



Province of the
EASTERN CAPE
PROVINCIAL TREASURY

BUDGET SPEECH

2007/08

**PROVINCE OF THE EASTERN CAPE
2007/2008 BUDGET SPEECH AND POLICY STATEMENT**

Delivered By

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1. INTRODUCTION

Madam Speaker, Premier, Honorable Members of the House, Heads of Departments, Invited Guests, Officials of the Provincial Administration, Comrades and Friends, Ladies and Gentlemen

Times like this present unique opportunities to reflect on issues that really matter in peoples' life. For the government, the Budget Day presents an opportunity to reflect on the critical challenges confronting the citizens of this province and how public action and resources are used to respond to the challenges.

The Eastern Cape has aptly been described as one of the poorest provinces in the country. The province is estimated to have the second highest incidence of poverty in the country, with some 69% of the population receiving incomes below the poverty line. The incidence of poverty is highest in the rural areas of the former Transkei and Ciskei. The unemployment rate (estimated at 30% in 2005) is unacceptably high, and yet there is acute shortage of skilled manpower, pointing to the structural disarticulation of the provincial economy. The human development index of this province is among the lowest in the country.

The Provincial Growth and Development Plan contends that most of the constraints to growth and development in the province stem from severe poverty, high levels of inequality between the poor, densely-populated labor reserves and relatively affluent, sparsely-populated commercial agricultural areas, and between well-serviced urban centers and under-serviced townships and informal settlements. Reducing poverty has therefore become the single most important challenge confronting the province.

Madam Speaker

Poverty is a state of pronounced deprivation in well-being. To be poor is to be hungry, to lack shelter and clothing, to be sick and not cared for, to be illiterate and not schooled. But for the poor people, living in poverty is more than this material deprivation. Poor people are vulnerable to adverse events outside their control. They are often treated badly by the institutions of state and society and excluded from voice and power in those institutions. All these forms of deprivation severely restrict what Amartya Sen, a renowned Development Economist, calls the *“capabilities that a person has to lead the kind of life he/she values and desires”*.

What framework of action is needed to effectively reduce poverty in all its manifestations?

Quite obviously, Madam Speaker and Premier

Economic growth is central to the success in poverty reduction. But as we know poverty is an outcome of economic, social and political processes that interact with and reinforce each other in ways that worsen or ease the deprivation poor people face everyday. To generate the dynamics for sustainable poverty reduction requires action on three fronts. Firstly, we would need to expand economic opportunities for the poor by stimulating overall economic growth and by building up their assets and increasing the returns on these assets, through a combination of market and non-market interventions. Secondly, we have to empower the poor by making our departments and other state institutions more accountable and responsive to the needs of the poor, and by strengthening the participation of poor people in political processes and local decision-making. Lastly, we have to enhance the security of poor people by reducing their vulnerability to ill health, economic shocks, policy-induced dislocations, natural disasters, and violence, as well as helping them to cope with adverse shocks when they occur.

Madam Speaker

Underpinning the three interventions I have just outlined is the ability of the poor to accumulate and use assets, and the most effective instrument of government action for reducing poverty is the budget. The budget I table in this House today has been crafted to facilitate the use of government action and resources to expand the assets of the poor and reduce inequalities in our society.

Firstly, the budget is designed to facilitate the use of state power to redistribute resources, especially basic services such as education, health, and infrastructure that create assets for the poor. Secondly, the budget has made resources available to support the implementation of policies and institutional reforms that support effective service delivery to our people. Lastly, the budget calls for the engagement of poor households and poor communities in decisions on the choice, design, operation, monitoring and evaluation of programs and services that build their assets.

Premier

The 2007/2008 budget seeks to reinforce the important and soul-searching statement that you have always been making in this province, viz. *"We will not abandon the poor"*.

Indeed Madam Speaker

The Government of the Eastern Cape will not abandon the poor. We should not abandon the poor because it is socially and morally wrong to demonstrate that type of attitude. The Government of the Eastern Cape is now more than ever ready to use the power of the state to move the frontiers of poverty in this province. We will be able to do this because, Madam Premier, under your able leadership we have been able to weather the storm that threatened to undermine the financial viability of the province. Your unwavering commitment and 'Godly' belief are an inspiration to all in the province and has made a massive impact on me and my outlook in life.

Madam Speaker

Three years ago this time, the province was faced with a serious financial crisis that threatened to push it into insolvency. The overall financial position of the province reflected an exposure of some R3,6 billion, comprising amongst others of a R744 million bank overdraft, projected over-expenditure of R1,2 billion by the Department of Social Development, outstanding debts and other liabilities totalling some R899,6 million, and a deficit budget of R563 million that was tabled at the time.

