

# **BUDGET STATEMENT ONE**

## **BUDGET OVERVIEW**

The purpose of this statement is to provide a high level overview of the main components of the budget, comprising the provincial government's strategic policy objectives as well as tables of the main aggregates.

### **1. BUDGET STRATEGY AND AGGREGATES**

#### **1.1 Introduction**

This section attempts to set out the provincial government's main strategic policy directions and key initiatives underlying the budget, as well as new expenditures. Detail on each department is found in section 5.2 below, as well as in Budget Statement 2. Revenue initiatives that provide the resources for these policies are discussed under section 4 of this statement.

#### **Strategic framework for policy formulation**

The overall objective is to direct resources towards attaining the strategic goals of the Western Cape government embodied in its December 2001, Strategic Framework for Policy Formulation, in other words: What does government want to do for its citizens? It entails the following:

- To establish the Western Cape government as caring and representative, providing quality, equitable and accessible services to all its people.
- To orientate government towards the poor by ensuring basic services, an indigent policy, a safety net and a caring budget.
- To fight HIV/Aids and other diseases in a co-ordinated and comprehensive manner which includes the provision of anti-retroviral drugs, lifestyle intervention and sustained action against poverty.
- To deracialise and integrate all state financed institutions in a responsible manner to maintain stability and good order.
- To develop the capacity of local government to ensure the rapid and comprehensive implementation of Integrated development programmes (IDP's) and free basic services.
- To stimulate economic growth - both in the traditional and emerging sectors - with appropriate infrastructural development, and to the benefit of all through, amongst others, procurement reform.
- To focus on agriculture and tourism towards rural development so that all inhabitants can live harmoniously and in safety.
- To promote policies which will maintain a healthy balance between protecting the environment and developing the economy.
- To contain and eradicate crime through good intergovernmental co-operation so that the Western Cape can be a safe and secure home, especially for its women and children.
- To nurture our diversity and promote our various cultures, religions and languages to become the source of our unity and strength.

The 10 strategic policy imperatives can be distilled into five pillars: The first, the battle against HIV/Aids and other health challenges; the second, real economic growth, and job creation; the third, excellence in education; the fourth, safety and security of the people and the environment and fifthly, fighting poverty through quality basic services and social delivery.

#### **Assumptions**

When looking at the budget aggregates, the deficit, clearly signals that the budget is not without risk. This means that the liquidity position has been reduced to minimum levels to free up moneys for employment in service delivery, mainly social and economic infrastructure spending.

Against this backdrop the successful implementation of the budget to achieve the provincial government's desired outputs and outcomes firstly relies on maintaining political stability within the province. Secondly, that appropriate fiscal discipline is exercised by executive authorities and accounting officers. This means not only that all departments have to stay within their budget limits but also to direct or redirect their resources to best achieve government's policy objectives. Lastly, the budget is premised on the assumption that the current national investment framework remains with regard to active capital formation from money management operations.

## Rationale

The Western Cape Fiscal Policy 2003 – 2006 and the Expenditure Review 2002 was published and tabled in the Provincial Parliament on 26 November 2002. The policy document was designed to provide certainty about the Western Cape government's fiscal direction and to create an opportunity for debate about the choices the provincial government faces to improve the lives of all communities, but particularly the poor.

In broad terms the policy document sets out relevant financial management issues, and spending proposals that underpins Budget 2003 as well as short- and medium term fiscal objectives. In a nutshell the spending proposals refer to alignment of spending with national priority guidelines, efficiency in spending and revenue collection, effectiveness in spending and service delivery and promotion of capital expenditure or rather a more developmental slant to economic and social infrastructure spending, and lastly the *iKapa elihlumayo* or growth and development strategy.

The key purpose of the *iKapa elihlumayo* strategy, conceptually speaking, is to grow the economy of the Western Cape through stimulation of socio-economic activities to reduce disparities, raise skill levels, increase per capita income and wage employment and broaden the economic base.

The national guidelines relating to key spending priorities in education focuses on learner support materials, and other non-personnel and non-capital expenditure. Spending priorities in health highlight medicines, drugs, equipment, medical supplies and other non-personnel and non-capital expenditure, restructuring and improving pay packages for scarce health personnel. Another key priority area in the social services sector is social security grants, personnel norms and standards, social development and the Child Justice Bill. In the non-social services sector the key areas are roads, agriculture, other economic infrastructure, urban renewal and rural development programmes.

Furthermore, the redistributive or equity principle features strongly to enhance initiatives that attempts to make a difference in the lives of households and individuals, particularly the vulnerable and poor.

In summary this budget is broadly speaking a holding one, attempting to maintain stability within a limited or very tight funding framework, but at the same time beginning to make a concerted effort to break the log jam that constrains growth and development. This intention over the MTEF is increasingly reflected in the *iKapa elihlumayo* drive.

## *iKapa elihlumayo*

Budget 2002 with the underlying theme, *Making the break: Towards people-oriented service delivery*, began to give content in a targeted way to the provincial government's ten-point policy framework referred to above. The point of departure thus was, and still is, that the budget must be used more innovatively and effectively to stimulate the Western Cape economy, to open it up to wider participation, to admit more people to the mainstream of the Western Cape economy, to sustain and protect the vulnerable, and to foster self-reliance.

Budget 2003 builds on this theme, taking it to a higher and more inclusive level through the *iKapa elihlumayo* theme.

*iKapa elihlumayo* or the growing Cape or "die Kaap wat groei" is intended to be the growth and development strategy framework for the Western Cape as a whole, and not only the underlying theme or thrust behind this year's budget proposals, but to be carried forward until its objectives are realised.

It thus goes without saying that apart from the key departments, namely Transport and public works; Agriculture; Economic development and tourism; Environmental affairs and planning; Culture affairs and sport and Education, all the other departments have to align their spending priorities and programmes equivalently.

## *iKapa elihlumayo*: What is the concept about?

It is not an add-on in the form of say a new type of service delivery programme incorporated in the budget. Neither is it a separate stashed away pool of money. It is indeed intrinsic to how the province wants to do business, and what it wants to achieve. Critical choices have to be made between work as usual; and work as a selfish means to an end; and self-glorification; and most importantly economic empowerment.

It's also about recognising the provincial government's limited resource base and a need for targeted and strategic action of those resources to have a catalytic impact on the economy of the Western Cape as a whole. The crowding in of private sector partners, the integration of the efforts of all three spheres of government, the creation of confidence in the provincial government and its objectives and other interventions are all essential.

The concept demands backing by intellectual rigour, excellent research and analysis and operational competence.

The bottom line of the concept or government's profit statement, is about giving hope to individuals and households through the systematic attack on poverty by achieving a rise in per capita income levels, access to the appropriate level services and rising socio-economic participating rates.

***iKapa elihlumayo* : What are the tools at the disposal of the provincial government?**

Firstly, the budget, backed by sectoral strategic plans, is the main tool to foster growth and development in the province in a coherent way. Secondly, the efficient and effective employment of its human capital. Thirdly, its ability to lead with regard to other spheres of government, the private sector, and community based organisations and labour organisations. Fourthly, its ability to successfully engage on macro policy formulation by the national government, by taking the conditions in the province into consideration. Fifthly, to focus its resources effectively, efficiently and to reduce waste and leakages.

***iKapa elihlumayo* : How?**

By applying the matrix approach in tracking key economic variables, targeting of key growth sectors, determining actions, assigning of responsibilities and careful monitoring. By boosting the efficiency of the social services sector delivery systems to create enough space to enable the economic sector and by maintaining a careful balance between the two. By correcting market failure affecting households, such as the product market dealing with goods in the economy and those that encompass production factors (land, labour and capital). By unlocking potential, implementing and constantly evaluating against the desired outcomes.

The key to the success of *iKapa elihlumayo* is to identify and expand these key growth sectors that could narrow the income gap and best broaden the economic base of the Western Cape.

All the above demands intensive and continued analysis, an understanding of how the economy works, why poverty persists, how the global environment works, but also a coherent drive and a passion for economic empowerment.

***iKapa elihlumayo* : Catalyst**

Apart from having to give conceptual direction to the *iKapa elihlumayo* (growth and development) strategy for the Western Cape, as described above, the Treasury is also the custodian of provincial resources and as such has the onerous responsibility to propose, within an overall political and legal framework, apportionment of these resources that is conducive to human resource development and social and economic infrastructure investment. The provision under the Provincial Treasury must be seen as a catalyst for change initiating the overall concept. Resource allocation is based on an agreement by the economic cluster and the relevant Cabinet committee of an integrated delivery plan.

**Specific and exclusive allocations**

To achieve the provincial government's policy priorities the Treasury has earmarked the following allocations, totals for the MTEF period, to ensure that it is targeted specifically and exclusively for the purposes indicated.

**Promotion of efficiency**

- R37,779 million      Forensic and internal audit
- R40,418 million      Enhancement of IT services
- R10,419 million      Selected litigation claims

**Growth and development**

- R557,374 million      *iKapa elihlumayo*
- R28,300 million      Land redistribution for agriculture development
- R1,575 million      Business regulation
- R3,148 million      Knowledge economy

**Improved quality of services**

- R367,328 million      Learner support material
- R125,930 million      Medical equipment
- R13,978 million      Veterinary services
- R219,437 million      Social security grants

**Social infrastructure development**

- R35,580 million      Capital projects

**Economic infrastructure development**

- R15,829 million      Transport capital projects
- R22,000 million      Capex contribution to Convenco

### **Contingency provision**

A minimal contingency provision under Vote 3 - Provincial Treasury was made for unforeseeable and unavoidable expenditure within the province to provide for those untimely and unpreventable eventualities that cannot be funded by other means, or as savings and reprioritisation, as contemplated in Treasury Regulation 6.6.1.

### **HIV/Aids**

Roughly 0.4%, 0.7% and 0.9% respectively of the global allocations (inclusive of conditional grants) per annum to departments should ideally be used for this purpose. However, special conditional grants and earmarked allocations to combat HIV/Aids in various ways have been made available under the Health, Education and Social Services' votes.

### **Inflation adjustments**

The combination of final phasing in of the equitable share formula in 2003/04 and the sharp rise in social security expenditures (substantially overshooting the nationally set targets), left the provincial government with no choice but to reduce the provision for growth in allocations due to inflation for non-personnel and non-social security expenditure to:

5.6% 2003/04 compared to MTBPS 2002 6.5%

5.1% 2004/05 compared to MTBPS 2002 5.3%

4.4% 2005/06 compared to MTBPS 2002 4.8%

In addition, the current equitable share formula makes no provision for the non-ICS (improvement of conditions of service) component of personnel costs, which added further pressures in the more personnel intensive departments.

### **Departmentalisation**

Resulting from the provincial government's departmentalisation initiative that took effect in 2002/03 and the shifts seen in the Adjustments Estimate for that year, most of the non-social services sector departments such as the Provincial Administration Western Cape, Provincial Treasury, Community safety, Housing, Environmental affairs and development planning, Agriculture, Local government, Economic development and tourism, Cultural affairs and sport and Transport and public works, have as a second phase undergone fairly substantial internal organisational and programme restructuring and refocusing to improve their efficiency, cohesion, direction and service delivery.

Ample provision was made for the support structures underpinning departmentalisation to give these departments a bit of a kick-start towards more capably performing their newly assigned roles and responsibilities.

### **Information technology**

The centralised provision for end user IT equipment was shifted from the Provincial Administration Western Cape to the other provincial departments in line with the provincial government's policy objectives to improve efficiency in asset management and to promote accountability.

### **Programme structures**

Through intergovernmental co-operation and driven by the National Treasury, and the relevant national departments, agreement was reached in the social services sector, namely Health, Education and Social services and poverty alleviation on a provincial crosscutting programme structure, designed to promote transparency and to enhance the analysis of data on an intergovernmental basis. However, giving practical effect to this initiative identified some technicalities that will require refinement in the post budget period.

### **Community safety**

The key policy priority in this sector is the efficient and effective roll out of a 24 hour traffic law enforcement service, as well as an incremental programme towards 24 hour services at the different weighbridges. The anticipated national traffic law enforcement conference, later this year, will also be a major event in the drive to establish effective co-ordination amongst traffic law enforcement agencies. A further necessity is a close working relationship with Health to reduce both road fatalities and injuries, as that would benefit both the country economically speaking (and in line with the spirit of *iKapa elihlumayo*) as well as lessen the load on trauma units.

### **Education**

In line with national policy priority areas, substantial additional allocations have been made to specifically address learner support materials, particularly for schools in the poorer communities. Other adjustments, apart from the attenuated inflation indexing, were made to defray increased personnel related costs. Unfortunately, a substantial number of supernumerary educators and other staff are still in the system, further constraining the elbow-room for manoeuvring that education has been given.

## **Health**

Cabinet approved the Health Care 2010 conceptual framework guiding the realignment of the health platform to specifically identified service goals within its expenditure envelope and the appropriate transformation of health facilities. It is envisaged that the practical effect of this conceptual framework will only be considered by Cabinet during the latter half of March 2003. The financial considerations have thus not been incorporated in the budget allocations for 2003/04, or in the baseline allocations over the remaining MTEF period. For this reason and to maintain stability in service delivery the projections for the outer years of the budget have been kept fairly constant on a pro rata basis relative to the 2003/04 allocations. As a consequence the Adjustments Estimate for 2003/04 should reflect appropriate shifting of financial resources within Vote 6 – Health.

A substantial additional amount has been specifically and exclusively allocated for the acquisition of medical equipment, to bring much needed improvement to the quality and quantity of service delivery and hopefully also realise efficiency gains. The additional allocation is preceded by a supply chain management efficiency analysis performed by the Auditor-General to determine the efficiency within Health's current procurement and provisioning system. This exercise should therefore assist in achieving better disbursement of equipment monies.

The effective fall in the National Tertiary Services and Health Professions Training and Development conditional grants, which are supposed to be phased in by 2006/07, have been compensated from the previous resources over the MTEF. In reality, the sum of these grants have been reduced by the national Health department by over R50 million from what it was anticipated in 2001/02 MTEF forecasts. However, factoring in the same CPIX-inclined adjustments made by National Treasury to calculate the equitable share, the current allocation is R180 million less than what it should have been. This initiative by the national government to more equitably spread access to tertiary health services, laudable as that might be, have placed heavy demands on the provincial resources to keep up with health care demands.

Apart from inflation indexing (albeit reduced) extra provision has also been made to fully assist in catering for the higher than usual inflation and scarce personnel recruitment costs.

## **Social services and poverty alleviation**

A major policy shift in the social security environment is the introduction of a new conditional grant for the phased extension of the child support grant to children from the age of 7 and under the age of 14 with effect from 1 April 2003.

The maximum value of social security grants for the aged, war veterans, disabled and care dependency beneficiaries all increase by R60.00, grants-in-aid and child support grants by R20.00, whilst foster care increase by R40.00, with effect from 1 April 2003. These increases are above the inflation rate, seeking to protect the purchasing power of social security grants.

The growth in grant values combined with the sharp growth of disability and child support grants has a tremendous crowding out effect within the budget. This translates into pressure on the social services sector departments, but also on the non-social service sector departments mainly Transport and Public works. This makes the attainment of a balance in resourcing between the social and non-social sectors even more difficult.

Further augmentation was thus necessary to meet calculated shortfalls in the social security provision based on the following caveats: Firstly, continuing clean-up and enhancement of administrative efficiency and secondly, a 35 day turn-around time on grants.

## **Housing**

The Western Cape Housing Development Fund closes down with effect from 1 April 2003, which means that housing subsidy and property transactions will no longer be channelled through this Fund. The implementation of this policy direction is intended to enhance accountability in relation to the delivery of housing opportunities and the management of housing property.

Based on mutual agreement between the departments of Housing and Agriculture the programme for excess community farm workers has been transferred to Agriculture for further efficient deployment and restructuring.

## **Environmental and development planning**

Transfers to the Western Cape Nature Conservation Board have been adjusted upward to keep provincial contributions to the Board at least constant in real terms.

## **Agriculture**

A boost is given for veterinary services to strengthen actions that would ensure that the Western Cape agriculture sector remains globally competitive in export markets. The Land Redistribution for Agriculture Development programme has been given a significant boost to increase effective and efficient land reform initiatives for historically disadvantaged communities.

## Local government

No provision has been made, and indeed none is even remotely possible, for the financial impact of a series contested functions such as, library services and primary health services historically rendered by local government authorities, who maintain that these services from a constitutional perspective no longer fall within their competency to deliver. The combination of delineating and properly identifying contextual services, the legal framework and the funds follow function principle, have proved a tough nut to crack for all concerned, requiring a lot of further work to come up with sustainable answers.

Taken a step further, shifts or assignments to municipalities have to adhere to the fiscal principles of co-determination, co-responsibility, co-funding and co-accountability to promote the co-operation and integrated governance ideal. If not, the services in question could be severely compromised, negatively impacting on norm government has set to assist and develop.

The possible financial impact resulting from the narrowing of the definition of "municipal health services" to "environmental health services" as contemplated in the National Health Bill, are tremendous and unless provinces are compensated by further shifts in the vertical share, the balance of services currently provided by municipalities, run the definite risk of termination. The national Minister for Provincial and Local Government have not only promulgated this division of functions between local and district municipalities, effective from 1 July 2003, but also indicated that the full phasing in of the narrow municipal responsibility for health services kicks in from 1 July 2004. So there is not much time left to reach an acceptable solution.

## Internal audit

Provision has been made under Vote 3 - Provincial Treasury for the roll-out of internal audit to education, health and the promotion of a similar unit at social services and poverty alleviation, as well as to aid the reorganising of the central unit to provide an effective service to the balance of provincial departments.

### 1.2 Summary of budget aggregates

Table 1.2 presents the estimates of the main budget components.

