

GENERAL OVERVIEW

Expenditure quality and quantity

Introduction

The purpose of this section is to give a general overview on actual provincial expenditure from 1997/98 to 2001/02, budgeted expenditure in 2002/03 and MTEF allocations for 2003/04 and 2004/05. It should be noted that 2002/03 to 2004/05 figures are based on Budget 2002 and thus excludes any subsequent adjustments.

The focus is on certain spending trends/allocations, i.e. expenditure in the social sector (Education, Health and Welfare) in comparison with the rest of provincial spending, spending on personnel *vis-à-vis* other expenditure and infrastructure expenditure in relation to other expenditure. In addition, certain other issues are also addressed. These include overspending in relation to underspending, as well as other non-financial information regarding the delivery of services as an indication of outputs and outcomes.

Departmentalisation

A new departmentalisation model was approved by Cabinet on 3 July 2002 and initiated on 1 August 2002. This resulted in the splitting of three previously demarcated departments into six new ones. In effect, the Provincial departments increased from eleven to fourteen (inclusive of the Provincial Parliament). The following departments were mainly affected: Housing, Local Government, Agriculture, Economic Development and Tourism, Cultural Affairs and Sport and Environmental Affairs and Development Planning. For more detail regarding departmentalisation, please see Chapter 4.9 of the Western Cape Fiscal Policy 2003 – 2006 (WCFP).

Inflation assumptions

Table 1: Inflation Figures 1998/99 to 2004/05

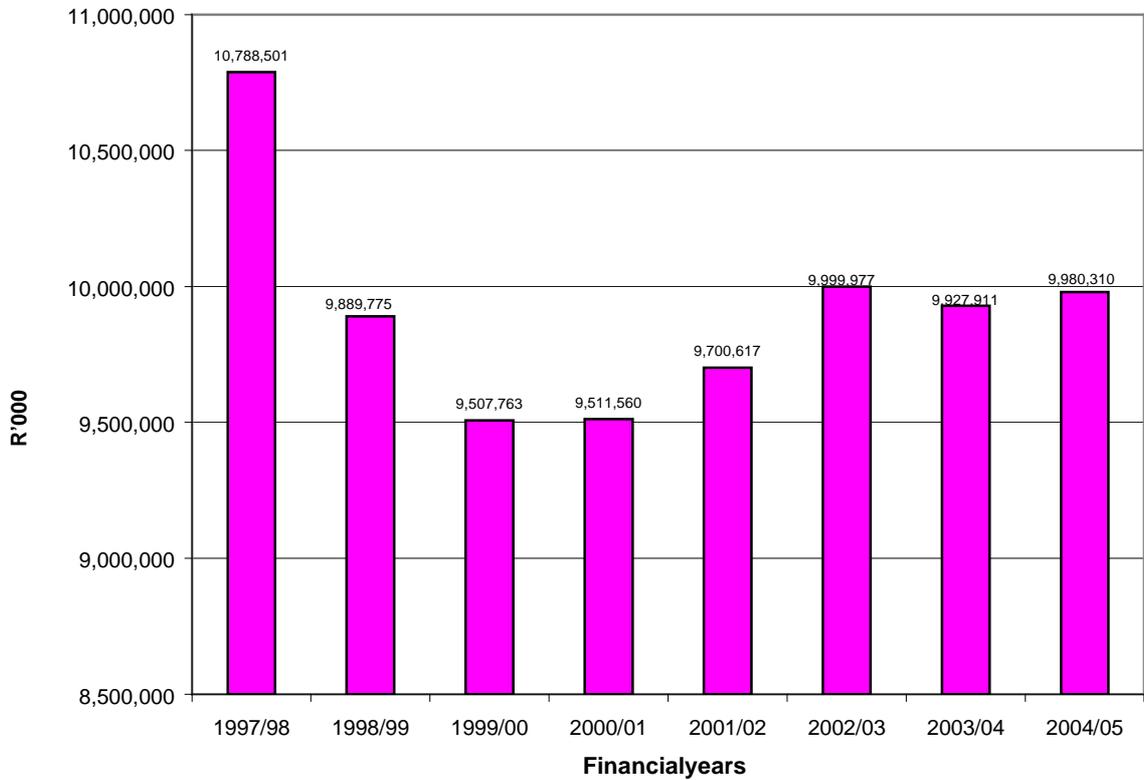
Financial year	98/99	99/00	00/01	01/02	02/03	03/04	04/05
CPI-X	6,7%	5,9%	7,1%	6,6%	6,9%	5,8%	4,7%

In the interests of comparability and consistency, the inflation figures listed above¹ have been utilised to convert current (nominal) to constant (real) prices. However, given the current and expected inflation picture, real values for the current and MTEF outer years may indeed be substantially lower than indicated in this chapter.