Through your strong leadership, guidance, and personal involvement, Madam Premier, the government was able to implement measures that sought to stabilize the fiscus and eliminate the deficit, achieve economies in expenditure, leverage additional resources, and generally enforce financial discipline in the administration. Today, the Eastern Cape Provincial Administration is free of debt. The financial position is stronger than ever and there is no threat of financial insolvency. As a result of the effective expenditure management exercised under your administration, the province has moved from a position of near bankruptcy in March 2004 to a position of strong solvency in March 2007. So Premier, when you say that “*we will not abandon the poor*”, you are very correct because it is our responsibility to see that the interest of the poor is protected. More so because we have the financial resources, commitment and the interest to effectively reduce poverty in the province. We will not rest on our woes until we break the back of poverty in this province.

2. THE 2006/2007 BUDGET PERFORMANCE

Madam Speaker, Premier, Honorable Members of the House

I would like to give a snap-short review of the performance of the budget in the current financial year. I will use this review to establish the context within which the 2007/2008 budget proposals are derived.

Revenue

From the revenue perspective, the provincial fiscus looks very strong and encouraging. Revenues from the major sources are generally in line with the projections. As of the end of January 2007, a total of R23.7 billion, representing 84% of the projected revenue for the financial year 2006/2007 had been mobilized. Up to January 2007, the province had received R20,7 billion of its total equitable share of R24,6 billion, representing 84% of the expected equitable share from the National Government.

Up to January 2007, 82% of the total R2,9 billion conditional grants earmarked for the province had also been received from the National Government. Over the same period, the province mobilized over R630 million from its own sources. The provincial own revenue is projected to reach R713 million by the end of the financial year, indicating an over-collection of some R116 million or 19%.

Expenditure

Madam Speaker

The financial performance from the expenditure perspective is very discouraging. The province continues to face serious problem of under-spending. Total spending by the province as at end January 2007 stood at R21,1 million, or 76% of the adjusted budget for the financial year. The January in-year monitoring report, which consolidates information submitted by departments, indicates that the province will end the financial year with an under-expenditure of some R454 million. The Treasury, however, estimates that the end-year under-expenditure may be close to R3 billion.

The budgets for goods and services, transfer payments, and capital assets are all likely to be hugely under-spent by the end of the financial year. The biggest under-expenditure is likely to be on transfer payments and subsidies to households, state institutions, municipalities, and non-profit organizations. For this expenditure item, nearly R1,5 billion is likely to be under-sent. The bulk of this amount will be the housing conditional grant for which spending has been very discouraging during the year.

The budget for goods and services is also projected to be under-spent by over R1 billion by the end of March this year. And more than R500 million of the budget for capital payments, including buildings and other fixtures, machinery and equipment, is also likely to be unspent during the year. Moreover, actual spending of conditional grants is likely to be less than the budget by some R700 million, attributable mainly to the slow spending of the forensic pathology and the integrated human settlement development grants.

Madam Speaker

A common factor accounting for the under-spending of the budget is the lack of capacity to plan, implement, monitor and evaluate transfers and subsidies. In some cases, monies have not been transferred because the recipient institutions and bodies have not been able to comply with the requirements, such as the submission of business plans. Lack of proper costing and credible procurement plans are the major contributory factors for the under spending of the goods and services budget. But above all, Madam Speaker and Premier, there is more cash available to spend now than the capacity of departments to spend. The need to build capacity in the administration and also creatively utilize the existing capacity to step up spending cannot therefore be over-emphasized.

Madam Speaker

To prevent the unspent portion of the housing conditional grant going back to the National Government, the Department of Housing, Local Government and Traditional Affairs has put together a comprehensive plan that seeks to fast-track the housing projects and thus expenditure. The plan envisages the engagement of established construction companies in the low-cost housing sector. The department is also seriously engaging with contractors currently on site and the municipalities to address the problems that have caused many of the housing projects to be blocked so that construction of houses will proceed un-impeded.

3. THE 2007 MEDIUM TERM EXPENDITURE FRAMEWORK

Madam Speaker, Premier, and Honorable Members of the House

The 2007/2008 Medium Term Expenditure Framework has been shaped and influenced by a number of policy interventions that seek to address the issue of poverty and inequality in the province. Madam Speaker, permit me to outline some of the key priorities that seek to influence the 2007 Medium Term Expenditure Framework, commencing with the accelerated shared growth and investment agenda.

