

Slow state spending endangers growth and service delivery

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As cabinet meets to plan for the year it should worry that budgets are not being spent

When cabinet sits down at its annual lekgotla this week and prepares for the year's biggest political set pieces next month — the state of the nation speech and the budget speech — it should first cast an eye over the expenditure numbers so far.

Government spending, particularly capital spending, has been slowing, a sign that budgets are not being spent and as sure an indication as any that social delivery in the key areas of education, health, roads and housing is not happening as fast as it needs to.

The cabinet lekgotla, which is a key event in the government planning cycle, evaluates progress and sets goals. However, before ambitious new plans are adopted, government must urgently find ways to realise the plans already laid out, for which funds are now lying idle.

A good indicator of whether government programmes are on track is provincial capital spending. Provinces receive the bulk of resources allocated for education, health, housing and roads.

Overall, says national treasury, which last month published numbers for the first six months of government's financial year, starting in April, there is a steep decline in capital spending when compared with the same period last year. Out of a combined capital budget of R25,4bn, by the end of September, provinces had spent R8,4bn or 33%. This was a decline of 25,3% on the same period in 2009.

Finance minister Pravin Gordhan says that in view of recent trends, national treasury, together with the departments concerned, is looking at different ways of managing capital spending.

"An exhaustive process is under way. Capital expenditure and investment in infrastructure are key to SA's growth prospects and to ensuring that we continue to generate employment in this area," he says.

The success of all tiers of government in meeting infrastructure targets related to the World Cup is an indication that, with clear timelines and goals, SA does have the capacity to deliver large-scale infrastructure. However, in general, says Gordhan,

provincial, municipal and national departments have been unable to translate aspirations into concrete programmes.

Provincial education departments, which have spent 29% of their R7,2bn budget, spent R1bn less in the first half of 2010 than they did the year before. They are “facing challenges with regard to the implementation of major projects, such as the building of new schools”, says department of basic education spokesman Granville Whittle.

The department will from now on monitor capital spending by provincial education departments on a monthly rather than a quarterly basis.

The reasons for the slowdown, says Whittle, are the failure of contractors to perform the work; and delays by provincial officials in the awarding of tenders.

In the case of education, the situation appears to be worst in the Free State, where half-way through the year only 12% of the education capital budget had been spent. Whittle says this was due to a reorganisation of functions between the departments of education and public works and this transition “had not been as smooth as expected”.

The Eastern Cape — a province where there are 800 mud schools, seven of which have initiated legal action against the education department for its failure to provide adequate infrastructure — is also battling to build schools. Only 16% of its capital budget has been spent so far.

Health budgets, which have the biggest capital share, are also lagging behind spending patterns. In total, provincial health departments have spent 33,6% of their R8,8bn combined capital budgets. The Free State is again the worst performer, with only 15% of its budget spent so far.

Health director-general Malebona Matsoso says that after a review of the figures, all provinces have been asked to appoint resident engineers to oversee all aspects of infrastructure development. In addition, technical assistants have been appointed for some provinces to manage all steps of the process, from procurement to monitoring work on the ground.

In the Eastern Cape, which was the first to appoint an engineer and establish an infrastructure unit within the department of health, there are already some positive signals. New head of department Siva Pillay, who is implementing a turnaround plan, says the establishment of the team has made an enormous difference.

Pillay says it has reduced dependence on the department of public works, has speeded up the deliberation over tenders, which were frequently delayed, and has given the department, for the first time, the capacity to monitor projects and contracts.

Spending figures for the Eastern Cape department of health are, as a result, not

among the lowest set — with 35% of the capital budget already spent. Pillay says that for 2010/2011 all conditional grants have been ring-fenced and will not be used to cover operational expenditure as they have in the past.

Gordhan says slow infrastructure spending is mainly a result of a shortage of planning professionals, such as engineers and project managers, who are able to design appropriate tender specifications and translate plans into programmes.

Slow spending of housing funds — now called human settlement development grants — by the Free State, Western Cape, Eastern Cape and KwaZulu Natal gave rise to the warning last week by department of human settlements director-general Thabane Zulu that these provinces could lose some of their allocated funds to provinces better able to spend them.

Only 36,7% of human settlement development grants had been spent half-way through the year, a decline of 21,5% on 2009. Zulu and human settlements minister Tokyo Sexwale have blamed the slow pace of housing delivery on a lack of project management experience and a lack of personnel in municipalities to run projects efficiently. They also blame the lack of bulk infrastructure, particularly for water and sewerage, which holds up developments, in particular those on greenfield sites.

Better integrated planning — perhaps with the assistance of the National Planning Commission — could help co-ordinate housing and bulk infrastructure development, says the department of human settlements.

National treasury's first-quarter report on local government budgets shows a slight slowdown but since only a quarter of the financial year had passed by the end of September, it is more difficult to draw conclusions from trends.

However, municipalities had spent only 10% of their R41,2bn combined budgets, with the City of Johannesburg showing the lowest spending rate of all at 3,6%.

The obvious implication of slower spending is slower service delivery. Warning lights should also be flashing at the cabinet lekgotla on the wider implications of the failure of provinces and municipalities to spend their budgets, namely the negative impact on economic growth and employment creation.

The infrastructure drive that led to the World Cup and the huge capital investments by public corporations have, in large part, been responsible for employment creation.

With capital investment slowing in all areas of the economy, employment and growth prospects are in danger.

President Jacob Zuma's state of the nation speech is scheduled for February 10 and the budget speech will be on February 23.