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DURBAN REGIONAL
CHAMBER OF BUSINESS

39 Field Street Durban 4001 PO Box 1506 Durban 4000 South Africa Tel (031) 301 3692 Telex 6
22558 SA Fax (031) 3045255
8 September 1993

Dr T Eloff

Executive Director

Consultative Business Movement
P O Box 307

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Dear Theuns

You probably have heard something of the exercise which was conducted in Natal/Kwazulu, to assess the extent of government expenditure in this region in view of the fact that we have long held the view that the region has been somewhat unfairly treated. The reasons for this might be debated, but the information which was extracted by the firm of Accountants Deloitte & Touche, does give a fairly clear indication of the fact that based on the population of the various regions, Natal has been less than adequately treated.

In discussing this matter in this region with a number of parties, it was indicated by a group from the Democratic Party that you were currently undertaking an exercise on the subject of the distribution of funds generally, and it was recommended that I should send a copy of the document to you. This is enclosed with this letter, and I do hope that I do have the right information, and that it will be of value to you.

Should you wish any additional copies, obviously we can arrange for you to have these, although of course, postage is always an expense (perhaps Gary can tuck them in his suit pocket next time he comes to visit you and save us that cost).

On a personal note, may I say how much we miss not having your involvement from time to time in this area, but we understand what you are up to, and wish you every success in your very delicate task at this stage. So much hinges on what comes from the negotiations, and I am sure you are well aware of our concerns that they should be resolved to the benefit of all South Africans.

With Kindest Regards

Directors: G W Tyler (Executive Director) J R Bryce (Director: Operations)
8% Affiliated to the S A Chamber of Business

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KWAZULU/NATAL JOINT EXECUTIVE AUTHORITY
GOVERNMENT EXPENDITURE IN NATAL/KWAZULU
A REGIONAL COMPARISON

Report prepared by:

Deloitte & Touche Management Consultants (Pty) Ltd

Project Team Director - Graham Muller

Senior Consultant - Bronwyn Hoffmann

Consultant - Brett Fuller

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Management Consultants

(Pty) Ltd

AND

Private Bag X51340 ; P O Box 243

Durban 4000 Durban 4000

Telephone (031) 295 110/4/8 Telephone (031) 366 7911

Facsimile (031) 295 792 Facsimile (031) 305 1596

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GOVERNMENT EXPENDITURE IN NATAL/KWAZULU (REGION E)
â\200\230 A REGIONAL COMPARISON

INTRODUCTION/BACKGROUND

Project Natalia, a co-operative effort involving the central government, the KwaZulu Government and the Natal Provincial Administration was launched to examine the lack of development and the existence of widespread poverty in the Natal/KwaZulu region. The project concluded that the major constraint to effective public spending in Natal/KwaZulu is the fragmentation of government structures and the lack of co-ordination of the efforts of government institutions and agencies involved in the development of the region. However whilst undoubtedly a factor in the lack of development success in the region, it is the view of the Joint Executive Authority that the bigger problem is one of a lack of

funding by the public sector (including all three tiers of government) in Natal/KwaZulu. Deloitte & Touche Management Consultants (Pty) Ltd (Deloitte & Touche) was therefore requested to undertake a comparative study of public sector spending in the Natal/KwaZulu region (Region E).

This report is a presentation of the findings of Deloitte & Touche in this regard and comprises the following sections:

- e Objectives
- e Approach
- e Findings

Conclusions

OBJECTIVES

The purpose of this report is to indicate to what extent Natal/KwaZulu has been receiving a less than proportional share of public funding relative to:

- Â» The population of the region
- > The level of tax revenues derived by central government from the region

and to indicate whether any relative lack of public sector funding, has negatively impacted the economy of the region.

