

EASTERN CAPE PROVINCIAL GOVERNMENT

EC BUDGET 2006/2007 : POOR CONTINUES TO BENEFIT MORE...

“Eastern Cape, a compelling place to live,
work & invest in”

We will not abandon the poor.
Serving with humility, honesty & integrity.



Last year I tabled the “Ikwezi Lomso” Budget of 2005/06, which sought to promote stewardship over the finances of this province and to achieve better results through continuous improvement of the budgetary and monitoring systems. The result of this often painful process is that we can now proudly claim ownership and control over the financial governance in the Eastern Cape, and in so doing, look forward to a future in which a stable and ever-growing economic environment will contribute towards the creation of wealth and prosperity in the province. Building on this the 2006/07 Budget has been designed to place the province on a virtuous cycle of sustainable growth.

As part of the national agenda the leadership of the Eastern Cape Government subscribes to the sentiments expressed by President Mbeki in his State of the Nation

Address on 3 February, regarding the optimism and positive mood prevailing in the country. South Africans are optimistic and in positive mood because they can see and feel that systematically we are winning the war to replace a life of despair with a future full of hope and fulfilment.

The substantive content and modalities of state intervention to push back the frontiers of poverty are grounded in the Accelerated and Shared Growth Initiative of South Africa (ASGISA). ASGISA has become the kingpin of job creation and poverty reduction. This Initiative and the Provincial Growth and Development Plan (PGDP) are inextricably linked. ASGISA is a strategic catalyst for the successful implementation of the PGDP. We have embraced ASGISA and will implement key programs and projects.

The potential impact of ASGISA, Coega and the East London Industrial Development Zone (IDZ) on the demand for social infrastructural services such as electricity and water, provision of efficient and competitive logistical infrastructure, and expansion of modern telecommunication infrastructure in the province is immense. Together, ASGISA, Coega and the East London IDZ will define and shape the trajectory of sustainable economic growth and development of this province.

While maintaining an expansionary stance on pro poor programmes (the social services sector) the

province remains up-beat of the fact that the Eastern Cape is bursting with opportunities. I only need to remind the readers of the massive investment of about R3 billion in the Coega Development Zone to date. We are also waiting eagerly for the outcome of the robust negotiations between the Coega IDZ and the Canadian Aluminium Giant Alcan for an investment of some R15 billion. Under the banner of ASGISA, the national Government has given the green light for two of the Eastern Cape's icon projects, namely the Timber Industries Cluster at Ugie-Maclear and the Umzimvubu Catchments Project. These two projects will have a major impact on accelerated and shared growth, providing some 3 000 direct employment and 10 000 downstream employment opportunities. Other projects in the pipe-line such as the Wild Coast Meander, the Moltena/Indwe Coal Mining Initiative and the Gariep Irrigation Scheme to provide water to the Cacadu District will give an additional boost to job creation opportunities in the province.

The challenges posed by the need for infrastructure development, rehabilitation and maintenance are of such a magnitude that government alone cannot meet them. At the same time, it is believed that the province is among those in the country with the lowest capital stock per worker, reflecting both the size of the province's population, inability to attract significant investment resources from outside, and loss

of private domestic wealth to other provinces. The government's approach to addressing this problem is to broaden the participation of the private sector in infrastructure development. The strategy is to attract private financial support through direct equity investment and assistance in developing entrepreneurial and managerial capacity in areas such as project planning and financial management, outsourcing of non-core businesses, leasing, Build-Operate and Transfer (BOT), etc.

Another area that will be addressed during the 2006/07 fiscal year are the problems that tend to afflict the budget implementation phase, including the underspending. Treasury will undertake a comprehensive study into the causes of under-spending of infrastructure and other conditional grants, and develop appropriate responses to deal with the problems.

I trust that through this budget our province would achieve another milestone in the long journey of improving access to public services, while at same time promoting economic opportunities.

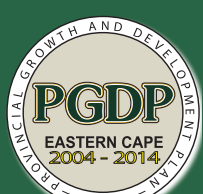
Willem Hugh Nel

MEC for Finance

20th February 2006



Province of the Eastern Cape



Ikamva eliqaqambileyo!



