2007/08 COMMISSION RESPONSE TO DIVISION OF REVENUE BILL

FINANCIAL AND FISCAL COMMISSION

For an Equitable Sharing of National Revenue

FFC Comments on the Draft Division of Revenue Bill 2007

1. Introduction

The Financial and Fiscal Commission's (hereafter referred to as the Commission) response and commentary on government's Annual Division of Revenue Bill is submitted in terms of Section 214 (1) of the Constitution and Section 35 of the Intergovernmental Fiscal Relations (IGFR) Act (1998). The IGFR Act requires that the Minister of Finance consult the Commission prior to the introduction of the Bill.

Over the course of the 2006/07 fiscal year, the Commission held several consultations with the Minister of Finance and officials of the National Treasury with respect to the Commission's recommendations and Government's policy objectives and priorities for the 2007/08 Division of Revenue Bill.

In preparing its commentary on, and its response to the Division of Revenue Bill, the Commission assesses and analyses the equitable allocation of revenue amongst the three spheres and, horizontally within each sphere of Government. The assessment and analysis takes into account key principles of intergovernmental fiscal relations in South Africa.

Firstly, the Commission is required to comment on whether nationally collected revenue as reflected in the Division of Revenue Bill is equitably allocated among and within all spheres of government. In making its comments the Commission is legally mandated to take account of all constitutional and legal requirements.

Secondly, the Commission considers Government's obligation to provide constitutionally mandated basic services (as reflected in the Bill of Rights) taking into account considerations listed in Section 214(2) a-j of the Constitution.

Thirdly, the Commission's comment is based on government's stated policy objectives, policy targets and norms and standards. In addition all legal institutional and administrative policy instruments and other strategic considerations contained in the Medium Term Expenditure Framework Plans are evaluated and assessed for their effectiveness, efficiency and compliance with legislated IGFR principles.

The Commission's submission on the 2007/08 Division of Revenue Bill comments on government's response to the Commission's Annual Submission as published in Annexure E of the Budget Review and attached to the 2007/08 Division of Revenue Bill. Secondly, the submission comments on the proposed conditional grants in the context of the Commission's recommendations. Thirdly, the submission offers commentary on the macroeconomic implications of the Division of Revenue Bill proposals. Finally, the submission provides an analysis of the relationship between national and provincial priorities and the allocations that are proposed.

General comments on the 2007 Division of Revenue Bill

The Commission is in agreement with the general spirit in which the 2007/08 Division of Revenue Bill has been drafted. There are, however, two key issues that relate to the Commission's past recommendations that need to be raised in the context of this year's Bill.

Firstly, the Commission has always advocated for the efficient use of fiscal resources allocated in a fiscal year and proposed in 2004 that where departments are failing to spend on certain conditional grants, funds be re-allocated to those departments or provinces that are actually spending without necessarily prejudicing the province or department from where the funds were re-allocated. It has come to the Commission's attention that the practical application of this principle has the potential to result in unintended consequences. There have been cases where funds that had been re-allocated from one province to another have not necessarily reverted to their origin as spending picked up in the former. This has the potential to result in an unintended dislocation of planning and spending processes at the provincial level. The Commission is of the view that a review of the application of this principle should be undertaken in order to ensure that the credibility of the budget process is not eroded. The role of the Treasuries and the Budget Council in this respect needs to be strengthened..

A second issue that the Commission would like to raise relates to the clause which deals with the accreditation process for municipalities. The Commission is of the view that the clause be retained as its recommendations for the 2006 Division of Revenue clearly indicated the need to streamline the housing delivery process and the importance of accrediting capacitated municipalities. While the Commission understands some of the frustrations that come with slow progress in this respect, it still believes that this principle is an important part of the Bill and that the accounting officer for housing needs to move speedily towards the implementation of this principles.