ASGISA

The challenge of development is to improve the quality of life, especially that of the poor, in a sustainable manner. For a poor province such as the Eastern Cape, a better quality of life generally calls for higher incomes, but it involves much more. It encompasses, as ends in themselves, better education, higher standards of health and nutrition, more equality of opportunity, less unemployment, greater individual freedom, and a richer cultural life.

Madam Speaker

Economists such as my Head of Department usually argue that the first characteristic of development is economic growth. According to them, economic growth entails increases in per capita income, and although economic growth in itself cannot guarantee that development will take place, restoring adequate rates of self-sustained growth is critical for development.

Indeed no poverty alleviation strategy can be sustained without restoring economic growth. Economic growth can increase people's incomes, support education and health expenditure, generate investment

and employment opportunities, and raise living standards. More importantly, greater participation of the poor in the growth process and sharing in the benefits of the growth reduces inequality and widens the growth potential.

Madam Speaker, under any circumstance, economic growth is not an end in itself; its effect must be widely distributed, if it is to be sustainable. This requires not only raising per capita incomes, but also systematically reducing disparities in income. This is the critical factor underpinning the current development paradigm as contained in the ASGISA program.

The current development agenda of the province and, indeed, of the country, focuses on two things: growth and empowering the poor to participate in that growth. This paradigm is, in essence, a strategy for pro-poor growth. The emphasis is on growth driven by the private sector and the empowerment of the poor so that they can participate actively in the growth process and share in the benefits. In this framework, government actions would not only seek to address the serious imperfections in the marketplace, but would also facilitate the transformation of the society, in identifying the barriers to and potential catalysts for change. Political and civil liberties, competent, pragmatic and flexible state interventions should become the pillars of the change process. Over the medium term, therefore, ASGISA projects in the province will be given significant resource boost.

Investment in the People

Madam Speaker

One critical objective of the government under the new development paradigm is to continue to invest in the people of this province, i.e., to promote education and health. The economic returns from investment in people are often extremely high. Markets in developing countries generally cannot be relied upon to provide people, especially the poorest, with adequate education, health care, nutrition, and family planning services. Also a healthy literate labor force stimulates economic growth through productivity increases and enhances poverty reduction benefits from that growth. Both the re-engineering of service delivery and development of human capability can also lead directly to the reduction of poverty and inequality.

Public spending on education and health provides services directly to the poor and helps them to expand their assets. Free primary education for the poor, for instance, is critical for expanding their human assets,

especially for girls. Subsidizing prevention of infectious diseases and helping poor households finance the costs of catastrophic health episodes are also key elements in strengthening poor people's health asset and reducing their vulnerability to health shocks.

Madam Speaker

Over the 2007 medium term, the government of the Eastern Cape will pump R49 billion into education. Over the same period, R26,4 billion will be spent on health services in the province.

Investment in Infrastructure

Madam Speaker

Underpinning the challenge of reducing poverty and inequality in the province is the need to provide and sustain adequate and appropriate infrastructure. Infrastructure is necessary if markets are to fulfill their central role of increasing wealth and living standards. And because the provision of broad infrastructure services is beyond the capacity or interest of the market, it has primarily be the responsibility of government. The main focus here is on economic infrastructure (transport facilities, public utilities, and public works) and social infrastructure (education, health, and recreation). In some sectors, this will require direct investment in new infrastructure, whereas in other sectors it will require investment in rehabilitation, upgrading and maintenance. Over the 2007 medium term, the government will spent R12 billion on infrastructure facilities and services in the province.

Madam Speaker

The major challenges with infrastructure provision in the province are threefold. Firstly, and as I indicated in the House last year, infrastructure spending in the province does not distinguish between economic and social infrastructure and /or prioritize either type. And neither does it distinguish between spending on infrastructure that target the poor and those for the non-poor. The lack of such a distinction works against the design of effective infrastructure programs, and beclouds the trade-offs in investing in either type of infrastructure. Moreover, the lack of prioritization between social and economic infrastructure complicates the task of selecting the right financing mechanism, resulting in inefficiencies, both in terms of timeliness and value for money. It also means that the objective of public spending facilitating the accumulation of assets by the poor is greatly undermined.

Secondly, the provincial infrastructure budget has remained very low for many years. Since the 2004/2005 financial year, however, the infrastructure budget has been increasing. Although the provincial infrastructure budget is set to increase significantly over the medium term, this is no where near the funding required in dealing with the backlogs, to provide new infrastructure, and upgrade and maintain the existing facilities.

