Trends in 2006/2007 Departmental Expenditure:

Submission to the

Joint Budget Committee

by

IDASA

October 2007

CAPE TOWN DEMOCRACY CENTRE
6 SPIN STREET ✦CHURCH SQUARE ✦CAPE TOWN 8001
PO BOX 1739 ✦CAPE TOWN 8000 ✦SOUTH AFRICA
TEL +27 (021) 467-7600 ✦FAX +27 (021) 461-7541

KUTLWANONG DEMOCRACY CENTRE
CNR VISAGIE & PRINSLOO STREETS ✦PRETORIA 0001
PO BOX 56950 ✦ARCADIA 0007 ✦SOUTH AFRICA
TEL +27 (012) 392-0500 ✦FAX +27 (012) 320-2414/5
E-mail: info@idasa.org.za

http://www.idasa.org ✦REG NO: 1987/00079/08

OFFICERS & BOARD OF DIRECTORS AVAILABLE ON REQUEST
IDASA IS AN INDEPENDENT NON-PROFIT PUBLIC INTEREST ORGANISATION PROMOTING DEMOCRACY

Trends in 2006/2007 Departmental Expenditure

1. Introduction

The aim of this report is to assist the Joint Budget Committee (JBC) in its engagement with the Medium-Term Budget Policy Statement (MTBPS) and the Adjusted Estimates of National Expenditure. The report identifies a number of trends, and questions arising from them, associated with departmental expenditure in 2006/2007. The report focuses in this regard on the performance of the following departments[1]:

- Education
- Sports and Recreation
- Transport
- Housing
- Public Enterprises
- DPLG
- Agriculture
- Land Affairs

The rest of this section discusses general aspects of the approach taken in this report. The second section focuses on expenditure trends and outcomes for 2006/2007 for national departments. The third and final section focuses on expenditure trends and outcomes for provincial departments.

[1] These being the departments requested to brief the JBC as part of its MTBPS hearings. Not all of them exist at provincial level. Also, there is some clustering at provincial level, such as grouping agriculture and land affairs into one vote

Much can be learned from simply comparing budgetary allocations and spending as it happens quarter by quarter[2]. It is especially interesting to make such comparisons where allocations and spending information distinguish between the various possible economic functions budgeted funds may be used for, that is for current spending, capital spending or as transfers and subsidies to other entities. Simply scanning the numbers and comparing results across departments and economic functions reveals what may be problems of the budgeting system or of departmental performance. Such analysis is, however, also limited: in order to establish reasons for possible problems it is of course necessary to go beyond spending and allocation information. In this sense, then, this report constitutes what is hopefully a background explication of trends which will inform the JBC's engagement with departmental accounting officers in the coming weeks. Put another way: this kind of analysis, which remains at the level of financial data disaggregated only to the level of broad functions such as capital and current spending, can only assess medium-term budgeting for *internal consistency* and *adherence to planned priorities* as set out in the budget and the adjusted budget.

2. Selected National Department Expenditure Trends, 2006/2007

National voted appropriations and unaudited monthly expenditure results are available on the web site of the national treasury. As mentioned above, they are, amongst others, arranged according to whether their purpose is for expenditure on current, capital or transfer uses. For each of the selected six national departments, and for each of these three functions, Tables 1, 2, 3, 4 and 5 below show spending at the end of each quarter, and the adjusted allocation as found in the Adjustments Budget. The numbers represent percentages spent of the total allocation. Thus, for quarter 1 and 2 spending results (Table 1 and 2), this indicates how much of the total annual allocation was cumulatively spent in each quarter. For quarter 3 and 4 results (Table 4 and 5), the percentage score

[2] This report relies exclusively on the information presented in the *Estimates of National Expenditure* and the monthly income and expenditure reports as found on the web site of the National Treasury. That is to say, the results provided for 2006/2007 have not been subjected to external audit.

indicates what share of the adjusted annual allocation was cumulatively spent in each of these quarters. Table 3 compares the size of the adjusted allocation to the size of the initial allocation: thus, for example, a percentage score of 115 means that the adjustment allocation represented a 15% increase over the ENE allocation[3]. A percentage score lower than 100 means that the adjustment allocation amount was less than the initial ENE allocation.

Table 1: 1st Quarter Spending as Percentage of ENE Allocation

	END Q1		
	Current	**T and S**	**Capital**
Education	12	49	27
Sports and Recreation	9	35	3
Transport	20	14	2
Housing	9	22	13
Public Enterprises	20	21	50
DPLG	19	4	8
Agriculture	14	20	50
Land Affairs	15	8	4

[3] Strictly speaking this is a nominal adjustment of 15% and a real adjustment of, say, 12-13%, given that the general price level increased by some 2-3% between the beginning of April 2007 and the end of September 2007. Such detail does not materially affect the analysis.

Table 2: 1st and 2nd Quarter Spending as Percentage of ENE Allocation

	END Q2		
	Current	T and S	Cap
Education	32	75	45
Sports and Recreation	22	63	8
Transport	54	32	8
Housing	21	53	24
Public Enterprises	42	100	243
DPLG	40	34	18
Agriculture	34	58	107
Land Affairs	38	21	27

Table 3: Adjusted Allocation as Percentage of ENE Allocation

Education	*101*	*101*	*143*
Sports and Recreation	*100*	*451*	*262*
Transport	*135*	*106*	*100*
Housing	*70*	*109*	*141*
Public Enterprises	*99*	*476*	*394*
DPLG	*99*	*102*	*126*
Agriculture	*107*	*132*	*159*
Land Affairs	*99*	*68*	*315*

Table 4: 1st, 2nd and 3rd Quarter Spending as Percentage of Adjusted Allocation

	END Q3		
	Current	T and S	Cap
Education	47	93	42
Sports and Recreation	35	43	6
Transport	57	64	76
Housing	56	75	30
Public Enterprises	70	54	87
DPLG	63	57	50
Agriculture	54	71	105
Land Affairs	60	61	73

Table 5: Total Spending as Percentage of Adjusted Allocation

	END Q4		
	Current	T and S	Cap
Education	89	100	56
Sports and Recreation	62	100	26
Transport	66	99	33
Housing	96	98	75
Public Enterprises	99	90	149
DPLG	95	97	165
Agriculture	88	94	189
Land Affairs	88	97	206

The benchmark assumption in scanning these tables is that a department's spending should be distributed reasonably smoothly over the course of the fiscal year. That is, all else being equal, one would expect about 25% of the budget to be spent after the first quarter, 50% after the second quarter, and so on. Of course this is no more than a rule of thumb; however, where a department has, say, spent only 12% of its capital budget after six months, there may be reason to enquire further as to what the reasons for this are. Concerns may be especially relevant where very little spending occurs in the first three quarters and a huge amount occurs in the last quarter ensuring that total spending matches the allocation at the end of the year. From the tables above, it is possible to identify the following current and capital spending concerns[4] by department for 2006/2007[5]:

Current Spending

Department of Sport and Recreation:	9 – 22 – (100) – 35 – 62 Unspent amount: R 66 726 000
Department of Transport:	20 – 54 – (135) – 57 – 66 Unspent amount: R 245 959 000
Department of Education:	12 – 32 – (101) – 47 - 89 Unspent Amount: R 66 146 000
Department of Agriculture:	14 – 34 – (107) – 54 - 88 Unspent Amount: R 113 760 000

In the case of capital spending, the information provided in tables 1-5 above is presented below, without current and transfer information, in order to assist analysis. Simply glancing at the final column percentage scores for the end of the fourth quarter already suggests that challenges associated with capital spending remain more pervasive than those associated with current spending. The

[4] Transfers and subsidies are not analysed further in this report.
[5] Transfer and Subsidy results are provided but are not discussed further here.

concern here includes not only significant underspending, but also overspending. The general sense is of *erratic* spending when compared to initial allocations.