2. FFC Comments on the response by Government to its Recommendations for 2007

General observations

The Commission welcomes the response to the recommendations and proposals that it submitted on the 2007/08 Division of Revenue. The Commission acknowledges that government has accepted most of its proposals and is implementing some of the recommendations. The Commission notes that where recommendations are not implemented, government has indicated why such recommendations have not been accepted, and further where there are in-principle agreements government has indicated the areas that need further investigation. The Commission will continue to investigate the issues raised by government and refine the recommendations.

This comment focuses mainly on the differences and disagreements that government has with some of the Commission's recommendations.

Specific Comments

General: Conditional grants

The bulk of the commission's submission in the last year was concentrated on the various conditional grants that are in the system. An overriding principle embedded in the recommendations was that conditional grants should only be used to deal with spill-over benefits and to address the funding of new national priorities that require institutionalization in the provincial/ local government budget processes. Furthermore the Commission recommended clearly defined national norms and standards in areas of concurrent responsibilities and the need to monitor service delivery to ensure compliance with the minimum requirements for the conditional grants. The Commission notes that these recommendations and proposals have been accepted and in reviewing the conditional grant schedules, the Commission notes the changes introduced in some of the grant frameworks to ensure that grant recipients are able to spend and also that the transferring departments are able to monitor and check progress with programs.

Hospital Revitalisation Grant (HRG) and the Provincial Infrastructure Grant (PIG)

The Commission recommended a merging of the HRG and the PIG. While there is no principal disagreement between the Government and the FFC on this matter, the two grants continue as separate grants. Government is of the view that there is a need to streamline all infrastructure transfers to the provinces. In this regard, government will explore the issues around the two grants and report in the 2008 Budget. The Commission will follow closely government's work on the matter while continuing with its current work on the financing of infrastructure backlogs.

The Land Care (LC) and Comprehensive Agricultural Support Program (CASP) grants

The Commission recommended that the two grants be merged as they have a common objective and that the merging would also ease the administrative burden in the form of reporting. Government does not accept this recommendation because its view is that the two grants have distinct objectives and should therefore remain separate. CASP targets extension of agricultural services to land reform beneficiaries while LC grant is focused on the promotion of sustainable natural resource use and management.

National School Nutrition Program Grant

The Commission recommended that some of the conditions attached to the grant be reviewed and relaxed. Government indicates that a baseline study around this grant is currently underway and the Commission's recommendations will be addressed as part of the study. The Commission will await the results at the conclusion of the study and make further inputs if there is a need. It must be noted that the Commission has been doing further work on this grant in response to a request from the Select Committee on Finance on the feasibility for extending the grant to secondary school learners. The Commission is in the process of finalizing the report and will be submitting it soon.

HIV and AIDS Life Skills Education Program Grant

The Commission recommended the continuation of this grant but with the allocation mechanism linked to the actual enrolment rate in provinces rather than the current approach. Government is of the view that a long-term approach is required when deciding on the allocation mechanism for the grant. In this regard the program should be integrated into the education system and provinces should assume full responsibility for its implementation. This observation is consistent with the Commission's general recommendation for the eventual incorporation into the equitable share of some of the grant programs that are considered national priorities. Of importance in this respect is the prescription of a timeframe over which provinces would be expected to integrate the program into their overall education system so that life skills become part of the curriculum.

The Municipal Infrastructure Grant (MIG)

The Commission recommended that the formula should be reviewed not to fund but to take into account the operational and maintenance needs of infrastructure rollout. Government is of the view that municipalities should fund maintenance and operations from their own budgets in line with Section 17 (2) of the MFMA. Further, government observes that municipalities have a substantial revenue base and should therefore accordingly fund the operation and maintenance of municipal infrastructure from their own resources. While the FFC subscribes to the view that municipalities should comply with the legislation, the reality is that some municipalities just do not have sufficient resources to dedicate to the operation and maintenance needs of their infrastructure. It is important that certain measures are put in place to assist the poorer municipalities that do not have sufficient revenue raising capacity (and are unlikely to have it in the foreseeable future) and rely on the equitable share as a revenue source. It is the view of the Commission that it would be self-defeating to continue pumping resources for the roll-out of basic municipal infrastructure without ensuring that all municipalities have sufficient resources for operations and maintenance.

