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Provinces feel pinch of soaring welfare costs

Finance body study shows dramatic rise in provincial and local government share

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CAPE TOWN — Provinces are expected to post budget deficits over the next three years as a result of the growing number of people taking up social security grants, says the Financial and Fiscal Commission.

The commission made a submission on the 2004-05 Division of Revenue Bill to Parliament's two finance committees, focusing on the abilities of provinces and municipalities to provide basic services as called for by the Bill of Rights.

Commission deputy chairman Jaya Josie said the commission had to ensure that government achieved the delivery of basic services, but was concerned about the effect this would have on the revenues of the different spheres of government.

The commission report noted that provincial budgets had increased 4,13% in real terms over the past five years, allowing for real spending growth in the provision of basic services.

Provincial budgets showed deficits for a number of years before shifting into surplus in the recent past. On the other hand, municipalities financed only 4,18% of their budgets over the five-year period.

"The primary cost driver of provincial government spending is social security. Spending growth thereof gathers momentum from an average 5,18% over the past five years to a projected 10,5% over the medium term. Spending on health and education also rise in real terms but at a declining rate over the medium term," the report said.

The commission said it would further analyse the differential growth of actual provincial government expenditure on education, health and welfare and provincial equitable share allocations "as a means of indicating the differences between national and provincial policy priorities".

"Trends in the vertical division of revenue from the national budget over the past five years and projected for the medium term indicate that transfers to municipalities, followed by provincial governments, are growing faster than the national equitable share," the report noted.

After administrative services, the largest provincial expenditure increase was anticipated for social security, government's primary tool for poverty alleviation.

Provincial health spending grew 1,99% in real terms between 1996-97 and 2001-02 and had since accelerated to more than 5% in real terms.

The commission noted that while expenditure on housing had grown in real terms, it continued to be volatile. Provincial spending on housing and municipal services was covered by the housing, local government and traditional affairs departments. Between 1996-97 and 2001-02, the real growth of spending by these departments averaged 0,71% a year. Between 2001-02 and 2003-04, the rate of spending decelerated to 2,2% and was expected to slide to minus 3,05% over themedium term.

"This deceleration of housing spend is related to the declining real value of the housing capital subsidy and the increasing reliance on individual and municipal top-up funding, which restricts both demand and supply."

A comparison between the 1996 and 2001 census results shows there was a 7,17% annual growth rate between 1996 and 2001 of households in formal dwellings, compared with the average annual growth rate in the number of households themselves of 4,34%.

The growth in household connections to the reticulated water supply was 5,35% a year over this period.

The rate for the installation of toilets was 3,86% and electricity connections 8,34%.

"With the exception of sanitation services — for which a lower proportion of households had adequate service than in 1996— the progressive realisation (of constitutionally mandated basic services) in respect of the breadth of coverage of housing and municipal services has been achieved."