Table 6: National Department Capital Spending: Spending as Share of Allocation

	Q1	Q2	Adjustment Allocation (%)	Q3	Q4	(Under) or Overspent Amount
Education	27	45	143	42	56	(R 4 128 000)
Sport & Recreation	3	8	262	6	26	(R 4 991 000)
Transport	2	8	100	76	33[6]	(R 25 252 000)
Housing	13	24	141	30	75	(R 1 364 000)
Public Enterprises	50	243	394	87	149	R 904 000
DPLG	8	18	126	50	165	R 4 955 000
Agriculture	50	107	159	105	189	R 46 838 000
Land Affairs	4	27	315	73	206	R 185 214 000

Only one of the selected national department's (Housing) spending outcomes was within 25 percentage points of the adjusted allocation. However, a very large share of this spending in fact occurred in the last quarter, which prompts the familiar question of whether some form of 'fiscal dumping'[7] occurred, that is whether spending was efficient and effective or whether there was a significant degree of fruitless or wasteful expenditure simply to ensure that budget and spending outcomes were more closely aligned.

[6] This strange result is attributed to a re-classification of expenditure, that is the department thought some of its expenditure was capital when in fact it was current, according to a conversation with a National Treasury official

[7] The term 'fiscal dumping' is conventionally used to government subsidisation of exports so they can be sold at a price 'below cost' in importing countries. However, it seems such an apt description of a form of questionable fiscal behaviour that it is used in this different sense here.

In the case of the underspenders the general trend appears to be that insufficient capital spending occurs in the first two quarters (this is the case for all these departments except education) resulting in an inability to 'catch up' in the last two quarters. As discussed further below, this is exacerbated by *upward* adjustments in allocations mid-year. Public enterprises, DPLG, Agriculture and Land Affairs emerge as the capital overspenders. It is worth asking off what kind of *base* this overspending occurred:

Table 7: Capital Budget and Spending of Overspenders in Rands

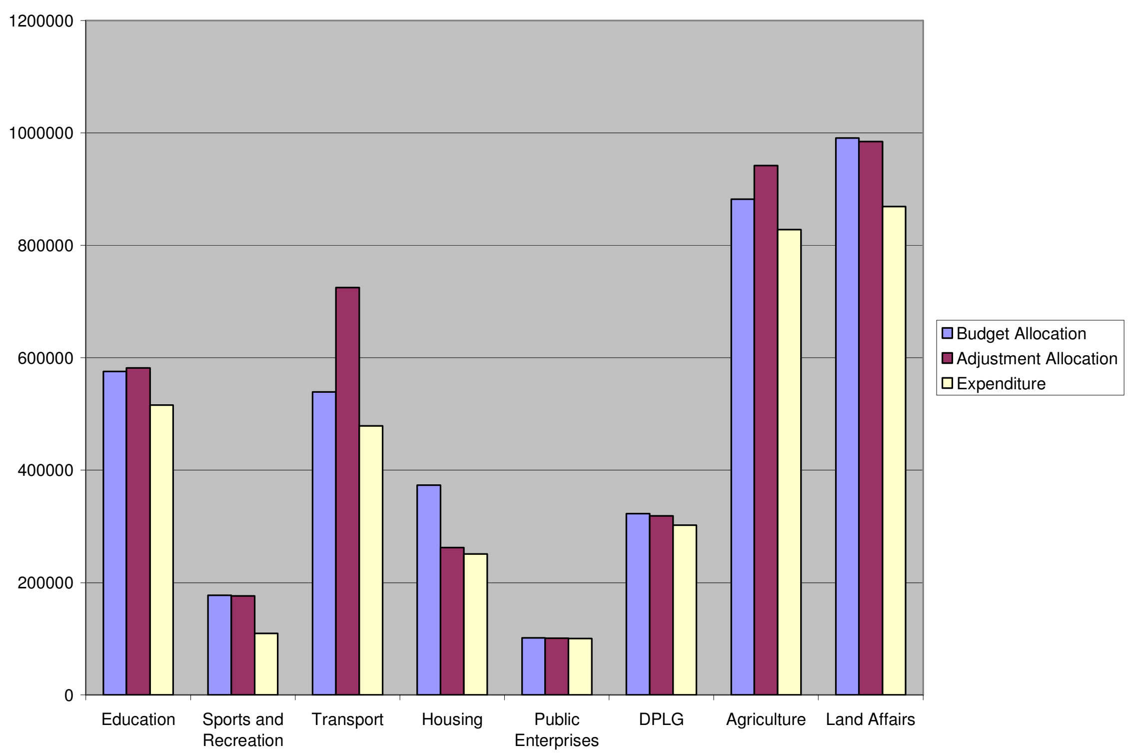
	Allocation ENE 2006	**Adjustment Budget 2006**	**Unaudited Expenditure Outcome**
Public Enterprises	466 000	1 835 000	2 739 000
DPLG	6 058 000	7 616 000	12 571 000
Agriculture	33 059 000	52 503 000	99 341 000
Land Affairs	55 359 000	174 480 000	359 694

For Public Enterprises and DPLG, these changes are from low bases. For Agriculture and Land Affairs, however, the initial allocations are already quite substantial. Referring back to table 6, it is apparent that for all four of these departments capital allocations were adjusted upward appreciably in the adjustments budget. In the case of Public Enterprises and Agriculture this in a sense followed spending in quarter 1 and 2 which was outpacing the ENE allocations. In the case of DPLG and Land Affairs, budgets were adjusted mid-year even though these departments spent little in the first 2 quarters, and they managed to significantly accelerate spending after this.

The financial information available does allow some assessment of the *appropriateness* of capital and current allocation adjustments mid-year, in the sense of asking whether these adjustments adequately take into consideration the spending *performance* of the first and 2nd quarters by departments. It is not, to repeat a key assumption, the case that spending performance *must* be evenly distributed throughout the year. However, where this is not the case further scrutiny becomes warranted, especially where final quarter spending is appreciably larger than the preceding average for quarters 1, 2 and 3.

Figure 1 below represents the ENE allocation, Adjustments Allocation and Spending Outcome, by National Department, for current spending. Figure 2a and b provide the same information for capital spending. In 2b Land Affairs has been removed to improve the scale of the representation.

Figure 1: Current Budgets and Spending for Selected National Departments



The basic point is quite clear, namely that, in the case of current spending by national departments, the revised estimates of 2006/2007 provided for sizeable *increased* allocations to most departments (the net change in the mid-year adjustment was an additional R 129 259 000 to these departments), yet not one department managed to spend an amount even equal to its *initial* allocation.