Health Professions Training and Development Grant (HPTDG)

As part of the recommendations, the Commission proposed that the HPTDG be converted to a schedule 5 grant. Government, while supporting the Commission's recommendation also highlights some of the challenges that will have to be addressed in dealing with this matter. The Commission appreciates the challenges that have been identified and notes that there is currently on-going work for the development of policy and targets for the grant.

National Housing Allocation formula

In this regard the Commission proposed that the formula should take into account the variations in regional costs for constructing subsidized housing and ensuring uniform standards across provinces. Government does not support this recommendation and argues that it would be difficult to capture such variations with reasonable accuracy since such variations are not only between provinces but are also within provinces. Government is of the opinion that introducing additional factors would further complicate the formula.

While the Commission notes government's concern regarding additional complexity being introduced to the housing formula, its view is that such variations are quite important and particularly so when one considers coastal against in-land provinces. The recommendation stems from the significant impact that variations in regional costs have on the quality, completion and lifespan of government subsidised houses. Key factors that affect cost variations include soil type, topography, and climate (whether houses are developed along the coast or inland). Land cost is also a significant factor that varies significantly across regions. The resulting implication is that the cost of meeting the same quality and standards as set by the National Department of Housing can differ greatly depending on the location of the housing project.

The Commission will thus continue research into this aspect and make further recommendations to government on how to best account for regional variations in the formula.

3. Comments on the 2007/08 Conditional Grants Framework

General observations

The number of conditional grants to provinces for 2007/08 has remained the same by comparison to those for 2006/07. The Commission welcomes the fact that there has been no expansion to the number of conditional grants as it has in the past cautioned against the proliferation of such grants. A new grant for Community Library Services has been introduced, while the Land Redistribution: Alexandra Urban Renewal Project has been phased out as indicated by the 2006/07 framework. The introduction of the new grant responds to provincial concerns that funding towards libraries had been neglected with municipalities carrying the responsibility even though the function is a provincial competency.

The current conditional grant framework is an improvement on the grants of the last financial year. In particular the intentions of each conditional grant have been made clearer. The framework now includes items such as *outcomes* and their *indicators* which are measurable and will therefore assist with monitoring; the required *inputs* that will make implementation of each conditional grant successful. Clearly, extensive pre-planning went into the design of the conditional grants framework with a special focus on the possible weaknesses and problem areas that were identified by the Financial and Fiscal Commission in its 2006/07 submission.

Specific Observations

Conditional Grant	Changes to the Grant Framework	Comments
Agricultural Grants	Two extra conditions have been added to this grant. The first condition is the requirement for integrated planning, implementation and monitoring of CASP projects by the Departments of Agriculture and Land Affairs. The second condition stipulates the percentages to be allocated to the different programs covered by CASP. It allocates, for example, 70% of the grant to land reform. This may be viewed as a form of ring-fencing that seeks to ensure that funding goes to appropriate designated beneficiaries.	Addition of new conditions may be concerning in light of the call by the Commission for loosening of stringent conditions that may result in an increased administrative burden for provinces. However, the FFC is of the view that the ring fencing applied in the grant is indeed appropriate and will improve the chances of the grant doing what it is intended to do in the first place, that is,: acquire land. Administrative inconvenience considerations are surely secondary here and must be addressed separately.

Conditional Grant	Changes to the Grant Framework	Comments
Housing Subsidy	Two conditions no longer appear. The first condition relates to the need for provinces to submit annual performance plans that are aligned to the new comprehensive plan for approval by the national department by March of the year in which the funds are to be spent. The second condition required provincial departments and local authorities to submit comprehensive reports on individual projects on the 15th of every month. A new formula for distributing this grant to provinces will be phased-in next year.	The exclusion of some conditions is in line with the recommendation made by the Commission for a relaxation of the more stringent conditions. In the new formula, the factor of homelessness which used to form part of the old formula has been excluded due to lack of official data. However, research conducted by the Commission indicates that information on homelessness can be collected through housing surveys and that housing needs in other countries is actually estimated through, amongst other factors, homelessness. It is therefore essential that a process is started between the National Department of Housing and Statistics South Africa that will ensure that data on homelessness is collected and eventually included in the new housing formula.

