

IKHWEZI LOMSO BUDGET SPEECH 2005/2006

4 March 2005

MEC for Finance Honourable Billy Nel

Honourable Speaker

Honourable Premier

Colleagues in the Executive Council

Honourable Members of the Provincial Legislature

Invited guests

Gentle-persons

“UMTU GUMTU NGABANTU”

The Honourable Premier in outlining the strategic priorities of the Eastern Cape reminded us about the plight of the poor, the importance of team work and that Government has a duty to serve the people of this province with honesty, humility and integrity.

In response to this call the Provincial Treasury coined this, the “Ikhwezi Lomso” budget as it symbolises that a new day is dawning with the RISING MORNING STAR and furthermore signifies that a transformational process is happening within the Eastern Cape which carries the blessings of our ancestors.

Consequently this budget has been constructed to promote a public service system that meets the needs of the people it serves, as best as it can, within the current resource constraints. The objective of the Ikhwezi Lomso budget is thus to promote stewardship over the finances and to achieve better results through continuous improvement of processes and spin offs for service delivery in addition to promoting the development of the Province as a whole.

Within this perspective it is crucial to maximise resource intelligence and ensure that allocations are aligned with the strategic agenda of the Medium Term Budget Policy Statement and the Provincial Growth and Development Plan of the Eastern Cape. Unfortunately, even in prosperous times, resources are always limited and there are many competing demands. This makes strategic prioritization of critical importance – particularly in the context of belt-tightening as we roll out our financial recovery plan to eradicate the provincial deficit.

Honourable Speaker, the budget I table here today is the culmination of a lengthy process of consultation and planning with line departments, municipalities, National Treasury, and other critical stakeholders.

Before I start putting Rands and cents to the various PGDP programmes, let me first consider the economic context within which this budget was formulated.



Economic Outlook

Both President Mbeki and Minister Manuel noted in their respective addresses that the national economy is buoyant, with growth levels upward of 4% predicted for the coming financial year. This is good news indeed, and is the outcome of a difficult process of stabilization and re-integration into the global economy. On a national level the basics are in place, and are on track in building a robust and resilient economy that will make South Africa a catalyst in the growth and development of the entire sub-continent. The pertinent question is therefore, if this can be achieved nationally why not also provincially?

Growth levels in our Province have historically lagged behind the country as a whole as well as many of the other Provinces. Between 1996 and 2002, our growth rate stood at 1,9%, compared to Provinces such as Gauteng (3,3%), Limpopo (2,8%) and KwaZulu-Natal (2,7%).

There is a glaring dichotomy in the Provincial economy between the rich and poor. This is illustrated by the Eastern Cape showing a steady growth in its share of total exports for South Africa, rising from 3.1% in 1996, 6.6% in 2002 and 7.8% in 2003. This steady growth in the export orientation of the Eastern Cape is shown in the growth in exports as a percentage of GDP from 9.2% in 1996 to 28.4% in 2003. In value terms the growth of exports in the Eastern Cape has shown a **growth of some 463%** between 1996 and 2003. With the continuous investment in the Industrial Development Zones (IDZ's), this growth is set to continue.

In stark contrast, we have however been less successful at growing our rural economy. Levels of unemployment and poverty remain high, with government services and welfare grants being the mainstay of our rural local economies. This must change. The PGDP has identified potential growth sectors in our impoverished rural hinterland, including agriculture, agro-processing, construction and tourism. We are working closely with our municipalities, and partners such as the European Union, to put measures in place to leverage productive investment in these sectors.

The deficit and the Financial Recovery Plan

Madam Speaker: In sketching the provincial financial recovery plan it is important to take a brief snapshot of where we came from:

- In 1998, Section 100 status was declared due to uncontrolled expenditure.
- The period 1999 to 2003 was marked by bringing spending under control through centralisation. Major underspending was also recorded with the net effect of accumulation of reserves and build up of surpluses and interest revenue.
- In May 2003 there was a substantial increase in procurement thresholds in departments and cash started to flow.
- In the 2003/04 financial year the system overheated. Huge overspending was recorded. Pressures on budgets especially in Education and Social Development occurred. The accumulated reserves from previous years became depleted resulting in minimum interest revenue.
- The outcome of 2003/04 was worse than expected and required incisive remedies.