<b>Table 1.2 Provincial Budget Summary</b>								
<b>Provincial Department</b>	<b>2000/01 Actual  R'000</b>	<b>2001/02 Actual  R'000</b>	<b>2002/03 Budget  R'000</b>	<b>2002/03 Est. Actual  R'000</b>	<b>2003/04 Voted  R'000</b>	<b>% Change Voted to Est. Actual</b>	<b>2004/05 MTEF  R'000</b>	<b>2005/06 MTEF  R'000</b>
<b>National Transfers</b>	11 143 616	12 085 862	12 880 209	13 314 411	<b>14 963 624</b>	12.39	16 342 991	17 629 895
Equitable share	9 235 141	9 869 840	10 918 905	11 294 254	<b>12 691 961</b>	12.38	13 844 250	14 935 593
Conditional grants	1 908 475	2 216 022	1 961 304	2 020 157	<b>2 271 663</b>	12.45	2 498 741	2 694 302
Own Revenue	764 733	954 970	797 952	834 036	<b>1 015 670</b>	21.78	1 030 216	1 086 249
<b>Total revenue</b>	<b>11 908 349</b>	<b>13 040 832</b>	<b>13 678 161</b>	<b>14 148 447</b>	<b>15 979 294</b>	12.94	<b>17 373 207</b>	<b>18 716 144</b>
Current outlays	7 869 097	8 434 669	9 237 925	9 464 685	<b>10 752 470</b>	13.61	11 307 740	12 146 592
Capital outlays	551 824	752 535	839 439	968 539	<b>869 860</b>	(10.19)	941 232	1 011 652
Transfer payments	3 092 590	3 329 792	3 900 068	4 383 493	<b>4 791 482</b>	9.31	5 373 725	5 815 656
<b>Total expenditure</b>	<b>11 513 511</b>	<b>12 516 996</b>	<b>13 977 432</b>	<b>14 816 717</b>	<b>16 413 812</b>	10.78	<b>17 622 697</b>	<b>18 973 900</b>
Smoothing			81 286					
Contingent liabilities			52 750					
Unforeseen and unavoidable contingencies			50 100					
<b>Total amount available</b>	<b>11 513 511</b>	<b>12 516 996</b>	<b>14 161 568</b>	<b>14 816 717</b>	<b>16 413 812</b>	10.78	<b>17 622 697</b>	<b>18 973 900</b>
Lending								
<b>Surplus (Deficit)</b>	<b>394 838 <sup>a</sup></b>	<b>523 836</b>	<b>( 483 407)</b>	<b>( 668 270)</b>	<b>( 434 518) <sup>b</sup></b>	<b>( 35)</b>	<b>( 249 490) <sup>b</sup></b>	<b>( 257 756) <sup>b</sup></b>

<sup>a</sup> Includes roll overs to 2001/02.

<sup>b</sup> Financing from accumulated reserves.

### 1.3 Financing

The deficits of R434,518 million, R249,490 million and R257,756 million in the financial years 2003/04, 2004/05 and 2005/06 will be financed by way of capital accumulation (including voluntary surrenders in 2002/03), tighter liquidity management activities and bridging finance.

<b>Financing of deficit</b>	<b>2003/04 Voted R'000</b>	<b>2004/05 MTEF R'000</b>	<b>2005/06 MTEF R'000</b>
Deficit	( 434 518)	( 249 490)	( 257 756)
Financed through:			
Capital accumulation	307 715	189 437	240 000
Surplus funds	215 906	180 000	240 000
Surrenders 2002/03	91 809	9 437	
Liquidity management and bridging finance	126 803	60 053	17 756
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>

Capital accumulation totalling R737,152 million consist of accumulated reserves of R635,906 million and compulsory savings (surrenders) 2002/03 of R101,246 million. The accumulated reserves include the R299,564 million already incorporated into Budget 2002's MTEF provisions (2003/04 and 2004/05) for capex. The balance arises from net savings in 2001/02 and realisations from investment activities up to the end of March 2003. Surrenders consist of compulsory savings by votes in 1, 3, 5, 10 and 11 in 2002/03, to be revoted, of which R91,809 million is destined for application in 2003/04 and R9,437 million in 2004/05.

The remainder of the shortfall (R126,803 million, R60,053 million and R17,756 million in respectively 2003/04, 2004/05 and 2005/06) will be financed through even sharper cash management activities, which include reducing liquidity together with closer payment control and full electronic management, so-called bow wave initiatives, and bridging finance. Bow wave initiatives occur as a result of financing differences between when funds are committed and actual cash flows resulting in a temporary accumulation of funds. Payment control and electronic management initiatives target the step change extension of payment runs in respect of the personnel and salary system (Persal), Financial management system (FMS) and the Basic accounting system (BAS), full implementation of electronic payments (currently at just over 90%), the withdrawal of the facility for computer and handwritten cheques and replacing it with an on-line cash management system for urgent payments.

In the absence of borrowing on capital markets by provincial governments, the above arrangements are necessary to smooth the Province's current and capital outlays with total expected revenue over the 2003/04 - 2005/06 MTEF period, and to ensure that expenditure is kept at least relatively constant in real terms for all departments specifically those dealing with infrastructure, and to free up funding to finance *iKapa elihlumayo* initiatives.

## 2. BUDGET PROCESS AND THE MEDIUM-TERM EXPENDITURE FRAMEWORK

2.1 Within the spirit of intergovernmental fiscal relations as embodied in the Constitution, Public Finance Management Act and the Intergovernmental Fiscal Relations Act and other relevant legislation the provincial government's budgeting and planning process is fully aligned with that of the national government and for various acceptable reasons to a lesser extent with that of local government.

It is in this context that in setting the fiscal framework, division of revenue and the provincial budget framework, the national Cabinet (extended to include Premiers), the Budget Council, the sectoral Minister/Member of Executive Council Committees within the political arena and supported by the various technical committees within the bureaucracy, have an active role to play.

This section attempts to explain the key issues related to the provincial strategic planning and budget process and to describe the respective roles and responsibilities of the Treasury and line departments, the appropriation process and parliamentary scrutiny of the budget.

The Treasury is the driver of the provincial budget process. The process adopted for the Budget 2003 can, for the purposes of this section, be categorised into 4 phases.

The first, can be described as the fiscal policy formulation phase.

Its main objective is to provide certainty about the Western Cape government's fiscal direction and to create an opportunity for debate about the choices the provincial government faces to improve the lives of all communities.

Supporting fiscal policy is Treasury's provincial Expenditure Review 2002. This ran concurrently with the fiscal policy formulation process, and its purpose was to assess the performance of the province as a whole, as well as individual provincial departments, taking historical trends and sector specific issues into account, and showing the implications based on current allocations. The ultimate objective was to give an understanding of the impact of the budget allocation process and policy debates on the delivery of social, economic and basic services.

Both these documents were supported by inputs from provincial departments and advisors to the Treasury; the latter made inputs on selected issues such as poverty and inequality, migration, crime, gender, household inequality and education.

Prior to publication, both documents were consulted with the provincial top management, and after Cabinet approval were tabled in the Provincial Parliament for discussion.

For this purpose a provincial Parliamentary Budget Committee was established which proved to be valuable in empowering parliamentarians to actively and meaningfully engage in the budget process, to deepen deliberations and to enhance transparency and parliamentary oversight.

The second, can be described as the preliminarily allocation phase.

Prior to making budget allocations to the various departments the Treasury embarked on bilateral discussions with each department. This part of the process is crucial as its key objective is to strengthen the relationship between the Treasury and departments and to gain a better comprehension of sector specific issues to ultimately enhance efficacy of resource allocation. The agenda covered reviews related to own revenue, expenditure, financial management, budget pressures, strategic policy issues and technical issues.

Based on the fiscal direction contained in the Western Cape Fiscal Policy, the Expenditure Review 2002, the outcome of the bilateral discussions with departments, the province's revenue resource envelope, provincial government's spending priorities, the national government's guidelines on key priority areas and further consultations with the provincial top management, allocation proposals were submitted to Cabinet for approval.

Provincial departments with the support of their executive authorities subsequently compiled their draft departmental strategic plans and draft budget statements based on these preliminary allocations.

The third, can be described as the benchmarking budget assessment phase by both the national and provincial Treasuries.

The key objective of the national benchmarking exercise was to ensure that national government's priority guidelines were funded adequately and that draft provincial budgets were credible. This engagement by the National Treasury was deemed to be quite productive as it allowed scrutiny from a national perspective and eventually a further shift of the vertical share in favour of provinces.

Concomitant with the national benchmarking exercise and complementary thereto, a provincial integration of draft budgets and strategic plans of departments took place with further bilaterals to try and reach agreement on the conclusions reached and further work to be done.

The objective of the assessment exercise was to build capacity in the Treasury, but more specifically to determine the credibility of the budget, the quality of the information, links between the budget and strategic plans, whether the allocations were directed to the national and provincial government priority guidelines and the *iKapa elihlumayo* departments drive underpinning the budget to enhance the possible positive economic empowerment impact that Budget 2003 could conceivably achieve. A further objective was to gauge the degree of synergy with municipal initiatives. All of this, together with further analysis of the options, enabled the Treasury to, after consultation with the provincial top management, propose further and final allocation adjustments to Cabinet. Current fiscal policy and the outcome of these assessments thus fed into the rationale determining the final allocations and the finer breakdown and distribution in departmental budget statements.

The National Treasury also drove an evaluation process of strategic plans, wherewith most provincial departments and their national counterparts were involved.

After the final allocations were made available to the departments and before printing for tabling in the Provincial Parliament, Treasury again examined the budget statements. During this fine-tuning operation there was continued interaction with departments.

The fourth, can be described as the oversight phase.



Apart from the appropriation bill and relevant budget documentation tabled in the Provincial Parliament on 12 March 2003 by the Minister of Finance and economic development, executive authorities also table their departmental strategic plans on the same date. The rationale for this is to ensure that the budgets and the strategic plans are aligned and that the parliamentarians are enabled and empowered to improve their intimation with executive authorities and their departments.

Consistent with general practice the Treasury presents the macro-aspects of Budget 2003 to the Standing Committee on Finance, Development planning and gambling (SCOF) for consideration on the same day as provincial budget day.

The actual deliberations of the Provincial Parliament on the budget have in fact been delayed to align it with national activities and due to commence after publication of the National Treasury's Intergovernmental Fiscal Review (IGFR) in early April 2003.

This allows for the information in provincial budgets to be taken up in the said review for comparable purposes. As a consequence the Provincial Parliament will be better empowered to evaluate the budget statements of departments, by being able to draw comparisons across provinces, hopefully contributing to more informed debates on the province's Budget 2003. Provincial departments have been requested to take great care to include accurate information in their budget statements.

This opportunity also extends the preparatory time for parliamentarians to digest the load of information, a point of great contention in previous years.

A deviation from the traditional, but within the legal framework, is that the appropriation bill will only be enacted on a date after 1 April 2003, towards end of June 2003.

### 3. SOCIO ECONOMIC OUTLOOK

#### 3.1 Demographics

Although national census survey has been undertaken for the whole of South Africa during 2001, according to the latest information from Statistics South Africa (SSA), results on the 2001 census will only be made available during May this year. The Census 2001 results are important to the Province as the equitable share of provincial funding formula relies greatly on demographic data that is still based on the 1996 census figures and official data within provinces and between provinces are in many cases approximately seven years old.

Whether it will be beneficial to the province to update the equitable share formula with the latest 2001 census data figures, is difficult to predict as the Western Cape will only benefit if its ratio to the total population in South Africa has increased in 2001 relative to its ratio in the 1996 population count. Indications are, according to migration studies that were undertaken for the department of housing in the Western Cape, that about 48 000 people (net figure) migrate to the province per annum. Based on the 1996 census figures and information obtained from the Western Cape Investment and trade promotion agency (Wesgro) of 1999, the population of the Western Cape is shown in Table 3.1, similar to the data that was provided in the previous years budget statement one.

<b>Table 3.1 Western Cape population, 1996 and estimates for 1999</b>		
<b>Area</b>	<b>Population</b>	<b>Percentage</b>
<b>Western Cape 1996</b>	<b>3 975 000</b>	<b>100.0</b>
Western Cape as a percentage of SA		9.7
Cape Metropolitan Area 1999	2 810 500	66.8
Coloured/Asian 1999	2 322 540	55.2
Black 1999	879 368	20.9
White 1999	875 160	20.8
Unspecified 1999	130 432	3.1
<b>Total Western Cape 1999</b>	<b>4 207 500</b>	<b>100.0</b>
Number of Households	1 050 250	

Source: Wesgro (1999) and 1996 final Census results

### 3.2 Socio-economic indicators

For Western Cape with its high level of inequalities between and within the different population groups specific focus on inequality and the factors that determine income and inequality for the province will receive brief attention in this section. It is important to take cognisance of the factors that underlie these inequalities and to compare the province to the rest of South Africa.

Income is generated largely by the factors of production, labour, land and capital. Thus the distribution of the factors of production and their returns (labour earnings or wages for each level of human capital; land rent; and the interest earned on capital) are the main determinants of income, to which should be added transfer earnings such as social pensions. To understand inequality, it is therefore useful to analyse these factors of production and the returns to them. In the case of labour it should be noted that returns are influenced not only by wages, but also by access to employment.

In terms of overall incomes, it is important to note that wages are dominant (69% of all household income is labour income). As Leibbrandt et al. (2001) found in a study, *"the labour market dominates South African income and income inequality"*.<sup>1</sup> Thus a large part of existing inequality in South Africa can be ascribed to inequality in the sphere of labour: the quality of labour, access to employment, and returns to labour in the form of wages. For poverty, transfers also have a major role, whilst income from capital, profits and self-employment also contribute to inequality. **But inequality is largely driven by inequality in the access to and levels of wages.**

This also applies to the Western Cape, although with a different racial composition (a relatively smaller black<sup>2</sup> share), lower fertility and thus a lower dependency burden, higher educational attainment, greater labour force participation, less unemployment and higher than average wage for unskilled and farm workers contribute to smaller overall inequality than in most other provinces. But inequality remains vast in the province, with important racial, geographical, educational and gender dimensions.

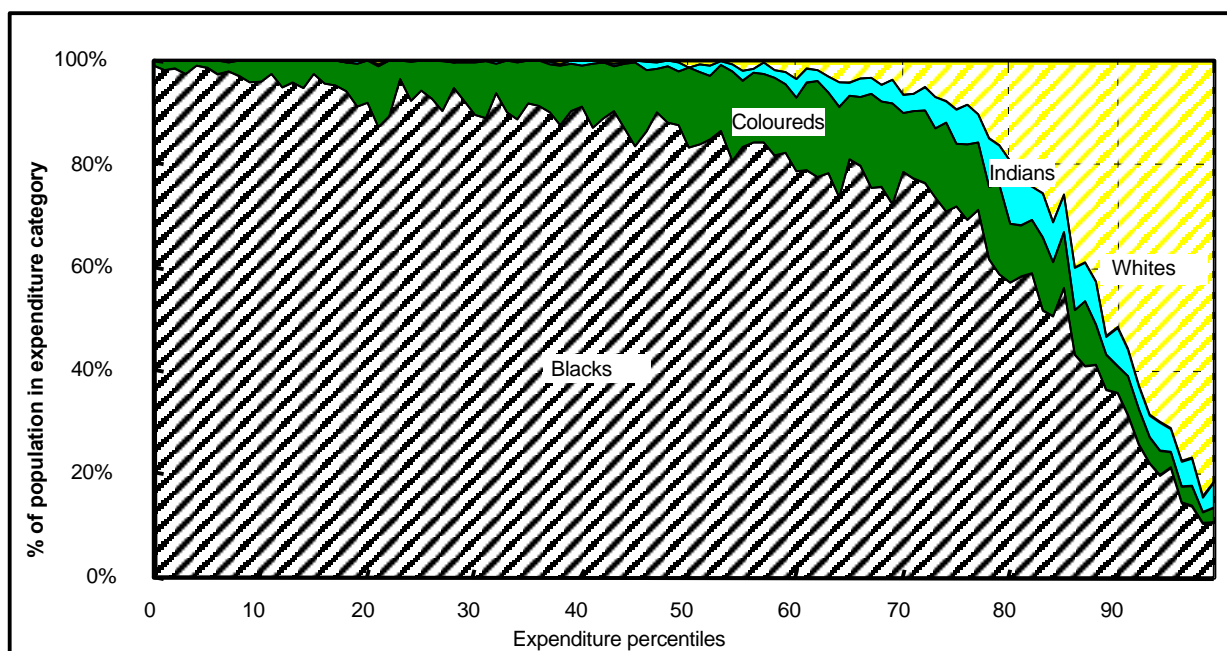
Important forces influencing patterns of South African inequality in recent decades have been growing unemployment combined with rapidly rising wage levels at the bottom end of the wage spectrum. These trends are also evident in the province. Thus, as for South Africa, racial differentials may have narrowed in recent decades and more particularly since the October Household Survey/Income and Expenditure Survey of 1995 (OHS/IES95), whilst within race, inequality may have worsened for the black population in particular. Figure 1 shows the distribution by race across the household per capita expenditure distribution spectrum (from the lowest percentiles of expenditure to the highest), based on the OHS/IES95 for South Africa. It is evident that the white population are disproportionately concentrated in the higher income groups, whilst the coloured population (the numerically dominant group in the Western Cape) and especially the black population are over represented in the lower income groups.

Figure 2 shows the distribution of the national population from poorest to richest by relative expenditure level percentiles. As can clearly be seen, the two richest provinces, Gauteng and Western Cape, have a very small share of the poorest population, but they contain a large share of the richest part of the population. However, as will be seen from table 3, relatively poor households in 1996 earning less than R800 per month and relatively poor households earning less than R12 000 per annum comprises 12% and 27.3% of the household population of the Western Cape. This clearly shows that the expenditure percentiles in figure 2 can create a skewed picture.

<sup>1</sup> Leibbrandt, Murray; Woolard, Ingrid and Bhorat, Haroon. "Understanding Contemporary Household Inequality in South Africa," Ch. 1 in H. Bhorat, M. Leibbrandt, M. Maziya and S. Van der Berg, *Fighting Poverty: Labour Markets and Inequality in South Africa*. Cape Town: University of Cape Town Press, 2001:32. See also Leibbrandt, Murray; Bhorat, Haroon and Woolard, Ingrid. "Understanding Contemporary Household Inequality in South Africa." *Studies in Economics & Econometrics*, 2000, 24(3), pp. 31-52.

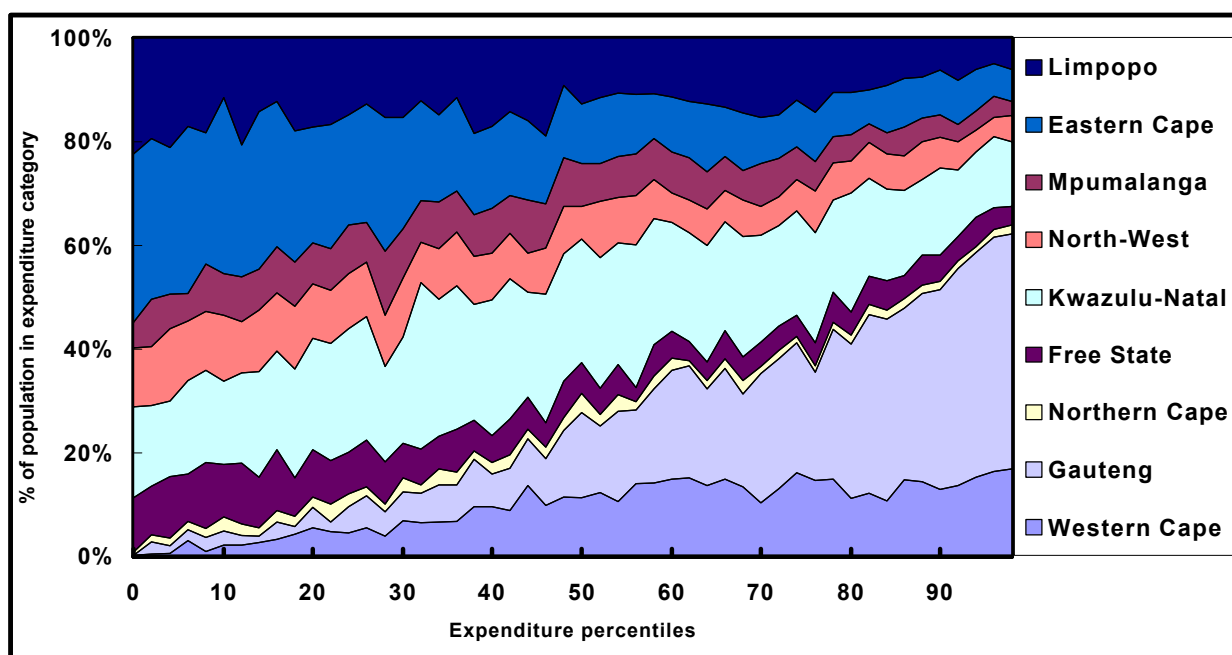
<sup>2</sup> Black in this sense meaning African.