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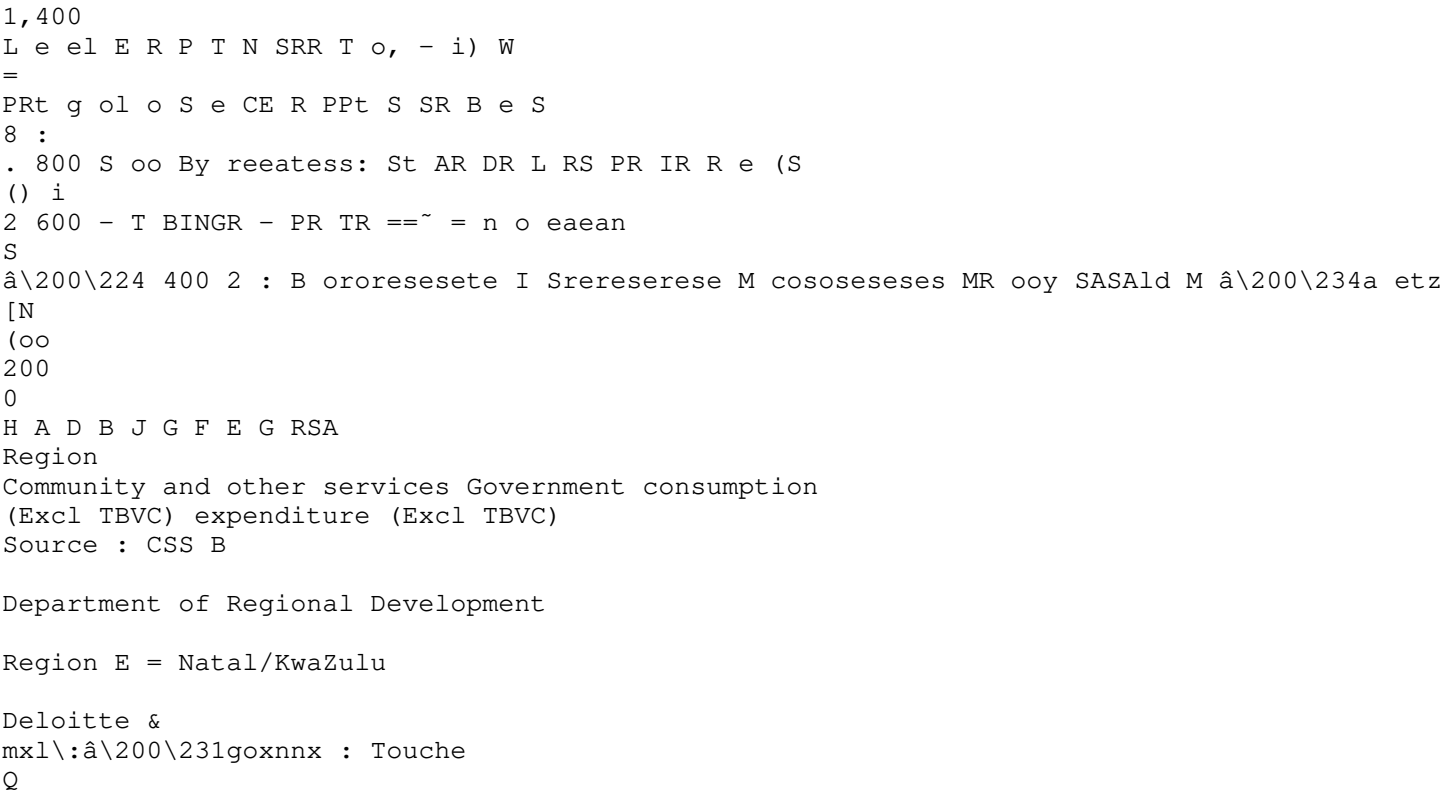
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APPROACH

Due to the complex flows and interrelationships between the various levels of government, expenditure by general government and other public sector bodies on a regional basis is difficult to ascertain. We therefore ran two correlations on community services output for 1985 (the year for which we could obtain Office for Regional Development statistics on demand side consumption expenditure by general government on a regional basis) and compared these figures to see if the regional distribution of output fell into a similar pattern as the pattern of government spending. The following two charts, Chart I and Chart II illustrate the results.

CHART 1

General Government Spending
Community Services Output per capita - 1985



inued
â\200\231PROACH (Continued) CHART II

General Government Expenditure and
Community Services Output

1966-1989

General Government (R billion)

0.8 1 1.2 1.4 1.6 w28 2 2.2
Community Services (R billion)

It can be seen that on an aggregate basis over 34 years there is an extremely high correlation between the demand side concept of consumption expenditure by central government and the supply side concept for community services output. The correlation coefficient is a highly significant 97.5%.

Based on these charts, we argue that community services output on a regional basis (available for all years) can be used as an acceptable approximation of regional expenditure by general government. All the following analyses have been undertaken on a per capita basis for each region.

FINDINGS

The Republic of South Africa/KwaZulu Development Project has already established that Natal/KwaZulu is significantly under-developed relative to the rest of South Africa. Natal/KwaZulu has:

Â® A large population (8.7 million) relative to other areas and a young population with a large number of children under the age of 15 years relative to the level of economic activity :

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FINDINGS (Continued)

Â» Natal/KwaZulu had an estimated 23% of South Africaâ\200\231s population in 1990,* whilst it generated only 14.7% of the countryâ\200\231s GDP in that year

Â® The second highest unemployment rate in South Africa

Â» Natal/KwaZulu can provide employment for only 35% of its potential labour force compared to an average absorption rate of 49% in South Africa as a whole

Â® The highest dependency ratio in South Africa. (The dependency ratio is the ratio between the number of economically active persons in employment to those not in employment, excluding children and the aged)

Â» In Natal/KwaZulu the ratio is 2.8 persons per worker compared to an average for the country as a whole of only 2.0

Â® A literacy rate which is below the national average

Â» Literacy in Natal/KwaZulu is 70.1% compared to 71.6% for South Africa as a whole

Â® A low level of urbanisation. Another measure of relative regional under-development is the fact that Natal/KwaZulu has an urbanisation rate of only some 52% compared to the average for South Africa of 66%

* An early release of figures from the official 1991 census reveals that the actual . position is that, Natal/KwaZulu has 25,9% of the countryâ\200\231s population.

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FINDINGS (Continued)

Under-development in Natal

Our findings, re-emphasise and confirm that the Natal/KwaZulu region is under-developed relative to the rest of South Africa.

Â® GDP per capita in Natal/KwaZulu is the second lowest amongst the nine development areas of South Africa, emphasising the high levels of poverty prevailing in this region (Chart III). '

CHART I

GDP per Capita
1989

12 |

R 000's
=]

SOURCE : DBSA

USRS NS Region
oun u (Excl TBVC)

Region E = Natal\KwaZulu

@ Although Natal/KwaZulu is a much smaller region than region H (PWYV), it has the second biggest regional population in South Africa. The much smaller Natal/KwaZulu economic cake therefore has to be spread amongst many more , mouths than is the case in the PWV.