In November 2004 I presented the core elements of a Financial Recovery Plan for the Province. This Plan has three essential elements – firstly stabilize the fiscus and reduce the deficit through instilling financial discipline and controls; secondly enhance the impact of current spending on poverty and job creation; and thirdly, leverage additional resources to complement efforts. I will now elaborate on each of these elements.

(1) Fiscal stabilization

The exact quantification of the negative financial position was the amount by which expenditure exceeded income (or revenue) and was calculated as follows:

- The Province as at 31 March 2004 for the financial year 2003/04 registered a bank overdraft of R744 million.
- A budgeted deficit of R563 million was tabled as part of the main budget appropriation for 2004/05 however could not be funded due to depletion of reserves.
- a R150 million budgeted interest revenue could not be achieved due to the depletion of accumulated reserves and investments.
- Social Development projected an over-expenditure of R1,2 billion.
- Accumulated liabilities and debts related mostly to the non-roll over of conditional grants and other long outstanding creditors amounted to approximately R899 million.
- The overall negative financial position of the Province thus translated into an exposure and deficit of just over **R3,5 billion**.

We have entered a cool-down period. It is our intention to bite the bullet and eradicate this deficit by the close of 2006/07. The debt redemption strategy to deal with this untenable situation involved the following measures.

- Firstly, tighter fiscal discipline in all Provincial Departments to mitigate possible over-expenditure.
- Secondly, and linked to these tighter fiscal controls, we have implemented belt-tightening austerity measures across all Provincial Departments and public entities.

Madam Speaker: In nurturing the Province back to financial health the equitable share had to be top-sliced. Exco approved a financial healing option and the 2005/06 MTEF budget was crafted around this option. This option is divided into two components namely to first service interest bearing debt in 2005/06, in order to avoid any amounts being spent on further interest charges and secondly to deal with the non-interest bearing and other debts in 2006/07 (details are contained in budget statement 1).

Since September 2004, the province has made **huge improvements** in restoring both fiscal discipline and fiscal credibility. From the initial exposure of just more than R3,5 billion, it has already serviced the first billion within the current financial year and will deal with the balance of just over R2 billion in the next two financial years.

Consequently the Province is budgeting for a surplus of R1,6 billion in 2005/06, R1,1 billion in 2006/07 and R349,8 million 2007/08. The budgeted surplus in 2005/06 and 2006/07 is to restore positive fiscal liquidity and credibility and to provide for the projected negative cash position at the end of March 2005. The projected surplus in 2007/08 is to provide for a



contingency for unforeseen and unavoidable expenditure, accumulation of cash reserves for future capital outlays as well as to accelerate allocations towards the PGDP programme priorities.

Taking the above into account, the following are key success factors in restoring fiscal discipline and financial credibility in provincial finances:

- The provincial fiscal framework is much tighter than in previous years, hence any over spending by departments over the MTEF must be curtailed;
- All Departments must remain within allocated budgets, firstly in 2004/05 and then over the MTEF especially in 2005/06 and 2006/07;
- Continuation of the belt tightening exercise is important, but all departments will have to continuously re-evaluate their priorities and current programmes from an efficiency and effectiveness perspective and savings should be identified and channeled to priority areas (within and across departments);
- Streamlining of the entire provincial administration to reduce duplication;
- Reliable IYM and Cash Flow reports should be developed for 2005/06 (Sect. 40(4) of PFMA)
- Extreme caution is to be exercised in changing and/or expanding organizational structures together with proper management of personnel expenditure; and
- Increased focus on PGDP strategic objectives over the MTEF up to 2014.

In summary Madam Speaker based on the recovery plan presented today, we will settle our deficit by the end of March 2007, and will enter the 2007/08 financial year on a stable footing, armed with the necessary resources for accelerating economic growth and infrastructure development.

(2) Ensuring Better Value for Money

The second core element of the recovery plan is ensuring better value for money – in other words enhancing the impact of every rand we spend.

Measures put in place to achieve this include:

The supply chain management system (SCM) which was introduced in December 2004 and will be in full operation in the upcoming financial year. The SCM is intended to further enhance Black Economic Empowerment and to increasingly open up state markets to previously disadvantaged individuals. The SCM will ensure the added advantage of **greater local content**. Procurement policies will be developed and efforts intensified to stimulate local economic investment through placing more emphasis on promoting provincially based manufacturing, supply and production of goods and services.

