

**Provincial Government Western Cape
Provincial Treasury**

MEDIUM TERM BUDGET POLICY STATEMENT

2008 - 2011



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Foreword

Government's objectives go beyond access and improving service delivery by: changing the way people work; changing the way people think; and changing the way people connect.

Changing how Government works requires that civil servants attain new skills, use those skills that they have already acquired and become familiar with new structures and processes that leads to improved service delivery. In this regard, it is acknowledged that no primus exists, but the important thing is that the right learning occurs.

Leading into 2008/09, line departments will explore greater synergy and complementarities in the use of public resources across themselves. These departments through their clusters (Governance and Administration; Social; and Economic) have identified and are currently looking at ways of improving the efficiencies and effectiveness of various cross cutting services.

Changing people's thinking of Government's service delivery starts with employee perception of their contribution, work practices; and the value that they add to communities.

The introduction of the Public Finance Management Act, Act 1 of 1999 is premised on a central theme: "Let Managers manage but hold them accountable". In this regard, legislation is clear and strives for accountable, efficient, effective and economic use of public funds to the benefit of the public we serve. Concerted efforts in this regard will also permeate the way we fulfill this responsibility.

Changing the way people connect is closely linked to a learning organisation, which suggest that we cannot continue to improve access, quality and the responsiveness of Government services if we are not exposed to new ideas and listening to what our communities are telling us. The Social Transformation Project, driven by the Department of the Premier, have undertaken initiatives in 21 areas and draws on all sectors of society towards the achievement of a common purpose in a collective manner, in line with the Provincial Vision of a Home for All.



Lynne Brown
Minister of Finance and Tourism

20 November 2007

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Abbreviations

ACE	Advanced Certificate in Education
AFR	Asset Financing Reserve
ART	Antiretroviral Treatment
AsgiSA	Accelerated and Shared Growth Initiative of South Africa
BAS	Basic Accounting System
BNG	Breaking New Ground
BPO	Business Process Outsourcing
CASP	Comprehensive Agricultural Support Programme
COMBO	Complimentary Business Optimisation Model
CPIX	Consumer price index
CSP	Comprehensive Service Plan
CSP	Community, Social and Personal services
DEDAT	Department of Economic Development and Tourism
DoTP	Department of the Premier
DPSA	Department of Public Service and Administration
ECD	Early Childhood Development
EMS	Emergency Medical Services
EPWP	Expanded Public Works Programme
FET	Further Education and Training
FFC	Financial and Fiscal Commission
GDP	Gross Domestic Product
GDP-R	Gross Domestic Product by Region
GFCF	Gross Fixed Capital Formation
GHS	General Household Survey
HBC	Home Community Based Care
HCBC	Home Community Based Care
HCDS	Human Capital Development Strategy
HPRR	Health Professionals Remuneration Review
ICS	Improved Conditions of Service
IDPs	Integrated Development Plans
IES	Income and Expenditure Survey
IGP	Infrastructure Grant to Provinces
IMF	International Monetary fund
ISDM	Integrated Service Delivery Model
ISDP	Integrated service delivery plan
IT	Information Technology
LFS	Labour Force Surveys
M&E	Department's Monitoring and Evaluation
MDR-TB	Multi-Drug Resistant TB
MEDS	Micro-Economic Development Strategy
MTBPS	Medium Term Budget Policy Statement
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategic Framework
NC(V)	National Curriculum (Vocational)

NCA	National Credit Act
NEMIS	National Education Management Information System
NPDE	National Professional Diploma in Education
NSDP	National Spatial Development Perspective
NSF	National Skill Fund
NSLA	National Strategy for Learner Attainment
NTSG	National Tertiary Services Grant
NYS	National Youth Service
OECD	Organisation for Economic Co-operation and Development
OPEC	Organisation of the Petroleum Exporting Countries
OSD	Occupational Specific Dispensation
PDC	Provincial Development Council
PER&O	Provincial Economic Review and Outlook
PES	Provincial Equitable Share
PGDS	Provincial Growth and Development Strategy
PGWC	Provincial Government Western Cape
PHC	Primary Health Care
PHP	People Housing Programme
PIG	Provincial Infrastructure Grant
PMTCT	Prevention of Mother-to-Child Transmission
PPI	Production Price Index
PRF	Provincial Revenue Fund
PSDF	Provincial Spatial Development Framework
QIDS-UP	Quality Improvement, Development, Support and Upliftment Programme
RDP	Reconstruction and Development Programme
REQV	Relevant Education Qualification Value
SACSSP	South African Council for Social Service Professions
SALGA	South African Local Government Association
SAPS	South African Police Services
SARB	South African Reserve Bank
SASSA	South African Social Security Agency
SAW	Social Auxiliary Workers
SCM	Supply Chain Management
SDFs	Spatial Development Frameworks
SETA	Sector Education Training Authority
SHSS	Sustainable Human Settlement Strategy - "Isidima" (Xhosa) meaning dignity
SIP	Strategic Infrastructure Plan
SOEs	State Owned Enterprises
SPV	Special Purpose Vehicles
TB	Tuberculosis
UISP	Informal Settlement Programme
UPFS	Uniform Patient Fee Schedules
XDR-TB	Extreme Drug Resistant TB

Executive Summary

Introduction

This Statement provides the framework for the 2008 Budget. It acknowledges that the developmental goals of the Province cannot be achieved within a single year and therefore proposes a process to progressively make advances to achieving these development goals over the medium term.

Government's policy direction and subsequent sharpening thereof finds its roots in the Reconstruction and Development Programme (RDP). The 2004 Government Programme of Action initiated a journey that clearly articulates the intended socio, economic and governance achievements that are required.

Government's policy imperatives provide greater access to services such as Education, Health, Housing, Infrastructure, etc. Recent allocations have made significant strides in improving the quality of social and economic services. The policies in the main are also aimed at reducing inequality and increasing investment in communities. Policies furthermore, provide a basis for sustainable livelihoods; much needed skills development; improved governance; and regional economic development.

This Medium Term Budget Policy Statement (MTBPS) takes the national policy context into account and links the Western Cape's peculiarities to the Provincial Growth and Development (iKapa) Strategy (PGDS). The iKapa strategy responds to the current and anticipated economic, social, environmental and spatial trends within the Province.

Recent allocations have improved the quality of social and economic services

The chapters in this statement consider the policy options in the context of prevailing and future macro-economic environment. It then highlights the funding mechanisms available to the Province. These funding instruments are: transfers from National Government (equitable share and conditional grants), own revenue and financing from the Asset Financing Reserve (AFR).

The MTBPS, in addition to having to decide on policy options and making trade-offs among them, also takes into account departmental spending performance in the 2006/07 financial-year and uses the half-yearly expenditure trends as at 30 September 2007 to inform baseline allocations over the medium term.

Infrastructure investment is one of the focus areas, particularly so ahead of the 2010 FIFA World cup. In this regard, the MTBPS also acknowledges the role investment in productive capacity plays in economic growth, skill development, job creation and social development.

The remaining parts in this section provide a brief overview of the various chapters, which include the: macro-economic outlook; national and provincial policy context; revenue and expenditure trends; and departmental and infrastructure plans.

Macro-Economic Outlook (Chapter 1)

Economic growth in the Western Cape outperforms national average

The economic growth performance of the Western Cape remains positive and is anticipated to outperform the national economy in the current fiscal year. The economic growth rate for the Western Cape is estimated to average 5.1 per cent for 2007/08 compared to 4.7 per cent for the national economy.

Over the medium term, the Western Cape economic growth outlook is expected to remain positive, driven by the services and construction sectors as well public infrastructure investment. However, the performance of the economy as a whole is headed towards a moderate slowdown due to rising inflation and interest rates.

The Western Cape economy created jobs at an average rate of 2.4 per cent between 2000 and 2006. However, increasing employment opportunities for women and youth remain a challenge. Against this backdrop, the 2008 MTBPS sees continued investment in infrastructure, skills development and access to social services as critical for shared growth.

Resource Envelope and Financing Issues (Chapter 2)

This chapter considers the funding requirement that supports Government's choices as mentioned in Chapter 3. It notes that national transfers to the Western Cape are projected to grow at an average annual rate of 12.2 per cent over the 2008 MTEF.

The Western Cape's share of the total provincial equitable share (PES) funds increases from approximately 8.80 per cent to 9 per cent over the 2008 MTEF. The increase in equitable share to the Province ends a period over which the equitable share has been declining.

The priorities described in the subsequent Chapter 3 will be financed through three main sources: transfers from national government (including equitable share and conditional grants), which together form 90.8 per cent of the budget in 2008/09; provincial own receipts (taxes and fees), which contributes 6.8 per cent; and the Asset Financing Reserve (AFR), which contributes the remaining 2.3 per cent in 2008/09.

Table 1 below shows that estimated national transfers to the Western Cape grow at an annual average rate of 12.2 per cent in nominal terms or by R5.492 billion over the 2008 MTEF. Transfers increase from R19.558 billion in the current financial year to R22.130 billion in 2008/09 and then to R24.926 billion in 2009/10 and are expected to rise to R27.622 billion in 2010/11.

National transfers to WC set to grow at an average of 12.10 per cent each year over 2008 MTEF

The provincial equitable share on average makes up 73.6 per cent of the total Provincial Budget over the 2008 MTEF. The PES is informed by the population size of the Province, relative (to other provinces) demand for services and historical expenditure patterns of the components that inform the formula.