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FINDINGS

. Under-development in Natal (Continued)

Â® Natal/KwaZulu during the years 1970-1990 has the second fastest level of economic growth amongst the nine regions. Whilst this is encouraging, it must be remembered that this is a period of very poor overall economic performance in South Africa and since the region is growing from a very low base the region has a long way to go before it can hope to catch up with the rest of the country (Chart IV).

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AVERAGE ANNUAL GROWTH RATE (1970-1990)

N e

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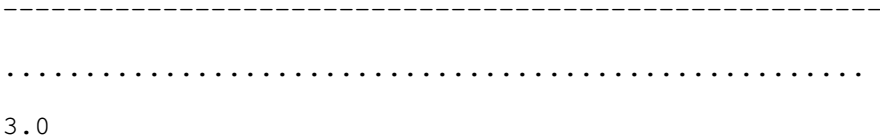
CHART 1V

Real Regional Economic Growth
1970 - 1990

Region F

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Region D Region A Region G Region B

Region E Region H Region J Region C

Region E = Natal/KwaZulu

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FW) INGS :

Under-development in Natal (Continued)

Â® GDP growth, in per capita terms, in the Natal/KwaZulu region has been slightly faster than that achieved in the next best performer (Eastern Transvaal) (Chart V).

% Growth rate (1985-89)

1%

0.5

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CHART V

Growth in GDP per capitaÂ»
1985-1989

Region E = Natal / KwaZulu

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FINDINGS

. Under-development in Natal (Continued)

Â Natal/KwaZuluâ\200\231s strong performance in GDP per capita growth relative to the other regions was achieved through strong growth in manufacturing output and in community services output (Chart VI).

CHART VI

Structure of Natal/KwaZulu Economy
1985-7989

) Agriculture

Transport

Real % Growth p.a. (1985-1989)

Electricity
.4 1 1 1 il 1
0 5 10 15 20 25 30 35%

e % of total GGP (1989)

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Under-development in Natal (Continued)

e Manufacturing has grown faster in Natal which indicates growth advantages relative to those in the rest of South Africa. Current conditions in Natal/KwaZulu also appear to particularly favour output sourced in the Community Services sector. An implication of this analysis is that Natal/KwaZulu is becoming increasingly dependent on government expenditure and on community services output for continued economic growth and development (Chart VII).

CHART VII

Performance of
Natal/KwaZulu vs RSA

1985-1989
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e Finance Â\$ Agriculture
- |
g 3 Mining i -
0.95f Consgï¬\201ction
Electricity .
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Location quotient

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FINDINGS

Natal/KwaZulu\200\231s Apartheid Legacy

However, using community services output per capita as a surrogate (based on the highly significant correlation coefficient of 97.5% mentioned earlier) for public sector spending in the region and taking the most recent year for which regional statistics are available, namely 1989, research suggests (Chart VIII) that Natal/KwaZulu (Region E) is receiving the third smallest share of public sector spending out of the nine development areas.

CHART VI

Community Services per capita
1989

20

16

12

R100's

SOURCE : DBSA

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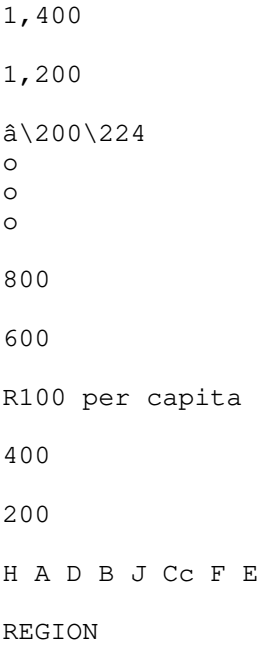
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Natal/KwaZuluâ\200\231s Apartheid Legacy (Continued)

This begs the question why the imbalance in Community Service output per capita has arisen. Chart IX below, we believe, provides a clear indication.

CHART IX

Comparison of Government Consumption Expenditure
& Community Services to White Population 1985



Whites as % of Population

Whites as % of Population Government consumption ~ Community Services

(Excl TBVC) expenditure (Excl TBVC)

RN [6%67%6%%%"%" |

Source : DBSA, CSS

Department of Regional Development

Region E = Natal/KwaZulu

(Excl TBVC)

Â® Significantly both from a supply side and a demand side perspective, public sector spending and output appears to be highly correlated with the number of whites in each region. Historically, the "Cinderellaâ\200\235 status of the Eastern Transvaal, Natal/KwaZulu and the Northern Transvaal appears to have a lot to do with the relatively small proportion of whites in the population of these three regions. On the other hand the relatively generous levels of government spending and community services output in the PWV, Western Cape and the Eastern Cape will similarly appear to be correlated with the high proportion of whites in the populations of those regions. Natal/KwaZulu has been a victim of apartheid bias in government spending.

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FINDINGS

Government spending compared to taxes collected

Turning to Government spending relative to the Natal/KwaZulu share of the total RSA tax burden, the following picture emerges (Chart X):

CHART X

Natal / KwaZulu's Portion of Total RSA Taxes

Lo B B AT
13.78% %
12.80% 12.92% k]

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1985 1986 1987 1988 1989

Individuals & Non-mining Companies SalesTax |1 Customs Other

Natal/KwaZulu's burden of taxation has been growing steadily during the 1980's:

15 S T IR+ ORI .
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12.47% 13.00%
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1983 1984
Â®
- 1983 contribution
- 1989 contribution
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12,47%
14,23%

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Government spending compared to taxes collected (Continued)

This growth has occurred in all the main categories of taxation except company tax: viz., individual income tax, sales tax and customs duties (Chart X). One of the reasons for this growth is that as Transvaal/OFS/Cape based mining taxes have fallen, the tax burden of

Natal/KwaZulu (with a large population and mainly manufacturing based companies) has risen as is evident in Chart XI.