¹Figures as at 2002/03 budget compilation stage, i.e. February 2002.

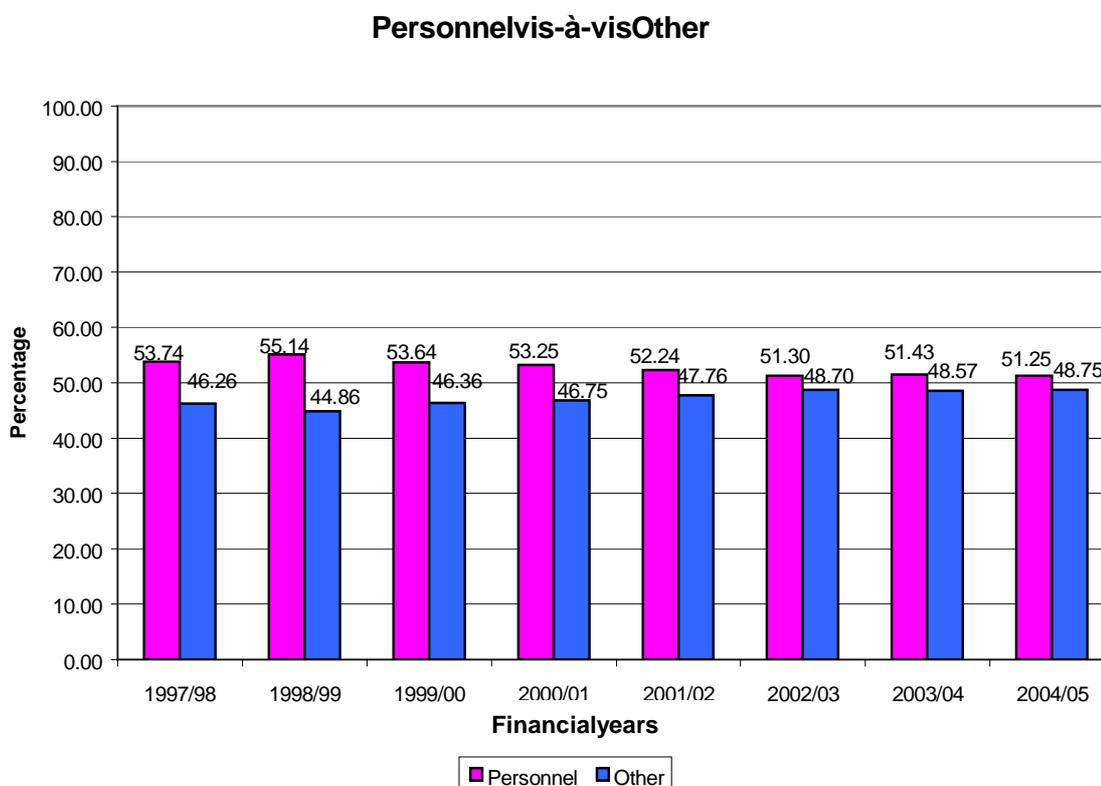
Overall Trends

Figure 1: Expenditure level (up to 2001/02) and Budget 2002 allocations(2002/03to2004/05)(1997/98Randvalue)



As can be seen from Figure 1 above, the provincial expenditure envelope decreased significantly in nominal terms from the level of R10,789 billion in 1997/98 to R9,508 million in 1999/2000. This is mainly due to less funding made available to the Province from the national fiscus. After consistent decreases between 1997/98 and 1999/2000 a slight recovery is discernible in 2000/01 through to 2002/03, levelling for the MTEF years. The amount of R10,789 billion spent in 1997/98 also includes overexpenditure of R0,648 billion. It is furthermore important to note that the amounts voted for 2002/03 and the amounts indicated for 2003/04 and 2004/05 include R299,543 million, R166,659 million and R132,905 million respectively (in nominal terms) set aside for boosting infrastructure spending and financed from systematically accumulated cash reserves. From the aforementioned it is clear that the Province needs to be conservative in budgeting, despite the ever-increasing number of clients, especially in the social sector. In Chapter 5 of the WC FP 2003-2006, which deals with revenue issues, detailed information regarding revenue available to the Province is provided.