Table 1: Fiscal Framework of the Western Cape

Source	2007/08	2008/09	2009/10	2010/11
R'000	Adjusted Budget	Medium Term Estimates		
Transfers from National	19 557 853	22 130 140	24 925 656	27 621 913
Equitable share	15 482 567	17 578 814	19 908 638	21 798 363
Conditional grants	4 075 286	4,551,326	5,017,018	5,823,550
Own receipts	1 707 335	1 665 737	1 671 007	1 697 284
Asset Financing Reserve	395 115	568 132	216 414	30 118
Financing (revenue retained)	71 243			
Total	21 731 546	24 364 009	26 813 077	29 349 315
Contingency reserve	55 000	60 000	65 000	68 900
Percentages				
Transfers from National	90.00%	90.83%	92.96%	94.11%
Equitable share	71.24%	72.15%	74.25%	74.27%
Conditional grants	18.75%	18.68%	18.71%	19.84%
Own receipts	7.86%	6.84%	6.23%	5.78%
Asset Financing Reserve	1.82%	2.33%	0.81%	0.10%
Financing (revenue retained)	0.33%	0.00%	0.00%	0.00%
Total	100.00%	100.00%	100.00%	100.00%
Contingency reserve	0.25%	0.25%	0.24%	0.23%

Growth in Conditional Grant transfers to the Western Cape are based on the assumption that baseline revisions will be allocated according to the current allocation formulae and that the 2010/11 allocations will grow at the same rate as the national aggregate for that particular grant.

The Western Cape furthermore aims to increase its scope for deciding on its own spending priorities by expanding the sources of revenue that it collects. Income from vehicle license fees, the Province's largest source of own revenue, is forecasted to slow down over the medium term, causing provincial own receipts to grow very minimally. However, the planned introduction of a provincial fuel levy is expected to partially compensate and enable continued funding for roads.

National and Provincial Policy Context (Chapter 3)

Chapter 3 highlights the commitment to the 2004 Government Programme of Action to transform the country's socio economic landscape. This chapter furthermore explains the subsequent strategy and policy changes that inform Government's funding choices.

In the Western Cape these choices are informed by the Premier's State of the Province's address and further guided by the Provincial Growth and Development Strategy (iKapa Strategy). The iKapa strategy responds to the current and anticipated economic, social, environmental and spatial trends within the Province.

Recent research findings concluded that Government is making progress in achieving its socio-economic objectives. The Mid-Term Review: "Towards a Ten Year Review", published by the Presidency in October 2003, showed that considerable progress has already been made in improving access to and quality of government services. The Review highlighted that government has made large investments to improve infrastructure, to lower the cost of doing business and to provide social services.

Progress being made in improving access to and quality of government services

However, despite these large investments in road, rail, ports and ICT; the economy has been unable to keep up with higher economic and social demands. Furthermore, critical backlogs also remain within the provision of education and health care services.

The 2008 MTEF for the Province will pursue the consolidation, refinement and collaboration of the strategic objectives identified in the 2007 Budget by:

- Improving the quality of social services such as quality of education, health care and access to social development services;
- Strengthening strategic and economic infrastructure, including roads, public transport and housing;
- Boosting skills development, learnerships and bursaries, FET colleges and job creation, and
- Providing and supporting responsible and responsive governance.

In support of these objectives and strategies, the Social Sector Cluster (including Housing) rises by R8.6 billion or 15 per cent from R57.9 billion over the 2007 MTEF to R66.5 billion over the new MTEF. Similarly, the Economic Cluster rises by R2.1 billion (22.8 per cent) to R11.3 billion over the new MTEF.

The implementation of these strategies and projects find resonance in identifiable programmes in education, health, social development, agriculture, and other interventions targeted at growing the economy and creating employment.

Cluster Progress, Performance and Plans (Chapter 4)

The 2008 MTEF builds on progress made in 2007/08 and responds to emerging service delivery challenges. It fosters alignment with national policy priorities, the Western Cape's PGDS, Departmental plans and key deliverables.

The enhancement in the quality and the expansion of social services remain a key focus area over the 2008 MTEF. The Social Cluster will be prioritising investment in Early Childhood Development, strengthening TB control and up-scaling HIV and Aids interventions. The Economic cluster over the 2008 MTEF will continue to give support to Government's labour intensive and labour-based programmes, as well as contribute to rural development. Skills development, infrastructure, the Expanded Public Works Programme and training and support to emerging farmers and land reform remain high on the agenda of the Economic Cluster. Built environment departments will work closer together to support municipalities to change spatial arrangements in settlements so that the settlements function more efficiently. Governance and Administration cluster priorities are focused on promoting greater inter-departmental and intergovernmental collaboration. The cluster will promote, amongst others, greater spatial integration/co-ordination and internal capacity building.

Provincial Infrastructure (Chapter 5)

The strategic framework for infrastructure investment runs from AsgiSA through to the PGDS and its constituent strategies (PSDF, Isidima and the SIP), and aims to give a spatial dimension to the shared growth objectives of the Western Cape. Preparations for hosting the 2010 FIFA World Cup in the Western Cape is a significant aspect of the Province's PGDS. The PSDF begins to show how to direct the location and type of investment across the Province to improve the structure and performance of the space economy. Infrastructure investment should be directed towards the metropolitan area, the Saldanha-Vredenburg area, the Southern Cape Coastal area, and the Breede River and Olifants River Valleys. The Province's Strategic Infrastructure Plan (SIP) and PGDS highlight the importance of investment in transport infrastructure and operating systems.

The Province's integrated transport priorities include improving the safety and security of public transport and making freight logistics chains shorter and more cost effective within the Province.

Focus on improving the safety and security of public transport

The National Treasury has introduced the mega-project funding framework to allow provinces to bid for national capital resources for projects of national significance. A number of planned Public Transport initiatives fall within this category of infrastructure projects but require further exploration.

Expenditure Trends (Chapter 6)

Aggregate expenditure for the Western Cape amounted to R18.849 billion in the 2006/07 financial year, compared to the total allocation of R19.458 billion. This resulted in an underspending of R608.964 million or 3.1 per cent of the final budget. However, despite this marginal underspending the Provincial Government is still achieving the goals and objectives contained in departmental Strategic and Performance Plans. Half-year spending estimates for 2007/08 have seen continued improvements in departmental spending with 45 per cent of the total adjusted budget being spent for 2007/08 compared with 43.8 per cent for 2006/07.

Macro-Economic Overview

The economic growth performance of the Western Cape remains positive and is anticipated to outperform the national economy in the current fiscal year. The economic growth rate for the Western Cape is estimated to average 5.1 per cent for 2007/08 compared to 4.7 per cent for the national economy.

Over the medium-term, the Western Cape economic growth outlook is expected to remain positive, driven by the services and construction sectors as well public infrastructure investment. However, the performance of the economy as a whole is headed towards a moderate slowdown due to rising inflation and interest rates.

The economy created jobs at an average rate of 2.4 per cent between 2000 and 2006, however, increasing employment opportunities for women and youth remain a challenge. Against this backdrop, the 2008 MTBPS observes that continued investment in infrastructure, skills development and access to social services as critical for shared growth.

Introduction

The South African economy experienced a moderation in economic growth in the first two quarters of 2007 compared to the strong performance registered in 2006. Real economic growth eased slightly from an annualised rate of 4.8 per cent in the first quarter of 2007 to 4.5 per cent in the second quarter of 2007.

Economic growth in South Africa is moderating but is still in line with the country's potential growth

Over the medium-term, economic growth is projected to moderate to 4.5 per cent in 2008/09 and accelerate to 5.4 per cent by 2010/11 due to expected growth in demand when the country hosts the 2010 FIFA World Cup.

Following the most recent crisis in international financial markets, money markets in South Africa emerged relatively unscathed, however, the rand exchange rate depreciated as a result. Since the financial crisis subsided, the currency has appreciated and is now trading at the levels below R7.60 to the US dollar. At this point there is no clear indication of whether the financial market volatility will negatively impact on the South African growth outlook unless the crisis re-emerges and deepens further.

Consumer inflation measured by the CPIX¹ index has breached the upper limit of the inflation target range since April 2007, driven mainly by food and energy prices. The medium-term outlook for inflation has also deteriorated. The South African Reserve Bank (SARB) projects CPIX to remain above the target for the next two quarters.

The global economy continues to grow strongly although the outlook is clouded by turbulence in international financial markets

Global economic growth remained resilient in the first half of 2007 and is projected to average 5.2 per cent in 2007 with an expected moderation to 4.8 per cent in 2008 as a result of the turbulence in the international financial markets which is clouding the outlook. Strong growth performance by emerging market economies continues to support and sustain the world economy.

Real Regional Gross Domestic Product (GDPR) for the Western Cape economy is estimated to average 5.1 per cent for the 2007/08 fiscal year compared to 4.7 per cent for the national economy. Regional economic growth continues to be driven by the services industries (outside of government) and construction. Strong growth in fixed investment, driven by the public sector infrastructure investment drive is expected to continue powering growth in the Western Cape since it is less likely to be affected by interest rates.

The Western Cape economy managed to create new jobs between 2000 and 2006 at an average rate of 2.4 per cent per year. However, the pace at which jobs are created was much slower as broad unemployment remained high at 22.6 per cent by September 2006. The unemployment of a considerable proportion of the youth and women remain a major challenge in the Western Cape.

¹ Consumer price index excluding interest rates on mortgage bonds.

Developments in the global economy

The global economy has sustained strong growth averaging 5.4 per cent in 2006 and registered above 5 per cent growth in the first quarter of 2007. The world economy is projected to grow at 5.2 per cent in 2007 (see Table 1.1 below). Strong growth in emerging markets economies sustains the positive global growth performance. However, the global growth outlook has been clouded by the crisis in the international financial markets, which unfolded between July and September 2007.