In Building monitoring capability to track expenditure and delivery against budgets and targets, Treasury in close co-operation with the Office of the Premier will be identifying and remedying bottlenecks. Furthermore, in terms of monitoring



of cash resources on a daily basis, MEC's and Accounting Officers are receiving a daily text message on their cell-phones informing them of the departmental bank balances!

Treasury will also be restructured to reposition itself to be more client and service orientated in line with its operational mandate. In keeping with our Premier's wish that we become more accountable to the citizens we serve, we have recently established an Ikhwezi Lomso client care centre. This will assist in focusing on service orientation and allow the assessment of treasury services to other departments as our clients as well as to the general public.

Significant steps to improve asset management capacity are also envisaged. The accounting framework for recognition of assets that has been introduced by National Treasury will give us the tool to better manage our assets. This will enable us to make decisions on maintaining, selling as well as setting market related rents and fees in a more organised manner. We recognise that to have a proper asset management system in place is long overdue and welcome the support of National Treasury in this important intervention.

Finally in recognizing that an increasing proportion of public funds for service delivery to the poor rests with municipalities, we will be working closely with the provincial Department of Local Government, Housing and Traditional Affairs to set up the necessary support and monitoring systems to assist municipalities to comply with the Municipal Finance Management Act.

(3) Leveraging additional resources for growth and development

The third core element of our financial recovery plan is the leveraging of additional resources for provincial growth and development. Measures that we will be undertaking in this regard include:

- Expanding our revenue base through assessing our fixed asset and property portfolios with a view to sell under-utilized, cost-incurring and/or "lazy" assets. In this regard Public works is allocated R10 million in 2005/06 to accelerate disposal and sale of non-core assets and property. ***The yields of this investment are expected by November 2005.***
- Attracting investment in-flows from donors, public entities, and the private sector through the identification and packaging of bankable high impact projects, the organization of a provincial donor and investor conference, and the more effective use of public private partnerships, particularly for infrastructure provision.

Madam Speaker: Now that I have outlined the Financial Turn-around Plan, I will turn to the our Budget Priorities for 2005/06.

MTEF Budget Priorities

The Provincial priorities are gleaned from the Provincial Growth and Development Plan and aligned to the national priorities, as described in the Medium Term Strategic Framework, the recent State of the Nation Address by the Honourable President Mbeki, and the National Programme of Action.



The Provincial Growth and Development Plan is the blueprint for development over the next ten years. It provides a framework for addressing the core developmental challenges facing the Eastern Cape, in particular the challenge of placing the Province on a higher and more equitable growth path. Eastern Cape launched in September 2003, the implementation plan for the PGDP which consists of 30 programmes, arranged into six strategic focus areas:

1. Agrarian Transformation and Food Security
2. Fighting Poverty
3. Public Sector Transformation
4. Infrastructure Development
5. Manufacturing Diversification and Tourism
6. Human Resource Development

Madam Speaker: I will now identify the priority programmes within each of these strategic focus areas, and give details on the budget allocations:

Agrarian Transformation and Food Security

Our Flagship Programme in agrarian transformation for 2005/06 remains the Massive Food Programme. This programme has been designed to address the problems identified by the Premier in her State of the Province Address – that we as the Eastern Cape are a net importer of the maize we consume. We need to start producing and processing more of the maize we eat. We have allocated R90 million to the programme for 2005/06, and have budgeted R336 million over the MTEF, some of which will go into the development of marketing, storage, and processing infrastructure.

As a Province, we are a major beneficiary of the nationally-driven Comprehensive Agriculture Support Programme (CASP), and will be receiving R47,5 million for agriculture infrastructure (for fencing, stock dams, irrigation equipment etc). The provision of this infrastructure support is critical to make emerging farmers more competitive on the open market, and to enable them to participate in key agro-processing initiatives such as the cotton and sugarbeet ventures.

Madam Speaker: Before moving on to the next section let me share a success story about the maize farmers at Keiskammahoek which demonstrates the PGDP in action. The packet of ***Qobo Qobo maize*** on your seat is a gift from them.

Using a grant from national Department of Economic Affairs and Tourism plus funding from the Province, Siyakholwa bought a small mill 2 seasons ago and signed up families to maize. Siyakholwa prepared the soil, supplied the seed and chemicals and gave extension services. This was all done at no initial cost to the farmer.

