

# **BUDGET STATEMENT ONE**

## **BUDGET OVERVIEW**

### **1. Introduction**

In The State of the Nation Address delivered by President Mbeki on 21 May 2004, he sets out Government's policy objectives supported by specific targets in key service delivery areas. Based on these targets a comprehensive programme of action to deliver on the "People's Contract" was announced, the essence of which was the commitment from government to reduce poverty and create jobs.

President Mbeki stated that "the core of our response to all these challenges is the struggle against poverty and underdevelopment, which rests on three pillars. These are:

- Encouraging growth and development of the First economy, increasing its possibility to create jobs;
- Implementing our programme to address the challenges of the Second economy; and
- Building a social security net to meet the objectives of poverty alleviation."

The Eastern Cape's response to this challenge was the development of Provincial Growth and Development Plan 2004-2014, adopted by the Executive Council in June 2004.

The Framework for Growth and Development 2004-2014 sets quantified targets, including:

- To maintain an economic growth rate of between 5% and 8% per annum;
- To halve the unemployment rate by 2014;
- To reduce by between 60% and 80% the number of households living below the poverty line by 2014;
- To reduce by between 60% and 80% the proportion of people suffering from hunger by 2014;
- To establish food self-sufficiency in the Province by 2014;
- To ensure universal primary education (UPE) by 2014, with all children proceeding to the first exit point in a secondary education;
- To improve the literacy rate in the Province by 50% by 2014;
- To eliminate gender disparity in education and employment by 2014;
- To reduce by two-thirds the under-five mortality rate by 2014;
- To reduce by three-quarters the maternal mortality rate by 2014;
- To halt and begin to reverse the spread of HIV/AIDS by 2014;
- To halt and begin to reverse the spread of tuberculosis by 2014;
- To provide clean water to all in the Province by 2014; and
- To eliminate sanitation problems by 2014.

In order to achieve the above targets, the Framework for Growth and Development identifies the following strategic focus areas for intervention.

- The systematic eradication of poverty;
- The transformation of the agrarian economy;
- Developing and diversifying our manufacturing and tourism sectors;
- Building our human resource capabilities;

- Infrastructure, including the eradication of backlogs and the development of enabling infrastructure for economic growth and development; and
- Public sector and institutional transformation in support of improved service delivery.

The PGDP strategies will not only improve the lives of people today, but will lay the foundation for creating a better future for generations to come.

In the President's 11 February 2005 State of the Nation address he indicated that:

- "With regard to interventions to grow the *First Economy*, the broad objectives we set ourselves remain the same. We will continue our consultations with our social partners to ensure that our economy continues to steam ahead,... Our programme for the coming year is premised on the broad objectives to increase investment in the economy, lower the cost of doing business, improve economic inclusion and provide the skills required by the economy."
- "A critical element in assisting those in the *Second Economy* is provision of information, particularly regarding how they can access economic opportunities."
- "With regard to the *social sector*, government has continued to allocate more resources and put in more effort to provide services to society at large and a safety net for the indigent."

The Premier, in her State of the Province address on 18 February 2005, aligns herself with the President in preparing the second economy for participation in the mainstream economy, she states that :

"...it is our sincere belief that we must begin developing agricultural production, agro-processing and market access mechanism for this sector. We need to seize the opportunity by partnering with the private sector, so that we, can as government and the private sector maximize the economic benefit for our communities." She further emphasized that "we need to use our economic market to benefit the entire people of our province, particularly the poor. In order to sharpen our economic strategy, we intend to focus on the following areas:

- To develop the *second economy* of pro-poor people to the same level as the *first economy*;
- We need to put more emphasis on the *Local Economic Development* initiatives;
- To raise the food production of the Eastern part of the province closer to that of the Western part of the province; and
- To provide sustainable natural environment in which people can flourish spiritually, physically and economically."

By its nature, the Provincial Growth and Development Plan 2004-2014 finds close coherences with the policy framework articulated by the national government and builds on the President's bold approach for raising South Africa's development prospects into the third democratic term. The PGDP is embedded within the national government's stated socio-economic policy priorities set out in the Medium Term Strategic Framework and the National Spatial Development Perspective as it envisage to draw together the Integrated Development Plans of municipalities within the Eastern Cape, thereby enhancing economic development at a local government level. Indeed a new era had dawned for the Eastern Cape, the sun has risen – but adding libambe lingatshoni ("don't let the sun go down").

## 2. National Policy Framework

Government's own assessment of progress made in the first decade of democracy – *Towards a Ten Year Review* - points to many achievements and strengths on which to build, but also emphasises the challenge ahead of overcoming the division between the “two economies” in our developing nation. Building on the Ten Year Review, government has adopted a medium term strategic framework focused on five policy priorities for the medium term, i.e.

- Increasing the rate of growth and productive investment;
- Promoting economic and social mobility, encouraging links between the first and second economies through employment and enterprise development;
- Social development, income support and mobilising human resources;
- Improving the State's capacity to promote growth, broaden development and combat crime; and
- International relations for growth and development.

The medium term strategic framework describes South Africa's development challenge as to build a single and intergraded economy that benefit all, encompassing both growing, competitive relations with the global economy and a caring, inclusive network of social services and support for the disadvantage. Another challenge is that of international relations – the struggle for modernisation and solidarity against deeply embedded inequalities, conflict and prejudice.

In reviewing achievements since 1994, Government has acknowledged the central challenge of achieving broadened participation in social and economic development. The 2004 Medium Term Budget Policy Statement<sup>1</sup> proposed the following priority areas:

- Accelerating the pace of growth of the economy, and the rate of investment in productive capacity;
- Promoting opportunities for participation of marginalised communities in the economic activity, and improving the quality of livelihoods of the poor;
- Maintenance of a progressive social net, alongside investment in community services and human development;
- Improving the capacity and effectiveness of the state, including combating crime and service oriented public administration; and
- Regional and international partnership for growth and development.

In shaping the vision for growth and broad-based development over the next decade as reflected in the Eastern Cape Growth and Development Plan 2004-2014 and in the words of the President<sup>2</sup>, these national budget and policy imperatives formed the basis for determining provincial priority allocations.

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<sup>1</sup> Medium Term Budget Policy Statement 2004 issued by the National Treasury on 26 October 2004

<sup>2</sup> State of the Nation Address 2005: “As we have asserted, success in the growth of our economy should be measured not merely in terms of the returns that accrue to investors or the job opportunities to those with skills. Rather, it should also manifest in the extent to which the marginalised in the wilderness of the Second Economy are included and are at least afforded sustainable livelihoods. South Africa belongs to them too, and none of us can in good conscience claim to be at ease before this becomes and is seen to become a reality.”

### **3. The Eastern cape socio-economic outlook**

The socio-economic realities of the Eastern Cape continually refer us back to the historical processes of underdevelopment and institutionalized racism which have shaped the current development challenges. We cannot escape the historical role of the Eastern Cape in South Africa's industrial development under apartheid as a labour reserve for the mining sector. This has locked the Eastern Cape economy, and particularly the former bantustan economies, into a dependent status with income inflows from remittances. The decline in mining and increased productivity and capital intensity in key export sectors has meant falling incomes, rising unemployment and increased welfare dependency. The challenge is to arrest this underdevelopment through new policy measures and strategies aimed at rapidly transforming the agrarian economy of the former Bantustans, as well as reorienting our growth strategy increasingly towards employment, creating basic needs wage goods sectors. These are the challenges which the PGDP programmes aim to address through specific interventions that are built around the particular nature of inequality and poverty in the Eastern Cape. As the socio-economic profile forms an integral part of the Provincial Growth and Development Plan, the analysis in this section draws extensively from the PGDP document issued by the Eastern Cape Government in June 2004

#### **3.1 Economic Profile: Trends in economic growth**

The economy of the Eastern Cape is characterised by extreme levels of uneven development. This is evident through a number of dualisms: between the two urban industrial manufacturing centres and the poverty-stricken and underdeveloped rural hinterland particularly in the former homeland areas of the Transkei and Ciskei; between a developed commercial farming sector and a floundering subsistence agricultural sector; and between concentrations of fairly well-developed and efficient social and economic infrastructure in the western parts of the province and its virtual absence in the east.

These pockets of vulnerability are hidden, as extreme poverty and underdevelopment within the relatively "more privileged" areas still exist. Thus significant levels of poverty and inequality are evident in the relatively more affluent western region of the Province, where a dominant privately-owned rural farming sector is contradicted by a class of landless, poor and unemployed residents of the platteland towns and small settlements along abandoned railway sidings. The broad structural features of the Eastern Cape economy thus have significantly different consequences for how poverty is experienced within the various human settlements across the Province.

##### **3.1.1 Sectoral overview**

During 2002, the Eastern Cape produced approximately 7% of national GDP although some 15% of South Africans resided in the Province. While the Eastern Cape is South Africa's third most populous province, it is ranked fifth in terms of its overall contribution to GDP. As a consequence, the Eastern Cape has the second lowest (after Limpopo) per capita gross value added (GVA) nationally. It is pegged at R9 883, significantly lower than the national average of R21 664 (HSRC, 2003). Between 1996 and 2002, the Eastern Cape saw a significant increase in its annual average GVA growth rate of 1.9%. This is, however, largely due to a corresponding decline in the annual population growth rate over this period and is significantly lower than the trends in Gauteng (3.3%), Limpopo (2.8%), KwaZulu-Natal (2.7%), Mpumalanga (2.5%) and the Northern Cape (2.5%).

The Eastern Cape economy is structurally different from the national economy in terms of the virtual absence of a local mining sector and its significantly larger tertiary sector, accounted for mainly by the public sector. Nationally, the primary sector accounted for 10% of GVA in 2002, the secondary sector for 27% and the tertiary sector for 63%. Structurally, the Eastern Cape economy remained fairly static between 1996 and 2002, with two-thirds of GVA (66-67%) accounted for by the tertiary sector (particularly the public sector), just over one-quarter accruing to secondary processing (26%), and less than one-tenth of GVA made up by the primary sector (7-8%).

With the general stagnation in agriculture over the past decade, growth within the primary sector is accounted for by forestry and fishing. Within the secondary sector, automobile and related manufacturing is

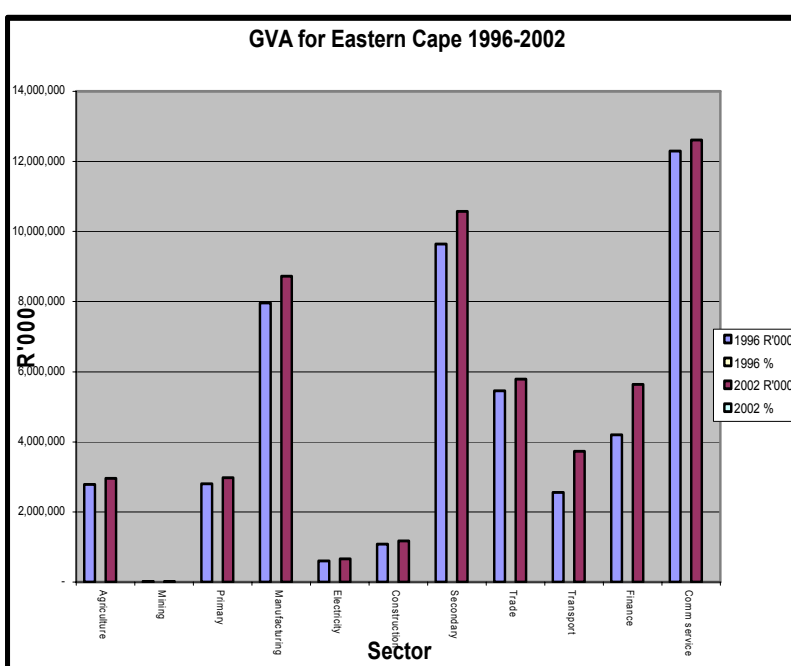
primarily responsible for GVA growth. Transport and communications and finance accounted for the highest levels of growth overall and the core growth points in the tertiary sector.

**Table 3.1: Gross value added**

Gross Value Added - Broad economic sectors 1996-2002 (1995 constant prices)				
	1996		2002	
	R'000	%	R'000	%
Agriculture	2,781,654	7.5	2,956,975	7.2
Mining	22,579	0.1	22,397	0.1
<b>Primary</b>	<b>2,804,233</b>	<b>7.6</b>	<b>2,979,372</b>	<b>7.2</b>
Manufacturing	7,963,329	21.5	8,733,001	21.1
Electricity	598,456	1.6	666,500	1.6
Construction	1,080,225	2.9	1,174,069	2.8
<b>Secondary</b>	<b>9,642,010</b>	<b>26.1</b>	<b>10,573,570</b>	<b>25.6</b>
Trade	5,456,705	14.8	5,796,581	14.0
Transport	2,563,190	6.9	3,729,617	9.0
Finance	4,197,072	11.4	5,643,232	13.7
Comm service	12,297,145	33.3	12,610,597	30.5
<b>Tertiary</b>	<b>24,514,112</b>	<b>66.3</b>	<b>27,780,027</b>	<b>67.2</b>
<b>Total</b>	<b>36,960,355</b>	<b>100</b>	<b>41,332,969</b>	<b>100</b>

Source: Adapted from Global Insight 2002

**Figure 3.1: Gross value added**



### 3.1.2 Sector trends

The **primary sector** accounts for less than one-tenth (7%) of GVA for all sectors in the Province. Almost three quarters of the primary sector for the Province is made up by the agriculture and forestry sub-sector (73%), with forestry and logging making up exactly 25%. The only other sub-sector of any significance is the fishing and operation of fish farms (2%), with the remaining sub-sectors (notably mineral extraction) together accounting for less than 1% of GVA for 2002.

Cacadu accounted for more than one-third (37%) of GVA in the primary sector within the Eastern Cape in 2002, with the next best performer in the sector, OR Tambo, recording just 16%. Amatole (14%), Chris Hani (13%) and Alfred Nzo (8%) witnessed lower levels of GVA while Ukhahlamba (7%) and Nelson Mandela Metropole Municipality (NMMM) (5%) recorded the lowest levels of GVA within the primary sector for 2002.

The **secondary sector** for the Eastern Cape is dominated by the transport equipment sub-sector which accounts for 26% of GVA for 2002. Less significant proportionately is the fuel, petroleum, chemical and rubber products sub-sector (15%), construction (11%) and food, beverages and tobacco products (10%).

The spatial distribution of GVA in the secondary sector is far more concentrated than the primary sector, with the NMM (64%) and Amatole (22%) together accounting for 86% of GVA for the sector in 2002. After subtracting Cacadu's relatively small slice of the sector (6%), the remaining districts are left with insignificant proportions overall.

The **tertiary sector** for the Eastern Cape is structured around the core public sector services of education (22% of GVA for 2002), public administration and defence activities, and health and social work (11% each respectively). The retail trade and repair of goods sub-sector (11% of GVA in 2002), posts and telecommunications (8%), wholesale and commission trade (7%), financial intermediation (6%), activities auxiliary to financial mediation (5%) and land transport (5%) also made up a significant portion of the GVA output for the tertiary sector in 2002.

Government services account for the most significant proportion of GVA for the tertiary sectors for Ukhahlamba (68%), Alfred Nzo (68%), Chris Hani (58%) and OR Tambo (53%). The extent of these districts' structural dependence on government spending is reflected in the proportion of government services of their GVA overall. Ultimately these figures also indicate the extent of the diversity within the tertiary sector for the NMMM.

### 3.2 Employment (Labour markets)

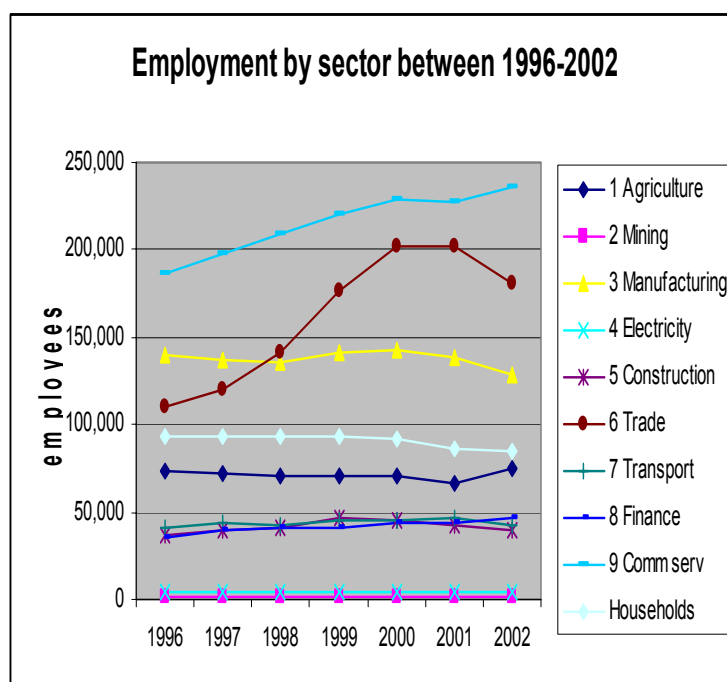
The majority of people employed in the formal sector in 2002 were employed in the tertiary sector (70%), with 21% employed in the secondary sector and just 9% in the primary sector. The total number of those employed in the Eastern Cape increased by 16% during the period 1996-2002. This is primarily accounted for by growth in employment in the tertiary sector (26%), with the secondary sector showing a negative growth rate over the same period (-4%) and the primary sector showing a slight increase (3%). Construction was the only secondary sub-sector which showed a steady growth (10%) in the period 1996-2002. The largest employer in the secondary sector, manufacturing, actually decreased (-8%) during this period. In the tertiary sector, trade (63%), finance (29%) and community services (27%) accounted for the bulk of employment growth.

**Table 3.2: Employment by Sector**

Employment by sectors between 1996-2002					
	1996		2002		Growth rate
	Count	%	Count	%	%
Agriculture	72,763	10.1	75,133	9	3
Mining	1,359	0.2	1,183	0.1	-13
<b>Primary</b>	<b>74,123</b>	<b>10.3</b>	<b>76,316</b>	<b>9.1</b>	<b>3</b>
Manufacturing	140,166	19.4	128,812	15.4	-8
Electricity	3,736	0.5	3,634	0.4	-3
Construction	36,243	5	39,992	4.8	10
<b>Secondary</b>	<b>180,145</b>	<b>25</b>	<b>172,438</b>	<b>20.6</b>	<b>-4</b>
Trade	110,491	15.3	180,496	21.5	63
Transport	41,274	5.7	42,299	5	2
Finance	35,715	4.9	46,026	5.5	29
Comm serv	186,066	25.8	235,822	28.1	27
Households	93,920	13	84,678	10.1	-10
<b>Tertiary</b>	<b>467,466</b>	<b>64.8</b>	<b>589,320</b>	<b>70.3</b>	<b>26</b>
<b>Total</b>	<b>721,733</b>	<b>100</b>	<b>838,074</b>	<b>100</b>	<b>16</b>

Source: Global insight 2002

**Figure 3.2: Employment by sector**



### 3.3 Unemployment

The Labour Force Survey's (September 2003) official definition of unemployment was 32% (30% male and 34% female), while the expanded definition was 49% (46% for males and 53% for females).

The census figures give significantly higher unemployment estimates than the official unemployment rate based on the Labour Force Survey. However, the number of unemployed does indicate the magnitude of the employment crisis in the province where some nine hundred thousand people are out of work.

**Table 3.3: Employment and Unemployment Census 2001**

	Employed	Unemployed	Unemployment	Economically
<b>Total: Eastern Cape</b>	<b>754,357</b>	<b>907,944</b>	<b>54.6</b>	<b>1,662,301</b>
Cacadu	94,975	52,030	35.4	147,005
Amatole	206,982	281,320	57.6	488,302
Chris Hani	68,778	98,351	58.8	167,129
Ukhahlamba	34,445	39,397	53.4	73,842
OR Tambo	94,268	180,163	65.6	274,431
Alfred Nzo	28,451	60,569	68	89,020
Nelson Mandela	226,625	196,074	46.4	422,699

The racial and gender bias of the Eastern Cape labour market is reflected in the table below. The Apartheid engineered inequities between Black, Coloured and White and structural inequalities between the genders are clearly reflected in the structure of unemployment nationally, provincially and by district. The unemployment rate for White males is significantly lower (6.2% nationally and for the Eastern Cape respectively) than for any other category with White females slightly higher (11.6% nationally and 11.1% for the Eastern Cape). The Coloured population in the Eastern Cape occupies an intermediate position with unemployment levels lower (38.7%) than the Black rate (61.1%) but higher than that for Whites (8.3%).

Men constitute a significant majority in terms of the overall number of those formally employed in the Eastern Cape (53% as opposed to 47% women). Furthermore, men account for the vast majority of those employed in all sectors and sub-sectors apart from community, social and personal services (where women make up 59% of the total employees as opposed to 41% men) and domestic labour (women account for 80% of work in private households as opposed to 20% men). This trend in the community, social and personal services sub-sector is particularly significant since it accounts for the single largest proportion of those employed (29%) in the Province. Unemployment and poverty are very closely linked. Very high rates of unemployment are found throughout the Province, especially in Alfred Nzo (71.6%), OR Tambo (68.8%), Chris Hani (58.9%) and Amatole (53.2%).

**Table 3.4: Gender representation in employment**

<b>Sectors</b>	<b>Male</b>		<b>Female</b>		<b>Total labour force</b>	
	<b>Count</b>	<b>%</b>	<b>Count</b>	<b>%</b>	<b>Count</b>	<b>%</b>
Agriculture, hunting; forestry and fishing	53044	73.2	19394	26.8	72438	10.7
Mining and quarrying	4244	93.6	291	6.4	4535	0.7
Manufacturing	58562	64.5	32210	35.5	90772	13.4
Electricity; gas and water supply	3119	81	733	19	3852	0.6
Construction	33252	90.7	3422	9.3	36674	5.4
Wholesale and retail trade	55039	52.6	49658	47.4	104697	15.5
Transport; storage and communication	22133	80.2	5456	19.8	27589	4.1
Financial, insurance, real estate and business services	28780	55.8	22771	44.2	51551	7.6
Community, social and personal services	81084	41.4	114946	58.6	196030	28.9
Private Households	17913	20	71512	80	89425	13.2
<b>Total</b>	<b>357170</b>	<b>52.7</b>	<b>320393</b>	<b>47.3</b>	<b>677563</b>	<b>100.0</b>

Source: Census 2001

### 3.4 Demographics

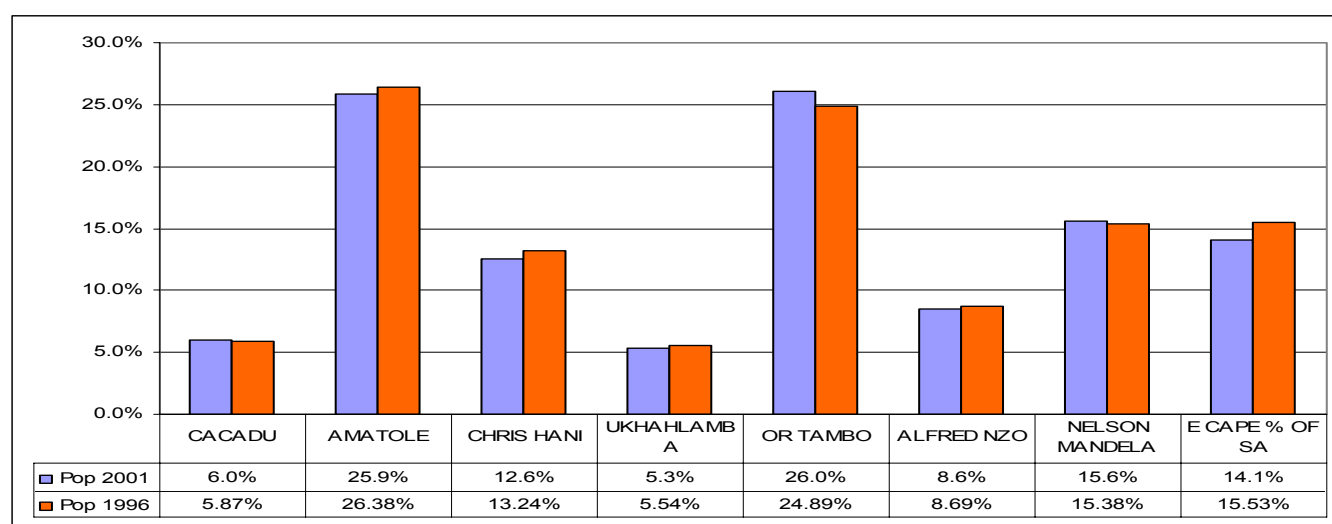
#### 3.4.1 Population

The population of the Eastern Cape grew by 2.13% from 6.302-million in 1996 to 6.436-million in 2001. In relation to the total national population, however, the provincial population has shrunk to 14.36% of the total, down from 15.5% five years ago. The Province is nevertheless the third most populous province after KwaZulu-Natal and Gauteng. The Provincial population is distributed disproportionately between the districts. The two largest districts, OR Tambo and Amatole, are each home to 1.7-million people. The Nelson Mandela Metro represents the next largest concentration of people (1-million), while Ukhahlamba is the least populous (341 312).

**Table 3.5: Population: Eastern Cape and RSA**

Population	1996	2001 % Change	% of total 1996	% of total 2001
<b>Eastern Cape</b>	<b>6,302,525</b>	<b>6,436,763</b>	<b>2.13</b>	<b>100.00</b>
Male	2,908,056	2,975,512	2.32	46.14
Female	3,394,469	3,461,251	1.97	53.86
<b>RSA Population</b>	<b>40,583,573</b>	<b>44,819,778</b>	<b>10.44</b>	<b>100.00</b>
Male	19,520,887	21,434,040	9.80	48.10
Female	21,062,685	23,385,737	11.03	51.90

Women constitute 54% of the provincial population, compared to 52% nationally. However, while women have marginally increased their majority at the national level, a slight decline is evident in the Eastern Cape.

**Figure 3.3: Eastern Cape Population by district**

In the Eastern Cape, the high proportion of women is a reflection of the migrant labour system, and is particularly visible in rural labour-supplying areas, such as Alfred Nzo (where women make up 55% of the population) and OR Tambo (56%). The proportion of men in Cacadu and the Nelson Mandela Metro are the highest in the Province and mirror the national trend (48% male each versus 52% female). Figure 4 depicts the racial structure of the population in the Eastern Cape, as well as across its District Municipalities and the Nelson Mandela Metro. The Province is overwhelmingly African (3.4 million or 88% of the total). Coloureds make up 7%, whites 5%, and Indians less than 1%.

Xhosa is the home language of more than four-fifths of the Eastern Cape population (83%), with far fewer speaking Afrikaans (9%) and English (4%). The remaining 4% speak a variety of other languages.



**Figure 3.4: Population by race and district**

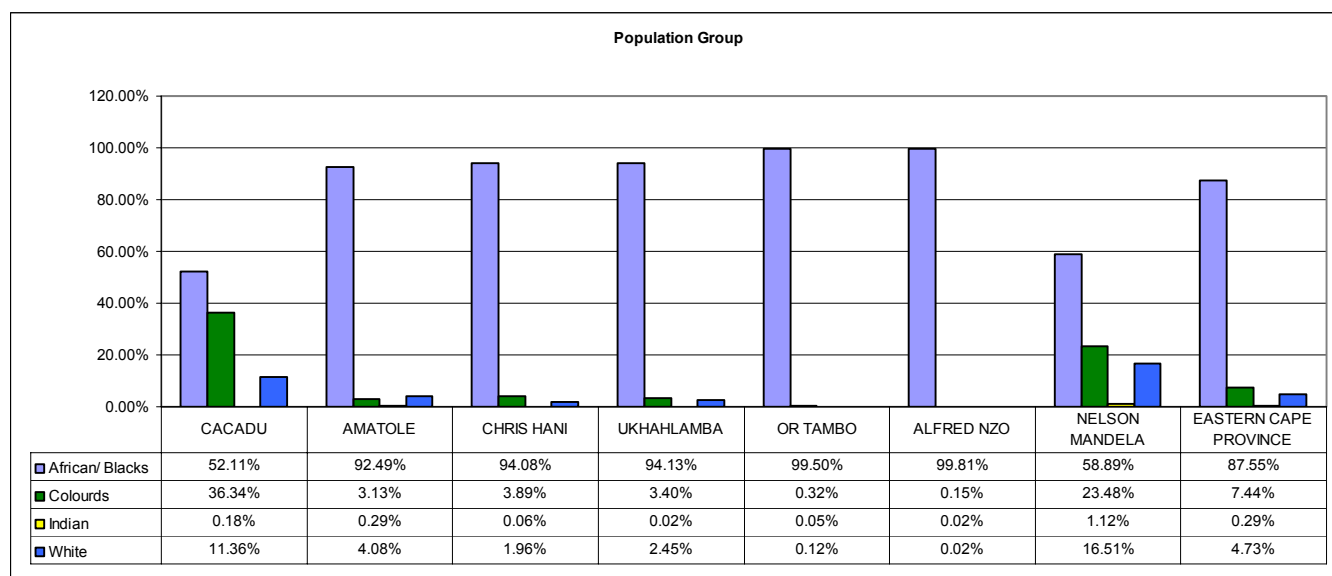
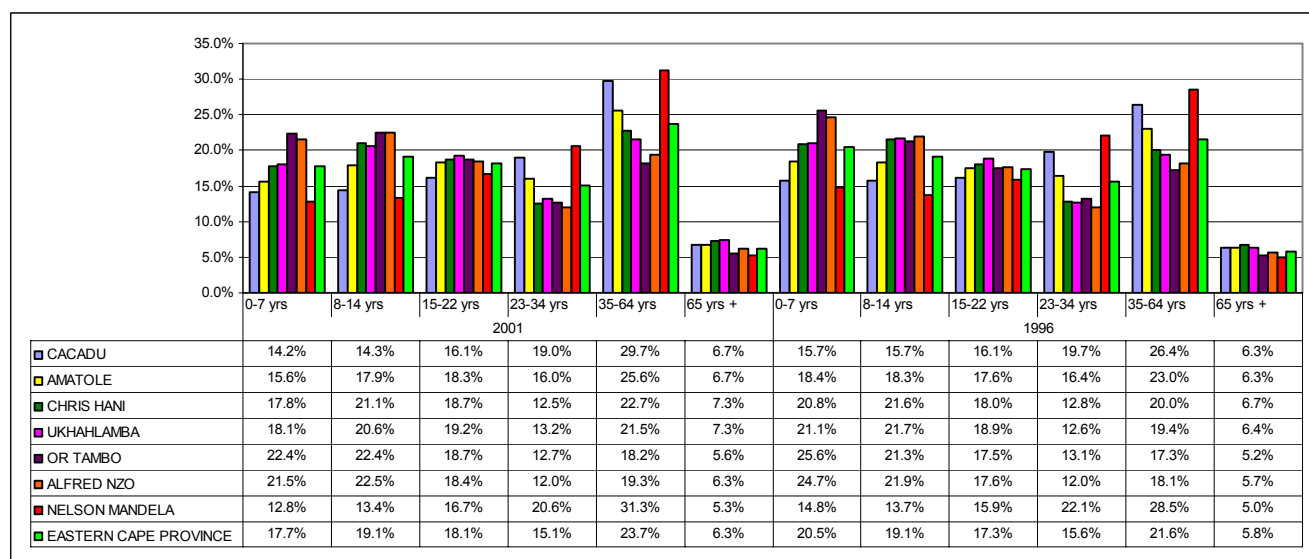


Figure 3.5 reflects that the Eastern Cape has a relatively youthful population with more than half (55%) aged between 0 and 22 years. This pattern is especially prominent in rural areas, such as OR Tambo and Alfred Nzo. Both the 1996 and 2001 census reveal that a high proportion of people aged 35-64 years are found in urban areas, such as Cacadu (30%), Nelson Mandela (31%) and Amatole (26%). However the census data for 2001 suggests that the Eastern Cape is seeing a decline in the proportion of children aged 0-8 years – a decline of some three percent. The age category 23-34 years also recorded a general, albeit more subtle decline (0.5% for the Eastern Cape as a whole).