Strong domestic demand growth in emerging market economies is expected to be the key driver of global growth

China, India and Russia contributed half of global growth in 2006 and have registered remarkable performances in the first half of 2007, with China growing at 11.5 per cent, India at 9 per cent and Russia registering 8 per cent. Strong domestic demand growth in these economies is expected to be the key driver of global growth. Emerging markets are expected to grow at an average of 8.1 per cent in 2007.

In contrast, the United States (US) registered moderate growth of 2.8 per cent in the first half of 2007 mainly due to the drag caused by the correction in the housing market. Advanced economies are projected to grow at an average rate of 2.5 per cent in 2007.

The risk posed by volatility in international financial markets prompted the International Monetary fund (IMF) to revise the projected growth rate down for the global economy for 2008, from 5.2 per cent projected in April to 4.8 per cent in September 2007. There is however still a risk that the financial crisis could deepen and continue to trigger a more pronounced global slowdown.

The risk posed by financial market crisis has led to downward revision of world economic prospects

The largest downward revisions by the IMF were done for the US economy, which was marked down by 1 per cent from 2.9 per cent projected in April 2007. Projected growth for the Euro area was revised down by 0.4 per cent to 2.1 per cent for the same period.

Table 1.1: Overview of the World Economic Outlook Projections (annual % change)

Country/Region	2005	2006	2007p	2008p
World output	4.8	5.4	5.2	4.8
Advanced economies	2.5	2.9	2.5	2.2
United states	3.1	2.9	1.9	1.9
Euro Area	1.5	2.8	2.5	2.1
United Kingdom	1.8	2.8	3.1	2.3
Japan	1.9	2.2	2.0	1.7
Emerging Market and Developing Countries	7.5	8.1	8.1	7.4
Developing Asia	9.2	9.8	9.8	8.8
China	10.4	11.1	11.5	10.0
India	9.0	9.7	8.9	8.4
Consumer prices				
Advanced economies	2.3	2.3	2.1	2.0
Other emerging markets and developing economies	5.2	5.1	5.9	5.3

Source: IMF, World Economic Outlook, October 2007

Emerging market economies are in a better position to shake-off financial market crisis than in the past

Emerging market economies experienced limited reaction throughout the crisis. The limited impact is mainly due to their healthy economic fundamentals such as high foreign reserve levels and reduced external balances. It would appear that emerging markets are far less susceptible to credit events than in the past. However, their resilience will be tested should the crisis deepen further.

US sub-prime mortgage market crisis

Sub-prime mortgages are loans made to borrowers who are perceived to have high credit risk, often because they lack a strong credit history or have other characteristics that are associated with high probabilities of default. A rising wave of risk aversion prompted by increasing foreclosures in the US sub-prime mortgage market resulted in an abrupt credit crunch in the global financial market in August 2007.

The crisis spread to broader mortgage markets outside the US. The US will bear the brunt of the damage caused by the sub-prime mortgage market. As a result of the sub-prime mortgage crisis, the International Monetary Fund (IMF) revised the US growth forecasts for 2007 and 2008 downwards.

South African money markets were relatively unaffected because the South African banking system has negligible exposure to the sub-prime markets, hence liquidity conditions remained healthy. However, financial markets did not go unaffected. The rand, after trading below R6.80 per US dollar in July 2007, depreciated to over R7.60 in mid-August 2007. Since the calm returned, the currency appreciated to levels below R7.00 per US dollar.

During the peak of the financial crisis in August 2007, South Africa witnessed record purchases of domestic bonds by non-residents (share purchases exceeded R10 billion). However, sustainability of these inflows will depend in part on global liquidity as well as domestic economic prospects. So far, there is no clear evidence to suggest that the international financial markets crisis will have a marked adverse effect on the South African domestic economic growth outlook. However, an emergence of a deeper crisis in future might impact negatively on South Africa's growth prospects.

The world inflation outlook is favourable, especially in advanced economies such as the US and the Euro area, where inflation is expected to average 2.1 per cent in 2007. However, there has been an upward trend in inflation in emerging market and developing economies as oil prices have rebounded and food prices are accelerating. Inflation for emerging market and developing economies is projected to average 5.9 per cent in 2007.

The outlook for world inflation is generally favourable. However, there are inflation pressures in emerging market and developing economies

Oil prices have been on a rebound, breaching the US\$80 mark in October 2007. These prices have been driven by stronger growth in demand than initially projected, lower production by the Organisation of the Petroleum Exporting Countries (OPEC) countries and continuing geopolitical tensions. Food prices have been driven by poor weather conditions nationally and internationally and increasing demand for biofuels production internationally.

Developments in the South African Economy

Since the beginning of 2007, economic growth has eased slightly from an annualised rate of 4.8 per cent in the first quarter of 2007 to 4.5 per cent in the second quarter. Despite the moderation, economic growth is still in line with the country's growth potential as the growth performance is underpinned by continued strong investment expenditure.

Economic growth in South Africa is moderating but still in line with the country's growth potential

Sectoral growth trends

In the second quarter of 2007, the construction sector recorded the fastest growth rate, with the agriculture, financial services and transport sectors also expanding rapidly. Growth in real value added by the construction sector moderated to an annualised rate of 14.5 per cent in the second quarter of 2007 after registering 21.25 per cent in the first quarter. Growth in this sector is still strong and relatively broad-based, encompassing civil, residential and non-residential construction.

In the second quarter of 2007, fasted growth was recorded for construction, agriculture, financial services and transport sectors

Notable growth acceleration was recorded for the agricultural sector, up from an annualised rate of 6 per cent in the first quarter of 2007 to 10.5 per cent in the second quarter. The stronger increase is attributed to higher field crop and animal production, and to the fact that the bulk of South Africa's maize is harvested in the second quarter.

The finance, insurance, real estate and business services sector increased at an annualised rate of 7.5 per cent in the second quarter of 2007 compared to 5.8 per cent in the first quarter. This increase can be largely attributed to high output by banks as the demand for loans edged higher prior to the introduction of the National Credit Act (NCA) in June 2007.

Growth slowed down in the manufacturing sector. Growth in real value added by the manufacturing sector decelerated from an annualised rate of 4.8 per cent in the first quarter to 0.5 per cent in the second quarter.

Real final consumption expenditure by households rose at a modest pace during the second quarter of 2007

Final consumption expenditure

Real final consumption expenditure by households rose at a modest pace of 5.5 per cent in the second quarter of 2007 after sustained annualised rates averaging 7.3 per cent in 2006. The slowdown is mainly due to a contraction registered in households' purchase of durable goods, as a result of the tighter monetary policy environment.

Final consumption expenditure by government also declined from 14 per cent in the first quarter of 2007 to 3 per cent in the second quarter of 2007. The trend is largely related to reduced military procurement by government.

Real gross fixed capital formation increased at a slower pace during the first quarter of 2007

Fixed investment and savings

Real Gross Fixed Capital Formation (GFCF) increased at a slower pace during the second quarter at an annualised rate of 14.3 per cent compared to 21.8 per cent registered in the first quarter. This increase is a result of a slower pace of growth in real capital outlays by public corporations.

Growth in real gross fixed capital formation by the private sector tapered-off slightly in the second quarter. The RMB/BER Business Confidence Index fell sharply in the third quarter of 2007 and is now at its lowest level in three-and-a-half years. Major knocks in confidence were recorded amongst new vehicle dealers who are experiencing the negative impact on sales arising from higher interest rates and the new NCA. Manufacturers also recorded a slowdown in confidence emanating from slow sales growth.

The national saving ratio i.e. the ratio of total gross savings to GDP increased moderately from 14.8 per cent in the first quarter of 2007 to 16 per cent in the second quarter of 2007. The increase can be attributed to improved saving ratios in the household, corporate and government sectors.

Exports, imports and balance of payments

A moderate increase in export volumes from South Africa was recorded in the second quarter of 2007 due to economic expansion in China and India, which raised demand for South African products. In addition, high international commodity prices especially of metal prices contributed to a higher value of mineral exports.

The expansion in exports coincided with a decline in the overall volume of imports, which is reflected in the decline in domestic expenditure, despite increases in oil imports.

Consequently, the international trade deficit narrowed significantly from R50.9 billion in the first quarter of 2007 to R31.4 billion in the second quarter of 2007. The current account of the balance of payments narrowed from the most recent peak of 7.8 per cent of Gross Domestic Product (GDP) in the fourth quarter of 2006 to 6.5 per cent of GDP in the second quarter of 2007.

The international trade deficit narrowed significantly in the second quarter of 2007

The rand exhibited limited fluctuation in the first half of 2007, but depreciated sharply at the peak of the recent financial market crisis when the rand depreciated to R7.60 per US dollar in mid-August 2007. After the crisis subsided, the currency appreciated to levels below R7.00 per US dollar. At the time of writing the rand was trading at levels around R6.65 per US dollar.

Inflation and interest rate developments

The CPIX inflation has remained above the upper limit of the inflation target range since early April 2007 when CPIX inflation rose to 6.3 per cent. Year-on-year CPIX measured 6.3 per cent in August 2007 and 6.7 per cent in September 2007. The major underlying factors leading to higher inflation are food and energy prices.

CPIX inflation breached the upper limit of the inflation target range since early April 2007 and remains high at 6.7 per cent in September 2007

The Production Price Index (PPI) has declined steadily after peaking at 11.3 per cent in May 2007. The PPI for all commodities measured an annual percentage change of 9.4 per cent in September 2007. The rate remained unchanged from August 2007.

