordination of a housing policy and strategy. The department also monitors implementation of national housing programmes in provinces. Provincial housing departments are the actual implementers of housing provision, mainly through the housing subsidy and human settlement programmes.

Given these different roles, the measures used to assess performance will be different for the different spheres of government:

?? Provincial output measures will include the number of subsidies approved, number of serviced sites provided, number of houses built and the impact on housing backlog.

?? National output measures focus more on policy development and monitoring, housing programme management, housing performance measurement and housing development funding.

Both financial and non-financial information, quantitative and qualitative, is important for understanding delivery. The box below offers some ideas in this regard.

Service Delivery Measures

The next phase of budget reforms emphasises the need for measurable outputs to assess performance.

For 2002/03, measurable objectives, service delivery measures and targets for each programme must be included in budget submissions (including strategic plans) and be reflected over the MTEF. It is expected that by 2004/05 this information will more accurately describe how public funds are used.

For now, it is expected that output measures in housing will be mainly quantitative. Possible service delivery indicators would include, but is not limited to, the number of:

- projects approved and started
- subsidies approved
- housing units built
- service sites allocated
- unserviced sites allocated
- households benefiting
- houses where full rental is paid
- number of rental houses transferred.

It is expected that information would be expanded towards reporting on more qualitative aspects, including the types of houses built, safety aspects of houses built, impact of housing delivery on the number of informal settlements and housing backlogs and the level of access to external finance to supplement housing subsidy.

Financial management and Implementation of the PFMA

Of all major provincial departments, housing departments face the greatest challenges in improving their system of classification and financial management. Though this *Review* is not able to analyse the audit opinions of the 2000/01 financial statements for the nine provincial departments (and their housing funds), preliminary indications are that the Auditor-General disclaims most of these. Addressing the audit queries raised by the Auditor-General, as well as modernising budgeting and financial management systems, remains an urgent priority.

Reforming the South African Housing Fund

No financial statements for SA Housing Fund

On 1 April 1994, all the rights, liabilities and the Own Affairs Housing Boards were transferred to the South African Housing Fund (SAHF) in terms of the Housing Arrangements Act of 1993.

The SAHF's purpose is to fund national and provincial housing programmes that are consistent with national housing policy and national housing delivery goals. It also aims to ensure that funds appropriated for housing are used solely for this purpose. Prior to the 2000 Division of Revenue Act, the funds flowed directly from the SAHF to the Provincial Housing Development Funds (PHDFs).

The Auditor-General reported in 1999 that apart from the 1993/94 financial statements of the former housing institutions, no further financial statements for the SAHF have been compiled, and that this jeopardises the accountability process.

Housing Fund problems

From an accountability point of view, there are a number of problems associated with the existing system of transfer of funds between the SAHF and the PHDFs. These include:

- Performance reporting is distorted. Reporting is not done on the actual amount utilised on actual housing programmes but on transfers to the SAHF and PHDF's. The impression is created that the funds allocated for capital housing projects each year is the amount that is in fact utilised.
- Meaningful monitoring is impossible as transfers are being monitored and being equated with expenditure.
- A significant amount of under spending is taking place, which results in rollovers taking place, which are not subject to provincial or national treasury oversight.
- There are significant assets in the various PHDFs that represent unsold housing stock, rental-housing stock, suspensive sale debtors and rental debtors.

Steps are being taken to address these concerns:

- The housing subsidy grant was converted into a conditional grant for the 2000/01 financial year.
- All funds received by provincial housing departments will now be deposited into the appropriate provincial revenue fund, improving accountability over such funds. This includes funds received for rental.
- All expenditure incurred with respect to housing will be on budget. This includes expenditure incurred by the respective provincial housing funds.
- Together with the Department of Housing, the National Treasury is working to implement an internationally accepted classification to measure progress in housing programmes.

Implementation of the PFMA

Whilst reforms to the SAHF and PHDFs contribute to improved financial management, broader public sector reforms set a context for sustainable change. In particular, the Public Finance Management Act (PFMA) provides a framework for such reform in government departments, provinces and public entities. Provincial housing departments have made some progress in implementing the PFMA and are expected to reap the benefits in 2001/02.

Appointment of CFO's

Table 6.7 shows progress with appointing permanent Chief Financial Officers (CFOs). There have been five full appointments, four of which are permanent. Appointments have all been either at Chief Director or Director level.

A Housing CFO forum was established recently to build financial management capacity. It provides a vehicle for peer-learning, shaping best practice, improving monthly budget reporting and facilitating pro-active problem-solving. Further, the CFO forum is expected to develop critical documents around risk management strategy, fraud prevention and audit charters.

Almost all provinces adopted a shared service arrangement or centralised audit committee, and seven of nine provincial housing departments have also established internal audit units. This puts these housing departments in a position to apply more effective auditing and financial controls, and represents another step towards improving accountable and transparent governance.

Table 6.7: Summary of CFOs appointed in provincial housing departments

Province	Full appointment	Nature of appointment	Level of appointment
Eastern Cape	No	A	D
Free State	No	A	D
Gauteng	Yes	P	CD
KwaZulu-Natal	No	A	CD
Mpumalanga	Yes	P	D
Northern Cape	No	A	D
Northern Province	Yes	C	CD
North West	Yes	P	CD
Western Cape	Yes	P	D
Total	**5/9**	**4 P + 1 C + 4 A**	

Permanent Appointment = P *Director = D*
Contract Appointment = C *Chief Director = CD*
Acting CFO = A

Early submission of financial statements

Table 6.8 shows that seven provincial housing departments have adhered to the deadlines of submitting financial statements to the Auditor-General within two months after the end of the financial year. The exceptions, Free State and Northern Cape, submitted theirs before 14 June 2001.

Table 6.8: Submission of financial statements by 31 May 2001

Provinces	Vote number	Submitted Yes / No	Department submitted after deadline but before 14 June 2001
Eastern Cape	7	Yes	N/A
Free State	8	No	Yes
Gauteng	7	Yes	N/A
KwaZulu-Natal	8	Yes	N/A
Mpumalanga	12	Yes	N/A
Northern Cape	9	No	Yes
Northern Province	19	Yes	N/A
North West	9	Yes	N/A
Western Cape	8	Yes	N/A

Roads and transport

South Africa has one of the most extensive road networks in Africa, totalling over 500 000 km. All three spheres of Government play a role in managing the maintenance, rehabilitation and development of this network. Approximately 223 128km fall under provincial authorities, and an estimated 7 200 km within the national road network under the South African National Roads Agency (NRA). Local government manages the rest.

Major portion of network falls under provinces

Table 6.9 provides a summary of the road network by national and provincial authority. All national roads, and about 25 percent of provincial roads are paved. The balance is gravel. Paved roads carry about 91 percent of daily traffic. A significant portion of gravel roads, largely in rural areas, is utilised by non-urban users on a daily basis. Larger shares of poor to very poor gravel roads are located in rural provinces.

Table 6.9: Road Network

Road Authority	Area (km^2)	Paved	Gravel	Total	Total road density	Km of paved road per population	% Total km of road per population	No. of vehicles per km of paved road
Eastern Cape	169 600	5 571	36 396	41 967	0,25	0,9	*6,7*	11
Free State	129 480	7 128	21 600	28 728	0,22	2,7	*10,9*	16
Gauteng	18 810	3 411	1 485	4 896	0,26	0,5	*0,7*	524
KwaZulu-Natal	92 180	6 730	34 530	41 260	0,45	0,8	*4,9*	23
Mpumalanga	78 370	6 627	9 258	15 885	0,20	2,4	*5,7*	26
Northern Cape	361 800	5 481	21 880	27 361	0,08	6,5	*32,6*	14
Northern Province	123 280	6 481	16 418	22 899	0,19	1,3	*4,6*	7
North West	116 190	6 869	16 303	23 172	0,20	2,0	*6,9*	12
Western Cape	129 370	6 340	10 620	16 960	0,13	1,6	*4,3*	69
National	–	7 200	–	7 200	–	–	*0,2*	–
Total	**1 219 080**	**61 838**	**168 490**	**230 328**	**0,19**	**1,5**	***5,7***	**30**
Percentage Shares								
Eastern Cape	13,9%	9,0%	21,6%	18,2%				
Free State	10,6%	11,5%	12,8%	12,5%				
Gauteng	1,5%	5,5%	0,9%	2,1%				
KwaZulu-Natal	7,6%	10,9%	20,5%	17,9%				
Mpumalanga	6,4%	10,7%	5,5%	6,9%				
Northern Cape	29,7%	8,9%	13,0%	11,9%				
Northern Province	10,1%	10,5%	9,7%	9,9%				
North West	9,5%	11,1%	9,7%	10,1%				
Western Cape	10,6%	10,3%	6,3%	7,4%				
National	–	11,6%	–	3,1%				

Source: Provincial treasuries and departments

37% of vehicles in Gauteng

On average, there are approximately 5,7 kilometres of provincial and national road per person, with the average for paved roads at 1,5 km. Levels of congestion are relatively high in Gauteng, reflected on average 524 cars for every kilometre of provincial road. National roads in Gauteng are more utilised and more congested than in other provinces. The level of congestion in the Northern Province is relatively low at an average of 7 cars per kilometre. Requirements for maintenance and rehabilitation will therefore be higher in Gauteng than in Northern Province.

Table 6.10 shows the number of vehicles in each province and the provincial distribution of vehicles and population. Vehicle numbers across provinces reflect the level of economic activity and incomes per province rather than population distribution. The wealthier and more urban provinces of Gauteng and Western Cape have relatively higher per capita vehicle ownership. For instance, Gauteng has 37,4 percent of all vehicles and only 18,1 percent of the population. By contrast, Eastern Cape has only 6,8 percent of the nation's vehicles but 15,5 percent of its population.

Table 6.10: Motor vehicle numbers, 1 April 2001

Type of vehicle ('000)	EC	FS	GP	KZN	MP	NC	NP	NW	WC	Total
Light	405	350	2 267	820	329	308	127	237	1 037	5 882
Heavy	32	34	165	85	38	36	11	30	60	491
Other	29	67	131	60	46	42	14	21	78	489
Total	**467**	**451**	**2 564**	**966**	**412**	**386**	**152**	**288**	**1 175**	**6 861**
Percentage of prov total										
Light	86,8%	77,5%	88,4%	84,9%	79,7%	79,9%	83,6%	82,4%	88,3%	85,7%
Heavy	6,9%	7,5%	6,4%	8,8%	9,2%	9,3%	7,3%	10,3%	5,1%	7,2%
Other	6,2%	14,9%	5,1%	6,3%	11,1%	10,9%	9,1%	7,3%	6,6%	7,1%
Total	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**
Percentage of vehicle total										
Light	5,9%	5,1%	33,0%	12,0%	4,8%	4,5%	1,9%	3,5%	15,1%	85,7%
Heavy	0,5%	0,5%	2,4%	1,2%	0,6%	0,5%	0,2%	0,4%	0,9%	7,2%
Other	0,4%	1,0%	1,9%	0,9%	0,7%	0,6%	0,2%	0,3%	1,1%	7,1%
Total	**6,8%**	**6,6%**	**37,4%**	**14,1%**	**6,0%**	**5,6%**	**2,2%**	**4,2%**	**17,1%**	**100,0%**
Percentage of Population	15,5%	6,5%	18,1%	20,7%	6,9%	2,1%	12,1%	8,3%	9,7%	100,0%

Source: National Traffic Information System

Expenditure on road infrastructure

Expenditure on road infrastructure in the provinces up to 2000/01 was funded primarily through the provincial equitable share and to a limited extent through provincial own revenue. From 2001/02, the supplementary infrastructure conditional grant complements provincial funds as part of it is earmarked for provincial roads. Expenditure on national roads is funded by national government transfers and user charges.

Greater shift towards infrastructure spending

Table 6.11 shows that, for the period 1997/98 to 2000/01, over R12 billion was spent on national and provincial roads. Total spending on provincial roads increased at an annual average nominal rate of 5,4 percent from R2,7 billion in 1997/98 to R3,1 billion in 2000/01. Although showing fairly strong growth on a year on year basis, road expenditure accounted for only 2,9 percent of total provincial expenditure in 2000/01. Total national spending on non-toll national roads increased by an annual average rate of 4,3 percent from R532 million in 1997/98 to R701 million in 2000/01.

Nominal increases, but low real spending

Total provincial expenditure grew significantly between 1997/98 and 2000/01. KwaZulu-Natal, Eastern Cape and Northern Province project to spend an increased share of their total budget for road development over the MTEF, while spending shares in other provinces remain relatively constant. The sharp increase in 2000/01 may be attributed to the increased allocation for the rehabilitation of road infrastructure damaged during the 1999/2000 floods. Mpumalanga, Northern Province and KwaZulu-Natal received additional allocations to address flood damages. Provincial spending on roads has been sluggish in the three years to 2000/01, only growing at a real average annual rate of 1,1 percent. This may be attributed to the reprioritisation of budgets towards social services.

Table 6.11: Spending on national and provincial roads

Provincial R'million	Actual			Estimated Actual	Medium-term Estimates		
	1997/98	1998/99	1999/00	2000/01	2001/02	2002/01	2003/04
Eastern Cape	404	238	154	288	560	1 148	1 131
Free State	241	289	186	165	224	261	290
Gauteng	252	374	405	363	425	483	495
KwaZulu-Natal	565	371	505	655	810	854	1 010
Mpumalanga	164	203	182	216	152	182	277
Northern Cape	127	102	96	104	121	134	142
Northern Province	233	167	325	586	439	577	658
North West	292	267	227	258	184	193	203
Western Cape	417	334	347	525	493	610	623
Provincial spending	**2 695**	**2 346**	**2 427**	**3 160**	**3 407**	**4 442**	**4 828**
National spending	532	698	923	715	1 055	1 192	1 295
TOTAL	**3 227**	**3 043**	**3 350**	**3 875**	**4 462**	**5 634**	**6 123**
Percentage of total provincial expenditure							
Eastern Cape	2,5%	1,5%	0,9%	1,6%	2,9%	5,5%	5,1%
Free State	3,5%	4,1%	2,8%	2,2%	2,7%	3,0%	3,2%
Gauteng	1,6%	2,3%	2,4%	2,0%	2,1%	2,2%	2,2%
KwaZulu-Natal	2,9%	2,0%	2,6%	3,0%	3,4%	3,3%	3,6%
Mpumalanga	2,7%	3,3%	2,8%	3,1%	1,9%	2,1%	2,9%
Northern Cape	5,4%	4,3%	3,9%	4,0%	4,3%	4,4%	4,3%
Northern Province	2,0%	1,4%	2,6%	4,1%	2,8%	3,4%	3,7%
North West	3,8%	3,4%	2,8%	2,8%	1,9%	1,9%	1,8%
Western Cape	3,9%	3,2%	3,2%	4,6%	4,0%	4,6%	4,5%
Average	**2,6%**	**2,4%**	**2,2%**	**2,9%**	**2,8%**	**3,4%**	**3,5%**

Source: Budget statements

Spending on new roads and major rehabilitation

On average, 33 percent of total spending on roads between 1997/98 and 2000/01 was on new roads and major rehabilitation. For 2000/01, spending in this category was relatively high in Gauteng, KwaZulu-Natal, Northern Province, North West and Western Cape. Disproportionately higher spending in Northern Province might be attributed to the 1999/2000 floods. National government spending on non-toll national roads was R263 million in 2000/01.

Spending on routine maintenance

Between 1997/98 and 2000/01, 26 percent of provincial spending on roads was on routine maintenance. Of the more rural provinces, KwaZulu-Natal showed consistent growth in spending between 1997/98 and 2000/01 with Eastern Cape showing substantial growth in 2000/01. National government spending on routine and periodic maintenance on non-toll national roads was R417 million.

Medium-term estimates

Recovery in real spending

The 2001 Budget marks a turnaround in provincial infrastructure spending in general and is expected to have a positive impact on budgets for roads over the MTEF. Provincial spending is projected to grow at an annual average rate of 15,2 percent to R4,8 billion in 2003/04. For 2001/02, it is projected that total provincial spending would be R3,4 billion which is 7,8 percent higher than in 2000/01. The major increase of 30 percent is to occur between 2001/02 and 2002/03. Spending in real terms is expected to recover and grow at an annual average rate of 9 percent between 2001/02 and 2003/04.

New projects

Spending on provincial roads in Eastern Cape, Free State, KwaZulu-Natal, Northern Cape and Western Cape is anticipated to grow strongly while Gauteng, Mpumalanga and North West show moderate growth. For 2001/02, provinces project to finance the maintenance and rehabilitation of over 2 868 km of roads of which 1 398 km is paved and 1 470 km is gravel. Table 6.12 gives a breakdown of projects for 2001/ 2002.

Table 6.12: Proposed projects for 2001/02

	Kilometers *of road*		
	Paved roads	**Gravel roads**	**Total**
Eastern Cape	31	49	80
Free State	75	90	165
Gauteng	235	65	300
KwaZulu-Natal	55	650	705
Mpumalanga	29	110	139
Northern Cape	150	300	450
Northern Province	216	123	339
North West	130	83	213
Western Cape	–	–	–
National	477	–	477
Total	**1 398**	**1 470**	**2 868**

Better access roads for rural population

There is an almost even total expenditure between paved and gravel roads, whilst traffic distribution is substantially lower on gravel roads. Given low levels of usage of gravel roads, it is anticipated that the large proportion of spending on gravel roads is targeted at providing better road access to the rural population.

Impact of spending on road infrastructure development

The slow budget growth contributed to the overall deterioration of roads and the increase in maintenance, rehabilitation and new construction backlogs.

Road backlogs

The estimated cost, according to provinces, to meet backlogs in road infrastructure development is R23 billion. Approximately 53 percent of the backlog is identified as maintenance and rehabilitation spending; 28 percent is associated with upgrading, and 19 percent is for new roads. The backlog is high across provinces.

Over R10 billion per annum is required to address the backlog over 5 years. Of this, over R4 billion and R5,8 billion per annum is needed respectively to eradicate maintenance and rehabilitation backlogs and annual needs over 5 years. The backlog estimate is high at R6 billion in Eastern Cape, and is on average R3 billion in each of Free State, KwaZulu-Natal, Mpumalanga and Northern Province. Allocations for 2001/02 will not meet the backlog. Provinces where backlogs are higher seem to allocate relatively less funds to road development than provinces where backlogs are lower.

Bus and Rail subsidies

Implementation of policy and strategy

In addition to road infrastructure development, Government also oversees the payment of bus and rail subsidies; provides support information and research services; promotes planning for intermodal land transport infrastructure and operations; and also manages the Urban Transport Fund. While bus and rail subsidies are currently a national function, the beneficiaries of each service are at provincial or local level. National transport policy is to devolve these funds to local government or transport authorities in future. Table 6.13 shows national expenditure trends on policy, strategy and implementation between 1997/98 and 2003/04.

Table 6.13: Expenditure on policy, strategy and implementation

Policy, Strategy and implementation	Actual			Estimated Actual	Medium-term Estimates		
(R'million)	1997/98	1998/99	1999/00	2000/01	2001/02	2002/01	2003/04
Bus Subsidies	1 088	1 154	1 323	1 449	1 542	1 657	1 734
Rail Subsidies	1 212	1 405	1 595	1 727	1 716	1 791	1 912
Urban Transport Fund	202	37	30	22	38	40	42
Other	301	71	30	54	81	100	82
Total	**2 804**	**2 667**	**2 978**	**3 252**	**3 378**	**3 587**	**3 770**
Percentage growth	5%	-5%	12%	9%	4%	6%	5%
As % of total national transport budget							
Bus Subsidies	30,2%	32,5%	32,6%	34,9%	33,2%	33,2%	32,8%
Rail Subsidies	33,6%	39,5%	39,3%	41,6%	36,9%	35,9%	36,1%
Urban Transport Fund	5,6%	1,0%	0,7%	0,5%	0,8%	0,8%	0,8%
Other	8,4%	2,1%	0,7%	1,3%	1,7%	2%	1,5%
Total	**77,8%**	**75,1%**	**73,3%**	**78,3%**	**72,7%**	**71,8%**	**71,3%**

Bus subsidies

Bus subsidies support low-income households displaced from major metropolitan areas by historical apartheid laws and thus using major bus routes in provinces. These subsidies constitute on average 33 percent of total expenditure of the national Department of Transport's budget. They increased at an annual average rate of 10 percent from R1,1 billion in 1997/98 to R1,4 billion in 2000/01. Spending is projected to grow 6,4 percent between 2000/01 and 2001/02 and at an annual average rate of 6,2 percent to R1,7 billion in 2003/04. Table 6.13 shows the bus subsidies allocated to provinces between 1997/98 and 2003/04, and that the major allocations go to Gauteng, KwaZulu-Natal, Western Cape and Mpumalanga. National government retains part of the allocation as a monitoring fee, hence the figures in table 6.14 reflects the net allocation to provinces, as opposed to the total figures in table 6.13.

Table 6.14: Bus subsidies between 1997/98 and 2003/04

Provincial R'million	Actual		Estimated Actual	Medium-term Estimates		
	1998/99	1999/00	2000/01	2001/02	2002/01	2003/04
Eastern Cape	38	41	46	50	54	56
Free State	65	72	81	87	93	98
Gauteng	471	488	551	595	637	665
KwaZulu-Natal	225	289	326	352	377	394
Mpumalanga	103	121	137	148	158	165
Northern Cape	4	4	5	5	5	6
Northern Province	64	44	50	54	58	60
North West	27	18	21	22	24	25
Western Cape	157	171	193	209	233	233
TOTAL	**1 154**	**1 248**	**1 409**	**1 522**	**1 639**	**1 702**

Rail subsidies

Rail subsidies constitute on average 37 percent of total expenditure on the national Department of Transport's budget. These subsidies increased at an annual average rate of 12 percent from R1,2 billion in 1997/98 to R1,7 billion in 2000/01. Spending is projected to decline by 1 percent between 2000/01 and 2001/02 and to grow at an annual average of 4 percent to R1,9 billion in 2003/04. The Rail Commuter Corporation projects spending R450 million on capital over the MTEF. Of this, R275 million is for routine capital expenditure and R175 million is to fund rolling stock refurbishment. It is anticipated that 176 coaches will be renewed during the first two years at a cost of R360 million. A new long-term recapitalisation programme is in the making, to improve rail safety and enhance rail transport as a viable public transport alternative.

Urban Transport Fund

The Urban Transport Fund mainly finances the implementation of transport infrastructure in metropolitan transport areas. Spending on the fund amounted to R22 million in 2000/01 and is anticipated to grow to R42 million in 2003/04.

Sources of revenue for roads

Roads revenue key for provinces 'own income'

Provincial road infrastructure is funded through national transfers and provinces' own revenue. The transfers include the equitable share and the supplementary infrastructure allocation, while provinces derive own revenue from fees as prescribed by the Roads Traffic Act and associated regulations. National road infrastructure is funded by national government through transfers from the national Department of Transport. Concessions and toll fees levied complement national government funding. Table 6.15 provides perspective on the revenue collected in terms of the Act.

Table 6.15: Revenue collected in terms of the Road Traffic Act

	Actual			Estimated actual	Medium-term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Eastern Cape	62	53	59	62	42	44	48
Free State	79	87	103	137	110	114	116
Gauteng	388	413	528	572	516	549	580
KwaZulu-Natal	247	275	305	352	329	344	378
Mpumalanga	74	55	65	79	74	79	85
Northern Cape	28	26	37	44	50	54	57
Northern Province	35	40	43	60	50	54	82
North West	59	55	76	93	141	146	161
Western Cape	226	251	299	344	428	492	565
Total	**1 198**	**1 256**	**1 514**	**1 745**	**1 739**	**1 875**	**2 071**
Percentage growth							
Eastern Cape		-14,5%	12,0%	4,6%	-32,5%	7,0%	7,0%
Free State		11,1%	18,1%	32,9%	-19,9%	3,6%	2,0%
Gauteng		6,4%	27,7%	8,5%	-9,8%	6,2%	5,7%
KwaZulu-Natal		11,3%	10,9%	15,7%	-6,6%	4,6%	9,9%
Mpumalanga		-24,7%	16,6%	22,6%	-6,5%	6,0%	8,0%
Northern Cape		-7,7%	42,2%	20,3%	12,3%	7,8%	7,1%
Northern Province		14,4%	7,6%	40,8%	-17,2%	8,0%	51,1%
North West		-6,7%	37,2%	21,9%	51,5%	3,6%	10,3%
Western Cape		11,0%	18,9%	15,1%	24,3%	14,9%	14,9%
Average		**4,9%**	**20,5%**	**15,2%**	**-0,3%**	**7,8%**	**10,5%**
Percentage of total own revenue							
Eastern Cape	*27,6%*	*12,5%*	*15,8%*	*15,6%*	*12,5%*	*12,1%*	*11,9%*
Free State	*30,0%*	*34,8%*	*39,4%*	*44,9%*	*41,5%*	*41,5%*	*41,5%*
Gauteng	*43,1%*	*44,5%*	*50,5%*	*49,0%*	*49,6%*	*49,6%*	*49,3%*
KwaZulu-Natal	*38,5%*	*63,5%*	*49,7%*	*39,0%*	*55,9%*	*53,2%*	*53,1%*
Mpumalanga	*28,6%*	*28,6%*	*17,8%*	*51,1%*	*35,3%*	*34,9%*	*37,7%*
Northern Cape	*27,4%*	*32,9%*	*46,8%*	*66,8%*	*60,6%*	*61,6%*	*61,8%*
Northern Province	*17,2%*	*13,5%*	*17,3%*	*18,8%*	*15,4%*	*15,4%*	*18,8%*
North West	*19,6%*	*18,2%*	*23,7%*	*21,8%*	*38,2%*	*38,5%*	*40,4%*
Western Cape	*40,1%*	*47,7%*	*40,8%*	*44,5%*	*61,9%*	*63,7%*	*65,5%*
Average	***34,6%***	***36,6%***	***37,5%***	***38,6%***	***44,6%***	***44,6%***	***45,2%***

Source: FMS and Budget Statements

Categories of Road Traffic Act fees

The volatility of growth rates in road traffic revenues can be partly explained by a revision of fee schedules and the inconsistency in payments by a collecting agent.

Western Cape projects a relatively higher share of road traffic revenues as a percentage of total own revenue, from about 44,5 percent in 2000/01 to 65,5 percent in 2003/04. In contrast, Eastern Cape averages about 12 percent per year over the MTEF.

Table 6.16 details road traffic revenues collected between 1 April 2000 and 31 March 2001. In general, fees can be divided into four categories. Motor vehicle licences include both vehicles and trailers while operator licences include both driver's licences and learner permits. Other fees are for roadworthy testing and motor vehicle registration. Motor vehicle licensing fees generate at least 80 percent of total road traffic revenues, except in Northern Province where it is about 70 percent. Operator licences generate another 11 percent of revenue, with an exceptionally large proportion of about 24,4 percent in Northern Province.

Table 6.16: Road Traffic Act Fees collected, 2000/01

R million	EC	FS	GP	KZN	MP	NC	NP	NW	WC	Total
Motor vehicle licences	94,2	112,6	564,8	306,5	105,7	41,2	52,7	88,9	326,0	1 692,7
Operator licences	16,3	13,7	69,2	40,9	15,3	4,9	18,4	15,0	34,1	227,8
Roadworthy	1,4	2,5	6,1	0,5	3,1	1,5	1,0	1,8	4,9	22,6
Vehicle registration	3,9	5,6	58,9	11,6	5,8	2,1	1,5	5,9	17,8	113,0
Other	2,6	1,7	3,1	12,2	2,0	0,7	1,8	2,9	7,9	34,9
Total	**118,3**	**136,1**	**702,1**	**371,7**	**131,9**	**50,4**	**75,4**	**114,4**	**390,7**	**2 091,1**
Percentage shares										
Motor vehicle licences	79,6%	82,8%	80,4%	82,5%	80,2%	81,7%	69,8%	77,7%	83,4%	80,9%
Operator licences	13,%8	10,1%	9,9%	11,0%	11,6%	9,8%	24,4%	13,1%	8,7%	10,9%
Roadworthy	1,2%	1,8%	0,9%	0,1%	2,3%	2,9%	1,3%	1,6%	1,3%	1,1%
Vehicle registration	3,3%	4,1%	8,4%	3,1%	4,4%	4,2%	2,0%	5,1%	4,6%	5,4%
Other	2,2%	1,3%	0,4%	3,3%	1,5%	1,3%	2,4%	2,5%	2,0%	1,7%
Total	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**

Source: National Traffic Information System

Note: The totals in tables 6.15 and 6.16 for 1999/2000 differ as they are based on different sources. Generally, FMS amounts are lower than NaTIS amounts and the differences are due to timing and deduction of commissions.

Motor vehicle licence fees

Higher fees for bigger vehicles

Motorists are required to pay vehicles licence fees on an annual basis, based on the weight of their vehicle. Table 6.17 outlines the fee structure of the different provinces. The principle behind setting higher rates for bigger vehicle weights is that road damage and, therefore, maintenance costs are directly related to vehicle size. Fees rise in line with vehicle weight, but increase exponentially by more than 50 percent at the 5000kg mark. There is a large number of motor vehicle fee categories, differing across provinces, and varying from over R26 829 for a double-decker bus in Free State to R40 for a small trailer in Northern Province. Sedan car licenses could cost anything between R79 for a Citi Golf in the Northern Province to R393 for a

BMW 735 in Western Cape. Generally, Northern Province charges less than other provinces.

Monitoring

Considerable effort has gone into improving the monitoring of licensing fees. The National Traffic Information System (NaTIS) can list the vehicle licences that are coming up for renewal. Using this information, most provinces send out renewal notices to motorists. The system can also identify non-complying motorists and calculate the outstanding revenues, including penalties. On average about 8 percent of road traffic revenue is made up of penalties and arrear payments.

Table 6.17: Comparison of motor vehicle licence fees, 1 September 2001

Rand	Tare (kg)	EC	FS	GP	KZN	MP	NC	NP	NW	WC
Cars										
Citi Golf	844	96	122	114	114	135	135	79	114	189
Mercedes-Benz C230	1 410	153	168	180	210	171	213	119	180	309
BMW 735/A	1 860	204	207	252	297	243	285	172	252	393
Trucks										
Nissan (1 tonne)	1 239	123	140	126	162	129	168	92	126	228
Toyota Dyna (5 tonne)	2 260	318	309	372	426	360	438	251	372	621
Toyota Dyna (10 tonne)	4 460	795	768	948	1 065	906	1 101	634	948	1 512
Peterbuilt (cab only)	8 340	3 516	4 005	4 194	4 692	4 044	4 869	2 805	4 194	6 003
Trailers										
Venter	200	45	59	60	75	72	63	40	60	165
Afrit (10 tonne)	3 300	882	1 287	1 032	1 182	603	1 221	704	1 032	972
Afrit (20 tonne)	6 610	2 400	2 730	2 838	3 210	2 691	3 321	1 916	2 838	4 080
Multi-passenger										
Toyota Hiace (combi)	1 560	183	189	216	252	216	252	145	216	348
Passenger bus	10 252	5 208	5 970	6 198	6 951	5 988	7 209	4 158	6 198	8 769
Double-decker bus	16 960	12 760	26 829	15 108	17 052	14 421	17 295	10 672	15 108	23 205

Source: National Traffic Information System

Agents

Local governments as agents

All provinces, except Free State, appointed agents to administer licensing and related activities covered by the Road Traffic Act. Provinces generally use their respective local authorities for these tasks, but some also employ magistrates' offices, Home Affairs offices, post offices and private agents. KwaZulu-Natal, in particular, uses post offices in addition to its local authorities, thereby creating competition in the appointment of agents. Free State is the only province to have developed its own internal infrastructure. In total, there are over 400 registering authorities across the country.

Toll roads

Tolls help fund national roads

Toll roads and concessions are complementary sources of revenue that contribute to the maintenance of the national road infrastructure and reduce the pressure on the fiscus. Just over 29 percent of national roads are under toll or concession and the funds generated are used to repay loans and maintain the roads covered by the toll. The remaining national network is maintained by the fiscus.

Negative externality

Tolling may have negative externalities with financial implications for the maintenance and rehabilitation of roads under provincial or local government authority. Toll roads sometimes change the behaviour of road users in that they use alternative routes. Often these alternative routes fall under provincial and local government authority and may lead to additional maintenance costs.

Service Delivery Measures

For 2002/03, measurable objectives, service delivery measures and targets for each programme must be included in budget submissions (including Strategic Plans) and be reflected over the MTEF. It is expected that by 2004/05 this information will more accurately describe how public funds are being used. For now, it is expected that output measures in roads development would concentrate on quantity. Possible service delivery indicators would include information on:

?? the time it takes to evaluate and approve projects

?? projects approved and started

?? kilometers of roads maintained or rehabilitated

?? kilometers of new roads built

?? number of bridges maintained, rehabilitated or constructed.

Conclusion

Both housing and transport pose considerable challenges to provinces. Spending in both sectors has recently been sluggish, but institutional reform and new allocations should facilitate upward trends. The needs are considerable, and provinces face the challenge to position themselves to meet this need more assertively. They also have to develop measures of their performance that would ensure effective application of resources to an improved built environment. Both sectors have to work closely with the national and local spheres to achieve this.

7

Cross-sectoral issues in the provinces

The previous five chapters focused on the biggest sectors of provincial service delivery. This chapter deals with more general issues that transcend sectors and departments, personnel, institutional issues impacting on infrastructure development, conditional grants and financial management, including the implementation of the Public Finance Management Act.

Personnel issues

Provincial services highly labour intensive

Many of the key services delivered by provincial governments are labour intensive. Of the 1 million civil servants employed by national and provincial government, provinces employ over 70 percent. Personnel spending consumes almost 60 percent of total provincial budgets, and over 64 percent of health and 89 percent of education expenditure.

Stabilising personnel expenditure

Public policy over the past four years has sought to maintain a balance between stabilising personnel expenditure at the provincial level while increasing resources for recurrent non-personnel and capital spending. This objective was key in stabilising provincial finances and improving the quality of services delivered.

Increased employment and skills retention

As provincial budgets grow in real terms over the MTEF, the challenge is to increase personnel expenditure moderately. This increase in spending would make it possible to recruit and retain employees with essential skills especially in health.

Trends in provincial personnel management

1996 Salary agreement

Provinces, in general, have been successful in reducing the personnel component of their expenditure. Table 7.1 shows that this has moved from a high of 59 percent of total provincial spending in 1998/99 to about 57,3 percent in 2000/01. The effect of this success is that provincial budgets are more balanced, releasing resources for complementary inputs such as textbooks, medicine and maintenance. Further evidence of these successes can be measured in the growth of capital spending in 2000/01.

This has been a significant achievement, as the 1996/97 salary agreement in the public sector – while giving effect to the constitutional stipulation of one unified public service – created upward cost pressures.

Following the agreement, personnel spending in 1996/97 rose by 11,3 percent above the inflation rate. This was negotiated in the same fiscal year that Government announced its macroeconomic framework, which saw an emphasis on a lower deficit. The net result was a decrease in other categories of spending. This negatively affected service delivery.

Table 7.1: Provincial expenditure by economic classification

	Actual			Estimated actual	Medium -term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Personnel	53 925	56 643	58 593	63 024	67 166	70 913	74 828
Capital	8 131	6 218	6 426	7 642	11 199	12 987	14 077
Transfers	21 683	21 534	21 614	23 940	25 223	27 444	29 517
Other recurrent	12 226	11 607	12 959	15 429	16 885	18 695	20 677
Total	**95 965**	**96 001**	**99 592**	**110 035**	**120 473**	**130 039**	**139 099**

Decrease in personnel numbers

Between 1997/98 and 2001/02, personnel spending declined by approximately 0,9 percent a year in real terms. The number of people employed by provinces declined by 8,5 percent, or about 3 percent a year. This implies that provinces managed to contain personnel expenditure, mainly through voluntary severance and natural attrition.

During this period, unit labour costs continued to increase in real terms by 1,2 percent a year. The main contributor to this increase was rank and leg promotions in health departments and once-off severance packages in education departments. Rank and leg promotions are automatic promotions from one rank to another without a department necessarily needing anyone at a higher rank or having a vacancy at that rank or even having the resources to effect the promotion. This system of automatic promotions has been terminated, but promotion backlogs still exist.

Spending cuts largest in Gauteng and W. Cape

Table 7.2. shows that from 1997/98 to 2000/01, Western Cape and Gauteng made the biggest strides in reducing personnel spending with real annual average reductions of 4,7 percent and 2,2 percent respectively. Mpumalanga increased personnel expenditure in real terms by about 1,1 percent a year, while the remaining six provinces experienced real declines under 1 percent a year.

Employee numbers decreased by 8,5 percent

Provinces were able to reduce personnel spending principally through a decrease in the number of people employed. These numbers declined by 69 166 or 8,5 percent from 1997/98 to 2001/02. Of the reduced employment level, about 30 000 were educators, 14 000 health workers and 25 000 non-social service employees. Some of the non-social service employees were transferred to local governments, particularly in former R293 towns, along with grants from provinces to local authorities to cover salaries.

Largest decrease in numbers in KZN

KwaZulu-Natal managed to reduce their personnel numbers by 11,4 percent between 1997/98 and 2000/01. Gauteng, Western Cape, Eastern Cape and Free State all reduced their numbers by more than 8 percent. Western Cape, Northern Cape and Gauteng managed to reduce unit labour costs, while the other six provinces saw increases in their average cost of labour. A negative consequence of this reduction may be that these provinces replaced experienced educators with less qualified and less experienced educators, thereby reducing the average cost, but possibly compromising quality.

Table 7.2: Provincial personnel expenditure 1997/98 to 2003/04

	Actual			Estimated actual	Medium-term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Eastern Cape	8 837	9 305	10 238	10 661	10 938	11 159	11 746
Free State	3 875	4 186	4 290	4 629	4 855	5 078	5 367
Gauteng	8 815	9 151	9 185	9 930	10 872	11 698	12 401
KwaZulu-Natal	10 586	10 778	11 190	12 300	13 370	14 177	15 038
Mpumalanga	3 336	3 619	3 882	4 168	4 291	4 552	4 836
Northern Cape	1 087	1 142	1 236	1 307	1 441	1 531	1 617
Northern Province	7 559	8 302	8 370	9 065	9 302	9 982	10 483
North West	4 432	4 748	4 899	5 305	5 428	5 752	6 040
Western Cape	5 798	5 817	5 767	6 122	6 669	6 984	7 300
Total [1]	**54 325**	**57 049**	**59 056**	**63 487**	**67 166**	**70 913**	**74 828**

[1] Includes personnel grants earmarked for local government up to 2000/01

The number of people employed in each province per one thousand citizens raises some contradictions. For example, Gauteng employs just 13,9 people per 1 000 residents as opposed to the Northern Province's 21,1. However, Gauteng has 5,5 health workers per 1 000 people whereas the Northern Province has just 4,4. Gauteng has an average learner:educator ratio of 30,9 and the Northern Province 33,5. While the Northern Province is overstaffed relative to Gauteng, they have fewer health workers and educators. The bulk of this overstaffing is in departments such as agriculture, public works and roads.

Impacts on capital budgets

The real effect of these distortions is that while Gauteng can afford to have a capital budget of almost R2 billion, the Northern Province has a capital budget of just one quarter of that. Unless Northern Province is able to reduce staff numbers in non-social sectors, it will not be able to employ more educators, health workers or allocate more to capital expenditure. Provinces that display a similar distorted pattern of employment to Northern Province are Free State, Eastern Cape, North West and KwaZulu-Natal. Table 7.3 provides a sectoral analysis of provincial staff.

The composition of staff in a province provides some insight into personnel issues. Whilst the average proportion of staff in the three non-social sectors is about 14,6 percent, and totals 106 341, the poor provinces that include a former homeland have significantly higher shares of their personnel in the non-social sectors. Relatively poor provinces have higher shares: Northern Province at 23,9 percent (or 26 752), Free State 19,9, North West 18, Mpumalanga 18,4, Eastern Cape 15,1 and KwaZulu-Natal 10,8 percent. This totals to 93 502 staff, out of 106 341. Provinces without former homelands like Gauteng only have 5,9 percent of their staff in non-social services, and Western Cape 7,3 percent. Northern Cape is above average at 11,2 percent, but lowest in actual numbers at 1703.

Table 7.3: Sectoral analysis of provincial staffing levels 2001

Number of civil servants	Education	Health	Welfare	Other	Total
Eastern Cape	75 339	31 050	1 695	19 178	127 262
Free State	29 338	14 889	1 454	11 361	57 042
Gauteng	57 272	42 328	2 053	6 387	108 040
KwaZulu-Natal	78 511	47 361	2 210	15 498	143 580
Mpumalanga	28 376	11 286	486	9 049	49 197
Northern Cape	8 888	3 942	629	1 703	15 162
Northern Province	60 730	23 433	846	26 752	111 761
North West	36 436	15 025	78	11 664	63 203
Western Cape	34 440	24 214	1 308	4 749	64 711
Total	**409 330**	**213 538**	**10 759**	**106 341**	**739 958**
% of total provincial staff in sector					
Eastern Cape	59,2	24,4	1,3	15,1	100,0
Free State	51,4	26,1	2,5	19,9	100,0
Gauteng	53,0	39,2	1,9	5,9	100,0
KwaZulu-Natal	54,7	33,0	1,5	10,8	100,0
Mpumalanga	57,7	22,9	1,0	18,4	100,0
Northern Cape	58,6	26,0	4,1	11,2	100,0
Northern Province	54,3	21,0	0,8	23,9	100,0
North West	57,6	23,8	0,1	18,5	100,0
Western Cape	53,2	37,4	2,0	7,3	100,0
Average	**55,5**	**28,2**	**1,7**	**14,6**	**100,0**
Civil servants per 1000 people					
Eastern Cape	11,2	4,6	0,3	2,8	18,9
Free State	10,5	5,3	0,5	4,0	20,3
Gauteng	7,4	5,4	0,3	0,8	13,9
KwaZulu-Natal	8,7	5,3	0,2	1,7	16,0
Mpumalanga	9,5	3,8	0,2	3,0	16,4
Northern Cape	10,0	4,4	0,7	1,9	17,0
Northern Province	11,4	4,4	0,2	5,0	21,0
North West	10,1	4,2	0,0	3,2	17,6
Western Cape	8,3	5,8	0,3	1,1	15,6
Average	**9,7**	**4,8**	**0,3**	**2,6**	**17,4**

The reasons for these distortions in the balance between social and non-social sectors can be traced to the manner in which provinces came about. Provinces like Eastern Cape, KwaZulu-Natal, Northern Province and Mpumalanga that incorporated homeland administrations are overstaffed relative to those that did not have to integrate with former homeland administrations, like Gauteng amd Western Cape.

The absence of a retrenchment tool made it difficult to adequately align employment trends with policy and budget priorities. While natural attrition and voluntary severance are useful tools in rightsizing provincial structures, they do not allow for more targeted interventions in personnel management. The amalgamation of former provinces and homelands required such targeted intervention to manage staff numbers and deployment.

Table 7.4: Provincial personnel numbers 1997/98 to 2003/04

	1997/98	1999/00	2000/01	2001/02	1997/98 to 2001/02	Civil servants per 1000 people
Eastern Cape	139 497	136 935	131 857	127 262	*-8,8%*	18,9
Free State	62 627	61 054	58 509	57 042	*-8,9%*	20,3
Gauteng	120 056	112 851	111 495	108 040	*-10,0%*	13,9
KwaZulu-Natal	162 092	153 687	148 716	143 580	*-11,4%*	16,0
Mpumalanga	52 043	51 355	50 492	49 197	*-5,5%*	16,4
Northern Cape	15 077	14 821	15 241	15 162	*0,6%*	17,0
Northern Province	118 182	119 465	113 902	111 761	*-5,4%*	21,0
North West	67 688	67 169	64 922	63 203	*-6,6%*	17,6
Western Cape	71 862	67 940	64 261	64 711	*-10,0%*	15,6
Total	**809 124**	**785 277**	**759 395**	**739 958**	***-8,5%***	**17,4**

Medium term projections

Personnel spending to grow over MTEF period

As with other elements of provincial spending, the 2000/01 fiscal year saw personnel expenditure increase by 0,3 percent in real terms over the 1999/2000 level. Six of the nine provinces experienced real growth in personnel spending, while Eastern Cape, Northern Cape and Western Cape continued to reduce personnel spending in real terms. This shift reflects a healthier budget position in most provinces.

During the MTEF, from 2000/01 to 2003/04, total provincial spending is projected to grow in real terms by 2,3 percent a year. Personnel spending is projected to rise by 0,2 percent a year over the same period.

Prioritisation of social services

Over the MTEF, health personnel budgets should grow faster than other departments' budgets. This should accommodate the payment of rank and leg promotions backlogs, an expansion of health services, community based care and the response to HIV/Aids. Education budgets are also set to grow in real terms as provinces complete deploying appropriately qualified teachers in formerly disadvantaged areas.

Personnel budgets in non-social service departments are set to decline in real terms due to natural attrition. If an agreement on a retrenchment tool is reached with unions, non-social service personnel budgets could decline even faster, releasing more resources for maintenance and new capital projects, thus paving the way for improved service delivery.

Attracting Managers and Professionals

The skills mix of staff in each provincial sector must also be reviewed. For example, provinces have 40 percent of senior managers while employing 70 percent of all civil servants. National departments have 60 percent of senior managers while they employ just 30 percent of staff. Table 7.5 provides insight into these trends.

Table 7.5 Senior Management Services (SMS) in provinces

Province	Head count			Cost		
	SMS	Total	Percentage	SMS (million)	Total (million)	Percentage
Eastern Cape	213	127 262	0,17%	183	13 498	1,36%
Free State	156	57 042	0,27%	90	4 168	2,16%
Gauteng	411	108 040	0,38%	246	8 799	2,80%
KwaZulu-Natal	302	143 580	0,21%	181	10 312	1,76%
Mpumalanga	148	49 197	0,30%	69	3 672	1,88%
Northern Cape	131	15 162	0,86%	67	4 753	1,41%
Northern Province	80	111 761	0,07%	34	1 183	2,87%
North West	200	63 203	0,32%	94	7 828	1,20%
Western Cape	375	64 711	0,58%	161	5 220	3,08%
Total	**2 016**	**739 958**	**0,27%**	**1 125**	**59 433**	**1,89%**

For more effective delivery, administrative structures in education, health and social development services are normally decentralised into smaller districts and cost centers. For example, the health sector provides primary health care on a district health basis, requiring managers for such districts. The appointment of CEOs for hospitals to decentralise hospital management will also require the employment of more managers.

A second area to address is that of critical professional staff (specialists and other doctors, professional nurses, mathematics and science teachers, engineers). Effective and expanded service delivery in health, education, housing and roads is dependent on the employment of skilled personnel. To attract and retain such professionals, remuneration packages, work conditions and non-remunerative benefits (such as research linkages to universities) will need to improve.

The problem is even more serious in poorer provinces, where even the private sector fails to attract sufficient professionals. In order to recruit and retain skilled professionals, particularly in areas such as management, finance, IT, health and project management, poorer provinces may need to pay a premium.

Policy to effect a better distribution between the private and public sectors, and between provinces, must take account of the emigration of professionals from South Africa to richer countries like the USA, UK, Australia, Saudi Arabia and the Emirates. The Department of Public Service and Administration is developing policy to attract and retain staff with scarce skills throughout the public sector, but focusing on geographic disparities as well.

Policy challenges

Training in the public sector

Government has prioritised training. The imposition of a skills levy, and the creation of the various Sector Education and Training Authorities (SETAs), demonstrates this commitment. Government also funds universities and technikons to educate and train students.

This *Review* will not deal with these areas of national competence, except to comment on the implications for the provincial sphere.

The national Department of Education is shifting teaching colleges into the university arena. This involves a shift from provincial education departments to the national sphere. In most instances, teacher-training colleges are incorporated into higher education institutions, such as the incorporation of the Johannesburg College of Education into the University of Witwatersrand. In other cases, teacher-training colleges have been merged with smaller colleges and strengthened as free standing training institutions.

Transfer of teaching colleges

The national departments of education and health are discussing shifting nurse training from a provincial health competence to higher education institutions. A further issue relates to the training of doctors, and the further training of specialists. The training of health personnel requires effective co-ordination between the higher education sector and the hospital sector, both of which receive funding for this purpose. Given the exodus of doctors and nurses from the public sector, and from the country, South Africa has to train or recruit professionals to sustain an effective supply for both the public and private sectors. Similar issues relate to training other professionals, like engineers, IT professionals, and finance.

There is also a need for the public sector to convey its future needs to higher education institutions, and to school learners. Given the reduction in public service employees after 1997, there is a widespread perception that jobs for teaching, nursing, medical personnel, engineers are not available. This perception is not correct, as education institutions are no longer training sufficient personnel for future needs. Even where learners are prepared to register for such courses, the schooling system may not be producing a sufficient number of students with appropriate learning (e.g. with higher grade maths and science). Whilst bridging programmes at universities can address some of this gap, a more sustainable solution is to ensure schools guide learners in their choice of subjects. The conditional grants for such training are under review (e.g. Hospital Training Grant).

Personnel spending should grow moderately

As provincial budgets have stabilised, real growth in spending is projected. However, if provinces want to continue increasing maintenance and capital programmes and social welfare grants beneficiaries, they need to control personnel expenditure.

It is nonetheless not realistic to expect the same rate of decline in personnel expenditure as seen over the past four years. Further, service delivery will only improve if more management positions are created in provinces, and renewed efforts are made to attract and retain key professionals. Similarly, as the health system expands to cope with the effects of HIV/Aids, hiring more people may become a necessity. To achieve this, personnel spending should grow by between 1,0 and 1,5 percent in real terms over the MTEF period. Presently, provincial budgets do not cater for real increases of this magnitude.

Rank and leg promotions

Provincial governments also face the costs of backlogs in rank and leg promotions. In terms of an agreement with public service unions, Government will pay these backlogs over the next three years. The estimated cost of promotion backlogs in provincial health departments is estimated to be about R300 million, and in welfare departments about R200 million. From a human resource management and financial point of view, it is advisable for provinces to make these outstanding promotions sooner rather that later, since the cost will increase as time goes on. The payment of these obligations will add further pressure to provincial personnel budgets, limiting the prospect of increasing employment in critical areas such as health.

HIV/Aids

One of the most serious challenges facing the public sector is the impact of HIV/Aids on its workforce, its productivity and its skills base. Presently, South Africa is not training enough nurses and teachers to cope with demand, given relatively high rates of natural attrition and a projected increase in Aids-related deaths. The Department of Public Service and Administration has conducted extensive research into the possible effects of the disease on the public sector and ways of managing it. A series of education and awareness programmes are planned in all sectors of the civil service. In addition, a more concerted plan is required to increase training in critical areas such as education, health, policing and justice.

Infrastructure development

The apartheid legacy

South Africa's post-apartheid government inherited considerable infrastructure backlogs in previously neglected areas. This has been especially prevalent in education, health, housing, clean water, roads and electricity, where provincial and local governments have major responsibilities. This section will only deal with provincial trends, as local government infrastructure is dealt with later. Since provincial systems do not accurately differentiate between maintenance and capital, this chapter largely refers to both when it refers to infrastructure spending.

Provincial capital expenditure is organised into four functional categories:

- *Housing* – national housing grants to provinces, including national grants to households from 1997/98 to 1999/2000, when the programme was not operated by provinces
- *Roads* – construction and rehabilitation of roads for which provinces are responsible
- *Social* – mainly schools, clinics and hospitals, as welfare has negligible capital spending
- *Other* – parks, tourism infrastructure, dams, and capital projects not classified in other categories.

Increased spending on infrastructure

Faced with many financial pressures, provinces reduced spending on infrastructure maintenance, rehabilitation, and construction over the three financial years ending in 2000/01. In recognition of this trend, the 2001 Budget identified accelerated infrastructure service delivery as one of its main priorities. A targeted infrastructure initiative, including a new conditional grant, was facilitated by positive economic and financial trends and a significantly expanded expenditure envelope.

Progress in addressing infrastructure backlogs is set to continue over the next three years, but significant challenges remain. Core among these is the need to improve the institutional arrangements, particularly those related to planning and implementation in order to ensure sound provincial capital investment.

Historical expenditure trends

Construction and rehabilitation

Table 7.6 presents a summary of provincial capital expenditure and sources of funding from 1997/98 to 2003/04. It identifies national funding through grants in housing, health, flood reconstruction, and the new provincial infrastructure conditional grant. It also identifies provincial funding for capital expenditure, mainly from their equitable share allocations. This review of expenditure trends is limited to expenditure for construction and rehabilitation. Information about maintenance spending is dispersed, as it is funded from operating funds and generally classified as current/recurrent expenditure. The table shows that in 1997/98 provincial funding for capital expenditure represented 64 percent (R5,2 billion) of total provincial capital expenditure of R8,1 billion. The remaining 36 percent came from the national housing grant.

Table 7.6: Provincial capital expenditures

	Actual			Estimated Actual	Medium-term Estimates		
R'million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/01**	**2003/04**
Housing Subsidy	2 920	2 749	2 571	2 945	3 226	3 440	3 559
Health	–	298	370	492	654	590	633
Hospital Rehabilitation	–	*87*	*140*	*323*	*500*	*520*	*543*
Nkosi Luthuli Hospital	–	*200*	*189*	*74*	*104*	–	–
Nelson Mandela Hospital	–	*11*	*41*	*95*	–	–	–
Pretoria Academic	–	–	–	–	*50*	*70*	*90*
National Treasury	–	–	–	681	1 400	1 950	2 514
Flood reconstruction	–	–	–	*681*	*600*	*400*	*200*
Provincial Infrastructure	–	–	–	–	*800*	*1 550*	*2 314*
National funding	2 920	3 047	2 941	4 118	5 280	5 980	6 706
As % of total capital expenditure	*35,9%*	*49,0%*	*45,8%*	*53,9%*	*47,1%*	*46,0%*	*47,6%*
Provincial funding	5 211	3 171	3 485	3 524	5 919	7 007	7 371
As % of total capital expenditure	*64,1%*	*51,0%*	*54,2*	*46,1%*	*52,9%*	*54,0%*	*52,4%*
Total Capital expenditure	**8 131**	**6 218**	**6 426**	**7 642**	**11 199**	**12 987**	**14 077**

National capital spending grew

In 1997/98, capital expenditure for housing was the only major national program for capital expenditure in the provincial sphere. Over the three years through 2000/01, national funding for provincial capital projects rose from R2,9 billion to R4,1 billion, or from 36 to 54 percent of total provincial capital expenditure.

Critical needs

In 1998/99, government responded to a critical need for hospital capacity with new conditional grants for academic hospitals and hospital rehabilitation. In 2000/01, major flood damage necessitated a conditional grant for flood reconstruction as shown in table 7.7.

Declining infrastructure expenditure …

During this three-year period, when national infrastructure funding was expanding, provincial infrastructure allocations from own sources were contracting. Provinces had to deal with substantial debt, increased personnel costs resulting from policy initiatives of the mid-1990s, and slower than expected revenue growth. Over the three years to 2000/01, total provincial funding for capital expenditure declined from R5,2 billion to R3,5 billion.

New infrastructure grant

Given substantial concerns about the overall downward trend, government responded with a new infrastructure conditional grant to provinces. The grant was funded in the 2001/02 MTEF with R4,7 billion, of which R800 million was appropriated for the 2001/02 financial year.

Table 7.7: Flood reconstruction grant

	Budget	Estimated Actual	Medium-term Estimates		
R million	**2000/01**		**2001/02**	**2002/01**	**2003/04**
Eastern Cape	90	51	130	70	23
Free State	38	38	128	58	21
Gauteng	10	10	–	–	–
KwaZulu-Natal	142	97	12	–	–
Mpumalanga	241	124	98	90	36
Northern Cape	6	6	7	–	–
Northern Province	343	335	196	182	120
North West	25	20	11	–	–
Western Cape	–	–	18	–	–
Total	**895**	**681**	**600**	**400**	**200**

Trends by province

From decline to growth

Reductions in expenditure for infrastructure construction and maintenance to deal with budget shortfalls are common in public sector budgeting. South Africa's provinces were no exception to this. They cut their capital spending to deal with short-term financial pressures created by debt, rising personnel costs, and slow revenue growth. The decline of provincial capital expenditure and the reversal of that trend are shown in table 7.8.

Downward trend reversed

Following total provincial capital spending of R8,1 billion in 1997/98, capital expenditure dropped 24 percent to R6,2 billion the following year. Eight provinces reduced spending, with Gauteng the only exception. The next year, 1999/2000, was also lean, with capital expenditure remaining below 1997/98 levels in seven provinces. Only Gauteng and Northern Province managed to have small increases. For 2000/01, the downward trend was clearly reversed. Capital spending rebounded with a 19 percent increase to R7,6 billion, and all provinces spent more than the previous year.

Table 7.8: Total Provincial Capital Spending

	Actual			Estimated Actual	Medium-term Estimates		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Eastern Cape	745	529	583	732	1 304	1 919	2 112
Free State	627	421	210	313	677	685	709
Gauteng	1 424	1 542	1 780	1 832	2 580	2 909	3 064
KwaZulu-Natal	2 183	1 472	1 351	1 692	2 394	2 616	2 944
Mpumalanga	729	481	509	605	753	897	920
Northern Cape	207	170	144	170	214	227	258
Northern Province	479	435	626	719	1 304	1 525	1 697
North West	890	431	497	629	963	1 131	1 278
Western Cape	846	737	725	951	1 009	1 078	1 095
Total	**8 131**	**6 218**	**6 426**	**7 642**	**11 199**	**12 987**	**14 077**

Functional trends

Table 7.9 shows capital expenditure by function across all provinces combined. Only roads and health spent more in 1999/2000 than in 1997/98. While positive accomplishments can be cited, most infrastructure backlogs increased above levels previously measured. Expenditure has, however, increased in 2000/01 and is set to increase substantially in the medium-term.

Table 7.9: Provincial capital expenditure by function

R'million	Actual	Actual	Actual	Est. Actual	Medium-term estimates		
	1997/98	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Housing	2 920	2 749	2 571	2 945	3 226	3 440	3 559
Roads	810	868	918	1 675	1 772	2 310	2 704
Social infrastructure	1 748	1 256	1 442	1 596	3 444	4 302	4 996
Education	*842*	*481*	*459*	*501*	*1 162*	*1 791*	*2 099*
Health	*906*	*775*	*983*	*1 095*	*2 282*	*2 511*	*2 897*
Other	2 653	1 345	1 495	1 426	2 757	2 935	2 818
Total expenditure	**8 131**	**6 218**	**6 426**	**7 642**	**11 199**	**12 987**	**14 077**

Health

?? The growth in Health's 2000/01expenditure level was higher than in 1997/98, because it was largely funded from ring-fenced conditional grants for hospital construction and rehabilitation. In spite of this, over a third of public hospitals still require replacement or major rehabilitation. While there has been a marked increase in the availability of electricity at South Africa's over 4 000 primary health care facilities, service interruptions in electricity, phones and piped water remain a problem at many. Statistics South Africa surveys show a gradual increase over time in the use of public hospitals and clinics.

Housing

?? Government spent over R16 billion on provincial housing development between 1994/95 and 2000/01, R11,2 billion of which was spent since 1997/98. This contributed towards the building of more than 1,1 million housing units accommodating about 4,9 million people. Although surveys conducted by Statistics

South Africa show a steady increase in the proportion of households living in formal housing, backlogs are still estimated at 2,2 million units.

Roads

- About 223 000 of South Africa's 500 000 kilometres of roads are under the responsibility of provinces. Only limited amounts were spent on new roads and rehabilitation, with most spending for roads devoted to maintenance. Overall, there was deterioration in roads and increases in maintenance and rehabilitation backlogs.

Education

- Capital expenditure in education between 1997/98 and 1999/2000 saw an average annual reduction of 26 percent. Education capital expenditure decreased from R842 million in 1997/98 to R459 million in 1999/2000. In spite of these cuts, the number of school classrooms increased by over 25 000 between 1996 and 2000. Significant progress was also made in reducing the percent of schools without sanitation to 17 percent, those with no access to running water to 34 percent, and those without power to less than 50 percent. But based on the *Schools Register of Needs*, 40 percent of South Africa's schools still have classroom shortages that total 50 000.

Capital expenditure set to surpass R14 billion

Over the medium-term, provincial capital expenditure is set to grow strongly at an average annual rate of 23 percent and is to surpass R14 billion by 2003/04. It will thus more than double its 1999/2000 level. During this period, the provincial share of funding for capital expenditure is expected to rise from R3,5 billion in 2000/01 to R7,4 billion in 2003/04, at which time the provincial share will be 52 percent of total capital expenditures.

Strengthening institutional capacity

Management capacity a key challenge

Success in ramping up expenditure depends on reforming the institutional and funding mechanisms to improve and accelerate infrastructure planning and management. Capital projects involve long term efforts to plan, design and develop project specifications. They generally require extensive consultation, their financing tends to be complicated, and design, engineering, procurement, tendering, and other technical issues are often complex. All these factors can delay project planning, financing, management, and implementation.

South Africa's provincial governments are relatively new spheres of government. Their political and administration staff do not always have extensive experience with capital project planning and management. Shortfalls in financial and personnel resources have also eroded provincial capacity in key areas, including infrastructure.

New approaches considered

Provincial capital investment capacity is often fragmented among provincial departments. The delivery model followed by most provinces involves public works departments as planners, implementing agents, technical advisors or managers of contracts on behalf of line function departments. Typically, this arrangement involves unclear purchaser-provider relationships and insufficient performance incentives to ensure that providers deliver upon agreed results. There are also concerns that some provincial treasuries are not appropriately involved in capital project oversight. Possible changes are discussed in the text below.

Changing institutional arrangements for infrastructure

All provinces are dependent (or have been dependent) on a department of public works which is responsible for all infrastructure in the province. In most instances, the infrastructure budget of a functional department resides within the Public Works budget. Whilst the budgets for infrastructure are now being shifted to line function departments themselves, most provinces have not shifted implementation responsibility to the line function departments. Given that many public works departments have excess personnel, and in the absence of a retrenchment tool, much of its budget is committed on personnel rather than spending on infrastructure. This approach has tended to confuse accountability mechanisms over the spending on infrastructure, and resulted in significant underspending.

Provinces are in the process of reviewing their current approach, with Gauteng and Northern Province setting up specific institutions for major infrastructure. Two provinces have arrangements with the National Roads Agency for their roads construction and maintenance, and all provinces are also exploring the use of public-private partnerships. Provincial departments of education and health are also exploring taking full responsibility for school, hospital and clinic infrastructure. These reforms to modernise infrastructure delivery are expected to reap real benefits in the effectiveness and efficiency of infrastructure spending. Procurement reforms are also expected to help, particularly with capital expenditure.

Provinces tend to begin planning only after their allocations are finalised. This delays planning and construction and gives rise to rollovers and inefficient resource utilisation.

In some areas, provincial and national planning processes are not well linked, with the result that provincial actions do not take full account of national priorities, norms, and standards. Similarly, provinces use little of the available demographic and socio-economic information to inform the capital planning process.

Both national and provincial treasuries have learned valuable lessons from the flood reconstruction projects, and are developing refinements to improve the efficiency and effectiveness of capital planning and management in the future.

Clear reporting on projects

In May 2001, the Budget Council's Technical Committee on Finance (TCF) agreed that provinces would revise plans to meet basic requirements of the Division of Revenue Act 2001. The provinces will provide a summary of medium/long term infrastructure investment plans, as well as a consolidated summary of three-year allocations. This will cover education, health, public works and roads, and rural development. Projects in each sector will be listed, indicating start and completion dates and anticipated costs each year over the project life.

Reviewing the public works model

To support effective planning and management, several new practices are being considered or already applied:

- Provinces are actively exploring alternatives to the current public works model. Modifications include introducing more clearly defined purchaser-provider contracts, and redesigning the incentive system such that excessive costs due to factors within the control of the provider have consequences for the provider. Clear provisions are also necessary to deal with provider default.

Dedicated capacities

- An option being explored in some provinces involves creating capital planning and management capacities separate from public works departments. Some, like the Northern Province, have also outsourced aspects of their capital investment programmes that lend themselves to public-private partnerships and other arrangements with the private sector.

Reporting

- There is also merit in standardised and more regular reporting so that information can be aggregated across provinces. For example, allocation and expenditure information should distinguish between new capital projects, rehabilitation, and current expenditure maintenance.

Using data in planning

- Planning in each sector should be guided and informed by the latest data available. Provinces should increasingly make use of relevant data from government publications such as the Schools Register of Needs, Census 1996, Household Surveys, Measuring Poverty in SA, 2000 and other publications.

Cost benefit analysis

- All capital projects should be subjected to cost-benefit analysis, with a thorough assessment of their budgetary implications. This should include operational costs throughout the life of the project, revenue streams expected and attendant risks.

Intergovernmental orientation

- In the case of concurrent functions, national departments should assume a role in defining and/or developing norms and standards for the sector. Stronger and more focused intergovernmental forums – so-called '4x4s' and MinMECs – can guide this process.

Borrowing

- Finally, there could be merit in linking borrowing to capital budgeting. Linking the two could facilitate the protection of capital allocations, while at the same time ensuring that all borrowed funds are used to expand public capital stock.

Benefits

- There are valuable lessons to be learned from the step-by-step process followed by Public Private Partnership projects (PPPs). Of particular relevance are issues of affordability, value for money and assessment of the socio-economic and environmental impact of projects.

Public Private Partnerships

Public-Private Partnerships (PPPs) are taking root as national and provincial departments seek assistance to enhance their own capacity, and private investors explore new opportunities. These partnerships enable private financing, efficiencies and skills to be harnessed to improve and propel public infrastructure and service delivery.

Different stakeholders benefit from such projects and facilities. Departments and provinces achieve savings and greater efficiency; the users of a service should gain easier access to quality services; private parties find business opportunities; and broader society may benefit from specific project objectives included in the contract.

These benefits are achieved through deals that shift technical, operational and financial project risk to the private party in exchange for a fee and/or other benefit. In a PPP, government is not procuring an asset, rather it is procuring a specific level of service.

Treasury Regulations require that a PPP:

?? is affordable to the department over the life of the contract

?? is good value-for-money to the public

?? transfers risk appropriately to the private party.

Affordability is key

Affordability is a cornerstone of fiscal management, and no less so in PPPs. While a PPP may shift the capital financing requirement to the private party and thus defer budgetary impact over time, this still requires that a department's budget is able to honour the cost of the service. PPPs force the public sector to calculate real costs. Such rigorous appraisal is required of all potential PPP projects during a feasibility study stage, prior to seeking private interest. This study must demonstrate affordability and show how value-for-money can be achieved through risk transfer.

A number of provinces are embarking on PPP initiatives, as indicated in table 7.10. Most are in the early phases of planning and feasibility studies. Project values cannot be issued for all listed projects, either because these have not yet been determined, or because it would be prejudicial to reveal them at this stage in the procurement process. None of the provincial PPPs have to date reached financial closure (the programme is just over a year old), although five significant projects are close to finalisation.

Since the promulgation in 2000 of the Treasury Regulations governing PPPs, provinces are identifying a wide range of service sectors and infrastructure initiatives that lend themselves to PPP delivery. This first phase of entering the PPP project cycle is spurred by increasing pressures on provincial resources that limit opportunities for direct capital spending from voted budgets, and multiple efficiency problems in service delivery.

Of critical importance in the years ahead is the development of provincial treasury capacity to oversee the unfolding of the PPP agenda across provincial departments. The National PPP Unit, located in National Treasury, presently has the regulatory responsibility for all national and provincial PPPs. Its technical support and guidelines add impetus to this role. Since 1999 it has published a strategic framework and several guidelines, worked with provinces and national departments, and undertook training ventures.

However, as the standards become set, experience grows, market confidence increases, and project volumes escalate in the forthcoming years, this regulatory role will need to decentralise. Provincial treasuries will have a pivotal role to play in ensuring that affordability, value-for-money and risk transfer are properly regulated. For now, the National PPP Unit is working closely with all provincial treasuries on the pioneering phase of their PPPs.

Capacity building is a priority. The skills required for long-duration that entail significant risk are still in short supply in provinces. Dealing with this requires at least a two-fold approach: first to build required capacity, and second, to reduce the demand on capacity through measures that mitigate the complexity of PPP arrangements.

Table 7.10: Provincial PPPs

Provincial Dept	PPP project	Project status	Approx project value
Eastern Cape Dept Arts & Culture	Bayworld – PE museum, snake park, oceanarium	Transaction Advisors to be appointed November 2001	not yet determined
Eastern Cape Dept Health	Hospital co-location projects	Feasibility Studies underway	build value R20 million
Eastern Cape Dept Transport	Fleet Management	Transaction Advisor being appointed	not yet determined
Free State Dept Education	Schools construction and maintenance	Transaction Advisors to be appointed September 2001	not yet determined
Free State Dept Health	Universitas and Pelonomi Hospitals – co-location	Preferred bidder announced, financial closure expected October 2001	build value R80 million
Gauteng Blue IQ	Hi-speed train	Feasibility Study under review by National Treasury.	not yet determined
KwaZulu-Natal Dept Health	Inkosi Albert Luthuli Hospital equipment and maintenance	Negotiations in final stages with preferred bidder. Financial closure due September 2001	R0,5 billion equipment and facilities capital worth
KwaZulu-Natal Ezemvelo KZN Wildlf.	Eco-tourism – Vivane resort/ Pongolapoortdam	Bidders' proposals due for Vivane; RFP issued for Pongolapoort	not yet determined
Mpumalanga Dept Finance/Econ	Eco-tourism – Zithabiseni Resort	Bids from investors due September 2001	not yet determined
Northern Cape Dept Transport	Fleet Management	Negotiations underway with preferred bidder. Financial closure due September 2001	R150 million
Northern Province Dept Public Works	GIS web-linked management info system for the Province	Transaction Advisors to be appointed September 2001	not yet determined
Northern Province Dept Finance/Econ	Eco-tourism – Manyelethi Reserve and Letaba Ranch	Preferred bidders selected. Financial closure due Sept 2001 for Pungwe, Khoko Moya, Honey Badger, North Letaba.	not final
Northern Province Dept of Health	Emergency vehicles Fleet management	Transaction Advisors being appointed	not yet determined
NorthWest Parks&Tourism Board	Eco-tourism – Boskop Dam, Rustenburg, Oog Malemani, Borakalalo	Bids received for Rustenburg; RFPs issued for others	not yet determined
North West Dept Transport	Bus Transport-NTI	Transaction Advisor being appointed.	not yet determined
Western Cape Dept Transport	Chapman's Peak Toll Road Concession	Four bidders pre-qualified. Tender documents issued end-July 2001	build value R160 million
Western Cape Dept Health	Hospital co-location projects	Feasibility Studies underway	not yet determined
Western Cape Nature Cons. Board	Eco-tourism – 13 sites	Terms of Reference being drafted for Transaction Advisors	not yet determined

Conditional grants

Conditional grants were introduced in 1998/99 as part of the intergovernmental transfer system, and constitute about 12 percent of transfers to the provinces. The health sector administers 7 conditional grants, amounting to more than 40 percent of total conditional grants. Allocations for conditional grants are set out in the Division of Revenue Act, which is enacted annually with the national budget. The

Division of Revenue Act also sets out equitable share allocations for each sphere and includes provisions for the management and administration of transfers to provinces and municipalities.

The equitable share is an unconditional transfer to provincial and municipal governments to fund provision of basic services and other functions assigned to them by the Constitution. The formula used to allocate equitable shares is redistributive, allocating more funds to poorer provinces and municipalities.

Conditional grants have been used to:

- ensure fulfilment of national policy priorities regarding the provision of standard levels of service
- compensate for inter-jurisdictional spill-overs resulting from services provided by sub-national governments
- support capacity building and structural adjustment within the recipient administrations
- address backlogs and regional disparities in economic and social infrastructure.

Administration of conditional grants

The administration of conditional grants involves both transferring (national) and receiving spheres (provincial or local government). The receiving governments are responsible for expenditure and financial accountability. The national departments are responsible for monitoring compliance with the conditions of the grants, and to assess whether they are achieving the desired outputs and outcomes. Conditional grants are voted as transfers in the national budget and recorded as revenue in the budget of the receiving sphere. They are also voted in the departmental budgets of the receiving sphere.

Experience with conditional grants

The introduction of conditional grants has experienced some initial problems, resulting in non-transfers and under-spending and non-transfer. These problems were a result of, among other things, confusion over accountability, poor design and planning, inadequate transparency in allocations, too many conditional grants and poor monitoring. Since 1999/2000, successive Division of Revenue Acts have introduced reforms to address these problems, allowing for a smoother flow of grants. The result has been a significant reduction of roll-overs at the national level.

Types of Provincial Conditional Grants

Conditional grants can be classified into two broad categories – block grants and specific purpose grants. These are listed in table 7.11.

Block grants compensate for spill-over costs

Block grants involve large allocations to complement the equitable share allocations to provinces. These grants are not necessarily earmarked for particular projects or spending programmes; they fund functions assigned to provinces or that benefit more than one province or provide for general budget support to provinces. The provinces that provide assigned functions cannot be compensated adequately for these spill-over benefits and resulting costs through the equitable share. Because block grants provide for general budget support, in-year monitoring of expenditure on the grant is not required. The three block grants in the system amount to about R6,5 billion in 2000/01 – approximately 50 percent of conditional grants to provinces.

Block grants in Health sector

- ?? The health sector administers two: the central hospital and health professional training grants, amounting to about R4 billion per year. These grants form part of general funding for hospitals in provinces in which central and academic hospitals are located. They are conditional upon non-discriminatory access to services and tariffs for residents and non-residents. The health sector has completed a review of their conditional grants, and a more consolidated approach will be phased in from 2002/03.