Figure 2a: Capital Budgets and Spending for Selected National Departments

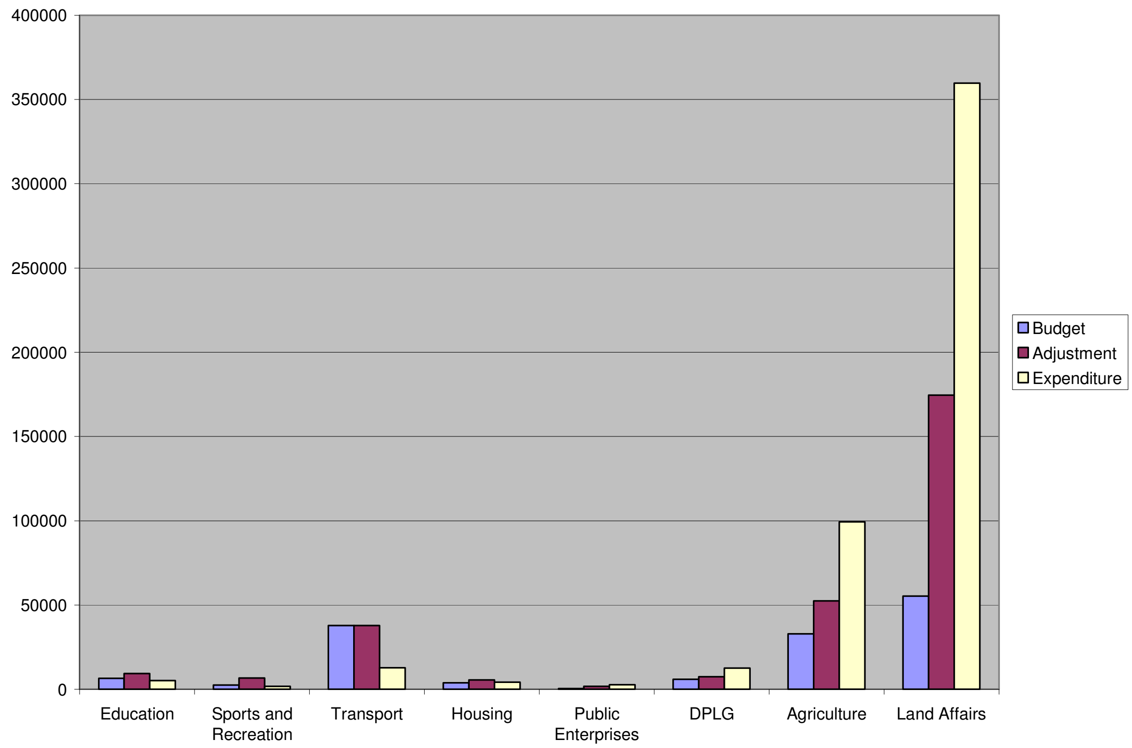
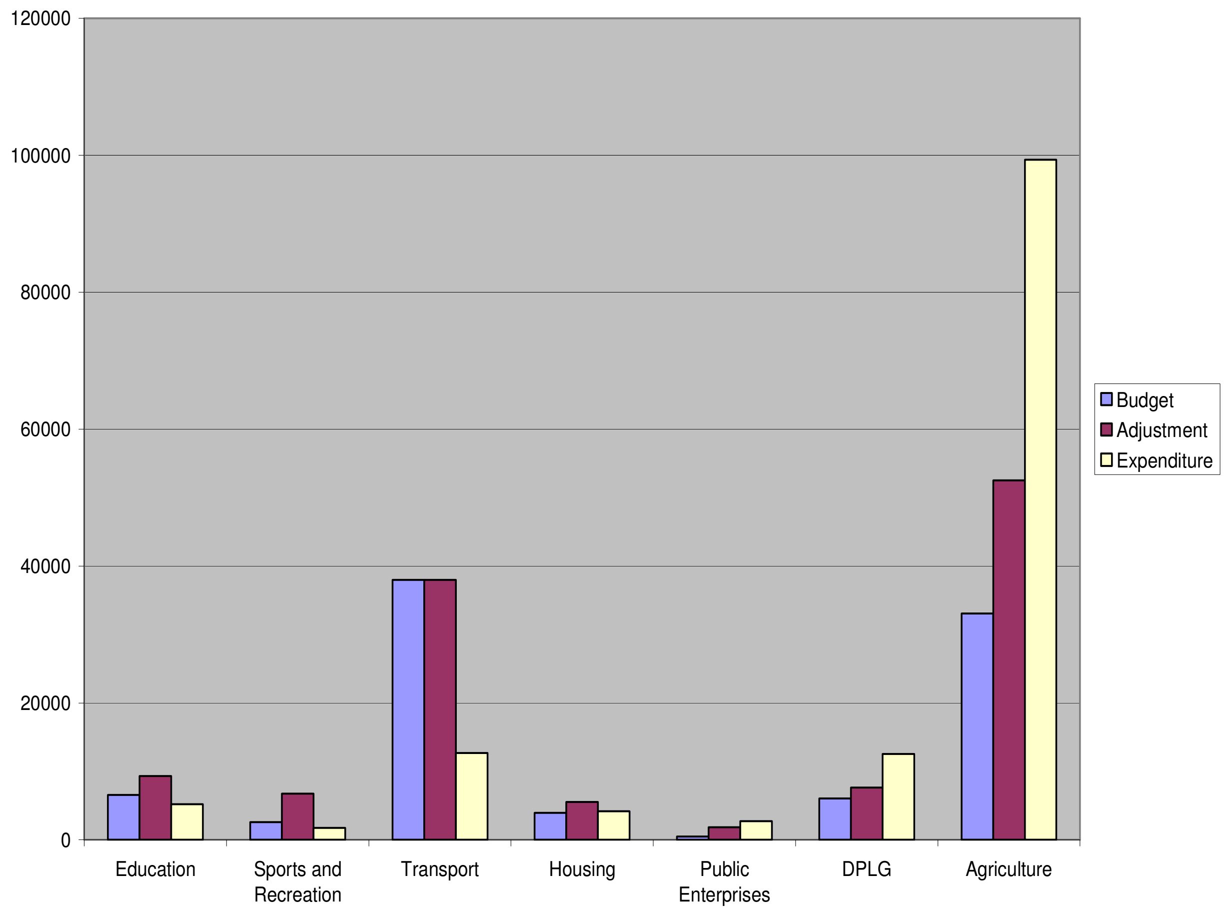


Figure 2b: Capital Budgets and Spending for Selected National Departments (Excluding Land Affairs)



In the case of capital spending, figures 2a and 2b show that three of the four underspenders' outcomes were in fact quite close to the initial allocations, though far below the adjusted allocations. Table 8 confirms this by showing spending as a percentage of the ENE and Adjustment allocation.

Table 8: Capital Spending by Selected National Departments as a Percentage of ENE and Adjustment Allocation

	% of ENE Allocation	% of Adjusted Allocation
Education	79.7	55.8
Sport and Recreation	68.2	26.0
Housing	105.9	75.3

Looking at national capital budgets, it is also interesting to ask what the net impact of underspending and overspending has been on total capital spending when compared to budget and adjustment allocations. Current Payments for capital assets for 2006/2007, unaudited, totaled R 6 450 415 000, compared to an adjustment estimate of R 6 031 759 000 and an initial allocation of R 5 976 025 000 for all the votes, not just the eight focused on here. That is to say, the capital spending outcome for national departments was 93.5% of the revised allocation and 100.9% of the original budget allocation. For national capital spending, then, the budget system appears fairly adept at moving funds around in order to ensure that aggregate spending and allocations are roughly aligned. It is not, in other words, the case that resources intended for some kind of capital use are of necessity shifted to current spending or even accelerated debt servicing because departments are struggling to spend. On the other hand, this raises questions about the initial budget: clearly, one would rather have large adjustments to the budget and resultant improved spending. Equally clearly, the best of all scenarios would be when the initial budget is good enough that little adjustment to allocations is required halfway through the year.