CHART XI

Mining & Natal/KwaZulu Tax Contribution
as % of RSA Total

16

6 L
1983 1984 1985 1986 1887

Mining Taxes Natal/KwaZulu tax

There has been a marked shift in the incidence of the tax burden from companies towards individuals during the 1980â\200\231s. In addition, Natal/KwaZulu contains a heavy concentr
ation
of manufacturing industry, government has automatically looked to this manufacturing
base to help make up for the fall in mining tax revenue.

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FINDINGS

. Government spending compared to taxes collected (Continued)

Since the early 1980s the trend in Natal/KwaZulu's tax burden, as a percentage of total taxes levied, has been rising faster than the growth in the region's share in the South African GDP (Chart XII).

16

CHART XII

Natal / KwaZulu GGP vs Taxes

15

% of RSA GDP % of RSA Taxes

% of RSA Taxes
(Projected)

14

13

12

1984

1987 1988 1989 1990 1991

1983

e Unfortunately region statistics are not available beyond 1989. Projecting the trends to the years 1990 to 1993 suggests that Natal/KwaZulu is now shouldering a % tax burden higher than its share in South African GDP (Chart XII).

Considering Natal/KwaZulu has a recognised development need, has a high percentage of the South African population and that public funding should be based " on a per capita equality to ensure an equitable allocation of funds to regions, and - considering further that the level of taxes raised in Natal/KwaZulu is adequate to fund higher levels of public spending in this region, there appears to be no justification for a continued discrimination against Natal/KwaZulu in the allocation of government spending. â\200\231

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CONCLUSIONS

In summary, our analysis has shown that Natal/KwaZulu's share of public sector funding is low relative to the population of the region and that the level of taxes raised in the region is more than adequate to fund an increased level of public spending in the region.

In part II of this document it will become clear that Natal/KwaZulu is underfunded in excess of one billion rands and this being in three areas alone, namely Health, Roads and Education. Detailed investigations have not been undertaken in other areas of public expenditure due to insufficient regional data being available.

Whilst there is some evidence that the authorities have recognised the imbalance that exists between the regions in South Africa, it would require 52 years (based on current differential growth rates in community services output) before Natal/KwaZulu community services output per capita parity is reached with the RSA average. The following chart illustrates the time periods involved in achieving parity in each of the nine regions.

CHART XIII

Years required to attain RSA average
at current growth rates (1985 - 1989)

REGION

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- --wYears behind,

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Given the high percentage of the Natal/KwaZulu population under the age of 15 and given â\200\234the pressure for job creation and for social infrastructure development, it is our belief that development in the region is an urgent requirement. A question is therefore raised whether Natal/KwaZulu can afford to wait 52 years to achieve government expenditure per capita parity? We would suggest that the regional imbalances in public sector funding

need to be tackled on a more urgent basis. :

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Findings:

e In general Natal\KwaZulu compares poorly with the rest of South Africa in the field of health :

Â® Natal/KwaZulu has :

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The second largest regional population in South Africa, 25.9% of the total population (1991 census).

The second highest population density, 79.8 persons per kmâ\200\231

25.4% of all children under the age of 15, who comprise 43% of the regionâ\200\231s total population and constitutes the third highest proportion among all regions

A high percentage of women of child bearing age, implying that the population momentum in the region will remain strong for quite some time

The second highest unemployment rate in South Africa, namely, 19.2% which means the population is relatively poor with social indicators pointing to below average levels of social development, especially in the rural areas

The second largest outflow of migrant workers, with the male absenteeism ratio amounting to 19.0% in 1990

An uneven male : female composition of the 15-64 year old population group,

" namely, 44.7 : 55.3 respectively

The third highest dependency ratio in South Africa at 2.8 persons (excluding children and the aged) per worker. In KwaZulu this is even higher at 3.9 persons

o Future trends:

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The population of the region is expected to reach 12 million by the year 2005, of whom nearly 4.8 million will be clustered around Durban and another 1.4 million around Pietermaritzburg

The Durban Functional Region (DFR) population growth rate, for example, for 1985-1990 was 2.6% pa. This rate implies that the population of this sub-region could expand by approximately 200 persons per day giving rise to additional pressure on the already burdened infrastructure and in the provision of health services and education

The extent of the additional pressure on health services is exacerbated by the fact that Natal/Kwazulu does not receive an equitable share of the National Budget for Health Services

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Findings (continued)

Expenditure on Health Services

The allocation to the Natal/KwaZulu Region expressed as a percentage of national budget for 1991/1992 (Chart HI)

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567%

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24 12

8 300 250 000

CHART HI

Regional Comparison

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Health Budget Allocat

1991/ 1992

% of RSA Population

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% of Health Budget

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Cape Province Natal

Transvaal
Dept of National Health & Population

Source
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Findings (continued)

Based on a 25.9% share of the population (1991 census) Natal/KwaZulu should receive R2 149 765 000. Given Natal/KwaZulu's total allocation for Health Services of R1 624 120 000 for 1991/1992, the region experienced a deficit of some R526 million - a trend which has continued in 1992/1993 and 1993/1994.