The annual increase of 9.4 per cent in the PPI for all consumption commodities in South Africa for September 2007 was due to an annual increase in the price indices of locally produced goods (+7.2 percentage points) and for imported goods (+2.2 percentage points). Agricultural food prices and manufactured food prices are the main drivers of prices for locally produced commodities.

The production price index (PPI) has declined steadily, driven mainly by food prices

As a result of the deteriorating and pervasive inflation outlook, the South African Reserve Bank (SARB) has adopted a tighter monetary policy stance; by raising the repurchase rate (repo) by a cumulative 350 basis points since the beginning of the tightening phase in June 2006. By October 2007, the repo rate was at 10.5 per cent.

The outlook for inflation is clouded by exogenous risks related to rising oil and food prices. The South African Reserve Bank (SARB) projects a modest deterioration in the inflation outlook, particularly in the short-term.

The SARB projects CPIX to remain above the upper level of the inflation target range and to peak in the first quarter of 2008

CPIX inflation is now expected to remain above the upper level of the inflation target range and to peak in the first quarter of 2008 at an average of 6.8 per cent before declining to the upper end of the inflation target range in the second quarter of 2008. Thereafter, CPIX inflation is expected to follow a downward path and reach around 5.2 per cent at the end of 2009.

Macro-economic outlook for South Africa

Economic growth for South Africa is projected to moderate to 4.5 per cent for the 2008/09 fiscal year mainly due to the slowdown in domestic demand and the risks posed by volatility international financial markets, which might deepen in future. Thereafter, economic growth is projected to accelerate to 4.9 per cent in the 2009/10 financial year and 5.4 per cent in 2010/11 (see Table 1.2 below).

The projected acceleration in economic growth emanates from anticipated growth in consumption expenditure associated with the 2010 FIFA World Cup and high investment spending, which has increased considerably over the years. Fixed investment spending has increased from 15 per cent of GDP in 2002 to 21 per cent of GDP in the second quarter of 2007.²

Table 1.2: Macro-economic outlook for South Africa

Calendar year	2004	2005	2006	2007	2008	2009	2010
		Actual		Estimate		Forecast	
<i>Percentage change unless otherwise indicated</i>							
Final household consumption	6.7	6.6	7.3	6.6	4.2	4.5	5.3
Final government consumption	6.3	5.2	5.4	6.5	6.1	5.5	5.6
Gross fixed capital formation	8.9	9.6	12.7	15.4	10.4	10.5	11.1
Gross domestic expenditure	7.9	5.9	8.7	5.5	4.8	5.9	6.4
Exports	2.9	8	5.5	8.4	4.8	5.3	6.3
Imports	14.5	10.7	18.4	9.8	5.6	8.5	9.1
Real GDP growth	4.8	5.1	5	4.9	4.5	4.8	5.3
GDP deflator	5.8	4.7	6.9	8.5	6.3	5	5.1
GDP at current prices (R billion)	1 398.2	1 539.0	1 727.5	1 965.0	2 182.7	2 401.2	2 659.2
CPIX (average for year)	4.3	3.9	4.6	6.2	5.4	4.6	4.5
Current account balance (% of GDP)	-3.2	-4	-6.5	-6.7	-6.9	-7.7	-7.8
Fiscal year			2006/07	2007/08	2008/09	2009/10	2010/11
			Actual	Estimate		Forecast	
GDP at current prices (R billion)			1 787.3	2 019.1	2 230.3	2 458.9	2 723.8
Real GDP growth			5.2	4.7	4.5	4.9	5.4
GDP deflator			7.6	7.9	5.7	5.1	5.1

Source: National Treasury projections.

² Source: SARB Quarterly Bulletin September 2007 and Provincial Treasury calculations.

Review of the Western Cape Economic performance and outlook

Regional Gross Domestic Product (GDPR) for the Western Cape economy is estimated at 5.1 per cent for the 2007/08 fiscal year compared to 4.7 per cent for the national economy (see Table 1.3 below). Regional economic growth continues to be driven by the services industries (outside of government) and construction.

GDPR is projected to moderate to an average of 5.1 per cent in 2008/09, before recovering to 5.7 per cent in 2009/10

The financial environment in South Africa has changed significantly since the beginning of the first quarter of 2007. The rising inflation and interest rates are likely to result in slight moderation in the projected growth rates for interest rate sensitive sectors in the next fiscal year. Currently, GDPR is projected to grow at an average rate of 5.3 per cent in 2008/09, before recovering to 5.7 per cent in 2009/10.

Strong growth in fixed investment which is driven by public sector infrastructure investment, is expected to continue powering growth in the Western Cape since it is less likely to be affected by interest rates hence the expected moderation in regional economic growth may be less pronounced.

Table 1.3: Outlook for the Western Cape economy: 2007/08 – 2009/10

	Ave	2005/06	2006/07	MTEF		
	2000-2005			2007/08F	2008/09F	2009/10F
GDPR (R billion; current prices):	-	232.7	260.3	288.5	318.5	354.7
Real GDPR % growth	4.7	5.7	5.4	5.1	5.3	5.7
GDPR deflator	6.7	5.4	6.2	5.4	4.8	5.4
CPI inflation	5.2	4.6	4.7	5.4	4.9	4.8
GDPR by sector (real % change):						
Agric, forestry & fishing	1.6	4.4	2.7	1.9	2.4	2.8
Mining and quarrying	-0.5	0.9	0.8	2.0	2.6	2.7
Manufacturing	3.1	4.9	3.7	3.5	3.5	3.6
Electricity, gas and water	3.7	3.8	3.6	3.4	3.7	4.1
Construction	8.0	13.1	15.2	13.8	12.2	12.7
Retail trade & catering	6.0	6.6	7.0	5.5	6.1	6.4
Transport & communication	6.4	6.3	5.6	6.3	6.6	7.0
Financial & business services	6.6	5.9	5.6	5.7	5.9	6.3
CSP services	3.5	4.8	3.1	3.0	3.2	3.5
General government	1.0	3.0	3.3	2.9	2.9	3.2
Western Cape GDPR	4.7	5.7	5.4	5.1	5.3	5.7

1, Fiscal years ending 31 March

Source: Bureau for Economic Research

Note: These projections will be revised before the publication of the Budget Review in February 2008.

Trends in the sectoral pattern of GDP growth

The major services industries (excluding government) are projected to continue growing strongly at above-average growth rates in 2008/09. The financial & business services sector is expected to grow at 5.9 per cent, transport & communication at 6.6 per cent and retail, wholesale, catering & accommodation at 6.1 per cent. These sectors are projected to continue the strong performance through to 2010. However, should the high inflation and interest rate environment persist, the outlook might moderate.

The construction sector is expected to register the fastest growth, over the medium-term

The construction sector is expected to register the fastest growth rate, with an estimated real value-added growth for 2008/09 averaging 12.2 per cent in 2008/09.

The manufacturing sector is expected to continue to post below average performance in the medium-term

The manufacturing sector is expected to continue to post below average performance in the 2007/08 fiscal year, growing at an estimated average rate of 3.5 per cent. Growth in this sector is not only important for adding value to primary products; the sector is also best placed to absorb lower and semi-skilled labour

The manufacturing sector's contribution to exports is critical for sustainable high economic growth, however the manufacturing sector could be under renewed pressure from the strengthening rand. Continued appreciation of the rand could dampen the prospects of strong recovery in this sector.

The agriculture, forestry and fishing sector is also projected to post a below average growth rate of 1.9 per cent for 2007/08, although slight recovery is expected in the medium-term. The sector is under a heavy strain from deteriorating weather conditions.

Western Cape Labour Markets

Following on the discussion of broad economic trends in the global and South African and Western Cape economies, this section provides a descriptive analysis of the labour market aggregates, i.e. employment and unemployment statistics for South Africa and the Western Cape.

Employment creation has been identified as one of the core objectives of the Accelerated and Shared Growth Initiative of South Africa (AsgiSA), which aims to halve unemployment and poverty by 2014, amongst other objectives. Employment creation is a key mechanism through which the government can decrease poverty and social inequality, and increase economic participation.

The analysis is based on the September 2000 and the September 2006 Labour Force Surveys (LFS).

The Labour Markets Aggregates

The Western Cape's working age population³ between 2000 and 2006, grew by 375 000 individuals. This represents an average growth rate of 2.1 per cent a year, and is almost a full percentage point higher than the growth in the national working age population of 1.2 per cent for the same period.

During the period under review, the Province's broad labour force⁴ rose by 362 000 individuals, equivalent to an average rate of 2.8 per cent a year. Similarly, the narrow labour force⁵ in the Province increased by 254 000 individuals, or an average rate of 2.1 per cent a year.

Between 2000 and 2006, the Province's working age population grew by 2.1 per cent per year

The number of discouraged work seekers in the Province almost doubled from 107 000 in 2000 to 215 000 in 2006 or expanded by 12.3 per cent on average per year. At the national level, growth in the number of discouraged work seekers was more muted, but still high, at 6.4 per cent a year.

The major reasons cited in the Provincial Economic Review and Outlook (PER&O) 2006 for people not actively seeking employment include among others, lack of jobs in the area (35.3 per cent), family concerns (14.0 per cent) and lack of transport money (7.9 per cent) and other reasons (35 per cent).

Employment trends

On average, employment in the Western Cape expanded by about 2.4 per cent per year or by 247 000 additional jobs in the past six years ending 2006. In 2006 alone, the number of individuals employed stood at about 1.84 million.

The Western Cape economy created about 247 000 additional jobs in the past six years ending 2006

Africans significantly increased their share of employment from 17.2 per cent in 2000 to 24.6 per cent in 2006. However, employment for the Coloured and White population groups increased marginally by 21 000 and 42 000, respectively. By 2006, Coloureds accounted for almost half of provincial employment, while Whites accounted for just under a quarter of employment.