**Figure 1: Distribution of total population by province over national expenditure percentiles, 1995**



Source: Calculated from OHS/IES 95.

**Figure 2: Distribution of total population by province over national expenditure percentiles, 1995**



Source: Calculated from OHS/IES 95.

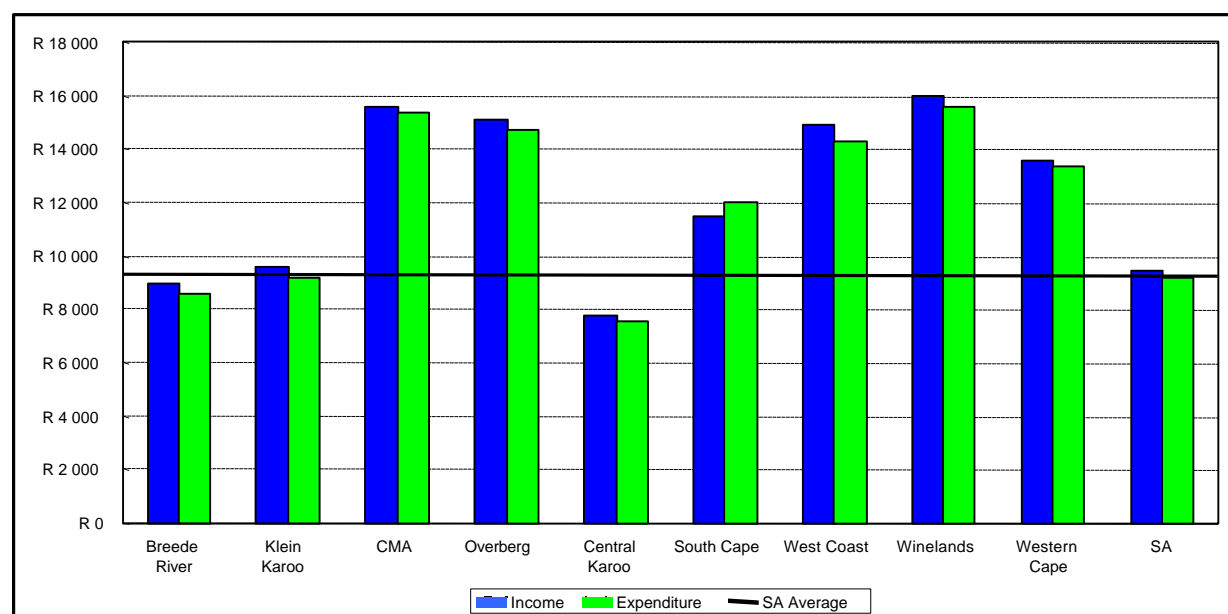
Table 3.2 shows that poverty is most endemic in the Central and Klein Karoo, while affluence is concentrated in the CMA and the Winelands. Regional inequalities, although not shown in table 3.2 are considerable, particularly with regard to **severe or ultra-poverty**. Despite lower poverty rates, the more populous Winelands, Southern Cape and Cape Metropolitan Area house most of the poor.<sup>3</sup> The estimated mean monthly household expenditure of R3 816 in Table. 3 for the Western Cape was still 38% higher than for South Africa as whole.

District Council Area	Relatively poor households (income below R12 000 per year) %	Relatively affluent households (income above R54 000 per year) %	Relatively poor households (expenditure below R800 per month) %	Mean household income per month R
Breede River	37.7	14.0	21	2 957
Klein Karoo	42.4	12.3	20	3 132
Cape Metropolitan Area	24.3	27.1	9	4 075
Overberg	32.7	15.4	18	3 258
Central Karoo	49.9	10.4	21	2 743
Southern Cape	31.6	17.3	14	3 650
West Coast	31.6	16.6	18	3 276
Winelands	25.8	22.6	15	3 546
<b>Total Western Cape</b>	<b>27.3</b>	<b>23.6</b>	<b>12</b>	<b>3 816</b>

Source: Based on Census 1996, and expenditure figures on Alderman et al. 2000. Note that household size was not taken into consideration and that census income is usually not regarded as a very accurate reflection of actual income, for that reason the last two columns, based on Alderman et al., may be more accurate.

The OHS/IES95 data may not be very accurate at the regional level, given that sampling size in each region was relatively small. Nevertheless, Figure 3 below confirms that the Central Karoo, Klein Karoo and Breede River areas were the only regions within the province that did not considerably exceed national per capita income or expenditure levels.

**Figure 3: Average annual per capita income and expenditure by region, 1995**



Source: Unpublished calculations by M. Oosthuizen & L. Nieuwoudt based on OHS/IES95, Stellenbosch, 2002

<sup>3</sup> Using an alternative estimate, household poverty levels fluctuate between 21% in the Central Karoo and Breede River District council areas and 20% in the Klein Karoo District Council Area, to only 9% in the Cape Metropolitan Area. (Alderman, Harold; Babita, Miriam; Lanjouw, Peter; Makhatha, Nthabiseng; Mohamed, Amina; Özler, Berg & Gaba, Olivia. Combining census and survey data to construct a poverty map of South Africa. Ch. 2 in Statistics South Africa. *Measuring poverty in South Africa*. Pretoria: Statistics South Africa: 5-52)

### Gender Inequalities

Gender inequalities in the Western Cape are relatively smaller if compared to other provinces: The proportion of individuals in female-headed households, at 26% in 1996, was far smaller than the national average of 39%; female-headed households were not much worse off in terms of service provision (water, electricity, sanitation and even telephones) than other households, in stark contrast to the national situation; there were hardly any discernible differences in educational levels of adult males and females within the province. Although large gender differences exist in the labour market (male unemployment at 12.7% was well below the 14.9% of women), this differential was much smaller than for the country as a whole.

### 3.3 Economic indicators

On 21 November 2002 Statistics South Africa (SSA) for the first time since 1995 published a discussion paper per province that compares the Gross Domestic Product per Region (GDPR) for the period 1995 -2001. The Gross Geographic Product per region was last updated in 1995 that released final and preliminary figures for 1993 and 1994 respectively.

The lack of GDPR data for the period 1995 – 2001 meant that the province obtained economic data from institutions such as Wesgro, certain banks or any source that usually received their data from Dri-Wefa (now named Global Insight). This is not the ideal situation, as **firstly**, the data is not regarded as official, **secondly**, although certain trends within sectors of the Western Cape could be observed, basically no comparisons of regional growth between provinces were available and **thirdly**, data was not available at regular intervals or in the same comparative formats to make meaningful analyses.

The Provincial Treasury for the past two years based its economic growth analysis on the growth in retail sales that were made available by SSA as a proxy to determine economic growth for the province. According to the growth in retail sales the Western Cape economy had outgrown all the other regions in the country and increased its share of total retail sales from 18% in 1995 to 19,6% in 2000. Unfortunately the higher than expected GDPR growth for the province did not materialise as reflected in the SSA publication of November 2002. Table 3.3, firstly, confirms that the lack of data does not necessarily imply that the growth in retail sales correlates with the growth GDRP for the province. Secondly, the question may be raised which source is correct in terms of trends or what accounts for the discrepancies between retail sales and the GDPR published by SSA.

SSA intends to publish GDPR data for provinces on an annual basis which is to be welcomed.

<b>Table 3.3 Comparison of Western Cape's Contributions (current prices)</b>		
	<b>Retail Sales (StatsSA)</b>	<b>GDPR (StatsSA)</b>
<b>1995</b>	18.0%	14.3%
<b>1996</b>	18.1%	14.1%
<b>1997</b>	18.5%	14.2%
<b>1998</b>	18.9%	13.9%
<b>1999</b>	19.3%	14.3%
<b>2000</b>	19.6%	14.2%
<b>2001</b>	19.6%	13.8%

Source: BER and StatsSA 2002

Table 3.4 gives the nominal and average growth rates per province for the period 1995 – 2000. From Table 3.4 the average nominal growth rate for the Western Cape per annum for GDPR is lower than the annual average, but the real average growth rate higher than the national average. According to the Bureau for Economic Research (BER) of the University of Stellenbosch this arises from the use of price deflators at national level that were determined differently to the weights that were used in the provinces.

<b>Table 3.4                      Average Annual Regional (GDPR) Growth Rates (1995-2001)</b>		
	<b>Nominal</b>	<b>Real</b>
Western Cape	9.67%	3.06%
Limpopo	12.71%	3.81%
Gauteng	10.94%	3.33%
Mpumalanga	9.87%	2.50%
North West	9.83%	0.06%
Free State	9.51%	2.04%
Eastern Cape	9.71%	2.45%
Northern Cape	5.78%	-0.25%
KwaZulu-Natal	9.80%	2.54%
<b>South Africa</b>	<b>10.22%</b>	<b>2.67%</b>

Source: StatsSA 2002

According to Table 3.5 below it appears that growth in the tertiary sector was considerably higher in nominal and real terms for the period 1995 to 2001 than in the primary and secondary two sectors. Agriculture in the primary sector had reasonable growth rates, while construction in the secondary sector fared better than manufacturing over the same period.

<b>Table 3.5                      Average Annual Sectoral Growth Rates for the Western Cape: 1995-2001</b>		
	<b>Nominal</b>	<b>Real</b>
<b>Primary sector</b>	<b>5.40%</b>	<b>1.11%</b>
Agriculture, forestry and fishing	6.33%	2.12%
Mining	-8.43%	-14.89%
<b>Secondary sector</b>	<b>6.98%</b>	<b>1.36%</b>
Manufacturing	6.91%	0.67%
Electricity and water	4.66%	4.26%
Construction	8.2%	2.81%
<b>Tertiary sector</b>	<b>11.12%</b>	<b>4.14%</b>
Trade (Wholesale and Retail)	9.04%	2.11%
Transport and communication	12.27%	7.70%
Finance and business services	13.94%	6.64%
Community, social and personal services	10.64%	0.67%
General government services	6.57%	-1.77%
<b>All industries at basic prices</b>	<b>9.61%</b>	<b>3.11%</b>
Taxes less subsidies on products	10.25%	2.50%
<b>GDPR at market prices</b>	<b>9.66%</b>	<b>3.06%</b>

Source: StatsSA 2002

## 4. REVENUE

### 4.1 Overall position

Table 4.1 sets out a summary of provincial revenue, i.e. actual revenue for the 2000/01 and 2001/02, the preliminary outcome for 2002/03, voted revenue for 2003/04 and budget estimates for 2004/05 and 2005/06.

Provincial revenues consist of national payments, i.e. equitable share payments and conditional grants as well as provincial own revenue.

Taking account of national revenue trends, provincial tax and administrative policy changes and macroeconomic projections, total provincial revenue is calculated to be R15,979 billion in 2003/04, which is 12.94% more than the 2002/03 estimated actual. Between 2002/03 and 2005/06, provincial revenue is expected to grow at an annual average rate of 9.77% (i.e. 12.94% in 2003/04, 8.72% in 2004/05 and 7.73% in 2005/06) or a 4.03% real<sup>4</sup> growth rate per annum. This translates to generous growth rates in national transfers over this period above official inflation estimates.

From 2000/01 to 2002/03 overall provincial revenue grew at an annual average rate of 5.91%. The growth is largely attributable to growth in national payments, mainly as a result of buoyant growth in national tax revenue, in the form of the equitable share and conditional grants which comprised 94.1% of total provincial revenue in 2002/03. Provincial own revenue, an important source of funding at the margin, also experienced strong revenue growth from 2000/01 to 2002/03 (an average 5.91% per annum) following some comprehensive policy reforms and administrative improvements, but marginal increases are projected over the MTEF due to changes in revenue patterns.

In the 2003/04 Budget and over the MTEF national payments comprise on average 94% of total provincial revenue, of which 84.7% is through the equitable share. The remaining 9.3% flows as conditional grants. Paragraphs 4.2 and 4.3 set out more detail on national payments. Provincial own revenue is discussed in more detail in paragraph 4.4.

Revenue source	2000/01 Actual R'000	2001/02 Actual R'000	2002/03 Budget R'000	2002/03 Est. Actual R'000	2003/04 Voted R'000	% Change Voted to Est. Actual	2004/05 MTEF R'000	2005/06 MTEF R'000
<b>National payments</b>								
Equitable share payments	9 235 141	9 869 840	10 918 905	11 294 254	12 691 961	12.38	13 844 250	14 935 593
Conditional grants	1 908 475	2 216 022	1 961 304	2 020 157	2 271 663	12.45	2 498 741	2 694 302
<b>Total National payments</b>	11 143 616	12 085 862	12 880 209	13 314 411	14 963 624	12.39	16 342 991	17 629 895
<b>Provincial own revenue</b>								
<b>Current revenue</b>	760 335	952 379	797 917	833 972	1 015 665	21.79	1 030 211	1 086 244
<b>Tax revenue</b>	391 244	569 312	588 937	624 957	720 491	15.29	782 178	849 932
Casino taxes	21 654	85 630	84 000	84 000	106 000	26.19	107 000	108 000
Motor vehicle licences	339 167	455 588	486 049	522 069	600 791	15.08	661 458	728 192
Horseracing	27 733	24 795	15 500	15 500	10 300	( 33.55)	10 300	10 300
Liquor licences	2 690	3 299	3 388	3 388	3 400	0.35	3 420	3 440
<b>Non-Tax revenue</b>	369 091	383 067	208 980	209 015	295 174	41.22	248 033	236 312
Interest	150 324	185 430	69 911	71 224	112 336	57.72	59 191	41 446
Health patient fees	70 455	88 893	70 718	70 718	90 942	28.60	95 812	100 081
Reimbursements								
Other sales	2 617	2 789	2 367	2 227	2 372	6.51	2 440	2 462
Other revenue <sup>a</sup>	145 695	105 955	65 984	64 846	89 524	38.06	90 590	92 323
<b>Capital revenue</b>	4 398	2 591	35	64	5	( 92.19)	5	5
Sale of land and buildings	4 323	2 559						
Sale of stock, livestock etc.	75	32	35	64	5	( 92.19)	5	5
Other capital revenue								
<b>Total Provincially sourced revenue</b>	764 733	954 970	797 952	834 036	1 015 670	21.78	1 030 216	1 086 249
<b>Total Provincial revenue</b>	11 908 349	13 040 832	13 678 161	14 148 447	15 979 294	12.94	17 373 207	18 716 144

<sup>a</sup> "Other revenue" consists mainly of revenue from profits on trade accounts, property rentals, housing revenues, board and lodging, contributions by universities, administration fees and tuition and examination fees.

<sup>4</sup> CPIX inflation figures as published in the National Treasury's Medium Term Budget Policy Statement 2002.

#### 4.2 Equitable share

Section 214 of the Constitution requires that there must be an Act of Parliament (the annual Division of Revenue Act or DORA for short) to provide for the vertical division of revenue (i.e. between the three spheres of government) and a horizontal division (i.e. across the components making up the various spheres of government). The Constitution therefore entitles provinces to a share of nationally raised revenue. The equitable share is allocated horizontally amongst the nine provinces using the equitable share formula of which the specific weights of the different components are essentially political decisions. The formula "recognises" that provinces have marked different economic development profiles, demographic variations and significant variations in socio-economic circumstances. The equitable share formula is highly distributive (allocating more funds per capita to the poorer rural provinces) and is designed to assist the provinces in providing the bulk of public services for which they are constitutionally responsible.

The equitable share formula was destined to be phased in over a five-year period beginning in 1998/1999, achieving ultimate target shares in 2003/04. This Province's target share has been declining annually over the five-year period from 9.8% in 1999/2000 to 8.9% in 2003/04, implying a shift away from the Western Cape of almost R1,3 billion (in 2003/04 rands), as a consequence causing disruptions in maintaining service levels, coupled with capital and maintenance backlogs escalating as a result of reduced funding.

On the other hand, it was perhaps a price worth paying, as it now only allowed the shift of funds towards long-neglected and underdeveloped regions of South Africa, but also stimulated the growing development of increased efficiency within the Western Cape.

As the new demographic information of Census 2001 is now only expected to be available later in 2003, the Budget Council agreed that, to ensure stability in the budget process, in the current structure, except for minor changes and updates, be maintained for the 2003/04 allocations and that over the medium term a new allocation formula be implemented, depending on the availability of quality information.

The equitable share of this Province amounts to R12,692 billion in 2003/04, R13,844 billion in 2004/05, and R14,936 billion in 2005/06. This implies an average increase of 9.76% , i.e. 12.38% in 2003/04 from the current year, 9.08% and 7.88% year-on-year increases in 2004/05 and 2005/06, which represent clear shifts towards provinces generally, bringing increases closer to CPIX year-on-year changes. These changes have primarily come about after a range of engagements with national Treasury and other national departments where *inter alia* a range of pressures on provincial budgets were identified, primarily that of social security growth.

The increases in the equitable share baseline amount to R1,239 billion, R1,623 billion and R2,714 billion for the years 2003/04, 2004/05 and 2005/06 respectively. These adjustments are intended to take account of *inter alia*:

- Provision for higher inflation than assumed in the 2002 Budget.
- Salary adjustments, pay progression and personnel related costs.
- Acceleration of social and economic infrastructure investment to support service delivery, economic development and job creation.
- The carry-through cost of mid-year increases in social security grants of R10 in child grants and R20 in other grants, the full cost of a further R10 increase (relative to the original MTEF provision) in old age, war veterans, disability and care dependency grants in 2003/04 together with the carry-through cost of these adjustment over the MTEF, further take-up of the child support and other grants, implementation of the Child Justice Bill and social development services.
- Further late adjustments to broadly cater for:
  - education for non-personnel non capital especially learner support materials, early childhood development, adult basic education and training and reduction of classroom backlogs;
  - selected category of professional health personnel and a step up of the HIV/Aids prevention and treatment programme; and
  - roads capital and maintenance, with a focus on rural roads.