Supplementary allocation grant

- ?? The supplementary allocation, administered by the National Treasury, amounts to almost R2,2 billion. It provides general budgetary support to encourage good budgeting and financial management practices. In the 2001/02 budget, this grant is also used as a mechanism to consolidate various small grants, covering housing, transport and financial management, to the amount of R248 million. This has streamlined grant administration and facilitated a focus on outputs rather than spending.

Specific purpose grants

Specific purpose grants support specific priorities and interventions by the national government. These are more discretionary, set more stringent conditions, and require monitoring of spending. They can be withheld on failure to comply with the conditions.

Table 7.11: Conditional Grants to Provinces

Grants	Actual Transfers	Medium-term estimate		
R'000	2000/01	2001/02	2002/03	2003/04
Block Grants	**6 498**	**6 753**	**6 861**	**7 088**
Central hospital grant	3 112	3 271	3 419	3 579
Health Professional training	1 174	1 234	1 291	1 351
Supplementary Allocation	2 212	2 248	2 152	2 158
Specific Purpose Grants	**6 538**	**6 659**	**7 362**	**8 148**
Infrastructure Grants:	**5 129**	**5 562**	**6 273**	**7 013**
Hospital Rehabilitation	400	500	520	543
Redistribution specialised services	276	182	189	198
Hospital Construction	443	154	70	90
Housing Fund	3 064	3 226	3 440	3 559
Human Settlement	38	100	104	109
Provincial Infrastructure*	895	1 400	1 950	2 514
Classroom backlog	13	–	–	–
Recurrent Grants:	**1 409**	**1 097**	**1 090**	**1 135**
Integrated Nutrition Programme	582	582	582	582
HIV/AIDS	46	110	–	–
Financial Management	309	223	235	234
ECD	–	21	52	88
Local Government Support	78	160	220	230
R293 Personnel	375	–	–	–
Social Development	19	–	–	–
Total	**13 036**	**13 412**	**14 224**	**15 236**

** Includes flood reconstruction grant*

Infrastructure and recurrent grants

There are two categories of specific purpose grants: infrastructure and recurrent. The infrastructure grant transfers amount to R5,1 billion in 2000/01, and increase to R5,6 billion in 2001/02 (10,3 percent) to R7 billion by 2003/04. They are administered by the Departments of Health and Housing with the National Treasury.

Infrastructure grants in Health

- Health Infrastructure grants – The main grant under health has been the hospital rehabilitation grant, to assist provinces to rehabilitate and upgrade hospital facilities. The redistribution grant also has a significant capital component. It was introduced to support provinces without central hospitals to build some capacity to provide tertiary care services. The hospital construction grant has since 1998/99 also provided funds for the construction of academic hospitals in Eastern Cape (R164 million), KwaZulu-Natal (R824 million) and Gauteng (R210 million).

Housing Fund

- Housing grants – The Housing Fund was initiated prior to 1998/99 as part of the RDP programme, to provide subsidies for housing development to poor households. With the change in the intergovernmental grant system in 1998/99, the grant was administered as an agency payment, and was converted into a conditional grant in 2000/01. It constitutes about R3 billion in 2000/01, or 61 percent of infrastructure grants, and is budgeted to increase to more than R3,6 billion in 2003/04.

Infrastructure grant used to fund rehabilitation

- Provincial infrastructure grant – The provincial infrastructure grant is a general infrastructure grant to assist provinces address infrastructure backlogs in education, health, roads and rural infrastructure. First introduced in 2000/01, the initial allocation of R300 million went mostly to provinces affected by the flood disasters of 1999/2000 (Northern Province, KwaZulu-Natal, Mpumalanga and Eastern Cape). An additional allocation of R595 million was made in the 2000/01 Adjustments Estimates for rehabilitation of infrastructure damaged by floods, and the 2001/02 MTEF also includes R1,2 billion for flood reconstruction. The provincial infrastructure grant was given a major boost with an allocation of R800 million in 2001/02, and a total of R3,9 billion over the rest of the MTEF.

Specific purpose grants for recurrent expenditure

Other specific purpose grants fund recurrent spending. The total allocation amount to R1,4 billion in 2000/01, and decreases to R1,1 billion in 2003/04 due to phasing out of the R293 staff grant. The major grants in this category target:

- Capacity building – Most transitional grants have been used to support capacity building, focusing on improving financial management. The Department of Education administers the largest of these grants (R202 million), aimed at addressing the general lack of effective management systems at provincial, district and school level. The National Treasury has administered a grant to support overall improvement in financial management (R100 million). This grant has been subsumed into the supplementary grant in 2001 MTEF. Provision has been made within the supplementary grant for R243 million for the 2001/04 MTEF years to pilot a programme for improvement in hospital management. Social Development grants have focused on improving capacity and systems for administering social security grants. The Social Development conditional grants include an allocation for enabling provinces to streamline systems for increased uptake of the child support grant. All welfare grants phase out in 2002/03.

Support to provinces and local government

?? Provincial and local government support – The Department of Provincial and Local Government (DPLG) has been allocated R630 million over the 2001 MTEF to enable provinces to support municipalities in financial difficulties. There have also been allocations to support provinces, which carried R293 Towns staff between 1994 and 2000. This grant has been now been phased into the local government equitable share with the transfer of staff and operational budgets to municipalities.

Other recurrent grants

?? Other recurrent grants provide direct support for service delivery. These include the Integrated Nutrition Programme (INP) in Health, Early Childhood Development (ECD) administered by the Department of Education, and a grant for implementation of an integrated strategy for the prevention of HIV/AIDs.

Trends in Transfers and Spending of Conditional Grants

The grant system continues to evolve. Hence, the 1998/99 figures on conditional grants to provinces by department, reported in table 7.12, differ from the *2000 Intergovernmental Fiscal Review* because they have been adjusted for the agency grants that were converted to conditional grants. Examples are the Housing Fund and Education grant.

Non transfer of grants

As the conditional grant system evolved, most conditional grants began to flow on the basis of a payment schedule. This has reduced the difference between actual transfers and budgets for conditional grants. However, there is divergence between transfers and spending, indicating under-spending of transferred amounts by provinces. Neither national nor provincial departments monitored actual spending and were unable to report accurately in this respect.

Spending of conditional grants

For the first time in this review an attempt is made to review spending of conditional grants by provinces since 1998/99. Whereas reported transfers are considered accurate, they are only indicative at this stage. Most provinces were not able to report accurately on individual grants as their information systems were not set up to provide such information.

Review necessary

For a better understanding of the achievements of each grant, it is necessary for the respective national departments to undertake a review of each grant over the period starting from 1998/99. Further, provinces have now set up their systems so that they can report more accurately on grant spending. It is therefore expected that trends will be more accurately tracked in the future.

Conditional grants amounted to R12,5 billion in 1998/99, but actual spending was R547 million below budgeted amounts. Most of the non-transfer was in health infrastructure grants and the Integrated Nutrition Programme (INP). Transfers of grants increased to R13 billion in 2000/01, mainly due to improvements in the transfer system, rather than increases in grant allocations. The flows of grants up to 2000/01 included amounts not transferred in preceding years. Compared to transfers in 1999/2000 and 2000/01 (about R13 billion per year), estimated spending at provincial level amounted to R12,3 billion in 1999/2000 and R12,1 billion in 2000/01. The estimated spending indicates that grants have in aggregate been under-spent by R635 million (or 5 percent) in 1999/2000 and R957 million (or 7,3 percent) in 2000/01. Most under-spending was with infrastructure grants, INP and the financial management grant in education.

Table 7.12: Conditional grants, transfers and expenditure

	Actual	Actual Transfers and Expenditure		Estimated Actual		Medium-term estimate		
		1999/00		2000/01				
Department	**1998/99**	**Transfers**	**Spending**	**Transfers**	**Spending**	**2001/02**	**2002/03**	**2003/04**
DPLG	939	693	579	452	458	160	220	230
Education	65	192	99	241	156	298	276	322
Health	4 662	5 346	5 075	6 003	5 530	5 957	6 071	6 343
Housing	2 752	2 596	2 578	3 112	2 975	3 326	3 544	3 668
National Treasury	4 000	4 020	3 908	3 176	2 928	3 648	4 102	4 672
Social Development	12	72	50	52	32	23	11	–
Other	72	62	57	–	–	–	–	–
Total	**12 502**	**12 981**	**12 346**	**13 036**	**12 079**	**13 412**	**14 224**	**15 236**
Percentage of transfers and spending								
DPLG	7,5%	5,3%	4,7%	3,5%	3,8%	1,2%	1,5%	1,5%
Education	0,5%	1,5%	0,8%	1,8%	1,3%	2,2%	1,9%	2,1%
Health	37,3%	41,2%	41,1%	46,0%	45,8%	44,4%	42,7%	41,6%
Housing	22,0%	20,0%	20,9%	23,9%	24,6%	24,8%	24,9%	24,1%
National Treasury	32,0%	31,0%	31,7%	24,4%	24,2%	27,2%	28,8%	30,7%
Social Development	0,1%	0,6%	0,4%	0,4%	0,3%	0,2%	0,1%	0,0%
Other	0,6%	0,5%	0,5%	0,0%	0,0%	0,0%	0,0%	0,0%
Total	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**	**100,0%**

Transfers are budgeted to increase to R13,4 billion (or by 2,9 percent) in 2001/02, rising again by 13,6 percent to R15,2 billion in 2003/04. The small increases in the allocations in 2001/02 reflect the phasing out of transitional grants, and of the hospital construction grants for Eastern Cape and KwaZulu-Natal. Increases in the two outer years of the 2001 MTEF are mainly due to significant growth in the allocation for provincial infrastructure. Smaller grants are to fund Early Childhood Development (R161 million) and the Pretoria Academic hospital (R210 million).

Under-spending of transferred funds

Reforms introduced in 1999/2000 and 2000/01 improved the flow of funds to provinces, but problems remain with actual spending. Monitoring by national departments tended to be on the transfer schedule, instead of spending. The design and planning for some grants have not always been adequate, delaying finalisation of allocation decisions. Slow tendering processes have also been a constraint.

Further refinement of the conditional grants system

Division of Revenue Act Reform

The provisions included in the *Division of Revenue Act 2001* builds on previous legislation, and introduces measures aimed at strengthening the conditional grants system. The Act consolidates the previous reforms and is better aligned with the PFMA than its predecessors. This will enhance certainty and predictability, and promote advance planning. New amendments to the PFMA will set reporting requirements for conditional grants, improving planning and management.

There are also legislative reforms that have been instituted, are aimed at clearer grant policy frameworks, including statements of purpose and objectives, as well as conditions and criteria for allocations between provinces. Provinces, in turn, have to prepare implementation plans based on the policy framework. It is envisaged that, for the 2002 MTEF, the grant frameworks will be finalised by October, and the allocations published before national Budget Day. Although the Act legislates one year allocations, it has included indicative allocations for the subsequent two years of the 2001 MTEF period. This should facilitate better planning and enhance transparency.

Other reforms needed

In addition to the reforms introduced in 2001/02, further initiatives are still necessary. This includes reducing the number of grants, thus lowering the administrative burden, while streamlining decision-making and consultation.

Implementing the Public Finance Management Act

Government is committed to improve financial management in the public sector. To achieve this objective, the Public Finance Management Act aims to modernise the management of public finances. First implemented in 2000/01, the Act is aimed at facilitating more effective and efficient delivery, better value for money and improved public services. Other complementary reforms to modernise financial management include procurement reforms, and the phasing out of various tender boards.

The main emphasis in the first year of implementation was to develop the capacity of government departments to implement the Act. To facilitate this, the National Treasury issued a *PFMA Implementation Guide*, new *Treasury Regulations* and a *Guide for Accounting Officers*.

Priorities

Seven priorities have been identified for the first year of implementation, and should guide Ministers/MECs when considering the performance of heads of departments. Three priorities not discussed here are the need to clear up outstanding audit queries, the control of banking and suspense accounts, and improved management of transfers. The chapters on education, health, social development and housing contain more specific information on each sector's progress in implementing the PFMA. For the purposes of this discussion, a few overall observations on progress are appropriate.

In-year management, monitoring and reporting

Monthly reporting

The Early Warning Reporting System (EWS) was introduced amidst of the provincial financial crisis in 1997/98. This system of monthly management forms the core of the most important reporting requirement of the PFMA. If accounting officers are to effectively manage the budgetary resources available to them, they require accurate monthly information. The monthly reports form the basis for the monthly and quarterly information gazetted by the Treasury.

Non-financial indicators

While the PFMA focuses on financial data, accounting officers are expected to also develop monthly non-financial information to improve performance.

Effective internal controls

Audit units and committees

Another important element of the PFMA is the need to establish internal controls and audit units. A department head is expected to ensure that the department's revenue, expenditure, assets and liabilities are efficiently and effectively managed.

Two of the principal tools available to assist the head of a department to discharge this responsibility are the Internal Audit Unit and the Audit Committee. Both report to the accounting officer. They are critical mechanisms to enable the head of a department to be more pro-active in identifying financial problems during the financial year. One of the key instruments is the preparation of risk management and fraud prevention plans.

Audit Charter

Many provinces have opted to share internal audit units and audit committees. The success or feasibility of this approach cannot be assessed at this stage, but table 7.13 provides some perspective on progress.

Table 7.13: Internal audit and audit committees

Provinces	Institutional Arrangements / Management Approach	Audit committee functioning	Audit committee per PFMA established in 2001	Reliance on internal audit	Internal audit function established in 2001
Eastern Cape	Centralised	Yes	Yes	Limited	Yes
Free State	Centralised	No	No	No	No
Gauteng	Shared service	Yes	Yes	Limited	Yes
KwaZulu-Natal	Shared service	Yes	Yes	Yes	Yes
Mpumalanga	Combination	No	No	No	Yes
Northern Cape	Shared service	No	No	No	No
Northern Province	Shared service	No	Yes	No	Yes
North West	Centralised	Yes	Yes	No	Yes
Western Cape	Shared service	Yes	Yes	Limited	Yes

Appointment of Chief Financial Officers (CFOs)

All departments were to appoint a CFO as part of top management by 1 April 2001. Though financial management is the responsibility of every line manager, the CFO is responsible for the overall co-ordination and leadership in financial management.

Table 7.14 shows the extent of compliance by provincial departments with the appointment of CFOs in Education, Health, Social Development (Welfare) and other departments. It highlights the number of appointments, the nature of appointments and the level at which appointments were made across provinces.

Most provinces have made progress with the appointment of CFOs, with the exception of Northern Cape. While a number of provincial departments have appointed a CFO, there is a concern that some lack the requisite experience. To assist provincial treasuries with the implementation of the PFMA, the National Treasury has arranged a programme of assistance. This includes the setting up of sectoral forums for CFOs in Education, Health, Social Development (Welfare) and Housing.

Although the aggregate amount of funds in suspense accounts is relatively small, they could impact on the quality of information published as part of quarterly Section 32 publications. Therefore monthly movements in suspense accounts have been included in the modified formats for provincial in-year management and reporting.

7.14: Appointments of CFOs

Province	Number of Votes	Number of CFOs appointed per provincial department				Nature of appointment				Level of appointment			
		Education	Health	Welfare	Others	Education	Health	Welfare	Others	Education	Health	Welfare	Others
Eastern Cape	3/13	–	1	1	1	A	P	F	1 P	CD	CD	CD	CD
Free State	8/12	1	1	1	5	P	P	F	4 P + 1 F	CD	CD	CD	CD
Gauteng	12/12	1	1	1	8	P	P	F	5 P + 4 F	DDG	DDG	CD	CD
KwaZulu-Natal	11/13	1	1	1	8	C	P	F	7 P + 1 C	CD	CD	CD	C
Mpumalanga	9/12	–	–	1	8	A	A	A	9 P	CD	CD	CD	C
Northern Cape	1/12	–	–	1	0	A	A	F	–	CD	CD	D	D
Northern Province #	10/12	1	1	#	8	C	C	#	8 C	DDG	DDG	#	CD
North West	8/12	–	–	1	7	A	A	A	8 P	D	D	D	D
Western Cape	9/10	1	1	1	6	P	P	P	6 P	CD	CD	CD	D
Total	**71/108**	**5**	**6**	**8**	**53**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
# Shared arrangement						***Permanent Appointment = P***				***Director = D***			
						Contract Appointment = C				***Chief Director = CD***			
						Acting CFO = A				***Deputy Director-General= DDG***			
						Firm of Consultants = F				***Combination = C***			

Completion of financial statements on time

Status reports

The PFMA requires annual financial statements be submitted to the Auditor-General within two months of the year-end. According to the 2000/01 Audit Report, Free State, Mpumalanga and Northern Cape failed to meet the deadline of 31 May 2001. The quality of these reports will be known once the Auditor-General submits an audit opinion as part of the provincial departments' annual reports, to be tabled in legislatures during September 2001 (see table 7.15).

Table 7.15: Submission of Financial Statements by 31 May 2001

Provinces	Total number of budget votes	Number of departments submitted on time	Numbe r of departments not submitted on time	Number of departments submitted after deadline but before 14 June 2001
Eastern Cape	15	15	–	–
Free State	13	5	8	–
Gauteng	12	12	–	–
KwaZulu-Natal	16	16	–	–
Mpumalanga	13	7	6	5
Northern Cape	14	1	13	6
Northern Province	12	11	1	1
North West	14	14	–	–
Western Cape	10	10	–	–
Total	119	91	28	12

Source: Auditor-General's report – 31 March 2000

Conclusion

This chapter highlighted issues that cut across the sectors served by the provinces. The PFMA provides an important anchor for improved governance, and will have an effect not only on general management practice, but also on the administration of conditional grants. Together with tighter control over personnel expenditure, this will support improved service delivery and increased infrastructure investment. Armed with the legal and fiscal framework for better governance, and additional funding, provinces are positioned to step up service delivery.

8

Municipal transformation challenges

Transformation since 1994 has aimed to make municipalities more accountable, financially sustainable and able to deliver critical services to all residents. This is in line with the constitutional vision of the role of local government and the policies outlined in the 1998 White Paper on Local Government.

Pressures to manage

Changes have included rationalisation from 843 to 284 municipalities, new legislation on operational and financial management, and re-assignment of powers and functions between municipalities outside the metropolitan areas. Municipalities also have to adapt to national initiatives such as the restructuring of the electricity distribution industry.

While the changes create many opportunities, municipalities also face pressures, such as new demands to increase personnel expenditure. The challenge is to effectively manage these pressures. From a fiscal point of view, it is important that transformation recognises constraints and introduces innovative ways to deal with revenue shortfalls and emerging expenditure requirements.

This chapter reflects on these challenges, especially expenditure pressures facing municipalities, and reviews government initiatives to support municipalities in addressing them.

The transformation agenda

Transformation stages

Since 1994, local governments have gone through three stages of transformation, starting with the pre-interim phase in 1994 and 1995, the transitional phase from November 1995 elections to December 2000, and now the final phase starting with the newly demarcated municipalities after the December 2000 elections. Most municipalities have experienced multiple changes in their boundaries during this process. The change in boundaries is also accompanied by further changes to the powers and functions of various categories of municipalities.

White Paper and other policies

The Department of Provincial and Local Government (DPLG) has steered a variety of initiatives to effect this wide-ranging transformation programme. After transitional legislation to kick-start the deracialisation and democratisation of municipalities, the 1998 White Paper provided a comprehensive vision and plan of action. Its purpose was to democratise local government, bolster its service delivery capacity, enhance integrated development planning and management, direct organisational transformation towards these ends, and write the script for a fiscally sustainable approach. Subsequent legislation like the Municipal Structures Act and the Municipal Systems Act took these policies further. The Municipal Finance

Management Bill and related budget reforms, driven by the National Treasury, as well as DPLG's Property Rates Bill, are intended to add to this process. The DPLG, National Treasury and other departments also manage various transfers targeted at municipal infrastructure programmes and capacity building, and co-operation with provinces is being extended to ensure more effective and coherent support to local government.

The outcome should be well-managed municipalities, able to represent their residents, developmental in their approach, and effective at sustaining and extending service delivery. To achieve this requires that municipalities and other spheres of government are alert to the pressures of transformation, and the delicate trade-offs and choices these pressures require.

Key challenges in restructuring service delivery

Competing pressures

Municipalities face a range of competing pressures on resources available for service delivery. Reforms to municipal planning and budgeting processes are being introduced to assist municipalities to make these trade-offs on the basis of clear policy priorities and local contexts. These are discussed later in this chapter.

The key trade-off required is the relative importance attached to service quality and equity objectives:

On the one hand, municipalities must maximise resources available to expand and sustain access for poor households that cannot afford basic levels of service. However, non-poor consumers (such as commercial users and wealthier households) also demand improvements in the quality of services to which they already have access. These consumers provide the economic base of a municipality, and thus contribute significantly to its revenue. Declining service quality is likely to undermine both local economic performance and payment morality, thus jeopardising the effective tax base of a municipality and its ability to pursue equity objectives.

Limited resources

As with other spheres of government, resources available to meet these pressures are limited in the short-term. This highlights the importance of efforts to effect medium to long term adjustments to expenditure pressures facing municipalities. Municipal restructuring is necessary for municipalities to modernise their systems of service delivery, as Johannesburg is doing through its Igoli restructuring. Similar processes are likely in other larger municipalities.

The rural challenge

The challenge of establishing effective local government in rural areas cannot be overstated. In these areas, the absence of formally planned settlements means that revenue generation potential is low, institutions weak, and service provision differently structured and priced. The local revenue sources are limited and do not adequately cover basic administrative requirements. During the current year, these municipalities have also been affected by uncertainties associated with the transition and funding of free basic services. This situation is under review at ministerial level.

Expenditure pressures

Five major pressures

Collectively, five major pressures affect municipal budgets and the ability to extend or enhance service delivery: personnel; shifts in municipal powers and functions; the free basic service policy; rising bulk supply costs; and transitional costs associated with amalgamation. They all have marked fiscal implications.

Personnel challenges

Municipalities employ in total over 200 000 people: about 109 000 in metros, 90 000 in category B municipalities and 8 000 in district councils. Despite concerns that the large share of personnel expenditure threaten to squeeze out service delivery, salaries continue to make up the largest share of municipal expenditure and continue to rise faster than inflation.

Salaries as a portion of expenditure

Municipal staff salaries have risen considerably over the last ten years. Table 8.1 shows the average cost per employee has increased in three metros since 1999: by 15,54 percent in Tshwane, 8,18 percent in Nelson Mandela and 4,54 percent in Johannesburg. While the total number of employees declined in Johannesburg and Nelson Mandela, they rose by almost 5percent in Tshwane. In Johannesburg, numbers declined in part because staff were moved to utility companies.

Table 8.1: Personnel Statistics in three metros [1]

	City of Johannesburg			Tshwane Metro			Nelson Mandela Metro		
	1999-00	2000-01	% Change	1999-00	2000-01	% Change	1999-00	2000-01	% Change
Total number of employees	27 000	26 437	*-2,09*	13 379	14 000	*4,64*	7 255	7 234	*-0,29*
Total cost of employees	2,009bn	2,056bn	*2,36*	1,248bn	1,509bn	*20,90*	0,556bn	0,600bn	*7,86*
Ave cost per employee (rands)	74 411	77 790	*4,54*	93 295	107 792	*15,54*	76 704	82 975	*8,18*
Total cost of package for highest ranked employee (rands)	614 500	671 500	*9,28*	543 613	720 000	*32,45*	475 500	494 468	*3,99*
Total cost of package for lowest ranked employee (rands)	30 160	35 815	*18,75*	47 949	52 150	*8,76*	35 040	42 460	*21,18*

[1] Figures were submitted by the municipalities and due to the amalgamation these might show a level of inaccuracy

Both Johannesburg and Nelson Mandela Metro show a narrowing gap between the highest ranked and lowest ranked employees. The case study in table 8.2 illustrates this trend in Nelson Mandela Municipality in Port Elizabeth. Percentage increases for the lowest paid employees have been consistently greater than for the highest paid ones. One of the mechanisms used to achieve this has been the implementation of absolute monetary increases in wages as opposed to relying on percentage increases. A negative effect of this approach could be that the total percentage wage increases for smaller municipalities are greater than for larger municipalities. This limits the ability of smaller municipalities to deliver services.

Table 8.2: Minimum wage vs. maximum salary – Port Elizabeth[1]

	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98	98-99	99-00	00-01
Minimum	550	720	850	1 055	1 214	1 401	1 561	1 781	2 011	2 241	2 471
Maximum	10 975	12 420	14 055	14 758	15 890	17 082	18 363	19 648	20 827	21 973	23 291
Ratio (Max / Min)	19,9	17,2	16,5	13,9	13,0	12,1	11,7	11,0	10,3	9,8	9,4
% Min Increase	–	*30,9%*	*18,0%*	*24,1%*	*15,0%*	*15,4%*	*11,4%*	*14,0%*	*12,9%*	*11,4%*	*10,2%*
% Max Increase	–	*13,1%*	*13,1%*	*5,0%*	*7,6%*	*7,5%*	*7,5%*	*7,0%*	*6,0%*	*5,5%*	*6,0%*

[1] Although the costs used for the above table represent only the basic salary for the lowest and highest paid employees, the same trend would apply to the total package.

Conditions of service

Municipal employees have conditions of service and salary bands quite distinct from national and provincial governments. Within these other spheres, there is one public service, where all employees have the same system of pensions, benefits and salary bands.

Apart from differences in the basic salary, non-remunerative benefits also vary. This is relevant to transformation because conditions of service are inevitably at stake when major change occurs. There have in fact been calls for the integration of municipal employees into one public service with national and provincial government officials.

Pensions

Pension funds are one factor that has to be considered for such a merger into a single public service. The issue here is not only the differences in pension schemes and contributions, but that the employer contributions in municipalities are generally well above the norm in other sectors. Table 8.3 provides details of a sample of municipal pension funds.

Table 8.3: Key indicators in a sample of municipal pension funds

Fund	A	B	C	D	E	F	G	H
Cape Joint Pension Fund	6 627	7 306	65	9,0%	18%	27%	16,0%	11,0%
Cape Joint Retirement Fund	18 777	226	60	9,0%	18%	27%	16,0%	11,0%
Cape Municipal Pension Fund	15 572	–	60	8,5%	18%	27%	16,0%	10,5%
Joint Municipal Pension Fund	3 204	4 136	65	9,0%	22%	31%	16,0%	15,0%
Municipal Employees Pension Fund	17 572	3 238	65	7,5%	22%	30%	16,0%	13,5%
Municipal Employees Gratuity Fund	29 572	–	65	7,5%	22%	30%	16,0%	13,5%
SALA	22 173	4 310	60	8,6%	17,9%	27%	16,0%	10,5%
Germiston Retirement Fund	1 560	498	65	8,3%	26,8%	35%	16,0%	19,1%
Potchefstroom	513	83	65	8,5%	22%	31%	16,0%	14,5%
Natal JMPF Superannuation	5 966	2 146	65	9,25%	18%	27%	16,0%	11,3%
Natal JMPF Retirement	9 912	2 413	65	5,0%	9,75%	15%	16,0%	-1,3%
KZN Joint Municipal Provident Fund	1 728	–	65	5,0%	9,75%	15%	16,0%	-1,3%
Durban Pension Fund	13 466	9 673	63	8,2%	18,86%	27%	16,0%	11,1%
Soweto City Council Pension Fund	3 478	348	60	8,0%	16%	24%	16,0%	8,0%
Johannesburg Municipal Pension Fund	4 387	5 044	63	9,5%	20%	30%	16,0%	13,5%
City of Johannesburg Pension Fund	8 426	2 692	63	9,5%	16%	26%	16,0%	9,5%

A. Membership
B. Pensioners
C. Retirement age
D. Employee contribution
E. Employer contribution
F. Total contribution
G. National and Industry average
H. Excess municipal burden

Variances

Based on information from 16 of the 21 municipal pension funds, the variances between different funds, and between them and the current national and provincial pension funds, are evident. For example, national and provincial government employees (the current public service) receive an employer contribution of 15 percent for pensions. Average municipal pension contributions are much higher, with the employer contribution at 26,8 percent for a total of 35 percent.

The need to equalise

Consolidating the public service to include municipalities would require service benefits equalisation. This could mean a compromise of benefits by either the current public service or municipal employees. Although the Pension Funds Act provides for the amalgamation of pension funds, the equalisation of salaries for municipal employees will require significant funding.

Moreover, initiatives to form an integrated public service would have to take cognisance of the number of employees in the sphere as a whole, the different pay scales, and other challenges of amalgamation. Further work is also required to assess the financial impacts of other benefits, such as medical aid, on municipalities.

Other initiatives and salary parity

Other transformation initiatives raised further parity issues. Demarcation and the shifting of functions between local and district municipalities, or between municipalities and Regional Electricity Distributors (REDs), will all require staff transfers.

Moving staff will involve equalising salaries for similar work in the new structures, and municipalities will be under pressure to equalise salaries to the highest level. It is not possible to quantify the effects of these salary parity issues at this stage. A proper analysis cannot be completed until new organisational structures are approved and job evaluations have been completed for all positions.

Information collected from selected category B municipalities indicates the challenges that are likely to be faced in attempting to achieve salary parity. The minimum total salary package of Mangaung, Louis Trichardt and Albert Lutheli municipalities for 2001-01 was R32 305, R24 768 and R37 331 respectively.

Questions to consider

While it may not be possible to make broad predictions of the impact of demarcation on salary levels, it is clear that municipalities should direct attention towards this issue. The following questions require interrogation:

- If the new municipalities all increase salaries to the highest level, what would be the maximum cost increases?
- How would this increase affect the expansion of services and delivery of free basic services?
- What would be the effect on local and national economic growth?
- How would municipalities fund increases, given that national government does not prioritise such consumption spending?
- How does the central bargaining system take account of differences between conditions of work and the differing capacities of municipalities?

?? How can employer contributions be brought in line with more generally accepted ratios?

?? How could moving to one public service avoid raising costs due to demands to move to the highest common denominator?

?? How do new REDs ensure that they avoid raising personnel costs by moving to the highest common denominator?

Salary parity between municipalities

Salary parity between municipalities is also an important issue, with a major project in this area currently underway. Undertaken by SALGA and unions representing municipal employees, it entails developing frameworks to assist streamlining structures, job evaluation methodologies and conditions of service across local government.

The objective of these frameworks is to encourage the use of consistent methodologies and principles whilst recognising that different circumstances across the spectrum of municipalities will require different solutions. A key parameter for this initiative is the affordability of changes for different types of municipalities. The framework will also need to account for variations in the costs of living between jurisdictions.

Councillor remuneration

A new dimension of personnel expenditure is the pressure for increases in councillor remuneration. Prior to December 2000, the remuneration of councillors cost approximately R418 million per annum. Demarcation reduced the number of councillors by some 30 percent, from 11 368 to 8 939. However, the introduction of full-time councillors and the expanded role of executive committees, has led to the need to revise remuneration scales. It has been estimated that the new councillors will collectively earn approximately R756 million. The overall increase is 55 percent.

Shifts in municipal powers and functions

Powers and functions of non-metropolitan municipalities

The shifting of powers and functions between categories of non-metropolitan municipalities, either through demarcation or sectoral policy reforms, is a significant challenge for local government.

Legislative aspects

Recent amendments to sections 84 and 85 of the Municipal Structures Act have re-allocated the bulk of municipal functions to district municipalities. The Minister of Provincial and Local Government has, however, authorised municipalities to continue performing functions in accordance with the position before re-demarcation of municipal boundaries. Work is currently underway to determine an appropriate allocation of functions in each municipal area.

Fiscal implications

The shifting of powers and functions between Category C (district) and Category B (local) municipalities could have wide-ranging fiscal, service delivery and personnel implications. From a fiscal point of view, the recommendations of the Financial and Fiscal Commission (FFC) are particularly relevant. These are summarised in the box below.

Summary of the FFC's submission on municipal powers and functions

In August 2001, the Financial and Fiscal Commission (FFC) released a prognosis on the division of powers and functions between district and local municipalities. The FFC sets out a number of principles that should inform the division:

- The default position should be that local municipalities are responsible for the delivery of municipal services, as this is consistent with government policy. Many local municipalities lack the capacity to deliver these services, and in such cases the district municipality should provide the services until local capacity is developed.
- Issues of redistribution should not influence the division of powers and functions between local and district municipalities, given the primary role that national government should play in funding redistribution.
- A number of factors should influence the division, such as the need for equitable, efficient, and affordable municipal services, and the need to achieve economies of scale. Each service should be evaluated separately against these factors, which could well result in one service being optimally provided by districts and another by local municipalities.

These principles were applied to four services, namely municipal health, water, sanitation, and electricity.

The function of ***electricity distribution*** should remain with local municipalities. The electricity supply industry will be re-organised into regional electricity distributors, and the transfer of this function from local to district municipalities and then to regional distributors will result in substantial and unnecessary costs. In addition, the loss of income from electricity surpluses (or municipal levy income in future) will significantly weaken the service delivery capability of local municipalities.

In the case of ***municipal health***, the function should be assigned to district municipalities. This is consistent with the policy of the national Department of Health, which seeks to establish an integrated district health system. Health service delivery is complex, and health provision by districts minimises spillovers and captures economies of scale.

Responsibility for ***water supply and sanitation services*** should rest with local municipalities, except where they lack the necessary capacity. There are not compelling economic reasons to assign these functions on a district-wide basis, except in the case of regional schemes, which usually transcend district boundaries. Furthermore, assigning one aspect of retail service delivery to districts will compromise the development of integrated revenue collection and credit control systems at local level.

Uncertainty to be avoided

Municipal stakeholders and potential investors agree that the key danger in the current debate on the powers and functions is the paralysis that may be induced by uncertainty on future functional allocations. For instance, a local municipality that anticipates losing the function of water services will be unable to plan for future service delivery, and may be unwilling to maintain optimal levels of investment in the service.

The Department of Provincial and Local Government is undertaking a detailed study on the optimal division of powers and functions, in conjunction with key stakeholders. Rapid resolution of this issue should have an important impact on municipalities' budgeting and creditworthiness.

Decentralisation or devolution of functions to municipalities

Changing how services are provided

Restructuring of service delivery is also under consideration in various sectors, with likely implications for municipalities. Proposed initiatives to transfer water services, devolve health functions, decentralise certain public transport functions, and regionalise electricity distribution could fundamentally alter the role of municipalities, with associated implications for staffing and expenditure needs.

Electricity

The impacts on municipal finance of the establishment of Regional Electricity Distributors (REDs) are complex, and the subject of a detailed investigation by national government together with SALGA. These complexities are outlined in the box below.

Some municipal fiscal issues around electricity restructuring

Electricity distribution functions involve operation, maintenance and replacement of major infrastructure assets. The skill set required to manage these functions is similar to that required to manage infrastructure assets in other functional areas such as roads and water distribution. Therefore, synergies and economies of scale can be achieved when staff from the various functions can interact and plan together. Also, development of new areas requires the coordination of all services and synergies can be achieved when there is an integrated approach.

Furthermore, given its size relative to the total operations of the municipality, the electricity function most likely consumes a large portion of administrative costs such as the provision of human resources services and information technology services. Some of these administrative support costs may be avoidable in the long term, but in the short term the planned REDs require that other functions of the municipality will have to absorb much higher support costs.

The challenge of putting staff under one regional entity is illustrated by the variety of wage levels between municipalities. For example, the category B municipalities in the Northern Free State district (Moqhaka, Ngwathe, Metsimaholo and Mafube) have reported minimum wages of R34 680, R25 808 and R25 968 respectively.

It is therefore necessary to ask rigorous questions, such as:

??What will be the impact on municipal staffing structures and salaries?

??What will be the impact on economies of scale and synergies associated with providing an electricity function?

??What will be the financial implications of this?

??What will be the tariff and funding implications of merging diverse tariffs, for example between Pretoria and Louis Trichardt, into a new level?

??How will redistribution affect different jurisdictions?

??What will the impact be on local, urban and rural economies?

??What will be the service delivery implications?

Water

Water service provision will be substantially decentralised over the next few years with notable institutional and financial implications for local government. The Department of Water Affairs and Forestry plans to devolve responsibility to municipalities for the operation of schemes that serve some six million predominantly rural people. DWAF and several provinces are also considering options such as multi-jurisdictional municipal service providers.

Complexities to be considered

Electricity and water distribution reforms highlight the complexities of service delivery restructuring, and the potential implications for staff movements and municipal finances. Additional financial pressures can emerge from the need to apportion assets and liabilities in the restructuring process.

Each reform requires careful assessment of these impacts to ensure that the costs of restructuring are not solely borne by municipalities. The experience of R293 personnel transfers from provincial to local government is relevant in this regard, and is discussed in the box below. The transfer of approximately 6 000 staff from DWAF to local government will encounter similar challenges.

The transfer of R293 town staff to municipalities

Some former homeland governments did not have municipalities, and performed municipal functions themselves. These areas are referred to as R293 towns. The Transfer of Staff to Municipalities Act, 1998 provided for the transfer of these employees from the province to municipalities concerned. Municipalities were required to accept staff as may be necessary for the effective administration of the municipality in question and to render efficient municipal services.

Difficulties in the personnel transfer process were due to staff being transferred from a uniform set of service conditions and salaries to a variety of differing ones in individual municipalities. This was a complex process. When the transfer resulted in salary increases it was easy to move staff, although this resulted in an increase in the unit cost of delivering the same service. However, staff transfers were very difficult to effect when salaries were likely to be reduced.

Very little progress was made with the transfer of R293 staff to municipalities for four years up to the end of 2000. National government undertook various further actions to promote the transfer of R293 towns to municipalities, including:

- an audit of R293 town personnel records during the last quarter of 1999 up to the end of March 2000;
- technical assistance to provinces to speed up the transfer of staff from 1999 to 2000; and
- a workshop with all provinces at the beginning of July 2000 to assist them in resolving issues hampering the transfer of R293 staff to municipalities.

The above-mentioned actions, as well as concerted efforts by provinces and municipalities, led to substantial transfers during the second quarter of 2000 up to the stipulated deadline for transfers of the end of September 2000. 8 572 staff (65 percent) were transferred by the stipulated deadline for transfer.

Staff not transferred by the stipulated deadline is deemed to be provincial employees and need to be completely withdrawn from municipalities and from providing any municipal services. Conversely, as R293 town staff transferred to municipalities are fully-fledged municipal employees, provinces will have no future role in respect of these staff. Any further transfers after the stipulated deadline are deemed normal municipal appointments and must accordingly be funded from own municipal revenues.

After transfers have been effected, the municipality concerned is responsible for determining appropriate salary packages for these staff. The municipality will be responsible for any additional costs resulting from increased municipal benefits, parity in salaries, promotions, and similar considerations.

From the 2001/02 financial year, the R293 town personnel allocation was divided between provinces and municipalities, based on staff transferred to municipalities and those retained by provinces. The allocation to local government was based on 100 percent of the salaries payable by provinces as at transfer. The remainder was allocated to provinces based on the projected annual expenditure for retained staff.

Free basic services

Commitment to service delivery

Government has made service delivery to all South Africans a priority. Constitutionally, all spheres of government carry some responsibility to ensure that this occurs, and local government is particularly charged with delivering basic household services. Changes in the local sphere must therefore contribute to broadening service delivery that is affordable, to both municipalities and consumers.

The challenges of municipal service delivery are broader than the commitment to free basic services alone. These services are critical inputs to local economic activity, and thus national economic growth and development. Apart from the poor who cannot afford services, those who can afford to pay must also be assured continued supply.

Policy matters

The pillars of policy therefore must enable local governments to:

- make basic municipal services accessible to all citizens
- provide free basic services for poor citizens who cannot pay

?? enforce strong credit control with regard to those who can pay improve the quality of services in response to consumer demands.

What services?

While there is currently some debate as to whether the policy should apply to all citizens, fiscal constraints make it a priority to target, people who cannot afford to pay for the basic level of essential services first. On this basis, some national funding to assist local governments has already been provided through the equitable share and municipal infrastructure grants. Priority must be given to extending essential services to those who have no service, and to providing basic services to those who cannot pay. While the policy commitment has sometimes been understood as “free basic services to all”, the policy target is those poor households that are currently unable to obtain access to basic services on an ongoing basis. Additionally, resource constraints at a municipal level may mean that municipalities will be unable to immediately provide the full basic service level at no cost, but will rather have to rollout such a programme over a period of time.

Given local variations, it will be important for municipalities to be flexible in defining the quantum of basic services they will provide for free. Meanwhile, deliberations between the responsible government departments and key stakeholders provide some pointers towards such a package of services:

?? 6 kilolitres of drinking water per month, delivered to a point within 200 meters of the household

?? ventilated improved pit latrine or better, at the household

?? 50 kilowatt hours of electricity per month, or equivalent, delivered to the household

?? household refuse disposal from a street container within 200 meters of the household.

In general, these levels of basic services have been accepted, though in the case of water, it has been urged that households who are connected to water-borne sanitation cannot get by on only 6 kiloliters of water. As a practical matter, those municipalities who are already providing free basic water vary in the quantity that they provide for free.

Subsidy mechanism

There are a number of mechanisms that can be utilised to provide sustainable services access to poor consumers. The choice of mechanism will be informed by the importance attached to the related principles of efficiency and local discretion, as well as the appropriateness of each mechanism in a particular area. For instance, an increasing (or rising) block tariff is known to allow significant leakage of subsidies to low consumption, wealthier households. This mechanism may encourage inefficiency by service providers who manage the subsidy on the supply-side, as the real cost of service delivery is difficult to determine. More importantly, it may distort the demand for a service if its price diverges significantly from the actual cost of delivery. Finally, it is not a suitable mechanism for poor rural areas where an insufficient number of wealthy, high consumption households exist to cross-subsidise poorer ones. However, the administrative costs of other mechanisms, such as account credits that require the identification of each poor household, may outweigh the benefits of the subsidy that is being provided.

Responsibilities

Fiscal and financial arrangements exist to ensure that these national policy objectives are met. All spheres of government have a role to play:

National government

- The provision of a basic level of essential services is a national issue, implying that the costs of assisting poor households to obtain this basic level of essential services must be borne primarily out of the national budget. National government is therefore primarily responsible for fiscal equalisation to ensure the availability of resources to poorer jurisdictions. It also has to create an appropriate regulatory framework and enabling environment for municipal service standards and prices.

Provinces

- Provincial governments have a critical support role to play in assisting municipalities develop appropriate subsidy mechanisms, and monitoring the implementation of these mechanisms to ensure that both equity and efficiency objectives are met.

Local government

- Local government has a service delivery and subsidy implementation role. Municipalities need to expand access to infrastructure, reorient their budgets to ensure adequate resources are available for free basic services for those who cannot pay, and promote effective and efficient service delivery. Those with significant fiscal capacity should direct their own resources to basic service delivery in a co-operative relationship with national and provincial government. All municipalities must reprioritise expenditure to meet the basic needs of all South Africans. Notwithstanding this requirement, the scope for redistribution is limited in the local sphere.

Allocating subsidies efficiently

Leakage must be avoided

The efficiency with which services and subsidy resources are allocated among households has a significant impact on the total cost of service delivery. For instance, efficient targeting of subsidies to households in need will ensure that subsidies do not benefit wealthy households unnecessarily.

Additionally, ensuring that non-subsidised services are priced correctly will assure that services are allocated in an economically efficient manner.

The poor should benefit

The challenge is foremost to ensure that poor households are the primary beneficiaries of the free services policy, and associated public resources. It is also important to mitigate fiscal risks implicit in subsidy schemes of this nature. Two related interventions are necessary:

Subsidies targeted

- Measures must be taken to control untargeted subsidies from the national fiscus, such as those delivered through the water services trading account and various transfers to water boards.

Credit control

- ?? Cost recovery is central to any sustainable subsidy system, and includes clear policy and support to municipalities regarding cut-offs, metering, billing and collection systems, and associated capital investments. Tighter credit control is necessary with regard to consumers that are able to pay. This not only improves cash flows, but also releases additional funds to subsidise consumers who cannot pay and ensures that available resources are utilised in accordance with an agreed subsidy framework, rather than providing an ad-hoc subsidy to payment defaulters.

Bulk supply costs

Price increases for bulk service purchases by municipalities have placed pressure on municipalities, as they cannot always pass higher bulk costs on to consumers without experiencing a rise in non-payment levels, political resistance or lower demand for services.

Water Board Tariffs

The main function of water boards is to provide bulk potable water to municipalities while a number of boards have also been involved in water reticulation to low income communities. The combined water sales revenue of the two largest boards (Rand Water and Umgeni) is in excess of R2,5 billion which gives an indication of the potential significance of water board activities for the economy.

Rapid increases

In recent years water board tariffs have increased at a rate faster than inflation and consumers have at times been confronted with dramatic price hikes. For example, Umgeni Water recently proposed a 22 percent tariff increase for the 2001/2002 financial year. This was due in part to a drop in the water demand of its largest consumer (Durban). The city invested heavily in a water recycling plant which reduced use of Umgeni's system and brought onto the balance sheet the capital costs and finance charges of rural schemes financed by Umgeni Water. This was compounded by low operational cost recovery from those schemes. Similar tariff hikes were experienced by Bloem Water in the 1996/97 financial year and by Rand Water in 1997/98. In the Rand Water case the driver was the need to absorb the cost impact of incorporating the Lesotho Highlands Scheme in the raw water price.

Water prices must reflect costs

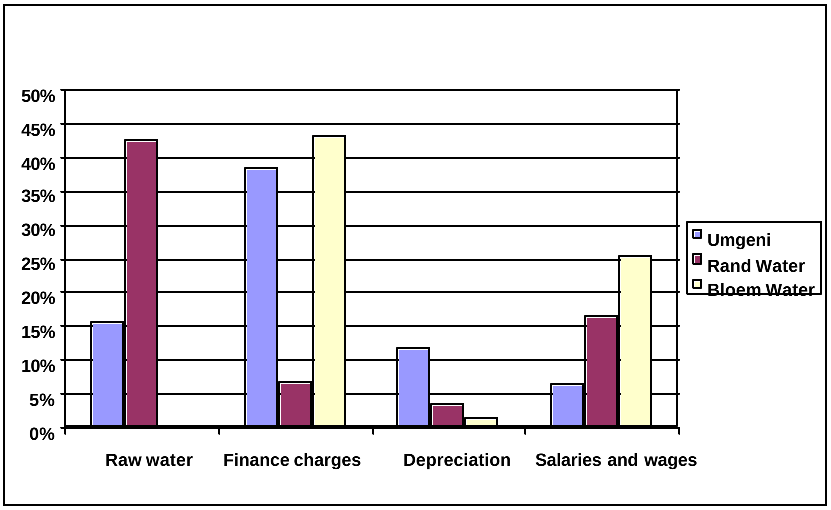
In a water scarce country, raw water prices will tend to rise by substantially more than inflation, as they adjust to levels that reflect the value of the resource. This reflects the requirement for capital schemes to bring additional water from more costly sources, and encourages efficient water use. The challenge is to balance this with affordable provision of water as a social good, to poor consumers, such as through the Free Basic Water programme.

Making bulk scheme affordable

Bulk water distribution is a capital-intensive business marked by high finance charges. Large capital expansion projects must eventually be recovered from the end user. It is also important to phase such large projects into affordable elements, to minimise the carrying costs associated with unused capacity.

Other important cost drivers in the water board industry are raw water charges and labour costs as shown in Figure 8.1.

Figure 8.1 Main cost drivers as % of revenue



Electricity generation tariffs

Electricity costs low in South Africa

Electricity is primarily distributed by ESKOM and municipalities. ESKOM sells 58,6 percent of the 171TWh electricity that is available for end-use. Municipalities, many of whom buy in bulk from Eskom, and the private sector distributes the remaining 41,4 percent. At an average cost of 8c/kWh, South Africa's electricity generation costs are very low by international standards. Domestic electricity users pay the highest price for electricity, at 24,6 c/kWh, and the mining sector the lowest at 12,3 c/kWh. Distribution costs account for approximately 62 percent of the total cost of electricity supply, but total costs of distribution declined by 23,8 percent from 1998 to 1999.

While service charges should in principle reflect the cost of delivery, and be calculated on a defensible accounting basis, municipalities often use tariffs or taxes to over- or undercharge for various services. This shifts the incidence of taxation onto those who may not use a service, often with no explicit policy objective in mind. Moreover, service charges have tended to rise at levels well above the rate of inflation in recent years.

Transitional costs associated with amalgamation

Amalgamating former municipalities involves some complex issues, such as consolidating assets and liabilities on a single balance sheet and balancing extended service provision with levying of taxes, fees and charges across diverse communities. Vastly increased property rates and service charges could affect the affordability of services, particularly for poor households. Some of these issues are explored briefly in the case study of challenges facing the new Tshwane metropolitan municipality.

Facing the challenges in a new metro: Tshwane

The City of Tshwane offers some insight into the fiscal and institutional challenges municipalities face against the backdrop of demarcation and institutional transformation.

Firstly, it will be a challenge to address infrastructure and service delivery requirements given that the tax base has remained relatively stable while areas requiring services have significantly increased. Secondly, the new municipal area, with about 2,2 million people and measuring at its furthest points about 68 km north/south and 52 km east/west, is extremely diverse, and straddles the boundaries of the North West and Gauteng provinces. It includes areas as diverse as the former city councils of Pretoria, Centurion and Northern Pretoria MLC, and former rural councils in Mabopane, Temba and Winterveld. It also inherited diverse service provision arrangements: the municipality serves some areas, while others receive their services through the North West province or other providers, like the Magaliesburg Water Board.

Backlogs are vast, especially in outlying areas:

- **Water and Sanitation** - Approximately 40 000 households are without basic services. It will cost approximately R97 million to provide the most basic services and projections indicate up to five years to be on RDP standards in the North West areas. The water supply to Hammanskraal and Temba is insufficient due to water boards not being able to meet demand. Sewer treatment is also lacking. Tshwane aims to concentrate on water supply in the 2001/02 financial year, while sewerage will be addressed in future years.
- **Roads** - Tshwane consists of 6 500 kilometres roads of which 60 percent is tarred and 40 percent gravelled. Many of the gravel roads are severely potholed and become impassable in the rainy season. The service levels provided and general quality of the tarred roads are also questionable.
- **Housing** –The housing programme backlog for the Pretoria MLC shortly before amalgamation, was 25 000 dwellings and with the amalgamation this figure has grown to almost 113 000.

During its first budget process, the new metro has been grappling with these challenges. Budget control and reform is a priority. A hands-on approach is used to determine expenditure trends compared to budget. A Budget Advisory Committee was established to assist councillors. Regular budget review reports are provided to this Budget Advisory Committee and any deviations must be explained and remedial action taken if necessary. Tshwane is participating in the National Treasury pilot programme for financial management and budget reform and has begun to implement measures to comply with uniform norms and standards. Key aspects to note from this process are:

- **The operating budget** represents 86,8 percent of a total budget of R5,3 billion. Approximately 30 percent relates to remuneration of staff. Provision of electricity accounts for roughly 30 percent of the budget and water and sanitation for 19 percent.
- **The capital budget** of R736 million represents 13,2 percent of the total budget. This is markedly lower than the national average of 22 percent as shown in chapter 9, which reinforces infrastructure backlog issues. Previous surveys have indicated that the previous Pretoria MLC had significant infrastructure backlog issues with capital backlogs and deferred maintenance for roads, electricity and water infrastructure in the region of R280 million for 1999-00 (5,3 percent of the 2001-02 budget).
- **Budgeted operating revenue** for 2001-02 is R4,6 billion. Electricity charges account for 37 percent, property rates 24 percent, water charges 14 percent, sewerage 5 percent and refuse removal 3 percent.
- **Property rates and tariffs** for services have been standardised across the whole area and free basic services are made available to almost all of the community. 6kl of free water and 30kwh of free electricity is provided to most households. Some areas of Temba, Mabopane, Ga-Rankuwa and Winterveldt are currently excluded from receiving free electricity because Eskom rather than Tshwane is the provider.
- **Debtor management** has received special attention with a special initiative for debtor management set up, consisting of volunteers from the old debtor administration. In just two weeks R4,8 million of outstanding accounts was collected in Pretoria and R1 million in Centurion. A problem is still being experienced in Akasia. If and when services are taken over in the North West areas, a credit control system will have to be put in place. In some of the new included areas, no pay points have previously existed and it will take R300 000 to upgrade Winterveld.
- **The first Integrated Development Plan (IDP)** will be finalised in August 2001 and a long term IDP will be developed. At the same time, the municipality will begin work on a medium-term budget that links to its strategic priorities. The planning process is particularly complex as, in accordance with legislation, it must be coordinated with plans of two provinces for functions such as health and education services and provincial roads.

Source: Tshwane 2001/02 Budget

The local government transformation plan

In order to assist municipalities in addressing the challenges outlined above, national government has placed increased emphasis on its tangible and relevant support to municipalities.

Fiscal support to municipalities

Chapter 10 identifies the main forms of fiscal support from national government to assist municipalities in meeting the service delivery challenge.

The local government equitable share provides general budgetary support to municipalities while conditional grants support capital programmes and institutional needs. Other fiscal measures to assist municipalities meeting their service delivery commitments are evolving at national level. The current work programme includes assessments of:

?? the adequacy of funding provided to municipalities in relation to their fiscal capacity
?? the efficacy and consolidation of the current system of infrastructure transfers in coherently supporting the policy commitment to service delivery, especially to the poor
?? the accuracy of current targeting systems in distributing resources to areas of greatest need and incoprorating operating subsidies into the equitable share.

Progress in extending service delivery

Considerable progress has been made in developing programmes to support municipalities in implementing policy on developmental service delivery. Additionally, many municipalities have taken the initiative to determine their own approaches.

Free basic water

Other than the national reform strategies outlined above, additional national support to municipalities has focused on strategies for free basic water and electricity. Sanitation and solid waste services have, to date, taken a back seat. The Department of Water Affairs and Forestry has developed a phased implementation programme for larger municipalities to implement the commitment from 1 July 2001. Others are supported to do so over the next 2 years.

Lifeline electricity strategy

The Department of Minerals and Energy has initiated a pilot programme to identify appropriate policy parameters for a lifeline electricity strategy. The key concern here is the role of Eskom's distribution entities, and how a subsidy might be transmitted to them. This is particularly important as Eskom supplies households in the lower-income end of the electricity market (see textbox below). The findings of the pilot programme will have resonance beyond the electricity distribution industry, as private sector or community suppliers provide services in other industries as well.

Electrification Programme

The RDP White Paper in 1994 made a commitment to an accelerated electrification programme to provide access for an additional 2,5 million households by 2000. It was estimated that this would increase access to about 72 percent. With funds channeled by Eskom mainly through municipalities, this target was exceeded as some 2, 7 million households benefited by 2000. Because of rapid housing development, the percentage households electrified have however not met the original target and stood at 62,96 percent at the end of 2000.

On an annual basis, the actual households electrified by Eskom and Local Government were:

1994	1995	1996	1997	1998	1999	2000
435756	478767	453995	499311	427426	443290	397019

Improvements in rural and semi-urban areas were particularly significant in 1999 and 2000 as the table shows.

Year	Rural	Semi-urban	Combined
1997	3%	11%	14%
1998	3%	14%	17%
1999	15%	10%	25%
2000	23%	16%	39%

Because of a slowdown in housing delivery, and some inertia in the light of municipal demarcation and transformation, the rate of electrification was also impeded in 2000. However, there were some highlights, such as the allocation of R31 million for 10 300 new connections in the development of neglected areas in the Eastern Cape. Unspent money on the original R347m was transferred to the 2001 programme allocation for non-grid systems and for special projects including special ministerial requests.

Budget reform

A number of factors have necessitated reform of municipal budget approaches, processes and formats, as a key input into the effective transformation of service delivery. In many municipalities, the budgeting systems are inadequate primarily due to a lack of financial management capacity. Budgets are presented line item by line item, one year at a time. They are prepared in different formats and provide widely divergent information. It is even difficult to compare similar size municipalities. Few budgets, if any, are linked to the local government's strategic priorities. Many Integrated Development Plans (IDPs) are not yet of an appropriate standard to make such linkages. This makes it difficult for citizens and elected office bearers to understand how scarce resources are allocated and to depict financial trends in the municipality. This lack of strategic budgeting, and the unreliable information, create uncertainty about the financial status of municipalities, impeding the long-term municipal lending market.

In most cases, municipalities overestimate revenues. Failure to account for under collection of rates and tariffs has led to year-end deficits. Municipal budgets often do not include accurate information on grants and transfers from national and provincial government.

Therefore, they neither project total revenue for the fiscal year nor accurately show all revenues and expenditures on budget.

Many municipalities do not have proper processes for adjusting their budgets throughout the year. Some do so frequently, suggesting that they have not planned properly. Government's new legislative framework attempts to balance flexibility with a system that induces proper planning and due process.

The lack of accurate reporting by cost centre prevents municipalities from determining fair pricing structures, accurate surpluses or deficits. For example, few municipalities know the total cost of providing water or electricity services. They report bulk purchasing costs, but often exclude the costs of reticulation, such as staffing, maintenance, information technology and billing.

In the light of these problems, Government is leading a process of budget and financial management reform in the local government sphere. Implementation of the Municipal Financial Management Bill, when adopted, is a cornerstone of these reforms, as is the move towards three-year municipal operating and capital budgets, as in the national and provincial spheres. While municipalities will be expected to ensure that all revenues and expenditures are accurately shown on budget, they are supported by Government simplifying and increasing certainty in grants flows, and the introduction of Generally Accepted Municipal Accounting Practices (GAMAP). The implementing of a borrowing policy framework to develop a municipal bond market will bring the efficiencies of such a market to bear on municipalities

The National Treasury has developed a range of reforms to modernise local government systems and ultimately improve service delivery. Key among these reforms is multi-year budgeting, now being piloted in eight municipalities. Other reforms include Generally Accepted Municipal Accounting Practice (GAMAP), budget and reporting formats, in-year financial reporting, a municipal investment framework, activity-based costing and procurement modernisation.

Revenue reforms

The long-term sustainability of municipalities is closely linked to their access to own revenue. This requires reform of the revenue sources themselves, better credit control and improved collection of those revenues. Reform of property tax, an important source of local government revenue, is one such initiative.

The Property Rates Bill, published in August 2000, creates a nation-wide legal and regulatory framework for valuing property and levying rates. The provisions of the Bill would require that all municipalities, by 1 July 2006, use the total improved value of property, i.e. the combined land and improvement value, as the tax base. The Bill would also leave decisions about differential rating of different categories of property, as well as exemptions and rebates to municipal councils. It would require each council to adopt a property rates policy governing these matters, and to reflect the implicit cost of all exemptions and rebates as budget expenditures.

One important impact of the Bill and of the December 2000 demarcations will be that a great deal of previously unrated rural, agricultural, and government property may be brought into the tax net. If municipal rates revenue is held constant, the rates paid by owners of property within former municipal boundaries should go down, as previously unrated properties take on a share of the burden. The Bill's requirement for comprehensive re-valuations will mean that properties which have appreciated or depreciated significantly in recent years will be taxed at a value closer to their market value.

Institutional Support

Four aspects

Four aspects of institutional support to local government warrant mention here:

- Steps have been taken to provide an effective intergovernmental voice on fiscal matters for local government. The Constitution requires consultation with organised local government and the FFC when budgetary allocations to local government are determined. While vertical allocations to local government are ultimately determined by Cabinet, subject to parliamentary approval of the Division of Revenue Bill, the Budget Forum has been set up to facilitate such consultations. Organised local government is able to use the Budget Forum to acquire information, raise questions and put forward its position on priorities and the size of allocations.
- Capacity building grants support institutional and management development and reform. In the short-term, a special grant supports municipalities in managing post-demarcation transition. Elements of the reform programme assist municipalities to increase participation by community members in service delivery, improve the accuracy of information on service delivery, enhance political oversight over decision-making, and improve accountability for service delivery outcomes. They are also supported to apply more robust financial management and credit control. These reforms have been developed into increasingly coherent programmes to provide nationally driven technical support to local decision-making.
- The Municipal Finance Management Bill requires that managers be allowed to manage. This means delegation of powers, effective cooperation between councillors and officials, and appropriate capacity. In the short term, it is necessary to build on existing capacity. For the longer term, there is a positive relationship between capacity and powers and functions; hence, decentralisation that makes local governments accountable is likely to support capacity building in its own right.

Integrated development plans and performance indicators

- The Department of Provincial and Local Government is implementing a number of reforms to assist municipalities to direct their resources towards key policy priorities, such as free basic services. For example, work is being done to investigate the costs of a package of services to households. Considerable attention is also focused on integrated development plans (IDPs) and performance management through key performance indicators

(KPIs). Improvements in municipal budgets and financial management systems are critical to successful implementation of these reforms. In particular, if IDPs are to provide meaningful direction to municipalities, they must be linked to their capital and operating budgets, and be measurable through accurate and timely financial information and measurable KPIs.

Conclusion

The extent and variety of pressures facing municipalities will require ongoing attention over the next three to five years. While the problems are not insurmountable, they have a significant impact on municipalities' ability to re-engineer their service delivery systems.

Municipalities are emerging from a prolonged period of uncertainty resulting from the boundary demarcation and institutional transformation processes. Intergovernmental support to local government, and initiatives within municipalities themselves, must therefore be well sequenced. Failure to achieve this, could overload the municipal system, with negative impact on its core service delivery functions. Government has taken steps to facilitate greater stability and sustainable capacity, but it needs to stay rigorous in monitoring progress and impacts, and targeted in interventions.

9

Overview of municipal budgets

Budgets show priorities

The budgets of municipalities provide important insight into their progress with service delivery, and also serve as management tools for planning. They should clarify what municipalities spend on, and how they raise funds for those purposes.

The analysis of budgets in this chapter (and Annexure D) therefore provides perspective not only on the recent state of municipal budgets and on progress with budget reform, but also on service delivery. Apart from aggregate information, some specific pre-demarcation municipal budgets are analysed. The sample of municipalities used is based on the availability of data. It attempts to build continuity with last year's edition, and draws on the budget reform pilot projects undertaken under guidance of the National Treasury. The budgets of the largest ten pre-demarcation municipalities are specifically analysed.

Mostly looking back, before demarcation

Because this chapter looks back at the previous year, its information is not structured around new municipalities. Next year's *Review* will be able, for the first time, to reflect budget trends in the newly demarcated municipalities.

Data issues

Building on last year's Review

Last year's *Intergovernmental Fiscal Review* was a first attempt to review municipal financial information, and this year's edition builds on that analysis. However, there are still significant gaps. The structure and content of this information is currently being developed and it will take a few years before reliable trend information for the new municipal structures is available.

843 councils combined into 284

It is difficult to compare the financial information of the 843 pre-demarcation municipalities with that of the 284 new ones. Chapter 8 considers a self reported sample of municipalities to provide understanding of service-related trends and a basis for future analysis.

Gap between budgeted and actual figures

Reliable financial data remain difficult to come by, amid outdated budgeting systems, inconsistent municipal accounting and budgeting practices, and weak financial management capacity. Data in this chapter is based primarily on self-reported financial information on "expected" revenues, expenditures, and on budgets. However, budgeted and actual figures differ considerably. This is aggravated by the absence of a uniform budgeting standard, chart of accounts and reporting classification system. Furthermore, audited accounts are often heavily qualified (or disclaimed) and therefore do not provide reliable information for comparison and analysis.

A multi-year data project

Given this background, developing good financial data for the local government sphere will be a multi-year project. The project to implement reforms to budgeting and financial statements has begun and a small number of pilot municipalities have initiated measures to formulate multi-year budgets according to a new nationally developed format. Standard classifications for revenue and expenditure line items, and for broad functional classifications, will enable more reliable analysis and comparison, as well as benchmarking between municipalities, within South Africa and internationally.

Municipal revenue and expenditure data

Chapters 9 and 10 of this *Review* are based on the transfers from the 2001 MTEF budgets of the national and provincial governments, as tabled in February 2001 and the 2000-01 local government budgets. The 2000/01 local government budget data used in this chapter come from the municipal budget database maintained by the National Treasury to monitor municipal finances. Each fiscal year, municipalities report to the national Treasury their estimated actual revenues and expenditures for the previous year and their budget for the new financial year. Actual revenues and expenditures for all municipalities are currently not available. In this chapter, all summary information for fiscal years 1996-97, 1997-98, 1998-99 and 1999-00 represents municipalities' self reported projected actuals and the 2000-01 data represent budgeted figures (see Annexure D).

Information on all transfers from provinces to municipalities (e.g. transfers for the provision of primary health care services) is currently not available. Therefore, actual data on intergovernmental transfers to municipalities are doubtful. The information on municipal revenue and expenditure is different from that reported by the South African Reserve Bank (SARB). The SARB reports on data received from surveys of municipalities collected quarterly by Statistics South Africa. In contrast, the summary data in this report are based on budget information consisting of over 600 municipalities.

General budget trends

Use all data cautiously!

Data weaknesses and inconsistent formats make it difficult to compare budgets and financial statements. It is also difficult to generalise since municipalities differ considerably in size and scope. For example, the largest ten pre-demarcation municipalities accounted for 66 percent of all municipal expenditure. A number of notable trends are nonetheless evident from tables 9.1 and 9.2.

Municipal budgets totalled R61,8 billion

In 2000-01, municipal budgets totalled R61,8 billion. Of this, approximately 78 percent supported the operating budget – that is, the delivery of services and overheads. The remainder of approximately 22 percent was allocated to capital projects, primarily the extension of water and electricity infrastructure. In the four years of projected actual expenditures for the ten biggest demarcation municipalities, the average annual increase in overall budgets was 6,4 percent.

Table 9.1: Total municipal expenditures

	Estimated Actual				Budget
R billion	**1996-97**	**1997-98**	**1998-99**	**1999-00**	**2000-01**
Operating	34,0	38,2	41,9	43,1	48,1
Capital	10,4	9,4	8,6	10,3	13,7
Total	**44,4**	**47,6**	**50,5**	**53,4**	**61,8**

Increases may be overstated

The 2000-01 figures show an increase of 15,7 percent from the previous year actual but it is likely that this is an over estimation. Municipalities often spend less than the budgeted amounts due to, among others, problems securing funding for capital projects and problems with revenue collection. The local government annexure shows that the budget to budget growth is not as dramatic. That is, total budgeted expenditure in 1999-2000 was R58,8 billion (compared to an estimated actual of R53,4 billion) and the budgeted figure for 2000-01 was R61,8 billion.

The gap between actual results and budgeted figures is mainly due to:

?? capital projects being included in the budget without first securing funding

?? uncertainty about transfers due from national and provincial governments

?? inability to spend the allocated capital budget due to lack of capacity

?? forced reduction of expenditure due to problems collecting monies due.

Table 9.2: Expenditure in large pre-demarcation municipalities

		Projected actual			Budget
R million	**96-97**	**97-98**	**98-99**	**99-00**	**00-01**
Johannesburg Metro	8 299,7	6 910,0	7 144,1	7 297,0	8 138,0
Cape Metro	6 481,5	7 226,3	7 488,1	8 443,2	9 025,0
Durban Metro	5 320,1	5 703,1	6 159,4	6 685,9	7 438,0
Pretoria Metro	4 130,8	5 005,4	5 902,9	5 711,4	6 363,0
Kyalami Metro	1 378,0	1 670,2	1 863,6	1 965,8	2 055,8
Port Elizabeth	1 206,8	1 346,1	1 531,5	1 561,2	1 566,1
Pietermaritzburg	712,5	867,7	858,9	941,2	1 045,1
Lekoa-Vaal Metro	798,0	859,7	899,3	947,1	1 060,8
East London	466,9	629,5	732,2	743,6	928,7
Bloemfontein	575,5	662,5	738,1	766,0	839,4
Total	**29 369,8**	**30 880,6**	**33 318,1**	**35 062,4**	**38 459,9**

The new municipalities were established in the middle of the financial year. To avoid disruption in service delivery, guidelines were issued that municipalities should continue with their 2000-01 budgets. In many cases only minor adjustments were made to accommodate changes for the remainder of the financial year.

Operating expenditure still too high

The overall budget figures for 2000-01 suggest that operating expenditures still represent an unduly high proportion of municipal expenditure. The policy emphasis on extending service delivery means that more new capital expenditure could be expected, both in absolute terms and as a proportion of total expenditure. Also, more emphasis needs to be placed on maintenance of infrastructure assets in order to ensure that capital expenditure is optimised. There is some confusion about the distinction between maintenance and capital expenditure although this should become clearer with the introduction of Generally Accepted Municipal Accounting Practices (GAMAP).

Fiscal flows becoming more predictable

National government has addressed the problem of uncertainty surrounding intergovernmental transfers, such as the equitable share and conditional grants, by moving to a system of three-year allocations. This will allow municipalities to plan their finances and service provision more accurately.

… and transparent

Many grants are not shown on municipal budgets. National and provincial departments also provide in-kind services that are not included in municipal budgets. Budget and financial reforms will require that all revenue is accurately shown on budget and grants in–kind are adequately tracked.

Financial and budget reforms are targeting improved revenue collection and more accurate revenue forecasting. Some aspects of these reforms are discussed in the section below on municipal revenue.

… with uniform reporting standards

It is difficult to make comparisons between municipalities or even between years in the same municipality in the absence of a standard accounting or reporting format. This will be remedied with the introduction of GAMAP and uniform standards and formats for budgeting and reporting.

Municipal revenue

Municipalities, overall, generate 92 percent of revenue

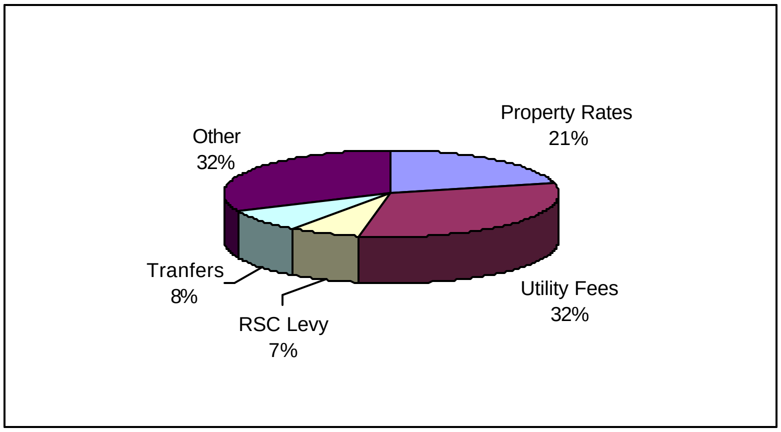
Municipalities generate, in aggregate, approximately 92 percent of their own revenue. The remaining comes from transfers from the national and provincial spheres.

On average, metros mobilise 97 percent of revenue themselves and own revenue constitutes 92 percent of the income of non-metros with budgets larger than R300 million. In contrast, those with budgets smaller than R300 million raise 65 percent of revenue themselves. However, these are aggregate figures, and the revenue mix for individual municipalities varies depending on local circumstances. Furthermore, in many municipalities the poor quality of collection policies and systems undermines actual revenue received.

Sources of revenue

Data provided to National Treasury inflates total utility fees received by municipalities, by including bulk charges for utility services in the calculation, essentially double counting revenue. The data has therefore been adjusted to remove these bulk charges from gross revenues. These adjusted figures still do not reflect all costs associated with the provision of utility services. This problem will be addressed by reforms to the costing methodology. Figure 9.1 gives the most accurate available representation of net revenues. After adjustments, the property rates component comprises 21 percent of the revenue base of municipalities, utility fees total 32 percent, intergovernmental transfers 8 percent, RSC levies 7 percent, and other revenues 32 percent.

Figure 9. 1: Sources of local government revenues, 1999-00



Utility fees

Utilities provide almost one-third of revenue

Gross utility fees from trading services, at 32 percent in aggregate, are the main sources of municipal revenues, with electricity making up the largest share.

Many municipalities use surplus fees generated by trading services to subsidise general government services. However, in many cases, municipalities do not attribute full costs to their trading service accounts. Hence any "surplus" for that sector may be overstated. Work on developing activity-based costing methodologies is currently underway. This should assist municipalities to measure actual costs and determine true surpluses or deficits relating to individual utilities.

Major implications flow from electricity changes

Changes in the electricity distribution industry will have a major impact on municipal revenues and cost structures since electricity fees represent such a large portion of municipal revenue. In many instances, revenue from utilities is not classified by function. They are not comparable between municipalities or even between fiscal years in a specific municipality. They therefore offer limited scope for analysis, making it difficult, for example, to determine the impact of the reorganisation of the electricity distribution industry on overall municipal revenues. However, it appears that the loss of cash inflow from electricity distribution will have significant implications for municipal finances. This issue is discussed in chapter 8.

Property rates

After utility fees, property rates are the next major source of revenue. Property rates are critical for funding governance, recreation, street lighting, libraries and other public goods and services that are not fully supported by fees.

Property rates systems vary significantly

Property rates are regulated by various provincial ordinances that existed before the democratisation of local government. There is a great deal of variation, with some municipalities taxing only site values, others taxing land and improvements at different rates, and still others taxing the total improved value at a single rate. In addition, there have been flat rate systems in some places. The systems are poorly administered in many municipalities. In many cases, comprehensive re-valuations have not been done in a decade or more. The Property Rates Bill published in August 2000 addresses these issues and others. Chapter 8 further explores issues surrounding the Property Rates Bill.

Intergovernmental transfers

Intergovernmental transfers comprise, in aggregate, approximately 8 percent of local government revenue. These transfers flow to municipalities through the equitable share and conditional grants. A detailed discussion of transfers is provided in chapter 10, but a few brief observations are pertinent here.

Equitable share favours poorer municipalities

The equitable share is an unconditional transfer from the national government to municipalities, based on a formula that attempts to measure the number of households in poverty. The formula favours poor rural households, and has resulted in reduced allocations to the larger metropolitan areas.

This is demonstrated in table 9.3. Johannesburg, coming from a base of just under R300 million in 1993-94, received only R24,6 million in 1999-00. From 1996-97 to 1999-00, Bloemfontein and Port Elizabeth experienced reductions of nearly 50 percent in their equitable share allocations. Even with the recent increase in the overall amount of the equitable share, the allocations to larger municipalities are substantially less than before. This loss of equitable share revenue has introduced a significant fiscal pressure on larger municipalities.

