



Cornerstone
ECONOMIC RESEARCH

TRENDS IN THE GAUTENG PROVINCIAL GOVERNMENT'S BUDGET ALLOCATIONS FOR FUNDING NPOs

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Background

The 2005 Gauteng Budget shows a significant cut in the allocations to non-profit organisations (NPOs) that assist the Department of Social Development provide welfare services to vulnerable groups in the province. Compared to 2004, the budgeted allocation for 2005 has been cut in nominal terms by R117million, from R397m¹ to R280m. This represents a nominal cut in funding of some 30%.

If the Gauteng Provincial Legislature approves the 2005 Budget, and the above mentioned cut in funding for NPOs gets implemented, it will result in very significant declines in the quantity and the quality of services delivered to vulnerable children, people with disabilities, people with HIV/AIDS and the aged. This will be in direct conflict with the provisions in the Constitution that require the progressive realisation of social welfare services.

The proposed cut in funding has prompted widespread concern among NPOs that rely on these funds to pay for or subsidise the services they deliver. The Gauteng Welfare Forum for Social Services has been established to represent the interests of the NPOs likely to be affected by this cut in funding. To gain a better understanding of trends in the Gauteng Provincial Government's budget the Welfare Forum commissioned Cornerstone Economic Research to investigate:

- Trends in the Gauteng Provincial Government's budget allocations, with particular reference to allocations for transfers to NPOs;
- Possible reasons for the cut in transfers to NPOs in the 2005 Budget and MTEF;
- Which programmes or areas of expenditure are benefiting from the reprioritisation of the budget; and
- Trends in the funding of NPOs in the social development budgets in other provinces.

This report sets out our findings on these issues.

¹ Information presented by the Department of Social Development to the Portfolio Committee on Social Development at a hearing on 27 May 2005 indicates that the transfers to NPOs in 2004/05 was R401.6m. This means that the proposed cut in funding is R121.5m.

Introduction

To gain a better understanding of the Gauteng Provincial Government's proposal to cut the budget allocation for funding NPOs in the 2005 Budget, we need to analyse them within the context within which they are being proposed, namely the entire provincial budget. It is also important to examine trends in the division of nationally collected revenue (the equitable share), trends in conditional grants and also trends in other provinces' budgets.

The report is divided into four main sections and a concluding section. The main sections deal with the issues as detailed below.

Section One	<ul style="list-style-type: none">– Trends in the provincial government's revenues from the equitable share, conditional grants and own revenues– Trends in how these revenues are allocated towards achieving the province's various priorities, particularly focussing on the allocation of funds to new initiatives
Section Two	<ul style="list-style-type: none">– Trends in allocations and expenditures within Vote 6: Department of Social Development– Trends in allocations and expenditures for the funding of NPOs
Section Three	<ul style="list-style-type: none">– What is happening in other provinces with regards to the funding of NPOs
Section Four	<ul style="list-style-type: none">– Budgeting and financial management issues related to the Gauteng Provincial Government's decision to cut the allocation for funding NPOs in the 2005 Budget

The concluding section, titled 'Moving Forward', sets out:

- What we propose the Gauteng Provincial Government should do to rectify the crisis it has caused to the various vulnerable groups to whom the NPOs deliver services; and
- Possible actions that the Portfolio Committee on Social Development may consider taking in response to the 2005 Budget in light of the service delivery crisis it has caused.

However, before proceeding with the detailed analysis of budgets, revenues and expenditures there are two issues that must inform the entire debate around the proposed cuts, namely:

1. Constitutional provisions relating to the rights of vulnerable individuals

The Bill of Rights set out in Chapter One of the Constitution contains a number of key provisions that are relevant to the current issue. Without going into details, we note that:

- Section 26(1) states that "Everyone has the right to have access to adequate housing". Section 26(2) requires that "The state must take reasonable legislative and other measures within its available resources, to achieve the progressive realisation of this right."
- Section 27(1) states that "Everyone has the right to have access to health care services...sufficient food and water; and social security, including if they are unable to support themselves and their dependants, appropriate social assistance." Section 27(2) requires that "The state must take reasonable legislative and other measures within its available resources, to achieve the progressive realisation of these rights."
- Section 28 sets out the rights of children. Among other things, "Every child has the right ... to basic nutrition, shelter, basic health care services and social services [and] to be protected from maltreatment, neglect, abuse and degradation". Section 28(2) requires that "A child's best interests are of paramount importance in every matter concerning the child"

In light of these provisions and the analysis that follows, we submit that the Gauteng Provincial Government will be acting unconstitutionally if it implements the proposed cut in the allocation for funding NPOs set out in its 2005 Budget. Our arguments in this regard are summarised in section 4.1 below.

2. Role NPOs play in the delivery of services to vulnerable individuals in Gauteng

The NPOs are responsible for delivering by far the majority of the social services available to vulnerable individuals in Gauteng. This they do with the assistance of funding from the Department of Social Development. Indeed, in reality the NPOs are in most areas the *de facto* service delivery arms of the department. If it were not for the NPOs many services would not be delivered. The following table highlights this with reference to a number of the performance targets the Department set for 2005/06:

Table 1: Role of NPOs in service delivery

Nature of Service	Delivery by Department	Delivery by NPOs	% Delivery by NPOs
Counselling for substance abuse	800	24480	96%
Number of older persons counselled	3000	6300	68%
Residential care services for persons with disabilities	-	60	100%
Protective workshops for persons with disabilities	-	58	100%

(Source: Dept. of Social Development presentation dated 27 May 2005)

NPOs are also responsible for delivering the majority of the services related to diversion and children in conflict with the law and the protection of children, including foster care, street children, shelters and interventions in cases of abuse. NPOs are also extensively involved in delivering services to older persons, persons with disabilities, and to woman that have been abused.

Consequently, any cut to the allocation for funding NPOs can be equated to cutting the Department's own service delivery programmes, especially, in view of the fact that most NPOs

are simply not able to find alternative sources of funding. The proposed cut must thus result in a proportional cut in the levels of service delivery the Department is able to promise. This calls into question the accuracy of the performance targets the Department has specified for 2005 and beyond.

Sources of information

The information for the analysis comes from the following official documents:

- Provincial budgets for 2005, as well as previous years;
- The Budget Review 2005; and
- The Division of Revenue Bill, 2005, as well as previous years

In addition, we used information from the Gauteng Department of Social Development's presentation that it made to the Portfolio Committee on Social Development on 27 May 2005.

We also had sight of the *Discussion Document* prepared for the Social Development Committee by the Committee Co-ordinator Ms. M Vaas, which analysis the 2005/2006 Budget of the Department of Social Development.

All these documents are in the public domain.

1. Gauteng's Provincial Priorities

When analysing the reasons for and the extent of the cut to the allocations for funding NPOs detailed in the Gauteng Provincial Government's 2005 Budget, it is essential that the issue be dealt with holistically – within the context of the entire 2005 Budget.

The rationale for this approach is founded on the fact that the allocation for funding NPOs, except for the transfers funded by the HIV/AIDS Conditional Grant, comes from the pool of discretionary funds available to the Gauteng Provincial Government to allocate according to its own provincial priorities. In other words the pool of funds from which the allocation for funding NPOs does not come to the province in the form of a conditional grant that has to be spent according to national priorities.

Thus, the Gauteng Provincial Government is completely free to decide on the amount of funds to be allocated to funding NPOs. The decision to cut the allocation rests entirely with the Gauteng Provincial Government, and more particularly the Premier and the Executive Counsel (the provincial cabinet) who approved the 2005 Budget before it was tabled in the Gauteng Provincial Legislature.

Should the Portfolio Committee on Social Development accept the budget for Vote 6 in the 2005 Budget and recommend that the House passes it unamended, and the House does so, then the Gauteng Provincial Legislature will itself be approving the proposed cuts to the allocations for funding NPOs. In effect, by approving the 2005 Budget the Legislature would be passing the proposed cuts into law.

This section examines the 2005 Budget to establish what additional funds are available to the Gauteng Provincial Government, and then to establish what areas have been prioritised in the allocation of these new funds and in the overall budget. However, before getting into this analysis, it will be useful to detail how we or any other person for that matter can identify the areas of government expenditure that have been prioritised in a budget.

1.1 Identifying budget priorities

When analysing a budget there are a number of ways of identifying the areas of expenditure that the government (or department) has given priority to in the allocation of funds. They include the following:

1. Stated priorities: The narrative sections of the budget should set out the government's priorities that informed the development of the budget. In the case of a province, these priorities should be linked to those set out in the Premier's 'state of the province address' and the province's development goals. In the case of a provincial department they should also be informed by national policies in the sector and the policy priorities of the relevant MEC.

Regrettably, these stated priorities cannot always be relied upon. The government may say that service XXX is a priority, but this is not reflected in the allocations of the budget. *A stated priority that does not enjoy priority in the allocation of funds is clearly not a priority.* The government needs 'to put its money where its mouth is' before it can claim that something is a priority.

Such unfunded 'stated priorities' are usually presented in the budget to placate a particular constituency, and mislead them into believing that the government is 'doing something' about their concerns. Indeed, the intent is often to obscure the real priorities of the budget as reflected in the actual allocations.

So while the government's stated priorities are a useful guide, the actual allocations and trends in these allocations reflect the true priorities of the government.

2. Percentage of total budget: What percentage of the total budget has each area of expenditure been allocated? The government will allocate a large percentage of the budget to a priority area and a small percentage of the budget to an area that is less of a priority. However, given that the baseline percentage allocations reflect government's existing priorities, it is often more instructive to look at changes in percentage allocations to identify new priorities and processes of reprioritisation.

Changes in a programme's percentage share of the total budget may be attributed to one or more of the following:

- A change in the actual demand for the particular service relative to the demand for other services. In other words the priority given to the programme has not changed, but due to changes in the relative demand for services the budget allocations change. These changes are usually marginal.
 - The programme succeeding in or achieving its objectives, which, depending on its nature, may result in either an increase or a decrease in allocations. For instance, allocations to capital projects fall away after their completion. Alternatively, a successful campaign to increase awareness about the abuse of children is likely to lead to increased demand for services for abused children, and hence require more resources.
 - A decision to reprioritise the programme relative to other programmes. Obviously an increasing share of the total budget reflects greater priority, and a decreasing share indicates the programme is less of a priority.
3. Percent of new funds allocated: Probably the strongest indicator of a government's new priorities is to be found in how it allocates the new funds available in its budget. If the new funds are allocated in proportion to the existing allocations this reflects no change in prioritisation. But if most goes towards a particular programme then obviously the government has decided to prioritise that programme above the rest.

These changes usually result in changes to the MTEF baseline allocations. So to identify them one needs to compare the MTEF allocations for the preceding two years to the current year's budget.

4. Year-on-year changes in allocations: If a government's priorities remained exactly the same from one year to the next, one would expect the allocations to the different programmes to change in line with the changes in the total budget. So if the total budget increased by 10%, all programmes should increase by more or less 10%. There may be some variance due to changes in the relative demand for services, changes in the relative prices of inputs for the different programmes, or due to certain programmes succeeding in their objectives.

If the change in a programme's year-on-year allocation is different from that for the total budget this may reflect a change in its prioritisation. So if the total budget increases by 10%

and the allocation to a particular programme shows no change (remains constant in nominal terms), this probably reflects declining prioritisation. Similarly if a particular programme's allocation increases by more than 10%, the government is clearly prioritising it.

Also if the growth in a programme's allocations does not keep pace with the growth in demand for the programme's services this may reflect declining prioritisation, depending on the trend in the total budget.

5. Nominal versus real changes in allocations: A widely used approach to analysing budgets is to assess whether the allocations to a particular programme are keeping pace with inflation. This involves comparing nominal changes in allocations with the rate of inflation, usually as measured by the Consumer Price Index (CPI). If the nominal increase in an allocation is greater than the rate of inflation this reflects a 'real increase', which indicates positive prioritisation.

The most common method used by government to change priorities is to keep a programme's allocation constant in nominal terms. This results in an automatic cut in the real value of the allocation equal to the rate of inflation.

However, nominal increases in line with inflation, do not take into account the impact that changes in the demand for the programme's services should have on its allocations. The government may be increasing a programme's budget in line with inflation, but due to increasing demand for the programme's services it is in fact being under-funded.

6. Method used to allocate funds: The methodology that government uses to allocate funds for a particular purpose or programme often indicates priority. For instance:
- If the government top-slices the budget for a particular purpose, it is giving first priority to that purpose;
 - If the government allocates the residual of the budget to a particular purpose, it is giving that purpose the lowest priority;
 - If the government fully funds an activity or service, it indicates that the activity or service is a high priority; and
 - If the government only subsidises the delivery of a service delivered by another entity, it indicates that the service is a lower order priority. The lower the level of the subsidy relative to the cost of the service the lower the priority.
7. Price paid for goods or services: When government chooses to deliver a good or service itself, it pays the full cost of delivery. When government purchases goods or services from the private sector it pays the market price for those goods and services. In other words, the government attaches a high priority to obtaining these goods and services as it is prepared to pay the cost plus a profit mark-up. The greater the mark-up government is prepared to pay the higher priority government attaches to obtaining the goods or services in question. By contrast, when the government subsidises the delivery of services by an NPO, the subsidy generally only covers a portion of the cost of the service, which suggests that government does not regard it to be a priority.
8. Provincial comparisons: Comparing allocations and trends in allocations across provinces provides a comparative assessment of the priority the respective provincial governments

attach to a particular programme or area of service delivery. When making such comparisons one needs to take provincial differences into account. These may include historical expenditure trends, demographic differences, geographic and economic differences etc. However, while the differences are important, so are the overall trends. Serious questions need to be asked if a particular province chooses not to prioritise a particular area of service delivery, while the other eight provinces do.

In the proceeding analysis we use these different methods to assess what level of priority the Gauteng Provincial Government attaches to the delivery of services to vulnerable groups, particularly those groups that receive services provided by NPOs that are funded or subsidised by the provincial government.

1.2 The revenue side of Gauteng's 2005 Budget

It was noted in the introduction that the Constitution requires the state to take reasonable legislative and other measures *within its available resources*, to achieve the progressive realisation of the delivery of social services to vulnerable people, and when it comes to allocating resources for the delivery of services to children, their interests are paramount.

Here we analyse the revenue side of the Gauteng 2005 Budget. The focus is on revenue trends with a view to answering three questions:

1. What is the overall trend in Gauteng's revenues?
2. What is the trend in Gauteng's discretionary revenues? In other words, what is the trend in the funding the province receives via the equitable share and from own revenues?
3. How much 'new discretionary funding' is available to the province in 2005 and over the MTEF?

Ultimately, the aim of this analysis of the revenue side is to establish whether the proposed cut to the allocation for funding NPOs can be attributed to a 'lack of available resources'. Or whether it can be attributed to the way in which the Gauteng Provincial Government has chosen to prioritise the allocation of the available resources.

1.2.1 Growth in total provincial revenues

The following table sets out the Gauteng Provincial Government's total provincial revenues, showing the year-one-year increase and the percentage nominal and real growth.

Table 2: Gauteng's total provincial revenue

Millions	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
	Audited			Revised estimate	Medium-term estimates		
Total provincial revenues	21,091	24,960	28,140	31,424	33,523	37,032	40,102
Year-on-year increase		3,869	3,181	3,284	2,099	3,509	3,070
Nominal growth		18.3%	12.7%	11.7%	6.7%	10.5%	8.3%
Real growth		9.1%	6.9%	10.3%	1.7%	5.5%	3.3%
Inflation CPI (assumed)	5.7%	9.2%	5.8%	1.4%	(5%)	(5%)	(5%)

The above table shows that Gauteng's total provincial revenues will increase by R2.1bn in 2005 over 2004's revised estimate, and by a total of R16.4 over the MTEF. Looking at the year-on-year increases, it is evident that Gauteng's total provincial revenues have grown consistently in real terms since 2001, and this trend is set to continue over the MTEF, though possibly at a lower rate if the inflation assumptions materialise.