Figure 2: Percentage of Personnel Expenditure vis-à-vis Other



Many of the key services, such as Education and Health, delivered by the Provincial Government are labour intensive. Personnel expenditure in Health consumed 63% of the 2001/02 Health budget, whereas in the case of Education this figure was 87%. Overall personnel expenditure required 52,2% of the total Provincial budget in the 2001/02 financial year. This compares favourably with the 55,1% spent on personnel in 1998/99. From a Provincial perspective it is difficult to manage down personnel expenditure, due to the fact that improvement in conditions of service (salary increases) are negotiated nationally combined with the lack of a discretionary retrenchment tool as in the past.

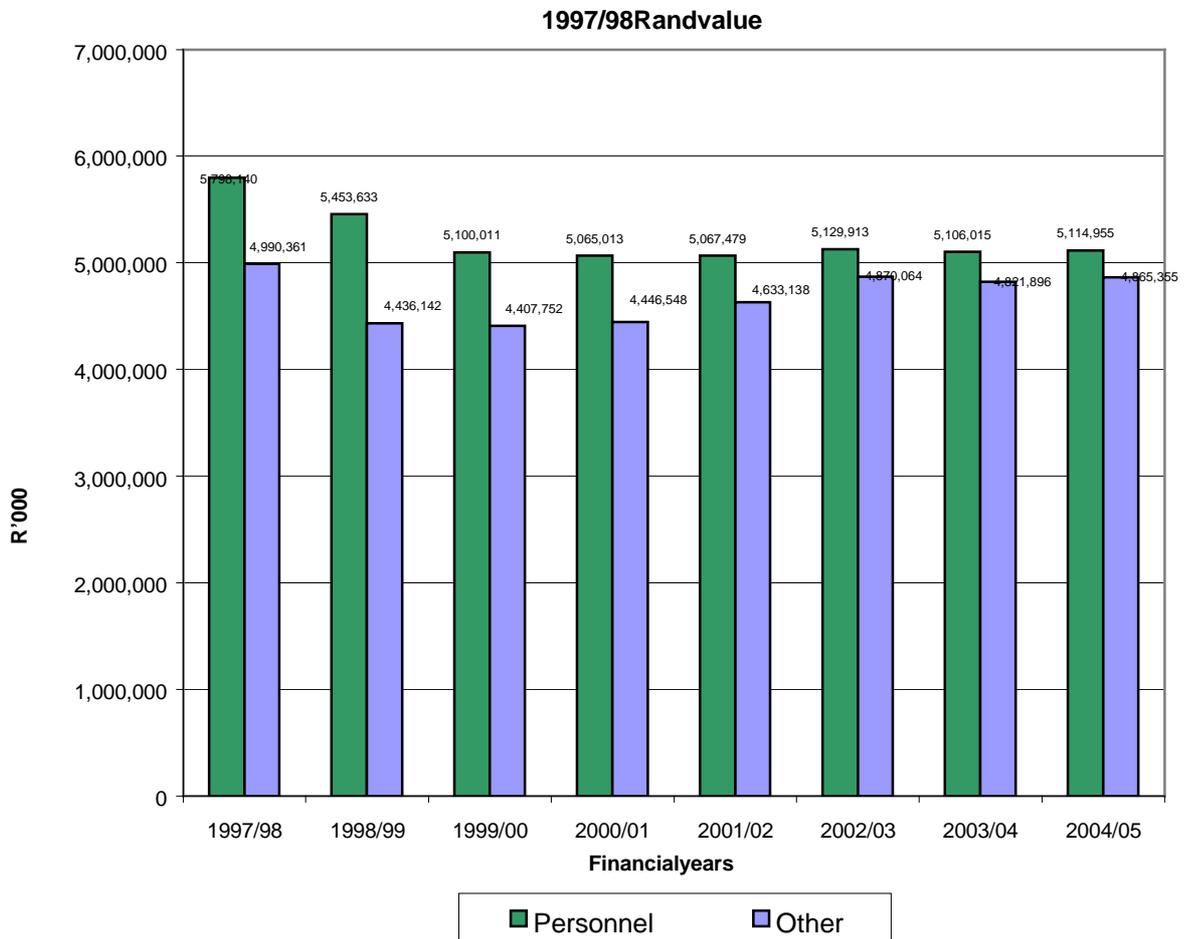
The 1996/97 salary agreement created tremendous upward cost pressure on personnel spending². Following the agreement, personnel spending in 1996/97 rose by 11,3% above the inflation rate. This was negotiated in the same fiscal year that National Government announced its macro-economic framework, which saw an emphasis on a lower deficit before borrowing. The net result was a decrease in other categories of spending. This had a negative effect on service delivery.