**Figure 3.5: Population by age**



### 3.5 Income distribution

As is to be expected, the distribution of labour remuneration follows the same uneven trends characterising other features of the Eastern Cape economy. Total labour remuneration for all formal sectors in the Eastern Cape in 2002 was estimated at R37, 732 billion with the tertiary sector accounting for 75% of this. The secondary sector accounted for 22%, while the primary sector made up just 3% of labour remuneration overall. Cacadu accounted for the bulk of labour remuneration in the primary sector (43% of R1 028 137) followed by Amatole (17%) and Chris Hani (13%), with the remaining districts accounting for less than 10% each.

NMM alone accounted for 67% of remuneration in the secondary sector and with Amatole (22%), for just less than 90% of labour remuneration in the secondary sector for 2002. Cacadu accounted for a significantly smaller slice (5%) dwindling to less than 1% in Alfred Nzo.

### 3.6 Educational Attainment and Human Resource/Skills base

#### 3.6.1 Education

The Eastern Cape provincial statistics indicate a 3% improvement in the percentage of people completing Grade 10 and a 1.2% increase in the number of people receiving higher education between 1996 and 2001. Interestingly, the national averages show a decline in the percentage of people completing secondary education, while the Eastern Cape shows an improvement. However, the percentage of the Provincial population reporting no schooling increased by 2% between 1996 and 2001. This is an alarming indicator considering, that at national level, the percentage of people reporting no education has declined by 1.4%. The percentage of people reporting some primary education, completed primary and some secondary schooling all declined between 1996 and 2001, representing a possible decline in the intermediate levels of education. These Provincial aggregates suggest a need to focus on school entry and the intermediate levels of schooling, as indications are that some children are never entering the schooling system.

Higher education by gender in the Province shows women pursuing higher education particularly at university level, where considerably more women than men are present. Women also outnumber men in colleges and technikons.

Enrolment data for the Eastern Cape for 1996-2001 is given in the table below.

<b>Table 3.6.</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Total Enrolment in Primary Phase	1,743,251	1,378,783	1,611,988	1,645,443	1,510,748	1,482,474
(Grades 1 - 7)						
Total Population aged 7-13	1,225,591	1,243,967	1,262,623	1,281,565	1,300,797	1,320,362
<b>GER Primary Phase</b>	<b>142%</b>	<b>111%</b>	<b>128%</b>	<b>128%</b>	<b>116%</b>	<b>112%</b>
Total Enrolment in Secondary Phase (Grades 8 - 12)	629,140	521,691	635,672	653,903	611,882	610,780
Total Population aged 14-18	791,654	803,532	815,592	827,836	840,268	852,914
<b>GER Secondary Phase</b>	<b>79%</b>	<b>65%</b>	<b>78%</b>	<b>79%</b>	<b>73%</b>	<b>72%</b>
Total Enrolment (Grades 1 to 12)	2,406,712	1,927,313	2,274,559	2,323,882	2,146,052	2,093,254
Total Population aged 7-18	2,017,245	2,050,223	2,080,980	2,112,207	2,143,914	2,173,276
<b>GER Primary and Secondary Phases</b>	<b>119%</b>	<b>94%</b>	<b>109%</b>	<b>110%</b>	<b>100%</b>	<b>96%</b>

Source: EMIS 2002

The HSRC HRD profile of the Eastern Cape (2004) confirms low levels of educational attainment in the province. In 2001, only 6% of the population had a higher education (HE) qualification, 14% had a Senior Certificate, 30% had some secondary education, while half of the Eastern Cape population had primary school education or below. Alarming, a staggering 23% of the population had no formal education whatsoever. In addition, the province had an illiteracy rate of 42% in 2003.

The skills base of the Province follows the broad pattern of uneven development characterising the economy in general. The two economic powerhouses in the Eastern Cape (Amatole and Nelson Mandela Metro) together account for 67% of senior management and officials in the Province, with the lion's share accruing to NMM (40%). Similarly, the bulk of professionals (60%) are divided evenly between these two areas. Skilled workers and office workers are again concentrated within Amatole and NMMM (63%) with the metro accounting for a slightly larger share overall (35% versus 28% in Amatole). At the semi/unskilled level does the broad trend level out somewhat with the Nelson Mandela Metro and Amatole together accounting for 45% of the Provincial labour force at this skills level.

**Table 3.7 :Broad Skills levels by District and Literacy rate**

Broad Skills breakdown by district *									
		Cacadu	Amatole	Chris Hani	Ukhahlamba	OR Tambo	Alfred Nzo	Nelson Mandela	Eastern Cape
Legislators, senior officials and senior management	Count	3,068	8,984	2,555	1,193	3,081	821	13,081	32,783
	%	9	27	8	4	9	3	40	5
Professionals	Count	8,483	42,688	15,009	5,568	22,014	7,254	43,570	144,586
	%	6	30	10	4	15	5	30	21
Skilled workers, office workers etc	Count	33,367	87,411	24,272	11,887	33,188	9,126	107,996	307,247
	%	11	28	8	4	11	3	35	44
semi/unskilled	Count	42,813	52,390	22,626	13,929	25,223	8,377	44,284	209,642
		20	25	11	7	12	4	21	30
Literacy rate 2001		54.5	61.3	54.5	52.8	49.1	58.1	82.7	63.5
Literacy rate 1996		56.3	54.5	48.4	46.3	41.5	50.4	79.9	57.4
*based on rough collapse of census categories & Global Insight 2001									

The structure of the community, social and personal services sub-sector is particularly interesting in terms of the breakdown of positions by gender and skill. Men hold a majority (62%) within the top legislative and management positions within the sub-sector, while women account for 69% of professional positions, which in turn makes up the bulk of positions within this sub-sector (53%).

There is a very strong correlation between educational attainment and the standard of living. Although the literacy rate as indicated in the table below increased between 1996 and 2001, there are still very low levels of education throughout the Province. On average, 6.3% of the Province's population has tertiary qualifications, ranging from 5% in Ukhahlamba to 9% in the Nelson Mandela Metro.

### 3.6.2 Human Development Index (HDI)

Despite the somewhat bleak picture painted by many of the poverty indicators above changes in the Human Development Index (HDI) between 1996-2001 suggest that as far as life expectancy, literacy and income are concerned, the lot of the Black population in the Eastern Cape has improved. The HDI for Whites (between 0.75-0.84) is still vastly higher than that of other categories (0.45-0.58 for Blacks or 0.5-0.67 for Coloureds). However the HDI for Blacks has shown the greatest improvement between the two census periods with that of Whites declining.

The HDI are indicated in the table below.

**Table 3.8**

Human development index										
	Black		White		Coloured		Asian		Total	
	1996	2001	1996	2001	1996	2001	1996	2001	1996	2001
Cacadu	0.41	0.49	0.85	0.84	0.46	0.5	0.73	0.73	0.53	0.56
Amatole	0.46	0.51	0.84	0.83	0.59	0.61	0.78	0.78	0.5	0.54
Chris Hani	0.42	0.48	0.81	0.8	0.5	0.52	-	-	0.44	0.49
Ukhahlamba	0.41	0.46	0.81	0.79	0.49	0.5	-	-	0.43	0.48
O.R.Tambo	0.4	0.45	0.81	0.75	0.66	0.67	0.78	0.74	0.4	0.45
Alfred Nzo	0.41	0.46	-	-	-	-	-	-	0.41	0.47
Nelson Mandela Metropole	0.52	0.58	0.84	0.84	0.6	0.63	0.77	0.78	0.63	0.66

Source: Global Insight 2002

### 3.7 Income Distribution

**Table 3.9**

Individual Income by Income Categories (census 2001)								
	Eastern Cape	Cacadu	Amatole	Chris Hani	Ukhahlamba	O.R.Tambo	Alfred Nzo	Nelson Mandela
R1 - R400	20.2	21.6	17.8	23.1	35.1	29	32.5	9.6
R401 - R800	35.7	42.4	35.2	43.1	35.3	40.2	39.9	26.6
R801 - R1 600	14.7	14.9	15.8	11	9.7	10.7	10.6	19.5
R1 601 - R3 200	12.7	9.1	13.6	10.3	9.6	9.1	8.9	18.1
R3 201 - R6 400	10.1	6.9	10.7	8.6	7	7.4	6.2	14.8
R6 401 - R12 800	4.5	3.3	4.8	2.8	2.4	2.5	1.3	7.8
R12 801 - R25 600	1.2	0.9	1.2	0.5	0.4	0.4	0.2	2.5
R25 601 - R51 200	0.4	0.3	0.4	0.2	0.2	0.2	0.1	0.6
R51 201 - R102 400	0.2	0.3	0.2	0.1	0.1	0.1	0.1	0.3
R102 401 - R204 800	0.1	0	0.1	0	0	0	0	0.1
R204 801 or more	0.1	0	0.1	0	0	0	0	0.1

Source: Stats South Africa 2001

### 3.8 Poverty and Inequality: General Development Indicators

It is commonly known that South Africa's current development path has not as yet adequately resolved questions of poverty and inequality. The labour market has failed to absorb sufficient numbers of labour market entrants. In addition insufficient opportunities have opened up for small and micro producers to enter economic activity. Simultaneously, insufficient resources have been available to address infrastructure and services backlogs, particularly in the former homeland areas. As a result poverty and inequality in the Eastern Cape is severe and widespread. Low levels of productive asset ownership accompanied by high levels of economic, services, resource and food poverty exist in the province. Experiences of poverty also differ within the province and are significantly influenced by factors relating to gender, race and spatial location.

The growth in levels of absolute poverty between 1996-2001 has been more pronounced in the Eastern Cape than is the case nationally. Statistics show that poverty in the Province increased dramatically between 1996 and 2001. The poverty rate is estimated to be 67.4%, compared to 34.3% in 1996. Even though poverty is highly evident throughout the Province, very large pockets of poverty are seen in the OR Tambo, Alfred Nzo and Chris Hani District Municipalities, which mainly incorporate former Transkei areas. The low Human Development Index (HDI) estimates and large poverty gaps in the Eastern Cape's districts confirm the high poverty rate in the Province.

**Table 3.10: Household in Poverty, Poverty line & Basic Services**

Municipality	Poverty 2001				Poverty 1996				Poverty Line		Basic Services		
	No of Persons in Poverty	% in Poverty	HDI	Poverty Gap (R'million)	No in Poverty	% in Poverty	HDI	Poverty Gap (R'million)	No Households below poverty line	Proportion of households below	Piped Water	Flush toilet/ VIP	Electricity
Cacadu	182 516	47.00%	0.54	241	144 370	38.2%	0.53	141	45 383	44.2%	83.8%	52.2%	71.9%
Amatole	1 207 266	71.90%	0.51	1 917	898 873	52.6%	0.5	1 013	274 267	64.6%	53.7%	39.1%	54.8%
Chris Hani	670 701	74.70%	0.49	1 114	513 774	60.6%	0.44	624	131 300	69.2%	45.8%	25.0%	50.8%
Ukhahlamba	272 480	71.90%	0.49	486	208 960	63.0%	0.43	264	62 184	72.4%	41.3%	17.3%	43.1%
OR Tambo	1 409 969	82.00%	0.45	2 441	1 091 394	64.7%	0.4	1 376	254 908	74.2%	16.6%	44.2%	28.1%
Alfred Nzo	438 366	79.70%	0.47	770	357 211	67.1%	0.41	461	96 661	77.7%	23.4%	7.2%	23.0%
Nelson Mandela	410 518	38.50%	0.66	591	310 778	31.0%	0.63	329	112 190	42.3%	88.8%	79.7%	75.2%
Eastern Cape	4 591 816	67.40%	0.53	7 560	3 529 359	34.3%	0.49	4 209	976 894	63.6%	49.3%	35.2%	49.7%

Source: Global Insight 2001 & Stats SA 2001

### 3.8.1 Households in poverty

The high poverty level in the Province is also shown by the proportion of households living below the poverty line (R800 or less a month). Almost 64% of households in the Province live in poverty. The high poverty level also reflects the rural nature of the Province.

Poverty has a very distinct spatial and racial dimension in the Eastern Cape. The overwhelming majority of the poor live in rural former homeland areas of the province.

Poverty indicators between 1996 and 2001 (Table 8) suggest a significant growth in the number of people in the Eastern Cape who fell below the poverty line. The distribution of the poor in the Eastern Cape is a stark reminder of a history of institutionalized racism with the overwhelming majority of poor people in 2001 being black (97%). The Coloured population makes up the bulk of the remaining three percent of the poor (2.6%) while the Asian and White sectors of the populations together account for less than one half percent of the poor population overall.

The largest proportion of people living in poverty in South Africa and the Eastern Cape are categorized as Black. They have also shouldered a disproportionately larger share of the growth in unemployment between 1996-2001. This trend has been even more pronounced at the provincial level with the percentage of Black persons living in poverty growing to 76% (up from 61% in 1996). While the number of White people living in poverty in the Eastern Cape doubled between 1996-2001 this represents only four percent of the White population overall.

**Table 3.11**

#### Eastern Cape percentage of persons in poverty by Region

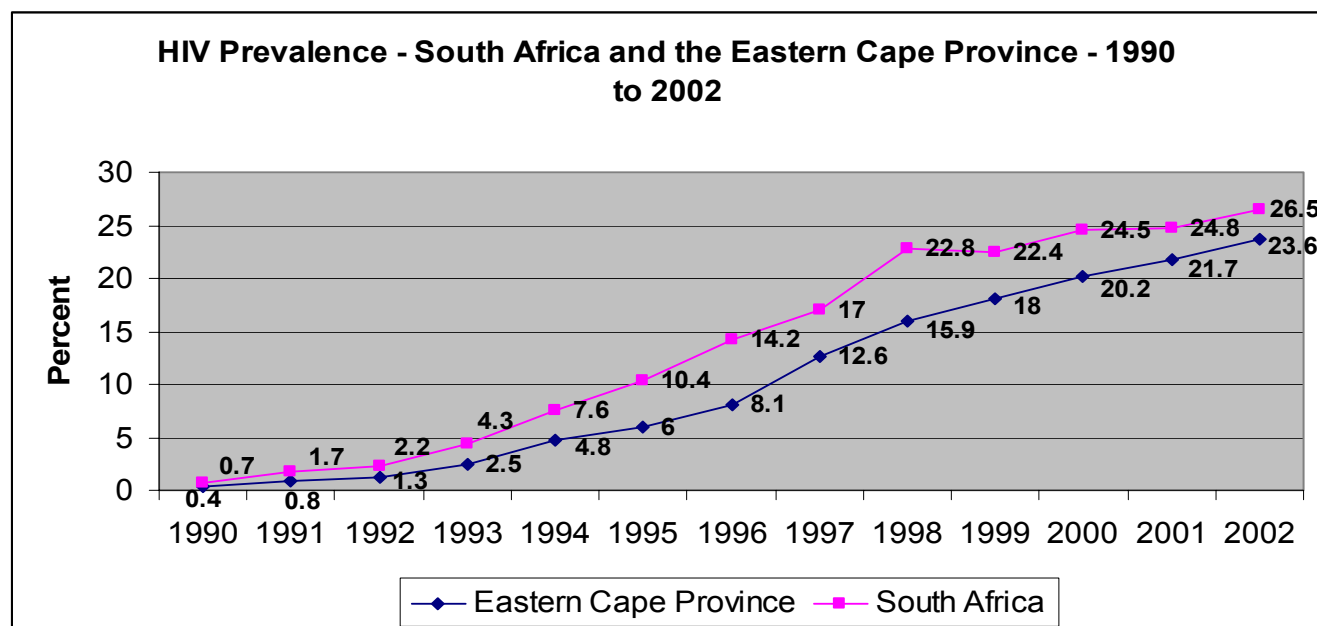
	Black		White		Coloured		Asian	
	1996	2001	1996	2001	1996	2001	1996	2001
Eastern Cape	60.80%	75.80%	2.10%	4.10%	20.80%	23.70%	6.70%	9.00%
National Total	50.30%	60.00%	2.00%	3.80%	16.80%	20.40%	6.20%	7.60%
Cacadu	55.00%	67.20%	1.90%	3.60%	28.50%	32.10%	4.10%	4.90%
Amatole	56.80%	72.90%	1.60%	3.40%	18.30%	22.50%	4.90%	7.10%
Chris Hani	63.70%	79.50%	2.50%	5.00%	26.90%	31.70%	4.20%	5.70%
Ukhahlamba	66.40%	84.30%	2.50%	5.30%	30.40%	39.00%	-	-
O.R.Tambo	65.20%	81.20%	5.80%	10.70%	16.10%	17.90%	4.70%	6.50%
Alfred Nzo	67.40%	80.10%	-	-	29.50%	33.60%	-	-
Nelson Mandela Metropole	47.10%	57.70%	2.20%	4.20%	15.90%	17.70%	8.30%	10.80%

Source: Global Insight

### 3.9. Eastern cape HIV and AIDS profile

The Eastern Cape is home to 14.4% of the total population for South Africa, and is the third most densely-populated province (2001 Census). HIV/AIDS continues to pose a major challenge for the people of South Africa and the Eastern Cape. The Eastern Cape has seen an increase of the HIV and AIDS pandemic, which calls for a multisectoral response across government departments, civil society and other sectors in the province. HIV/AIDS has social, economic and developmental consequences, and these will increase as more people infected, become ill and die of AIDS-related illnesses. The figure below depicts *HIV Prevalence Eastern Cape and South Africa*

Figure 3.6: HIV Prevalence – South Africa and Eastern Cape 1990-2002



Source: DOH Antenatal Survey, October 2002

## 4. Provincial Growth and Development Plan (PGDP): The Eastern Cape Policy Framework

### 4.1 The development of the PGDP

The socio-economic conditions and the national policy priorities as discussed previously were the driving forces behind the formulation of the PGDP. The PGDP framework is designed to be in line with the national policy framework for socio-economic planning at provincial level. The PGDP provides the strategic framework, sectoral strategies and programmes aimed at a rapid improvement in the quality of life for the poorest people of the Province. To do this, the PGDP sets out a vision with quantified and sequenced targets in the areas of economic growth, employment creation, poverty eradication and income redistribution for the 10-year period 2004-2014. The PGDP's vision, as articulated by the stakeholders, is to *make the Eastern Cape a compelling place to live, work and invest in*.

### 4.2 Objectives of the PGDP

The PGDP was designed to capture the following:

- A ten-year vision of sustainable growth and human development in the Province.
- A strategy plan, a set of feasible programmes and a fiscal framework designed to expedite achievement of the national goal of “a better life for all” and the Province’s then vision of an “Eastern Cape devoid of the imbalances and inequities of the past, with integrated and balanced development”.

- Growth and poverty reduction targets that inform a set of feasible and affordable programmes underpinned by broad-based consensus on the human development path to be followed by the Province.
- Programmes to address the short-term needs and crises of the Province, as well as community based human and income poverty reduction initiatives.

### 4.3. Overview of the development challenges

The PGDP process commenced with a “Baseline Conditions and Constraints Report” that clearly outlined key challenges and constraints that need to be addressed in and through the PGDP. In summary these challenges speak to:

- Wide-spread and deep rooted poverty with some 67% of the provincial population living below the poverty datum line.
- Sub-optimal economic growth – estimated at 2,4% between 1995-2001, and stagnation in key labour absorptive sectors such as agriculture
- Rising unemployment – estimated at 55%.
- Geo-political and economic bifurcation between the former CPA region in the west of the Province and the former Bantustans in the east.
- Labour market fragmentation that mirrors the spatial fragmentation of the Province, with a provincial labour market characterized by those employed in the core consumer economy, consisting of the dominant high-wage modern sectors of manufacturing, government service, and the other industries and services; those employed in the marginal modern sectors such as the two low-wage sectors of commercial agriculture and domestic service; and the peripheral labour force, including the unemployed, and those engaged in subsistence agriculture and the informal sector.
- Constraints on Provincial expenditure, with some 83% being allocated to social services and only 17% to economic programmes and infrastructure, compounded by an extremely weak revenue base at municipal level.
- High HIV/AIDS prevalence throughout the Province, exacerbated by high levels of poverty, and backlogs in water, sanitation, and access to health care.
- Delivery and co-ordination failures within the state.

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### 4.4. Content of the Strategic Framework for Growth and Development 2004-2014 (PGDP)

The *Strategy Framework for Growth and Development 2004-2014* is expressed in terms of six strategic objectives, which are divided into three key objectives and three foundation objectives. The three key objectives are:

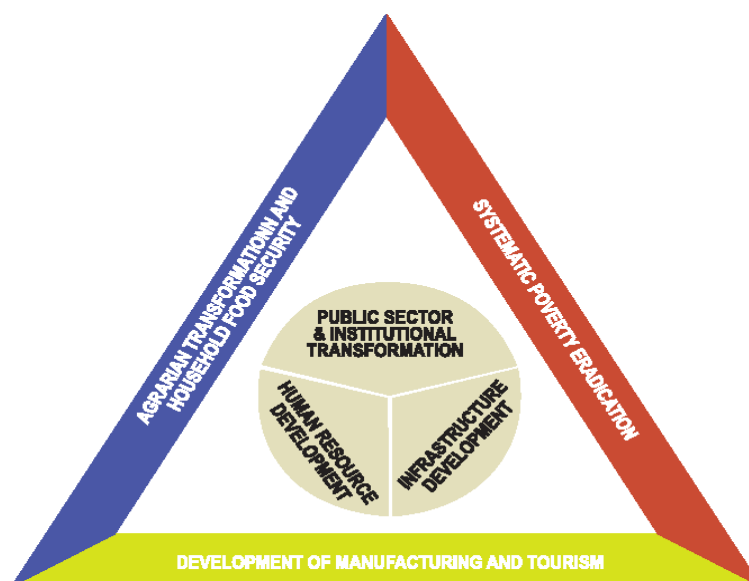
- Systematic eradication of poverty through a holistic, integrated and multidimensional approach to pro-poor programming
- Agrarian transformation and strengthening of household food security
- Consolidation, development and diversification of the manufacturing base and tourism potential

The key objectives are supported by three foundation objectives:

- Infrastructure development
- Human resource development
- Public Sector and institutional transformation

The inter-relationship and linkages of these objectives are shown in the picture below

**Figure 4.1 PGDP objectives**



#### **4.5 What will the PGDP deliver?**

In response to these significant development challenges, the *Framework for Growth and Development 2004-2014* was officially adopted by EXCO on the 04th June 2004.

The *Framework for Growth and Development 2004-2014* sets quantified targets of delivery, including:

- To maintain an economic growth rate of between 5% and 8% per annum;
- To halve the unemployment rate by 2014;
- To reduce by between 60% and 80% the number of households living below the poverty line by 2014;
- To reduce by between 60% and 80% the proportion of people suffering from hunger by 2014;
- To establish food self-sufficiency in the Province by 2014;
- To ensure universal primary education (UPE) by 2014, with all children proceeding to the first exit point in a secondary education;
- To improve the literacy rate in the Province by 50% by 2014;
- To eliminate gender disparity in education and employment by 2014;
- To reduce by two-thirds the under-five mortality rate by 2014;
- To reduce by three-quarters the maternal mortality rate by 2014;
- To halt and begin to reverse the spread of HIV/AIDS by 2014;
- To halt and begin to reverse the spread of tuberculosis by 2014;
- To provide clean water to all in the Province by 2014;
- To eliminate sanitation problems by 2014;



In order to achieve the above targets, the Framework identifies the following strategic focus areas for intervention.

- The systematic eradication of poverty;
- The transformation of the agrarian economy;
- Developing and diversifying our manufacturing and tourism sectors;
- Building our human resource capabilities;
- Infrastructure, including the eradication of backlogs and the development of enabling infrastructure; for economic growth and development;
- Public sector and institutional transformation in support of improved service delivery;

## **4.6 PGDP Programmes**

### **4.6.1. Agrarian transformation and food security**

#### *Strategic Approach*

A key to poverty eradication lies in the rapid transformation of the agricultural sector. The challenge of poverty requires a focus on the growth of the agrarian economy in the former homelands through:

- Programmes to promote household food security by expanded smallholder production.
- Development of commercial agriculture through optimum use of the highest potential agricultural land in the former homelands.
- A focus on land redistribution and, in the longer term, land tenure reform to release land for poor households and for new commercial farming enterprises.

The dislocated agrarian economy of the ex-homelands must be integrated into the wider Provincial economy through the promotion of commercial agriculture and as a source of raw material for agro-enterprises.

#### *Core challenges for 2005-2008 MTEF until 2014*

The following are core challenges for the 2005-2008 MTEF:

- Recognising the potential of the agro-industrial sector.
- Expanding the asset base of the poor.
- Shifting the balance of power between established commercial agriculture, emergent commercial agriculture and household agriculture.
- The need to simultaneously address food security, agricultural output and employment.

### **4.6.2. Fighting poverty**

#### *Strategic Approach*

Poverty is primarily characterised by lack of access to opportunities for a sustainable livelihood. Eradicating the deep and pervasive poverty of the ex-homelands and underdeveloped townships of the Province will serve as a foundation for economic development in which all the people of the Eastern Cape can participate. Poverty eradication requires attention to the social, economic and political dimensions of poverty. The goal of poverty eradication leads to a further commitment to reduce inequality, between households and between different regions of the Province. In particular, action is required to:

- Establish greater control over and access to decision-making processes by poor people.
- Strengthen the income, asset and skills capabilities of the poor.

- Establish linkages between micro and macro levels of intervention in a mutually reinforcing manner
- State provision of grants and targeted interventions to promote social development and to provide health and education services need to be leveraged in support of these actions.

#### *Core challenges for 2005-2008 MTEF until 2014*

Regarding poverty eradication, the fundamental challenge is that of creating a comprehensive safety net while at the same time innovating more effective approaches to basic needs and basic needs industrialisation which reduces the dependency of the poor and marginalised on the State.

This suggests:

- The need for a comprehensive social security system that centralises the participation of the poor in the development and maintenance of their own welfare safety nets.
- The need to more effectively regulate the “poverty industry”.
- The need to move beyond the welfarist paradigm, and in so doing, transform dependent consumer households into active producer households.
- The need to optimise job creation and economic gains in the social spend

### **4.6.3 Public sector transformation**

#### *Strategic Approach*

The transformation of the State is a crucial condition for growth and development by way of the strong leadership role that is required from government institutions. The PGDP recognises:

- Improved capacity to plan, manage, and monitor implementation is necessary at all levels of government.
- Local Government will become the main focus for service delivery. Planning the phased delegation of powers and functions therefore becomes a key challenge.
- Local Authorities will have an increasingly important role in promoting Local Economic Development through the implementation of IDPs.
- Participation by the Provincial social partners in planning and implementation needs to be institutionalised.

#### *Core challenges for 2005-2008 MTEF until 2014*

Three generic categories of challenges require attention. The first relates to the consolidation and development of capacity within and between the spheres of Provincial and Local Government in a manner that functionally enhances the nature and character of cooperative governance. The second relates to a redefinition of the role of public utilities and parastatals. The third relates to governing the economy or, more accurately, building the capability for self-governance within the Provincial economy.

For the period 2005-2008, the focus is on public sector transformation, which is a necessary requirement for effective service delivery and systematic decentralisation of services. A key aspect of the latter is more effective support for Integrated Development Planning within Municipalities and a tangible strengthening of participative democracy.

### **4.6.4. Infrastructure development**

#### *Strategic approach*

The development of infrastructure, especially in the former homelands, is a necessary condition to eradicate poverty through:

- The elimination of social backlogs in access roads, schools and clinics and water and sanitation;

- To leverage economic growth through access roads and improving the road, rail and air networks of the Province.

Infrastructure development, in turn, will have strong growth promotion effects on the agriculture, manufacturing and tourism sectors by improving market access and by “crowding in” private investment. Poverty alleviation should also be promoted through labour-intensive and community-based construction methods.

#### *Core challenges for 2005-2008 MTEF until 2014*

The Province is seeing increased investment in infrastructure, notably in roads and in the development of the IDZs. Provincial capital expenditure on roads was budgeted at over R1-billion in 2002/3 and is set to increase. While this growth in infrastructure investment is already a major factor in increased economic growth in the Province, further investment is needed in social infrastructure, especially in water and sanitation, school and clinic construction and in rural access roads. Well-planned rural infrastructure will play a major role in leveraging social and economic growth.

### **4.6.5. Manufacturing diversification and tourism**

#### *Strategic approach*

The manufacturing sector requires consolidation by extending growth beyond a relatively small number of volatile export markets. Diversification into new markets can be achieved through three main strategies:

- Consolidating the value chain and supply chain in existing markets by identifying inputs that can be supplied and higher-value products linked to existing production.
- Creation of regional growth points for manufacturing development based upon availability of raw materials, skills and existing industrial profile.
- The development of agro-industries based upon expanded agricultural production in the former homelands.