The additional/improved allocations to this province were during the allocation process primarily allocated to the areas reflected in Table 4.2 in line with the earlier Budget Council agreements and the *iKapa elihlumayo* strategy (as the driving force behind the Budget 2003):

<b>Table 4.2 Allocation: Additional equitable share</b>			
VOTE	2003/04	2004/05	2005/06
	R'000	R'000	R'000
	Allocation	Allocation	Allocation
Treasury ( <i>iKapa elihlumayo</i> )	32 547		
Education: LSM	66 000	115 909	124 755
Health: Equipment	40 000	42 040	43 890
Social services and poverty alleviation: Social security grants	73 601	72 918	72 918
<b>TOTAL ADDITIONAL EQUITABLE SHARE</b>	<b>212 148</b>	<b>230 867</b>	<b>241 563</b>



#### 4.3 Conditional Grants

Conditional grants were introduced in 1998/1999 mainly to meet pressing needs, to expand the oversight role of national departments in policy areas shared concurrently with provinces and to support national priorities, particularly in the social services sectors (health, education and social security), and latterly (2001/02) for infrastructure. They are specifically used to –

- Provide for national priorities in provincial and local government budgets;
- Promote national norms and standards;
- Compensate provinces for cross boundary flows;
- Effect transition by supporting capacity building and organisational reforms;
- Address backlogs and regional disparities in social infrastructure.

The current grant system has been shaped by reforms introduced through the various Division of Revenue Acts since 2000, mainly to enhance accountability.

No major changes are envisaged to the conditional grant structure other than phasing out of the financial management grant administered by the national department of Social development and towards the end of the new MTEF, the Local government capacity building fund. The CMIP grants have also been significantly reduced as part of a different approach by the national sphere in funding infrastructure development at municipalities. Brand new are Child support extension and the Food relief grants both administered by the national department of Social development. Significant is also the growth in the hospital revitalization grant.

Conditional grants constituted 14.3% of total provincial revenue in 2002/03, 14.2% in 2003/04, and 14.4% in both 2004/05 and 2005/06. Thus clearly remaining more or less constant relative to overall provincial revenue.

Conditional grants will amount to R2,272 billion, R2,499 billion and R2,694 billion in 2003/04, 2004/05 and 2005/06 respectively. This represents an average annual increase of 10.07%, i.e. 12.4% in 2003/04 on the previous year and a 10.0% and 7.83% year-on-year increase in 2004/05 and 2005/06 to provide for *inter alia* inflation adjustments and policy considerations, but primarily as a result of the introduction of new grants for social services. For the 2002/03 financial year conditional grants constituted 15.2% of total national transfers. It is foreseen that this percentage will remain more or less constant at 15.17% for the 2003/04 to 2005/06 financial years.

The health conditional grants, specifically the national Treasury Tertiary and Health professions training and development grants, comprise the largest portion of the total conditional grant allocation at 61.25%, in 2003/04 reducing to 57.28% and 53.62% in 2004/05 and 2005/06 respectively. This is due to the health sector's new framework for tertiary services and training which constitutes a major reconfiguration of the two tertiary services and training grants and to try and improve equity amongst provinces. The new framework entails a redistribution of the tertiary health care funds away from the Western Cape and Gauteng in favour of the more rural provinces to be phased in over a period of 5 years started in 2002/03. National Treasury expects that any resulting shortfall should be funded from either own revenue or alternatively the equitable share. Based on the equitable share and at least keeping the real value of these two grants constant, the calculated effective reduction in 2003/04 alone is over R180 million.

The latest revision of conditional grants for the Province resulted in increases of R128,048 million, R246,551 million and R381,399 million for the years 2003/04, 2004/05 and 2005/06 respectively. The increase is mainly due to the following:

- Child support extension grant amounting to R57,355 million, R174,461 million and R328,330 million in 2003/04, 2004/05 and 2005/06 respectively. The child support extension grant incorporates a phased extension of the means-tested Child support grant to children up to 13 years of age and includes a provision for the administration and payment cost of R29 per grant payment per month for 2003/04 to R31 by 2005/06. The phasing will be as follows:
  - 7 and 8 years old will be added in 2003/04;
  - 9 and 10 years old will be added in 2004/05; and
  - 11, 12 and 13 years old will be added in 2005/06.
- The Food relief grant amounting to R20,034 million in respect of 2003/04, remaining at the same level over the MTEF, is meant to minimise the negative impact of food price increases on poor households.
- Adjustments to the Hospital revitalization grant: Increased by R50,589 million, R51,986 million and R53,400 million in 2003/04, 2004/05 and 2005/06 respectively.
- Local Government capacity building fund: Increased by R5,614 million, R5,962 in respectively 2003/04 and 2004/05, and then decreasing by R14,151 million and disappearing in 2005/06.

Although the conditional grants increase on average by 10.07% overall in 2003/04 and over the MTEF, i.e. 12.4% in 2003/04, 10.0% and 7.83% respectively in 2004/05 and 2005/06, the increases, if the new social relief grants are discounted, are only 8.62%, 5.01% and 1.81% in 2003/04, 2004/05 and 2005/06 respectively. Most of the growth is due to a rise of 50.91% in the Provincial infrastructure grant between 2002/03 and 2003/04 and 82.09% in the Hospital revitalization grant. This is effectively neutralised by the low average growth of a mere 2.90% year-on-year of the large National Tertiary Services (61% weight) and 1.60% for the Health professions training and development grants for the period 2002/03 to 2005/06.

<b>Table 4.3 Conditional Grants</b>							
Source	2000/01	2001/02	2002/03		2003/04	2004/05	2005/06
	Actual transfer R'000	Actual transfer R'000	Budget R'000	Est. Actual exp. R'000	Voted R'000	MTEF R'000	MTEF R'000
<b>Vote 3: Provincial Treasury</b>	214 168	225 647					
Financial and personnel management system support	8 666						
Contingency transfer: Debt relief							
Financial management: Internal Audit							
Supplementary allocation	205 502	207 647					
Other	205 502	184 547					
Housing: Capacity building		1 100					
Economic: National Land Transport Transition Act		1 000					
Health: Health Management		16 000					
Finance: Implementation of Public Finance Management Act		5 000					
Provincial Infrastructure: Flood Damage <sup>a</sup>		18 000					
<b>Vote 5: Education</b>	17 465	23 503	33 047	33 600	34 989	29 788	31 575
Financial management and quality enhancement	15 168	16 827	17 721	18 037	18 519	19 630	20 808
Early childhood development		1 659	4 108	4 187	6 952		
HIV/Aids (Lifeskills education)	2 297	5 017	11 218	11 376	9 518	10 158	10 767
<b>Vote 6: Health</b>	1 285 254	1 353 329	1 395 223	1 423 304	1 466 653	1 523 668	1 542 747
National tertiary services		1 011 436	1 030 510	1 047 438	1 076 724	1 104 087	1 121 380
Central hospital <sup>b</sup>	961 949						
Health Professions training and development <sup>c</sup>	292 326	308 776	308 164	316 364	314 696	327 210	323 278
Integrated nutrition programme	28 789	28 789	28 789	28 789	34 653	40 727	44 632
HIV/Aids Health	2 190	4 328	8 760	11 713	24 204	34 661	35 849
Hospital management and quality improvement			19 000	19 000	16 376	16 983	17 608
<b>Vote 7: Social Services and Poverty Alleviation</b>	6 583	179 650	3 246	178 798	80 289	197 583	351 637
Financial management and improvement of social security system	4 583	642	1 200	1 200			
Child support	2 000						
Social security backlog		175 508 <sup>e</sup>		175 508 <sup>e</sup>			
Victim empowerment							
Criminal justice system							
HIV/Aids (Community based care)		1 000	2 046	2 090	2 900	3 088	3 273
Child support extension					57 355	174 461	328 330
Food relief					20 034	20 034	20 034
Disaster relief		2 500					
<b>Vote 8: Housing</b>	350 976	336 991	385 778	392 110	436 782	460 345	485 347
Housing subsidy	341 466	325 861	372 778	378 860	423 282	446 035	473 136
Capacity building	510						
Hostel upgrading							
Human resettlement and redevelopment pilot programme	9 000	11 130	13 000	13 250	13 500	14 310	12 211
<b>Vote 10: Transport and Public Works</b>	28 294	78 524	116 589	129 448	221 665	246 762	261 473
Provincial infrastructure		49 524	86 589	94 281	139 726	161 545	172 848
Hospital revitalisation	28 294	29 000	30 000	35 167	81 939	85 217	88 625
<b>Vote 11: Agriculture</b>	315	878	10 921	7 527	7 264	17 785	17 785
Land care and special food security projects	315	878	1 300	1 391	1 800		
Provincial Infrastructure			9 621	6 136	5 464	17 785	17 785
<b>Vote 12: Local Government</b>	5 420	17 500	16 500	25 343	24 021	22 810	3 738
Local government support	5 420	17 500	16 500	16 500			
Local government capacity building fund					20 714	19 302	
CMIP <sup>d</sup>				8 843	3 307	3 508	3 738
<b>Total Conditional grants</b>	<b>1 908 475</b>	<b>2 216 022</b>	<b>1 961 304</b>	<b>2 190 130</b>	<b>2 271 663</b>	<b>2 498 741</b>	<b>2 694 302</b>

<sup>a</sup> Re-imbursement of expenditure incurred by Vote 10: Economic Development, Tourism and Agriculture for reconstruction of roads (infrastructure) in 2000/01. This amount is included in cash financing in Table 1.1.

<sup>b</sup> Central Hospital grant until 2001/02.

<sup>c</sup> Professional training research until 2001/02.

<sup>d</sup> Provincial Consolidated Municipal Infrastructure Programme

<sup>e</sup> Transfer received on 29 March 2002 to fund arrear payments to social grant beneficiaries and voted in adjustments budget 2002/03.

#### **4.4 Total provincial own revenue**

##### **4.4.1 Main own revenue sources**

The following own revenue sources are the main contributors to provincial own revenue. In this section own revenue collected and budgeted are discussed with reference to administrative and policy issues that have a bearing on own revenue performance.

##### **Casino taxes**

Casino taxes are generated by the four casino's currently operating in the Western Cape with the main contributors being slot machine play and the remainder ascribed to play on tables. Although gambling is a fairly new source of revenue in the Western Cape some definite trends are noticeable since its inception in October 2000. In the first full year of operation casino taxes of R85,630 million was collected during the 2001/02 year, which is projected to reach R100 million in 2002/03. It is projected that the early buoyant growth in gambling taxes since the inception of legal gambling from the four casinos in operation will peak in 2002/03 after which it is expected to settle around the 2002/03 levels in the absence of any adjustments, internal macroeconomic shocks or changes to net disposable incomes of households. Taking cognisance of the inherent risks associated with the gambling industry, it is estimated that R106 million will be collected for 2003/04, marginally increasing to R107 million and R108 million in 2004/05 and 2005/06 respectively.

##### **Motor vehicle licences**

This source continues to represent the biggest single proportion of provincial own revenue in the Province, representing in excess of 60% of total own revenue, estimated to reach 59.15%, 64.2% and 67.04% of total own revenue respectively for the years 2003/04, 2004/05 and 2005/06. In building on past policy decisions, that in order to keep abreast with expenditure on the provincial roads infrastructure, the annual increases in motor vehicle licence fees over the MTEF should continue at least at the rate of infrastructure inflation unless an upsurge in road maintenance and construction costs, necessitates higher increases, it is projected that motor vehicle licence fees will increase by 15% during 2003/04 which is the same as the increases during the 2002/03 year.

This approach will lead to some fee stability without excessive fee increases transferred to the consumer vis-à-vis excessive infrastructure inflation increases not being passed back to the Province, albeit still providing sufficient funding for road maintenance and upgrades. For the years 2004/05 and 2005/06 revenue estimates reflect individual increases of 10% per annum. The responsibility for collecting motor vehicle license fees rests with local authorities at a commission of 12% and in addition they may retain all revenue collected from drivers licences, registration fees and permits.

##### **Horseracing**

Horseracing revenue comprises taxes generated from betting activities at the totalisator and bookmakers, with the totalisator being the biggest contributor. In line with national trends, revenue from this source has recently shown dwindling tendencies mainly due to the advent of other forms of legal gambling and betting products e.g. casino's and the national lottery that inevitably resulted in a loss of turnover in this industry resulting in it to continue to struggle financially. As a result of the relative fragility of the horseracing industry in the Western Cape and coupled with tax reductions implemented in Gauteng and KwaZulu-Natal, the Western Cape Parliament has approved the reduction of totalisator taxes to be reduced from 10% to 6% and bookmakers taxes from 6% to 3% to bring parity in the tax dispensation of the horse racing industry. Although revenue from this source is expected to contribute R15,5 million in the 2002/03 year, budget estimates have been reduced in line with the above amendment to R10.3 million for 2003/04 and over the MTEF.

##### **Liquor licences**

In line with the Constitution of the RSA, 1996, the responsibility for collecting liquor license fees was assigned to the Province with effect from 1 April 2000, with the South African Revenue Service as collecting agent, as it emanates from the Western Cape Liquor Board's competence to issue liquor licences. Revenue collected in 2001/02 increased by 22.6% as a result of refinements to administration after implementation but remained consistent in the ensuing years. It is expected to increase on average by a mere 0.6% per year over the MTEF from R3,4 million in 2003/04 to R3,44 million in the year 2005/06.

Revenue from this source could, however, increase substantially if, firstly, the licence fees are revised (last revision was during 1992) and, secondly as the current Green Paper on the liquor industry in the Western Cape evolves as anticipated by April 2004 into a Provincial Liquor Law. Currently licence fees may only be revised by amendment of the applicable regulation of the Liquor Act, 1989 (Act 27 of 1989) for which authority still vests in the national department of Trade and industry. In terms of the proposed Western Cape Liquor Law, the Province would be able to ensure that all liquor outlets, of which a undisclosed number are currently trading without a license, are appropriately licensed and regulated.

**Interest**

Revenue included under this heading consists mainly of interest earned on committed funds not spent as yet and more specifically from improved cash and investment management policies in the Province. Interest on bank balances and investments has become an important source of capital accumulation in the Province. Interest income was relatively high in 2000/01 but will decline over the MTEF as a result of systematic lowering of Provincial Revenue Fund liquidity, i.e. the drawdown of surpluses allowing for over R635 million (apart from the R299,504 million in 2002/03) to be directed to major tourism and economic infrastructure projects from 2002/03 and over the MTEF in line with the quest for economic stimulatory initiatives such as *iKapa elihlumayo*. It is therefore estimated to represent 11.06% or R112,336 million of own revenue for 2003/04 and is expected to decrease to 5.75% (R59,191 million) and 3.82% (R41,446 million) in 2004/05 and 2005/06 respectively.

**Health: Patient fees**

Hospital patient fees have been showing a constant downward trend from 1997/98 mainly due to the decrease in the number of paying patients, the loss of medical aid patients to the private sector and the effect of the national policy of providing free health care for children under the age of six and pregnant mothers and the elimination of user fees at primary health care clinics, coupled with the increasing culture of non-payment for services. Despite these tendencies, the Department of Health has managed to reverse the downward trend since 2000/01 with revenue collected during the year 2001/02 increasing by 26.17%. A marked decline of 20.45% in revenue is estimated for the year 2002/03 which at this stage appears to be an underestimation of the revenue budget, or rather very conservative budgeting.

Estimated revenue will increase by 28.6%, 5.36% and 4.46% year-on-year for 2003/04, 2004/05 and 2005/06 respectively, which can mainly be attributed to a combination of improved administration of the billing system, a focus on debt collection and the implementation of revenue generation initiatives. Hospital fees, as a share of provincial revenue appear to be stabilizing at around 10% of overall own revenue during the year 2003/04 and over the MTEF.

**Other revenue**

The remainder is represented by revenue received *inter alia* from sources such as profits on trade accounts, services rendered, board and lodging, contributions by universities towards expenditure incurred at academic hospitals, tuition and examination fees, administration fees earned on insurance premiums, stale cheques, rental of provincial properties, housing revenue previously accounted for by the Housing Board, reprographic services, abnormal load permits and special vehicle license numbers, etc. The majority of items included in "other revenue" are user charges which are revised annually by the accounting officers and are based on cost recovery principles, i.e. an efficient way whereby costs are recovered for publicly provided goods and services where the necessary incentives are provided for service delivery improvements.

#### 4.4.2 Own Revenue Trends by vote

Table 4.4 below depicts a summary of provincial own revenue per vote since 2000/01 and over the MTEF:

<b>Table 4.4 Summary of provincial own revenue by Vote</b>								
<b>Provincial Department</b>	<b>2000/01 Actual R'000</b>	<b>2001/02 Actual R'000</b>	<b>2002/03 Budget R'000</b>	<b>2002/03 Est. Actual R'000</b>	<b>2003/04 Voted R'000</b>	<b>% Change Voted to Est. Actual</b>	<b>2004/05 MTEF R'000</b>	<b>2005/06 MTEF R'000</b>
1. Provincial Administration: Western Cape	1 386	742	468	396	<b>396</b>		396	396
2. Provincial Parliament	222	164		136	<b>70</b>	( 48.53)	70	70
3. Provincial Treasury	214 794	298 442	166 505	166 505	<b>225 001</b>	35.13	172 665	155 934
4. Community Safety	505	472	567	567	<b>367</b>	( 35.27)	367	367
5. Education	21 857	17 550	13 940	13 940	<b>13 440</b>	( 3.59)	13 440	13 440
6. Health	98 781	117 194	92 035	92 035	<b>113 418</b>	23.23	119 112	125 125
7. Social Services and Poverty alleviation	5 511	5 694	4 581	6 006	<b>4 060</b>	( 32.40)	4 260	4 260
8. Housing	665	400	213	213	<b>25 162</b>		25 077	25 077
9. Environmental Affairs and Development Planning	3 718	368	13	13	<b>10</b>	( 23.08)	11	11
10. Transport and Public Works	402 496	498 546	501 888	537 908	<b>617 835</b>	14.86	678 502	745 236
11. Agriculture	10 093	10 053	12 798	10 622	<b>10 364</b>	( 2.43)	10 528	10 528
12. Local Government			4	4	<b>6</b>	50.00	13	
13. Economic Development and Tourism	2 690	3 771	3 700	3 700	<b>3 650</b>	( 1.35)	3 680	3 710
14. Cultural Affairs and Sport	2 015	1 574	1 240	1 991	<b>1 891</b>	( 5.02)	2 095	2 095
<b>Total Provincial departments</b>	<b>764 733</b>	<b>954 970</b>	<b>797 952</b>	<b>834 036</b>	<b>1 015 670</b>	<b>21.78</b>	<b>1 030 216</b>	<b>1 086 249</b>

What is evident from the above is that the Province has experienced a growth in own revenue from 2000/01 to 2001/02 with as main contributors the departments of Transport and public works (mainly motor vehicle licence fees), the Treasury (mainly gambling and betting revenues and interest revenue) and Health (mainly hospital patient fees). Other material movements include voted revenue in respect of the 2003/04 financial year and over the MTEF of more or less R25 million in respect of housing revenues which will now accrue to the Provincial Revenue Fund, rather than as previously to the now defunct Housing Fund. Other movements are very small in nature and will not be elaborated on further.

#### 4.5 Donor funding

This Province has not received any foreign aid assistance that directly accrued to its fiscus.

## 5. EXPENDITURE

### 5.1 Overall position

#### Total budget

The total outlays for the provincial programmes as set out in Table 5.1 below and Budget Statement 2, per vote, are budgeted at R16 399,986 million in 2003/04; R17 607,492 million in 2004/05 and R18 957,172 million in 2005/06.