The latest agreement made in 2002 of a nine percent increase for improvement

²Intergovernmental Fiscal Review (IGFR) 2001 page 97

of conditions of service (ICS) may put the current trend (decreasing percentage spent on personnel expenditure vis-à-vis other expenditure) under pressure. Unless additional resources are made available to provinces, a reverse of the trend may occur.

Figure 3: Personnel vis-à-vis Other



In real terms (1997/98 – rand value) the Province spent R5 798 billion on personnel in 1997/98 compared with ± R5,067 billion in 2001/02. This was achieved by reducing the number of personnel employed from 74 173 in April 1998 to 67 664 in April 2002. The average cost in real terms per incumbent as measured in terms of total personnel expenditure decreased from R78 170 to R74 892 over the same period. This could mainly be attributed to the lack of a pay progression system for employees since July 2000 and the expenditure on severance packages in 1997/98. In nominal terms, however, cost of employment increased from R78 170 to R90 694 per incumbent. From the aforementioned it is clear that, if the Province had not reduced its number of employees drastically (by 9,6% or by 6 509 employees) during the period 1997/98 to 2001/02, there would have been no room for spending on other categories of expenditure, with the exclusion of social security, which is a statutory requirement.

It is also important to note that the major reduction in personnel numbers over this period occurred in Education, Health, the administration/financial components and professionals (engineers/technicians, etc.), which impacted negatively on the capacity of the Provincial Government to deliver services of a high standard. The challenge to the Provincial Government is thus to rebuild capacity and to prevent further loss of expertise to ensure effective service delivery. The emphasis should be to employ personnel with the required skills and competency and to build the required skills and competency within the existing staff complement who may be more amenable to transformation to enable the Provincial Government to cater for challenges in the public sector in the 21st century.

There are 15,6 provincial public servants per 1 000 of the population³. Research might be required to assess what this figure should be and what the composition of such a figure should be to ensure optimal service delivery within the available means.

A further challenge facing the Provincial Government will be to deal effectively with the impact of HIV/Aids on its employees. Little information on the prevalence of HIV/Aids amongst provincial employees is available, suggesting that further research will be required in order to properly manage its possible impact. It is generally understood that the age group most susceptible to the virus is the group aged 19 – 49. Approximately 70% of the Province's employees are between these age intervals, which makes it a highly vulnerable organisation. To emphasise the commitment to its employees, the Province developed and signed a Policy Framework on HIV/Aids in the workplace, in collaboration with organised labour. Arising from this agreement, an organisation and establishment investigation was recently conducted to ensure that the Province has a dedicated human resource capacity for the development, implementation and monitoring of a HIV/Aids workplace policy and programme for the organisation and its employees.