1.2.2 Changes in discretionary revenues

An increase in total provincial revenues does not necessarily imply an increase in discretionary revenues. This depends on where the province's revenues come from.

A province obtains revenues from three sources, namely its equitable share of nationally collected revenues, own revenues and conditional grants from national government. A province's equitable share and own revenues together constitute the pool of discretionary funds which the provincial government allocates according to its own priorities – obviously taking into consideration its responsibilities as set out in the Constitution, legislation and other policies. The provincial government does not have any discretion as to the use of conditional grants from national government: they must be allocated, used and accounted for in accordance with the conditions set out in the annual Division of Revenue Act. So if a province receives additional funds via a conditional grant, this will increase total provincial revenue, but not increase the province's discretionary revenues.

The following table sets out the Gauteng Provincial Government's total provincial revenue broken down into its component parts to show the trend in discretionary revenues.

Table 3: Sources of total provincial revenue

Millions	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
	Audited			Revised estimate	Medium-term estimates		
Equitable share	16,028	18,844	22,275	25,175	20,810	22,865	24,775
Provincial own revenues	1,301	2,547	1,684	1,782	1,478	1,563	1,611
Total discretionary revenues	17,329	21,391	23,959	26,957	22,288	24,428	26,386
Conditional grants	3,762	3,569	4,182	4,467	11,235	12,604	13,717
Total provincial revenues	21,091	24,960	28,140	31,424	33,523	37,032	40,102
Nominal growth in discretionary revenues		17.6%	18.2%	13.0%	-17.3%	9.9%	8.4%

The above table shows that Gauteng's discretionary revenue grew strongly from 2001/02 to 2004/05. However, there is clearly a structural break in 2005/06 when the province's discretionary revenue decreased by some R4.66bn or 17.3%. It is evident that this decrease can be attributed to a R4.37bn (17.3%) fall in the province's equitable share and a R0.3bn (17%) fall in own revenues.

When analysing trends in a province's discretionary revenues the following factors need to be taken into account:

1. Function shifts that affect the equitable division of revenues between the three spheres of government and, hence, the province's equitable share.

2. Additions to the provincial equitable share baseline as a result of increases in nationally collected revenues, or in accordance with other policy decisions.
3. Changes to the provincial equitable share formula.
4. Changes in the province's own revenues

Each issue is discussed below.

1. Functional shifts: national funding of social assistance

When considering changes in a province's equitable share component of its discretionary revenue it is important to analyse the impact of any function shifts that may have occurred between financial years. A function shift is when responsibility for a function is moved from one sphere of government to another. In accordance with the maxim 'funds follow function', when a function shift takes place the funds used to deliver that function must be moved as well.

A function shift can have a negative, neutral or positive impact on a province's discretionary revenue. In the case where a function is shifted from provincial government to national government the impact would be:

- negative for the province if more funds are taken from its equitable share than it allocated in its budget for the delivery of the function;
- neutral for the province if the funds taken from its equitable share equal the amounts it allocated in its budget for the delivery of the function;
- positive for the province if less funds are taken from its equitable share than it allocated in its budget for the delivery of the function.

Thus a reduction in a province's equitable share as a result of a function shift to national government cannot automatically be interpreted as a cut in the province's discretionary revenue. The province may receive less revenue, but it also has fewer responsibilities. The nature of the impact depends on which one of the above scenarios applies.

As from 1 April 2005, responsibility for financing both the social security transfers and their administration has been shifted from provincial government to national government. This is in anticipation of the establishment of the National Social Security Grants Agency. The National Treasury notes the following in the Budget Review 2005 (p.146) in relation to this function shift:

Considering the full liability associated with the social security grant function and the crowding-out effect this had on provincial budgets, Government opted to reduce the provincial equitable share by an amount that was less than what provinces had initially budgeted for social security grants. This provides additional resources to provinces to increase budgets for education, health and other priorities

And then in Annexure E of the Budget Review 2005 (pp.244–245) it is noted:

In deciding the portion of the equitable share to be shifted, Government sought to balance the full liability related to the function (administration, grant beneficiary numbers and the grant values) with the need to leave sufficient resources in provinces to further augment funding for key provincial programmes and priorities. In this regard Government agreed to reduce the provincial equitable share by an amount that was less than what provinces had budgeted for social security grants in 2004/05.

Do the figures support the National Treasury's assertion that some of the social security funding was left in the equitable share when the function was shifted to national government? The following table presents a way in which we have sought to answer this question.

Table 4: Funds left behind with the social assistance shift in 2004 (R million)

	EC	FS	GT	KZN	LIM	MPU	NC	NW	WC	Total
a	27,677	8,307	25,175	33,904	22,354	11,902	3,936	10,346	14,694	158,295
b	9,453	3,283	5,611	11,378	6,206	3,148	1,128	3,985	3,714	47,906
c	903	241	220	780	574	260	65	416	190	3,650
d	19,127	5,265	19,784	23,307	16,722	9,014	2,874	6,777	11,170	114,039
e	20,649	8,080	18,782	25,295	16,680	8,879	2,936	10,158	10,965	122,424
f	1,522	2,815	-1,002	1,988	-42	-135	62	3,381	-205	8,385
g	30.9%	36.6%	21.4%	31.3%	25.2%	24.3%	27.0%	34.5%	24.0%	28.0%
Where										
a	Equitable share received by each province in 2004									
b	Provinces' expenditure on social assistance in 2004 (revised estimates)									
c	Child Support: Extension Grant allocations for 2004									
d	(a-b+c) This is what is left of the equitable share once expenditure on social assistance has been removed. We add the Child Support Extension Grant back since it is not expenditure from the provinces' equitable shares									
e	The revised equitable shares calculated by National Treasury for the 2004 Revised Estimate, after the social security function shift (see Budget Review, p.148)									
f	(d-e) The difference between the revised equitable share and the provinces' equitable shares less social assistance expenditure									
g	Provinces' allocations to social assistance as a % of their equitable shares									

What the above table shows is that the revised figures for 2004 indicated that at an aggregate level Government left approximately R8.4bn in the provincial equitable share when the social assistance function was shifted to national government. This confirms the above statements from the Budget Review 2005.

However, what the above table also shows is that some provinces gained from the function shift and others lost. The biggest loser was Gauteng which lost about R1bn. Other losers were Western Cape, Mpumalanga and Limpopo. These provinces lost out in the function shift because in 2004 their expenditure on social assistance as a percentage of their equitable share fell below the percentage of the equitable share (according to our calculations about 26%) which was removed from the total provincial equitable share.

The following table explores the effect of the social assistance function shift on Gauteng's 2005/06 budget.

Table 5: Impact of the social assistance shift on Gauteng's budget in 2005/06

	205/06	Explanation
a	25,175	Gauteng's equitable share in 2004 (GPG Budget p.11)
b	6,804	Total of the two Social Assistance Conditional Grants allocated to Gauteng in 2005
c	5,391	Gauteng's expenditure on social security in 2004 Revised Estimate less the Child Support Extension Conditional Grant (b-c from Table 3 above)
d	1,413	(b-c) This is the amount that would need to be added to Gauteng's 2004 equitable share if the province had retained responsibility for the social assistance function in 2005.
e	26,588	(a+d) Gauteng could have expected to receive at least this amount through the equitable share in 2005 if the province had retained responsibility for the social assistance function.
f	19,784	(e-b) If no funds were left in the provincial equitable share when the function was shifted then Gauteng could have expected to have received at least this amount as equitable share in 2005.
g	20,810	This is the actual equitable share Gauteng received in 2005 (GPG Budget p.11)
h	1,026	(g-f) This is an estimate of the extra resources Gauteng has received in 2005, taking into account the shift of the social assistance function.

Note that the above analysis does not indicate what Gauteng might have received if the increase in social assistance funding had been allocated through the equitable share. Rather it focuses on the extra resources that Gauteng would have required to cover the increase in social assistance expenditure in 2005/06 had it retained the function, namely R1.4bn, giving an equitable share of R26.6bn for 2005/06. If all the funding associated with the provision of social assistance in 2005/06 is subtracted from this figure, one gets Gauteng's 2005/06 equitable share before any additions to baseline funding. Hence this figure is equal to the 2004/05 figure at 'd' in Table 3. What the above table shows is that in 2005/06 Gauteng has been allocated about R1bn extra to its 2004/05 'social assistance free baseline' of R19.8bn.

2. Additions to the provincial equitable share baseline

If nationally collected revenues are growing faster than predicted in the previous budget, then the Government has extra resources which it can allocate between the three spheres of government. How these 'extra resources' are divided depends on the overall priorities of Government. These 'extra' allocations are referred to as additions to baseline.

The following table sets out what extra resources over last year's 2005/06 MTEF baseline are available and how they have been divided between the three spheres of government.

Table 6: Additions to baseline, 2005/06 – 2007/08

R millions	2005/06	2006/07	2007/08
National	5,287	8,111	12,282
Provincial	9,540	12,916	20,963
Local	1,200	1,650	2,500
Total	16,027	22,677	35,745

The table shows that in 2005/06, 59.5% of the additional resources of R16bn were allocated to the provincial equitable share. This amounts to R9.54bn. This is in addition to the increase of R2.74bn that was budgeted for 2005/06 in last year's MTEF. Thus the total increase in the provincial equitable share between 2004/05 and 2005/06 is R12.28bn. This is shown in the following table.

Table 7: Revised equitable shares for 2005/06 –2007/08

R millions	2004/05	2005/06	2006/07	2007/08
National	N/A	273,470	299,120	325,846
Provincial	122,426	134,706	146,757	157,678
Local	N/A	9,643	10,515	11,371
Total	N/A	417,819	456,392	494,894

In accordance with the equitable share formula, Gauteng will receive 15.5% of the extra resources allocated to the provincial equitable share in 2005. This amounts to about R1.9bn. This amount is lower than the actual increase in the province's budget from the revised equitable share allocation of R18.782bn, to its 2005/06 equitable share allocation of R20.81bn, which represents an increase of R2.028bn. The difference can be attributed to the rounding of the equitable share formula.

In the context of this paper, it is important to note that Government added certain funds to the provincial equitable share specifically to provide for improvements in the conditions of service of social workers. The Budget Review 2005 draws attention to this on page 124:

The Department of Social Development and the Department of Public Service Administration have jointly redesigned the job description and grading of social workers. Over the MTEF, R109 million, R116 million and R123 million have been included in the provincial equitable share to implement the improved salary dispensation.

Applying the equitable share formula, Gauteng's shares of these allocations are approximately:

- 2005/06: R16.9
- 2006/07: R18.1m
- 2007/08: R19.3m

These fund are allocated via the equitable share. Consequently the province is free to allocate them as it sees fit. However, there is an expectation on the side of national government that they will be allocated towards implementing the national policy decision that lead to the funds being added to the equitable share in the first instance. In other words, the Gauteng Department of Social Development can reasonably expect to receive a R16.9m addition to its baseline in 2005/06 – over and above any other additions to baseline it was to have received.

3. Changes to the provincial equitable share formula

Partly as a result of shifting the social assistance function to national government, the provincial equitable share formula was completely revised for the 2005/06 fiscal year. The new formula is described fully in Annexure E of the Budget Review 2005.

When the provincial equitable share formula is revised the impact on a province's equitable share can be:

- negative if the province's relative share declines;
- neutral if the province's relative share remains the same; and
- positive if the province's relative share increases.

The adoption of the new equitable share formula has resulted in Gauteng's relative share increasing from 15.3% in 2004/05 to a target share of 15.7%. Although the change may seem very small in percentage terms, when applied to the division of revenue the changes make a significant difference. To avoid disruptive adjustments to provincial allocations, the changes in the formula will be phased in over the next three years. Thus Gauteng's share of the provincial equitable share will be 15.5% in 2005/06, 15.6% in 2006/07 and 15.7% in 2007/08. The following table sets out how the changes to the equitable share formula benefit Gauteng.

Table 8: Impact of changes to the equitable share formula

R millions	2004/05	2005/06	2006/07	2007/08
Provincial Equitable Share	122,426	134,706	146,757	157,678
New ES for Gauteng	0.153	0.155	0.156	0.157
Old ES for Gauteng	0.153	0.153	0.153	0.153
Apply new ES	18,731	20,879	22,894	24,755
Apply old ES	18,731	20,610	22,454	24,125
Difference	0	269	440	631

Note that these figures do not correspond exactly with those in the Budget Review 2005 due to differences caused by rounding. Nevertheless the table shows that in 2005/06 Gauteng will receive about R270m more from the equitable share as a result of the revision of the formula. Over the MTEF Gauteng will receive about R1.34bn more under the new formula than it would have received under the old one.

4. Changes in the province's own revenues

Table 3 shows that Gauteng's own revenues are set to decline from R1.782bn in 2004/05 to R1.478bn in 2005/06. The main reason for this decline is that last year Gauteng was able to supplement its own revenues with R317m carried over from previous budgets. If this amount is excluded, then Gauteng's own revenues would have been R1.465bn. The trend in provincial revenues is therefore positive in nominal terms, but only just.

In our view, the almost stagnant trend in own revenues reflects a lack of effort on the part of the provincial government, and particularly the provincial treasury, to raise own revenues. The quality of the analysis of own revenues in Budget Statement 1 of the Gauteng Provincial Budget is poor. For instance, why are revenues from motor vehicle licenses expected to increase by less than 1%? No explanation is given. Or why are revenues from the sale of goods and services budgeted to decline from a revised estimate of R217m in 2004/05 to R209m in 2005/06?

By contrast the Western Cape Provincial Government has budgeted for a 4.13% increase in own revenues in 2005/06 over the revised estimate of 2004/05. It is also apparent from the quality of the analysis of own revenues, that the Western Cape Government is putting a lot of effort into raising own revenues.

If Gauteng showed the same level of commitment to collecting own revenue as the Western Cape, and as a consequence managed to increase its own revenues by the same percentage, this would have resulted in an additional R60m being collected in 2005/06, as opposed to the paltry R13m budgeted for.

1.2.3 New discretionary revenues available

The shift in the social assistance function greatly complicates the process of assessing what new discretionary revenues are available to Gauteng in the 2005 Budget. A number of points do nevertheless emerge from the preceding analysis:

1. There can be no doubt that Gauteng would have had substantially more discretionary revenues available to it in 2005/06 had responsibility for the social assistance function not shifted to national government.
2. Nevertheless, Gauteng receives about R2.023bn extra from the equitable share in 2005. This more than covers the estimated R1bn that Gauteng lost due to the social assistance function shift.
3. Gauteng benefits from the revision of the equitable share formula. In 2005/06 the benefit amounted to some R270m, and will increase to R440m in 2006/07 and R631m in 2007/08.
4. Gauteng's own revenues fall by R304m compared to last year due to the fact that the province no longer has any surplus funds on which it can draw. However, Gauteng has budgeted to collect only R13m more in own revenues from taxes and fees etc. in 2005 than it did in 2004. As already noted, this amount could be substantially higher if the provincial government showed greater commitment to raising own revenues effectively.

Taking all the above into account, our calculations indicate that Gauteng has just over R700m in new discretionary revenues available to it in 2005/06.

1.3 The expenditure side of Gauteng's 2005 Budget

Having discussed what resources are available to the Gauteng Provincial Government for 2005/06, and having calculated that Gauteng has about R700m extra in discretionary revenues, this section explores how the provincial government has prioritised the use of these resources.