Provincial Treasury

Delivery through the Growth and Development Plan (PGDP) (2004-2014)

In response to the significant development challenges in our Province coupled with in-depth research by various institutions, the *Framework for Growth and Development 2004-2014* was adopted by the Executive Council in June 2004. The PGDP 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 PGDP 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

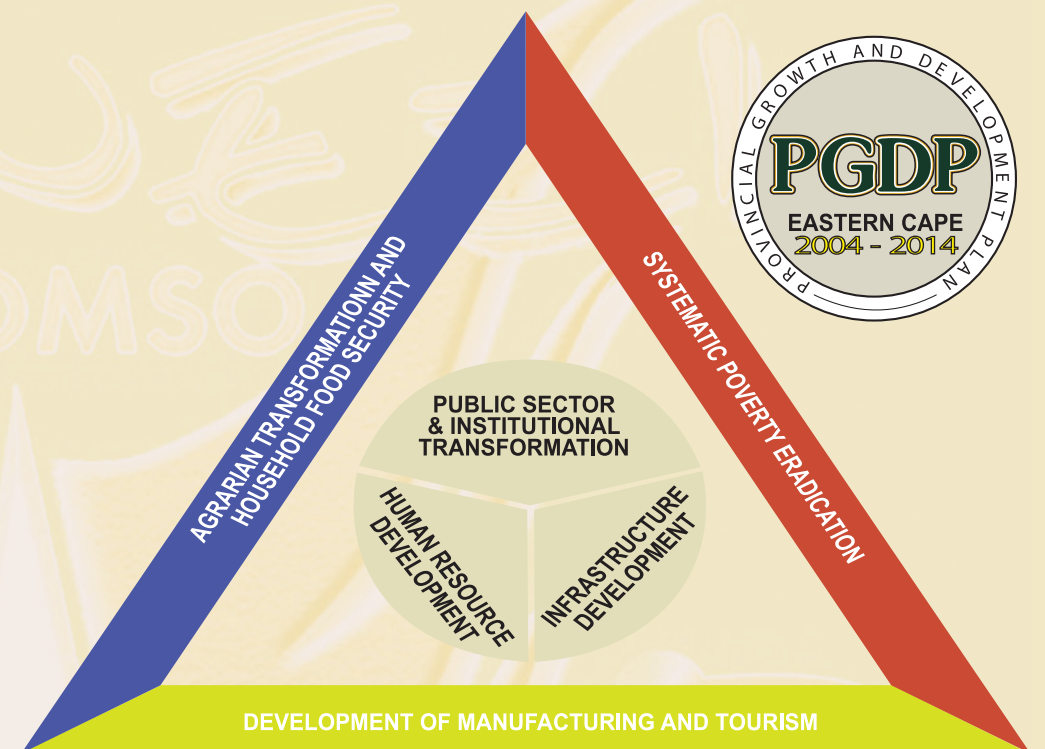
and diversification of the manufacturing base and tourism potential

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



2006/2007 Budget Highlights by vote

Education

- Reduce backlogs in classrooms & school equipment;
- Expand Grade R;
- Teacher development and HRM systems;
- Extend new curriculum to grades 10-12;
- Norms and standards for school funding;
- Expand information management systems;

Health

- Enhance human resource management;
- Recruit health professionals;
- Expand EMS;
- Implement new National Ambulance Service Model;
- Expand Primary Health Care;
- Improve services in rural areas;
- Modernize tertiary services;

Social Welfare Services

- Expand existing social welfare

services;

- Phased implementation of the Children's Bill, Older Persons Bill and the Child Justice Bill;