The extent to which the region is being underfunded is highlighted by a comparison with other regions in South Africa, both as regards provision per capita and provision per hospital bed (Chart HII and Chart HIII)

CHART HII

Region_a | Comparison
per capita Allocation of Health Funds

1991 / 1992 and 1992 / 1993

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Findings (continued)

CHART HIII

Regional Comparison

Allocation of Health Funds per bed
1991 / 1992

120,000

100,000

82,683 81,898

80,000

60,000

40,000

Rand per bed per year

20,000

(8

OFS TRANSVAAL CAPE PROVINCE NATAL

Source : Dept of National Health & Population
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KwaZulu expenditure per capita on Health Services is even lower at R89 per annum

As can be seen from Chart HIII, Natal received 51% less pef bed than the

OFS, 32% less than the Transvaal and 31% less than the Cape in the 1991 / 1992 year

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Findings (continued)

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CHART HIV

Regional Comparisons

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: Bed Rati

Nurse

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0.71

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SSRR

8K

0.51

0.32

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OFS TRANSVAAL CAPE PROVINCE

NATAL

Source : JEA

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Findings (continued)

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An examination of the 1992/1993 budget per bed per day for academic hospitals also presents a bleak picture, with King Edward VIII Hospital receiving the lowest budget (Chart HV)

CHART HV

Regional Comparison
Academic Hospitals
1992 /1993

700

Budget per bed per day

N SR

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Univ / National HF Verwoed Groote Schuur Tygerberg King Edward VIII
Source : Dept of National Health & Population

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CHART-HV

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From the per capita figures contained in Chart HII it can be seen that there has been minimal correction of the disparity in the 1992/93 year. At the current rate of correction, it is calculated that equity would only be achieved over a period of 12 to 13 years. However, within the next 13 years the population of the region is expected to grow to 12 million persons

Instead of steps being taken to address the disparity, Natal has recently been included in the national cutback on Health Services. An as yet undetermined number of beds will have to be closed and substantial numbers of staff retrenched if health services are to remain within budget in 1993/1994.

Unless there is a move towards parity in the funding of regional health services and dramatic steps are taken to address the current imbalance in the allocation of government health funds to Natal/KwaZulu, the standards of health care in the region will fall rapidly.

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ROADS

Findings :

The road network in Natal consists of blacktop and gravel surface roads

Since 1980 blacktop road length has increased by 70%, with an annual growth of 4.5%

This growth, combined with general increases in heavy vehicle loading puts increased demands on the inadequate finances provided to maintain the network

The Natal Provincial Administration Roads Branch estimated the funds needed for routine and periodic maintenance on blacktop roads to be R54 million for 1992/93. The allocation received was only R36.7 million, R17.3 million short of what is required

Road rehabilitation too is falling short of identified needs. R80 million was estimated for rehabilitation work in 1992/93, R15 million was allocated with a shortfall of R65 million

Gravel road maintenance was estimated at R57 million against an allocation of only R8 million for the forthcoming year

In the last 12 years, funds available for construction and maintenance of roads in Natal have also steadily declined to a point where 1992/93 allocations represent only 45% of those allocated in 1980

The total government budget for 1992/1993 year is R1 586 million, of which Natal's allocation is R289 million

Given that the Natal/KwaZulu region contains 25.9% of the population (1991 census) and thus a high traffic density per km of road, it is argued that the Province should receive a larger allocation of R411 million for roads

The above takes place against a backdrop of continued growth in traffic on Natal roads, especially heavy goods vehicles, as is evidenced in Chart RI. This has been stimulated in part by a move from rail to road transport on routes from Natal coastal cities to the Reef. Since 1980 traffic volume has increased by 63.3%, whilst overall

road length has increased by only 5% and expenditure has declined by 55% (Chart RI).

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ROADS

Findings (Continued) :
CHART RI

Network Indicators
Percent Change (1980 - 1991)

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(20)

(40)

(60)

(80) | : | | -
Road Length Traffic Expenditure

~JEACOT\MIO1\GAM001.SLI Percent

Source : Natal Provincial Administration Roads Branch : Road Situation Report,

March 1992
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- ROADS

Findings (Continued) :

Â® Juxtaposed to these needs, however is the alarming disparity in the expenditure per capita for the year 1992 / 1993 on roads in Natal relative to the other provinces in South Africa evidenced in Chart RII.

CHART RII

Regional Comparison

Roads

Expenditure per capita

70

NATAL TRANSVAAL CAPE PROVINCE OFS
REGIONS

B3 POP 7 ROAD LENGTH [1 BUDGET

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Findings (Continued) :

Â® A regional comparison of roads for the year 1992 / 1993, whether examining the ratio of road length to population or the ratio of expenditure on roads to population , indicates that Natal is clearly disadvantaged (Chart RIII and Chart RIV)

CHART RIII

Regional Comparison

Roads
(km / capita)

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POPULATION

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RATIO OF ROAD LENGTH

NATAL OFS CAPE PROVINCE TRANSVAAL

REGIONS
Source : Mr W Nel, MP :

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â\200\230ROADS

Findings (Continued) :

The regional disparity in Central Government expenditure on roads has placed a heavier burden on Natal/KwaZulu in terms of all aspects of the road network

The implications of this disadvantaged position would be more dramatic if the subsidisation of the road network by toll revenues and motor licence fees were removed from the equation. In both instances it should be noted that Natal has the high number of toll roads and pays higher motor vehicle licence fees relative to some other provinces

Apart from the hazardous implications of Natal/KwaZuluâ\200\231s road network falling into disrepair due to insufficient funds, is the vital economic importance of this asset to the Province and to the country as a whole, given that Durban and Richards Bay are two of South Africaâ\200\231s major ports.