At the time of Budget 2002, baseline allocations were published for 2003/04 and 2004/05. For Budget 2003 the baseline allocations were revised and a new baseline for 2005/06 was added.

The baseline allocations increased by R1 925,316 million or 13.30% in 2003/04 and R2 373,185 million or 15.58% in 2004/05.

On a year on year basis the total expenditure increases in nominal terms by R1 595,837 million or 10.78% to 2003/04, R1 207,506 million or 7.36% to 2004/05 and R1 349,680 million or 7.67% to 2005/06. In real terms<sup>5</sup> however, it reflects increases of 3.22% to 2003/04, 1.64% to 2004/05 and 2.42% to 2005/06 if the weighted average<sup>6</sup> of the personnel and normal CPIX inflators are taken into account.

#### Personnel

Personnel expenditure constitutes R7 786,615 million or 47.48% of total expenditure in 2003/04. In nominal terms it grows to R8 659,058 million, in 2005/06. However, as a share of total expenditure it falls further to 45.68% in 2005/06, main reason being the burgeoning growth of social security grants. The latter percentage further hides the fact that the number of full time equivalent posts projected to be filled at 31 March 2003 compared to that estimated to be filled as at 31 March 2004, reflect an increase of 568 posts.

The increase in personnel expenditure, *inter alia*, caters for the traditional carry through costs for improvement of conditions of service from 2003/03 as well as new improvements with effect from 2003/04.

The restructuring and refocusing of departments resulting from government's departmentalisation initiative to enhance delivery, to a certain degree, also contributes to the increase, mainly the cost related to the establishment of efficient and effective support services for line functionaries, particularly in the non-social services sector.

#### Social sector

Social sector expenditure constitutes R13 085,151million or 79.79% of total expenditure in 2003/04. In nominal terms it grows to R14 999,875 million in 2005/06. However, as a share of total expenditure it decreases slightly to 79.13% in 2005/06.

On a year on year basis the total expenditure increases in nominal terms by R1 318,553 million or 11.21% to 2003/04, R1 100,709 million or 8.41% to 2004/05 and R814,015 million or 5.74% to 2005/06. In real terms, however, it reflects increases of 3.51% to 2003/04, 2.59% to 2004/05 and 0.54% to 2005/06 if the weighted average<sup>7</sup> of the personnel and normal CPIX inflators are taken into account.

The number of full time equivalent posts planned to be filled at 31 March 2003 compared to those estimated to be filled as at 31 March 2004 reflect a decrease of 117 posts. This net decrease in personnel numbers is mainly to cater for the decreased number of educators as well as excess public service personnel at education.

Furthermore, the increase in personnel expenditure, *inter alia*, caters for the traditional carry through costs for improvement of conditions of service (ICS) from 2002/03 as well as new improvements with effect from 2003/04.

Apart from the increases due to the ICS, the increase in social expenditure, *inter alia*, provides for the phase-in of the extension of the child support grant (ages 7 to under the age of 14) over the MTEF period, the increase in values of social security grants to ensure that their purchasing power remains at least constant in real terms, and to allow for further growth in grant beneficiaries to increasingly alleviate poverty amongst the poorest of the poor .

Furthermore, provision is also made for increased allocations in learner support material (LSM) to enhance education outcomes.

A specifically and exclusively appropriated allocation of R40 million in 2003/04, which increases with the inflation rate over the MTEF, is also provided for the replacement of outdated/redundant critical medical equipment in Health, which could enhance more effective and efficient service delivery.

<sup>5</sup> Real terms calculation is based on a weighting of personnel calculations based on inflation 8.23% for 2003/04; 6% for 2004/05 and 5.5% for 2005/06 and non-personnel inflation calculations based on CPIX of 6.5% for 2003/04; 6% for 2004/05 and 5.5% for 2005/06.

<sup>6</sup> Weighted average calculation is based on a weighting of 47.48% in 2003/04; 47.19% in 2004/05 and 45.68% in 2005/06 for personnel and 52.22 in 2003/04; 52.81% in 2004/05 and 54.32% in 2005/06 for the non personnel expenditure.

<sup>7</sup> Weighted average calculation is based on a weighting of 54.39% in 2003/04; 53.36% in 2004/05 and 52.48% in 2005/06 for personnel expenditure and 45.61% in 2003/04; 46.64 in 2004/05 and 47.52% in 2005/06 for non-personnel expenditure.

To enhance accountability and asset management, the provision for information technology (IT) equipment has been decentralised to each department (previously centralised in a non-social sector department). The shift amounts to R79,940 million in favour of the social sector in 2003/04.

In addition to the above, a specifically and exclusively appropriated allocation of R30,597 million over and above the national conditional grant, was also provided for HIV/Aids in 2003/04. Similar amounts are also provided in the outer years, suitably adjusted for the impact of inflation.

### **Non-social sector**

Non social sector expenditure constitutes R3 314,835 million or 20.21% of total expenditure in 2003/04. In nominal terms it grows to R3 957,297 million, in 2005/06. As a share of total expenditure it increases to 20.87% in 2005/06, signalling a shift toward economic infrastructure investment.

On a year on year basis the total expenditure increases in nominal terms by R277,284 million or 9.13% to 2003/04, R106,797 million or 3.22% to 2004/05 and R535,665 million or 15.66% to 2005/06. In real terms, however, it reflects increases of 2.14% to 2003/04, -2.11% to 2004/05 and 10.21% to 2005/06 if the weighted average<sup>8</sup> of the personnel and normal CPIX inflators are taken into account.

The number of full time equivalent posts that will be filled at 31 March 2003 compared to the number estimated to be filled as at 31 March 2004 reflect an increase of 685 posts.

The restructuring and refocusing of departments resulting from government's departmentalisation initiative to enhance delivery, to a certain degree, also contributes to the increase, mainly the cost related to the establishment of efficient and effective support services for line functionaries.

The increase in personnel expenditure, *inter alia*, caters for the traditional carry-through costs for improvement of conditions of service from 2002/03, new improvements with effect from 2003/04, as well as the restructuring and refocusing mentioned above.

Non-personnel increases relate, *inter alia*, to the provision for *iKapa elihlumayo* (already discussed in paragraph 5.1) of R77,654 million (2003/04), R64,123 million (2004/05) and R415,597 million (2005/06).

Provision is also made for contingencies to the tune of R26,639 million in the 2003/04 financial year to cater for unforeseen and unavoidable expenditure.

The Hospital revitalisation national conditional grant increases with ±R50 million from the baseline over the MTEF to R81,939 million (2003/04), R85,217 million (2004/05) and R88,625 million (2005/06) versus R30 million in 2002/03. Although the expenditure will enhance the infrastructure of the social sector the expenditure is reflected in the non-social sector. This provision reflects a sharpened focus to upgrade and to provide health facilities, which could in turn improve service delivery as well as efficiency gains in the health system.

The Housing subsidy national conditional grant increases from R378,860 million in the 2002/03 financial year to R423,282 million (2003/04), R446,035 million (2004/05) and R473,136 million (2005/06). This provision reflects a sharpened focus to deliver housing opportunities for the poor.

A special provision of R9,544 million (2003/04) is made for the roll-out of LOGIS to enhance accountability and improved asset management. Furthermore, provision of R3,833 million (2003/04) is also made for the migration from the financial management system (FMS) to the basic accounting system (BAS), which will provide efficiency gains to government as a whole, as only one central financial system will have to be maintained, in addition to being real time and a much more modern system than FMS.

Provisions of R4,440 million are specifically and exclusively appropriated per year as from 2003/04 for veterinary services to ensure that the Western Cape agricultural sector remains globally competitive and to protect jobs in the industry.

### **Capital**

Capital expenditure constitutes R1 426,400 million or 8.70% of total expenditure in 2003/04. In nominal terms it grows to R1 608,828 million, in 2005/06. However, as a share of total expenditure it decreases to 8.49% in 2005/06.

On a year on year basis the total expenditure decreases in nominal terms by R124,133 million or 8.01% to 2003/04, and then increases by R77,094 million or 5.40% in 2004/05 and R105,334 million or 7.01% in 2005/06. In real terms, however, it reflects a decrease of 13.62% to 2003/04, and an increase of 0.10% to 2004/05 and 2.10% to 2005/06 if normal CPIX inflators are taken into account.

The main contributing factor to the decrease in capital expenditure in 2003/04 is the substantially smaller amount of R22 million provided for Convensco (R105 million in 2002/03). This will be the final payment for Convensco, as the contractual arrangements/agreement with regard to the funding of the construction of the Cape Town international convention centre comes to an end. No re-occurrence of the allocation is taken up in the outer years.

<sup>8</sup> Weighted average calculation is based on a weighting of 20.21% in 2003/04; 21.61% in 2004/05 and 19.89% for personnel expenditure and 79.79% in 2003/04; 78.39% in 2004/05 and 80.11% in 2005/06 for non-personnel expenditure.

### Infrastructure (Roads and buildings only)

Infrastructure expenditure (new construction and maintenance or the appropriate combination of professional and special services and capital expenditure) constitutes R1 138,581 million or 6.94% of total expenditure in 2003/04. In nominal terms it grows to R1 288,183 million, 2005/06. However, as a share of total expenditure it decreases to 6.79% in 2005/06.

On a year on year basis the total expenditure increases in nominal terms by R26,795 million or 2.37% from 2003/04 to 2004/05 and R122,807 million or 10.54% to 2005/06. In real terms, however, it reflects decreases of -2.78% to 2004/05 and then an increase of 5.48% to 2005/06 if the normal CPIX inflators are brought into play.

### The increase in infrastructure expenditure, *inter alia*, caters for

The provincial infrastructure national conditional grant increases from R96,210 million in 2002/2003 to R145,190 million in 2003/04, R179,330 million in 2004/05 and R190,633 million in 2005/06. This is to address backlogs in infrastructure, inclusive of maintenance, with the focus on economic growth and socio-economic redress in the provision of infrastructure.

## 5.2 Expenditure by vote

<b>Provincial Department</b>	<b>2000/01 Actual R'000</b>	<b>2001/02 Actual R'000</b>	<b>2002/03 Budget R'000</b>	<b>2002/03 Est. Actual R'000</b>	<b>2003/04 Voted R'000</b>	<b>% Change Voted to Est. Actual</b>	<b>2004/05 MTEF R'000</b>	<b>2005/06 MTEF R'000</b>
1. Provincial Administration: Western Cape	202 127	280 483	350 811	396 978	<b>307 640</b>	(22.50)	312 233	309 298
2. Provincial Parliament	17 602	20 007	23 748	24 414	<b>29 434</b>	20.56	31 088	32 828
3. Provincial Treasury	37 256	48 464	60 235	69 584	<b>200 294</b>	187.84	145 661	495 510
4. Community Safety	50 949	97 130	118 224	118 959	<b>140 443</b>	18.06	147 406	155 624
5. Education	3 972 609	4 273 213	4 532 963	4 678 249	<b>5 030 794</b>	7.54	5 356 922	5 576 953
6. Health	3 366 689	3 581 017	3 741 094	3 871 636	<b>4 291 533</b>	10.85	4 504 552	4 686 102
7. Social Services and Poverty Alleviation	2 206 184	2 384 809	2 914 837	3 216 713	<b>3 762 824</b>	16.98	4 324 386	4 736 820
8. Housing	391 361	382 046	442 335	460 186	<b>519 530</b>	12.90	547 020	575 864
9. Environmental Affairs and Development Planning	79 313	92 660	108 908	121 833	<b>122 682</b>	0.70	129 335	135 714
10. Transport and Public Works	946 692	1 060 589	1 261 840	1 379 786	<b>1 543 737</b>	11.88	1 641 683	1 782 409
11. Agriculture	93 642	114 357	139 965	139 657	<b>169 097</b>	21.08	198 046	207 817
12. Local Government	19 958	29 579	44 279	65 111	<b>63 853</b>	(1.93)	63 701	46 718
13. Economic Development and Tourism	30 369	52 233	129 459	152 302	<b>80 724</b>	(47.00)	61 642	64 746
14. Cultural Affairs and Sport	83 073	89 859	96 166	108 741	<b>137 401</b>	26.36	143 817	150 769
<b>Total Provincial departments</b>	<b>11 497 824</b>	<b>12 506 446</b>	<b>13 964 864</b>	<b>14 804 149</b>	<b>16 399 986</b>	<b>10.78</b>	<b>17 607 492</b>	<b>18 957 172</b>
NOTE: 2002/03 estimated actual column equals the adjusted budget 2002/03 which has been further adjusted with shifts between votes for comparable purposes.								

### Vote 1: Provincial Administration: Western Cape

The department has begun to undergo a drastic internal organisational and programme restructuring to improve its efficiency, cohesion, direction and service delivery in order to effectively coordinate strategic and operational activities of the province and to ultimately provide an integrated e-Gov, ICT and IT strategy.

The Provincial Administration Western Cape constitutes 1.9% of the total provincial resource envelope of the Province and provides for expenditure of R307,640 million in 2003/04, a decrease of 22.5% or R89,338 million of the 2002/03 adjusted budget.



The net decrease in the budget is largely due to the decentralization of the provision for information technology end-user equipment procurement to departments, thus strengthening accountability in asset management. The shift amounts to R101,710 million in 2003/04, R76,862 million and R74,464 million in 2004/05 and 2005/06 respectively.

To give effect to the new principles governing provisioning for IT procurement, R9,544 million 2003/04 was shifted from Vote 3: Provincial Treasury to provide for IT infrastructure facilitating the further roll out of the Logis computer system within Health.

For the migration from the existing financial management system (FMS) to the new basic accounting system (BAS) R3,833 million has been provided, again to provide for suitable IT infrastructure. The funding and associated responsibility principles made applicable from 1 April 2004 are as follows:

- Vested within IT will be the:
  - maintenance of central norms and standards;
  - overall management and co-ordination of the move towards SITA;
  - all networks, servers and cross-cutting issues (i.e. licences and the like);
  - underlying priority principles for allocating IT funds over the MTEF period and beyond;
  - input into IT Supply Chain Management parameter;
  - all technical and professional support responsibilities, and
  - development of transversal Provincial systems.
- To be vested within departments are:
  - full responsibility for desktop and associated hardware;
  - management responsibility for major IT applications (software, consultants, end-user equipment);
  - any additional IT requirements; and
  - full and sole responsibility/accountability for all their IT assets as referred to, including management, safeguarding and technology refresh.

To promote clean governance and prevent fraud R2,4 million in 2003/04, R2,522 million in 2004/05 and R2,633 million in 2005/06 has been specifically and exclusively allocated to forensic audit.

The substantial growth in personnel provision is mainly caused by the split and strengthening of the financial and personnel management office's to improve its internal human resource and financial management.

In conclusion, the department has an essential role to fulfil in co-ordinating the operational facets of provincial delivery and also to provide strategy and moral guidance.

## **Vote 2: Provincial Parliament**

This vote constitutes 0.18% of the total budget of the Western Cape for 2003/04 and throughout the MTEF period.

It provides for expenditure of R29,434 million in 2003/04, a 20.56% increase or R5,020 million on the 2002/03 adjusted budget and a 5.62% or R1,654 million increase on last year's MTEF baseline allocation for 2003/04.

Sufficient funds were provided in the 2003/04 budget to finance the normal activities of the Provincial Parliament. In addition, allocations were made for various remuneration related costs, such as the improvements in conditions of service as well as contributions to the pension fund in respect of Members as recommended by the Independent Commission for the Remuneration of Public Office Bearers; the increase in medical aid contributions of staff as a result of a general salary adjustment; Members contributions to Parmed and the strengthening of the Office of the Speaker.

Provision is made for the establishment of a new catering service to align the parliamentary activities with global trends.

Provision was also made for the implementation of an employment equity plan, as outlined in a survey that focuses specifically on the severance package/incentives being offered by organizations to "create space" to allow for improved employment equity at management and senior management levels.

To better encourage public participation in the Provincial Parliament additional funds were allocated to strengthen Parliament's communication capacity.

## **Vote 3: Provincial Treasury**

This vote constitutes 0.47% of the total provincial resource envelope and provides for expenditure of R200,294 million in 2003/04, an increase of 187.8% or R130,710 million on the 2002/03 adjusted budget.

Apart from being the custodian of the Province's financial resources it also has to give conceptual direction to the *iKapa elihlumayo* growth and development strategy for the Western Cape. Hence the substantial increase in growth and development in the provision under programme 9 of the vote, which is intended to be used as a catalyst for change initiating the overall concept. Eventual resource allocation is based on an integrated delivery plan, closely allied to actual performances and thrust of normal budgets of departments.

The department is undergoing intensive internal organisational and programme restructuring meant to improve its efficiency, cohesion, direction and service delivery. The new structure brings an entirely new approach to Treasury work in the Province and focuses on building the ability of its human resource base, rather than an increase in personnel numbers.

Provisions have been made specifically for a litigation case, on which finality is deemed to be reached during August 2003; the decentralisation of the internal audit function within the social sector, (R8,000 million in 2003/04, R8,408 million in 2004/05 and R8, 778 million in 2005/06). The purpose of this is to better resource management efficiency and risk assessments. Added to these are provisions for BAS (user equipment and management) in 2003/04 of R6,171 million and R4,611 million for Logis. Final amounts of R0,717 million for BAS and R2,913 million for Logis are provided for in 2004/05.

#### **Vote 4: Community Safety**

Community Safety constitutes 0.86% of the provincial budget and provides for expenditure of R140,443 million in 2003/04, a 18.06% increase or R21, 484 million on the 2002/03 adjustment budget and a 1.33% or R1,848 million increase on last year's MTEF baseline for 2003/04.

The increase in the vote's budget allocations in 2003/04 and over the MTEF are for inflationary and wage adjustments purposes only, which is an indication that the department has reached a degree of consolidation and stability and that no further expansions/new projects are currently contemplated.

To enhance accountability within the asset management system its portion of the previously centralised provision for IT equipment was shifted to the vote resulting in a increase of R520 000 for 2003/04, R269 000 for 2004/05 and R281,000 for 2005/06.

Reductions due to the carry through effect (2003/04-R1,108 million: 2004/05-R1,108 million: 05/06-R1,108 million) related to better alignment of services in transferring the Motor Vehicle Licence Inspectorate function from Community safety back to Transport and Public works, at the time of the 2002/03 Adjustments Estimates, has been visited on the vote.

In an effort to increase attention to road safety enforcement, the department intends to implement the effective roll out of a 24 hour traffic law enforcement service, incremental 24 hour service at different weighbridges and the effective co-ordination of traffic law enforcement agencies.

#### **Vote 5: Education**

The vote is funded 99.04% from the equitable share, 0.70% from national conditional grants, and 0,26% from own revenue generated.

The provision for Education decreases by 0.42% in real terms from 2002/03 adjusted budget and taking into account that the adjusted budget includes roll overs of R65,984 million from 2001/02. Over MTEF it increases by 0.55% in 2004/05 while in 2005/06 the decrease is 1.23% in real terms.

