Chapter 3

Budgeting for health
CONTENTS

3.1 Introducing budgets 72
3.2 Quick overview of the South African budget 74
   Some key terms 74
   Responsibilities of each sphere of government 75
   How revenue is raised 75
   How revenue is shared among spheres of government 76
3.3 The budget process 80
   The Medium Term Expenditure Framework 80
   Players in the budget process 81
   Outline of stages of the budget process 83
   Tabling the budget 83
   Amending the budget 84
3.4 Understanding health budgets 85
   Who pays for and delivers health services? 85
   Overall trends in provincial health budgets 86
   Sources of funding for provincial health budgets 87
   Reading provincial health budgets 88
   Comparing budgeted and actual expenditure 90
   Health spending overall 91
3.5 Conclusion 92
3.1 Introducing budgets

The budget is government’s plan for how it will raise funds and spend money. The national budget, for example, outlines how income generated by the national government will be divided between national, provincial, and local government; how the national share will be divided between national departments; and the amount each province and local authority will receive from the national government.

Through the budget process, national, provincial and local governments plan, collaborate, negotiate, and decide together on a comprehensive plan for spending government funds in the upcoming year. The national budget takes the form of a package of bills considered and passed by Parliament before being signed into law by the President. Comparable processes take place at provincial and local government spheres.

But why is it important to pay attention to budgets? Simply put, the budget tells us how government plans to use its resources and about its real policy priorities. Adequate policies and legislation are crucial, but unless government also makes sure that enough money is available for its stated commitments, policy objectives will not be achieved. It is therefore important to establish whether stated priorities match the actual priorities reflected in the budget.

The budget can also be an important tool for advocacy. We can find out how government plans to spend its money and see whether it in fact spends funds on the programmes it said it would. By getting informed and involved in the budget process, we can promote and ensure government accountability. One way of doing this is by ensuring that government complies with the Public Finance Management Act, 1 of 1999 (PFMA), which has considerably strengthened the budget process and expenditures procedures.

Systems have been made more rigorous because the PMFA makes it possible to establish generally recognised accounting practices, introduce uniform treasury norms and standards and create measures to ensure transparency and accountability. The PFMA also lays down operational procedures for borrowing, guarantees, procurement and monitoring of government funds. See Chapter 2 for more on the constitutional principle of accountability.
Chapter 2 discusses government’s constitutional obligations regarding the provision of health care services. The budget can tell us whether government is actually spending enough to ensure that the rights are realised. If people are not enjoying their rights, or if government does not have enough money to pay for the services that they need now, we can use the budget to see if government has at least been increasing the amount of money it spends to provide that service – if the right is being realised progressively, as the Constitution demands.

After first explaining some key budget terms, the chapter then gives a quick overview of how government’s budget is organised. This is then followed by a description of the steps that government goes through every year to come up with the budget. Finally, the chapter deals specifically with the health budget: how much is allocated for health; how these funds flow through the government system; and how they get spent, with a particular focus on provincial spending, as this constitutes the bulk of direct public health spending.

**KEY BUDGETARY INDICATORS**

- **Adequacy**
  How much is government planning to spend? Is it enough to pay for the programme? Has inflation been taken into account?

- **Priority**
  How does the budget for this purpose compare to resources spent in other areas? Is government keeping its promises and policy commitments?

- **Progress**
  If funds aren’t enough, is the state’s response nevertheless improving?

- **Equity**
  Are resources being allocated fairly? Are some provinces getting more than others? Is more spent for a particular group of people?

**WHY HEALTH BUDGETS REQUIRE CONSTANT ATTENTION**

Our health needs as a country do not remain static. We see changes in the population, both in terms of absolute numbers in the country as a whole and in terms of the distribution of people. People are born, they migrate within and between provinces, some emigrate and eventually everyone dies. We have also seen significant changes in mortality (sickness) and morbidity (dying) patterns – a shifting burden of disease caused primarily by a massive HIV/AIDS epidemic.

What does this mean for health budgets? Simply put, they require constant attention. What may be adequate for treating AIDS in 2006, for example, may be wholly inadequate in five years when the numbers of people with HIV needing treatment have increased. What is needed is the constant feeding of accurate data into the budgeting process, so that sufficient resources can be allocated to dealing with the country’s health needs, as required by the Constitution.
3.2 Quick overview of the South African budget

Some key terms

Gross domestic product
The growth of the overall economy is usually measured by looking at the gross domestic product (GDP), which is the total monetary value of the goods and services produced in the country during any calendar year.