1.3.1 Stated priorities

The MEC for Finance and Economic Affairs, Paul Mashatile, in his Budget Speech identified the priorities outlined in the Gauteng Provincial Government's Five Year Strategic Programme, and which informed the formulation of the budget for 2005/06 and the MTEF, as follows:

1. Enable faster economic growth and job creation;
2. Fighting poverty and building safe, secure and sustainable communities;
3. Fostering healthy, skilled and productive people;
4. Deepening democracy and nation building and realising the constitutional rights of our people; and
5. Building an effective and caring government.

These priorities are then linked to programme objectives in Budget Statement 1 of the Gauteng Provincial Government Budget for 2005/06 (see pp. 4-5). The two programme objectives that are linked to the responsibilities of the Department of Social Development are particularly important in the context of this paper, namely:

Ensure that poor children, particularly orphans will be able to access the following package of services through a 'single window': Child support grant, school fee exemption, free health care, provision of school uniforms, school feeding and psycho-social support such as foster care if required.

Working with communities and non-governmental organisations to support and empower people who are unable to work and have special needs such as the most vulnerable, children and youth in distress and people with disabilities. Government will play a stronger role to compensate [sic] family support as a result of the AIDS epidemic.

In terms of its stated objectives, the Gauteng Provincial Government has unambiguously committed itself to addressing the needs of the most vulnerable people in society. This commitment rings hollow in light of the cuts to the funding of NPOs that service exactly these vulnerable groups. This is a typical example of where a government says it will do one thing and then does another when it comes to the actual allocation of resources.

Our analysis below indicates that many of the provincial government's stated priorities with regards to health and education objectives are also not adequately supported in the budget. By contrast the grouping of objectives linked to 'enabling faster economic growth and job creation' are clearly prioritised in the budget.

1.3.2 Allocation of total revenues to departments

This section examines the Gauteng Provincial Government's allocation of total revenues to departments in 2005/06 and the two outer years of the MTEF from a number of different perspectives. The aim is to identify the areas that the provincial government has prioritised in the allocation of its resources, with a particular emphasis on social services, and social development especially.

When analysing the allocation of total revenues, one needs to keep in mind the fact that total provincial revenue includes conditional grants which have to be allocated according to the conditions set out by national government in the Division of Revenue Act. The total allocations therefore reflect the combined priorities of provincial and national government. To get a clearer picture of the provincial government's own spending priorities one needs to analyse how it allocates its discretionary revenues. This we do in the following section

Table 9 and Figure 1 show the nominal allocations to departments for 2004/05 to 2007/08.

Table 9: Nominal total allocations to departments 2004/05 – 2007/08

		2004/05	2005/06	2006/07	2007/08
Vote 1	Office Of The Premier	99	105	112	120
Vote 2	Gauteng Legislature	98	113	124	128
Vote 3	Finance And Economic Affairs	1,179	1,685	2,172	2,903
Vote 4	Education	10,027	10,360	11,269	11,776
Vote 5	Health	8,943	9,258	9,900	10,355
Vote 6	Social Development	6,439	7,541	8,398	9,044
Vote 7	Housing	1,440	1,648	1,883	2,236
Vote 8	Local Government	239	107	133	160
Vote 9	Public Transport, Roads & Works	1,774	1,446	1,521	1,579
Vote 10	Community Safety	162	182	201	220
Vote 11	Agriculture, Conservation & Environment	207	229	242	270
Vote 12	Sports, Recreation, Arts And Culture	142	148	146	156
Vote 13	Gauteng Shared Service Centre	476	585	724	768
	Total expenditure	31,226	33,408	36,825	39,714
	Total Revenue	31,424	33,523	37,032	40,102
	Surplus/deficit	198	115	207	388

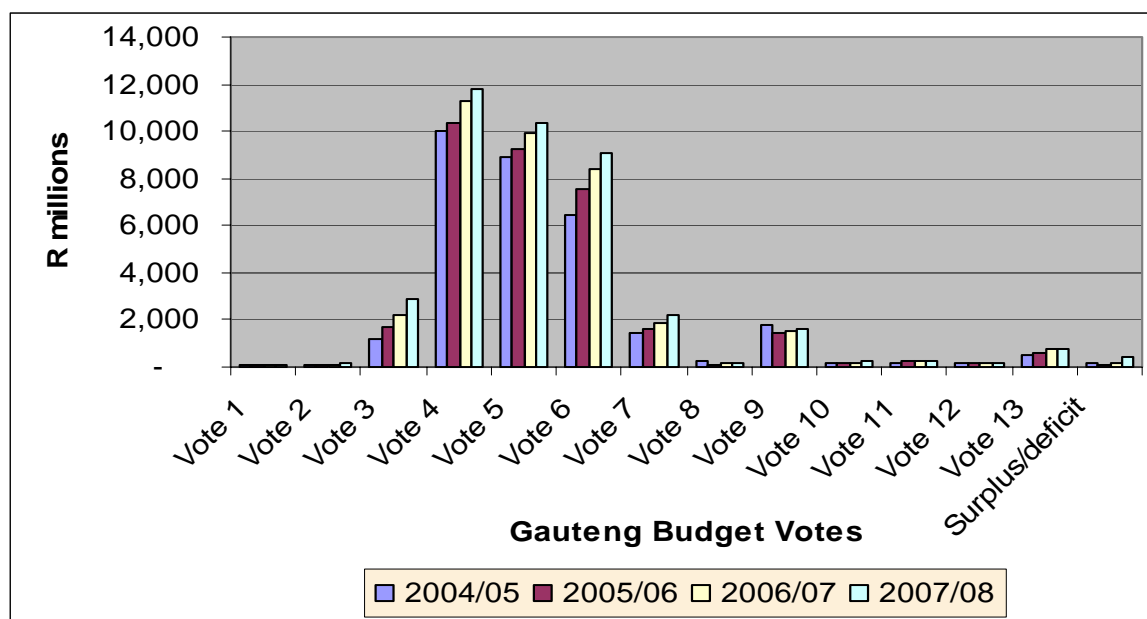
Figure 1: Nominal total allocations to departments 2004/05 – 2007/08

Table 10 and Figure 2 show the allocations to each department as a percent of total revenue. Note that it is more common to analyse department allocations as a percent of total expenditure, but because Gauteng has budgeted for a surplus, we have chosen to compare the expenditure to total revenue

Table 10: Departments' expenditure as a % of total revenue, 2004/05 – 2007/08

		2004/05	2005/06	2006/07	2007/08
Vote 1	Office Of The Premier	0.3	0.3	0.3	0.3
Vote 2	Gauteng Legislature	0.3	0.3	0.3	0.3
Vote 3	Finance And Economic Affairs	3.8	5.0	5.9	7.2
Vote 4	Education	31.9	30.9	30.4	29.4
Vote 5	Health	28.5	27.6	26.7	25.8
Vote 6	Social Development	20.5	22.5	22.7	22.6
Vote 7	Housing	4.6	4.9	5.1	5.6
Vote 8	Local Government	0.8	0.3	0.4	0.4
Vote 9	Public Transport, Roads & Works	5.6	4.3	4.1	3.9
Vote 10	Community Safety	0.5	0.5	0.5	0.5
Vote 11	Agriculture, Conservation & Environment	0.7	0.7	0.7	0.7
Vote 12	Sports, Recreation, Arts And Culture	0.5	0.4	0.4	0.4
Vote 13	Gauteng Shared Service Centre	1.5	1.7	2.0	1.9
	Total expenditure	99.4	99.7	99.4	99.0
	Total Revenue	100.0	100.0	100.0	100.0
	Surplus/deficit	0.6	0.3	0.6	1.0

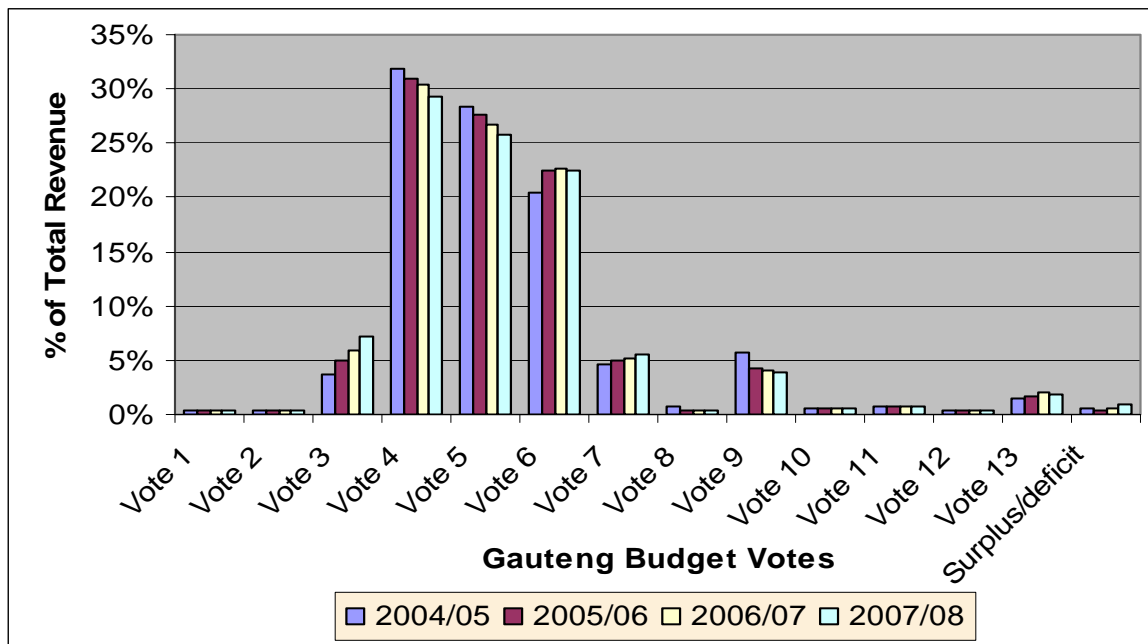
Figure 2: Departments' expenditure as a % of total revenue, 2004/05 – 2007/08

Table 11 shows the year-on-year real change in department allocations. The inflation rate used to calculate this table is the same as that presented in Table 2 above.

Table 11: Year-on-year real change in department allocations: 2004/05 –2007/08

		2004/05	2005/06	2006/07	2007/08
Vote 1	Office Of The Premier	-18.1	0.5	2.0	1.8
Vote 2	Gauteng Legislature	19.3	10.8	4.5	-1.7
Vote 3	Finance And Economic Affairs	-15.8	38.0	23.9	28.7
Vote 4	Education	4.5	-1.7	3.8	-0.5
Vote 5	Health	7.7	-1.5	1.9	-0.4
Vote 6	Social Development	19.8	12.1	6.4	2.7
Vote 7	Housing	16.4	9.4	9.2	13.8
Vote 8	Local Government	12.3	-60.1	19.2	15.3
Vote 9	Public Transport, Roads & Works	15.4	-23.5	0.2	-1.2
Vote 10	Community Safety	351.4	7.4	5.2	4.4
Vote 11	Agriculture, Conservation & Environment	9.3	5.8	1.0	6.2
Vote 12	Sports, Recreation, Arts And Culture	6.7	-0.9	-6.2	1.8
Vote 13	Gauteng Shared Service Centre	-0.6	17.9	18.6	1.2
	Total expenditure	8.8	2.0	5.2	2.8
	Total Revenue	10.3	1.7	5.5	3.3
	Surplus/deficit	-203.0	-47.2	75.9	82.1

Analysis of the above tables and figures highlights the following issues:

1. Table 9 and Figure 1 show that the budgets of all votes/departments increase in nominal terms in 2005/06, and over the MTEF. This gives the appearance that all departments benefit from the budget. This is a common strategy that governments (but particularly treasuries) use to stifle potential opposition to budgets. Table 10 and Figure 2 show that the allocation of extra resources favours certain departments and disadvantages others resulting in changing percentage shares of total revenue. Table 11 highlights the extent to which the different votes are gaining or losing in the allocation of total revenues.
2. Table 9 and Figure 1 show that Gauteng has budgeted for a surplus of R115m in 2005/06, R207m in 2006/07 and R388m in 2007/08. This is despite the fact that there are serious spending pressures in certain social services departments, including social development.
3. Table 10 and Figure 2 highlight the fact that only three Votes see their percentage share of total provincial revenues increase, namely:
 - Vote 3: Finance and Economic Affairs: increases from 3.8% in 2004/05 to 7.2% in 2007/08;
 - Vote 7: Housing: increases from 4.6% in 2004/05 to 5.6% in 2007/08; and
 - Vote 13: Gauteng Shared Service Centre: increases from 1.5% in 2004/05 to 1.9% in 2007/08.
4. Table 10 and Figure 2 also highlight the fact that the departments of Health and Education see their share of total provincial revenue fall the most of all the Votes. This suggests a clear prioritisation away from these two areas of expenditure.
5. Table 10 and Figure 2 show that the Department of Social Development's share of total provincial revenues shows an initial increase, and then stabilises around 22.6%. The

increase is entirely due to additional expenditure on social assistance, which comes entirely from national government.

6. In Table 11 the red numbers indicate negative real growth, and the blue numbers indicate growth at rates below the aggregate growth in total provincial revenues. Both sets of numbers indicate prioritisation away from the particular Vote. Importantly, the allocations to Health and Education are set to decline in real terms. Another big loser is the Department of Sports, Art and Recreation. The allocations to the Department of Social Development show positive real growth, but this is entirely attributable to growth in social assistance expenditure which is determined by national government.
7. Table 11 shows that of all the Votes, Vote 3: Finance and Economic Affairs grows most strongly over the MTEF. Allocations to this Vote increase in real terms by 38% in 2005/05, 24% in 2006/07 and about 29% in 2007/08.

1.3.3 Allocation of discretionary revenues to departments

Table 3 sets out details of Gauteng's discretionary revenues. The provincial government is free to allocate these revenues as it chooses. Consequently, the allocation of discretionary revenues reflects the real priorities of the provincial government.

Note that in the analysis, the discretionary revenue for 2004/05 has been adjusted by subtracting the amount spent on social assistance in order to make the 2004/05 figures comparable to those of 2005/06 and the MTEF.

The allocations in Table 12 show the total allocations to each Vote less any funding received from national government in the form of conditional grants. The amounts shown are therefore what each Vote has been allocated from the province's discretionary revenues.

Table 12: Allocations of discretionary revenues to departments: 2004/05 – 2007/08

		2004/05	2005/06	2006/07	2007/08
Vote 1	Office Of The Premier	99	105	112	120
Vote 2	Gauteng Legislature	98	113	124	128
Vote 3	Finance And Economic Affairs	1,179	1,685	2,172	2,903
Vote 4	Education	7,352	7,739	8,346	8,734
Vote 5	Health	8,717	9,008	9,617	10,067
Vote 6	Social Development	790	689	752	761
Vote 7	Housing	294	295	308	321
Vote 8	Local Government	219	107	133	160
Vote 9	Public Transport, Roads & Works	1,641	1,298	1,358	1,416
Vote 10	Community Safety	162	182	201	220
Vote 11	Agriculture, Conservation & Environment	200	221	233	247
Vote 12	Sports, Recreation, Arts & Culture	141	145	142	152
Vote 13	Gauteng Shared Service Centre	476	585	724	768
	Total expenditure	21,368	22,173	24,220	25,998
	Total Revenue	21,567	22,288	24,428	26,386
	Surplus/deficit	198	115	207	388

Table 13 and Figure 3 show how each Vote/department's share of provincial discretionary revenues changes over the MTEF. These changes, together with the information in Table 14, are the clearest record of the Gauteng Provincial Government's real priorities.