The development of Provincial tourism has high potential to create employment and raise incomes in rural areas through community tourism programmes. The development and protection of existing and new parks and reserves, improvement of infrastructure (especially along the Wild Coast), and the development of a strong marketing brand showcasing a number of core attractions and themes are priorities.

#### *Core challenges for 2005-2008 MTEF until 2014*

- The need for an active industrial strategy: The State needs to influence economic choices through the development of an industrial strategy developed in collaboration with the private sector.
- Orchestrating a shift from consumer to producer households: Key here, will be programmes that encourage self-employment within households through the forging of productive linkages wherever the potential for such linkages exist.
- The need to scale up investment in strategic economic infrastructure in the rural economy.
- The need for a policy dialogue: given the limited fiscal capability of the state, there is a need for dialogue between government, business and labour around minimum objectives of a Provincial industrial strategy that evolves creative approaches to issues of growth, employment, productivity, wages, supply chains and sectoral linkages and a host of related issues.

### **4.6.6. Human resource development**

#### *Strategic approach*

Human resource development underlies both poverty eradication and growth in the key economic sectors through:

- Improving levels of general education by full universal primary education (UPE) and a higher uptake of further education.

- Increasing the intermediate technical skills needed in the key growth sectors of the economy.
- Promoting the high-level skills needed for further growth in the modern, export-oriented sectors.

A Provincial strategy for human resource development also underlies a reduction in inequality through progressive integration of the labour market.

#### *Core challenges for 2005-2008 MTEF until 2014*

Recent studies of the Eastern Cape Labour Market and HRD profile (HSRC: 2004) reveal a Province that is still bedevilled by immense structural and developmental challenges. If left unchecked, these challenges will compromise the growth, equity, and poverty eradication targets of the PGDP.

The following are core challenges:

- The need to address the low skills base of the Province.
- The need to scale up investment in skills development.
- Addressing labour market segmentation.
- The need to better align training and HRD outputs with socio-economic development strategies.

### **5. Funding Priorities: 2005/06 – 2007/08 MTEF**

The first 10 years of democracy have seen huge strides being made in the restoration of dignity and human rights, and an improved quality of life for citizens of the Eastern Cape. In addition, through initiatives such as Coega and the East London IDZ, the Province has been positioned to take full advantage of the export-oriented industrialisation opportunities afforded by its coastal location and the existing manufacturing capability in East London and the Nelson Mandela Metropol.

At the same time, we are still faced with the fundamental structural challenges of a highly segmented labour market, pervasive and widespread poverty, high levels of inequality and unemployment, and inadequate levels of participation among the rural poor in the formal economy. These challenges are further exacerbated by the fact that some 85% plus of the Provincial budget is allocated to social sector departments to deliver on the constitutional obligations of the State. Very little of the budget remains for economic and infrastructure programmes that can move the poor out of dependency into productive activity.

Against this backdrop, key PGDP programmes prioritised for the 2005-2008 MTEF until 2014 are those that:

- Deepen democratic participation in the development process of all segments of the population within the framework of our constitutional democracy.
- Attain higher growth in employment through enabling more effective government intervention in the economy, the stimulation of effective demand, crowding-in public and private investment, and achieving a more effective mix between export-orientated and inward industrialisation.
- Enable a more proactive and targeted approach to redistribution and equity which centralises the needs of the poorest of the poor in a way that incrementally moves away from a short-term welfare approach to one that fully accommodates the poor in a sustainable manner into the mainstream of the economy.
- Optimise job creation and economic opportunities within the current social and infrastructure spending through targeted procurement and supply management in a way that reduces the Province's external account and promotes local economic development and black economic empowerment, as well as encouraging labour-intensive technology choices where appropriate.
- Rapidly expand the asset base of the poor, particularly with respect to finance and productive assets, such as land, plant, and machinery, in order to promote equity and increase participation rates in the real economy.
- Effectively deal with the HIV and AIDS pandemic through a comprehensive prevention, treatment and care programme that mitigates additional pressures on the State's safety net (and fiscus) in the medium-to-long term

- Accelerate the pace of State transformation to achieve efficiency gains in the delivery of social services, and more effectively honour constitutional obligations in relation to the poorest of the poor.

Importantly, these interventions need to begin delivering on the objectives and quantified targets outlined in the PGDP *Framework for Growth and Development 2004-2014*. The PGDP programmes build on government's current successful interventions, particularly with respect to creating jobs and fighting poverty. At the same time, they provide the platform for gearing the State and reorienting the fiscus towards medium-to-long term high-impact interventions aimed at addressing fundamental structural weaknesses in the Provincial economy and labour market.

The additional / improved allocations made to the priority areas and Departments indicated in Table 5.2 below in line with Budget Council agreements and the PGDP priorities as the key driving forces behind the Budget for the 2005/06 MTEF. Budget Council agreed, that in line with 2005 Medium Term Budget Policy Statement that revisions to the provincial fiscal framework aim to consolidate education, health, social welfare services and infrastructure (social and economic) programmes prioritised during the tabling of the 2004 Budget in that the allocations to the provincial equitable share provide for the multi-year wage agreement, inflation and policy adjustments. The adjustments to conditional grants provide for social security grants, the new comprehensive housing strategy and provincial infrastructure. Further revisions in December 2004 to the provincial equitable shares made in December 2004 was intended to:

- Allow provinces to further expand non-personnel inputs that are key in improving the quality of education;
- Roll-out the education management information system (EMIS) to schools over the next three years as part of a broader approach to improved public sector management and performance reporting;
- Provide for improved management of hospitals, renewal of equipment and streamlined management of medicine and other supplies to accompany the hospital rehabilitation programme; and
- Allow for the smooth transition of the shifting of the primary health care component administered by non-metropolitan municipalities to provinces.

Departmental budgets for the next MTEF have been prepared taking account of the aforementioned, based on the following assumptions:

- A reduction to the employers' contribution to the Government Employee Pension Fund (GEPF) from 15% to 13%. Surpluses that arose from this reduction were used to fund the additional personnel costs arising from the 2004 three-year wage agreement and all other personnel related costs;
- Salary increases of 4,8% for 2005/06, 5,5% in 2006/07 and 5,0 per cent in 2007/08 effective 01 July of the year the budget is tabled plus the carry through costs of these increases, including the 6,2% increase for 2004/05;
- Further pay progression, over and above the ones contained in the 2004 wage agreement, for educators based on the principle of granting one notch for every consecutive 24 months in the post;
- Pay progression of approximately 1% of the wage bill effective from 1 July of the year in which the budget is tabled;
- A phased approach to extend the non-pensionable housing allowance in accordance with the table below, to a maximum of R403 by 2009, for all permanent employees, other than the ones who are currently receiving this benefit. Staff who qualify from 1 January each year are in accordance with the table below;

**Table 5.1**

2005	2006	2007	2008	2009
R100	R160	R240	R320	R403

- Continued provision for scarce skills and rural allowance for specific categories of health professionals;

Additional allocations to Departments to fund the policy priority areas as reflected in Table 5.2 below:

<b>Policy Priority Allocations 2005/06 MTEF</b>			
<b>Table 5.2</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
	<b>Medium Term Expenditure Estimates</b>		
<b>Health</b>	<b>230,850</b>	<b>314,612</b>	<b>325,244</b>
Critical Posts (Ringfenced)	44,350	46,612	48,989
Health (Deferments)	133,000	-	-
Backlogs: Personnel backpayments	10,000	-	-
Infrastructure (accelerate infrastructure delivery)		75,000	50,000
Infrastructure (Ringfenced) - to compensate for 2004/05 Adjustments Estimate cut		75,000	100,000
Medicines & Supplies	15,000	50,000	30,000
Financial Management Skills	2,500	5,000	5,255
Primary Health Care to Non-metro	16,000	23,000	31,000
Infrastructure Maintenance & Renewal of Equipment	10,000	40,000	60,000
<b>Education</b>	<b>231,000</b>	<b>508,240</b>	<b>579,248</b>
Educators (Personnel Cost Pressures incl Critical Posts)	180,000	189,180	198,828
EMIS audit & rollout	2,500	5,000	5,255
Strengthening Internal Audit (eg head count, payroll management (teachers / learners)	1,500	1,500	
LTSM	25,000	50,000	52,550
Strengthening the turnaround plan eg financial management, change managements skills, etc	2,000	5,000	5,255
Pay Progression: Teachers	-	97,560	192,360
Infrastructure (Ringfenced) - to compensate for 2004/05 Adjustments Estimate cut		120,000	75,000
Mud Structures elimination (Infrastructure)	20,000	40,000	50,000
<b>Treasury</b>	<b>8,500</b>	<b>11,306</b>	<b>11,883</b>
EU Agreement (Contracting Authority)	1,000	1,051	1,105
Financial Management Capacity & Mentoring	2,500	5,000	5,255
Treasury Restructuring & MFMA implementation	5,000	5,255	5,523
<b>Revenue Fund</b>	<b>123,000</b>	<b>(107,000)</b>	<b>-</b>
GEPF Debt	123,000	(123,000)	
GEPF: Contingent liability		16,000	
<b>Office of the Premier</b>	<b>13,500</b>	<b>17,087</b>	<b>17,958</b>
Poverty fund through ECSECC	7,500	7,883	8,285
Policy, Monitoring & Evaluation	4,000	4,204	4,418
Public Service Transformation:			
Customer Care & Service Delivery	2,000	5,000	5,255
<b>Safety and Liason,</b>	<b>1,500</b>	<b>1,577</b>	<b>1,657</b>
MEC Core Staff (Ministry)	1,500	1,577	1,657
<b>Roads &amp; Transport</b>	<b>15,065</b>	<b>15,833</b>	<b>16,640</b>
Cacadu Municipality	3,468	3,645	3,831
Amathole District Municipality	11,596	12,188	12,809
<b>Legislature</b>	<b>9,307</b>	<b>10,651</b>	<b>11,289</b>
Personnel & Administration	9,307	10,651	11,289
<b>Housing , Local Government &amp; Traditional Leaders</b>	<b>20,471</b>	<b>30,421</b>	<b>28,972</b>
Traditional Leaders (ICS)	5,562	5,846	6,144
Traditional Leaders (Secretaries)	8,809	9,258	9,730
Community Development Workers (Ringfenced)	6,100	15,317	13,098
<b>Social Development</b>	<b>28,974</b>	<b>60,423</b>	<b>81,868</b>
Critical Posts & Employment of Social Workers	11,000	11,561	12,151
Child Justice Bill		30,000	50,000
Social Worker Salaries	17,974	18,862	19,717
<b>Public Works</b>	<b>14,700</b>	<b>-</b>	<b>-</b>
Cacadu Municipality (04/05 deferments)	3,300		
MECs: Security (Ringfenced)	1,400		
Asset & Property Management Disposal Strategy	10,000		
<b>Economic Affairs, Environment &amp; Tourism</b>	<b>180,000</b>	<b>-</b>	<b>-</b>
COEGA	180,000		
<b>Sport, Recreation, Arts and Culture</b>	<b>1,500</b>	<b>2,000</b>	<b>2,102</b>
2010 World Cup	1,500	2,000	2,102
<b>Agriculture</b>	<b>90,000</b>	<b>120,000</b>	<b>126,120</b>
Massive Food Programme (PGDP)	90,000	120,000	126,120
<b>Sub-Total Proposed Allocations</b>	<b>968,367</b>	<b>985,148</b>	<b>1,202,981</b>
<b>Other Policy Priorities</b>	<b>2,900</b>	<b>298,443</b>	<b>357,232</b>
Treasury / Contingency Reserve		298,443	357,232
Rounding	2900		
<b>Total Allocation</b>	<b>971,267</b>	<b>1,283,591</b>	<b>1,560,213</b>

Departmental allocations to specific PGDP programme priorities for the 2005/06 to 2007/08 MTEF are reflected in Table 5.3 below:

Table 5.3: Budget Alignment / Allocation towards PGDP priorities

Budget Alignment / Allocations to PGDP Priorities				
Progr- amme nr	PGDP Priority Programme	2005/06	2006/07	2007/08
1	<b>Agrarian Economy Transformation</b>			
	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	<b>Fighting Poverty</b>			
	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	<b>Public Sector Transformation</b>			
	Improved Service Delivery			
	Health (Scare skills, rural allowances & critica	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	<b>Infrastructure Development</b>			
	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	<b>Manufacturing, Tourism &amp; Diversification</b>			
	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	<b>Human Resource Development</b>			
	Education	11,013,340	12,388,375	13,556,487
	Sport & Recreation	104,082	110,375	123,969
	<b>Total Budget</b>	<b>33,989,039</b>	<b>37,499,210</b>	<b>41,098,076</b>

## **6. Budget Process and the Medium-Term Expenditure Framework**

The main goal of the annual budget process is to, within the spirit of intergovernmental fiscal relations as embodied in the Constitution, Public Finance Management Act (PFMA) and the Intergovernmental Fiscal Relations Act, translate the derived provincial priorities as encompassed in the PGDP into departmental budgets. The Treasury is the key driver of the process, with continuous active involvement from provincial departments and their national counterparts. The detailed process is explained in 2.1 to 2.5 below with a diagrammatic presentation in 2.6.

### **6.1 Preparatory work on the budget by the government**

- The preparatory work in the budget process starts around April each year with the departments reviewing their expenditure outcomes for the previous year as well as their strategic plans for the following budget year. The strategic plans are reviewed in relation to the priorities as identified by the political executive with strict alignment to the PGDP and national priorities. The departments use the year two 2004 MTEF baseline allocations to determine their resource envelopes and this helps with the reprioritization, which is a critical part in the budget process. The departments submit the first budget submission to Provincial Treasury around July, after which budget analyst from Treasury worked closely with the departments in evaluating the budget submissions for linkages with provincial and national priorities in considering resource envelopes.
- The submission by departments helps Provincial Treasury to review the current forecasts for the ensuing medium term expenditure framework (2005/06 -2007/08), which is very important in the budget formulation process. The evaluation of the departmental submissions is enhanced by the clear identification of priorities, which are to be contained in the MEC letter that accompanies the departmental submission. The political priorities are translated into departmental spending plans and these form the basis of discussions and interaction between Treasury and departments on how the departmental budgets give effect to budget priorities. The evaluation of budgets also forms the basis of recommendation to the Cabinet Budget Committee, and subsequently to the Executive Council (EXCO) on how resources for the coming year should be allocated.

### **6.2 National Medium Term Budget Policy Statement**

- ❑ The National Minister of Finance tables the Medium Term Budget Policy Statement (MTBPS) before Parliament at the end of October each year.
- ❑ The MTBPS is a significant step forward in public transparency and accountability as it sets out Government's medium-term macroeconomic trends, fiscal parameters, revenue considerations and policy and spending plans over the next 3-years that will inform the national budget, three months before the detailed national budget is presented to National Parliament allowing Parliament and the public to actively engage with Government's medium-term priorities and spending plans before the national budget is tabled.

### **6.3. Integrated Development Planning (IDP), as a support to the budget process**

- ❑ The key objective of the IDPs is to link the planning processes so that better and cost effective service delivery is achieved, through the joint implementation of projects. Within the provincial government the co-ordination of plans is managed through the clusters.
- ❑ As it relates to the local government sphere, the IDP is co-ordinated through the Inter Government Forum (IGF). This is supported at high level as it is driven by the Office of the Premier. The structure consists of representatives from the national, provincial and local government spheres. The intention is to share information on the priorities and develop integrated strategy towards the realisation of those priorities. The initiative is however, still meeting challenges in terms of co-ordination and these are often caused by different planning cycles.



## 6.4. Budget Indibano

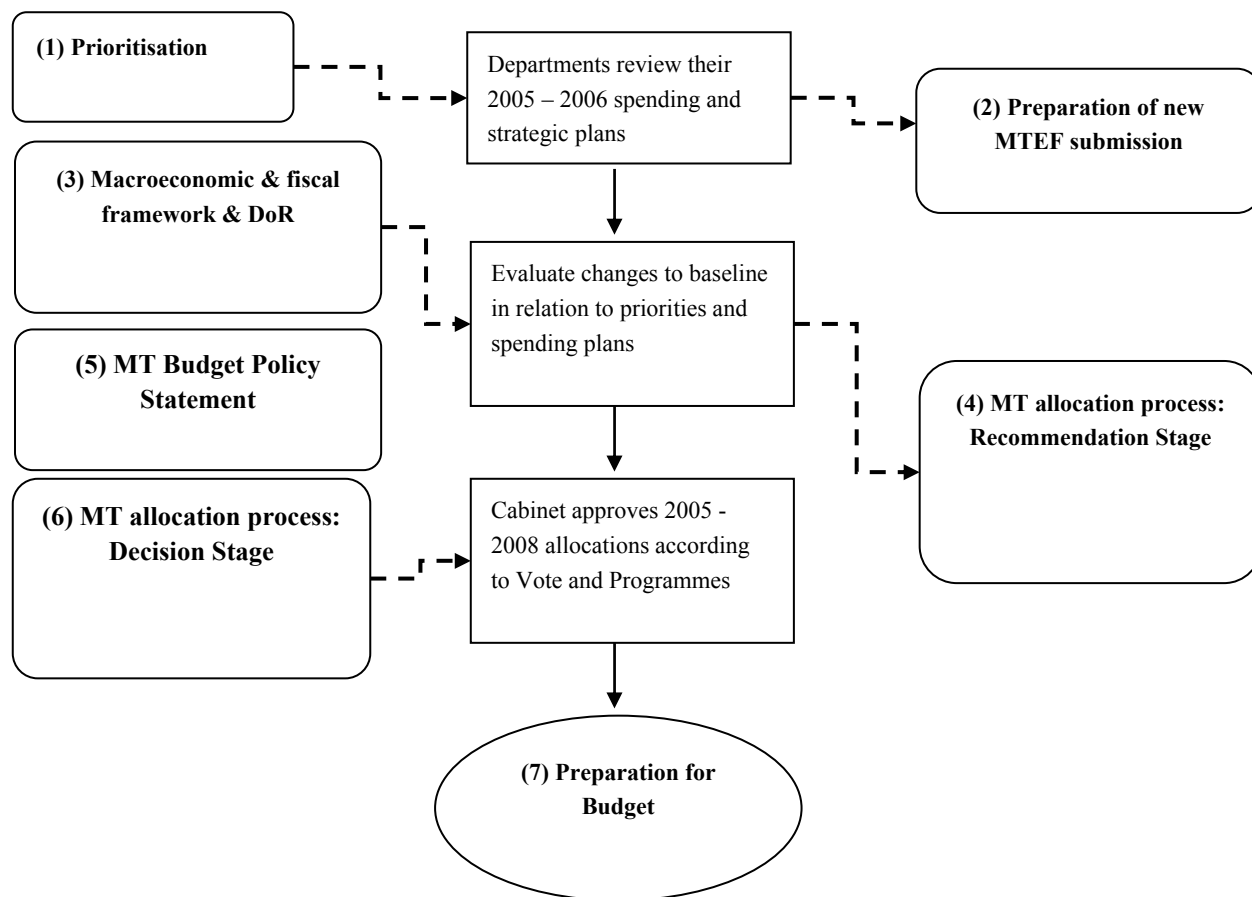
The Budget Indibano is crucial to the recommendation stage of the budget process. This is an annual gathering where the cluster departments review progress in meeting the priorities agreed to during the previous year, as a basis of identifying new spending priorities for the following year. After this event the departments are expected to align their strategic plans to the set priorities and this is debated in the following Budget / Medium Term Expenditure Committee (MTEC) hearings. The PGDP priorities as well as the Nationally determined priorities forms key input during these deliberations.

## 6.5. Linkage to National Processes

The budgeting and planning process is fully aligned to that of the national government. The budget process makes provision for early consideration of any new spending pressures, especially where these relate to the expansion of fiscal envelope either through equitable share or conditional grants funding. It is in this context that in setting the fiscal framework, division of revenue and the provincial budget framework, the national Cabinet, the Budget Council, the sectoral Minister and Member of Executive Council Committees (MINMECs) within the political arena is supported by various technical committees play an active role in the budget process. Treasuries and national and provincial departments participates in the relevant technical committees to examine, research and formulate recommendations regarding key national and provincial spending pressures and priorities that feed into the annual division of revenue debates.

## 6.6. Diagrammatic representation of the budget process in the Eastern Cape (2005/06 MTEF).

Figure 6.1: Budget process



## 7. Summary of budget aggregates

Table 7.1 hereunder provides a summary of estimates of the main budget components (receipts and payments, budget surplus or deficit) in line with the New Economic Reporting Format.

**Table 7.1 Provincial Budget Summary**

R'000	Outcome						Medium-term estimate			
	Audited	Audited	Audited	Main appro- piation	Adjusted appro- piation	Revised estimate				Change from Revised estimate
	2001/02	2002/03	2003/04	2004/05	2004/05	2004/05	2005/06	2006/07	2007/08	2004/05
Provincial receipts										
Transfer receipts from national	19 089 427	24 019 706	26 896 282	30 128 623	30 865 868	30 865 868	35 288 212	38 266 000	41 084 074	14.33
Equitable share	18 170 630	22 255 205	24 609 115	26 990 177	27 677 431	27 677 431	22 202 309	23 839 059	25 238 734	( 19.78)
Conditional	918 797	1 764 501	2 287 167	3 138 446	3 188 437	3 188 437	13 085 903	14 426 941	15 845 340	310.42
Financing										
Provincial own receipts	556 752	636 582	568 836	457 861	296 402	308 803	325 724	337 739	363 812	5.48
Total provincial receipts	19 646 179	24 656 288	27 465 118	30 586 484	31 162 270	31 174 671	35 613 936	38 603 739	41 447 886	14.24
Provincial payments										
Current payments	13 430 605	15 424 634	16 894 210	18 396 257	18 027 142	18 144 268	19 501 708	21 111 006	22 938 680	7.48
Transfers and subsidies	5 805 882	8 450 968	11 078 147	10 849 152	11 650 981	11 875 416	12 866 364	14 084 800	15 369 184	8.34
Payments for capital assets	358 839	839 645	1 699 209	1 903 603	1 599 378	1 583 152	1 620 967	2 303 404	2 790 213	2.39
Direct charge										
Unallocated contingency										
Total provincial payments	19 595 326	24 715 247	29 671 566	31 149 012	31 277 501	31 602 836	33 989 039	37 499 210	41 098 076	7.55
Surplus (Deficit)	50 853	( 58 959)	(2 206 448)	( 562 528)	( 115 231)	( 428 165)	1 624 897	1 104 529	349 810	( 479.50)

Between 2004/05 and 2007/08, provincial revenue is expected to grow at an annual average rate of 9,9% (i.e. 14% in 2005/06, 8,4% in 2006/07 and 7,3% in 2007/08). Equitable share and conditional grants grow year on year from 2004/05 by -26.88% and 315%. This abnormal growth and decline is as a result of the shift of the social security grants from being funded from the equitable share now to be funded as a conditional grant from 1 April 2005. If historic expenditure estimates would be shifted one finds that normal incremental trends would be observed. The net result between estimated receipts and spending in the 2004/05 is -R428,165 million, increasing to a surplus of R1 624,897 million in 2005/06, R1 104,529 million in 2006/07 and R349,810 million in 2007/08. The budgeted surplus over the 2004/05 MTEF is chiefly to address deficits and overdrafts from previous financial years. Details on the provincial deficit position and financial restoration plan are covered in the section that follows.

### 7.1 Financing

#### Provincial deficit

The Province is projecting to budget for a surplus of R1 624,897 million in 2005/06, R1 104,529 million in 2006/07 and R349,810 million 2007/08. The budgeted surplus in 2005/06 and 2006/07 is to restore fiscal discipline and credibility and is to provide for the projected negative cash position of approximately R1 200 million at end March 2005. The projected surplus in 2007/08 is to provide for contingency provision for

unforeseen and unavoidable expenditure, build up cash reserves for future capital outlays as well as sharp increase in spending allocations towards the PGDP programme priorities. The projected April 2004 negative financial position in excess of R3 500 million was chiefly caused by over-expenditure in previous years, a deficit budget of R563 million in 2004/05, 2004/05 projected over-expenditure by *inter alia* Social Development of R1 200 million, and outstanding provincial debt and liabilities resulting from the non-roll-over of unspent conditional grants in previous years. More detail is explained in the financial recovery plan hereunder.

## Financial recovery plan

In sketching the provincial recovery plan it is important to look at where the Province comes from in terms of its financial management. The background is as follows:

- The 1998 scenario – Section 100 of the Constitution, marked by uncontrolled expenditure;
- The 1999 to 2003 – Major under-spending in departments resulting in non-delivery of services mainly due to the centralisation of financial powers;
- The 2002/03 – Accumulation of reserves and build up of surpluses;
- May 2003, IMT intervention. Increase of delegations and thresholds in departments in respect of procurement of Goods and services;
- 2003/04 financial year – huge overspending especially in Education and Social Development; “hotspots” / pressures on personnel budgets especially in Education, depletion of the capital base resulting in minimum interest revenue, social security spending spike as a result of increased grant take-up;
- 2004/05 financial year – deficit budget of R563 million tabled; outcome of 2003/04 worse than expected; financial position becoming unsustainable; interventions to restore fiscal discipline.

The Province had an over expenditure of R623 million as at 31 March 2004 for the financial year 2003/04, but registered a bank overdraft of R744 million as at 31 March 2004. This was further exacerbated by the fact that the main budget appropriation for 2004/05 included a budget deficit of R563 million excluding a R150 million budgeted as interest revenue, which at the start of the financial year was unachievable mainly due to the revenue and expenditure outcomes of 2003/04 and the depletion of the capital base. The sum of the overdraft i.e. R744 million plus the deficit budget for 2004/05 of R563 million plus the non-collection of interest revenue of R150 million resulted in a true deficit of R1 457 million for the 2004/05 financial year. With the start of the financial year the Social Development department projected an over-expenditure to the tune of R1 200 million which was later revised downwards to R853 million bringing the total provincial exposure to R2 310 million. Increased allocations from the adjustment estimates in 2004/05 of R730 million (R550 million for Social Security grants) have assisted in reducing the above-mentioned projected deficit to R 1580 million. In addition, new fiscal discipline measures were introduced resulting in R598 million voluntary surrenders by departments and public entities in 2004/05 towards alleviation of the projected deficit which brought this number down to R982 million. The deficit has been adjusted from R563 million to R131 million, but Social Development is still projecting to overspend by R311 million by the end of 2004/05 bringing the projected shortfall at the end of the financial year to approximately R1,2 billion.

The Province also accumulated liabilities and debts, most of which related to the non-roll over of conditional grants. These known liabilities amounted to approximately R899 million. Added to this was a further interest revenue risk in 2005/06 of R195 million. This brings the overall provincial exposure to around R2 300 million.

In addressing this negative financial position of around R2 300 million, departments were given four options in which they can finance the provincial deficit in which each department has been requested to surrender a portion of its equitable share baseline allocation to finance the overall provincial deficit. In essence the options were as follows:

- Option 1 suggests dealing with the financial problem in one financial year;
- Option 2 deals with the problem over a period of 2 years;
- Option 3 allows for the deficit to be spread over a period of 3 years; and
- Option 4 is divided into two components namely to first service interest bearing debt in year 1 to avoid any amounts being spend on interest charges and deal with the other debts in year 2.

Provincial Exco approved option four as the most favourable option and the 2005/06 MTEF budget was crafted around this option.

The following tables provide more detail as to how the above decision affected provincial departments.

<b>Provincial recovery plan: year 1</b>							
<b>DEPARTMENT</b>	<b>Total Indicative</b>	<b>Conditional Grants</b>	<b>Equitable Share &amp; Own Revenue</b>	<b>Prorata Factor</b>	<b>Share of Deficit</b>	<b>Revised Equitable Share &amp; Own Revenue</b>	<b>Revised Indicative (Inc. Cond. Grants)</b>
Premier	250,797	-	250,797	0.01	17,246	233,550	233,550
Legislature	90,064	-	90,064	0.00	6,193	83,870	83,870
Health	6,210,891	811,448	5,399,443	0.25	371,299	5,028,144	5,839,592
Social Development	10,117,678	9,688,309	429,369	0.02	29,526	399,843	10,088,152
Public Works	1,985,787	675,330	1,310,457	0.06	90,115	1,220,342	1,895,672
Education	11,819,802	217,867	11,601,935	0.54	797,820	10,804,115	11,021,982
Housing	1,030,263	593,915	436,348	0.02	30,006	406,342	1,000,257
Agriculture	781,406	55,552	725,854	0.03	49,914	675,940	731,492
Economic Affairs	475,313	-	475,313	0.02	32,685	442,627	442,627
Transport	339,000	-	339,000	0.02	23,312	315,688	315,688
Treasury	259,257	-	259,257	0.01	17,828	241,429	241,429
Sport	284,988	2,670	282,318	0.01	19,414	262,904	265,574
Safety	12,515	-	12,515	0.00	861	11,655	11,655
<b>TOTAL</b>	<b>33,657,761</b>	<b>12,045,091</b>	<b>21,612,670</b>	<b>1</b>	<b>1,486,220</b>	<b>20,126,450</b>	<b>32,171,541</b>

Provincial recovery plan : year 2							
DEPARTMENT	Total Indicative	Conditional Grants	Equitable Share & Own Revenue	Prorata Factor	Share of Deficit	Revised Equitable Share & Own Revenue	Revised Indicative (Inc. Cond. Grants)
Premier	250,797	-	250,797	0.01	10,439	240,358	240,358
Legislature	90,064	-	90,064	0.00	3,749	86,315	86,315
Health	6,210,891	811,448	5,399,443	0.25	224,743	5,174,700	5,986,148
Social Development	10,117,678	9,688,309	429,369	0.02	17,872	411,497	10,099,806
Public Works	1,985,787	675,330	1,310,457	0.06	54,546	1,255,911	1,931,241
Education	11,819,802	217,867	11,601,935	0.54	482,912	11,119,023	11,336,890
Housing	1,030,263	593,915	436,348	0.02	18,162	418,185	1,012,100
Agriculture	781,406	55,552	725,854	0.03	30,213	695,642	751,194
Economic Affairs	475,313	-	475,313	0.02	19,784	455,529	455,529
Transport	339,000	-	339,000	0.02	14,110	324,889	324,889
Treasury	259,257	-	259,257	0.01	10,791	248,466	248,466
Sport	284,988	2,670	282,318	0.01	11,751	270,567	273,237
Safety	12,515	-	12,515	0.00	521	11,994	11,994
<b>TOTAL</b>	<b>33,657,761</b>	<b>12,045,091</b>	<b>21,612,670</b>	<b>1</b>	<b>899,593</b>	<b>20,713,077</b>	<b>32,758,168</b>

Overall, the province has made huge improvements in getting the Province to restore both fiscal discipline and fiscal credibility. The table below depicts the financial position in terms of where the Province found itself on 1 April 2004, it's fiscal recovery plan in terms of what it has done so far to address the negative financial position as well as the projected outcome at the end of March 2005.