Revenue and expenditure
The funds that government collects, such as taxes and levies, are called revenue or income. Funds which government spends are called expenditure.

Surplus and deficit
A surplus occurs when government collects more money than it spends – when revenue is greater than expenditure. If government expenditure is larger than its income, this is called a deficit. This difference must be borrowed from financial institutions, such as the World Bank, with interest having to be paid on these loans. The deficit is commonly measured as a share of GDP.

In order to keep economies stable, governments must balance the need for small deficits with the need to spend money on important priorities and programmes. In South Africa, government is now slightly increasing the deficit to GDP ratio. This is to allow for more spending on social services and investment in economic infrastructure, housing and municipal services.

Expansionary budget
When overall government expenditure increases, we call it an expansionary budget. The extra expenditure must be covered either by increasing revenue (through better tax collection and/or increasing taxes) or by borrowing money. Although an expansionary budget allows us to spend more on social services and other priorities, it also carry risks as government may have to spend more to pay for its increased debt.
Distributing resources and revenue

Once government has decided on the amount it will borrow and the amount it has available from taxes, it must decide how to divide the total pie into slices. This process is often referred to as resource allocation. To allocate resources means to assign or designate funds for a particular purpose. We also call this process the division of revenue (DoR).

Responsibilities of each sphere of government

Chapter 2 discusses one of the basic principles in the Constitution – the co-operative relationship between the three spheres of government (national, provincial and local government). The principle of co-operative government is also meant to shape the financial relationship between the three spheres. The division of revenue, and how revenue is shared between the spheres, is directly linked to the responsibilities of each sphere of government.

See Chapter 2, which deals with the structure of government, for more detail on the three spheres of government and the principle of co-operative government.

The three most expensive items in the country’s whole budget are education, health and social assistance (social grants). Although national and the nine provincial governments share responsibilities for these three areas, the bulk of social service delivery happens at the provincial level. In fact, social spending generally makes up 82% of a province’s total expenditure, with the single largest chunk of those funds going to education. For this reason, we focus on provincial budgets in this chapter.

How revenue is raised

National government

In South Africa, most revenue is raised by the national government through taxes – including company tax, personal income tax and value-added tax (VAT). This national revenue is then distributed to provinces and local governments to assist them in delivering the services for which they have responsibility.

Provincial government

In contrast, the provinces collect a small amount in taxes and various fees, mainly from motor vehicle licences and gambling levies from horse racing
and casinos. Only 3% of the provinces’ budgets come from revenue they have collected themselves. They therefore rely almost entirely on national government for their revenue.

**Local government**
Local government budgets are very different from the provinces. On average, local governments raise nearly 90% of their revenue themselves – largely through property rates, utility fees (mainly electricity) and levies. Municipalities, however, vary significantly. Those with smaller budgets rely on national government for a larger share of their revenue, while larger municipalities raise more of their own revenue.

Local government financing is currently going through a restructuring process. The aim of this is to consolidate the financial transfers that national government provides to municipalities.

**How revenue is shared among spheres of government**
All money received by the national government is paid into the National Revenue Fund (NRF). This section describes how that revenue is shared among national, provincial and local government. The revenue is divided vertically (among the spheres of government) and horizontally (within each sphere). Figure 1 below gives an overall picture of how the national revenue is allocated.

**Vertical division of revenue**
Before dividing the pie among national, provincial and local spheres of government, a certain amount is taken out to pay interest on government debt and for the contingency reserve. The contingency reserve is an amount of money that government sets aside and allocates midway through the year. These funds are used to respond to changes in the economic environment, or to meet unforeseen or unavoidable spending needs.

After government sets aside the top slice, the remaining funds are available to be spent that year. These funds are sometimes referred to as “non-interest expenditure”, or the total revenue available to be shared. The non-interest expenditure is divided vertically between national, provincial and local government. In this vertical division of revenue, national government retains about 38% of the total revenue available to be shared, with provinces receiving 57% and local governments the remaining 5% portion.
Horizontal division of revenue between provinces

After government has decided how much goes to the provinces overall, it must divide that amount among the nine provinces. This split is called the horizontal division, with the slice that each province receives being called its equitable share grant.
The term “equitable share” comes from sections 214 and 227 of the Constitution, which say that each province is entitled to an “equitable share of the revenue raised nationally”. The purpose of the equitable share is to enable the provinces to discharge their constitutional obligations – to provide social services and perform the functions allocated and delegated to them. Subject to national policy, provinces have the power to set their own budgets and determine how their equitable share grants are spent.