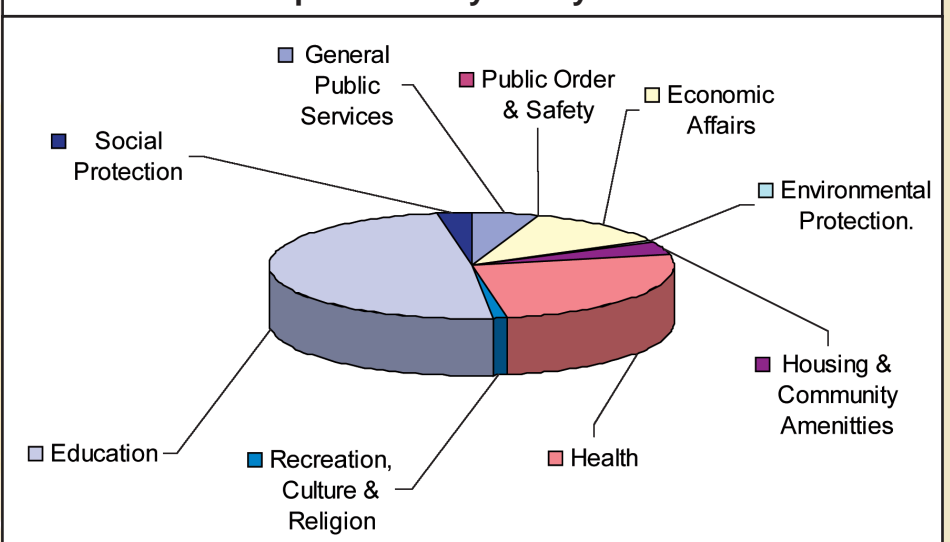
EPWP

- health workers, community based care and Early Childhood Development;
- provide for training of practitioners, stipends and the provision of materials, food and basic health care.
- Provision of Infrastructure.

Other provincial functions

- Rehabilitation and maintenance of provincial roads;
- Expansion of support for agriculture and bolstering provincial tourism
- Strengthening monitoring systems and Human Resource capacity.

Chart 1: 2006/7 Expenditure by Policy area



As can be noted from chart 1 social services receives the biggest share of the budget (77,2%). The major areas of expenditure by policy area for the 2006/07 financial year are Education, Health and Economic services, with estimated expenditure of R13 billion, R6,9 billion and R3,1 billion, respectively. In total, these three policy areas account for R23 billion or 86% of provincial expenditure (Education 49%, Health 26% and Economic Services 11 %). Each of these three major policy areas have increased compared to the adjusted budget for the 2005/06 financial year.



Province of the Eastern Cape



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Provincial Budget Summary

Table 1 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. Between 2005/06 and 2008/09, provincial revenue is expected to grow at an annual average rate of 12.03%. Equitable share and conditional grants grow year on year from 2005/06 by 10.99% and 9.87% respectively. The net result between estimated receipts and spending in the 2005/06 financial year is a surplus of R1 299 million, decreasing to R1 101 million in 2006/07, R583 million in 2007/08 and R402 million in 2008/09. The budgeted surplus over the 2006/07 MTEF is chiefly to address deficits and overdrafts from previous financial years.