Issues	1 April 2004	Projections 31 March 2005
	R,000	R'000
Overdraft	-744,098	-744,098
Budget Deficit	-562,528	-131,408
Interest risk non collection	-150,000	-
Projected over-expenditure Social Development)	-1,200,000	-311,000
Liabilities and Debt	-899,593	-899,593
<b>Shortfall &amp; Projected shortfall</b>	<b>-3,556,219</b>	<b>-2,086,099</b>
Less:		
Add back: Liabilities & Debt to be settled in year 2		899,593
<b>Shortfall &amp; Projected cash shortfall</b>	<b>-3,556,219</b>	<b>-1,186,506</b>
Other info included in the above calculations		
New money: 2004/05 adjustments estimate (equitable share and conditional grants)		730,245
Department and Public Entities surrenders		598,339
Revised deficit		131,408
Unallocated Reserve		27,636

Taking the above into account, the following issues 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 should be ruled out and 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 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.

## 8. Receipts

### 8.1 Overall position

Provincial revenue is made out of national payments in the form of equitable share and conditional grants, as well as own revenue. Table 8.1 presents a summary of provincial revenue and the split between national sourced and own revenue, i.e. audited actual revenue for 2001/02, 2002/03 and 2003/04, the preliminary outcome for 2004/05, voted revenue for 2005/06 and budget estimates for 2006/07 and 2007/08.

Receipts R'000	Outcome						Medium-term estimate			
	Audited 2001/02	Audited 2002/03	Audited 2003/04				Main appro- priation 2004/05	Adjusted appro- priation 2004/05	Revised estimate 2004/05	2005/06
Transfer receipts from National	19 072 015	24 295 948	29 095 686	30 691 151	30 981 099	31 294 033	33 663 315	37 161 471	40 734 264	7.57
Equitable share	18 170 630	22 255 205	24 609 115	26 990 177	27 677 431	27 677 431	22 202 309	23 839 059	25 238 734	( 26.88)
Conditional grants	918 797	1 764 501	2 287 167	3 138 446	3 188 437	3 188 437	13 085 903	14 426 941	15 845 340	315.00
Financing										
Total transfer receipts from National	19 089 427	24 019 706	26 896 282	30 128 623	30 865 868	30 865 868	35 288 212	38 266 000	41 084 074	7.57
Provincial own receipts										
Tax receipts	90 594	106 254	138 558	190 755	199 050	174 483	205 902	209 772	228 460	18.01
Sale of goods and services other than capital assets	108 881	116 217	131 387	106 487	85 754	98 542	113 482	121 397	128 405	15.16
Transfers received										
Fines, penalties and forfeits	268	1 042	807	676	676	2 226	717	790	829	( 67.79)
Interest, dividends and rent on land	343 038	397 365	181 953	152 126	2 126	19 888	2 269	2 411	2 567	( 88.59)
Sale of capital assets	4 339	2 130	33 845	1 582	1 582					
Financial transactions in assets and liabilities	9 632	13 574	82 286	6 235	7 214	13 664	3 354	3 369	3 551	( 75.45)
Total provincial own receipts	556 752	636 582	568 836	457 861	296 402	308 803	325 724	337 739	363 812	( 198.67)
Total provincial receipts	19 646 179	24 656 288	27 465 118	30 586 484	31 162 270	31 174 671	35 613 936	38 603 739	41 447 886	7.55

Other than allowing for policy shifts, there are marginal changes between the current year and the MTEF for both the national and provincial sourced revenue. The changes from national sourced revenue are due to slight increases in allocations to take account of higher inflation than assumed and other policy priorities outlined in the expenditure summary:

There are also increases in the conditional grants as shown in table 8.4 below. Total provincial revenue is calculated to be R35 288 million in 2005/06, which is a drop of 19,78% due to the social grant shift as a conditional grant from the 2004/05 estimated actual. From the base 2004/05 until 2007/08, provincial revenue is expected to grow at an annual average rate of 9,9% (i.e. 14% in 2005/06, 8,4% in 2006/07 and 7,3% in 2007/08). Based on this analysis, it is clear that the growth rates in national transfers are on a declining scale, even though they are above official inflation estimates with the projection of the CPIX for 2005/06 revised downwards to 4,2%.

With effect from the base year 2001/02 to 2004/05 overall provincial revenue grew at an average annual average rate of 14,5% (i.e. 12,4% in 2002/03, 17,3% in 2003/04 and 13,8% in 2004/05). The sharp decline in own revenue for the 2004/05 financial year of 45% compared to 2003/04 financial year had a negative impact on the overall revenue envelope of the province. This was caused mainly by the erosion of the capital base due to over expenditure in the previous financial years, resulting in the non-collection of interest revenue.

In the 2005/06 budget and over the MTEF period, national transfers comprise more than 99% of the total provincial revenue, of which 62,3% is through the equitable share (i.e. 62% in 2005/06, 61,8% in 2006/07 and 60,9% in 2007/08). The remaining 37,7% in the 2005/06 financial year flows as conditional grants.

In the previous financial years, the social assistance grant has been treated as equitable share. With the advent of the shift of the social assistance grant to the National Department, the Division of Revenue Act has been amended, changing the funding into a conditional grant, hence the decline in equitable share and increase in conditional grants. More details of national transfers are discussed in the paragraphs below.

The changes in own revenue are chiefly due to stripping out of interest. Provincial own revenue is discussed in more detail in paragraph 8.4 below.

## 8.2 Equitable share

In terms of Section 214(1) of the Constitution it is required that every year an Act of Parliament (Division of Revenue Act) determine the equitable division of resources between the three spheres of government, and the horizontal division amongst provinces. The following are some of the key principles that are promoted by the Constitution:

- **Equity:** Promoting access to basic services in a fair, objective and equitable manner
- **Efficiency:** The transfer system should promote allocative efficiency by ensuring that inter-jurisdictional competition is an effective check on fiscal performance.
- **Predictability:** The transfers should facilitate proper budgeting by minimizing fluctuations and ensuring certainty
- **Simplicity, transparency and acceptability:** The transfer system should take cognisance of the availability of information, be transparent, and should be as broad-based as possible.
- **Redistribution and fiscal equalization:** Redistribution within any particular sphere must be managed not to undermine the fiscal viability of the relevant institution and the economic viability of its area of jurisdiction.
- **Autonomy:** Whilst the Constitution entrenches cooperative governance, it should be noted that provinces are governments in their own rights.
- **Accountability:** The intergovernmental transfer system provides for mechanisms that allocate funds among provinces, and not allocation of inputs and other functional resources.

The division of the equitable share allocation among provinces is done through a redistributive formula. The formula is reviewed regularly to take account of the new data, taking into account the recommendations of

the Financial and Fiscal Commission. For the 2004 Budget, Government agreed that the structure and components of formula be kept the same, but that some of the individual components of the formula be updated. This was done using Census 2001 data for the education and basic components and GDPR data for the economic component, mainly to take account of the significant movements in population between provinces. A broad-ranging review of the formula has been undertaken for the 2005 MTEF. It covered the structure of the formula, weights of components and other economic development and poverty related policy considerations. The review also took into account the change in the financing and administrative arrangements relating to the delivery of social security grants.

The Social Assistance Act (No 13 of 2004) centralised the responsibility for social grant administration with the national Minister of Social Development. The South African Social Security Agency (SASSA) Act 2004 (Act No 9 of 2004) establishes the Social Grants Agency as a legal entity to administer grants on behalf of the national government with operations in a phased manner from 01 April 2005.

Provinces receive most of their revenue from the national fiscus in the form of equitable share. The Eastern Cape's share over the three-year MTEF period reflect the following amounts, R22 202 million in 2005/06, R23 839 million in 2006/07 and R25 238 million in 2007/08.

The revised formula for the 2005/06 MTEF consists of four main components and two minor elements, as shown below; The provincial equitable share allocation is used to fund the bulk of public services rendered by provinces; hence it is the largest of the provincial allocations from the national government. It is divided horizontally between provinces comprising six components/weights as follows:

- Education share (51%) based on the school age cohort and official estimates of school enrolment, weighted equally;
- The Health component (26%) based on the estimated numbers of people with and without medical aid coverage weighted at 1:4 ratio;
- An Institutional component, (5%) allocated equally across provinces to take account of core provincial administration costs mainly for Legislatures, Treasuries, Traditional Affairs, Royal Households, Premier's Offices, etc;
- Basic component (14%) calculated on the basis of the population share of each province;
- Poverty component (3%) reinforces the redistributive bias of the formula; and
- Economic component (1%) takes care of the fact that provincial revenue raising powers have not changed.

Funds from equitable share are fungible and provincial government have full discretion in choosing their own budget mixes given underlying cost implications and national policy guidelines. The "share allocations" in the formula are therefore merely broad indications (weights of relative needs) and not intended as indicative budgets or guidelines on how much should be spent on a specific function.

The following table illustrates the revised structure of the provincial equitable share formula and the Eastern Cape percentage share in the revised formula. This is compared to the current 2004/05 structure of the formula and the Eastern Cape percentage thereof.



**Table 8.2**

<b>Component</b>	<b>2005/06 Target Share</b>		<b>2004/05 Current Share</b>	
	<b>Weight</b>	<b>Share</b>	<b>Weight</b>	<b>Share</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Education	51	17,3	41	17,3
Health	26	15,1	19	17,0
Welfare	-	-	18	19,6
Basic	14	14,2	7	14,4
Economic Activity	1	8,1	3	8,1
Backlogs	-	-	7	20,7
Institutional	5	11,1	5	11,1
Poverty	3	19,6	-	-
<b>Overall Share</b>	<b>100%</b>	<b>16,0</b>	<b>100%</b>	<b>16,5</b>

To avoid the impact of the formula (i.e. 16% target) not to impact negatively on service delivery National Cabinet decided that it will be phased in over three years to avoid disruptive adjustments, with the target being reached in the 2007/08 financial year. The weighting for the Eastern Cape therefore moves from 16,7% in 2004/05 to 16,5% in 2005/06 and to 16% in the budget for the 2007/08 financial year.

### 8.3 Conditional grants

In order to provide for national priorities in provincial and local government budgets, national transfers in the form of conditional grants were introduced in 1998. 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, and
- Address backlogs and regional disparities in social infrastructure

The grant system has been shaped by major reforms that were introduced to enhance accountability, monitoring, reporting and administration responsibility of these grants. The legal framework pertaining to the conditional grants is contained in the Division of Revenue Act (DoRA). In terms of DoRA a Provincial Treasury must, within specific prescribed dates after the end of each month and in the format determined by National Treasury, and as part of its consolidated monthly report, report on: –

- Actual transfers received by the province from national departments;
- Actual expenditure on such allocations up to the end of that month;
- Actual transfers made by the province to municipalities, and projections on actual expenditure by municipalities on such allocations; and
- Any problems of compliance with this Act, by transferring provincial officers and receiving officers and steps taken to deal with such problems.

The Conditional grants are the second largest source of funding for the Eastern Cape averaging 37,4% of the Province's total revenue envelope. Over the next three years conditional grants grow sharply from 10,2% in the 2004/05 financial year of the total provincial revenue to 36,7% in the 2005/06 due to changes in the funding arrangements for the delivery of social security grants. In rand terms, conditional grants allocations will grow by R9 897 million in 2005/06, R1 341 million in 2006/07 and R1 418 million in 2007/08.

The total allocation of conditional grants will be R13 086 million in 2005/06 financial year, R14 427 million in 2006/07, and R15 845 million in 2007/08.

## Education grants

As from 2005/06 financial year the department will administer only two grants. The first one will be HIV/AIDS (Life skills Education) with an allocation of R23,692 million in 2005/06, R25,113 million in 2006/07 and R26,369 million in 2007/08 respectively.

The other grant is National School Nutrition which is allocated R194,288 million, R233,882 million and R245,576 million in 2005/06, 2006/07 and 2007/08 financial years respectively. The total allocated to both grants is R217,980 million (2005/06), R258,995 million in 2006/07 and R271,945 million in 2007/08.

The framework has introduced a new education conditional grant (Recapitalisation of FET colleges) from 2006/07 onwards; however, it remains unallocated at National, and is not included in the allocations this year. The Early Childhood Development and Financial Management and Quality Enhancement grants were phased into the equitable share with effect from 2004/05 financial year.

## Health grants

The allocations for the MTEF financial years are R848,172 million in 2005/06, R817,459 million in 2006/07 and R885,635 million 2007/08. During these years, all grant allocations recorded increased except for the Hospital Revitalization grant which is reduced from R157,732 million in 2005/06 to R71,666 million in 2007/08. The decrease in the middle year of the revitalisation grant is based on the recalculation of funds to be allocated, linked to the number of projects submitted by provincial departments. This grant will be reviewed during the 2006 budget process in respect of the years going forward.

The HIV and AIDS conditional grant, in addition to other interventions, is one of the key funding streams to mitigate the impact of the disease. The Comprehensive HIV and AIDS grant reflects a significant average increase between 2002/03 and 2007/08 of approximately 58,9%. The increases are intended to implement, and to further extend, a comprehensive antiretroviral (ARV) programme. In addition to ARV treatment roll out, the grant provides for post exposure prophylaxis for victims of sexual abuse, roll-out of mother-to-child transmission prevention and targeted interventions for commercial sex workers.

The National Tertiary Services grant reflects an average growth of 12.67% over the MTEF (2005/06 to 2007/08 financial years).

The Primary School Nutrition Programme was shifted to the Department of Education with effect from the 2004/05 financial year, whilst the remainder of the Integrated Nutrition Programme which was meant for issues like the feeding of malnourished children under the age of five, will be included in the equitable share with effect from 2006/07 onwards.

## Social Development grants

The most fundamental is the introduction of the new social security grant. With effect from 01 April 2005 the function for administration and delivery of social security grant is to be centralised nationally. The function will be managed through two conditional grants namely the Social Assistance Grants and the Social Assistance Administration Grants. The allocations made to provinces in respect of the Social Assistance Transfers are per social security grant type. The table below reflects the total allocation in respect of social assistance grants.

**Table 8.3 Proposed adjustments to social grants, 2005/06**

Type of Grant	Maximum value as at	Proposed increase	Approved maximum	Percentage change
Old Age	740	40	780	5.4%
War Veterans	758	40	798	5.3%
Disability	740	40	780	5.4%
Grant in Aid	170	10	180	5.9%
Foster Care	530	30	560	5.7%
Care Dependency	740	40	780	5.4%
Child Support Grant	170	10	180	5.9%

The Social Assistance Administration grant funds the administration of the social security grant function. The monitoring plan to be set out in the conditional grant framework will focus on grant process integrity, service delivery quality, business planning and financial management, fraud minimisation, beneficiary payment process, and efficient management in respect of payment of contractors.

The total allocation of grants increased from R1 004 million in the 2004/05 financial year to R10 705 million in the 2005/06 financial year. The total grant allocation is expected to increase from R10 705 million in 2005/06 to R11 859 million in 2006/07, and R12 788 million in 2007/08.

The Food Emergency Relief grant has been reconfigured to expand its coverage to other functions. The grant has remained fairly stable at an average of approximately R97 million over the five year period commencing 2003/04. The grant is now known as the Integrated Social Development Services grant.

The HIV and AIDS (Community-based care) grant sees a sharp increase from a low base of almost 97% between the 2004/05 and 2005/06 financial years, and thereafter remains stable.

### **Housing Grants**

The Local Capacity Building Fund administered by the Department of Housing, Local Government and Traditional Affairs has been phased out. Housing Fund and Human Settlement grants have now been combined to form an Integrated Housing and Human Settlement Grant. The expenditure outcomes for the first three quarters in 2004/05 reflect that the Eastern Cape is amongst the top provinces in the Housing Infrastructure expenditure.

The Capacity Building and the Municipal Infrastructure grants have been phased out from the Department of Housing, Local Government and Traditional Affairs, and will now be transferred directly from National Government to Municipalities.

With effect from 2005/06 to 2006/07 the grant allocation is expected to increase from R581,218 million to R679,194 million and R830,154 million in 2007/08 financial year.

### **Agriculture Grants**

Comprehensive Agriculture Support Programme (CASP) reflects an average growth of 21.6% over the MTEF years. The grant aims at assisting land redistribution for agricultural development and settlement and land acquisition grant beneficiaries. It also hopes to encourage and empower communities to take responsibility for the management of resources in order to support food security and job creation through increased productivity. This grant includes water care, soil care and junior land care programmes. The allocation of this grant is expected to increase during the MTEF years from R47,552 million in 2005/06, R57,061 million in 2006/07 and R69,838 million in 2007/08.

The Land Care Grant shows marginal increases from the 2004/05 to 2007/08 financial year and is currently around R8 million per annum. The purpose of this grant is to address the degradation of natural / agricultural resources and improve the socio-economic status and food security of rural communities.

### **Sports, Arts and Culture**

This department started to administer the Mass Sport and Recreation Participation Grant in the 2004/05 financial year. The purpose of this grant is to fund the promotion of mass participation within disadvantaged communities in a selected number of sport activities and the empowerment of communities to manage these activities. During the period 2004/05 to 2007/08, the grant shows sharp growth from a low base at an average annual growth rate of 93%.

### **Provincial Infrastructure Grant**

The Provincial Infrastructure grant is allocated mainly for rehabilitation, maintenance and construction of provincial infrastructure such as roads, school buildings, health facilities and agricultural infrastructure with a focus on rural development. The infrastructure grant allocation to the Province for the 2005/06 financial year is R675,330 million and for the 2006/07 and 2007/06 financial years it amounts to R742,057 million and R984,943 million respectively.

Table 8.4 below provides for a summary of conditional grants by Vote and grant type.

**Table 8.4** Summary of conditional grants vote by grant

[illegible]

Table 8.4

## Summary of conditional grants by vote and grant (continued)

Vote and grant R'000	Outcome			Adjusted appro- priation 2004/05	Actual transfer 2004/05	Audited expen- diture 2004/05	Medium-term estimate		
	Actual transfer	Actual transfer	Actual Transfer						
	2001/02	2002/03	2003/04				2005/06	2006/07	2007/08
<b>Vote 7: Housing, Local Government &amp; Housing subsidy</b>	749 874	883 940	1 032 738	654 913	654 913	654 913	581 218	679 194	830 154
Capacity building	712 749	805 263	966 757	598 900	598 900	598 900			
Hostel upgrading				35 184	35 184	35 184			
Human resettlement and redevelopment	8 325	20 211	11 000	11 660	11 660	11 660	581 218	679 194	830 154
Local government support									
Local government capacity building fund	28 800	31 200	46 338						
Provincial project management		27 266	8 643	9 169	9 169	9 169			
<b>Vote 9: Economic Affairs, Environment &amp; Disaster damage</b>									
<b>Vote 10: Roads &amp; Transport</b>	277 275	394 907	433 673	609 002	609 002	609 002	675 330	742 057	984 943
Provincial Infrastructure	277 275	286 107	433 673	609 002	609 002	609 002	675 330	742 057	984 943
Flood Rehabilitation		108 800							
Hospital revitalisation									
<b>Subtotal Conditional grants</b>	1 478 956	1 734 360	1 839 332	2 268 114	2 268 114	2 268 114	1 256 548	1 421 251	1 815 097
<b>Vote 8: Agriculture</b>	5 896	11 000	8 000	54 809	54 809	54 809	55 552	65 561	78 586
Land care programme: Poverty relief and Land Care Projects	4 691	11 000		8 766	8 766	8 766			
Drought relief	1 205		8 000	8 000	8 000	8 000	8 000	8 500	8 748
Comprehensive Agriculture support programme				38 043	38 043	38 043	47 552	57 061	69 838
Provincial Infrastructure									
<b>Vote 14: Sport, Recreation, Arts &amp; Culture</b>					1 000	1 000	1 000		4 340
Mass sport and recreation participation					1 000	1 000	1 000		4 340
<b>Subtotal Conditional grants</b>	5 896	11 000	8 000	54 809	55 809	55 809	56 552	65 561	82 926

The detailed information on conditional grants is presented in Table A.1 in Annexure A to Budget Statement 1.

#### 8.4 Provincial own receipts (Own revenue)

Provincial own revenue sources comprise of motor vehicle licenses, gambling and casino taxes, horseracing and betting, and health patient fees. Own revenue remains an important source of marginal funding, although sources are fairly limited. In 2002/03 provincial own revenue formed 2,7% of the total provincial revenue envelope with no significant change from 2001/02. The national average for own revenue as a percentage of total revenue is approximately 4%. In 2003/04 own revenue as a percentage of provincial revenue envelope was approximately 2,2%. Overall revised own revenue projections for 2004/05 reflect that, the Province is well on track to reach the budget target.

In 2005/06 own revenue is expected to increase by approximately 5,5%. On average, own revenue growth is expected to be 5,7% between 2004/05 and 2007/08 (i.e. 5,5% in 2005/06, 2,8% in 2006/07 and 7,7% in 2007/08). Although the projections reflect growth in own revenue, it still falls short in terms of the national average of 4% of the overall provincial revenue envelope. The own receipts over the MTEF per vote are captured in more detail in Table 8.5 below and Annexure A 2 to Budget Statement number one. In this section only the more significant contributors to provincial own revenue are discussed, with specific reference to administrative and policy issues that have a bearing on their performance.

## **Health Patient Fees**

The main revenue driver for the Department of Health is Health patient fees, which are generated mainly from sales of services to external or private patients in a competitive market, and cannot therefore be classified as a compulsory fee. The provision of health services for subsidised patients is constitutionally mandated, and is provided to patients who may also pay only a portion of the tariff, or alternatively, receive services free of charge. Given the public nature and substantial government funding related to the health sector, one can argue that public health services are not rendered in a true open-market system, which is based on the economic price theory principles of supply and demand, assuming there is no monopolizing of services.

Between the 2001/02 and 2003/04 financial years, the total revenue for the Department of Health has increased (i.e. 14 % in 2002/03 and 17 % in 2003/04), excluding R16 million in 2002/03 and R36 million in 2003/04 in respect of financial Transactions (Refunds previous years). The slight increase is due to increased number of patients visiting the hospitals, resulting in increased payments. The budget for 2004/05 is R44 million and the department is projecting to achieve the agreed target by 31st March 2005. On average, estimated revenue over the MTEF will increase by 13,4% (i.e. 28,3%, 6% and 6% year-on-year for 2005/06, 2006/07 and 2007/08 respectively).

Provincial Treasury in concert with provincial departments has developed a Revenue Retention Policy which will be presented to the Cabinet before the end of March 2005 for implementation in the 2005/06 financial year. The policy will allow the departments to retain a portion of what they have collected over and above the agreed target. In preparation for the implementation of this policy, the Department of Health has revised its tariffs, and the Uniform Patient Fee Structure (UPFS) has been implemented with effect from January 2005, hence the 28% growth for 2005/06 budget.

## **Gambling and Casino Taxes**

Gambling taxes and Horse racing and Betting are the main revenue drivers for the Department of Economic Affairs, Environment and Tourism. Table 10.2 reflects that between the 2001/02 and 2003/04 financial years, the overall collection for this department increased from a low base by 61,4% per annum, (i.e. 58% in 2002/03 and 64,8% in 2003/04). However, this includes once off amounts of approximately R10 million in respect of game sales in 2002/03, and approximately R30 million in respect of long overdue amounts for casino taxes in 2003/04. Excluding these once off amounts the average increase between 2001/02 and 2003/04 drops to 28,8% (i.e. 26,5% in 2002/03 and 31% in 2003/04). The budget for 2004/05 is R54,630 million, which includes the R8 million revenue budget for Parks Board. As a result of the revision of the Act governing the Parks Board, the revenue collected by the Board will no longer be due to the department. The over-collection projected for 2004/05 is due to the expected over-collection of R9 million by the Gambling Board in respect of Casino taxes. Excluding the once off amounts, between the 2003/04 and 2005/06 financial years, there is an average growth of 5,5% (i.e. 7,9% in 2004/05 and 3% in 2005/06).

There are three casino's currently operating in the Eastern Cape namely; Zone 1-Boardwalk (Port Elizabeth), Zone 2-Hemingways (East London) and Zone 5-Wild Coast Sun (Mzamba). The Eastern Cape Gambling and Betting Board (ECGGB) has resolved not to re-institute the licensing process for Zones 3 and 4 pending the rollout of the route and site operator licensing processes during the period 2003-2005. Adverts have been placed for tenders for the route operators, although the actual revenue to be accrued from this source is not fully quantified, hence only R646,000 has been projected as revenue for the 2005/06 financial year.

In respect of liquor license fees, the full registration of the shebeen owners will be finalized in the 2005/06 financial year. The temporary registration process took place during the 2004/05 financial year. It remains a challenge to accurately project revenue for this revenue source as the exact amount of licences are not yet known at this stage.

## **Motor vehicle licences**

Between the 2001/02 and 2003/04 financial year, the overall collection for the Transport department increased by an average rate of 48,4% per annum, (i.e. 2,8% in 2002/03 and 94% in 2003/04). However, the 2003/04 financial year includes once off amounts totalling R46,4 million of which R6,8 million are long outstanding revenue from 3M in respect of royalties on number plates, R33 million being proceeds from

sale of government fleet to Fleet Africa, and R6,6 million being refunds from previous years. Excluding these amounts the average increase in revenue collection between 2001/02 and 2003/04 becomes 18,7% (i.e. 2,8% in 2002/03 and 34,5% in 2003/04). The increase is mainly due to Nelson Mandela Metropolitan Municipality (NMMM) infrequently releasing the monthly revenue collected in respect of motor vehicle licenses.

Motor vehicle license fees in 2003/04 represent the second biggest proportion of provincial own revenue in the province after interest earned on unspent committed funds, representing 24,8% of total revenue in 2003/04. According to a National Treasury study, the average benchmark on motor vehicle licence fees collection is 39% of the total own provincial revenue. However, the projections for license fees for the period 2004/05 to 2007/08 amount to an average of 47,2% of total own revenue.

The average growth between 2004/05 and 2007/08 is only 3,97%, (0,67% in 2005/06, 0,85% in 2006/07, and 10,4% in 2007/08). The minimal growth is due to the continuing uncertainty of recovering the outstanding amount owed by NMMM. The significant increase of 10,4% between 2006/07 and 2007/08 is based on the assumption that the collection of motor vehicle license fees at the NMMM will have stabilised with the Post Office due to take over with effect from April 2005.

The department increased motor vehicle licence fees by 10% in 2004, but the implementation which was initially projected to commence in May 2004 only started in September 2004 due to delays in administration processes encountered. The next review has been approved by Provincial Treasury to be implemented by April 2005. It is our view that if the increase over the MTEF can be linked to the rate of infrastructure inflation, this approach can lead to some fee stability without excessive fee increases transferred to the consumer.

### **Interest Revenue**

Revenue included under this heading consists mainly of interest earned on unspent committed funds and more specifically from improved cash and investment management policies. During the previous years up to 2003/04, interest income constituted the largest portion of own revenue collected. This was mainly due to the higher capital base accumulated during the years in question. In the financial year ending 2004/05, the interest income has not been budgeted for, as a result of the erosion of the capital base due to over-expenditure incurred during the previous financial years. Similarly in the budget year 2005/06 and the MTEF interest revenue has not been included in the budget due to its collection risk and potential and to bring stability in the own revenue assumption as the Province is currently dealing with measures to restore fiscal discipline to address the current negative financial position of the Province.

### **Other receipts**

The balance of receipts not yet discussed, rises and falls in no apparent pattern and is sourced variously from a range of services rendered such as, boarding and lodging, tuition and examination fees, administration fees earned on insurance premiums (Commission), rental of provincial properties, sale of obsolete equipment, sale of farm produce, veterinary charges, special vehicle license numbers and others.

The majority of items included in "other receipts" are user charges which are revised annually by Accounting Officers and are based on cost recovery principles, i.e. an efficient way whereby costs are recovered for publicly provided goods and services and where the necessary incentives are provided for service delivery improvements. A further advantage of the regular revision of user charges is that it can relieve some pressure on budgets without compromising national economic policies and can within limits be expanded as required by departments.

## Own receipts per Vote

Table 8.5 below depicts a summary of provincial own receipts per vote since 2001/02 and over the 2005/06 MTEF

**Table 8.5 Summary of departmental receipts by Vote**

Provincial department R'000	Outcome						Medium-term			
	Audited 2001/02	Audited 2002/03	Audited 2003/04	Main appropriation 2004/05	Adjusted appropriation 2004/05	Revised estimate 2004/05	2005/06	2006/07	2007/08	% Change from Revised estimate 2004/05
1. Office of the Premier	1 572	581	891	360	360	368	360	360	381	( 2.17)
2. Provincial Legislature										
3. Health	31 631	52 079	78 144	44 000	44 000	44 160	56 455	59 842	63 433	27.84
4. Social Development	42 433	563	9 170	2 000	2 000	1 223	746	791	840	( 39.00)
5. Roads and Public Works	11 089	12 741	29 308	13 772	600	13 773	14 199	15 699	16 484	3.09
6. Education	14 101	31 556	24 844	28 100	28 100	30 124	29 473	31 190	33 006	( 2.16)
7. Housing, Local Government and Traditional Affairs	5 720	4 580	12 846	7 735	7 735	10 009	7 943	8 420	8 841	( 20.64)
8. Agriculture	7 613	7 484	4 432	4 774	4 774	9 151	4 989	5 100	5 355	( 45.48)
9. Economic Affairs, Environment and Tourism	34 040	49 895	82 238	54 630	56 343	56 480	58 010	61 490	64 565	2.71
10. Transport	76 260	78 381	151 960	152 042	152 042	130 834	153 062	154 357	170 392	16.99
12. Treasury	331 675	398 512	174 205	150 081	81	12 310	97	100	105	( 99.21)
14. Sport, Recreation, Arts and Culture	693	62	651	367	367	367	390	390	410	6.27
15. Safety and Liaison	( 75 )	148	147			4				( 100.00)
<b>Total provincial own receipts by Vote</b>	556 752	636 582	568 836	457 861	296 402	308 803	325 724	337 739	363 812	5.48

## 9. Donor funding

The province through its Provincial Treasury in partnership with ESV Swedish Donor expects an amount of 7,8 million in Swedish currency. At the rate of exchange as at 23 February 2005 this is estimated at approximately R12 million. The purpose of this funding is to improve financial management in the broader context of the province. These funds are not flowing directly to the provincial coffers, but rather as a grant in aid.