How does national government decide on the size of each province’s equitable share grant? The size of the equitable share going to each province is determined by a technical formula that aims to divide the funds among the provinces on the basis of relative need and the different demographic and economic profiles of each province. It uses data from the census, the income and expenditure survey, and education and health statistics, and is meant to be redistributive so that the poorer provinces benefit more.

The provincial equitable share formula has six components, each of which is given a percentage weighting. The health component is given a 26% weighting, being based on the estimated numbers of people with and without medical scheme coverage. This roughly approximates the public/private split in the health sector. The other components are:

- education (51%);
- basic component (14%), based on provincial population share;
- institutional component (5%);
- poverty component (3%); and
- economic component (1%).

The weighting does not indicate the amount of money these sectors are allocated in provincial budgets. For example, a province is not required to spend 26% of its equitable share on health. Whilst based on past expenditure trends, the weightings do not necessarily determine future expenditure. This is problematic, given that provinces may not have spent appropriately in the past. Government is working on reforming and updating the provincial equitable share formula.

MORE INFORMATION ON THE EQUITABLE SHARE FORMULA

The Budget Review, a document tabled by the Minister of Finance in Parliament, explains the formula in more detail. Annexure E of the Budget Review is a section that has an important explanatory memorandum on the division of revenue that, amongst other things, describes the formula used for the horizontal division between provinces and the formula used to determine local government share.
National transfers to provinces

Provinces depend on national government for 97% of their budgets. The national government uses two types of transfers to send money to the provinces: the equitable share and conditional grants. A transfer is a sum of money given by one part of government to another.

We have seen that the equitable share funds are unconditional, meaning that the provinces are generally free to distribute their equitable share funds to particular departments and programmes as they wish, provided they operate within the broad policy framework set by national government.

Conditional grants are the second type of transfer from national to provincial governments. Conditional grants are given to provincial departments for spending on a particular objective or programme. Most of them are administered by the Departments of Health, Social Development, Education, Housing, Agriculture and the National Treasury, with 11% of all conditional grants being in the health sector. Because conditional grant funds are marked for a particular purpose, they are sometimes called “earmarked” funds.

Conditional grants are national government’s chief tool for making sure provinces spend funds on key national priorities. They may be used to finance new programmes, or to compensate provinces for delivery of services that benefit more than one province. Conditional grants are particularly important in the health sector for financing hospitals and HIV/AIDS interventions.

Some conditional grants are very strict, requiring provincial departments to submit business plans to national government and with funding transferred in instalments throughout the year. Other conditional grants have fewer conditions and allow provincial departments more discretion to use the money as they choose, within certain boundaries. The Department of Health (DoH), for example, administers a conditional grant to its provincial departments.

While the DoH sets out the conditions for how the funds should be spent, keeping responsibility for monitoring compliance and assessment of whether goals are achieved, this does not always happen in practice.

The best place to find out more information on the conditional grants is the Division of Revenue Act (DORA), passed annually with the national budget. DORA sets out the amounts each province receives in equitable share, the amounts each province gets in conditional grant funds and the conditions and information related to each conditional grant.
3.3 The budget process

Being familiar with how the division of revenue works helps us to understand the sources of funding for South Africa’s health budget. But it is also important to understand the process used to allocate resources. This section describes the steps government goes through to produce the budget for each financial year, which begins on 1 April each year and ends on 31 March of the following year. The financial year beginning on 1 April 2005 and ending on 31 March 2006, for example, is referred to as financial or fiscal year 2005/6.

The Medium Term Expenditure Framework

In a similar way to some other Southern African countries, South Africa operates on a three year “rolling budget”. The system is called the Medium Term Expenditure Framework (MTEF) and was adopted in 1998 as part of a larger package of budget reforms. As part of the MTEF, the Minister of Finance presents estimates for the following two years at the same time as he presents a particular year’s budget to Parliament. Therefore, when budget documents refer to the MTEF or the “medium-term”, they are referring to the expenditures for the relevant financial year and the two following years.

Although Parliament votes only on the immediate financial year, the presentation of projections for the extra two years allows the government to plan better and increases openness and transparency regarding government priorities.

It is important to note that national government and the provincial governments each have their own budgets and budget processes. But they are closely linked in a number of ways, some of which have already been set out (such as the equitable share allocations). At the level of policy, the MTEF provides the context for integrating and co-ordinating these parallel processes. Its purpose is to make sure that funding proposals and allocations are in line with government’s policy priorities and strategic objectives.