Conditional Grant	Changes to the Grant Framework	Comments
Gautrain Rapid Rail Link	Adjustments to compensate for foreign exchange fluctuations are catered for by way of forward buying of necessary project resources. A new condition to indicate the extent of the provincial financial obligation to the Concessionaire over the Development period has also been added. The following three conditions were also added to the 2007/08 grant framework: • The project account will be held at the South African Reserve Bank • The South African Reserve Bank has to be made aware, by National Department of Transport, of the annual transfer schedule and milestone payments for the project and The role of Gauteng Management Agency was defined.	The FFC did not make any recommendations with regards to this grant.
Hospital Revitalization	The conditions of this grant remain mainly the same. However, the new framework requires client satisfaction surveys to be conducted after completion of each project funded through the grant	The Commission is of the view that the introduction of client satisfaction surveys is a good development as it will assist with monitoring and improving the quality of infrastructure and civil work done by contractors.

Conditional Grant	Changes to the Grant Framework	Comments
Health Professions Training and Development	The objective of the grant as stated in the 2007/08 framework is to expand specialist and teaching infrastructure in all provinces as opposed to target provinces, i.e. Mpumalanga, Limpopo, North-West and Northern Cape, as stipulated in the 2006/07 framework. A new item *inputs,* defined as "*number of students and funds allocated to each province",* has been added to the 2007/08 framework. Since some higher institutions span more than one province, it is not clear from the framework how the above item "*inputs*" will be treated in such cases. The frequency of reporting on the number of registrars increased from bi-annually in 2006/07 to quarterly as of 2007/08 signaling a tighter monitoring regime for the grant.	In their submission to the Select Committee on Finance, the National Department of Health suggested that the impact that the mergers of institutions of higher learning will have on the training of health professionals and the provision of health services should be thoroughly assessed. The Commission notes that in the 2006/07 framework, a specific allocation was made to previously disadvantaged provinces to develop specialist and teaching capacity and this specific allocation is not made in the 2007/08 framework.
National Tertiary Services	There were no particular changes made to the grant.	As in most other grants, more measurable output items have been added.
Forensic Pathology Service	Following the partial transfer of the Forensic Pathology Service to the Health Department, the purpose of the grant has changed to reflect the fact that the transitional period is complete.	In the 2007/08 framework, quantifiable performance indicators have also been incorporated into the grant thus enhancing the monitoring function. National Department of Health took over all responsibilities for the grant from the contractor at the end of 2006.

Conditional Grant	Changes to the Grant Framework	Comments
Comprehensive HIV and Aids	A significant change to the grant is the fact that submission of risk management plans with the business plans has been added as a condition.	The Commission made such a recommendation for application to all conditional grants. This will assist in anticipating potential risks and plan forward on how to guard against such risks.
Provincial Infrastructure Grant	A new condition that deals with additional funding for scaling up of the Extended Public Works Programme in roads has been added. Another new condition that deals with reallocation or withholding of funds in cases where there is non-compliance. The new framework also made adjustments for revised provincial boundaries in the allocation criteria. The 2007/08 framework also introduces the following new role players: • The Road Coordinating Body which is tasked with evaluating performance in line with the strategic framework for roads. The Provincial Extended Public Works Programme Coordinating Forum which will be an advisory body responsible for monitoring and evaluating progress on Provincial Extended Public Works Programme projects.	Although the introduction of additional role players will assist with monitoring, it still does not address concerns raised by the Select Committee on Finance about the manner in which provinces allocate funds from the grant between various sectors. However, additional funding provided, if properly allocated, will put the much needed attention on access roads as intended.