Table 9.3: Equitable share allocation in selected municipalities

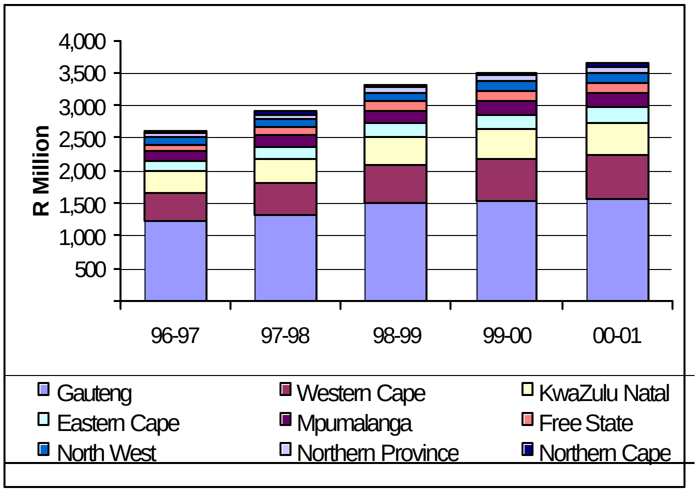
R 000	1996-97 Actual	1997-98 Actual	1998-99 Actual	1999-00 Actual	2000-01 Budget
Bloemfontein	16 394,4	7 992,8	10 314,8	8 993,2	9 151,6
Johannesburg	49 763,8	48 409,1	42 487,9	24 670,8	35 712,2
Port Elizabeth	30 785,2	40 823,8	21 942,5	20 661,8	32 090,9
Total	96 943,4	97 225,7	74 745,2	54 325,8	76 954,7
R increase/(decrease)		282,3	(22 480,5)	(25 996,6)	22 628,9
% increase/(decrease)		*0*	*(23)*	*(35)*	*42*

Regional Service Council levies

RSC levies collected from business

Regional service levies represent 7 percent of local government revenue, 10 percent of the revenue of metropolitan municipalities, and are the primary source of revenue for district municipalities. Collected from businesses, these levies comprise two components. The first, based on turnover, makes up two-thirds of the total levy. The second component, a third of the total, is a regional establishment levy on the annual value of payroll. Current government policy states that the levies should be used to fund capital infrastructure. The budgeted revenue from these levies, by province, is shown in figure 9.2.

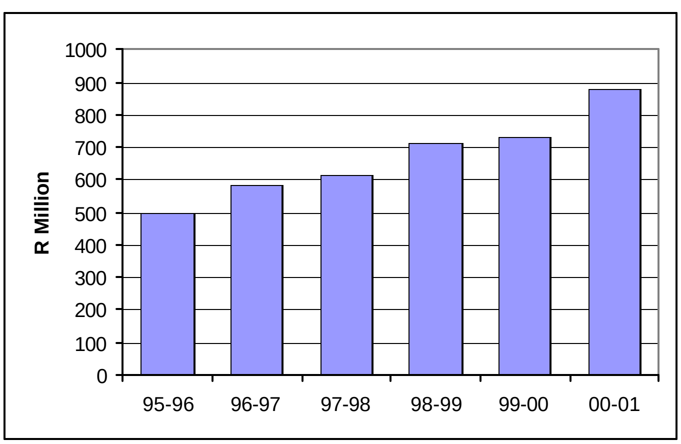
Figure 9.2: RSC levy by province (budgeted)



RSC levy system under review

Based on self-assessment by businesses, the levy is assessed and paid monthly to district municipalities and metros. The system is administratively cumbersome, difficult to audit, and marked by problems in levy collection. Government is therefore exploring ways to improve it. A case study in Johannesburg demonstrates nonetheless that improvements in collection techniques and systems can increase this revenue stream. Figure 9.3 shows the total actual RSC levy received by the City of Johannesburg over the past 6 years. The 75 percent increase over five years in RSC levy revenue collected by Johannesburg Metro has occurred largely because of better administrative procedures, including electronic payment direct to the municipality's bank account and improved methods of recording and tracing potential levy payers.

Figure 9.3: Actual RSC levy for Johannesburg Metro



Other revenues

Other revenues include interest on investments, non-trading services, fees and charges (such as recreation or burial fees), and fines. Although this category makes up a large slice of total municipal revenue, it is not possible or practical to separate it into further sub-categories. This is mainly due to the wide range of other revenue sources across various municipalities and the lack of a uniform classification methodology.

The fact that some municipalities record total vehicle licence fees, collected on behalf of provincial government, as revenue, may distort the true picture. The appropriate treatment would be for the municipality to record as revenue only the commission earned as a result of performing the agency task. Reforms currently underway will introduce standard and uniform classifications to enable better analysis and facilitate comparison across municipalities.

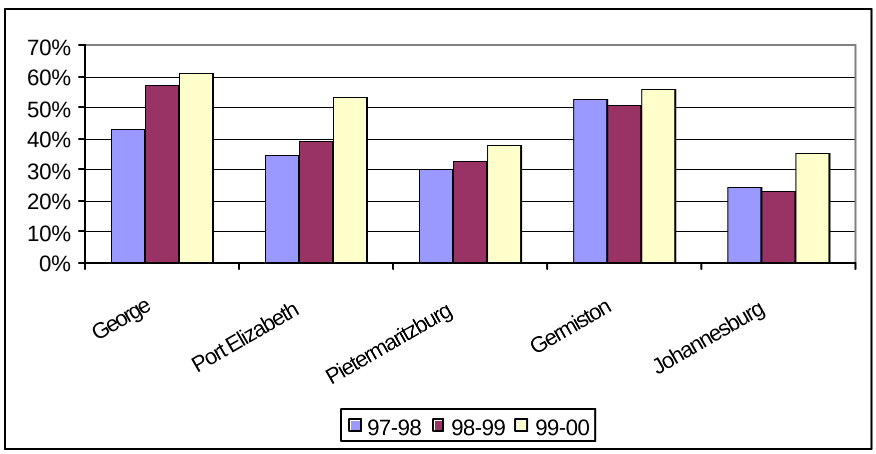
Revenue Collection

Revenue collection needs urgent attention

A major financial problem in the local government sphere is inadequate collection of revenue due. This is rooted in outdated billing and accounting systems and in the increasing level of outstanding debtors.

The result is year-end deficits, a reduction in services to balance the budget, and higher fees and taxes for those who do pay. Figure 9.4 shows that the level of outstanding debtors as a percentage of annual billing in selected municipalities has steadily increased. Revenue collection problems continue and old debt is not being recovered or written off.

Figure 9.4: Outstanding debtors as a percentage of annual billing

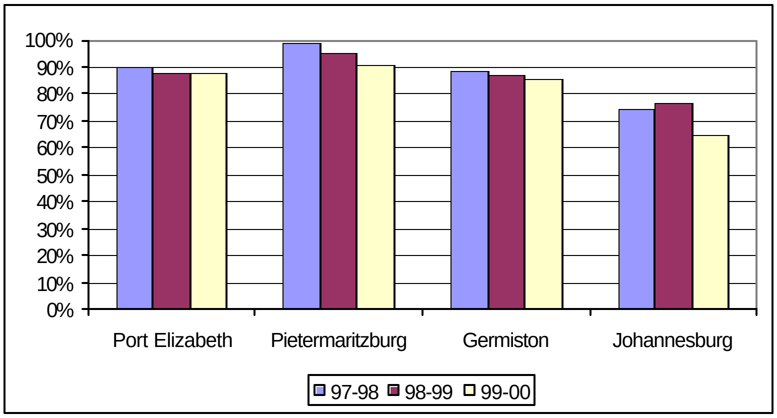


In response, Government attempted over the past four years through "Project Viability" to obtain quarterly reports on the state of municipal liquidity. However, not all municipalities have supplied this information timeously, formats have been inconsistent, and data inadequate. The current line item budgets also make it difficult to link in-year financial reporting to budgets. The reduction in the number of municipalities, current budget reforms, and new in-year reporting requirements in terms of the Municipal Finance Management Bill suggest that this programme must be reviewed.

More steps to improve debt collection

Figure 9.5 shows that, for the selected municipalities, revenue collection levels (the amount collected as a percentage of the amount billed) have worsened over the last three years. With the implementation of financial and budget reforms and GAMAP, and continued monitoring, it is expected that this problem will be brought under control. Such monitoring would strengthen councils that are committed to effective revenue collection, and help to identify those that lack such commitment.

Figure 9.5: Revenue collection levels



Average monthly household accounts

Municipalities receive revenue primarily from households, businesses and industries that pay fees for services and property rates based on land or property values. To determine the financial impact of these fees and rates on households, the National Treasury has been requesting municipalities to report the monthly charges on the following:

?? Property rates on 1 000 m^2 erven and 150 m^2 improvements

?? Electricity base charges and consumption charges on 1000 units

?? Water base charges and consumption charges on 30 kilolitres

?? Sewer sanitation charges

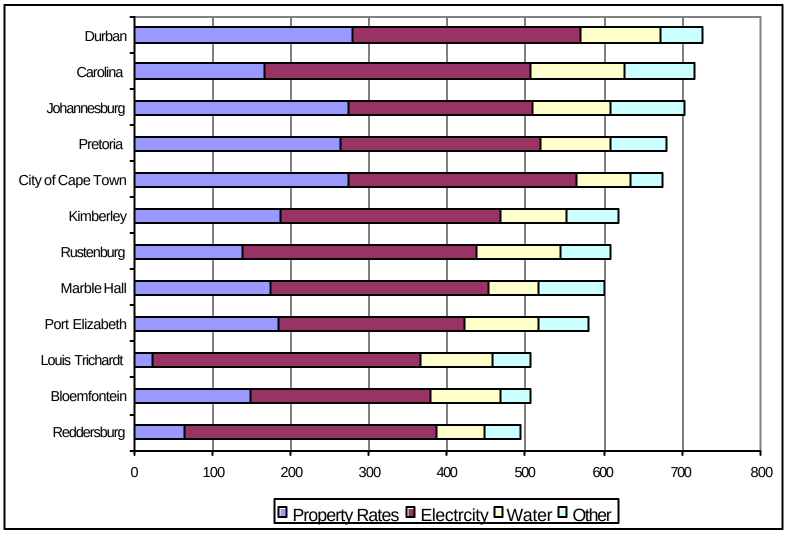
?? Refus e collection charges.

The above reflects an average middle income dwelling. An example of the types of charges likely to be incurred in poor 'townships' – with lower levels of service - is included at the end of this section.

Middle-class household accounts averaged R618

The monthly household cost for these services for 12 sample municipalities is provided in figure 9.6 and table 9.4. For these municipalities, the average monthly household accounts in July 2000 range from a high of R727 in Durban (KwaZulu-Natal) to a low of R494 in Reddersburg (Free State).

Figure 9.6: Average monthly household account (rands) July '00



Electricity is the largest portion

The data show that electricity (the main trading activity for municipalities) is the largest portion of monthly charges for the average household at 47 percent in July 2000. Property rates is the next highest at 29 percent, while water accounts for 14 percent of the average monthly account in the selected municipalities. The differences in the spread of revenue for these sample municipalities shows that each municipality has a different funding mix for the services it provides.

Table 9.4: Average monthly household account (rands), July '00

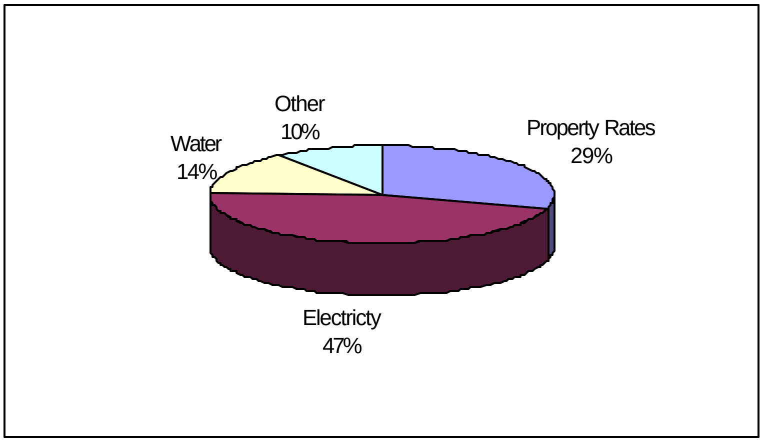
Municipality	Property	Electricity	Water	Other	Total
Durban	280	290	102	55	727
Carolina	166	340	121	90	717
Johannesburg	273	237	99	94	703
Pretoria	263	257	90	70	680
City of Cape Town	273	291	70	40	674
Kimberley	188	282	82	68	620
Rustenburg	138	299	107	64	608
Marble Hall	174	278	64	84	600
Port Elizabeth	184	237	95	64	580
Louis Trichardt	25	342	90	51	508
Bloemfontein	149	230	90	38	507
Reddersburg	65	322	60	47	494
Average	**181**	**284**	**89**	**64**	**618**

A complex reality to consider

This mix would have to be considered in the pending restructuring of service sectors, such as the electricity and water industries, and in the division of powers and functions between category B and C municipalities. The municipal sector is too diverse to allow for a general approach, and it is necessary to consider carefully – for each municipality – the impacts on property rates of removing user charges.

There are implications for the overall fiscal viability of municipalities, and for the cost of living in their jurisdictions. For example, Louis Trichardt and Reddersburg both have a low average household account for property rates and very high charges for electricity. Therefore, it is likely that charges for electricity are subsidising services that would normally be funded by property rates.

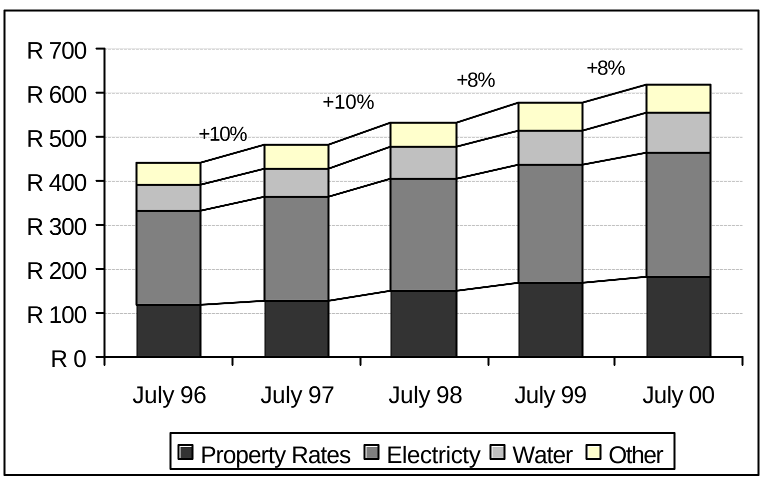
Figure 9.7: Breakdown of aggregate household account, July '00



The trend shows declining increases

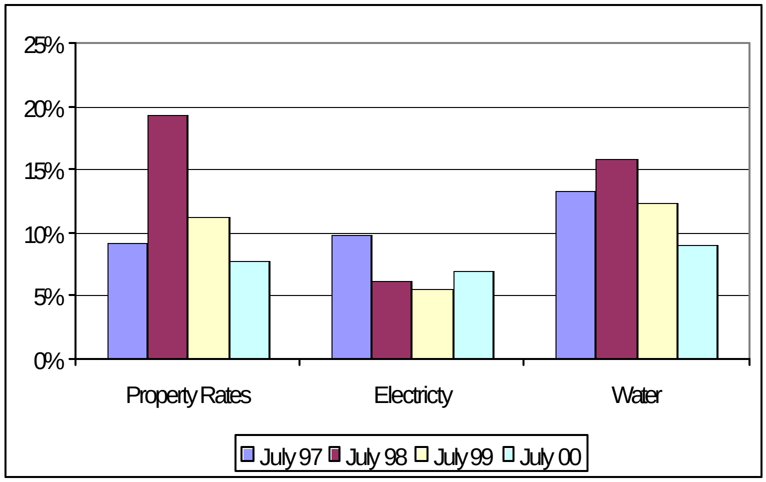
The average trend regarding increases in household accounts, for these 12 municipalities, is shown in figure 9.8. The average monthly accounts increased by 10 percent per annum from 1996 to 1998, and slowed to 8 percent per annum in the following two years. However, of concern is that these increases have been above the rate of inflation and negatively affect government inflation targets.

Figure 9.8: Average monthly household account



In similar vein, figure 9.9 shows a recent decline in the annual percentage increase applied to major components of the average monthly household account. This can be attributed mainly to capping of expenditure and revenue limits by Government.

Figure 9.9: Increases in major components of household accounts

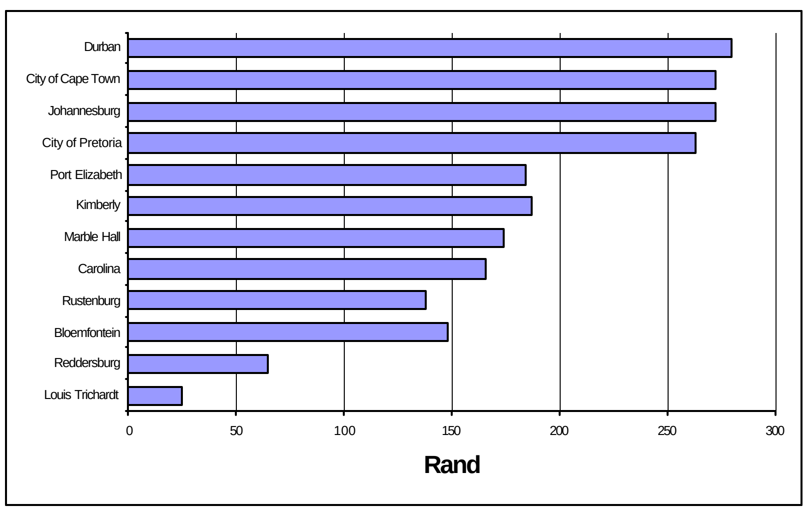


Property Rates

Property rates vary widely

Monthly property rates in 2000 in the surveyed municipalities (for a 1 000 m^2 erf with 150 m^2 of improvements) ranged from a high of R280 in Durban to a low of R25 in Louis Trichardt. This is illustrated in figure 9.10. The major metropolitan areas reported property rates of about R270 per month. Actual property rates are determined by valuations and by the level of the rate. Some valuations consider land value only while others are assessed at land value plus improvements.

Figure 9.10: Monthly property rate charges, 2000

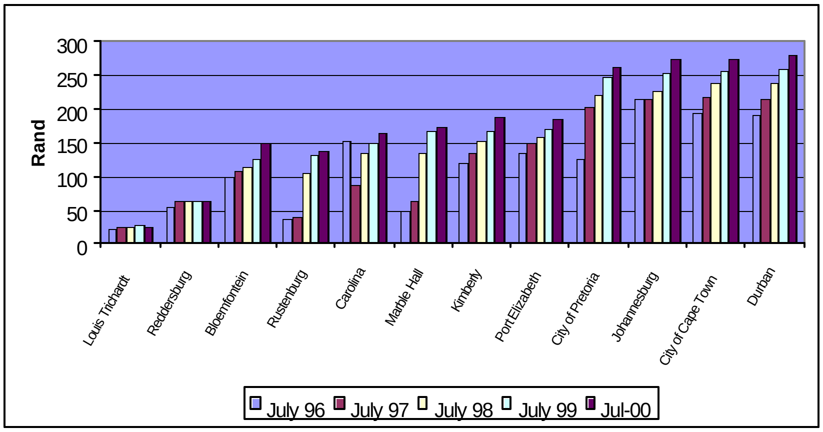


Costs and benefits of system change

There is currently no generally accepted benchmark for property rates. The fiscal effort required to implement a comprehensive rating system is often greater than the fiscal capacity to do so. That is, it may be easier for a municipality to rely on established systems for collecting electricity fees than to develop and maintain a complex property rating system. This is true not only of decisions around property rates, but also applies to a number of service delivery areas. The result is a wide range of property rates and service charges.

Figure 9.11 shows most of the sample municipalities have had steady upward trends in property rate charges.

Figure 9.11: Trends in monthly property rate charges, 1996-2000

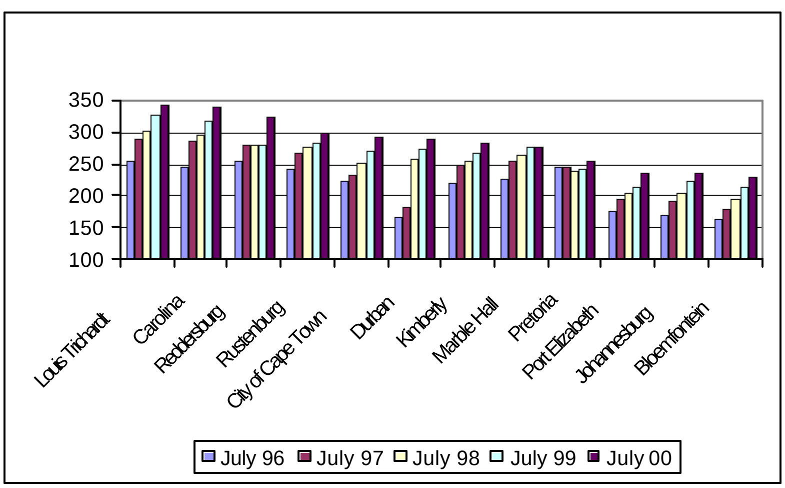


Domestic Electricity

Electricity needs careful assessment

Figure 9.12 presents trends in the monthly domestic charges for 1 000 units of electricity. Louis Trichardt, which has the lowest property rates among the selected municipalities, has the highest electricity charges. These higher charges may be due to higher costs to provide electricity, inefficiencies in service delivery or because electricity may be used to generate a surplus to keep property rates low, effectively taxing consumption of services rather than property.

Figure 9.12: Trends in monthly electricity charges, 1996-2000



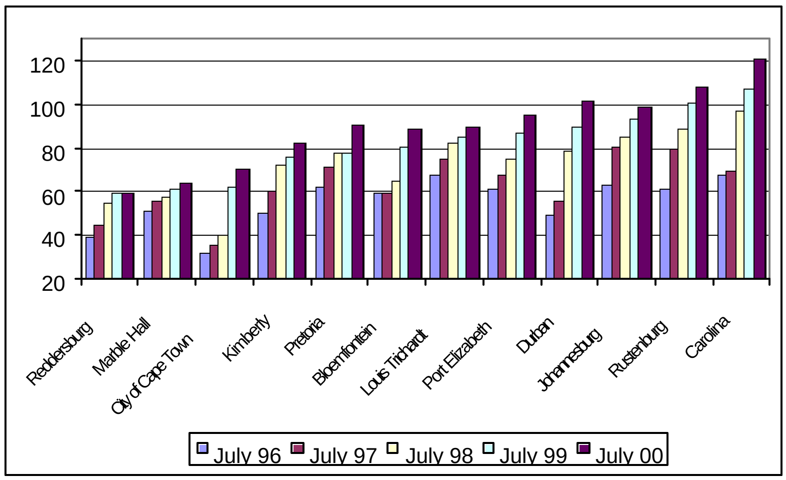
This type of complexity must be considered when the restructuring of the electricity industry is planned. Different municipalities will be affected differently, and the fiscal implications for each as well as for the broader service delivery system, must be carefully assessed.

Domestic water

Upward trends in water tariffs

Monthly charges by municipalities for 30 kilolitres of water in the selected municipalities range from a high of R121 in Carolina to a low of R60 in Reddersburg. But figure 9.13 also shows an upward trend in these charges, across the range of sample municipalities. As discussed in chapter 8, this is probably mainly due to high input costs for bulk water, and the impact of the integration of black and white residential areas as well as the introduction of subsidies to poor households.

Figure 9.13: Trends in monthly water charges (30 kl), 1996-2000



Household accounts in 'townships'

'Township' accounts generally different

Historically, data has been gathered that reflects typical middle class residential settlements. The comparisons and analysis above is based on this type of dwellings due to the availability of data. However, below is a tentative analysis of a typical 'township' dwelling.

The sample, reflected in table 9.5, provides an example of monthly charges in an average domestic stand in selected townships in Johannesburg for 2001-02. The figures are generally not substantially lower than those in typical 'middle class' areas.

The previous and new value for land is shown as well as rates charged under the old system and in terms of the new system for the 2001-02 budget year. While the assessed value has increased substantially in most cases, the municipality has made all stands less than R20 000 exempt from property rates. Hence, no rates are payable in any of the townships in the selected sample.

Historically, with regard to electricity, Eskom supplied certain suburbs whilst others were serviced by the municipality. This anomaly still continues and therefore some figures in table 9.5 are blank. While average costs have been difficult to ascertain, it is estimated that Eskom charges are slightly higher than electricity charges by the city. This lack of certainty with the data is an area that will be followed up for the next *Review*.

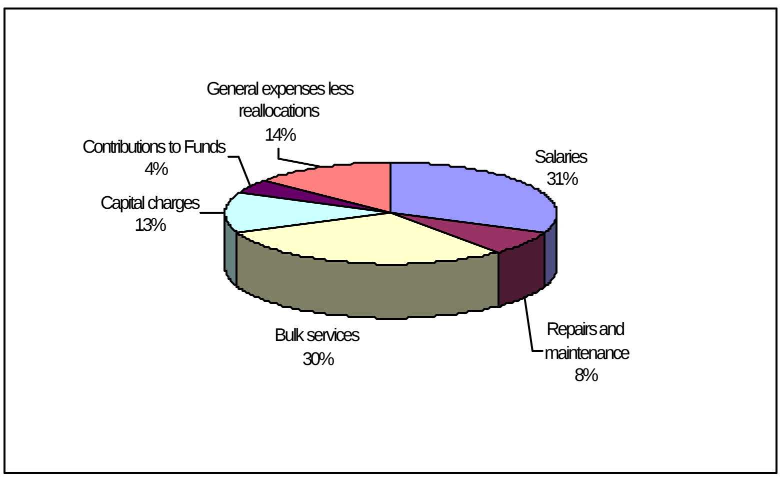
Table 9.5: Some Johannesburg 'township' charges (R's), '01-02

Township	Land Value Previous	Land Value New	Rates Old	Rates New	Elec.	Water	Refuse	Sewer
Alexandra East Bank	30,000	11,000	82,32	0,00	225,81	52,90	32,50	67,00
Chiawelo	7,500	11,920	20,58	0,00	–	52,90	18,40	34,00
Dobsonville	12,000	19,816	32,93	0,00	–	52,90	18,40	34,00
Doornkop	10,000	16,570	27,44	0,00	–	52,90	32,50	67,00
Drieziek	7,000	15,312	19,21	0,00	–	52,90	18,40	34,00
Dube	7,000	12,362	19,21	0,00	–	52,90	18,40	34,00
Jabavu	5,500	5,575	15,09	0,00	–	52,90	18,40	34,00
Jabulani	7,000	17,112	19,21	0,00	–	52,90	18,40	34,00

Municipal expenditure

Municipalities projected R43,1 billion in operating expenditures in 1999-00. Figure 9.14 shows the breakdown of these expenditures.

Figure 9.14: Operating expenditure, 1999-00



Salary and Wage Issues

Salary increases outpaced inflation

Salaries continue to take up a large portion of municipal expenditure. Increases in salaries are due in part to central bargaining agreements with municipal employee unions at national level, and have continued to outstrip inflation over the past four years.

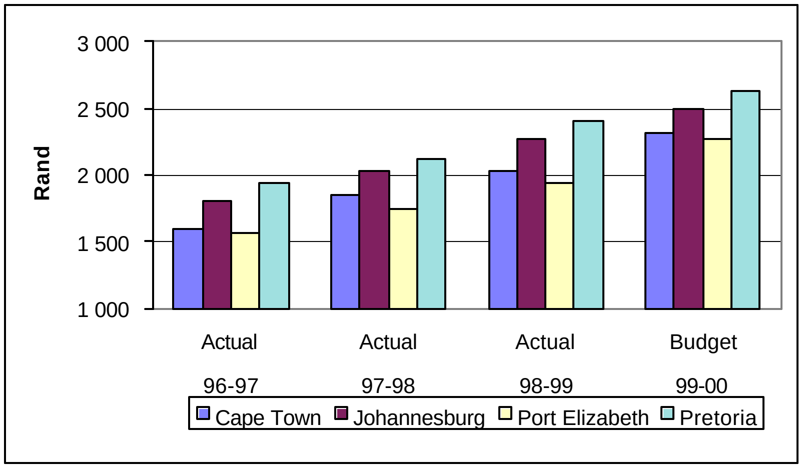
Other topical issues in relation to municipal salaries and wages include total salaries and wages costs as a percentage of total expenditure; the gap between the highest and lowest paid employees;

and the impacts of attempting to achieve salary parity in newly demarcated municipalities. These issues are considered in chapter 8.

Salary growth exceeded budget growth

The average monthly minimum wage for four municipalities is shown in figure 9.15. In the four cities, the average monthly minimum wage increased by 12 percent per annum from 1996-97 to 1998-99, and 13 percent in 1999-00. This is a cumulative increase over the four years of 41 percent. Over the same period, the increase in the total budgets for these municipalities amounted to 29 percent.

Figure 9.15: Average monthly minimum wage, 1996-2000

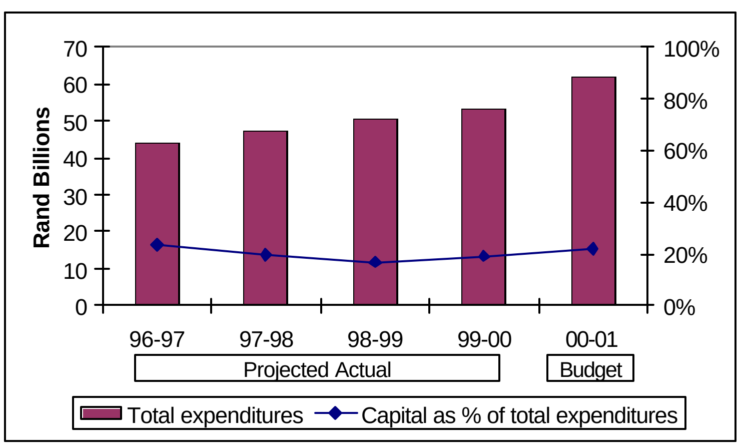


Capital Expenditure

Capital Spending has declined

After expenses incurred in purchasing bulk electricity and water, the next major expenditure item is capital projects. Figure 9.16 and table 9.6 show that capital expenditure as a percentage of total expenditure declined from 1996/97 to 1998/99, with a slight increase in 2000/01.

Figure 9.16: Capital as percentage of total expenditure



However, as discussed under table 9.1, the actual amount spent will probably be lower. This decline in spending on capital infrastructure is a result of financial problems at the municipal level, as increasing operating expenditure and rising non-payment of rates and charges crowd out capital expenditure. Moreover, long-term lending to municipalities by the private sector, an important source of funds for capital projects, has stagnated. As Chapter 11 shows, this has further reduced municipalities' ability to finance capital infrastructure.

Table 9.6: Capital backlogs and deferred maintenance, 1997-2000

	Pretoria			Port Elizabeth		
Roads	**1997-98**	**1998-99**	**1999-00**	**1997-98**	**1998-99**	**1999-00**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Actual Operating Expenditure	92 187	132 254	171 534	54 767	55 945	59 708
Actual Operating Income	2 801	2 194	5 677	4 624	7 285	3 628
Actual Annual Maintenance	66 769	67 307	64 769	25 961	28 686	31 359
Estimated Deferred Annual Maintenance	19 500	22 400	25 800	1 054	3 073	3 496
Actual Capital Expenditure	153 100	110 900	49 600	12 202	25 202	29 174
Estimated Backlog of Capital Expenditure	61 000	15 300	12 400	12 208	8 448	12 000
	Km	**Km**	**Km**	**Km**	**Km**	**Km**
No. of new KMs of Tarred Road this Year	13	254	22	13	15	23
Total KMs of Tarred Road at Year End	3 054	3 308	3 330	2 052	2 067	2 090
No. of new KMs of Gravel Road this year	2	21	24	21	25	77
Total KMs of Gravel Road at Year End	191	212	235	470	495	572
Electricity	**1997-98**	**1998-99**	**1999-00**	**1997-98**	**1998-99**	**1999-00**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Actual Operating Expenditure	846 914	976 679	984 695	528 617	534 686	579 319
Actual Operating Income	1 095 574	1 219 311	1 269 963	554 496	561 742	584 282
Actual Annual Maintenance	135 059	146 806	126 827	8 844	12 256	11 929
Estimated Deferred Annual Maintenance	145 278	150 623	144 319	–	–	–
Actual Capital Expenditure	53 300	49 800	48 300	49 636	51 350	45 385
Estimated Backlog of Capital Expenditure	75 200	62 600	47 100	–	–	–
	No.	**No.**	**No.**	**No.**	**No.**	**No.**
New Household Connections this Year	5 765	1 860	1 332	5 047	4 779	5 701
Total Households Connected at Year End	188 392	186 532	185 200	145 470	150 249	155 950
Total Households with No Connection at Year End	na	na	na	2 948	2 359	2 549
Water	**1997-98**	**1998-99**	**1999-00**	**1997-98**	**1998-99**	**1999-00**
	R'000	**R'000**	**R'000**	**R'000**	**R'000**	**R'000**
Actual Operating Expenditure	256 104	286 455	328 300	104 457	118 650	130 551
Actual Operating Income	273 515	327 329	386 035	103 606	115 443	141 542
Actual Annual Maintenance	28 289	29 267	35 715	22 998	27 215	29 713
Estimated Deferred Annual Maintenance	37 918	32 024	34 028	21 495	23 883	25 960
Actual Capital Expenditure	31 400	19 400	17 400	12 562	19 326	14 034
Estimated Backlog of Capital Expenditure	26 600	15 300	15 200	1 770	19 950	2 013
	No.	**No.**	**No.**	**No.**	**No.**	**No.**
New Household Connections this Year	15 812	1 949	407	4 087	11 089	12 884
Total Households Connected at Year End	127 982	129 931	129 524	77 000	88 089	100 973
Total Households with No Connection at Year End	na	na	Na	40 000	35 000	32 000

The trends in table 9.6 show actual capital expenditure and annual maintenance to be either declining or relatively stable. While estimated backlogs and deferred maintenance seemed stable or falling, they still indicate a substantial need for expanding service delivery.

Furthermore, these figures may change when asset registers are completed and all assets are valued according to generally accepted municipal accounting practices.

Operating expenditure by functional classification

Historically, information collected for municipal areas of expenditure (at a national level) has not been aggregated with any degree of certainty. This is because the 843 municipalities had many varied classification systems.

Reforms are addressing the information gap

The new financial and budget reforms are addressing this information gap. It is expected that trend data will be built up over time. Coupled with output performance measures for service delivery levels, this will assist policy decisions in all spheres of government.

Case study on expenditure by functional classification

Three metros analysed

Table 9.7 shows the 2001-02 operating expenditure budgets of three metropolitan municipalities split into the major functional classifications required under the new budget reforms. As the reforms are still in early stages, some adjustments had to be made to the submitted figures in order to facilitate more accurate classification. This is because business units and functional areas of municipalities are still adapting to the new reporting requirements.

Table 9.7: Operating expenditure functional classification's, '01-02

Functional Operating Exp	Johannesburg		Cape Town		Tshwane		Total	
	Rm	%	Rm	%	Rm	%	Rm	%
Electricity	2 814	*30,2*	2 024	*29,6*	1 447	*31,4*	6 285	*30,3*
Water & Sanitation	2 064	*22,1*	1 054	*15,4*	854	*18,5*	3 972	*19,1*
Finance & Admin	924	*9,9*	507	*7,4*	397	*8,6*	1 828	*8,8*
Public Safety	639	*6,9*	540	*7,9*	386	*8,4*	1 565	*7,5*
Roads Stormwater & drainage	552	*5,9*	473	*6,9*	292	*6,3*	1 317	*6,3*
Refuse	480	*5,2*	344	*5,0*	232	*5,0*	1 056	*5,1*
Exec & Council	360	*3,9*	172	*2,5*	337	*7,3*	869	*4,2*
Parks & Recreation	300	*3,2*	371	*5,4*	131	*2,8*	802	*3,9*
Community Services	283	*3,0*	342	*5,0*	120	*2,6*	745	*3,6*
Housing	189	*2,0*	216	*3,2*	46	*1,0*	451	*2,2*
Transport	206	*2,2*	286	*4,2*	85	*1,8*	577	*2,8*
Planning & Development	139	*1,5*	208	*3,0*	129	*2,8*	476	*2,3*
Health	196	*2,1*	252	*3,7*	90	*2,0*	538	*2,6*
Other	173	*1,9*	52	*0,8*	64	*1,4*	289	*1,4*
Total	9 319	*100,0*	6 841	*100,0*	4 610	*100,0*	20 770	*100,00*

The average percentage of expenditure for each functional area for the three sample municipalities – illustrated in figure 9.17 – gives an indication of where a large metropolitan municipality spends its operating budget in 2001-02.

In brief the following points should be noted:

?? Electricity distribution is the largest area of expenditure and accounts for almost a third of total operating expenditure. This is why restructuring of the electricity industry would have a marked impact on municipal finances.

?? Water and sanitation is the next largest function comprising 19,12 percent of operating expenditure. This is especially significant considering that one of the major pricing pressures on local government is above inflation increases in bulk prices for water.

?? The rest of expenditure categories fall below 10 percent each. Finance and administration represents organisational support costs including financial services, information technology, human resources and administration, and collection of rates and other revenues. A review of activity based costing methodologies would most likely lead to more costs being allocated to the functions receiving the services. The Executive Committee and Council (4,18 percent) essentially represents governance costs for the municipality.

?? Public safety (7,53 percent) relates mainly to local policing and ambulance services. Roads, storm water and drainage (6,34 percent) relates to maintenance and operation of the major infrastructure assets and this function would normally also account for a significant proportion of the capital budget. Refuse collection and disposal accounts for 5,08 percent of operating expenditure while maintenance and operation of parks and recreational facilities make up 3,86 percent.

?? While the remaining functional areas each account for around 3 percent of the budget or less, this does not diminish their importance. Functions like Community Services, Housing, Public Transport and Health are crucial to redistribution and providing basic services.

Comparisons are difficult

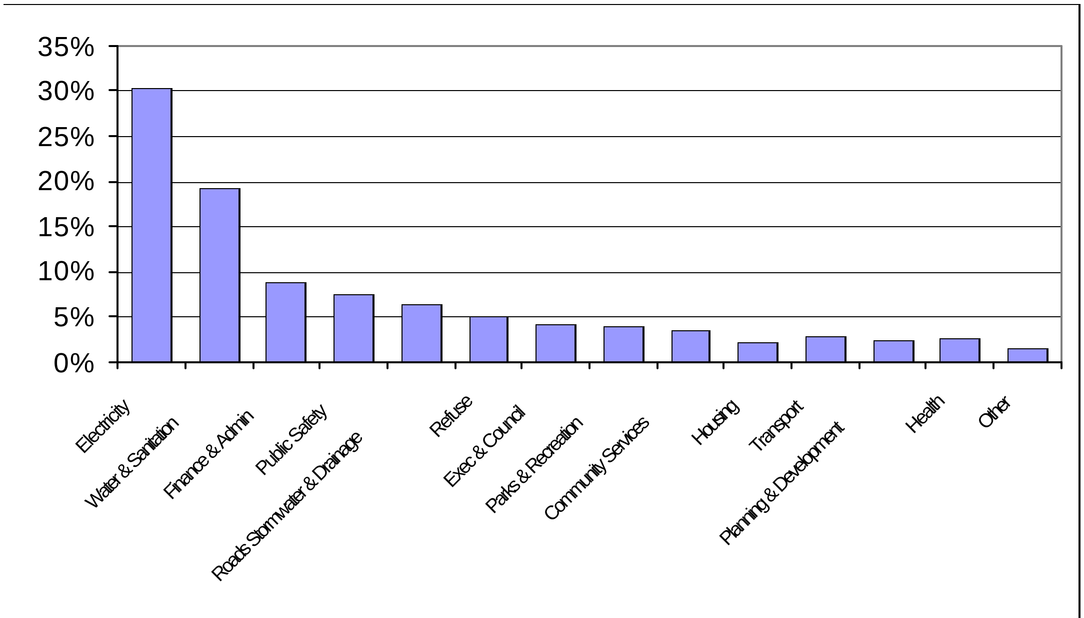
On the whole, however, it is still difficult to compare the functional expenditures of municipalities for a number of reasons:

?? Different municipalities use different costing methods. That is, indirect costs are allocated to functions in different ways, and not always equally clearly reflected. Standardised activity based costing methods, as proposed under the reforms, would enhance comparability.

?? Different municipalities may each place a different emphasis on service delivery levels in various functions due to unique local circumstances. These circumstances could include variations in demographics, geography, economic development and local politics.

?? Municipalities are at different levels of reform. Their systems may not have been completely adapted to provide information on the standardised functional areas in a uniform manner as required by the reforms.

Figure 9.17: Average percentage split by functional classification (Jhb, C. Town, Tshwane)



Conclusion

As mentioned earlier, it is too early to capture sound budget data for the newly demarcated municipalities. The next *Review* will provide such information and analysis. This overview nonetheless highlights trends with relevance to budget management during transformation.

Basic service delivery suffers as municipalities face various budget challenges. Operating expenditures, and especially the share of salaries in the expenditure figures, continue to be high. Capital expenditure declined as a percentage of total spending. Revenue from property rates, electricity, water and other significant sources steadily increased, as did outstanding debtors. But many municipalities find it difficult to collect revenue effectively, and the pricing, planning for, and management of revenue must be priorities. Inadequate information undermines budgeting, and makes benchmarking, comparisons, and tracking of funding flows, difficult.

Reforms are necessary in both the contents and formats of budgets. This should increase the availability and accuracy of information on municipal finances. Trend analysis will also improve over the next few years. These reforms will increase transparency at the local level and provide elected office bearers, citizens and financial institutions with a better understanding of the financial position of municipalities. Improved financial management, in turn, will facilitate more effective allocations to the service needs of communities.

10

Transfers to local government

Intergovernmental transfers to local government make up a small yet important component of total municipal revenue. They help municipalities meet the challenge of ensuring that all South Africans have access to basic services, such as water and sanitation, a reliable energy source, and refuse removal.

Subsidising services to poor households has recently been accorded increased attention in government policy. While municipalities themselves perform the central role in implementing the free basic services commitment, transfers from national government provide a significant portion of the financial resources necessary to do so. The 2001/02 year also saw the introduction of the Local Government Transition Grant to assist municipalities with the costs associated with amalgamation following the redrawing of municipal boundaries[1].

This chapter outlines how the transfer system works. It presents basic data and examines the effectiveness of expenditure. It should be noted that the assessment is constrained by data limitations. In particular, historical data at a municipal level for both actual allocations to municipalities and the quantum of actual municipal expenditure is often unavailable, inaccurate, or outdated due to recent changes to municipal boundaries.

The context of allocations to local government

On average, municipalities have sufficient revenue raising powers to fund the bulk of their expenditure, and finance over 90 percent of their recurrent expenditure out of own revenues. Two key points should be stressed here.

Functions of local government

First, this situation is a function of the specific role and powers of municipalities in South Africa. Unlike many other countries, where transfers typically contribute between 30 and 50 percent of municipal revenue, South African local government is not responsible for large tax-funded social services. Here, for example, health and education are provincial responsibilities. Over 60 percent of local government

[1] The 2000 *Intergovernmental Fiscal Review* contained detailed information on the role and design of individual grant programmes. This assessment does not repeat that detail. Up to date information on the design of each municipal transfer programme is available in Government Gazette No's. 22304 of 15 May 2001 and 22350 of 31 May. 2001 respectively, and are also available on the National Treasury's website (www.treasury.gov.za).

revenue is derived from utility services (water, sanitation, power), that generate their own revenues and are self-funding.

Differences between municipalities

Second, the aggregate situation disguises many differences between municipalities. In general, rural municipalities are more reliant on intergovernmental transfers than are urban ones. This is examined later in this chapter. The equitable share formula – based on the number of households in poverty – has been designed specifically to take these differences into account. However, national government expects all municipalities to improve the collection of their own revenue. Municipalities failing to collect their own revenue will not be bailed out by national government.

The role of national transfers to municipalities

Conditional and unconditional transfers

Revenue is shared through a system of intergovernmental national transfers, consisting of both unconditional transfers (primarily the equitable share) and conditional grants. These transfers, together with own revenue, make up the resources available to each sphere. Revenue-sharing is an integral element of cooperative governance, and requires the systematic involvement of all three spheres.

National government allocated over R6,5 billion to municipalities in the 2001/02 financial year. These allocations are made annually in the national budget, with allocations to individual municipalities regulated by the annual Division of Revenue Act. Transfers from provincial governments supplement those from national government to municipalities. The Division of Revenue Act also regulates these provincial transfers, with obligations and allocations to individual municipalities to be gazetted by the province.

Three categories of transfers

National transfers to local government, as shown in figure 10.1, can be analysed in three broad categories, namely:

?? The equitable share and related transfers constitute 57 percent of the total allocation to the local sphere and are made up of three grants. The "core", formula-driven equitable share allocation is the most significant. The other programmes are the Local Government Transition Fund and the Water Services Operating Grant.

… infrastructure

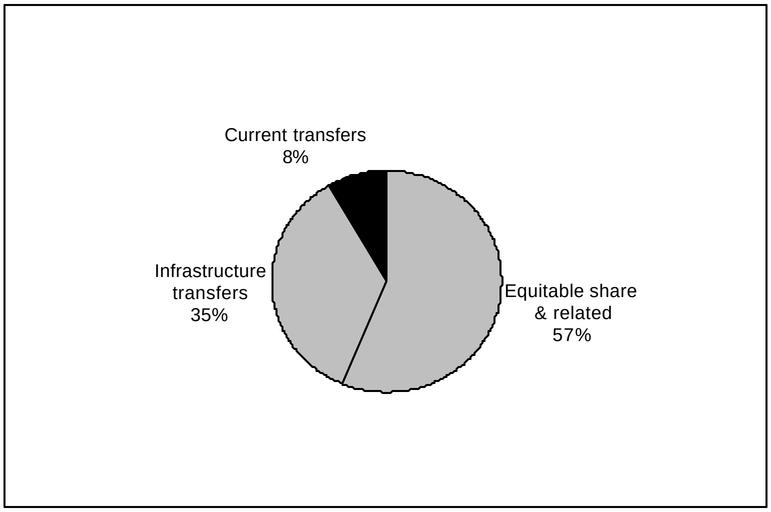
?? Municipal infrastructure transfers constitute 35 percent of the total allocation and are delivered through eight different programmes. Of these, the Consolidated Municipal Infrastructure Programme (CMIP) and the Implementation of Rural Water Services Projects make up the largest proportion.

… capacity development

?? Recurrent transfers to support municipal capacity development and restructuring constitute 8 percent of the total allocation. This includes two grants that support municipal restructuring and two grants supporting the enhancement of municipal capacity.

In keeping with government's service delivery and poverty alleviation objectives, the bulk of these transfers are targeted towards areas with large numbers of poor or under-serviced households.

Figure 10.1: Composition of allocations (projected 2000/01)



The division of revenue

The vertical division

Growth in local government share

Local government is set to receive an increasing percentage of national revenue. The growing share results from the increasing priority given to basic service delivery by local government. Table 10.1 presents the basic data. Minor discrepancies may continue to exist between these figures and those provided elsewhere in the *Review*. This is due to the finalisation of provincial accounts and the recording of the Local Government Support Grant in both the provincial and local shares. This grant is transferred through the provinces.

Table 10.1: Vertical division of revenue

R millions	Actual 1995/96	Actual 1996/97	Actual 1997/98	Actual 1998/99	Actual 1999/00	Projected 2000/01	Budget 2001/02	Budget 2002/03	Budget 2003/04
National government	47 124	53 967	58 204	60 926	65 974	74 459	84 245	89 862	95 302
Provincial government	71 465	83 213	86 875	93 134	98 962	108 767	117 388	126 564	135 222
Local	3 905	5 150	6 049	4 687	4 669	5 637	6 547	7 246	7 978
Total	**122 494**	**142 330**	**151 128**	**158 747**	**169 605**	**188 863**	**208 180**	**223 672**	**238 502**
Percentage shares									
National share (%)	*38,5*	*37,9*	*38,5*	*38,4*	*38,9*	*39,4*	*40,5*	*40,2*	*40,0*
Provincial (%)	*58,3*	*58,5*	*57,5*	*58,7*	*58,3*	*57,6*	*56,4*	*56,6*	*56,7*
Local (%)	*3,2*	*3,6*	*4,0*	*3,0*	*2,8*	*3,0*	*3,1*	*3,2*	*3,3*
Total	***100,0***	***100,0***	***100,0***	***100,0***	***100,0***	***100,0***	***100,0***	***100,0***	***100,0***

Total allocations to local government have been fairly volatile, and peaked at R6 billion in 1997/98 before falling to R4,7 billion in the subsequent year. This volatility was due to the introduction and subsequent dissolution of the RDP fund. There is, however, some doubt as to whether all these funds actually accrued to municipalities, as the transfers were seldom reflected on municipal budgets and may have been used to build assets not fully reflected in local government asset registers. These transfers may also have continued after 1997 in the form of grants-in-kind or transfers from provincial own revenue.

Transfers set to increase 11% per annum

The period from 1998/99 has seen a recurrence of the strong growth in transfers to the municipal sphere. From 1995/96 to 1997/98 transfers grew by over 30 percent per annum, on average, and from 1998/99 to 2001/02, by an average, of R784 million, or 17 percent a year.

The local government share of nationally raised revenue increased from 2,8 to 3,1 percent. This trend is projected to continue into the medium-term. Local government's share will be rising by 11 percent a year in real terms, a faster increase than the allocations to other spheres of government, albeit off a low base.

Provincial transfers to local government

Provincial transfer information improving

Transfers to municipalities from provincial own revenue are made at the discretion of the province concerned. They reflect service delivery arrangements for provincial functions such as primary health care, road maintenance and library services.

Little information is available on the extent or focus of transfers to municipalities from provincial own revenue. The Division of Revenue Act, 2001, requires provinces to publish detailed information on these transfers for the current financial year. Preliminary estimates of provincial transfers are shown in the table below.

Provincial transfers fund agency functions

Table 10.2 indicates that R1,2 billion is scheduled to be transferred in the current financial year. Transfers for community health and emergency services functions account for 75 percent of these transfers.

Table 10.2: Provincial transfers to municipalities in 2001/02

R'000	Community health	Roads	Rental Housing	Sports devt	Disaster & Emergency Services	Municipal Basic Services	Admin. Assistance & planning	Libraries	LED	Enviro. Conserv	Total 2001/02
Eastern Cape	123,885	–	–	–	81,008	–	–	–	–	11,911	–
Free State	64,978	–	–	–	–	–	–	–	–	–	64,978
Gauteng	178,135	–	1,623	326,708	128,200	–	–	–	–	250	634,916
Kwazulu Natal	41,715	1,399	–	–	–	–	–	12,700	1,000	1,803	58,617
Mpumalanga	33,429	–	–	–	1,887	–	4,755	–	1,696	–	41,767
North West	31,023	–	–	–	6,000	78,280	10,000	–	–	–	125,303
Northern Cape	3,222	34,830	–	–	–	–	–	–	–	889	38,941
Northern Province	–	–	–	–	–	–	–	–	–		–
Western Cape	141,576	15,200	–	2,600	71,760	1,500	4407	5932	–	3,000	245,975
Total	**617,963**	**51,429**	**1,623**	**329,308**	**288,855**	**79,780**	**19,162**	**18,632**	**2,696**	**17,853**	**1,210,497**
% total	**51%**	**4%**	**0%**	**27%**	**24%**	**7%**	**2%**	**2%**	**0%**	**1%**	**100%**

The horizontal division of allocations to local government

The horizontal division of allocations between programmes has also shifted considerably since 1995/96, due to the consolidation of transfer programmes and phasing out of others. This reflects the priority placed on basic municipal service delivery and is shown in table 10.3.

The programmes listed in the table have been classified into three broad categories that reflect the intention to restructure the system of transfers to municipalities. These categories are the local government equitable share and related transfers, transfers for municipal infrastructure and transfers to support recurrent municipal expenditure. They exclude transfers made from a provincial government's own revenue.

Changes in composition of allocations

The composition of these categories has also changed significantly:

- ?? The equitable share rose from 38 percent of the total allocation in 1995/96 to 62 percent in 1999/2000, and thereafter declined to 56 percent. It is projected to stabilise over the medium-term. Infrastructure transfers grew to 41 percent of the total in 1997/98, before declining to 35 percent by 1999/2000. Again, this category is projected to stabilise at this level over the medium-term.
- ?? Recurrent transfers declined dramatically from 42 percent of the total allocation in 1995/96 to 3percent in 1999/2000, before rising to 8 percent in 2000/01, likely to stabilise over the medium-term.

Transfers occurred primarily through provinces until 1998/99, when the equitable share was introduced. However, provincial transfers continue to exist, as shown in table 10.2.

Trends in categories of allocations

Allocations remain volatile

Figure 10.2 shows volatility in all categories of transfers, although the equitable share has always registered positive annual growth in the period under review, at an average of 10 percent annually. Nominal allocations for this category have grown by over R2 billion from 1995/96 to R3,5 billion in the current financial year.

The bulk of this growth has occurred within the "core" constitutionally guaranteed equitable share transfer to local government, introduced in 1998/99. This trend reflects the significance attached to equitable share transfers in South Africa's emerging intergovernmental fiscal system.

Consolidation of programmes

The ongoing effort to consolidate a large number of small transfer programmes into a smaller number of large programmes is evident in table 10.3. This is necessary to ensure equity and transparency and to align grant programmes to Government's policy priorities. Streamlined transfers also limit the risk of undue intrusions into local resource allocation processes, and erosion of the democratic accountability of a municipality to its residents. There are also functional benefits, such as linking funding for different types of infrastructure into an integrated package that serves a range of community needs.

Table 10.3: Allocations to local government by programme

R'm	Actual 1995/96	Actual 1996/97	Actual 1997/98	Actual 1998/99	Actual 1999/00	Projected 2000/01	Budget 2001/02	Budget 2002/03	Budget 2003/04
Equitable share (incl IGGs)	830	806	903	1 024	1 673	1 867	2 618	3 002	3 551
R293 personnel	560	864	883	951	463	463	–	–	–
R293 transfer	86	80	68	–	40	–	–	–	–
Transition grant	–	–	–	–	–	100	250	200	–
CWSS (Operating)	0	497	493	599	710	746	692	644	662
Equitable share & related	1 476	2 247	2 347	2 574	2 886	3 176	3 560	3 846	4 213
% increase	–	*52%*	*4%*	*10%*	*12%*	*10%*	*12%*	*8%*	*10%*
% of total allocation	*3 8%*	*44%*	*39%*	*55%*	*62%*	*56%*	*54%*	*53%*	*53%*
Agency transfers	78	82	78	–	–	–	–	–	–
Traditional subsidies	23	26	48	–	–	–	–	–	–
Other	48	162	45	–	–	–	–	–	–
CMIP (incl MIP, EMIP, BCIG)	126	540	846	702	696	883	994	1 159	1 407
Implement Water Services Projects	496	321	919	1 016	626	609	822	818	835
Community based public works	–	–	–	152	274	374	374	374	374
Building for Sports & Rec. prog.	–	–	–	–	–	–	40	90	130
LED Fund	–	–	–	–	5	104	76	99	127
Urban Transport Fund	–	–	202	37	30	22	81	40	42
Infrastructure transfers	771	1 131	2 138	1 908	1 632	1 992	2 387	2 580	2 915
% increase	–	*47%*	*89%*	*-11%*	*-14%*	*22%*	*20%*	*8%*	*13%*
% of total allocation	*20%*	*22%*	*35%*	*41%*	*35%*	*35%*	*36%*	*36%*	*37%*
Agency transfers	956	1 074	1 073	–	–	–	–	–	–
Traditional subsidies	59	98	85	–	–	–	–	–	–
Other	643	600	258	–	–	–	–	–	–
Land development objectives	–	–	3	24	14	44	–	–	–
Municipal systems improve prog.	–	–	–	–	–	–	30	30	30
Financial management	–	–	–	–	–	50	60	120	125
LG support grant	–	–	145	181	137	150	160	220	230
Restructuring grant	–	–	–	–	–	225	350	450	465
Current transfers	1 658	1 772	1 564	205	151	469	600	820	850
% increase	–	*7%*	*-12%*	*-87%*	*-26%*	*211%*	*28%*	*37%*	*4%*
% of total allocation	*42%*	*34%*	*26%*	*4%*	*3%*	*8%*	*9%*	*11%*	*11%*
Total	**3 905**	**5 150**	**6 049**	**4 687**	**4 669**	**5 637**	**6 547**	**7 246**	**7 978**
% increase	–	*32%*	*17%*	*-23%*	*0%*	*21%*	*16%*	*11%*	*10%*

Notes: Figures exclude some agency payments for health and public works functions, transfers from provincial own revenue after 1997/98, as well as non-cash support to municipalities. Figures differ from those in the 2001 Budget review due to the inclusion of the Building or Sports and Recreation Programme and revised projections for 2000/01 expenditure.

Sustainable local control

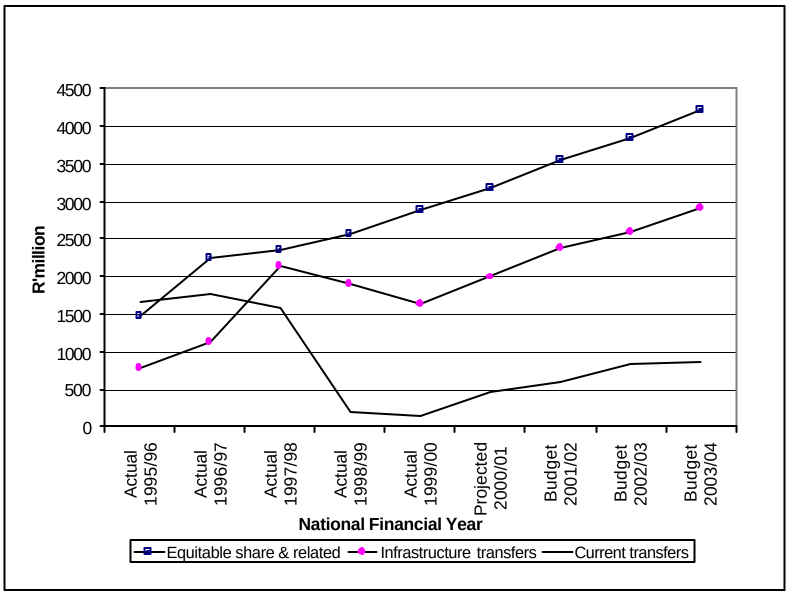
The consolidation programme has a number of dimensions. With regard to the equitable share, ad hoc transfers to support municipal service delivery are phased into the equitable share. This will enhance the significance of the "core" equitable share over the medium-term. In particular this will be achieved through phasing out the water services operating subsidy, currently funded via an augmentation to the Water Services Trading Account on the vote of the Department of Water Affairs and Forestry. Infrastructure programmes are also being merged into a single municipal infrastructure grant. The aim is to improve the predictability of these transfers and ensure that investment decisions are sustainable over the life-cycle of assets created. Municipalities will increasingly decide on the type of infrastructure developed and the level of service provided, in line with their ability to operate and maintain assets.

Growth in infrastructure transfers

Municipal infrastructure transfers have grown by R1,6 billion in nominal terms from 1995/96 to R2,4 billion in the current financial year, representing an average annual growth of 35 percent. There has been much restructuring of agency transfers and traditional subsidies, which were biased towards formerly white municipalities.

Phasing out of the RDP fund left an impact in the water services capital programme, which experienced a 39 percent decline between 1998/99 and 1999/2000. More recently, infrastructure transfers have experienced renewed growth at an annual average of 31 percent between 1999/2000 and 2001/02. This is projected to slow over the medium-term, at which point infrastructure transfers will have recovered to near levels last seen in 1997/98. A programme of consolidating infrastructure transfer programmes is being implemented over the medium-term.

Figure 10.2: Local Government transfers (1995/96 to 2003/04)



Capacity building support

Transfers to support municipal capacity building and restructuring programmes, classified here as recurrent grants, are the smallest and most volatile component of local government transfers. The local government support and restructuring grants encourage municipalities to proactively address the causes of fiscal distress. The Municipal Systems Improvement Programme and Financial Management Grant assist them to build strategic, developmentally oriented management systems.

These transfers have historically been disbursed on an ad-hoc and relatively opaque basis to municipalities, mostly through provinces.

They have tended to overlap with the objectives of other categories of transfers, particularly the equitable share. The redefinition of the role of national and provincial government in local government matters led to a sustained decline of over R1,5 billion in these allocations between 1995/96 and 1999/2000. This was an average annual decline of 31 percent, and transfers dropped to a mere R151 million. However, this category of allocations grew by 20 percent in 2000/01 with the introduction of targeted new grant programmes to support transition. Average annual growth of 17 percent is projected in this category over the medium-term, as the full range of initiatives to support local government transformation is unveiled.

The distribution of transfers among categories of municipalities

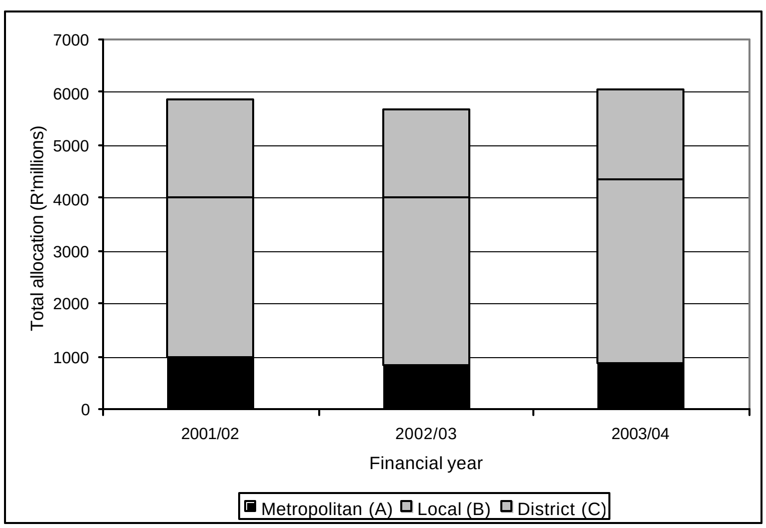
Funds follow function

Funds are allocated to municipalities based on the functions they perform and the extent of service delivery challenges they face. In most instances municipalities are allocated funds on the basis of a formula, although they may be required to submit business plans.

Transfers benefit non-metropolitan areas

Figure 10.3 indicates that non-metropolitan municipalities receive 83 percent of all transfers. This is projected to grow to 86 percent over the medium-term. In non-metropolitan areas the bulk of allocations are directed to Category B (local) municipalities, which receive 52 percent of all allocations. This is projected to grow to 58 percent by 2003/04 and is mirrored by a decline in the proportion received by both Category A (metropolitan) and Category C (district) municipalities. The allocations to Category B municipalities are dominated by the equitable share, which is not allocated directly to district municipalities. Allocations to district municipalities are dominated by infrastructure transfers, as the bulk of such programmes target these municipalities only.

Figure 10.3: Allocation by category of municipality



Transfers may differ from allocations

The actual outcome of these transfers may differ significantly from allocations made if a transfer of funds occurs between Category B and

C municipalities. Some Category B municipalities lack the financial management and service delivery capacity to use transfers for their intended purposes. In these instances funds will be directed to the district municipality to use to the benefit of that local jurisdiction. Infrastructure transfers to district municipalities will, often be transferred on to the local municipalities for infrastructure investment.

Fiscal capacity important

The allocation of the bulk of funds to non-metropolitan areas reflects the greater fiscal capacity of metropolitan municipalities. Fiscal capacity can be defined as the ability of a municipality to raise revenue commensurate with its' expenditure needs. It should not be confused with fiscal effort, which is the extent to which a municipality exploits its available revenue sources (or actual revenue less potential revenue). The level of fiscal effort is typically a more accurate indicator of the financial health of a municipality.

Detailed and disaggregated information on the fiscal capacity of individual municipalities is currently not available. It is thus necessary to use proxy indicators of the ability of a municipality to raise its own revenue as a proxy. The indicator most commonly employed in this regard is that of poverty level, measured by the number or proportion of households spending under R1 100 per month. A further indicator used is the annual budgeted expenditure of a municipality per household.

Both these indicators are weak substitutes for more detailed data on fiscal capacity, which is most commonly measured by the total value of all properties in a jurisdiction. For example, municipal expenditure per household, which is a function of the size of a municipal budget, does not account for the scope or scale of services that a municipality provides. The number of households in poverty does not indicate the ability of a municipality to shift the burden of taxation to other components of its tax base.

The equitable share formula contains a component intended to measure fiscal capacity. However, data constraints have prevented this component from being fully utilised to date. Work is underway to develop more detailed and accurate data on the fiscal capacity of individual municipalities.

Table 10.4 indicates that municipalities with an annual budgeted expenditure of under R300 million in the 1999-2000 municipal financial year will receive 74 percent of the total allocated transfers in the 2001/02. Municipalities with annual budgeted expenditure below R300 million rely on transfers to finance 35 percent of their income in the current financial year.

In contrast, those with expenditures over R300 million and metropolitan municipalities have dependency levels of 8 percent and 3 percent respectively. The level of grant dependence is influenced by the relatively high levels of total municipal expenditure in large urban areas. This reflects the greater number of services provided by these municipalities, but may be influenced by under-reporting or the absence of data from smaller and rural municipalities.

Table 10.4: Allocated transfers* and municipal expenditure

	2001/02			2002/03			2003/04		
	Allocated Transfers (R'000)	% of total allocation	% of aggregate expenditure (**)	Allocated Transfers (R'000)	% of total allocation	% of aggregate expenditure (**)	Allocated Transfers (R'000)	% of total allocation	% of aggregate expenditure (**)
Metro	994 280	17%	3%	850 416	15%	3%	873 408	15%	3%
Non-metro (>R300m)	500 555	9%	8%	525 725	9%	8%	580 124	10%	9%
Non-metro (<R300m)	4 349 087	74%	35%	4 271 875	76%	35%	4 557 336	76%	37%
Total	**5 843 922**	**100%**		**5 648 016**	**100%**		**6 010 868**	**100%**	

Notes:

** Allocated transfer figures exclude funds not currently allocated to municipalities*

*** Budgeted municipal expenditure based on submissions by municipalities to National Treasury for 1999/2000.*

Integrated Sustainable Rural Development Programme(ISRDS)

Thirteen identified rural nodes

The 13 rural district municipalities identified by the President for support through the ISRDS receive a considerable proportion of all allocations to local government. This is due to the nodes being selected on poverty-weighted criteria, similar to many existing grant programmes. For this reason, the ISRDS has not been conceived as a separate funding programme, but rather as one in support of existing funding which focuses on improving service delivery.

Table 10.5: Allocations to ISRDS nodal municipalities

	Equitable Share			Recurrent			Infrastructure			Total (all transfers)		
(R'000)	**2001 /02**	**2002 /03**	**2003 /04**	**2001/02**	**2002/03**	**2003/04**	**2001/02**	**2002/03**	**2003/04**	**2001/02**	**2002/03**	**2003/04**
ISRDS Nodes	869 550	1 006 941	1 153 007	4 610	16 100	24 100	701 953	626 853	636 473	1 576,1	1 649,9	1 813,6
Total allocation	**3 559 974**	**3 846 125**	**4 213 125**	**600 471**	**820 290**	**850 418**	**2 685 494**	**2 580509**	**2 915 473**	**6 845,9**	**7 246,9**	**7 979,0**
% of total	24%	26%	27%	1%	2%	3%	26%	24%	22%	23%	22,8%	22,7%

Transfers to poorest councils

Table 10.5 indicates that the nodal municipalities will receive 23 percent of all transfers to municipalities in the current financial year. The slight decline in nodal allocations is currently being addressed through the reprioritisation of spending programmes.

The efficacy of infrastructure transfers

Benefits of infrastructure investment

The main objective of allocations for municipal infrastructure is to expand delivery of basic infrastructure services to poor households. This is associated with several benefits. Extending and rehabilitating social infrastructure and extending municipal services, results in greater equity, social access and development. In addition decent municipal infrastructure has positive spin-offs for economic activity. And equally, there are negative impacts that a decline in the technical integrity and coverage of infrastructure services can have on economic growth and development. A further benefit flows from the job creation and skills training that accompanies both the construction of infrastructure and the longer term expansion of municipal services. Both have a tendency to be labour-intensive.

A total of R2,3 billion has been budgeted for municipal infrastructure programmes in the current financial year, with three-year allocations made to individual municipalities in the Division of Revenue gazettes. The total allocation is projected to rise to R2,7 billion in 2003/04. Allocations are made through a number of separate infrastructure programmes that are listed in table 10.3, above. These are:

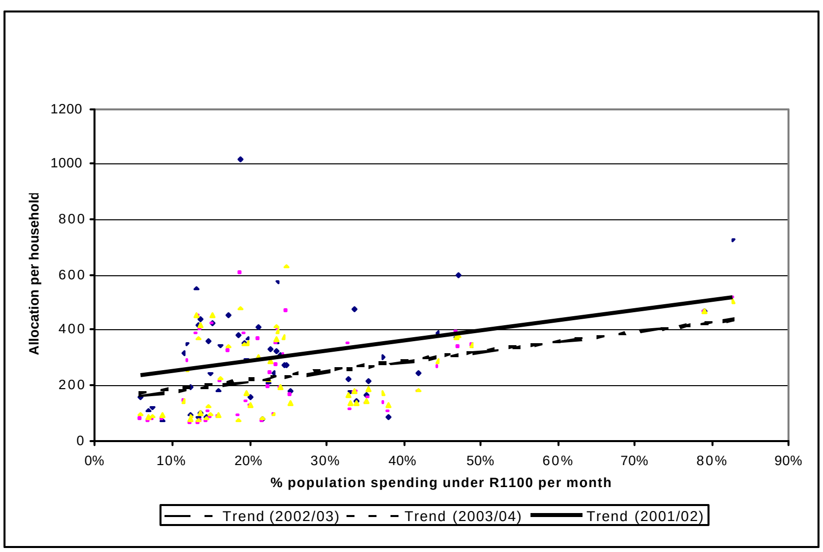
- the Consolidated Municipal Infrastructure Programme (CMIP) and the Local Economic Development (LED) Fund that are operated by the Department of Provincial and Local Government
- the Implementation of Water Services Projects and Historical Water Services Subsidies operated by the Department of Water Affairs and Forestry
- the Urban Transport Fund of the Department of Transport and the Community Based Public Works Programme (CBPWP) operated by the Department of Public Works.

The CBPWP and the LED Fund originate from poverty relief allocations. However, these programmes generally mostly make transfers directly, to metropolitan and district municipalities. This enables them to direct resources to areas of greatest need, mix grant funding with income derived from regional services levies and ensure adequate funding of regional infrastructure that might otherwise be under-funded by local municipalities.

Transfers are poverty focussed

Municipal infrastructure transfers are, in broad terms, allocated to areas of greatest need. When allocations are compared to levels of poverty, it is evident that infrastructure transfers are heavily equalising in nature. They benefit municipalities with high levels of poverty. Figure 10.4 demonstrates the progressive nature of allocations in this respect. Infrastructure allocations per household rise sharply from R200 in low poverty areas to above R500 where poverty is high. This trend is projected to continue over the medium-term.

Figure 10.4: District and metro pro-poor infrastructure allocations



Not all transfers are adequately targeted

However, when allocations are measured against household access to services, a more complex picture emerges. For example, figure 10.5 indicates that infrastructure allocations are inversely related to levels of access to sanitation in a municipal area. This may indicate the relative lack of priority that is attached to sanitation services in the current allocation formula. Municipalities with high levels of access to adequate sanitation will receive over R2000 per household in the current financial year, while those with the lowest levels of access will receive considerably less per household. Explanatory factors for this include:

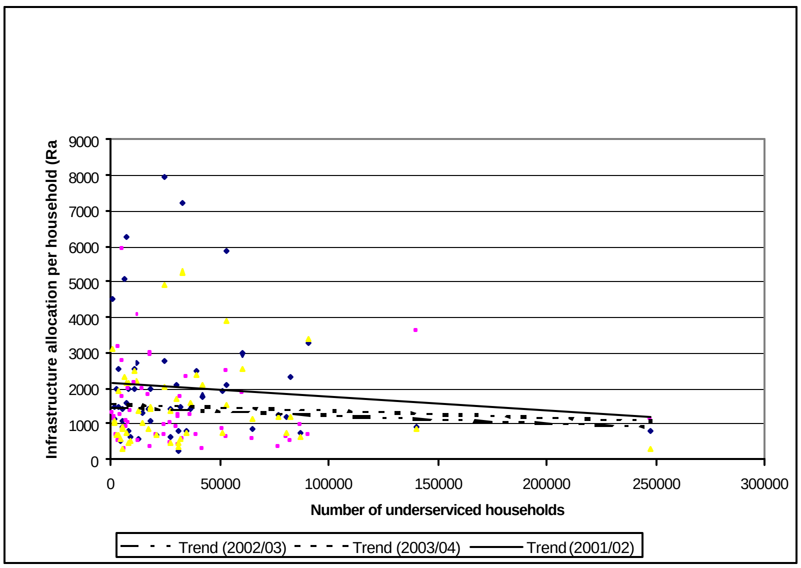
?? municipalities with high levels of under-servicing also lack capacity to address their infrastructure challenges rapidly, and thus grant take-up is low

?? the diversity of formulae and underlying data deployed in allocating funds in different programmes do not adequately account for levels of access to sanitation

?? there is an incentive to municipalities to increase levels of servicing within their jurisdictions without losing access to funding

Projected allocations for 2002/03 and 2003/04 address these problems.