Thirdly, the recent financial years have witnessed slow and low levels of infrastructure spending in the province, attributable mainly to the lack of project management and inadequate planning in departments. This development has dire consequences, both for reducing poverty and inequality and sustained private investment. Although macroeconomic reforms are necessary conditions for sustained growth and private investment, without the accompanying improvement in the public sector's performance, particularly in the area of infrastructure development, the private supply response to the policy reforms is likely to remain limited. And, inadequate social infrastructure constrains the government's capacity to reduce poverty and inequality.

Madam Speaker and Premier

The solution to the infrastructure problems lies in the formulation of a comprehensive Provincial Infrastructure Plan. The plan should indicate which infrastructure type has priority, what kinds of infrastructure projects should be prioritised, and the relative contributions of the infrastructure projects to the reduction of poverty and inequality. Quite clearly also, the government alone cannot finance and deliver the required infrastructure facilities and services in the province. Private sector participation in joint financing, delivery concessions, turnkey delivery, project financing, and other institutional innovations for infrastructure provision therefore becomes imperative.

The Provincial Treasury will finalize the formulation of a 10-Year Infrastructure Plan for the province in the coming financial year. As a prelude to the Public-Private Partnership (PPP) initiatives, the Provincial Treasury held a two-day successful Conference on PPPs early last month. The Treasury will follow the process up with workshops and discussions in the next few weeks with potential private investors on a range of government infrastructure projects that are thought could be provided through the PPP approach. Although the government cannot guarantee returns against all the natural uncertainties associated with investment in infrastructure, it will see to it that those who invest in the province are not arbitrarily disrupted in their daily activities, or robbed of their rewards by opportunistic human intervention

Adopting New Technologies and Best Practices

Madam Speaker

Technology enables countries to learn from each other, and improved technology enhances the productivity of capital (both human and physical), enables cost of production and distribution to be reduced, and mitigates climatic changes and environmental degradation. For its part, information asymmetry contributes to the establishment of an equilibrium in which resources are inefficiently allocated. The imperfect information problems include weak information flows; agency problems that distort prices and retard competition and consequently the welfare of participants; and weak capacity for gathering and processing information. These problems and the market failure they bring about suggest the need for creative ways of doing business in government.

Madam Speaker

The transfer and adaptation of new technologies and best practices will receive greater attention in the government's new development agenda. Government action to improve information flows through investment in relevant information technologies, and more generally to reduce agency problems and the consequences of information asymmetries will also be given serious attention in the medium term.

Shared Service Centers

Beginning in April 2007, the government will start exploring the possibility of establishing agencies such as Shared Service Centers and Micro-Credit Schemes that find more efficient ways around information asymmetries. The idea of shared services centers allows a creative way of utilizing in the most efficient and effective manner the limited capacity in government. Such agencies may also create the opportunity for the private sector to make available critical skills not available in government to enhance service delivery. They also have the potential and flexibility in simplifying bureaucratic procedures that do not only reduce wasteful spending, opportunities for corruption, and diversion of resources to illicit activities, but also create opportunities for the poor to participate in government procurement processes. Share service centers for procurement, internal audit services, document management, archival services, infrastructure

planning and monitoring, and facilities management will receive serious consideration by the Treasury in the new financial year.

Centralized Electronic Suppliers Database

The Treasury will also commence the implementation of a Centralized Electronic Suppliers Database. The idea of implementing such a database was mooted last year, but for some reason this could not take off. The situation with the provincial supply chain system, however, is that each department maintains its own Suppliers Database with varying degrees of completeness, accessibility and efficiency. The proposed Centralized Suppliers Database will reside in the Treasury and linked to all the 13 departments of the administration on an integrated electronic platform. A unique environment will be created that will enable the integration and inter-operability of software and processes that will administer the platform and keep the data in their current form and within the business rules and protocols that will be determined by the Treasury. The system will also allow departments' real time access to updated information on the profile of suppliers, including the nature of their businesses, location, ownership and associates, applicable preferential treatment, volume of business with government, employment generation potential, and the like.

Unemployed Graduates Program

Madam Speaker and Premier

Attacking poverty involves, in a large measure, empowering the poor to shape their own destinies. Three types of investment are of particular importance in this regard, viz.