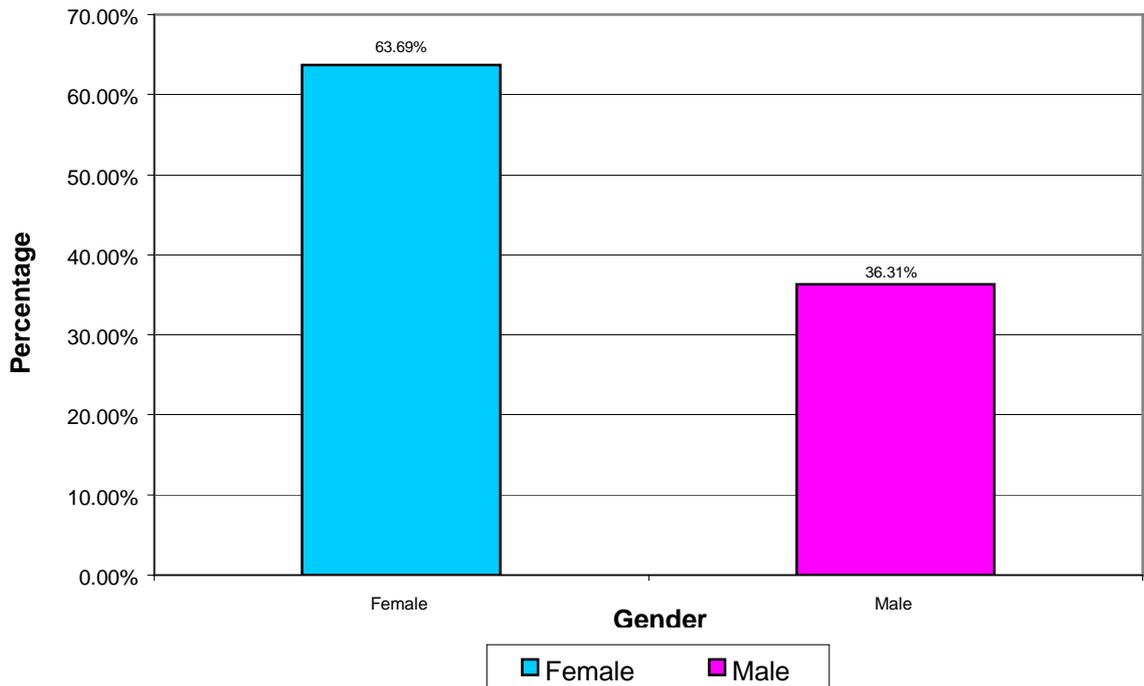
Another challenge would be to keep the expenditure on personnel within reasonable limits to allow room for spending on other categories such as learner support material and roads, etc. The challenge is also to define such a balance, as some provincial services, such as Education and Health, can only be delivered in a labour-intensive manner.

It should also be noted that, in terms of the 1997/98 rand value, non-personnel spending is lower in 2004/05 than in 1997/98.

³IGFR 2001 (table 7.4 page 101)

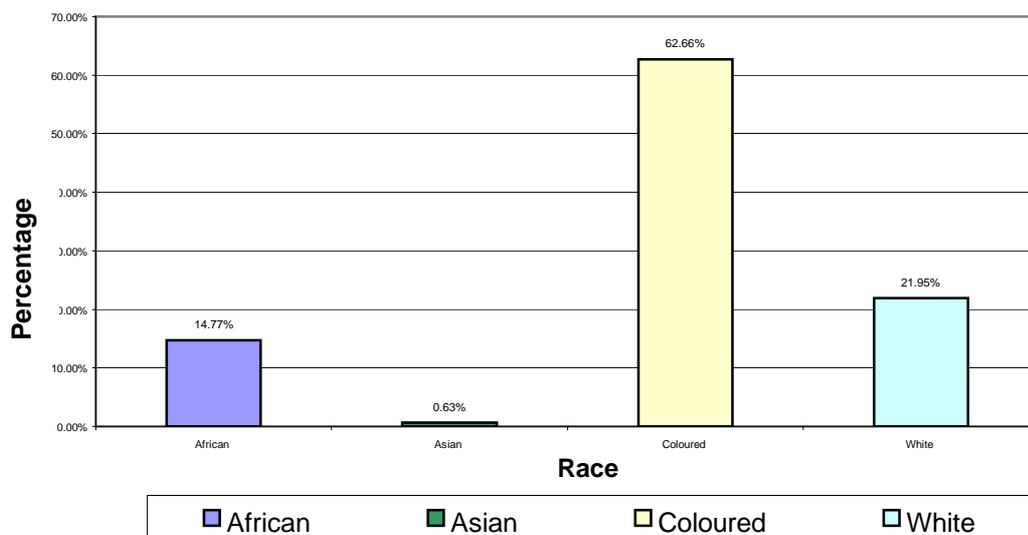
Gender

Figure4:Percentagefemale vis-à-vismale



Contrary to the generally accepted perception that the Western Cape Government has a male -dominated staff component, the above statistics clearly indicate the opposite, with female at 63,7% and male at 36,3%. Given the total population of the Province (male 1 935 494 (48,9%), female 2 021 381 (51,1 %))⁴, the female gender appears to be overrepresented, albeit concentrated at lower salary levels. However, the nature of the work, in the Province's case mainly the social sector, also impacts on the composition of the workforce.

Figure5:Race/Representivity



In total, if the distribution per various salary levels is disregarded, the Western Cape Government has a preponderance of coloured persons working for it. This is clearly illustrated when comparing the percentages as in figure 5 above with the percentage per total population group in the Western Cape⁵.