Figure 10.5: District and metro allocations for sanitation



Large backlogs remain

Demand for the expansion of municipal infrastructure continues to outstrip supply, leading to rising backlogs in some services such as sanitation. Municipal spending on infrastructure extension and rehabilitation remains sub-optimal due to fiscal constraints. This has led to erosion of the technical integrity of infrastructure networks, delays in expansion of service delivery, and under-funding of certain services in poorer areas, particularly internal road networks.

Private sector participation is critical

The public sector alone does not have the resources to meet the infrastructure requirements of communities. Government policy has thus repeatedly emphasised the importance of leveraging private sector capital in support of municipal infrastructure investment. If correctly conceptualised, national government spending on municipal infrastructure can complement private sector investments by focusing on those municipalities unable to access private capital. However, public spending may also "crowd-out" the role of private markets in infrastructure investment if allocated in direct competition to private sector agencies.

Current allocation mechanisms are fragmented and disbursement mechanisms invariably project-based and centralised. This undermines integrated development and prevents effective planning at a municipal level. The recent introduction of three-year allocations by each infrastructure programme to individual municipalities aims to enhance integrated development. Ongoing progress with the consolidation of infrastructure transfers should to have a similar effect.

Division of Revenue Act regulates transfers

The Division of Revenue Act, 2001, has two provisions that specifically regulate these transfers. Section 12 prescribes a framework for all infrastructure transfers intended to promote coordination and rationalisation of funding streams. This should improve the ability of municipalities to budget for both capital spending and associated operations and maintenance costs. Section 13 regulates infrastructure programmes that provide grants-in-kind to municipalities, through building infrastructure for eventual transfer to a municipality for operating purposes. The Act clearly indicates that a municipality must provide evidence of its willingness to assume ownership of such assets before projects can be initiated. These programmes will be converted into cash transfers in future years.

The efficacy of equitable share allocations

Equitable share is guaranteed

The equitable share is a constitutionally guaranteed transfer to assist municipalities to perform their basic functions, and is the cornerstone of national fiscal policy towards local government. The final equitable shares for national, provincial and local government are determined annually by government, based on strategic priorities

Personnel grant phased into equitable share

From this financial year the R293 town personnel allocations have been incorporated into the equitable share, although the agreement governing funding for these staff will continue to be honoured for three years. Two other transfer programmes other than the R293 transfers are scheduled to be incorporated within the equitable share:

- The Water Service Operating Grant, which is an in-kind resource transfer from the Department of Water Affairs and Forestry, and is provided to municipalities on a historical basis where the department operated water services schemes on behalf of a municipality.
- The Local Government Transition Grant, which is operated by DPLG, and provides short-term funding to municipalities to assist amalgamation following the re-drawing of municipal boundaries.

The local government equitable share formula has been designed to facilitate an equitable distribution of resources among municipalities[2]. This formula has two components. The I-grant component is meant to ensure that every eligible municipality has sufficient funds to maintain a functioning administration. The S-grant is the largest part of the equitable share and its purpose is to ensure that low-income households in all municipalities receive access to basic municipal services. It is thus based on the number of households with an imputed income of below R1100 a month.

Community Water Services and Free Basic Water

Government's decision to adopt a Free Basic Water and Electricity policy has forced service providers to reconsider the efficacy of their practices. The Department of Water Affairs and Forestry (DWAF) has turned to its implementing agents to look at best management practices for community water supply, and have provided encouraging results upon which to build a new strategy.

This has led to an approach that does not rely on capital-intensive, high-tech investment. Past over-designed projects escalated capital costs and consumed time, imposing extra costs on authorities and communities. The findings of a comparison between the community water supply approaches of Durban Metro and those of the Department's work through Umgeni Water are illuminating. Umgeni's project at Umbumbulu, which provided yard taps in 980 houses, cost R26,3 million (or R26 818 per household served). In contrast, Durban Metro provided water in yard tanks to 1 000 households at R2 000 per household, or R2 milllion in total.

The arguments put forward by Durban Metro led DWAF to revisit the approach to supplying water in the Mzinyathi area. The original plan was to supply water to this community of approximately 5100 households using unrestricted yard taps. The original cost estimate, for the water component only, was R70 million (or R13 725 per household). There are also the health and financial sustainability factors to take into account.

- Water carried from a yard tap into a house deteriorates in quality, to the point that it is unfit for human consumption within a few hours, in an informal house.
- The capital repayment cost of this scale of investment, assuming a monthly consumption of 6kl, is over R30 per kl. To this must be added the bulk water charge and the operations and maintenance charges.

The Durban Metro alternative was to use ground tanks and also provide double pit latrines, at an estimated cost of R20,5 million, based on the actual costs of completed projects. The average cost per house served with water in urban poor communities using the Durban alternative is less than R4 000 per house.

The Durban Metro approach is designed to fill up a tank of water once a day. The tank is placed inside the house, thereby having the greatest health benefits. Residents get clean, purified water at the Free Basic Water level on a daily basis. Leaks and unaccounted-for water are minimized, as the water is turned off after the tanks are filled. There are also massive savings in the low-technology approaches, which avoid high-pressure connections as far as is practicable. The municipality favours the double pit sanitation option because it is cheaper from a lifecycle costing point of view. To empty a 'wet' single pit costs in excess of R400. The price premium for a second pit is about R600. Moreover, when the sludge in the full pit dries out, it can be emptied easily, using a shovel.

The long-term operational costs of the Durban Metro approach will thus be at a small percentage of the original approach, meaning that the Free Basic Water initiative will have a far greater chance of sustainability. Moreover, there will be significant benefits for water conservation (delaying building expensive dams prematurely), health (especially given the problems of cholera), sanitation, speed of service provision, payment for services above the free basic water level, and the security of supply.

Durban Metro has had eight years of experience using this approach, and has had excellent results. By exploring this approach, DWAF and its partners are hoping to cut the capital, operating and maintenance costs of their community water supply projects, and to speed up their delivery of water and sanitation. The extent to which the Durban Metro model can be replicated in different situations, still needs to be determined. However, it is likely to be extensively used. This initiative shows that there is a real willingness to learn, in honouring the Government's commitment to community water supply and to Free Basic Water tariffs.

[2] See "*The Introduction of an Equitable Share of Nationally Raised Revenue for Local Government*" by the Department of Finance (now the National Treasury) in 1998 (available on www.treasury.gov.za).

Equitable share protects municipalities

The equitable share provides an ideal mechanism for the delivery of bulk national transfers to municipalities as it is formula-driven and does not impede the budgeting discretion of municipalities. Category B municipalities are the primary beneficiaries of these transfers, receiving an average of R510 per household in the current financial year. As indicated in table 10.6, this rises to R611 per household over the medium-term. In contrast, allocations per household in metropolitan areas average R151 in this financial year, rising to R194 by 2003/04.

Table 10.6: Average equitable share per household

	2001/02	2002/03	2003/04
Category B (local)	R510,47	R574,34	R611,30
Category A (metropolitan)	R150,99	R170,75	R193,80

An equalising transfer

Equitable share allocations are equalising in nature, in that they target municipalities with high levels of poverty and low levels of municipal expenditure per household. Figure 10.6 demonstrates this trend. Municipalities with low levels of poverty receive approximately 25 percent of the allocation of those municipalities with a high proportion of poor households. This trend is anticipated to intensify over the medium-term due to the significant increases in the funds available and the equalising nature of the formula.

Figure 10.6: Equitable share allocations per poor household

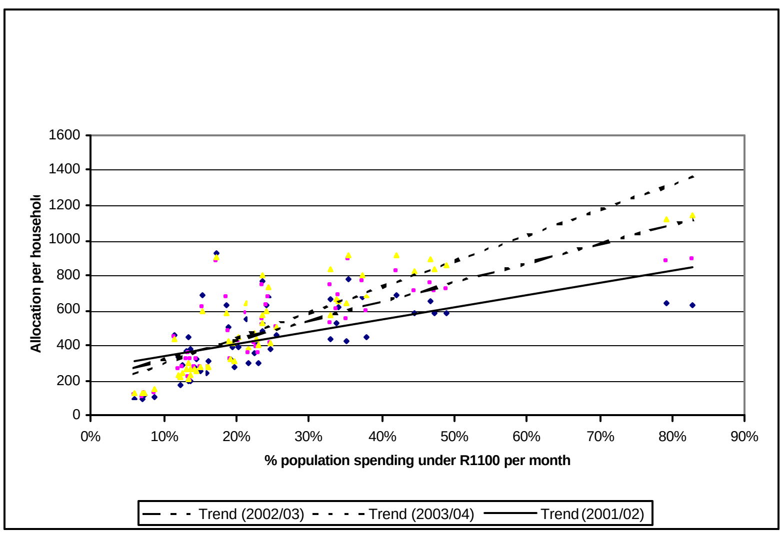
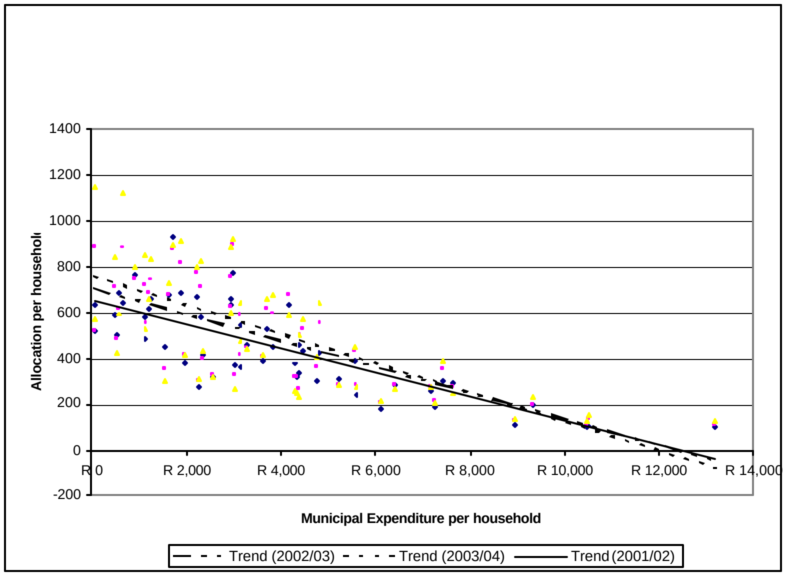


Figure 10.7 reinforces this observation, demonstrating that as budgeted municipal expenditure per household rises, the equitable share allocation falls. This trend mimics that shown in fgure 10.6, indicating that the use of a poverty indicator as a proxy for fiscal capacity is strikingly accurate in the current formula.

Figure 10.7: Municipal expenditure of equitable share



Targeting errors and free basic municipal services

Minimising subsidy leakage

No formula-driven grant programme is immune to targeting errors. Perhaps the most serious are errors of exclusion, when members of the target group are not captured by the eligibility criteria and hence fail to receive benefits. Errors of inclusion occur when those outside the target group fortuitously comply with the eligibility criteria and consequently receive benefits. Such leakage to unintended beneficiaries reduces the efficiency of a programme and inflates the cost to taxpayers.

Water services operating grant

The Water Services Operating Grant, which is not formula-driven, demonstrates errors of inclusion. Allocations per household decline as levels of poverty in a municipal jurisdiction increase. Municipalities receive this grant as assistance in-kind. The Department of Water Affairs and Forestry operates water services schemes on their behalf, primarily for historical reasons. The distribution of these transfers has not, therefore, been as equitable or reflective of policy priorities as government would desire. A phased programme to incorporate these funds into the formula-driven equitable share has thus been pursued.

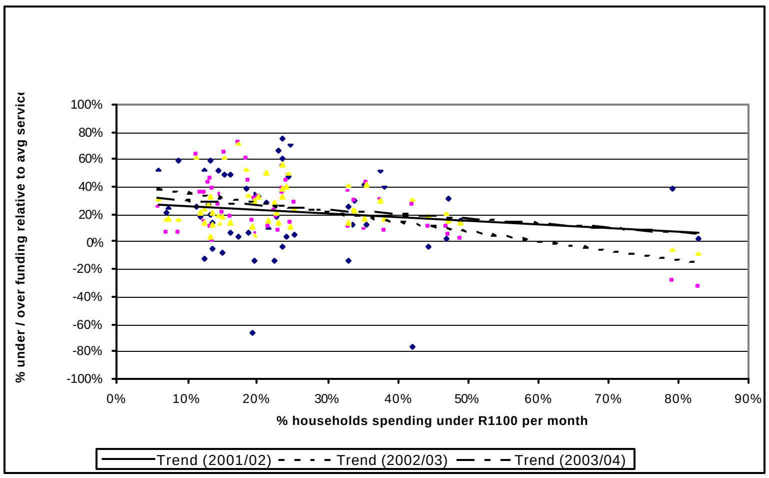
Errors of exclusion

Errors of exclusion are more difficult to determine, due to data constraints. The cost of delivering a package of basic municipal services is a key assumption necessary to assess the efficacy of targeting the equitable share. Data on these costs is difficult to generate, with most policy analysis relying on modifications to modelling done by the Development Bank of South Africa (DBSA) in 1995. This analysis estimated average service costs per household at R87 per month, or R113 per month in 2000 prices. However, costs of service vary significantly between municipalities, the cost of bulk supply and the capital costs of infrastructure. For example, water-borne sanitation systems are significantly more expensive to operate and maintain than lower technology solutions, such as pit latrines.

Wealthier municipalities better equipped

Figure 10.8 demonstrates that wealthier municipalities are better able to meet the free basic services challenge from their equitable share allocations than those in poorer jurisdictions. Of equal concern is the range of allocations, as evident in the points on the figure. The vertical axis in this case is the percentage excess or shortfall in equitable share funding per household relative to the cost of delivering a basic package of services (currently estimated at R113 per household per month). The cost of service is likely to be higher in urban areas, which will counteract the regressive trend evident in the figure.

Figure 10.8: Adequacy of the equitable share



Formula retained for stability

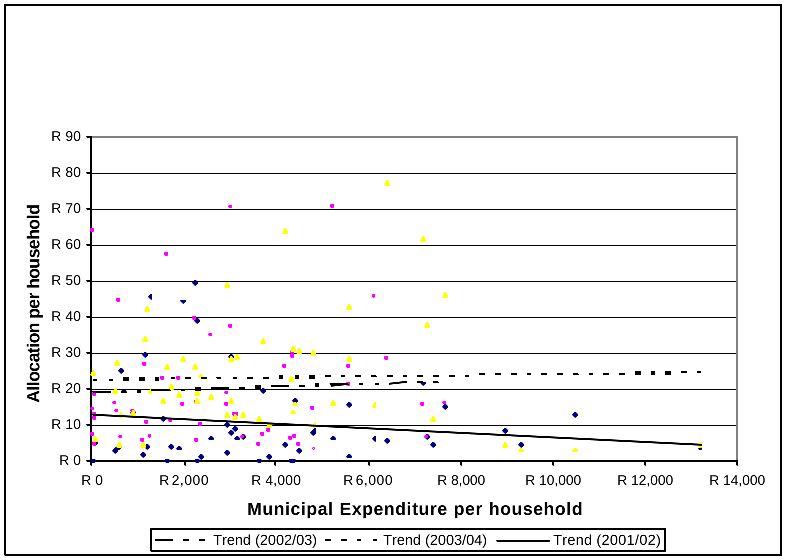
The formula for the horizontal distribution of the equitable share was introduced in 1998, in the context of former municipal boundaries. A review is currently underway to determine the efficacy of the equitable share formula in distributing resources to municipalities within new boundary demarcations. It is anticipated that this review will address concerns in the horizontal distribution of the equitable share.

The efficacy of capacity building and restructuring grants

This category of grants assists municipalities to enhance their capacity to perform their functions in an effective and efficient manner. The Financial Management Grant assists municipalities to develop and implement three-year budgeting systems. The Local Government Support Grant and the Restructuring Grant assist smaller and larger municipalities respectively to implement medium-term restructuring exercises that enhance service delivery and promote financial sustainability. The Restructuring Grant is targeted at municipalities with annual budgets over R300 million, and currently constitutes only 5 percent of the total allocation to municipalities.

Figure 10.9 shows the allocation of the Municipal Systems Improvement Programme and the Financial Management Grant by level of municipal expenditure per household (excluding the Restructuring Grant and the Local Government Support Grant). This demonstrates that while allocations in the current financial year favour poorer municipalities, this trend changes over the medium-term and is anticipated to become largely neutral. It should be noted that allocations under review amount to only 4 percent of the total allocation to municipalities in the current financial year.

Figure 10.9: Recurrent conditional grant allocations



Efficiency of grant management

The size of administrative overheads and extent of unallocated funds reflect some of the efficiency problems experienced in conditional grant programmes. These indicators are shown in table 10.7

Table 10.7: Administrative overheads and unallocated funds (2001-02 to 2003-04)

	2001/02		2002/03		2003/04	
	(R'000)	% of total	(R'000)	% of total	(R'000)	% of total
Unallocated funds	582 257	*9%*	1 250 847	*17%*	1 594 584	*20%*
Administrative overheads	272 595	*4%*	182 580	*3%*	197 029	*2%*
Allocated to municipalities	5 991 087	*88%*	5 813 497	*80%*	6 187 402	*78%*
Total	**6 845 939**	***100%***	**7 246 924**	***100%***	**7 979 016**	***100%***

Unallocated funds a cause for concern

Although the proportion of funds unallocated to municipalities grows over the medium-term, the primary cause for concern is funds unallocated to municipalities in the current financial year. This amounts to 9 percent of the total allocation to local government. Administrative overheads remain within acceptable boundaries averaged across all programmes. However, this can be ascribed to the low administrative costs of large, formula-driven grant programmes rather than the efficiency of individual programmes.

Conclusion

Transfer system continually refined

National government is continuously refining the system of intergovernmental transfers to municipalities in order to improve their efficiency, equity, transparency and predictability. In support of these objectives, three-year allocations to individual municipalities have been introduced from the 2001/02 financial year for programmes where this is possible and appropriate. This initiative is intended to assist municipalities with their planning and budgeting, specifically the introduction of three-year budgets and the drafting of meaningful integrated development plans. In addition, the Division of Revenue Act, 2001, has introduced various other measures to improve the functioning of the system of fiscal transfers to municipalities.

Additional funds under consideration

Additional allocations to local government, particularly for infrastructure and the equitable share, may increase as grants are consolidated and streamlined.

Local government, like national government, is held accountable for the resources it manages and for the mix and quality of basic services provided. It remains the responsibility of each municipal council to determine its priorities and pro-actively manage its funds throughout the fiscal year in keeping with these priorities. Funds provided from national government are not intended to replace revenue municipalities generate from the taxes and user charges they are empowered to levy and collect.

11

Capital investment in local government

In terms of the Constitution, municipalities are charged with providing services, promoting social and economic development, and promoting a safe and healthy environment. Municipal capital investments include items such as water and wastewater treatment plants and reticulation networks, solid waste disposal facilities, streets and sidewalks, clinics, parks, sports fields and other municipal facilities. Capital investments in municipal infrastructure are essential if municipalities are to meet their constitutional obligations.

Four main reasons for investing

There are four main reasons why municipalities must have capital to invest. These are:

- to extend services to all citizens, so that South Africans everywhere have access to basic services
- to provide services above the basic level, at users' cost, to those who want and can afford more than basic services
- to provide strategic infrastructure that will attract direct investment, as part of economic development efforts
- to upgrade and update infrastructure that has reached the end of its useful life.

This chapter discusses the options for obtaining capital investment in support of municipal infrastructure, and reflects on progress with municipal public-private partnerships as well as borrowing. It also offers suggestions as to how both private sector participation and municipal borrowing could be enhanced.

Who will build municipal infrastructure?

To build local infrastructure, municipalities must either obtain the capital themselves, or they must attract private partners who will provide the necessary capital.

Private provision of local infrastructure

Indirect access to capital

Public-Private partnerships (PPPs) involve indirect access to capital. Municipalities enter into agreements with private partners who agree to finance improvements, in the expectation of a reasonable return on their investments. The credit strength of the private partner can sometimes make financing cheaper than it would be for the municipality. Operational efficiencies can also be realised in partnerships, and these can lower financing costs.

The World Bank's Public-Private Initiative (PPI) Data Base indicates that during the 1990s over 1900 partnerships for infrastructure were concluded in the developing world alone, representing over US$ 580 billion in investment. The fastest growing variety of partnership world-wide involves municipal water and wastewater.

First PPPs involved waste and water

In South Africa, the first long-term municipal public-private partnerships, concluded mostly in the late 1980s and early 1990s, reflected apartheid-era divisions. Towns like Stutterheim, Fort Beaufort, and Queenstown entered into contracts for water and sanitation, which were primarily management contracts involving little investment. At that time, most disadvantaged areas were not included in municipal boundaries, and received little attention in these arrangements. However, there have been several more progressive public-private partnerships completed in South Africa since 1994.

Local government provision of infrastructure

Municipalities will build most local infrastructure

Practitioners agree that PPPs will build only a portion of local infrastructure. Municipalities will build the majority. The capital they will use must come from one of the following sources:

- national government, in the form of intergovernmental transfers
- municipal taxes, such as property rates or RSC levies
- user charges, such as tariffs and connection fees
- borrowing through loans or bond issues.

How will poor municipalities build infrastructure?

All municipalities must bring operating expenditures into line with revenues. For some, these balanced budgets may be relatively small. National Government provides intergovernmental transfers that form part of municipal revenues. For some poor and rural municipalities, these transfers are their main source of revenue: they have neither the property values (in the case of local municipalities) nor the business activity (in the case of district municipalities) to generate much of their own revenue. These municipalities may have little potential to attract responsible public private partnership investment.

- In the short term, poor municipalities are likely to continue to rely on grant funding from national government for their investment capital. As private sector funding is geared towards larger and financially stronger municipalities, more national funding will become available for these municipalities.
- In the longer term, if formula-based transfers are made stable and predictable, they can be used to repay debt as with any other municipal revenue source.

National government provides some investment capital for local infrastructure through programs such as CMIP and DWAF capital grants. Plans for the consolidation and rationalisation of these programs are described in other chapters. However, even with the real increases anticipated in these programs, there are no conceivable scenarios under which national government can finance all local capital needs. Current capital transfers from national to local government amount to some R2 685 million in the 2001/02 financial year, rising to R2 915 million over the current MTEF. At this rate, if municipalities were to finance the extension of basic services with intergovernmental capital transfers only, it would take some 10-15 years simply to extend basic service access to all citizens.[1] Significantly, this projection excludes any investment beyond that needed for basic services, such as investment for strategic economic development or investment to replace existing facilities that reach the end of their useful life.

Municipalities need to leverage funds

To extend access to basic and other services more quickly, and to replace ageing physical plant, municipalities will need to use local revenue sources, such as taxes and user charges, as well as intergovernmental grants. However, more infrastructure can be built more quickly if municipalities leverage their revenues through borrowing for capital investment.

Borrowing distorted under apartheid

Municipal borrowing was distorted in the past, both by apartheid and by centralised government. Historically, white municipalities could borrow, though many relied on internal cash flows, to finance capital investments. Consumers in these municipalities were generally able to pay for services, enabling them to pay their debts reliably. It was widely believed that provincial and/or national government would intervene to support any municipality that ran into financial trouble. By contrast, municipal structures in black areas had little or no access to credit or capital grants, built far less infrastructure, and provided far fewer services to their communities.

No net new private lending

Today, the fundamental rules have changed. Amalgamated municipalities have been created that include well-served areas, areas with no services, and everything in between. These new, decentralised municipalities must extend infrastructure and services to all citizens. Although private lending has continued throughout the transitional phase from 1994 to 2000, there has been no net new private lending to local government. New debt extended has been balanced by old debt retired. This stagnation can be attributed, in part, to the absence of reliable financial information. However, investors have also had doubts about the financial viability of municipalities in transition, especially after demarcation, and they have been uncertain about the legal and regulatory regime related to municipal debt. The fact that some municipal debt has experienced default has also impeded investor interest.

Public private partnerships

Nelspruit led the way with PPPs

The town of Nelspruit led the way with post-apartheid long-term PPPs. The 1994 shifts in municipal boundaries dramatically impacted on the town's ability to provide its residents with essential services. Virtually overnight, Nelspruit's official population increased from 24 000 to 240 000 and the land area under its jurisdiction increased eightfold as black and white areas were integrated under one jurisdiction. Because many of the new areas had never received water and sanitation services, the town's official system of infrastructure service provision was suddenly, and dramatically, inadequate.

[1] This calculation assumes a total cost for such basic local infrastructure of some R40bn, no expansion of the basic services mandate, no population growth, and efficient spending of capital transfer funds by municipalities.

Service delivery challenges

The Town Council's initial investigation into the extent of the inadequacy, produced alarming results. The 1994 amalgamation increased the number of residents per length of water pipe from 110 to 601, and the number of residents per length of sewer pipe from 96 to 830.

The difficulties faced in overcoming this shortfall were exacerbated by the obvious inability of many new residents to help cover the costs of required investment. Although the population had grown by ten times, the total income of the municipal area grew by only 38 percent. Nelspruit needed a radical, innovative solution if it was going to fulfil its obligation to make universal service coverage a reality.

The Nelspruit water and sanitation concession, concluded in April 1999, is still the largest long-term municipal PPP signed in South Africa. Making use of cross subsidisation and massive private investment, the contract calls for every citizen in Nelspruit to receive a basic level of service within five years.

Recently completed projects

Table 11.1 summarises information on several PPPs completed in South Africa since 1998. This group includes long-term concessions, like those signed in Nelspruit and Dolphin Coast, which started development in late 1996. It also includes a variety of later partnerships, including one notable public-public partnership (in Harrismith) and several divestiture projects, involving the sale of non-core municipal businesses and related assets.

The table classifies projects according to what the partnership is designed to accomplish (operations and maintenance, operations and maintenance plus capital investment, or divestiture), as well as the direction in which contract-related payments and investments flow.

Most short-term partnerships that do not require capital investment or assumption of commercial risk by a contractor involve payments to the contractor by the municipality for services rendered. Many long-term partnerships, involving investment and/or commercial risk responsibilities by the contractor, involve payments back to the municipality in the form of fees or investment in municipal infrastructure.

Includes cases where contractors are paid

Cases where a council is providing payments to a contractor are included. In some cases, they are a step toward acquiring private sector capital by achieving management efficiencies, ring-fencing activities, and generating information that would be necessary to a private investor. In other cases they are intended to make capital expenditure more efficient – the public money is better targeted because of private contractor expertise.

Partnerships worth R5,6 bn concluded

The total contract value of the 18 major partnerships concluded since 1998 amounts to over R5,6 billion. This value includes all payments to and from municipal partners, and all capital investment, over the lifetime of these contracts.

Table 11.1: Examples of PPPs – revenue and expenditure

Local Government	Sector	Length of contract (years)	Contractor Payments to Council (Millions of Rand)				Council Payments to Contractor	Contract for investment in Non-Council Infrastructure
			Fees	Lease Payments	Sale Proceeds	Related Capex	For services, Equip, Capex	
Operate & Maintain (O&M)								
Harrismith	Water	3	6	–	–	–	–	–
Johannesburg	Parking	5	10	–	–	2	–	–
Thabazimbi	Waste	5	–	–	–	–	7	3
Robertson	Waste	1	–	–	–	–	0.5	–
Jhb. West. MLC	Waste	5	–	–	–	–	0.6	–
Johannesburg	IT	5	–	–	–	–	590	–
O&M plus Capex								
Dolphin Coast	Water	30	19	42	–	325	–	–
Nelspruit	Water	30	40	106	–	1 300	–	–
Pretoria	Airport	20	243	3	–	60	–	–
Johannesburg	Fleet Mgmt	10	–	–	–	–	2 400	–
Richards Bay	Airport	20	1	13	–	3	–	–
Tzaneen	Waste	5	–	–	–	–	12	8
Divestiture								
Johannesburg	Airport	–	–	–	18	–	–	10
Johannesburg	Gas	–	–	–	110	–	–	276
Totals			**319**	**164**	**128**	**1 690**	**3 010**	**297**

Some of the noteworthy projects on this list include:

Nelspruit water and sanitation

?? *Nelspruit Water and Sanitation Concession:* Signed in 1999, Nelspruit's PPP design calls for a private concessionaire to take over, manage, maintain, build, rehabilitate, and transfer back to the city after 30 years, all the infrastructure assets related to the city's provision of water and sanitation services. The company will be responsible for metering, billing, revenue collection, as well as capital investments to progressively extend water and sanitation services to under-served areas. Existing assets will not be sold to the company, but existing municipal staff working in the Council's water and sanitation sectors will be taken over by the company on equal or better conditions of service. Local consultants and contractors must be used, as part of a local employment-generation strategy approved by the Council. The Council will regulate the contractor's activities, including tariff setting, asset maintenance, and new asset construction and/or acquisition. The company must provide the Council with regular financial reports; and penalties will be imposed for failure to adhere to pre-determined service performance criteria.

Johannesburg Metro Gas

?? *Johannesburg Metro Gas Sale:* On 18 August 2000, Johannesburg announced the sale of Metro Gas, the municipal gas distribution business that serves approximately 15 000 business and residential customers in the metropolitan area. The price for Metro Gas was R110 million. The new owners are expected to invest another R276 million in the facility over ten years. The total size of the deal, including sale price and future capital investment, makes it arguably the biggest municipal privatisation sale in the country's history. One key condition of the sale was the environmental clean up of this site, expected to cost over R12 million.

Harrismith's public-public partnership

- *Harrismith Water and Sanitation Management Contract:* On 19 October 2000, Harrismith and Rand Water signed a three-year management contract, concluding what has become the first public-public water and sanitation contract negotiated on commercial terms. This contract is the first step in a two-part process. The municipality is able to delay major capital expenditure for the three years, and during that period with Rand Water's help it will ring-fence the water system, resolve management and personnel problems, generate data on the system itself, and become comfortable working with a service delivery partner. At the end of three years, the town will have a stand-alone water utility. It can then use the accumulated fees and information to prepare a longer-term solution to its service delivery needs.

Richards Bay airport

- *Richards Bay Airport Concession:* On 16 November 2000, Richards Bay and a private contractor signed a 20-year concession contract for the operation, maintenance, and development of the Richards Bay airport. This contract involves R13 million in payments to the municipality. This will be used to repay the debts associated with the facility, plus a probable investment of another R7 million in runway upgrading (depending on the results of an independent assessment later in the contract period). In addition, 20 percent of the concession company, and 20 percent of its dividends, will go to a "community trust" dedicated to the development and support of the local community, particularly the traditional communities near the airport.

Various solid waste contracts

- *Solid Waste Management Contracts:* These projects, including contracts recently concluded in Robertson, Tzaneen, and Thabazimbi, represent what is probably the most rapidly expanding single sector of PPP activity in South Africa. Although individual solid waste management projects do not typically involve large amounts of capital investment, they address a notable need in many communities.

The future of PPPs

Municipal interest in public-private partnerships continues to grow, particularly with the post-demarcation expansion in responsibilities. The Municipal Infrastructure Investment Unit (MIIU) estimates that over one-third of South Africa's new local municipalities are capable of developing and benefiting from some form of PPP for municipal services.

Lessons

If these projects are to be successful in the future, they must incorporate lessons from the past:

- The private sector must not be seen as a panacea for all problems. Service delivery systems without real prospects for cost recovery are not good candidates for such partnerships.

- Most municipalities will need funding and technical assistance to conclude partnerships that achieve optimal levels of benefits for residents. In large part, such funding is necessary to generate the large amounts of information needed about the current and proposed service delivery systems, which are critical for the design and contracting out of partnerships.
- Consultation with stakeholders, including community groups and organised labour, is essential in the preparation of any kind of partnership.
- A careful review is needed of municipal responsibilities in the development of such arrangements, as detailed in new legislation, such as the Municipal Systems Act.
- Ongoing assessment and adjustments are essential to the legal and regulatory framework within which public-private deals are developed. For this reason, Government continues to monitor progress with partnerships and the impact of its regulatory mechanisms. Policy dialogue continues with municipalities, private investors, community groups and trade unions on the Municipal Systems Act and other regulatory issues.

Municipal borrowing

Some municipal infrastructure cannot attract private equity investment through PPPs. In other cases, municipalities prefer not to enter into public-private partnerships for policy reasons. In the absence of immediate grant funding, such municipalities must finance infrastructure from their own revenues. To answer the challenge of creating local infrastructure quickly, well-run municipalities can borrow funds from capital markets. The funds borrowed can be used to build infrastructure, and then be repaid either from existing revenue streams (such as intergovernmental transfers or municipal taxes and tariffs) or from charges to new users.

Borrowing at market rates

The 1998 *White Paper on Local Government* and the *2000 Policy Framework for Municipal Borrowing and Financial Emergencies* make it clear that government policy, regarding municipal borrowing, must be based on a market system, and on lenders pricing credit to reflect the risks they perceive.

Legal and regulatory environment

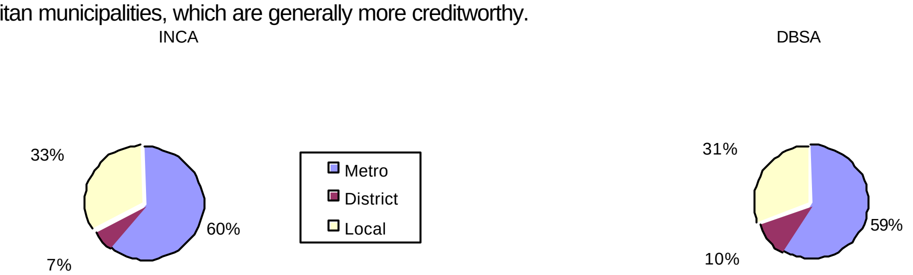
To assure that municipal borrowing from capital markets is effective and efficient, the legal and regulatory environment must be clear and predictable. Both borrowers and lenders must have good information, and the risks from poor decisions must be appropriately assigned. With these objectives in mind, the national Government last year adopted the *Policy Framework for Municipal Borrowing and Financial Emergencies*. This was published together with the Municipal Finance and Management Bill which contains the legislative provisions to give effect to the policy framework.

Debt to public sector up, debt to private sector flat

Despite the need for capital markets to finance infrastructure, long-term private lending to municipalities has been essentially flat for at least four years. National Treasury figures since 1997 show that municipal debt owed to the private sector has not changed greatly, generally remaining between R11 billion and R12 billion. At the same time, debt owed to public sector institutions, including the Development Bank of Southern Africa (DBSA), has grown significantly, from R5,6 billion to R8,1 billion. (see figure 11.1 and the textbox below).

A tale of two lenders

The Development Bank of Southern Africa (DBSA) is a public sector lender. The Infrastructure Finance Corporation Limited (INCA) is a private sector lender. Both lend to municipalities and other infrastructure providers. The DBSA's share of outstanding municipal debt has doubled over the four years that National Treasury has been tracking municipal debt, while INCA's market share has increased more than ten-fold in the same period. The loan portfolios of the two institutions appear similar, in that both lend mostly to large metropolitan municipalities, which are generally more creditworthy.

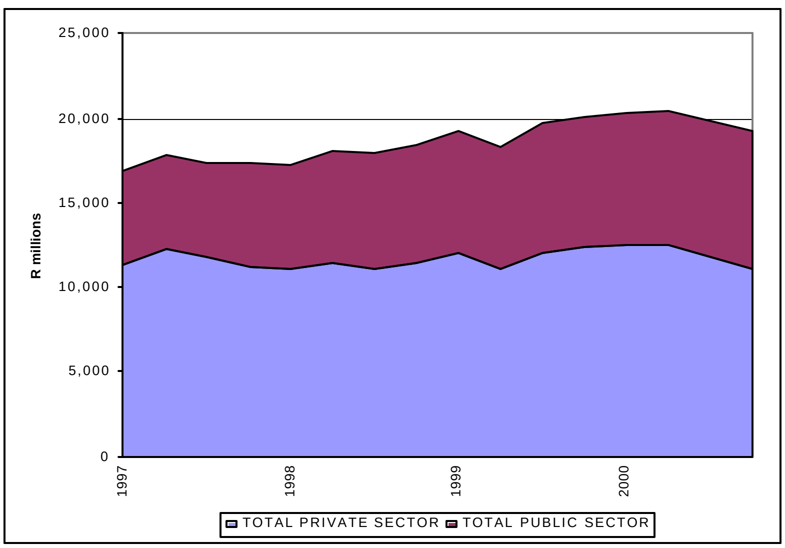


Source: DBSA and INCA

More private investment needed

This increasing reliance on public sector debt is inconsistent with government's policy goal of increasing private sector investment. While new policies and legislation will not, by themselves, guarantee that private sector lending increases, there is no chance of an increase without clear policies and legislation.

Figure 11.1: Total municipal debt outstanding



The legislative reforms envisioned by the Municipal Finance Management Bill, including increased powers to commit a municipality to long term projects, will help attract both lenders and equity investors to municipal infrastructure investments. In addition to these reforms, key factors necessary to assure the growth of private sector investment relate to municipal skills and experience in areas such as:

?? project management

?? capital planning (project identification, prioritisation, and analysis)

?? facility operation and management

?? budgeting (capital and operating implications to borrowing)

?? accounting and financial reporting

?? collection and disbursement operations

?? procurement of goods and services; and

?? legal and negotiating skills.

Using future revenues

Four sources of revenue

The financial resources available to municipalities for building infrastructure can come from four sources:

?? revenues from trading services, such as water, sewer, and solid waste removal

?? surcharges on fees for services

?? general taxes, such as property rates and the RSC levy

?? transfers from other spheres of government.

Most of these resources are typically used for a municipality's operating expenses. However, a portion of these resources is usually set aside for capital investments, and in the case of some intergovernmental transfers, resources must be used for capital investments. Total projected actual municipal expenditures for 1999/2000 were R53,4 billion, with approximately 19 percent (or R10,3 billion) being for capital expenditure.

Loans not an additional source of revenue

Borrowing capital to finance infrastructure does not represent an additional source of revenue. Borrowing, instead, makes future revenues, some of which can come from consumers not yet connected to a service network, available for current use. With any given level of available revenue, a municipality can build more infrastructure, more quickly, through the wise use of credit than it can on a pay-as-you go basis.

The speed with which a municipality can build infrastructure depends critically on three factors:

?? the degree to which revenue streams can be effectively leveraged by borrowing

?? the amount of revenue available for investment after considering operating needs

?? the municipality's capacity, skills and experience to plan and manage projects.

Borrowing is a two-edged sword

The commitment of future revenues to current use through borrowing is a two-edged sword: used wisely, borrowing accelerates service provision and local economic development. Used unwisely, it can saddle future generations with debt without providing corresponding benefits. For this reason, the Constitution prohibits borrowing for consumption expenditure.

Private capital and market capital

Government stresses private investment

Government's 1998 *White Paper on Local Government* stressed the importance of gearing in private investment, and of using capital markets to do so. It notes:

"Ultimately, a vibrant and innovative primary and secondary market for short and long term municipal debt should emerge. To achieve this, national government must clearly define the basic 'rules of the game'. Local government will need to establish its creditworthiness through proper budgeting and sound financial management, including establishing firm credit control measures and affordable infrastructure investment programmes. Finally, a growth in the quantum, scope and activities of underwriters and market facilitators (such as credit-rating agencies and bond insurers) will be required.

"The rules governing intervention in the event that municipalities experience financial difficulties need to be clearly defined and transparently and consistently applied. It is critical that municipalities, investors, as well as national and provincial government, have a clear understanding of the character of their respective risks. Risks should not be unduly transferred to national or provincial government."

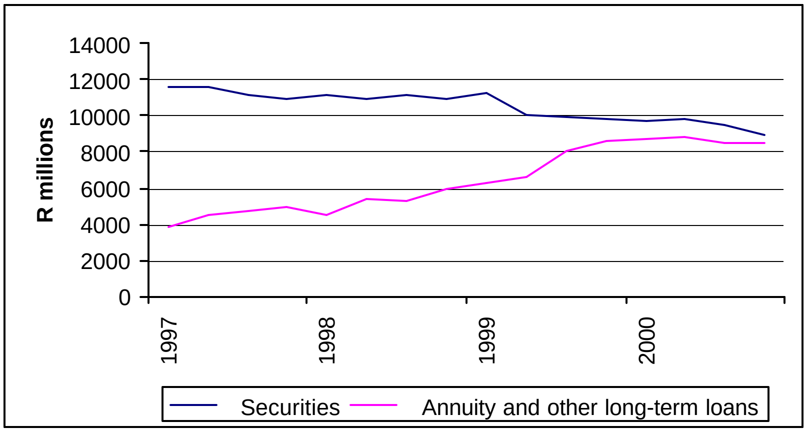
The *White Paper* stresses the importance of both private sector investors and capital markets:

- Private sector lenders and investors are important not only because they bring additional funding to the national table. Also, they tend to have better expertise for evaluating projects and credit risk, and of managing outstanding loans, than public sector lenders.
- Active capital markets, with a variety of buyers and sellers, and a variety of financial products, can offer more efficiency than direct lending. First, competition for municipal debt instruments tends to keep borrowing costs down, and create structural options for every need. Second, an active market implies liquidity for an investor who may wish to sell. Liquidity reduces risk, increases the pool of potential investors, and thus improves efficiency.

DBSA's debt stock has grown

However, National Treasury's municipal debt monitoring project suggests that things are not yet as envisioned in the *White Paper*. The expansion in municipal debt over the last four years has been due to a growth in public sector lending to municipalities, and especially lending by the DBSA. The DBSA's municipal debt stock has grown both because of acquisitions (primarily the Local Authorities Loan Fund, which was acquired from national government) and because of new loan origination. It increased from under R2 billion in March of 1997 to nearly R6 billion at the end of 2000. Although the private sector has been the major supplier of credit to municipalities, the net amount of private sector lending is essentially unchanged over the period that National Treasury has been monitoring the data.

Figure 11.2: Form of municipal debt



Composition of debt changing

Not only is private sector lending relatively stagnant, as shown in figure 11.1, but the outstanding debt stock is becoming less suitable for capital markets, as shown in figure 11.2. There has been a marked change in the form of debt over the period that National Treasury has been monitoring outstanding municipal debt. The earliest figures in the study show municipal securities at R11,6 billion, and long-term loans at R3,8 billion. By December of 2000, the pool of outstanding (and theoretically tradable) securities had fallen to just under R9 billion, while long-term loans had more than doubled to R8,5 billion.

The ongoing substitution of loan debt for securities debt represents a challenge for the development of a municipal capital market. It reflects poor municipal financial information and unclear rules. Improved accounting and financial statements, and clarity about the rights and remedies of lenders, could reverse this trend.

Municipal bonds and capital markets

A municipality can borrow by taking a loan from a financial institution, or by issuing bonds.

A **municipal bond** is a debt instrument that can be traded. An underwriter may purchase an entire bond issue, and then sell it at retail to institutions and individuals. Each bondholder buys only a small piece of the total debt, so smaller investors can participate.

With functional **capital markets**, bonds and other debt instruments can be readily traded. This means that a bond-holder need not keep the bond to maturity. The risk is lessened by the existence of a market, where the investor can sell the bond if need be. This liquidity also brings more potential investors into the picture.

South Africa has efficient capital markets for government, parastatal, and corporate bonds. Municipal bonds can easily play a role in this market, once there is a sufficient stock of bonds.

Tax structured loans increased

Municipal loans with tax-structured aspects have also become more important over the last four years, growing from some R187 million in March 1997 to R332 million in December 2000. However, as a percentage of total municipal debt, these loans account for only about 1,7 percent of total outstanding municipal debt. One reason for their small market share is that these structures require a match between the tax needs of particular financial institutions and the assets of a particular municipality. Tax structured loans will seldom be traded, and thus are of little relevance to the development of capital markets.

Elements of an active capital market exist

An active capital market requires several elements. Naturally, a market requires a supply of tradable debt stock. It also requires investors who are interested in holding municipal debt instruments (either to maturity or for some shorter period). Finally, it requires mechanisms for easily identifying trading opportunities and efficiently settling trades.

South Africa is fortunate, compared to many emerging economies, in that it has the key elements in place. Both potential investors and institutional structures now exist, and participate actively in capital markets for other kinds of debt instruments, namely national government and corporate debt.

Among investors that could invest in municipal bonds in an active capital market are those that are active investors in municipal debt, such as the DBSA, INCA, and banks. Others, such as mutual funds and individuals, have not yet been major purchasers of municipal debt. Finally, some investors such as pension funds and insurance companies have been active in the past, but have stopped acquiring municipal debt or sold their debt holdings.

A need for municipal debt securities

South Africa's challenge is to develop a genuine municipal capital market, and for that market to effectively channel funds to the municipalities that need them. The missing element to achieve this is a supply of debt securities from municipalities which have publicly available, high-quality financial information.

New favourable conditions for borrowing

Many important changes have occurred over the last year that suggest that increased municipal borrowing from the private sector, ideally via the capital markets, is likely.

Demarcation process completed

Boundaries clear, some powers and functions not

With demarcations in 2000, long-pending amalgamation and boundary questions have been resolved. There has been a view among South African investors that earlier municipal amalgamations diluted the value of formerly sound investments. Concern about the potential for further dilution has often been cited by investors as a reason for their reluctance to lend more to municipalities.

With the December 2000 elections and the establishment of firm boundaries, that concern has been addressed. However, the division of functions between C and B municipalities will need clarification if those municipalities are to access capital markets autonomously. Similarly, regional electricity distribution issues could delay lending to the energy sector. But for metropolitan municipalities (and for B and C municipalities that are willing to co-operate on debt issues), the chronic uncertainty is over.

Falling inflation and interest rates

Lower rates make borrowing cheaper

Inflation has been declining over the long term, from an annual rate over 16 percent in the early 1990s, to well under half that rate over the past 24 months. This trend and other positive economic factors have resulted in lower interest rates. At the start of August, and again at the end of September, yield on the widely traded R150 government bond (due 2005) fell below 10 percent for the first time since the bond began trading in 1989. Only last year, in May 2000, the R150 yield was at an average of 14,14 percent. Lower interest rates obviously mean that borrowing is cheaper. A given level of debt service will buy more infrastructure, and revenue-generating projects that were not viable at higher interest rates become attractive to municipalities and investors alike.

General debt and revenue debt

When a municipality borrows, it may either agree to repay the debt from any and all revenues or it may pledge particular cash-flows, e.g. revenues from a water treatment plant or toll-road. The latter approach is known as revenue or project debt.

- Revenue debt can leave a municipality with more financial flexibility, though it can cost more in interest.
- Not all projects generate sufficiently reliable revenue to be acceptable to investors.
- Municipal loans and municipal bonds alike can be structured either as general obligations or as revenue obligations.
- Some investors may require both a specific revenue pledge and a general obligation.

Falling national government borrowing

Capital released for other investments

Spending restraint and better tax collection at the national level have reduced budget deficits, and thus the national government's need to borrow. In 2000/01 the public sector borrowing requirement amounted to only 1,7 percent of GDP, down from a high of 5,3 percent in 1996/1997. This decline in national government debt is expected to continue, and has already freed up significant amounts of investor capital for other quality investments. From both a municipal infrastructure perspective and a capital markets/liquidity perspective, national Government is interested in seeing high quality, tradable, municipal securities on the capital markets.

Local political stability

A five year mandate

With last December's municipal elections, local councils are in place for at least the coming five years. This puts councils in an excellent strategic position to assess their infrastructure needs and debt capacity, and make plans for the responsible use of debt as part of their service delivery and economic development strategies.

Predictability of intergovernmental transfers

MTEF makes planning commitments easier

Without stable, predictable, and adequate revenues, municipal borrowing may well be unwise. For municipalities that cannot rely on own-source revenues from taxes and tariffs, predictability in intergovernmental transfers is a key to leveraging in private investment. With three-year indicative allocations in both the equitable share and capital programs, national Government is committed to giving local government the information they need to make informed decisions about borrowing. Leveraging in private capital on the strength of committed future transfers can be a responsible local choice. By providing clear commitments (and limitations) as to future transfers, national government can empower rural municipalities without significant own-source revenues to access private capital markets, and realise well-targeted capital investment.

What needs to be done to make capital markets work for municipalities?

The legal reforms anticipated in the Municipal Finance Management Bill will not by themselves make credit available. Other ingredients in the recipe for effective capital markets include:

- Financial viability – municipalities must be sure that expenditures are in line with revenues.
- Financial information – municipalities must have clear budgets and capital plans, along with timely and accurate financial reporting. This allows investors, analysts, and credit rating agencies to make informed judgements about municipal financial health.
- Disclosure – the potential buyer of municipal bonds must have ready access to reliable information about a municipality's debts, any defaults, and other information material to an investment decision.
- Experience – as municipalities begin to enter the capital markets, they will become more familiar with its demands, and as investors have positive experience with municipal debt, they will become more comfortable with it as part of an investment portfolio.

Legal reforms

Councils must be able to commit

If a lender is to invest a significant amount of capital, it must have confidence that the borrower will repay the debt. This means that the Council must have the legal right to bind the municipality over the long term, and the right to make commitments in connection with future budgets and revenues that will secure the debt.

The weight of legal opinion is that a municipal council probably cannot make such a binding commitment as things stand today. This limits investors' willingness to invest their capital. Once a municipality makes a binding promise to pay, investors will want clear remedies if the municipality should fail in its obligations.

Because municipalities seldom, if ever, defaulted on their debts under the apartheid regime, South Africa's law on remedies in the context of municipal debt is underdeveloped. This has led to prolonged uncertainty and ineffective remedies in some recent municipal defaults. Creditors and borrowers alike will benefit from clarity about the consequences of non-payment. Knowing what happens if things go wrong reduces uncertainty, and thus reduces the cost of credit to a municipal borrower.

New legislation on municipal borrowing and financial emergencies has now been developed. This will provide clarity about municipalities' ability to secure their debt through collateral promises and about what happens in the event of a municipal financial emergency. These legislative provisions are included in the Municipal Finance Management Bill.

Can municipalities go bankrupt?

Unlike private corporate assets, municipal assets cannot readily be liquidated for the benefit of unpaid creditors. Water treatment plants and pipes in the ground, for example, have little or no value in liquidation. In any event, they are needed to provide essential services to citizens. Bankruptcy models drawn from the corporate context are therefore of little help in structuring remedies for municipal insolvency.

The draft Municipal Finance Management Bill takes a more modern approach, focusing on rehabilitating the municipality and restoring its financial health. If a municipality becomes completely unable to meet its obligations, a state of financial emergency can be declared by the High Court. A financial administrator will consult with all creditors, the municipality, and other stakeholders to develop a recovery plan. The plan can include such measures as expenditure controls, the liquidation of unnecessary assets, and raising taxes and tariffs.

In the extraordinary event that a municipality will never be able to meet its obligations under any possible recovery plan, the High Court can order obligations discharged, so that the municipality and its citizens can have a fresh start.

Which municipalities should borrow?

All municipalities can be sustainable

National government's view of the local government sphere is that there should be no such thing as an unsustainable municipality. To the extent that municipalities do not have access to adequate own source revenues, they will have access to predictable streams of equitable share revenue. Regardless of the sources of revenue, sustainable municipalities will limit the services they deliver to what they can afford.

Need skills to analyse options and impacts

Municipalities must have the ability to prepare and use multi-year budgets. When considering new capital investments, they must understand how both debt service and increased operation and maintenance expenses impact on these budgets. They must be able to project accurately any increased revenue they expect from new investments. To plan strategically for capital investment, they must be able to analyse options and scenarios. Where these skills are lacking, municipalities are ill equipped to make the best decisions for their community and to engage the investor community. All of this implies that technical assistance and training for elected representatives and appointed officials alike may be a wise investment.

Wise use of credit accelerates delivery

Once the basics are in place, the capital component of any municipal budget, of any rural or urban municipality, is generally susceptible to leverage. If a municipality has the capacity to borrow wisely and to manage multiple construction projects, more infrastructure can be put in place more quickly if the municipality borrows, and uses a portion of its capital budget for debt service. More people can get a service sooner, and a sound base for economic development can be built more quickly.

A new legal environment

In July 2000, the Cabinet adopted and published a *Policy Framework on Municipal Borrowing and Financial Emergencies.* The policies detailed in that document include proposed legislation to deal with financial emergencies in municipalities. The framework document was published at the same time as the draft Municipal Finance

Management Bill, which includes draft legislation regarding municipal borrowing.

New Municipal Finance Management bill

Following extensive public input, Cabinet approved a revised version of the Municipal Finance Management Bill during August 2001. Draft legislation on borrowing is included as Chapter 5 of the Bill. These provisions clarify how municipalities can borrow, for what purposes, and describe the undertakings they can give to bondholders, lenders, and investors in order to attract investment. Draft legislation on municipal financial emergencies is included in the Bill. These provisions provide an option for municipalities in extreme financial distress to deal with problems they cannot solve themselves.

Once this draft legislation has become law, the legal framework will be in place to make it possible for municipalities to borrow responsibly from private lenders, including capital markets. Borrowers and lenders will both be able to understand exactly what happens in the event that debt is not paid as, and when due. This clarity will reduce the risk premium for all municipalities, and can make the debt of a well-managed municipality attractive to investors. The virtual elimination of legal risks helps municipalities that borrow wisely to access the markets at the lowest possible cost.

Building municipal capacity to access and use debt

The first challenge for municipalities is to develop the information and planning necessary to determine if borrowing is a wise choice. Second, they need the analytical and presentation skills to market municipal debt.

Reliable information essential

Before it can responsibly consider borrowing, and before it can hope to interest an investor, a municipality must have current, audited financial statements. This is the starting point to make an informed judgement about a municipality's ability to take on debt. Both the municipality and its potential investors have to make such a judgement. The recent municipal amalgamations will present a challenge in this regard, as it may be a year or more before most municipalities have the financial information they need. High quality financial information is the key to borrowing at reasonable rates, and to having a choice of lenders and investors.

A clear capital improvement plan

A municipality must also have a credible and comprehensive capital improvement plan. This implies that the newly elected Councils and their officials must identify all the community's needs, prioritise them, and consider the financing options available. Again, the amalgamations present a challenge. Most municipalities include newly incorporated areas whose infrastructure needs must be considered systematically. The Municipal Systems Act requires municipalities to develop an integrated development plan (IDP) which includes much of what is needed. But not all IDPs have been completed, and not all of those that have been developed represent a genuine community consensus on needs and priorities, nor on local economic development strategy. The challenge is to link IDPs to budgets.

Borrowing can stimulate growth

Borrowing may be the most powerful tool in a municipality's financial toolbox. It can lay the foundation for economic development and a virtuous cycle of growth, or if used unwisely it can leave crippling debt for the next generation. Currently, private sector credit is available for good municipal projects - using debt wisely is the challenge of the moment. To assist local governments, national government and organised local government (SALGA) must co-operate on a meaningful program of technical assistance and training to help municipalities to:

?? identify and analyse community needs and establish priorities

?? plan for meeting these needs through an appropriate mix of projects, funding options, and sequencing through capital improvement planning and integrated development planning

?? study project feasibility and analyse the impact on municipal budgets of both debt service costs, and the increased (or sometimes decreased) operational and maintenance cost resulting from new projects

?? develop designs and specifications suitable for competitive procurement

?? manage the tender process and other procurement issues

?? manage construction projects

?? market the municipality, its projects, and its debt instruments to investors.

Options for raising capital

There have been concerns about the pace at which a municipal capital market will develop, and about such a market's preference for large and financially secure municipalities. This has led to the consideration of various forms of stimulus for markets, or direct assistance to municipalities that cannot access capital through the market. In particular, small but creditworthy borrowers may need assistance, since their projects may be too small to attract the markets' attention. Municipalities with insufficient capacity need assistance both accessing capital and spending it well.

Borrowing-related assistance options can be grouped in various ways. The list that follows begins with the most direct mechanisms and ends with the least direct.

Government grants

Advantages

One of the most direct forms of assistance is to simply provide investment capital directly to a municipality. There are existing grant programs, such as CMIP, that do this. These will continue to play a role for the foreseeable future. The main advantages are simplicity and that national government can control the flow of funds and influence or direct what is built.

National grants are simple but …

One disadvantage is that this spending costs real money, and that money is not leveraged. Limited resources constrain the pace at which infrastructure is built. Local communities may not share national government's view of their needs or of what projects are appropriate to address those needs. Projects mandated by national governments in many countries, including South Africa, have been criticised as inappropriate for local conditions and as expensive or impossible to maintain. Some of these effects can be limited with adequate community involvement, provided that due account is taken of financial realities.

Government lending

Neither a borrower nor a lender be?

Another option is for the National Treasury, or another government agency, to lend directly to sub-national governments. The first advantage is the low cost at which national government can borrow funds for use by provinces and municipalities. Secondly, it gives national government the ability to direct lending to priority programs. The main disadvantages usually associated with such programs are the moral hazard implicit in government-to-government business transactions and the potential crowding out of the private sector.

Including the Local Authorities Loan Fund, the DBSA now accounts for over 30 percent of all outstanding municipal debt, a percentage that has nearly doubled over the last four years. The challenge is to find a balance between public and private lending.

Government guarantees and insurance

Government guarantees are less direct than outright lending to sub-national governments. The main advantage is that guarantees are less costly than direct lending, at least in the short term. Furthermore, a national government guarantee can induce private lenders to provide credit for sub-national borrowers at low rates.

There are four principal disadvantages:

- such guarantees increase government's contingent liabilities
- the cost of guarantees is difficult to predict and quantify
- the investor's focus shifts from the creditworthiness of the borrower and/or the project to the creditworthiness of national government.
- investors become willing to lend to any guaranteed borrower regardless of its independent ability to repay, or the project's financial viability.

Risks within the control or responsibility of national government may be appropriate for government guarantees or insurance. For instance, government could guarantee or insure against risks associated with changes in sub-national boundaries, or legislative changes in the powers and responsibilities of sub-national governments.

Government subsidies for local borrowing

Subsidies an option but risky

Some countries provide subsidies for local government borrowing, often in the form of tax exemptions on income generated by municipal debt. The United States is the most commonly cited example. Such tax subsidies are often criticised on the grounds that they erode the tax base. They also tend to create a preference for the public sector at the expense of the private sector, and are less transparent than budget allocations for the same purpose. Non-tax subsidies are also possible. The challenge would be to design a pure subsidy that minimises distortion of capital markets. This is an especially difficult challenge given that municipal capital markets are themselves dormant.

Special purpose intermediaries

Intermediaries can assist smaller councils

The world's capital markets convey huge flows of money every day, with great efficiency. Not every small municipality can access these capital markets directly, so there must be market intermediaries that step financial flows down to user-friendly levels. Such intermediaries can be especially useful for small and medium-sized municipalities. All bank lending to municipalities represents intermediated capital market access. A bank lends funds to a municipality that it has acquired either from another intermediary or directly from capital markets. But from the perspective of a small borrower, even a bank can be a large and impersonal entity. From the perspective of a large bank, a small municipality may not be worth the effort. To make credit more available to small municipalities, many countries around the world have developed special purpose intermediaries, such as bond banks and bond pools. South Africa's own INCA – a private sector institution – has received international attention as a positive model.

The DBSA and INCA are the two most important intermediaries now operating in the municipal market. Between them, they hold about half of the outstanding municipal debt stock.

Technical assistance and training

Training and assistance will bear fruit

The most strategic long-term investment is likely to be technical assistance and training. This should be aimed at both councillors and officials, to help them develop the skills to define needs and projects, and to interact with capital markets and market-driven intermediaries. This technical assistance and training is compatible with any other form of assistance, including grant funding. Wise and efficient use of capital resources, however obtained, is manifestly in the best interest of both national and local government.

Supportive environment

Indirect but critical elements in supporting local governments' access to credit markets include:

?? assuring financial viability – municipalities must have adequate revenues, including intergovernmental transfers where necessary, to meet their constitutional service delivery and governance obligations.

?? user-friendly financial information – municipalities must provide clear and accurate financial information, and national government can help sponsor systems that make such information freely available to interested parties, including investors, analysts, and credit rating agencies to make informed judgements about municipal financial health.

?? disclosure systems – if active trading in municipal securities is to occur, potential buyers of municipal bonds must have ready access to reliable information material to an investment decision.

While efforts to artificially stimulate municipal borrowing through guarantees and subsidies are superficially tempting, helping municipalities with the basics – sufficient revenues, capital planning, effective management and reliable information – is likely to yield the most sustainable capital finance system for municipalities.

Conclusion

Capital investments in municipal infrastructure are essential if municipalities are to meet their developmental mandate. They need to work with partners that can attract such investment, or access the capital market directly through borrowing. This chapter discussed the options, and reflected on progress with municipal public-private partnerships as well as borrowing.

It is evident that private sector lending has been sluggish, but the market is ready for an upturn. This is due to the fact that municipal demarcations are now known, other public sector borrowing has declined, grant reforms, falling inflation and interest rates, legal and policy reform, and greater political stability. A stable policy environment, capacity building, and a careful selection of institutional models and approaches for borrowing, will enhance these trends. The priority is to create greater stability and certainty that would comfort potential investors.

A

Provincial Fiscal Framework: The way forward

Accepted by Cabinet in late 1999, this document describes the approach adopted towards fiscal decentralisation with provinces. It provides for a comprehensive framework for the long-term development of intergovernmental fiscal arrangements, including institutional arrangements, expenditure responsibilities, provincial taxation, intergovernmental transfers, and borrowing. The aim, over the long term, is to move towards a more robust system that promotes good governance and develops the capacity of each sphere to fulfil its mandates. The *Framework* notes that, in the medium term, the focus must be on developing the necessary foundations for an effective multi-sphered system and on fostering efficiency and accountability. It is attached to the *2001 Intergovernmental Fiscal Review* to explain the underlying approach to provincial fiscal management.

A.1 Introduction

The global trend over the past few decades has clearly been towards political, fiscal and administrative decentralisation. This trend has become more evident in developing countries since the mid-1980s for reasons that include the introduction of democratic government and the need to provide services to large and disparate populations, and improve government performance. In South Africa, decentralisation was an outcome of a negotiated political settlement and the subsequent transition to democracy.

Since the early 1960s, governance literature has advocated the benefits of decentralisation to enhance a government's accountability to its citizens and improve efficiency in resource allocation and welfare. The literature, however, was largely based on the experiences of countries that are both developed and federal in structure. During the 1990s, as decentralisation gained momentum, its costs, particularly the impact on distributional equity and macroeconomic management, became a concern. Several crucial elements of successful decentralisation in industrial countries are weak or absent in developing countries. The developing countries have weak institutions and processes of democratic government, as well as inadequate administrative capacity to implement difficult transformation processes, and are unable to maintain macroeconomic stability in an open, global marketplace.

Therefore the initial gains from decentralisation in developing countries may be smaller and the risks greater, depending on institutional and other fiscal arrangements. Recent experience indicates that successful decentralisation depends on country-specific circumstances, intergovernmental fiscal relations, and institutional arrangements within and between the levels of government.

This document summarises the South African context and reviews aspects of the political, economic and social structure, and arrangements that may affect the outcomes of the intergovernmental system. It describes general principles derived from international experience, and the application of these principles in South Africa in terms of both the legal framework and current practice. The concluding section proposes a medium-term path from the current situation to a more robust system that allows provincial autonomy in line with the Constitution.

The proposed intergovernmental fiscal framework supports the broader budget and public sector reforms. These reforms promote:

?? greater clarity in roles and responsibilities in all spheres of government

?? improved fiscal accountability

?? increased policy oversight over budgeting

?? more efficient use of resources to achieve a better life for all.

The framework allows the different parts of the intergovernmental financial system to evolve consistently, but with sufficient flexibility to respond to changes in the economic and political environment. Flexibility is important during transition, as many current constraints are likely to be mitigated in future. Hence, while the proposed medium-term plan does not foreclose long-term options when addressing short-term problems, it provides more clarity and certainty about the structure of intergovernmental financial relations.

A.2 The South African landscape

The evolution of the South African intergovernmental system has been shaped by political, historical and demographic factors, the interdependence of the spheres of government and the constraints of the economy's emerging market status. Although the categories are not mutually exclusive, the influences on the system are grouped into historical influences, institutional arrangements, economic considerations, capacity constraints, electoral accountability and information flows.

Historical influences

The previous system of government was highly centralised, but simultaneously fragmented along racial lines. In total, there were 14 systems of government and administration. The TBVC states and self-governing territories were nominally autonomous but politically illegitimate and undemocratic, and highly dependent on fiscal transfers from South Africa. The old provinces, although performing health, education and welfare functions, were merely administrative extensions of national government. Policy formulation was centralised in Pretoria and budget allocations were determined through function committees. This historical legacy affects the system in at least three ways.

?? The historical distribution of resources along racial lines resulted in provinces with vastly different economic and demographic profiles. These differences affect the demand for services, the ability to provide services, the skills base of provincial governments and their capacity to generate revenues. Despite improvements since 1994, disparities in access to economic opportunities remain substantial. For instance, the four more rural provinces, with a combined share of 43 per cent of the population, receive only 17 per cent of remuneration. Six provinces diverted considerable resources into rationalising disparate systems and administrations into a single, coherent provincial administration. This process required significant resources, detracting from service delivery and public expenditure management. Some provinces still have many supernumerary staff, a costly vestige of the consolidation process.

?? South Africa has a history as a unitary, if divided, state. Citizens have yet to identify strongly with the new provinces, which have a short political history. The perception persists that provinces are administrations of central government rather than independent governments. Overall, the legal and economic configuration implies that many provinces will struggle to develop separate identities.

Institutional arrangements

The Constitution assigns responsibilities to each of the three spheres of government; some exclusive and some shared. Although the Constitution envisaged a partnership between the spheres, current institutional arrangements have yet to address certain tensions in the system of co-operative governance. While provinces have significant responsibility for delivering the essential social services of education, health and welfare, political and economic realities cause national government to remain the dominant sphere.

National government largely relinquished direct control over expenditure responsibilities within concurrent functional areas, but retains responsibility for policy development and financing. Provinces are almost entirely funded by transfers from national government, but have some discretion over the allocation of funds between programmes. This separation of the functions of policy and expenditure management creates the potential for both moral hazard and unfunded mandates, as described in Box 1 below.

Box 1: Moral hazard and unfunded mandates

National government promotes the socio-economic ideals of the Constitution by exercising control over policy formulation and setting norms and standards for the delivery of basic services. Partly for historical reasons, citizens hold national government accountable for the delivery of services, even though the provinces have primary responsibility for the allocation of resources to and administration of these programmes. Thus, citizens for the delivery of services over which it does not have full control are holding national government accountable.

On the other hand, nationally determined policies have financial and implementation implications at the provincial level. In particular, national government retains direct control over public sector wages and social security benefits. These two items alone account for more than three-quarters of provincial expenditure. Therefore, provinces are faced with funding programmes over which they have minimal policy discretion. If insufficient resources are provided to meet these mandates, the policy objectives will be undermined.

The Public Service Act of 1994 established a single public service with 35 national departments, offices and services, nine new provincial governments, and the post of Director-General to head each of the national departments and provinces. The structure of provincial governments is similar to that of national departments in terms of this legislation.

The Interim Constitution stipulated that the institutions of the old order be rationalised into effective new national and provincial governments as soon as possible. As a result, the process of devolving functions to the new provinces was rapid and symmetrical across the provinces, regardless of their preparedness. Although the results of this devolution process were at times uneven, many initial problems have been addressed. Nevertheless, certain centralising characteristics remain within the institutional arrangements of intergovernmental finance (e.g. centralised wage bargaining). Given the newness of the intergovernmental fiscal system, and that roles and responsibilities are not yet well entrenched, such unresolved tensions may impair its functioning.

Economic considerations

The country's reintegration into the world economy and its sizeable public debt necessitated a measured approach to macroeconomic policy. To sustain international confidence in the economy, policies have focused on macroeconomic stability and fiscal discipline. Investors see South Africa as an emerging market and a problem in one part of the intergovernmental system may be perceived as symptomatic of the system in general. This reinforces the interdependence of the spheres, making it more difficult for provinces to exercise independence on economic issues. In terms of fiscal policy, this has meant limited provincial autonomy over taxation and borrowing. Although this approach allowed South Africa to withstand the recent global financial crisis, it strengthened the perception of government as a hierarchy of tiers.

As noted, disparities across the provinces in terms of economic opportunities, access to public services and institutional capacities are considerable. The need to redress these imbalances remains a powerful factor in the emerging system of intergovernmental relations. National government is best positioned to promote redistribution and equity, driving South Africa's transformation process through the Reconstruction and Development Programme (RDP) and other policy initiatives. It has relied on a strongly redistributive formula (based on objective criteria) to allocate funds to the provinces, which are primarily responsible for the implementation of many of these policies. However, because it is so strongly identified with the transformation process, national government has generally been held accountable for the outcomes of these policies.

Capacity constraints

Provinces need the capacity to perform their constitutional responsibilities, including the ability to convert policy into service delivery and the financial management capacity to do so efficiently. Not surprisingly, the financial management and administrative capacity of provincial governments varies widely, with particularly acute problems in provinces that inherited the administrations of the former homelands. Some provinces find it difficult to recruit and retain staff with the requisite financial and analytical skills because remuneration is well below that of the private sector. Capacity constraints include shortages of skilled personnel, inadequate data and poor information and management systems.

The capacity demands on national government receive less emphasis, yet the problems are also pressing. National government formulates policy, monitors implementation by subnational spheres, evaluates compliance with norms and standards, and aims to provide technical support to and capacity building in other spheres. However, its capacity to perform these functions has also been compromised by shortages of quality personnel, information and support systems.

Capacity constraints in the legislative arm of government are equally critical. For example, the oversight role of parliamentary committees is significantly stronger than in the past. Provincial legislatures have also been introduced, often under adverse conditions and in the absence of an institutional history. A lack of financial expertise, time constraints and inadequate research support negatively affect both Parliament and provincial legislatures, particularly on budget issues.

Electoral accountability

In mature and relatively wealthy democracies, a decentralised political system and elections provide the most direct forms of accountability. Citizens unhappy with the goods, services, and other benefits they receive can vote incumbents out of power. Alternatively, they can “vote with their feet” and relocate. But these mechanisms are not as substantial in relatively poor democracies emerging from the effects of non-democratic institutions and divided societies.

As in many emerging democracies, electoral accountability in South Africa is developing and interprovincial mobility is generally low, particularly among the poor and those from rural areas. People usually move between provinces to find better economic opportunities, with small differences in the quality of public services or tax rates unlikely to play a major role in their decisions.

In addition, South Africa’s electoral system is proportional rather than constituency-based. This tends to foster voter allegiance to the central rather than provincial or local governments, a common situation in countries with unitary rather that federal systems of intergovernmental relations.

Information flows

Information problems affect the government’s ability to make policy and to implement policy decisions in a decentralised framework. These problems also affect the ability of government and the public to evaluate the success of government policies and to hold the appropriate sphere accountable for policy outcomes. Data problems in South Africa relate to the type, quality, availability and presentation of information. Inappropriate recording, processing and dissemination systems contribute to the poor quality and timeliness of information:

?? The budgeting system is still largely input driven, and provinces and departments are merely required to account for monies spent, not for the outputs delivered.

?? Available information has commonly been of limited management value because of time lags. In the past, provincial departments frequently took several months to close their books, and financial statements by the Auditor-General would take more than two years to process.

?? Certain accounting practices, such as the use of suspense accounts, undermined the goals of timely and accurate information.

?? Information delays made it hard to detect and act on discrepancies, unauthorised expenditure or other issues.

It is difficult to form a comprehensive picture of public finances, despite the important interrelationships between the national, provincial and municipal budgets. There is no uniformity in departmental, programme or subprogramme structures across the spheres, and differences in economic and functional classifications further complicate calculations of consolidated expenditure.

Many of these problems are being addressed. Budget process reforms, such as the introduction of a medium-term framework and rigorous intergovernmental sectoral reviews, necessitate better information to support policy analysis for decision-makers. The Public Finance Management Act also requires timely, accurate and uniform information, and failure to meet the terms of the Act will result in sanctions. Current reforms in information systems will also facilitate the availability and dissemination of information, but these reforms are at an early stage and will take time to filter through the system. Considerable work has been done on revised formats for budget documentation and the introduction of uniform, internationally recognised reporting standards through the Government Financial Statistics (GFS) classification system.

Conclusion

After the 1994 elections, national government and the new provincial governments faced the daunting task of transforming and improving service delivery amid large historical backlogs, underdeveloped capacity and a poor information base. Overcoming these difficulties requires co-ordination, intergovernmental co-operation and a strong role for national government.

Some of the features that shaped the current intergovernmental system are likely to continue. For instance, in a unitary state, the role of national government will remain strong and its leadership in economic policy-making unquestioned. Even in other areas, at least over the medium term, co-operative governance between the spheres will remain hierarchical. National government will retain responsibility for monitoring provincial activities and will intervene when a province fails to meet its executive obligations.

Other aspects are likely to change and, in particular, current reform initiatives will begin to solve capacity and information problems. This will support more effective intergovernmental co-ordination and a clearer assignment of responsibilities. Political and institutional structures at the provincial level will also mature, becoming more effective in policy-making and oversight. These changes will support further devolution of responsibilities to the provincial sphere, as they help ensure the benefits of decentralisation are maximised.

A.3 Intergovernmental system design

An effective intergovernmental system entails political, fiscal and administrative arrangements that promote efficiency, accountability and growth while addressing differing provincial needs and capacities. Accountability and efficiency, as used here, are defined in Box 2.

Box 2: Key concepts of accountability and efficiency

Efficiency in spending requires that every rand spent must improve service delivery in line with the nation's priorities. Decentralising responsibility for the allocation of resources, or moving government closer to the people, often encourages efficiency. It allows sub-national government to be more responsive to the particular combination of services that local citizens require, to make use of local information to deliver services at lower cost and to be innovative in meeting target outcomes.

All levels of government are held accountable for the efficiency of expenditure within the resources available. Sub-national governments are responsible for allocating given resources between different public services. They are held accountable by national government for managing their resources efficiently and by citizens for the quality and mix of services. Where sub-national governments have substantial control over the size of their resource pool, they can also be held directly accountable for the overall level of public expenditure.