Conditional Grant	Changes to the Grant Framework	Comments
National School Nutrition Programme	The conditions and the processes that relate to the development and approval of business plans have been addressed in line with recommendations made by the Commission in its 2006/07 submission.	The project purpose has been clearly elaborated and it is indicated that the grant will be in existence for at least another ten years. Although the allocation criteria were not changed, phased-in changes will be made from 2008/09 onwards.
HIV and Aids Life Skills	There were no significant changes made to the grant framework.	As in other grants, more measurable output items have been added. The Commission is of the view that the implementation of the grant should not be in isolation to other Life Skills programmes already taking place in school.
FET College Sector Recapitalization	No significant changes were made to the grant except for a clarification with respect to a condition relating to the transfer of funds from the grant. Funds from the grant will now have to be transferred to colleges by the respective provincial education departments within seven days of being transferred from the National Department of Education to provincial treasuries. The 2006/07 framework was not clear on how the funds were supposed to flow and had no specification in terms of the	Monitoring, by Provincial Education Departments, of how colleges actually use the funds should be improved.

	period within which colleges have to receive those funds. In the 2006/07 framework, allocations to colleges were made in terms of their contribution to the provincial growth plans and this has now been changed, in the 2007/08 framework, to take account of each college's contribution to national skills priorities instead.	

4. The Macroeconomic and Public Finance Implications of the 2007/08 Division of Revenue Bill

The 2007/08 Division of Revenue Bill gives greater attention to macroeconomic issues with its emphasis on 'economic growth and people-centred development through strategic economic investment, progressive realisation of basic social rights, and by improving public sector governance and service delivery'. The core areas of intervention are in accelerated infrastructure delivery, skills development, industrial development and employment creation, justice and crime prevention, sustainable livelihoods and social safety nets. These measures could affect the economy in ways that affect the ability of provinces and municipalities to provide basic services and perform the functions allocated to them, and provide for their developmental and other needs and is in line with section 214(2)(a to j) of the Constitution. .

The 2007/08 Division of Revenue Bill is premised on important economic assumptions that underpin the macroeconomic projections used to determine the overall resource envelope underlying the Bill. The baseline refers to a set of forecasted values for the important fiscal variables under a set of these macroeconomic forecasts obtained from elsewhere, and under the assumption of things staying normal (constant policy and normal weather for example). However, as is well known, in reality, the assumptions underlying the baseline are certain to be violated, and so actual market outcomes will deviate from the projections presented thereby resulting in budget overruns for example. This is why the issue of verification becomes important. Overall, the procedures followed in formulating the macroeconomic projections are sensible, transparent and broadly in line with international practice. *To further refine an already credible and transparent system, in the future it would appear reasonable to have these economic assumptions verified by an independent competent public authority. While there are processes in place where the opinions of experts such as economists and economic* *researchers are regularly solicited and utilised, for example, in parliamentary hearings, there is need to institutionalize this process. This would help to raise even further the transparency and credibility of the forecasts moving forward and aligning the system even closer to perceived 'best practice".*

The 2007/08 Division of Revenue Bill is based on an estimated general government surplus in 2007, significantly better than the deficit incurred in the previous period. This outturn is due to higher than expected tax receipts. It raises an important macroeconomic question of relevance for intergovernmental fiscal relations. What is the best way to deal with such surpluses? In the past government has used the funds to retire debt when debt problems were a priority. It has also used this for broadly focused tax reductions rather than narrowly focused tax reductions in other instances. *A strategy that constantly evaluates alternative uses of surpluses according to their effects on economic growth is a strategy that will produce a stronger economy and result in less waste than a strategy based on the pressure of lobby groups unsubstantiated bias toward either spending, tax reduction, or debt retirement options.*

The Revenue – Gross Domestic Product (GDP) ratio underlying the 2007/08 Division of Revenue Bill is expected to be higher than it has been in recent years at 28.2 percent of GDP. The rise is mainly due to improvements in revenue collection. The estimates indicate that the Budget will yield a surplus in 2007/8 of R9bn (0.5 percent of GDP), before recording a small deficit of R4bn in 2008/9 (-0.2 percent of GDP). The estimated deficit for 2009/10 is R10bn or 0.4 percent of estimated GDP – for all practical purposes a balanced Budget for the next three years. A pertinent question is whether the tax burden is too high and therefore inimical to economic growth? If we use the often quoted figure of 25 percent as the optimal one, then a revenue/GDP ratio of 28.2 percent is therefore too high. However, there appears a need to come up with a more updated guideline on what policymakers deem to be the 'desirable' tax burden. *Government should therefore specify whether it still considers the 25 percent ratio the appropriate policy desired revenue burden or* *revise it appropriately. This choice should preferably be informed by up to date needs and capacity of the economy as well as informed by an international benchmarking experience.*