Table 13: Departments' % shares of discretionary revenue, 2004/05 – 2007/08

		2004/05	2005/06	2006/07	2007/08
Vote 1	Office Of The Premier	0.460	0.470	0.459	0.454
Vote 2	Gauteng Legislature	0.453	0.507	0.507	0.485
Vote 3	Finance And Economic Affairs	5.465	7.562	8.890	11.002
Vote 4	Education	34.089	34.723	34.167	33.102
Vote 5	Health	40.418	40.416	39.367	38.153
Vote 6	Social Development	3.663	3.091	3.077	2.885
Vote 7	Housing	1.364	1.324	1.261	1.217
Vote 8	Local Government	1.014	0.482	0.546	0.608
Vote 9	Public Transport, Roads & Works	7.608	5.822	5.558	5.368
Vote 10	Community Safety	0.752	0.818	0.822	0.832
Vote 11	Agriculture, Conservation & Environment	0.928	0.992	0.954	0.937
Vote 12	Sports, Recreation, Arts & Culture	0.655	0.652	0.581	0.574
Vote 13	Gauteng Shared Service Centre	2.209	2.626	2.962	2.912
Total expenditure		99.080	99.485	99.151	98.529
Total Revenue		100	100	100	100
Surplus/deficit		0.920	0.515	0.849	1.471

Figure 3: Departments' % shares of discretionary revenue, 2004/05 – 2007/08

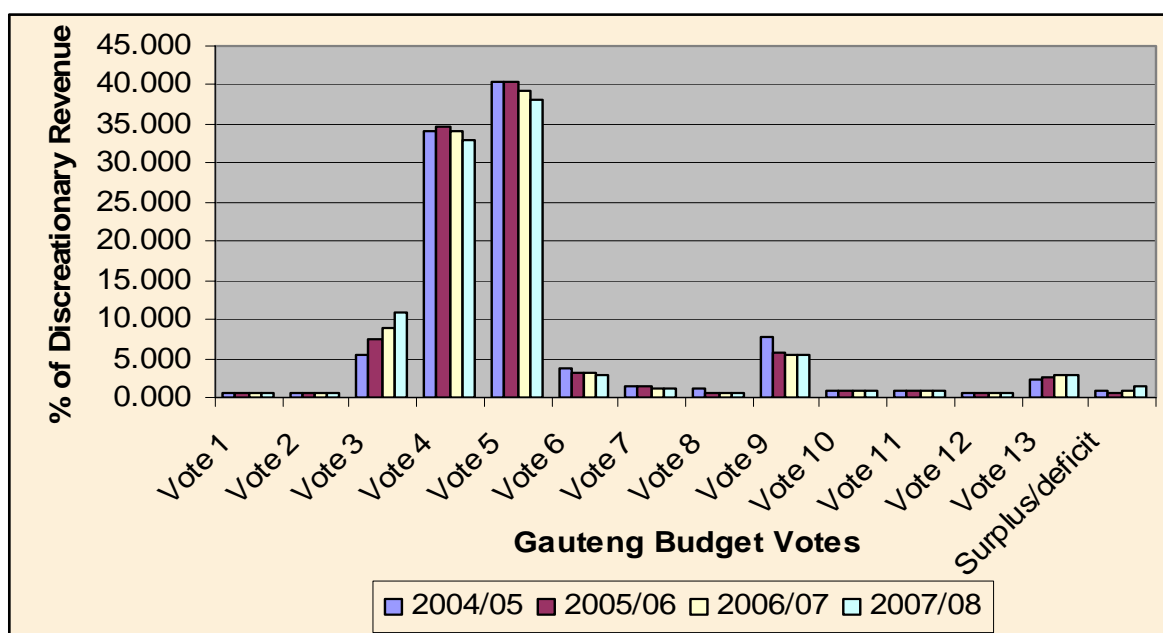


Table 14 shows how the Gauteng Provincial Government has chosen to allocate the extra discretionary revenues it has available to it, as well as reallocate discretionary revenues between Votes in 2005/06 and the outer two years of the MTEF.

Table 14: Year-on-year nominal change in discretionary revenue allocations: 2004/05 –2007/08

		2004/05	2005/06	2006/07	2007/08
Vote 1	Office Of The Premier		5	7	8
Vote 2	Gauteng Legislature		15	11	4
Vote 3	Finance And Economic Affairs		507	486	731
Vote 4	Education		387	607	388
Vote 5	Health		291	609	450
Vote 6	Social Development		-101	63	10
Vote 7	Housing		1	13	13
Vote 8	Local Government		-111	26	27
Vote 9	Public Transport, Roads & Works		-343	60	59
Vote 10	Community Safety		20	19	19
Vote 11	Agriculture, Conservation & Environment		21	12	14
Vote 12	Sports, Recreation, Arts & Culture		4	-3	10
Vote 13	Gauteng Shared Service Centre		109	138	45
Extra discretionary revenues			722	2,140	1,958
Surplus/deficit			-84	93	181

Analysis of the above tables and figures highlights the following issues:

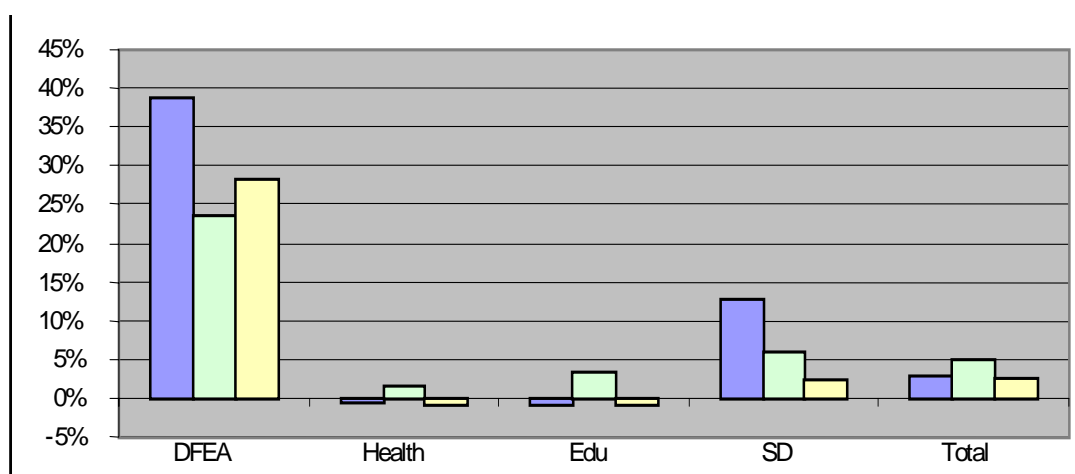
1. Table 12 shows that the surplus which has been budgeted for, comes from provincial discretionary revenues. In other words, it is the provincial government that has decided to budget for a surplus, instead of allocating these funds to be spent.
2. Table 12 and Table 14 highlight the fact that the provincial government has reprioritised the allocation of the discretionary revenues significantly between 2004/05 and 2005/06. The absolute value of the funds shifted in this reprioritisation process is exactly R2bn. The fact that this is such an exact number suggests a very deliberate process of reprioritisation. In other words the Gauteng Provincial Government, advised by the provincial treasury, took deliberate decisions to remove funds from certain Votes and reallocate them to other Votes.
3. Table 13 and Figure 3 show that 10 of the 13 Votes receive a declining share of provincial discretionary revenues over the MTEF. In other words the Gauteng Provincial Government is prioritising three Votes at the expense of all other Votes. The three Votes being favoured are:
 - Vote 3: Finance and Economic Affairs: increases from 5.5% in 2004/05 to 11.2% in 2007/08. In other words its share of discretionary revenues more than doubles over the MTEF;
 - Vote 10: Community Safety: increases from 0.75% in 2004/05 to 0.83% in 2007/08. This is not a significant increase, but what is significant, is that it is a function that is linked to perceptions about the suitability of Gauteng as a destination for investments.

- Vote 13: Gauteng Shared Service Centre: increases from 2.2% in 2004/05 to 2.9% in 2007/08. Again this is not a significant increase, but what is significant is the close link this department has to the provincial treasury, which may explain why it benefits from the reallocation of resources.
4. Table 13 and Figure 3 show that the biggest losers in the reprioritisation of discretionary revenues are the departments of Health and Education, and to a lesser extent Social Development. In other words the Gauteng Provincial Government is prioritising its expenditures away from these three important social functions towards the three Votes noted above, but most particularly towards the Department of Finance and Economic Affairs.
 5. Table 13 and Figure 3 show that the Department of Social Development's share of provincial discretionary revenues was 3.7% in 2004/05 and that this is set to fall to 2.9% by the end of the MTEF.
 6. Table 12 shows that in 2004/05 the Department of Social Development was allocated R790m of the province's discretionary revenues. In 2005/06 the department is allocated only R689m, which is a cut of R101m, which is confirmed by Table 14.
 7. Table 14 shows that in 2006/07 the provincial government has allocated 23% of the new discretionary revenues available to Gauteng to the Department of Finance and Economic Affairs, while only 2.9% has been allocated to the Department of Social Development. In 2007/08 the Department of Finance and Economic Affairs has been allocated 37% of the new discretionary revenues, while the Department of Social Development will only receive 0.5%.

1.3.4 The Gautrain and other capital projects versus social services

The above analysis of the Gauteng Provincial Government's Budget 2005 shows a very deliberate shift away from prioritising social expenditure generally, and towards funding the Department of Finance and Economic Affairs. This is illustrated in the following figure which shows the year-on-year real growth in the MTEF allocations for 2005, 2006 and 2007 for selected departments, and for the province as a whole.

Figure 4: Real year-on-year growth over the MTEF



The above figure shows that the year-on-year real growth in Gauteng's overall budget is between 3 and 5% over the MTEF. As already noted, roughly speaking if the real growth in allocations to a department fall below 5% this indicates prioritisation away from this area of expenditure, while real growth in allocations above 5% indicate a shift towards prioritising the particular area. It is clear from the above figure that the departments of Health and Education receive virtually no extra funding in real terms over the MTEF. The Department of Social Development does receive some extra funding, but this is primarily due to the fact that social grants are being paid for by national government via a conditional grant over which the provincial government has no control. By contrast the year-on-year real growth in the budget of the Department of Finance and Economic Affairs is 38%, 24% and 29% over the MTEF.

The following table presents the budget for the Department of Finance and Economic Affairs.

Table 15: Budget of Department of Finance and Economic Affairs

	2004/05	2005/06	2006/07	2007/08
1. Management	7,493	8,805	9,251	9,763
2. Corporate Support Services	22,029	26,345	30,642	33,534
3. Provincial Treasury	17,938	25,202	30,447	32,692
4. Economic and Development Planning	55,685	266,634	348,767	510,230
5. Governance	725,617	264,585	161,436	134,128
6. Financial Management	5,914	10,070	10,212	10,676
7. Special Projects	343,982	1,083,755	1,580,986	2,172,071
Total	1,178,658	1,685,396	2,171,741	2,903,094
Expenditure excluding Special Projects	834,676	601,641	590,755	731,023

Table 15 shows that most of the increased allocations to the Department of Finance and Economic Affairs go towards funding 'Special Projects'. Indeed the only other programme that shows noteworthy growth is Programme 4: Economic and Development Planning, whose objectives are very similar to those being pursued by the Special Projects, i.e. economic growth job creation, development of human capital etc.

Table 16: Allocations to Special Projects over the MTEF

	2004/05	2005/06	2006/07	2007/08
PPP Unit	6,000	12,400	14,700	15,500
GPG Precinct	51,000	26,400	30,300	84,500
Gautrain	242,795	900,000	1,500,000	2,000,000
Dinokeng	20,000	83,000	22,966	40,071
Cradle of Humankind	24,187	61,955	13,020	32,000
Total	343,982	1,083,755	1,580,986	2,172,071
Special projects as % of discretionary revenue	2%	5%	6%	8%
Special Projects % share of new discretionary revenues		103%	23%	30%

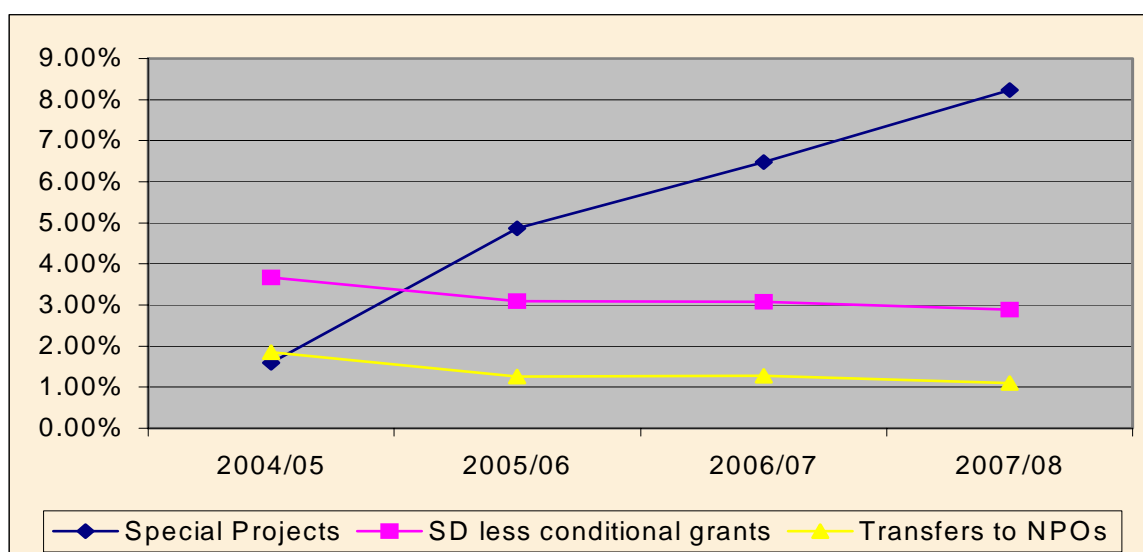
Table 16 shows projects that the provincial government is funding through the Special Projects programme. By far the largest of these is the Gautrain project, which is allocated R4.4bn over the MTEF. The budget documentation does not indicate what the total cost of the Gautrain

project is expected to be, although it does present details of the expected benefits. This seems rather strange, if not deliberately misleading.

Table 16 also shows that Special Projects share of provincial discretionary revenue is set to increase from 2% in 2004/05 to 8% in 2007/08. This is a fourfold increase. More importantly, the rapid growth in 2005/06 has absorbed 103% of the new discretionary revenues that became available. This means the Special Projects absorbed all new discretionary revenues (R722m), plus an additional 3% or about R17m was reallocated from other budgets. Over the medium term the provincial government has allocated R4.76bn to fund the Gautrain and other 'special projects'.

The increased allocations to Special Projects, especially the Gautrain, stands in stark contrast to the cut in the allocation for funding NPOs. This is illustrated in the following figure.

Figure 5: Allocations as a percentage of discretionary revenues



When evaluating the appropriateness of the prioritisation of allocations to Special Projects, it must be remembered that vulnerable groups are very unlikely to benefit directly from these projects. They are either too young, too old or prevented in some other way from being able to take advantage of the construction jobs and other work opportunities these projects offer. Nor do the most vulnerable groups have access to the capital to be able to take advantage of the contracts. The result is that the prioritisation of these projects is at the expense of the most vulnerable groups who rely on the social services that have been cut, and particularly the services offered by NPOs.

Our argument is not that the provincial government should not pursue the Special Projects it has planned, but rather that the manner in which it reprioritises its budget to do so should not disadvantage the most vulnerable groups in society. The current prioritisation of these projects at the expense of vulnerable individuals is patently unreasonable. A slightly less aggressive reprioritisation could easily release sufficient funds to maintain and even expand the allocations for funding the services offered by NPOs.