In addition, in the 2005/06 financial year the Provincial Treasury is expecting 30 million Euros from European Union for local economic development. At the exchange rate as at 23 February 2005 this is projected at approximately R235 million. The European Union is to support a program of Local Economic Development in the Eastern Cape. The support is to consist of 14 million euros which can be extended based on favourable review of the initial phase. The Provincial Treasury as contracting Authority is expected to ensure sound financial administration of the programme and ensure adherence to all financial administration requirements of the European Community.



## 10. Payments

### 10.1 Overall Position

The total outlays for provincial programmes, as set out in table 10.2 and Budget statement 2 for each vote, is R33 989 million, R37 499 million and R41 098 million in 2006/07 and 2007/08, respectively. The above figures reflect an increase from the 2004/05 base of R2 386 million (7.55%) in 2005/06 and an increase of R3 510 million (10,33%) in 2006/07. In real terms this translates to an increase of 3.35% in 2005/06 and a increase of 5.23% in 2006/07, which is explained in part by aforementioned budget austerity measures. These outlays are based on the following inflation (CPIX) assumptions for the 2005/06 MTEF budget.

- 4,2% for 2005/06;
- 5,1% for 2006/07; and
- 5, 0% for 2007/08

The budget allocations over the 2005/06 MTEF are intended to augment government expenditure in line with the PGDP priorities whilst it also provide some relief for spending pressures. The current negative financial position of the Province has aided government to carefully prioritise and reprioritise selected components of spending and to explicitly support the PGDP programmes to attain the goals laid down in the PGDP.

### 10.2 Payments by Economic Classification

The National Treasury introduced the New Economic Reporting Format (NERF) with effect from 1 April 2004.

In developing the new classification, National Treasury adopted the GFS classification standards as well as the accounting standards set by the International Federation of Accountants as the basis for the reform. The new classification is a South African version of international standards, and provides for the classification of receipts, payments, financing and debt. It also shows the impact of transactions in these items on the cash flow and balance sheet of government.

A new standard chart of accounts that underpins the new format was implemented for all national and provincial departments as part of the migration process to BAS.

Table 10.1 hereunder represents the summary of consolidated payments by economic classification.

**Table 10.1**                      **Summary of provincial payments and estimates by economic classification:**

Economic classification R'000	Outcome			Main appro- priation      Adjusted appro- priation      Revised estimate			Medium-term estimate			
	Audited	Audited	Audited							% Change from Revised estimate
	2001/02	2002/03	2003/04	2004/05	2004/05	2004/05	2005/06	2006/07	2007/08	2004/05
<b>Current payments</b>	13 430 605	15 424 634	16 894 210	18 396 257	18 027 142	18 144 268	<b>19 501 708</b>	21 111 006	22 938 680	7.48
Compensation of employees	11 198 176	12 210 091	13 351 530	14 211 840	14 315 809	14 377 649	<b>15 123 407</b>	15 999 109	16 765 984	5.19
Goods and services	2 221 722	3 156 274	3 486 869	4 161 251	3 709 233	3 763 134	<b>4 310 827</b>	5 033 038	6 086 731	14.55
Interest and rent on land	10 707	58 269	55 715	23 166	2 100	3 485	<b>67 474</b>	78 859	85 965	1 836.13
Financial transactions in assets and liabilities			91							
Unauthorised expenditure			5							
<b>Transfers and subsidies to</b>	5 805 882	8 450 968	11 078 147	10 849 152	11 650 981	11 875 416	<b>12 866 364</b>	14 084 800	15 369 184	8.34
Provinces and municipalities	254 641	305 577	447 317	335 366	399 646	465 820	<b>425 852</b>	477 007	531 498	( 8.58)
Departmental agencies and accounts	575 995	1 131 103	1 298 378	1 093 517	1 045 855	896 347	<b>944 477</b>	821 519	859 664	5.37
Universities and technikons	10 974	8 000	132 683	10 500	10 500	10 500	<b>10 500</b>	11 500	13 500	
Public corporations and private enterprises	120 087	194 309	265 720	283 704	348 102	302 316	<b>276 584</b>	298 557	342 842	( 8.51)
Foreign governments and international organisations			3 326	5 205	5 205	5 205				( 100.00)
Non-profit institutions	140 438	169 345	186 974	172 231	323 453	322 545	<b>573 477</b>	641 118	704 611	77.80
Households	4 703 747	6 642 634	8 743 749	8 948 629	9 518 220	9 872 683	<b>10 635 474</b>	11 835 100	12 917 069	7.73
<b>Payments for capital assets</b>	358 839	839 645	1 699 209	1 903 603	1 599 378	1 583 152	<b>1 620 967</b>	2 303 404	2 790 213	2.39
Buildings and other fixed structures	288 363	678 506	1 343 298	1 637 121	1 466 984	1 460 556	<b>1 431 806</b>	2 077 100	2 479 300	( 1.97)
Machinery and equipment	70 476	161 073	295 105	209 368	126 570	116 865	<b>189 106</b>	226 246	310 852	61.82
Cultivated assets			18 872							
Software and other intangible assets				5 558	5 824	5 731	<b>55</b>	58	61	( 99.04)
Land and subsoil assets		66	41 934	51 556						
<b>Total economic classification</b>	19 595 326	24 715 247	29 671 566	31 149 012	31 277 501	31 602 836	<b>33 989 039</b>	37 499 210	41 098 076	7.55
Direct charge										
<b>Total economic classification (including direct charge)</b>	19 595 326	24 715 247	29 671 566	31 149 012	31 277 501	31 602 836	<b>33 989 039</b>	37 499 210	41 098 076	7.55

## Compensation of employees

Personnel expenditure at R15 123, 407 million accounts for 44,5% of the total budget in 2005/06 and this decreases to 40,8% in 2007/08. Since 2001/02 percentage share of personnel has been decreasing from 57.1% in 2001/02 to 40,8% in 2007/08. The main reason for the decrease is the steep growth in non-personnel expenditure, including infrastructure and conditional grant expenditure, coupled with decrease in personnel, notably from the Education department. Education personnel expenditure (91.1% in 2001/02) has been higher than the norm of 85% and there is concerted effort to achieve about 80% in 2007/08. The trends are in line with the provincial strategy of limiting expenditure on personnel, especially the non-professional personnel. Attention has, however been given to the funding of critical posts.

## **Social services sector**

The social services sector constitutes R28 475,406 million or 84% of the budget in 2005/06 and the figure grows to R34 440,888 million (84%) in 2007/08. On a year on year basis the total expenditure increases in nominal terms by R2 433,953 million or 31,2% for 2005/06 (R3 183,421 million or 32,4% and R2 782 061 million or 26,5% for 2006/07 and 2007/08, respectively). In real terms this translates to an increase of 17,8% in 2005/06, decreasing to 16,3% and 10,8% in 2007/08 and 2007/08, respectively. The major increases, most of which start in 2005/06, are due to the lower base in 2004/05 arising from budget austerity and once-off amounts that are included in 2005/06. The increases in 2006/07 onwards are due to upward revision (restoration) of baselines following tight fiscal framework in 2005/06.

Further increases provide for traditional carry through costs such as improvement in conditions of services (ICS), further increases to the grant values and increased take up in Child Support Grant, multi-year wage agreements, including the extension of housing allowance to all public sector employees, further pay progression for educators, continued provision for scarce skills and rural allowance for specific categories of health professionals, improved salary dispensation for social workers, non-personnel inputs that are key in improving the quality of education, roll-out the education management information system (EMIS) to schools over the next three years as part of a broader approach to improved public sector management and performance reporting, improved management of hospitals, renewal of equipment and streamlined management of medicine and other supplies to accompany the hospital rehabilitation programme, smooth transition of the shifting of the primary health care component administered by non-metropolitan municipalities to provinces.

## **Non-social services sector**

The non-social services sector comprise of all sectors excluding Health, Social Development and Education. The non social services sector expenditure constitutes R5 513,633 million or 16,2% (R5 840, 383 million or 15,6% and R6 657,189 million or 16,2% for 2006/07 and 2007/08, respectively). On a year-on- year basis the total expenditure decreases in nominal terms by R47,750 million or 0,9%, with 2006/07 and 2007/08 increasing by R326,750 million or 5,9% and R816,806 million or 14%, respectively. In real terms the growth rate decreases by 4,9% in 2005/06 with 2006/07 and 2007/08 increasing by 0,8% and 8,5%, respectively. Most increases deal with the restoration of baselines as some of the projects were only funded as once off's.

One notes the steady growth (or decline in the sector) and this is attributable to steep demand for social services. With the shift of Social development function (coupled with the strategy by Education sector to restore its funding to standard norms) increased the scope to focus on economic sector is evident in 2007/08.

## **Capital**

Capital expenditure constitutes R1 620,967 million or 4,8% (R2 303,404 million or 6,1% and R2 790,212 or 6,8% for 2006/07 and 2007/08, respectively). On a year on year basis the total expenditure increases in nominal terms by R37,815 million or 2,4%, with 2006/07 and 2007/08 increasing by R682,437 million or 42,1% and R486 808 million or 21,1%, respectively. In real terms the growth rates decreases by 1,7% in 2005/06 (2006/07 and 2007/08 increasing by 35,2% and 15,3%, respectively). Most increases deal with the restoration of baselines as some of the projects were only funded as once off in 2004/05, with recovery from budget austerity evidenced with high spike in 2006/07 and somewhat less but still high growth in 2007/08. These increases mainly relate to infrastructure spending in line with government strategy of improving the economy.

## 10.3 Expenditure by Vote

Table 10.2 reflects the expenditure per vote as discussed in more detail below

**Table 10.2 Summary of provincial payments and estimates by vote**

Provincial department R'000	Outcome						Medium-term estimate			
	Audited 2001/02	Audited 2002/03	Audited 2003/04				Main appro- p-iation 2004/05	Adjusted appro- p-iation 2004/05	Revised estimate 2004/05	2005/06
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

### 10.3.1 Vote 1: Office of the Premier

The Eastern Cape government, through the Office of the Premier (OTP) commits itself to ensuring that the human capital, systems and structural arrangements are in place for the different entities of government to deliver on the vision of the people's contract to create work and fight poverty. This department is mainly responsible for the vision and framework for integrated economic, social and community development through the Provincial Growth and Development Plan (PGDP).

The budget of OTP represents 0.76 % of the total provincial budget allocation and is mainly intended for the coordination and monitoring of implementation of the PDGP by the various provincial departments. This is primarily to ensure that the institutional arrangements are in place to deliver on the PGDP. The department reorganized its functions to optimize its capacity to monitor and coordinate the implementation of the PDGP.

**Table 1: Expenditure by economic classification**

Expenditure item (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
Compensation of employees	67,533	81,984	86,194	93,470	32%	21%
Goods and services	102,448	107,605	119,303	128,577	42%	5%
Transfers and subsidies	40,280	54,775	60,918	66,603	21%	36%
Payments for Capital Assets	15,709	14,810	15,623	18,507	6%	-6%
<b>Total</b>	<b>225,970</b>	<b>259,174</b>	<b>282,038</b>	<b>307,157</b>	<b>100%</b>	<b>15%</b>

**Comments on Expenditure by Economic Classification**

This Vote provides for expenditure of R259,174 million in 2005/06 an increase of 15% (R 33,204 million) of the 2004/05 adjusted budget. The increase mainly relates to the additional allocations listed in table 3 below. Compensation of employees increased by 21%, Goods and Services by 5%, Transfers and subsidies by 36% whilst Payments for Capital Assets reduced by 6%.

**Table 2: Summary by programme:**

Programme details (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
<b>Summary by programme</b>						
1. Management	9,786	9,859	10,647	11,467	4%	1%
2. Cabinet Office	59,374	79,872	91,732	98,308	31%	35%
3. Corporate Services	89,234	92,595	97,051	107,206	36%	4%
4. Organisational Dev & Gov	44,379	51,241	54,037	59,657	20%	15%
5. Shared Legal Services	9,102	10,342	11,966	12,835	4%	14%
6. Shared Internal Audit	14,095	15,265	16,605	17,684	6%	8%
<b>Total</b>	<b>225,970</b>	<b>259,174</b>	<b>282,038</b>	<b>307,157</b>	<b>100%</b>	<b>15%</b>

**Comments on expenditure by programme**

Table 2 reflects that Programme 2 (Cabinet Office) received the highest (35%) allocation whilst Programme 1 (Management) only reflects a 1% growth on 2004/05. This is largely to strengthen the capacity in the department to ensure successful and systematic implementation of the key priorities of the PDGP.

The following table illustrates the additional allocations made to the department.

<b>Table 3: Additional Allocations</b>			
Description (R 000)	2005/06	2006/07	2007/08
Poverty fund through ECSECC	7,500	7,883	8,285
Policy, M & E Monitoring	4,000	4,204	4,418
PS Transformation: Customer Care & Service Delivery	2,000	5,000	5,255
Provincial HIV/AIDS Programme (Aids Council)	9,000	9,459	9,932
Provincial HIV/AIDS Programme	3,184	3,346	3,515
<b>Total</b>	<b>25,684</b>	<b>29,892</b>	<b>31,405</b>

In summary, the amount appropriated to the department will be utilized to ensure effective and efficient governance in the province which will result in the Eastern Cape being a compelling place in which to live, work and invest in. This will be achieved through the coordination and alignment of budgets, priorities, policies and activities across all government departments.

### 10.3.2 Vote 2: Provincial Legislature

This vote comprises of 0.29% of the total budget of the Eastern Cape for 2005/06. The legislative authority of the province is vested in the Provincial Legislature. It provides legislative and institutional support services to fulfil its constitutional functions.

**Table 1: Summary by Economic Classification**

Expenditure item (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
Compensation of employees	61,554	62,835	66,040	69,408	63%	2%
Goods and services	26,710	27,882	29,304	30,798	28%	4%
Transfers and subsidies	5,675	7,654	8,044	8,455	8%	35%
Payments for Capital Assets	1,610	1,000	1,051	1,105	1%	-38%
<b>Total</b>	<b>95,549</b>	<b>99,371</b>	<b>104,439</b>	<b>109,766</b>	<b>100%</b>	<b>4%</b>

#### Comments on Expenditure by Economic Classification

Provision has been made for expenditure of R 99,371 million in 2005/06, a 4% (R3,822 million) increase on the 2004/05 adjusted budget and a 10% (R 9,3 million) increase on the MTEF baseline allocation for 2005/06. Transfers and subsidies increased by 35% while payments for capital assets reduced by 38% from a low base when compared to 2004/05.

**Table 2: Summary by Programme**

Programme details (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
1. Administration	32,070	33,498	35,206	37,002	34%	4%
2. Remuneration of Elected Officials	33,256	36,354	38,208	40,157	37%	9%
3. Constitutional Mandate	30,223	29,519	31,024	32,607	30%	-2%
<b>Total</b>	<b>95,549</b>	<b>99,371</b>	<b>104,438</b>	<b>109,766</b>	<b>100%</b>	<b>4%</b>

#### Comments on Expenditure by Programme

The department received an additional amount of R10 million in the 2004/05 adjustment budget. The additional amount was allocated to Programme 1 (Administration) and Programme 3 (Constitutional Mandate). Remuneration of Elected officials has increased by 9%, Administration by 4% while Constitutional Mandate reduced by 2%

**Table 3: Information on Programme 2 – Remuneration of Elected Officials**

Expenditure item (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
Remuneration of Elected Reps	23,908	23,908			66%	0%
Support to Political Parties	9,348	12,446			34%	33%
<b>Total</b>	<b>33,256</b>	<b>36,354</b>			<b>100%</b>	<b>9%</b>

Remuneration of Elected Representatives has remained static while support to political parties increased by 33% when compared to 2004/05

The department received the following additional allocations:

**Table 4: Additional Allocations**

Description (R'000)	2005/06	2006/07	2007/08
Personnel and Administration	7,500	7,883	8,285
<b>Total</b>	<b>7,500</b>	<b>7,883</b>	<b>8,285</b>

In conclusion, the Legislature of the Eastern Cape is committed to conduct its legislative oversight function through democratized public participation ensuring a people-centred Legislature.

### 10.3.3 Vote 3: Health

This vote constitutes 17,91% of the total budget of the Eastern Cape for the 2005/06 financial year. The total budgeted expenditure amounts to R6.088 billion (2004/05 R5.221 billion) which is an increase of 17% compared to the previous year's adjusted budget.

The composition of the budget for the period 2005/06 to 2007/08 is listed below, the amounts for the 2004/05 adjusted budget are shown for comparative purposes;

**Table 1; Expenditure by economic classification**

Expenditure item (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
Compensation of employees	3,087,550	3,308,547	3,448,578	3,654,902	54%	7%
Goods and services	1,137,148	1,608,486	1,814,360	2,143,199	26%	41%
Transfers and subsidies	551,985	651,089	690,162	738,428	11%	18%
Payments for Capital Assets	444,583	519,669	664,828	681,182	9%	17%
<b>Total</b>	<b>5,221,266</b>	<b>6,087,791</b>	<b>6,617,928</b>	<b>7,217,711</b>	<b>100%</b>	<b>17%</b>

### Comments on economic classification

As can be seen from Table 1 above, the total budget for the 2005/06 financial year has increased by 17% compared to the previous year. The most significant items of expenditure are compensation for employees (54% of total budget) and goods and services (26% of total budget).

**Table 2: Expenditure by programme**

Programme details (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
1. Health administration	286,582	295,052	264,161	280,431	5%	3%
2. District Health Services	2,367,902	2,794,563	2,982,760	3,220,700	46%	18%
3. Emergency Medical Services	151,389	186,846	182,180	192,329	3%	23%
4. Provincial Hospital Services	1,795,285	1,850,037	2,019,097	2,269,971	30%	3%
5. Central Hospital Services	-	-	-	-	0%	0%
6. Health Science and Training	137,393	337,245	352,839	370,757	6%	145%
7. Health Care Support Services	16,607	45,806	39,608	40,906	1%	176%
8. Health Facilities Dev and Maintenance	466,108	578,242	777,283	842,617	9%	24%
<b>Total</b>	<b>5,221,266</b>	<b>6,087,791</b>	<b>6,617,928</b>	<b>7,217,711</b>	<b>100%</b>	<b>17%</b>

### Comments on expenditure by programme

As can be noted from Table 2, above, the bulk of the 2005/06 budget (76%) has been allocated to the core business of the Department; District Health Services (Programme 2; 46%) and Provincial Hospital Services (Programme 4; 30%).

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, as such personnel are key to the delivery of good health care. 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 orthopedic and prosthetic services.

### Other

An amount of R178 million has been set aside for HIV and AIDS for the 2005/06 financial year. This is an increase of 35% compared to the R132 million set aside in the 2004/05 financial year. The amount for 2005/06 is made up of a conditional grant of R159 million and specific provincial funding of R19 million.



Table 3, below lists additional allocations that have been made over and above the 2004/05 baseline amounts;

**Table 3: Additional allocations**

Description (R 000)	2005/06	2006/07	2007/08
Critical Posts (Ringfenced)	44,350	46,612	48,989
Health (Deferments)	133,000	-	-
Backlogs: Personnel backpayments	10,000	-	-
Infrastructure (accelerated infrastructure delivery)	-	75,000	50,000
Infrastructure (Ringfenced) - Adj Estimate top up	-	75,000	100,000
Medicines & Supplies	15,000	50,000	30,000
Financial Management Skills	2,500	5,000	5,255
Primary Health Care to Non-metro	16,000	23,000	31,000
Infrastructure Maintenance & Renewal of Equipment	10,000	40,000	60,000
Provincial HIV/AIDS Programme	18,575	19,522	20,498
<b>Total</b>	<b>249,425</b>	<b>334,134</b>	<b>345,742</b>

### Comments on additional allocations

The following matters are worth noting regarding Table 3;

- 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 and R10 million have been set aside to cater for backlogs in 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.

### 10.3.4 Vote 4: Social Development

The Department of Social Development's allocated budget of R11.136 billion in 2005/06 (2004/05 in R9.688 billion) constitutes 32.76% of the total budget of the Eastern Cape Province. Allocations of R12,354 billion and R13.344 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.

Budgetary allocations to the department have been growing every year in proportion to the province's total budget as evidenced in the trend in previous year's expenditure. In 2000/01 the department's expenditure as a percentage of the province's total expenditure was 21.7%. This increased to 22.4% in 2001/02, 26.0% in 2002/03, 30.2% in 2003/04. The estimated actual for 2004/05 is 31.8% of the provincial total expenditure.

### The 2005/06 Budget Allocation

The department's budget for the MTEF period (2005/06 to 2007/08) as allocated to the various expenditure items is shown below. (The adjusted budget for 2004/05 has been shown for comparative purpose only);

**Table 1; Expenditure by economic classification**

Expenditure item (R 000)	(Adjusted) 2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% Inc(+) Dec(-) 2004/05
Compensation of employees	231,027	330,688	352,859	372,318	3%	43%
Goods and services	544,003	575,904	634,382	712,910	5%	6%
Interest on Land	2,100	3,313	6,770	7,107	0%	58%
Transfers and subsidies	8,888,806	10,187,303	11,300,985	12,212,713	91%	15%
Payments for Capital Assets	21,924	39,087	58,533	38,697	0%	78%
<b>Total</b>	<b>9,687,860</b>	<b>11,136,295</b>	<b>12,353,529</b>	<b>13,343,745</b>	<b>100%</b>	<b>15%</b>

**Comments on economic classification**

As stated in the first paragraph above and confirmed by Table 1 above, the total budget for the 2005/06 financial year has increased by 15% over the previous year's budget. The most significant items of expenditure are transfers - to households (in respect of the social assistance grants) and to non-profit organizations (91%) and goods and services (5%) - of which the cost of outsourcing social grants payment takes the largest proportion.

**Table 2: Expenditure by programme**

Programme details (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
1. Administration	118,996	113,291	131,586	157,007	1%	-5%
2. Social Assistance	9,194,624	10,596,869	11,745,528	12,668,393	95%	15%
3. Social Welfare Services	263,188	338,581	385,834	423,313	3%	29%
4. Dev & Supp Services	109,688	86,030	88,988	93,360	1%	-22%
5. Population Development	1,364	1,524	1,593	1,672	0%	0%
<b>Total</b>	<b>9,687,860</b>	<b>11,136,295</b>	<b>12,353,529</b>	<b>13,343,745</b>	<b>100%</b>	<b>15%</b>

**Comments on expenditure by programme**

Table 2, above shows how the budget has been divided between the programmes. The bulk of the 2005/06 budget (95%) has been allocated to the core business of the department – Social Assistance.

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 shifted 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 aged, the disabled, orphans, HIV/AIDS affected persons etc. For this reason the Social Welfare Services programme's budget for 2005/06 has increased by 29%, over the 2004/05 allocation.

**Other Information about the budget**

A special allocation (additional to the indicative figures) has been made in the MTEF (2005/06 to 2007/08) budget for the appointment of additional social workers and enhancement of salaries of social workers in general, the administration of child justice act (to begin in 2006/07), and for HIV/ AIDS. Table 3 below shows the details per each year in the MTEF.

**Table 3: Special additional allocation to the department**

Description R'000	2005/06	2006/07	2007/08
Critical Posts & Social Workers	11,000	11,561	12,151
Child Justice Bill		30,000	50,000
Social Workers Salaries	17,974	18,862	19,717
Provincial HIV/AIDS Programme	2,600	2,733	2,869
<b>Total</b>	<b>31,574</b>	<b>63,156</b>	<b>84,737</b>

**10.3.5 Vote 5: Public works**

This vote constitutes 1.6% of the provincial budget or R523,788 million in 2004/05. The vote's share of the total provincial budget over the MTEF amounts to 2% (2005/06), 2% (2006/07) and 2.1% (2007/08)

The department has been the provincial government implementation agent of the roads and building infrastructure until February 2004 when it was decided that the roads function be moved to the Department of Transport effective 1 April 2005. The shift of the roads function has resulted in the reduction of the department's budget from an adjusted appropriation of R523,788 million in the 2004/05 financial year to R527,535 million (2005/06), R550,826 million (2006/07) and R619,417 million (2007/08).

The department will continue to involve all stakeholders in the delivery of its services relating to buildings and continue with the coordination of the infrastructure component of the economic development and infrastructure cluster programmes. The bigger portion of the budget of the vote is funded by equitable share and a smaller part by own generated revenue. The conditional grant portion funds the roads function and has been shifted to Department of Transport. The composition of the 2005/06 and the MTEF budget by economic classification are listed below; the amounts for the 2004/05 adjusted budget are shown for comparative purposes;

**Table 1; Expenditure by economic classification****Summary by economic classification**

Expenditure item (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
Compensation of employees	236,613	247,219	266,533	279,612	47%	4%
Goods and services	202,803	218,825	154,620	196,276	41%	8%
Transfers and subsidies	14,773	4,315	1,077	1,132	1%	-71%
Payments for Capital Assets	69,599	57,176	60,509	63,539	11%	-18%
<b>Total</b>	<b>523,788</b>	<b>527,535</b>	<b>482,739</b>	<b>540,559</b>	<b>100%</b>	<b>1%</b>

**Comments on economic classification**

As can be seen from Table 1 above, the total budget for the 2005/06 financial year has increased by 1% compared to the 2004/05 financial year. This is as a result of the function shift of the roads programme to the Department of Transport which prompted the transfer of the historic data as well.

The composition of the 2005/06 and the MTEF budget by programme are listed below; the amounts for the 2004/05 adjusted budget are shown for comparative purposes

**Table 2; Expenditure by programme**

<b>Summary by programme</b>						
<b>Programme details (R 000)</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>% 2005/06 Budget</b>	<b>% incr / (dec) 2004/05</b>
1. Administration	167,266	127,298	131,931	143,881	24%	-24%
2. Public Works	299,069	334,408	347,277	397,220	63%	12%
3. Roads Infrastructure						
4. Community based Public programmes	57,453	65,829	71,620	78,316	12%	15%
<b>Total</b>	<b>523,788</b>	<b>527,535</b>	<b>550,828</b>	<b>619,417</b>	<b>100%</b>	<b>1%</b>

**Comments on expenditure by programme**

As can be noted from Table 2, above, the increase is due to the reasons alluded to above.

The vote received new funding relating to key focus areas for the 2005/06 and MTEF as can be seen from the table below.

Table 3, below lists additional allocations that have been made over and above the 2004/05 baseline amounts;

<b>Table 3</b>					
<b>Description (All figures in R'000)</b>			<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
Cacadu Municipality (2004/05 deferments)			3,300		
MECs: Security			1,400		
Asset & Property Management (Disposal Strategy)			10,000		
Provincial HIV/AIDS Programme			250	263	276
<b>Total</b>			<b>14,950</b>	<b>263</b>	<b>276</b>

The opportunities for coordinating the Expanded Public Works Programme will allow Public Works to eradicate poverty, create job opportunities and develop skills in the province. These opportunities will be identified and implemented in the economic, environmental, social and infrastructure sectors. There are indications of projects that have already begun within the social and infrastructure sectors.

**10.3.6 Vote 6: Department of Education**

The core business of the department of Education is to provide quality education to develop human capital, maintain and support the South African education and training system and promote values of accountability, equity and democratic principles.

The department 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 R 24,844 million for 2004/05 and R 28,100 million for 2005/06 reporting a growth of 12 %.

The total allocation of the department for 2005/06 financial year is R11,251 billion, (R 12,687 billion and R13,879 billion over the MTEF) including conditional grants for Primary School Nutrition Programme amounting to R194,288 million, (R233,882 million and R245,576 million over the MTEF period) and HIV and AIDS (Life skills education) program amounting to R23,692 million, (25,113 million and R26,392 million over the MTEF period). The two conditional grants, i.e. Early Childhood Development (ECD) and Financial Management and Quality Enhancement grants have been phased out from 2005/06. ECD has been incorporated into the provincial equitable share.

This table 1 below represents the composition of the budget, for the period 2005/06 to 2007/08 with adjusted 2004/05

**Table 1: Summary by economic classification**

<b>Expenditure item (R 000)</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>% 2005/06 Budget</b>	<b>% incr / (dec)</b>
Compensation of employees	9,340,462	9,703,262	10,329,008	10,768,192	86%	4%
Goods and services	861,558	788,897	1,140,197	1,614,712	7%	-8%
Transfers and subsidies	291,744	412,805	465,966	517,081	4%	41%
Payments for Capital Assets	301,502	346,356	752,199	979,447	3%	15%
<b>Total</b>	<b>10,795,266</b>	<b>11,251,320</b>	<b>12,687,370</b>	<b>13,879,432</b>	<b>100%</b>	<b>4%</b>

The table 2 below illustrates the summary of allocation per program

**Table 2: Summary by programme**

<b>Programme details (R 000)</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>% 2005/06 Budget</b>	<b>% incr / (dec) 2004/05</b>
1. Administration	616,698	643,231	738,285	818,024	6%	4%
2. Public School Education	9,442,999	9,852,111	10,998,582	11,986,289	88%	4%
3. Independence Schools Education	17,459	17,459	21,332	23,597	0%	0%
4. Special School Education	243,386	231,370	344,546	380,639	2%	-5%
5. Further Education & Training	169,846	198,867	223,618	247,704	2%	0%
6. Adult Based Education	157,641	132,097	149,776	165,625	1%	-16%
7. Early Childhood Development	37,715	38,039	48,941	72,318	0%	1%
8. Auxilliary Services	109,522	138,146	162,290	185,236	1%	26%
<b>Total</b>	<b>10,795,266</b>	<b>11,251,320</b>	<b>12,687,370</b>	<b>13,879,432</b>	<b>100%</b>	<b>4%</b>

For the three financial years the personnel expenditure outcomes for the department has been recording cost pressures which could be attributed to personnel related backlogs, like leave gratuities and other promotional expenditures. The department had developed and implemented the Turnaround Plan and Integrated Education Transformation Program. This program encapsulates many of the department's priorities, which would enhance service delivery, especially from the administrative perspective. These includes, amongst others:-

- Strengthening Internal Audit function, e.g. Payroll management, Head count for both learners and educators;
- Improving corporate services in the Head Office and all 24 Districts offices; and
- Leadership and management improvement.

In this regard, the personnel budget for department has increased from R 9,340 billion in 2004/05 to R9,703 billion in the first year, R 10,329 billion in the middle year and R 10,768 billion in the outer year. This represents 3,8 % to 4 % from year to year over the MTEF period. This growth includes the R 180 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. (See Table 3 below).