Table2: Percentage Racial Breakdown of Provincial Government Employees

Race	WesternCape Government*	Provinceintotal
Black	15	21
Coloured	63	54
Indian	1	1
White	22	21
Unspecified	-	3

*Percentage(roundedoff)

To put the above in perspective, however, Table 3 below reflects the percentage representivity per salary level.

Table3: Percentage representivity per salary level

SALARY LEVEL	HEAD COUNT	GENDER								TOTAL
		FEMALE BLACK	FEMALE COLOURED	FEMALE INDIAN	FEMALE WHITE	MALE BLACK	MALE COLOURED	MALE INDIAN	MALE WHITE	
15 –16	22		4.6		9.1		27.3	4.5	54.5	100.0
13 –14	243	2.1	3.4	0.4	9.8	2.1	22.1	3.9	56.2	100.0
9 –12	6309	3.9	10.5	1.0	19.2	4.2	29.4	1.4	30.4	100.0
6 –8	37335	11.0	42.1	0.4	17.9	4.3	18.4	0.2	5.7	100.0
3 –5	14404	9.0	52.1	0.1	9.6	4.6	21.7	0.1	2.8	100.0
1 –2	10086	7.6	44.3	0.0	0.9	12.3	33.8	0.0	1.1	100.0
Zero	58	4.2	15.2	0.4	14.4	6.2	40.3	0.4	18.9	100.0
TOTAL	68457	9.3	40.5	0.3	13.9	5.6	22.7	0.3	7.4	100.0

Source: Vulindlela database 2002. 10.22

From the table it can be deduced that, from salary level 9 upward, white and Indian males are overrepresented whereas white female representation is close to optimal. The recent growth in the appointment of white female to managerial positions is positive from a gender perspective but not from a race representivity perspective, as in the latter case, it does not constitute the most immediate priority. Posts at salary levels 8 and lower are mostly filled by coloured females. As much as the representivity is thus skewed in the higher ranks by the predominance of white males, the filling of lower -level positions by whites and middle-and top -level positions by blacks (the latter being the more urgent priority) is necessary to ensure overall employee representivity in the Western Cape Government.

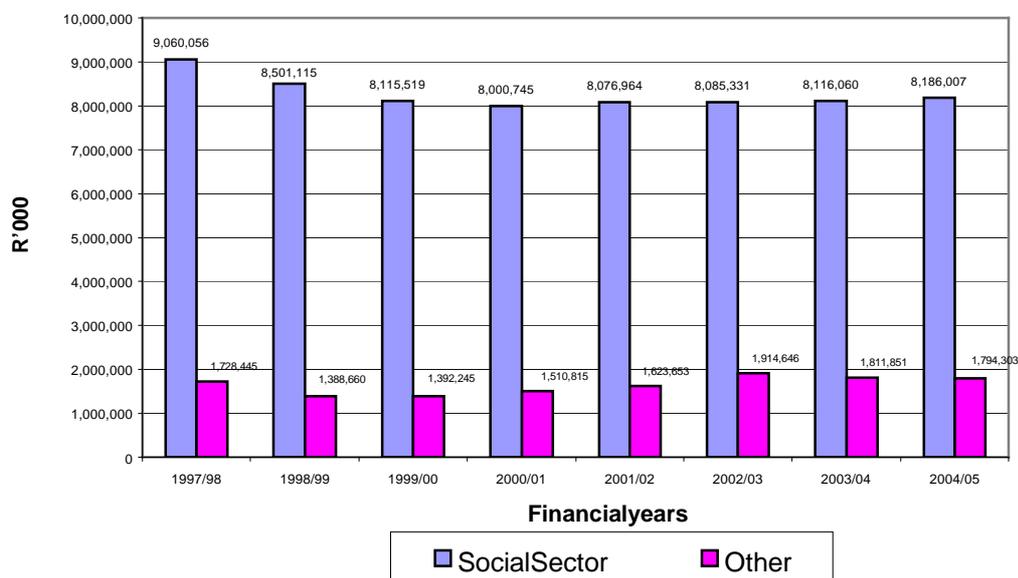
⁴Census in Brief, SSA Report No. 1:03 -01-11(1996)

⁵Census in Brief, SSA Report No. 1:03 -01-11(1996)

Social Sector vis-à-vis Other

Trends in the Social Sector (Education, Health and Social Services)

Figure 6: Social Sector vis-à-vis Other (real 97/98 rand values)



In nominal terms social sector expenditure over the period 1997/98 to 2004/05 has grown from R9,060 billion to R12,321 billion, which relates to a growth of 36% or an average of 5,1% year on year. However, in real terms the picture is not as rosy as expenditure actually declined from R9,060 billion to R8,186 billion over the same period. This relates to a decline of 9,7% in real terms over the period.