2 Trends in the budget of the Department of Social Development

The analysis in section one demonstrates that the principle reasons for the cut in the allocation for funding NPOs are to be found in the way the Gauteng Provincial Government has chosen to prioritise the use of its discretionary revenues in 2005/06 and over the MTEF. In other words the factors that lead to the cut lie outside the direct control of the Department of Social Development. However, this does not mean that the Department is simply a victim of circumstances.

- The MEC for Social Development, Mr Bob Mabaso, as a member of the provincial Executive Council participated in the discussions that lead to the reprioritisation of funds away from the Department of Social Development. It is clear from his defence of Budget 2005 that he also agrees with the direction it takes.
- The Department clearly accepted the cut in its allocation and sought to implement it in a way that harmed its own interests and employees least. In other words it shifted the full burden of the cuts onto the NPO sector.
- The Department did not initiate discussions with its stakeholders around the proposed cut during the planning phases, nor did the Department make any public protest on the impact that the cut would have on the sectors ability to deliver services to the most vulnerable groups.
- The Department has sought to defend the rationale for the cut, even going so far as to publicly misrepresent the way in which funds get allocated to provinces, and producing faulty rationalisations as to why the burden of the cut has to fall on the most vulnerable groups in society.
- The MEC for Social Development, Mr Bob Mabaso, has, to date, failed to meet with NPOs to discuss the funding crisis.

Generally, the senior management of the Department of Social Development has shown a cavalier attitude as regards the impact that the cut to the funding of NPOs will have on the delivery of services to vulnerable groups. They have sought to defend the cut, and in doing so have failed to defend the rights of vulnerable groups.

This section explores trends in the Department of Social Development's budget. The aim is to highlight the impact of the proposed cut, and other issues related to the funding of NPOs.

2.1 Stated priorities

The Department of Social Development's ***Five Year Strategic and Performance Plans 2005-2010*** lacks focus and structure. Among the numerous lists of broad policies, priorities, strategic goals and objectives, KPAs, and critical success factors it is not immediately clear where the Department intends focussing its energies and what it intends doing. The various statements are so broad that they give little strategic direction.

It is also notable that among 'The key challenges faced by the Department', no mention is made of the cut in the allocation for funding NPOs. It is startling to think that the Department

does not regard the impact of this cut to be sufficiently significant to identify it as a key challenge. But among the key challenges it is noted that: "The Department's library facilities are not adequately utilized by staff members."

Probably the clearest statement of the Department's priorities is to be found in the MEC's Forward to the strategic plan:

The developmental paradigm calls for approaches that are people centered and sustainable, redefining development in terms of exploring the strengths and vulnerabilities of the poor, marginalized and vulnerable target groups, and the knowledge and expertise of individuals in the communities, to creatively and innovatively use resources available in the environment to address the socio-economic needs. Also, it promotes holistic development of the poor, vulnerable and marginalized women, youth and people with disabilities, to achieve the following:

1. Built secure (sic), integrated, and sustainable communities within a globalised environment, by enhancing social cohesion, and ensure (sic) the target groups become active participants in the mainstream socio - economic activities of the province.
2. Managed reduction in the levels of prevalence and growth rates of, the issues that negatively impact on the socio – economic functionality, and development of families, communities, and social relations, to manage their dysfunctionality and functionality by:
 - Eradicating and managing vulnerability and violence against women and children, older persons and other vulnerable groups.
 - Managing the infection and effects of HIV & AIDS, and facilitating the reduction in the HIV infection growth rates and prevalence levels.
 - Managing youth development through managing the reduction in youth criminality and unemployment, and facilitating youth development.
 - Managing the development of people with disabilities
 - Managing conditions contributing to Poverty, underdevelopment and unemployment.
 - Managing conditions contributing to Homelessness of adults and children.

The policy shift by the Government at both provincial and national levels, and the overall socio – economic challenges facing the country and the province in particular have informed the reconceptualization of the core function of the Department, to ensure a positive contribution to a reduction in dependency and making individuals, families and communities self-reliant.

The key word is clearly 'managing'. What does this mean in practice? How does one 'manage' an abandoned baby to ensure it grows up to become a self-reliant individual? How does one 'manage' a frail, aged person so as to reduce their dependency? How does one 'manage' a child that has been raped? The reality is that there are many vulnerable individuals and groups that are dependent on social services or require specific social services. They cannot be wished away simply because the Department has undergone a 'paradigm shift'.

Obviously the Department needs to address the factors that lead to children being abandoned or abused. But at the same time it needs to ensure that children that are abandoned and abused receive the services they require. It would appear from the above statement of priorities that the Department has lost sight of the balance that exists between prevention and picking up the pieces.

2.2 Trends in Social Development programme allocations

As mentioned in the introduction, the research that led to this report was sparked by the Gauteng Provincial Government cutting the allocation for funding NPOs that provide welfare services. Table 17 below compares the allocations in the 2004 Budget for the then 2005/06 MTEF financial year with the allocations in the 2005 Budget for the 2005/06 financial year. The difference between these two sets of figures shows the extent to which the provincial government and Department have reprioritised allocations between Budget 2004, and Budget 2005.

Table 17: Allocations for 2005/06 between 2004 and 2005 Budgets for Vote 6

R' 000	2004 Budget	2005 Budget	Change	
Administration	282,788	245,921	-36,867	-15%
Social Assistance	6,045,045	6,804,145	759,100	11%
Social Welfare Services	529,716	415,578	-114,138	-27%
Development & Support Services	80,429	70,352	-10,077	-14%
Pop Dev and Dem. Trends	2,131	2,536	405	16%
GDU	2,923	2,710	-213	-8%
Total	6,943,032	7,541,242	598,210	8%
Transfers to NPOs	392,346	280,106	-112,240	-29%

Table 17 shows that in its 2004 Budget, i.e. in last year's Budget, the Gauteng Provincial Government indicated in its MTEF that it planned to allocate R392m in 2005/06 towards funding NPOs that deliver welfare services. However, in the 2005 Budget the allocation is cut to R280m. What happened in the interim? Why this sudden change in priorities?

A possible explanation is that the 2004 Budget was prepared before the April 2004 elections and so did not take into account the new priorities of the newly elected provincial government. The decision to cut the funding to NPOs is the result of the new provincial government's reprioritisation of expenditures which are only now being reflected in the 2005 Budget. If this is the case, it suggests that the new Gauteng Provincial Government has a very poor understanding of one of the key purposes of the MTEF: namely to promote certainty about allocations in future budgets so as to enable departments, and in this instance NPOs, to plan the delivery of services. Cutting the MTEF allocations for funding NPOs by 30% wreaks havoc with their service delivery plans.

An alternative scenario, is that it would simply not have been good politics to indicate any plans to drastically cut the funding going to NPOs shortly before an election. Rather publish an acceptable budget in 2004, gather the votes and then announce the cut in funding at the next opportunity.

The following table compares the Department's actual expenditures (revised estimates) in the 2004/05 financial year to the budget for 2005/06.

Table 18: Expenditures in 2004/05 compared to allocations for 2005/06

R' 000	2004/2005	2005/2006	Change	
Administration	236,801	245,921	9,120	4%
Social Assistance Grants	5,610,632	6,804,145	1,193,513	21%
Social Welfare Services	489,850	415,578	-74,272	-15%
Development & Support Services	96,668	70,352	-26,316	-27%
Pop Dev and Dem. Trends	1,965	2,536	571	29%
Gauteng Development Unit	2,719	2,710	-9	0%
Special function	208			
Total	6,438,843	7,541,242	1,102,815	17%
Transfers to NPOs	397,519	280,106	-117,413	-30%
Conditional Grants	5,648,851	6,852,390	1,203,539	21.3%
Funds from discretionary revenues	789,992	688,852	-101,140	-12.8%

Table 18 shows that expenditure on social assistance is set to increase by R1.2bn or 21%. As from 1 April 2005 this function is funded by two conditional grants and so the decision to increase the allocation reflects the national government's prioritisation of this function. The only other programme to show a significant increase is 'Administration' which grows by R9.1m. The fact that the Department increases its allocation to administration in the face of cuts to service delivery programmes raises serious questions about its commitment to deliver services to vulnerable groups.

The Social Welfare Services programme is cut by R74.3m or 15% and the Development and Support Services programme is cut by R26.3m or 27%. Thus the total cut to these two programmes amounts to R100.6m. These are the only two programmes from which allocations to NPOs are made. As already noted, the funding for NPOs is cut by R117.4m. This means that an additional R16.8m has been reprioritised away from funding NPOs towards funding the Department's own expenses. In other words the Department has not only shifted the entire burden of the cut to its discretionary revenues onto the NPOs, it has also reprioritised resources away from NPOs.

The following analysis provides a longer-term perspective of how the Department has allocated funds between its various programmes. We have taken the social assistance programme out of the equation so as to focus attention on the remaining programmes. We have also taken the transfers to NPOs out of the programme budgets and grouped them together under 'transfers to NPOs'. This means the figures for programmes are what the department is responsible for spending itself.

Table 19: Social development allocations excluding social assistance

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
1: Administration	5,027	5,860	202,525	236,801	245,921	262,422	278,065
3: Social welfare services	5,713	6,063	112,379	141,678	165,938	178,802	193,217
4: Development & Sup. Services	182,415	187,370	11,420	47,321	39,886	42,334	44,718
5: Population & Demog. Trends	3,725	5,016	1,235	1,965	2,536	2,773	3,033
6: G. Intersectoral Dev. Unit			0	2,719	2,710	2,781	2,974
Other	59,154	61,488	0				
Transfers to NPOs	299,938	332,087	339,503	397,519	280,106	312,402	291,317
Total	555,972	597,884	667,062	828,003	737,097	801,514	813,324

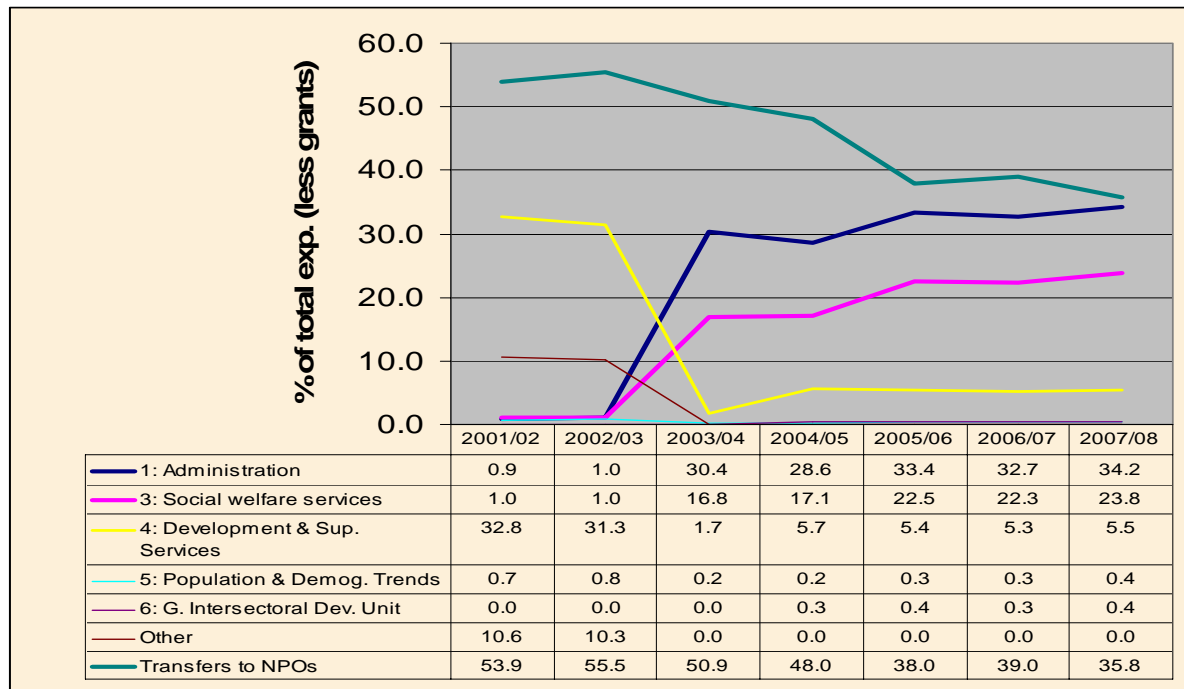
Figure 6: Shares of social development expenditure excluding social assistance

Table 19 and Figure 6 shows that the structure of the Department's budget changed significantly in 2003/04. These changes were associated with the standardisation of the social development budgets across provinces. So for instance the very rapid increase in 'administration' in 2003/04 is due to the reallocation of personnel and other costs primarily from programme 4. Looking at the trends since 2003/04 the following points emerge:

1. Administration shows consistent nominal growth. Increasing from R202m in 2003/04 to R278m in 2007/8. As a percentage of total non-social assistance expenditure administration's share fluctuates around 30%, increasing to 34% in 2007/08.
2. The allocation to 'social welfare services' (excluding transfers to NPOs) grew by 26% in 2004/05 and again by 17% in 2005/06. The growth over the MTEF is about 8%. The increased expenditure on social welfare services is generally welcome, but they need to be interrogated as to whether services are improving at a comparable rate, or whether the extra funding is being absorbed by an increasingly top-heavy management structure. What is notable is that in 2005/06 the Department's own expenditure on social welfare services increases by R24.3m, while transfers to NPOs are cut by R117m.
3. The allocation to 'development and support services' (excluding transfers to NPOs) grew substantially in 2004/05, but has been cut by some 15% in 2005/06.

The following section focuses on trends in the allocations to NPOs.

2.3 Trends in allocations to NPOs

As regards trends in the allocations to NPOs there are three important issues:

1. The fact that the Department's share of non-social assistance expenditure is growing more rapidly than the allocations to NPOs
2. The fact that the transfers to NPOs have fallen in both nominal and real terms; and
3. The fact that the transfers to NPOs have not kept pace with the growth in the demand for services.

Each issue is addressed below.

2.3.1 Department growing at the expense of NPOs and service delivery

It is noted in the introduction that the Department of Social Development's own service delivery targets highlight the fact that NPOs are responsible for delivering most of the social welfare services provided to vulnerable individuals and groups in Gauteng. It was also noted that a cut in transfers to NPOs equates to a cut in the Department's service delivery capacity.

The importance of NPOs is highlighted in Table 20 which shows the breakdown of total non-social assistance expenditure between transfers to NPOs and funds spent by the Department itself. Note that the HIV/AIDS and Development Services conditional grants are included in the figures because they could not be identified at a programme level and so could not be extracted. However, this does not impact upon the analysis.

Table 20: Allocation of non-social assistance expenditure

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Transfers to NPOs	299,938	332,087	339,503	397,519	280,106	312,402	291,317
SD own expenditure	256,034	265,797	327,559	430,484	456,991	489,112	522,007
Total non-social assistance exp.	555,972	597,884	667,062	828,003	737,097	801,514	813,324
NPO transfers as % of total	54%	56%	51%	48%	38%	39%	36%
SD own expenditure as % of total	46%	44%	49%	52%	62%	61%	64%

Table 20 shows that in 2001/02 transfers to NPOs represented 54% of the Department's non-social assistance expenditure. This declines steadily to 38% in 2005/06, and 36% in 2007/08. On the other hand, the share of expenditure that the Department is spending itself is increasing, and in 2005/06 the increase is clearly at the expense of the NPOs.

While it is certainly desirable that the Department develop its capacity, whether it should be taking on the role of delivering services itself is questioned, in light of concerns that:

- A substantial proportion of the extra funds the Department has received over the years has been used to finance increasingly top-heavy management structures; and
- The services provided by the Department itself are in all instances substantially more expensive than the services provided by NPOs.