Out of the R11,251 billion total budget for the department, the non-personnel budget is R 1,548 billion which represents 86 : 14 split between personnel and non-personnel in the 2005/06. 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 services delivery measures and performance targets. These includes amongst others, Infrastructure development, especially the eradication of the mud-structure schools, school furniture,

Learner support material (LSM) and human resource development. Currently the split is consistently improving compared to the last financial year of 88:12 and the province is moving towards the national norm of 80 : 20 towards the end of the MTEF period.

A critically important component of the norms and standards for school funding categories is LSM which also includes teaching aids. The LSM budget has increased from R 461,848 million in 2004/05 to R 508,162 million in 2005/06 and will bring about improvements in the funding level per learner to R 214 which is still half of the national norm. The 9 % increase will also address the implementation of the Revised National Curriculum Statement (RNCS) for the General Education and Training band and the NCS for FET band. The RNCS was initially implemented in 2004 academic year as a foundation phase. The model for the In-service training program was also piloted and is being rolled to all primary schools in 2005. Over and above the LSM baseline figure, R 25m has been allocated to specifically address these national priorities.

The table 3 below illustrates how the additional funding has been allocated to different key focus areas.

**Table 3 : Key Focus Areas (All figures in R 000's)**

Description of allocation	2005/06	2006/07	2007/08
Critical Posts (Ringfenced)	180,000	189,180	198,828
EMIS (Audit and Rollout)	2,500	5,000	5,255
Strengthen Internal Audit (Head count, payroll management)	1,500	1,500	-
LTSM	25,000	50,000	52,550
Strengthen the Turnaround plan, e.g. financial management	-	5,000	5,255
Pay progression: Teachers	-	97,560	192,360
Infrastructure - AE Cut top-up	-	120,000	75,000
Mud-structure elimination (Infrastructure)	20,000	40,000	50,000
Provincial HIV/AIDS program	1,000	1,051	1,104
<b>Total</b>	<b>230,000</b>	<b>509,291</b>	<b>580,352</b>

In the additional funding for the 2005/06 MTEF, the following focus areas were prioritized:

In terms of critical posts and other personnel related pressures, R180 million has been added to the baseline to fund these. During the 2004/05 financial year budget austerity exercise, the department implemented cuts on the LSM hence R25,0 million is added back to the baseline. In terms of infrastructure, R20,0 million is added for the elimination of mud-structures.

### 10.3.7 Vote 7: Housing, Local Government and Traditional Affairs

The vote constitutes 2.7% of the 2005/06 provincial budget. Over the MTEF period the relative budget share of this vote 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 conditional grants allocations from R654,113 million to R581,218 million (11%). The equitable share allocation of the vote increases by 11.3% in 2005/06 as compared against 2004/05.

The composition of the budget for the period 2005/06 to 2007/08 is listed below; the amounts for the 2004/05 adjusted budget are shown for comparative purposes;

**Table 1; Expenditure by economic classification**

Expenditure item (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
Compensation of employees	184,148	196,870	207,642	218,839	20%	7%
Goods and services	102,892	93,477	102,478	115,396	9%	-9%
Transfers and subsidies	737,681	707,781	826,612	991,825	70%	-4%
Payments for Capital Assets	14,491	10,098	11,074	12,303	1%	-30%
<b>Total</b>	<b>1,039,212</b>	<b>1,008,226</b>	<b>1,147,806</b>	<b>1,338,363</b>	<b>100%</b>	<b>-3%</b>

**Comments on economic classification**

As can be seen from Table 1 above, the total budget for the 2005/06 financial year has decreased by 3% compared to the 2004/05 year. The most significant items of expenditure are compensation for employees (20% of total budget) and Transfers and subsidies (70% of total budget).

**Table 2; Expenditure by programme****Summary by programme**

Programme details (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
1. Administration	79,022	74,541	80,329	88,337	7%	-6%
2. Housing	699,996	645,398	748,020	904,727	64%	-8%
3. Local Government	188,243	209,073	235,425	256,155	21%	11%
4. Traditional Affairs	71,951	79,214	84,032	89,144	8%	10%

**Comments on expenditure by programme**

As can be noted from Table 2, above, the bulk of the 2005/06 budget (85%) has been allocated to the core business of the Department; Housing (Programme 2; 64%) and Local Government (Programme 3; 21%).

Housing budget (Programme 2) has decreased by (8%) to R645,4million. This is due to the reduction on the funding of Housing Fund Grant by National Department of Housing, but there is significant increase in the other MTEF outer years.

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.

**Other**

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.

Table 3, below lists additional allocations that have been made over and above the 2004/05 baseline amounts;

<b>Table 3 : Additional Allocation</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
<b>Description (R'000)</b>			
Traditional Leaders (ICS)	5,562	5,846	6,144
Traditional Leaders (Secretaries)	8,809	9,258	9,730
Community Development Workers	6,100	15,317	13,098
Provincial HIV/Aids Program	300	315	331
<b>Total</b>	<b>20,771</b>	<b>30,736</b>	<b>29,303</b>

### 10.3.8 Vote 8: Department of Agriculture

The department's share of the total provincial budget over the MTEF amounts to 2.4% (2005/06), 2.4% (2006/07) and 2.4% (2007/08). The allocation comprises three sources of funding which include equitable share of R761million (2005/06), R841 million (2006/07) and R915 million (2007/08), own generated revenue of R5 million (2005/06), R5 million (2006/07), R5 million (2007/08) and conditional grants which have been split between the Comprehensive Agriculture Support Programme, Land Care and Farmer Support and Development Services; R56 million (2005/06), R66 million (2006/07) and R79 million (2007/08).

The composition of the 2005/06 and the MTEF budget by economic classification are listed below; the amounts for the 2004/05 adjusted budget are shown for comparative purposes;

**Table 1; Expenditure by economic classification**

<b>Expenditure item (R 000)</b>	<b>2004/05</b>	<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>	<b>% 2005/06 Budget</b>	<b>% incr / (dec) 2004/05</b>
Compensation of employees	467,957	490,482	517,459	543,332	60%	5%
Goods and services	213,321	226,517	286,741	337,656	28%	6%
Transfers and subsidies	190,916	99,620	102,201	112,934	12%	-48%
Payments for Capital Assets	9,949	5,200	5,460	5,232	1%	-48%
<b>Total</b>	<b>882,143</b>	<b>821,819</b>	<b>911,861</b>	<b>999,154</b>	<b>100%</b>	<b>-7%</b>

### Comments on economic classification

As can be seen from Table 1 above, the total budget for the 2005/06 financial year has decreased by 7% compared to the 2004/05 financial year. The most significant items of expenditure are compensation for employees (60% of total budget which is an increase of 5% over the 2004/05 budget) and goods and services (28% of total budget which is an increase of 6% over the 2004/05 budget). The transfers & subsidies and payments to capital assets both decreased by 48% below the 2004/05 baseline. The cuts in payments for capital assets decreases from a low base and is largely attributed to the budget cuts effected in 2004/05 to finance the Provincial deficit. The reduction of around R90 million is due to a reduced allocation to the massive food programme from R150 million in 2004/05 to R90 million in 2005/06. This reduction is made good by increased allocations in each of the 2005/06 MTEF years. It is worth noting that the 2004/05 allocation was a once-off allocation whilst the improved allocations over the MTEF covers all the MTEF and thereby showing governments continued commitment to this programme as well as bringing more certainty in spending in this important strategic programme. The remaining R30 million has been allocated to goods and services and compensation of employees and will be applied towards reaching the same objectives as contained in the massive food programme



The composition of the 2005/06 and the MTEF budget by programme are listed below; the amounts for the 2004/05 adjusted budget are shown for comparative purposes;

**Table 2; Expenditure by programme**

Programme details (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
1. Administration	294,575	279,629	299,644	325,413	34%	-5%
2. Sustainable Resource Management	43,964	56,493	59,418	64,528	7%	28%
3. Farmer Support & Development	355,776	322,319	378,163	417,999	39%	-9%
4. Veterinary Services	91,372	81,085	88,211	95,453	10%	-11%
5. Technical Research Development ser	55,200	42,745	44,895	52,152	5%	-23%
6. Agriculture Economics	10,701	7,630	8,015	8,418	1%	-29%
7. Structured Agricultural Training	30,555	31,918	33,515	35,191	4%	4%
<b>Total</b>	<b>882,143</b>	<b>821,819</b>	<b>911,861</b>	<b>999,154</b>	<b>100%</b>	<b>-7%</b>

### Comments on expenditure by programme

As can be noted from Table 2, above, the bulk of the 2005/06 budget (73%) has been allocated to the core business of the Department; Administration (Programme 1; 34%) and Farmer support & Development (Programme ; 39%).

#### 1. Farmer support program (CASP)

Through Comprehensive Agricultural Support Program (CASP), the department is augmenting the Land Reform for Agriculture development (LRAD) program currently implemented by the National Department of Agriculture, by providing farm infrastructure support to qualifying farmers.

#### 2. Natural Resource utilisation and Land Care Projects

Through Land Care projects, the department provides grant funding to encourage the optimal use of soil and land resources through the promotion of effective grazing, cropping, water management and conservation, environmental protection, particularly within communal areas.

Also incorporated in the departmental budget is an additional provision of R90,500 million (2005/06)(Massive Food Program- R90,000 million and Provincial HIV/AIDS Program R,500million), R120,526million (2006/07) (Massive Food Program- R120,000 million and Provincial HIV/AIDS Program R,526million) and R126,672 million (2007/08) (Massive Food Program- R126,120 million and Provincial HIV/AIDS Program R,552 million)

### Massive Food Production

Crop improvement through the massive food production scheme has as its primary aim the improvement of crop production through grants for production inputs and the entrepreneurial development through the mechanization programme. The scheme focuses on promoting conservation cropping practices to ensure long term sustainability of finite arable land resources. The scheme is being implemented over a period of five years, starting from the 2003/04 financial year. Also in line with the National as well as the Provincial policy on Food Security, the department is revitalising irrigation schemes in partnership with the private sector with the objective of increasing availability of food.

Table 3, below lists additional allocations that have been made over and above the 2004/05 baseline amounts;

Description			2005/06	2006/07	2007/08
Massive Food Program (PGDP)			90,000	120,000	126,120
Provincial HIV/Aids Program			500	526	552
<b>TOTAL</b>			<b>90,500</b>	<b>120,526</b>	<b>126,672</b>

### 10.3.9 Vote 9: Economic Affairs, Environment and Tourism

This vote constitutes 1.83% of the total budget of the Eastern Cape for the 2005/06 financial year. The total departmental budget expenditure amounts to R622,764 million compared to R799,624 million for 2004/05) which means that there is a decrease of 0.22% compared to the previous year's adjusted budget.

The composition of the 2005/06 budget is shown below, the amounts for the 2004/05 adjusted budget are used for comparative purpose;

**Table 1: Summary by economic classification**

Expenditure item (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
Compensation of employees	92,249	88,670	87,568	92,823	14%	-4%
Goods and services	42,934	54,347	56,524	58,738	9%	27%
Transfers and subsidies	661,170	470,802	327,313	361,251	76%	-29%
Payments for Capital Assets	3,271	8,945	7,286	10,660	1%	173%
<b>Total</b>	<b>799,624</b>	<b>622,764</b>	<b>478,691</b>	<b>523,472</b>	<b>100%</b>	<b>-22%</b>

### Comments on economic classification

As can be seen from Table 1 above, the total budget for the 2005/06 financial year has decreased by 0.23% compared to the previous year, due to reduction in the funding for COEGA from R359 million in 2004/05 to R180 million in 2005/06 (i.e. 49%) and ELIDZ from R125 million in 2004/05 to R105 million in 2005/06 (i.e. 16%). The most significant items of expenditure are Transfers and subsidies (75,6% of total departmental budget) and compensation of Employees (14.2% of total departmental budget).

**Table 2: Expenditure by Programmes**

Programme details (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
1. Administration	38,740	54,394	54,919	59,845	9%	40%
2. Information Management	11,256	16,083	16,851	17,812	3%	43%
3. Economic Affairs	642,185	435,975	282,425	310,002	70%	-32%
4. Environmental Affairs	107,443	116,312	124,496	135,813	19%	0%
<b>Total</b>	<b>799,624</b>	<b>622,764</b>	<b>478,691</b>	<b>523,472</b>	<b>100%</b>	<b>-22%</b>

### Comments on expenditure by programme

There has been an overall decrease of 0.22% in the allocation of the vote as can be noted from Table 2, above. The bulk of the 2005/06 budget (70%) has been allocated to the core business of the Department: Programme 3: Economic Affairs, and Environmental Affairs (Programme 4; 18.7%).

The decrease on the programme can be attributed to the reduced funding of the IDZ's i.e. Coega and East London IDZ, other public entities and the reprioritization of the provincial budgets. In rand terms Coega decreased from R359 million to R180 million. Alternative funding mechanisms are currently being explored by the Provincial Government, Coeg,a and ELIDZ.

Table below reflects the sub-programmes and their attended increases and decreases:

Description (R 000)	2005/06	2006/07	2007/08
Coega	180,000	-	-
Provincial HIV/AIDS Programme	250	263	276
<b>Total</b>	<b>180,250</b>	<b>263</b>	<b>276</b>

### Comments on additional allocations

The following matter is worth noting regarding Table 3;

An amount of R180 million has been allocated to the funding of Coega for the 2005/06 financial year. No allocation has been made to Coega in the outer years due to the current negative financial position of the Province. Allocations to Coega over the MTEF will be made on a year to year basis until the financial position of the Province improves.

### 10.3.10 Vote 10: Department of Roads and Transport

The core business of the department is to promote the planning and provision of adequate urban and rural transport facilities through appropriate procurement reform programmes relating to land and civil aviation, in line with principles of Integrated Development Planning.

The vote constitutes 5% of the provincial budget or R1,714 billion, an increase of 7% from the 2004/05 adjusted budget. Funding for the vote comprises R885,303 million (51,7%) equitable share, R675,330 million (39,4%) conditional grants and R153,062 million (8,9%) from own revenue. The composition of the budget for the period 2005/06 to 2007/08 is listed below; the amounts for 2004/05 adjusted budget are shown for comparative purposes .

**Table 1: Expenditure by Economic Classification****Summary by economic classification**

Expenditure item (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
Compensation of employees	329,850	347,593	377,886	396,779	20%	5%
Goods and services	340,108	530,830	528,310	554,674	31%	56%
Transfers and subsidies	232,735	236,354	259,197	312,112	14%	2%
Payments for Capital Assets	697,898	598,918	698,929	947,912	35%	-14%
<b>Total</b>	<b>1,600,591</b>	<b>1,713,695</b>	<b>1,864,322</b>	<b>2,211,477</b>	<b>100%</b>	<b>7%</b>

**Comments on Economic Classification**

Table 1 above reflects that there is an overall growth of 7 % from 2004/05 compared to the first year of the 2005/06 MTEF period. 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 classification as a result of the shift. 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.

**Table 2: Expenditure by Programme****Summary by programme:**

Programme details (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
<b>Summary by programme</b>						
1. Administration	79,854	84,520	83,121	87,282	5%	6%
2. Public Transport	139,366	146,256	160,961	176,442	9%	5%
3. Traffic Management	83,366	91,137	97,642	109,956	5%	9%
4. Roads Infrastructure	1,298,005	1,393,782	1,522,598	1,837,797	81%	0%
<b>Total</b>	<b>1,600,591</b>	<b>1,715,695</b>	<b>1,864,322</b>	<b>2,211,477</b>	<b>100%</b>	<b>7%</b>

**Comments on expenditure by programme**

Table 2 illustrates that 81.2% of the budget has been allocated to Programme 4 (Roads Infrastructure), followed by Public Transport (9%). Programme 4 will be the main driver of the department's activities. Overall, all programmes have recorded increases in their 2005/06 budgets compared to the 2004/05 revised allocation with Roads Infrastructure remaining constant.

Table 3 below lists additional allocations that have been made over and above the 2004/05 baseline amounts.

**Table 3: Additional allocations**

Description (R 000)	2005/06	2006/07	2007/08
Cacadu Municipality	3,468	3,645	3,831
Amathole District Municipality	11,596	12,188	12,809
Provincial HIV / Aids Programme	250	263	276
<b>Total</b>	<b>15,315</b>	<b>16,096</b>	<b>16,916</b>

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

This amount is allocated specifically for the HIV/Aids program.

### 10.3.11 Vote 12: Provincial Treasury

The Provincial Treasury is charged with the promotion of efficient and effective public finance management in the Province. This vote constitutes 0.5% of the total budget of the Eastern Cape for the 2005/06 financial year. The total budgeted expenditure amounts to R180,390 million (2004/05 R155,030 million) which is an increase of 16% compared to the 2004/05 financial year.

The composition of the budgets on the 2005/06 to 2007/08 is shown below; the amounts for the 2004/05 adjusted budget are used for comparative purposes;

**Table 1; Expenditure by economic classification**

#### Summary by economic classification

Expenditure item (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
Compensation of employees	65,421	83,806	92,588	100,817	46%	28%
Goods and services	83,343	89,785	96,838	105,854	50%	8%
Transfers and subsidies	2,032	2,112	2,278	2,494	1%	4%
Payments for Capital Assets	4,234	4,687	5,058	5,532	3%	11%
<b>Total</b>	<b>155,030</b>	<b>180,390</b>	<b>196,762</b>	<b>214,697</b>	<b>100%</b>	<b>16%</b>

#### Comments on economic classification

As can be seen from Table 1 above, the total budget for the 2005/06 financial year has increased by 16% compared to the 2004/05 financial year. The main increase is on compensation of employees which went up by R18,385 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 mentorship programme and focus on Municipal Finance Management Act (MFMA) implementation.

**Table 2; Expenditure by programme****Summary by programme**

Programme details (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
1. Strategic Management Services	79,353	92,070	101,467	110,476	51%	16%
2. Sustainable Resource Management	16,382	22,777	24,576	26,878	13%	39%
3. Asset and Liability Management	45,348	47,324	51,061	55,843	26%	4%
4. Financial Governance	13,947	18,219	19,658	21,500	10%	31%
<b>Total</b>	<b>155,030</b>	<b>180,390</b>	<b>196,762</b>	<b>214,697</b>	<b>100%</b>	<b>16%</b>

**Comments on expenditure by programme**

As can be noted from Table 2, above, the bulk of the 2005/06 budget (51%) has been allocated to the Strategic Management Services which increased by R42,717 million above the 2004/05 financial year budget. There is a 37% decrease (R28,024 million) in programme 3 Asset and Liability Management. The variances are caused by structural changes due to take place to be aligned to the gazetted programme structure.

Table 3, below for 2005/06 lists additional allocations that have been made over and above the 2004/05 baseline amounts;

Description (R'000)	2005/06	2006/07	2007/08
EU Agreement	1,000	1,051	1,105
Financial Management (Capacity & Mentoring) & MFMA	2,500	5,000	5,255
Treasury Restructuring & MFMA	5,000	5,255	5,523
Provincial HIV/AIDS program	250	263	276
<b>TOTAL</b>	<b>8,750</b>	<b>11,569</b>	<b>12,159</b>

**10.3.12 Vote 14: Sport, Recreation, Arts and Culture**

The aim of the Department is to promote participation and development in sport, recreation and arts and culture in the Province. The vote constitutes 0.8% of 2005/06 provincial budget. Over the MTEF period the relative budget share of this vote increases substantially year on year: 11.4% (2005/06), 8.2% (2006/07) and 9.9% (2007/08). The composition of the budget for 2005/06 to 2007/08 is listed below; the amounts for the 2004/05 adjusted budget are shown for comparative purposes;

**Table 1; Expenditure by economic classification****Summary by economic classification**

Expenditure item (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
Compensation of employees	147,535	171,460	156,054	163,856	64%	16%
Goods and services	45,522	49,045	70,351	83,982	18%	8%
Transfers and subsidies	32,595	31,731	40,012	44,117	12%	-3%
Payments for Capital Assets	14,231	15,021	22,854	26,097	6%	6%
<b>Total</b>	<b>239,883</b>	<b>267,257</b>	<b>289,271</b>	<b>318,052</b>	<b>100%</b>	<b>11%</b>

### Comments on economic classification

As can be seen from Table 1 above, the total budget for the 2005/06 financial year has increased by 11% compared to 2004/05 financial year. The most significant items of expenditure are compensation of employees (64% of total budget) and goods and services (18% of total budget).

**Table 2; Expenditure by programme**

Programme details (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
1. Administration	145,595	167,849	170,363	187,064	63%	15%
2. Cultural Affairs	63,412	58,221	68,273	73,787	22%	-8%
3. Libraries And Information Services	14,648	21,030	25,442	26,714	8%	44%
4. Sport And Recreation	16,228	20,157	25,193	30,487	8%	24%
<b>Total</b>	<b>239,883</b>	<b>267,257</b>	<b>289,271</b>	<b>318,052</b>	<b>100%</b>	<b>11%</b>

### Comments on expenditure by programme

As can be noted from Table 2, above, the bulk of the 2005/06 budget (63%) has been allocated to Administration (Programme 1) that includes service delivery carried out at district level and Cultural Affairs (Programme 2; 22%) that is in charge with strategic direction to cultural affairs, arts and culture and museums and heritage resources.

Cultural Affairs (Programme 2) budget has decreased by (8%) to R58,2 million. This is due to the realignment of function with the programme structure of the department, but there is significant increase over the MTEF period.

Libraries and Information Services (Programme 3) budget has increased by 44%. This increased funding has been allocated towards the improvement of library services and archiving in the province.

Sport and Recreation (Programme 4) budget has increased by 10%. This increased funding is due to an additional allocation towards the 2010 World Soccer Cup.

### Other

Allocations have been made towards the funding of Provincial Growth and Development Plan (PGDP) projects. Funded in this vote is R3,6 million for Development of Cultural production activities, R5,1 million for Supporting Key Arts and Culture Festivals, R0,350 million for the Development of Heritage Tourism and R7,6 million for Building Networks Support for the development of viable Cultural Industries.

Table 3, below lists additional allocations that have been made over and above the 2004/05 baseline amounts for 2005/06:

### Summary by economic classification

Expenditure item (R 000)						
Description (R'000)				2005/06	2006/07	2007/08
2010 World Soccer Cup				1,500	2,000	2,102
Provincial HIV/Aids Program				250	263	276
<b>Total</b>	-	-	-	<b>1,750</b>	<b>2,263</b>	<b>2,378</b>

### 10.3.13 Vote 15: Safety and Liaison.

The aim of the Department is to promote civilian oversight in crime prevention through strengthening community policing. Safety and Liaison's budget of R13 million for 2005/06 constitutes 0.04 % of the entire

provincial government's budget. For the other two MTEF years - 2006/07 and 2007/08 the allocations are R14 million and R16 million respectively. The allocation for 2005/06 saw an increase of 18% over the 2004/05 adjusted budget.

The composition of the 2005/06 budget in terms of economic classification is listed in Table 1 below. The adjusted budget for the 2004/05 is shown for comparative purpose.

**Table 1: Expenditure per economic classification:**

Expenditure item (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
Compensation of employees	6,735	9,991	10,700	11,636	75%	48%
Goods and services	4,253	3,388	3,630	3,959	25%	-20%
Transfers and subsidies	-	23	35	39	0%	
Payments for Capital Assets	334	-	-	-	0%	-100%
<b>Total</b>	<b>11,322</b>	<b>13,402</b>	<b>14,365</b>	<b>15,634</b>	<b>100%</b>	<b>18%</b>

#### Comments on economic classification

The allocation for compensation of employees in the 2005/06 budget takes 75% of the entire budget of the department (62% in 2004/05). The amount of R9,991 million in the 2005/06 budget represents an increase of 43% over the 2004/05 allocation for compensation of employees. Conversely the allocation for goods and services in 2005/06 has dropped by 15% compared to the 2004/05 adjusted budget allocation.

**Table: 2 Expenditure by programme**

#### Summary by programme

Programme details (R 000)	2004/05	2005/06	2006/07	2007/08	% 2005/06 Budget	% incr / (dec) 2004/05
1. Administration	4,506	7,162	7,658	8,297	53%	59%
2. Facilitation	3,412	3,479	3,740	4,091	26%	2%
3. Financial Management	3,404	2,761	2,967	3,246	21%	-19%
<b>Total</b>	<b>11,322</b>	<b>13,402</b>	<b>14,365</b>	<b>15,634</b>	<b>100%</b>	<b>18%</b>

#### Comments on expenditure by programme.

The only significant increase in allocation occurred in the budget for Administration which increased by 59% over 2004/05 allocation. The increase is mainly due to further allocation of R1.5 million in 2005/06 (R1,840 million for 2006/07 and R1,933 million for 2007/08) for the MEC core staff.

**Table 3: Special Allocations to the Department**

Description R '000	2005/06	2006/07	2007/08	% 2005/06
MEC core staff	1,500	1,577	1,657	86%
Provincial HIV/Aids Program	250	263	276	14%
<b>Total</b>	<b>1,750</b>	<b>1,840</b>	<b>1,933</b>	<b>100%</b>

Table 3 shows the special allocation that has been made to the department for the expenditure relating to the MEC core staff for the MTEF years 2005/06 to 2007/08 and for the HIV/Aids program.



## **10.4 Capital**

### **10.4.1 Infrastructure payments**

Eastern Cape Province is a “hot spot” of underdevelopment and poverty. Roads, Clinics and schools are burning issues that needs to be addressed accordingly, as a province we are trying to clear out some of our Infrastructure projects. In attempting to clear out backlogs, the provincial spending on infrastructure has always been close to budget, with optimal spending being emphasised.

However due to the recent austerity measures exercise, the acceleration of infrastructure service delivery has been threatened, this has impacted negatively on infrastructure service delivery, with departments delaying projects where possible in an effort to assist in the total savings achieved.

The development of a framework for the improvement of infrastructure delivery management by National Treasury in collaboration with the Construction Industry Development Board has seen the Eastern Cape Provincial Treasury engaged in the rollout of the pilot phase of this initiative. This delivery framework is referred to as the infrastructure toolkit. The toolkit was initially aimed at the Departments of Education and the Department of Roads and Public Works, however with the move of Roads to the Departments of Transport; the Eastern Cape involvement in the toolkit now encompasses the Departments of Education and Transport. The toolkit was welcomed at attempting to address and improve the monitoring and reporting systems which links infrastructure projects within the financial accounting system and will enable the province to submit infrastructure plans, which lists planned projects.

This pilot phase had been welcomed by these pilot departments as a way of improving existing processes and was seen as a way of submitting detailed Infrastructure plans. The position of these departments had been further strengthened by the receipt of a technical assistant for each pilot department to facilitate the rollout of the toolkit.

Table 10.3 shows that the province will spend R2,376 billion of its 2005/06 budget on infrastructure projects, growing sharply to R3,126 billion and R3,675 billion in 2006/07 and 2007/08 respectively..

The R9,855 million allocated to Office of the Premier, relates to IT infrastructure in the province.

Of the R578,242 million allocation to Health infrastructure, R157,737 million relates to the Hospital revitalization program, R110,000 million is for maintenance, R193,097 million allocation is for district, regional and provincial hospitals and the clinic revamping program has been allocated R117,413 million.

The R15,716 million allocated to Social Development will largely fund the new construction and rehabilitation/upgrading of multi purposes centres, community development centres, and service offices.

The Public works R 54,050 million allocated for infrastructure can be split as follows; R28 million for urban renewal, R13,715 million to the integrated rural sustainable development program and R 12,335 million to the Vukuzakhe maintenance program.

The Education expenditure on infrastructure will be used to fund Special schools, GET schools, FET schools, mud structures, new schools, additional classrooms, FET colleges. The allocation for mud structures out of the R 283,620 million available for Education in 2005/06 is R61,480 million.

The R47,552 million infrastructure allocation is used to support the community projects, these infrastructure projects relate to farmer support and development.

The R1,374 billion allocation for infrastructure in Transport and Roads will largely fund R1,305 billion for the Roads infrastructure, of this 55.4 percent is for the rehabilitation and maintenance of roads and 44.6 percent is for the maintenance of Roads. The balance of the allocation in Transport and Roads i.e. R69,398 million relates to Transport projects, with the main project being Kei Rail project of which R48,244 million has been allocated.

The infrastructure budget for the 2005/06, 2006/07 and the 2007/08 financial years shows a percentage increase in budget for the 2006/07 financial year as 31.5% and 17.5% increase in budget for the 2007/08 financial year. The higher percentage increase in infrastructure funding in the 2006/07 financial year is due to a smaller number of effected projects being targeted as a result of the austerity measure exercise

implemented in the 2005/06 budget. The 2005/06 financial year had substantially more cuts in infrastructure projects than the middle and the outer years in which infrastructure spending is restored.

In general infrastructure spending has been achieved in the Eastern Cape. There has been improved impetus in the infrastructure monitoring as well as implementation. The emphasis is now in achieving quality spending in these areas. The IDIP process will assist in achieving this objective, especially once it has been rolled out provincially.

<b>Table 10.3</b>				<b>Summary of provincial infrastructure payments and estimates</b>		
<b>R'000</b>				<b>Medium-term estimate</b>		
				<b>2005/06</b>	<b>2006/07</b>	<b>2007/08</b>
1.	Office of the Premier			9 855	10 605	10 530
2.	Provincial Legislature					
3.	Health			578 242	777 283	842 617
4.	Social Development			15 716	31 146	23 840
5.	Public Works			54 050	57 600	62 000
6.	Education			283 620	669 235	810 409
7.	Housing, Local Government and Traditional Affairs					
8.	Agriculture			47 552	57 061	69 838
9.	Economic Affairs, Environment and tourism					
10.	Roads and Transport			1 373 823	1 503 738	1 832 793
12.	Provincial Treasury					
14.	Sports, Recreation, Arts and Culture			13 239	19 803	22 893
15.	Safety and Liason					
<b>Total provincial infrastructure payments and estimates by vote</b>				<b>2 376 097</b>	<b>3 126 471</b>	<b>3 674 920</b>

## 10.5. Provincial Public Private Partnership Project

The allocations for the Provincial Public-Private Partnership projects are R50,270 million, R120,984 million and R126,887 million for the 2005/06, 2006/07 and the 2007/08 financial years respectively. The departments which have PPP projects are the Departments of Roads and Transport and the Department of Health.