A final question on national expenditure trends concerns 'fiscal dumping', understood here as excessive expenditure in the last quarter of the fiscal year to ensure that expenditure outcomes are more closely aligned with allocations. Although not all instances where 4^{th} quarter spending is high are necessarily problematic, such results suggest that further probing is required. A simple way to assess whether problems may exist is to compare the share of the total adjusted allocation spent by the end of the third quarter with that at the end of the fourth quarter. The results are provided below for both current and capital spending.

Table 9: Current Spending at End of 3rd and 4th Quarter as Share of Adjusted Allocation

	END Q3	END Q4
Education	47	89
Sports and Recreation	35	62
Transport	57	66
Housing	56	96
Public Enterprises	70	99
DPLG	63	95
Agriculture	54	88
Land Affairs	60	88

Table 10: Capital Spending at End of 3rd and 4th Quarter as Share of Adjusted Allocation

	END Q3	END Q4
Education	42	56
Sports and Recreation	6	26
Transport	76	33
Housing	30	75
Public Enterprises	87	149
DPLG	50	165
Agriculture	105	189

Land Affairs	73	206

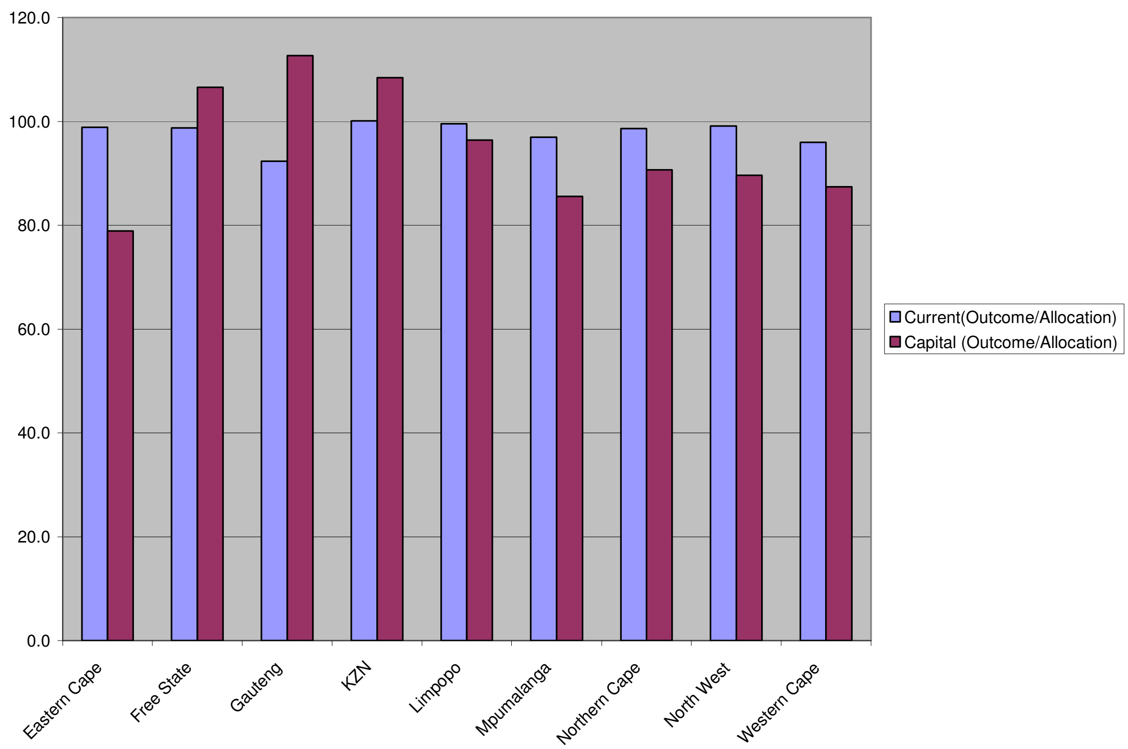
It is noteable how much of the spending by the overspenders in fact occurred in the last quarter of the year. This result would certainly suggest that more questions need to be posed to departmental accounting officers on whether they are ensuring that last quarter spending is efficient and effective.

3. Provincial Expenditure Trends 2006/2007 for Selected Departments

This section starts by proving results, by vote, of provincial capital and current spending performance in 2006/2007. The following departments' outcomes are compared to the adjusted allocations:

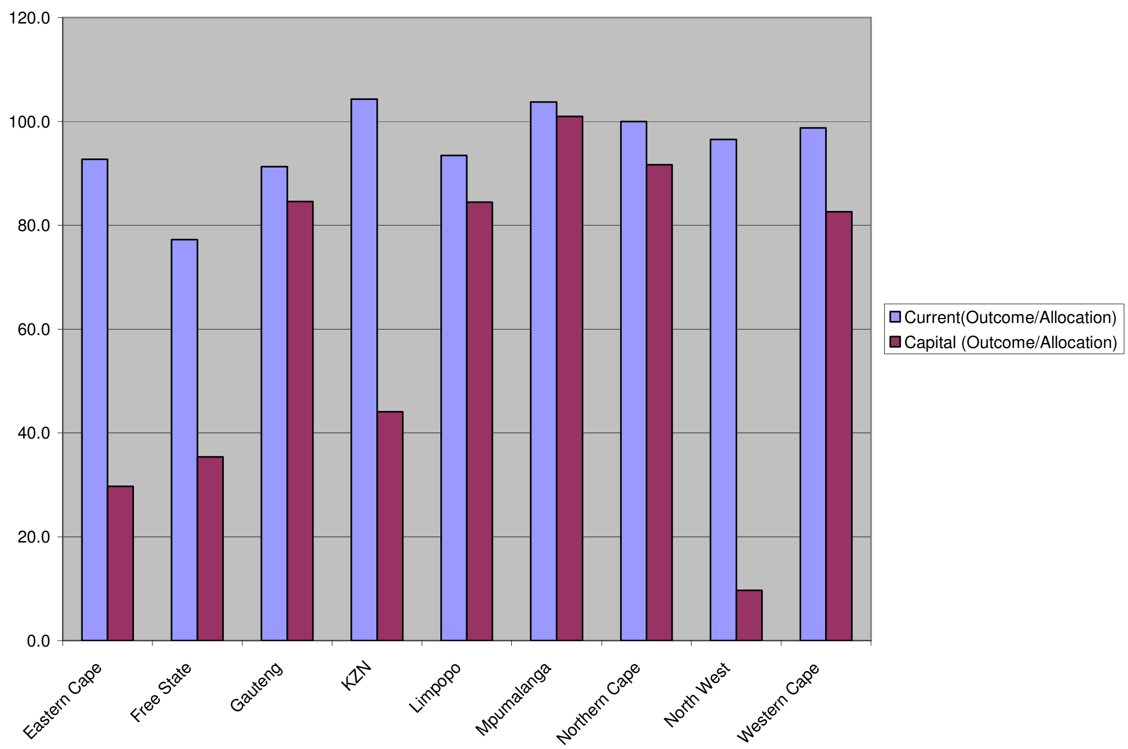
- Education
- Housing and Local Government
- Agriculture
- Roads and Transport
- Sport and Recreation