This vote's share is 30.68% of the total budget in 2003/04, and less than in 2002/03 at 31.60%. Over the MTEF years the relative share decreases to 30.42% (2004/05) and 29.42% (2005/06). This trend reflects a decreasing share of just over 2% over this period.

The aggregate funding level of the vote is affected by the high growth in the take-up rate of social security grant beneficiaries.

The total allocation includes a conditional grant for HIV/Aids life skills programmes in primary and secondary schools amounting to R9,518 million (0.19% of the total budget). This is meant to assert access to an appropriate and effective integrated system of prevention, care and support.

The conditional grant for financial management and quality enhancement totalling R18,519 million (0,37% of the total budget) and increasing over MTEF, is aimed at developing and implementing programmes in order to improve financial management including the empowerment of schools and governing bodies.

The conditional grant of R6,952 million for the promotion of early childhood development (ECD) through pre-primary education phases out at the end of 2003/04 and will form part of the equitable share. However, continued provision for spaces for learners in their reception year through quality educational programmes will be made.

Personnel expenditure consumes 83.01% of the vote versus 82.10% in the 2002/03 adjusted budget (including the education portion of the public works budget). Personnel expenditure increases by 8.91% from the 2002/03 adjusted budget, which is more than the 8% guideline for improvement of conditions of service. The difference is due, *inter alia*, to the provision for pay progression (1% of the wage bill) amounting to approximately R32 million (0.6% of the budget) and the carrythrough effect of the July 2002 improvement of conditions of service (9%). Additional funds were also allocated to counter interest rate fluctuations affecting homeowner's allowances and inflation fluctuations affecting medical aid contributions for qualifying personnel.

In line with the policy direction to shift the centralised provision for end user IT equipment to departments in order to improve asset management, R119,633 million was shifted over the MTEF period to this vote.

R419 million has been provided over the MTEF period specifically and exclusively for learner support materials (LSM). This additional allocation allows greater investment in non-personnel spending which is in line with government priorities.

This allows the channelling of more funds for LSM to address the new curriculum in public schools and LSM requirements in special schools, adult basic education and early childhood development.

Adult basic education (ABET) increases by 14.83% from the 2002/03 adjusted budget to provide for greater emphasis on ABET as more over-aged learners are taken up.

For the maintenance and construction of schools R188,854 million in 2003/04 in aggregate is provided on the budget of Vote 10: Transport and Public works and Vote 5: Education.

#### **Vote 6: Health**

This vote constitutes 26.17% of the 2003/04 budget. Compared to the 2002/03 adjusted budget, the vote increases by 10.85%, 4.96% and 4.03% year on year. In real terms, the vote's allocation increases by 3.06% in 2003/04, and decreases by 0.72% and 1.14% in 2004/05 and 2005/06 respectively.

The aggregate funding level of the vote is affected by the high growth in the take-up of social security grant beneficiaries.

Personnel expenditure consumes 60.98% of the vote versus 63.30% in the 2002/03 adjustments estimate. Personnel allocations decreased in real terms by 1.13% in 2003/04, by 0.72% in 2004/05 and by 1.24% in 2005/06.

The reduction in the two conditional grants, i.e. National Tertiary Services and Health Professions Training and Development, which are to be fully phased in by 2006/07, have been more than compensated for from the equitable share (R237 million).

Specifically and exclusively appropriated amounts of R40 million in 2003/04, R42,040 million in 2004/05 and R43,890 million in 2005/06 have been provided for the acquisition of medical equipment.

These amounts should bring much needed improvements to the quality and quantity of service delivery.

Through own revenue collection initiatives it was possible to raise the expenditure level with an equivalent R11,742 million for 2003/04 and beyond for the purchasing of capital equipment to promote service delivery.

Health Care 2010, the conceptual framework guiding the realignment of the Health platform to identify service goals within its expenditure envelope and the appropriate transformation of health facilities, is expected to be considered by Cabinet during the latter half of March 2003. Only then will implementation and more appropriate budget allocations (to be reflected in the adjustments estimate) kick in.

With regards to HIV/AIDS, the combined total of conditional grants and specific and exclusive allocations from the equitable share, amount to R54,801 million for 2003/04, R66,818 million for 2004/05 and R69,421 million for 2005/06, to cater for mother-to-child-transmission (MTCT) programmes, to improve access to voluntary counselling and testing (VCT) and other remedial steps.

In line with efficiency considerations its share of previously centralised provision for end-user IT equipment to departments, R38,540 million for 2003/04, R22,817 million for 2004/05 and R17,6248 million for 2005/06, were shifted to this vote.

The division of responsibilities between Health and municipalities remain a challenge, given various constitutional interpretations and associated acts or proclamations, such as that recently by the Minister for Provincial and Local Government dividing and classifying functions to be delivered by category B and C municipalities.

## **Vote 7: Social Services and Poverty Alleviation**

This vote constitutes 22.94% of the 2003/04 budget. Over the MTEF period the relative budget share of this vote increases substantially year on year: 24.56% (2004/05) and 24.99% (2005/06). This phenomenon does not only have an effect on the financial resourcing of the non-social services sector, but it is also seriously affecting the social services sector itself, viz. Health and Education. The budget of this vote increases substantially year on year with 16.98% (2003/04) on the 2002/03 adjusted budget, 14.92% (2004/05) and 9.54% (2005/06).

The increase in the growth and relative share is due to chiefly grant value inflationary adjustments, an extension of the child support grant, as well as growth (take-up rate) in beneficiaries in particular those benefiting from the child support and disability grants.

Whereas the child support grant, up until 2002/03, only covered children under the age of 7, the extension progressively phases the eligibility of children under the age of 14 over a three year period in an effort to relieve poverty in poor households with children, as well as poor households that are affected by HIV/ Aids.

As from 1 April 2003 the child support grant will be extended to children under the age of 9. Children under the age of 11 will benefit as from 1 April 2004 and those below the age of 14 (age 14 and above is excluded) will become eligible for the grant on 1 April 2005. The extension of the child support grant, as described, is reliant on a national conditional grant amounting to R57,355 million, R174,461 million and R328,330 million for 2003/04, 2004/05 and 2005/06 respectively.

Apart from the above an additional R73, 601 million for 2003/04, R72, 918 million for 2004/05, and R72,918 million for 2005/06 have been appropriated to augment current provisions for grant value increases and anticipated growth in the take-up rates of beneficiaries. The increase in the grant values with effect from 1 April 2003 is above inflation and seeks to protect the purchasing power of the social security grants. The grants applicable to the old aged, disabled and care dependency increase from R640 to R700 (or by 9.4% or R60), war veterans grants increase from R658 to R718 (or by 9.1% or R60), and grants in aid increase from R130 to R150 (or by 15.38% or R20). Child support grants increase from R140 to R160 (or by 14.2% or R20), whilst foster care increases from R460 to R500 (or by 8.7% or R40). to compensate for inflation costs.

The rapid take-up rate and the capping of the budget allocation at 312 000 child support grant beneficiaries in 2004/05 will necessarily bring about funding pressures and risks. The take-up rates of grants and efficiency in the social security grant system must, however, be closely monitored and managed to make ends meet within the tight resource envelope.

A new conditional grant of R20 034 million per financial year over the MTEF period, taking effect in 2003/04, in broad terms allows for the provision of food relief in the form of food parcels to the impoverished communities. The workings of the grant, however, still requires further clarification by the national department of Social development.

The transformation of social service delivery will also be addressed during the financial year. It will be preceded by a gap analysis in terms of service delivery. Based on these results service providers will enter into service level agreements with the department that will be monitored and evaluated on a regular basis.

## **Vote 8: Housing**

It constitutes 3.17% of the provincial budget in 2003/04. The budget grows by R59,344 million or 12% from the 2002/03 adjusted budget to R519,530 million in 2003/04, then by 5.29% to R547,020 million in 2004/05 and then by 5.27% in 2005/06 thus remaining constant in real terms.

Resulting from the provincial government's departmentalisation initiative that took effect in the 2002/03 financial year, this department has undergone fairly substantial internal organisational and programme restructuring and refocusing meant to improve its cohesion, direction and service delivery. As a consequence the comparable figures may be somewhat distorted.

The drive to disestablish provincial housing development funds with effect from 1 April 2003 means that housing subsidy and property transactions will no longer be channelled through the soon to be defunct Housing Fund. The implementation of this policy direction is in the interest of better accounting, financial monitoring, control of assets and liabilities, overall accountability and intended to enhance delivery of housing opportunities and management of housing property. Consequently the baseline allocations have been increased equivalent to the revenue estimates for the rental and sale of property amounting to R25 million for 2003/04. The other years of the MTEF have been kept the same due to uncertainties with revenue flows. This source will be applied to counter the costs related to the maintenance of housing properties and the transfer of rental stock to beneficiaries, as well as the payment of rates and taxes and the valuation cost with respect to the sale of property on the open market.

The national Housing subsidy conditional grant constitutes R423,282 million or 81.47% of this budget in 2003/04, 11.73% up from the 2002/03 adjusted budget of R378,860 million or 2.62% from the previous MTEF baseline of R412,480 million. This grant grows over the MTEF by 5.38% to R446,035 million in 2004/05 and by 6.08% to R473,136 million in 2005/06 mainly for increases in the housing subsidies as well as to a lesser extent, providing for more housing opportunities. This grant should buy approximately 20 000 housing opportunities in each of 2003/04, 2004/05 and 2005/06.

The national Human resettlement and redevelopment programme conditional grant aimed at improving the quality of the urban environment and to address the legacy of dysfunctional urban areas, constitutes R13,5 million or 2.60% of this budget in 2003/04, 45.82% down from the 2002/03 adjusted budget of R24,919 million. This grant grows to R14,310 million or 6% in 2004/05 and decreases to R12,211 million or 14.67% in 2005/06.

#### **Vote 9: Environmental Affairs and Development Planning**

Environmental affairs and development planning, constitutes 0.8% of the provincial budget and provides for expenditure of R122, 682 million in 2003/04, a 0.70% increase or R849 000 on the 2002/03 adjusted budget.

Resulting from the provincial government's departmentalisation initiative that took effect in the 2002/03 financial year, this department has undergone internal organisational and programme restructuring and refocusing to improve its cohesion, direction and service delivery. As a consequence any comparisons will be somewhat distorted.

Its share of the previously centralised provision for IT equipment is R1,980 million for 2003/04, R1,766 million for 2004/05 and R1,975 million for 2005/06.

The department's contribution to the Western Cape Nature Conservation Board is increasing in nominal terms with allocations of R57,765 million in 2003/04, R60,902 million in 2004/05 and R63,716 million in 2005/06. However, the allocations to the Board are increasing in real terms at 3.36% (2003/04 calculated on the 2002/03 budget) and thereafter remains constant in real terms.

The new financial year will also see the second phase of the integration of environmental affairs and development planning components. This will probably result in extensive restructuring of the department, affecting the budget structure at the time of the adjustment budget.

#### **Vote 10: Transport and Public Works**

This vote constitutes 9.41% of the provincial budget or R1,544 billion and is R163,951 million more than the adjusted budget for 2002/03. The vote's share over the MTEF amounts to 9.32% (2004/05) and 9.40% (2005/06), re-affirming a commitment to keep infrastructure at a substantially higher and sustainable level.

Funding for the vote comprises of 45.61% from the equitable share, 14.35% national conditional grants and 40.02% from own generated revenue.

The allocation for the hospital revitalisation conditional grant is aimed at transforming and modernising hospitals in line with the national planning framework and amounts to R81,939 million, a 82.09% increase for 2003/04 versus R45 million in 2002/03. The grant levels out to R85,217 million for 2004/05 and R88,625 million for 2005/06. The provision reflects a sharpened focus to upgrade and provide health facilities, hopefully improving service delivery as well as efficiency gains in the health system.

The provincial infrastructure grant, also a national conditional grant, targets provincial infrastructure such as roads, school buildings, health facilities and rural development. This grant amounts to R139,726 million for 2003/04, constituting a 61.37% growth, R161,545 million or 15.62% increase for 2004/05 and R172,848 million or 7.00% increase for 2005/06.

There is a sharp focus on public transport (transport programme) and community based public works culminating in the creation of individual programmes as compared to sub-programmes in the previous year's budget. The allocation for transport and community based public works programme increases by 106.62% and 218.39% in 2003/04 respectively. The transport programme provides, inter alia, public transport infrastructure such as bus and taxis shelters in partnership with municipalities, while the community based public works programme targets the poor in underdeveloped communities via community access roads and community road maintenance projects. The respective budgets further increase by 28.16% and 2.16% in 2004/05 and 4.40% and 10.72% in 2005/06.

Personnel allocations increases in real terms by 10.13% in 2003/04 as a result of the sharper focus on public transport and community based public works, with further increases of 8.81% and 3.66% over the MTEF period.

Maintenance for roads in real terms decreases by -9.72% in 2003/04 before increasing substantially by 21.47% in 2004/05 and 3.84% in 2005/06. This decrease in 2003/04 is due to the shift in focus to public transport infrastructure. Maintenance for buildings, which includes school and health facilities as well as provincial buildings, increases in real terms by 21.97% in 2003/04 before reducing by 26.32% in 2004/05 and 3.56% in 2005/06.

### **Vote 11: Agriculture**

The provincial departmentalisation initiative in 2002/03 financial year, gave rise to internal organisational and programme restructuring and refocusing to improve cohesion, direction and service delivery.

Agriculture constitutes 1.03% of the total budget for the Western Cape, providing expenditure of R169,097 million in 2003/04, a 29.90% increase or R28,939 million more than the previous adjusted budget.

This allocation includes a portion of the national conditional grant for Provincial infrastructure of R5,464 million (03/04), R17,785 million (04/05) and R17,785 million (05/06) aimed at rural development and the settlement of secure and independent farmers from previously disadvantaged communities, as well as the new Land care and special food security projects national conditional grant of R1,8 million (03/04 only) aimed at subsidising all farmers for the building of contours on their farms.

To augment and expand on the R5 million allocated in the 2002/03 budget, R15 million (2003/04), R20 million (2004/05) and R20 million (2005/06), were specifically and exclusively allocated to promote greater research into appropriate cultivars, quality and disease-free certification of animals and livestock, small farmer settlement and rural development. Additionally, it must also improve employment and reduce poverty in the more rural areas.

Also incorporated is an additional provision of R8,5 million (2003/04), R9,4 million (2004/05) and R10,4 million (2005/06) specifically and exclusively for Land Redistribution for Agricultural Development to increase effective and efficient land reform initiatives, benefiting historically disadvantaged individuals. Since 2001, 3 400 new farmers (beneficiaries) have been placed on 25 000 hectares of land. The objective is to settle 7 000 new farmers within the next 5 years.

A provision of R4,440 million in 2003/04, rising over the MTEF, is also specifically and exclusively allocated for veterinary services to ensure that the Western Cape agricultural sector remains globally competitive and to protect jobs in the agricultural industry.

### **Vote 12: Local Government**

The 2002/03 departmentalisation initiative here again led to internal organisational and programme restructuring and refocusing.

This vote constitutes 0.39% of the budget in 2003/04. Overall the vote decreases by R1,258 million or 1.93% from the 2002/03 adjusted budget to R63, 853 million in 2003/04, by 0.24% to R63,701 million in 2004/05 and by 26.66% to R46,718 million in 2005/06, as a result of decreasing conditional grants to the province to assist with local government development and CMIP (Consolidated municipal infrastructure programme) capacity building.

The national Local government capacity building fund, conditional grant constitutes R20,714 million or 32.44% of this budget in 2003/04, down by 31.43% from the 2002/03 adjusted budget of R30,210 million. This grant decreases by 6.82% to R19,302 million in 2004/05 and phases out in 2005/06 as it will flow directly to the local government sphere.

The national Consolidated municipal infrastructure programme, conditional grant constitutes R3,307 million or 5.18% of this budget in 2003/04, down by 62.60% from the 2002/03 adjusted budget of R8,843 million. This grant grows over the MTEF by 6.08% to R3, 508 million in 2004/05 and by 6.56% to R3,738 million in 2005/06. The decline in 2003/04 is a first step in the national governments initiative to create a single municipal capacity building fund grant.

The resources have been targeted to transform the department from an entity acting mainly as an agent for the executing of national programmes and a minimalist role in the national legislative agenda to an organisation playing a leadership role in pro-actively working towards successful municipalities.

### **Vote 13: Economic Development and Tourism**

Departmentalisation that took effect in the 2002/03 financial year, had its effects here as well with respect to this internal organisational and programme restructuring and refocusing.

Economic development and tourism constitutes 0.49% of the budget for the Western Cape for 2003/04 and provides for expenditure of R80,724 million in 2003/04, a 46.99% decrease or R71,578 million less than the previous budget. The net decrease is related to the nearing completion of the international convention centre in Cape Town. In accordance with an updated agreement the final contribution of R22 million will be made in 2003/04. Investments in economic infrastructure projects such as these are major creators of employment and tourism in the province and reflect government's priority in this regard.

Of the budget for 2003/04, 46.80% (R42,971 million) consists of transfer payments of which R8,325 million will be transferred to local government municipalities and institutions to be utilised for job creation, poverty relief and capacity building facilitating the establishment and maintenance of a strong, dynamic and balanced provincial economy to benefit all residents of the Western Cape, and R34,451 million will be transferred to local governments and other institutions to be utilised to provide support to budding tourism entrepreneurs and community based tourism projects. By supporting the tourism market, infrastructure and entrepreneurship skills are developed and gradually improved. This ensures that the benefits are widely distributed.

**Vote 14: Cultural Affairs and Sport**

Cultural affairs and sport, constitutes 0.8% of the provincial budget and provides expenditure of R137,401 million in 2003/04, a 26.36% increase or R28,660 million on the 2002/03 adjusted budget.

Departmentalisation that took effect in the 2002/03 financial year, left its beneficial effects here, as well, with internal organisational and programme restructuring and refocusing.

Its share of the previously centralised provision for IT equipment, shifted to the vote is R2,250 million for 2003/04, R1,131 million for 2004/05 and R1,369 million for 2005/06.

R5,837 for 2003/04, R6,442 million for 2004/05 and R6,725 million for 2005/06 have been specifically and exclusively allocated to absorb the pressure of exchange rate fluctuations and to maintain the purchasing power of library books.

Although 70% of the budget relates to cultural affairs to conserve and manage the cultural, historical assets and resources of the Western Cape, substantial allowances has also been made for investment in sport, particularly school sport, in underdeveloped communities and to underprivileged children, as well as improvement of facilities to enable the Cape to ultimately become one of the sports meccas of the country.

School sport has been given a boost with allocations of R12,484 million for 2003/04, R13,120 million for 2004/05 and R13,795 million for 2005/06).