Various studies indicate that it is more efficient and effective to channel resources to NPOs than for the Department to develop its own capacity to deliver these services. Thus the increase in the Department's share of non-social assistance expenditure is resulting in falling levels of efficiency and effectiveness in the use of these resources. To put it bluntly, the resources are mostly going to officials' salaries, rather than to the delivery of services to vulnerable children.

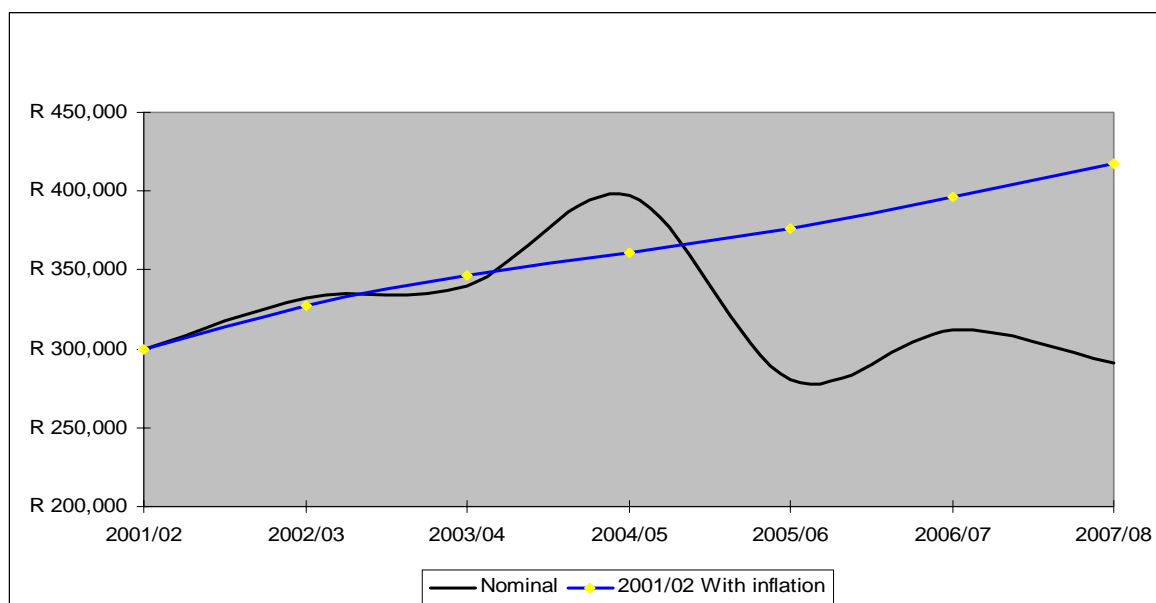
Taking the argument further, the Department has seen its share of non-social assistance expenditure increase by 16% between 2001/02 and 2005/06, at the expense of NPOs. Can the Department demonstrate that it has increased its share of the services delivered to vulnerable groups by a similar percentage? The service delivery targets provided by the Department itself suggest not.

2.3.2 Nominal and real cuts in transfers to NPOs

When considering trends in budget allocations, it is important to evaluate whether allocations are keeping pace with inflation and increases in the demand for services.

Figure 7 shows the allocations for transfers to NPOs for the period 2001 to 2008. The curved black line shows the actual nominal value of the allocations. The straight blue line shows what the nominal value of the allocations should be in order to maintain their real value at 2001/02 levels, i.e. to keep pace with inflation.

Figure 7: Nominal and real cuts in allocations to NPOs



The figure shows that between 2001 and 2004, the Gauteng Provincial Government ensured that the allocations for transfers to NPOs kept pace with inflation. This is reflected by the fact that the curved line tracks the relatively straight line. From 2005 onwards the real value of the transfers to NPOs are set to decline significantly below the 2001 level.

The following table emphasises the points made above, namely that between 2001 and 2004, transfers to NPOs in aggregate were keeping pace with inflation. However, as from 2005 the value of these transfers are to be cut drastically – indeed the nominal value of the transfers in 2005 will be less than the amount transferred to NPOs in 2001. If the nominal value for 2005 is deflated to 2001 Rands then the provincial government is planning to transfer R96m less in real terms than it transferred to NPOs in 2001. In other words if the 2005 allocations get implemented, NPOs will be 26% worse off than they were in 2001.

Table 21: Nominal and real cuts in allocations to NPOs

	2001	2002	2003	2004	2005	2006	2007
Nominal Transfer	299,938	332,087	339,503	397,519	280,106	312,402	291,317
2001/02 Inflated	299,938	327,532	346,529	361,083	376,249	396,190	417,188
Real Shortfall	0	4,555	- 7,026	36,436	- 96,143	- 83,788	- 125,871
Percent Shortfall	0%	1%	-2%	10%	-26%	-21%	-30%

Table 21 also shows what the nominal value of the transfers to NPOs should be if they are simply to keep pace with inflation. For instance, in 2005/06 the value of the transfers to NPOs should be R376m so as to keep the real value of allocations the same as they were in 2001. This would simply be compensating for the effect of inflation, and not make provision for any growth in demand for services.

2.3.3 Allocations to NPOs ignore growth in service delivery demand

Given the realities related to HIV/AIDS and other socio-economic factors the demand for social welfare services is growing. There are more orphans, and more old people without families to care for them. Also greater awareness regarding the abuse of women and children means that more cases are coming to light.

The allocations for funding transfers to NPOs do not take this growth in service delivery demand into account. The following table presents two scenarios. The first looks at what the allocations for funding transfers to NPOs should have been in order to provide for a 2,5% increase in the demand for services. The second scenario looks at the allocations if demand grows by 5%.

Table 22: Growth in service delivery scenarios

	2001	2002	2003	2004	2005	2006	2007
Nominal Transfer	299,938	332,087	339,503	397,519	280,106	312,402	291,317
Scenario 1							
2.5% Growth	299,938	307,436	315,122	323,000	331,075	339,352	347,836
2.5% inflation adjusted	299,938	335,721	364,072	388,847	415,308	448,253	483,810
Shortfall	0	3,634	24,569	- 8,672	135,202	135,851	192,493
Shortfall %	0%	1%	7%	-2%	33%	30%	40%
Scenario 2							
5% Growth	299,938	314,935	343,909	363,856	379,138	395,061	416,000
5% inflation adjusted	299,938	343,909	397,330	438,031	475,599	521,839	578,620
Shortfall	0	11,822	57,827	40,512	195,493	209,437	287,303
Shortfall %	0%	3%	15%	9%	41%	40%	50%

This table shows that if the growth in demand for the services offered by NPOs is a relatively modest 5% per annum then the provincial government is in fact planning to 'underfund' NPOs by R195m or 41% in 2005 compared to 2001. This is set to increase to R287m or 50% in 2007. Expressed differently: if NPOs were meeting 50% of the total demand for their services in 2001, they will only be able to meet 25% of the demand for their services in 2007.

2.4 Critique of the Department's rationale for cuts to NPO transfers

In an effort to justify why the allocations for funding transfers to NPOs have been cut, the Department of Social Development presented the explanation outlined in the box below to the Portfolio Committee on Social Development. The explanation was included in a document 'Balancing of Budget to identify under funding'.

BALANCING OF BUDGET TO IDENTIFY UNDERFUNDING				
	2002/03	2003/04	2004/05	2005/06
TOTAL ALLOCATION PER ALLOCATION LETTER	3,888,937	5,111,442,	6,342,534,	7,541,242,
Social Assistance Grants	3,333,481	4,436,822	5,643,334	6,804,145
Discretionary Allocation	355,871	385,276	407,941	664,432
CAPEX Allocation (1)	9,256	2,000	7,000	24,420
HIV/AIDS Allocation from Health	8,000	10,000	25,550	
National Conditional Grants	200,841	281,344	258,709	48,245
ACTUAL EXPENDITURES				
CAPEX Allocation	34,744	22,000	24,420	24,420
Subsidies to NGOs	328,276	294,578	348,172	250,411
Personnel spending	176,934	207,888	242,869	(2)317,609
Goods and Services	252,891	298,263	327,463	(2)450,031
Personnel spending	176,934	207,888	242,869	(3)236,258
Goods and Services	252,891	298,263	327,463	(3)183,382
ANALYSIS OF SHORTFALL				
	2002/03	2003/04	2004/05	2005/06
Discretionary Allocation	355,871	385,276	407,941	664,432
Less: Total Personnel and Goods and Services	429,825	506,151	570,332	419,640
Difference (4)	(73,954)	(120,875)	(162,391)	244,391
Notes:				
1.	The funds transferred to Public Works for capital works and maintenance was more than the capital allocation. This is due to minor capital works funded from Good and Services allocation and not easily identical (sic)			
2.	Include Social assistance Grant Admin costs			
3.	Exclude Social assistance Grant Admin costs			
4.	As the difference is negative for previous years, there is no way NGOs could have been funded from Discretionary.			

The essence of the Departments argument can be reduced to three statements:

1. The allocations for funding transfers to NPOs represent about 80% of the discretionary funding allocated to the Department in its Allocation Letter. This leaves no space for paying for personnel and goods and services. Therefore the funds for the transfers to NPOs could not have come only from the Department's discretionary allocation.
2. The funds for transfers to NPOs could not have come from the discretionary allocation since expenditure on personnel and goods and services exceeds the discretionary allocation.
3. The decrease in the allocation for funding NPOs can be attributed to the ring-fencing of the Social Assistance Grant and an inadequate discretionary allocation.

Critique of the Department's explanation

We agree with the Department's basic conclusion that it has been given an inadequate discretionary allocation. However, the Department's view that NPOs were funded from the over-funding of social assistance grants, and therefore they must bear the brunt of the cut to the Department's budget is inaccurate and misleading. Our reasons for saying so are set out below.

When evaluating the validity of the Department's rationalisation for the cuts to the transfers to NPOs, the first point to keep in mind is that prior to 1 April 2005 provinces were responsible for funding social assistance from their provincial discretionary revenues. Therefore even though the annual Allocation Letter to the Department distinguishes between funding for 'Social Assistance Grants', and the Department's 'Discretionary Allocation', the distinction is in fact spurious. Both amounts were paid out of the province's discretionary revenues, and therefore apart from rules governing virement there were no legal impediments preventing the use of the Social Assistance Grants allocation for other departmental purposes. The extent to which the provincial government 'over funded' the allocations for Social Assistance Grants is set out below.

Table 23: Over-funding of the Social Assistance Grants allocation

	2002/03	2003/04	2004/05	2005/06
Social Assistance Grants as per Allocation Letter	3,333,481	4,436,822	5,643,334	0
Add conditional grants from national for social grants	192,506	243,750	220,490	6,804,145
Total funding available for paying social grants	3,525,987	4,680,572	5,863,824	6,804,145
Social grants transfers to households	3,207,228	4,455,626	5,402,090	6,454,145
Over-funding of Social Assistance Grants	318,759	224,946	461,734	350,000

Table 23 shows that in the three years prior to 2005/05, the Gauteng Provincial Government consistently over-funded Social Assistance Grants. Since these funds came from the province's discretionary revenues the over-funding of social assistance could be 'reallocated' to cover the under-funding of the rest of the Department of Social Development's budget. Note that the 'over funding' in 2005/06 is the Social Assistance Grants Administration conditional grant that national government has allocated to Gauteng to pay for the administration of social grants.

The second issue that needs to be kept in mind is that the Department has consistently overspent its total allocation, or stated differently, the Department has been consistently under-funded. This is shown in Table 24 which compares the Department's total revenues to its total expenditures.

Table 24: Under-funding of the Department of Social Development

	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Total Revenues	2,930,319	3,888,937	5,111,442	6,342,534	7,541,242	8,398,442	9,043,707
Total Expenditures	3,017,384	3,974,838	5,312,760	6,438,843	7,541,242	8,398,442	9,043,707
Under funding	(87,065)	(85,901)	(201,318)	(96,309)	-	-	-

Table 24 shows that since 2001/02, and probably even before that, the Department has been overspending its allocation. The level of overspending is remarkably consistent, which suggests

that the cause of overspending is not a lack of fiscal discipline, but rather that the Gauteng Provincial Government has been under-funding the Department as a whole on a consistent basis: 15% in 2002/03, 32% in 2003/04 and 13% in 2004/05. Table 23 shows that the obligation to pay social assistance grants is not the source of the overspending/under-funding, but rather that the problem lies with the under-funding of the non-social assistance programmes.

Taking the above two points into consideration, Table 25 shows what discretionary revenues were used by the Department to fund non-social assistance programmes, taking into account the expenditures associated with the administration of social assistance.

Table 25: Discretionary revenues used for non-social assistance

	2002/03	2003/04	2004/05	2005/06
Discretionary allocation as per Allocation Letter	355,871	385,276	407,941	664,432
Over-funding of Social Assistance Grants	318,759	224,946	461,734	350,000
Overspending/under-funding of Department	85,901	201,318	96,309	-
Total available for non-social grants expenditures	760,531	811,540	965,984	1,014,432
Personnel for social grants administration	32,289	6,941	7,018	81,351
Goods and services for social grants administration	136,409	182,430	200,986	266,649
Total available for non-social assistance programmes	591,833	622,169	757,980	666,432
Transfers to NPOs	328,276	294,578	348,172	250,411
Personnel expenditure (excl. social assistance)	144,645	200,947	235,851	236,258
Goods and services (excl. social assistance)	116,482	115,833	126,477	183,382
Total non-social assistance expenditure	589,403	611,358	710,500	670,051
(unexplained difference)	2,430	10,811	47,480	-3,619

Table 25 shows very clearly that the Gauteng Provincial Government has decided to cut its allocation for funding the Department's non-social assistance programmes by at least R93.5m. This is the difference between the total available for non-social assistance programmes in 2004/05 (i.e. R757.9m) and the discretionary allocation as per the Allocation Letter in 2005/06 (i.e. R664.4m). As shown above, non-social assistance programmes have always been funded from the province's discretionary revenues. So the Department's argument that the ring-fencing of the social assistance funding into conditional grants is partly to blame for the cut to the Department's discretionary allocation is a red herring. If anything the shifting of the social assistance function to national government, enables the Department and the provincial government to budget more accurately for the non-social assistance programmes, since they no-longer bare the risk of funding social grants.

Table 25 also shows that there is absolutely no basis for arguing that the transfers for NPOs were paid out of the over-funding of Social Assistance Grants. The Department puts forward this argument in order to justify the fact that it has shifted the full burden of the cut to its discretionary allocation onto the NPOs. This argument is patently false. Not only is it false, but it is morally bankrupt, since the Department uses it to justify protecting the livelihoods of departmental officials at the expense of service delivery to vulnerable individuals. One could equally argue that the personnel associated with the non-social assistance programmes were paid for out of the over-funding, and therefore they should be cut. Or for that matter, the Administration programme was paid for out of the over-funding, and it should be cut. One could even argue that the HOD's salary was paid for out of the over-expenditure of the Department!

What emerges clearly from Table 25 is that all non-social assistance programmes benefited from the over-funding of social assistance grants in the past. Thus there is no reason to argue that only one area of that expenditure (i.e. NPOs) must bare the brunt of the provincial government's decision to cut the discretionary funding of the Department.

In instances where the Department does face a funding cut, surely the way in which the cut gets implemented should be guided by the 'best interests of clients, especially vulnerable clients'. However, it is evident that in the current circumstances the Department is being guided by the 'best interests of officials'.