Figure 3: Spending against Budget: Provincial Education Departments



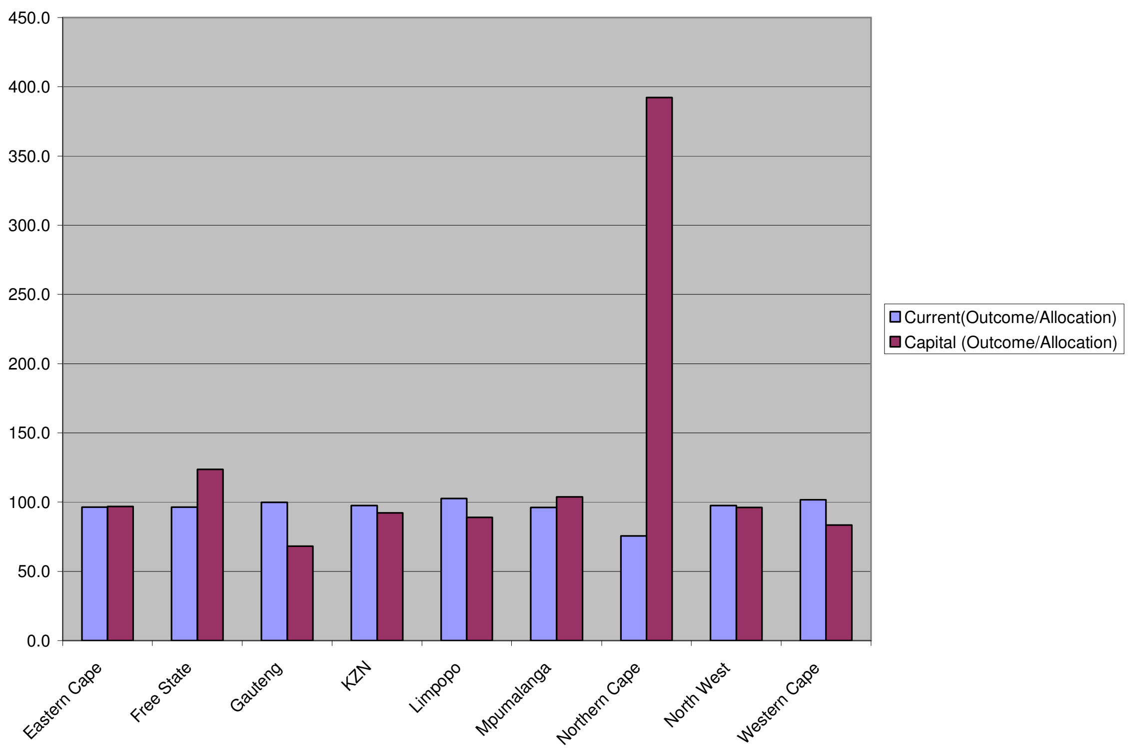
The unweighted average for current spending by the 9 departments is 97.8%, and for capital spending is 95.1%.

Figure 4: Spending against Budget: Provincial Housing Departments



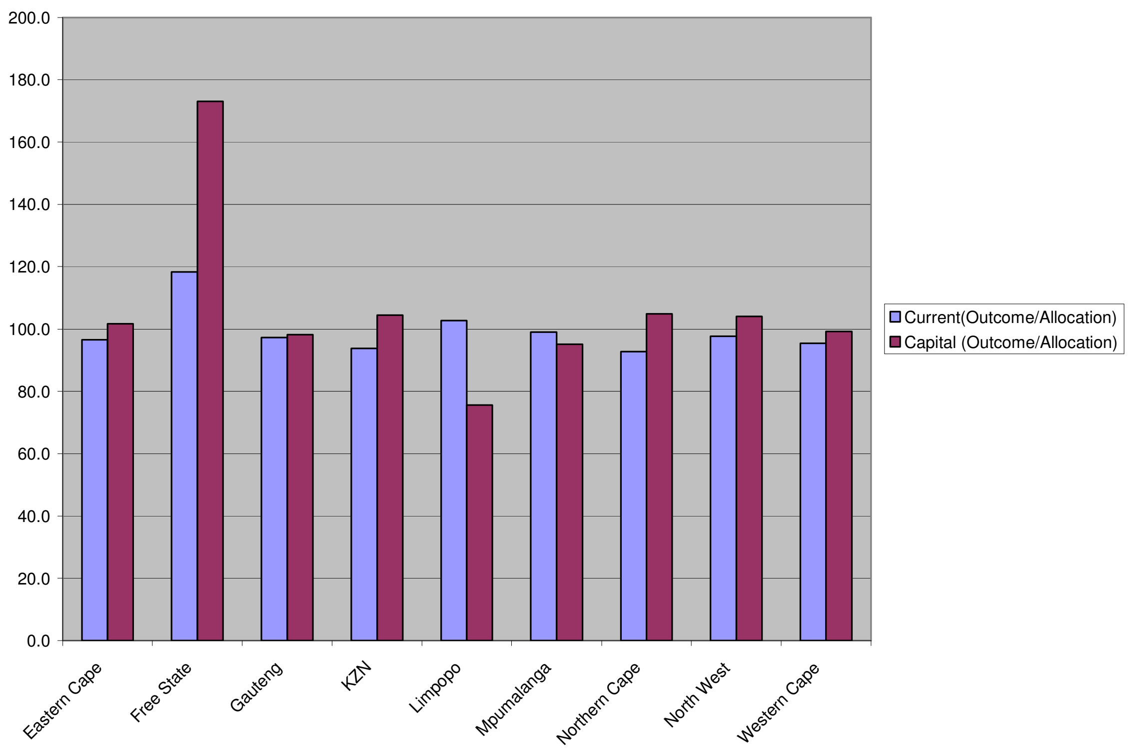
The unweighted average for current spending by the 9 departments is 95.3%, and for capital spending is 62.5%.

Figure 5: Spending against Budget: Provincial Agriculture Departments



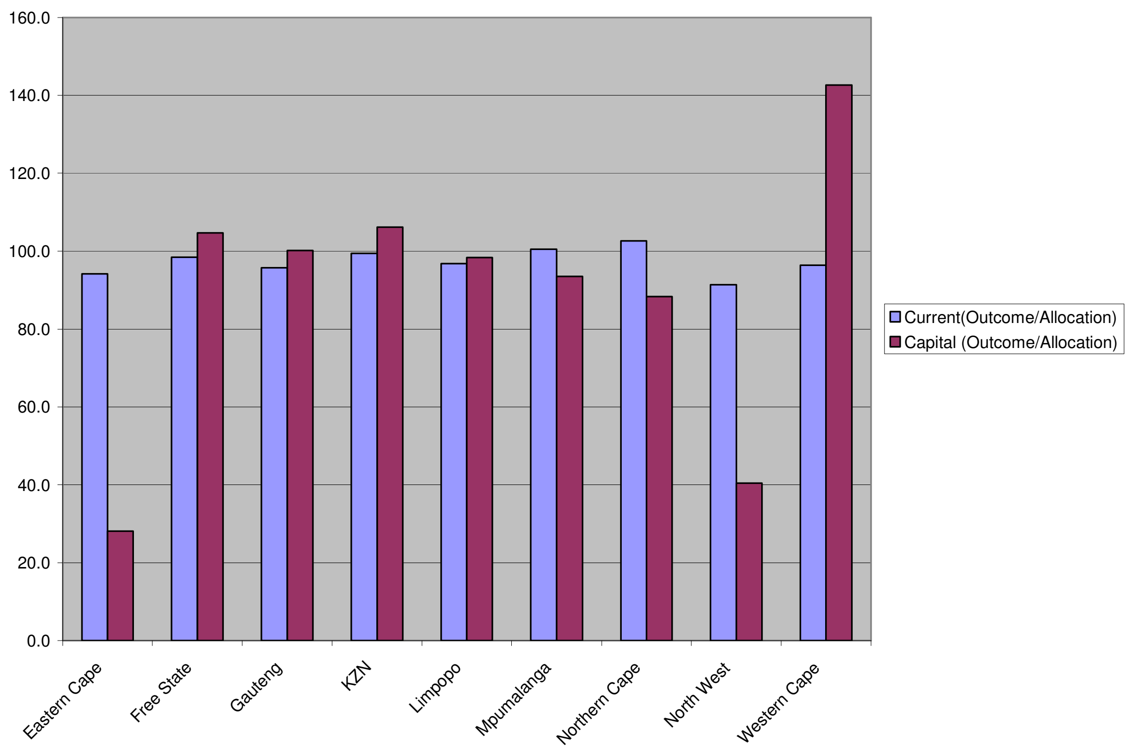
The unweighted average for current spending by the 9 departments is 84.9%, and for capital spending is 127.3%.

