



EC BUDGET 2007/2008:

ADVANCING THE INTEREST OF THE POOR



The 2007 Budget policy statement 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.

Firstly, acute poverty levels and gross infrastructure under-development necessitate a 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.

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.

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 2007/2008 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.

I believe that the budget and policy statement I have delivered 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 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 careful 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.

The 2007/2008 budget seeks to reinforce the important and soul-searching statement. "We will not abandon the poor".

Willem Hugh Nel

MEC Finance

March 2007

*"Eastern Cape, a compelling place to live, work & invest in."
We will not abandon the poor.
Serving with humility, honesty & integrity.*

Policy Areas

Education

- Non-personnel non-capital for no fees schools.
- Curriculum implementation.
- Funding to poor schools for quality enhancement.
- Universalising Grade R, integrated early childhood development plan,
- Human resource systems, capacity and monitoring.
- Pay progression and support staff in schools, stagnating infrastructure budgets, increasing backlogs even in most basic areas of sanitation, water and electricity.
- Ensuring adequate and strengthened inputs, including initial teacher supply, teacher development, and availability of information and communication technology (ICT) for learning, teaching and administration; and
- A strengthened drive for adult literacy.

Health

The health sector has made significant progress towards reviewing the size and shape of the public health sector. The 2007/08 is meant to:

- Ensuring adequate human resources for the public health sector. This involves increasing the numbers of health professionals, increasing remuneration of health professionals, and funding community service for nurses.
- Upgrading emergency medical services (EMS) to reduce response time to targets set: 15 minutes in urban areas and 40 minutes in rural areas; respond to the 2010 EMS requirements; and provide mix of road transportation and air ambulances.
- Accelerating the hospital revitalization program. In our case, the hospitals to be revitalized include the Frontier, St. Elizabeth, Mary Theresa, Revile, St. Lucy's,

St. Patrick's, All Saints, and Magdalene.

- Provision of medical equipment – medical, radiology and oncology equipment.
- Accelerating HIV/AIDS prevention – reducing HIV infections, strengthening community mobilization on all elements of healthy lifestyles, increasing VCT uptake, and increasing patients on ARVs.
- Improving health information systems – smart cards, electronic patient records, and HR database projects.

Social Development

The social development sector identified the following as its priorities during the 2007 MTEF period:

- Supporting non-governmental organizations.
- Increasing social service professionals.
- Addressing the rights of children to care and protection.
- Prevention and treatment of substance abuse.
- Promoting developmental welfare services.

Agriculture

- Fencing of arable and grazing land.
- Construction and renovation of dipping tanks in order to ensure proper animal health care. Revitalisation of irrigation schemes for commercial crop production to create employment and economic growth .
- Construction of stock water dams in order to improve the herd management.
- Provision of tractors and implements in order to increase the area under cultivation.
- Training of farmers on better farming techniques and business skills.

Economic Affairs

- Implementation of new organisational structure.
- Restructuring of ECDC and its asset conversion program
- Industrial, trade and investment promotion.
- Revitalisation of provincial parks.
- Support to other public entities (ECGGB, ECLB, ECPB, Magwa & Majola Tea Estates, ELIDZ).

Sports, Recreation, Arts & Culture

A new grant, Community library services, has been introduced in the 2007/2008 financial year to step up and institutionalised community library services in under-served areas. The grant is provided to support the recapitalisation of library infrastructure and facilities. In the 2007/2008, R 22, 9 million of this grant has been allocated to the Department of Sports, Recreation, Arts and Culture. This grant will increase to R 42, 6 million in 2008/2009, and R 58, 7 million in 2009/2010 financial year.

Safety & Liaison

- Community policing structures.
- Crime prevention.

Roads & Transport

- Provide roads and transport facilities in the province.
- Provision to scale up the Expanded Public Works Program (EPWP) in roads, focusing on access roads.

2010 FIFA World Cup

R 41, 8 million from the provincial infrastructure grant has been set aside in the 2007/2008 financial year for the 2010 FIFA World Cup-related infrastructure development. This amount will increase to R 58, 2 million in 2008/2009, and R 143, 4 million in 2010.