The importance of these concepts to good governance is underscored by their inclusion in the Constitution (section 195). The primary tools for encouraging efficiency and accountability are the electoral process, the flow of information and the creation of suitable incentives. The sequencing of the devolution of responsibilities is critical to improving accountability. It seems rational to first attend to the efficiency and prioritisation of public expenditures before providing sub-national governments with additional sources of own revenue; this approach has been adopted in South Africa.

Intergovernmental fiscal relations in South Africa comprise five interrelated components. First, institutional arrangements include the constitutional and legal framework, and the respective roles of the spheres of government. Second, within this framework, a set of expenditure responsibilities is attributable to each sphere. The final three components relate to the financing of the spheres – taxation powers, intergovernmental transfers and grants, and responsibilities for borrowing. Designing the components to be consistent and achieve the desired objectives requires rules and procedures that allow individual components to respond to changing circumstances without threatening the integrity of the system as a whole. This section outlines general principles and their application in South Africa in terms of the Constitution and other laws, and in practice.

Institutional arrangements

General principles

The system of government, the form of the democracy and the particular circumstances of each country determine the role of national government. In a unitary form of government, centralised decision-making is often used to further national objectives. Most developing countries, and particularly those with colonial pasts, have taken this route. Federal governments are more conducive to decentralised decision-making, as many were created by the aggregation of existing states with pre-existing capacity and political histories.

In both systems of government, national government retains responsibility for macroeconomic management and redistribution, as substantial decentralisation can compromise macroeconomic management. For example, allowing provincial autonomy in taxation and borrowing could undermine macroeconomic stability. To counter this, national governments retain control over integral aspects of the system, such as maintaining the integrity of the overall tax system and managing the national debt. A balance should be found that allows national government to co-ordinate macroeconomic management and pursue national priorities without unnecessarily reducing subnational discretion and the incentives for subnational innovation in service delivery.

Current legal framework

The Constitution provides for a unitary but decentralised system of intergovernmental relations by prescribing three "distinctive, interdependent and interrelated" spheres of government. While the term "sphere" specifically denotes a non-hierarchical relationship between governments, each deriving their status and powers from the Constitution, national government is still perceived as the dominant sphere.

The Constitution's provisions for intergovernmental transfers and expenditure and tax assignment reflect international best practice. The Constitution also has some unique features pertinent to intergovernmental fiscal relations. This is underpinned by a commitment to basic human rights, set out in the Bill of Rights in Chapter 2, and to co-operative governance, spelled out in Chapter 3. The Bill of Rights emphasises the delivery of basic services to all South Africans; this affects the budgets of all three spheres of government. The commitment to co-operative governance has created a more collegial environment for solving problems and sharing resources, encouraging consensus rather than conflict between the spheres. It has also created space for the system to evolve and mould itself in response to changing circumstances.

Provincial governments have the power to establish their own political structures and processes. In terms of section 128, the provincial legislature elects the provincial premier. Section 132 empowers the premier to appoint the provincial Executive Council, which is then accountable to the legislature.

Provincial autonomy is balanced by national government's co-ordination and monitoring role over macroeconomic stability, national policy goals and a consistent standard of services so that citizens are not prejudiced on the basis of their place of residence. The government achieves this primarily through framework legislation or norms and standards. For example, sections 215 and 216 require national budget formats and accounting standards to promote uniformity.

The Constitution also provides for more direct national monitoring of provincial affairs under prescribed conditions. National government intervention is permitted to maintain national security, economic unity, national norms and standards, or to prevent activities by one province prejudicing other provinces or the nation as a whole (sections 44(2), 100 and 146–150). Section 100(1) provides for "any appropriate steps" for ensuring that provinces fulfil their executive obligations. Although this section applies broadly to all executive obligations of provincial governments, it has thus far been used exclusively for budgets and financial management.

Current practice

The national government has guided macroeconomic policy, reconstruction and redistribution in line with the Constitution and international best practice. The Constitution allows the details of the intergovernmental system to be negotiated and adapted as circumstances change. The legislative basis has therefore been developing, and includes the Intergovernmental Fiscal Relations Act, the Public Finance Management Act and intergovernmental institutions across government, such as the National Council of Provinces, MinMECs (Minister and the nine and members of provincial Executive Councils) and technical committees.

Various intergovernmental processes have developed over the past few years, some more formal and institutionalised, and co-ordinating these has been a problem. The introduction of sectoral review teams as part of the Medium Term Expenditure Framework (MTEF) has been an important reform, and line departments and treasuries from both the national and provincial level work together to align policy goals and budget resources. In education, health, and welfare, these annual review teams have evolved into a series of technical committee meetings known as 4x4s.

Certain institutional arrangements, however, remain largely informal or vary across government.

> **Box 3: The Intergovernmental Fiscal Relations Act**
>
> The Intergovernmental Fiscal Relations Act of 1997 came into effect on 1 January 1998. The 1999 budget process is the first year in which the Act has been fully implemented. It formalises a process for dealing with intergovernmental budget issues and gives effect to section 214 of the Constitution by setting the process for revenue sharing, and to section 41 by promoting co-operative governance.
>
> In terms of the Act, the Financial and Fiscal Commission (FFC) makes recommendations on the division of revenue ten months before the start of the financial year. These are submitted to the Minister of Finance, Parliament and the nine provincial legislatures. The Minister then consults the provinces, local government and the FFC about the recommendations. To facilitate such consultation, the Act establishes the Budget Council and the Budget Forum. The Budget Council consists of the Minister of Finance and the nine Members of the Executive Councils (MECs) for Finance. The Budget Forum extends this group to include representatives of local government. The Budget Council is a vital forum for engaging with provincial fiscal and financial affairs.
>
> The final step in the budget process is that the Minister tables a Division of Revenue Bill at the time of the Budget, setting out the final allocations to each sphere and province, and any conditions that apply to these allocations.

In particular, the effectiveness of national departments differs considerably in terms of setting norms and standards or monitoring and enforcing conditions for intergovernmental grants. Although intervention under section 100 has only occurred for failure to fulfil executive obligations on financial matters, some departments (such as transport) have legislative authority to intervene if there is a failure to deliver services. No norms have been established to guide such interventions.

Expenditure responsibilities

General principles

Unitary systems of government are more likely to devolve administrative and expenditure responsibilities rather than revenue-raising or borrowing powers. Devolution of expenditure responsibilities can lead to a more efficient allocation of resources and an increase in welfare by allowing expenditure priorities to reflect the needs or preferences of affected citizens. Equally clear, however, is that administrative weakness or capacity problems can negate these gains at subnational level.

An important principle of expenditure assignment is that responsibility for expenditure should be assigned to the level of government that can be most responsive to its citizens in the area of benefit and that has the capacity to deliver services efficiently. This implies that national government should be responsible for functions with national benefits or economies of scale.

It is useful to distinguish between different types of "expenditure assignment". If subnational governments merely have to implement policy decisions, it is a delegated responsibility and they are agents of the central government. Devolving expenditure responsibilities requires subnational governments to have some discretion in making allocation decisions and determining how services are to be delivered. This is said to allow expenditure to be more responsive to the desires of the citizenry, as the subnational government may make better choices between alternative expenditure configurations.

For the benefits of decentralised expenditure responsibility to be realised, subnational expenditures must be made efficiently. This requires efficient systems of contracting, rational personnel policies and information systems that allow monitoring and expenditure control. For subnational governments to choose among alternative public expenditures, they must have budgetary procedures that encourage rational choices. These choices must not merely be based on inputs but rather on the objectives, costs and benefits of public spending.

If the distribution of resources or level of services differs substantially between regions, these can encourage destabilising regional migration and political and social pressures. Substandard levels of service provision, for example in primary health care, have a broader economic impact, with significant efficiency costs. National government can influence delivery without having to undertake provision directly. It can set policy guidelines, transfer funds to enable subnational governments to meet national mandates, and exercise control over the use of some transfers. In unitary countries, national governments can prescribe minimum standards of service provision in the interests of uniformity and equity; in federal countries, subnational governments may have greater discretion in differentiating service levels.

Current legal framework

Schedules 4 and 5 of the Constitution assign to provinces certain expenditure responsibilities; these are either exclusive or concurrent. Exclusive provincial functions are those with provincial benefits, such as provincial planning, provincial roads and transport, and cultural affairs. Functions not specified, such as defence or home and foreign affairs, remain exclusively with national government as they have national benefits or economies of scale. Concurrent functions are those shared with national or local government. For instance, responsibilities for the three social services, health, education and welfare, are shared between national and provincial government. Tertiary education and health both have potential spillover effects, but are treated differently. Tertiary education is a national responsibility but tertiary health is concurrent, with a conditional grant to address spillover effects; social security is also concurrent.

Current practice

The assignment of expenditure responsibilities is in line with these provisions, although it occurred rapidly and sometimes with little clarity on responsibilities within concurrent functions. As the Public Service Commission (1997) pointed out, the appropriate division of these functions was not self-evident – many major functions did not fit neatly into either category. In general, the national government provides policy frameworks (especially norms and standards), overall planning and essential co-ordination. Provinces, in turn, are responsible for the delivery of public services. The exact functions of the national and provincial departments continue to evolve and are based on a practical interpretation of the Constitution and political agreement reached through forums such as the technical committees.

The 1997/98 budgets were the first over which the provinces had discretion. They proved to be problematic for a variety of reasons, but primarily because they were based on the previous year's budgeted amounts rather than actual expenditure. In the absence of functioning management information systems, little detail was available on the actual costs of new policies, particularly on personnel and social security. The result was widespread social services overspending and a combined deficit of R5,8 billion that year.

Significant budget reforms were subsequently introduced, including three-year budgets to facilitate medium-term planning, and better co-ordination between treasuries and national and provincial departments to align policy goals with available resources. More intensive monitoring of expenditure through an early warning system process improved expenditure control. Consequently, provincial budgets have become far more reliable. Despite these financial management gains, the budget process remains largely input driven, as accurate information on the costs of service delivery outcomes is generally unavailable.

Provinces currently account for some 60 per cent of non-interest expenditure. Although social service (health, education, welfare) expenditure accounts for more than 80 per cent of provincial budgets, provinces are responsible for a range of other functions that impact on poverty and economic growth, such as tourism development, provincial industrial strategies, agriculture and provincial infrastructure. In the tight fiscal environment, there is a tension between the demands on social service spending and the allocation of resources to other provincial priorities. This tension is heightened by the fact that national government determines social services policy and social security benefits, and sets public sector wages.

Provinces are now better able to monitor and control expenditure, contributing to greater stability in provincial budgets, since implementing the MTEF in 1998/99. They have generally developed decision-making processes that adequately involve political office-bearers and that links budget allocations to provincial priorities. But there is still room for improvement in co-ordination with national departments. Interdepartmental technical committees were established at the end of 1998 to provide a co-ordination process in education, health and welfare, and supplement the work of other intergovernmental institutions. The committees aim to link planning and budgeting more closely, guard against unfunded mandates, and deepen the understanding of national policies and their budgetary implications.

Over time, it is likely that provinces will exercise greater discretion over a growing part of provincial budgets. Personnel and social security expenditure growth appears to have stabilised, allowing provinces to increase capital expenditure and spending on non-personnel items such as textbooks, medicine and road maintenance, and to choose a more optimal spending configurations.

Intergovernmental transfers

General principles

Internationally, a high degree of decentralisation can negatively affect distributional objectives, especially in countries with large regional differences in incomes and resources. The economic rationale for transfers and grants includes rectifying such fiscal imbalances, redistributing resources, compensating for interjurisdictional spillovers, maintaining minimum standards in service delivery, and promoting economic stability.

Major taxes are typically assigned to the central government, but substantial expenditure responsibilities are devolved, leading to sizeable imbalances at the subnational level. In addition, the capacity to raise own revenues differs between regions, as do demand and cost pressures, leading to horizontal imbalances. Therefore, all decentralised systems make use of intergovernmental transfers and grants. In developing countries, intergovernmental transfers are the dominant source of revenue, while federal countries tend to use tax sharing and surcharges on national tax bases for subnational governments.

International experience with transfer systems is diverse, but includes two main categories – revenue sharing and grants. Revenue-sharing mechanisms primarily aim to rectify the vertical imbalance between revenue and expenditure assignment, and to promote redistribution of resources. True revenue sharing, as opposed to tax sharing, does not return revenues to provinces from where they originate. Revenue sharing between spheres can be on a tax-by-tax basis, as in Argentina, Brazil and Germany, or on the entire pool of nationally collected revenues. The shares of each sphere can be determined according to a variety of models, including specifying a share in legislation. To promote horizontal balance, several countries use formulae based on redistributive criteria. The complexity of these formulae differs, with some incorporating adjustments for cost differentials, but most relying on demographic criteria and economic indicators.

Revenue-sharing transfers tend to fund general-purpose obligations and are not accompanied by restrictions on the use of the funds. Other grants target funds to a specific purpose and require that certain conditions be met. Conditional grants frequently support functions that are higher national than provincial priorities. Conditional grants can also include matching requirements, which affect resource allocations by requiring subnational governments to use their own funds to supplement the grants. The design and enforcement of appropriate conditions are difficult, and conditions often end up as formalities rather than substantive controls.

Current legal framework

Section 214(1) of the Constitution stipulates that:

- nationally collected revenue must be distributed equitably between the three spheres of government
- the provincial share must be divided equitably between the nine provinces
- other allocations may be made from the national share, with or without conditions.

The allocations to other spheres must take account of ten factors, including the fiscal capacity of recipients, disparities between provinces and obligations in terms of national policies.

The Intergovernmental Fiscal Relations Act of 1997 establishes a framework for considering FFC recommendations on intergovernmental transfers. It also requires consultation with the provinces and organised local government before any final decisions are made on these allocations. The Act further requires that a Division of Revenue Bill be tabled with the annual budget, indicating all intergovernmental transfers such as equitable shares and any conditional grants or agency payments. Conditions associated with any of these transfers are included in the Bill. Finally, the Bill must be accompanied by a memorandum that details the formula used to calculate the equitable shares, how the allocations compare to the recommendations of the FFC and how they comply with constitutional requirements.

Current practice

Transfers provide approximately 96 per cent of provincial budgets, of which 90 per cent is from the "provincial equitable share" of national revenue. Nationally determined priorities, the constitutional obligations of each sphere, and its ability to generate own revenue inform the division of nationally collected revenues between the spheres. Debt service obligations are removed before revenues are shared. The revenue-sharing mechanism compensates provinces for the gap between their expenditure responsibilities and revenue sources, and redistributes resources among provinces.

The provincial equitable share (the vertical division) is determined after an intensive process of expenditure review, policy analysis and consultation. The total provincial share reflects a political decision on the priority of provincial functions relative to those of national and local government. The provincial equitable share is divided between the provinces (the horizontal division) using a formula based on provincial demographic and economic profiles. The objective formula promotes redistribution objectives and, in conjunction with three-year budget allocations, introduces greater certainty about provincial revenues, in line with international best practice. Although the formula incorporates components to reflect notional demands for health, education and welfare services, and infrastructure backlogs across provinces, this does not imply any condition on the use of these resources, except as required by national laws. The formula also incorporates a component that acts as a proxy for provincial tax capacity. If provinces are given greater tax discretion, this element may be modified.

Conditional grants were first introduced in the 1998 Budget, most significantly in the health sector to compensate for specialised services provided by four provinces and to promote the construction and rehabilitation of hospitals in other provinces. Other grants fund national priorities such as improved financial management and non-personnel expenditure in education. Since 2000/01, government has created some new conditional grants and reformed others. Information on these is found in Chapter 7 of the *2001 Intergovernmental Fiscal Review*.

Revenue assignment

General principles

The theory of revenue assignment asserts that revenue sources should match expenditure responsibilities, although this seldom occurs in practice. The devolution of tax sources offers greater subnational autonomy but risks duplication of effort, the introduction of economic distortions and the accentuation of horizontal fiscal disparities between regions. In federal countries, subnational governments are assigned tax resources, supported by varying degrees of conditional grants. In unitary systems, subnational governments are dependent on transfers from national government and have little capacity to impose taxes. These include many transition economies in Asia and Latin America.

A common argument for devolving some tax sources is to promote fiscal accountability by government officials and political accountability to the electorate. Devolved taxes allow subnational governments to differentiate the level of services they offer and hold them accountable for the overall level of expenditure instead of only for the efficient allocation of a fixed total. This creates a stronger link between expenditure benefits (services) and their costs (taxes). However, if budgeting is not rational and spending not efficient, subnational governments are unlikely to make informed decisions about the optimal level of overall expenditure. Indeed, making additional own revenue available to a government that cannot budget and spend efficiently is likely to delay needed reforms in budgeting and expenditure control. For this reason, rational procedures for budgeting and assuring efficiency in expenditures should generally precede tax assignment.

In the assignment of taxes to subnational governments, four key questions need to be answered:

?? Which taxes are to be devolved to subnational governments?

?? Should the base for a tax be uniform or can it differ between regions?

?? Will subnational governments be allowed to set their own tax rates?

?? Who will be responsible for tax administration?

As macroeconomic stability and income redistribution are national functions, the key objective of subnational taxes is to improve resource allocation. This is more likely where there is a close correlation between benefits received and taxes paid, and benefit taxation is generally considered preferable for subnational governments. User fees directly link payments and services, and are a superior form of benefit charge. Other benefit charges include levies and taxes, such as motor vehicle licences and a fuel levy, where the proceeds are used for related public expenditure, such as road construction.

Where a subnational tax is not closely linked to a particular public service, the tax should be paid by a substantial portion of the population instead of being narrowly targeted. The most appropriate revenue sources for devolution are those taxes that are relatively immobile, evenly distributed across regions and relatively stable over the economic cycle. Destination and residence-based taxes have a smaller distorting impact on the location of economic activity and are less prone to tax exporting, and are preferred to origin and source-based taxes.

Where uniformity is required, tax bases should be determined centrally as differing tax bases can encourage resource mobility. The choice of uniform or provincially differentiated rates must be made for each specific tax. In general, an institutional framework for harmonising subnational taxes is useful for avoiding distortions in the overall tax system. As with expenditure, weak administrative capacity can undermine effective revenue decentralisation. Central government should administer the devolved taxes until appropriate capacity has been built at the subnational level.

Although there is broad consensus on these guiding principles, in practice the assignment of revenues differs widely across countries. The ratio of own to total revenues ranges from around

4 per cent in Italy to 80 per cent in the USA and Canada. To bridge any remaining imbalances, most countries combine some own sources of revenue with intergovernmental transfers.

Current legal framework

In terms of section 228(1), provinces may impose taxes, levies and duties other than income tax, value-added tax (VAT), sales tax, rates on property and customs duties. They may also levy a flat-rate surcharge on the tax base of any tax, levy or duty imposed by national legislation, except for corporate income tax, VAT, rates on property and customs duties. Such taxes must not unreasonably prejudice national economic policies, interprovincial economic activity or the mobility of resources. The Constitution further specifies that provincial taxing powers must be regulated by an Act of Parliament.

The constitutional provisions accommodate independent provincial taxes, surcharges on national taxes and user charges and fees. They also conform to the theoretical approach by assigning to national government all taxes that are important for redistribution and macroeconomic stability.

Current practice

Provincial own revenue accounts for less than 4 per cent of provincial budgets. It is derived mainly from motor vehicle licences, hospital fees and gambling proceeds. In recent years, provincial own revenues have declined substantially. This reflects a sharp drop in interest income, as provincial bank balances were used to fund overruns in 1996/97 and 1997/98. It also reflects policy decisions in health, such as the provision of more free care, and the trend among paying patients to use private rather than public facilities. Despite these structural factors, provinces have generally not taken a systematic approach toward increasing own revenue collections, being hampered by poor capacity, disjointed information systems and weak incentive structures.

Devolution of taxing powers raises various concerns about the management of macroeconomic policy. A key constraint has been the government's intention to maintain tax revenues at 25 per cent of GDP as part of its macroeconomic policy. Any tax assigned to provinces has to be coupled with an offsetting reduction in national tax revenues, as the imposition of new taxes could violate the 25 per cent rule. This will ultimately reduce the equitable share of national revenues accruing to provinces and affect the distribution of resources between provinces.

The FFC has recommended a surcharge on the personal income tax, to be phased in over a number of years. The surcharge would be matched by a 7 percentage point reduction in the national portion of the tax. Provinces would be allowed to choose rates within a 5 percentage point increase, i.e. a surcharge between zero and 12 per cent. Under this proposal, provincial own revenue would comprise between below 10 per cent of total revenue in Northern Province and Eastern Cape, and over 40 per cent in Gauteng.

At the request of the Budget Council, the Katz Commission investigated provincial tax options. It recommended caution in assigning significant revenue sources to provinces, citing weak and uneven tax capacity, and deficiencies in national tax administration. It listed several smaller taxes for further investigation. The Commission felt that a surcharge on some national tax base, notably fuel, is possible but unlikely in the short term, given capacity constraints.

Box 4: Update on provincial taxation

The Provincial Tax Regulation Process Bill, tabled in Parliament in 2001, defines the procedures by which the power of provinces to impose taxes is regulated, as required by section 228(2)(b) of the Constitution. Under these procedures, a province has control over both the initiation of a provincial tax proposal and its ultimate enactment by the provincial legislature. The legislation also gives the national government responsibility for reviewing provincial proposals and determining whether they will prejudice:

?? national economic policy

?? economic activities across provincial boundaries

?? the mobility of goods, services, capital and labour.

By the provisions of the Bill, any province wishing to impose a new provincial tax would make a submission to the Minister of Finance. The Minister will review the request for compliance with the Constitution and with national economic policy, and hear recommendations from fiscal and policy staff, tax administration authorities and other interested parties.

If the Minister concludes a proposal is consistent with section 228, he must introduce separate national legislation to provide for provincial implementation of the tax proposal. The national legislation will enable the province making the original request, as well as any other province, at that time or in the future, to enact the tax. It will prescribe the "manner and form" in which the tax can be implemented, including the tax base, rate band, and any other terms required.

This national legislation will, in essence, be a template for provincial legislation to ensure the tax is implemented in a uniform and consistent manner across the provinces, thereby maintaining coherence of the general tax system.

Each provincial tax that goes through the review process and that the Minister concludes meets constitutional requirements, will be provided for in national legislation. Over time, this national legislation will come to constitute a list of taxes that any province may enact. This body of provincial tax law (a so-called “allowed list”) may be reviewed and renewed annually by the Minister of Finance, at the time of the national budget, similar to the laws amending taxes at the national level.

Borrowing

General principles

The main arguments against subnational borrowing are that it can generate unplanned liabilities for national government and reduce its ability to maintain fiscal discipline. However, with sound intergovernmental fiscal relations and a well-designed regulatory framework, subnational borrowing is both feasible and desirable:

?? It is more efficient to finance lumpy capital projects through debt than equity (i.e. taxes).

?? It allows the costs of large investments to be spread over time, as are the benefits.

?? It can shift some of the risk to the private sector.

?? Debt-holders will demand improved financial management.

?? It can reduce the overall cost of capital to the public sector.

?? It can foster greater political accountability through the pricing of capital by the markets.

The three basic approaches to regulating subnational borrowing are as follows:

?? It could be left to the discipline of the market.

?? It could be subject to administrative controls.

?? It could follow a rule-based framework.

The choice or mix of approaches reflects the legal or constitutional status of subnational governments, the degree of central political and administrative control, the depth of financial markets and the emphasis on fiscal discipline. For example, market discipline is less effective in countries with undeveloped financial markets. Regardless of the system, borrowing incurs risk, and subnational borrowing affects the consolidated deficit and creates implicit contingent liabilities for national government. National government retains responsibility for macroeconomic management, including overall debt management. Maintaining or improving the national credit rating is an important aspect of debt management, particularly if subnational governments are not independently rated.

The greater the fiscal dependence of regions on the centre and the stronger the political interdependence of levels of government, the greater the transference of risk to central government. More independent subnational governments offer a greater opportunity for maintaining risk at that level or transferring it to the private sector. Federal systems may make more use of market discipline within a broad regulatory framework, while unitary systems are more likely to impose greater central government controls to limit the risk to the national fiscus. Similarly, subnational governments are usually prohibited from or severely constrained in incurring foreign liabilities, because of the additional currency risk. These issues are particularly prominent in emerging economies, where rating agencies emphasise debt management when assessing country risk.

To gain access to markets, subnational governments are generally required to provide detailed financial information, resulting in greater transparency and wider dissemination of information. Where there has been a history of bailouts, market perceptions will only be shifted if national government sustains its refusal to continue these. Market discipline alone, however, is unlikely to be sufficient in developing countries with underdeveloped capital markets. Nevertheless, it can usefully complement other controls and be particularly effective in limiting efforts to circumvent such controls.

Administrative controls, where national government exercises direct control over subnational borrowing, can take on a variety of forms. These include:

?? the setting of annual limits on the overall debt of individual subnational governments

?? the authorisation and review of individual loans, including approval of the terms and conditions

?? the centralisation of all borrowing, with on-lending to subnational governments.

Controls usually incorporate not only ex ante authorisation but also ex post monitoring of outcomes, both of which require substantial disclosure by subnational governments. Too many central controls, however, increase the likelihood of national government being held implicitly liable for subnational borrowing.

A third alternative is a clear framework of rules that determine the parameters within which subnational governments operate. The rules can either be prescriptive, describing what subnational governments are allowed to do and implying that all other options are prohibited, or be guidelines, regulating what subnational governments are not permitted to do. Internationally, rules vary from allowing new borrowing up to a level consistent with an agreed debt service ratio through to restricting borrowing with sizeable macroeconomic risks. Rule-based approaches to debt control facilitate macroeconomic management, transparency and certainty.

Current legal framework

Section 230(1) of the Constitution allows provinces and municipalities to borrow capital and bridging finance. Moreover, section 215 states that budgets in each sphere of government must indicate proposals for financing anticipated deficits, and intentions regarding borrowing and other forms of public liability that will increase the public debt. However, borrowing is subject to "reasonable conditions determined by national legislation".

To comply with the Constitution, the Borrowing Powers of Provincial Governments Act was promulgated in 1996. This Act established a Loan Co-ordinating Committee (LCC) with membership identical to the Budget Council, and detailed the borrowing powers of provinces. The responsibilities of the LCC are to co-ordinate provincial borrowing, taking into account the overall demand for capital market funds, the total debt of each province and its associated institutions, any contingent liabilities, and the ability of provinces to service debt. Key provisions include prohibiting foreign borrowing, permitting domestic borrowing to be undertaken only by the MEC for Finance, and allowing the Minister of Finance to effectively control borrowing by specifying the permissible ratio of interest payments to current revenue.

The Act was drafted in terms of the Interim Constitution and before current intergovernmental financial relationships took shape, and no regulations were issued. Instead, the Budget Council agreed in 1997 that provinces would not borrow funds until a clearer framework emerged that complied with the final Constitution. Consequently, some legal ambiguities remain for provinces, notably on the use of bridging finance. The Act defines bridging finance as funds raised during a financial year to fund current expenditure in anticipation of the receipt of current revenue within that financial year. The Constitution states that bridging finance must be redeemed within 12 months. Although these two provisions need not be in conflict, the differences in wording have given rise to contradictory interpretations and a Constitutional amendment has been proposed to clarify them.

Current practice

The current legal framework has not been particularly effective, primarily because it has never been fully implemented. The decision of "no borrowing" taken by the Budget Council seems to have had two effects:

?? The National Treasury did not institute a programme for monitoring provincial borrowing.

?? No regulations were issued in terms of the Borrowing Powers of Provincial Governments Act.

This resulted in uncertainty as to what exactly the law permits and what role the LCC should play.

Following 1997/98, provinces extensively used bank overdrafts; some failed to clear these within the current financial year or even in a 12-month period. Provinces also investigated financing schemes for government buildings and other capital projects. The LCC was called on to review specific projects, yet its mandate in terms of the law is simply to set an overall borrowing limit for provinces. The LCC has not developed the capacity or the procedures for properly addressing these requests.

Provinces have generally not met the reporting requirements of either the Borrowing Powers Act or section 215 of the Constitution. They generally budget more like departments than governments, and their budgets do not include important information on borrowing and financing. National government provided R1 billion to the provinces in the 1998 Adjustments Estimate on the condition that they eliminate any outstanding debts over the medium term, and provinces have budgeted accordingly.

Box 5: Update on provincial borrowing

Budget Council Lekgotla proceedings in 2001 re-assessed the provincial borrowing framework. The result was a resolution that called for the Budget Council's Technical Committee for Finance to undertake a consultative process to develop a borrowing framework that considers the full range of provincial capacities and borrowing options; for National Treasury to provide provincial staff with borrowing-related training and technical assistance; and for a policy of no provincial borrowing for capital projects during the 2002/03 financial year.

A.4 Proposals for the way forward

The preceding sections argue that fiscal decentralisation can significantly enhance the efficiency of resource allocation and accountability, but can also accentuate inequities and compromise macroeconomic stability. Experience in transition and developing economies has shown that a country's position on the decentralisation continuum depends on political considerations, historical development, democratic traditions and the constitutional framework. In the absence of fundamental building blocks – ranging from appropriate capacity to well-functioning institutional processes for making decisions and enforcing accountability – desirable incentive structures are unlikely to develop and the gains from decentralisation will remain elusive.

The South African Constitution provides for a relatively decentralised but co-operative system of governance, with three "distinctive, interdependent and interrelated" spheres of government, each of which has responsibilities and rights. The three spheres, though part of a co-operative governance system, are not equal. National government retains ultimate responsibility for macroeconomic management and redistribution, and maintains sound public finances by managing the aggregate levels of expenditure, taxation and borrowing. It also has a strong co-ordination and monitoring role, and co-ordinates the policy framework that supports strategic national goals such as poverty reduction, redistribution, growth and transformation.

Within the parameters of the Constitution, the intergovernmental system can take different evolutionary paths over time. At one extreme, the system could become highly centralised, with provincial activity tightly constrained by national laws and regulations. Alternatively, provinces could be granted greater discretion over both expenditures and revenue sources as their capacity develops. The outcome is likely to be somewhere in between, and will be influenced by the evolving role of local government. It is critical, therefore, that solutions to the short-term problems in the intergovernmental system not foreclose options for moving in either direction.

The proposals below attempt to provide an integrated framework for intergovernmental fiscal relations, which allows sufficient flexibility to evolve into alternative futures while maintaining the integrity of the system as a whole. This framework sets out the general principles for the development of the system of intergovernmental fiscal relations.

Long-term evolution

Fiscal decentralisation is an evolutionary process that needs to be carefully managed to reap its benefits and minimise its risks. The design of and improvements to the intergovernmental fiscal system must have two points of departure: a long-term vision of what the system seeks to achieve, and an assessment of the particular circumstances that will affect it. Individual components can then be designed to further these objectives, taking into consideration any constraints.

Several key objectives can guide development of the system. Good governance demands that the intergovernmental fiscal system should promote:

- transparency and accountability
- efficient resource allocation
- equitable delivery of services
- sound macroeconomic management
- economic growth and development.

The challenge lies in developing a system that meets these objectives, respects the constitutionally defined roles of national and provincial government, and is flexible enough to allow the system to evolve in a changing political and economic environment.

In the long run, South Africa may reach a stage of development where:

?? requirements for maintaining macroeconomic stability have eased

?? regional disparities have been significantly reduced

?? provinces have the capacity to refine policy and delivery mechanisms

?? national government has appropriate systems to monitor and enforce standards

?? regional issues have become an important focus of a contestable provincial politics.

Under such circumstances, further decentralisation would arguably contribute to good governance. However, moving from the current situation to the long-term vision is an incremental process that may take many years. This evolution must take into account several structural features that will determine the degrees of freedom for further decentralisation and condition the medium-term path.

Medium-term path

Over the medium term, active steps are needed to ensure a strong foundation:

?? the development of provincial capacity to design and administer regionally differentiated spending programmes

?? the capacity of national departments to monitor and evaluate programmes

?? comprehensive financial management, information and evaluation systems

?? provincial politics that allow citizens to convert their preferences into voting behaviour

?? a "sanction" on poor performance.

These building blocks are not yet in place, and the medium term must focus on strengthening the foundation before undertaking more rapid decentralisation. The medium-term approach must concentrate on fostering efficiency, accountability and growth.

The regulatory environment will necessarily be rule based with a strong oversight role for national government, given the interdependence of the spheres and the different needs and capacities of provincial governments. Interdependence means that the actions of one sphere affect other spheres. For example, the taxation and borrowing choices of a province could have implications for the distribution of revenues among provinces and for the national aggregates. Similarly, national policy choices create expenditure responsibilities for provincial and local government. The commitment to co-operative governance enables spheres to co-ordinate activities that affect the macroeconomy or the activities of other governments.

Given national government's responsibility for aggregate expenditure, taxation and borrowing, it could set ceilings within which provinces must operate. To promote accountability, provinces would have some discretion within these limits to manage their resources and respond to provincial priorities.. However, national transfers will continue to dominate the resource envelope, and provincial governments will be held accountable for doing more within the available resources and for providing differentiated services at the margin. Over time, provinces will develop the capacity to exercise greater discretion over the allocation of resources to meet desired outcomes. This will encourage innovation, efficiency and responsiveness to provincial priorities in service delivery within the national policy framework.

The elements of the intergovernmental system are unlikely to evolve in unison. For example, considerably more work has been done on the expenditure aspect of the system. Similarly, given their differing starting points, provinces are unlikely to reach benchmarks for greater autonomy simultaneously. One way to accommodate these differences is for the regulatory environment to allow for greater asymmetry, letting provinces assume greater autonomy as they build the capacity to manage their responsibilities and develop accountability mechanisms. Although regional asymmetry exists internationally, political considerations, such as the need to avoid perceptions of discrimination and to promote national cohesion, may limit its possibilities in South Africa.

Specific steps

Each of the components of the intergovernmental system is at a different stage of maturity within the guiding framework of the Intergovernmental Fiscal Relations Act, the Public Finance Management Act and the Financial Management Improvement Programme. Medium-term steps dealing with expenditure management and intergovernmental transfers are focused on refining and fine-tuning existing structures that are relatively mature. Taxation and borrowing powers, on the other hand, are less mature. Rules and regulatory procedures have been proposed for provincial taxation, but must still be developed for provincial borrowing.

Expenditure responsibilities

Expenditure responsibilities have been assigned in accordance with Schedules 4 and 5 of the Constitution. Roles and responsibilities within concurrent responsibilities continue to be clarified through intergovernmental forums at the political and administrative level. As such, large function shifts are unlikely. A possible exception is responsibility for social security, in line with the principle that funding and policy discretion should be aligned.

Given the sizeable backlogs and economic disparities between provinces, national government could justifiably set minimum levels of service in key areas to fulfil equity objectives and ensure consistent basic levels of service. However, the closely specified input norms used at present are unsuitable as they:

?? encourage moral hazard

?? reduce incentives for innovation and efficiency in delivery

?? reduce the ability of provinces to differentiate services in response to provincial priorities, thus reducing accountability for the mix and quality of services delivered

?? require significant monitoring capacity at the national level to ensure compliance.

Therefore, as performance and service delivery indicators become a feature of budgeting, norms and standards will shift from setting minimum, prescriptive input targets to identifying desired outcomes. The use of service delivery indicators and improved reporting will create better incentives, particularly if future funding for particular programmes is linked to outputs. Provinces will then have greater discretion over the mix of resources and innovative methodologies to achieve these outcomes. Centralised bargaining, however, remains a key issue – if provinces are to vary their input mix to achieve a particular target, they should have more discretion over the main cost drivers.

Assigning responsibilities, in particular setting national minimum standards, is inextricably linked to financing. A national policy mandate should be accompanied by sufficient funds to implement it – an unfunded mandate could eventually undermine the initial policy objectives, since the policy might adjust to fit available resources. In practice, quantifying appropriate funding is extremely difficult and more capacity is required to estimate the budgetary implications of policy choices. In addition, institutional capacity must be created to resolve disputes over unfunded mandates.

In summary, the emphasis in expenditure issues will shift towards improving the incentive structure, improving the efficiency of expenditures and addressing unfunded mandates. This will lay the foundation for provinces to take more responsibility for service delivery and to innovate and experiment with alternative delivery options.

Intergovernmental transfers

The system of intergovernmental grants complies with the constitutional provisions. The medium-term focus is on refining, rationalising and clarifying the system. Largely because of the extensive groundwork laid by the FFC, the revenue-sharing formula is in line with international best practice. The formula has been revised in recent years and further amendments should only be made at the margin when indicated by new information or specific policy choices. A period of consolidation is required, particularly while the target equitable shares are being phased in. Choices regarding other components of the intergovernmental system are a potential source of adjustments to the equitable share formula. For example, if provinces were granted greater taxing powers, the formula's proxy for provincial own tax revenue will have to be adjusted or removed.

Intergovernmental grants can take several forms, depending on the underlying policy objectives. Existing grants have different objectives but are based on the same mechanism. There are also several small grants and grants with conditions that are difficult to monitor. The existing conditional grants are being reviewed to assess whether the funding mechanism of the grants is appropriate given the policy objective, to rationalise the grants and reduce the number of small, administratively complex grants, and to assess the need for new grants.

In principle, most intergovernmental grants should be unconditional, affording provinces full discretion over allocating resources and strengthening accountability. This implies that, over time, the number of grants should be reduced. Some current conditional grants could be absorbed into the equitable share, while others could be consolidated into block grants with less restrictive conditions. However, this requires a better alignment of national and provincial objectives for spending on, for example, financial management improvements, health services, and infrastructure. Currently, not all the provinces meet the prerequisites for funding services entirely through unconditional grants or for consolidating conditional grants. This calls for a differentiated approach with a greater reliance on conditional grants during the transition phase. However, conditions must be closely tied to policy goals and promote proper incentives, yet simple enough to be successfully implemented and monitored. Some existing grants may also be converted into matching or competitive grants, with new grants being appropriate under special circumstances.

Taxation powers

There are two parts to the issue of provincial revenue sources. First, a report on provincial own revenues suggests that the collection of revenues from existing sources could be considerably improved. Although national policies may have contributed to declining revenues in some areas, provinces have focused more attention on expenditure than on revenue issues and are not fully utilising available resources. Assigning further own-revenue sources to provinces that cannot exploit their existing tax base and where rational procedures for budgeting and for assuring efficiency in expenditures are not in place would be inefficient. Where provinces are unable to effectively manage expenditures, assigning further revenue sources could simply support wasteful expenditure.

The second part of the issue of provincial revenue sources relates to new sources of revenues. Although the theoretical benefits of tax devolution are known, it faces practical economic and administrative constraints. A national tax reform strategy and guiding framework have not yet been completed. Future tax reform in South Africa must be based on the central principles of tax design and be guided by both local socio-economic needs and the imperatives of globalisation. To meet medium- and long-term development needs, the tax system must be neutral, efficient, equitable, internationally competitive and simple to administer. Inherent in these principles of tax design is the need to raise the revenue required by government while imposing as few distortions on the economy as possible. The tax system must distribute the burden of taxation fairly, sharing it among taxpayers according to their ability to pay. It must also be simple for the revenue authorities to administer and impose a limited compliance burden on taxpayers. In other words, the costs of collecting taxes must be minimised. Finally, the system must be internationally competitive, thereby attracting foreign investment.

Some important prescriptions for the tax system follow from these fundamental principles:

?? The revenue government can raise through taxes is limited, given its macroeconomic policy of setting the ratio of tax to GDP at 25 per cent.

- The need to protect tax system integrity by preventing an irrational proliferation of tax instruments and ensuring all government revenue-raising instruments are part of an integrated framework. This translates, furthermore, into the need to co-ordinate tax policy centrally on a uniform basis by designing and defining the tax bases of the respective tax instruments at national level.
- The base of each tax instrument must be protected from an excessive number of tax incentives. This will provide scope for reducing standard rates of tax and encourage economic activity.
- The tax system must be flexible enough to adapt to the changing economic environment.
- While the redistributive goals of government are realised on the expenditure side of the budget, tax policy must ensure that taxes are imposed equitably.

In several provinces, the tax bases in terms of income levels and economic activity are insufficient to generate revenues to match expenditures. Giving provinces greater latitude to tax will require adjustments in national taxes and ultimately reduce the amount accruing to provinces through the equitable share. The net financial benefit to provinces is not clear.

Devolving a significant revenue source, such as a levy on income tax, has redistributive and administrative implications. On the other hand, a proliferation of small taxes introduces distortions in the tax system and is difficult to manage. The proposals below aim to find a balance and identify the proportion of own revenue sufficient to promote autonomy, efficiency and accountability. If only small amounts of revenue are needed to provide differentiated services at the margin, independent taxes from an allowed list may be sufficient. If higher revenue and greater accountability for total spending are required, surcharges are preferable. The introduction of surcharges on national taxes is, however, a long process with a number of intermediate steps.

In the interim, provinces may choose to implement taxes from an allowed list. The list can be expanded over time and the regulatory process should enable provinces to motivate for taxes to be added to the list. Detailed analysis is required to determine the precise workings of this process and the criteria against which new taxes should be judged. For instance, the criteria should include considerations of efficiency, equity, administration and compliance. The Budget Council should agree before a tax is added to the list, and the national minister must have veto power. The current list of provincial taxes can include liquor licences, motor vehicle licences, gambling taxes and possibly a bed levy. Other taxes are still being considered. The adoption of an allowed list requires a review of user charges. The regulations must clearly define user charges, as well as a monitoring process, to avoid provinces introducing new taxes under this guise. For certain charges, such as hospital fees and toll roads, it may be appropriate to review proposals in technical committees and at Joint MinMECs.

To promote uniformity across provinces, national government should specify the tax base of taxes on the list, but provinces should have discretion over the tax rates within the limits set by national government. This will increase accountability for the level of spending and reduce economic distortions. A centralised tax administration is preferable, as it captures economies of scale and avoids duplication of effort.

The next phase will be to identify potential taxes to which surcharges can be applied, possibly including a fuel levy. A transitional period of tax sharing is required to allow time for adjustments to the revenue-sharing formula, tax administration, and provincial budgeting and cash management processes before the actual introduction of any surcharge. A transition period will also be needed before the move to differentiated provincial rates on a surcharge.

Borrowing powers

The current regulatory arrangements on provincial borrowing have not been effective, and borrowing occurred despite the Budget Council agreement to the contrary. In principle, subnational borrowing should be permitted as long as it increases the efficiency of public resource use and transfers risk to the private sector. It is unlikely, however, that market discipline alone will offer a viable regulatory environment in the medium term and a strong oversight role for national government is therefore necessary.

As national government retains responsibility for overall debt management, it must co-ordinate and regulate provincial borrowing within a rule-based framework. Internationally, statutory rules have often been too inflexible and general to be effective, and could not substitute for a detailed risk management regime. A clear regulatory framework must therefore be developed in South Africa, encompassing the "reasonable conditions" for borrowing referred to in the Constitution. It will detail the ability of the national government to impose financing limits on the provinces; improve disclosure requirements; prohibit foreign borrowing; and incorporate clear rules on deficit management. It will seek to maximise provinces' ability to use debt efficiently without compromising the national government's ability to manage the aggregate debt or increasing its indirect risk. Whether these goals can be achieved within the context of the current Borrowing Powers of Provincial Governments Act or revised legislation must still be explored.

A framework for monitoring and managing provincial borrowing is necessary, irrespective of the overall financing limit. Indeed, an integrated borrowing framework is unlikely to lead to a substantial increase in provincial borrowing over the medium term:

?? Most provinces are unable to support a significant increase in debt servicing costs; this limits their ability to borrow.

?? At present they do not generate sufficient information for monitoring and managing the capital they deploy. They are unable to assess the productivity of existing and potential new assets, the risks of financing those assets and the indirect risk to national government.

Under a proposed borrowing framework, provinces will have to expand the current budget reporting to include a more detailed presentation of capital expenditure, such as information on projects with significant future financial commitments, and the present value of all existing assets. Available information on assets and liabilities will need to be more disaggregated. The improved disclosure before borrowing will promote transparency, accountability and a better evaluation of financial exposure, including the efficiencies of projects for which funds are to be borrowed and the attendant financial risks.

The format for this information should be consistent with current proposals to disclose other provincial budget information in a uniform framework, such as the International Monetary Fund's GFS classification. This will be a useful precursor to the introduction of accrual accounting. Information will also be required during the course of the financial year for assessing performance against budget estimates.

A legal authorisation process is necessary to reduce uncertainties, particularly regarding enforcement processes and, hence, risks. A clear enforcement process, including the recourse available in the case of default, is critical for ensuring an adequate distribution of risk and reducing the likelihood of untenable project proposals. Key legal constraints should also be clearly specified, including, for example:

?? a restriction on foreign-denominated borrowing

?? the overall financing limits to be set

?? the powers and roles of key players such as the Minister and MECs for Finance, the FFC and the Budget Council

?? clarifying that provinces may only run deficits if their out-year projections include financing arrangements to prevent the accumulation of debt.

Although a legal and regulatory foundation can be established over the medium term, its success will ultimately depend on the ability of provinces to fulfil the disclosure requirements outlined above. Developing the capacity to produce the information at the required level of detail is likely to take several years.

B

Division of Revenue

This is a reprint of the first part of Annexure E, as printed in the *2000 Budget Review*. The division of revenue between the different spheres of government is among the most important decisions made in the budget process. Section 214 of the Constitution requires that every year an Act of Parliament (Division of Revenue Act) determine the equitable division of resources between the three spheres of government, and the horizontal division among provinces.

The Intergovernmental Fiscal Relations Act, 1997 (Act No 97 of 1997) gives effect to the Constitution by spelling out the process of consultation to be followed in enacting the Division of Revenue Bill. It establishes the Budget Council and Budget Forum - the consultative intergovernmental forums for the budget process. Sections 9 and 10(4) of the Act set out the consultation process to be followed with the Financial and Fiscal Commission (FFC), including the process of considering recommendations made with regard to the equitable division of nationally collected revenues.

Section 10(5) of the Act requires that the Division of Revenue Bill be accompanied by an explanatory memorandum detailing how the Bill takes account of:

?? Each of the matters listed in Section 214(2)(a) to (j) of the Constitution.

?? Any recommendations of the Financial and Fiscal Commission (FFC).

?? Any assumptions and formulae used in arriving at the respective shares contained in schedules 1 and 2 of the Bill.

Annexure E fulfils the requirement of the Act set out in Section 10(5). Part 1 sets out how the FFC recommendations have been considered. Part 2 sets out how the Bill and the division of resources take into account the matters listed in Section 214(2)(a) to (j) of the Constitution. Part 3 outlines the fiscal framework that informs the division of resources between the three spheres of government. Part 4 explains the underlying formula and criteria for the division of the provincial equitable share between provinces, as well as for the division of conditional grants. Part 5 sets out the formula and criteria for the division of the local government equitable share and conditional grants between municipalities.

Part 1: Financial and Fiscal Commission recommendations

Introduction

Section 214 of the Constitution and Section 9 of the Intergovernmental Fiscal Relations Act, 1997 (Act No 97 of 1997) require the FFC to make recommendations regarding the equitable division of nationally raised revenue. Under the Act, the FFC must submit its recommendations to the Minister of Finance, Parliament and provincial legislatures at least ten months before the start of the financial year (or at a later date agreed to between the Minister of Finance and the FFC and in accordance with the Act).

The FFC reviewed provincial fiscal transfers in its recommendations, referred to as *Recommendations (2001-2004 MTEF Cycle)*[1], as part of its Project 2001 process. In light of the changes to municipal boundaries through the demarcation process, it did not make any new recommendations with regard to local government.

In keeping with the 3 year MTEF planning cycle, the *Recommendations* focus on the 2001/02 financial year and subsequent MTEF cycle. The FFC released a discussion document with preliminary recommendations in February 2000. These recommendations served as the basis for a consultative process including the Commission, stakeholders and commentators. Stakeholders included various government departments, Parliament and provincial legislatures. The Budget Council discussed the FFC's preliminary report as well as the National Treasury's comments at its annual Lekgotla in May 2000.

The FFC revised its preliminary recommendations thereafter, taking into account issues raised during the consultative process. This culminated in a final report, released in May 2000. The final report presented the FFC's recommendations on a methodology for dividing provincial allocations for the 2001 MTEF. These recommendations provided neither specific allocations, nor all parameters required for the proposed formula. The Budget Council discussed the recommendations in August and made its recommendations to Cabinet.

Outline of the FFC costed norms approach

In its report, the FFC proposes a "costed norms" approach to the division of revenue. This approach attempts to identify specific policy norms or goals for each sector. It seeks to develop an expenditure model to estimate the cost of achieving these policy objectives. Provincial allocations are then defined as the aggregate of the cost estimates across the different expenditure categories in the provincial budgets.

The FFC suggests that the costed norms approach be used to determine both the horizontal division between provinces and the vertical division between the national and provincial spheres – in other words, that the formula be used to approximate for equity (as defined by policy norms) both across the provinces and between the spheres. At present the current formula is applicable only to the horizontal equity across provinces, leaving the vertical division between spheres for Cabinet consideration.

In general, the FFC's costed norms model draws finer distinctions between target beneficiaries and relies on more parameters than the current formula. In terms of the FFC proposal, for instance, a distinction is made in the allocation of the Education Grant between different learners, based on their family income and their residence in rural or urban areas. Each group is then assigned a weight, representing the FFC's best estimate of the relative cost of providing basic education to that group of learners. Similarly, the health formula is based on provincial populations weighted for different utilisation rates according to age and gender differences. These are adjusted for relative poverty, and are coupled with an estimate of the cost of providing primary health care to these groups. The welfare component distinguishes between recipients of six social security grants.

Some of the demographic and income distribution data are available from the 1996 Census and other Statistics SA sources. However, a large proportion of the required data is not available. To overcome data limitations, the FFC has made "benchmark" assumptions with regard to policy priorities and the cost of inputs. In some cases, these assumptions rely on estimates provided by non-governmental sources.

[1] The FFC report *Recommendations (2001-2004 MTEF Cycle)* is available on the web site of the FFC at www.ffc.co.za

While the FFC discusses many of its assumptions in presenting its prototype costed norms formula, some assumptions are left unidentified. The final report does not present any cost estimates based on its prototype formulae. It is therefore difficult to assess with any precision the impact of the FFC's proposals on the allocations between the spheres or between the provinces. However, the FFC recommends that to avoid any disruptions, its approach be phased in over a period of several years.

Although the report proposes detailed formulae for basic services in education, health and welfare, its approach to "other provincial functions" is less definitive. It proposes a "basic element" to fund these activities. It proposes that funds be allocated on the basis of provincial populations weighted by the percentage of households falling below a certain income level (the FFC uses R12 000 as its benchmark assumptions). Through its intergovernmental institutions, Government would determine the size of the basic element, rather than using a formula to estimate the cost of these functions.

The report also recommends an "institutional element", amounting to R79 million for each province, to be top-sliced from the overall provincial share. This sum is intended to cover the estimated cost of the Premier's Office, the Provincial Legislature, and the MEC for each department. This is considerably smaller than the current institutional component.

The FFC further recommends that, as an interim solution, capital grants be allocated to the provinces from the national share to address social infrastructure backlogs. It is unclear how this relates to the fact that, in addition to conditional grants, the current formula also makes allowance for infrastructure backlogs as part of ongoing expenditure in social services, with a portion of spending allocated for instance to the rehabilitation or maintenance of facilities such as schools and clinics.

In its final report, which followed the process of consultation with governmental and legislative stakeholders, the FFC proposed that the costed norms approach be implemented to ensure that the equitable share provides adequately for basic services. The FFC notes that the costed norms approach will take time to develop fully, and suggests appropriate areas of further research.

Response of Government

The Government has not adopted the FFC's costed norms approach in determining the division of revenue between spheres and the provincial equitable share for the 2001/02 budget, and has chosen instead to continue with the current approach. This is in line with the Budget Council resolution.

Although the FFC proposals represent a departure from current practice, they are similar to the proposals for the horizontal division that the FFC first made in May 1996, which Government chose not to adopt. Instead, Government elected to use current proportional distribution formula. Many of government's concerns about the original costed-norms approach remain valid with regard to the FFC's new proposal.

Furthermore, the FFC is not explicit on what it believes to be the shortcomings of the present formula, and how the costed norms formula would address such shortcomings. Clarity is particularly important in this respect, given the fact that all formulae bring with them their own sets of problems, which require redress through other mechanisms (such as unconditional grants), and the possible costs and threat to stability and predictability posed by the replacement of one formula by another.

Government's reservations with regard to the current FFC proposals include the following:

?? The lack of appropriate data poses serious practical limitations on the FFC's approach. The FFC acknowledges in its report that crucial data required in order to develop cost estimates are not unavailable. Many of the desired output measures, policy parameters and costs of inputs do not currently exist and may be difficult (if not impossible) to obtain.

?? The costed norms approach endorses the notion that provincial education, health and welfare budgets can be calculated at the national level by formula. This undermines the principle of provincial budgetary autonomy, and limits the role of provincial executive committees in making trade-offs, addressing provincial priorities and achieving efficiencies. In addition, such an approach would weaken accountability.

?? The costed norms approach could create perverse incentives if provinces or national departments were able to act in a way that increased or distorted funding levels. The FFC acknowledges these potential problems and indicates that it has attempted to include in its formula only factors over which the provinces have no direct control. This seems unrealistic. A costed norms based formula unavoidably reflects cost factors over which provinces do or should have discretion.

?? It is not clear how consistency is achieved in attempting to cost policy norms across different sectors. For instance, norms in some sectors may reflect minimum levels of service while others reflect broader service delivery goals. Questions also arise with regard to the uniforming of the standards according to which costs are estimated. A "tough" interpretation could lead to underfunding in one sector, relative to a sector where a "loose" interpretation had been applied. Further research is required in this area, given the difficulty of equating policy goals and norms across sectors.

?? A number of process issues around the implementation of a costed norms approach require comment. A key concern is that the policy norms used to develop cost estimates are likely to be ambitious, potentially producing unaffordable expenditure projections. Thus, a costed norms approach would reinforce cost-raising tendencies in public services, while undermining political responsibility for budget priorities and choices. Furthermore, unrealistic expectations of additional funds could distract from the need to address some of the underlying structural issues that hinder improved service delivery and the effective and equitable use of resources more generally.

?? The FFC maintains that its costed norms approach could eventually be used to generate, or at least inform, an estimate of the vertical division. At present the vertical division is the outcome of decisions that reflect Government's political priorities. Government does not believe that the FFC recommendations would provide a better process for the vertical division than the MTEF process. Cabinet's decisions regarding budget allocations are based on influencing policy goals, which are measured in terms of the quality and quantity of services delivered.

?? The FFC proposes formulae for only a portion of the social services budgets (that part defined as basic services). Allocations for the remaining social services budgets and all non-social services programmes would be still be determined by political processes. There is also the difficulty of applying the costed norms approach to national departments and local government. As is the case with provincial budgets, some aspects of the national budget may lend themselves to modelling but others (eg, justice, police, defence) would not. In its report, the FFC acknowledges that constructing benchmark norms for all expenditure programmes may not be possible. Government's concern in this regard is that the process would result in a bias in favour of those services that can be more easily costed.

Areas of agreement between the Government and the FFC

Despite differences over costed norms as a means of allocating funds to provinces, there remains significant agreement between Government and the FFC.

Both Government and the FFC agree that the current budget and planning processes should take more explicit account of the constitutional requirements to provide basic services in education, health, welfare, housing, water and electricity. This concern was one of the prime motivations behind the FFC's proposal to shift to the costed norms approach. The FFC feels that by making basic services an explicit part of the funding and allocation process, these services would receive more attention. While agreeing on the importance of providing for these services, Government believes that it is more appropriate to highlight them as part of the MTEF budget and planning process, particularly at the provincial level.

Both Government and the FFC agree that underlying structural problems have a significant impact on the equitable provision of basic services. These range from availability of appropriately qualified personnel to the inequitable distribution of certain facilities. Government maintains that these issues are key obstacles to the goal of achieving equitable service delivery.

Both Government and the FFC agree that key data for the costed norms projections are unavailable, and that policy norms are often not clear. (Recognising these problems, the FFC limited the range of policy areas covered by its costed norms expenditure models in its final recommendations). In Government’s view, this supports the use of costed norms projections only as analytical tools, rather than for making allocations to provinces.

Both Government and the FFC believe there is a need to investigate further some of the data common to both methodologies, such as disability and income data for estimating social security grants.

Government and the FFC also agree that there is a need to develop a framework around capital grants. The FFC further recommends that, as an interim solution, capital grants be allocated to the provinces from the national share to address social infrastructure backlogs. This approach has been adopted for the new MTEF. A new provincial infrastructure grant has been established to complement other capital conditional grants.

Further, Government appreciate the potential benefits of the costed norms approach as a tool for analysing provincial budgets.

Conclusion on FFC proposals

While welcoming the proposals, and encouraging the use of costed norms as an analytical tool to help analyse specific sectoral budgets, Government has decided not to adopt the costed norms approach for the following main reasons:

?? Changing the current formula (which was adopted with the support of the FFC) has the potential to destabilise provincial budgets if the formula results in significant changes to provincial allocations.

?? A bottom up, iterative approach is not an appropriate way to determine budgetary priorities, which requires political judgement in making difficult trade-offs.

?? The application of the costed norms approach only to health, education and welfare would introduce a bias against other provincial functions, as well as against the local and national spheres.

?? The data required for estimating the cost of providing services is unavailable.

Part 2: Meeting constitutional requirements

Section 214 of the Constitution requires that the annual Division of Revenue Act only be enacted after account has been taken of the ten factors set out in sub-section 214(2) (a) to (j), including:

?? The national interest, any provision for debt, the needs of the national government and emergencies.

?? The allocation of resources to provide basic services and meeting developmental needs.

?? The fiscal capacity and efficiency of the provincial and local spheres.

?? The reduction of economic disparities.

?? The promotion of stability and predictability.

This section gives effect to section 10(5)(a) of the Intergovernmental Fiscal Relations Act. It sets out how the ten factors are taken into account in determining the division of revenue.

This memorandum also goes beyond the legal requirements, by providing information on the local government equitable share, and in providing more information on all conditional grants. The Bill facilitates the process of collecting information on the criteria for allocation for all conditional grants.

National interest and the division of resources

A stable macroeconomic environment, stronger economic growth, lower unemployment, reduced crime and a more efficient public service contribute to higher standards of living for all South Africans. Since programmes to meet these goals cut across all three spheres of government, and often across departments, they are most appropriately co-ordinated by national government. Broad-based programmes in the national interest introduced by Government since 1994 include the prioritisation of the social sectors (education, health and social welfare), nutrition, housing, municipal infrastructure, rural development, and the "working for water" campaign. Poverty alleviation and HIV/Aids cuts across departmental programmes and sectors.

Government has also shifted significant resources into the protection services cluster, with priority given to the integrated justice system. Government also recognises that South Africa has a growing role to play in maintaining peace and security in the region. This results in a substantial upward adjustment for defence in order to accommodate the arms procurement programme.

Provision for debt costs

The total resources shared between the three spheres of government include the proceeds of borrowing by national government. The bulk of that borrowing is in the form of savings of South African citizens. The remainder is in foreign savings. In recognition of Government's obligation to repay those citizens and to protect the capacity to borrow at the lowest rates, the costs of servicing debt are met before resources are shared. Interest on government debt is a first charge on revenues. Lower interest rates and the retiring of debt from the proceeds of privatisation has resulted in a significant reduction in state debt costs as a percentage of GDP. These savings release funds for expenditure on other priorities. In addition, the commitment to fiscal discipline will contribute to lower debt service costs in the future.

National needs and interests

The Constitution assigns exclusive and concurrent powers to each sphere of government. The national government is exclusively responsible for those functions that transcend provincial boundaries, including protection services, economic services and foreign affairs. Key priorities on the national budget are the strengthening of the integrated justice sector, infrastructure development and rehabilitation, restructuring public enterprises and programmes to alleviate poverty and enhance job creation. The national sphere is also responsible for meeting the contractual and statutory commitments of the state and for providing transversal systems of governance, including tax administration and financial information systems. Some provincial or local functions still reside with national departments. Many of these functions (such as water and sanitation services) are gradually being shifted to the sphere responsible. National government is responsible for policy development, regulation and monitoring in functions shared with provincial and local government.

Provincial and local basic services

Many of the changes highlighted in the 2001 Budget specifically consider functions such as the provision of the child support grant, free basic municipal services and building the capacity to cope with the impact of HIV/Aids.

Sub-national governments have significant autonomy over allocating resources to meet basic needs and to respond to provincial and local priorities. The Bill provides for significant increases to the equitable share to provinces and local government. This enables them enhance their provision of basic services like school education, primary health, welfare grants and a minimum level of free water and electricity. Grants such as the Central Hospitals Grant, Housing Grant and Supplementary Grant enable provinces to perform specific functions like academic hospital services and housing.

Fiscal capacity and efficiency

Fiscal capacity refers to the ability of each sphere to raise revenue to cover expenditures. The Constitution assigns the primary sources of government revenue to national government. Local governments finance the bulk of their expenditure from property rates, user charges and fees. This means that national government receives more revenue than it requires to meet its obligations while the local sphere is only marginally dependent on nationally raised revenue. The provincial sphere, however, is highly dependent on transfers as its expenditure responsibilities exceed provincial sources of own revenue. To compensate for this imbalance, nationally raised revenue is shared between the spheres, with provinces receiving the largest share.

Options for increasing provincial fiscal capacity through own revenue sources continue to be explored. Section 228 of the Constitution requires an Act of Parliament to regulate provincial tax powers. The process of extending tax powers to provinces is underway.

All three spheres are strengthening financial management capacity to improve fiscal efficiency. The implementation of the Public Finance Management Act (PFMA), and programmes funded from the Supplementary Grant for Financial Management, should help to promote expenditure efficiency. The programme focuses on appointing qualified personnel, training financial managers and improving reporting and oversight procedures. Several provinces are establishing or expanding internal audit units to improve control over expenditure. Provinces are also in the process of appointing chief financial officers (CFO) in line with the requirements of the PFMA. At local government level, the Financial Management Grant will assist municipalities in modernising budgeting, management and upgrading financial management capacity. The Local Government Finance Management Bill is also expected to take effect next year.

Although actual measurement of fiscal capacity and efficiency is not possible at this stage, the annual *Intergovernmental Fiscal Review* does attempt to provide information that facilitates comparisons between budgets in the provincial and local spheres.

Developmental needs

Development needs are considered in both the equitable share formulae for provincial and local government and in specific conditional grants. The health component of the provincial equitable share formula distributes resources towards poorer provinces through the higher weighting of persons without access to medical aid. The welfare component includes a poverty adjustment that captures the target population for social grants. The backlog component in the provincial equitable share formula reflects the need for basic infrastructure in rural areas, as well as maintenance backlogs within the health and education sectors.

The needs of the rural poor also receive priority in education, health and welfare budgets, which are complemented by the Water and Sanitation Programmes in rural and small communities. The

Consolidated Municipal Infrastructure Programme funds infrastructure for low-income urban and rural communities. Following the Presidential Job Summit, funds are provided for projects that focus on job creation and poverty alleviation. These include a community-based public works programme, a local tourism infrastructure programme and a flagship programme to promote employment for women with young children.

Through the establishment of the National Skills Fund, Government adopted a further education and training policy aimed at broadening the skills base. The skills development levy which allocates funds to the National Skills Fund, mobilises substantial funds for human resource development. The National Skills Fund provides training initiatives for the unemployed and supports provincial training schemes and centres.

Economic disparities

Economic disparities exist between and within provinces. The equitable share formula recognises that the provinces have different demographic and economic profiles and markedly different levels of economic development. The equitable share formula is therefore redistributive towards poorer provinces.

The formulae and criteria used by national departments to distribute grants among provinces are also biased in favour of the poor. For example, the allocation of the Education Quality Enhancement grant redistributes resources to poorer provinces with a higher proportion of under-resourced schools.

The Provincial Infrastructure Conditional Grant will significantly enhance the capacity of provinces to deal with economic disparities. The grant is divided in terms of the average of the equitable share and backlog ratios, thus directing funds to poorer provinces, without disadvantaging wealthier provinces.

Obligations in terms of national legislation

While the Constitution confers significant autonomy on provincial governments to determine provincial priorities and allocate provincial budgets, national government retains responsibility for policy development and for monitoring implementation within concurrent functions. Although the equitable share allocations and other transfers allow provinces and local government discretion, national policies create mandates that must be accommodated. For example, criteria for social security grants are determined nationally, while the costs are borne by provinces. The budget process allows for these norms and standards to be incorporated into sub-national budgets. Similar examples can be found in education, health, traffic management, road maintenance and with reference to archives.

Conditional grants also provide funding for national priorities that are implemented by provincial or local government. These include grants for housing and integrated nutrition.

Predictability and stability

Government has resolved that the equitable shares for a given year will be based on estimates of nationally raised revenues, as announced in the budget. The Division of Revenue Bill this year indicates a three-year allocation, although only one year is voted for. Allocations will not be adjusted downwards unless exceptional circumstances lead to a downward revision of the macroeconomic framework or an under-collection of the targeted revenue. The Bill also obligates all conditional grants to be allocated by province and municipality for a three-year period. Furthermore, the Division of Revenue Bill specifies that all allocations must be transferred according to a payment schedule. Thus, at the beginning of the financial year, provinces and local governments are assured of the resources they will receive and know the dates on which the allocations will be transferred. The Bill also enables provincial and local government to account for all transfers from the national government. Greater certainty of revenues improves the quality of budget planning and expenditure projections in all spheres of government.

Need for flexibility in responding to emergencies

Although stable and predictable allocations encourage fiscal discipline and improve planning and cash management, Government needs to be able to respond to changing circumstances and to accommodate shifts in priorities. The contingency reserve provides a cushion against these uncertainties. It gives Government the flexibility to shift expenditures in response to emergencies in the coming year, or to change priorities in the outer years, without compromising existing programmes. Some provinces have also created contingency reserves to increase flexibility in provincial budget planning.

Part 3: Fiscal Framework

Table B1 presents the revised medium term macroeconomic framework for 2001 Budget.[2]

Table B1 Medium-term macroeconomic assumptions

	2000/01		2001/02		2002/03		2003/04
	2000 Budget	2001 Budget	2000 Budget	2001 Budget	2000 Budget	2001 Budget	2001 Budget
Gross domestic product (R billion)	885,2	897,9	958,2	987,2	1036 7	1069 3	1154,9
Real GDP growth	*3,6%*	*3,1%*	*3,2%*	*3,7%*	*3,3%*	*3,5%*	*3,3%*
GDP inflation	*5,5%*	*7,3%*	*4,9%*	*6,0%*	*4,8%*	*4,7%*	*4,6%*
National Budget Framework							
Revenue (R billion)	210,4	213,4	227,4	233,4	243,6	252,9	273,1
Percentage of GDP	*23,8%*	*23,8%*	*23,7%*	*23,6%*	*23,5%*	*23,6%*	*23,6%*
Expenditure (R billion)	233,5	235,0	251,5	258,3	266,7	277,3	297,5
Percentage of GDP	*26,4%*	*26,2%*	*26,2%*	*26,2%*	*25,7%*	*25,9%*	*25,8%*
Budget deficit (R billion)	23,1	21,7	24,1	24,9	23,1	24,5	24,4
Percentage of GDP	*2,6%*	*2,4%*	*2,5%*	*2,5%*	*2,2%*	*2,3%*	*2,1%*

The macroeconomic framework sets out the growth assumptions and policy targets on which the fiscal framework is based. Table B2 sets out the impact of these policy decisions on the division of revenue.

Before resources can be divided, provision must be made for national commitments such as debt service costs and a contingency reserve. Debt servicing obligations of R48,1 billion, R49,7 billion and R51,0 billion are projected for the three MTEF years, and the contingency reserve amounts to R2 billion, R4 billion and R8 billion. Once these allocations are deducted, the total to be shared between the three spheres amounts to R208,1 billion, R223,6 billion and R238,5 billion over the three MTEF years. This pool of revenue is available for sharing between national, provincial and local spheres.

[2] Chapters 2 and 3 of the Budget Review present a detailed analysis of the revised macroeconomic forecasts and fiscal framework.

Table B2 Division of revenue between the spheres of government

	2000/01		2001/02	2002/03	2003/04
R million	**2000 Budget[1]**	**Revised estimates**	**Budget**	**Medium-term estimate**	
National allocation	75 212	74 414	84 287	89 955	95 432
Provincial allocation	106 037	108 736	117 386	126 563	135 221
Equitable share	*94 408*	*96 186*	*104 136*	*112 560*	*120 215*
Conditional grants	*11 629*	*12 551*	*13 250*	*14 003*	*15 006*
Local government allocation	3 713	5 712	6 506	7 155	7 849
Equitable share	*2 330*	*2 330*	*2 618*	*3 002*	*3 551*
Conditional grants	*1 383*	*3 382*	*3 888*	*4 153*	*4 298*
Allocated expenditure	**184 962**	**188 863**	**208 179**	**223 672**	**238 502**
Plus:					
Debt service costs	46 490	46 186	48 138	49 651	51 022
Contingency reserve	2 000		2 000	4 000	8 000
Total expenditure	**233 453**	**235 048**	**258 318**	**277 323**	**297 524**
Percentage of shared total	**100**	**100**	**100**	**100**	**100**
National allocation	*40,7%*	*39,4%*	*40,5%*	*40,2%*	*40,0%*
Provincial allocation	*57,3%*	*57,6%*	*56,4%*	*56,6%*	*56,7%*
Local government allocation	*2,0%*	*3,0%*	*3,1%*	*3,2%*	*3,3%*

[1] For comparative purposes, local government transfers have been shifted from provincial share to the local government share

The division of resources between the three spheres is determined primarily by the initial baseline allocations in the 2000 Budget (reflecting current priorities), together with the additional priorities identified for the additional resources in the framework. Hence, changes are generally restricted to the margin. The division of revenue between spheres of government is determined by Cabinet, and is informed by recommendations of the Budget Council, the Budget Forum, the Ministers' Committee on the Budget and the Financial and Fiscal Commission (FFC).

The additional allocations are made available from revisions to the framework arising from stronger growth, higher inflation, the baseline contingency reserve, and savings on debt service costs. The new priorities and pressures identified over and above the current priorities are:

?? Increasing the take-up of the child support grant and the impact of HIV/Aids on social services.

?? Poverty alleviation programmes, including social security and provision of free basic services to the poor.

?? The significant cost implications arising from the new demarcation of municipalities.

?? Increasing infrastructure spending in order to redress the backlogs in maintenance, rehabilitate and expand the infrastructure base, and to stimulate investment and economic growth.

?? The need for targeted interventions aimed at improving the efficiency of the criminal justice system.

These new priorities determine how the additional allocations are to be divided. These funds flow towards the sphere responsible for the prioritised functions. The impact of these policy decisions on the division of revenue is shown in Table B2 above.

The revised budget framework provides for additional spending of R10,2 billion in 2001/02 and R16 billion in 2002/03 compared with the estimates projected for these years in the 2000 Budget.

Over half of the additional resources was allocated to the provinces, in recognition of the challenges they face in delivering social services, building and maintaining economic infrastructure, employment creation, promoting rural development and coping with HIV/Aids. Local government, which must manage the amalgamation of various local authorities and provide for free basic services, gets a larger slice of additional revenue than its baseline proportion.

Although the additional allocation to local government is small, the increases in the allocations are significant, relative to the overall level of resources transferred to that sphere.

The national share increases from 39,4 percent in 2000/01 to 40,5 in 2001/02 and declines marginally to 40,0 percent in 2003/04. The share dedicated to local government also rises from 3,0 percent in 2000/01 to 3,3 percent in 2003/04. The provincial share declines correspondingly, from 57,6 percent in 2000/01 to 56,4 percent in 2001/02 and increases marginally to 56,7 percent 2003/04.

Powers and functions

Functions are assigned to the three spheres of government in schedules 4 and 5 of the Constitution. A system of concurrent or joint responsibilities applies between national and provincial governments for functions like school education, health, welfare, housing, agriculture and urban and rural development. This, in practice, means that national government determines policy and regulates compliance, while provincial governments are responsible for implementation. Exclusive functions for provinces include provincial roads and traffic, ambulance services, planning responsibilities, abattoirs, liquor licences etc.

Municipal functions include user fee services like electricity and gas reticulation, water and sanitation services (potable water supply systems, domestic waste-water and sewage disposal), and public funded services like stormwater management, refuse removal, municipal public transport, fire-fighting services, urban streets and street lights.

This leaves national government largely responsible for policy and regulatory functions over school education, health, welfare, housing and agriculture, resulting in small budgets for these departments. Only education has a large budget, but this is for transfers to institutions of higher education.

The most significant national functions from a budget perspective are those where the implementation responsibility resides with the national government.

Over half the national government spending (after the equitable share, conditional and other grants and programmes to provinces and municipalities are excluded) is in the protection services (police, justice, prisons and defence). The other significant budget items are education (for higher education), public works, transport (bus subsidies, rail, national roads), trade and industry (for trade facilitation and technology advancement), funding of the South African Revenue Services (SARS) and water affairs. Other departments and agencies with responsibilities traditionally associated with national government include Foreign Affairs, Home Affairs, science councils, Land Affairs, Labour, Environment and Tourism, Minerals and Energy and Communications. These have relatively smaller, but significant, budgets.

The National Budget 2000 Appropriation Bill appropriates the 2001/02 national allocation in Table B2, as well as conditional grants to provinces and municipalities for the same year, and the debt servicing amount (as a direct charge). The national allocation in Table B2 therefore excludes conditional grants and debt serving, but includes grants-in-kind and agency or transitional programmes like bus subsidies.

Part 4: Provincial Allocations

The Constitution entitles provinces to a share of nationally raised revenue. National transfers to provinces comprise more than 96 percent of provincial revenues, of which 88,7 percent is through the equitable share (see Table B3). The remaining 11,3 percent flows through conditional grants. Provinces raise less than 4 percent of their revenues from own sources.