Figure 6: Spending against Budget: Provincial Roads and Transport Departments



The unweighted average for current spending by the 9 departments is 99.3%, and for capital spending is 106.2%.

Figure 7: Spending against Budget: Provincial Sport and Recreation Departments



The unweighted average for current spending by the 9 departments is 97.3%, and for capital spending is 89.1%.

The threshold value at which deviation from an allocated amount becomes a concern is contestable. Below we list, by vote, all instances of overspending and underspending exceeding 10% of the adjusted allocation.

Education

Capital spending Eastern Cape	78.9
Capital spending Gauteng	112.6
Capital spending Mpumalanga	85.5
Capital spending North West	89.6
Capital spending Western Cape	87.4

Housing

Capital Spending Eastern Cape	29.7
Capital Spending Free State	35.4
Capital Spending Gauteng	84.6
Capital Spending KZN	44.1
Capital Spending Limpopo	84.4
Capital Spending North West	9.7
Capital Spending Western Cape	82.6
Current Spending Free State	77.2

Agriculture

Capital Spending Free State	123.7
Capital Spending Gauteng	68.2
Capital Spending Limpopo	89.1
Current Spending Northern Cape	75.5
Capital Spending Northern Cape	392.2
Capital Spending Western Cape	83.5

Roads and Transport

Current Spending Free State	118.3

Capital Spending Free State	173.1
Capital Spending Limpopo	75.6

Sport and Recreation

Capital Spending Eastern Cape	28.1
Capital Spending Northern Cape	88.3
Capital Spending North West	40.5
Capital Spending Western Cape	142.6

Some areas of concern which may require further questioning arise naturally from these results. As the unweighted averages demonstrate, and as longer-term experience and a priori thinking lead us to believe, departments are not struggling to spend current budgets, but are to some extent, and sometimes badly, struggling to spend capital budgets. This has tended to be the case in recent years and remains the case for provincial capital spending in 2006/2007.

The housing and local government capital spending results (clustered in the case of most provinces) are particularly worrying because of radical under-expenditure (less than 50% spent) in the case of 4 provinces and underspending to some degree for all 9 provinces. This is worrying especially given the apparent discontent of many communities with the pace of housing backlog eradication and local service delivery more generally. Two further instances of marked underspending, namely in the Northwest and Eastern Cape, as well as overspending in the Northern Cape, are discussed in more detail below.

For capital spending, the average (unweighted) share of the allocation spent by the end of the fourth quarter for each province is given below:

Table 11: Average Percentage of Capital Allocation Spent

Province	Unaudited Expenditure / Allocation: Unweighted Average for 5 Functions
Eastern Cape	67.0
Free State	108.7
Gauteng	92.7
KZN	91.0
Limpopo	88.8
Mpumalanga	95.7
Northern Cape	153.5
North West	68.0
Western Cape	99.1

A logical question is whether the instances of underspending seen here are attributable primarily to the *general* inability of the provincial administrations to spend their capital budgets, or whether it is due more to the failure of *some* provincial departments to spend on capital formation. In the former case one would expect to see that total capital spending is a fairly low percentage of the total capital allocation. In the latter case total capital spending may in fact be a high percentage of the allocation, if funds are, for example, shifted in-year or virement occurs. Three underspenders and one overspender are looked at in more detail to help answer this question. They are the Eatern Cape, which spent 67% of its capital budget for these five functions, the North West which spent 68% of its capital budget for these 5 functions, and the Northern Cape which spent 153.5% of its budget.

The approach followed is simply to compare the under/overspending percentage for these 5 functions to the result for the total capital allocation/expenditure outcome. If the scores are similar then it suggests a general problem with capital spending in the province. If they are significantly different then it suggests rather a shift of funds between capital functions. The relevant information is provided in Table 12.

Table 12: Capital Spending Percentage for Selected and All Functions in Three Provinces

	Average: Selected 5 functions	Average: All Capital Spending
Eastern Cape	67	90.7
North West	68	93
Northern Cape	153.5	97.5

As the table shows, scores for these five functions are clearly worse than provincial capital spending as a whole in the provinces. The discussion below provides more detail, by province, on where the problems are located.

a) Eastern Cape

As indicated above, in the Eastern Cape 67% of capital budgets (unweighted average) for the 5 prioritised functions was spent. The province performs quite poorly, but not nearly this bad, for its total capital expenditure: it spent some 91% of its total adjusted capital budget.

The problem departments in 2006/2007, which account for the bad average score for the prioritised functions, were the department of education, which spent 78.9% of its adjusted capital budget, and the department of sport and recreation, which spent 29.7 % of its capital budget. For education the rand amount underspent is R 140 080 000. For sport and recreation, obviously a much smaller department, the Rand amount is R 4 689 000. Again it is interesting, as a means of assessing the in-year budgeting aspect of the budget system, to look at how these budgets were adjusted.

Table 13: Eastern Cape Department of Education: Capital Spending

Budget Allocation	1st Quarter Spending	1st and 2nd Quarter Spending	Adjusted Budget Allocation	1sr, 2nd and 3rd Quarter Spending	Total Spending (Unaudited)
R 733 690 000	R 166 237 000	R 246 797 000	R 664 081 000	R 435 488 000	R 524 001 000
% of Budget / Adjusted Budget Spent	22.7	33.6	/	65.6	78.8

Here the department's allocation was adjusted downward significantly (by R 69 609 000 or 9.5%), yet its spending outcome still amounted to only 78.8% of this adjusted budget.

Table 14: Eastern Cape Department of Sport, Recreation, Arts and Culture: Capital Spending

Budget Allocation	1st Quarter Spending	1st and 2nd Quarter Spending	Adjusted Budget Allocation	1sr, 2nd and 3rd Quarter Spending	Total Spending (Unaudited)
R 3 387 000	R 158 000	R 741 000	R 6 519 000	R 1 323 000	R 1 830 000
% of Budget / Adjusted Budget	4.7	21.9	/	20.3	28.1

In the case of the Department of Sport, Recreation, Arts and Culture, as Table 14 shows, even though the department was clearly having significant difficulties with spending capital funds, its allocation in the adjusted budget was increased by R 3 132 000, or 92.5%. It is therefore not particularly surprising that it struggled to spend a sizeable portion of this allocation.

b) North West

In the North West, 68% of the adjusted capital budget was spent. For capital spending across all departments in this province 93% was spent. This, as with other results, reinforces the view that problems are with particular departments and that the MTEF process and mid-year budget adjustments need to be more responsive to first and second quarter spending performance.

In the case of the North West, the problem also appears to be with two departments, namely Local Government and Housing and Sport, Arts and Culture.