The Medium Term Budget Policy Statement (MTBPS) is the written document used as the policy basis for this MTEF. The Minister of Finance tables the MTBPS in Parliament every year in October or November. Sometimes referred to as a “pre-budget” or “mini-budget” (because it shows government’s tax, fiscal and budget plans some five months before the actual budget is tabled), the MTBPS is useful in that it gives the equitable division of revenue between the three spheres of government, it presents the thinking behind the division, and it
provides spending estimates for the next three years. These spending projections then serve as a starting point for planning the next year’s detailed budget.

**Players in the budget process**

There are a number of different structures or bodies involved in the budget process. Their purpose is to co-ordinate decision-making between different spheres of government and across departments. Some of the main actors in the budget process include the following:

- The Financial and Fiscal Commission (FFC) is an independent body originally established by the interim Constitution in 1994 (and which now gets its authority from the 1996 Constitution). It is an expert, advisory body that makes recommendations on the budget and intergovernmental financial issues to Parliament, the provincial legislatures and the Budget Council.

- The Budget Council is a body made up of the Minister of Finance and the nine provincial members of the executive councils (MECs) in charge of finance. This forum, effectively the finance MinMEC, is where fiscal and budget issues related to the provinces are discussed and debated.

- The Budget Forum is made up of the Budget Council plus local government representatives. It is the main consultative forum for local government budgeting and spending issues.

- The Ministers’ Committee on the Budget (MinComBud) is a subcommittee of Cabinet that makes recommendations on funding options. It is mostly involved in the monitoring of the developing budget and its compliance with government goals.

- A MinMEC is a body comprised of the national Minister and all nine provincial MECs in a sector that has shared functions between national and provincial government, such as health, education, social security and housing. MinMECs meet throughout the year to identify trends in the sector, set priorities, and discuss budgetary implications of national policies for provincial service delivery.

  After the National Health Act, 61 of 2003 became law in 2005, a new statutory body was created, known as the National Health Council (NHC). This replaced the Health MinMEC. It is effectively an expanded MinMEC, including other key persons such as the Director-General of Health and the heads of the nine provincial health departments. The NHC has taken over the functions of the health MinMEC.
Medium-Term Expenditure Committees (MTECs) are technical committees responsible for evaluating the MTEF budget submissions of national and provincial departments. The MTECs hold hearings on proposed changes to the MTEF allocations by departments and then submit their recommendations to the Minister of Finance.

The Treasury Committee is the body that evaluates requests from provincial and national departments for additional funds to address unforeseen or unavoidable needs. It is chaired by the Minister of Finance and includes some Cabinet ministers.

The Technical Committee on Finance and the Joint Sectoral Technical Committees (referred to as “4x4s”) support the Budget Council. They are teams of officials who discuss policy options for the relevant sector, problems with service delivery and budget difficulties. The 4x4s bring together treasury and relevant departments at both national and provincial levels. There are also the “10x10s” – larger intergovernmental sectoral forums that discuss spending pressures and policy priorities.

The Parliamentary Budget Committee, which was formed in November 2001, holds hearings on the MTBPS released every November and tables a report in Parliament. The committee is meant to encourage Parliament’s active engagement in the budget process.

In addition to all of the above the national and provincial legislatures are also supposed to play a role in financial management through their portfolio committees on finance, as well as through a multi-party committee known as the Standing Committee on Public Accounts or SCOPA.

ADJUSTED ESTIMATES (AE) OF NATIONAL EXPENDITURE

In November, over halfway through the financial year, a short piece of appropriations legislation is tabled in Parliament. It lists funds allocated for unforeseen or unavoidable expenditures, rollovers, virements (transfers of money from one department to another according to budgets) and other adjustments to the original allocations. Additional funds allocated in the Adjusted Estimates are sourced primarily from the contingency reserve and surplus revenue.
Outline of stages of the budget process

<table>
<thead>
<tr>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sept</th>
<th>Oct</th>
<th>Nov</th>
<th>Feb</th>
</tr>
</thead>
<tbody>
<tr>
<td>Executive identifies the broad medium-term spending priorities linked to the government’s social, economic and developmental policy priorities</td>
<td>National departments prepare MTEF budget proposals</td>
<td>MTECs hold hearings on MTEF budget proposals</td>
<td>Treasurer Committee consider requests by departments for additional funds for current financial year. Funds from contingency reserve or revenue surplus allocated in Adjusted Estimates to original budget. With Cabinet approval, Minister tables Adjusted Estimates and MTBPS in Parliament.</td>
<td>Minister also presents Budget Council and Budget Forum with final allocations to provincial and local government</td>
<td>National Budget tabled in Parliament on Budget Day. Provincial budgets tabled in provincial legislatures within next two weeks.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| | The Budget Council debates macro-economic and fiscal framework and DoR between spheres | MinComBud reviews macro-economic and fiscal framework and DoR. Makes proposals to extended Cabinet | Treasury Committee consider requests by departments for additional funds for current financial year. Funds from contingency reserve or revenue surplus allocated in Adjusted Estimates to original budget. With Cabinet approval, Minister tables Adjusted Estimates and MTBPS in Parliament. | | |