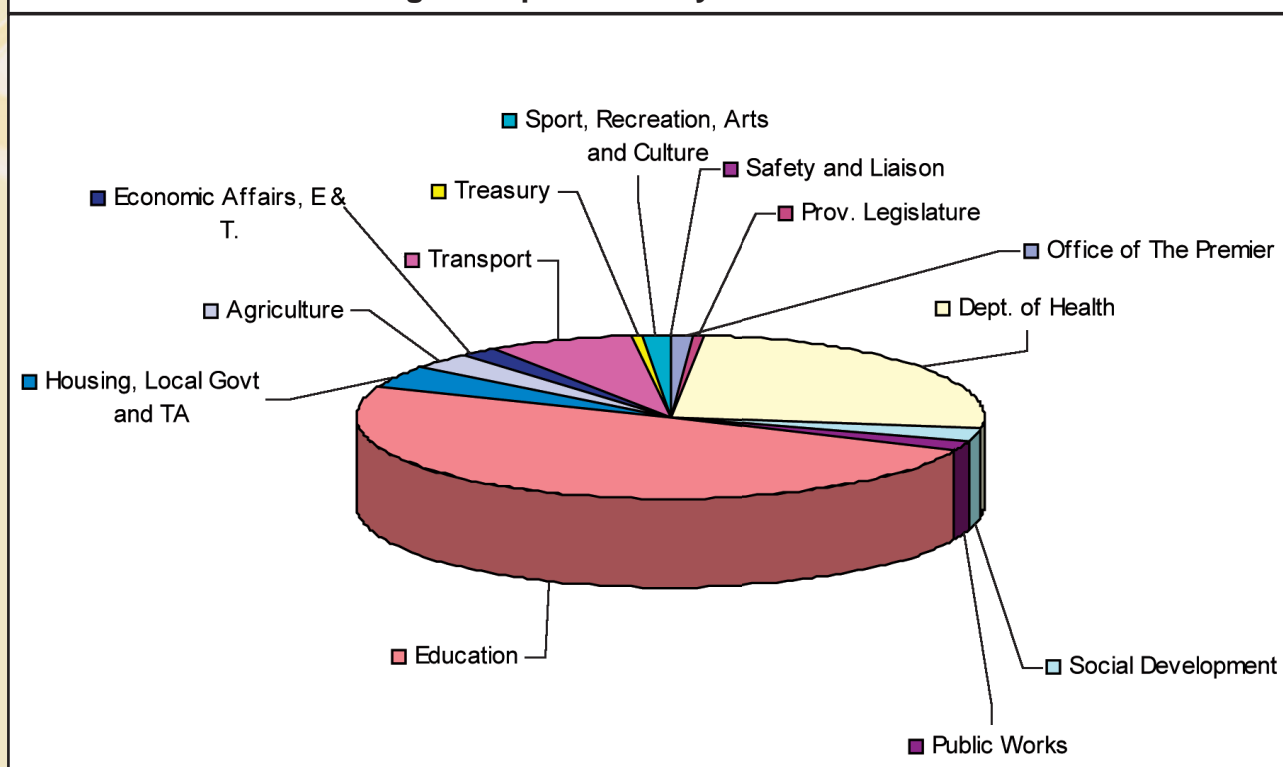
Province of the Eastern Cape									
Table 1: Summary of provincial payments and estimates by vote									
R'000	Outcome			Main appropriation	Adjusted appropriation	Revised estimate	Medium-term estimate		
	Audited	Audited	Audited					% Change from Revised estimate	
	2002/03	2003/04	2004/05						
Provincial receipts									
Transfer receipts from national	17,759,482	18,846,376	21,486,368	24,691,343	24,759,723	24,759,723	27,452,597	30,542,006	33,715,298
Equitable share	16 211 372	16 649 754	18 310 812	22 202 309	22 202 309	22 202 309	24 642 653	27 188 826	30 091 474
Conditional	1 548 110	2 196 622	3 175 556	2 489 034	2 557 414	2 557 414	2 809 944	3 353 180	3 623 824
Financing	-	-	-	-	-	-	-	-	-
Provincial own receipts	637 282	613 559	324 623	325 724	432 592	423 974	475 107	520 989	560 489
Total provincial receipts	18,396,764	19,459,935	21,810,991	25,017,067	25,192,315	25,183,697	27,927,704	31,062,995	34,275,787
Provincial payments									
Current payments	15,206,985	16,528,163	17,294,735	18,887,724	19,309,400	19,264,004	21,110,682	23,514,478	25,642,092
Transfers and subsidies	2,625,381	3,506,159	2,826,334	2,919,444	3,009,269	3,059,175	3,688,074	4,249,940	4,892,986
Payments for capital assets	839,053	1,677,885	1,465,311	1,585,002	1,585,209	1,561,608	2,028,368	2,715,592	3,338,465
Direct charge	-	-	-	-	-	-	-	-	-
Unallocated contingency	-	-	-	-	-	-	-	-	-
Total provincial payments	18,671,419	21,712,207	21,586,380	23,392,170	23,903,878	23,884,787	26,827,124	30,480,010	33,873,543
Surplus (Deficit)	(274,655)	(2,252,272)	224,611	1,624,897	1,288,437	1,298,910	1,100,580	582,986	402,244

