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Financial commission predicts provinces will shift into deficit

Body notes movement of resources towards welfare, housing and transport

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CAPE TOWN — Provincial governments are expected to shift back into deficit in the 2002-03 fiscal year as spending pressure on social services increases and the relative importance of own revenue collection declines.

The Financial and Fiscal Commission (FFC) projects a provincial surplus of 2,8% this fiscal year and a deficit of 1,21% of total expenditure of R132,4bn next year. However, FFC deputy chairman Jaya Josie said that the FFC was not particularly concerned about the projected deficit, which was quite small.

Ismail Momoniat, national treasury deputy director general of intergovernmental relations, noted that it was still too early to project a deficit as provinces still had to table their budgets.

He said that to the extent that provinces did have deficits, these could easily be funded from rollovers and the additional R2bn funding they would receive to address social backlogs.

Provincial own revenue collection from activities such as gambling, vehicle licences and hospital fees had declined from 4,8% of total revenue in 1998-99 to an expected 3% in 2002-03.

The FFC noted in its briefing to Parliament's finance committee yesterday municipal deficits had also been rising since 1998-99, growing by a real annual growth rate of 24% in the period 1997-98 to 2000-01 to reach 2,24% of total municipal expenditure.

There had also been a distributional shift of resources towards welfare, housing and transport in provincial budgets, which would continue in the next fiscal year. The FFC said this might reflect a response to the increased take up of the child support grant and inflation-indexing. In 2002-03 the provincial health budget increases by 0,4%, education by 0,9% and social welfare by 19,2%.

The HIV/AIDS conditional grant will grow nominally by 165% and provincial infrastructure by 93,8%.

The national budget marked a shift in allocations away from provinces towards the national and local spheres of government, FFC deputy programme manager Conrad van Gas said.

Whereas provinces received 46,16% of total revenue last year, this would fall this year to 45,99% in 2002-03 while national government's share would rise from 33,25% to 33,38% and local government's from 2,5% to 2,98%.

Van Gas said this trend might reflect the functional shift of resources to infrastructure spending, which was primarily the preserve of municipal and national governments.

"This might be intended to counteract the 'crowding out' pressures whereby capital spending is displaced by personnel and social service spending.

"Alternatively, the shift ... may reflect anticipated increases in personnel budgets as municipalities amalgamate and as functions shift between local and district municipalities."

The FFC said the increase in the conditional grant allocations to municipal infrastructure, as well as for restructuring and capacity building could counter the likely trend of personnel spending "levelling up" at the expense of capital and maintenance spending during the process of amalgamating municipalities.

Total provincial expenditure on social security grants increased over the period 1997-98 to 2001-02 due either to annual increases in grants to take account of inflation or the increase in the number of beneficiaries.

"The government will be required to further raise expenditure if social security grant enrolments increase further. The total number of social security beneficiaries receiving one of the six grants has increased from 2,7-million to 4,5-million since 1999," the commission said.

The FFC has made recommendations on local government funding but the national treasury believes it is premature to make significant changes at this stage to the equitable share formula.