Tabling the budget

On Budget Day, the National Treasury releases two key documents: the *Estimates of National Expenditure* (ENE) and the *Budget Review*.

The *ENE* is the main document for the national budget. It is organised by national department, with each departmental budget being divided into programmes and then into sub-programmes. Each department must include information on its measurable objectives for each programme, and medium-term outputs, measures or indicators, and targets for each sub-programme.

The *Budget Review* is the companion document tabled with the ENE on Budget Day. It is an explanatory note to the budget or a review of the national budget. It also gives information on developments in the economy and public finance.

The national budget itself is officially presented to Parliament as two pieces of legislation: the Appropriations Bill and the Division of Revenue (DoR) Bill:

- The Appropriations Bill gives government departments the legal authority
to spend the money allotted to them. The budget is divided into “votes”, referring to the individual budgets of each department.

The DoR Bill sets out how revenue will be divided vertically (between spheres of government) and horizontally (between provinces and between municipalities), and also gives information on conditional grants. Accompanying the DoR Bill is a memorandum that explains the reasons for the proposed divisions and why the FFC’s recommendations were adopted or rejected.

Amending the budget

While section 77 of the Constitution gives Parliament the power to amend money bills (such as the Appropriation Bill), it also states that an Act of Parliament must provide for the relevant procedure in terms of which this happens. Similarly, section 120 states that a provincial statute must provide for a procedure for provincial legislatures to amend money bills. To date, however, such legislation has yet to be passed. The issue of proposed parliamentary amendment powers for money bills is still under debate.

What this means is that while the relevant committees in the National Assembly and the National Council of Provinces have the power to hold public hearings on money bills, they can only recommend a vote in favour of or against such bills. They cannot recommend specific changes. Rejecting the bills in total would seriously disturb the process. For this reason, it is highly unlikely to happen.

CIVIL SOCIETY SUBMISSIONS ON THE BUDGET

Budget Day begins a review process in national and provincial legislatures, mainly through hearings of the Finance and Budget Committees. Some other portfolio committees also hold budget hearings on individual votes. Thus civil society organisations have the opportunity to make written or oral submissions on the national budget. This also happens at provincial level, where provincial legislature committees hold hearings on their provincial budgets.

If amendment powers legislation were passed, it would increase the importance of Parliament in the budget cycle and potentially also increase civil society organisations’ willingness and interest in making submissions on the budget. At present, without strong amendment powers for Parliament, civil society input at this stage is not able to have any influence on the immediate financial year’s allocations.

There are other (perhaps better) times in the budget cycle that offer some opportunity for civil society organisations to provide input. Parliament also holds hearings following the tabling of the MTBPS in October. Although Parliament does not vote on the MTBPS, these hearings discuss the spending priorities for the medium-term. The allocations for the two extra years are not yet set, and thus input at this stage may still have an influence on future allocations.
3.4 Understanding health budgets

Who pays for and delivers health services?

Apart from the government budget, which covers the vast majority of people through the public health system, there are three other (private) sources of health funding in South Africa:

- Employers who pay for health care for their employees, either directly (by providing services at the workplace) or indirectly (by making contributions to monthly medical scheme contributions on behalf of their employees).
- Individuals who make monthly medical scheme contributions or pay directly (“out-of-pocket” expenditure) when they visit a doctor or buy medicines at a pharmacy.
- Donor and non-profit financing and/or provision of services.

In practice, however, the various sources of funding overlap. For example, many people who make use of the public health system sometimes use their own resources to buy medicines from dispensing doctors or private pharmacies. In some public sector facilities, such as various clinics in Khayelitsha, HIV/AIDS treatment is co-funded by the non-profit organisation Médecins Sans Frontières and the Western Cape provincial department of health.

Together, public and private health care spending accounts for approximately 8% of South Africa’s GDP. While this falls short of the 15% target agreed to by African leaders in the Abuja Declaration of 2001, it is nevertheless a significant amount of money that – if spent well – should go far in ensuring the provision of necessary health care services. But two factors prevent this from happening: the inequitable allocation of resources, and the inefficient use of available resources.