CHART RIV

Regional Comparison

Roads
(Rands / capita)

RATIO OF EXPENDITURE : POPULATION

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o

i : ekl

CAPE PROVINCE ~ TRANSVAAL
REGIONSâ\204ç

Source : Mr W Nel, MP

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speakers or venue without notice,

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Apollo Training Centre, Auditorium,

Date: 4 or 5 November 1993,

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EDUCATION

Fmiggs:

Â® Education in Natal/KwaZulu is hampered by a lack of adequate facilities as well as social disruption, resulting in high levels of absenteeism and below average literacy rates

Â® Literacy in Natal/KwaZulu is 70.1% compared to 71.6% for South Africa as a whole

Â® Natal/KwaZulu also has the largest number of pupils in ordinary school education (sub-standard A to std 10) (1991) :

Â» South Africa = 10 million

Â» Natal/KwaZulu = 2.7 million

Â® Of the total number of people in South Africa recorded as having no (or unspecified) education, Natal/KwaZulu has the highest percentage - 24.8%

Â® Despite the fact that education has a decided impact on the employability of workers and hence the economy of the Region, government spending per pupil in

Natal/KwaZulu continues to remain below the average expenditure for South Africa (1991): .

Â» South Africa = R940 per pupil

Â» Natal/KwaZulu = R725 per pupil

Â® Relative to the national average, Natal/KwaZulu is underfunded by R215 per pupil, amounting to R580 million in total

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EDUCATION

Findings (Continued) :

Of the nine development regions, Natal/KwaZulu received the third lowest government expenditure per pupil in 1991 (Chart EI).

CHART EI

Regional Comparison

- Education
PUPILS / TEACHER
50

40 -

30 o
20 =)
10 o
0 |
A B H J Chts F G D E
SOURCE : DBSA CIA \200\230REGION

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Region' E = Natal\KwaZulu

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Findings (Continued) :

Â® Focusing more specifically on Black Education, a more dramatic situation emerges, with KwaZulu (based on 1989 figures) receiving the lowest expenditure per pupil (Chart EII). This has been dramatically improved in the last two years. However, KwaZulu still remains the region with the lowest expenditure per pupil.

CHART EII

Government Expenditure per capita
Black Education
1989

1,600

- 1,468 :

1,400 | - R R TR PP PP

1,200 BRI - - - - - ool

1,000 | - e e o

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600 [~

400 | -

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PER CAPITA EXPENDITURE (RANDS)

g

QWAQWA GAZANKULU LEBOWA KWAZULU
SOURCE : JEA DET KWANDEBELE KANGWANE

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EDUCATION

Findings (Continued) :

Natal/KwaZulu also has the highest pupil : teacher ratio of 40:1, whilst the ratio for KwaZulu alone was as high as 49:1 (Chart E III). Based on an acceptable pupil teacher ratio of 35 : 1, 118 000 teachers would be required to address the backlog in KwaZulu alone.

CHART EII

Regional Comparison

Education
2,000

1,500

1,000

500

EXPENDITURE PER PUPIL

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~ This already desperate situation is compounded by the fact that compared to the rest of South Africa, Natal/KwaZulu is extremely short of training facilities and opportunities

Between 1987 - 1989, total training opportunities in Natal/KwaZulu decreased by 3289, while training in the rest of South Africa increased by 18 840.

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'lgE MULTIPLIER EFFECT OF UNDERFUNDING

The multiplier effect can best be described as the overall impact on the economy that increased or decreased spending in a particular sector will have. This effect can be broken down into the direct effect in terms of both labour and income generated or lost and the total effect which includes both direct and indirect effects. What this means is that spending in one sector, for example road construction, will not only lead to increased employment to construct the road, but will also have a spin off in terms of, for example, work gear which would have to be purchased, the purchase of equipment and vehicles and the consumption expenditure of road workers, to mention but a few.

Multipliers have been calculated by a number of institutions and the set of multipliers used

in this exercise is that published by the Development Bank of South Africa in respect of jobs created and additional personal income. Due to the difficulty of differentiating the source of materials and equipment purchased no attempt has been made to calculate the multiplier effects of such purchases, although the effect will be considerable. Personal income and job multipliers are calculated for different economic sectors, such as construction, community and social services, and commerce. The construction sector multipliers have been applied to expenditure on roads and the community and social services sector multipliers to education and health spending.

Multipliers are applied only for the year in which the additional investment is made. Whilst there is some valid argument that spin-off effects will be felt in succeeding years as well, the impact diminishes geometrically into the future and is therefore of limited significance and becomes very difficult to calculate, as the isolation of the effect of prior investment is problematic. The figures below are therefore to some extent conservative, although it should also be borne in mind that the calculations for large increments in spending may differ from those quoted, as the multipliers are strictly accurate only for small increments. The figures in the following table are nevertheless a dramatic indication of the loss to the Natal/KwaZulu economy as a result of underfunding in just three areas : Health, Roads and Education.