From a public finance perspective, risks associated with the 2007/08 Division of Revenue Bill budgetary projections are broadly balanced. The forecast of receipts are fairly plausible and paint a health fiscal picture. As regards expenditures, projected growth of over 10 percent seems too high when compared to annual GDP growth of around 5 percent. *However, there is a sufficient safety margin against breaching the 3 percent of GDP deficit threshold with normal macroeconomic fluctuations required for sustainability.*

The macroeconomic implications of the expenditures proposed in the 2007/08 Division of Revenue Bill are certainly expansionary. However, these expenditures are reasonable and remain consistent with government's ideal of prudence and non-inflationary growth. Higher public-spending allocations are reflected by more being allocated to hospitals, schools, safety and security, and skills development each year over the MTEF period. This release of public funds will filter through to local service provision where for example schools may be able to improve the quality of provision and address the shortfall in the number of teachers. *However, despite this increase, public spending remains below the spending levels required. Thus there is still a need to spend more and spend efficiently.*

It must be acknowledged that since the turn of the century, expanded social grant system and improved labour market prospects have had a major impact on poverty reduction. While the high share of social assistance in real terms may suggest that social assistance may be nearing the boundary of its ability to alleviate poverty, there is a need to continue with such expenditures given the time it takes for job creation to be an alternative to social grants in poverty reduction. Although the social spending proposed in the 2007/08 Division of Revenue Bill is consistent with identified priorities, it seems likely that inequality will continue to grow. If unemployment levels and structure were to remain largely unchanged, this will not only have added equity implications but will also have efficiency implications arising from unused resources. *While the budget was in part about redistribution, paradoxically we may see a widening of the gap between the have and the have-nots. Urgent measures that address this, such as increased social assistance seem warranted.*

The 2007/08 Division of Revenue Bill lists the Gautrain Rapid Rail Link Grant as a Schedule 5 allocation. Largely because the costs of the project exceed the amounts provided for under the Grant, this raises issues in general on how mega projects such as the one under consideration should be funded. In general, there are two ways that this can take. The province can use the Borrowing Powers Act,or legislation that allows National Government to borrow on its behalf. In the latter case, the burden of servicing the debt shifts from the province to national government and national government has to take into account all the clauses listed under section 214 (2) a-j of the Constitution. In particular this will include the risk of increasing the national debt burden especially if such borrowing is seen as precedent setting by other provinces and municipalities. .

The 2007/08 Division of Revenue Bill also lays out the framework for government funding of 2010 FIFA World Cup. While government funding of the event extends well beyond the construction and refurbishment of stadiums, the Bill is most explicit with respect to this funding only when it comes to stadium construction and development in the Stadium Development Grant of the Division of Revenue Bill. The rest of the World Cup expenditures are lumped together with other routine day to day expenditures of the respective departments. *It is the view of the Commission that any financing of mega or "special" projects/events should not crowd out constitutionally mandated basic services because this is the highest level risk factor for the Commission in dealing with such projects.*

A related contentious issue that has implications for the division of revenue but that is not explicitly raised in the 2007/08 Division of Revenue Bill is the financing of legacy effects associated with the Soccer World Cup. At the moment, Government contribution towards these efforts may be lumped together with some other broader expenditure such as urban regeneration etc and as a result may not be visible. *It seems reasonable that any extra plans for harnessing such legacy effects and regeneration should either be privately funded or host cities should pick up the largest chunk of the tab as they are the ones that would benefit the most from such legacy effects.*