Employment expansion in the Province benefited females more than males between 2000 and 2006. The number of employed women increased by 148 000 jobs, while that of men increased by around 99 000 jobs, however, there were still around 150 000 more employed men than women in September 2006.

³ Defined as those individuals between the ages of 15 and 65 years.

⁴ Defined as the number of individuals wanting work, but not necessarily actively looking for jobs.

⁵ Defined as the number of individuals wanting work and actively looking for work.

Sectoral distribution of employment

The wholesale and retail trade sector registered the most rapid growth in employment in the Province

Employment creation in the Province is dominated by the tertiary sector (see Table 1.4). Tertiary sector employment grew at an average rate of 4.4 per cent per annum, driven largely by the rapid growth in employment in the wholesale and retail trade sector at 7.0 per cent per annum. The provincial economy's vibrant tourism industry could explain the labour-absorptive nature of this sector. This sector also contributes towards employing the less-educated youth, as these jobs do not necessarily require formal qualifications.

Table 1.4: Sectoral Distribution of Western Cape Employment, 2000 and 2006

	2000		2006		Total Change		
	'000s	Share	'000s	Share	'000s	Share	Ave. Ann. Growth (%)
Agriculture	235	14.7	147	8.0	-88	-35.7	-7.5*
Primary Sector	240	15.0	149	8.1	-91	-36.9	-7.6*
Manufacturing	262	16.4	295	16.0	33	13.5	2.0
Construction	117	7.3	149	8.1	32	13.2	4.2
Secondary Sector	388	24.2	458	24.8	70	23.1	2.3
Trans & Communication	73	4.6	84	4.6	11	4.6	2.4
Wholesale & retail trade	304	19.0	457	24.8	153	62.2	7.0*
Finance	171	10.7	237	12.8	66	26.6	5.6
CSP Services	294	18.4	329	17.8	35	14.0	1.9
Private Households	113	7.1	132	7.1	19	7.6	2.6
Tertiary Sector	955	57.9	1239	67.0	284	115.0	4.4*
Total	1601	100.0	1848	100.0	247	100.0	2.4

Source: Provincial Treasury calculations, September 2000 and 2005 LFS (Statistics South Africa 2001; Statistics South Africa 2006).

Note: Statistically significant changes at the 95 per cent confidence level are indicated with an asterisk (*)

The tertiary sector overall, accounted for 67 per cent of provincial employment in 2006, up from 59.7 per cent six years earlier. In 2006, community, social and personal (CSP) services and financial and business services represented 17.8 per cent and 12.8 per cent of the total provincial employment in 2006, respectively.

The secondary sector which is made up of the manufacturing and construction sectors provided a total of 458 000 jobs in 2006, the bulk of which are in manufacturing (295 000 jobs). However, employment growth of 2.3 per cent between 2000 and 2006 in secondary sector was not statistically significant.

Employment in the agricultural sector has been declining over the period under consideration, with employment falling to 147 000 jobs in 2006, down from 235 000 jobs in 2000. Thus, having accounted for 14.7 per cent of overall employment in 2000, the primary sector accounted for just 8 per cent in 2006.

Unemployment trends

The number of unemployed individuals in the Province increased by 115 000 people between 2000 and 2006. In 2006 about 541 000 people were unemployed, up from 426 000 in 2000. On average, the rate of unemployment expanded by 4.1 per cent per annum.

Broad unemployment in the Western Cape measured 22.6 per cent in September 2006

In broad terms, the unemployment rate in the Western Cape in September 2006 registered 22.6 per cent. The broad unemployment rate for the Province has drifted downwards, dropping by 1.6 percentage points between 2000 and 2006.

In terms of the composition of unemployment, Table 1.5 below shows that the majority of the Province's unemployed individuals are Coloured (50.6 per cent) and African (39 per cent) with only 10.1 per cent being White. However, Whites recorded the highest growth in unemployment of 19.2 per cent during this period although the change is not statistically significant. In terms of gender, women represent 57.4 per cent and men 42.6 per cent of the unemployed.

Table 1.5: Broad unemployment in Western Cape for the period 2000 - 2006

	2000		2006		Total Change		Ave. Ann. Growth (%)
	'000s	Share	'000s	Share	'000s	Share	
African	183	42.9	211	39.0	28	24.2	2.4
Coloured	220	51.8	274	50.6	54	46.9	3.7
White	19	4.5	55	10.1	36	31.0	19.2
Male	188	44.2	230	42.6	42	37.0	3.4
Female	238	55.8	310	57.4	72	63.0	4.5 *
15-24 years	174	40.9	216	39.9	42	36.6	3.7
25-34 years	134	31.5	193	35.7	59	51.3	6.3
35-44 years	67	15.8	85	15.7	18	15.8	4.1
45-54 years	40	9.3	35	6.5	-5	-4.4	-2.2
55-65 years	10	2.4	12	2.2	2	1.6	2.9
No education	10	2.3	5	0.9	-5	-4.4	-11.1
Grades 0-8	189	44.4	148	27.4	-41	-35.7	-4.0
Grades 9-11, NTC I & II	128	30.0	228	42.2	100	87.2	10.1 *
Grade 12 NTC III	80	18.8	133	24.7	53	46.5	8.9 *
Diploma/certificate	14	3.2	14	2.5	0	-0.3	-0.4
Degree	4	0.8	11	2.1	7	6.4	18.9
Total	426	100.0	541	100.0	115	100.0	4.1 *

Source: Provincial Treasury calculations, September 2000 and 2005 LFS (Statistics South Africa 2001; Statistics South Africa 2006).

Note: Statistically significant changes at the 95 per cent confidence level are indicated with an asterisk (*)

The youth constitutes about 70 per cent of the unemployed people in the Western Cape

Notably, the proportion of unemployed individuals is concentrated in the younger age groups presenting a major problem of youth unemployment. In 2006, about 39.9 per cent of unemployed individuals were between the ages of 15 and 24 years and 35.7 per cent were aged 25 to 34 years. In other words, seven out of every ten unemployed individuals were under the age of 35 years.

The over-supply of less well-educated individuals is reflected in the large contributions to broad unemployment at lower educational categories. About 70 per cent of unemployed individuals have no more than grade 11. Although this proportion is slightly lower in 2006 than it was six years earlier, the number of unemployed individuals with grade 9 to 11 education rose dramatically over the same period, by a statistically significant 10.1 per cent per annum.

A similar rate of growth is observed in the number of unemployed individuals with matric certificates. The number of unemployed individuals with grade 9 or equivalent education and matriculants show respective increases of 100 000 and 53 000 from 2000 to 2006.

Conclusion

Although the global economy is expected to register strong growth in the next two years, the recent financial turbulence has prompted a downward revision in the prospects, more so in advanced economies such as the US. The world economy is expected to sustain higher growth due to the contribution of emerging market economies such as China and India. The South African economic performance is on a moderate slowdown as a result of the current environment of high inflation and interest rates.

The Western Cape economy is expected to continue the strong growth performance over the medium-term, driven by the services and construction sectors. The prospects of a turnaround in the Western Cape manufacturing sector in the medium-term are quite bleak as a result of the slowdown in domestic demand and renewed strength of the rand.

The working age population, discouraged work seekers and the number of unemployed people in the Province expanded faster than for the country as a whole over the 2000 to 2006 period.

The Western Cape buoyant economy has not been able to create sufficient jobs to absorb new entrants in the labour market. The services industry, particularly the wholesale and retail trade sector, has the capacity to create jobs and have dominated the employment picture since 2000.

The Resource Envelope and Financing Issues

Largely due to increases in national transfers, the total resources available to the Western Cape are projected to grow at an average annual rate of 10.5 per cent over the 2008 MTEF. The Western Cape's share of the total provincial equitable share funds (PES) increases from approximately 8.8 per cent to 9.0 per cent over the 2008 MTEF, due to updates of data informing the equitable share formula. Although an average of 79.6 per cent of national transfers to the Western Cape are channelled through the provincial equitable share, these funds are increasingly targeted to national priorities. This trend has been a result of the provincial preference to limit the introduction of new conditional grants. A further factor impacting on available funding is the recent nationally agreed wage agreements¹, for which insufficient funding is channelled to Provinces via the equitable share.

The Western Cape aims to increase its scope for deciding on its own spending priorities by expanding the sources of revenue that it collects. Income from vehicle license fees, the Province's largest source of own revenue, is forecast to marginally increase over the medium term, causing provincial own receipts to grow very minimally. The introduction of additional provincial levies is key to partially compensate and enable continued funding for roads over the MTEF.

The priorities described in the preceding chapter will be financed via three main sources: transfers from national government (including provincial equitable share and conditional grants) which together form 90.8 per cent of the budget in 2008/09; provincial own receipts (taxes and fees) which contributes 6.8 per cent; and the Asset Financing Reserve (AFR) which contributes the remaining 2.3 per cent in 2008/09.