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THE MULTIPLIER EFFECT OF UNDERFUNDING (Continued)

Service - 200\230Statistic Net effect

Health

Shortfall R526 million

Total employment multiplier- 13,3 38 556 jobs

plier/R1m

Total income multiplier/Rm | 0,4703 R247 million increase in regional income

Roads

Shortfall R 76 million

Total employment multiplier- 103,2 7843 jobs

plier/R1m

Total income multiplier-

plier/R1m 0,4929 R37,5 million increase in regional income

Education

Shortfall R580,5 million

Total employment multiplier- 1353 42 551 jobs

plier/R1m

Total income multiplier-

plier/R1m 0,4703 R273 million increase in regional income

Total effect employment - | 88 950 jobs created

income R557,7 million increase in income

ie (GGP)

It is therefore concluded that additional government spending, in these three areas alone (health, roads and education) of R1 182,5 million would create 88 950 extra jobs and R557,5 million in additional personal income for the region. The dramatic impact that this would have on the regional economy can be gauged by the fact that this would represent an increase of approximately 12% in the level of formal employment in the region. At the current dependency rate of 2,8 adults per employed worker this would imply enhanced economic conditions for almost 250 000 adult dependents, let alone dependent children. And these figures relate to the impact of raising regional government spending to national parity levels in three areas only, namely health, roads and education.

The consequences of below parity government spending in the region has been, to a significant degree, to deny Natal/KwaZulu jobs, income and economic growth. An urgent redressing of the imbalance in community services output through a targeting of more. government spending in Natal/KwaZulu would rapidly and significantly redress this damage.

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SUMMARY. AND CONCLUSIONS

A salient feature of the economy of Natal/KwaZulu is the high level of poverty and underdevelopment in the area and the concomitant lack of funding which has served to seriously exacerbate an already desperate situation. It is difficult to quantify the precise extent of poverty in the region but a fair indication can be gleaned from several qualitative and quantitative socio-economic indicators. The extent of underfunding on the other hand emerges as both obvious and quantifiable in a number of key areas of government spending.

The socio-economic indicators can be classified into four broad groups:

- Health and demography
- Urbanisation and infrastructure
- Education
- Economic situation

The first group pertains to health and demography and includes the population per doctor, nursing person or hospital bed, incidence rates of notifiable diseases, infant mortality, total fertility and the crude birth and death rates. In terms of these indicators, the health and demographic situation in Natal/KwaZulu merits serious attention. For instance, the population of the region is expected to double in less than 37 years; infant mortality is above average according to data obtained from the Population Development Programme; preventative health services are inadequate; and diseases associated with poor socio-economic conditions are prevalent. And yet the region has continued to be grossly underfunded in respect of government health services relative to the other regions in South Africa, both as regards budget provision per capita and budget provision per hospital bed. Confirmed by figures obtained from the Department of National Health for 1992/1993, health expenditure per capita in Natal/KwaZulu is 12.0% less than in the Transvaal, 24.2% less than in the Orange Free State region and as much as 77.0% less than in the Cape Province. With regard to provision per bed, Natal received 51% less per bed than the OFS, 32% less than the Transvaal and 31% less than the Cape in the 1991/92 year. Some of the effects of underfunding currently reducing the effectiveness of services in the region include:

• Only 35% of cancer patients can be given treatment and only 10% receive appropriate treatment

The administration is unable to address deficiencies in nursing staff levels where the nurse/bed ratios are worse than in any other province

Lack of resources (funds and staff) allows only 3 out of every 10 patients with kidney failure to be put on an appropriate treatment programme

What the figures show is that Natal/KwaZulu receives less than 20% of total health funds to service 25.9% of the total population of South Africa.

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The second broad group of indicators relates to urbanisation and infrastructure and

' includes population density and the level of urbanisation, access to housing and other services such as roads and ownership of assets. For instance the region had the second highest population density in 1990, combined with high rates of growth in its urban population. The urbanisation ratio however is well below that of the national average which is 66% compared to 52% for the region. Housing is in short supply, informal settlements have mushroomed and overcrowding is rife, especially in the metropolitan areas. Moreover the road network in Natal is in crisis. Natal's roads on average carry the heaviest traffic per kilometre, whilst traffic volume itself has increased by 63% over the past 10 years. This, together with Natal's topography and climate, makes the maintenance and rehabilitation of Natal's roads more expensive per kilometre and necessary much more often. However in the past ten years the funds available for construction, rehabilitation and maintenance have decreased in real terms by 55%. More importantly when compared with the other regions, expenditure on Natal roads relative to the size of its population is the lowest in South Africa. Unfortunately regional government expenditure figures for housing were unobtainable. However there is no reason to believe that the general trend is any different.

A third group of indicators pertains to investment in human capital, for instance the level of education, total expenditure per pupil and access to educational facilities. Education in

Natal/KwaZulu is hampered by a lack of adequate facilities as well as social disruption resulting in high levels of absenteeism and below average literacy rates. The already desperate position of the region's education profile is compounded by the fact that Natal/KwaZulu receives the third lowest expenditure per pupil and has the highest pupil/teacher ratio of 40:1. KwaZulu itself has the lowest expenditure per pupil amongst the self governing territories education departments.