**INEQUITABLE ALLOCATION OF RESOURCES**

In 2004/5, expenditure by provincial health departments was approximately R40 billion. During the same period, medical scheme contributions came to approximately the same amount.

Provincial health departments are primarily responsible for the provision of publicly funded health services. This is why the bulk of government spending on health care appears on provincial budgets, and why provincial budgets are so important from the perspective of health and HIV/AIDS activists.
Overall trends in provincial health budgets

What has been the general trend in provincial health budgets? We look at two indicators: growth of provincial health expenditure and the relationship between health budgets and the rest of provincial budgets.

Growth of provincial health expenditure

Overall, the budgets of provincial health departments have grown by about 10% a year. But in 2005/6, provinces together spent over R47 billion on health, up from R40.6 billion the previous year.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal provincial expenditure</td>
<td>25 953</td>
<td>29 352</td>
<td>32 860</td>
<td>36 987</td>
<td>40 599</td>
<td>47 116</td>
</tr>
<tr>
<td>Nominal growth rate</td>
<td>13.1%</td>
<td>11.95%</td>
<td>12.56%</td>
<td>9.77%</td>
<td>16.05%</td>
<td></td>
</tr>
</tbody>
</table>

Source: National Treasury, 2004 Intergovernmental Fiscal Review (at page 54) and 2006 Intergovernmental Fiscal Review (at page 34)

The nominal growth rate is a measure of the increase in allocation from one financial year to the next. The real growth rate, however, takes inflation into account.

By converting the figures from nominal to real terms, we can adjust for the impact of inflation and see what the real value of the funds will be. More than in other sectors, inflation is a particular issue in the health sector because the cost of key inputs for health care, such as equipment, often grows faster than the price of other items. This is often referred to as medical inflation.

Once we know about the real growth rate, we need to consider whether this exceeds (or at minimum matches) population growth. For example, in the late 1990s after the government adopted a new economic policy, commonly known as GEAR, there was a decline in per capita health expenditure (spending per person) even though the overall health budget increased slightly. However, by 2005 per capita spending on health was increasing – partly because of AIDS and partly because government was increasing overall health funding.
Health as part of provincial budgets

How does health compare to the rest of the provincial budget? In the early 2000s, health took up 22% of total provincial budgets, compared to 35% spent on education and 25% on social development. If we look instead at all the national and provincial budgets together, the health sector was 11% of consolidated national and provincial expenditure (including interest payments and the contingency reserve).

Sources of funding for provincial health budgets

Equitable shares and conditional grants are the two main sources of financing for provincial health budgets. While conditional grants from the Department of Health make up only 20% of provincial health department budgets, they play a very important role in provincial health care delivery because they help provinces to pay for large hospitals that may provide services to people who come from outside the province. They are also the primary tools used by national government to protect special health programmes or start up new programmes.

The table below lists the objectives and allocations for key conditional grants in the health sector:

<table>
<thead>
<tr>
<th>Name of grant</th>
<th>2005/6 amount</th>
<th>Purpose of grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>National tertiary services grant</td>
<td>R4 709 million</td>
<td>Fund national tertiary services in 27 hospitals</td>
</tr>
<tr>
<td>Comprehensive HIV and AIDS grant</td>
<td>R1 150 million</td>
<td>Support approved HIV/AIDS interventions (including ARV treatment)</td>
</tr>
<tr>
<td>Hospital revitalisation grant</td>
<td>R1 105 million</td>
<td>Transform and modernise infrastructure and equipment in 27 hospitals</td>
</tr>
<tr>
<td>Integrated nutrition programme</td>
<td>R123 million</td>
<td>Implement integrated nutrition programme</td>
</tr>
<tr>
<td>Hospital management and quality improvement grant</td>
<td>R150 million</td>
<td>Transform hospital management and improve quality of care</td>
</tr>
<tr>
<td>Health professional training and development grant</td>
<td>R1 520 million</td>
<td>Fund training of health professionals and development/recruitment of medical specialists in under-served provinces.</td>
</tr>
</tbody>
</table>
Reading provincial health budgets

Programme budget classification

The main classification system used is a programme budget that classifies expenditure on the basis of the functions for which the funds have been allocated. Provincial health departments have standardised their budget formats so that all nine provinces have these same eight programmes:

- Administration.
- District health services.
- Emergency health services.
- Provincial hospital services.
- Central hospital services.
- Health sciences and training.
- Health care support services.
- Health facilities management.