¹ Department of Public Service and Administration (DPSA) resolution 1 of 2007

Table 2.1: Fiscal Framework of the Western Cape

Source	2007/08	2008/09	2009/10	2010/11
R'000	Adjusted Budget	Medium Term Estimates		
Transfers from National	19 557 853	22 130 140	24 925 656	27 621 913
Equitable share	15 482 567	17 578 814	19 908 638	21 798 363
Conditional grants	4 075 286	4,551,326	5,017,018	5,823,550
Own receipts	1 707 335	1 665 737	1 671 007	1 697 284
Asset Financing Reserve	395 115	568 132	216 414	30 118
Financing (revenue retained)	71 243			
Total	21 731 546	24 364 009	26 813 077	29 349 315
Contingency reserve	55 000	60 000	65 000	68 900
Percentages				
Transfers from National	90.00%	90.83%	92.96%	94.11%
Equitable share	71.24%	72.15%	74.25%	74.27%
Conditional grants	18.75%	18.68%	18.71%	19.84%
Own receipts	7.86%	6.84%	6.23%	5.78%
Asset Financing Reserve	1.82%	2.33%	0.81%	0.10%
Financing (revenue retained)	0.33%	0.00%	0.00%	0.00%
Total	100.00%	100.00%	100.00%	100.00%
Contingency reserve	0.25%	0.25%	0.24%	0.23%

Transfers from National

Table 2.1 above shows that estimated transfers of nationally raised revenue to the Western Cape Provincial Government grow at an annual average rate of 12.2 per cent in nominal terms or by R5.492 billion over the 2008 MTEF. Transfers increase from R19.558 billion in the current financial year to R22.130 billion in 2008/09 and then again to R24.926 billion in 2009/10, and rising to R27.622 billion in 2010/11.

National transfers to WC set to grow on average 12.5 per cent each year over 2008 MTEF

Equitable share

The Provincial Equitable Share (PES) on average makes up 73.6 per cent of the total Provincial Budget over the 2008 MTEF. Theoretically, the PES is an unconditional transfer allocated to the Province according to a formula. The formula includes the following six components (with weights included in brackets):

- An education component (51 per cent) based on school age cohort (6-17 years) and school enrolment data.
- A health component (26 per cent) based on the proportion of the population with and without medical aid assistance (at a ratio of 1:4).

- A basic component (14 per cent) derived from each province's share of the national population.
- A poverty component (3 per cent) based on the population income per province.
- An institutional component (5 per cent) divided equally between provinces to fund institutional requirements of provinces.
- An economic activity component (1 per cent) based on Gross Domestic Product per Region (GDPR).

Both the National and Provincial Governments are concerned about the responsiveness of the formula to the changing needs and priorities of government. Over the medium term, Government is planning to fundamentally review the formula.

The additional PES funds provided by the National Treasury allow provinces room in their budgets to cover nationally defined policy priorities – mainly human capacity constraints in health, education and social development. Additional PES over the MTEF in essence partially caters for personnel adjustments (improvements in conditional of service), inflation related adjustments published in the National Medium Term Budget Policy Statement (MTBPS) 2007 and for policy priorities in education, health, and social development and only in 2010/11 for provincial specific social and economic functions.

Spending the equitable share on these priorities, however, means less space for the Province to address provincial-own priorities, or to adapt delivery programmes within the provincial context, especially those that are key to economic growth and lend themselves to job creation.

The wage agreements reached in the national bargaining council in 2007, will not be fully compensated for in the PES increases over the 2008 MTEF. The fact that the wage agreement would not be fully funded, has impacted the extent to which the Province would be able to fund provincially defined priorities.

The National Treasury has retained the current basic structure of the allocation formula used in the 2007 MTEF to divide resources between provinces over the 2008 MTEF. Adjustments for the 2008 MTEF include the updating of the demographic and economic data used to populate the allocation formula.

Data updates

For the 2008 MTEF, National Cabinet and the Budget Council has agreed to phase the impact of the official updated data into the allocation formula over the MTEF. The data has been updated using the 2007 Snapshot Survey of school enrolment conducted by the National Department of Education, the General Household Survey (GHS) 2007, the Community Survey 2007, and the GDP-R 2005, all

Western Cape Share of PES increased from 8.8 per cent to 8.9 per cent

conducted by Stats SA. Table 2.2 displays the impact of these data revisions on the Western Cape's share of the PES. The table shows that the impact has been positive. The Western Cape's share of the equitable share increased from 8.8 per cent in the 2007 MTEF to 8.9 per cent over the 2008 MTEF as a result of both data changes to the formula and its phasing in over the MTEF.

Table 2.2: Changes in PES component shares

	Weight	2007 MTEF	2008 MTEF	Variance
	%	%	%	
Education	51	8.2099	8.1053	-0.1046
Health	26	9.2190	9.5956	0.3766
Basic	14	10.0135	10.8831	0.8696
Poverty	3	3.7643	4.1742	0.4099
Institutional	5	11.1111	11.1111	0.0000
Economic activity	1	14.3808	14.6681	0.2873
Final share	100	8.7982	8.9796	0.1814

According to the Snapshot Survey school enrolment in the Western Cape decreased from 978 826 in 2006 to 969 065 in 2007. As a result of this change the Western Cape's share of the education component dropped 0.10 percentage points from 8.2 per cent in the 2007 MTEF to 8.1 per cent in the 2008 MTEF.

In view of the fact that some Provinces appear to have more children in school than the number of school going-age children (age 5 – 17) living in those provinces, it has been recommended that the National Treasury engage the National Department of Education with regards to the need for the implementation of electronic learner tracking and verification systems in all provinces.

The Western Cape's share of the health component increased from 9.2 per cent to 9.6 per cent as a result of the changes in the proportion of population with and without medical aid assistance relative to the other provinces according to the GHS. The Community Survey provided updated information on the population in the Province which resulted in the Western Cape's share of the basic component to increase from 10.0 per cent to 10.9 per cent. According to the 2007 Community Survey data (mid-year estimates) the population numbers in the Western Cape increased from 4 839 766 to 5 278 634 indicating sizable in-ward migration to the Province. The poverty component was only updated using the 2007 Community Survey figures for the general population and not the IES 2000 data. The Province's share of the poverty component increased from 3.76 per cent to 4.17 per cent. The institutional component was not changed, while the economic activity component was updated using the results of the 2005 GDP-R. The Province's share of that component increased from 14.4 per cent to 14.7 per cent.

Revision to the equitable share allocations

Over the 2008 MTEF, the National Government has increased the total PES allocation going to all provinces by R24.388 billion. An additional amount of R4.214 billion has been allocated in 2008/09, R6.805 billion in 2009/10 and R13.369 billion in 2010/11. The additions improve the provincial aggregate equitable share allocations to R197.688 billion in 2008/09, R222.589 billion in 2009/10 and R242.100 billion in 2010/11.

As a result of the additions, the total PES to provinces is projected to increase by an annual average rate of 11.9 per cent over the 2008 MTEF in nominal terms.

Impact of data updates for the Western Cape

2008 MTEF allocations (as presented in the 2007 Budget and estimated for the 2008 MTEF) put transfers to the Western Cape at R15.118 billion, R17.074 billion, R19.041 billion and R20.184 billion in 2007/08, 2008/09, 2009/10 and 2010/11, respectively.

Table 2.3 below shows that taking only the impact of the data updates into consideration and before adding any additional amounts to the baseline, the Western Cape's equitable share allocation increases by R298.9 million in 2008/09, R335.4 million in 2009/10 and R355.6 million in 2010/11.

Table 2.3: Comparison between 2007 and 2008 MTEF allocations

	2007/08	2008/09	2009/10	2010/11
2007 MTEF	15 117 707	17 074 395	19 041 227	20 183 701
2008 MTEF (data update)	15 117 707	17 373 255	19 376 656	20 539 256
Difference		298 860	335 429	355 555
2008 MTEF (revision to baseline)	15 482 567	17 578 814	19 908 638	21 798 363
Difference	364 860	504 419	867 411	1 614 662

The overall impact of the data revisions together with the increase in the PES baselines is R3.151 billion net increase in the Western Cape's PES allocation over the 2008 MTEF. The Province will receive an additional R504.419 million in 2008/09, R867.411 million in 2009/10 and R1.615 billion in 2010/11.

The revised PES allocations to the Western Cape therefore amount to R17.579 billion, R19.909 billion and R21.798 billion in 2008/09, 2009/10 and 2010/11, respectively.

WC to receive almost R4.6 billion in conditional grant funds in 2008/09

Conditional grants

On aggregate, conditional grant transfers to the Province are estimated to increase from an adjusted R4.075 billion in 2007/08 to R4.551 billion in 2008/09, R5.017 billion in 2009/10 and R5.824 billion in 2010/11. Conditional transfers account for on average 19.1 per cent of the total provincial budget over the 2008 MTEF.

The FET College Sector Recapitalisation Grant is phased into the provincial equitable share from 1 April 2009. The programme funded through this conditional grant continues as part of the provincial Department of Education's normal responsibilities and is funded through the PES from 2009/10. The shifting of provincial properties administered by the national Department of Public Works on behalf of provinces will take effect on 1 April 2008. As a transitional measure, this shift would be managed through a conditional grant, the detail of which will be communicated by the national Department of Public Works.

The Provincial Infrastructure Grant has been renamed as the Infrastructure Grant to Provinces (IGP). The framework for the IGP allows for the grant to be split between the Departments of Transport and Public Works, Education and Health for the rehabilitation and maintenance of new and existing infrastructure.

The National Government has increased the national conditional grant allocations to all provinces over the 2008 MTEF by R11.710 billion.

Table 2.4 and 2.5 below set out the Provincial Treasury's projection of national conditional grant transfers to the Western Cape. National Departments are currently in the process of finalising the respective allocations of conditional grants to provinces. Therefore, these projections are based on the assumption that baseline revisions will be allocated according to the current allocation formulae and that the 2010/11 allocations will grow at the same rate as the national aggregate for that particular grant.