The department of Roads and Transport has two PPP projects being the Mayibuye and the Fleet Africa projects. The Mayibuye project is involved in provision of a public transport service to the general public while the Fleet Africa project is for the provision of government motor transport to the provincial departments. The Mayibuye project is a new PPP project. The allocations for this project is R25 million, R27 million and R28 million for the 2005/06, 2006/07 and 2007/08 years respectively. The Fleet Africa project is a PPP project under implementation with the allocations being R5,308 million, R5,564 million and R5,842 million for the 2005/06, 2006/07 and 2007/08 years respectively.

The department of Health is engaged in the Humansdorp district hospital PPP project, this project was seen as an opportunity to revitalise the district hospital, generate revenue from the private sector via shared services and create additional beds within the district. The allocations for the Humansdorp district hospital

project is R19,962 million, R88,420 million and R93,045 million for the 2005/06, 2006/07 and 2007/08 years respectively.

The table below reflects a summary of all provincial Public Private Partnership projects under implementation and new projects, the details of which are presented in each of the Votes in Budget Statement 2.

Table 10.4		Summary of departmental Public-Private Partnership projects										
Project description R'000		Total cost of project			Main appro- priation	Adjusted appro- priation	Revised estimate	Medium-term estimate				
												% Change from Revised estimate
		Audited	Audited	Audited								
		2001/02	2002/03	2003/04				2004/05	2004/05	2004/05	2005/06	2006/07
Projects under implementation				1 500	4 872	7 584	7 584	20 270	65 984	69 887	167.27	
PPP unitary charge								5 300	56 180	59 551		
Advisory fees				1 500		2 512	2 512	5 862			133.36	
Revenue generated (if applicable)												
Project monitoring cost					4 872	5 072	5 072	9 108	9 804	10 336	79.57	
New projects								30 000	55 000	57 000		
PPP unitary charge									20 000	20 000		
Advisory fees								7 000	6 000	7 000		
Revenue generated (if applicable)												
Project monitoring cost								23 000	29 000	30 000		
Total Public-Private Partnership projects				1 500	4 872	7 584	7 584	50 270	120 984	126 887	562.84	

## 10.6 Payments by policy area

As can be noted from Table 10.5 below, the major areas of expenditure by policy area for the 2005/06 financial year are Education, Social Protection and Health with estimated expenditure of R11,251 billion, R11,136 billion and R6,088 billion respectively. In total, these three policy areas account for R28,475 billion or 83,8% of provincial expenditure (Education 33,1%, Social Protection 32,8% and Health 17,9%). Each of these three major policy areas have increased compared to the adjusted budget for the 2004/05 financial year. The major increase being for Health with 17% followed by Social Protection 15% and Education 4%. The general distribution by policy area for the 2005/06 financial year and the remainder of the MTEF period remains similar to the 2004/05 adjusted budget, where the expenditure for Education accounted for 34,5%, Social Protection 31% and Health 16,7%, making up a total of 82,2%. Expenditure by policy area in respect of Economic Affairs cluster is expected to be R3,686 billion or 10,8% of total provincial expenditure.

**Table 10.5 Summary of provincial payments and estimates by policy area**

Policy area R'000	Outcome			Main appro- piation	Adjusted appro- piation	Revised estimate	Medium-term estimate			
	Audited	Audited	Audited				2005/06	2006/07	2007/08	% Change from Revised estimate
	2001/02	2002/03	2003/04	2004/05	2004/05	2004/05				2004/05
General Public Service	936 560	1 239 441	1 701 192	1 550 192	1 515 758	1 510 404	1 547 161	1 731 045	1 969 982	2.43
Public Order and Safety	5 725	6 769	8 781	11 788	11 322	11 592	13 402	14 365	15 634	15.61
Economic Affairs	2 067 700	3 195 141	3 866 339	3 906 495	3 806 146	3 799 504	3 685 813	3 805 702	4 353 519	( 2.99)
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
Recreation Culture and Religion	166 381	206 410	252 203	266 342	239 883	239 883	267 257	289 271	318 052	11.41
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
Social Protection	4 663 014	6 425 476	8 444 747	9 146 029	9 687 860	9 959 728	11 136 295	12 353 529	13 343 745	11.81
<b>Total departmental transfers to public entities</b>	<b>19 595 326</b>	<b>24 715 247</b>	<b>29 671 566</b>	<b>31 149 012</b>	<b>31 277 501</b>	<b>31 602 836</b>	<b>33 989 039</b>	<b>37 499 210</b>	<b>41 098 075</b>	<b>7.55</b>

Economic Affairs includes Environmental Protection totalling R0,065m, R0,075m and R0,082m in 2005/06, 2006/07 and 2007/08 respectively

## 10.7. Transfers to public entities

An amount of R559,921 million has been allocated to various provincial departments for transfer to public entities for the 2005/06 financial year. The department that is the most significant in terms of these transfers, is the Department of Economic Affairs, Environment and Tourism which amounts to R464,632 million (84.2%) of the total departmental transfers for the 2005/06 financial year.

The main beneficiaries of the R464,632 million of the transfers are Coega Development Corporation (R180 million), East London IDZ (R105 million), Eastern Cape Development Corporation (R70 million) and Eastern Cape Parks Board (R65 million). The other three public entities listed above are involved with the promotion of economic development in the province, whilst the Eastern Cape Parks Board is involved with nature conservation with a view to the promotion of tourism in the province.

Table 10.6 provides a summary of provincial transfers to public entities by transferring department.

**Table 10.6** **Summary of Provincial transfers to public entities by transferring department**

Public entities R'000	Outcome						Medium-term estimate			
	Audited 2001/02	Audited 2002/03	Audited 2003/04	Main appro- priation 2004/05	Adjusted appro- priation 2004/05	Revised estimate 2004/05				% Change from Revised estimate 2004/05
							2005/06	2006/07	2007/08	
1. Office of the Premier	17 338	17 400	43 589	26 416	39 852	37 352	54 700	60 842	66 517	46.44
2. Provincial Legislature										
3. Health										
4. Social Development										
5. Roads and Public Works										
6. Education										
7. Housing, Local Government and Traditional Affairs										
8. Agriculture	17 974	14 320	27 000	28 000	165 245	87 332	28 000	30 000	34 000	( 67.94)
9. Economic Affairs, Environment and Tourism	164 843	557 485	668 623	680 166	362 947	641 939	464 632	306 437	330 321	( 27.62)
10. Transport										
12. Treasury										
14. Sport, Recreation, Arts and Culture	2 050	6 700	8 550	7 082		7 082	12 589	13 218	13 879	77.76
15. Safety and Liaison										
<b>Total departmental transfers to public entities</b>	<b>202 205</b>	<b>595 905</b>	<b>747 762</b>	<b>741 664</b>	<b>568 044</b>	<b>773 705</b>	<b>559 921</b>	<b>410 497</b>	<b>444 717</b>	<b>( 27.63)</b>

## 10.8 Transfers to local government

In terms of section 17(1) of the Division of Revenue Act, 2004, provincial treasuries must publish, with its annual budget, the allocations per municipality for every allocation made by the province to a municipality in that province.

According to section 155(1) of the Constitution of the Republic of South Africa, No. 108 of 1996, municipalities are defined as follows

- **Category A:** a municipality that has exclusive municipal executive and legislative authority in its area. Municipalities of this type are normally referred to as “metropolitan areas”, Nelson Mandela is the only metropolitan municipality in the Eastern Cape at the present time.
- **Category B:** A municipality that shares municipal executive and legislative authority in its area with a category C municipality within whose area it falls. Municipalities of this type are normally referred to as “local municipalities”.
- **Category C:** A municipality that has municipal executive and legislative authority in an area that includes more than one municipality. Municipalities of this type are normally referred to as “district Municipality”

A detailed and summarized version of this information as per the categories is listed in Table 10.7 below. The detailed information will be listed in Provincial Gazettes to be published with this budget. Further details appears in the Budget Statement of each Vote.

**Table 10.7****Summary of provincial transfers to local government by category**

Departmental transfers R'000	Outcome						Medium-term estimate			
	Audited 2001/02	Audited 2002/03	Audited 2003/04				Main appro- priation 2004/05	Adjusted appro- priation 2004/05	Revised estimate 2004/05	2005/06
Category A	53 672	73 685	85 184	87 217	81 391	76 614	85 800	89 878	93 666	11.99
Category B	65 085	91 019	98 185	144 770	138 037	138 037	127 791	127 779	131 733	( 7.42)
Category C	53 705	52 332	97 942	84 432	56 223	79 023	56 066	73 017	95 696	( 29.05)
Total provincial transfers to local government	172 462	217 036	281 311	316 419	275 651	293 674	269 657	290 674	321 095	( 8.18)

**10.9 Personnel numbers and costs**

As can be seen from Table 10.8 below, the Province is expected to employ 130 954 people at a cost of R15 123,407 million during the 2005/06 financial year, compared to 127 629 people employed during the 2004/05 financial year at a cost of R14 377,649 million. This represents an increase of 2,6% in terms of number of staff and an increase in total costs of 5,2%. The average cost per employee has increased from R112 652 in the 2004/05 financial year to an estimated R115 486 in the 2005/06 financial year, an increase of 2,5%.

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. This amounts to 87% of the total provincial staff complement for the 2005/06 financial year. These two departments also account for the bulk of the payroll costs, with R9 703,262 million and R3 308,549 million rand respectively, making up a combined total of 86% of total staff costs. The next most significant employers for the 2005/06 financial year are the Department of Agriculture with an estimated staff complement of 5 555 at a cost of R490,482 million and the Department of Roads and Transport with estimated staff of 3 822 at a cost of R347,593 million.

**Table 10.8**                      **Summary of personnel numbers and costs by vote:**

Provincial department		As at 31 March 2002	As at 31 March 2003	As at 31 March 2004	As at 31 March 2005	As at 31 March 2006	As at 31 March 2007
1. Office of the Premier	(numbers) R'000)	296 53 073	308 61 386	462 61 932	462 67 533	465 81 984	465 86 194
2. Provincial legislature	(numbers) R'000)	195 52 548	241 50 642	241 56 614	241 61 554	249 62 835	257 66 040
3. Health	(numbers) R'000)	31 047 2 429 383	29 461 2 490 865	30 927 2 815 673	30 927 3 197 551	30 927 3 308 547	29 218 3 448 578
4. Social Development	(numbers) R'000)	1 554 159 570	1 663 192 057	1 736 210 146	1 861 225 013	1 897 330 688	1 746 352 859
5. Public Works	(numbers) R'000)	6 406 238 142	5 871 220 023	5 450 250 793	4 850 229 082	2 446 247 219	2 226 266 533
6. Education	(numbers) R'000)	71 946 7 165 949	75 327 8 037 091	73 204 8 701 874	79 792 9 340 462	82 792 9 703 262	82 792 10 329 008
7. Housing, Local Government & Traditional Affairs	(numbers) R'000)	1 586 176 657	1 449 173 138	1 040 178 148	1 055 184 150	1 005 196 870	1 010 207 642
8. Agriculture	(numbers) R'000)	6 456 400 136	5 858 406 890	5 748 450 102	5 540 459 039	5 555 490 482	5 658 517 459
9. Economic Affairs, Environment & Tourism	(numbers) R'000)	1 157 70 409	1 132 75 042	935 85 439	401 92 249	470 88 670	470 87 568
10. Transport and Roads	(numbers) R'000)	1 173 272 384	1 242 309 563	1 062 333 980	1 125 303 194	3 822 347 593	3 749 377 886
12. Provincial Treasury	(numbers) R'000)	320 41 270	329 45 904	334 50 981	344 63 406	344 83 806	344 92 588
14. Sport, Recreation, Arts & Culture	(numbers) R'000)	996 134 772	999 142 865	970 150 421	995 147 535	946 171 460	946 156 054
15. Safety & Liaison	(numbers) R'000)	29 3 883	30 4 625	35 5 426	36 6 881	36 9 991	36 10 700
<b>Total provincial personnel numbers</b>		123 161	123 910	122 144	127 629	130 954	128 917
Total personnel cost (R'000)		11 198 176	12 210 091	13 351 529	14 377 649	15 123 407	15 999 109
Unit cost (R'000)		91	99	109	113	115	124

## 10.10 Payments on training

Table 10.9 represents expense on training and bursaries by Departments on their own staff in line with the requirements of Section 30 of the Skills Development Levies Act, 1999, which requires that each public service employer in the national and provincial spheres of government must budget for at least 1% of its payroll (gross basic salary) for the training and education of their employees. Of these funds (1% of gross salary) an amount of 30% is kept by the relevant department for training purposes while 60% is allocated to Office of the Premier for transversal training and towards bursaries, the remaining 10% is allocated to Provincial Treasury for transversal financial training.

As can be noted from Table 10.9 below, it is expected that an amount of R83,174 million will be spent on training for the 2005/06 financial year, a decrease of 5% compared to the revised estimate for the 2004/05 financial year. The decrease is mainly as a result of the Provincial Government's strategy to build its own capacity to do our own training through Public Finance Service Agency (PFSA) and Fort Hare Institute of Government (FIG) as both a cost saving strategy and also to build provincial capacity and strengthen relations with tertiary institutions in the province. The Departments that are expected to incur the most significant expenditure for training during the 2005/06 financial year, are the Office of the Premier (R12,349 million) the Department of Health (R32,089 million) and the Department of Education (R14,214 million). The combined total for these three departments is R58,652 million or 80% of the total budget for 2005/06. The reason for the relatively large training budget for the Office of the Premier is due to the transversal training

function referred to in the above paragraph. Table 10.9 below provides a summary of provincial payments on training by Vote.

**Table 10.9**                      **Summary of provincial payments on training by vote**

Public entities R'000	Outcome						Medium-term estimate			
	Audited	Audited	Audited							% Change from Revised estimate
	2001/02	2002/03	2003/04	2004/05	2004/05	2004/05	2005/06	2006/07	2007/08	2004/05
1. Office of the Premier	8 752	33 311	35 017	26 306	14 310	18 300	12 349	13 365	15 371	( 32.52)
2. Provincial Legislature	482	371	914	616		616	941	980	1 039	52.76
3. Health	14 976	23 940	25 187	26 990	27 932	28 930	32 089	34 014	36 055	10.92
4. Social Development	1 039	1 562	1 198	1 309	1 309	1 374	1 537	1 612	1 694	11.86
5. Roads and Public Works	490	719	361	4 719	4 719	4 719	6 733	8 005	7 481	42.68
6. Education			23 319	28 949	25 243	25 243	14 214	8 880	26 176	( 43.69)
7. Housing, Local Government and Traditional Affairs	1 048	871	698	2 230	2 230	180	3 928	4 307	4 844	2 082.22
8. Agriculture	4 937	2 200	2 500	6 984	3 052	3 235	4 310	4 746	5 042	33.23
9. Economic Affairs, Environment and Tourism	896	804	960	739	739	739	2 000	2 000	2 100	170.64
10. Transport	440	776	1 160	2 080	2 080	2 080	2 163	2 316	2 409	3.99
12. Treasury	527	542	719	1 245	586	586	1 245	1 245	1 245	112.46
14. Sport, Recreation, Arts and Culture		343	1 056	1 580	1 580	1 580	1 585	1 457	1 665	0.32
15. Safety and Liaison	160	127	42	50	50	50	80	85	90	60.00
Total provincial payments on training	33 747	65 566	93 131	103 797	83 830	87 632	83 174	83 012	105 211	( 5.09)



Conditional Grants: Information relating to Section 6.2															
Vote and grant R'000	2001/02			2002/03			2003/04			2004/05			Medium-term estimate		
	Adjusted appro- priation	Actual transfer	Audited expen- diture	Adjusted appro- priation	Actual transfer	Audited expen- diture	Adjusted appro- priation	Actual transfer	Audited expen- diture	Adjusted appro- priation	Actual transfer	Audited expen- diture	2005/06	2006/07	2007/08
<b>Vote 12: Provincial Treasury</b>															
Risk management system															
Financial and personnel management system support															
Supplementary allocation															
Other															
Housing: Capacity building															
Economic: National Land															
Transport Transition Act															
Health: Health Management															
Finance: Implementation of Public Finance Management Act															
Provincial Infrastructure: Flood Damage															
<b>Vote 6: Education</b>	87 707	87 707	54 439	83 133	83 133	40 093	52 210	52 210	40 123	229 228	229 228	229 228	217 980	258 995	271 945
Financial management and quality enhancement	72 673	72 673	39 405	42 240	42 240	19 712	21 684	21 684	22 013	21 683	21 683	21 683			
Early childhood development	3 885	3 885	3 885	13 655	13 655	9 218	13 810	13 810	7 820	2 470	2 470	2 470			
HIV/Aids (Lifeskills education)	11 149	11 149	11 149	27 238	27 238	11 163	16 716	16 716	10 290	27 816	27 816	27 816	23 692	25 113	26 369
Disaster management										177 259	177 259	177 259	194 288	233 882	245 576
Primary school nutrition programme															
<b>Subtotal Conditional grants</b>	87 707	87 707	54 439	83 133	83 133	40 093	52 210	52 210	40 123	229 228	229 228	229 228	217 980	258 995	271 945

**Table A.1: Details on information on Conditional Grants (continued)**

**Table A.1: Details on information on Conditional Grants (continued)**

**Table A.1: Details on information on Conditional Grants (continued)**

Vote and grant R'000	2001/02			2002/03			2003/04			2004/05			Medium-term estimate		
	Adjusted appro- piation	Actual transfer	Audited expen- diture	Adjusted appro- piation	Actual transfer	Audited expen- diture	Adjusted appro- piation	Actual transfer	Audited expen- diture	Adjusted appro- piation	Actual transfer	Audited expen- diture	2005/06	2006/07	2007/08
<b>Vote 8: Agriculture</b>	5 896	5 896	4 500	11 000	11 000	11 796	8 000	8 000	7 622	54 809	54 809	54 809	55 552	65 561	78 586
Land care programme: Poverty relief and infrastructure development	4 691	4 691		11 000	11 000	11 796				8 766	8 766	8 766			
Land Care Projects	1 205	1 205	4 500				8 000	8 000	7 622	8 000	8 000	8 000	8 000	8 500	8 748
Drought relief															
Comprehensive Agriculture support programme							38 043	38 043		38 043	38 043	38 043	47 552	57 061	69 838
Provincial Infrastructure															
<b>Vote 14: Sport, Recreation, Arts &amp; Culture</b>										1 000	1 000	1 000	2 670	4 340	6 491
Mass sport and recreation participation programme										1 000	1 000	1 000	2 670	4 340	6 491
<b>Subtotal Conditional grants</b>	1 033 045	1 033 045	576 083	1 289 847	1 289 847	911 043	1 497 411	1 497 411	1 327 230	1 319 724	1 319 724	1 319 724	1 314 770	1 491 152	1 900 174
<b>Total Conditional grants</b>	1 954 302	1 954 302	918 797	2 383 663	2 383 663	1 764 501	2 521 622	2 521 622	2 287 167	3 188 437	3 188 437	3 188 437	13 084 233	14 422 601	15 843 189

Table A.2: Details on information on provincial own receipts (continued)

Table A.2 Specification of receipts: Provincial Departmental Summary										
Receipts R'000	Outcome						Medium-term estimate			
	Audited 2001/02	Audited 2002/03	Audited 2003/04	Main appro- priation 2004/05	Adjusted appro- priation 2004/05	Revised estimate 2004/05				% Change from Revised estimate 2004/05
							2005/06	2006/07	2007/08	
<b>Tax receipts</b>	90 594	106 254	138 558	190 755	199 050	174 483	205 902	209 772	228 460	18.01
Casino taxes	23 579	30 461	40 360	37 371	43 201	43 201	47 024	49 375	51 843	8.85
Motor vehicle licences	65 861	70 196	92 466	147 251	147 251	122 684	150 881	152 000	167 800	22.98
Horseracing	1 154	3 617	3 499	3 733	5 058	5 058	4 197	4 407	4 627	(17.02)
Liquor Licences										
Other taxes		1 980	2 233	2 400	3 540	3 540	3 800	3 990	4 190	7.34
<b>Non-tax receipts</b>										
<b>Sales of goods and services other than capital assets</b>	106 371	116 917	131 387	106 487	86 602	98 229	113 482	121 398	128 405	15.53
Sales of goods and services produced by department (excluding capital assets)	102 269	112 328	131 383	104 131	86 602	92 135	109 183	118 398	124 405	18.50
Sales by market establishments	8 250	98	85							
Administrative fees										
Other sales	94 019	112 230	131 298	104 131	86 602	92 135	109 183	118 398	124 405	18.50
<i>Of which</i>										
Boarding & Lodging	8 237	6 073	6 412	8 787	8 787	10 204	9 958	10 545	11 166	(2.41)
Commission on	40 407	35 914	43 101	37 975	36 853	39 020	39 790	42 118	44 678	1.97
ECPB (previous External exams		10 251	4 410							
Health patient fees	21 390	35 218	52 844	29 755	29 755	26 180	38 976	41 315	43 793	48.88
House rent										
Lab services										
Learners & drivers licences	1 858		2 231	1 030	600	600				(100.00)
Letting of property										
Lost library books										
Miscellaneous Capital Receipts										
Motor Vehicle registration	561	698	2 191	260	1 700	1 700	293	322	354	(82.76)
Operating Licences (taxi)	993	783	1 112	675	945	945	715	757	833	(24.34)
Orthopedic & Surgical Aids	1 290	2 124	3 187	1 794	1 794	2 368	2 302	2 440	2 587	(2.79)
Parking	73	72	272							
Registration, tuition & exam fees										
Rental of buildings	6 500	5 914	5 462	9 475	2 702	6 593	11 820	14 685	14 381	79.28
Reserve income	6 797	3 586	1 736	11 126	212					
Sales of agricultural products	2 556	2 455	1 207	1 125	1 125	1 125	1 217	1 245	1 307	8.18

Table A.2: Details on information on provincial own receipts (continued)

Table A.2 Specification of receipts: Provincial Departmental Summary										
Receipts R'000	Outcome						Medium-term estimate			
	Audited 2001/02	Audited 2002/03	Audited 2003/04	Main appro- priation 2004/05	Adjusted appro- priation 2004/05	Revised estimate 2004/05				% Change from Revised estimate 2004/05
							2005/06	2006/07	2007/08	
Sales										
Sale of gazette		1	6	8	8	8	8	8	9	
Subsidised Motor Transport Tender	4			600	600		300	350	400	
Trading account surplus										
Transport fee	181		440	568	568	379	400	424	466	5.54
Tuition fees										
Vehicle repair service										
Veterinary Services	355	345	320	323	323	323	356	408	428	10.22
Other	2 817	8 796	6 367	630	630	2 046	3 048	3 781	4 003	48.97
Sales of scrap, waste, arms and other used current goods (excluding capital assets)	4 102	4 589	4	2 356		6 094	4 299	3 000	4 000	(29.46)
<b>Transfers received from</b>										
Other governmental units										
Universities and technikons										
Foreign governments										
International organisations										
Public corporations and private enterprises										
Households and non-profit										
<b>Fines, penalties and forfeits</b>	268	1 042	807	676	676	2 226	717	790	829	(67.79)
<b>Interest, dividends and rent</b>	343 038	397 365	181 953	152 126	2 126	19 888	2 269	2 411	2 567	(88.59)
Interest	300 605	396 802	181 953	151 807	1 807	26 888	1 932	2 046	2 169	(92.81)
Dividends										
Rent on land	42 433	563		319	319		337	365	398	
<b>Sales of capital assets</b>	4 339	2 130	33 845	1 582	2 750					
Land and subsoil assets										
Other capital assets	4 339	2 130	33 845	1 582	2 750					
<b>Financial transactions in</b>	9 632	13 574	82 286	6 235	3 314	13 885	3 354	3 369	3 551	(75.84)
<b>Total departmental receipts</b>	554 242	637 282	568 830	457 861	( 150 000 )	308 725	325 724	337 740	363 812	5.51

Table A.3

**Information relating to Section 8.3**  
**Details of provincial payments and estimates**  
**by economic classification**

Economic classification R'000	Outcome			Main appro- priation  Adjusted appro- priation  Revised estimate			Medium-term estimate			
	Audited 2001/02	Audited 2002/03	Audited 2003/04				2005/06	2006/07	2007/08	% Change from Revised estimate 2004/05
Current payments	13 430 605	15 424 634	16 894 210	18 396 257	18 027 142	18 144 268	19 501 708	21 111 006	22 938 680	7.48
Compensation of employees	11 198 176	12 210 091	13 351 530	14 211 840	14 315 809	14 377 649	15 123 407	15 999 109	16 765 984	5.19
Salaries and wages	11 194 409	12 188 438	12 000 632	14 185 560	14 288 458	14 352 190	15 039 462	15 910 644	16 673 096	4.79
Social contributions	3 767	21 653	1 350 898	26 280	27 351	25 459	83 945	88 465	92 888	229.73
Goods and services	2 221 722	3 156 274	3 486 869	4 161 251	3 709 233	3 763 134	4 310 827	5 033 038	6 086 731	14.55
Of which										
Specify item										
Animal feed										
Audit fees	5 288	4 177	28 506	9 913	7 368	6 768	16 841	16 535	19 630	148.83
Audit fees: external										
Communication	4 500	6 100	7 200	9 264	9 264	9 100	10 740	11 276	11 873	18.02
Computer equipment							5 540	46 787	5 052	
Consultancy fees	45 127	75 889	92 751	115 992	104 510	93 469	91 908	100 846	113 887	( 1.67)
Consultants and specialised services	326 647	655 324	1 056 760	1 086 284	958 266	880 077	965 482	1 050 349	1 196 474	9.70
Consumables										
Contractors										
Contribution to Parmed										
Educational materials										
Infrastructure										
Inventory	328 957	621 433	996 060	673 624	521 287	684 058	662 461	674 851	964 783	( 3.16)
IT (Data lines)										
Legal Fees	211 606	301 997	41 345	477 782	318 209	318 139	166 337	306 232	617 214	( 47.72)
LSM	207 706	297 467	35 140	468 512	308 939	308 939	157 937	297 412	607 949	( 48.88)
Machinery and equipment										
Maintenance and repairs and running cost	197 685	61 581	66 567	15 147	62 407	59 945	123 255	177 360	229 413	105.61
Medical Aid in respect of continuation members										
Medical services	15 775	83 264	20 690	77 952	77 952	78 263	93 990	113 636	134 713	20.10
Medical supplies	22 733	73 005	77 280	101 989	101 837	112 142	125 051	131 497	139 096	11.51
Medicine	244 672	225 331	239 671	313 779	310 537	284 012	318 798	552 497	582 717	12.25
Operating Leases				10 642	10 642	10 000	30 912	36 492	38 331	209.12
Owned and leasehold property										
Printing and publications				18 648	18 398	18 550	20 950	22 822	22 512	12.94
Scholar transport										
Sport and Recreation Equipment										
Training	11 952	37 424	18 357	40 819	28 824	31 943	37 521	40 649	43 673	17.46
Transport	2 556	7 617	74 616	45 496	41 422	41 422	64 590	77 212	89 032	55.93
Travel and subsistence	7 040	7 595	10 710	46 393	45 897	48 693	69 216	72 899	73 497	42.15
Utilities (municipal services)										
Veterinary supplies	19 975	15 145	19 115	21 322	21 322	15 965	14 000	14 700	16 500	( 12.31)
Other	307 477	375 064	401 074	540 388	250 773	326 709	639 797	723 081	828 938	95.83
Interest and rent on land	10 707	58 269	55 715	23 166	2 100	3 485	67 474	78 859	85 965	1 836.13
Interest	183	72				285				( 100.00)
Rent on land	10 524	58 197	55 715	23 166	2 100	3 200	67 474	78 859	85 965	2 008.56
Financial transactions in assets and liabilities			91							
Unauthorised expenditure			5							

Table A.3

**Details of provincial payments and estimates  
by economic classification**

Economic classification R'000	Outcome						Medium-term estimate			
	Audited 2001/02	Audited 2002/03	Audited 2003/04				Main appro- piation 2004/05	Adjusted appro- piation 2004/05	Revised estimate 2004/05	2005/06
	Transfers and subsidies to Provinces and municipalities	5 805 882	8 450 968	11 078 147	10 849 152	11 650 981	11 875 416	12 866 364	14 084 800	15 369 184
Provinces	254 641	305 577	447 317	335 366	399 646	465 820	425 852	477 007	531 498	( 8.58)
Provincial Revenue Funds					4 290	4 306	32	34	35	( 99.26)
Provincial agencies and funds						16				( 100.00)
Municipalities	254 641	305 577	447 317	335 366	395 356	461 514	425 820	476 973	531 463	( 7.73)
Municipalities of which	213 588	299 706	428 914	331 866	386 833	455 486	409 203	459 696	513 469	( 10.16)
Regional service council levies			28 000	28 000	19 000	19 000	5 282	20 000	30 000	( 72.20)
Municipal agencies and funds	41 053	5 871	18 403	3 500	8 523	6 028	16 617	17 277	17 994	175.66
Departmental agencies and accounts	190 731	588 934	720 587	744 875	834 458	763 783	529 021	376 497	405 817	( 30.74)
Eastern Cape Socio Economic Consultive council	7 018	5 900	13 589	8 458	8 839	8 839	24 000	26 342	28 017	171.52
Eastern Cape Provincial Arts Cultural Council	2 050	6 700	8 550	7 082		7 082	12 589	13 218	13 879	77.76
Eastern Cape Development Corporation	57 356	68 096	125 900	113 743	83 743	86 915	72 366	81 000	88 300	
Eastern Cape Appropriate Technology Unit	10 000	6 500	8 000	8 458	7 610	7 610	7 500	9 000	9 800	( 1.45)
Rural Agricultural Bank	7 000	6 320	15 500	17 500	154 745	76 832	17 500	18 500	20 500	( 77.22)
Eastern Cape Liquor Board							10 170	9 691	11 343	
Eastern Tourism Board	11 385	17 000	22 000	21 060	20 645	20 645	20 532	21 000	22 000	( 0.55)
Eastern Cape Gambling & Betting Board	10 000	13 130	12 400	14 364	13 364	13 364	14 364	15 746	16 533	7.48
Eastern Cape Parks Board	24 422	37 288	34 037	46 568	44 734	44 734	65 000	75 000	82 445	45.30
Coega Development Corporation	60 000	378 000	375 145	359 431	359 431	359 431	180 000			( 49.92)
East London Development Zone	1 500	50 000	99 141	146 080	141 347	138 331	105 000	107 000	113 000	( 24.10)
Other			6 325	2 131						
Universities and technikons			121 183							
Public corporations and private enterprises	113 087	187 989	250 220	266 204	192 700	225 484	259 084	280 057	322 342	14.90
Public corporations	111 160	187 989	250 220	245 233	192 700	225 642	104 084	115 757	124 753	( 53.87)
Subsidies on production			29 866	53 233	4 383	4 383		5 885	6 179	( 100.00)
Other transfers	111 160	187 989	220 354	192 000	188 317	221 259	104 084	109 872	118 574	( 52.96)
Private enterprises	1 927			20 971		( 158)	155 000	164 300	197 589	( 98 201.27)
Subsidies on production				20 971		( 158)				( 100.00)
Other transfers	1 927						155 000	164 300	197 589	
Foreign governments and international organisations			3 326	5 205	5 205	5 205				( 100.00)
Non-profit institutions	543 676	725 834	791 765	548 873	700 752	542 441	1 016 933	1 116 140	1 192 458	87.47
Off which										
Eastern Cape Youth Commission			6 000	9 500	8 231	8 231	8 400	9 500	10 400	2.05
National Student Financial Aid Council			16 000		12 000	12 000	12 000	13 000	15 000	
Fort Cox Agricultural College	10 974	8 000	11 500	10 500	10 500	10 500	10 500	11 500	13 500	
South African National Roads Agency										
Independent Development Trust										
SANTA										
Mayibuye										
Other	392 264	548 489	593 291	366 142	366 799	209 396	432 956	463 522	474 347	106.76
Households	4 703 747	6 642 634	8 743 749	8 948 629	9 518 220	9 872 683	10 635 474	11 835 100	12 917 069	7.73
Social benefits	4 215 960	5 826 500	7 535 928	8 105 538	8 683 360	8 956 894	9 958 036	11 060 610	11 963 070	11.18
Other transfers to households	487 787	816 134	1 207 821	843 091	834 860	915 789	677 438	774 490	953 999	( 26.03)