- investment in education and health to improve well-being, enhance productivity, and increase income-earning potential
- investment in social protection or social safety nets to adjust to new conditions, mitigate the social costs of economic adjustments, and to take advantage of higher-risk and higher-return opportunities
- investment in the participation of the poor in key decision making to address poor people's sense of exclusion

In the government's resolve to empower young unemployed graduates in the province to enable them replace their fears with hope, their repression with freedom, and their exclusion with inclusiveness, the Treasury has established a program to train and place these young men and women in government departments and their agencies. The Unemployed Graduates Program commenced in December 2006 following the Honourable Premier's call to all unemployed graduates in the province to register with her office or in their district offices. The call received responses from over 1800 unemployed graduates, of which 93 have already been trained by the Treasury and placed in the Department of Social Welfare, Health, Education and Treasury itself.

In the next financial year, the Unemployed Graduates Program will expand and receive new focus. Funds will be made available to support the program implementation and ensure its sustainability. The remaining unemployed graduates will be trained and placed in the relevant departments and public entities. We welcome our private partners to assist the government in this noble endeavour so that together we will not abandon the poor but seek to enhance their level of confidence, self-esteem, and hope for the future.

Conditional Grants

Madam Speaker

A major shift has taken place in some of our conditional grants. Commencing in April 2009, the Further Education and Training (FET) recapitalization grant would be included in the provincial equitable share. The FET program, however, will continue as part of the Department of Education normal responsibilities and the province has been requested to ensure its sustainability. To this end, the equitable share of the Department of Education for financial year 2009/2010 has been adjusted upwards by R124,5 million to take account of the FET recapitalization.

A new grant, called Community Library Services, has been introduced in the 2007/2008 financial year to scale up and institutionalize community library services in underserved areas. The grant is provided to support the recapitalization of library infrastructure facilities. An amount of R22,9 million has been allocated to the Department of Sports, Culture, Arts and Recreation for the 2007/2008 financial year. This grant will increase to R42,6 million in 2008/2009, and R58,7 million in 2009/2010 financial year.

The integrated housing and human settlement development grant has been revised upwards by R100 million in the 2007/2008 budget. Additional R100 million has also be allocated for the 2008/2009 financial year, and R120 million for the 2009/2010 financial year.

Madam Speaker

There have also been some minor revisions in the other conditional grants to target specific priority issues. The 2007/2008 baseline figure for the hospital revitalization grant has been revised upwards to address tender shortfalls and faster than anticipated progress on hospitals included in the program. Additional adjustments have also been made in the outer years to allow for additional hospitals to enter the program. The national tertiary services grant baseline for 2007/2008 has also been revised upwards to fund radiology and oncology equipment, and strengthen cancer treatment services.

Further additions have been made to fund adjustments in the salaries of health professionals as part of the Health Personnel Review Program. The comprehensive HIV and AIDS grant has equally been revised upwards to extend coverage of the program. The mass sports and recreation participation program has also been allocated additional funding to support the proposed “2010 Leaving a Legacy Program”. This program seeks to expand mass sports participation and support club structures at grassroots level.

Provincial Infrastructure Grant

Madam Speaker

Commencing in the 2007/2008 budget year, the Provincial Infrastructure Grant (PIG) has been redistributed to ensure that all beneficiary departments are allocated their share of the grant. In the 2007/2008 budget, the Department of Roads and Transport will receive a total of R838,6 million, of which R96,6 million has been provided to scale up of the Expanded Public Works Program (EPWP) in roads, focusing on access roads. Over the medium, infrastructure provision under the EPWP will be scaled up by a total R515 million. This will bring to the Department of Roads and Transport, a total of R2,7 billion of the PIG over the medium term. The EPWP is one of the important arsenals that the government is using to attack poverty in the province. The program should therefore be accorded the importance that it deserves by the participating departments.

The Department of Education will receive R178 million of the PIG over the medium term to support the removal of schools built with mud structures. The Department of Health will also receive R538 million of the grant in the next three years to improve health infrastructure facilities. An amount R153 million of the grant has also been allocated to the Department of Agriculture over the next three years to provide rural farm roads and fencing along highways and major roads in the province to prevent rampant straying of animals on the highways. A total of R243 million of the PIG has also been allocated to fund the 2010 FIFA World Cup infrastructure-related projects in the next three years.

Local Government Support

Madam Speaker,

We are all aware of the crucial role that local government plays in the country's transformation process. It is imperative therefore that this sphere of government is adequately supported and capacitated by the national and provincial governments to enable it fulfill its service delivery and developmental mandate.