Additional R180 million in infrastructure grant funds to the Province are for education

Table 2.4 shows that of the total R11.710 billion baseline adjustment, the Western Cape projects that R1.457 billion will be transferred to the Province over the 2008 MTEF. Of this amount, R66 million will be transferred through the National School Nutrition Programme, R214.180 million through the Hospital Revitalisation Grant, R157.528 million through the Comprehensive HIV and Aids Grant, R226.628 million through the National Tertiary Services Grant, R280.217 million will be transferred through the Integrated Housing and Human Settlement Development Grant, R40.283 million through the Comprehensive Agricultural Support Programme and R21.411 million through the Forensic Pathology Services Grant. A further R451.139 million will be transferred through the IGP of which

R222.641 million will be allocated exclusively for education infrastructure. Further changes to IGP for Education, Health and Transport and Public Works is as a result of the formula used to divide the grant that takes into account an equal split of 33.3 per cent of the phased-in equitable share component, the roads component and backlog component where the latter is updated with the latest National Education Management Infrastructure System (NEMIS).

Table 2.4: Revisions to conditional grant baseline allocations for the 2008 MTEF

Conditional Grant R'000	2008 MTEF baseline adjustments		Revisions to baseline		
	National	Provincial	2008/09	2009/10	2010/11
NSNP	1,500,000	66,000	13,200	17,600	35,200
Hospital Revitalisation	1,600,000	214,180	49,540	50,658	113,981
Comprehensive HIV and Aids	2,100,000	157,528	26,343	44,978	86,207
NTSG	930,000	226,628	37,135	48,588	140,905
Integrated Housing and Human Settlements	2,200,000	280,217	-	25,474	254,743
Infrastructure grant to provinces (IGP)	2,700,000	451,139	100,263	144,442	206,434
IGP(Education)		222,641	34,594	69,340	118,707
IGP(Health)		42,658	7,931	16,011	18,716
IGP(Transport & Public Works)		185,840	57,738	59,091	69,011
CASP	500,000	40,283	8,054	12,086	20,143
Forensic Pathology Services	180,000	21,411	-	8,327	13,085
Total	11,710,000	1,457,386	234,535	352,152	870,698

Table 2.5 sets out the Provincial Treasury's projection of national conditional grant transfers to the Western Cape. These projections are based on the assumption that baseline revisions will be allocated according to the current allocation formulae and that the 2010/11 allocations will grow at the same rate as the national aggregate for that particular grant.

Table 2.5: Conditional Grants Framework 2007/08 - 2010/11²

Conditional Grant R'000	Adjusted Budget	MTEF		
	2007/08	2008/09	2009/10	2010/11
Infrastructure Grant to Provinces	457 155	556 668	677 508	778 414
Education	80 263	120 475	163 809	220 072
Health	80 262	93 811	110 480	120 081
Transport and Public Works	296 630	342 383	403 220	438 261
Cultural Affairs and Sport	16 740	31 434	43 338	45 938
Library Services	16 740	31 434	43 338	45 938
Education	146 095	158 846	90 479	113 617
HIV and Aids (Life Skills Education)	13 011	13 847	14 626	15 504
Further Education and Training College Sector				
Recapitalisation Grant	80 000	77 305		
National School Nutrition Programme	53 084	67 694	75 853	98 113
Health	2 182 606	2 526 403	2 620 446	2 970 147
Comprehensive HIV and Aids grant	200 559	194 594	245 592	298 858
Hospital Revitalisation Grant	191 796	426 484	377 632	460 573
Health Professions Training and Development Grant	339 442	356 414	362 935	384 711
National Tertiary Services Grant	1 335 544	1 493 376	1 575 803	1 759 753
Forensic Pathology Services	115 265	55 535	58 484	66 251
Cultural Affairs and Sport	18 946	27 479	37 357	39 598
Mass Sport and Recreation Participation Programme Grant	35 686	27 479	37 357	39 598
Agriculture	75 974	46 512	53 717	64 272
Comprehensive Agricultural Support Programme Grant	33 426	43 084	50 632	61 002
Land Care Programme Grant: Poverty Relief and Infrastructure Grant	3 317	3 428	3 085	3 270
Agricultural Disaster Management Grant	39 231			
Disaster Management				
Housing	1 177 770	1 203 984	1 494 173	1 811 564
Integrated Housing and Human Settlement Development Grant	1 177 770	1 203 984	1 494 173	1 811 564
Total	4 075 286	4 551 326	5 017 018	5 823 550

Most conditional grants flow to Departments of Health and Local Government and Housing

Table 2.6 below shows departmental shares of conditional grant transfers. The Department of Health receives the bulk of grant transfers and its share of total conditional grant transfers is projected to decrease from 55.5 per cent in the 2007/08 adjusted budget to 53.1 per cent in 2010/11. The Department of Local Government and Housing follows with 28.9 per cent of total transfers in the 2007/08 adjusted budget, projected to increase to 31.1 per cent in 2010/11, as a result of the large additional allocation in that year. The remaining transfers are allocated to the Departments of Education, Transport and Public Works, Agriculture and Cultural Affairs and Sport.

² Conditional grant allocations are provisional and will be finalised once allocation letters are received from National Treasury.

Table 2.6: Conditional grant departmental transfers

Department	2007/08	2008/09	2009/10	2010/11
R'000	Adjusted Budget	Medium Term Estimates		
Health	2 262 868	2 620 214	2 730 926	3 090 228
Education	226 358	279 321	254 288	333 689
Local Government and Housing	1 177 770	1 203 984	1 494 173	1 811 564
Transport and Public Works	296 630	342 383	403 220	438 261
Agriculture	75 974	46 512	53 717	64 272
Cultural Affairs and Sport	35 686	58 913	80 695	85 537
Total projected conditional grants	4 075 286	4 551 326	5 017 018	5 823 550
Percentage				
Health	55.53%	57.57%	54.43%	53.06%
Education	5.55%	6.14%	5.07%	5.73%
Local Government and Housing	28.90%	26.45%	29.78%	31.11%
Transport and Public Works	7.28%	7.52%	8.04%	7.53%
Agriculture	1.86%	1.02%	1.07%	1.10%
Cultural Affairs and Sport	0.88%	1.29%	1.61%	1.47%
Total	100.00%	100.00%	100.00%	100.00%

Provincial Own Receipts

Provinces raise an insignificant amount of revenue compared to their expenditure needs. Most revenue collection happens at national level while expenditure is decentralised to provinces and local governments. Under this system, national government controls the broad based revenue sources with broad bases, while provinces only have access to narrow-based taxes and a few user charges/fees.

Table 2.7 below shows the estimated contributions of the departments to Provincial Own Receipts and the specific changes to the baseline per financial year over the 2008 MTEF.

Provincial own receipts contributes almost 7 per cent to the 2008/09 total receipts budget

In aggregate, Provincial Own Receipts are projected to increase from R1.666 billion in 2008/09 to R1.697 billion in 2010/11.

Only the Provincial Treasury has indicated significant positive changes to the 2008 MTEF baseline budgets. The changes to the Provincial Treasury baseline result from the estimated increases in gambling tax receipts.

The substantial decrease on own receipts at the Department of Economic Development and Tourism over the 2008 MTEF is as a result of the delay in the enactment of the new Western Cape Liquor Bill.

Table 2.7: Summary of Provincial Own Receipts by Vote

Provincial Department R'000	2007/08	2008/09		2009/10		2010/11
	Adjusted Appropriation	Revised Estimate	Changes to baseline	Revised Estimate	Changes to baseline	Revised Estimate
Premier	642	503	(40)	524	(40)	564
Provincial Parliament	52	52		52		52
Provincial Treasury	344 682	368 819	8 400	388 868	8 820	389 397
Community Safety	1 816	1 099	169	1 192	192	1 262
Education	26 755	12 819		12 819		12 819
Health	384 700	376 034		354 325		354 325
Social Development	27 491	280		280		280
Local Government and Housing	50 000	50 000		30 000		30 000
Environmental Affairs and Development Planning	151	126		106		106
Transport and Public Works	849 059	836 184	160	861 549	160	886 250
Agriculture	14 963	14 506	752	15 957	1 584	16 914
Economic Development and Cultural Affairs and Sport	6 559	4 770	(19 000)	4 770	(22 500)	4 770
	465	545	115	565	125	545
Total	1 707 335	1 665 737	(9 444)	1 671 007	(11 659)	1 697 284

Table 2.8 below shows the total annual Provincial Own Receipts budget by source between 2007/08 and 2010/11. Currently, motor vehicle licence fees, casino taxes and health patient fees (included in the Sales of goods and services other than capital assets (economic classification) dominate. Because of the uncertainty and nature of sales of capital assets and financial transactions in assets and liabilities most departments do not budget for these items over the MTEF and therefore only provide for these items within the Adjustments Estimates.

Table 2.8: Western Cape Own Receipts by Source 2007/08 – 2010/11

Source R'000	2007/08	2008/09	2009/10	2010/11
	Adjusted appropriation	Medium-term estimate		
Tax receipts	1 077 024	1 118 690	1 161 688	1 186 918
Casino taxes	277 942	295 955	314 594	315 123
Motor vehicle licences	776 106	799 389	823 371	848 072
Horse racing taxes	18 476	18 846	19 223	19 223
Other taxes (Liquor licence fees)	4 500	4 500	4 500	4 500
Sales of goods and services other than capital assets	302 847	317 405	330 873	331 910
Transfers received	135 887	115 168	82 926	82 926
Fines, penalties and forfeits	623	617	627	637
Interest, dividends and rent on land	51 125	56 563	57 597	57 597
Sales of capital assets	38	41	43	43
Financial transactions in assets and liabilities	139 791	57 253	37 253	37 253
Total provincial own receipts	1 707 335	1 665 737	1 671 007	1 697 284

Motor vehicle licence fees

Motor vehicle licence fees are projected to contribute R776.106 million to provincial own receipts in 2007/08. The fees are projected to increase to R799.389 million in 2008/09 and to R823.371 million in 2009/10 and to R848.072 million in 2010/11. These increases give rise to an annual average increase of 3 per cent over the MTEF.