5. 2007 DIVISION OF REVENUE ALLOCATIONS; HIGHLIGHTING PRIORITIES AND PERFORMANCE

The overarching national growth strategies, A.S.G.I.S.A. and J.I.P.S.A. imply a budgetary emphasis on skills development and infrastructure. This implies higher than average growth rates for spending on capital and training within each provincial department. A further implication is that departments that deliver infrastructure services should be prioritized. For provincial governments, this implies specific emphasis on transport, housing and agriculture. Whilst most funding for the construction of stadiums and upgrading of public transport services is allocated to municipalities; there are implications for provincial budgets in respect of roads infrastructure and bus transport facilities. The extent to which these have been prioritized will be reviewed below.

The Commission analyzes budgetary allocations and spending performance by inputting financial data from Annual Financial Statements and Budget Statements into its Budget Analysis model to derive real growth rates. These are then compared against stated or implied national priorities. Table 5.1 below illustrates:

Table 5.1: Comparison of 3-Year Real Growth Rates of Past Spending by and Future Budgets of Provincial Governments

By Economic Classification	**Spending FY 2003 to FY 2006**	**Budgets FY 2006 to FY 2009**	**% of Provincial Government Total**
TOTAL – Provincial Departments	**4.94%**	**4.13%**	**100.00%**
Personnel	3.27%	2.29%	57.2%
Training	n/k	7.35%	0.8%
Capital	8.21%	5.46%	8.6%
By Function	**Spending FY 2003 to FY 2006**	**Budgets FY 2006 to FY 2009**	**% of Provincial Government Total**
Education	3.71%	2.81%	42.9%
Health	2.70%	4.01%	28.4%
Housing	0.96%	9.34%	4.2%
Transport	11.19%	2.14%	7.4%
- Roads Infrastructure	8.81%	2.82%	2.8%
- Public Transport	4.86%	-0.76%	0.8%
Agriculture	9.07%	4.31%	2.5%
Premiers' Offices	6.95%	0.86%	1.0%
Provincial Legislature	13.66%	0.79%	0.5%

The results indicate that provincial governments do, in general, prioritize both training and capital spending, although the specific measurement of training has only recently been introduced into budget formats. Real growth projections of 7.4% and 5.5% respectively are higher than the average 4.1% real growth of provincial budgets.

An emphasis on prioritizing provincial infrastructure services is apparent but it is not consistent. For example, transport was clearly prioritized over the past 3 years (at 11.2% p.a.) but has since been de-prioritized over the 2007 medium-term budget (2.1% p.a.). These trends apply to both the roads infrastructure and public transport components of the departmental budget; with projected growth rates of 2.82% and -0.76% respectively. Thus within the confines of provincial budgets, World Cup spending does not appear to have been prioritized.

On the other hand, housing which exhibited negligible spending growth over the past 3 years appears to have been prioritized in the 2007 medium-term budgets (at 9.3% p.a.); although this is from a low base. Agriculture grew higher than the benchmark over the past 3 years and is projected to continue doing so over the next 3 years, albeit at a significantly lower rate than before.

This points to a common trend in the financing of capital and infrastructure, as well as relatively small departments (within provinces) and programs (within departments; namely a 3 to 4 year cycle of policy prioritization, over-budgeting, under-spending and budget cutbacks. This makes for volatile funding patterns, which disable effective planning and implementation.

The primary departments of provincial governance, namely the Premiers' Offices and Provincial Legislatures grew strongly (at 7% and 13.7% p.a. respectively) over the past 3 years. However, future budget growth is projected to be muted or negligible.

The financing of the core provincial functions of education and health is much more stable with real growth rates that fluctuate by no more than a margin of 1.5% over the period of analysis. These functions are, not coincidentally, personnel intensive. Budgeting for and spending of funds for personnel purposes is generally more carefully planned and monitored than capital, transfers or other operational spends.

Further detail decomposing provincial departmental budgets according to the ASGISA priorities of capital and training; the programmatic priorities identified by national departments and their conditional grants will be presented to the Select Committee of Finance Hearings on the Division of Revenue Bill in early March.