Substantial increases have been made to the transfer payments and subsidies to the local sphere of government over the last few years in recognition of its increased service delivery responsibilities. Nevertheless, a number of municipalities are not yet in a position to meet their developmental and service delivery responsibilities due to inadequate economic base and/or high levels of poverty and unemployment. Cumbersome administrative and budgeting systems, inefficient service delivery, poor management and disproportionate wage bills compound the problems of municipalities. National policies, such as the extension of free basic services to poor households also put additional pressure on municipalities. Municipalities also face great challenges in addressing backlogs in social services, spatial distortions and planning for sustainable growth and development.

Madam Speaker

The municipalities in the province are among the poorest in the country. The ability of municipalities to raise revenues from their own sources to provide for new infrastructure services and remove backlogs is influenced by local circumstances, such as income levels, affordability criteria, and consumption patterns within the municipalities. Municipalities with a large proportion of poor households and limited economic opportunities struggle to raise revenues as the poor households expect to receive basic services for free.

The ability of municipalities to cross-subsidize between services and customer groups also impact on their ability to raise funds from their own sources.

Although various reforms have been introduced to the local government fiscal system, many municipalities are still struggling to become financially viable. During the 2007/2008 financial year, a comprehensive investigation into the financial viability and service delivery capacity of selected medium and low level municipalities will take place.

Madam Speaker

It is hoped that the investigation would be able to establish unambiguously the underlying factors hampering service delivery in the local sphere of government and provide recommendations that can be implemented to adjust the local government fiscal capacity. We also hope that the study will succeed in identifying and introducing new sources of revenue that would replace the Regional Services and Joint Services Board levies in the medium to the longer-term. The study would also come out with appropriate capital finance arrangements for the various levels and categories of municipalities.

4. THE 2007/2008 BUDGET

Madam Speaker, I now turn to the Budget for the financial year 2007/2008, starting with the revenue side.

Revenue

Over the medium term, revenue to the province will increase steadily from R31,4 billion in 2007/08 financial year to R39,4 in 2009/2010, representing an increase of some 25% over the period. Transfers from the National Government will increase from R30,8 billion to R38,8 billion over the medium term. The province's equitable share will increase from R27,1 billion in 2007/08 to R34,1 billion in 2009/2010. Over the same period, conditional grants to the province will increase from R3,7 billion to R4,7 billion. Revenue from the province's own sources will also increase from R614,4 million in 2007/2008 to R679,8 million in 2009/2010.

Compared to the original appropriation for the financial year 2006/2007, one can observe significant changes in the proposed revenues for the 2007/2008 financial year. The changes are given as follows:

Transfers from National Government	12%
<i>Of which</i> Equitable Share	10%
Conditional Grants	34%
Own Revenue	29%
Total Revenue	13%

Compared to the revised estimates for the 2006/2007 financial year, however, the changes in the projected revenues for the 2007/2008 are as follows:

Equitable Share	10%
Conditional Grant	29%
Own Revenue	0%
Total Revenue	12%

Expenditure

Over the 2007 medium term, the province expects to spent a total of R103 billion. For the financial year 2007/2008, we propose a budget of R31 billion, representing an increase of 14% over the revised estimates for the 2006/2007 financial year, but 16% over the 2006/2007 original appropriation. The budget of R31 billion proposed for the next financial year includes funding for the following key items:

Compensation of Employees	R18,6 billion
Goods and Services	R6,4 billion
Transfers and Subsidies	R3,4 billion
Capital Payments	R2,5 billion

The 2007/2008 expenditure proposals provide for the following increases over the 2006/2007 revised estimates.

Compensation of Employees	14%
Goods and Services	13%

Transfers and Subsidies	8%
Capital Payments	28%
Total Expenditure	14%

Allocations to Departments

Madam Speaker

I now wish to announce the allocations to departments for the financial year 2007/2008. The appropriation of a budget of R31 billion for financial year 2007/2008 leaves the province with a contingency reserve of R438 million. The specific allocations to departments are as follows.

Vote 1: Office of the Premier.

The Office of Premier is allocated an additional amount of R19 million, bringing its total budget for the financial year to R311,8 million. This amount represents 6,5% over the revised estimates for the 2006/2007 financial year. The additional amount is to be used to support the increased activities of the AIDS Council, Amputee Club of South Africa and Eastern Cape Youth Commission.

Vote 2: Provincial Legislature

Madam Speaker

The allocation to the Legislature for the 2007/2008 financial year is increased by 9,9%, bringing the total allocation to R154,5 million. Included in this amount is R12,6 million to fund, amongst others, the increased participation of the public in parliamentary processes, support to political parties and committees of the House. Additional R10 million has been allocated to the Department of Public Works to be used to upgrade facilities in the Legislature's complex.