Table A.3

**Information relating to Section 8.3**  
**Details of provincial payments and estimates**  
**by economic classification**

Economic classification R'000	Outcome						Medium-term estimate			
	Audited 2001/02	Audited 2002/03	Audited 2003/04				Main appro- priation 2004/05	Adjusted appro- priation 2004/05	Revised estimate 2004/05	2005/06
Payments for capital assets	358 839	839 645	1 699 209	1 903 603	1 599 378	1 583 152	1 620 967	2 303 404	2 790 213	2.39
Buildings and other fixed structures	288 363	678 506	1 343 298	1 637 121	1 466 984	1 460 556	1 431 806	2 077 100	2 479 300	(1.97)
Buildings	103 223	166 137	429 211	1 037 004	743 949	740 133	772 855	1 313 177	1 461 048	4.42
Other fixed structures	185 140	512 369	914 087	600 117	723 035	720 423	658 951	763 923	1 018 252	(8.53)
Machinery and equipment	70 476	161 073	295 105	209 368	126 570	116 865	189 106	226 246	310 852	61.82
Transport equipment		20 453	69	7 407	5 238	5 237	902	5 408	5 679	(82.78)
Other machinery and equipment	70 476	140 620	295 036	201 961	121 332	111 628	188 204	220 838	305 173	68.60
Cultivated assets			18 872							
Software and other intangible assets				5 558	5 824	5 731	55	58	61	(99.04)
Land and subsoil assets		66	41 934	51 556						
Total economic classification	19 595 326	24 715 247	29 671 566	31 149 012	31 277 501	31 602 836	33 989 039	37 499 210	41 098 076	7.55
Direct charge										
Total economic classification (including direct charge)	19 595 326	24 715 247	29 671 566	31 149 012	31 277 501	31 602 836	33 989 039	37 499 210	41 098 076	7.55

**Table A.4(a) Payments summary by policy area**

GFS function	Category	Department	Programme
General Services			
	Legislative	Office of the Premier	1.1 Management
		Provincial Legislature	2.1 Administration 2.2 Remuneration of Elected Public Representatives 2.3 Constitutional Mandate
	Financial and Fiscal Affairs	Provincial Treasury	12.1 Strategic Management and Services 12.2 Sustainable Resources Management 12.3 Asset and Liability Management 12.4 Financial Governance
	General Services	Office of the Premier	1.2 Cabinet Office 1.3 Corporate Services 1.4 Organizational development & Governance 1.5 Shared Legal Services 1.6 Shared Internal Audit
		Housing Local Government & Traditional Affairs	7.1 Administration 7.2 Housing 7.3 Local Government 7.4 Traditional Affairs
Public Order and Safety	Public Services	Safety and Liaison	15.1 Administration 15.2 Facilitation 15.3 Financial Management 15.4 Special Programmes
Economic Affairs	General Economic	Economic Affairs,Environment and Tourism	9.1 Administration 9.2 Information Management 9.3 Economic Affairs 9.4 Environmental Affairs
	Agriculture	Agriculture	8.1 Administration 8.2 Sustainable Resource Management 8.3 Farmer Support and Development 8.4 Veterinary Services 8.5 Technical Research and Development Services 8.6 Agricultural Economics 8.7 Structured Agricultural Training
	Roads and Transport	Roads and Transport	10.1 Administration 10.2 Public Transport 10.3 Traffic Management 10.4 Roads Infrastructure
	Public Works	Public Works	5.1 Administration 5.2 Public works 5.3 Community based programme

Table A.4(a) Payments summary by policy area

GFS function	Category	Department	Programme	
Health	Health n.e.c	Health	3.1	Administration
	Outpatient services		3.2	District Health Services
	R&D Health		3.3	Health Science & Training
	Hospital		3.4	Emergency Medical services
			3.5	Provincial Hospital Services
			3.6	Central Hospital Services
			3.7	Health Care Support Services
			3.8	Health Facilities Development & Maintenance
Recreation Culture and Religion	Recreation and Sporting Services	Sport Arts Recreation and Culture	14.4	Sport and Recreation
	Cultural Services	Sport Arts Recreation and Culture	14.1	Administration
			14.2	Cultural Affairs
14.3			Library and Information Services	
Education	Pre-primary and Primary education	Education	6.2.1	Public Primary schools
			6.7	Early Childhood Development
	Secondary Education		6.2	Public Secondary schools
	Subsidiary Services to education		6.3	Independent school subsidies
	Education not definable		6.1	Administration
			6.2.3	Professional Services
			6.2.4	Human Resources Development
			6.6	Adult Basic education
			6.4	Public Special schools education
			6.5	Further education and Training
	6.8	Auxillary associated services		
Social Protection	Social Security Services	Social Service and Social Development	4.1	Administration
			4.2	Social Assistance
			4.3	Social Welfare Services
			4.4	Developmental & Support Serv
			4.5	Population Dev Trends

**Table A.4(b) Details of provincial payments and estimates by policy area**

GFS function R'000	Outcome			appro- priation 2004/05	appro- priation 2004/05	Revised estimate 2004/05	Medium-term estimate		
	Audited	Audited	Audited						
	2001/02	2002/03	2003/04				2005/06	2006/07	2007/08
FUNCTION - GENERAL PUBLIC SERVICES									
Category - Legislative									
Office of the Premier(Programme 1.1)	6 395	11 151	8 789	9 817	9 967	9 786	9 859	10 647	11 467
Legislature	74 023	74 018	79 615	85 549	95 549	95 549	99 371	104 439	109 765
Total for Category - Legislative	80 418	85 169	88 404	95 366	105 516	105 335	109 230	115 086	121 232
Category - Financial and fiscal affairs									
Provincial Treasury	117 522	147 219	161 243	171 164	155 030	149 951	180 390	196 762	214 697
Total for Category - Financial and fiscal affairs	117 522	147 219	161 243	171 164	155 030	149 951	180 390	196 762	214 697
Category - General services									
Office of the Premier ( 1.2-1.6 )	132 235	162 452	210 674	222 798	216 000	216 184	249 315	271 391	295 690
Housing Local Government	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
Total for Category - General services	738 620	1 007 053	1 451 545	1 283 662	1 255 212	1 255 118	1 257 541	1 419 197	1 634 053
TOTAL FOR FUNCTION - GENERAL PUBLIC SERVICES									
	936 560	1 239 441	1 701 192	1 550 192	1 515 758	1 510 404	1 547 161	1 731 045	1 969 982
FUNCTION - PUBLIC ORDER AND SAFETY									
Category - Police services									
Safety and Liaison 15.1-15.4)	5 725	6 769	8 781	11 788	11 322	11 592	13 402	14 365	15 634
Total for Category - Police services	5 725	6 769	8 781	11 788	11 322	11 592	13 402	14 365	15 634
TOTAL FOR FUNCTION - PUBLIC ORDER AND SAFETY									
	5 725	6 769	8 781	11 788	11 322	11 592	13 402	14 365	15 634

Table A.4(b) Details of provincial payments and estimates by policy area

GFS function R'000	Outcome			appro- priation 2004/05	appro- priation 2004/05	Revised estimate 2004/05	Medium-term estimate		
	Audited 2001/02	Audited 2002/03	Audited 2003/04				2005/06	2006/07	2007/08
<b>FUNCTION - ECONOMIC AFFAIRS</b>									
<b>Category - General economic affairs</b>									
Economic Affairs Environment and Tourism (less ECPB)	255 409	658 601	825 722	849 529	799 624	799 624	557 764	403 691	441 026
<b>Total for Category - General economic</b>	255 409	658 601	825 722	849 529	799 624	799 624	557 764	403 691	441 026
<b>Category - Agriculture</b>									
Agriculture (Programmes 8.1-8.7 )	563 298	571 590	751 961	897 529	882 143	875 501	821 819	911 861	999 154
<b>Total for Category - Agriculture</b>	563 298	571 590	751 961	897 529	882 143	875 501	821 819	911 861	999 154
<b>Category - Transport</b>									
Roads & Transport 10.1-10.5)	872 326	1 551 783	1 739 220	1 627 474	1 600 591	1 593 476	1 713 695	1 864 322	2 211 477
<b>Total for Category - Transport</b>	872 326	1 551 783	1 739 220	1 627 474	1 600 591	1 593 476	1 713 695	1 864 322	2 211 477
<b>Category - Public Works</b>									
Public Works (Programme 5.1-5.3)	376 667	413 167	549 436	531 963	523 788	530 903	527 535	550 828	619 417
<b>Total for Category - Communication</b>	376 667	413 167	549 436	531 963	523 788	530 903	527 535	550 828	619 417
<b>TOTAL FOR FUNCTION - ECONOMIC AFFAIRS</b>	2 067 700	3 195 141	3 866 339	3 906 495	3 806 146	3 799 504	3 620 813	3 730 702	4 271 074
<b>FUNCTION - ENVIRONMENTAL PROTECTION</b>									
<b>Category - Environmental protection</b>									
ECPB							65 000	75 000	82 445
<b>Total for Category - Environmental protection</b>							65 000	75 000	82 445
<b>TOTAL FOR FUNCTION - ENVIRONMENTAL PROTECTION</b>							65 000	75 000	82 445

Table A.4(b) Details of provincial payments and estimates by policy area

GFS function R'000	Outcome			appro- piation	appro- piation	Revised estimate	Medium-term estimate	
	Audited	Audited	Audited				2005/06	2006/07
	2001/02	2002/03	2003/04	2004/05	2004/05	2004/05	2005/06	2007/08
<b>FUNCTION - HOUSING AND COMMUNITY AMENITIES</b>								
Category - Housing development								
Total for Category - Housing development								
<b>TOTAL FOR FUNCTION - HOUSING AND COMMUNITY AMENITIES</b>								
<b>FUNCTION - HEALTH</b>								
Category - Health n.e.c.								
Administration	168 947	216 769	215 110	260 586	286 582	270 843	295 052	280 431
Total for Category - Health n.e.c.	168 947	216 769	215 110	260 586	286 582	270 843	295 052	280 431
Category - Outpatient service								
District Health Services	2 124 752	2 300 367	2 518 346	2 684 102	2 367 902	2 408 951	2 794 563	3 220 700
Total for Category - Outpatient service	2 124 752	2 300 367	2 518 346	2 684 102	2 367 902	2 408 951	2 794 563	3 220 700
Category - R & D Health (CS)								
Health Science & Training	76 756	71 062	122 884	163 526	137 393	139 684	337 245	370 757
Total for Category - R & D Health (CS)	76 756	71 062	122 884	163 526	137 393	139 684	337 245	370 757
Category - Hospital services								
(Programme 3.4 - 3.8)	1 521 998	1 905 044	2 386 672	2 302 080	2 429 389	2 466 981	2 660 931	3 345 823
Total for Category - Hospital services	1 521 998	1 905 044	2 386 672	2 302 080	2 429 389	2 466 981	2 660 931	3 345 823
<b>TOTAL FOR FUNCTION - HEALTH</b>	3 892 453	4 493 242	5 243 012	5 410 294	5 221 266	5 286 459	6 087 791	7 217 711



Table A.4(b) Details of provincial payments and estimates by policy area

GFS function R'000	Outcome			appro- piation 2004/05	appro- piation 2004/05	Revised estimate 2004/05	Medium-term estimate		
	Audited 2001/02	Audited 2002/03	Audited 2003/04				2005/06	2006/07	2007/08
<b>FUNCTION - SOCIAL PROTECTION</b>									
<b>Category - Social security services</b>									
Programme 4.1 - 4.5)	4 663 014	6 425 476	8 444 747	9 146 029	9 687 860	9 959 728	11 136 295	12 353 529	13 343 745
<b>Total for Category - Social security services</b>	4 663 014	6 425 476	8 444 747	9 146 029	9 687 860	9 959 728	<b>11 136 295</b>	<b>12 353 529</b>	<b>13 343 745</b>
<b>TOTAL FOR FUNCTION - SOCIAL SERVICES AND POVERTY ALLEVIATION</b>	4 663 014	6 425 476	8 444 747	9 146 029	9 687 860	9 959 728	<b>11 136 295</b>	<b>12 353 529</b>	<b>13 343 745</b>
<b>TOTAL: BY FUNCTION</b>	19 595 326	24 715 247	29 671 566	31 149 012	31 277 501	31 602 836	<b>33 989 039</b>	<b>37 499 210</b>	<b>41 098 075</b>



<b>Table A.5</b>				
<b>Details of expenditure for infrastructure by category</b>				
Category/type of structure	Vote	MTEF		
		2005/06	2006/07	2007/08
<b>New constructions (buildings and infrastructure)</b>	Office of the Premier			
<b>Rehabilitation/upgrading</b>	Office of the Premier			
<b>Other capital projects</b>	Office of the Premier	9 855	10 605	10 530
<b>Maintenance</b>	Office of the Premier			
<b>Subtotal <sup>a</sup></b>		9 855	10 605	10 530
<b>New constructions (buildings and infrastructure)</b>	Health	243 533	496 528	498 162
<b>Rehabilitation/upgrading</b>	Health	224 709	110 495	122 355
<b>Other capital projects</b>	Health			
<b>Maintenance</b>	Health	110 000	170 260	222 100
<b>Subtotal <sup>b</sup></b>		578 242	777 283	842 617
<b>New constructions (buildings and infrastructure)</b>	Social Development	6 200	26 146	20 640
<b>Rehabilitation/upgrading</b>	Social Development	8 070	1 400	
<b>Other capital projects</b>	Social Development			
<b>Maintenance</b>	Social Development	1 446	3 600	3 200
<b>Subtotal <sup>c</sup></b>		15 716	31 146	23 840
<b>New constructions (buildings and infrastructure)</b>	Public Works			
<b>Rehabilitation/upgrading</b>	Public Works	41 715	44 700	47 800
<b>Other capital projects</b>	Public Works			
<b>Maintenance</b>	Public Works	12 335	12 900	14 200
<b>Subtotal <sup>d</sup></b>		54 050	57 600	62 000
<b>New constructions (buildings and infrastructure)</b>	Education	40 993	47 575	54 954
<b>Rehabilitation/upgrading</b>	Education	215 397	607 552	755 455
<b>Other capital projects</b>	Education	27 230	14 108	
<b>Maintenance</b>	Education			
<b>Subtotal <sup>e</sup></b>		283 620	669 235	810 409

<b>Table A.5</b>				
<b>Details of expenditure for infrastructure by category</b>				
Category/type of structure	Vote	MTEF		
		2005/06	2006/07	2007/08
<b>New constructions (buildings and infrastructure)</b>	Agriculture	47 552	57 061	69 838
<b>Rehabilitation/upgrading</b>	Agriculture			
<b>Other capital projects</b>	Agriculture			
<b>Maintenance</b>	Agriculture			
<b>Subtotal <sup>f</sup></b>		47 552	57 061	69 838
<b>New constructions (buildings and infrastructure)</b>	Roads and Transport	811 819	908 261	1 200 109
<b>Rehabilitation/upgrading</b>	Roads and Transport	13 707	14 392	22 545
<b>Other capital projects</b>	Roads and Transport			
<b>Maintenance</b>	Roads and Transport	548 297	581 085	610 139
<b>Subtotal <sup>g</sup></b>		1 373 823	1 503 738	1 832 793
<b>New constructions (buildings and infrastructure)</b>	Sports, Recreation, Arts and Culture	11 206	13 803	22 893
<b>Rehabilitation/upgrading</b>	Sports, Recreation, Arts and Culture	2 033	6 000	
<b>Other capital projects</b>	Sports, Recreation, Arts and Culture			
<b>Maintenance</b>	Sports, Recreation, Arts and Culture			
<b>Subtotal <sup>h</sup></b>		13 239	19 803	22 893
<b>Total provincial infrastructure</b>		2 376 097	3 126 471	3 674 920

**Table A.6 Transfers to local government by transfers/grant type, category and municipality**  
**Provincial Consolidation**

Municipalities R'000	Outcome						Medium-term estimate			
	Audited  2001/02	Audited  2002/03	Audited  2003/04				Main appro- priation  2004/05	Adjusted appro- priation  2004/05	Revised estimate  2004/05	2005/06
Category A	53 672	73 685	85 184	87 217	81 391	76 614	85 800	89 878	93 666	11.99
Nelson Mandela	53 672	73 685	85 184	87 217	81 391	76 614	85 800	89 878	93 666	11.99
Category B	65 085	91 019	98 185	144 770	138 037	138 037	127 791	127 779	131 733	(7.42)
Amahlathi	1 346	300	900	1 711	1 711	1 711	300		800	(82.47)
Baviaans	990	1 053	1 207	951	951	951	1 608	1 694	2 314	69.09
Blue Crane Route	2 034	2 008	2 018	2 302	2 302	2 302	3 159	3 783	3 747	37.23
Buffalo City	12 060	20 760	19 666	26 823	22 989	22 989	24 869	27 924	26 455	8.18
Camdeboo	1 082	2 406	3 603	3 588	3 588	3 588	4 337	4 495	4 705	20.88
Elundini	800	555	380	1 468	1 468	1 468	640			(56.40)
Emalahleni	700	435	585	1 540	1 540	1 540	440			(71.43)
Engcobo	875	500	650	1 050	1 050	1 050	540			(48.57)
Gariep	2 137	1 086	1 201	1 775	1 775	1 775	1 911	1 874	2 008	7.66
Great Kei	600	435	585	2 350	2 350	2 350	840			(64.26)
Ikhwezi	1 734	713	1 367	13 041	13 041	13 041	1 196	1 243	1 305	(90.83)
Ingquza										
Inkwanca	600	100	491	610	610	610	840	500	500	37.70
Intsika Yethu	850	500	758	1 240	1 240	1 240	740		500	(40.32)
Inxuba Yethemba	3 313	3 678	3 996	5 284	5 284	5 284	5 743	5 968	6 266	8.69
King Sabata Dalindyebo	5 359	13 926	21 308	23 084	20 185	20 185	23 205	23 828	24 356	14.96
Kouga	959	2 905	3 665	4 079	4 079	4 079	4 872	5 063	5 316	19.44
Kou-Kamma	885	435	735	923	923	923		800		(100.00)
Lukanji	3 241	3 311	4 397	7 936	7 936	7 936	6 555	5 772	6 061	(17.40)
Makana	2 772	4 515	4 495	5 861	5 861	5 861	5 848	6 077	6 380	(0.22)
Malethswai	2 057	1 090	1 745	2 340	2 340	2 340	1 620	1 883	2 018	(30.77)
Mbashe	850	500	938	853	853	853	980	500	600	14.89
Mbizana	850	500	2 017	1 007	1 007	1 007	440		500	(56.31)
Mhlontlo	850	500	992	1 457	1 457	1 457	440	300		(69.80)
Mnquma	2 166		1 454	250	250	250	440			76.00
Ndlambe	1 381	2 169	2 780	3 019	3 019	3 019	3 639	3 781	3 970	20.54
Ngqushwa			100	1 690	1 690	1 690	440	300		(73.96)
Nkonkobe	3 425	4 594	6 289	8 163	8 163	8 163	7 934	8 383	8 740	(2.81)
Ntabankulu	850	500	1 404	888	888	888	440	400	500	(50.45)
Nxuba	1 715	305	810	185	185	185	440	400		137.84
Nyandeni	850	500	650	1 701	1 701	1 701	440			(74.13)
Port St Johns	700	270	325	1 030	1 030	1 030	1 440	2 000	1 600	39.81
Sakhisizwe	1 270	1 176	1 637	1 415	1 415	1 415	1 902	1 519	2 095	34.42
Senqu	1 093	697	942	1 554	1 554	1 554	540	561	589	(65.25)
Sundays River Valley	1 271	150	205	466	466	466	300			(35.62)
Tsolwana	1 004	305	705	810	810	810	740	500	500	(8.64)
Umzimkulu	1 816	1 000	1 795	1 005	1 005	1 005	880	700	1 000	(12.44)
Umzimvubu		16 837	629	10 971	10 971	10 971	16 653	17 531	18 408	51.79

Table A.6

**Transfers to local government by transfers/grant type,  
category and municipality  
Provincial Consolidation**

Municipalities R'000	Outcome			Main appro- priation    Adjusted appro- priation    Revised estimate			Medium-term estimate			
	Audited	Audited	Audited							%
	2001/02	2002/03	2003/04	2004/05	2004/05	2004/05	2005/06	2006/07	2007/08	Change from Revised estimate 2004/05
<b>Category C</b>	53 705	52 332	97 942	84 432	56 223	79 023	56 066	73 017	95 696	(29.05)
Alfred Nzo	7 000	1 921	6 400	7 339	1 739	6 039	1 233	3 074	5 907	(79.58)
Amatole	19 755	13 256	29 458	12 903	9 561	11 661	9 564	12 564	17 214	(17.98)
Cacadu	15 333	17 183	20 368	25 407	23 690	25 190	27 067	31 653	36 043	7.45
Chris Hani	10 442	4 557	12 867	13 362	8 730	13 067	5 710	8 396	11 718	(56.30)
OR Tambo	6 350	6 507	13 610	12 418	4 368	11 868	1 069	2 669	7 488	(90.99)
Ukwahlamba	9 734	8 908	15 239	13 003	8 003	11 003	11 211	14 434	17 075	1.89
<b>Total transfers to local government</b>	172 462	217 036	281 311	316 419	275 651	293 674	<b>269 657</b>	290 674	321 095	(8.18)

## Annexure A to Budget Statement 1

Table A.7

## Provincial payments and estimates by district and local municipality

Municipalities R'000	Outcome			Main appro- priation    Adjusted appro- priation    Revised estimate			Medium-term estimate			
	Audited	Audited	Audited							%
	2001/02	2002/03	2003/04	2004/05	2004/05	2004/05	2005/06	2006/07	2007/08	Change from Revised estimate 2004/05
<b>Cacadu District Municipality</b>	1 099 148	1 374 587	1 705 629	1 772 508	1 776 899	1 787 097	1 950 680	2 165 572	2 383 084	9
Cacadu District	16 975	18 620	24 761	23 973	23 605	23 926	23 774	25 729	33 958	( 1)
Camdeboo Local Municipality	154 261	192 719	249 508	263 948	262 756	256 279	301 032	328 815	360 231	17
Blue Crane Route	39 561	54 587	74 834	72 065	74 370	75 745	80 518	90 025	99 645	6
Ikhwezi Local Municipality	147 346	177 697	206 806	212 955	212 459	212 859	220 516	248 708	273 830	4
Makana	417 231	499 618	584 192	638 207	631 871	636 461	690 652	768 750	841 741	9
Ndlambe	51 977	73 084	99 150	98 503	102 374	104 533	112 693	125 708	138 179	8
Sunday's River Valley	42 035	59 564	81 518	79 462	82 310	83 923	89 611	100 132	110 539	7
Kouga	129 135	164 427	207 756	211 596	213 387	216 837	241 385	266 130	291 054	11
Kou-Kamma	76 652	99 412	127 916	127 295	128 381	130 553	143 345	158 518	174 230	10
Baviaans	23 975	34 859	49 189	44 504	45 387	45 981	47 154	53 058	59 677	3
<b>Amatole</b>	6 444 851	8 217 297	9 762 640	10 031 178	9 971 810	10 074 277	11 176 750	12 329 262	13 401 267	11
Mbashe	436 765	551 694	674 566	715 063	733 237	744 555	808 350	901 608	981 362	9
Mnquma	879 028	1 070 543	1 265 837	1 343 131	1 355 739	1 370 617	1 483 727	1 653 808	1 802 449	8
Great Kei	136 054	169 204	211 164	212 095	211 415	214 788	240 166	264 099	289 250	12
Amahlathi Local Municipality	203 153	261 954	332 890	345 123	352 613	359 951	401 883	443 512	482 967	12
Buffalo City	4 006 261	5 148 414	5 945 396	6 025 659	5 959 833	6 012 702	6 774 667	7 449 103	8 081 047	13
Nkonkobe	470 559	571 190	677 036	710 382	712 942	720 616	783 657	871 521	951 224	9
Ngqushwa	102 544	136 377	178 166	183 302	189 116	193 088	212 369	235 239	256 793	10

Table A.7 Provincial payments and estimates by district and local municipality

Municipalities R'000	Outcome						Medium-term estimate			
	Audited	Audited	Audited				Main appro-riation	Adjusted appro-riation	Revised estimate	2005/06
2001/02	2002/03	2003/04	2004/05	2004/05	2004/05	2005/06	2006/07	2007/08	2004/05	
Chris Hani District Municipal	2 824 857	3 495 779	4 308 716	4 531 785	4 572 850	4 644 223	4 900 230	5 447 557	5 994 774	6
Chris Hani District	21 999	24 131	32 089	31 069	30 591	31 007	30 810	32 170	40 818	( 1 )
Inxuba Yethemba	293 740	356 873	425 673	443 813	444 323	447 743	487 803	541 555	591 822	9
Tsolwala	75 194	97 993	127 014	126 577	128 452	129 423	141 941	157 009	172 482	10
Inkwanca	320 544	381 368	437 164	458 867	458 313	458 185	480 441	540 166	592 100	5
Lukanji	396 617	501 196	659 436	723 300	727 715	769 517	861 878	945 548	1 031 354	12
Egcobo	539 818	683 638	883 351	913 357	925 080	932 044	872 579	970 888	1 099 984	( 6 )
Intsika Yethu	537 721	666 310	799 420	848 062	862 845	872 493	943 217	1 052 710	1 146 989	8
Emalahleni	497 015	604 161	710 483	751 727	758 699	764 183	817 687	914 774	998 657	7
Sakhisizwe	620	2 125	2 200	460	460	460	460	460	460	
Sakhisizwe	137 378	172 582	218 160	223 651	225 591	228 388	254 780	280 760	307 016	12
				-	-	-	-	-	-	
Alfred Nzo District Municipal	1 294 389	1 572 216	1 806 287	1 989 826	2 001 247	2 002 993	2 109 987	2 357 884	2 621 195	5
Umkhkhulu Local Municipality	1 137 594	1 402 011	1 635 359	1 759 069	954 968	1 796 524	1 863 259	2 095 457	2 330 013	4
Mt Ayliff	151 446	163 604	158 329	216 697	212 325	195 065	236 208	258 055	285 584	21
Mt Frere	1 045	1 055	906	1 560	1 960	898	1 114	1 192	1 306	24
Mt Fletcher		1 077	925	1 555	1 855	889	1 103	1 180	1 293	24
Nelson Mandela Meltropolitai	1 801 637	2 575 319	2 960 959	3 211 313	3 251 691	3 299 189	3 391 827	3 560 499	3 913 999	3
Nelson Mandela Meltropolitan	1 734 861	2 190 283	2 661 162	2 834 721	2 879 547	2 927 045	3 198 414	3 542 262	3 894 141	9
Ukhahlamba Distrct Municipi	1 401 704	1 721 345	2 046 092	2 210 734	2 224 049	2 227 574	2 438 641	2 717 558	2 970 203	9
Elundini	746 277	902 050	1 046 990	1 118 204	1 125 795	1 131 465	1 212 877	1 358 306	1 483 158	7
Senqu Local Municipality	456 370	562 809	674 291	721 633	729 160	733 741	807 955	898 213	979 613	10
Maletswai Local Minicipality	151 105	188 392	233 186	282 414	277 550	269 109	315 976	347 485	382 180	17
Gariep	47 953	68 094	91 625	88 483	91 543	93 258	101 832	113 554	125 252	9
O.R Tambo	4 645 073	5 714 591	6 922 853	7 321 691	7 399 768	7 488 641	8 000 638	8 897 132	9 745 679	7
Mbizana	601 734	743 436	884 929	941 491	958 579	969 228	1 039 628	1 163 532	1 268 071	7
Ntabankulu	150 856	201 586	262 037	272 488	282 394	288 808	320 258	354 656	386 029	11
Qaukeni	968 462	1 169 291	1 369 746	1 450 803	1 459 955	1 473 095	1 586 987	1 770 715	1 931 211	8
Port St Johns	175 274	230 572	297 247	308 814	318 995	325 789	360 967	399 164	434 356	11
King Sabata Dalindyebo	1 420 645	1 742 272	2 157 969	2 288 006	2 296 896	2 324 433	2 413 455	2 668 695	2 955 459	4
Mhlonto	610 052	744 933	880 851	932 868	942 733	952 412	1 026 120	1 145 689	1 249 493	8
Nyandeni	712 282	876 510	1 049 522	1 110 816	1 124 429	1 139 090	1 242 444	1 381 888	1 505 164	9
Unallocated	83 667	44 113	86 521							
Total provincial expenditure	19 595 326	28 830 890	29 602 730	31 149 012	31 277 502	31 602 836	33 989 039	37 499 211	41 098 078	8