When the crop is harvested, bags are provided and a tractor collects the maize from the lands. Siyakholwa then mills the harvest for a small fee. The portion of the harvest used to compensate the mill for the input costs is also milled and sold thereby giving the mill sufficient working capital for the same number of farmers the next season.



It has been running successfully for two seasons giving 140 families partial food security. This, coupled with off-season vegetables, certainly has contributed to the improvement in the daily lives of these emerging farmers. Compared to other products consumers are paying only a 7th of the usual shelf price for this maize. ***Halala Qobo Qobo Maize!***

Fighting poverty

Madam Speaker: When the PGDP talks about fighting poverty it talks about poverty eradication and not just poverty alleviation. The growth and development vision seeks to free the poor from welfare dependency in the long term through enhancing their participation in wealth creating economic activities.

In the short- to medium term we realize that extensive and comprehensive social safety nets are critical to support the most vulnerable. A large proportion of our budget – R9.9 billion – is therefore allocated to social grants.

Also key to the fight against poverty is the provision for basic needs, goods and services. The Comprehensive Housing Programme is allocated R711 million, and we will be tasking Eastern Cape Development Corporation (ECDC) to ensure that we create many sustainable Small Medium and Micro Entrepreneurs as contractors and suppliers of bricks and other building materials.

We recognize a direct relationship between poverty and HIV, AIDS and TB. Furthermore we hold the view that HIV and AIDS, if left unchecked, will undermine our growth and poverty eradication efforts. A total of R233 million in various departments and programmes is allocated in 2005/06 to fighting this disease.

We have set ourselves a PGDP target of creating 200,000 work opportunities by 2009. This year the Extended Public Works Program (EPWP) will be funded by directing one third of the Provincial Infrastructure Grant and the Municipal Infrastructure Grant towards the EPWP. This amounts to a provincial total for 2005/06 of R1,6 billion.

We recognize that Government will not defeat poverty on its own, and are keen to partner with civil society organizations that champion the needs and interests of the poor. To make these partnerships a reality, through the Office of the Premier we have allocated R10 million to NGOs, faith-based organizations, traditional leaders, and gender organizations.

Public Sector Transformation

Madam Speaker: The first initiative in public sector transformation is to consolidate our inter-governmental relations framework, and strengthen institutional mechanisms for improved alignment across the spheres of Government. Even though we have different areas of competence, we are one Government and need to dance to the same tune. Key initiatives to strengthen the policy and planning capacity in the Presidency are being replicated here in the Province with the current restructuring of the Office of the Premier.

Secondly another fundamental transformation strategy that will come to light in the next financial year is to review the business of all public entities and other service delivery vehicles ensuring that they are aligned towards supporting the core business of government namely service delivery to our people.



Key will be the development of monitoring capability, both in line departments and more specifically in the Office of the Premier. In this regard we have ring-fenced an amount of R4 million to develop and implement a monitoring system to track progress on all PGDP programmes.

Infrastructure

The strategic infrastructure programme is firmly on track and at the time when the austerity measures were implemented there was a deliberate decision by Exco not to stop any payments for capital and infrastructure already on site thereby honouring all our commitments.

The yield on this decision is reflected by the capital spending picture nationally, which indicates in absolute terms that Eastern Cape has spent the most of all provinces on capital assets at 77,2%. Furthermore there was a growth in spending of 24,8% or R269 million more compared to the same period last year.

Eastern Cape recorded the highest at 84,8% and demonstrated a 23,6% growth in spending on Public Works, Roads and Transport for the nine months ending December 2004 or R150 million more than the previous period.

The province will spend R2,38 billion of its 2005/06 budget on infrastructure projects, growing sharply to R3,13 billion and R3,68 billion in 2006/07 and 2007/08 respectively.

Over the past five years the Eastern Cape Province contributed more than R1,2 billion from its own coffers to fund Coega Development Corporation (CDC) thus contributing towards a world class deep water port at Nqura. In line with the original funding proposals, this project is now expected to yield returns on the initial investment and to start generating the necessary revenue. In demonstrating its continued commitment to Nqura the Province is again, and despite very tight fiscal constraints, allocating an additional R180 million for 2005/06 towards this National Initiative.

Manufacturing Diversification and Tourism

This year, the core PGDP programmes in the Manufacturing diversification and Tourism include an industrial support programme (aimed primarily at supporting the auto sector), a cultural industries programme (driven by the Department of Sports, Recreation, Arts and Culture), an agro-processing programme (jointly managed by the Departments of Economic Affairs, Environment and Tourism and Agriculture) and a tourism programme (driven by the Eastern Cape Tourism Board).