Total expenditure and estimates by Vote

Province of the Eastern Cape									
Table 2: Summary of provincial payments and estimates by vote									
R'000	2002/03	2003/04	2004/05	2005/06			2006/07	2007/08	2008/09
	Audited OUTCOME			Main appropriation	Adjusted appropriation	Revised estimate	Medium-term estimates		
Vote 01: Office of the Premier	173 603	219 462	192 146	259 174	276 289	269 648	297 038	322 841	345 074
Vote 02: Provincial Legislature	74 018	79 615	91 540	99 371	121 380	121 381	129 039	141 941	153 236
Vote 03: Health	4 493 242	5 243 012	5 180 217	6 087 791	6 212 887	6 212 887	6 892 701	7 658 155	8 412 285
Vote 04: Social Development	381 647	485 386	419 172	539 426	539 649	536 143	762 772	957 201	1 234 731
Vote 05: Public Works	413 167	500 675	494 969	473 143	473 284	464 853	514 272	613 268	733 310
Vote 06: Education	9 148 768	10 155 292	10 654 446	11 251 320	11 521 188	11 539 084	13 065 022	14 774 315	16 334 141
Vote 07: Housing, Local Government & Traditional Affairs	844 601	1 240 872	997 567	1 008 226	1 065 255	1 056 328	1 250 606	1 481 703	1 612 098
Vote 08: Agriculture	571 591	751 961	821 936	821 819	836 894	836 073	869 670	954 759	1 059 125
Vote 09: Economic Affairs, Environment & Tourism	658 601	825 722	762 272	622 764	647 610	647 610	519 091	565 906	669 239
Vote 10: Roads & Transport	1 551 783	1 787 978	1 602 694	1 768 087	1 780 047	1 780 047	1 983 795	2 390 133	2 628 983
Vote 12: Provincial Treasury	147 219	161 243	138 518	180 390	136 407	128 762	196 762	214 697	229 726
Vote 14: Sport, Recreation, Arts & Culture	206 410	252 205	219 363	267 257	279 585	279 455	321 991	374 455	424 869
Vote 15: Safety & Liaison	6 769	8 781	11 541	13 402	13 402	12 516	24 365	30 634	36 728
Total provincial own receipts by vote	18 671 419	21 712 204	21 586 381	23 392 170	23 903 877	23 884 787	26 827 124	30 480 008	33 873 545

The total outlays for provincial votes as set out in table 2 amounts to R26 827 million in 2006/07, R30 480 million and R33 874 million in 2007/08 and 2008/09, respectively. The above figures reflect an increase from the 2005/06 base of R2 942 million (12.32%) in 2006/07 and an increase of R3 653 million (13.62%) in 2007/08. In real terms this translates to an increase of 6.92% in 2006/07 and 8.42% in 2007/08.

Chart 2: 2006/7 Main Budget - Expenditure by Vote



Province of the Eastern Cape



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Provincial Government

Infrastructure investment as a catalyst for economic growth

The significance of infrastructure in the province's economic transformation and growth has been recognised in the PGDP. Infrastructure is central to economic growth, global competitiveness, and poverty alleviation. The transformation of the provincial economy to create jobs, generate income, and thus reduce poverty is the single most important challenge confronting the government of this province. Underpinning this challenge, however, is the need to provide appropriate and adequate social and economic infrastructure. Poorly maintained and unreliable infrastructure and service delivery systems hamper both private and public sector activity. Although continued delays or neglect of investment in infrastructure projects may provide immediate savings for other expenditures, a heavy price could be paid in the longer term in the form of lower economic growth, high unemployment and an increase in poverty.

Over the medium term, the infrastructure budget will increase significantly from R2,9 billion in 2006/07 financial year to R4,3 billion in 2008/09, with the bulk of the money going into the provision of roads, school infrastructure and hospital facilities. Departments are therefore urged to ensure that realistic and comprehensive Infrastructure Plans are developed to cover the medium term. Already, the National Treasury is developing guidelines and formats for infrastructure planning for all provinces. Several interactions have taken place between our own Treasury and the National Treasury on this matter. Beginning in March 2006, the Provincial Treasury will commence the coordination of the development of the Infrastructure Plans for the province. In terms of the 2006 Division of Revenue Act, provincial departments are required to submit their Infrastructure Plans to the provincial Treasury by not later than 31 August 2006.

Some extracts from the Infrastructure Investment Plan



German Village Primary School - Peddie



Nompumelelo Hospital - Peddie

Table 3 Summary of provincial infrastructure payments and estimates		Medium-term estimate		
R'000		2006/07	2007/08	2008/09
1.	Office of the Premier			
2.	Provincial Legislature			
3.	Health	587 263	811 707	855 244
4.	Social Development	25 805	18 192	19 508
5.	Public Works	76 706	133 911	224 608
6.	Education	696 342	877 453	1 222 842
7.	Housing, Local Government and Traditional Affairs	25 364	26 821	28 216
8.	Agriculture	57 061	69 838	73 190
9.	Economic Affairs, Environment and tourism			
10.	Roads and Transport	1498 759	1820 487	1929 931
12.	Provincial Treasury			
14.	Sports, Recreation, Arts and Culture	22 974	24 608	30 798
15.	Safety and Liason			
Total provincial infrastructure payments and estimates by vote		2 990 274	3 783 017	4 384 337



Ncedolwethu S.S.S. - Peddie



Victoria Hospital - Alice



Province of the Eastern Cape



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