2.5 Impact of cutting transfers to NPOs

So far we have looked at the origin and extent of the cut to the transfers to NPOs. This section discusses the possible impacts the cuts will have on NPOs and their ability to provide services. It has already been noted that the NPOs who are funded by the Department provide services to vulnerable people. In nearly all instances these are people who are in desperate need of the help the NPOs provide. They cannot afford to access the necessary services or support through private care. If they are ignored their already desperate plight is going to worsen and in many cases decline to chronic levels.

As part of our evaluation of the impact of the funding cut, we sent out a questionnaire to a range of NPOs. Due to time constraints the sample size is relatively small, but we believe the picture gained from these NPOs is probably fairly representative.

All the NPOs that responded to the questionnaire noted that they are struggling to survive financially and all their employees are under financial pressure - barely able to make ends meet. Unlike in government, it is not unusual for the employees of NPOs to accept cuts in pay in order to ensure the NPO survives and is able to service its clients. All the NPOs noted that a reduction in support from provincial government will force them to cut services and internal capacity building programmes.

Most noted that the geographical areas where they will have to cut services first will be the poorest areas. This is because they are the most costly to serve and also provide the least revenue. The kinds of services they are likely to cut first are the wide reaching campaign style services they offer. Examples of these are HIV/Aids prevention workshops, drug abuse awareness workshops and child and sexual abuse workshops. Most NPOs are overburdened with emergency cases and therefore the pro-active preventative programmes will have to be sacrificed to deal with what is most urgent. This is unfortunate since the preventative programmes have the widest reach and result in significant long-term benefits for society. The dilemma the NPOs face is choosing between say a campaign to prevent child abuse and dealing with children that have been abused. In the face of a funding cut, the NPOs indicated that they would focus on providing services to the abused child.

Thus a direct consequence of the funding cut will be that NPOs will do less preventative work with the consequence that the illnesses/social problems in communities will intensify. Children will not be told of the dangers of drug abuse, communities will not be educated about the rights of women and children. People with psychiatric problems or that are HIV+ will not be identified early, when they are relatively inexpensive to treat. Instead they will progress to chronic stages where they will require costly medical attention that government has a legal obligation to provide. The main reason why these illnesses are identified early is because of a lack of awareness and stigma. Preventative and awareness campaigns work to address both these

problems. This facilitates cases either being treated through community support networks in very cost effective ways or making sure the problems are treated by professionals at early stages and therefore economically. Clearly a stitch in time saves nine. If government invests correctly now to address welfare problems the cost of addressing these problems will decrease substantially. A lack of investment now will require substantially larger investments in future to rectify the problems.

Alternative sources of revenue for NPOs are difficult to come by. NPOs complain that they have to compete with other NPOs for donations. There is a sense that communities are "over begged". International donors appear to play a limited role in assisting NPOs and due to the substantial time, energy and cost required to access these funds many of the smaller NPOs do not make much use of this source of revenue. Corporate donors are becoming less and less willing to donate to NPOs – their argument is that they pay their taxes, and so government should be covering the cost of these services. Another complicating fact is that corporate donations are generally only for capital assets or direct programme costs. They do not want to cover the cost of overheads or salaries, but rather something visible like a car that boasts an emblem, specific projects that can be used to promote a brand etc. Therefore as government funding falls so too will investments from the corporate sector simply because the support they are willing to give cannot be used in the way they want it to be used. Another alternative source of funding is from the National Lottery Fund, but many NPOs noted that trying to access these funds is like playing the lottery.

The general comment made by all NPOs is that fundraising is time consuming, takes them away from delivering services and does not yield much in terms of results. The return on their time will be substantially larger if their funding was certain. For many NPOs, government is about the only source of funding that they see as more or less predictable and reliable. Predictable funding allows organisations to plan. Planning allows organisations like NPOs to ensure their programmes effectively achieve the desired objectives and outcomes. Without the ability to plan properly service delivery risks becoming ad hoc and reactive instead of pro-active, preventative and thus more effective.

The impact that the funding cut will have on NPOs goes beyond just their ability to deliver services. It decreases morale, fuels resignations and decreases NPOs investments in internal capacity building. All of this affects the quality of services provided by the NPOs. Poorer services have significant and costly long-term consequences that could be avoided by ensuring proper intervention in the first place.

The sadness is that not only will decreased spending on NPOs at this time cause real problems, but for many it is likely to be the straw that breaks the camels back – they will be forced to close. By contrast small increases in funding will create disproportionately larger benefits to the community. What is meant here is that a 10% increase in spending on NPOs will allow them to increase the number of people they serve by substantially more than 10%. This is due to a number of reasons. Firstly they will have more money to invest in awareness campaigns that reach large numbers of people. Secondly the NPOs have larger client to employee ratios than government, meaning one additional employee means many more clients served. Thirdly, increased funding means they can hire more administrative staff at a relatively low cost compared to social workers and free up social worker time to allow for increased service delivery. Administrative staff can also free up management time to fund raise. Lastly, partly due to the government's iniquitous policy for funding social workers working for NPOs, these workers get excited by small increases to their salaries, this boosts staff morale with benefits for service delivery. It would also aid staff retention, a big problem for most NPOs.

Although profit is not one of their motives NPOs have to use their limited resources to achieve the best return. Travelling long distances to see clients is costly and when the funds aren't available the costs cannot be covered. When the time it takes to walk a long distance through a crowded informal settlement to visit one client could be used to see several clients at a suburban office it makes sense to focus on the more accessible clients. Not just because more is more, but an NPO desperate for funding is going to try their best to get numbers in their books to impress potential donors.

Trying to evaluate the economic impact of not funding welfare services provided by the NPOs in terms of increased crime and the cost of treating chronic cases of illness, rape victims, abused children, drug addicts and others will only capture a very small part of the actual effect. The absence of development as a result of not allowing social and economic development to work together is what actually needs to be measured and that at best can only be estimated. A society in which children are abused cannot develop as fast as one in which children are not abused. A society that is subject to crime generated by drugs will not develop as fast as a society free of drugs. A society in which rape is common will not develop as successfully as a society where women's rights are promoted and women are encouraged to be productive members of the community. Communities may have the necessary physical infrastructure to develop, but if the social fabric is in tatters then the economic development will not happen.

In Gauteng the provincial government is clearly focussing on building things, rather than building communities and caring for the most vulnerable. It is so much easier to win votes by putting money into visible forms of investment such as railroads, housing and other economic projects but without the intangible investments in vulnerable and marginalized communities the desired levels of social and economic development will remain unattainable.

3 Provincial Comparisons

This section compares budget trends in Gauteng with what is happening in other provinces.

The focus is on:

1. Trends in expenditure on social services;
2. Trends in expenditure on social development, including social assistance and excluding social assistance; and
3. Trends in the allocations for funding NPOs.

Each issue is discussed separately.

3.1 Prioritisation of social services

Figure 8 below compares each province's expenditure on social services (Education, Health and Social Development) as a percentage of total provincial expenditure. Note that the average light blue line shows the average for all provinces excluding Gauteng.

Figure 8: Expenditure on social services as percentage of total provincial budget

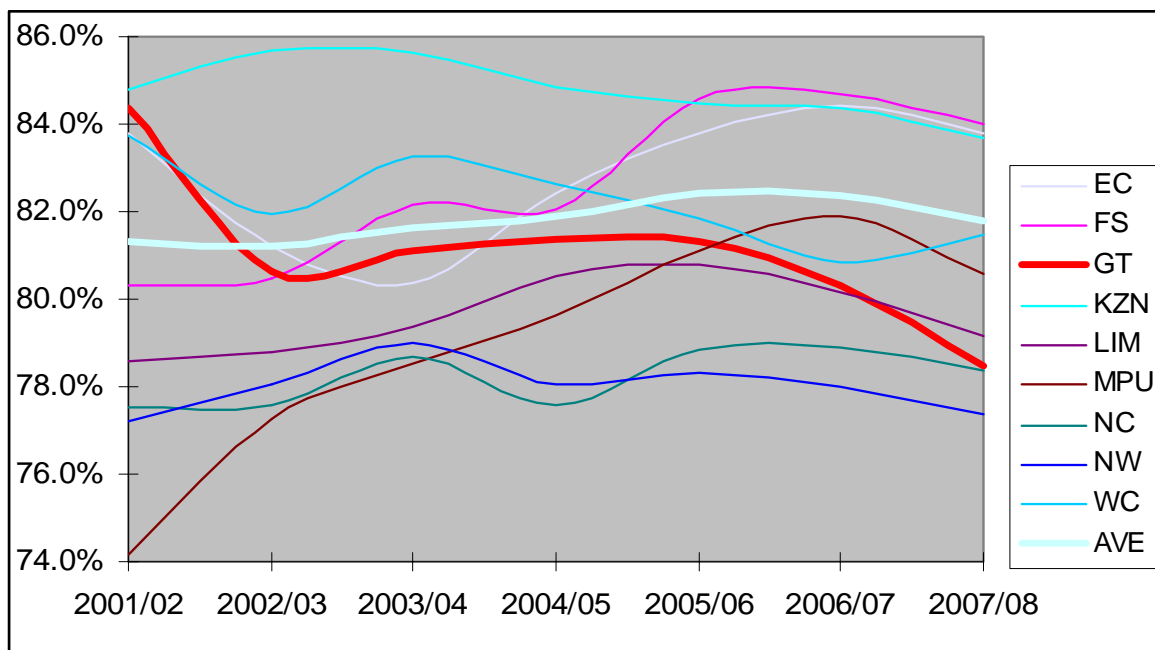


Figure 8 shows that the percent of Gauteng's budget allocated to social services has decreased from 84% in 2001/02 to about 81% in 2005/06. This is set to decrease further down to about 78.5% in 2007/08. By contrast the average for all the other provinces shows a remarkably stable trend between 81 and 82%. Note that over the MTEF period, Gauteng is reprioritising its expenditures away from social services to a far greater degree than any other province. This suggests that Gauteng is out of step with the rest of the country as far as its prioritisation of spending on social services is concerned.

3.2 Trends in allocations to Social Development

Figure 9 below compares each of the province's allocation for Social Development as a percent of the total provincial expenditure.

Figure 9: Social development as a percent of total province expenditure

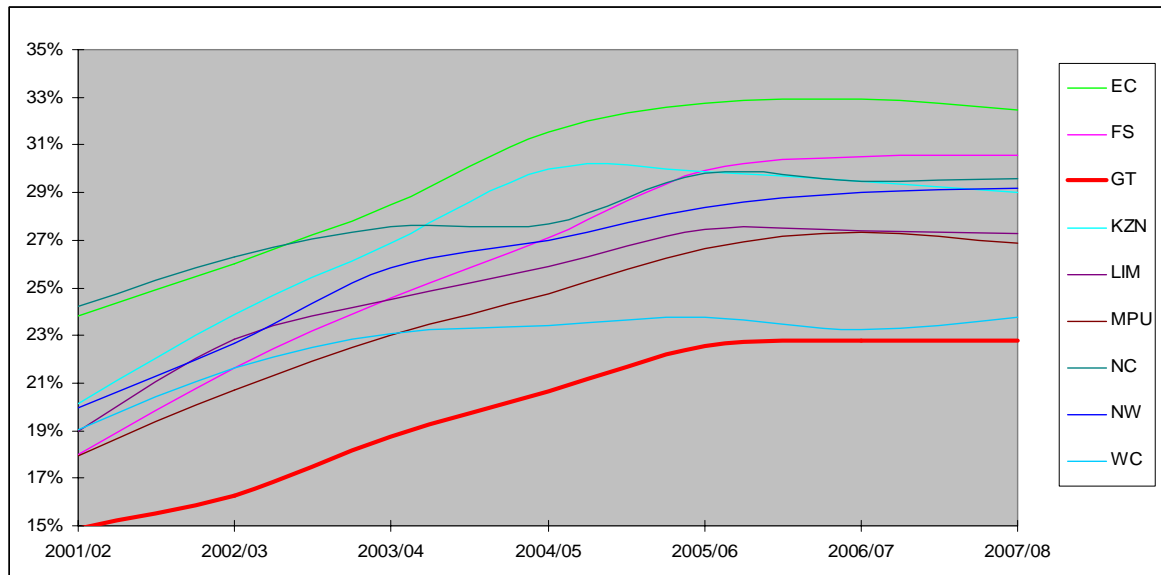


Figure 9 shows that Gauteng has consistently spent less on Social Development as a percent of total provincial expenditure than any other province. The general trend has clearly been upward since the start of the period under review. This is almost entirely due to growing expenditure on social assistance grants. Gauteng's relatively high average per capita income probably is the main reason why the province allocates a smaller percent of its budget to Social Development than the rest of the provinces.

3.3 Trends in allocations to NPOs

When comparing trends in allocations to NPOs across provinces it is important to keep in mind the relative size of the populations of different provinces, as well as the strength of the NPO sector. Gauteng, along with the Western Cape, is in a very fortunate position to have a very strong NPO sector. Other provinces are seeking to grow their NPO sectors so as to be able to service the needs of vulnerable individuals and groups more effectively.

Figure 10 shows the total transfers to NPOs by each Department of Social Development in each of the provinces.

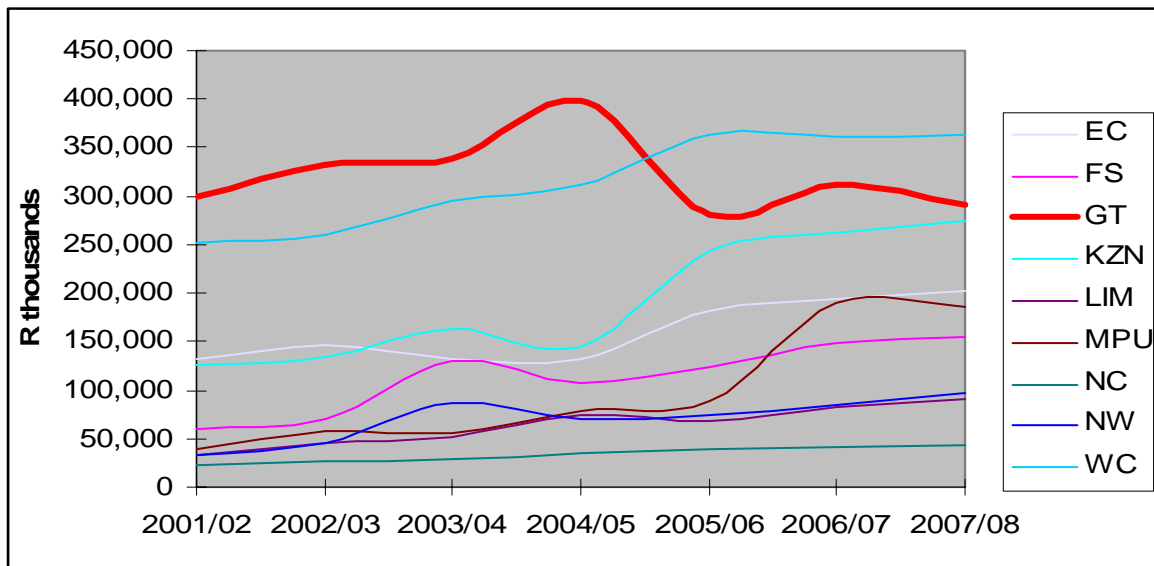
Figure 10: Provinces' allocations to NPOs

Figure 10 shows that Gauteng is the only province to cut its allocation to NPOs in 2005/06. Every other province has taken the opportunity afforded by the shift in responsibility for social assistance to increase their contributions to NPOs.

Figure 11 compares the trend in the real value of allocations to NPOs across provinces since 2001. The percentage value on the Y-axis is the difference between the nominal allocations made to NPOs (what they actually get) and the amount they would have got if the allocations made in 2001/02 had grown at the same rate of inflation as a percentage of the 2001/02 allocations adjusted for inflation. Therefore, if the transfers from a province to NPOs were equal to the transfers made in 2001/02 in real terms the Y-value would be zero. Any values above zero show a real increase compared to 2001/02. Any values below zero show the transfers are less than the amount transferred in 2001/02 in real terms.