Changes to Provincial baseline allocation

The aggregate Provincial Budget will grow from R 27, 5 billion in 2006/07 to R 31 billion in 2007/2008. Over the medium term, revenue to the province will increase steadily from R 27, 5 billion in 2006/07 financial year to R 37 billion in 2007/08, representing an increase of

some 13, 8%. Transfers from National Government will increase from R 23,9 billion to R 26,6 billion over the same period. The province's equitable share will increase from R 31 billion in 2007/08 to R 34,1 billion in 2009/2010. Over the same period, conditional grants to the province will

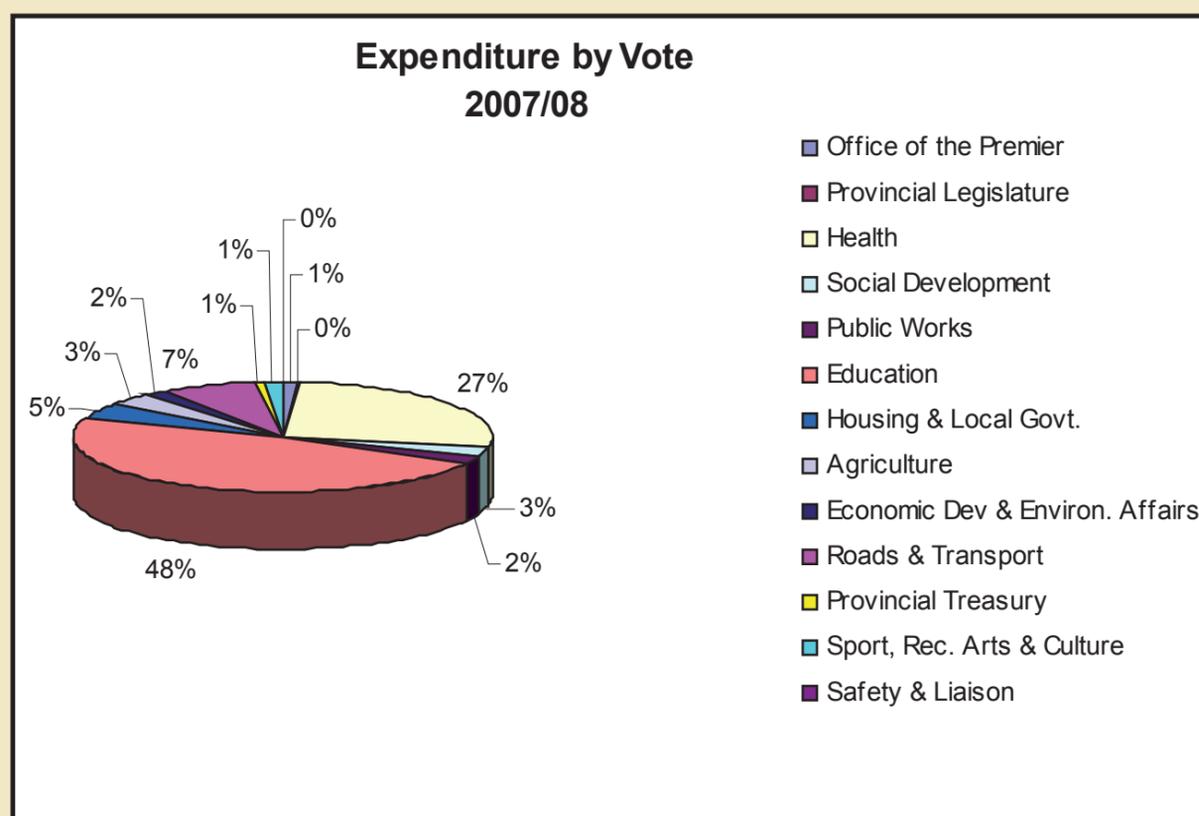
increase from R 3,7 billion to R 4,5 billion. Revenue from the province's own sources will increase from R 614 million in 2007/2008 to R 679 million in 2009/10.