Table 15: North West Department of Local Government and Housing: Capital Spending

Budget Allocation	**1st Quarter Spending**	**1st and 2nd Quarter Spending**	**Adjusted Budget Allocation**	**1st, 2nd and 3rd Quarter Spending**	**Total Spending (Unaudited)**
0	0	0	R 3 468 000	0	R 335 000
% of Budget / Adjusted Budget					9.7%

For the Local Government and Housing department, no funds for allocated to capita spending in the ENE. In the adjustment budget, however, R 3 468 000 was allocated. None of this was spent in the third quarter and only slightly less than a tenth was spent in the fourth quarter.

Table 16: North West Department of Sports, Arts and Culture: Capital Spending

Budget Allocation	1st Quarter Spending	1st and 2nd Quarter Spending	Adjusted Budget Allocation	1sr, 2nd and 3rd Quarter Spending	Total Spending (Unaudited)
R 46 783 000	R 23 000	R 175 000	R 24 663 000	R 9 801 000	R 9 983000
% of Budget / Adjusted Budget	0.05%	0.4%		39.7%	40.5%

In the case of the Sports, Arts and Culture Department, the initial allocation was quite substantial (though only 4.3% of the total provincial capital budget): very little spending happened in the first two quarters and the adjusted budget was significantly smaller (52.7% of the original allocation). Even so, against this far more moderate target only 39.7% of funds had been spent by the end of the third quarter. Very little spending (R 182 000) occurred in the fourth quarter.

c) Northern Cape

The capital overspending of the Northern Cape, which showed up when we looked separately at the 5 selected functions, is solely due to significant overspending on the agriculture and land reform capital budget, to the extent of 392.2 % of the original allocation. In rand terms R 39 392 000 was spent instead of the R 10 884 000 allocated in the adjusted budget, or R 28 508 000 more.

The initial allocation for agriculture and land reform in the Northern Cape was a mere R 1 737 000. Spending *in the first quarter* exceeded this annual allocation, as it came to R 1 813 000. At the end of the second quarter the department had spent R 2 374 000 on its capital budget. Thus the second quarter spending was significantly less than that of the first quarter, namely 561 000. This would suggest that a large, to some extent unanticipated or unincorporated into budget once-off capital expenditure occurred in the first quarter of 2006/2007.

The adjusted budget however clearly indicates in-year policy or exogenous shifts requiring reallocations, since the budget allocation of R 1 737 000 was adjusted upward to R 10 044 000. Although in absolute rand terms these are small amounts, an upward budget adjustment of 478% deserves mention. Be that as it may, by the end of the third quarter the department had spent R 15 398 000, that is some 50% in excess of its significantly upwardly adjusted allocation. In rand terms it went from spending R 561 000 in the second quarter to spending R 13 024 000. R 23 454 000 was then spent in the fourth and final quarter, for a total of R 39 392 000 as against the adjusted budget amount of R 10 044 000.

A ‘surface scan’ approach can go no further than this. Per se such uneven quarterly spending need not be a problem, but it is noteworthy enough to warrant further enquiry. What is, from a governance perspective, of more concern is whether it is not poor planning to adjust a budget upward, presumably to respond to new policy shifts, but not to adjust it sufficiently. Certainly the credibility of the provincial budget process suffers as a result. That is, given the mid-year opportunity to adjust budgetary allocations, such divergences are not desirable.

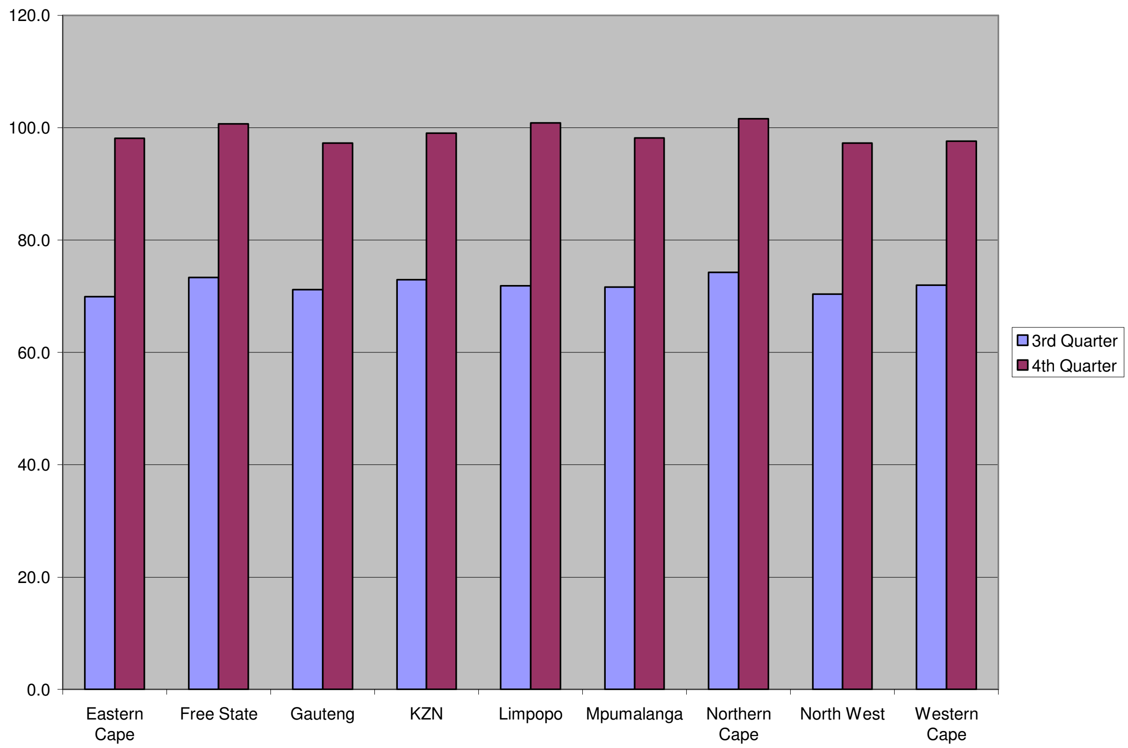
Financial space for the high capital expenditure on agriculture and land reform comes from two reinforcing trends in the northern cape budget: within the

agriculture and land reform department there was firstly fairly significant underexpenditure on the *current* allocation (R 36 039 000). Thus, the underexpenditure on the current budget in combination with overexpenditure on the capital budget lead to a total departmental outcome which was fairly close to the total allocation to the department: 96.2 % of the aggregate adjusted budget was in fact spent.

This tendency in the Northern Cape agriculture and land reform budget, that is underspending on the current budget and overspending on the capital budget, does not mirror the general direction of Northern Cape spending, which mirrors the usual scenario: there is some overspending on the current budget (101.6% of the adjusted budget allocation), a small degree of overspending on transfers and subsidies (103.0% of adjusted budget allocation), and underspending on the capital budget (97.5% of adjusted budget allocation).