The last group of indicators refers to the economic situation. In this group attention is focused on indicators such as the availability of employment opportunities, wage levels and income per person. In 1990 whereas the region was home to approximately 23% of South Africa's population, it generated only 14,7% of the country's gross domestic product (GDP). Consequently GDP per capita is the second lowest among the nine development areas of South Africa. Furthermore, Natal/KwaZulu has the second highest unemployment rate in South Africa. The Region can at best provide employment for only 35% of its potential labour force - this compared to an average absorption rate of 49% in South Africa as a whole. Natal/KwaZulu also has the highest dependency ratio of 2.8 economically active persons per worker, whilst the comparable average figure for the country as a whole is only 2.0.

Natal/KwaZulu is thus a severely underdeveloped region and yet despite a virtually equal population it receives government consumption spending of less than one third of that of the PWV region with a similar population size. Moreover Natal/KwaZulu, pays about 14-15% of total South African taxes, which is in line with the region's share of GDP and

which would appear to adequately fund the current level of government expenditure in the region. There is no justification for continued discrimination against Natal/KwaZulu in the level of public spending received by the region.

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Already the disparity in expenditure from central government has had serious consequences on the ability of a poor region such as Natal/KwaZulu to provide for its population. The extent to which this has acted as a serious impediment to growth is difficult to quantify precisely but the negative impact is undoubtedly great. The multiplier analysis gives some indication of the magnitude of the impact which higher levels in government spending in Natal/KwaZulu would have. Our figures, are to some extent conservative and relate to only three specific areas of government spending (health, roads and education). Nevertheless the figures indicate that additional government spending of R1 182,5 million could create 88 950 extra jobs and R557,5 million in additional personal income for the region. This would represent an increase of 7% in the level of formal employment in the region. At the current dependency rate of 2,8 economically active adults per employed worker this would imply enhanced economic conditions for almost 250 000 adult dependents, let alone dependent children.

In Part I of this document economic modelling and statistical techniques are used to show that Natal\KwaZulu is grossly underfunded by Central Government relative to other regions in South Africa. These conclusions are further supported and confirmed by empirical evidence contained in Part II of the document.

What is certain, is that if allowed to continue, this grossly inequitable allocation of expenditure and redistributational fiscal policy will only serve to exacerbate the already uneven growth trends and levels of development that currently exist between regions in South Africa.

The wider political and socio-economic implications of the situation which have been described in the preceding paragraphs are undoubtedly enormous and have lead to a deep sense of dissatisfaction amongst the people of Natal/KwaZulu. The question which remains unanswered is why this situation has been allowed to develop and more importantly what is going to be done to redress the imbalance?

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~ REGIONAL COMPARISON -
HEALTH BUDGET ALLOCATION
1991 /1992 |
POPULATION % of RSA ALLOCATION % OF
(millions) POPULATION (R mill) HEALTH
1991 1991/1992 BUDGET
ALLOCATED
Transvaal 14351 45.6 3115.3 41.3
Cape Province 6267 19.9 2222.3 29.4
Natal 8138 25.9 1553.3 1 20.5
OFS 2716 8.6 668.6 8.8 "
Total 31472 100.0 7559.5 100.0
Department of National Health and Population
Development not included
Source : JEA
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FIGURE HII

REGIONAL COMPARISON

1991 /1992 & 1992/ 1993

PER CAPITA ALLOCATION OF HEALTH FUNDS

	PER CAPITA % VARIANCE	PER CAPITA	% VARIANCE
ALLOCATION- OVER	ALLOCATION	OVER	
FOR HEALTH NATAL	FOR HEALTH NATAL		
1991/1992	1991 / 1992	1992/1993	1992 / 1993
Cape Province	355 85.8	395 77.0	
OFS	246 28.7	21 24.2	
Transvaal	217 13.6	250 12.0	
Natal	191 223		
Source : Department of National Health and Population.			
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FIGURE RI

' REGIONAL COMPARISON Â®

ROADS

1992 / 1993

PROVINCES	POPULATION	ROAD	ROAD KM/	BUDGET	EXP/
LENGTH	CAPITA	1992/1993	CAPITA		
% of	% of	Ratio	% of	Ratio	
Total	Total	Total			
Natal	251 8.2	371 16.2	64.5		
Transvaal	45.4 59.8	131.7 37.1	81.7		
Cape	21.0 24.1	114.8 32.6	155.2		
OFS	8.5 7.9	92.9 14.1	165.9		

Source : Mr W Nel (MP) .

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REGIONAL COMPARISONS
HEALTH
NURSE : BED RATIO 1992

BEDS

NURSES

NATAL

OFS

TRANSVAAL

CAPE

14.467

5.380
28.280

22,235

- 4.553
2122
19.928

19.239

Source : Department of National Health and Population.

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REGIONAL COMPARISON
EDUCATION 1991

Region	Pupils R/	Pupils	Schools	Teachers	Population	Pupils/	
Teacher							
NO	R	NO	NO	000s			
A	738704	1787	1876	34324	1503.6	22	
B	275279	1168	908	9889	519.5	28	
H	1546412	1268	2995	55380	3764.9	28	II
J	461211	889	1461	14620	814.8	32	
G	669399	956	3204	21059	1231.8	32	
F	608486	819	1574	16968	939.7	36	
G	1653800	688	3650	45298	2246.1	37	
D	1449098	699	4445	38336	2234.5	38	
E	2712457	725	6187	67896	4077.4	40	

Region E = Natal\KwaZulu

Source : Development Bank of South Africa.

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