Division of Provincial Allocation by Vote

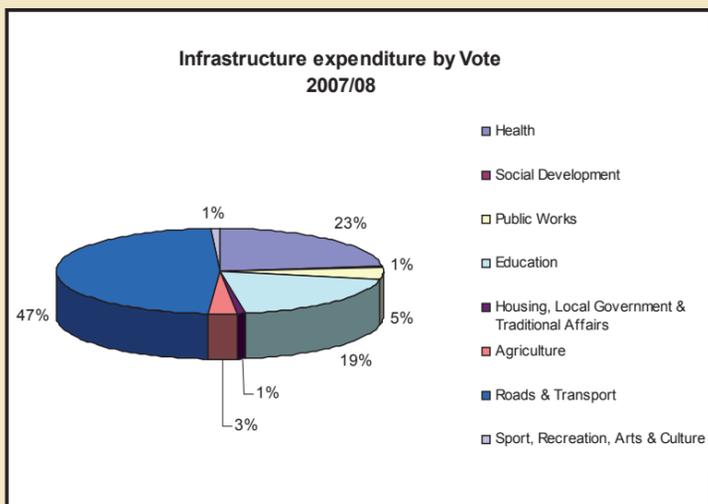
Of the R 31 billion Provincial Budget in 2007/08, R 34, 8 billion in 2009/10 and R 37 billion in 2009/10, department's shares are as follows:

Votes R'000	Adjusted appo- prium 2006/07	Medium-term estimate			% Change from Revised estimate 2006/07
		2007/08	2008/09	2009/10	
1. Office of the Premier	293 123	311 812	332 345	347 372	6.50
2. Provincial Legislature	140 590	154 525	169 839	183 354	9.91
3. Health	7 336 999	8 142 743	8 952 791	9 356 327	11.12
4. Social Development	740 802	951 735	1 228 925	1 284 227	27.08
5. Public Works	514 272	617 973	727 448	760 184	20.16
6. Education	13 122 087	14 726 061	16 616 075	17 680 951	12.22
7. Housing & Local Govt.	1 260 856	1 574 138	1 808 127	2 063 745	55.99
8. Agriculture	894 238	989 282	1 105 115	1 156 935	14.69
9. Economic Dev & Environ. Affairs	703 222	620 973	728 602	764 739	(11.36)
10. Roads & Transport	2 014 413	2 239 065	2 446 218	2 663 696	11.15
12. Provincial Treasury	159 245	243 859	246 849	253 037	64.59
14. Sport, Rec. Arts & Culture	325 670	406 011	478 979	530 516	24.67
15. Safety & Liaison	24 365	30 634	36 728	38 381	25.73
Total payments and estimates	27 529 882	31 008 811	34 878 042	37 083 463	13.87

Table 1 provides a summary payments and estimates by Vote. Of the R 31 billion in 2007/08 R 14.7 billion or 48% goes to Education, followed by health at R 8.1 billion or 27%. Total payments are estimated to grow from R 31 billion in 2007/08 to R 37 billion in 2009/10.



Provincial Infrastructure



Frontier Hospital - Queenstown



Holy Cross Hospital - Flagstaff



St Barnabas Hospital - Libode



Victoria Hospital - Alice

Table 2: Summary of provincial infrastructure payments by Vote

Vote R'000	Medium-term estimates		
	2007/08	2008/09	2009/10
1. Office of the Premier			
2. Provincial Legislature			
3. Health	876 477	866 636	855 730
4. Social Development	30 470	16 605	19 018
5. Public Works	180 013	263 159	275 002
6. Education	729 633	1 083 804	1 268 074
7. Housing, Local Government & Traditional Affairs	26 821	27 894	29 010
8. Agriculture	112 724	128 084	135 386
9. Economic Development & Environmental Affairs			
10. Roads & Transport	1 834 629	2 013 263	2 193 111
12. Provincial Treasury			
14. Sport, Recreation, Arts & Culture	33 397	37 731	42 866
15. Safety & Liaison			
Total provincial infrastructure payments & estimates by Vote	3 824 164	4 437 176	4 818 197