Table B3 Total transfers to provinces, 2001/02

R million	Equitable share	Conditional grants	Total transfers
Eastern Cape	17 965	1 420	19 385
Free State	7 018	890	7 908
Gauteng	15 848	3 473	19 321
KwaZulu-Natal	21 034	2 245	23 280
Mpumalanga	7 206	599	7 805
Northern Cape	2 533	224	2 757
Northern Province	14 010	1 100	15 111
North West	8 761	699	9 460
Western Cape	9 762	1 997	11 760
Unallocated	0	600	600
Total	**104 136**	**13 251**	**117 387**

Provincial equitable share

The provincial equitable share allocation is used to fund the bulk of public services rendered by provinces. The equitable share amounts to R104,1 billion in 2001/02, R112,6 billion in 2002/03, and R120,2 billion in 2003/04. The equitable share is divided between provinces (referred to as the horizontal division) using the provincial equitable share formula. This section explains the formula.

The equitable share formula comprises seven components that attempt to capture the relative demand for services between provinces and to adjust for particular provincial circumstances. It considers, for example, infrastructure backlogs and poverty levels. The components are:

?? An education share based on the average of school-age population (ages 6–17) and the number of learners in schools.

?? A health share based on the proportion of the population without access to medical aid funding.

?? A social security component based on the estimated number of people entitled to social security grants – the elderly disabled and children – weighted with a poverty index derived from the 1995 Income and Expenditure Survey.

?? A basic share derived from each province's share of the total population of the country.

?? An institutional component divided equally among the provinces to reflect the costs of running a provincial government.

?? A backlog component based on the distribution of capital needs as captured in the Schools Register of Needs, the audit of hospital facilities and the share of the rural population.

?? An economic output share based on the distribution of total remuneration in the country.

Table B4 shows the current structure and distribution of the shares by component, and the target shares to be reached by 2003/04. The elements of the formula are neither indicative budgets nor guidelines as to how much should be spent on those functions. Rather, the components are weighted broadly in line with expenditure patterns to provide an indication of relative need.

Table B4 Distributing the equitable share, percentages by province

	Education	Health	Social welfare	Basic share	Economic activity	Institutional	Backlog	Target shares
Weighting	*41,0*	*19,0*	*17,0*	*7,0*	*8,0*	*5,0*	*3,0*	*100,0*
Eastern Cape	18,5	17,0	19,6	15,5	6,5	11,1	20,6	16,9
Free State	6,3	6,5	7,1	6,5	5,3	11,1	5,7	6,6
Gauteng	12,3	14,7	13,9	18,1	41,6	11,1	5,1	15,5
KwaZulu-Natal	22,1	21,7	19,6	20,7	17,0	11,1	22,9	20,6
Mpumalanga	7,3	7,2	6,5	6,9	4,9	11,1	8,5	7,2
Northern Cape	1,9	2,0	2,2	2,1	1,7	11,1	1,3	2,4
Northern Province	15,7	13,3	13,7	12,1	3,0	11,1	22,9	13,6
North West	8,0	8,6	8,7	8,3	5,7	11,1	9,4	8,3
Western Cape	7,9	8,9	8,8	9,7	14,4	11,1	3,7	8,9
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Education component

The education component targets primary and secondary schooling, which accounts for roughly 90 percent of provincial education spending. Both the population of school going age and enrolment numbers are used to reflect the demand for education services. The school-age cohort, ages 6-17, is double weighted, reflecting Government's desire to reduce out-of-age enrolment. The enrolment figures have not been updated since the 1999 Budget.

Table B5 Calculation of education component

Thousands	Enrolment	School-age (6–17)	Weighted share (%)
Weighting	*1*	*2*	
Eastern Cape	2 295	2 010	18,5
Free State	808	680	6,3
Gauteng	1 400	1 394	12,3
KwaZulu-Natal	2 812	2 377	22,1
Mpumalanga	924	789	7,3
Northern Cape	202	223	1,9
Northern Province	2 043	1 665	15,7
North West	946	896	8,0
Western Cape	905	895	7,9
Total	**12 335**	**10 930**	**100,0**

Health component

The health component addresses the need for provinces to deliver primary and secondary health services. As all citizens are eligible for health services, the provincial shares of the total population form the basis for the health share. The formulation of the health component recognises that people without medical aid support are more likely to use public health facilities, and are therefore weighted four times higher than those with medical aid support. This implies that the uninsured account for 95 percent of the usage of public health facilities. The proportions of the population with and without access to medical aid are taken from the 1995 October Household Survey and applied to the census figures.

Table B6 Calculation of health component

Thousands	With medical aid	Without medical aid	Weighted share (%)
Weighting	*1*	*4*	
Eastern Cape	510	5 793	17,0
Free State	467	2 166	6,5
Gauteng	2 958	4 390	14,7
KwaZulu-Natal	1 103	7 314	21,7
Mpumalanga	392	2 409	7,2
Northern Cape	175	665	2,0
Northern Province	376	4 554	13,3
North West	457	2 897	8,6
Western Cape	1 127	2 830	8,9
Total	**7 566**	**33 018**	**100,0**

Welfare component

The welfare component captures provinces' responsibility for providing social security grants. The constituent parts reflect the target populations of social security payments, weighted by the distribution of expenditure for each type of grant. For example, the bulk of social security payments are old-age pensions. Means-testing of grants is reflected through an income adjustment based on the provincial share of the population in the lowest two quintiles of the income distribution. This information was drawn from the 1995 Income and Expenditure Survey, which has not been updated. Data from the Department of Welfare on actual expenditure by grant type indicate that the current weightings are still appropriate. Nevertheless, these weights do not make explicit provision for the child support grant, although the vertical division of revenue takes this into account.

Table B7 Calculation of the welfare component

Percentage	Old age	Disability	Child care	All grants	Income adjustment	Weighted share
Weighting	*65,0*	*25,0*	*10,0*	*75,0*	*25,0*	*100,0*
Eastern Cape	19,1	15,5	17,4	18,0	24,3	19,6
Free State	6,2	6,5	5,7	6,2	9,6	7,1
Gauteng	15,7	18,1	14,3	16,2	7,2	13,9
KwaZulu-Natal	19,8	20,7	21,7	20,2	17,6	19,6
Mpumalanga	5,9	6,9	7,3	6,3	7,1	6,5
Northern Cape	2,1	2,1	2,0	2,1	2,6	2,2
Northern Province	13,0	12,1	14,8	13,0	15,8	13,7
North West	7,8	8,3	8,4	8,0	10,7	8,7
Western Cape	10,4	9,7	8,4	10,0	5,2	8,8
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Economic activity component

The economic activity component is a proxy for provincial tax revenue, directing a proportion of nationally collected revenue back to its source. It also reflects costs associated with economic activity, such as maintenance of provincial roads. The best indicator for economic activity in a province is the Gross Geographic Product. In 1999, the distribution of employee remuneration replaced provincial Gross Geographic Product (GGP) figures, since remuneration comprises roughly 60 percent of provincial GGP and the GGP figures had not been updated since 1994. For 2001, Government decided not to adjust this component of the formula pending publication of new GGP data. The latest remuneration data tend to reflect unstable trends. The continuing absence of GGP data raises concerns about the accuracy of data in the economic activity component.

Table B8 Economic activity shares, 2001 Budget

Percentage	Share of Remuneration
Eastern Cape	6,5
Free State	5,3
Gauteng	41,6
KwaZulu-Natal	17,0
Mpumalanga	4,9
Northern Cape	1,7
Northern Province	3,0
North West	5,7
Western Cape	14,4
Total	**100,0**

Basic component

In 1999, the basic component was split into a basic share distributed by population and a backlog component. The backlog component incorporates estimates of capital needs as drawn from the Schools Survey of Needs and the 1998 MTEF health sectoral report on hospital rehabilitation. The backlog component also incorporates a rural factor, in keeping with Government's focus on rural development. As no new information was available regarding its sub-components, the backlog component remained unchanged.

Table B9 Calculation of backlog component

Percentage	Health	Education	Rural	Weighted share
Weighting	*18,0*	*40,0*	*42,0*	*100,0*
Eastern Cape	16,3	22,0	21,3	20,6
Free State	3,8	7,8	4,4	5,7
Gauteng	10,8	6,3	1,2	5,1
KwaZulu-Natal	16,0	23,5	25,5	22,9
Mpumalanga	9,2	7,5	9,1	8,5
Northern Cape	1,2	1,2	1,3	1,3
Northern Province	27,5	20,4	23,3	22,9
North West	9,1	7,5	11,6	9,4
Western Cape	6,1	3,9	2,3	3,7
Total	100,0	100,0	100,0	100,0

Institutional component

The institutional component recognises that some costs associated with running a government and providing services are not directly related to the size of a province's population. It is therefore evenly distributed between provinces, as was the case last year. It constitutes 5 percent of the total equitable share, of which each province gets 11,1 percent (as shown in table B4).

The phasing-in of the formula

The formula determines the equitable share for each province. In 1999/00, two years after the formula was introduced, data for the 1996 census was published. The data reflected demographic profiles that were different from the preliminary census results used in the formula. Given the need to ensure stability in provincial budgets, it was agreed that revisions to the formula should be phased in over five years, from 1999/00 to 2003/04. The target date of 2003/04 has been retained, so that the formula is fully implemented at the end of the 2001 MTEF cycle. Table B10 shows the phasing.

Table B10 Phasing in the equitable share, 2000 Budget

Percentage	1999/00 base	2000/01	20001/02	2002/03	2003/04 target
Phasing		*Year 1*	*Year 2*	*Year 3*	*Year 4*
Eastern Cape	17,6	17,4	17,3	17,1	16,9
Free State	6,8	6,8	6,7	6,7	6,6
Gauteng	14,9	15,1	15,2	15,4	15,5
KwaZulu-Natal	19,8	20,0	20,2	20,4	20,6
Mpumalanga	6,7	6,8	6,9	7,0	7,2
Northern Cape	2,4	2,4	2,4	2,4	2,4
Northern Province	13,3	13,4	13,5	13,5	13,6
North West	8,6	8,5	8,4	8,3	8,3
Western Cape	9,8	9,6	9,4	9,2	8,9
Total	**100,0**	**100,0**	**100,0**	**100,0**	**100,0**

Revisions of the formula for new or updated data

For the 2001 Budget, the following new data sets are available, which could have been used to update the formula:

?? Education – data from the 1999 snap survey of school enrolment. Compared with the 1997 data, the 1999 snap survey shows no change in the total number of learners, but a significant increase in number of learners in Gauteng, with a moderate increase in Western Cape, and a sharp decline in the Northern Province.

?? Health – medical aid membership data published recently fluctuate widely. Although the results of the 1995 October Household Survey (OHS) currently used in the formula show patterns similar to those of the recently published OHS'99, they differ from those of OHS'98. Consequently, the OHS'95 data has been retained.

The Budget Council decided not to use updated data, after consideration of the impact that these changes would have in the allocation amongst provinces. This decision also reflected a lack of confidence in the data sets. In broad terms, it appears that revisions for these sets of data would swing the baseline allocations at the expense of poorer provinces, especially in the outer years. The Budget Council preferred a five-yearly revision for purposes of the census and the Income and Expenditure Survey, if they show significant changes in the trends. The option of not updating the formula based on the annual data would ensure that there is stability in provincial MTEF allocations.

Adjustments for component weights

The current weights applied to the social service components in this year's budget are based on the three most recent years of expenditure data, updated annually. Current spending patterns suggest that it may no longer be appropriate to continue with this approach, since function shifts such as housing, have changed the composition of expenditure. In future, technical changes to the base, rather than changes in the social service spending, will determine the weights of the social service components. Changes to the weights will remain an explicit policy decision, and will remain fixed unless a policy change implies that a significant shift in the distribution of funds was required.

Conditional grants to provinces

Schedules 3 and 4 of the Division of Revenue Bill present the conditional grants to provinces. Conditional grants are a smaller but significant portion of provincial revenue. These grants were introduced in 1998/99 to support national priorities, particularly in the social services sector. In particular, conditional grants are used in order to:

?? Enable national priorities to be provided for in the budgets of other spheres.

?? Promote national norms and standards.

?? Compensate provinces for cross border flows and inter-provincial benefits.

?? Effect transition by supporting capacity-building and structural adjustments.

?? Address backlogs and regional disparities in social infrastructure.

Some conditional grants have been implemented successfully. However, problems have arisen with the flow and spending of other grants. These problems resulted in rollovers in some grants at the national level and slow spending at the provincial level. There has also been an increase in the number of small grants in the system. This has subsequently increased fragmentation of funding and has placed a disproportionate administrative burden for conditional grants on the provinces. Some of the small grants have been amalgamated into the Supplementary Grant in 2001[3].

The Division of Revenue Act is revised annually to allow for reforms aimed at improving processes and systems used in the administration of conditional grants. The revisions are aimed at promoting advance planning, improving transparency and enhancing accountability by clarifying the responsibilities of national departments and provincial officers. A framework for the consolidation and streamlining of grants and improvement of their effectiveness is being finalised for implementation in the 2002 MTEF.

Table B11 provides a summary of conditional grants by sector for 2001/02, and the allocation between provinces. Of the total conditional grants allocation in 2001, the largest allocation is made to the health sector (R5,9 billion), followed by the Department of Housing (R3,3 billion), and the National Treasury (R3,0 billion). The Education and Welfare Departments administer relatively small, but important grants for the improvement of financial management in these sectors. Central hospital and professional training are the largest health grants. Four provinces, Gauteng, KwaZulu-Natal, Western Cape and Free State, benefit most from the Central Hospitals Grant owing to the structure of their health departments. Significantly, they provide highly specialised services to all citizens. Other health grants flow mainly to poorer provinces.

Table B11 Conditional Grants to Provinces for 2001/02

R'000	Health	Supplementary[1]	Infrastructure	Housing	Education	Welfare	Total
Eastern Cape	322 926	386 431	147 275	506 811	55 037	2 142	1 420 622
Free State	397 424	177 561	48 342	246 253	18 743	2 142	890 465
Gauteng	2 308 304	337 611	80 860	707 831	36 592	1 642	3 472 840
KwaZulu-Natal	909 684	455 029	170 447	642 647	65 747	2 142	2 245 696
Mpumalanga	148 043	153 003	61 236	213 355	21 718	2 142	599 497
Northern Cape	65 023	55 788	29 411	66 475	5 653	2 142	224 492
Northern Prov.	266 759	292 471	143 369	344 787	46 707	6 600	1 100 693
North West	157 817	182 336	69 536	263 735	23 800	2 142	699 366
Western Cape	1 381 501	207 647	49 524	334 064	23 503	1 642	1 997 881
Total	**5 957 481**	**2 247 877**	**800 000**	**3 325 958**	**297 500**	**22 736**	**12 651 551**

[1]Both supplementary and infrastructure grants are administered by the National Treasury. Flood rehabilitation grant is not included in the allocations.

Health grants

The health grants amount to about R5,9 billion in 2001/01, and increase to R6,3 billion by 2003/04. They constitute about 47 percent of the total conditional grants to provinces. The health grants include five hospital grants (Central Hospital, Professional Training and Research, Hospital

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[3] Chapter 3 of the 2000 Intergovernmental Fiscal Review gives a detailed analysis of performance of conditional grants since they were introduced in 1998/99.

Rehabilitation, Redistribution of Specialised Health Service and Construction Grants), the Integrated Nutrition Programme (INP) and allocations for HIV/Aids. The hospital grants are aimed at supporting reforms in the hospital sector.

The Department of Health is currently reviewing all its conditional grants. The current MTEF allocations do not make any significant changes to health grant funding levels, pending the outcome of the reviews. Similarly, the division between provinces has not changed significantly. The Department of Health is expected to provide a strategic plan for the rationalisation and distribution of hospitals, which will then inform provincial strategic and implementation plans for the 2002 MTEF.

The central hospitals and health professional training grants provide over R3,5 billion towards the recurrent costs of central hospitals. These grants are for services that may be regarded as allocated functions, for which funding cannot be withdrawn without a substantial and unacceptable impact on service delivery. The health review is expected to set the medium- to long-term restructuring goals for these grants.

The allocation for hospital rehabilitation grant is R500 million in 2001/02, increasing to R543 million in 2003/04. There is a reduction in the 2001/02 allocation to Eastern Cape compared with the 2000/01 allocation, and relative gains to other provinces like Gauteng. This is because Eastern Cape received more than its share in 2000/01, as funds were moved to the Eastern Cape from slower spending provinces, on the basis of its demonstrated spending capacity. An adjustment for this is made in 2001/02, and in the outer years.

The Redistribution of Specialised Health Services grant also has a significant capital component. The grant is used for the acquisition of specialist equipment, specialist training, and as an incentive for specialists to relocate to poorer provinces. In 2001/02, the allocation for this grant amounted to R182 million. It increases to R197 million in 2003/04.

A new allocation amounting to R50 million, R70 million and R90 million in the three MTEF years has been made as national government's contribution towards the costs of construction of the Pretoria Academic Hospital in Gauteng.

The INP is targeted at poor provinces with high populations of school children. Eastern Cape, Northern Province and KwaZulu-Natal receive about 63 percent of the allocation. Due to underspending in this grant over the past three years, it remains constant at R582 million over the MTEF period. The Department of Health is also finalising a review of this grant that will inform any changes in its administration and the level of funding for the 2002 MTEF.

Education grants

The Department of Education manages the Financial Management and Quality Enhancement in Schools Grant introduced in 1998/99. In addition, a new grant aimed at funding the pilot programme for Early Childhood Development will be introduced in 2001/02.

The Financial Management and Quality Enhancement Grant was introduced in 1999/00 and was to be phased out in 2002/03. However, the Department of Education motivated for the continuation of this grant until 2003/04, in order to build on the foundation laid over the past year for improving the quality of outcomes in the education system. This grant is considered critical in the implementation of the Tirisano plan. No changes were made to the baseline allocation, which amounts to R213 million in 2001/02, increasing to R234 million in 2003/04.

The Early Childhood Development Grant is aimed at developing the capacity of the provincial education departments to ensure the expansion of a compulsory reception year (grade R) for learners turning six years. The grant will mainly be used to continue the pilot programme of service delivery and provision, options that will also involve collaboration with a range of community based organisations (CBOs), and non-governmental organisations (NGOs). The department plans to phase in the Reception class (or Grade 0) over a five-year period, beginning in 2001. The allocation to provinces amounts to R21 million in 2001/02, increasing to R88 million in 2003/04.

National Treasury grants

Except for changes arising from the merging of small grants, the Supplementary Grant is kept constant. The Supplementary Grant contains two windows. The first window is the original allocation for general provincial budgetary support, which remains at R2 billion over the MTEF. The rationale for the continued existence of the grant in the next three years is premised on the need to deepen budget reform, strengthen the oversight role of national government over provincial finances, and encourage continued improvement in financial and expenditure management, including the effective implementation of the PFMA.

A second small window has been created in the Supplementary Grant to merge a number of small and fragmented grants. This portion of the grant amounts to R247,8 million. This will allow for a more informal arrangement, in terms of which many of the smaller budget objectives of various departments can be realised without imposing undue administrative burdens on provinces. The grants that have been consolidated into the Supplementary Allocation Grant are the R293 Personnel Grant (R105 million for the first year only), the Financial Management Grant (R124 million), the Capacity Building Grant (R10 million) in the delivery of housing, and funds for the implementation of the National Land Transport and Transition Act (R9 million).

A significant portion of the financial management allocation will be devoted to pilot projects in the major academic/central hospitals in order to improve financial management in these hospitals.

The Provincial Infrastructure Grant was introduced in the 2000/01 budget at R300 million a year, to enable provinces to address provincial infrastructure needs, particularly the rehabilitation and maintenance of provincial roads, schools and health facilities. However, due to the recent floods, the grant has been diverted to the reconstruction of infrastructure in affected provinces (Mpumalanga, KwaZulu-Natal, Northern Province and Eastern Cape).

The Provincial Infrastructure Grant of R300 million a year has been supplemented by R500 million in 2001/02, R1 250 million in 2002/03 and R2 billion in 2003/04. This brings the total infrastructure funds available through this grant to R4,65 billion over this period. So that this grant be used effectively to deal with backlogs, the provincial division has been effected using the average of the percentage equitable shares and the backlog component. This enables government to direct funds towards provinces with large backlogs, without neglecting provinces that have inherited higher levels of infrastructure.

In 2001/02, provinces are expected to use these funds mainly for maintenance of roads, schools, and health facilities and to address the specific infrastructure needs for rural development. The provincial treasuries will administer the grant. The allocations are to be made to the line departments responsible for the implementation of the infrastructure projects. Provinces are also expected to build capacity in treasuries to oversee the implementation of infrastructure plans and capital projects. as inadequate capacity and poor planning have been major reasons for under-spending of capital grants.

The 2001 Budget framework also sets aside funds for flood reconstruction amounting to R600 million in 2001/02, R400 million in 2002/03 and R200 million in 2003/04, for spending in provinces and municipalities. To simplify administrative arrangements, it is proposed that this grant be incorporated into the Provincial Infrastructure Grant, but as a separate window.

Housing grants

The Department of Housing administers two grants. The Housing Fund provides subsidies for low income housing, and the Human Settlement Redevelopment Grant funds pilot projects in urban areas. The Housing Fund allocation is adjusted to take account of inflation, from R3,0 billion in 2000/01 to R3,2 billion in 2001/02 and rises further to R3,6 billion in 2003/04. This represents an annual average growth of 4,8 percent. The current structure of the formula does not take into consideration the actual spending capacity of provinces.

The Grootboom Constitutional Court judgement poses new challenges for government in allocating this grant. Government is considering setting aside a portion of the funds for urgent housing needs of poor persons.

The Human Settlement Grant increases sharply from R20 million to R100 million between 2000/01 and 2001/02, and remains stable thereafter. The allocations for this grant can be found in Appendix B1.

Welfare grants

The Financial Management Grant was to be phased out this year. However, the department has motivated for the continuation of the grant in order to fund information technology infrastructure in the provincial welfare departments, and to fund the provincial operation centres. The grant continues for two years, with allocations of R10 million in 2001/02 and R11 million in 2002/03 made to provinces.

HIV/Aids conditional grants

The 2001MTEF allocation for HIV/Aids builds on the total allocation of R75 million made to Health, Welfare and Education in 2000/01 to finance a more effective and integrated response to the HIV/Aids epidemic. The HIV/Aids plan adopted by the three departments has four key components:

- Rolling out life skills and HIV/Aids in all primary and secondary schools.
- Providing increased access to voluntary counselling and testing for HIV/Aids.
- Developing and piloting community-based care models for children affected by and infected with HIV/Aids.
- Public campaigns (community mobilisation) to link with other components.

Of the R125 million allocation for HIV/Aids in 2001/02, R110 million is allocated to provinces in order to implement this programme. R63,5 million is allocated to the Department of Education to roll out the Life Skills Programmes in schools, R34,1 million to the Department of Health for increased access to voluntary counselling and community mobilisation, and R12 million to the Department of Welfare for community based care.

Part 5: Local government allocations

The primary source of local government revenue is taxes and user charges raised by individual municipalities. Grants from national government, including the equitable share and conditional grants, comprised about 7percent of the approximately R58 billion spent by local government in the 1999-00[4] financial year.

4The local government financial year runs from 1 July to 30 June and is denoted as 2000-01. The financial year of national and provincial governments runs from 1 April to 31 March and is denoted as 2000/01.

There has been a significant increase in allocations to local government for the 2001/02 MTEF. This includes major increases to the equitable share and the addition of a new conditional grant to assist municipalities with once-off transition costs arising from demarcation. In total, national transfers to local government will increase from R5,7 billion in 2001/02 to R7,8 billion in 2003/04, an average annual increase of 11 percent. This excludes agency payments. Table B12 reflects national transfers to local government by major category.

Table B12 National transfers to local government by category

R millions	2000/01	2001/02	2002/03	2003/04
Equitable share	1 867	2 618	3 002	3 551
R293 personnel[1]	463	-	-	-
Transition grant	100	250	200	-
Water & sanitation operating subsidy	746	692	644	662
Equitable share and operating subsidies	**3 176**	**3 560**	**3 846**	**4 213**
Capacity building and restructuring	566	681	860	892
Capital transfers	1 970	2 266	2 450	2 743
Total transfers to local government[2]	**5 712**	**6 507**	**7 156**	**7 849**
Percentage increase		*14%*	*10%*	*10%*

[1] R293 municipal portion (R358 m) incorporated in local government equitable share.
[2]SALGA is allocated R15 million per year beginning in 2001/02 on the vote of DPLG

Types of Transfers

Local government transfers from nationally raised revenue takes three forms: an equitable share of nationally raised revenue, conditional grants and grants-in-kind. These are discussed below:

- Equitable share allocations are made to all primary municipalities, without any conditions attached. These allocations are made in terms of a policy framework described in *The Introduction of an Equitable Share of Nationally Raised Revenue for Local Government* published by the Department of Finance in 1998[5], and administered by the Department of Provincial and Local Government.
- Conditional grants are made to those municipalities that apply for or are selected to receive these funds. These grants are operated and disbursed by departments in pursuit of specific policy objectives and with conditions attached to their disbursement.
- Grants-in-kind are made to those municipalities which perform certain services on behalf of national or provincial government, or are subsidised indirectly by a national or provincial department through the provision of a service for which a municipality is responsible. Examples of the former are certain health and emergency services, while an example of the latter is the Water Services Operating Subsidy.

National government is continuously refining the system of intergovernmental transfers to municipalities in order to improve their efficiency, equity, transparency and predictability. This reform programme will:

- Simplify and rationalise national transfers to the local government sphere, including consolidating capacity building grants into one inter-departmentally coordinated mechanism, consolidating capital transfers into CMIP, and consolidating other transfers into the local government equitable share.
- Introduce three-year allocations to individual municipalities for all national transfers in order to assist municipalities in their budgeting processes.

5 This document is available on the Department's website at http:\\www.treasury.gov.za

?? Require municipalities to show all national and provincial transfers on their budgets and to periodically report on outputs achieved through each conditional grant programme.

The equitable share for local government

Background

The equitable share for local government was first introduced in the 1998/99 financial year. The equitable share formula is based on the principles of equity, transparency, predictability, and accountability.

National transfers to local government through the equitable share are projected to increase by 15,1 percent a year from the 2000/01 allocation of R2,3 billion (excluding the provincial portion of R293 personnel) to R3,6 billion in 2003/04. These increases are to support institution-building in the newly demarcated municipalities and to provide resources to municipalities to implement commitment on the provision of free basic services.

Further expansion of the equitable share is anticipated when the Water Services Operating Subsidy is included in the equitable share. This allocation, which is made as an augmentation to the Water Trading Account on the Department of Water Affairs and Forestry vote, provides an untargeted subsidy to users of water schemes that are directly operated by that department. The Department is currently preparing for the transfer of these schemes to municipalities, in line with the constitutional allocation of functions. Once incorporated, this will significantly enhance the ability of municipalities to address the challenges of providing free basic services to poor households.

The Local Government Transition Grant, aimed at supporting municipalities through the transition process by partially assisting with once-off costs directly related to the amalgamation, will be absorbed into the equitable share in the 2003/04 fiscal year.

Equitable share formula

The local government equitable share formula consists of three components supporting operating costs in local authorities:

?? An institutional grant (*I grant*) to support the overhead costs of local authorities with a small rates base in relation to their population.

?? A basic services grant (*S grant*) to support the operating cost of basic services provided to low-income households.

?? An allocation to municipalities that have assumed former R293 functions and staff from their provinces.

These components of the local government equitable share and the underlying data used in the formula are reviewed in the remainder of this section. A review and update of the equitable share formula was made possible by the completion of demarcation and recent development in the measuring poverty by Statistics SA. Improvements to the formula are described in this section.

Description of information supplied by Statistics South Africa

Statistics South Africa has organized the 1996 Population Census data by the new Category A, B and C municipal boundaries and has tabulated it for each municipality by:

- Gender
- Urban/rural residence
- Employed persons of age 15 to 65, by industry
- Average household size
- Derived household income (derived, that is, from all recorded personal incomes of household members plus the households additional income and remittances received) reported in four income classes: less than R 800 per month, R 801 – R 1 100 per month, R 1 101 – R 1 500 per month and more than R 1 500 per month.
- Imputed household expenditure based on regression relationships from the 1995 Income and Expenditure Survey/October Household Survey
- Population of old municipalities falling within each new municipality.

The I grant

The institutional grant to local authorities has the following features:

- It assumes that there are economies of scale in the overhead operating costs in relation to population, so that as the population rises, the I grant per capita falls.
- It declines as the average income of the local authority increases, so that for a given population size, poor local authorities receive a higher I grant than rich ones.

The mathematical formula for the *I* grant is:

$$I \ ? \ I_0 P^{?} \ ? \ 0.05(y \ ? \ 180)P$$

where

- I is the institutional grant.
- I_0 is a parameter defining how much in aggregate will be distributed through the *I grant* (I_0 was set at R61 750 in the 2000/01 financial year).
- P is the population in the local authority.
- $?$ defines the economies of scale (which has been set at 0,25), and y is the average income per capita in the local authority.
- $0.05(y \ ? \ 180)P$ represents normative rates income and assumes that individuals will pay 5 percent of their income towards property taxes once the poverty threshold of R180 per month (equivalent to R800 per month for households) has been taken into account. A normative rates approach was taken so that local authorities could not manipulate the *I* grant by imposing low rates.

Given that a period of new institution-building will take place in 2001/02 and for some time beyond, the I grant portion of the equitable share will be increased by 30 percent in the 2001/02 allocation.. The I grant portion of the formula will be re-evaluated in future years to determine if it is still necessary. At that time, the I grant may be reduced or eliminated and the equitable share would then be allocated entirely through the *S grant* formula.

The above formula will also be adjusted from 2001/02 as a change in the R800 poverty threshold is adjusted to R1100 (see below). This will result in a change in the I GSrant formula from $0.05(y \ ? \ 180)P$ to $0.05(y \ ? \ 250)P$.

The S grant

The S grant is designed to meet the operating costs of providing basic services to low-income households. For this reason, the formula requires an estimate of the number of people in households below the poverty level for each local authority.

The formula for the S grant is:

$S ? ? ?LH$ where

?? *?* is a phase-in parameter between zero and one based on the municipality's classification as metropolitan, urban, or rural.

?? *?* is a budget-adjustment parameter, set to adjust the size of grants to the available budget.

?? *L* is the annual per capita cost of providing basic services to households in poverty

?? *H* is number of households in poverty.

Under the interim dispensation, municipalities were classified as metropolitan, urban and rural. The value of ? was set differently for metropolitan/urban municipalities and rural municipalities. In 1998/99 the metro/urban ? was set at 0,6 for urban areas and 0,1 for rural areas, the justification being that the proportion of the poor population actually in receipt of basic services would differ between urban and rural areas. The values for ? were set to increase each year until they reached 1,0. The metro/urban ? was set at 0,7 in 1999/2000 and the rural ? was set at 0,25. To increase stability during the transition to newly demarcated municipalities, the ? 's were not changed in the 2000/01 allocations. For the 2001/02 allocations, the regular phase-in of the ? values will be resumed. Accordingly, the metro/urban ? will be set to 0,8 and the rural ? will be set to 0,4.

The interim local government system formally distinguished urban municipalities from rural municipalities. This distinction is not a feature of the final local government dispensation. Therefore reconsideration of ? (coverage parameter) in the S grant formula is necessary. Although Statistics SA no longer classifies municipalities as urban or rural, enumerator areas within municipalities are classified in this way. In future, the formula will use census data to determine the population in urban and rural areas within each municipality. It will use different values for ? for each, so that average value for ? varies across municipalities. The more urban the municipality, the higher would be the average value for ? .

A rough estimate of the cost of a basic basket of services to determine the *L* parameter is as follows:

Table B13 Calculating the L parameter

Service	Rands
Electricity	36
Water	20
Refuse	20
Sanitation	10
Total	**86**

It should be stressed that these cost estimates are merely indicative. A study is currently underway to update the costs of this indicative basket of services.

There are two methods to determine *H*, the number of households in poverty,

?? Derived household income

- Imputed household expenditure

In previous years, the derived household income, supplied by Statistics SA, has been used to determine the number of households in poverty. However, this method has a number of statistical flaws. In a study for Statistics SA in 2000, Harold Alderman and Associates developed an alternative to the derived household income method. This new method imputes an income to each household, using regression results of income on a range of variables from the 1995 Income and Expenditure Survey (IES). The relevant variables in the 1996 Census are then used to predict income for each household. Because Statistics SA's tabulations of imputed expenditure provide a more accurate measure of poverty, they will be used in the 2001/02 equitable share allocation model for calculating both the I and S Grants. The data will be updated annually using government published inflation figures.

In past years, the poverty level has been set at households earning R800 per month or less. It will now increase to R1 100 in 2001/02 to account for inflation since the formula was first developed. This will impact the H variable in the S grant. It will also result in a change in the normative rate portion of the I grant formula from $0.05(y\ ?\ 180)P$ to $0.05(y\ ?\ 250)P$.

Guaranteed amounts

To prevent potentially serious disruptions in services of those municipalities that faced substantial declines in transfers as a result of the implementation of the equitable share system, municipalities are guaranteed to receive at least 70 percent of the allocation in the previous year. Thus municipalities received either the I plus S grant or the guaranteed amount, whichever is the greater. R293 grant allocations for 2001/02 to 2003/04 are provided on top of the guaranteed amount.

A guaranteed amount will be maintained in 2001/02 allocations using the following method:

- For new municipalities made up of several complete old local governments, the guaranteed amount for 2001/02 will be set at 70% of the sum of the 2000/01 allocations to all the component old municipalities.
- For newly demarcated municipalities that are composed of parts of existing municipalities, the guaranteed amounts will be determined by splitting the 2000/01 allocations between more than one newly demarcated jurisdiction on the basis of population shares.

R293 allocations

Some of the former homeland governments did not have municipalities, and thus provided municipal services directly. These areas were known as R293 towns, after the proclamation that established them. In 1994, R293 towns and their functions were transferred to provinces, with the intention of transfering them to local governments. Since then, national government has budgeted a separate allocation to support the transfer of these functions and personnel from provinces to municipalities. In 2000/01 the R293 allocation for municipal functions (R447 million) was incorporated into the local government equitable share. In 2001/02 the R293 allocation for personnel (R463 million) will be incorporated into the provincial and local government equitable shares. Based on the number of people actually transferred to municipalities or retained by provinces, the local government equitable share increases by R358 million while R105 million will remain with provinces.

2001/02 marks the first year that R293 will be budgeted as part of the equitable share. Based on previous agreements with local governments, municipalities will be guaranteed their current R293 grant allocations for three fiscal years. Accordingly, the R358 million in R293 funds will be determined separately from the allocation made via the I and S grant formulae.

Equitable share distribution

The equitable share will be distributed directly to "unicity" metropolitan authorities. Outside of the metros, the division of powers between Category C and Category B municipalities will be relevant. Category B municipalities will in the main be responsible for the provision of basic services. The exceptions to this rule will be:

?? District management areas in which there is no Category B municipality and the Category C municipality carries out the relevant functions.

?? Category B municipalities which are institutionally weak and have limited treasury functions, in which case the relevant Category C municipalities will be obliged to provide basic services on their behalf.

Except in the two cases described above, the equitable share allocation will be distributed directly to Category A and B municipalities.

Conditional grants to local government

Capacity-building grants

Many municipalities lack effective financial management, planning and project management capacity. There is currently a large number of grants that support municipal capacity-building.

The range of programmes administered by different national departments is fragmented and has not delivered substantial improvements in municipal capacity to date. Government intends to move toward one consolidated local government capacity-building programme, governed jointly by a multi-departmental team at the national level. A rationalised, co-ordinated approach toward municipal capacity-building should:

?? Encourage national departments to be more transparent about their capacity-building programmes, and provide measurable outputs in this regard.

?? Stabilise municipal budgets and build strong financial management practices, upon which other reforms can be implemented, and infrastructure and services expanded.

?? Foster linkages between integrated development planning, spatial planning, and the budget process.

?? Provide a sequenced programme of support to municipalities that prioritises financial management before resources are directed toward more advanced capacity programmes such as planning and performance management.

?? Develop project management skills in municipalities.

As a first step toward implementation of this rationalised local government capacity building initiative, the Municipal Systems Improvement Programme has been created in the 2001 Budget. If successful, this programme will provide a framework for consolidation of all transfers for municipal capacity-building.

A portion of the funds from the Land Development Objectives grant has been used to set up the Municipal Systems Improvement Grant. In future, as particular capacity-building and restructuring grants reach the end of their terms, they will be phased into the equitable share for local government.

Restructuring grants

Restructuring support to large and smaller municipalities is effected through the Restructuring Grant and Local Government Support Grant respectively. The Restructuring Grant provides an opportunity for large municipalities to access funding to implement medium-term fiscal and institutional restructuring exercises, on the basis of their own restructuring plans. It is a demand-driven grant that encourages municipalities to become financially self-sustaining in the medium- to longer-term. The Local Government Support Grant assists smaller municipalities in financial crisis through both management support and emergency funding. The grant is increasingly focused on assisting these municipalities to restructure their medium-term fiscal positions, and thus avert future crises.

Both grant programmes are projected to increase significantly in the medium-term as municipalities take proactive steps to address their financial difficulties within the new structural arrangements for local government.

Table B14 Capacity-building and restructuring grants

R millions	2000/01	2001/02	2002/03	2003/04
Restructuring grant	300	350	450	465
Financial management grant	50	60	120	125
Local government support grant	150	160	220	230
Urban transport fund[1]	22	81	40	42
Land development objectives[2,4]	44	–	–	–
Municipal systems Improvement programme[3]		30	30	30
Total capa city-building and restructuring	**566**	**681**	**860**	**892**

[1] The 2001-02 allocation is R38 m plus R43 million in carry-overs from previous years.

[2] Incorporated into equitable share and municipal systems improvement programme.

[3] New conditional grant created to begin consolidation of municipal capacity-building funds.

[4] Current LDO commitments will be honoured.

Capital transfers to local government

Recent studies of the efficacy of existing municipal infrastructure grant disbursement mechanisms have identified the need to rationalise the number of grants to municipalities and to improve the mechanisms for the disbursement of these transfers. These proposals come in response to problems of inequity in the distribution of grants, as well as flaws in the arrangements for financial accountability identified by the Treasury and the Auditor-General. Rationalising and decentralising disbursement arrangements will offer clear benefits with regard to the sustainability of infrastructure investments, the transparency of allocations, and accountability for investment outcomes.

Grant rationalisation and disbursement reform correlate with recommendations on fiscal transfers. Moreover, such changes are opportune in the current stage of the local government transition, as they provide municipalities with a degree of fiscal certainty in a time of rapid change.

The Consolidated Municipal Infrastructure Programme (CMIP) will be transformed from a project-based disbursement mechanism to a formula-based mechanism in the forthcoming financial year. This approach will serve as a framework for one overall capital infrastructure grant mechanism governed by an interdepartmental team, as approved by Cabinet in the establishment of CMIP. Consolidation of transfers and greater transparency in the allocation process will allow problems related to co-ordination between infrastructure programmes and the housing programme to be effectively addressed.

National transfers for capital are projected to increase by 11,7 percent a year from 2000/01 to 2003/04.

Table B15 Capital transfers to local government

R millions	2000/01	2001/02	2002/03	2003/04
CMIP	883	994	1 159	1 407
Water Service projects	609	822	818	835
Community based public works	374	374	374	374
Local economic development[1]	104	76	99	127
Total capital transfers	**1 970**	**2 266**	**2 450**	**2 743**

1. Includes allocation for Social Plan Measures.

As CMIP is the most appropriate vehicle for a rationalised capital grant programme, CMIP funding will increase by 17 percent a year to R1 407 million in 2003/04. This will enhance assistance to municipalities in extending basic infrastructure services. In 2001, further progress should be made in rationalising capital transfers to municipalities through the incorporation of other capital grants into CMIP and the greater collaboration by departments in allocations to municipalities.

C

Provincial government tables

The tables in Annexure C present provincial expenditure and revenue figures compiled from information submitted by the provincial treasuries. The data reflect the latest available estimates of actual and budgeted expenditure.

Actual expenditure and revenue

The process for closing the books and determining actual expenditure and revenue begins with departments drawing up draft actual expenditure reports. These are used to compile financial statements that represent actual expenditure for a specific department in a given financial year. These financial statements are prepared by each department and signed by the responsible accounting officer. Once signed financial statements are available for all departments, the provincial treasury submits these to the Auditor-General. The Auditor-General's report contains the province's audited expenditure and revenue numbers, and comments on the financial statements.

The 1997/98 information is based on actual expenditure numbers from the Auditor-General's report for that year.

For 1998/99, seven of the provinces' data are based on actual expenditure numbers from the applicable Auditor-General's reports.

The 1999/00 data represent appropriation accounts. The 2000/01 numbers are draft actual expenditure numbers used for preparing the final financial statements. The final figures for 2000/01 could still change and these figures should therefore be regarded as preliminary.

Capital expenditure and statutory payments

Some information is omitted from the attached tables, being either impossible to obtain from the current systems or requiring expensive extraction from the previous systems. For example, expenditure on the Works vote for the Health, Education and Welfare departments could not be obtained, as the old systems did not separate these expenditures in the Works department. Some provinces were also not able to distinguish the amounts spent on statutory appropriations (salaries for office bearers), as these amounts were included under the personnel line item.

Adjustments to facilitate comparison over time

Analysis of provincial budgets is distorted by shifts in responsibilities between the three spheres of government. To enable comparisons over time the figures have to be adjusted to account for these shifts.

… incorporating housing funds

The most significant adjustment is the inclusion of the housing funds in all years. For the first time, in 2000/01, housing funds flowing to provinces from the National Housing Fund were reflected in provincial budgets as a conditional grant. Prior to that, they were regarded as an agency payment and were off-budget. Including these funds only from 2000/01 distorts comparisons of revenue flows and expenditures, and in particular of the share of capital spending in provincial budgets. Thus, the housing transfers have been included in provincial budgets for the three preceding years.

… hospital rehabilitation

Based on the same principle, the hospital rehabilitation and the financial management and quality enhancement agency payments were included in the figures in 1998/99.

… local governments' equitable share

The local government equitable share was introduced in 1998/99, redirecting some funds to local government that previously flowed through provincial budgets. To make reasonable comparisons over time, these function shifts must be removed from the provincial budgets. Due to the unavailability of the breakdown per economic classification these numbers could not be excluded from the detail numbers. An adjustment to the total expenditure of each province has been made on Table C3.

Some technical adjustments to the appropriation account numbers were required as provinces classify expenditure for certain functions differently. This problem will be addressed by the introduction of the GFS classification, as prescribed by the IMF.

Provincial medium-term estimates

The provincial medium-term estimates are from the 2001 Budgets tabled by the provinces in February 2001. All the medium-term budgets include estimates of improvements in conditions of service, which are distributed by department and programme. In some cases, the improvements in conditions of service amounts were distributed by formula in proportion to the budgeted personnel expenditure in the programme. Actual improvement in conditions of service amounts will be determined through the central wage bargaining process.

Provincial finance reserve

In the 2000 Budget, most provinces included a finance reserve in the Finance vote, in order to cater for the repayment of debt. However, in practice the reserve was not only utilised for the repayment of debts, but also for some items of expenditure. In general, the use of the finance reserves can be broken into three broad categories, namely:

?? a part that is utilised for the repayment of debts that will be recorded as expenditure (for example, backlogs in rank and leg promotions)

?? a part that is utilised for the repayment of debts where expenditure has been recorded. Such repayment is treated as a financing item (such as reducing bank overdraft)

?? a part that is set aside as a contingency reserve, reflecting possible future expenditure that is still unallocated at the time of the budget.

To ensure that expenditure levels are accurately recorded in provincial budget documentation, the provinces were requested to indicate the different uses of the reserve separately. They included expenditure-related debt repayment in budgeted expenditure, allocated to the appropriate vote and showed the contingency reserve as a separate item not to be voted. Budgeted reduction of bank overdrafts and similar debts were showing as a budget surplus, ensuring that the treatment of debt repayment and reserves was in line with GFS principles.

Summary tables

Provincial summary

Total actual and budgeted expenditure and revenue by province	*Table C1*
Total actual and budgeted expenditure and revenue by functional area	*Table C2*
Adjustments to total actual and budgeted expenditure by province	*Table C3*

Provincial social services

Total actual and budgeted expenditure on education services by province	*Table C4*
Total actual and budgeted expenditure on health services by province	*Table C5*
Total actual and budgeted expenditure on welfare services by province	*Table C6*

Detailed tables

Provincial tables

Eastern Cape	*Table C7*
Free State	*Table C8*
Gauteng	*Table C9*
KwaZulu-Natal	*Table C10*
Mpumalanga	*Table C11*
Northern Cape	*Table C12*
Northern Province	*Table C13*
North West	*Table C14*
Western Cape	*Table C15*

Detailed tables for each province

For each province, the following six tables are provided:

?? Summary of actual and budgeted revenue and expenditure
?? Actual and budgeted revenue
?? Actual and budgeted expenditure, by department
?? Education actual and budgeted expenditure, by programme
?? Health actual and budgeted expenditure, by programme
?? Welfare actual and budgeted expenditure, by programme

TOTAL ALL PROVINCES

TABLE C1: TOTAL ACTUAL AND BUDGETED EXPENDITURE, REVENUE AND SURPLUS / (DEFICIT) BY PROVINCE

Province	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual	Actual	Actual	Estimated Actual	Medium Term Expenditure Estimates		
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Eastern Cape							
Revenue	15,512	16,285	17,086	18,707	19,876	21,273	22,538
Expenditure	16,487	15,623	16,307	18,165	19,536	20,883	22,175
Surplus / (Deficit)	**(975)**	**662**	**778**	**542**	**340**	**389**	**363**
Free State							
Revenue	6,190	6,874	7,037	7,749	8,327	8,835	9,335
Expenditure	6,952	7,079	6,692	7,420	8,234	8,776	9,309
Surplus / (Deficit)	**(762)**	**(205)**	**345**	**328**	**93**	**59**	**26**
Gauteng							
Revenue	15,209	16,179	17,385	18,818	20,371	22,116	23,763
Expenditure	15,737	16,259	16,831	18,171	20,154	21,877	23,458
Surplus / (Deficit)	**(528)**	**(80)**	**555**	**647**	**218**	**239**	**304**
KwaZulu/Natal							
Revenue	18,730	19,282	20,273	22,624	23,905	25,962	28,045
Expenditure	19,946	19,113	19,389	21,810	23,905	25,962	28,045
Surplus / (Deficit)	**(1,216)**	**169**	**884**	**814**	**-**	**-**	**-**
Mpumalanga							
Revenue	5,487	6,024	6,693	7,467	8,124	8,911	9,616
Expenditure	6,110	6,111	6,548	7,045	8,107	8,896	9,616
Surplus / (Deficit)	**(623)**	**(88)**	**145**	**422**	**17**	**15**	**-**
Northern Cape							
Revenue	2,228	2,270	2,507	2,599	2,861	3,090	3,298
Expenditure	2,395	2,393	2,492	2,627	2,861	3,090	3,298
Surplus / (Deficit)	**(167)**	**(123)**	**15**	**(28)**	**-**	**-**	**-**
Northern Province							
Revenue	11,267	12,046	12,869	14,565	15,645	17,033	18,356
Expenditure	11,700	12,157	12,808	14,527	15,426	16,864	18,166
Surplus / (Deficit)	**(432)**	**(111)**	**61**	**38**	**219**	**169**	**190**
North West							
Revenue	7,538	8,010	8,484	9,289	9,856	10,555	11,218
Expenditure	7,849	7,845	8,241	9,219	9,856	10,555	11,218
Surplus / (Deficit)	**(311)**	**165**	**243**	**70**	**-**	**-**	**-**
Western Cape							
Revenue	10,170	10,729	11,280	11,917	12,486	13,216	13,863
Expenditure	10,789	10,552	10,748	11,514	12,394	13,136	13,813
Surplus / (Deficit)	**(618)**	**177**	**532**	**404**	**92**	**80**	**50**
Total All Provinces							
Revenue	92,332	97,699	103,614	113,734	121,452	130,991	140,032
Expenditure	97,964	97,133	100,055	110,498	120,473	130,039	139,099
Surplus / (Deficit)	**(5,632)**	**566**	**3,559**	**3,237**	**978**	**952**	**933**

TOTAL ALL PROVINCES

TABLE C2: TOTAL ACTUAL AND BUDGETED EXPENDITURE, REVENUE AND SURPLUS / (DEFICIT) BY FUNCTIONAL AREA

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual	Actual	Actual	Estimated Actual	Medium Term Expenditure Estimates		
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Expenditure							
Education							
Personnel Expenditure	34,095	35,252	36,118	39,237	41,215	43,376	45,734
Other Expenditure	4,397	3,471	3,709	4,018	5,732	6,788	7,601
Total	**38,492**	**38,723**	**39,828**	**43,255**	**46,947**	**50,164**	**53,335**
Health							
Personnel Expenditure	13,772	14,826	15,489	16,385	17,458	18,435	19,411
Other Expenditure	8,711	8,198	8,621	10,036	11,287	11,998	13,037
Total	**22,483**	**23,025**	**24,110**	**26,421**	**28,745**	**30,433**	**32,448**
Welfare							
Personnel Expenditure	556	719	832	921	1,010	1,070	1,127
Transfer Payments	16,383	17,015	17,700	18,948	20,498	22,084	23,856
Other Expenditure	615	707	842	1,060	1,332	1,465	1,548
Total	**17,554**	**18,441**	**19,373**	**20,929**	**22,840**	**24,620**	**26,530**
Expenditure other Functions							
Personnel Expenditure	5,903	6,251	6,617	6,943	7,483	8,032	8,556
Contingency Reserve	-	-	-	-	182	632	1,070
Other Expenditure	13,532	10,693	10,127	12,949	14,276	16,159	17,160
Total	**19,435**	**16,944**	**16,744**	**19,892**	**21,941**	**24,823**	**26,785**
Total Personnel Expenditure	54,325	57,049	59,056	63,487	67,166	70,913	74,828
Contingency Reserve	-	-	-	-	182	632	1,070
Total Other Expenditure	43,639	40,084	40,999	47,011	53,125	58,494	63,202
Total Expenditure	**97,964**	**97,133**	**100,055**	**110,498**	**120,473**	**130,039**	**139,099**
Current Expenditure	89,833	90,915	93,630	102,856	109,274	117,052	125,022
Capital Expenditure	8,131	6,218	6,426	7,642	11,199	12,987	14,077
Revenue							
Transfers from National	88,874	94,266	99,576	109,220	117,548	126,784	135,452
Own Revenue	3,458	3,433	4,039	4,514	3,904	4,207	4,581
Other Revenue	-	-	-	-	-	-	-
Total Provincial Revenue	**92,332**	**97,699**	**103,614**	**113,734**	**121,452**	**130,991**	**140,032**
Surplus/(Deficit)	**(5,632)**	**566**	**3,559**	**3,237**	**978**	**952**	**933**

TOTAL ALL PROVINCES

TABLE C3: ADJUSTMENTS TO TOTAL PROVINCIAL ACTUAL AND BUDGETED EXPENDITURE

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual	Actual	Actual	Estimated Actual	Medium Term Expenditure Estimates		
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Eastern Cape							
Total Expenditure	16,487	15,623	16,307	18,165	19,536	20,883	22,175
Less: Contingency Reserve	-	-	-	-	-	-	-
Less: Local Government Transfer	384	173	70	60	-	-	-
Adjusted Total Expenditure	16,103	15,450	16,237	18,105	19,536	20,883	22,175
Free State							
Total Expenditure	6,952	7,079	6,692	7,420	8,234	8,776	9,309
Less: Contingency Reserve	-	-	-	-	50	100	138
Less: Local Government Transfer	99	39	55	68	-	-	-
Adjusted Total Expenditure	6,853	7,040	6,637	7,352	8,184	8,676	9,171
Gauteng							
Total Expenditure	15,737	16,259	16,831	18,171	20,154	21,877	23,458
Less: Contingency Reserve	-	-	-	-	-	300	500
Less: Local Government Transfer	166	27	-	-	-	-	-
Adjusted Total Expenditure	15,571	16,232	16,831	18,171	20,154	21,577	22,958
KwaZulu-Natal							
Total Expenditure	19,946	19,113	19,389	21,810	23,905	25,962	28,045
Less: Contingency Reserve	-	-	-	-	-	-	-
Less: Local Government Transfer	695	592	144	143	-	-	-
Adjusted Total Expenditure	19,251	18,521	19,245	21,667	23,905	25,962	28,045
Mpumalanga							
Total Expenditure	6,110	6,111	6,548	7,045	8,107	8,896	9,616
Less: Contingency Reserve	-	-	-	-	40	43	47
Less: Local Government Transfer	108	45	30	36	-	-	-
Adjusted Total Expenditure	6,002	6,067	6,518	7,009	8,067	8,852	9,569
Northern Cape							
Total Expenditure	2,395	2,393	2,492	2,627	2,861	3,090	3,298
Less: Contingency Reserve	-	-	-	-	20	21	21
Less: Local Government Transfer	35	6	-	-	-	-	-
Adjusted Total Expenditure	2,360	2,387	2,492	2,627	2,841	3,069	3,277
Northern Province							
Total Expenditure	11,700	12,157	12,808	14,527	15,426	16,864	18,166
Less: Contingency Reserve	-	-	-	-	-	-	168
Less: Local Government Transfer	190	135	102	106	-	-	-
Adjusted Total Expenditure	11,510	12,022	12,706	14,420	15,426	16,864	17,999
North West							
Total Expenditure	7,849	7,845	8,241	9,219	9,856	10,555	11,218
Less: Contingency Reserve	-	-	-	-	72	168	196
Less: Local Government Transfer	139	86	62	50	-	-	-
Adjusted Total Expenditure	7,710	7,759	8,179	9,169	9,784	10,387	11,022
Western Cape							
Total Expenditure	10,789	10,552	10,748	11,514	12,394	13,136	13,813
Less: Contingency Reserve	-	-	-	-	-	-	-
Less: Local Government Transfer	183	30	-	-	-	-	-
Adjusted Total Expenditure	10,606	10,522	10,748	11,514	12,394	13,136	13,813
Total All Provinces							
Total Expenditure	**97,964**	**97,133**	**100,055**	**110,498**	**120,473**	**130,039**	**139,099**
Less: Contingency Reserve	-	-	-	-	182	632	1,070
Less: Local Government Transfer	1,999	1,132	463	463	-	-	-
Adjusted Total Expenditure	**95,965**	**96,001**	**99,592**	**110,035**	**120,291**	**129,407**	**138,030**

SOCIAL SERVICES: EDUCATION

TABLE C4: TOTAL ACTUAL AND BUDGETED EXPENDITURE ON EDUCATION SERVICES BY PROVINCE

Province	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual	Actual	Actual	Estimated Actual	Medium Term Expenditure Estimates		
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Eastern Cape							
Personnel Expenditure	5,850	6,031	6,371	6,771	6,956	6,988	7,352
Capital Expenditure	268	40	8	58	238	436	480
Other Expenditure	647	514	238	362	631	940	996
Total	**6,765**	**6,585**	**6,616**	**7,191**	**7,825**	**8,364**	**8,828**
Free State							
Personnel Expenditure	2,265	2,388	2,472	2,674	2,812	2,970	3,137
Capital Expenditure	-	-	13	10	80	102	110
Other Expenditure	274	225	301	306	347	355	380
Total	**2,539**	**2,613**	**2,785**	**2,990**	**3,239**	**3,427**	**3,628**
Gauteng							
Personnel Expenditure	5,153	5,289	5,345	5,841	6,268	6,765	7,171
Capital Expenditure	85	151	216	171	169	291	290
Other Expenditure	627	615	749	822	981	907	962
Total	**5,865**	**6,055**	**6,310**	**6,834**	**7,418**	**7,964**	**8,423**
KwaZulu/Natal							
Personnel Expenditure	6,531	6,503	6,721	7,535	8,273	8,753	9,338
Capital Expenditure	159	87	23	41	221	312	462
Other Expenditure	590	540	554	609	683	755	907
Total	**7,280**	**7,130**	**7,299**	**8,185**	**9,177**	**9,820**	**10,708**
Mpumalanga							
Personnel Expenditure	2,289	2,434	2,587	2,788	2,853	3,015	3,220
Capital Expenditure	62	55	63	42	91	119	145
Other Expenditure	155	135	159	166	260	289	419
Total	**2,506**	**2,624**	**2,809**	**2,997**	**3,204**	**3,424**	**3,784**
Northern Cape							
Personnel Expenditure	732	746	773	814	872	928	978
Capital Expenditure	8	44	26	13	18	24	29
Other Expenditure	99	110	108	139	150	165	194
Total	**839**	**900**	**906**	**965**	**1,041**	**1,117**	**1,201**
Northern Province							
Personnel Expenditure	4,988	5,469	5,401	5,871	6,025	6,468	6,727
Capital Expenditure	15	34	30	52	156	246	303
Other Expenditure	543	293	422	447	678	669	677
Total	**5,546**	**5,795**	**5,854**	**6,370**	**6,860**	**7,384**	**7,707**
North West							
Personnel Expenditure	2,875	3,018	3,129	3,403	3,393	3,555	3,728
Capital Expenditure	163	23	28	54	128	174	183
Other Expenditure	202	154	250	242	367	404	414
Total	**3,240**	**3,196**	**3,408**	**3,699**	**3,888**	**4,133**	**4,325**
Western Cape							
Personnel Expenditure	3,412	3,374	3,318	3,542	3,764	3,932	4,082
Capital Expenditure	83	47	53	59	60	86	96
Other Expenditure	417	403	469	423	472	512	554
Total	**3,912**	**3,823**	**3,840**	**4,023**	**4,296**	**4,531**	**4,732**

Total All Provinces							
Personnel Expenditure	34,095	35,252	36,118	39,237	41,215	43,376	45,734
Capital Expenditure	842	481	459	501	1,162	1,791	2,099
Other Expenditure	3,554	2,990	3,251	3,517	4,570	4,997	5,503
Total	**38,492**	**38,723**	**39,828**	**43,255**	**46,947**	**50,164**	**53,335**

SOCIAL SERVICES: WELFARE

TABLE C6: TOTAL ACTUAL AND BUDGETED EXPENDITURE ON WELFARE SERVICES BY PROVINCE

Province	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual	Actual	Actual	Estimated Actual	Medium Term Expenditure Estimates		
	Rm	Rm	Rm	Rm	Rm	Rm	Rm
Eastern Cape							
Personnel Expenditure	88	107	124	140	147	157	164
Transfer Payments	3,533	3,407	3,609	3,805	4,389	4,311	4,639
Other Expenditure	138	120	123	126	91	107	115
Total	**3,759**	**3,634**	**3,856**	**4,070**	**4,627**	**4,574**	**4,919**
Free State							
Personnel Expenditure	68	83	94	102	101	105	109
Transfer Payments	1,035	1,040	1,010	1,089	1,175	1,275	1,366
Other Expenditure	22	35	59	69	88	92	100
Total	**1,125**	**1,158**	**1,162**	**1,261**	**1,364**	**1,472**	**1,575**
Gauteng							
Personnel Expenditure	107	125	134	152	162	172	182
Transfer Payments	2,005	2,025	2,151	2,343	2,457	2,606	2,762
Other Expenditure	103	146	140	161	261	278	294
Total	**2,214**	**2,295**	**2,425**	**2,656**	**2,880**	**3,055**	**3,238**
KwaZulu/Natal							
Personnel Expenditure	122	138	149	166	180	192	203
Transfer Payments	3,428	3,659	3,716	3,894	4,131	4,697	5,210
Other Expenditure	189	188	186	275	273	308	332
Total	**3,739**	**3,984**	**4,051**	**4,335**	**4,584**	**5,198**	**5,744**
Mpumalanga							
Personnel Expenditure	21	27	36	39	40	42	45
Transfer Payments	931	1,022	1,070	1,210	1,339	1,530	1,611
Other Expenditure	29	37	49	72	191	232	206
Total	**981**	**1,087**	**1,156**	**1,321**	**1,571**	**1,803**	**1,861**
Northern Cape							
Personnel Expenditure	30	35	37	44	51	54	57
Transfer Payments	600	596	611	568	569	593	613
Other Expenditure	19	38	48	46	54	62	70
Total	**650**	**669**	**696**	**659**	**674**	**708**	**740**
Northern Province							
Personnel Expenditure	13	32	62	67	71	74	80
Transfer Payments	1,777	1,983	2,186	2,460	2,551	2,794	3,100
Other Expenditure	13	16	82	115	133	136	166
Total	**1,803**	**2,031**	**2,329**	**2,642**	**2,754**	**3,004**	**3,347**
North West							
Personnel Expenditure	20	74	84	95	113	120	126
Transfer Payments	1,018	1,260	1,360	1,586	1,803	2,044	2,158
Other Expenditure	33	37	47	97	123	128	131
Total	**1,071**	**1,371**	**1,491**	**1,779**	**2,039**	**2,292**	**2,416**
Western Cape							
Personnel Expenditure	86	99	113	115	145	154	161
Transfer Payments	2,057	2,023	1,987	1,994	2,085	2,235	2,396
Other Expenditure	69	89	109	99	118	123	134
Total	**2,212**	**2,211**	**2,208**	**2,208**	**2,348**	**2,513**	**2,691**

Total All Provinces							
Personnel Expenditure	556	719	832	921	1,010	1,070	1,127
Transfer Payments	16,383	17,015	17,700	18,948	20,498	22,084	23,856
Other Expenditure	615	707	842	1,060	1,332	1,465	1,548
Total	**17,554**	**18,441**	**19,373**	**20,929**	**22,840**	**24,620**	**26,530**

EASTERN CAPE

TABLE C7.1: SUMMARY OF ACTUAL AND BUDGETED REVENUE AND EXPENDITURE

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual	Actual	Actual	Estimated Actual	Medium Term Expenditure Estimates		
Expenditure	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Education							
Personnel Expenditure	5,850,138	6,030,964	6,371,327	6,770,917	6,955,638	6,988,079	7,352,098
Other Expenditure	914,523	554,521	245,082	420,414	869,108	1,376,359	1,475,539
Total	**6,764,661**	**6,585,485**	**6,616,409**	**7,191,331**	**7,824,746**	**8,364,438**	**8,827,637**
Health							
Personnel Expenditure	1,842,976	1,991,801	2,391,236	2,385,313	2,390,848	2,512,317	2,647,512
Other Expenditure	1,187,924	1,056,379	1,105,121	1,404,315	1,444,339	1,454,719	1,658,991
Total	**3,030,900**	**3,048,180**	**3,496,357**	**3,789,628**	**3,835,187**	**3,967,036**	**4,306,503**
Welfare							
Personnel Expenditure	88,463	107,280	123,762	139,768	146,944	156,713	164,488
Transfer Payments	3,532,853	3,407,434	3,608,865	3,804,994	4,388,847	4,310,847	4,639,019
Other Expenditure	138,057	119,642	122,909	125,564	90,963	106,550	115,124
Total	**3,759,373**	**3,634,356**	**3,855,536**	**4,070,326**	**4,626,754**	**4,574,110**	**4,918,631**
Expenditure other Functions							
Personnel Expenditure	1,055,165	1,174,622	1,351,349	1,364,927	1,444,647	1,501,681	1,581,673
Contingency Reserve	-	-	-	-	-	-	-
Other Expenditure	1,877,102	1,180,264	987,659	1,748,801	1,804,420	2,475,945	2,540,416
Total	**2,932,267**	**2,354,886**	**2,339,008**	**3,113,728**	**3,249,067**	**3,977,626**	**4,122,089**
Total Personnel Expenditure	8,836,742	9,304,667	10,237,674	10,660,925	10,938,077	11,158,790	11,745,771
Contingency Reserve	-	-	-	-	-	-	-
Total Other Expenditure	7,650,459	6,318,240	6,069,636	7,504,088	8,597,677	9,724,420	10,429,089
Total Expenditure	**16,487,201**	**15,622,907**	**16,307,310**	**18,165,013**	**19,535,754**	**20,883,210**	**22,174,860**
Current Expenditure	15,742,630	15,093,838	15,724,166	17,433,323	18,231,526	18,963,723	20,062,782
Capital Expenditure	744,571	529,069	583,144	731,690	1,304,228	1,919,487	2,112,078
Revenue							
Transfers from National	15,290,026	15,864,452	16,711,682	18,312,254	19,544,053	20,905,810	22,139,411
Own Revenue	222,470	420,911	374,036	394,541	332,088	366,820	398,856
Other Revenue	-	-	-	-	-	-	-
Total Revenue	**15,512,496**	**16,285,363**	**17,085,718**	**18,706,795**	**19,876,141**	**21,272,630**	**22,538,267**
Surplus/(Deficit)	**(974,705)**	**662,456**	**778,408**	**541,782**	**340,387**	**389,420**	**363,407**

EASTERN CAPE

TABLE C7.2: ACTUAL AND BUDGETED REVENUE

Revenue	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual Revenue	Actual Revenue	Actual Revenue	Estimated Actual Revenue	Medium Term Revenue Estimates		
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Transfers from National	**15,290,026**	**15,864,452**	**16,711,682**	**18,312,254**	**19,544,053**	**20,905,810**	**22,139,411**
Equitable Share	**14,337,775**	**14,491,840**	**15,238,337**	**16,749,624**	**17,964,631**	**19,220,517**	**20,317,001**
Conditional Grants	**952,251**	**1,372,612**	**1,473,345**	**1,562,630**	**1,579,422**	**1,685,293**	**1,822,410**
DPLG	-	173,083	99,507	61,357	28,800	39,600	41,400
Education	-	526	35,520	43,426	55,037	51,120	59,647
Health	-	133,571	286,695	463,171	322,926	342,328	354,009
Housing	245,251	378,750	342,020	497,970	506,811	541,323	560,740
National Treasury	707,000	680,319	698,251	487,289	663,706	709,722	806,614
Social Development	-	3,997	10,559	9,417	2,142	1,200	-
Other	-	2,366	793	-	-	-	-
Own Revenue	**222,470**	**420,911**	**374,036**	**394,541**	**332,088**	**366,820**	**398,856**
Road Traffic Revenue	61,505	52,605	58,927	61,629	41,577	44,487	47,602
Health Patient Fees	41,409	23,918	23,324	21,339	22,191	21,410	26,853
Horse Racing and Betting	5,548	13,016	3,150	7,141	-	-	-
Gambling	14,990	42,936	47,683	35,925	32,295	41,500	39,687
Other	99,018	288,436	240,952	268,507	236,025	259,423	284,714
Other Revenue	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**15,512,496**	**16,285,363**	**17,085,718**	**18,706,795**	**19,876,141**	**21,272,630**	**22,538,267**
Increase/(Decrease)					1,169,346	1,396,489	1,265,637

EASTERN CAPE

TABLE C7.3: ACTUAL AND BUDGETED EXPENDITURE BY DEPARTMENT

Provincial Summary / Department	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Education	6,764,661	6,585,485	6,616,409	7,191,331	7,824,746	8,364,438	8,827,637
Health	3,030,900	3,048,180	3,496,357	3,789,628	3,835,187	3,967,036	4,306,503
Welfare	3,759,373	3,634,356	3,855,536	4,070,326	4,626,754	4,574,110	4,918,631
Premier	169,890	103,123	91,500	90,031	111,052	117,880	124,445
Legislature	41,083	47,431	57,862	64,236	68,902	66,159	69,642
Finance and Provincial Expenditure	248,844	76,415	60,721	479,541	113,936	139,542	150,297
Economic Affairs, Environment and Tourism	130,057	115,479	122,982	192,101	248,816	209,733	238,518
Housing, Local Government and Traditional Affairs	760,703	691,302	655,007	764,489	858,642	897,223	929,507
Transport	282,047	155,557	207,287	186,447	243,317	236,555	250,987
Public Works	757,698	661,595	561,395	727,092	951,350	1,641,830	1,654,996
Agriculture and Land Affairs	537,411	388,073	444,197	450,885	468,261	469,782	491,359
Sports, Arts and Culture	-	111,476	134,139	154,038	176,794	190,988	203,981
Safety and Security	4,534	4,435	3,918	4,868	7,997	7,934	8,357
Total	**16,487,201**	**15,622,907**	**16,307,310**	**18,165,013**	**19,535,754**	**20,883,210**	**22,174,860**
Increase/(Decrease)					**1,370,741**	**1,347,456**	**1,291,650**
Classification of expenditure							
Current	**15,742,630**	**15,093,838**	**15,724,166**	**17,433,323**	**18,231,526**	**18,963,723**	**20,062,782**
Personnel expenditure	8,836,742	9,304,667	10,237,674	10,660,925	10,938,077	11,158,790	11,745,771
Transfer payments	4,762,503	4,079,494	4,158,147	4,618,522	5,238,298	5,225,572	5,603,032
Other current expenditure	2,143,385	1,709,677	1,328,345	2,153,876	2,055,151	2,579,361	2,713,979
Capital	**744,571**	**529,069**	**583,144**	**731,690**	**1,304,228**	**1,919,487**	**2,112,078**
Transfer payments	570,489	470,158	456,823	572,169	804,373	1,022,291	1,089,935
Other capital expenditure	174,082	58,911	126,321	159,521	499,855	897,196	1,022,143
Total	**16,487,201**	**15,622,907**	**16,307,310**	**18,165,013**	**19,535,754**	**20,883,210**	**22,174,860**

EASTERN CAPE

TABLE C7.4: EDUCATION ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Education Programmes	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	3,209,872	2,120,444	619,421	545,166	419,642	468,362	499,406
Public Ordinary School Education	3,110,027	4,165,378	5,669,334	6,224,364	6,378,908	6,770,494	7,120,119
Private Ordinary School	5,805	7,373	5,724	10,624	11,257	11,257	13,024
Special Needs in Education	78,038	100,041	89,117	95,435	159,618	164,476	172,362
Teacher Education	92,099	61,732	85,952	81,311	162,373	165,065	174,035
Technical Education	105,470	89,336	77,798	84,482	122,709	120,760	127,520
Non-Formal Education	65,592	24,045	41,101	53,610	97,026	101,863	107,412
Auxilliary Services	88,945	17,136	27,962	96,310	473,213	562,161	613,759
Museums and Heritage	4,076	-	-	29	-	-	-
Sports,Recreation and Youth Affairs	1,160	-	-	-	-	-	-
Arts Culture and Music	1,841	-	-	-	-	-	-
Libraries and Archives	1,736	-	-	-	-	-	-
Total	**6,764,661**	**6,585,485**	**6,616,409**	**7,191,331**	**7,824,746**	**8,364,438**	**8,827,637**
Increase/(Decrease)					**633,415**	**539,692**	**463,199**
Classification of expenditure							
Current	**6,496,743**	**6,545,388**	**6,608,908**	**7,133,212**	**7,586,664**	**7,927,943**	**8,347,713**
Personnel expenditure	5,850,138	6,030,964	6,371,327	6,770,917	6,955,638	6,988,079	7,352,098
Transfer payments	15,874	35,485	28,684	26,557	60,509	60,526	64,028
Other current expenditure	630,731	478,939	208,897	335,738	570,517	879,338	931,587
Capital	**267,918**	**40,097**	**7,501**	**58,119**	**238,082**	**436,495**	**479,924**
Transfer payments	267,918	40,097	7,501	35,374	238,082	436,495	479,924
Other capital expenditure	-	-	-	22,745	-	-	-
Total	**6,764,661**	**6,585,485**	**6,616,409**	**7,191,331**	**7,824,746**	**8,364,438**	**8,827,637**

EASTERN CAPE

TABLE C7.5: HEALTH ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Health Programmes	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual Expenditure	Actual Expenditure	Actual Expenditure	Estimated Actual Expenditure	Medium Term Expenditure Estimates		
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	169,703	133,890	122,623	142,658	177,267	86,583	90,757
District Health	1,528,417	1,664,053	1,975,977	2,190,789	1,995,786	2,192,159	2,316,795
Provincial Hospital	1,089,555	1,075,831	1,219,282	1,214,853	1,292,718	1,294,977	1,369,110
Acdemic Health	15,586	17,386	40,872	35,419	55,865	58,204	61,343
Health Science	45,451	44,152	44,713	42,362	46,711	45,257	47,988
Health Care Support	26,335	15,113	16,204	12,316	8,840	-	-
Health Facilities	155,853	97,755	76,686	151,190	258,000	289,856	420,510
Special Functions	-	-	-	41	-	-	-
Total	**3,030,900**	**3,048,180**	**3,496,357**	**3,789,628**	**3,835,187**	**3,967,036**	**4,306,503**
Increase/(Decrease)					**45,559**	**131,849**	**339,467**
Classification of expenditure							
Current	**2,978,609**	**3,039,431**	**3,424,308**	**3,775,814**	**3,557,448**	**3,663,653**	**3,871,501**
Personnel expenditure	1,842,976	1,991,801	2,391,236	2,385,313	2,390,848	2,512,317	2,647,512
Transfer payments	351,145	386,640	402,760	619,570	603,143	697,418	740,967
Other current expenditure	784,488	660,990	630,312	770,931	563,457	453,918	483,022
Capital	**52,291**	**8,749**	**72,049**	**13,814**	**277,739**	**303,383**	**435,002**
Transfer payments	-	-	-	-	-	-	-
Other capital expenditure	52,291	8,749	72,049	13,814	277,739	303,383	435,002
Total	**3,030,900**	**3,048,180**	**3,496,357**	**3,789,628**	**3,835,187**	**3,967,036**	**4,306,503**