An amount of R186,7 million has been allocated for these PGDP economic development initiatives, much of which is administered through our public entities such as the Eastern Cape Development Corporation and the Tourism Board.

Human Resources

The Province is expected to employ 130 954 people at a cost of R15 billion during the 2005/06 financial year, compared to 127 629 people employed during the 2004/05 financial year at a cost of R14,4 million.



The Departments of Education and Health are expected to be the most significant employers for the 2005/06 financial year with total staff of 82 792 and 30 927 respectively. It is expected that an amount of R83 million will be spent on training for the 2005/06 financial year.

In summary then Madam Speaker, the following table confirms the comprehensive picture aligning the budget with PGDP focus areas:

Budget Alignment / Allocations to PGDP Priorities				
Progr- amme nr	PGDP Priority Programme	2005/06	2006/07	2007/08
1	Agrarian Economy Transformation			
	Massive Food Programme	90,000	120,000	126,120
	Siyazondla			
	Agriculture Infrastructre Programmme (CASP)	47,552	57,061	69,838
	Other Agriculture functions	676,267	726,300	794,448
2	Fighting Poverty			
	Land Care Grant	8,000	8,500	8,748
	Water & Sanitation			
	OTP (Poverty Programme)	7,500	-	-
	Social Security Grants	10,691,002	11,035,389	11,936,890
	Other Social Welfare functions	402,340	1,285,252	1,372,714
	Comprehensive Nutrition Program (Education)	194,288	233,882	245,576
	Housing & Human resettlement Programme	711,650	828,349	993,064
	Fighting HIV/AIDS & TB	233,276	270,514	283,774
	Public Works EPWP	65,829	71,620	78,316
3	Public Sector Transformation			
	Improved Service Delivery			
	Health (Scare skills, rural allowances & critical)	56,850	46,612	48,989
	Social Dev (Social Workers)	28,974	18,862	19,717
	Other Public Works functions	476,770	479,208	541,101
	Treasury	180,390	196,762	214,697
	OTP	242,674	282,038	307,157
	Local Government	202,054	235,425	256,155
	Traditional Affairs	94,522	84,032	89,144
	Legislature	99,371	104,439	109,765
	Health	5,713,204	6,280,708	6,817,429
	Safety	13,402	14,365	15,634
4	Infrastructure Development			
	Strategic Infrastructure Programme			
	Infrastructure Grant & Roads (mostly EPWP)	1,698,631	1,848,489	2,194,837
	Hosp Revitalisation	157,732	71,666	102,552
	Education-Mud Structure	20,000	40,000	50,000
	Health - Infrastructure maintenance	10,000	40,000	60,000
	Coega	180,000	-	-
5	Manufacturing, Tourism & Diversification			
	Public Entities (ECDC, ECTB, ECGB, etc)	255,975	282,425	310,002
	Economic Development initiatives	186,789	196,266	213,470
	Arts & Cultural Affairs	163,176	178,897	194,083
6	Human Resource Development			
	Education	11,013,340	12,388,375	13,556,487
	Sport & Recreation	104,082	110,375	123,969
	Total Budget	33,989,039	37,499,210	41,098,076



Overall budget and Departmental Allocations

The total provincial allocatable budget for 2005/06 amounts to R35 billion of which R33,9 billion will be voted to departments thus leaving a surplus of R1,6 billion to service the provincial deficit. The R35 billion is a decrease of 19,78% due to a technical adjustment in redefining and shifting the social grant from the category of "Equitable share" to "Conditional grant".

The sharp decline in own revenue for the 2004/05 financial year of 45% compared to 2003/04 financial year has had a negative impact on the overall revenue envelope of the province. This was caused mainly by the erosion of surplus funds and therefore the possibility of collecting interest.

Madam Speaker, I now turn to the final component of my input – the specific allocations to Provincial Departments of which the detail is contained statement 1.