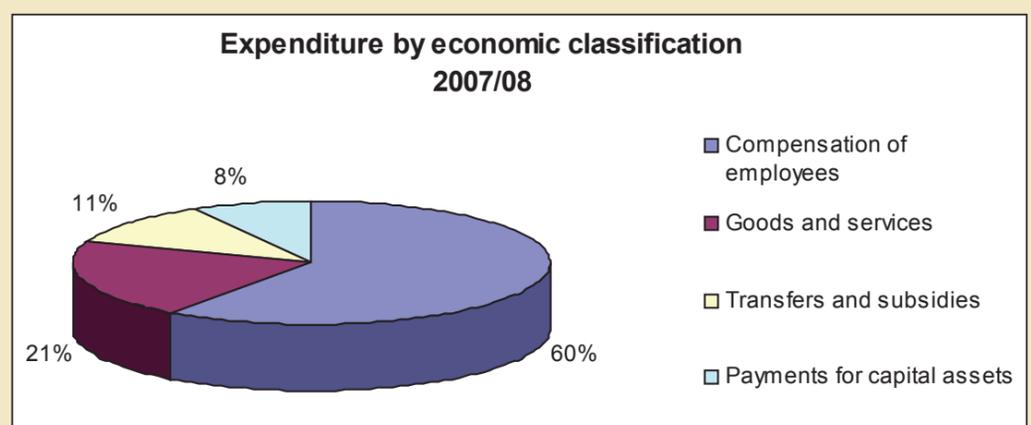
Table 2 provides a summary of Provincial infrastructure payments by Vote. Over the medium term, the infrastructure budget is set to increase from R 3 billion in 2006/07 to R 3, 8 billion 2007/08, reaching R 4, 8 billion in 2009/10. The bulk of the money is going into the provision of roads, school infrastructure and health facilities.

Spending pattern by economic classification

Table 3: Summary payments and estimates by economic classification

Economic classification R'000	Adjusted appropriation 2006/07	Medium-term estimate			% Change from Revised estimate 2006/07
		Medium-term estimate			
		2007/08	2008/09	2009/10	
Current payments	22 252 360	25 016 205	27 847 925	29 239 806	13.47
Compensation of employees	16 384 142	18 639 842	20 248 713	21 280 805	13.63
Goods and services	5 868 218	6 372 903	7 595 596	7 955 222	13.05
Interest and rent on land		3 460	3 616	3 779	(37.91)
Financial transactions in assets and liabilities					
Unauthorised expenditure					(100.00)
Transfers and subsidies	3 220 483	3 455 553	4 102 094	4 449 936	8.07
Provinces and municipalities	505 244	316 853	280 946	268 400	(36.38)
Departmental agencies and accounts	628 231	549 213	631 925	662 235	(12.58)
Universities and technikons	13 000	14 720	15 907	16 623	13.23
Public corporations and private enterprises	258 419	271 549	274 423	286 773	(39.95)
Foreign governments and international organisations					
Non-profit institutions	598 552	935 828	1 355 972	1 428 498	38.81
Households	1 217 037	1 367 390	1 542 921	1 787 407	46.75
Payments for capital assets	2 057 039	2 537 053	2 928 023	3 393 720	27.68
Buildings and other fixed structures	1 842 668	2 123 040	2 381 603	2 736 162	19.30
Machinery and equipment	212 650	410 305	542 552	653 663	101.02
Cultivated assets	192				(100.00)
Software and other intangible assets	1 529	3 708	3 868	3 895	96.61
Land and subsoil assets					(100.00)
Total economic classification	27 529 882	31 008 811	34 878 041	37 083 463	13.87

Table 3 provides a summary of estimates of main budget components in line with the new economic reporting format. Current payments are set to grow from R 22 billion in 2006/07 to R 25 billion in 2007/08 reaching R 29 billion in 2009/10. Compensation of employees accounts for more than 60% of the current payments' budget. Similarly, transfers and subsidies are marginally increasing from R 3, 2 billion in 2006/07 to R 3, 4 billion in 2007/08.



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