EASTERN CAPE

TABLE C7.6: WELFARE ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Welfare Programmes	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	16,756	23,217	23,331	37,607	73,831	77,393	79,307
Social Security	3,532,853	3,409,900	3,630,894	3,824,225	4,322,315	4,244,627	4,588,724
Social Assistance	101,167	115,602	116,487	122,921	137,973	140,043	141,802
Social Welfare Services	73,249	74,890	80,088	79,353	77,943	87,730	92,077
Social Development	3,389	2,680	2,277	3,918	5,882	5,981	6,166
Population Unit	30,174	8,067	2,459	663	1,310	1,336	1,375
Welfare Facilities Development and Maintenance	1,785	-	-	1,499	3,500	12,000	4,080
Auxiliary and Associated Services	-	-	-	-	4,000	5,000	5,100
Special Functions	-	-	-	140	-	-	-
Total	**3,759,373**	**3,634,356**	**3,855,536**	**4,070,326**	**4,626,754**	**4,574,110**	**4,918,631**
Increase/(Decrease)					**556,428**	**(52,644)**	**344,521**
Classification of expenditure							
Current	**3,759,373**	**3,633,450**	**3,849,011**	**4,064,530**	**4,607,193**	**4,544,749**	**4,896,843**
Personnel expenditure	88,463	107,280	123,762	139,768	146,944	156,713	164,488
Transfer payments	3,532,853	3,407,434	3,608,865	3,804,922	4,388,847	4,310,847	4,639,019
Other current expenditure	138,057	118,736	116,384	119,840	71,402	77,189	93,336
Capital	**-**	**906**	**6,525**	**5,796**	**19,561**	**29,361**	**21,788**
Transfer payments	-	-	-	72	-	-	-
Other capital expenditure	-	906	6,525	5,724	19,561	29,361	21,788
Total	**3,759,373**	**3,634,356**	**3,855,536**	**4,070,326**	**4,626,754**	**4,574,110**	**4,918,631**

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TABLE C8.1: SUMMARY OF ACTUAL AND BUDGETED REVENUE AND EXPENDITURE

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual	Actual	Actual	Estimated Actual	Medium Term Expenditure Estimates		
Expenditure	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Education							
Personnel Expenditure	2,264,993	2,388,110	2,471,557	2,673,705	2,812,120	2,970,278	3,137,410
Other Expenditure	273,773	225,206	313,739	316,531	426,883	456,569	490,210
Total	**2,538,766**	**2,613,316**	**2,785,296**	**2,990,236**	**3,239,003**	**3,426,847**	**3,627,620**
Health							
Personnel Expenditure	994,594	1,125,893	1,096,108	1,176,138	1,261,637	1,288,786	1,368,304
Other Expenditure	664,401	565,854	492,879	601,065	618,336	696,488	730,313
Total	**1,658,995**	**1,691,747**	**1,588,987**	**1,777,203**	**1,879,973**	**1,985,274**	**2,098,617**
Welfare							
Personnel Expenditure	68,401	82,907	93,534	102,158	100,833	105,153	108,808
Transfer Payments	1,034,754	1,040,251	1,009,660	1,089,095	1,174,829	1,275,200	1,365,524
Other Expenditure	22,298	35,028	59,030	69,397	88,046	92,015	100,177
Total	**1,125,453**	**1,158,186**	**1,162,224**	**1,260,650**	**1,363,708**	**1,472,368**	**1,574,509**
Expenditure other Functions							
Personnel Expenditure	547,072	589,261	628,376	677,191	680,392	713,966	752,394
Contingency Reserve	-	-	-	-	50,000	100,000	138,000
Other Expenditure	1,081,950	1,026,843	526,821	714,833	1,020,965	1,077,897	1,117,896
Total	**1,629,022**	**1,616,104**	**1,155,197**	**1,392,025**	**1,751,357**	**1,891,863**	**2,008,290**
Total Personnel Expenditure	3,875,060	4,186,171	4,289,575	4,629,192	4,854,982	5,078,183	5,366,916
Contingency Reserve	-	-	-	-	50,000	100,000	138,000
Total Other Expenditure	3,077,176	2,893,182	2,402,129	2,790,921	3,329,059	3,598,169	3,804,120
Total Expenditure	**6,952,236**	**7,079,353**	**6,691,704**	**7,420,114**	**8,234,041**	**8,776,352**	**9,309,036**
Current Expenditure	6,325,652	6,658,065	6,481,402	7,107,314	7,557,111	8,091,360	8,600,282
Capital Expenditure	626,584	421,288	210,302	312,800	676,930	684,992	708,754
Revenue							
Transfers from National	5,927,115	6,622,967	6,774,557	7,442,616	8,061,930	8,560,404	9,054,460
Own Revenue	262,624	251,366	262,054	305,890	265,179	275,000	280,500
Other Revenue	-	-	-	-	-	-	-
Total Revenue	**6,189,739**	**6,874,333**	**7,036,611**	**7,748,506**	**8,327,109**	**8,835,404**	**9,334,960**
Surplus/(Deficit)	**(762,497)**	**(205,020)**	**344,907**	**328,392**	**93,068**	**59,052**	**25,924**

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TABLE C8.2: ACTUAL AND BUDGETED REVENUE

Revenue	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual Revenue	Actual Revenue	Actual Revenue	Estimated Actual Revenue	Medium Term Revenue Estimates		
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Transfers from National	**5,927,115**	**6,622,967**	**6,774,557**	**7,442,616**	**8,061,930**	**8,560,404**	**9,054,460**
Equitable Share	**5,767,389**	**5,610,466**	**5,917,643**	**6,536,235**	**7,017,865**	**7,531,358**	**7,985,693**
Conditional Grants	**159,726**	**1,012,501**	**856,914**	**906,381**	**1,044,065**	**1,029,046**	**1,068,767**
DPLG	-	38,947	81,402	79,821	25,600	35,300	36,900
Education	-	1,221	12,096	14,393	18,743	17,408	20,312
Health	-	318,726	387,280	395,181	397,424	410,570	428,294
Housing	122,726	185,199	93,550	220,706	246,253	264,736	274,652
National Treasury	37,000	457,691	268,218	192,970	353,903	299,832	308,609
Social Development	-	1,624	4,624	3,310	2,142	1,200	-
Other	-	9,093	9,744	-	-	-	-
Own Revenue	**262,624**	**251,366**	**262,054**	**305,890**	**265,179**	**275,000**	**280,500**
Road Traffic Revenue	78,693	87,467	103,296	137,329	110,000	114,000	116,280
Health Patient Fees	43,317	39,136	30,705	41,447	46,000	46,000	46,920
Horse Racing and Betting	10,240	8,970	7,163	7,653	12,000	13,000	13,260
Gambling	-	-	-	15,710	-	-	-
Other	130,375	115,793	120,890	103,751	97,179	102,000	104,040
Other Revenue	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**6,189,739**	**6,874,333**	**7,036,611**	**7,748,506**	**8,327,109**	**8,835,404**	**9,334,960**
Increase/(Decrease)					578,603	508,295	499,556

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TABLE C8.3: ACTUAL AND BUDGETED EXPENDITURE BY DEPARTMENT

Provincial Summary / Department	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Education	2,538,766	2,613,316	2,785,296	2,990,236	3,239,003	3,426,847	3,627,620
Health	1,658,995	1,691,747	1,588,987	1,777,203	1,879,973	1,985,274	2,098,617
Welfare	1,125,453	1,158,186	1,162,224	1,260,650	1,363,708	1,472,368	1,574,509
Premier	65,532	50,395	43,762	49,054	59,269	55,614	58,673
Legislature	21,249	25,346	36,954	39,337	42,264	44,588	47,040
Finance, Expenditure and Economic Affairs	61,101	57,273	85,964	66,898	115,920	160,660	170,060
Enviromental Affairs and Tourism	45,943	54,524	53,189	59,670	72,003	80,824	88,719
Housing, Local Government and Traditional Affairs	433,212	507,684	217,464	404,448	400,707	398,246	414,883
Public Works, Roads and Transport	825,571	716,186	524,280	498,208	704,103	724,637	742,915
Service Commision	5,334	2,617	-	-	-	-	-
Agriculture and Land Affairs	116,560	100,099	103,793	118,253	125,874	137,797	150,376
Sport, Arts, Culture, Sciences and Technology	32,808	44,358	31,258	89,626	110,876	114,757	118,773
Safety and Security	21,712	57,622	58,533	66,531	70,341	74,740	78,851
Contingency Reserve	-	-	-	-	50,000	100,000	138,000
Total	**6,952,236**	**7,079,353**	**6,691,704**	**7,420,114**	**8,234,041**	**8,776,352**	**9,309,036**
Increase/(Decrease)					**813,927**	**542,311**	**532,684**
Classification of expenditure							
Current	**6,325,652**	**6,658,065**	**6,481,402**	**7,107,314**	**7,557,111**	**8,091,360**	**8,600,282**
Personnel expenditure	3,875,060	4,186,171	4,289,575	4,629,192	4,854,982	5,078,183	5,366,916
Transfer payments	1,333,931	1,454,819	1,237,739	1,389,992	1,497,323	1,657,117	1,764,430
Other current expenditure	1,116,661	1,017,075	954,088	1,088,130	1,204,806	1,356,060	1,468,936
Capital	**626,584**	**421,288**	**210,302**	**312,800**	**676,930**	**684,992**	**708,754**
Transfer payments	248,332	184,449	87,799	222,563	271,178	282,873	304,759
Other capital expenditure	378,252	236,839	122,503	90,237	405,752	402,119	403,995
Total	**6,952,236**	**7,079,353**	**6,691,704**	**7,420,114**	**8,234,041**	**8,776,352**	**9,309,036**

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TABLE C8.4: EDUCATION ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Education Programmes	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	188,072	164,217	238,595	261,678	265,348	297,882	326,909
Public Ordinary School Education	2,044,963	2,155,776	2,220,072	2,383,958	2,553,465	2,697,377	2,829,583
Private Ordinary School Education	13,274	11,787	14,106	13,075	14,580	14,746	16,000
Special School Education	66,592	69,946	70,754	77,515	79,273	83,629	91,123
Teacher Training	69,328	66,575	60,916	54,057	68,323	70,194	76,612
Technical College Education	41,701	44,553	59,943	60,939	86,520	82,931	90,655
Non-formal Education	13,711	19,340	30,729	40,452	51,113	56,564	63,397
Auxiliary and Associated Services	100,781	80,600	86,755	98,301	120,381	123,524	133,341
Authorised Losses	344	522	3,426	261	-	-	-
Total	**2,538,766**	**2,613,316**	**2,785,296**	**2,990,236**	**3,239,003**	**3,426,847**	**3,627,620**
Increase/(Decrease)					**248,767**	**187,844**	**200,773**
Classification of expenditure							
Current	**2,538,766**	**2,613,316**	**2,772,374**	**2,980,073**	**3,159,354**	**3,325,177**	**3,517,237**
Personnel expenditure	2,264,993	2,388,110	2,471,557	2,673,705	2,812,120	2,970,278	3,137,410
Transfer payments	25,568	24,673	38,483	41,285	53,286	56,263	59,857
Other current expenditure	248,205	200,533	262,334	265,083	293,948	298,636	319,970
Capital	**-**	**-**	**12,922**	**10,163**	**79,649**	**101,670**	**110,383**
Transfer payments	-	-	-	-	-	-	-
Other capital expenditure	-	-	12,922	10,163	79,649	101,670	110,383
Total	**2,538,766**	**2,613,316**	**2,785,296**	**2,990,236**	**3,239,003**	**3,426,847**	**3,627,620**

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TABLE C8.5: HEALTH ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Health Programmes	**Actual Expenditure**	**Actual Expenditure**	**Actual Expenditure**	**Estimated Actual Expenditure**	**Medium Term Expenditure Estimates**		
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Health Administration	44,749	46,914	55,613	63,952	81,109	85,151	89,646
District Health Services	609,988	620,382	579,741	701,600	700,123	744,949	750,398
Regional and Specialised Hospital Services	535,758	603,571	503,585	519,880	549,280	578,782	644,033
Academic Health / Central Hospital Services	397,795	363,888	308,670	335,540	383,079	401,838	423,963
Health Sciences	50,836	50,586	43,998	50,755	72,457	76,016	78,909
Health Care Support Services	38,638	29,769	17,307	21,364	26,833	31,289	32,400
Health Facilities and Capital Stock	-	-	-	22,085	23,000	35,000	45,765
Supernumerary Staff	-	-	94,274	75,972	64,868	53,025	54,280
Internal Charges	(25,542)	(25,337)	(19,165)	(20,268)	(20,776)	(20,776)	(20,777)
Authorised Losses	6,773	1,974	4,964	6,323	-	-	-
Total	**1,658,995**	**1,691,747**	**1,588,987**	**1,777,203**	**1,879,973**	**1,985,274**	**2,098,617**
Increase/(Decrease)					**102,770**	**105,301**	**113,343**
Classification of expenditure							
Current	**1,621,666**	**1,678,582**	**1,581,077**	**1,751,408**	**1,842,357**	**1,951,843**	**2,065,881**
Personnel expenditure	994,594	1,125,893	1,096,108	1,176,138	1,261,637	1,288,786	1,368,304
Transfer payments	148,026	123,557	109,051	112,861	104,784	110,653	116,971
Other current expenditure	479,046	429,132	375,918	462,409	475,936	552,404	580,606
Capital	**37,329**	**13,165**	**7,910**	**25,795**	**37,616**	**33,431**	**32,736**
Transfer payments	-	-	-	-	-	-	-
Other capital expenditure	37,329	13,165	7,910	25,795	37,616	33,431	32,736
Total	**1,658,995**	**1,691,747**	**1,588,987**	**1,777,203**	**1,879,973**	**1,985,274**	**2,098,617**

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TABLE C8.6: WELFARE ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Welfare Programmes	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual Expenditure	Actual Expenditure	Actual Expenditure	Estimated Actual Expenditure	Medium Term Expenditure Estimates		
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	20,150	20,342	26,751	34,766	23,481	24,169	25,259
Social Security	1,006,014	1,022,097	1,011,639	1,091,358	1,202,751	1,309,068	1,405,849
Social Assistance	50,241	51,784	52,775	53,025	54,661	55,178	56,284
Social Welfare Services	36,831	49,987	51,232	56,494	62,998	65,259	67,588
Social Development	8,652	12,166	17,280	20,208	17,440	16,320	17,087
Population Development	-	1	20	138	320	317	335
Auxiliary and Associated Services	2,033	853	2,456	3,444	2,057	2,057	2,107
RDP	1,006	-	-	-	-	-	-
Authorised Losses	526	956	71	1,217	-	-	-
Total	**1,125,453**	**1,158,186**	**1,162,224**	**1,260,650**	**1,363,708**	**1,472,368**	**1,574,509**
Increase/(Decrease)					**103,058**	**108,660**	**102,141**
Classification of expenditure							
Current	**1,122,689**	**1,156,355**	**1,158,302**	**1,251,935**	**1,359,298**	**1,467,958**	**1,570,049**
Personnel expenditure	68,401	82,907	93,534	102,158	100,833	105,153	108,808
Transfer payments	1,034,754	1,040,251	1,009,660	1,089,095	1,174,829	1,275,200	1,365,524
Other current expenditure	19,534	33,197	55,108	60,682	83,636	87,605	95,717
Capital	**2,764**	**1,831**	**3,922**	**8,715**	**4,410**	**4,410**	**4,460**
Transfer payments	-	-	-	-	-	-	-
Other capital expenditure	2,764	1,831	3,922	8,715	4,410	4,410	4,460
Total	**1,125,453**	**1,158,186**	**1,162,224**	**1,260,650**	**1,363,708**	**1,472,368**	**1,574,509**

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TABLE C9.1: SUMMARY OF ACTUAL AND BUDGETED REVENUE AND EXPENDITURE

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual	Actual	Actual	Estimated Actual	Medium Term Expenditure Estimates		
Expenditure	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Education							
Personnel Expenditure	5,152,729	5,289,400	5,344,920	5,840,852	6,267,582	6,765,038	7,170,941
Other Expenditure	712,355	765,670	964,788	993,508	1,150,226	1,198,771	1,251,616
Total	**5,865,084**	**6,055,070**	**6,309,708**	**6,834,360**	**7,417,808**	**7,963,809**	**8,422,557**
Health							
Personnel Expenditure	3,144,532	3,275,946	3,232,637	3,411,836	3,813,413	4,069,302	4,313,460
Other Expenditure	2,154,645	2,202,542	2,372,102	2,530,358	2,902,884	3,097,674	3,283,535
Total	**5,299,177**	**5,478,488**	**5,604,739**	**5,942,194**	**6,716,297**	**7,166,976**	**7,596,995**
Welfare							
Personnel Expenditure	106,979	124,684	134,172	151,830	161,762	171,597	181,893
Transfer Payments	2,004,636	2,024,611	2,150,863	2,343,185	2,456,961	2,605,768	2,762,114
Other Expenditure	102,533	146,069	139,618	160,782	261,060	277,506	294,156
Total	**2,214,148**	**2,295,364**	**2,424,653**	**2,655,797**	**2,879,783**	**3,054,871**	**3,238,163**
Expenditure other Functions							
Personnel Expenditure	411,108	461,395	473,754	525,481	628,960	692,322	734,268
Contingency Reserve	-	-	-	-	-	300,000	500,000
Other Expenditure	1,947,240	1,969,032	2,017,717	2,213,106	2,510,965	2,698,981	2,966,348
Total	**2,358,348**	**2,430,427**	**2,491,471**	**2,738,587**	**3,139,925**	**3,691,303**	**4,200,616**
Total Personnel Expenditure	8,815,348	9,151,425	9,185,483	9,929,999	10,871,717	11,698,258	12,400,562
Contingency Reserve	-	-	-	-	-	300,000	500,000
Total Other Expenditure	6,921,409	7,107,924	7,645,088	8,240,939	9,282,096	9,878,700	10,557,769
Total Expenditure	**15,736,757**	**16,259,349**	**16,830,571**	**18,170,938**	**20,153,813**	**21,876,959**	**23,458,331**
Current Expenditure	14,312,365	14,717,685	15,050,862	16,339,110	17,574,123	18,968,106	20,393,894
Capital Expenditure	1,424,392	1,541,664	1,779,709	1,831,828	2,579,690	2,908,853	3,064,437
Revenue							
Transfers from National	14,307,914	15,249,820	16,339,580	17,649,666	19,329,391	21,009,618	22,585,523
Own Revenue	901,028	929,297	1,045,692	1,168,215	1,042,000	1,106,000	1,177,000
Other Revenue	-	-	-	-	-	-	-
Total Revenue	**15,208,942**	**16,179,117**	**17,385,272**	**18,817,881**	**20,371,391**	**22,115,618**	**23,762,523**
Surplus/(Deficit)	**(527,815)**	**(80,232)**	**554,701**	**646,943**	**217,578**	**238,659**	**304,192**

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TABLE C9.2: ACTUAL AND BUDGETED REVENUE

Revenue	1997/98 Actual Revenue	1998/99 Actual Revenue	1999/00 Actual Revenue	2000/01 Estimated Actual Revenue	2001/02 Medium Term Revenue Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Transfers from National	**14,307,914**	**15,249,820**	**16,339,580**	**17,649,666**	**19,329,391**	**21,009,618**	**22,585,523**
Equitable Share	**13,491,413**	**12,077,227**	**12,931,659**	**14,517,183**	**15,848,350**	**17,288,850**	**18,633,961**
Conditional Grants	**816,501**	**3,172,593**	**3,407,921**	**3,132,483**	**3,481,041**	**3,720,768**	**3,951,562**
DPLG	-	26,899	5,050	8,345	8,200	11,100	11,600
Education	-	9,876	23,616	25,912	36,593	33,987	39,657
Health	-	1,933,235	2,053,427	2,108,673	2,308,304	2,423,102	2,550,730
Housing	736,501	639,627	742,429	643,804	707,831	750,002	773,201
National Treasury	80,000	556,341	573,469	342,025	418,471	501,377	576,374
Social Development	-	3,519	7,027	3,724	1,642	1,200	-
Other	-	3,096	2,903	-	-	-	-
Own Revenue	**901,028**	**929,297**	**1,045,692**	**1,168,215**	**1,042,000**	**1,106,000**	**1,177,000**
Road Traffic Revenue	388,397	413,275	527,596	572,230	516,396	548,665	579,831
Health Patient Fees	83,718	75,536	70,924	70,969	78,000	81,000	85,000
Horse Racing and Betting	190,998	157,669	85,372	67,367	71,000	76,000	78,000
Gambling	-	48,053	181,268	224,043	207,000	223,000	231,000
Other	237,915	234,764	180,532	233,606	169,604	177,335	203,169
Other Revenue	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**15,208,942**	**16,179,117**	**17,385,272**	**18,817,881**	**20,371,391**	**22,115,618**	**23,762,523**
Increase/(Decrease)					1,553,510	1,744,227	1,646,905

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TABLE C9.3: ACTUAL AND BUDGETED EXPENDITURE BY DEPARTMENT

Provincial Summary / Department	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Education	5,865,084	6,055,070	6,309,708	6,834,360	7,417,808	7,963,809	8,422,557
Health	5,299,177	5,478,488	5,604,739	5,942,194	6,716,297	7,166,976	7,596,995
Social Services and Population Development	2,214,148	2,295,364	2,424,653	2,655,797	2,879,783	3,054,871	3,238,163
Premier	93,482	121,384	118,242	109,678	123,408	84,139	89,188
Legislature	51,817	56,647	63,459	70,291	81,038	87,549	92,803
Finance and Economic Affairs *	62,108	103,164	132,973	300,344	774,418	1,024,021	1,373,462
Development Planning and Local Government	235,756	115,587	62,389	72,043	87,549	86,736	91,774
Housing	831,603	747,102	836,256	713,333	849,258	951,294	1,008,372
Transport and Public Works	940,443	1,127,848	1,117,067	1,236,146	968,984	1,181,720	1,252,623
Safety and Liaison	12,255	14,843	28,050	29,714	23,684	26,920	28,535
Agriculture, Conservation, Environment and Land Affairs	64,555	66,982	79,579	112,735	149,618	146,232	155,006
Sports, Recreation Arts and Culture	58,768	69,422	53,456	94,303	81,968	102,691	108,852
Provincial Services Commission	7,561	7,448	-	-	-	-	-
Total	**15,736,757**	**16,259,349**	**16,830,571**	**18,170,938**	**20,153,813**	**21,876,959**	**23,458,330**
Increase/(Decrease)					**1,982,875**	**1,723,146**	**1,581,371**
Classification of expenditure							
Current	**14,312,365**	**14,717,685**	**15,050,862**	**16,339,110**	**17,574,123**	**18,968,106**	**20,393,894**
Personnel expenditure	8,815,348	9,151,425	9,185,483	9,929,999	10,871,717	11,698,258	12,400,562
Transfer payments	2,863,175	2,756,221	2,904,371	3,247,607	3,397,211	3,951,212	4,184,824
Other current expenditure	2,633,842	2,810,039	2,961,008	3,161,504	3,305,195	3,318,635	3,808,508
Capital	**1,424,392**	**1,541,664**	**1,779,709**	**1,831,828**	**2,579,690**	**2,908,853**	**3,064,437**
Transfer payments	736,501	638,608	737,100	761,774	1,163,793	1,301,284	1,372,763
Other capital expenditure	687,891	903,056	1,042,609	1,070,054	1,415,897	1,607,569	1,691,674
Total	**15,736,757**	**16,259,349**	**16,830,571**	**18,170,938**	**20,153,813**	**21,876,959**	**23,458,331**

* The Contingency Reserve is included in these amounts.

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TABLE C9.4: EDUCATION ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Education Programmes	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	71,675	76,859	124,183	170,634	749,224	820,554	850,707
Public Ordinary School Education	4,838,579	5,087,940	5,300,190	5,645,160	5,462,527	5,851,351	6,202,431
Independent ordinary schools education	158,298	129,261	104,063	136,355	117,127	125,464	132,992
Education in specialised schools	250,649	271,944	281,196	320,530	394,341	422,410	447,755
Teacher training	133,024	121,066	122,291	128,222	141,702	151,788	160,896
Technical college education	204,177	204,090	224,910	246,527	258,014	276,380	292,962
Non-formal education	64,073	63,116	95,310	130,879	113,428	121,502	128,792
Auxiliary and associated services	142,112	100,184	56,985	53,698	181,445	194,360	206,022
Authorised Losses	2,497	610	580	-	-	-	-
Statutory	-	-	-	2,355	-	-	-
Total	**5,865,084**	**6,055,070**	**6,309,708**	**6,834,360**	**7,417,808**	**7,963,809**	**8,422,557**
Increase/(Decrease)					**583,448**	**546,001**	**458,748**
Classification of expenditure							
Current	**5,779,644**	**5,904,411**	**6,093,964**	**6,663,211**	**7,248,548**	**7,672,364**	**8,132,706**
Personnel expenditure	5,152,729	5,289,400	5,344,920	5,840,852	6,267,582	6,765,038	7,170,941
Transfer payments	226,268	207,437	180,558	304,008	303,788	210,487	223,116
Other current expenditure	400,647	407,574	568,486	518,351	677,178	696,839	738,649
Capital	**85,440**	**150,659**	**215,744**	**171,149**	**169,260**	**291,445**	**289,851**
Transfer payments	-	31	-	-	-	-	-
Other capital expenditure	85,440	150,628	215,744	171,149	169,260	291,445	289,851
Total	**5,865,084**	**6,055,070**	**6,309,708**	**6,834,360**	**7,417,808**	**7,963,809**	**8,422,557**

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TABLE C9.5: HEALTH ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Health Programmes	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Health administration	71,744	133,271	214,903	200,219	362,216	386,522	409,713
District health services	774,138	968,194	1,091,433	1,458,753	1,481,442	1,580,850	1,675,701
Provincial health services	1,414,178	1,320,922	1,302,092	1,193,923	1,284,923	1,371,144	1,453,413
Academic health services	2,936,715	2,961,268	2,911,451	2,987,104	3,106,010	3,314,430	3,513,296
Health sciences	48,177	47,714	42,140	45,381	83,400	88,996	94,336
Health care support services	71,384	67,959	64,950	71,360	84,006	89,643	95,022
Health facilities development and maintenance	3,565	1,730	686	-	362,972	387,328	410,568
Internal charges	(24,450)	(23,731)	(24,798)	(21,316)	(48,672)	(51,938)	(55,054)
Authorised Losses	3,726	1,161	1,882	6,770	-	-	-
Total	**5,299,177**	**5,478,488**	**5,604,739**	**5,942,194**	**6,716,297**	**7,166,976**	**7,596,995**
Increase/(Decrease)					**774,103**	**450,679**	**430,019**
Classification of expenditure							
Current	**5,191,412**	**5,325,343**	**5,373,726**	**5,688,265**	**6,066,551**	**6,473,631**	**6,862,049**
Personnel expenditure	3,144,532	3,275,946	3,232,637	3,411,836	3,813,413	4,069,302	4,313,460
Transfer payments	430,272	422,580	488,959	519,757	537,864	568,558	602,157
Other current expenditure	1,616,608	1,626,817	1,652,130	1,756,672	1,715,274	1,835,771	1,946,432
Capital	**107,765**	**153,145**	**231,013**	**253,929**	**649,746**	**693,345**	**734,946**
Transfer payments	-	-	-	-	-	-	-
Other capital expenditure	107,765	153,145	231,013	253,929	649,746	693,345	734,946
Total	**5,299,177**	**5,478,488**	**5,604,739**	**5,942,194**	**6,716,297**	**7,166,976**	**7,596,995**

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TABLE C9.6: WELFARE ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Welfare Programmes	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual Expenditure	Actual Expenditure	Actual Expenditure	Estimated Actual Expenditure	Medium Term Expenditure Estimates		
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	19,188	27,770	38,255	45,585	3,255	3,453	3,660
Social Security	1,855,220	1,883,006	1,975,222	2,174,191	2,306,431	2,446,660	2,593,459
Social assistance	204,067	201,479	218,173	235,907	294,794	312,717	331,480
Social welfare services	120,578	144,970	150,453	163,964	176,750	187,496	198,746
Development activation	500	22,622	15,370	19,232	4,223	4,480	4,749
Auxiliary services and associated services	100	-	1,870	-	30,855	1,061	1,124
Welfare facilities development and maintenance	12,439	14,529	23,578	13,759	62,475	66,273	70,250
Population development	-	331	647	1,220	1,000	32,731	34,695
Authorised Losses	2,056	657	1,085	1,939	-	-	-
Total	**2,214,148**	**2,295,364**	**2,424,653**	**2,655,797**	**2,879,783**	**3,054,871**	**3,238,163**
Increase/(Decrease)					**223,986**	**175,088**	**183,292**
Classification of expenditure							
Current	**2,214,148**	**2,295,364**	**2,422,783**	**2,655,521**	**2,828,329**	**2,997,270**	**3,177,106**
Personnel expenditure	106,979	124,684	134,172	151,830	161,762	171,597	181,893
Transfer payments	2,004,636	2,024,611	2,150,863	2,343,185	2,456,961	2,605,768	2,762,114
Other current expenditure	102,533	146,069	137,748	160,506	209,606	219,905	233,099
Capital	**-**	**-**	**1,870**	**276**	**51,454**	**57,601**	**61,057**
Transfer payments	-	-	-	-	-	-	-
Other capital expenditure	-	-	1,870	276	51,454	57,601	61,057
Total	**2,214,148**	**2,295,364**	**2,424,653**	**2,655,797**	**2,879,783**	**3,054,871**	**3,238,163**

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TABLE C10.1: SUMMARY OF ACTUAL AND BUDGETED REVENUE AND EXPENDITURE

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual	Actual	Actual	Estimated Actual	Medium Term Expenditure Estimates		
Expenditure	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Education							
Personnel Expenditure	6,531,184	6,502,862	6,721,377	7,534,660	8,272,772	8,753,456	9,338,341
Other Expenditure	749,314	627,419	577,180	650,191	904,452	1,067,025	1,369,400
Total	**7,280,498**	**7,130,281**	**7,298,557**	**8,184,851**	**9,177,224**	**9,820,481**	**10,707,741**
Health							
Personnel Expenditure	3,022,694	3,191,384	3,332,486	3,576,740	3,825,067	4,053,468	4,221,605
Other Expenditure	1,782,833	1,708,935	1,777,899	2,199,255	2,555,471	2,684,462	2,785,794
Total	**4,805,527**	**4,900,319**	**5,110,385**	**5,775,995**	**6,380,538**	**6,737,930**	**7,007,399**
Welfare							
Personnel Expenditure	121,544	137,502	149,118	166,101	180,093	192,400	202,876
Transfer Payments	3,428,078	3,658,547	3,716,400	3,893,594	4,130,644	4,696,893	5,209,759
Other Expenditure	188,911	188,002	185,961	274,995	272,777	308,378	331,818
Total	**3,738,533**	**3,984,051**	**4,051,479**	**4,334,690**	**4,583,514**	**5,197,671**	**5,744,453**
Expenditure other Functions							
Personnel Expenditure	910,854	946,078	986,761	1,022,453	1,091,658	1,177,693	1,275,043
Contingency Reserve	-	-	-	-	-	-	-
Other Expenditure	3,210,468	2,152,093	1,941,547	2,491,919	2,672,463	3,028,707	3,310,682
Total	**4,121,322**	**3,098,171**	**2,928,308**	**3,514,372**	**3,764,121**	**4,206,400**	**4,585,725**
Total Personnel Expenditure	10,586,276	10,777,826	11,189,742	12,299,954	13,369,590	14,177,017	15,037,865
Contingency Reserve	-	-	-	-	-	-	-
Total Other Expenditure	9,359,604	8,334,996	8,198,987	9,509,954	10,535,807	11,785,465	13,007,453
Total Expenditure	**19,945,880**	**19,112,822**	**19,388,729**	**21,809,908**	**23,905,397**	**25,962,482**	**28,045,318**
Current Expenditure	17,762,391	17,641,089	18,037,673	20,117,879	21,511,214	23,346,898	25,101,489
Capital Expenditure	2,183,489	1,471,733	1,351,056	1,692,029	2,394,183	2,615,584	2,943,829
Revenue							
Transfers from National	18,088,439	18,849,333	19,659,691	21,720,701	23,316,397	25,315,482	27,333,318
Own Revenue	641,492	432,298	613,474	903,578	589,000	647,000	712,000
Other Revenue	-	-	-	-	-	-	-
Total Revenue	**18,729,931**	**19,281,631**	**20,273,165**	**22,624,279**	**23,905,397**	**25,962,482**	**28,045,318**
Surplus/(Deficit)	**(1,215,949)**	**168,809**	**884,436**	**814,371**	**-**	**-**	**-**

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TABLE C10.2: ACTUAL AND BUDGETED REVENUE

Revenue	1997/98 Actual Revenue	1998/99 Actual Revenue	1999/00 Actual Revenue	2000/01 Estimated Actual Revenue	2001/02 Medium Term Revenue Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Transfers from National	**18,088,439**	**18,849,333**	**19,659,691**	**21,720,701**	**23,316,397**	**25,315,482**	**27,333,318**
Equitable Share	**16,264,370**	**15,979,129**	**17,168,556**	**19,241,488**	**21,034,301**	**22,944,445**	**24,727,753**
Conditional Grants	**1,824,069**	**2,870,204**	**2,491,135**	**2,479,213**	**2,282,096**	**2,371,037**	**2,605,565**
DPLG	-	591,786	252,684	109,263	24,400	33,500	35,000
Education	-	44,973	42,432	50,382	65,747	61,067	71,253
Health	-	844,245	913,014	1,088,792	909,684	830,798	864,505
Housing	800,069	628,655	474,388	621,100	642,647	683,566	707,393
National Treasury	1,024,000	757,360	794,180	600,699	637,476	760,906	927,414
Social Development	-	269	14,437	8,977	2,142	1,200	-
Other	-	2,916	-	-	-	-	-
Own Revenue	**641,492**	**432,298**	**613,474**	**903,578**	**589,000**	**647,000**	**712,000**
Road Traffic Revenue	246,786	274,715	304,656	352,465	329,152	344,212	378,250
Health Patient Fees	79,904	84,369	80,179	89,431	110,230	115,120	121,312
Horse Racing and Betting	41,816	39,813	29,370	39,186	41,145	43,203	45,362
Gambling	-	1,500	8,285	127,936	36,205	67,312	74,125
Other	272,986	31,901	190,984	294,560	72,268	77,153	92,951
Other Revenue	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**18,729,931**	**19,281,631**	**20,273,165**	**22,624,279**	**23,905,397**	**25,962,482**	**28,045,318**
Increase/(Decrease)					1,281,118	2,057,085	2,082,836

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TABLE C10.3: ACTUAL AND BUDGETED EXPENDITURE BY DEPARTMENT

Provincial Summary / Department	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Education	7,280,498	7,130,281	7,298,557	8,184,851	9,177,224	9,820,481	10,707,741
Health	4,805,527	4,900,319	5,110,385	5,775,995	6,380,538	6,737,930	7,007,399
Welfare	3,738,533	3,984,051	4,051,479	4,334,690	4,583,514	5,197,671	5,744,453
Premier	71,459	79,824	87,402	96,582	117,804	121,332	127,715
Provincial Parliament	48,615	53,822	53,443	61,566	67,723	69,700	73,444
Finance	95,924	104,509	95,386	106,270	157,854	430,930	445,115
Economic Development and Tourism	119,376	114,310	108,925	115,989	148,448	152,299	160,464
Housing	880,916	671,707	579,197	785,162	794,898	843,378	863,972
Transport	724,053	518,828	709,850	908,045	1,083,120	1,143,889	1,316,602
Works	650,796	340,400	341,230	418,361	315,157	316,672	383,478
Agriculture and Environmental Affairs	555,153	399,989	517,813	561,513	671,594	704,484	751,821
The Royal Household	10,883	9,921	12,306	14,265	20,684	18,131	19,338
Safety and Security	706	4,398	4,729	5,251	6,145	6,266	6,537
Traditional and Local Government Affairs	935,613	782,466	383,435	423,746	380,694	399,319	437,239
The Reconstruction and Development Programme	22,658	17,684	34,466	17,619	-	-	-
Provincial Service Commission	5,170	313	126	3	-	-	-
Total	**19,945,880**	**19,112,822**	**19,388,729**	**21,809,908**	**23,905,397**	**25,962,482**	**28,045,318**
Increase/(Decrease)					**2,095,489**	**2,057,085**	**2,082,836**
Classification of expenditure							
Current	**17,762,391**	**17,641,089**	**18,037,673**	**20,117,879**	**21,511,214**	**23,346,898**	**25,101,489**
Personnel expenditure	10,586,276	10,777,826	11,189,742	12,299,954	13,369,590	14,177,017	15,037,865
Transfer payments	4,436,434	4,660,414	4,428,635	4,728,360	4,930,340	5,540,935	6,092,494
Other current expenditure	2,739,681	2,202,849	2,419,296	3,089,565	3,211,284	3,628,946	3,971,130
Capital	**2,183,489**	**1,471,733**	**1,351,056**	**1,692,029**	**2,394,183**	**2,615,584**	**2,943,829**
Transfer payments	888,831	662,588	504,500	616,650	654,862	705,421	737,329
Other capital expenditure	1,294,658	809,145	846,556	1,075,379	1,739,321	1,910,163	2,206,500
Total	**19,945,880**	**19,112,822**	**19,388,729**	**21,809,908**	**23,905,397**	**25,962,482**	**28,045,318**

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TABLE C10.4: EDUCATION ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Education Programmes	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	208,653	151,225	118,263	79,397	281,808	363,142	508,936
Public Ordinary School Education	6,308,976	6,230,578	6,486,393	7,382,903	8,044,924	8,525,041	9,209,878
Private ordinary education	38,542	28,819	28,655	23,616	18,013	18,914	19,859
Special school education	142,722	155,065	162,192	155,204	193,984	205,465	214,947
Teacher training	220,523	188,762	164,362	162,752	159,831	167,403	163,981
Technical college education	106,425	112,403	113,209	121,076	138,585	170,046	195,478
Non-formal education	27,194	14,708	20,316	24,322	43,452	53,751	63,230
Sport and recreation advancement	4,223	4,844	4,640	6,568	11,144	13,502	13,901
Arts and culture	7,924	12,176	9,848	10,446	17,167	18,950	19,643
Auxiliary and associated services	140,852	212,583	185,096	205,993	267,851	283,802	297,423
Authorised Losses	508	159	60	-	-	-	-
Statutory	386	417	421	465	465	465	465
Capital Expenditure from Works Department/restructuring	73,570	18,542	5,102	12,109	-	-	-
Total	**7,280,498**	**7,130,281**	**7,298,557**	**8,184,851**	**9,177,224**	**9,820,481**	**10,707,741**
Increase/(Decrease)					**633,415**	**539,692**	**463,199**
Classification of expenditure							
Current	**7,121,626**	**7,043,288**	**7,275,255**	**8,143,422**	**8,956,097**	**9,508,531**	**10,245,411**
Personnel expenditure	6,531,184	6,502,862	6,721,377	7,534,660	8,272,772	8,753,456	9,338,341
Transfer payments	86,388	83,957	91,073	111,289	122,897	171,819	207,590
Other current expenditure	504,054	456,469	462,805	497,473	560,428	583,256	699,480
Capital	**158,872**	**86,993**	**23,302**	**41,429**	**221,127**	**311,950**	**462,330**
Transfer payments	230	-	-	-	-	-	-
Other capital expenditure	158,642	86,993	23,302	41,429	221,127	311,950	462,330
Total	**7,280,498**	**7,130,281**	**7,298,557**	**8,184,851**	**9,177,224**	**9,820,481**	**10,707,741**

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TABLE C10.5: HEALTH ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Health Programmes	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	82,988	102,843	103,482	102,233	111,950	121,554	125,045
District health services	1,910,876	1,961,903	2,141,290	2,892,473	3,061,809	3,255,115	3,410,756
Provincial hospital services	1,813,306	1,850,065	1,868,067	1,752,406	1,991,629	2,023,255	2,044,927
Central health services	613,284	592,630	612,814	645,309	540,234	595,226	648,357
Health sciences	130,080	119,367	132,356	137,723	159,962	172,384	180,895
Auxiliary and associated services	149,460	272,262	251,595	241,281	514,467	569,909	596,932
Authorised Losses	647	866	316	4,083	-	-	-
Statutory	386	383	465	487	487	487	487
Capital Expenditure from Works Department/restructuring	104,500	-	-	-	-	-	-
Total	**4,805,527**	**4,900,319**	**5,110,385**	**5,775,995**	**6,380,538**	**6,737,930**	**7,007,399**
Increase/(Decrease)					**633,415**	**539,692**	**463,199**
Classification of expenditure							
Current	**4,454,348**	**4,533,166**	**4,767,381**	**5,393,105**	**5,797,351**	**6,096,274**	**6,331,386**
Personnel expenditure	3,022,694	3,191,384	3,332,486	3,576,740	3,825,067	4,053,468	4,221,605
Transfer payments	250,146	283,162	299,412	318,507	321,010	333,124	340,090
Other current expenditure	1,181,508	1,058,620	1,135,483	1,497,858	1,651,274	1,709,682	1,769,691
Capital	**351,179**	**367,153**	**343,004**	**382,890**	**583,187**	**641,656**	**676,013**
Transfer payments	-	-	-	-	1	1	1
Other capital expenditure	351,179	367,153	343,004	382,890	583,186	641,655	676,012
Total	**4,805,527**	**4,900,319**	**5,110,385**	**5,775,995**	**6,380,538**	**6,737,930**	**7,007,399**

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TABLE C10.6: WELFARE ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Welfare Programmes	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual Expenditure	Actual Expenditure	Actual Expenditure	Estimated Actual Expenditure	Medium Term Expenditure Estimates		
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	22,700	17,426	29,160	44,398	55,862	62,094	64,461
Social Security	3,500,991	3,738,352	3,811,331	4,074,655	4,248,096	4,837,138	5,365,030
Social assistance	105,407	122,142	105,603	108,759	133,187	138,388	144,614
Social welfare services	85,717	91,139	92,153	100,655	122,342	137,034	146,318
Social development	1,365	1,617	2,380	3,475	20,365	20,365	21,281
Population development	-	838	588	313	1,175	1,165	1,217
Auxiliary and associated services	1,933	-	1,256	1,121	2,000	1,000	1,045
Authorised Losses	25	11	305	137	-	-	-
Statutory	386	335	418	432	487	487	487
Capital Expenditure from Works Department/restructuring	20,009	12,191	8,285	745	-	-	-
Total	**3,738,533**	**3,984,051**	**4,051,479**	**4,334,690**	**4,583,514**	**5,197,671**	**5,744,453**
Increase/(Decrease)					**633,415**	**539,692**	**463,199**
Classification of expenditure							
Current	**3,715,982**	**3,971,849**	**4,041,908**	**4,327,528**	**4,559,352**	**5,172,098**	**5,717,731**
Personnel expenditure	121,544	137,502	149,118	166,101	180,093	192,400	202,876
Transfer payments	3,428,078	3,658,547	3,716,400	3,893,594	4,130,644	4,696,893	5,209,759
Other current expenditure	166,360	175,800	176,390	267,833	248,615	282,805	305,096
Capital	**22,551**	**12,202**	**9,571**	**7,162**	**24,162**	**25,573**	**26,722**
Transfer payments	-	-	-	-	-	-	-
Other capital expenditure	22,551	12,202	9,571	7,162	24,162	25,573	26,722
Total	**3,738,533**	**3,984,051**	**4,051,479**	**4,334,690**	**4,583,514**	**5,197,671**	**5,744,453**

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TABLE C11.1: SUMMARY OF ACTUAL AND BUDGETED REVENUE AND EXPENDITURE

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual	Actual	Actual	Estimated Actual	Medium Term Expenditure Estimates		
Expenditure	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Education							
Personnel Expenditure	2,288,814	2,434,164	2,587,205	2,788,180	2,852,715	3,015,271	3,219,555
Other Expenditure	217,215	190,155	222,156	208,455	351,351	408,325	564,136
Total	**2,506,029**	**2,624,319**	**2,809,361**	**2,996,635**	**3,204,066**	**3,423,596**	**3,783,691**
Health							
Personnel Expenditure	569,560	643,843	721,173	775,142	798,759	834,500	872,450
Other Expenditure	477,351	414,351	425,995	342,226	611,137	682,547	856,163
Total	**1,046,911**	**1,058,194**	**1,147,168**	**1,117,368**	**1,409,896**	**1,517,047**	**1,728,613**
Welfare							
Personnel Expenditure	20,598	26,946	35,905	39,234	40,226	42,041	44,500
Transfer Payments	930,589	1,022,125	1,070,487	1,209,685	1,339,393	1,529,647	1,611,089
Other Expenditure	29,476	37,449	49,384	71,961	191,031	231,574	205,592
Total	**980,663**	**1,086,520**	**1,155,776**	**1,320,880**	**1,570,650**	**1,803,262**	**1,861,181**
Expenditure other Functions							
Personnel Expenditure	457,075	514,502	537,553	565,017	598,846	660,411	699,849
Contingency Reserve	-	-	-	-	40,000	43,426	46,994
Other Expenditure	1,119,531	827,956	898,317	1,045,043	1,283,571	1,448,106	1,495,719
Total	**1,576,606**	**1,342,458**	**1,435,870**	**1,610,060**	**1,922,417**	**2,151,943**	**2,242,562**
Total Personnel Expenditure	3,336,047	3,619,455	3,881,836	4,167,573	4,290,546	4,552,223	4,836,354
Contingency Reserve	-	-	-	-	40,000	43,426	46,994
Total Other Expenditure	2,774,162	2,492,036	2,666,339	2,877,370	3,776,483	4,300,199	4,732,699
Total Expenditure	**6,110,209**	**6,111,491**	**6,548,175**	**7,044,943**	**8,107,029**	**8,895,848**	**9,616,047**
Current Expenditure	5,380,750	5,630,682	6,038,758	6,440,317	7,353,700	7,999,328	8,696,527
Capital Expenditure	729,459	480,809	509,417	604,626	753,329	896,520	919,520
Revenue							
Transfers from National	5,229,785	5,829,896	6,330,643	7,311,176	7,913,689	8,685,977	9,390,864
Own Revenue	257,266	193,720	362,819	155,352	209,870	225,183	225,183
Other Revenue	-	-	-	-	-	-	-
Total Revenue	**5,487,051**	**6,023,616**	**6,693,462**	**7,466,528**	**8,123,559**	**8,911,160**	**9,616,047**
Surplus/(Deficit)	**(623,158)**	**(87,875)**	**145,287**	**421,585**	**16,530**	**15,312**	**-**

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TABLE C11.2: ACTUAL AND BUDGETED REVENUE

Revenue	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual Revenue	Actual Revenue	Actual Revenue	Estimated Actual Revenue	Medium Term Revenue Estimates		
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Transfers from National	**5,229,785**	**5,829,896**	**6,330,643**	**7,311,176**	**7,913,689**	**8,685,977**	**9,390,864**
Equitable Share	**5,029,270**	**5,366,699**	**5,789,859**	**6,539,827**	**7,205,792**	**7,919,122**	**8,597,022**
Conditional Grants	**200,515**	**463,197**	**540,784**	**771,349**	**707,897**	**766,855**	**793,842**
DPLG	-	44,986	33,432	27,134	10,400	14,300	14,900
Education	-	-	14,016	16,489	21,718	20,171	23,536
Health	-	57,152	99,630	163,341	148,043	142,256	146,253
Housing	156,515	100,308	118,998	154,364	213,355	228,158	236,859
National Treasury	44,000	257,370	269,334	407,189	312,239	360,770	372,294
Social Development	-	2,301	4,474	2,832	2,142	1,200	-
Other	-	1,080	900	-	-	-	-
Own Revenue	**257,266**	**193,720**	**362,819**	**155,352**	**209,870**	**225,183**	**225,183**
Road Traffic Revenue	73,681	55,481	64,691	79,337	74,158	78,607	84,861
Health Patient Fees	20,504	15,439	11,425	10,934	33,708	35,730	19,075
Horse Racing and Betting	-	-	8,189	8,643	11,236	11,910	12,789
Gambling	23,488	17,686	12,387	12,608	21,842	24,160	19,294
Other	139,593	105,114	266,127	43,830	68,926	74,776	89,164
Other Revenue	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**5,487,051**	**6,023,616**	**6,693,462**	**7,466,528**	**8,123,559**	**8,911,160**	**9,616,047**
Increase/(Decrease)					657,031	787,601	704,887

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TABLE C11.3: ACTUAL AND BUDGETED EXPENDITURE BY DEPARTMENT

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Provincial Summary	**Actual Expenditure**	**Actual Expenditure**	**Actual Expenditure**	**Estimated Actual Expenditure**	**Medium Term Expenditure Estimates**		
Department	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Education	2,506,029	2,624,319	2,809,361	2,996,635	3,204,066	3,423,596	3,783,691
Health	1,046,911	1,058,194	1,147,168	1,117,368	1,409,896	1,517,047	1,728,613
Welfare	980,663	1,086,520	1,155,776	1,320,880	1,570,650	1,803,262	1,861,181
Premier	105,551	46,830	60,537	68,846	76,937	86,833	91,974
Legislature	38,141	33,298	37,286	37,126	43,310	50,846	53,845
Finance and Provincial Expenditure *	260,463	157,005	108,732	105,957	425,602	446,439	470,026
Economic Affairs, Gaming and Tourism	23,157	28,682	37,268	69,512	73,552	58,779	66,017
Local Government, Traffic Control and Traffic Safety	210,692	131,271	109,672	158,110	116,794	133,389	142,510
Public Works, Roads and Transport	487,179	511,679	627,161	610,842	625,493	721,396	726,296
Agriculture, Conservation and Environment	238,183	277,964	252,680	261,999	246,216	294,700	314,411
Sports, Recreation, Arts and Culture	15,499	36,548	26,467	28,724	32,661	37,165	40,607
Safety and Security	41,226	19,548	21,813	22,321	23,988	26,883	28,310
Housing and Land Administration	156,515	99,633	154,254	246,623	257,864	295,513	308,566
Total	**6,110,209**	**6,111,491**	**6,548,175**	**7,044,943**	**8,107,029**	**8,895,848**	**9,616,047**
Increase/(Decrease)					**1,062,086**	**788,819**	**720,199**
Classification of expenditure							
Current	**5,380,750**	**5,630,682**	**6,038,758**	**6,440,317**	**7,353,700**	**7,999,328**	**8,696,527**
Personnel expenditure	3,336,047	3,619,455	3,881,836	4,167,573	4,290,546	4,552,223	4,836,354
Transfer payments	1,227,271	1,307,815	1,276,338	1,454,011	1,559,041	1,754,690	1,844,649
Other current expenditure	817,432	703,412	880,584	818,733	1,504,113	1,692,415	2,015,524
Capital	**729,459**	**480,809**	**509,417**	**604,626**	**753,329**	**896,520**	**919,520**
Transfer payments	162,945	118,508	121,173	212,286	225,927	248,823	270,525
Other capital expenditure	566,514	362,301	388,244	392,340	527,402	647,697	648,995
Total	**6,110,209**	**6,111,491**	**6,548,175**	**7,044,943**	**8,107,029**	**8,895,848**	**9,616,047**

* The Contingency Reserve is included in these amounts.

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TABLE C11.4: EDUCATION ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Education Programmes	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration / management and support	64,582	125,582	134,290	158,332	266,744	312,213	351,934
Public Ordinary School Education	2,249,912	2,326,976	2,487,152	2,659,807	2,721,137	2,884,178	3,188,222
Private Ordinary School Education	5,437	8,873	8,165	11,441	7,971	8,449	8,956
Education in Specialised Schools	62,420	46,101	48,023	50,983	60,809	64,457	68,324
Teachers Training	51,815	40,487	38,854	24,139	28,853	31,148	33,616
Technical College Education / vocational	37,892	37,480	42,658	44,003	57,140	60,798	64,146
Non - Formal Education	27,946	27,330	35,212	30,927	29,371	31,133	33,000
Supporting and Related services	6,025	11,490	15,007	17,003	32,041	31,220	35,493
Total	**2,506,029**	**2,624,319**	**2,809,361**	**2,996,635**	**3,204,066**	**3,423,596**	**3,783,691**
Increase/(Decrease)					**207,431**	**219,530**	**360,095**
Classification of expenditure							
Current	**2,444,144**	**2,569,185**	**2,746,674**	**2,954,391**	**3,112,756**	**3,304,471**	**3,638,194**
Personnel expenditure	2,288,814	2,434,164	2,587,205	2,788,180	2,852,715	3,015,271	3,219,555
Transfer payments	22,547	25,499	17,054	24,621	25,421	27,354	29,156
Other current expenditure	132,783	109,522	142,415	141,590	234,620	261,846	389,483
Capital	**61,885**	**55,134**	**62,687**	**42,244**	**91,310**	**119,125**	**145,497**
Transfer payments	2	320	104	-	-	-	-
Other capital expenditure	61,883	54,814	62,583	42,244	91,310	119,125	145,497
Total	**2,506,029**	**2,624,319**	**2,809,361**	**2,996,635**	**3,204,066**	**3,423,596**	**3,783,691**

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TABLE C11.5: HEALTH ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Health Programmes	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual Expenditure	Actual Expenditure	Actual Expenditure	Estimated Actual Expenditure	Medium Term Expenditure Estimates		
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	186,366	80,277	97,936	97,152	98,802	101,098	143,443
District Health Services	860,545	751,281	896,953	886,338	1,047,945	1,133,555	1,267,874
Provincial / regional Hospital Services	-	105,353	99,153	91,339	151,164	151,957	154,253
Health Care Support services	-	3,560	4,445	9,847	14,504	18,730	27,872
Health Facilities Development & Maintenance	-	95,247	22,466	6,876	61,873	74,816	87,842
Human Resource Development	-	22,476	26,215	25,816	35,608	36,891	47,329
Total	**1,046,911**	**1,058,194**	**1,147,168**	**1,117,368**	**1,409,896**	**1,517,047**	**1,728,613**
Increase/(Decrease)					**292,528**	**107,151**	**211,566**
Classification of expenditure							
Current	**912,556**	**933,996**	**1,117,188**	**1,099,543**	**1,289,693**	**1,324,374**	**1,485,441**
Personnel expenditure	569,560	643,843	721,173	775,142	798,759	834,500	872,450
Transfer payments	16,533	37,031	44,229	29,353	41,458	46,920	47,390
Other current expenditure	326,463	253,122	351,786	295,048	449,476	442,954	565,601
Capital	**134,355**	**124,198**	**29,980**	**17,825**	**120,203**	**192,673**	**243,172**
Transfer payments	-	8,827	2,022	397	-	-	-
Other capital expenditure	134,355	115,371	27,958	17,428	120,203	192,673	243,172
Total	**1,046,911**	**1,058,194**	**1,147,168**	**1,117,368**	**1,409,896**	**1,517,047**	**1,728,613**

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TABLE C11.6: WELFARE ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Welfare Programmes	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	28,303	6,004	9,116	17,015	23,243	25,484	25,722
Social Security	907,909	1,021,129	1,079,044	1,243,995	1,448,029	1,672,727	1,733,757
Social Assistance Services	31,447	31,949	32,123	28,980	44,425	46,313	48,689
Social Welfare Services	12,115	23,876	28,663	26,048	41,020	43,234	38,032
Social Development	-	-	-	1,936	3,233	3,440	3,249
Population Unit	2	1,765	1,955	1,854	3,200	3,639	3,201
Welfare Facilities	887	847	67	531	3,500	4,425	4,624
Auxilliary and Associated Services	-	860	602	521	4,000	4,000	3,907
Administrative Support	-	90	4,206	-	-	-	-
Total	**980,663**	**1,086,520**	**1,155,776**	**1,320,880**	**1,570,650**	**1,803,262**	**1,861,181**
Increase/(Decrease)					**249,770**	**232,612**	**57,919**
Classification of expenditure							
Current	**980,663**	**1,083,788**	**1,154,475**	**1,318,641**	**1,563,840**	**1,794,623**	**1,853,422**
Personnel expenditure	20,598	26,946	35,905	39,234	40,226	42,041	44,500
Transfer payments	930,589	1,022,091	1,070,458	1,209,685	1,339,393	1,529,647	1,611,089
Other current expenditure	29,476	34,751	48,112	69,722	184,221	222,935	197,833
Capital	**-**	**2,732**	**1,301**	**2,239**	**6,810**	**8,639**	**7,759**
Transfer payments	-	34	29	-	-	-	-
Other capital expenditure	-	2,698	1,272	2,239	6,810	8,639	7,759
Total	**980,663**	**1,086,520**	**1,155,776**	**1,320,880**	**1,570,650**	**1,803,262**	**1,861,181**

NORTHERN CAPE

TABLE C12.1: SUMMARY OF ACTUAL AND BUDGETED REVENUE AND EXPENDITURE

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual	Actual	Actual	Estimated Actual	Medium Term Expenditure Estimates		
Expenditure	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Education							
Personnel Expenditure	732,197	745,901	773,076	813,501	872,413	927,879	978,447
Other Expenditure	106,996	154,196	133,241	151,568	168,550	189,023	222,915
Total	**839,193**	**900,097**	**906,317**	**965,069**	**1,040,963**	**1,116,902**	**1,201,362**
Health							
Personnel Expenditure	195,612	219,226	268,933	287,469	325,805	344,744	364,783
Other Expenditure	180,383	172,506	163,816	150,954	170,744	186,282	211,864
Total	**375,995**	**391,732**	**432,749**	**438,423**	**496,549**	**531,026**	**576,647**
Welfare							
Personnel Expenditure	29,944	34,559	36,930	44,220	50,770	54,063	57,038
Transfer Payments	600,273	596,353	611,069	568,090	568,716	592,530	613,353
Other Expenditure	19,446	38,071	47,664	46,455	54,183	61,852	69,695
Total	**649,663**	**668,983**	**695,663**	**658,765**	**673,669**	**708,445**	**740,086**
Expenditure other Functions							
Personnel Expenditure	129,098	142,691	156,868	162,136	192,325	204,460	216,988
Contingency Reserve	-	-	-	-	20,337	20,683	21,000
Other Expenditure	400,740	289,622	300,052	402,862	437,065	508,187	542,117
Total	**529,838**	**432,313**	**456,920**	**564,998**	**649,727**	**733,330**	**780,105**
Total Personnel Expenditure	1,086,851	1,142,377	1,235,807	1,307,326	1,441,313	1,531,146	1,617,256
Contingency Reserve	-	-	-	-	20,337	20,683	21,000
Total Other Expenditure	1,307,838	1,250,748	1,255,842	1,319,929	1,399,258	1,537,874	1,659,944
Total Expenditure	**2,394,689**	**2,393,125**	**2,491,649**	**2,627,255**	**2,860,908**	**3,089,703**	**3,298,200**
Current Expenditure	2,187,931	2,223,402	2,347,880	2,457,385	2,646,609	2,862,631	3,039,788
Capital Expenditure	206,758	169,723	143,769	169,870	214,299	227,072	258,412
Revenue							
Transfers from National	2,125,837	2,191,410	2,428,116	2,532,411	2,778,815	3,002,516	3,205,200
Own Revenue	102,286	78,765	78,781	66,393	82,093	87,187	93,000
Other Revenue	-	-	-	-	-	-	-
Total Revenue	**2,228,123**	**2,270,175**	**2,506,897**	**2,598,804**	**2,860,908**	**3,089,703**	**3,298,200**
Surplus/(Deficit)	**(166,566)**	**(122,950)**	**15,248**	**(28,451)**	**-**	**-**	**-**

NORTHERN CAPE

TABLE C12.2: ACTUAL AND BUDGETED REVENUE

Revenue	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual Revenue	Actual Revenue	Actual Revenue	Estimated Actual Revenue	Medium Term Revenue Estimates		
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Transfers from National	**2,125,837**	**2,191,410**	**2,428,116**	**2,532,411**	**2,778,815**	**3,002,516**	**3,205,200**
Equitable Share	**2,045,263**	**2,011,968**	**2,131,297**	**2,341,651**	**2,532,623**	**2,730,222**	**2,908,143**
Conditional Grants	**80,574**	**179,442**	**296,819**	**190,760**	**246,192**	**272,294**	**297,057**
DPLG	-	5,671	16,750	-	14,700	20,200	21,100
Education	-	-	3,648	4,381	5,653	5,250	6,126
Health	-	28,034	49,871	58,782	65,023	61,624	63,088
Housing	70,574	55,427	56,645	60,400	66,475	72,312	75,230
National Treasury	10,000	88,410	165,182	64,476	92,199	111,708	131,513
Social Development	-	820	4,723	2,721	2,142	1,200	-
Other	-	1,080	-	-	-	-	-
Own Revenue	**102,286**	**78,765**	**78,781**	**66,393**	**82,093**	**87,187**	**93,000**
Road Traffic Revenue	28,077	25,919	36,847	44,335	49,783	53,667	57,470
Health Patient Fees	5,485	5,036	5,714	6,825	12,000	11,600	12,300
Horse Racing and Betting	2,192	538	1,927	2,448	4,700	5,500	6,000
Gambling	-	-	-	-	-	-	-
Other	66,532	47,272	34,293	12,785	15,610	16,420	17,230
Other Revenue	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**2,228,123**	**2,270,175**	**2,506,897**	**2,598,804**	**2,860,908**	**3,089,703**	**3,298,200**
Increase/(Decrease)					262,104	228,795	208,497

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TABLE C12.3: ACTUAL AND BUDGETED EXPENDITURE BY DEPARTMENT

Provincial Summary / Department	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Education	839,193	900,097	906,317	965,069	1,040,963	1,116,902	1,201,362
Health	375,995	391,732	432,749	438,423	496,549	531,026	576,647
Welfare	649,663	668,983	695,663	658,765	673,669	708,445	740,086
Premier	38,413	47,222	47,779	46,037	44,197	46,469	49,788
Legislature	12,793	12,680	15,240	18,092	20,407	21,541	24,099
Finance and Provincial Expenditure *	18,410	15,293	26,728	32,128	48,603	50,113	52,930
Economic Affairs, Environment and Tourism	11,195	14,939	11,310	13,689	18,537	20,929	24,257
Housing, Local Government and Traditional Affairs	139,587	100,239	101,557	125,558	138,616	158,275	169,592
Transport	217,803	153,993	157,772	191,433	209,664	223,295	244,848
Agriculture and Land Affairs	65,167	60,594	65,515	54,477	54,281	58,217	63,434
Sports, Arts and Culture	15,983	16,850	17,088	16,629	25,655	29,393	35,083
Safety and Security	2,838	3,265	2,978	3,943	5,295	5,919	7,183
Provincial Services Commission	1,848	1,243	378	-	-	-	-
Statutory	5,801	5,995	10,575	11,687	12,105	13,202	13,919
Reconstruction and Development Programme	-	-	-	51,325	72,367	105,976	94,972
Total	**2,394,689**	**2,393,125**	**2,491,649**	**2,627,255**	**2,860,908**	**3,089,703**	**3,298,200**
Increase/(Decrease)					**233,653**	**228,795**	**208,497**
Classification of expenditure							
Current	**2,187,931**	**2,223,402**	**2,347,880**	**2,457,385**	**2,646,609**	**2,862,631**	**3,039,788**
Personnel expenditure	1,086,851	1,142,377	1,235,807	1,307,326	1,441,313	1,531,146	1,617,256
Transfer payments	779,930	750,841	719,035	730,549	733,816	767,254	810,258
Other current expenditure	321,150	330,184	393,038	419,510	471,480	564,231	612,274
Capital	**206,758**	**169,723**	**143,769**	**169,870**	**214,299**	**227,072**	**258,412**
Transfer payments	92,022	58,611	56,986	59,635	66,975	72,312	74,730
Other capital expenditure	114,736	111,112	86,783	110,235	147,324	154,760	183,682
Total	**2,394,689**	**2,393,125**	**2,491,649**	**2,627,255**	**2,860,908**	**3,089,703**	**3,298,200**

* The Contingency Reserve is included in these amounts.

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TABLE C12.4: EDUCATION ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Education Programmes	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual Expenditure	Actual Expenditure	Actual Expenditure	Estimated Actual Expenditure	Medium Term Expenditure Estimates		
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	91,660	39,162	40,514	38,123	41,696	43,200	44,991
Public Ordinary School Education	690,179	751,970	773,167	834,762	867,876	919,107	983,180
Independent Shool Education	3,143	2,861	2,859	3,942	2,859	2,859	2,859
Special School Education	16,897	20,648	21,923	23,049	34,429	37,185	39,899
Teacher Training	6,163	10,134	8,187	8,899	8,326	8,648	9,014
Technical College Education	20,483	16,231	16,414	18,084	20,922	21,961	23,048
Non-Formal Education	3,177	3,266	4,081	5,387	5,406	9,181	9,501
Auxiliary and Associated Services	7,491	20,408	16,116	21,961	42,893	52,587	63,242
Capital Expenditure from Works Department/restructuring	-	35,417	23,056	10,862	16,557	22,175	25,628
Total	**839,193**	**900,097**	**906,317**	**965,069**	**1,040,963**	**1,116,902**	**1,201,362**
Increase/(Decrease)					**75,894**	**75,940**	**84,459**
Classification of expenditure							
Current	**831,682**	**855,816**	**880,750**	**952,548**	**1,022,702**	**1,092,607**	**1,172,579**
Personnel expenditure	732,197	745,901	773,076	813,501	872,413	927,879	978,447
Transfer payments	22,550	22,143	18,828	74,750	79,232	79,232	93,736
Other current expenditure	76,935	87,772	88,846	64,297	71,057	85,496	100,396
Capital	**7,511**	**44,281**	**25,567**	**12,521**	**18,261**	**24,295**	**28,783**
Transfer payments	-	119	-	42	-	-	-
Other capital expenditure	7,511	44,162	25,567	12,479	18,261	24,295	28,783
Total	**839,193**	**900,097**	**906,317**	**965,069**	**1,040,963**	**1,116,902**	**1,201,362**

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TABLE C12.5: HEALTH ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Health Programmes	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	31,910	16,392	19,086	17,393	28,680	30,116	33,198
District Health Services	209,461	223,451	250,691	254,799	277,550	296,064	321,830
Provincial Hospital Services	122,734	133,262	148,352	145,373	163,581	175,538	190,329
Health Services	5,860	5,756	5,314	5,618	6,055	6,558	7,170
Auxiliary and Associated Srvices	6,030	7,453	5,020	10,905	14,449	15,085	15,956
Authorised Losses	-	-	893	-	-	-	-
Capital Expenditure from Works Department/restructuring	-	5,418	3,393	4,335	6,235	7,665	8,164
Total	**375,995**	**391,732**	**432,749**	**438,423**	**496,549**	**531,026**	**576,647**
Increase/(Decrease)					**58,126**	**34,476**	**45,621**
Classification of expenditure							
Current	**369,886**	**380,081**	**419,524**	**431,942**	**463,657**	**492,387**	**532,255**
Personnel expenditure	195,612	219,226	268,933	287,469	325,805	344,744	364,783
Transfer payments	76,531	65,109	25,935	21,816	19,310	21,034	23,579
Other current expenditure	97,743	95,746	124,656	122,657	118,542	126,609	143,893
Capital	**6,109**	**11,651**	**13,225**	**6,481**	**32,892**	**38,639**	**44,392**
Transfer payments	-	-	-	-	-	-	-
Other capital expenditure	6,109	11,651	13,225	6,481	32,892	38,639	44,392
Total	**375,995**	**391,732**	**432,749**	**438,423**	**496,549**	**531,026**	**576,647**

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TABLE C12.6: WELFARE ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Welfare Programmes	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual Expenditure	Actual Expenditure	Actual Expenditure	Estimated Actual Expenditure	Medium Term Expenditure Estimates		
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	22,121	15,638	10,749	13,428	18,775	21,145	23,724
Social Security	578,907	598,489	627,791	589,085	582,960	610,423	634,701
Social Assistance	22,202	20,509	22,392	21,819	28,368	30,812	31,369
Social Welfare Services	23,649	25,624	24,863	27,056	30,217	32,128	35,235
Social Development	1,928	2,160	3,468	3,629	3,860	4,074	4,629
Population Development	-	94	257	391	2,366	1,412	2,225
Auxiliary and Associated Services	856	2,688	318	31	347	641	691
Capital Expenditure from Works Department/restructuring	-	3,781	5,825	3,326	6,775	7,811	7,512
Total	**649,663**	**668,983**	**695,663**	**658,765**	**673,669**	**708,445**	**740,086**
Increase/(Decrease)					**14,904**	**34,776**	**31,641**
Classification of expenditure							
Current	**643,532**	**662,249**	**689,044**	**655,293**	**664,942**	**698,211**	**729,311**
Personnel expenditure	29,944	34,559	36,930	44,220	50,770	54,063	57,038
Transfer payments	600,273	596,353	611,069	568,090	568,716	592,530	613,353
Other current expenditure	13,315	31,337	41,045	42,983	45,456	51,618	58,920
Capital	**6,131**	**6,734**	**6,619**	**3,472**	**8,727**	**10,234**	**10,775**
Transfer payments	-	-	-	-	-	-	-
Other capital expenditure	6,131	6,734	6,619	3,472	8,727	10,234	10,775
Total	**649,663**	**668,983**	**695,663**	**658,765**	**673,669**	**708,445**	**740,086**

NORTHERN PROVINCE

TABLE C13.1: SUMMARY OF ACTUAL AND BUDGETED REVENUE AND EXPENDITURE

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual	Actual	Actual	Estimated Actual	Medium Term Expenditure Estimates		
Expenditure	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Education							
Personnel Expenditure	4,987,688	5,468,926	5,401,352	5,871,188	6,025,415	6,468,436	6,727,184
Other Expenditure	557,956	326,550	452,348	498,930	834,778	915,360	980,238
Total	**5,545,644**	**5,795,476**	**5,853,700**	**6,370,118**	**6,860,193**	**7,383,796**	**7,707,422**
Health							
Personnel Expenditure	1,136,873	1,403,350	1,505,017	1,626,288	1,654,708	1,742,454	1,834,051
Other Expenditure	816,901	678,126	715,521	939,606	980,199	1,142,496	1,281,025
Total	**1,953,774**	**2,081,476**	**2,220,538**	**2,565,894**	**2,634,907**	**2,884,950**	**3,115,076**
Welfare							
Personnel Expenditure	13,457	32,313	61,624	66,736	71,000	73,840	80,201
Transfer Payments	1,777,189	1,982,598	2,185,595	2,459,803	2,550,673	2,793,879	3,100,258
Other Expenditure	12,697	16,282	81,548	115,154	132,583	136,006	166,435
Total	**1,803,343**	**2,031,193**	**2,328,767**	**2,641,693**	**2,754,256**	**3,003,725**	**3,346,894**
Expenditure other Functions							
Personnel Expenditure	1,420,667	1,397,402	1,402,266	1,500,499	1,551,166	1,696,881	1,841,246
Contingency Reserve	-	-	-	-	-	-	167,518
Other Expenditure	976,122	851,251	1,002,481	1,448,602	1,625,798	1,894,496	1,988,055
Total	**2,396,789**	**2,248,653**	**2,404,747**	**2,949,101**	**3,176,964**	**3,591,377**	**3,996,819**
Total Personnel Expenditure	7,558,685	8,301,991	8,370,259	9,064,711	9,302,289	9,981,611	10,482,682
Contingency Reserve	-	-	-	-	-	-	167,518
Total Other Expenditure	4,140,865	3,854,807	4,437,493	5,462,095	6,124,031	6,882,237	7,516,011
Total Expenditure	**11,699,550**	**12,156,798**	**12,807,752**	**14,526,806**	**15,426,320**	**16,863,848**	**18,166,211**
Current Expenditure	11,220,435	11,721,543	12,181,596	13,807,883	14,122,535	15,338,738	16,468,889
Capital Expenditure	479,115	435,255	626,156	718,923	1,303,785	1,525,110	1,697,322
Revenue							
Transfers from National	11,064,914	11,750,720	12,622,077	14,244,353	15,321,023	16,683,237	17,922,776
Own Revenue	202,340	294,883	247,121	320,686	324,000	350,000	433,435
Other Revenue	-	-	-	-	-	-	-
Total Revenue	**11,267,254**	**12,045,603**	**12,869,198**	**14,565,039**	**15,645,023**	**17,033,237**	**18,356,211**
Surplus/(Deficit)	**(432,296)**	**(111,195)**	**61,446**	**38,233**	**218,703**	**169,389**	**190,000**

NORTHERN PROVINCE

TABLE C13.2: ACTUAL AND BUDGETED REVENUE

Revenue	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual Revenue	Actual Revenue	Actual Revenue	Estimated Actual Revenue	Medium Term Revenue Estimates		
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Transfers from National	**11,064,914**	**11,750,720**	**12,622,077**	**14,244,353**	**15,321,023**	**16,683,237**	**17,922,776**
Equitable Share	**10,808,964**	**10,772,538**	**11,506,052**	**12,866,332**	**14,009,930**	**15,233,045**	**16,364,996**
Conditional Grants	**255,950**	**978,182**	**1,116,025**	**1,378,021**	**1,311,093**	**1,450,192**	**1,557,780**
DPLG	-	135,233	112,520	100,258	14,400	19,800	20,700
Education	-	6,400	30,144	50,549	46,707	43,382	50,619
Health	-	90,733	193,410	274,367	266,759	274,560	281,622
Housing	172,950	232,391	230,150	290,294	344,787	367,967	380,340
National Treasury	83,000	509,245	538,321	654,715	631,840	743,283	824,499
Social Development	-	2,740	11,480	7,838	6,600	1,200	-
Other	-	1,440	-	-	-	-	-
Own Revenue	**202,340**	**294,883**	**247,121**	**320,686**	**324,000**	**350,000**	**433,435**
Road Traffic Revenue	34,818	39,841	42,867	60,356	49,999	53,998	81,599
Health Patient Fees	23,389	23,463	24,465	26,905	28,536	30,819	36,374
Horse Racing and Betting	7,148	7,457	5,059	7,163	7,092	7,659	9,682
Gambling	-	-	-	-	-	-	-
Other	136,985	224,122	174,730	226,262	238,373	257,524	305,780
Other Revenue	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**11,267,254**	**12,045,603**	**12,869,198**	**14,565,039**	**15,645,023**	**17,033,237**	**18,356,211**
Increase/(Decrease)					1,079,984	1,388,214	1,322,974

NORTHERN PROVINCE

TABLE C13.3: ACTUAL AND BUDGETED EXPENDITURE BY DEPARTMENT

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Provincial Summary	**Actual Expenditure**	**Actual Expenditure**	**Actual Expenditure**	**Estimated Actual Expenditure**	**Medium Term Expenditure Estimates**		
Department	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Education	5,545,644	5,795,476	5,853,700	6,370,118	6,860,193	7,383,796	7,707,422
Health	1,953,774	2,081,476	2,220,538	2,565,894	2,634,907	2,884,950	3,115,076
Welfare	1,803,343	2,031,193	2,328,767	2,641,693	2,754,256	3,003,725	3,346,894
Premier	132,441	66,703	80,031	102,342	109,317	113,384	125,029
Legislature	29,606	30,005	30,962	33,406	35,895	39,325	41,655
Housing, Local Government and Traditional Affairs	435,999	517,202	531,506	533,127	734,102	797,895	947,508
Transport	233,653	186,339	186,758	204,350	233,091	268,803	272,579
Public Works	733,293	624,548	690,331	1,015,653	992,196	1,139,697	1,173,365
Agriculture and Land Affairs	603,681	571,742	562,208	656,409	621,409	755,133	776,306
Sports, Arts and Culture	-	3,585	11,892	24,657	30,171	33,179	39,381
Safety and Security	4,812	3,919	3,926	4,839	7,087	7,726	8,450
Finance, Economic Affairs and Tourism *	223,304	244,610	307,133	374,318	413,696	436,235	612,546
Total	**11,699,550**	**12,156,798**	**12,807,752**	**14,526,806**	**15,426,320**	**16,863,848**	**18,166,211**
Increase/(Decrease)					**899,514**	**1,437,528**	**1,302,363**
Classification of expenditure							
Current	**11,220,435**	**11,721,543**	**12,181,596**	**13,807,883**	**14,122,535**	**15,338,738**	**16,468,889**
Personnel expenditure	7,558,685	8,301,991	8,370,259	9,064,711	9,302,289	9,981,611	10,482,682
Transfer payments	2,072,232	2,227,915	2,451,864	3,039,313	2,785,900	3,033,452	3,366,154
Other current expenditure	1,589,518	1,191,637	1,359,473	1,703,859	2,034,346	2,323,675	2,620,053
Capital	**479,115**	**435,255**	**626,156**	**718,923**	**1,303,785**	**1,525,110**	**1,697,322**
Transfer payments	323,049	318,364	334,733	394,767	428,287	663,102	747,623
Other capital expenditure	156,066	116,891	291,423	324,156	875,498	862,008	949,699
Total	**11,699,550**	**12,156,798**	**12,807,752**	**14,526,806**	**15,426,320**	**16,863,848**	**18,166,211**

* The Contingency Reserve is included in these amounts.