The Social Sector budget (excluding Information Technology and Works), as a portion of the Provincial budget, has declined from 84% in 1997/98 to 82% in 2004/05. Consequently the expenditure on the remainder of the Provincial budget increases from 16% to 18% over the same period. Social spending reached a high of 86% of the total Provincial budget in 1998/99, with the resultant crowding-out effect on other expenditure. Expenditure on infrastructure in particular has been affected, with a substantial backlog on maintenance and new infrastructure having built up over this period (1998/99 to 2001/02).

The improvement in the ratio to almost 80:20 (2002/03) between the Social Sector vis-a-vis the other expenditure is under pressure, especially from the Social Security side, the impact HIV/Aids might have on Health and Social Services and the impact of the 9% ICS. The pressures are dealt with in more detail under the discussion on the specific departments later in this Chapter.

Trends in other expenditure

The other expenditure (excluding the social sector) will have increased in nominal terms from R1,728 billion in 1997/98 to R2,929 billion in 2004/05, which relates to a nominal growth of 69,5% or an average of 9,93% year on year. In real terms, however, expenditure will have increased from R1,728 billion in 1997/98 to R1,794 billion in 2004/05.

This relates to almost no growth in real terms over this period. It is important to note that spending on "other" reached a all-time low of R1,389 billion in 1998/99 with a low year-on-year recovery since then, except for 2002/03, which is slightly higher due to the Province's R105 million contribution (only R85 million was provided in the 2002 Budget) towards the Cape Town Convention Centre. As can be seen from Figure 6 above, expenditure on other spending categories such as infrastructure is more or less on par with the 1997/98 expenditure level. As for the overall reduction of R0,809 billion in real terms (R10,789 billion in 1997/98 to R9,980 billion in 2004/05), the social sector had to make the sacrifice.

Over-/Underspensing

The Province has managed to turn around an overexpenditure of R0,648 billion in 1997/98 to underexpenditure of R0,409 billion and R0,338 billion in 2000/01 and 2001/02, respectively. Although this state of affairs is an improvement from a cash-flow perspective, it should be noted that underspending in effect translates into a lesser service delivery to the public than would have been possible if the full budget had been spent - denying the public essential services already paid for or by them, be it better quality education or improved infrastructure.

Conclusion

Allocative efficiency can be defined as the capacity to distribute resources on the basis of the effectiveness of public programmes in meeting government's strategic objectives⁶. This definition allows the Treasury to determine its role with regard to the allocation or distribution of provincial resources between departments. The challenge thus facing the Treasury is to adequately develop its capacity to give effect to this definition.

In general it could be argued that, because of the loss of personnel in the Western Cape Government, the capacity is not what it used to be in 1997/98. The challenge, however, is to deepen the knowledge base without necessarily increasing the number of personnel.

The improved ratio of personnel expenditure *vis-à-vis* other and the Social Sector *vis-à-vis* other is under pressure because of the 9% ICS increases and the increased expenditure on social security.

Although there has been a recovery in infrastructure spending, the current level for all intents and purposes is inadequate either to address the backlogs that

⁶ Cf. Schick, A. *A Contemporary Approach to Public Expenditure Management*, World Bank Institute 1999, p89f.

have accumulated or to preserve the current stock.

Provincial departments will have to work closely with the local sphere and give their full co-operation with regard to the IDP process.

Clusters (e.g. Social and Economic) were recently formed to ensure efficiency gains and synergy with national clusters and policies.

Generally the focus is on financial information, but non-financial information is also being introduced.

In general it could be argued that there is an even greater need than before for interaction between the provincial departments to ensure efficiency gains. However, it is also acknowledged that such interaction could be subject to some constraints.

There is also a lack of proper performance indicators (benchmarks) to measure performance against spending, i.e. non-financial indicators. Further work in this regard is thus essential for measuring progress over time.

Departments should not enter into national policy agreements that could impact on the Provincial budget until the financial implications are spelt out and the funding arrangements are secured.

Infrastructure needs should be aligned and integrated with the strategic plan and budget of a department and should be based on technical, economic, socio-economic and demographic factors.