### 5.3 Expenditure by economic classification

<b>Table 5.3 Summary of expenditure and estimates: Economic classification</b>								
<b>GFS Economic Type</b>	2000/01 Actual R'000	2001/02 Actual R'000	2002/03 Budget R'000	2002/03 Est. Actual R'000	2003/04 Voted R'000	% Change Voted to Est. Actual	2004/05 MTEF R'000	2005/06 MTEF R'000
<b>Current expenditure</b>								
Compensation of employees	6 144 775	6 530 560	7 065 029	7 108 438	7 787 706	9.56	8 309 671	8 660 288
Salaries and wages	4 600 717	4 883 038	5 240 645	5 335 370	5 868 121	9.99	6 250 947	6 521 250
Other remuneration	1 544 058	1 647 522	1 824 384	1 773 068	1 919 585	8.26	2 058 724	2 139 038
Use of goods and services	1 691 226	1 876 683	2 143 341	2 316 091	2 854 945	23.27	2 964 600	3 450 683
Interest paid	665	342	86	10 710	10 557	(1.43)	152	152
Transfer payments	2 723 641	2 952 981	3 413 925	3 818 057	4 319 878	13.14	4 832 575	5 237 221
Subsidies to business enterprises								
Local government	283 259	244 011	186 626	235 830	189 851	(19.50)	197 379	193 493
Extra-budgetary institutions	212 346	286 461	311 015	347 189	344 013	(0.91)	376 303	385 540
Households	1 919 633	2 104 656	2 585 455	2 907 783	3 475 273	19.52	3 927 406	4 323 386
Non-profit organisation	308 403	317 853	330 829	327 255	310 741	(5.05)	331 487	334 802
<b>Total current</b>	10 560 307	11 360 566	12 622 381	13 253 296	14 973 086	12.98	16 106 998	17 348 344
<b>Capital expenditure</b>								
Non-financial assets	551 825	752 535	839 439	968 539	869 861	(10.19)	941 232	1 011 652
Buildings and structures	434 660	490 911	615 826	620 910	622 755	0.30	697 435	786 206
Machinery and equipment	115 658	252 435	215 113	323 638	231 906	(28.34)	233 597	215 246
Non-produced assets	1 507	9 189	8 500	23 991	15 200	(36.64)	10 200	10 200
Other assets								
Capital transfer to	385 692	393 345	503 044	582 314	557 039	(4.34)	559 262	597 176
Local government	34 881	34 190	41 018	86 457	106 796	23.52	108 812	119 340
Other capital transfers	350 811	359 155	462 026	495 857	450 243	(9.20)	450 450	477 836
<b>Total capital</b>	937 517	1 145 880	1 342 483	1 550 853	1 426 900	(7.99)	1 500 494	1 608 828
<b>Total GFS Economic Type expenditure</b>	11 497 824	12 506 446	13 964 864	14 804 149	16 399 986	10.78	17 607 492	18 957 172
<b>Standard Item Classification</b>								
Personnel expenditure	6 141 794	6 528 307	7 064 246	7 107 552	7 786 615	9.55	8 308 526	8 659 058
Administrative expenditure	179 240	213 729	245 440	244 917	305 324	24.66	326 318	341 017
Stores and livestock	690 634	776 948	809 359	909 000	853 997	(6.05)	992 758	1 061 624
Current	690 634	776 948	809 359	909 000	853 997	(6.05)	992 758	1 061 624
Capital								
Equipment	148 833	286 741	253 080	363 524	282 454	(22.30)	286 912	269 786
Current	34 991	34 663	38 599	42 385	50 549	19.26	53 315	54 540
Capital	113 842	252 078	214 481	321 139	231 905	(27.79)	233 597	215 246
Land and buildings	83 838	80 292	99 290	107 217	101 435	(5.39)	97 312	102 470
Current	82 331	71 164	90 790	83 546	86 235	3.22	87 112	92 270
Capital	1 507	9 128	8 500	23 671	15 200	(35.79)	10 200	10 200
Professional and special services	1 109 629	1 281 362	1 586 375	1 670 116	2 210 388	32.35	2 210 121	2 691 153
Current	673 154	790 033	969 917	1 046 387	1 587 633	51.73	1 512 686	1 904 947
Capital	436 475	491 329	616 458	623 729	622 755	(0.16)	697 435	786 206
Transfer payments	3 092 590	3 329 792	3 900 068	4 383 493	4 791 482	9.31	5 373 725	5 815 656
Current	2 706 898	2 936 447	3 397 024	3 801 179	4 234 443	11.40	4 814 463	5 218 480
Capital	385 692	393 345	503 044	582 314	557 039	(4.34)	559 262	597 176
Miscellaneous expenditure	51 266	9 275	7 006	18 330	68 291	272.56	11 820	16 408
<b>Total current</b>	10 560 308	11 360 566	12 622 381	13 253 296	14 973 087	12.98	16 106 998	17 348 344
<b>Total capital</b>	937 516	1 145 880	1 342 483	1 550 853	1 426 899	(7.99)	1 500 494	1 608 828
<b>Total standard item classification</b>	11 497 824	12 506 446	13 964 864	14 804 149	16 399 986	10.78	17 607 492	18 957 172
Statutory	15 687	10 550	12 568	12 568	13 826	10.01	15 205	16 728
<b>Total expenditure</b>	11 513 511	12 516 996	13 977 432	14 816 717	16 413 812	10.78	17 622 697	18 973 900



#### 5.4 Expenditure by Policy Area

<b>Table 5.4 Summary of expenditure by Policy Area</b>								
GFS Functions	2000/01 Actual R'000	2001/02 Actual R'000	2002/03 Budget R'000	2002/03 Est. Actual R'000	2003/04 Voted R'000	% Change Voted to Est. Actual	2004/05 MTEF R'000	2005/06 MTEF R'000
General public services	290 725	393 795	496 678	577 181	<b>620 670</b>	7.53	572 916	905 448
Public order and safety	50 949	97 130	118 224	118 959	<b>140 443</b>	18.06	147 406	155 624
Economic affairs	864533	964672	1253160	1387783	<b>1 384 474</b>	(0.24)	1525632	1671095
Environmental protection	65 531	77 398	91 303	100 739	<b>103 233</b>	2.48	109 102	114 620
Housing and community amenities	391 361	382 046	442 335	460 186	<b>519 530</b>	12.90	547 020	575 864
Health	3 468 378	3 731 208	3 874 939	3 996 564	<b>4 509 920</b>	12.84	4 711 901	4 901 132
Recreation, culture and religion	83 073	89 859	96 166	108 741	<b>137 401</b>	26.36	143 817	150 769
Education	4 068 995	4 379 080	4 674 922	4 835 071	<b>5 208 358</b>	7.72	5 518 312	5 742 800
Social protection	2 214 279	2 391 258	2 917 137	3 218 925	<b>3 775 957</b>	17.30	4 331 386	4 739 820
<b>Total Provincial</b>	<b>11 497 824</b>	<b>12 506 446</b>	<b>13 964 864</b>	<b>14 804 149</b>	<b>16 399 986</b>	<b>105</b>	<b>17 607 492</b>	<b>18 957 172</b>

#### 5.5 Infrastructure expenditure

<b>Table 5.5 Summary of infrastructure expenditure (including maintenance)</b>			
Votes	Voted 2003/04 R'000	MTEF 2004/05 R'000	MTEF 2005/06 R'000
1. Provincial Administration Western Cape	<b>315</b>	329	343
2. Provincial Parliament			
3. Provincial Treasury			
4. Community Safety	<b>3 952</b>	1 500	1 500
5. Education	<b>188 854</b>	173 066	178 203
6. Health	<b>220 250</b>	209 182	217 288
7. Social Services and Poverty Alleviation	<b>14 025</b>	7 932	3 973
8. Housing	<b>6 000</b>	6 000	6 000
9. Environmental Affairs and Development Planning	<b>1 156</b>	1 208	1 262
10. Transport and Public Works	<b>680 771</b>	760 163	874 037
11. Agriculture	<b>28 173</b>	23 400	22 965
12. Local Government			
13. Economic Development and Tourism			
14. Cultural Affairs and Sport	<b>365</b>	381	397
<b>Total Provincial departments</b>	<b>1 143 861</b>	<b>1 183 161</b>	<b>1 305 968</b>

## 5.6 Summary of transfers to public entities

<b>Table 5.6 Summary of Transfers to Public Entities</b>								
GFS Functions	2000/01 Actual R'000	2001/02 Actual R'000	2002/03 Budget R'000	2002/03 Est. Actual R'000	2003/04 Voted R'000	% Change Voted to Est. Actual	2004/05 MTEF R'000	2005/06 MTEF R'000
1. Provincial Administration: Western Cape	862	2 638	1 692	3 092	<b>3 262</b>	5.50	3 428	3 579
2. Provincial Parliament								
3. Provincial Treasury	5 300	6 000	7 000	4 000	<b>6 855</b>	71.38	2 585	2 000
4. Community Safety								
5. Education								
6. Health								
7. Social Services and Poverty Alleviation								
8. Housing	341 466	325 861	372 778	378 860		(100.00)		
9. Environmental Affairs and Development Planning	52 746	51 603	54 091	63 476	<b>59 380</b>	(6.45)	62 597	65 431
10. Transport and Public Works								
11. Agriculture			5 200	7 825	<b>11 100</b>	41.85	11 000	11 000
12. Local Government								
13. Economic Development and Tourism	13 746	14 673	14 621	13 625	<b>14 746</b>	8.23	14 346	14 591
14. Cultural Affairs and Sport	10 748	6 623	6 166	9 166	<b>8 457</b>	(7.74)	8 522	8 599
<b>Total Provincial departments</b>	<b>424 868</b>	<b>407 398</b>	<b>461 548</b>	<b>480 044</b>	<b>103 800</b>	<b>12.77</b>	<b>102 478</b>	<b>105 200</b>

## 5.7 Transfers to local government

<b>Table 5.7 Summary of Transfers to Local Government</b>								
GFS Functions	2000/01 Actual R'000	2001/02 Actual R'000	2002/03 Budget R'000	2002/03 Est. Actual R'000	2003/04 Voted R'000	% Change Voted to Est. Actual	2004/05 MTEF R'000	2005/06 MTEF R'000
Category A	169 908	153 900	99 728	137 985	<b>105 556</b>	(23.50)	103 424	108 221
Category B	71 430	69 438	77 669	81 559	<b>61 483</b>	(24.62)	46 826	49 019
Category C	58 312	45 379	44 539	80 218	<b>107 727</b>	34.29	121 172	134 358
Unallocated			14 507	4 430	<b>21 077</b>	375.78	30 247	17 602
<b>Total Provincial departments</b>	<b>299 650</b>	<b>268 717</b>	<b>236 443</b>	<b>304 192</b>	<b>295 843</b>	<b>(2.74)</b>	<b>301 669</b>	<b>309 200</b>

Source	2000/01			2001/02			2002/03			Conditional Grants: MTEF-period			
	Budget	Actual transfer	Actual exp.	Budget	Actual transfer	Actual exp.	Budget	Est. Actual transfer	Est. Actual exp.	2003/04 Voted	% Change Voted to Actual	2004/05 MTEF	2005/06 MTEF
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000		R'000	R'000
<b>Vote 3: Provincial Treasury</b>	214 168	214 168	207 797	225 647	225 647	225 647							
Financial and personnel management system support	8 666	8 666	2 295										
Contingency transfer: Debt relief													
Financial management: Internal Audit													
Supplementary allocation	205 502	205 502	205 502	207 647	207 647	207 647							
Other	205 502	205 502	205 502	184 547	184 547	184 547							
Housing: Capacity building				1 100	1 100	1 100							
Economic: National Land													
Transport Transition Act				1 000	1 000	1 000							
Health: Health Management				16 000	16 000	16 000							
Finance: Implementation of Public Finance Management Act				5 000	5 000	5 000							
Provincial Infrastructure: Flood Damage <sup>a</sup>				18 000	18 000	18 000							
<b>Vote 5: Education</b>	17 465	17 465	12 192	23 503	23 503	17 084	33 047	33 600	33 600	34 989	4.13	29 788	31 575
Financial management and quality enhancement	15 168	15 168	11 369	16 827	16 827	14 966	17 721	18 037	18 037	18 519	2.67	19 630	20 808
Early childhood development				1 659	1 659	727	4 108	4 187	4 187	6 952	66.04		
HIV/Aids (Lifeskills education)	2 297	2 297	823	5 017	5 017	1 391	11 218	11 376	11 376	9 518	(16.33)	10 158	10 767
<b>Vote 6: Health</b>	1 285 254	1 285 254	1 282 272	1 352 501	1 353 329	1 347 102	1 395 223	1 423 304	1 423 304	1 466 653	3.05	1 523 668	1 542 747
National tertiary services <sup>b</sup>				1 011 436	1 011 436	1 011 436	1 030 510	1 047 438	1 047 438	1 076 724	2.80	1 104 087	1 121 380
Central hospital	961 949	961 949	961 949										
Health Professions training and development <sup>c</sup>	292 326	292 326	292 326	308 776	308 776	308 776	308 164	316 364	316 364	314 696	(0.53)	327 210	323 278
Integrated nutrition programme	28 789	28 789	26 808	28 789	28 789	24 456	28 789	28 789	28 789	34 653	20.37	40 727	44 632
HIV/AIDS Health	2 190	2 190	1 189	3 500	4 328	2 434	8 760	11 713	11 713	24 204	106.64	34 661	35 849
Hospital management and quality improvement							19 000	19 000	19 000	16 376	(13.81)	16 983	17 608
<b>Subtotal Conditional grants</b>	1 516 887	1 516 887	1 502 261	1 601 651	1 602 479	1 589 833	1 428 270	1 456 904	1 456 904	1 501 642	3.07	1 553 456	1 574 322

Source	2000/01			2001/02			2002/03			Conditional Grants: MTEF-period			
	Budget	Actual transfer	Actual exp.	Budget	Actual transfer	Actual exp.	Budget	Est. Actual transfer	Est. Actual exp.	2003/04 Voted	% Change Voted to Actual	2004/05 MTEF	2005/06 MTEF
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000		R'000	R'000
<b>Vote 7: Social Services and Poverty Alleviation</b>	6 583	6 583	5 723	4 142	179 650	1 454	3 246	3 290	178 798	80 289	(55.10)	197 583	351 637
Financial management and improvement of social security system	4 583	4 583	3 083	642	642	467	1 200	1 200	1 200				
Child support	2 000	2 000	2 096										
Social security backlog					175 508 <sup>e</sup>				175 508 <sup>e</sup>		(100.00)		
Victim empowerment			144										
Criminal justice system			400										
HIV/Aids (Community-based care)				1 000	1 000	983	2 046	2 090	2 090	2 900	38.76	3 088	3 273
Child support										57 355		174 461	328 330
Food relief										20 034		20 034	20 034
Disaster relief				2 500	2 500	4							
<b>Vote 8: Housing</b>	350 976	350 976	372 570	336 991	336 991	330 478	385 778	392 110	392 110	436 782	11.39	460 345	485 347
Housing subsidy	341 466	341 466	363 237	325 861	325 861	328 618	372 778	378 860	378 860	423 282	11.73	446 035	473 136
Capacity building	510	510	1 130										
Hostel upgrading			3 000										
Human resettlement and redevelopment pilot programme	9 000	9 000	5 203	11 130	11 130	1 860	13 000	13 250	13 250	13 500	1.89	14 310	12 211
<b>Vote 10: Transport and Public Works</b>	28 294	28 294	24 552	78 524	78 524	87 812	116 589	136 427	129 448	221 665	71.24	246 762	261 473
Provincial Infrastructure				49 524	49 524	45 237	86 589	91 427	94 281	139 726		161 545	172 848
Hospital revitalisation	28 294	28 294	24 552	29 000	29 000	42 575	30 000	45 000	35 167	81 939	133.00	85 217	88 625
<b>Vote 11: Agriculture</b>		315	105	878	878	1 075	10 921	6 083	7 527	7 264	(3.49)	17 785	17 785
Land care and special food security projects		315	105	878	878	1075	1 300	1 300	1 391	1 800	29.40		
Provincial Infrastructure							9 621	4 783	6 136	5 464	(10.95)	17 785	17 785
<b>Vote 12: Local Government</b>	5 420	5 420	6 583	17 500	17 500	5 890	16 500	25 343	25 343	24 021	(5.22)	22 810	3 738
Local government support	5 420	5 420	6 583	17 500	17 500	5 890	16 500	16 500	16 500		(100.00)		
Local government capacity building fund										20 714		19 302	
CMIP <sup>d</sup>								8 843	8 843	3 307	(62.60)	3 508	3 738
<b>Subtotal Conditional grants</b>	391 273	391 588	409 533	438 035	613 543	426 709	533 034	563 253	733 226	770 021	5.02	945 285	1 119 980
<b>Total Conditional grants</b>	1 908 160	1 908 475	1 911 794	2 039 686	2 216 022	2 016 542	1 961 304	2 020 157	2 190 130	2 271 663	3.72	2 498 741	2 694 302

<sup>a</sup> Re-imbursement of expenditure incurred by Vote 10: Economic Development, Tourism and Agriculture for reconstruction of roads (infrastructure) in 2000/01. This amount is included in cash financing in Table 1.1.

<sup>b</sup> Central Hospital grant until 2001/02.

<sup>c</sup> Professional training research until 2001/02.

<sup>d</sup> Provincial Consolidated Municipal Infrastructure Programme (CMIP).

<sup>e</sup> Transfer received on 29 March 2002 to fund arrear payments to social grant beneficiaries and voted in adjustments budget 2002/03.