Table 10.2 Summary of provincial payments and estimates by vote

Provincial department R'000	Outcome			Main appro- priation 2004/05	Adjusted appro- priation 2004/05	Revised estimate 2004/05	Medium-term estimate			
	Audited	Audited	Audited				2005/06	2006/07	2007/08	Change from Revised estimate 2004/05
	2001/02	2002/03	2003/04							
1. Office of the Premier	138 630	173 603	219 463	232 615	225 967	225 970	259 174	282 038	307 157	14.69
2. Provincial Legislature	74 023	74 018	79 615	85 549	95 549	95 549	99 371	104 439	109 765	4.00
3. Health	3 892 453	4 493 242	5 243 012	5 410 294	5 221 266	5 286 459	6 087 791	6 617 928	7 217 711	15.16
4. Social Development	4 663 014	6 425 476	8 444 747	9 146 029	9 687 860	9 959 727	11 136 295	12 353 529	13 343 745	11.81
5. Public Works	376 667	413 167	549 436	531 963	523 788	530 903	542 599	566 661	636 057	2.20
6. Education	7 863 493	9 148 768	10 155 292	10 857 872	10 795 266	10 795 266	11 251 320	12 687 370	13 879 432	4.22
7. Housing, Local Government and Traditional Affairs	606 385	844 601	1 240 871	1 060 864	1 039 212	1 038 934	1 008 226	1 147 806	1 338 363	(2.96)
8. Agriculture	563 298	571 590	751 961	897 529	882 143	875 501	821 819	911 861	999 154	(6.13)
9. Economic Affairs, Environment and Tourism	255 409	658 601	825 722	849 529	799 624	799 624	622 764	478 691	523 472	(22.12)
10. Roads and Transport	872 326	1 551 783	1 739 220	1 627 474	1 600 591	1 593 476	1 698 631	1 848 489	2 194 837	6.60
12. Treasury	117 522	147 219	161 243	171 164	155 030	149 951	180 390	196 762	214 697	20.30
14. Sport, Recreation, Arts and Culture	166 381	206 410	252 203	266 342	239 883	239 883	267 257	289 271	318 052	11.41
15. Safety and Liaison	5 725	6 769	8 781	11 788	11 322	11 592	13 402	14 365	15 634	15.61
Total provincial payments and estimates by vote	19 595 326	24 715 247	29 671 566	31 149 012	31 277 501	31 602 835	33 989 039	37 499 210	41 098 076	7.55



Vote 1: Office of the Premier

The amount appropriated to the Office of the Premier is R259 million which is an increase of 15% (or R33,2 million) compared to the 2004/05 adjusted budget, will be utilized to ensure effective and efficient governance in the province potentialising the Eastern Cape as a compelling place in which to live, work and invest in. This represents 0.76 % of the total provincial budget allocation.

Vote 2: Provincial Legislature

Madam Speaker you will be pleased to note that the allocation to the Provincial Legislature reflects that provision has been made for expenditure of R99,3 million in 2005/06, a 4% (R3,8 million) increase on the 2004/05 adjusted budget and a 10% (R9,3 million) increase on the MTEF baseline allocation. The Legislature also received an additional amount of R10 million in the 2004/05 adjustment budget.

Vote 3: Health

The department of Health vote constitutes 17,91% of the total budget of the Eastern Cape for the 2005/06 financial year. The total budget amounts to R6 billion (2004/05 R5.221 billion) which is an increase of 17% compared to the previous year's adjusted budget.

There have been sharp increases in the allocations for two of the smaller programmes compared to the previous year, these increases are;

- Health Science and Training (Programme 6) which has increased by 145% to R337 million. The increased allocation for this programme (training) is aimed at combating the shortage of highly skilled health personnel. Of this amount, R128 million is funded by way of a conditional grant.
- Health Care Support Services (Programme 7) which has increased by 176%. This increased funding has been allocated towards orthopaedic and prosthetic services.
- **An amount of R44 million has been allocated to the funding of critical posts** for the 2005/06 financial year.
- **Once off amounts of R133 million plus R10 million** have been set aside to cater for shortages in budget allocations of previous financial years.
- The newly promulgated National Health Act assigns primary health care to the provincial sphere, provinces are to take over the funding of services mainly delivered by non-metropolitan municipalities from 2005/06, as a result R16 million has been set aside in the 2005/06 financial year.



Vote 4: Social Development

The allocated budget for the Department of Social Development is R11,1 billion in 2005/06 compared to 2004/05 of R9,7 billion which constitutes 32.76% of the total budget. Allocations of R12,4 billion and R13,3 billion for 2006/07 and 2007/08 respectively have been made for the MTEF period. The MTEF 2005/06 – 2007/08 allocations show year on year growth of 15%, 10.9% and 8.0% respectively.