The biggest programme is district health services, accounting for nearly 40% of the budget and including primary health care and district hospitals. The second sub-programme under district health services is the HIV and AIDS sub-programme. As a result, the district health services programme has been growing rapidly in recent budgets. The second largest programme is provincial hospital services, followed by central hospital services.

COMPREHENSIVE HIV AND AIDS GRANT

The HIV/AIDS grant is meant to fund eight different types of interventions:
- Voluntary counselling and testing (VCT).
- Prevention of mother-to-child transmission of HIV (PMTCT) programmes.
- Strengthening of provincial management.
- Establishment of Regional Training Centres.
- Post-exposure prophylaxis (PEP).
- Home-based care.
- Step-down care.
- Implementation of the Operational Plan for Comprehensive HIV and AIDS Care, Management and Treatment for South Africa.

While provinces have to submit business plans to the national department for approval before funds are transferred, they have been allowed some discretion to divide their total conditional grant amount between these different interventions. The advantage of this is that provinces may be better placed to allocate funds to where they are actually needed.
Economic classification

The second format used in budget documents is called the economic classification. The economic classification categorises expenditure by its nature or content. Under the economic classification, all spending is divided between current and capital expenditure. Current expenditure is regular operational spending (such as medicines and salaries), whereas capital expenditure (such as buildings, equipment or other durable items) is irregular.

Insofar as health advocacy is concerned, the economic classification is particularly useful in providing detail on state priorities:

- **Salaries**
  Economic classification enables us to see how much is budgeted and spent on salaries – there is a specific item on compensation of employees. A major trend in provincial health budgets is that provinces are budgeting more to pay health sector employees.

- **Medicines**
  Although provincial health budgets do not have a specific item on medicines, we know that they are included in the goods and services item in the economic classification. Increased expenditure on medical equipment and consumables is also reflected in this part of the budget.

- **Capital**
  Economic classification allows us to identify trends in capital spending on buildings and equipment for clinics and hospitals.

**Comparing Provincial and National Budgets**

Similar to provincial budgets, the national health budget is also presented as a programme budget and economic classification. Thus the budget of the Chief Directorate: HIV/AIDS and TB, for example, is found under the sub-programme on HIV/AIDS and TB which itself falls under strategic health programmes.

Since 2005, all national departments have been required to submit five-year strategic plans, list their measurable objectives, recent outputs and expenditure trends, and, for each sub-programme, provide information on medium-term outputs, measures or indicators, and targets.

**Intergovernmental Fiscal Review**

The *Intergovernmental Fiscal Review* (IGFR), normally published by the National Treasury in April each year, is a very useful document for health and HIV/AIDS activists wanting to examine provincial and local government budgets. It is the only budget document that pulls together – in one place – the figures from all nine provincial budgets and multiple local government budgets.
In addition, the IGFR presents and analyses this data sector by sector. Its health chapter, for example, analyses critical areas such as primary health care, hospital expenditure, emergency medical services and HIV/AIDS. This information is also presented provincially, such as primary health care expenditure per person in Limpopo, or the amount budgeted for emergency medical services for every 1000 uninsured people in the Free State.

Comparing budgeted and actual expenditure

So far, this chapter has covered the drafting and legislative phases of the budget. The final two phases of the budget cycle are the implementation and audit phases. In the implementation phase, departments put plans into operation and spend the funds allocated to them. In the audit phase, the Auditor-General (AG) conducts independent, objective audits of the financial statements, financial management, and accounts of all national and provincial departments and municipalities. Understandably, this process takes time – the results of the audits are only released up to two years later.

The AG gives a rating to each government department to indicate its quality of financial management. There are five ratings, rating from “disclaimer” (worst) to “unqualified” (best). This information is all summarised in the IGFR. Audit Reports are also available at the AG’s website (www.agsa.gov.za) and are included in the annual reports of national and provincial departments.

In addition to ratings of the general quality of financial management, figures on actual spending are also available. Actual expenditure figures are very important to watch because they show how well government followed through on its budget plans. While the analysis of budgetary allocations can tell us to what degree something is prioritised in the budget, actual expenditure figures tell us about the efficiency and effectiveness of spending.

However, there are limited sources of data on actual expenditure. While government publishes data on general departmental spending, it does not publish actual expenditure data divided up into programmes or sub-programmes. This makes it difficult to track spending on particular interventions.