Table A2 Expenditure summary per policy area			
GFS Functions	Category	Department	Programme
General public services	Executive and legislative	Provincial Administration Western Cape	1.1 Office of the Premier
		Provincial Parliament	2.1 Administration of the Provincial Parliament
			2.2 Procedural services
			2.3 Facilities and benefits of members
	Financial and Fiscal Affairs	Provincial Treasury	3.1 Administration
			3.2 Normative financial management and communication
			3.3 Budget office
			3.4 Macro economic analysis
			3.5 Resource acquisition and management
			3.6 Public finance
			3.7 Asses management
			3.8 Financial accounting and reporting
			3.9 <i>iKapa elihlumayo</i>
			3.10 Contingency provision
	General Services	Provincial Administration Western Cape	1.2 Policy and strategic management
			1.3 Information technology
			1.4 Corporate services
			1.5 Legal services
			1.6 Internal audit
			1.7 Office of the Director-General
			1.8 Financial management
			1.9 Personnel management and administration
		Environmental affairs and development planning	9.3 Development planning
		Local government	12.1 Administration
			12.2 Local government institutional services
			12.3 Developmental local government
			12.4 Local government monitoring and support
			12.5 Co-operative governance
			12.6 Disaster management
Public order and safety	Police services	Community safety	4.1 Administration
			4.2 Provincial secretariat for safety and security
			4.3 Safety promotion

Table A2 Expenditure summary per policy area				
GFS Functions	Category	Department	Programme	
Economic affairs	General economic, commercial and labour affairs	Economic development and tourism	13.1 13.2 13.4	Administration Enterprise development Knowledge economy and e-government
	Agriculture, forestry, fishing and hunting	Agriculture	11.1 11.2 11.3 11.4 11.5 11.6 10.2.4	Administration Technology and transfer Agriculture engineering Veterinary services Agricultural training Farmer settlement Agriculture (Public works)
	Transport	Transport and Public Works	10.1 10.3 10.4 10.5	Administration Roads Transport Community based public works
	Other industries	Economic development and tourism	13.3	Tourism
		Transport and public works	10.2.1 10.2.6 10.2.7	Programme support Other infrastructure Property management
Environmental protection	Protection of biodiversity and landscape	Environmental affairs and development planning	9.1 9.2	Administration Environmental affairs
Housing and Community Amenities	Housing development	Housing	8.1 8.2 8.3 8.4 8.5 8.6	Administration Planning and subsidy administration Housing subsidy programme Urban renewal and human settlement redevelopment Old business (rental housing) Restructuring

Table A2 Expenditure summary per policy area				
GFS Functions	Category	Department	Programme	
Health	Health n.e.c	Health	6.1	Administration
			6.2.1	District management
			10.2.2	Health (public works)
	Hospital services		6.2.9	District hospital services
			6.4	Provincial hospital services
			6.5	Central hospital services
	Clinical services		6.2.2	Community health clinics
			6.2.3	Community health centres
			6.2.4	Community based services
			6.2.6	HIV/Aids
			6.2.5	Other community services
			6.2.7	Nutrition
			6.2.8	Coroner services
			6.3.1	Emergency patient transport
	Public health services		6.3.2	Planned patient transport
			6.6	Health sciences and training
			6.7	Health care support services
Recreation culture and religion	Recreation and sporting services	Cultural affairs and sport	14.3	Community and senior sport and recreation promotion and development
			14.4	School sport
	Cultural services	Cultural affairs and sport	14.1	Administration
			14.2	Cultural affairs
	Education	Pre-primary and primary education	Education	5.2.1
5.3.1				Primary phase
5.7				Early childhood development
Secondary education		5.2.2		Public secondary schools
		5.3.2		Secondary phase
Post-secondary non-tertiary education		5.5		Further education and training
		Education not definable by level		5.6
5.4				Public special school education
Education n.e.c.		5.1		Administration
		5.2.3		Professional services
		5.2.4		Human resource development
		5.8		Auxiliary associated services
		10.2.3		Education (Public works)

Table A2 Expenditure summary per policy area					
GFS Functions	Category	Department	Programme		
Social protection	Sick and disability	Social services and poverty alleviation	7.2.4	Disability	
			7.2.5	Grants-in-aid	
			7.3.5	Service to the disabled	
			7.4.3	HIV /Aids	
	Old age		7.2.1	Administration	
			7.2.2	Old age	
			7.2.3	War veterans	
			7.3.3	Care of the aged	
	Family and children		7.2.6	Foster care	
			7.2.7	Care dependency	
			7.2.8	Child support grant (0-6)	
			7.2.9	Child support extension grant (7-14)	
			7.2.10	Relief of distress	
			7.3.1	Administration	
			7.3.6	Child and youth care and protection	
			7.4.2	Youth development	
	Social Exclusion n.e.c		7.3.2	Treatment and prevention of substance abuse	
			7.3.4	Crime prevention, rehabilitation and victim empowerment	
			7.4.1	Administration	
			7.4.4	Poverty alleviation	
			7.4.5	Food relief grant	
	R&D social protection		7.5	Population development and demographic trends	
	Social protection		7.1	Administration	
			7.4.6	NPO and welfare organisation development	
			10.2.5	Social development (Public works)	



## Details of Expenditure by Policy Area

<b>Table A2.1 Estimates of Expenditure 2002/03 - 2004/05 by Policy Area</b>							
<b>Sector</b>	<b>2000/01 Actual R'000</b>	<b>2001/02 Actual R'000</b>	<b>2002/03 Budget R'000</b>	<b>2002/03 Est. Actual R'000</b>	<b>2003/04 Voted R'000</b>	<b>2004/05 MTEF R'000</b>	<b>2005/06 MTEF R'000</b>
<b>FUNCTION - GENERAL PUBLIC SERVICES</b>							
<b>Category - Executive and legislative</b>							
Department of Provincial Administration: Western Cape (Programme 1.1)	8 125	20 212	18 241	20 659	<b>19 526</b>	20 521	21 424
Provincial Parliament (Vote 2)	17 602	20 007	23 748	24 414	<b>29 434</b>	31 088	32 828
<b>Total for Category - Executive and legislative</b>	<b>25 727</b>	<b>40 219</b>	<b>41 989</b>	<b>45 073</b>	<b>48 960</b>	51 609	54 252
<b>Category - Financial and fiscal affairs</b>							
Department of Provincial Treasury (Vote 3)	37 256	48 464	60 235	69 584	<b>200 294</b>	145 661	495 510
<b>Total for Category - Financial and fiscal affairs</b>	<b>37 256</b>	<b>48 464</b>	<b>60 235</b>	<b>69 584</b>	<b>200 294</b>	145 661	495 510
<b>Category - General services</b>							
Department of Provincial Administration: Western Cape (Programme 1.2 to 1.9)	194 002	260 271	332 570	376 319	<b>288 114</b>	291 712	287 874
Department of Environmental affairs and development planning (Programme 9.3)	13 782	15 262	17 605	21 094	<b>19 449</b>	20 233	21 094
Department of Local government (Vote 12)	19 958	29 579	44 279	65 111	<b>63 853</b>	63 701	46 718
<b>Total for Category - General services</b>	<b>227 742</b>	<b>305 112</b>	<b>394 454</b>	<b>462 524</b>	<b>371 416</b>	375 646	355 686
<b>TOTAL FOR FUNCTION - GENERAL PUBLIC SERVICES</b>	<b>290 725</b>	<b>393 795</b>	<b>496 678</b>	<b>577 181</b>	<b>620 670</b>	572 916	905 448
<b>FUNCTION - PUBLIC ORDER AND SAFETY</b>							
<b>Category - Police services</b>							
Department of Community safety (Vote 4)	50 949	97 130	118 224	118 959	<b>140 443</b>	147 406	155 624
<b>Total for Category - Police services</b>	<b>50 949</b>	<b>97 130</b>	<b>118 224</b>	<b>118 959</b>	<b>140 443</b>	147 406	155 624
<b>TOTAL FOR FUNCTION - PUBLIC ORDER AND SAFETY</b>	<b>50 949</b>	<b>97 130</b>	<b>118 224</b>	<b>118 959</b>	<b>140 443</b>	147 406	155 624
<b>FUNCTION - ECONOMIC AFFAIRS</b>							
<b>Category - General economic, commercial and labour affairs</b>							
Department of Economic development and tourism (Programmes 13.1, 13.2 and 13.4)	18 669	24 395	26 092	27 189	<b>40 002</b>	44 425	46 698
<b>Total for Category - General economic, commercial and labour affairs</b>	<b>18 669</b>	<b>24 395</b>	<b>26 092</b>	<b>27 189</b>	<b>40 002</b>	44 425	46 698

<b>Table A2.1 Estimates of Expenditure 2002/03 - 2004/05 by Policy Area</b>							
<b>Sector</b>	2000/01 Actual  R'000	2001/02 Actual  R'000	2002/03 Budget  R'000	2002/03 Est. Actual  R'000	<b>2003/04 Voted  R'000</b>	2004/05 MTEF  R'000	2005/06 MTEF  R'000
<b>FUNCTION - ECONOMIC AFFAIRS</b> (continued)							
<b>Category - Agriculture, forestry, fishing and hunting</b>							
Department of Agriculture (Vote 11 and sub-programme 10.2.4)	97 793	118 523	143 465	151 753	<b>190 216</b>	202 046	211 317
<b>Total for Category - Agriculture</b>	97 793	118 523	143 465	151 753	<b>190 216</b>	202 046	211 317
<b>Category - Transport</b>							
Department of Transport and Public works (Programmes 10.1, 10.3, 10.4 and 10.5)	539 066	591 217	753 925	800 479	<b>851 407</b>	1 026 717	1 140 436
<b>Total for Category - Transport</b>	539 066	591 217	753 925	800 479	<b>851 407</b>	1 026 717	1 140 436
<b>Category - Other industries</b>							
Department of Economic development and tourism (Programme 13.3)	11 700	27 838	103 367	125 113	<b>40 722</b>	17 217	18 048
Department of Transport and Public works (Programmes 10.2.1, 10.2.6 and 10.2.7)	197 305	202 699	226 311	283 249	<b>262 127</b>	235 227	254 596
<b>Total for Category - Other industries</b>	209 005	230 537	329 678	408 362	<b>302 849</b>	252 444	272 644
<b>TOTAL FOR FUNCTION - ECONOMIC AFFAIRS</b>	864 533	964 672	1 253 160	1 387 783	<b>1 384 474</b>	1 525 632	1 671 095
<b>FUNCTION - ENVIRONMENTAL PROTECTION</b>							
<b>Category - Protection of biodiversity and landscape</b>							
Department of Environmental affairs and development planning (Programme 9.1 and 9.2)	65 531	77 398	91 303	100 739	<b>103 233</b>	109 102	114 620
<b>Total for Category - Protection of biodiversity and landscape</b>	65 531	77 398	91 303	100 739	<b>103 233</b>	109 102	114 620
<b>TOTAL FOR FUNCTION - ENVIRONMENTAL PROTECTION</b>	65 531	77 398	91 303	100 739	<b>103 233</b>	109 102	114 620
<b>FUNCTION - HOUSING AND COMMUNITY AMENITIES</b>							
<b>Category - Housing development</b>							
Department of Housing (Vote 8)	391 361	382 046	442 335	460 186	<b>519 530</b>	547 020	575 864
<b>Total for Category - Housing developments</b>	391 361	382 046	442 335	460 186	<b>519 530</b>	547 020	575 864
<b>TOTAL FOR FUNCTION - HOUSING AND COMMUNITY AMENITIES</b>	391 361	382 046	442 335	460 186	<b>519 530</b>	547 020	575 864

<b>Table A2.1 Estimates of Expenditure 2002/03 - 2004/05 by Policy Area</b>							
<b>Sector</b>	<b>2000/01 Actual R'000</b>	<b>2001/02 Actual R'000</b>	<b>2002/03 Budget R'000</b>	<b>2002/03 Est. Actual R'000</b>	<b>2003/04 Voted R'000</b>	<b>2004/05 MTEF R'000</b>	<b>2005/06 MTEF R'000</b>
<b>FUNCTION - HEALTH</b>							
<b>Category - Hospital n.e.c.</b>							
Department of Health (Programmes 6.1 and sub-programme 6.2.1 and sub-programme 10.2.2)	223 018	293 595	299 752	293 907	<b>479 022</b>	432 865	454 138
<b>Total for Category - Hospital n.e.c.</b>	223 018	293 595	299 752	293 907	<b>479 022</b>	432 865	454 138
<b>Category - Hospital services</b>							
Department of Health services (Programmes 6.4, 6.5 and sub-programme 6.2.9)	2 381 504	2 523 934	2 596 802	2 702 821	<b>2 872 416</b>	3 105 559	3 224 433
<b>Total for Category - Hospital services</b>	2 381 504	2 523 934	2 596 802	2 702 821	<b>2 872 416</b>	3 105 559	3 224 433
<b>Category - Clinical services</b>							
Department of Health (Sub-programmes 6.2.2 to 6.2.8 and 6.3.1)	754 667	788 922	845 705	866 247	<b>997 719</b>	1 004 001	1 045 788
<b>Total for Category - Clinical services</b>	754 667	788 922	845 705	866 247	<b>997 719</b>	1 004 001	1 045 788
<b>Category - Public health services</b>							
Department of Health (Programmes 6.6, 6.7 and sub-programme 6.3.2)	109 189	124 757	132 680	133 589	<b>160 763</b>	169 476	176 773
<b>Total for Category - Public health services</b>	109 189	124 757	132 680	133 589	<b>160 763</b>	169 476	176 773
<b>TOTAL FOR FUNCTION - HEALTH</b>	<b>3 468 378</b>	<b>3 731 208</b>	<b>3 874 939</b>	<b>3 996 564</b>	<b>4 509 920</b>	<b>4 711 901</b>	<b>4 901 132</b>
<b>FUNCTION - RECREATION CULTURE AND RELIGION</b>							
<b>Category - Recreation and sporting services</b>							
Department of Cultural affairs and sport (Programmes 14.3 and 14.4)	12 470	12 615	11 427	18 207	<b>23 845</b>	25 058	26 200
<b>Total for Category - Recreation and sporting services</b>	12 470	12 615	11 427	18 207	<b>23 845</b>	25 058	26 200
<b>Category - Cultural services</b>							
Department of Cultural affairs and sport (Programmes 14.1 and 14.2)	70 603	77 244	84 739	90 534	<b>113 556</b>	118 759	124 569
<b>Total for Category - Cultural services</b>	70 603	77 244	84 739	90 534	<b>113 556</b>	118 759	124 569
<b>TOTAL FOR FUNCTION - RECREATION CULTURE AND RELIGION</b>	<b>83 073</b>	<b>89 859</b>	<b>96 166</b>	<b>108 741</b>	<b>137 401</b>	<b>143 817</b>	<b>150 769</b>
<b>FUNCTION - EDUCATION</b>							
<b>Category - Pre-primary and primary education</b>							
Department of Education (Programme 5.7, sub-programme 5.2.1 and 5.3.1)	2 033 828	2 119 509	2 034 115	2 134 683	<b>2 480 320</b>	2 669 856	2 760 768
<b>Total for Category - Pre-primary and primary education</b>	2 033 828	2 119 509	2 034 115	2 134 683	<b>2 480 320</b>	2 669 856	2 760 768
<b>Category - Secondary education</b>							
Department of Education (Sub-programmes 5.2.2 and 5.3.2)	1 231 157	1 364 396	1 636 597	1 656 000	<b>1 615 057</b>	1 712 758	1 814 782
<b>Total for Category - Secondary education</b>	1 231 157	1 364 396	1 636 597	1 656 000	<b>1 615 057</b>	1 712 758	1 814 782

<b>Table A2.1 Estimates of Expenditure 2002/03 - 2004/05 by Policy Area</b>							
<b>Sector</b>	<b>2000/01 Actual R'000</b>	<b>2001/02 Actual R'000</b>	<b>2002/03 Budget R'000</b>	<b>2002/03 Est. Actual R'000</b>	<b>2003/04 Voted R'000</b>	<b>2004/05 MTEF R'000</b>	<b>2005/06 MTEF R'000</b>
<b>FUNCTION - EDUCATION</b> (continued)							
<b>Category - Post-secondary non-tertiary education</b>							
Department of Education (Programme 5.5)	114 104	125 861	134 350	136 347	<b>137 105</b>	145 617	154 110
<b>Total for Category - Post-secondary non-tertiary education</b>	114 104	125 861	134 350	136 347	<b>137 105</b>	145 617	154 110
<b>Category - Education not definable by level</b>							
Department of Education (Programmes 5.4 and 5.6)	291 399	309 004	318 714	323 498	<b>337 150</b>	358 026	378 913
<b>Total for Category - Education not definable by level</b>	291 399	309 004	318 714	323 498	<b>337 150</b>	358 026	378 913
<b>Category - Education n.e.c.</b>							
Department of Education (Programmes 5.1, 5.8, sub-programmes 5.2.3, 5.2.4 and 10.2.3)	398 507	460 310	551 146	584 543	<b>638 726</b>	632 055	634 227
<b>Total for Category - Education N.E.C.</b>	398 507	460 310	551 146	584 543	<b>638 726</b>	632 055	634 227
<b>TOTAL FOR FUNCTION - EDUCATION</b>	<b>4 068 995</b>	<b>4 379 080</b>	<b>4 674 922</b>	<b>4 835 071</b>	<b>5 208 358</b>	<b>5 518 312</b>	<b>5 742 800</b>
<b>FUNCTION - SOCIAL PROTECTION</b>							
<b>Category - Sick and disability</b>							
Department of Social services and poverty alleviation (Sub-programmes 7.2.4, 7.2.5, 7.3.5 and 7.4.3)	615 294	690 060	711 917	872 849	<b>1 083 206</b>	1 235 302	1 287 074
<b>Total for Category - Sick and disability</b>	615 294	690 060	711 917	872 849	<b>1 083 206</b>	1 235 302	1 287 074
<b>Category - Old age</b>							
Department of Social service and poverty alleviation (Sub-programmes 7.2.1, 7.2.2, 7.2.3 and 7.3.3)	1 086 788	1 133 316	1 483 195	1 505 970	<b>1 495 745</b>	1 600 043	1 709 102
<b>Total for Category - Old age</b>	1 086 788	1 133 316	1 483 195	1 505 970	<b>1 495 745</b>	1 600 043	1 709 102
<b>Category - Family and children</b>							
Department of Social services and poverty alleviation (Sub-programmes 7.2.6 - 7.2.10, 7.3.1, 7.3.6 and 7.4.2)	349 794	365 501	496 798	598 829	<b>867 575</b>	1 156 887	1 395 315
<b>Total for Category - Family and children</b>	349 794	365 501	496 798	598 829	<b>867 575</b>	1 156 887	1 395 315
<b>Category - Social exclusion n.e.c.</b>							
Department of Social service and poverty alleviation (Sub-programmes 7.3.2, 7.3.4, 7.4.1, 7.4.4 and 7.4.5)	20 884	21 834	33 622	42 810	<b>52 336</b>	52 667	52 707
<b>Total for Category - Social exclusion n.e.c.</b>	20 884	21 834	33 622	42 810	<b>52 336</b>	52 667	52 707

<b>Table A2.1 Estimates of Expenditure 2002/03 - 2004/05 by Policy Area</b>							
<b>Sector</b>	2000/01 Actual R'000	2001/02 Actual R'000	2002/03 Budget R'000	2002/03 Est. Actual R'000	<b>2003/04 Voted R'000</b>	2004/05 MTEF R'000	2005/06 MTEF R'000
<b>FUNCTION - SOCIAL SERVICES AND WELFARE</b> <i>(continued)</i>							
<b>Category - R &amp; D social protection</b>							
Department of Social service and poverty alleviation (Sub-programme 7.5)	1 577	1 184	1 853	2 372	<b>5 000</b>	5 213	5 540
<b>Total for Category - R &amp; D social protection</b>	1 577	1 184	1 853	2 372	<b>5 000</b>	5 213	5 540
<b>Category - Social protection</b>							
Department of Social service and poverty alleviation (Programme 7.1, sub-programme 7.4.6 and 10.2.5)	139 942	179 363	189 752	196 095	<b>272 095</b>	281 274	290 082
<b>Total for Category - Social protection</b>	139 942	179 363	189 752	196 095	<b>272 095</b>	281 274	290 082
<b>TOTAL FOR FUNCTION - SOCIAL SERVICES AND WELFARE</b>	2 214 279	2 391 258	2 917 137	3 218 925	<b>3 775 957</b>	4 331 386	4 739 820
<b>TOTAL: BY FUNCTION</b>	11 497 824	12 506 446	13 964 864	14 804 149	<b>16 399 986</b>	17 607 492	18 957 172