NORTHERN PROVINCE

TABLE C13.4: EDUCATION ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Education Programmes	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	1,599,336	1,360,015	652,675	755,749	814,291	914,427	942,937
Public Ordinary School Education	3,678,945	4,154,111	4,825,014	5,219,897	5,618,226	6,005,970	6,282,799
Specialised Education	59,444	58,793	70,475	76,994	98,481	104,576	108,968
Technical Education	45,557	45,373	59,450	50,364	81,743	85,986	88,949
Teachers Training	152,576	137,215	208,741	208,312	208,372	225,723	234,213
Adult Basic Training	9,786	29,043	25,092	52,707	28,594	34,628	36,070
Independent Schools	-	10,926	12,253	5,609	10,000	12,000	13,000
Statutory Payments	-	-	-	486	486	486	486
Total	**5,545,644**	**5,795,476**	**5,853,700**	**6,370,118**	**6,860,193**	**7,383,796**	**7,707,422**
Increase/(Decrease)					**490,075**	**523,603**	**323,626**
Classification of expenditure							
Current	**5,530,359**	**5,761,841**	**5,823,846**	**6,318,145**	**6,703,777**	**7,137,424**	**7,404,652**
Personnel expenditure	4,987,688	5,468,926	5,401,352	5,871,188	6,025,415	6,468,436	6,727,184
Transfer payments	29,153	36,324	34,783	30,849	47,027	58,611	69,650
Other current expenditure	513,518	256,591	387,711	416,108	631,335	610,377	607,818
Capital	**15,285**	**33,635**	**29,854**	**51,973**	**156,416**	**246,372**	**302,770**
Transfer payments	-	-	-	-	-	-	-
Other capital expenditure	15,285	33,635	29,854	51,973	156,416	246,372	302,770
Total	**5,545,644**	**5,795,476**	**5,853,700**	**6,370,118**	**6,860,193**	**7,383,796**	**7,707,422**

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TABLE C13.5: HEALTH ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Health Programmes	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Health Administration	136,234	156,162	127,811	164,473	203,637	206,277	212,504
District Health Services	1,105,147	1,078,324	1,249,430	1,392,988	1,388,352	1,524,438	1,592,244
Regional and Specialised Hospital Services	361,919	499,113	514,143	600,209	580,397	614,260	663,261
Health Science Services	26,191	57,699	58,897	73,617	98,557	102,692	110,908
Health Care Support Services	134,561	131,287	141,273	171,090	183,428	175,032	189,555
Health Facilities Development and Maintenance	189,722	158,891	128,984	163,517	180,072	261,787	346,140
Statutory	-	-	-	-	464	464	464
Total	**1,953,774**	**2,081,476**	**2,220,538**	**2,565,894**	**2,634,907**	**2,884,950**	**3,115,076**
Increase/(Decrease)					**69,013**	**250,043**	**230,126**
Classification of expenditure							
Current	**1,880,282**	**2,023,487**	**2,002,331**	**2,339,799**	**2,393,835**	**2,572,609**	**2,717,286**
Personnel expenditure	1,136,873	1,403,350	1,505,017	1,626,288	1,654,708	1,742,454	1,834,051
Transfer payments	157,599	76,704	111,327	91,551	103,850	101,000	109,080
Other current expenditure	585,810	543,433	385,987	621,960	635,277	729,155	774,155
Capital	**73,492**	**57,989**	**218,207**	**226,095**	**241,072**	**312,341**	**397,790**
Transfer payments	-	-	-	-	-	-	-
Other capital expenditure	73,492	57,989	218,207	226,095	241,072	312,341	397,790
Total	**1,953,774**	**2,081,476**	**2,220,538**	**2,565,894**	**2,634,907**	**2,884,950**	**3,115,076**

NORTHERN PROVINCE

TABLE C13.6: WELFARE ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Welfare Programmes	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual Expenditure	Actual Expenditure	Actual Expenditure	Estimated Actual Expenditure	Medium Term Expenditure Estimates		
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Welfare Administration	16,290	14,248	26,223	20,171	35,543	36,965	40,661
Social Security	1,755,313	1,965,856	2,231,923	2,544,731	2,605,052	2,848,873	3,179,555
Social Security Services	21,371	23,529	23,703	25,408	29,525	30,706	33,162
Social Assistance Services	4,505	16,019	34,193	38,430	59,972	62,371	67,361
Social Welfare Services	2,258	4,507	11,149	12,784	14,985	15,584	16,831
Social Development Services	-	328	113	158	1,179	1,226	1,324
Population Development	2,792	129	1,463	11	8,000	8,000	8,000
Auxiliary and Associated	814	6,577	-	-	-	-	-
Total	**1,803,343**	**2,031,193**	**2,328,767**	**2,641,693**	**2,754,256**	**3,003,725**	**3,346,894**
Increase/(Decrease)					**112,563**	**249,469**	**343,169**
Classification of expenditure							
Current	**1,801,541**	**2,030,633**	**2,326,886**	**2,641,099**	**2,741,918**	**2,991,133**	**3,333,772**
Personnel expenditure	13,457	32,313	61,624	66,736	71,000	73,840	80,201
Transfer payments	1,777,189	1,982,598	2,185,595	2,459,803	2,550,673	2,793,879	3,100,258
Other current expenditure	10,895	15,722	79,667	114,560	120,245	123,414	153,313
Capital	**1,802**	**560**	**1,881**	**594**	**12,338**	**12,592**	**13,122**
Transfer payments	-	-	-	-	-	-	-
Other capital expenditure	1,802	560	1,881	594	12,338	12,592	13,122
Total	**1,803,343**	**2,031,193**	**2,328,767**	**2,641,693**	**2,754,256**	**3,003,725**	**3,346,894**

NORTH WEST

TABLE C14.1: SUMMARY OF ACTUAL AND BUDGETED REVENUE AND EXPENDITURE

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual	Actual	Actual	Estimated Actual	Medium Term Expenditure Estimates		
Expenditure	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Education							
Personnel Expenditure	2,875,304	3,018,211	3,129,401	3,402,597	3,392,707	3,555,148	3,727,907
Other Expenditure	364,751	177,542	278,312	296,338	494,857	578,096	597,125
Total	**3,240,055**	**3,195,753**	**3,407,713**	**3,698,935**	**3,887,564**	**4,133,244**	**4,325,032**
Health							
Personnel Expenditure	888,942	971,663	987,717	1,063,254	1,135,412	1,234,300	1,300,421
Other Expenditure	486,362	370,329	396,125	498,232	596,828	636,519	723,304
Total	**1,375,304**	**1,341,992**	**1,383,842**	**1,561,486**	**1,732,240**	**1,870,819**	**2,023,725**
Welfare							
Personnel Expenditure	20,229	74,024	84,064	95,467	113,396	120,168	125,730
Transfer Payments	1,018,262	1,259,553	1,360,044	1,586,089	1,802,950	2,044,148	2,158,465
Other Expenditure	32,551	37,122	46,796	97,104	123,035	127,735	131,425
Total	**1,071,042**	**1,370,699**	**1,490,904**	**1,778,660**	**2,039,381**	**2,292,051**	**2,415,620**
Expenditure other Functions							
Personnel Expenditure	647,401	684,292	698,282	743,815	786,435	842,223	885,877
Contingency Reserve	-	-	-	-	71,820	168,000	196,000
Other Expenditure	1,514,721	1,252,358	1,260,477	1,436,181	1,338,521	1,249,060	1,371,626
Total	**2,162,122**	**1,936,650**	**1,958,759**	**2,179,996**	**2,196,776**	**2,259,283**	**2,453,503**
Total Personnel Expenditure	4,431,876	4,748,190	4,899,464	5,305,133	5,427,950	5,751,839	6,039,935
Contingency Reserve	-	-	-	-	71,820	168,000	196,000
Total Other Expenditure	3,416,647	3,096,904	3,341,754	3,913,944	4,356,191	4,635,558	4,981,945
Total Expenditure	**7,848,523**	**7,845,094**	**8,241,218**	**9,219,077**	**9,855,961**	**10,555,397**	**11,217,880**
Current Expenditure	6,958,247	7,414,181	7,744,097	8,590,100	8,892,542	9,424,349	9,940,111
Capital Expenditure	890,276	430,913	497,121	628,977	963,419	1,131,048	1,277,769
Revenue							
Transfers from National	7,233,920	7,705,845	8,162,459	8,863,415	9,487,494	10,176,767	10,820,011
Own Revenue	303,883	304,357	321,351	425,446	368,467	378,630	397,869
Other Revenue	-	-	-	-	-	-	-
Total Revenue	**7,537,803**	**8,010,202**	**8,483,810**	**9,288,861**	**9,855,961**	**10,555,397**	**11,217,880**
Surplus/(Deficit)	**(310,720)**	**165,108**	**242,592**	**69,784**	**-**	**-**	**-**

NORTH WEST

TABLE C14.2: ACTUAL AND BUDGETED REVENUE

Revenue	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual Revenue	Actual Revenue	Actual Revenue	Estimated Actual Revenue	Medium Term Revenue Estimates		
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Transfers from National	**7,233,920**	**7,705,845**	**8,162,459**	**8,863,415**	**9,487,494**	**10,176,767**	**10,820,011**
Equitable Share	**6,939,334**	**7,033,359**	**7,411,956**	**8,158,360**	**8,761,128**	**9,390,757**	**9,944,981**
Conditional Grants	**294,586**	**672,486**	**750,503**	**705,055**	**726,366**	**786,010**	**875,030**
DPLG	-	85,741	78,400	60,704	16,000	22,000	23,000
Education	-	-	15,360	17,699	23,800	22,106	25,793
Health	-	49,293	85,574	136,984	157,817	147,918	153,133
Housing	248,586	169,749	181,003	272,632	263,735	279,743	291,232
National Treasury	46,000	322,078	335,358	212,803	262,872	313,043	381,872
Social Development	-	-	6,872	4,233	2,142	1,200	-
Other	-	45,625	47,936	-	-	-	-
Own Revenue	**303,883**	**304,357**	**321,351**	**425,446**	**368,467**	**378,630**	**397,869**
Road Traffic Revenue	59,494	55,499	76,153	92,835	140,645	145,700	160,720
Health Patient Fees	10,423	13,030	12,953	13,600	12,528	13,896	14,460
Horse Racing and Betting	-	-	65	41	1,145	1,145	1,145
Gambling	37,632	32,059	18,331	16,162	23,575	23,575	23,575
Other	196,334	203,769	213,849	302,808	190,574	194,314	197,969
Other Revenue	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**7,537,803**	**8,010,202**	**8,483,810**	**9,288,861**	**9,855,961**	**10,555,397**	**11,217,880**
Increase/(Decrease)					567,100	699,436	662,483

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TABLE C14.3: ACTUAL AND BUDGETED EXPENDITURE BY DEPARTMENT

Provincial Summary Department	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Education	3,240,055	3,195,753	3,407,713	3,698,935	3,887,564	4,133,244	4,325,032
Health	1,375,304	1,341,992	1,383,842	1,561,486	1,732,240	1,870,819	2,023,725
Social Services, Arts, Culture and Sport	1,071,042	1,370,699	1,490,904	1,778,660	2,039,381	2,292,051	2,415,620
Traditional and Corporate Affairs	43,647	56,291	64,832	72,929	87,215	88,365	91,116
Legislature	27,553	28,845	28,193	30,209	34,150	37,692	41,711
Finance	117,735	122,212	169,855	161,156	217,036	156,327	169,923
Economic Development and Tourism	59,633	66,366	82,706	80,889	86,731	86,051	90,204
Housing, Local Government and Traditional Affairs	732,902	481,244	438,284	498,900	476,819	414,559	430,353
Transport, Roads and Public Works	953,310	967,079	926,919	1,091,913	937,357	1,006,395	1,120,448
Agriculture, Conservation and Environment	192,629	192,260	221,549	219,720	252,429	268,885	277,770
Safety and Liaison	5,211	6,011	6,035	6,750	7,495	8,608	9,409
Office of the Premier	-	16,342	20,386	17,530	25,725	24,400	26,570
Contingency Reserve	-	-	-	-	71,820	168,000	196,000
Provincial Service Commission	29,502	-	-	-	-	-	-
Total	**7,848,523**	**7,845,094**	**8,241,218**	**9,219,077**	**9,855,961**	**10,555,397**	**11,217,880**
Increase/(Decrease)					**636,884**	**699,436**	**662,483**
Classification of expenditure							
Current	**6,958,247**	**7,414,181**	**7,744,097**	**8,590,100**	**8,892,542**	**9,424,349**	**9,940,111**
Personnel expenditure	4,431,876	4,748,190	4,899,464	5,305,133	5,427,950	5,751,839	6,039,935
Transfer payments	1,565,841	1,833,838	1,814,175	2,025,202	2,248,738	2,473,019	2,604,473
Other current expenditure	960,530	832,153	1,030,458	1,259,765	1,215,854	1,199,491	1,295,703
Capital	**890,276**	**430,913**	**497,121**	**628,977**	**963,419**	**1,131,048**	**1,277,769**
Transfer payments	259,246	169,749	196,003	277,964	9,347	10,000	10,000
Other capital expenditure	631,030	261,164	301,118	351,013	954,072	1,121,048	1,267,769
Total	**7,848,523**	**7,845,094**	**8,241,218**	**9,219,077**	**9,855,961**	**10,555,397**	**11,217,880**

NORTH WEST

TABLE C14.4: EDUCATION ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Education Programmes	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	329,536	263,579	302,253	189,144	316,154	332,090	344,231
Public Ordinary School Education	2,645,645	2,697,855	2,868,972	3,248,215	3,270,517	3,471,506	3,642,376
Independent School Education	6,202	5,972	6,754	3,841	7,200	7,500	8,000
Special School Education	55,010	57,878	56,795	58,828	59,780	63,008	65,859
Educator/ Teacher Training	43,434	59,134	61,112	66,449	64,215	67,262	69,723
Technical College Education	25,195	50,250	51,124	53,274	62,356	64,737	66,660
Non-Formal Education	69,781	51,403	46,157	52,211	49,059	56,377	60,131
Auxiliary and Associated Services	11,736	9,682	11,159	20,376	42,961	49,906	46,480
In-School Sport/ Libraries	13,904	-	3,387	6,597	15,322	20,858	21,573
Arts and Culture	39,612	-	-	-	-	-	-
Total	**3,240,055**	**3,195,753**	**3,407,713**	**3,698,935**	**3,887,564**	**4,133,244**	**4,325,032**
Increase/(Decrease)					**188,629**	**245,680**	**191,788**
Classification of expenditure							
Current	**3,077,220**	**3,172,524**	**3,379,706**	**3,644,838**	**3,759,725**	**3,959,623**	**4,141,765**
Personnel expenditure	2,875,304	3,018,211	3,129,401	3,402,597	3,392,707	3,555,148	3,727,907
Transfer payments	38,863	56,320	60,237	59,256	92,940	94,174	95,601
Other current expenditure	163,053	97,993	190,068	182,985	274,078	310,301	318,257
Capital	**162,835**	**23,229**	**28,007**	**54,097**	**127,839**	**173,621**	**183,267**
Transfer payments	-	-	-	-	-	-	-
Other capital expenditure	162,835	23,229	28,007	54,097	127,839	173,621	183,267
Total	**3,240,055**	**3,195,753**	**3,407,713**	**3,698,935**	**3,887,564**	**4,133,244**	**4,325,032**

NORTH WEST

TABLE C14.5: HEALTH ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Health Programmes	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	86,485	37,132	38,330	70,129	65,808	70,577	77,958
District Health Services	739,528	854,747	943,848	951,739	986,318	1,045,558	1,112,995
Provincial Hospital Services	417,556	396,113	328,591	445,767	466,840	514,491	547,160
Health Sciences	22,517	29,692	26,912	33,010	37,876	45,615	50,894
Health Care Support Services	20,735	24,201	42,566	34,590	56,119	54,199	69,608
Development and Maintenance	55,521	107	3,595	26,251	119,278	140,378	165,109
Media and Communication	32,962	-	-	-	-	-	-
Total	**1,375,304**	**1,341,992**	**1,383,842**	**1,561,486**	**1,732,240**	**1,870,819**	**2,023,725**
Increase/(Decrease)					**170,754**	**138,579**	**152,906**
Classification of expenditure							
Current	**1,280,160**	**1,317,098**	**1,366,532**	**1,524,609**	**1,556,710**	**1,680,033**	**1,804,180**
Personnel expenditure	888,942	971,663	987,717	1,063,254	1,135,412	1,234,300	1,300,421
Transfer payments	77,183	54,455	55,157	65,675	45,935	34,203	36,184
Other current expenditure	314,035	290,980	323,658	395,680	375,363	411,530	467,575
Capital	**95,144**	**24,894**	**17,310**	**36,877**	**175,530**	**190,786**	**219,545**
Transfer payments	-	-	-	-	-	-	-
Other capital expenditure	95,144	24,894	17,310	36,877	175,530	190,786	219,545
Total	**1,375,304**	**1,341,992**	**1,383,842**	**1,561,486**	**1,732,240**	**1,870,819**	**2,023,725**

NORTH WEST

TABLE C14.6: WELFARE ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Welfare Programmes	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	1,683	9,444	17,175	3,939	20,951	21,717	22,327
Social Security	996,006	1,234,453	1,320,760	1,693,081	1,799,042	2,044,550	2,156,614
Social Assistance	32,455	31,831	37,338	680	43,482	43,534	43,575
Social Welfare Services	31,233	25,858	30,652	725	24,977	23,680	23,841
Social Development	1,664	2,891	4,234	97	-	-	-
Population Development	-	817	-	-	-	-	-
Welfare Support	1	-	97	7	-	-	-
Development and Maintenance	8,000	-	2,031	4	2,000	1,000	1,000
Regional Coordination	-	-	-	-	2,062	3,133	4,189
Arts, Culture, Languages and Libraries	-	44,544	27,405	39,953	44,141	44,707	45,157
Camping Site	-	-	-	19,321	1,038	1,078	1,109
Anti-poverty	-	-	-	-	2,000	5,000	11,000
Community Development	-	-	-	-	2,124	2,224	2,303
District Coordination	-	-	-	-	69,859	72,611	74,802
Sports and Recreation	-	20,861	51,212	20,853	27,705	28,817	29,703
Total	**1,071,042**	**1,370,699**	**1,490,904**	**1,778,660**	**2,039,381**	**2,292,051**	**2,415,620**
Increase/(Decrease)					**260,721**	**252,670**	**123,569**
Classification of expenditure							
Current	**1,069,995**	**1,363,482**	**1,483,531**	**1,772,301**	**2,007,592**	**2,261,762**	**2,385,261**
Personnel expenditure	20,229	74,024	84,064	95,467	113,396	120,168	125,730
Transfer payments	1,018,262	1,259,553	1,360,044	1,586,089	1,802,950	2,044,148	2,158,465
Other current expenditure	31,504	29,905	39,423	90,745	91,246	97,446	101,066
Capital	**1,047**	**7,217**	**7,373**	**6,359**	**31,789**	**30,289**	**30,359**
Transfer payments	-	-	-	-	-	-	-
Other capital expenditure	1,047	7,217	7,373	6,359	31,789	30,289	30,359
Total	**1,071,042**	**1,370,699**	**1,490,904**	**1,778,660**	**2,039,381**	**2,292,051**	**2,415,620**

WESTERN CAPE

TABLE C15.1: SUMMARY OF ACTUAL AND BUDGETED REVENUE AND EXPENDITURE

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual	Actual	Actual	Estimated Actual	Medium Term Expenditure Estimates		
Expenditure	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Education							
Personnel Expenditure	3,411,905	3,373,501	3,317,911	3,541,816	3,763,882	3,932,331	4,082,157
Other Expenditure	499,778	449,819	522,542	481,681	531,971	598,194	650,188
Total	**3,911,683**	**3,823,320**	**3,840,453**	**4,023,497**	**4,295,853**	**4,530,525**	**4,732,345**
Health							
Personnel Expenditure	1,976,023	2,003,254	1,953,820	2,083,028	2,252,318	2,355,162	2,488,419
Other Expenditure	960,550	1,029,152	1,171,678	1,369,960	1,406,827	1,417,261	1,506,174
Total	**2,936,573**	**3,032,406**	**3,125,498**	**3,452,988**	**3,659,145**	**3,772,423**	**3,994,593**
Welfare							
Personnel Expenditure	86,079	98,759	112,663	115,123	144,988	154,451	161,005
Transfer Payments	2,056,628	2,023,350	1,986,902	1,993,932	2,084,847	2,235,327	2,396,260
Other Expenditure	69,093	89,199	108,591	98,882	118,189	123,401	133,593
Total	**2,211,800**	**2,211,308**	**2,208,156**	**2,207,937**	**2,348,024**	**2,513,179**	**2,690,858**
Expenditure other Functions							
Personnel Expenditure	324,133	341,167	382,251	381,806	508,301	542,079	568,642
Contingency Reserve	-	-	-	-	-	-	-
Other Expenditure	1,404,312	1,143,554	1,191,598	1,447,306	1,582,558	1,777,297	1,826,758
Total	**1,728,445**	**1,484,721**	**1,573,849**	**1,829,112**	**2,090,859**	**2,319,376**	**2,395,400**
Total Personnel Expenditure	5,798,140	5,816,681	5,766,645	6,121,773	6,669,489	6,984,023	7,300,223
Contingency Reserve	-	-	-	-	-	-	-
Total Other Expenditure	4,990,361	4,735,074	4,981,311	5,391,761	5,724,392	6,151,480	6,512,973
Total Expenditure	**10,788,501**	**10,551,755**	**10,747,956**	**11,513,534**	**12,393,881**	**13,135,503**	**13,813,196**
Current Expenditure	9,942,327	9,814,605	10,023,089	10,562,730	11,384,977	12,057,105	12,717,838
Capital Expenditure	846,174	737,150	724,867	950,804	1,008,904	1,078,398	1,095,358
Revenue							
Transfers from National	9,605,621	10,201,227	10,546,878	11,143,301	11,795,221	12,444,201	12,999,945
Own Revenue	564,809	527,670	733,329	774,155	690,875	771,328	863,002
Other Revenue	-	-	-	-	-	-	-
Total Revenue	**10,170,430**	**10,728,897**	**11,280,207**	**11,917,456**	**12,486,096**	**13,215,529**	**13,862,947**
Surplus/(Deficit)	**(618,071)**	**177,142**	**532,251**	**403,922**	**92,215**	**80,026**	**49,751**

WESTERN CAPE

TABLE C15.2: ACTUAL AND BUDGETED REVENUE

Revenue	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual Revenue	Actual Revenue	Actual Revenue	Estimated Actual Revenue	Medium Term Revenue Estimates		
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Transfers from National	**9,605,621**	**10,201,227**	**10,546,878**	**11,143,301**	**11,795,221**	**12,444,201**	**12,999,945**
Equitable Share	**9,161,864**	**8,199,006**	**8,499,193**	**9,235,141**	**9,761,840**	**10,302,040**	**10,736,274**
Conditional Grants	**443,757**	**2,002,221**	**2,047,685**	**1,908,160**	**2,033,381**	**2,142,161**	**2,263,671**
DPLG	-	29,654	13,550	5,420	17,500	24,200	25,400
Education	-	1,551	15,168	17,465	23,503	21,829	25,471
Health	-	1,224,968	1,277,320	1,313,548	1,381,501	1,437,706	1,501,738
Housing	366,336	365,053	356,245	350,976	334,064	355,867	368,251
National Treasury	49,000	371,186	377,679	214,168	275,171	301,359	342,811
Social Development	-	2,601	7,335	6,583	1,642	1,200	-
Other	28,421	7,208	388	-	-	-	-
Own Revenue	**564,809**	**527,670**	**733,329**	**774,155**	**690,875**	**771,328**	**863,002**
Road Traffic Revenue	226,495	251,497	299,072	344,127	427,741	491,519	564,839
Health Patient Fees	75,312	66,098	61,679	70,451	67,955	71,740	75,736
Horse Racing and Betting	31,806	32,008	29,773	27,733	21,038	19,500	21,000
Gambling	-	-	-	21,654	85,667	99,000	110,000
Other	231,196	178,067	342,805	310,190	88,474	89,569	91,427
Other Revenue	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**10,170,430**	**10,728,897**	**11,280,207**	**11,917,456**	**12,486,096**	**13,215,529**	**13,862,947**
Increase/(Decrease)					568,640	729,433	647,418

WESTERN CAPE

TABLE C15.3: ACTUAL AND BUDGETED EXPENDITURE BY DEPARTMENT

Provincial Summary / Department	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Education	3,911,683	3,823,320	3,840,453	4,023,497	4,295,853	4,530,525	4,732,345
Health	2,936,573	3,032,406	3,125,498	3,452,988	3,659,145	3,772,423	3,994,593
Social Services	2,211,800	2,211,308	2,208,156	2,207,937	2,348,024	2,513,179	2,690,858
Premier, Director General and Corporate Services	75,692	144,522	167,419	206,832	305,955	349,930	352,901
Provincial Parliament	25,547	26,140	28,543	33,290	31,523	32,458	33,485
Finance	32,628	33,827	36,859	37,277	61,454	63,320	65,872
Community Safety	31,855	32,495	38,787	51,246	107,319	113,548	124,703
Planning, Local Government and Housing	669,729	469,602	438,032	435,068	448,831	480,859	498,474
Environmental and Cultural Affairs and Sport	115,356	117,092	134,316	152,459	164,497	173,701	182,819
Economic Affairs, Agriculture and Tourism	772,759	659,766	729,893	912,940	971,280	1,105,560	1,137,146
Service Commission	4,879	1,277	-	-	-	-	-
Total	**10,788,501**	**10,551,755**	**10,747,956**	**11,513,534**	**12,393,881**	**13,135,503**	**13,813,196**
Increase/(Decrease)					**880,347**	**741,622**	**677,693**
Classification of expenditure							
Current	**9,942,327**	**9,814,605**	**10,023,089**	**10,562,730**	**11,384,977**	**12,057,105**	**12,717,838**
Personnel expenditure	5,798,140	5,816,681	5,766,645	6,121,773	6,669,489	6,984,023	7,300,223
Transfer payments	2,641,391	2,462,548	2,623,976	2,706,897	2,832,377	3,040,507	3,246,258
Other current expenditure	1,502,796	1,535,376	1,632,468	1,734,060	1,883,111	2,032,575	2,171,357
Capital	**846,174**	**737,150**	**724,867**	**950,804**	**1,008,904**	**1,078,398**	**1,095,358**
Transfer payments	450,894	417,938	406,929	385,691	370,400	394,270	409,340
Other capital expenditure	395,280	319,212	317,938	565,113	638,504	684,128	686,018
Total	**10,788,501**	**10,551,755**	**10,747,956**	**11,513,534**	**12,393,881**	**13,135,503**	**13,813,196**

WESTERN CAPE

TABLE C15.4: EDUCATION ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Education Programmes	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	122,743	71,688	85,481	87,372	79,229	84,380	87,799
Public Ordinary School Education	3,147,898	3,052,635	3,075,062	3,240,472	3,419,584	3,595,363	3,750,109
Independent School Education	29,977	38,942	37,554	37,164	39,678	38,541	39,340
School for Learners with Special Educational Needs	269,914	273,956	263,811	276,411	293,076	307,378	320,735
Teacher Education	70,495	59,573	42,770	25,257	30,044	28,648	27,194
Technical College Education	86,593	93,829	107,741	114,104	127,066	134,425	141,590
Non-School and Community Education	21,776	16,257	26,588	18,130	20,852	24,001	27,502
Education Development and Support Services	20,868	20,197	25,526	27,050	70,055	85,555	94,163
Auxiliary Services	19,309	63,955	68,939	58,434	59,855	57,338	59,468
Education Manage. Develop. Centres & Associated Services	51,745	91,600	71,490	87,174	106,464	111,638	116,616
Restructuring	-	31	-	-	-	-	-
Authorised Losses	92	1,525	2,365	1,042	-	-	-
Capital Expenditure from Works Department/restructuring	70,273	39,132	33,126	50,887	49,950	63,258	67,829
Total	**3,911,683**	**3,823,320**	**3,840,453**	**4,023,497**	**4,295,853**	**4,530,525**	**4,732,345**
Increase/(Decrease)					**272,356**	**234,672**	**201,820**
Classification of expenditure							
Current	**3,829,111**	**3,776,034**	**3,787,326**	**3,964,570**	**4,235,440**	**4,444,708**	**4,636,585**
Personnel expenditure	3,411,905	3,373,501	3,317,911	3,541,816	3,763,882	3,932,331	4,082,157
Transfer payments	81,604	92,856	182,739	160,851	170,528	184,247	199,139
Other current expenditure	335,602	309,677	286,676	261,903	301,030	328,130	355,289
Capital	**82,572**	**47,286**	**53,127**	**58,927**	**60,413**	**85,817**	**95,760**
Transfer payments	-	-	-	-	3,381	3,380	3,380
Other capital expenditure	82,572	47,286	53,127	58,927	57,032	82,437	92,380
Total	**3,911,683**	**3,823,320**	**3,840,453**	**4,023,497**	**4,295,853**	**4,530,525**	**4,732,345**

WESTERN CAPE

TABLE C15.5: HEALTH ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Health Programmes	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
	Actual Expenditure	Actual Expenditure	Actual Expenditure	Estimated Actual Expenditure	Medium Term Expenditure Estimates		
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	58,236	101,117	75,578	103,777	166,360	174,051	183,909
District Health Services	783,582	830,940	956,978	1,031,686	1,041,721	1,090,712	1,154,338
Hospital Services	740,084	732,994	745,189	809,546	853,025	892,458	943,009
Academic Health Services	1,204,667	1,194,626	1,216,852	1,313,449	1,363,481	1,425,132	1,502,808
Health Sciences	62,750	60,436	52,701	48,181	56,942	59,574	62,949
Health Care Support Services	54,664	55,011	52,376	58,717	63,508	66,444	70,207
Restructuring	-	46,389	6,213	-	-	-	-
Authorised Losses	2,406	5,966	818	1,333	-	-	-
Capital Expenditure from Works Department/restructuring	30,184	4,927	18,793	86,299	114,108	64,052	77,373
Total	**2,936,573**	**3,032,406**	**3,125,498**	**3,452,988**	**3,659,145**	**3,772,423**	**3,994,593**
Increase/(Decrease)					**206,157**	**113,278**	**222,170**
Classification of expenditure							
Current	**2,888,481**	**3,018,247**	**3,075,633**	**3,321,346**	**3,495,397**	**3,668,044**	**3,881,194**
Personnel expenditure	1,976,023	2,003,254	1,953,820	2,083,028	2,252,318	2,355,162	2,488,419
Transfer payments	237,058	269,478	396,773	426,651	419,746	438,469	463,306
Other current expenditure	675,400	745,515	725,040	811,667	823,333	874,413	929,469
Capital	**48,092**	**14,159**	**49,865**	**131,642**	**163,748**	**104,379**	**113,399**
Transfer payments	4,405	1,009	10,500	5,101	5,002	5,002	5,002
Other capital expenditure	43,687	13,150	39,365	126,541	158,746	99,377	108,397
Total	**2,936,573**	**3,032,406**	**3,125,498**	**3,452,988**	**3,659,145**	**3,772,423**	**3,994,593**

WESTERN CAPE

TABLE C15.6: WELFARE ACTUAL AND BUDGETED EXPENDITURE BY PROGRAMME

Welfare Programmes	1997/98 Actual Expenditure	1998/99 Actual Expenditure	1999/00 Actual Expenditure	2000/01 Estimated Actual Expenditure	2001/02 Medium Term Expenditure Estimates	2002/03	2003/04
	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000	R ' 000
Administration	26,854	29,666	41,308	29,817	19,796	21,045	22,456
Social Security	1,898,405	1,787,693	1,747,807	1,810,241	1,920,132	2,076,602	2,236,791
Research and Development	9,796	5,849	9,548	1,951	3,328	3,449	3,669
Developmental social service delivery	276,651	265,949	277,116	257,814	240,684	236,360	237,110
Customer services	-	102,951	111,431	100,785	163,684	175,723	190,832
Authorised Losses	-	-	7,650	871	-	-	-
Capital Expenditure from Works Department/restructuring	94	19,200	13,296	6,458	400	-	-
Total	**2,211,800**	**2,211,308**	**2,208,156**	**2,207,937**	**2,348,024**	**2,513,179**	**2,690,858**
Increase/(Decrease)					**140,087**	**165,155**	**177,679**
Classification of expenditure							
Current	**2,210,843**	**2,190,962**	**2,193,228**	**2,199,501**	**2,341,759**	**2,511,785**	**2,689,464**
Personnel expenditure	86,079	98,759	112,663	115,123	144,988	154,451	161,005
Transfer payments	2,056,628	2,023,350	1,986,902	1,993,932	2,084,847	2,235,327	2,396,260
Other current expenditure	68,136	68,853	93,663	90,446	111,924	122,007	132,199
Capital	**957**	**20,346**	**14,928**	**8,436**	**6,265**	**1,394**	**1,394**
Transfer payments	-	-	-	-	-	-	-
Other capital expenditure	957	20,346	14,928	8,436	6,265	1,394	1,394
Total	**2,211,800**	**2,211,308**	**2,208,156**	**2,207,937**	**2,348,024**	**2,513,179**	**2,690,858**

D

Local government tables

List of tables

Expenditure trends in local government	*Tables D1*
Municipal budgeted income and expenditure – 2000-01	*Tables D2 – D5*
Regional Services Council levies	*Table D6*
Employee information	*Tables D7 – D9*

Explanatory notes on tables

The tables in Annexure D present local government expenditure and revenue figures as well as other general information obtained from municipalities. The data reflect the latest available estimates of actual and budgeted expenditure and income and provide some selected demographic and general information about municipalities.

Some information has been omitted from the attached tables either because the concerned municipalities did not supply the information or because the current systems make it impossible to generate such information. It is expected that the reforms underway will greatly improve the availability and quality of information in future years.

Table D1 EXPENDITURE TRENDS

AGGREGATE MUNICIPAL EXPENDITURES

	96-97 R' billion		97-98 R' billion		98-99 R' billion		99-00 R'billion		2000-01 R' billion	
	Budget	Est. Actual	Budget	Est. Actual	Budget	Est. Actual	Budget	Est. Actual	Budget	Est. Actual
Operating	35.5	34.0	37.2	38.2	41.1	41.9	44.4	43.1	48.1	48.1
Capital	11.5	10.4	15	9.4	13.7	8.6	13.7	10.3	13.7	13.7
TOTAL	47	44.4	52.2	47.6	54.8	50.5	58.1	53.4	61.8	61.8

ESTIMATED ACTUAL EXPENDITURE 1999/2000 PER MUNICIPAL CATEGORY

	CATEGORY A R' billion	CATEGORY B R' billion	CATEGORY C R' billion	Total R' billion	% of Total
Operating	28.0	13.8	1.3	43.1	80.7%
Capital	3.1	3.3	3.9	10.3	19.3%
Total	31.1	17.1	5.2	53.4	100.0%

ESTIMATED ACTUAL OPERATING EXPENDITURES BY EXPENSE TYPE 1999/2000

	Total	Percentage of Total
	R' billion	
Salaries	13.5	31%
Repairs and maintenance	3.4	8%
Bulk Purchases	12.8	30%
Capital Charges	5.7	13%
Contributions to Funds	1.7	4%
General Less Allocated	6.0	14%
TOTAL	43.1	100%

NOTE

CATEGORY A **METROPOLITAN COUNCILS**
CATEGORY B **TRANSITIONAL LOCAL COUNCILS**
CATEGORY C **DISTRICT COUNCILS**

Table D2 CATEGORY A AND B CAPITAL BUDGET 2000-2001 - SOURCES OF FINANCE

MUNICIPALITY	EXTERNAL LOANS	INTERNAL LOANS	CONTRIB. FROM FUNDS REVENUE	FUNDS FROM DC/TMC	RDP FUNDS	GRANTS & SUBSIDIES	TOTAL	SPECIAL AND TRUST FUND
	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million
EASTERN CAPE								
TLC	133	161	21	154	189	306	964	71
TRC	0	0	2	11	0	82	95	8
METRO	0	0	0	0	0	0	0	0
TOTAL	**133**	**161**	**23**	**165**	**189**	**388**	**1,059**	**79**
FREE STATE								
TLC	84	117	82	55	117	58	513	2
TRC	0	0	3	5	0	24	32	0
METRO	0	0	0	0	0	0	0	0
TOTAL	**84**	**117**	**85**	**60**	**117**	**82**	**545**	**2**
GAUTENG								
TLC	400	657	154	268	58	711	2,248	20
TRC	0	0	1	85	0	63	149	0
METRO	85	104	120	0	45	245	599	0
TOTAL	**485**	**761**	**275**	**353**	**103**	**1,019**	**2,996**	**20**
KWAZULU-NATAL								
TLC	152	553	75	50	141	325	1,296	2
TRC	0	0	0	0	0	0	0	0
METRO	0	600	0	0	0	134	734	0
TOTAL	**152**	**1,153**	**75**	**50**	**141**	**459**	**2,030**	**2**
MPUMALANGA								
TLC	60	159	58	101	74	74	526	56
TRC	0	0	6	113	0	7	126	0
METRO	0	0	0	0	0	0	0	0
TOTAL	**60**	**159**	**64**	**214**	**74**	**81**	**652**	**56**
NORTH WEST								
TLC	85	80	41	33	44	78	361	21
TRC	0	7	3	2	1	3	16	0
METRO	0	0	0	0	0	0	0	0
TOTAL	**85**	**87**	**44**	**35**	**45**	**81**	**377**	**21**
NORTHERN CAPE								
TLC	25	44	31	25	41	38	204	2
TRC	0	0	0	3	0	2	5	0
METRO	0	0	0	0	0	0	0	
TOTAL	**25**	**44**	**31**	**28**	**41**	**40**	**209**	**2**
NORTHERN PROVINCE								
TLC	25	94	48	27	22	46	262	1
TRC	0	0	1	0	0	1	2	0
METRO	0	0	0	0	0	0	0	
TOTAL	**25**	**94**	**49**	**27**	**22**	**47**	**264**	**1**
WESTERN CAPE								
TLC	223	947	170	209	152	655	2,356	46
TRC	0	0	1	21	0	23	45	0
METRO	0	0	0	0	0	0	0	
TOTAL	**223**	**947**	**171**	**230**	**152**	**678**	**2,401**	**46**
TOTAL	**1,272**	**3,523**	**817**	**1,162**	**884**	**2,875**	**10,533**	**229**

NOTE:
1) TLC TRANSITIONAL LOCAL COUNCILS
2) TRC TRANSITIONAL RURAL COUNCILS
3) METRO RANSITIONAL METROPOLITAN COUNCIL
4) THE ABOVE FIGURES EXCLUDES THE DISTRICT MUNICIPALITIES

Table D3 BUDGETED OPERATING EXPENDITURE 2000-2001

MUNICIPALITY	SALARIES, WAGES AND ALLOWANCES	ELECTRICITY BULK PURCHASES	WATER BULK PURCHASES	SEWER PAYMENTS	OTHER	REPAIRS AND MAINTENANCE	CAPITAL CHARGES	CONTRIBUTION TO FIXED ASSETS	CONTRIBUTIONS TO SPECIAL FUNDS	PROVISION FOR WORKING CAPITAL	TOTAL	LESS: AMOUNTS REALLOCATED	NET BUDGETED EXPENDITURE	OPERATING EXPENDITURE APPROVED
	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million
EASTERN CAPE														
TLC	1,154	703	50	13	870	272	412	4	72	81	3,631	604	3,027	2,965
TRC	7	1	1	0	23	3	1	1	4	0	41	0	41	33
METRO	0	0	0	0	0	0	0	0	0	0	0	0	0	
TOTAL	**1,161**	**704**	**51**	**13**	**893**	**275**	**413**	**5**	**76**	**81**	**3,672**	**604**	3,068	**2,998**
FREE STATE														
TLC	636	337	154	35	296	129	146	17	55	40	1,845	134	1,711	1,677
TRC	4	0	0	0	3	1	0	0	0	0	8	0	8	8
METRO	0	0	0	0	0	0	0	0	0	0	0	0	0	
TOTAL	**640**	**337**	**154**	**35**	**299**	**130**	**146**	**17**	**55**	**40**	**1,853**	**134**	1,719	**1,685**
GAUTENG													0	
TLC	4,540	2,313	1,836	414	3,815	1,188	1,707	107	504	863	17,287	2,465	14,822	14,702
TRC	7	2	20	1	50	7	4	0	3	0	94	0	94	92
METRO	1,372	1,801	1,099	1	378	378	847	118	163	64	6,221	972	5,249	5,249
TOTAL	**5,919**	**4,116**	**2,955**	**416**	**4,243**	**1,573**	**2,558**	**225**	**670**	**927**	**23,602**	**3,437**	20,165	**20,043**
KWAZULU-NATAL													0	
TLC	1,781	618	128	80	1,589	463	682	8	129	81	5,559	1,144	4,415	3,806
TRC	0	0	0	0	0	0	0	0	0	0	0	0	0	0
METRO	1,015	1,234	475	0	1,114	460	731	0	134	0	5,163	1,084	4,079	4,079
TOTAL	**2,796**	**1,852**	**603**	**80**	**2,703**	**923**	**1,413**	**8**	**263**	**81**	**10,722**	**2,228**	8,494	**7,885**
MPUMALANGA													0	
TLC	557	353	33	4	378	117	186	12	26	13	1,679	163	1,516	1,475
TRC	11	1	3	1	16	6	1	1	2	0	42	0	42	34
METRO	0	0	0	0	0	0	0	0	0	0	0	0	0	
TOTAL	**568**	**354**	**36**	**5**	**394**	**123**	**187**	**13**	**28**	**13**	**1,721**	**163**	1,558	**1,509**
NORTH WEST													0	
TLC	556	408	109	11	408	71	137	5	39	8	1,752	233	1,519	1,374
TRC	5	0	0	0	6	4	0	2	0	0	17	0	17	14
METRO	0	0	0	0	0	0	0	0	0	0	0	0	0	
TOTAL	**561**	**408**	**109**	**11**	**414**	**75**	**137**	**7**	**39**	**8**	**1,769**	**233**	1,536	**1,388**
NORTHERN CAPE													0	
TLC	278	147	24	6	191	59	83	6	28	9	831	55	776	686
TRC	1	0	0	0	4	1	0	0	0	0	6	0	6	4
METRO	0	0	0	0	0	0	0	0	0	0	0	0	0	
TOTAL	**279**	**147**	**24**	**6**	**195**	**60**	**83**	**6**	**28**	**9**	**837**	**55**	782	**690**
NORTHERN PROVINCE													0	
TLC	353	223	85	6	288	99	109	18	24	5	1,210	188	1,022	1,008
TRC	5	1	1	0	3	1	0	0	0	0	11	0	11	12
METRO	0	0	0	0	0	0	0	0	0	0	0	0	0	
TOTAL	**358**	**224**	**86**	**6**	**291**	**100**	**109**	**18**	**24**	**5**	**1,221**	**188**	1,033	**1,020**
WESTERN CAPE													0	
TLC	2,855	1,496	293	142	3,791	479	1,123	13	227	50	10,469	2,635	7,834	7,724
TRC	2	4	0	1	14	1	1	1	0	0	24	0	24	24
METRO	0	0	0	0	0	0	0	0	0	0	0	0	0	
TOTAL	**2,857**	**1,500**	**293**	**143**	**3,805**	**480**	**1,124**	**14**	**227**	**50**	**10,493**	**2,635**	7,858	**7,748**
													0	
TOTAL	**15,139**	**9,642**	**4,311**	**715**	**13,237**	**3,739**	**6,170**	**313**	**1,410**	**1,214**	**55,890**	**9,677**	46,213	**44,966**

NOTE:

1) **THE ABOVE FIGURES EXCLUDE DISTRICT COUNCILS**

2) **CAPE TOWN METROPOLITAN COUNCIL FIGURES ARE SHOWN ON A SEPARATE SHEET WITH THE DISTRICT COUNCILS**

3) TLC **TRANSITIONAL LOCAL COUNCILS**

4) TRC **TRANSITIONAL RURAL COUNCILS**

5) METRO **TRANSITIONAL METROPOLITAN COUNCIL**

Table D4 BUDGETED OPERATING INCOME 2000-2001

MUNICIPALITY	PROPERTY RATES/LEVIES FOR METROS	SITE RENT	ELECTRICITY	WATER	SEWERAGE/ SANITATION	REFUSE REMOVAL	SUBSIDY	INTERGO-VERNMENTAL TRANSFER	OTHER	TOTAL	MONTHLY HOUSEHOLD ACCOUNT
	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R'million
EASTERN CAPE											
TLC	560	16	1,197	331	226	154	71	109	379	3,043	431.95
TRC	1	0	0	1	1	0	12	24	7	46	150.07
METRO										0	
TOTAL	**561**	**16**	**1,197**	**332**	**227**	**154**	**83**	**133**	**386**	**3,089**	
FREE STATE											
TLC	294	12	657	319	135	59	59	48	179	1,762	542.06
TRC	0	0	0	0	0	0	0	8	2	10	
METRO	0	0	0	0	0	0	0	0	0	0	
TOTAL	**294**	**12**	**657**	**319**	**135**	**59**	**59**	**56**	**181**	**1,772**	
GAUTENG											
TLC	4,182	14	4,105	2,589	1,207	694	526	113	1,373	14,803	644.49
TRC	34	0	3	25	3	637	8	4	20	734	250.9
METRO	1,218	0	662	442	0	0	127	18	2,837	5,304	
TOTAL	**5,434**	**14**	**4,770**	**3,056**	**1,210**	**1,331**	**661**	**135**	**4,230**	**20,841**	
KWAZULU-NATAL											
TLC	1,787	5	957	253	206	173	75	160	798	4,414	
TRC	0	0	0	0	0	0	0	0	0	0	
METRO	285	0	1,845	1,230	0	0	140	0	579	4,079	
TOTAL	**2,072**	**5**	**2,802**	**1,483**	**206**	**173**	**215**	**160**	**1,377**	**8,493**	
MPUMALANGA											
TLC	336	6	609	173	97	89	21	54	151	1,536	484.75
TRC	4	0	1	5	1	1	1	25	5	43	30.8
METRO	0	0	0	0	0	0	0	0	0	0	
TOTAL	**340**	**6**	**610**	**178**	**98**	**90**	**22**	**79**	**156**	**1,579**	
NORTH WEST											
TLC	237	5	652	234	101	71	37	32	147	1,516	511.23
TRC	3	2	0	1	2	2	1	7	5	23	88.81
METRO	0	0	0	0	0	0	0	0	0	0	
TOTAL	**240**	**7**	**652**	**235**	**103**	**73**	**38**	**39**	**152**	**1,539**	
NORTHERN CAPE											
TLC	122	4	258	119	58	38	11	22	145	777	512.5
TRC	0	0	0	0	0	0	0	3	1	4	35
METRO	0	0	0	0	0	0	0	0	0	0	
TOTAL	**122**	**4**	**258**	**119**	**58**	**38**	**11**	**25**	**146**	**781**	
NORTHERN PROVINCE											
TLC	171	2	413	165	48	62	20	27	94	1,002	627.21
TRC	4	0	2	2	1	1	0	1	2	13	238.37
METRO	0	0	0	0	0	0	0	0	0	0	
TOTAL	**175**	**2**	**415**	**167**	**49**	**63**	**20**	**28**	**96**	**1,015**	
WESTERN CAPE											
TLC	1,998	22	2,951	904	428	240	213	122	1,014	7,892	489.58
TRC	1	0	0	1	1	1	3	5	14	26	131.81
METRO	0	0	0	0	0	0	0	0	0	0	
TOTAL	**1,999**	**22**	**2,951**	**905**	**429**	**241**	**216**	**127**	**1,028**	**7,918**	
TOTAL	**11,237**	**88**	**14,312**	**6,794**	**2,515**	**2,222**	**1,325**	**782**	**7,752**	**47,027**	

NOTE:
1) TLC **TRANSITIONAL LOCAL COUNCILS**
2) TRC **TRANSITIONAL RURAL COUNCILS**
3) METRO **TRANSITIONAL METROPOLITAN COUNCIL**

Table D5 DISTRICT/SERVICES COUNCILS EXPENDITURE AND INCOME - 2000-2001

RSA TOTAL: DISTRICT/SERVICES COUNCILS - 2000-2001

EXPENDITURE

PROVINCE	SECTION 12(6)(a) REGIONAL FUNCTIONS		SECTION 12(6)(b) LOCAL BODIES		SECTION 12(6)(c) ADMINISTRATION		SECTION 12(6)(d) TRANSPORT		SECTION 12(6)(e) OTHER		TOTAL	
	APPROVED 1999-2000	APPROVED 2000-2001	APPROVED 1999-2000	APPROVED 2000-2001	APPROVED 1999-2000	APPROVED 2000-2001	APPROVED 1999-2000	APPROVED 2000-2001	APPROVED 1999-2000	APPROVED 2000-2001	APPROVED 1999-2000	APPROVED 2000-2001
	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million
EASTERN CAPE	66	69	285	242	55	50	6	7	2	1	414	369
FREE STATE	2	2	181	157	34	33	-	-	-	-	217	192
GAUTENG	323	294	224	205	64	76	27	25	-	-	638	600
KWAZULU-NATAL	103	124	391	346	64	76	1	-	78	81	637	627
MPUMALANGA	19	21	364	357	25	25	1	1	-	-	409	404
NORTHERN CAPE	12	11	69	55	24	24	1	-	3	1	109	91
NORTHERN PROV	2	3	122	88	17	19	-	-	2	2	143	112
NORTH WEST	107	69	148	200	27	31	-	-	15	15	297	315
WESTERN CAPE	1,424	1,558	632	585	181	230	1	-	57	4	2,295	2,377
TOTAL	2,058	2,151	2,416	2,235	491	564	37	33	157	104	5,159	5,087

RSA TOTAL: DISTRICT-SERVICES COUNCILS - 2000-2001

INCOME

	TOTAL LEVIES		REGIONAL FUNCTIONS		INTEREST AND OTHER		LOANS		CONTRIBUTION BY CDF		GRANTS		SURPLUS FUNDS APPROPRIATED		TOTAL	
	1999-2000	2000-2001	1999-2000	2000-2001	1999-2000	2000-2001	1999-2000	2000-20001	1999-2000	2000-2001	1999-2000	2000-2001	1999-2000	2000-2001	1999-2000	2000-2001
	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million	R' million
EASTERN CAPE	224	248	20	-	34	33	34	-	-	-	13	8	89	62	414	370
FREE STATE	142	145	-	-	16	19	19	18	6	12	-	-	34	-3	216	191
GAUTENG	367	362	16	16	31	44	170	155	17	10	2	-	33	14	637	600
KWAZULU-NATAL	186	203	32	36	181	177	4	5	4	6	206	183	24	17	638	627
MPUMALANGA	202	215	2	5	22	18	55	13	-	-	-	-	128	154	408	404
NORTHERN CAPE	55	58	2	2	10	9	9	-	24	13	-	-	10	9	109	91
NORTHERN PROV	84	95	-	-	9	9	-	-	-	-	-	-	50	8	142	112
NORTH WEST	151	145	10	11	31	51	23	16	11	4	40	41	31	47	297	315
WESTERN CAPE	626	658	725	821	139	66	8	7	361	373	47	26	388	426	2,294	2,377
TOTAL	2,037	2,129	807	891	473	426	322	214	423	418	308	258	787	734	5,155	5,087

Table D6 REGIONAL SERVICES COUNCIL LEVIES

SUMMARY OF RSC LEVIES PER PROVINCE

PROVINCE	1996-97		1997-98		1998-99		1999-2000		2000-2001	
	R' million	%	R' million	%	R' million	%	R' million	%	R' million	%
Gauteng	1,224	46.9%	1,331	45.8%	1,498	45.1%	1,543	43.9%	1,581	43.4%
Western Cape	436	16.7%	479	16.5%	596	17.9%	636	18.1%	658	18.1%
KwaZulu-Natal	331	12.7%	372	12.8%	428	12.9%	451	12.8%	491	13.5%
Eastern Cape	154	5.9%	187	6.4%	212	6.4%	231	6.6%	248	6.8%
Mpumalanga	150	5.8%	178	6.1%	187	5.6%	211	6.0%	216	5.9%
Free State	107	4.1%	127	4.4%	137	4.1%	139	4.0%	145	4.0%
North West	106	4.1%	124	4.3%	142	4.3%	161	4.6%	146	4.0%
Northern Province	57	2.2%	61	2.1%	73	2.2%	84	2.4%	95	2.6%
Northern Cape	42	1.6%	46	1.6%	52	1.6%	57	1.6%	59	1.6%
TOTAL	**2,607**	**100.0%**	**2,905**	**100.0%**	**3,325**	**100.0%**	**3,513**	**100.0%**	**3,639**	**100.0%**
% Growth			**11.5%**		**14.5%**		**5.7%**		**3.6%**	

DISTRICT MUNICIPALITIES RSC LEVIES PER PROVINCE

PROVINCE	1996-97		1997-98		1998-99		1999-2000		2000-2001	
	R' million	%	R' million	%	R' million	%	R' million	%	R' million	%
Western Cape	82	7.3%	99	7.6%	122	8.3%	116	7.5%	128	8.0%
Gauteng	275	24.6%	317	24.3%	366	24.9%	367	23.9%	362	22.6%
Eastern Cape	154	13.8%	187	14.3%	207	14.1%	224	14.6%	248	15.5%
Mpumalanga	150	13.4%	178	13.6%	187	12.7%	202	13.1%	215	13.4%
KwaZulu-Natal	146	13.0%	167	12.8%	181	12.3%	189	12.3%	203	12.7%
Free State	108	9.6%	127	9.7%	136	9.3%	142	9.2%	145	9.1%
North West	106	9.5%	124	9.5%	142	9.7%	140	9.1%	145	9.1%
Northern Province	57	5.1%	61	4.7%	73	5.0%	102	6.6%	95	5.9%
Northern Cape	42	3.8%	46	3.5%	53	3.6%	55	3.6%	58	3.6%
TOTAL	**1,120**	**100.0%**	**1,306**	**100.0%**	**1,467**	**100.0%**	**1,537**	**100.0%**	**1,599**	**100.0%**
% Growth			**16.6%**		**12.3%**		**4.8%**		**4.0%**	

METROPOLITAN MUNICIPALITIES RSC LEVIES

MUNICIPALITY	1996-97		1997-98		1998-99		1999-2000		2000-2001	
	R' million	%	R' million	%	R' million	%	R' million	%	R' million	%
Johannesburg Metro	582	39.2%	615	38.5%	685	37.0%	722	36.6%	720	35.3%
Pretoria Metro	220	14.8%	242	15.1%	260	14.0%	275	14.0%	293	14.4%
Kayalami Metro	100	6.7%	105	6.6%	136	7.3%	135	6.9%	140	6.9%
Lekoa Vaal Metro	46	3.1%	52	3.3%	50	2.7%	58	2.9%	66	3.2%
Durban Metro	185	12.5%	206	12.9%	247	13.3%	270	13.7%	288	14.1%
Cape Town Metro	352	23.7%	378	23.7%	475	25.6%	510	25.9%	530	26.0%
TOTAL	**1,485**	**100.0%**	**1,598**	**100.0%**	**1,853**	**100.0%**	**1,970**	**100.0%**	**2,037**	**100.0%**
% Growth			**7.6%**		**16.0%**		**6.3%**		**3.4%**	

NOTE:
RSC **REGIONAL SERVICES COUNCIL**

Table D7 NUMBER OF EMPLOYEES BY MUNICIPAL CATEGORY AND PROVINCE

Province	Category C	%	Category B	%	Category A	%	Grand Total	%
Eastern Cape	2,192	10.2%	12,111	56.4%	7,171	33.4%	21,474	100%
Free State	106	0.7%	14,345	99.3%		0.0%	14,451	100%
Gauteng	40	0.1%	8,809	14.3%	52,728	85.6%	61,577	100%
KwaZulu-Natal	1,306	9.3%	14,071	38.7%	20,953	57.7%	36,330	106%
Mpumalanga	211	2.1%	9,859	97.9%		0.0%	10,070	100%
North West	508	5.2%	9,169	94.8%		0.0%	9,677	100%
Northern Cape	749	12.1%	5,451	87.9%		0.0%	6,200	100%
Northern Province	309	6.0%	4,800	94.0%		0.0%	5,109	100%
Western Cape	2,704	6.3%	11,814	27.6%	28,304	66.1%	42,822	100%
	8,125	**3.9%**	**90,429**	**43.5%**	**109,156**	**52.6%**	**207,710**	**100%**

Note :

1) **Information is based on data collected in January 2000 and aggregated to the new demarcated municipalities.**

2) **In some cases where municipalities were split, assumptions were made as to which municipality staff will be transferred to.**

3) **For the metropolitan information, no data is available for the disestablished JHB Northern MSS.**

Table D8 PROFILE ANALYSIS OF MANAGEMENT LEVEL EMPLOYEES IN LOCAL GOVERNMENT

Type	Category	Total	Professionally Registered	PDIs	Females	Over 55	More than 5 years experience
Municipal Managers	Category C	55	38	26	4	4	32
	Category B	613	315	228	58	73	340
	Category A	43	32	14	1	3	24
Financial Managers	Category C	53	43	9	2	9	38
	Category B	440	258	79	78	56	310
	Category A	36	32	8	3	5	31
Technical Managers	Category C	48	31	8	1	4	35
	Category B	366	123	74	3	49	277
	Category A	38	30	5	0	6	33
Other Managers	Category C	125	63	53	21	16	70
	Category B	996	492	299	164	90	613
	Category A	154	113	51	18	15	86
Totals		**2,967**	**1,570**	**854**	**353**	**330**	**1,889**

Note :

1) **Information is based on data collected for 767 disestablished municipalities in January 2000, and then mapped to the 284 new municipalities.**

2) **For the relation between all employees, use the Munic_Employees worksheet**

3) **PDI means Previously Disadvantaged Individuals**

Table D9 ANALYSIS OF PAY GRADES FOR MUNICIPAL EMPLOYEES

ANALYSIS ACROSS ALL PAY GRADES

Salary Range	Total	Percentage	Salary Range	Total	Percentage
0 - 30479	20642	20.5%	**0 - 53051**	69515	69.0%
30480 - 30623	4340	4.3%			
30624 - 30779	766	0.8%			
30780 - 30947	1271	1.3%			
30948 - 31127	664	0.7%			
31128 - 31499	780	0.8%			
31500 - 34931	15305	15.2%			
34932 - 39563	9841	9.8%			
39564 - 45203	7876	7.8%			
45204 - 53051	8030	8.0%			
53052 - 67667	9985	9.9%	**53052 - 105695**	24701	24.5%
67668 - 76559	5683	5.6%			
76560 - 84551	3272	3.2%			
84552 - 93359	2870	2.9%			
93360 - 105695	2891	2.9%			
105696 - 116711	1707	1.7%	**105696 - 157007**	4825	4.8%
116712 - 128855	1666	1.7%			
128856 - 142199	657	0.7%			
142200 - 157007	795	0.8%			
157008 - 185063	916	0.9%	**> 157008**	1644	1.6%
185064 - 205883	314	0.3%			
205884 - 229031	226	0.2%			
229032 - 254807	136	0.1%			
254808 - 283439	16	0.0%			
283440 - 311279	28	0.0%			
> 311280	8	0.0%			
Total	**100685**				

ANALYSIS OF MINIMUM AND MAXIMUM SALARIES IN CATEGORY A, B AND C MUNICIPALITIES

	Minimum			Maximum		
Category	**Category A**	**Category C**	**Category B**	**Category A**	**Category C**	**Category B**
Annual Base Pay	18,048	24,768	20,640	580,808	279,588	436,961
Total Package	18,138	29,753	23,870	580,808	512,324	436,961
Designation	General Worker			Chief Executive Officer		

Note:

1) **This extraction is based on a sample size of 100 000 employees and on information collected in March 2001 by SALGA.**

2) **For the minimum wage calculation, data for all employees that are full time and permanent and work a minimum of 37 hours per week was considered.**

3) **The minimum wage based on annual base pay only is R18 048 per annum by a person employed as an Administrative Assistant**

4) **The maximum wage based on annual base pay only is R580 808 per annum, by a person employed as a Municipal Manager.**
There are no other benefits with this package.

E

Demographic profile of provinces and local government

Information on the demographic characteristics of the provinces and municipalities is available from official sources, especially Statistics South Africa. However, to assist the reader, the information in this Annexure provides a broad demographic perspective.

The key data are from Statistics South Africa, mainly census data, the latest October Household Survey (1999) and its 2000 publication, *Measuring Poverty in South Africa.* All of these are available on its website address www.statssa.gov.za. Some data was also taken from unpublished information from the Research Institute for Educational Planning and surveys from the South African Institute of Race Relations.

The data in this annexure are not necessarily reconcilable with information in the *Review*, but where there are differences, they are negotiable. Reasons for variances:

- ??Period (month or year) when data were collected
- ??Collection methodology and source, which includes official records, sample surveys and others

For further data, readers are advised to consult official sources, such as Statistics South Africa. The support of the Development Information Unit at the Development Bank of Southern Africa is acknowledged.

Socio-economic indicators

Indicators	Western Cape	Northern Cape	Free State	Eastern Cape	KwaZulu-Natal	Mpumalanga	Northern Province	Gauteng	North West	South Africa
Area (km²)	129 386	363 389	129 437	170 616	91 481	82 333	116 824	21 025	118 710	1 223 201
Population Density (persons per km²)	33,7	2,5	21,8	39,0	100,1	37,8	47,1	385,0	30,5	36,1
Population, 1999 ('000)	4 171	890	2 813	6 769	9 003	3 000	5 310	7 778	3 592	43 326
Population growth, 1996-99 (%)	*1,9*	*1,2*	*1,4*	*1,1*	*1,7*	*2,1*	*2,2*	*2,0*	*1,5*	*1,7*
Urban population, 1999	3 710	612	1 984	2 245	4 169	1 208	615	7 502	1 314	23 359
Non-urban population, 1999	461	278	829	4 524	4 834	1 792	4 695	276	2 278	19 967
Percentage population 0-14 yrs, 1999	*29,4*	*31,4*	*30,5*	*35,5*	*33,4*	*35,7*	*39,4*	*27,5*	*32,9*	*32,9*
Percentage population 15-64 yrs, 1999	*65,5*	*63,5*	*65,0*	*58,9*	*62,2*	*60,6*	*56,1*	*68,4*	*62,8*	*62,6*
Percentage population 65+ yrs, 1999	*5,1*	*5,1*	*4,4*	*5,6*	*4,4*	*3,7*	*4,5*	*4,1*	*4,3*	*4,5*
Total number of pupils in public schools, Grade 1-12 ('000), 1999	910	196	762	2 314	2 757	1 045	1 763	1 457	934	12 138
Number of pupils: Primary education, Grade 1-7 ('000), 1999 (including public and independent schools)	607	133	470	1 646	1 801	583	1 098	983	608	7 929

Socio-economic indicators

Indicators	Western Cape	Northern Cape	Free State	Eastern Cape	KwaZulu-Natal	Mpumalanga	Northern Province	Gauteng	North West	South Africa
Number of pupils: Secondary education, Grade 8-12 ('000), 1999 (including public and independent schools)	309	64	290	653	914	323	655	570	334	4 111
Percentage distribution of pupils per province (%), 1999	*7,8*	*1,7*	*6,3*	*18,9*	*22,5*	*7,6*	*14,8*	*12,7*	*7,7*	*100*
Number of pupils per educator, 1999	32,9	30,2	30,1	36,3	37,1	36,0	33,9	29,2	30,2	33,7
Number of educators, 1999	29 252	6 773	25 940	64 080	74 719	25 856	53 712	53 739	31 376	365 447
Number of schools, 1999 (including public and independent schools	1 653	493	2 872	6 190	5 716	1 927	4 071	2 214	2 325	27 461
Number of public hospitals, 1998	45	19	31	66	66	25	47	29	32	360
Number of public community health centers, 1998	59	6	7	8	16	3	22	12	20	153
Number of public clinics, 1998	317	128	275	620	394	185	313	443	278	2 953
Number of private hospitals, 1998	69	29	18	42	48	11	2	108	17	344
Number of private clinics, 1998	10	0	7	3	3	3	0	44	4	74
Doctors in the public sector per 10 000 of the population, 1998	6,5	2,0	2,4	1,8	2,6	1,5	1,5	5,3	1,7	2,9
Dentists in the public sector per 10 000 of the population, 1998	0,2	0,1	0,1	0,1	0,1	0,1	0,1	0,3	0,1	0,1

Socio-economic indicators

Indicators	Western Cape	Northern Cape	Free State	Eastern Cape	KwaZulu-Natal	Mpumalanga	Northern Province	Gauteng	North West	South Africa
Pharmacists in the public sector per 10 000 of the population, 1998	0,7	0,3	0,3	0,2	0,4	0,2	0,2	0,6	0,2	0,4
Nurses in the public sector per 10 000 of the population, 1998	41,4	21,7	32,5	32,2	35,9	22,9	30,6	31,8	29,1	32,4
Specialists per 1 000 of the population, 1998	0,37	0,06	0,13	0,05	0,14	0,03	0,02	0,33	0,04	0,15
Other health workers per 1 000 of the population, 1998	0,74	0,43	0,51	0,44	0,58	0,18	0,31	0,44	0,37	0,46
Number of hospital beds per 1 000 of the population, 1998	3,7	4,5	3,8	3,6	4,3	2,2	3,1	6,7	4,3	4,0
Public health spending per capita, 2000/01 (Rand)	711	398	504	442	462	324	330	912	351	512
Total number of households, 1996	985	188	626	1 334	1 665	605	985	1 968	722	8 356
Percentage of households with access to only below basic electricity (%), 1996	*14,8*	*29,4*	*42,8*	*68,3*	*46,4*	*43,4*	*63,3*	*20,4*	*55,9*	*42,3*
Percentage of households with access to only below basic water (%), 1996	*3,2*	*8,9*	*6,0*	*46,5*	*33,7*	*17,8*	*24,5*	*4,0*	*18,6*	*20,2*
Percentage of households with access to only below basic sanitation (%), 1996	*9,5*	*29,1*	*29,7*	*35,8*	*16,7*	*12,9*	*22,2*	*5,5*	*13,3*	*17,5*

Socio-economic indicators

Indicators	Western Cape	Northern Cape	Free State	Eastern Cape	KwaZulu-Natal	Mpumalanga	Northern Province	Gauteng	North West	South Africa
Percentage of households with access to only below basic refuse removal (%), 1996	*15,4*	*30,5*	*35,5*	*64,5*	*56,8*	*60,5*	*88,0*	*15,0*	*64,1*	*46,6*
Percentage of households with access to only below basic telephone (%), 1996	*4,5*	*14,9*	*18,7*	*51,9*	*28,3*	*21,5*	*44,4*	*6,5*	*27,6*	*24,8*
Human Development Index, 1999	0,68	0,56	0,55	0,51	0,55	0,53	0,48	0,69	0,52	0,58
Poverty Rate (Percentage of persons in poverty), 1999 (%)	*19,2*	*39,9*	*48,2*	*63,3*	*53,1*	*53,6*	*64,2*	*27,5*	*52,7*	*47,3-*
Mean monthly household expenditure (Rand), 1996	3 816	2 396	1 819	1 702	2 579	2 394	1 855	4 270	2 137	-
Average annual per capita income 1999 (Rand)	21 593	12 798	10 900	8 789	11 076	10 308	7 588	23 589	9 384	13 468

Sources:
Research Institute for Educational Planning: Unpublished Information, 2000
South African Institute of Race Relations: South Africa Survey 1999/2000
Statistics South Africa: October Household Survey, 1999
Statistics South Africa: Measuring Poverty in South Africa, 2000
WEFA South Africa; Unpublished Information, 2001
National Department of Education: Education Statistics in South Africa. At a Glance, 1999

F

Provincial Agriculture, Legislature, Public Works and Transport Budgets

The *2001 Intergovernmental Fiscal Review* (IGFR) covers the five biggest budget sectors, and not the smaller budget departments like Agriculture, Legislature, Public Works and Transport. These budgets often include different functions in each province, so the *Review* is unable to provide any analysis, as the allocations between provinces may not be comparable. The Public Works and Transport budgets may be useful when analysing chapters 5 and 6, covering roads and infrastructure. In some provinces, the roads budget may be included in the Transport budget, whilst in others it may be included in the Public Works budget. Table F.3 on Public Works does not reflect figures for all the years for all provinces and therefore the “total” line has been omitted.

Table F.1: Provincial Agriculture Expenditure

	Actual			Estimated actual	Medium-term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Eastern Cape	537	388	444	451	468	470	491
Free State	117	100	104	118	126	138	150
Gauteng	26	31	44	66	67	65	69
KwaZulu-Natal	555	400	518	562	672	704	752
Mpumalanga	238	278	253	262	246	295	314
Northern Cape	65	61	66	54	54	58	63
Northern Province	604	572	562	656	621	755	776
North West	193	192	222	220	253	270	279
Western Cape	61	64	64	72	89	105	108
Total	**2 396**	**2 086**	**2 275**	**2 461**	**2 596**	**2 859**	**3 003**

Table F.2: Provincial Legislature Expenditure

	Actual			Estimated actual	Medium-term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Eastern Cape	41	47	58	64	69	66	70
Free State	21	25	37	39	42	45	47
Gauteng	52	57	63	70	81	88	93
KwaZulu-Natal	49	54	53	62	68	70	73
Mpumalanga	38	33	37	37	43	51	54
Northern Cape	13	13	15	18	20	22	24
Northern Province	17	17	31	33	36	39	42
North West	28	29	28	30	33	35	42
Western Cape	26	26	29	33	32	32	33
Total	**284**	**301**	**352**	**388**	**424**	**447**	**448**

Table F.3: Provincial Public Works

	Actual			Estimated actual	Medium-term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Eastern Cape	758	662	561	727	951	1 642	1 655
Free State	300	226	242	204	181	197	207
Gauteng	496	495	466	524	?	?	?
KwaZulu-Natal	651	340	341	418	303	317	383
Mpumalanga	134	134	131	128	119	226	194
Northern Cape	?	?	?	?	?	?	?
Northern Province	733	625	690	1 016	796	958	1 053
North West	617	625	615	?	?	?	?
Western Cape	101	63	65	147	164	127	145

Table F.4: Provincial Transport Expenditure

	Actual			Estimated actual	Medium -term estimate		
R million	**1997/98**	**1998/99**	**1999/00**	**2000/01**	**2001/02**	**2002/03**	**2003/04**
Eastern Cape	282	156	207	186	243	237	251
Free State	368	253	255	224	310	234	246
Gauteng	389	559	569	622	632	771	817
KwaZulu-Natal	724	519	710	908	1 083	1 144	1 317
Mpumalanga	121	23	27	26	34	34	40
Northern Cape	218	154	158	191	210	233	245
Northern Province	234	186	187	204	233	269	273
North West	253	281	241	180	270	272	280
Western Cape	417	334	347	525	493	610	623
Total	**3 006**	**2 465**	**2 701**	**3 066**	**3 508**	**3 804**	**4 092**