The impending transfer of the social assistance grants administration from the department to the South African Social Security Agency (SASSA) means that the focus of the department will be shifting from social assistance to developmental and social welfare services. These services include support for non-governmental, community-based and faith-based organizations involved with the care of the aged, the disabled, orphans and HIV/AIDS affected persons. For this reason the budget for the program known as “Social Welfare Services” for 2005/06 has increased by 29%, over the 2004/05 allocation.

A special allocation, additional to the indicative figures, of R11 million has been made for the appointment of extra social workers and enhancement of salaries for social workers. The administration of child justice act will also receive R30 million in 2006/07).

Vote 5: Public Works

The department of Public Works historically was also the implementation agent for of the roads function. It was however decided that the roads function should be moved to the Department of Transport effective 1 April 2005. The roads function together with its historic data has therefore moved to Transport. The allocation for the remaining functions in Public Works has increased by 1%, from R530,9 million to R542,5 million compared to the 2004/05 financial year.

Vote 6: Department of Education

The department of Education is funded at 49,7% of the total provincial equitable share and 1,5 % from the provincial conditional grant allocation. The revenue base of the department stood at R24,8 million for 2004/05 and R28,1 million for 2005/06 reporting a growth of 12 %. The total allocation of the department for 2005/06 financial year is R11,3 billion.

The personnel budget for the department has increased from R9,3 billion in 2004/05 to R9,7 billion in the first year, R10,3 billion in the middle year and R10,8 billion in the outer year. This represents 3,8 % to 4 % from year to year over the MTEF period. This growth includes the R180 million for critical posts over and above the personnel baseline. The percentage growth in the personnel budget will be able to address most of the departmental cost pressures.

Out of the R11,25 billion the non-personnel budget is R1,55 billion which represents a 86/14 split between personnel and non-personnel in the 2005/06 compared to the 88/12 split in 2004/05. With this scenario, it is therefore critical to maintain a positive sustainable growth in the non-personnel component such that it caters for most of the service delivery measures and performance targets.



The Learner Support Material (LSM) budget has increased from R461,8 million in 2004/05 to R508,2 million in 2005/06 and will bring about improvements in the funding level per learner. Over and above the LSM baseline figure, R25m has been allocated to specifically address further national priorities.

In order to accelerate the elimination of mud structure, an additional amount of R20 million over and above the already allocated amount of R41 million for 2005/06 had been set aside.

Housing, Local Government and Traditional Affairs

The vote for Housing, Local Government and Traditional Affairs increases substantially year on year: 13.8% (2006/07) and 16.6% (2007/08). The exception is only on 2005/06 with a decrease of 3% when compared with the 2004/05 adjusted budget. The latter is attributed to the decrease on the national conditional grants allocations from R654,1 million to R581,2 million (11%). The equitable share allocation for the vote increases by 11.3% in 2005/06 as compared against 2004/05.

Local Government budget (Programme 3) has increased by 11%. This increased funding has been allocated towards Community Development Workers.

Traditional Leaders (Programme 4) has increased by 10%. This increased funding has been allocated towards the Improvement on Conditions of Service (ICS) and Secretaries of Traditional Leaders.

Further allocations have been made towards the funding of Provincial Growth and Development Plan (PGDP) projects. Funded in this vote is R30,9 million for Water and Sanitation, R581,2 million for Housing Programme and R81,6 million for Local Government Capacity Building Programme.

Vote 8: Department of Agriculture

The department of Agriculture's total budget for the 2005/06 financial year has decreased by 7% compared to the 2004/05 financial year. The reduction is brought about by spreading the once off allocation to the massive food programme of R150 million in 2004/05 to a more sustainable level of funding of R336 million over the MTEF period 2005/06 to 2007/08.

The improved allocations over the MTEF is demonstrating governments' continued commitment to this programme as well as bringing more certainty in spending in this important strategic programme.

Vote 9: Economic Affairs, Environment and Tourism

This Economic Affairs, Environment and Tourism's total budget for the 2005/06 financial year amounts to R622,8 million compared to R799,6 million for 2004/05 which means that there is a decrease of 22% compared to the previous year's adjusted budget.

The decrease is attributed to the reduced funding of the IDZ's, other public entities and the reprioritization of the provincial budget. Alternative funding mechanisms are currently being explored by the Provincial Government for Coega Development Corporation and East London Industrial Development Zone.