Note that values for Mpumalanga are not shown, since the growth in allocations to NPOs has been so significant in this province that it would skew the rest of the figure making it difficult to read. For instance, in 2006/07 Mpumalanga intends increasing the real value of allocations to NPOs by 261%, and a similar amount the following year.

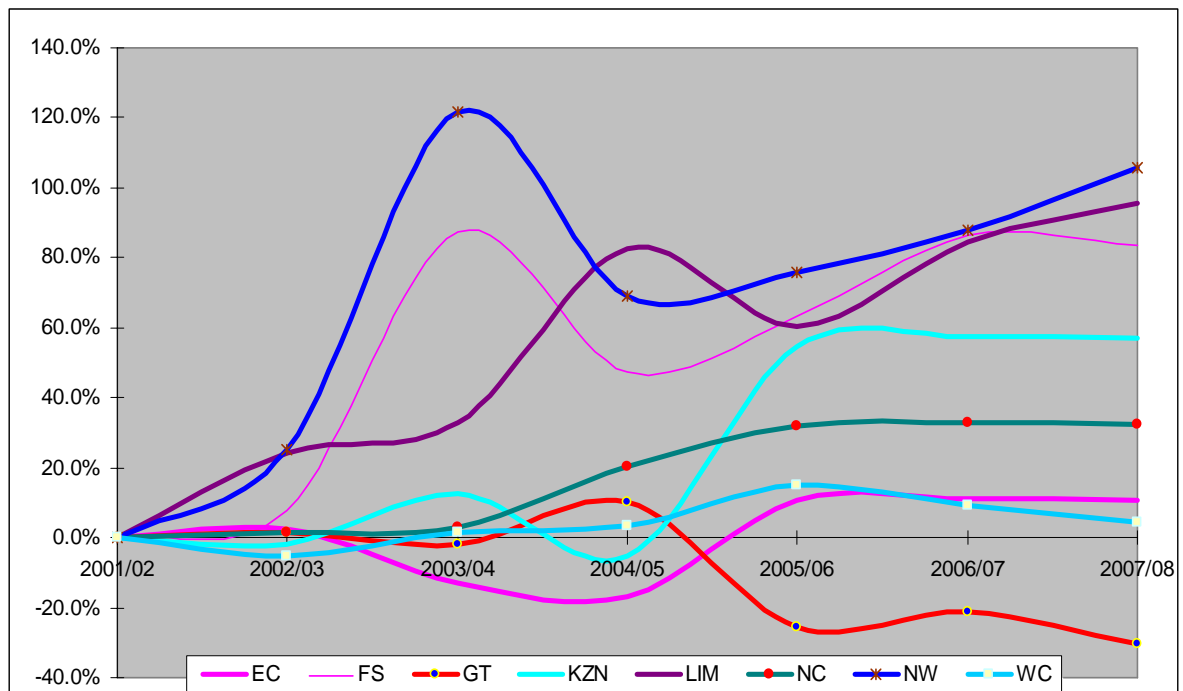
Figure 11: Trend in the real value of allocations to NPOs since 2001

Figure 11 shows that the allocations made by the Gauteng Provincial Government to NPOs have generally remained in line with the real value of transfers made to them in 2001/02. This is in stark contrast to trends in other provinces. Also note that from 2004/05 onwards Gauteng is the only province whose transfers to NPOs are lower in real terms than they were in 2001/02. During the same time period the transfers made by other provinces grow strongly in real terms. Clearly Gauteng is completely out of step with the trend in the rest of the country when it comes to funding NPOs.

4 Compounding Issues

This section refers briefly to a number of issues that have been raised or should be raised in the debate around the Gauteng Provincial Government's decision to cut the allocation to NPOs.

4.1 Risk of over-emphasising self-reliance

A theme that recurs in budget speeches and documents on social assistance is that South Africa needs to adopt a so-called 'developmental social welfare' paradigm. The definition of this paradigm used by the National Department of Social Development is: "Developmental Social Welfare focuses on social protection, the maximization of human potential and on fostering self-reliance and participation in decision-making. It also stresses services that are family orientated, community-based, and integrated (United nations: 1987)." The theme of self-reliance is a strong element in this paradigm, and the one most often emphasised by government.

The MEC for Finance of Gauteng made the following comments in his 2005 Budget Speech "the provision of social infrastructure and services is vital to improving the quality of life of people...the provision of social grants, itself, does not automatically take people out of poverty."

The MEC for Finance goes on to say that the solution is found in going beyond "*just the provision of social infrastructure and services. We must ensure that we intrinsically link issues between the first and second economy*" and the approach to doing this is by spending money on "*facilitating, enhancing and increasing domestic and foreign direct investments in infrastructure, other local development initiatives in targeted zones; increasing tourism and film production in Gauteng; ensuring and promoting development and sustainability of Broad Based Black Economic Empowerment, SMME's and co-operatives in the Province; ensuring sound financial management in the Province and increasing provincial revenue and initiate new sources of own revenue.*" In all the provincial budget speeches the emphasis is on economic growth and job creation. Social welfare is not a priority.

It is appropriate that government pursue strategies that create self-reliant communities, which in turn will increase the sustainability of social assistance programmes. However, in emphasising self-reliance, there is a risk of neglecting those that are not and cannot be self-reliant. Many of the welfare services provided by government and NPOs are provided to clients who cannot expect to be self-reliant in anyway. For example HIV/Aids orphans will always be reliant until a certain age. Older persons without immediate families and independent means will always be reliant on the state. The Gauteng Provincial Government needs to acknowledge that there are certain groups of people that will always be reliant on the state, and that no amount of economic growth and job creation is going to change this. And that this fact needs to inform budget decisions.

4.2 Constitutionality of cutting the allocation to NPOs

As noted in the introduction, it is our view that the Gauteng Provincial Government's decision to cut the allocation for funding NPOs is unconstitutional. Our arguments in this regard are as follows:

1. Table 5 shows that in 2005/06 the Gauteng Government received in excess of R1bn extra funds through the equitable share, after adjusting for the impact of the shift of the social assistance function to national government. The provincial government therefore cannot

argue that its 'available resources' are more constrained in 2005/06 than they were in 2004/05.

2. Table 3 shows that Gauteng's own revenues decline by R300m between 2004/05 and 2005/06. In section 1.2.2 we note that Gauteng has budgeted to collect only R13m more in own revenues from taxes and fees etc. in 2005 than it did in 2004 and that this amount could be substantially higher (possibly as much as R60m) if the provincial government showed greater commitment to raising own revenues effectively. To the extent that there is some pressure on the Gauteng Government's discretionary revenues, this is partly due to its own failure to manage own revenues effectively. The impact of this failing should not be visited on the most vulnerable members of society.
3. Table 9 and Figure 1 show that Gauteng has budgeted for a surplus of R115m in 2005/06, R207m in 2006/07 and R388m in 2007/08. There are therefore unallocated resources available in the Gauteng Budget, and so absolutely no-reason why the allocations to NPOs should be cut.
4. Table 16 and Figure 5 show that the Gauteng Provincial Government has prioritised a range of Special Projects, particularly the Gautrain, at the expense of social services, including allocations to NPOs. In our view the reprioritisation is so extreme that it is unreasonable, hence the provincial government is failing to take 'reasonable' measures to achieve the progressive realisation of vulnerable individuals' rights, and has failed dismally to put the interests of vulnerable children first.
5. Section 2.2 shows that the Department of Social Development has imposed on NPOs the full impact of the provincial government's under-funding of the function. Not only that, it has 'reprioritised' an additional R16.8m away from funding NPOs towards funding the Department's own expenses. In other words the Department has done absolutely nothing itself to absorb the impact of the cut to its discretionary revenues. In fact it has aggravated the plight of NPOs by reprioritising resources away from them. Then to add insult to injury, the Department has put forward spurious arguments to justify its actions. The behaviour of the Department is unreasonable, and most certainly not in the interests of vulnerable groups.
6. The Department's Directorate for Partnerships and Financing has produced a document in which it shows who will be affected by the cut in funding. The document is careful to point out that all programmes that deal with children will receive the same nominal level of funding as last year. We acknowledge that this is an attempt to place the interests of children first. But as our analysis in sections 2.3.2 and 2.3.3 shows that keeping nominal allocations constant still means there is a real cut in the value of the allocation, and that no provision is being made for growth in the demand for services. Therefore the Department is cutting even the allocations for programmes serving vulnerable children in real terms.

4.3 Department of Finance and Economic Affairs: a conflict of interests

As a matter of principle, good governance and in light of the current structure of Gauteng's budget, it is our view that it is inappropriate that the MEC for Finance and the provincial treasury in Gauteng are also responsible for 'economic affairs', particularly the 'special projects'. The provincial treasury is supposed to conduct independent analysis of the costs and benefits of the provincial government's different spending options, and to advise the MEC for Finance and the Executive Council on the appropriate course of action.

It is our contention that the Gauteng provincial treasury labours under a serious conflict of interests when analysing and advising on matters related to 'economic development' and the 'special projects'. The provincial treasury is responsible for these functions. They form part of the 'empire' of the MEC, the HOD and other treasury officials. The very aggressive reprioritisation of expenditures towards the projects for which the provincial treasury is responsible, and away from social services, certainly suggests serious and inappropriate bias.

4.4 Budget gaming

In the past certain provinces have sought to play 'budget games' in an attempt to extract additional resources from national government. The basic format of these games is as follows: the province under-budgets for the provision of a high profile essential service (most often social grants), and redirects the funds to some or other 'development project'. When the provincial department responsible for the essential service is unable to deliver the service due to lack of funds it appeals to national government for help, often using the media to highlight its plight. The aim is to embarrass the national government into intervening with additional funds. Needless to say this kind of gaming has not succeeded due to the firm line taken by the National Treasury, regarding 'bail outs'. It also goes without saying that playing such 'games' is cynical and detestable, as it places the delivery of services to vulnerable groups at risk.

Gauteng's decision to cut the allocation for funding NPOs has all the typical elements of a 'budget game': a cut to the funding of a high profile set of essential services, reallocation of the funds to 'special projects' and a lot of publicity that places the national government under pressure to intervene (hopefully with funds). Obviously, neither the provincial government nor the provincial treasury would ever admit to 'playing games' – but when one joins all the dots together the evidence speaks for itself.

4.5 Subsidising NPOs versus contracting for services

When a government department contracts a company to deliver printing services, a contract gets signed that should include a price to be paid and a description of the services to be delivered. If either party does not perform in terms of the contract they can be sued for non-performance. It would be unusual for a company to deliver printing services if the department offered to only pay part of the price, or offered to subsidise an unspecified portion of the cost of the printing. And yet when it comes to funding essential welfare services for vulnerable individuals this is exactly what the Department of Social Development does.

The Department only subsidises the 'purchase' of welfare services, instead of contracting properly with NPOs, in the same way as it would contract with a printing company. The Department claims it wants to work in partnership with NPOs, but this is no reason for not paying the full cost of welfare services provided by NPOs, and for not concluding proper contracts with NPOs for the delivery of welfare services.

5 Conclusion: Moving forward

5.1 Commitment to increase allocations to NPOs

On 27 May 2005, the MEC for Social Development, Mr Bob Mabaso, told a hearing of the Portfolio Committee on Social Development that he had discussed the issue of the cut to the allocation for funding NPOs with the Department of Finance and Economic Affairs, and that he had been given the assurance that there are plans to increase the allocation for 2005/06. This assurance was confirmed by the HOD for the Department of Social Development and an official from the Department of Finance and Economic Affairs. However, the MEC did not give any further details as to what the planned increase in the allocation would be.

Simply restoring the level of the allocation to what was given last year, i.e. R401.6m, according to the Department's figures, would not be acceptable in light of the preceding analysis particularly as regards the impact of inflation and demand growth. Restoring the allocation to last year's level would still mean that the allocation is being cut in real terms, and no provision is being made for growth in demand.

Based on our calculations presented in Table 22, we propose that the allocations for funding NPOs in 2005/06 and over the MTEF should, at the very least, restore the real value of the allocations to their 2001/02 levels, and provide for a 5% growth in demand for services. This means that the allocations for NPOs should be restored to the following levels:

- 2005/06: R475,6 million
- 2006/07: R521,4 million
- 2007/08: R578,620 million

This is well within the available resources of the province, given the fact that there is an unallocated surplus provided for in the current 2005 Budget, which can be utilised. This is demonstrated in the following table:

Table 26: Funding appropriate allocations to NPOs over the MTEF

	2005/06	2006/07	2007/08
Current allocation for funding NPOs	280,106	312,402	291,317
Proposed allocation for funding NPOs	475,599	521,839	578,620
Difference: required increase to current allocation	195,493	209,437	287,303
Current budget surplus	114,706	207,493	388,243
Difference to be made up by appropriate reprioritisation	(80,787)	(1,944)	100,940

Table 26 shows that only in 2005/06 is the existing budget surplus insufficient to meet the proposed increases to the current allocation for funding NPOs. The shortfall of some R80m is about 7% of the allocation to 'Special Projects' in 2005/06. We suggest that the provincial government use the MTEF to arrange an inter-temporal trade-off whereby R80m is taken from 'Special Projects' in 2005/06, and then the R100m surplus in 2007/08 (or part thereof) gets allocated to 'Special Projects' to compensate them for the earlier 'loss'.

5.2 Options for action by the Committee

The Portfolio Committee on Social Development of the Gauteng Legislature needs to be complemented for playing a pro-active role in seeking to resolve the current crisis to the benefit of vulnerable individuals and groups. In the spirit of seeking ways to resolve the crisis appropriately, we take the liberty to suggest a range of actions that the Committee may consider taking.

Firstly, the Committee needs to decide for itself what an acceptable resolution of the crisis would be. In this regard, we recommend the proposal outlined above, namely that the revised allocations for funding NPOs in 2005/06 and over the MTEF should, at the very least, restore the real value of these allocations to their 2001/02 levels, and provide for a 5% growth in demand for services.

Once the Committee agrees what outcome it would like to see achieved, there are a number of actions it may consider taking:

1. The most drastic action the Committee can take is to recommend to the House that it should not approve Vote 6 of the 2005 Budget, unless the MEC for Finance tables an amended Appropriation Bill that increases the allocations for funding NPOs to the required levels, and provides for any other adjustments that may be necessary.

The advantage of this line of action is that it would cause the crisis to be resolved quickly and decisively.

2. A less drastic line of action would be for the Committee to recommend to the House that it approve Vote 6 of the 2005 Budget, and at the same time recommend that the House pass a resolution that the MEC for Finance must prepare and table in the House by a specified date an adjustments budget that increases the allocations for funding NPOs to the required levels, and provides for any other adjustments that may be necessary.

The advantage of this line of action is that it does not delay the passing of the 2005 Budget yet further. A potential disadvantage is that the MEC for Finance and Department of Finance and Economic Affairs may choose to regard the resolution as non-binding, and so not respond appropriately.

3. The least drastic line of action would be for the Committee to recommend to the House that it approve Vote 6 of the 2005 Budget, and to recommend that the MEC for Finance make the desired adjustments in the adjustments budget that is normally tabled in November.

The risk of this approach is that it may not result in the desired outcome.

From the vantage point of NPOs, they would like to see the crisis resolved as quickly as possible, and with the minimum degree of uncertainty. In this regard, Option 1 above would serve their interests best, create certainty and enable them to concentrate on delivering services to vulnerable individuals, rather than campaigning to be given a fair share of the provincial budget.