In the remaining part of this chapter, we will look at examples of the data on health department spending by the national department and the provincial departments, the data on specific programmes and interventions, and rollovers (or what happens when funds go unspent).
Health spending overall

The table below shows actual spending by each provincial health department in 2005/6. This information was compiled and presented for the first time in Annexure A of the 2004 MTBPS. Together, provinces underspent slightly on their health budgets, with Limpopo underspending by over 6%. Some provinces, however, overspent – the Northern Cape by as much as 5.6%. The national department underspent its budget by 1%.

Table 3.1 Actual provincial health expenditure 2005/6

<table>
<thead>
<tr>
<th>Province</th>
<th>R million</th>
<th>Adjusted budget 2005/6</th>
<th>Preliminary outcome 2005/6</th>
<th>Percent spent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eastern Cape</td>
<td>6 243</td>
<td>6 137</td>
<td>98.3%</td>
<td></td>
</tr>
<tr>
<td>Free State</td>
<td>3 127</td>
<td>3 130</td>
<td>100.1%</td>
<td></td>
</tr>
<tr>
<td>Gauteng</td>
<td>9 856</td>
<td>9 990</td>
<td>101.4%</td>
<td></td>
</tr>
<tr>
<td>KwaZulu-Natal</td>
<td>10 451</td>
<td>10 582</td>
<td>101.3%</td>
<td></td>
</tr>
<tr>
<td>Limpopo</td>
<td>5 106</td>
<td>4 796</td>
<td>93.9%</td>
<td></td>
</tr>
<tr>
<td>Mpumalanga</td>
<td>2 661</td>
<td>2 672</td>
<td>100.4%</td>
<td></td>
</tr>
<tr>
<td>Northern Cape</td>
<td>1 043</td>
<td>1 101</td>
<td>105.6%</td>
<td></td>
</tr>
<tr>
<td>North West</td>
<td>2 993</td>
<td>2 974</td>
<td>99.4%</td>
<td></td>
</tr>
<tr>
<td>Western Cape</td>
<td>5 791</td>
<td>5 733</td>
<td>99%</td>
<td></td>
</tr>
<tr>
<td>National Department of Health</td>
<td>10 039</td>
<td>9 938</td>
<td>99%</td>
<td></td>
</tr>
</tbody>
</table>

Source: National Treasury, 2006 MTBPS (at page 77)

Another key source of information on actual expenditure is the National Treasury’s website (www.treasury.gov.za), where regular statements of national and provincial revenue and expenditure are published. In addition, the National Treasury releases expenditure and revenue reports for provincial budgets each quarter, which give spending figures for each provincial health department and preliminary figures that will be subsequently corrected and reconciled as the provinces close their books for the financial year. These reports are released one month after the end of the quarter.
Spending on individual programmes

Unfortunately, the National Treasury reports do not subdivide by programmes within each department. So, for example, it is not possible to look at expenditure on primary health care specifically, or on the HIV/AIDS sub-programmes. But the National Treasury quarterly statements do report on spending for each conditional grant, thus assisting civil society and advocacy groups in monitoring and tracking the conditional grant programmes.

<table>
<thead>
<tr>
<th>Actual expenditure on HIV/AIDS conditional grants (2005/6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>R million</td>
</tr>
<tr>
<td>Eastern Cape</td>
</tr>
<tr>
<td>Free State</td>
</tr>
<tr>
<td>Gauteng</td>
</tr>
<tr>
<td>KwaZulu-Natal</td>
</tr>
<tr>
<td>Limpopo</td>
</tr>
<tr>
<td>Mpumalanga</td>
</tr>
<tr>
<td>Northern Cape</td>
</tr>
<tr>
<td>North West</td>
</tr>
<tr>
<td>Western Cape</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

Source: DoH 2004/5 Annual Report (at page 205)

Rollovers

When funds are unspent in any given financial year, they may be reallocated in the next financial year. These funds are called rollovers and are recorded in the Adjusted Estimates published midway through each financial year. But not all unspent funds are rolled over into the next financial year.

3.5 Conclusion

Budget analysis can be a very powerful advocacy tool for public health and HIV/AIDS activists because it allows them to engage government in pragmatic financial terms. In the budget process, government must allocate scarce
resources between competing priorities. Understanding the budget process and being familiar and comfortable with the official budget documents allows activists to monitor these decisions in an informed manner.

In addition, activists can strengthen their efforts to monitor implementation of key health programmes, such as the *Operational Plan for Comprehensive HIV and AIDS Care, Management and Treatment for South Africa*, by tracking actual expenditure. Only with a working knowledge of the budget and budgetary processes can they ensure that political promises are actually translated into properly implemented programmes.