Vote 10: Department of Roads and Transport

There is an overall growth of 7% from 2004/05 compared to the first year of the 2005/06 MTEF period in the budget for the Department of Roads and Transport. This is due to the transfer of Roads function from the Department of Public Works to the department of Transport. Consequently, substantial increases have been recorded in all economic classifications. The most significant items of expenditure are Payments for Capital Assets (35%), Goods and Services (31%) followed by Compensation of Employees (20%). However, there is a decrease of 13% in Payments for Capital Assets, and 3% for Transfers and subsidies compared to 2004/05 adjusted budget. The decrease in Payments of Capital Assets is due to the department shifting funds to maintenance, which is part of Goods and Services, hence an increase of 57% for Goods and Services.

The allocations to Municipalities are for contractual obligations to pay for workers taken over by the Municipalities specifically to perform roads functions.

Vote 12: Provincial Treasury

Provincial Treasury budgeted expenditure amounts to R180,4 million (2004/05 R155,0 million) which is an increase of 16% compared to the 2004/05 financial year. The main increase is on compensation of employees which went up by R18,4 million an increase of 28% on the 2004/05 budget. This is mainly due to allocation of additional funding for compensation of employees to strengthen capacity through restructuring, *implementing a financial mentorship programme* and focus on the Municipal Finance Management Act (MFMA) implementation.

Vote 14: Sport, Recreation, Arts and Culture

The budget for Sport, Recreation, Arts and Culture over the MTEF period increases substantially year on year: 11.4% (2005/06), 8.2% (2006/07) and 9.9% (2007/08). *The budget for Libraries and Information Services has increased by 44%*. This increased funding has been allocated towards the improvement of library services and archiving in the province. Funding for Sport and Recreation has improved with 10%. This increased funding is due to an additional allocation towards the 2010 World Soccer Cup.

Vote 15: Safety and Liaison

The budget allocation for Safety and Liaison' of R13 million for 2005/06 and for the other two MTEF years - 2006/07 and 2007/08 of R14 million and R16 million respectively, shows an increase of 18% over the 2004/05 adjusted budget. This significant increase in allocation is for the program called "Administration" which increased by 59% over 2004/05 allocation. The increase of R1,5 million in 2005/06 is to beef-up the capacity in the office of the MEC in order to improve its oversight role of safety and security matters in the Province.



CONCLUSION

Honourable Speaker, I table today the following documents:

- Appropriation Bill (2005) with Budget Statement 1 and 2.

The 2005/06 Budget Statements, as in previous years, comprise two parts: Budget Statement 1, otherwise known as the Budget Overview, and Budget Statement 2 (Departmental Estimates).

- A copy of my speech

Madam Speaker: The Provincial Growth and Development Plan is to be judged by the practical difference people see in their everyday lives. A more accessible and responsive Eastern Cape Public Service is required.

I would further like to echo the Premier in her unveiling the PGDP strategic framework in June 2004 that “a new era had dawned - *ilanga liphumile*”, adding to it “*libambe lingatshoni!!*”. This was re-emphasized in her 2005 State of the Province address that “the expectations of our people are very high, we need to roll up our sleeves and work harder than before” to deliver on the “Peoples Contract” for a better Eastern Cape.

A key part of *Batho Pele and the PFMA* is a relentless search for increased efficiency and the reduction of wastage. Every Rand wasted in cumbersome, inefficient processes, in delays and duplication, is money which could have been invested in improving services to our communities.

This budget is more than just numbers; it reflects government’s serious pro-poor policies and priorities and how these will be translated into the delivery of services. This budget re-commits government to not abandon the poor but to serve all with humility, honesty and integrity. This commitment will continuously be measured over the 2005 MTEF until 2014.

Honourable Speaker, let us acknowledge with gratitude our Premier for her remarkable leadership. I would also like to thank Minister Manuel and the National Treasury for their support, as well as my colleagues in the Executive and Heads of Departments. Last but by no means the least, special recognition to my Ikhwezi Lomso Treasury Team for their tireless efforts.

Ek dank u! Enkosi Kakhulu! I thank you! Together as a team we will work hard, defeat poverty and promote the PGDP to make this Province a compelling place to work, live, and invest in!

“UMTU GUMTU NGABANTU”

“SIYAPHAMBILE”

“MASIHAMBENESIYOSEBENZA”