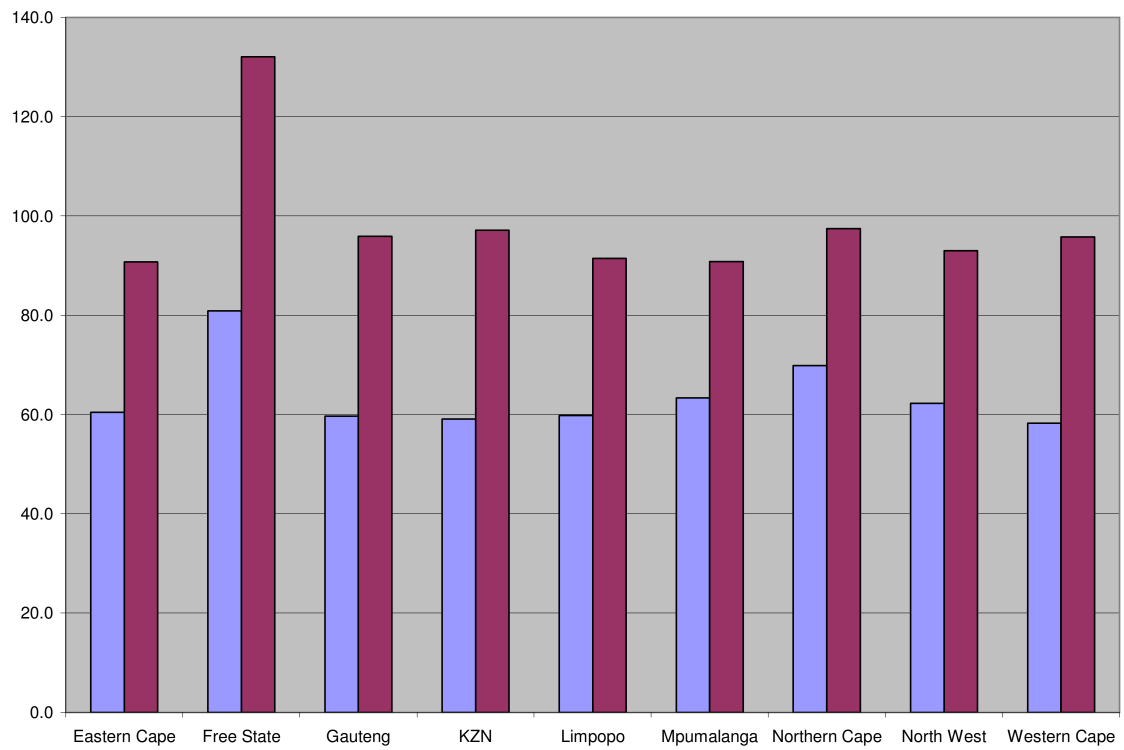
The question of fiscal dumping at provincial level, whether through the capital or current budget, is discussed by looking at large jumps in total provincial current and capital expenditure from quarter 3 to quarter 4. Figure 8 shows by province and for all current spending (that is not just the selected departments), the percentage of the adjusted budget spent by the end of the third and the end of the fourth quarter. Figure 9 does the same for capital spending.

Figure 8: Percentage of Adjusted Current Allocation Spent by End of 3rd and 4th Quarter



This result is fairly healthy, in the sense that most departments came fairly close to the 100% score by the end of the fourth quarter, and did so from a position of having spent a sizeable portion of their funds by the end of the third quarter.

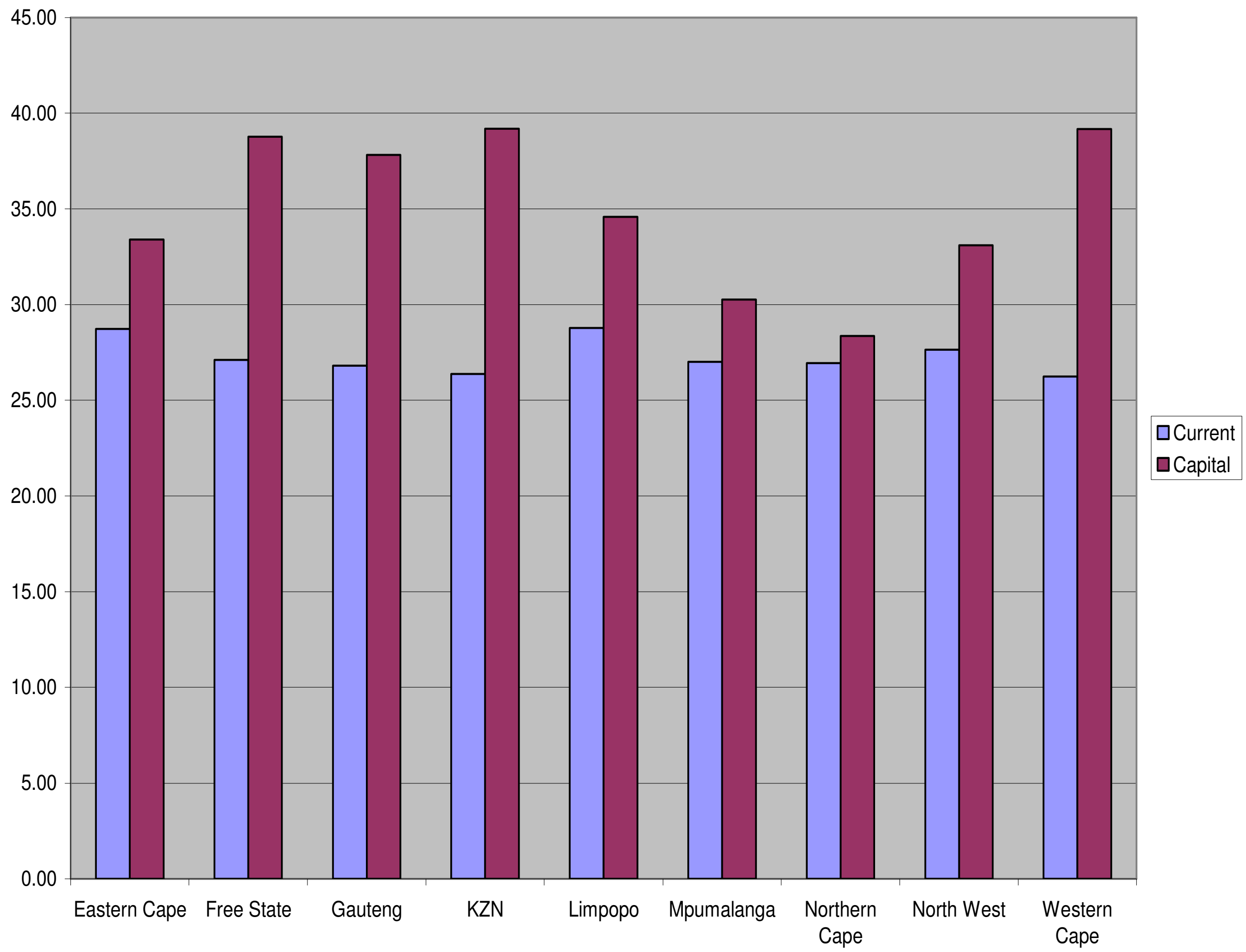
Figure 9: Percentage of Adjusted Capital Allocation Spent by End of 3rd and 4th Quarter



As figure 9 shows, in the case of capital spending there is a clearer tendency for spending in the first three quarters to fall below the benchmark value of 75%, requiring either excessive expenditure in the fourth quarter, or in fact an outcome significantly lower than the allocation.

It is also interesting to combine current and capital spending and, by province, look at the percentage of a department's total spending which takes place in the last quarter. This is shown in the figure below.

Figure 10: Total 4th Quarter Spending



No clear threshold value can be identified, above which the presumption of fiscal dumping should be established. However, a suggested benchmark would be where fourth quarter spending exceeds 35% of the total spending by the department. By this measure the potential areas of concern are the Free State, Gauteng, KZN and Western Cape, regarding their capital spending.