Vote 3: Health

Madam Speaker

The budget of the Department of Health will increase by 11,2% to R8,1 billion in the next financial year. Included in this amount is R250 million provided to fund the recruitment of professionals under the department's Project 5000, improve the remuneration of health professionals, expand the emergency medical rescue services, and support the 2010 FIFA World Cup Communication Project. Also included in the budget is R150 million allocated from the PIG to support the upgrading and rehabilitation of hospitals and clinics.

Vote 4: Social Development

The Social Development budget will increase by R201,8 million or 26,9% in the next financial year. This will bring the department's allocation for financial year 2007/2008 to R951,7 million. The increased allocation will enable the department to implement its developmental and welfare mandate to support the shifting of the frontiers of poverty in the province. Part of the allocation will be used to support non-governmental organizations involved in developmental and welfare services, increase social service professionals, prevent and treat substance abuse, and address the rights of children to care and protection.

Vote 5: Public Works

The allocation to the Department of Public Works is increased by R103,7 million or 20,2% over the revised estimates for the 2006/2007 financial year. This brings the total allocation to the department to R618 million. As I mentioned earlier, R10 million has been included in the department's allocation to fund the upgrading of facilities in the Legislature's complex. Another R3 million is also included in the department's allocation to be used to finalise the preparatory work for the development of the Bhisho Office Complex.

Vote 6: Education

The baseline budget for the Department of Education has been adjusted for additional R316,5 million in

2008/2009 financial year and R633,1 million in 2009/2010 financial year. This is to allow for the improvement in the level of remuneration of teachers, increase the number of clerical and support staff, hire teaching assistants (especially in the foundation phase of the schooling system) and provide incentives to teachers in critical subject areas.

In the next three years, the Department of Education will also receive R345 million to fund improvement in the quality of education through systemic evaluation, teacher supply and development, information and communication technology (ICT) for learning, teaching and administration; and enhancement of adult literacy. Further, a provision of R478 million has been made in the baseline budget of the department over the medium term to be used to remove all mud structure schools in the province. R150million (including R50 million allocated from the PIG) will become available for use in the 2007/2008 financial year.

Madam Speaker

In total, R14,7 billion will become available for use by the Department of Education in the 2007/2008 financial year. This represents an increase of 12,2% over the revised estimates for the 2006/2007 financial year. I am, however, appealing to the department to get rid of the wasteful expenditure of some R300 million in respect of double-packing of teachers in the sector.

Vote 7: Housing, Local Government and Traditional Affairs

For the financial year 2007/2008, the Department of Housing, Local Government, and Traditional Affairs will receive R1, 6 billion. This amount represents an increase of 56% over the revised estimates of the current financial year. Included in the department's allocation is an amount of R1,05 million integrated housing and human settlement development grant. An amount of R12,2 million has also been included in the department's allocation to fund the implementation of the Traditional Leaders Act (Act 4 of 2005).

Vote 8: Agriculture

For the financial year 2007/2008, the Department of Agriculture will receive an allocation of R989,2 million, representing 14,7% increase over the revised estimates of the current financial year. Included in the department's allocation are conditional grants of R119,7 million, comprising of the following:

- R69,8 million for the Comprehensive Agricultural Support Program
- R42,9 million provincial infrastructure grant
- R7 million land care grant

Vote 9: Economic Affairs, Environment and Tourism

The Department of Economic Affairs, Environment and Tourism is allocated R621 million, representing a reduction of R79,5 million below the revised estimates of the current financial year. The reduction in the department's allocation is attributable to a once-off adjustments made to the current budget to fund the ELIDZ. Included in the department's 2007/2008 allocation is R113 million provided to support the East London IDZ. Also included in the allocation is an amount of R51,1 million that will fund trade and investment promotion in the province, revitalize provincial parks, partly fund the ECDC restructuring and the conversion of its physical assets into cash, and provide budgetary support to the Eastern Cape Gambling Board, Eastern Cape Liquor Board, Eastern Cape Parks Board and the NBI-Provincial Government Joint Skills Development Project.

Vote 10: Roads and Transport

The bulk of the allocation to the economic services sector will be used to provide roads and transport facilities in the province. Accordingly, the Department of Roads and Transport budget increases from the current R2 billion to R2,2 billion in the next financial year. Included in this department's allocation is a provincial infrastructure conditional grant of R838,6 million, of which R96,6 million is provided to scale up the Expanded Public Works Program (EPWP) in roads, focusing on access roads.

Vote 12: Provincial Treasury

The Provincial Treasury is allocated R243,9 million for the 2007/2008 financial year. In the current financial year, the Treasury revised downwards its baseline budget by R35 million. This amount was provided for the implementation of the Financial Management Improvement Program in the provincial administration which could not take place due to some concerns expressed by the Portfolio Committee of Finance. The growing pressure on the department's budget arising from the implementation of the new

organizational structure; expansion of the CFO Support Program; Unemployed Graduates Program; increased support to municipalities; the shifting of the shared internal audit services from the Office of the Premier to the Treasury; investigation into Share Service Centers for procurement, facilities management, infrastructure planning and monitoring, etc., investigation into the financial viability of selected municipalities; have meant that the original baseline budget has to be re-instated. To this end, the R35 million that was surrendered to the Revenue Fund has been given back to the department. Also included in the department's allocation is R12 million to fund the implementation of the Centralized Electronic Suppliers Database and also the investigation into own-revenue mobilization.

Vote 14: Sports, Recreation, Arts and Culture

The allocation to the Department of Sports, Recreation, Arts and Culture is increased from R325,7 million in the current financial year to R406 million in the next financial year. This represents an increase of 24,6% over the revised estimates for financial year 2006/07. Included in the department's allocation are two conditional grants, viz.

- R28,4 million Mass Sport and Recreation Participation Programme grant
- R22,7 million Community services library services grant

The department has also been re-imbursed for an amount of R4 million it used to support the African Heritage Cross Country Rally and South Africa Airways Golf Open.

Vote 15: Safety and Liaison

The Department of Safety and Liaison receives an increase of 25,7% in its allocation for the 2007/2008 financial year. This brings to a total allocation of R30,6 million for the year. The increase in the department's allocation is to be used to fund the community policing structures, crime prevention and filling of critical vacant positions in the department. I must add that the budget for this department has increased from R12,8 million in the financial year 2005/2006 to the proposed R30,6 million next year.

5. CONCLUSION

Madam Speaker, Premier, Honourable Members of the House

I believe that the budget and policy statement I have delivered today marks the beginning of the third phase of the government's growth and development agenda. The first phase, covering the two financial years of 2004/05 and 2005/06 placed emphasis on stabilising the finances of the province. During this period, measures were introduced to consolidate expenditures by reducing wasteful and fruitless spending, seeking economies in expenditure, making spending departments and their agencies to recognise the constraints on revenue, and generally enhancing fiscal discipline. The second phase covering the current financial year entails a carefully restructuring of expenditure, paying off all government outstanding debts, and generally establishing a sound foundation for the province's finances. The third phase marks the beginning of the new development paradigm, viz, using the power of the state to redistribute public resources to effectively reduce poverty and inequality.

Madam Speaker

For the government's poverty alleviation strategies to succeed, the leadership in this province needs to demonstrate that it is genuinely committed to the cause of the poor, and that it is prepared to allocate the necessary resources to poverty alleviation programs and to provide the necessary political and administrative support to ensure their sustainability. Since the poor are weak and lack political effectiveness and suitable forms of representation in decision making process of the government, sensitivity and political commitment become vital elements in seeking support for improvement of their conditions.

The success of the poverty alleviation strategy is also linked to a government's ability to discern the sources of the poor people's 'deprivation trap' and to respond timely with targeted programs and policies. The fight against poverty and inequality must be based on a strategic planning that takes account of the multidimensional nature of poverty and its causes, as well as the need to secure the buy-in and participation of civil society, the private sector, and the poor themselves.

Madam Speaker

I wish to extend my sincere gratitude to the Premier for her leadership and support, and to my Cabinet colleagues for their untiring support and guidance. I also wish to extend my appreciation to the Chairperson of the Finance Portfolio Committee and Members of the Committee for always keeping the department in check and on its toes.

Madam Speaker

I wish to thank the officials of my department for the untiring effort with which they undertake their duties. My special thanks go to Professor Newman Kusi, the Superintendent General and Head Official of the Provincial Treasury for his enthusiasm, commitment to work and good sense of humor. His extensive knowledge of financial management and also dedication to his job is unsurpassed in my career in government. The province is indeed blessed to have a man of his caliber at the helm of Treasury. We in this province are indeed grateful for his wisdom and unselfish teaching that he adopts in his daily routine.

Thank you

Dankie

Enkosi kakhulu