As at 30 September 2007, approximately 1.503 million vehicles were registered in the Western Cape, which is 86 534 or 6.1 per cent more than the 1.416 million vehicles registered on 30 September 2006. The rate of growth in the number of registered vehicles over the above period is greater than the average projected increase in revenue over the MTEF period. The average rate of increase projected for vehicles registered will, however, be kept at the levels initially projected, because of the uncertainty of the impact that the implementation of the new National Credit Act, introduced on 1 June 2007, and the recent interest rate hikes will have on vehicle sales.

Registering and licensing of motor vehicles is undertaken at 76 municipal registering authorities that have been appointed as agents of the Provincial Government.

Given the current level of motor vehicle licence fees in the Western Cape, a policy decision has been taken not to increase motor vehicle licence fees in 2008/09. The outcome of a socio-economic incidence analysis study into the level of motor vehicle license fees in the

Receipts from motor vehicle licence fees to total R799 million in 2008/09

Western Cape and the implications of this incidence on cross-border re-licensing will inform future policy decisions.

Health patient fees

Health Patient Fees to increase by 3.11 per cent on average over MTEF

Health patient fees (incorporated under 'sales of goods and services other than capital assets' in Table 2.8) are expected to contribute R222.281 million to Provincial Own Receipts in 2007/08. This amount is projected to increase to R243.641 million in 2010/11, an annual average increase of 3.1 per cent over the MTEF.

The Department in the main charges health patient fees to uninsured patients, Medical Aid Schemes, the Workmen's Compensation Fund, and the Road Accident Fund.

The Health Department in the main is continuously devising strategies to enhance revenue generation. Amongst these strategies are:

- The continued improvement of billing systems at hospitals and clinics, debt collection and payment methods;
- The revision of tariffs in line with inflation;
- The revision of the Uniform Patient Fee Schedules (UPFS) for uninsured patients attending public hospitals; and
- The issuing of transport vouchers for the transport of discharged patients by HealthNet drivers.

Interest, dividends and rent on land

Interest on the current account, dividends and rent on land is expected to contribute R51.125 million to provincial own receipts in 2007/08. The amount is projected to increase over the 2008 MTEF to R56.563 million in 2008/09; R57.597 million in 2009/10 and 2010/11.

Casino and horse racing taxes

4.3 per cent average increase in income from casino taxes over MTEF

Casino taxes are expected to contribute R277.942 million in 2007/08. The taxes are projected to increase over the 2008 MTEF to R295.955 million in 2008/09, R314.594 million in 2009/10 and R315.123 million in 2010/11. These increases constitute an annual average increase of 4.3 per cent.

Horse racing taxes are expected to contribute R18.476 million in 2007/08 and are projected to increase to R19.223 million in the 2010/11 financial year. These estimates constitute an annual average increase of 1.33 per cent over the MTEF.

Liquor licence fees

Liquor licence fees are expected to contribute R4.500 million in 2007/08 and are kept unchanged over the MTEF until the enactment of the Western Cape Liquor Bill, which is expected to result in a substantial increases in own receipt estimates.

WC Liquor Act to be promulgated in 2008

The Western Cape Liquor Bill has been extensively redrafted in line with public comments and inputs from various stakeholders. Enactment of the Bill is scheduled for 2008. The regulations to the Bill will be published soon thereafter and it is expected that the Western Cape Liquor Bill will be enacted by the end of 2007/08.

The Bill provides for the licensing by the Liquor Board of activities relating to the retail sale and micro-manufacture of liquor within the province. Under the Bill, municipalities will be integrated into the licensing process through provisions requiring the Board to forthwith notify a municipality of any applications for a liquor license lodged within that municipality's boundaries. The Bill also caters for transformation of the liquor industry by creating an opportunity for HDI applicants to enter the regulated industry by way of a specific, time-bound exemption. The Bill further provides for harsh penalties for offences relating to the retail sale and micro-manufacture of liquor in the Province.

Revenue Incentive Policy

National Treasury and the Financial and Fiscal Commission (FFC) have identified constraints in the collection of provincial receipts and proposed ways to improve revenue collection. One suggestion is to set up appropriate incentives aimed at getting provinces to collect more revenue. Hence the Western Cape adopted a revenue retention strategy. This strategy provides for incentives to departments that collect funds above the targets set in their adjusted budgets.

Annually departments are allowed to submit requests to the Provincial Treasury for retaining and using any funds collected over and above their adjusted budgets. Approvals are guided by principles, which include:

Revenue retention strategy gives incentives to departments

- Retained funds should be allocated for once-off expenditure.
- Retained funds should not be allocated for recurrent expenditure.
- The allocation of retained funds should be evaluated against rollover requests to prevent 'double dipping'.
- The fiscal position of the provincial government within a budget year needs to be taken into account.

The strategy is intended to reduce under-budgeting in receipts, unnecessary delays in spending and the accumulation of cash in departments.

Despite this strategy, some departments' budget estimates are still below actual outcomes. This may be ascribed to the risk of surrendering expenditure budgets when revenue targets are not met. The Provincial Treasury is currently exploring the development of a revenue estimation model in concert with National Treasury, which will provide for more accurate and robust revenue estimates in the future.

Expanding the Provincial tax base

The Western Cape's financing situation is not sustainable over the medium to long-term. The Province is currently financing fiscal deficits from accumulated reserves. To raise the fiscal bar over the medium to long-term, the Province needs to deepen and expand its own receipts base. The expansion of the base will serve two purposes. Firstly, it will raise the discretionary part of the Province's revenue envelope. Secondly, it will raise the Western Cape's capacity to fund large economic infrastructure projects.

The Provincial Treasury has made substantial progress in the implementation of the Provincial Tax Regulation Process Act, 2001 (Act No. 53 of 2001). The Act does not define the new taxes that provinces may impose. Instead, the Act regulates the inter-governmental process that must be followed by provinces in the exercising of their taxing powers contained in section 228 of the Constitution.

The Western Cape has identified a number of taxes for consideration and exploration, which include a fuel levy, tourism related levies and other levies.

Fuel Levy

The Province concluded research on the viability of the implementation of a fuel levy in the Province. The national Minister of Finance granted approval for the use of this tax, subject to:

- "An inception rate of up to 10 cents a litre, but without the provision of a band;
- The implementation date and any future adjustments to the levy and the date such an adjustment will be done with concurrence of the Minister;

- Steps being taken to mitigate the possible adverse impact the provincial fuel levy may have on sectors that qualify for a refund of the national diesel fuel tax”.

National enabling legislation is required before the proposal may be presented to the Provincial Parliament for consideration.

Tourism related taxes

Research on the constitutional and legal feasibility, economic feasibility and feasibility of the tax administration of tourism related taxes was conducted in the early part of 2007. The research found that, even when applying multiple tax instruments on a base covering tourist activity, small tourism related taxes would not be feasible. The research concludes that the Provincial Government should rather focus on a tax with a broader base. The recommendation is to consider amongst other an Airport Departure Tax. This tax has a broader base and can be efficiently administered. Further research work is currently underway into the feasibility of such taxes.

Asset Financing Reserve

Apart from transfers from National Government and provincial own receipts, the third source of funds for the provincial allocation is the Asset Financing Reserve (AFR), which was set up to separate daily and long-term cash transactions. This separation enables the Provincial Treasury to better distinguish between budgeted funds which are to be spent by Departments during the course of the financial year and accumulated reserves and uncommitted funds which may be allocated to departments as and when required. The accumulated reserves and uncommitted funds are in the main used to finance infrastructure-related expenditure.

Asset Financing Reserve enables increased spending on infrastructure

The establishment of the AFR also provides for the transparent reporting and management of reserves by the Provincial Treasury. The AFR allows for transparency in how reserve funds are invested during and at the end of a financial year, as well as the interest revenue received on these investments.

To enable the management of the AFR as a separate entity within the ambit of the Provincial Revenue Fund (PRF), a separate vote and responsibility code has been created on the Basic Accounting System (BAS) in the books of the PRF. The separate code for the AFR allows the Provincial Treasury to easily distinguish the transactions and financial position of the AFR from those of the PRF.

Allocations from the AFR for the 2008 MTEF amount to R395.115 million in 2007/08; R568.132 million in 2008/09; R216.414 million in 2009/10 and R30.118 million in 2010/11. The reduction in funding available for infrastructure investment due to the significant drop in the AFR forecast from 2009/10 is meant to be compensated for by inter alia the possible introduction of the fuel levy, if no other sources is forthcoming from National.

However, if the current trend of funding for Roads of around R300 million per annum from the AFR is maintained in 2010/11 this fund will run into an unfinanced deficit.

National and Provincial Policy Context

The 2004 Government Programme of Action and subsequent strategy and policy changes set the context for Government's funding choices. In the Western Cape these funding choices are informed by the Premier's State of the Province address and further guided by the Provincial Growth and Development Strategy (iKapa Strategy). The iKapa strategy responds to the current and anticipated economic, social, environmental and spatial trends within the Province.

The July 2007 National Cabinet Lekgotla announced a range of strategies and specific projects to concretise the Government's Plan of Action. The strategies provide for practical application to current Government strategies and target a number of key projects that would have maximum impact on services and change the "mood" of the nation ahead of the 2010 FIFA World Cup. Implementation of these strategies and projects find resonance in already identified programmes in education, health, social development, agriculture, and other interventions targeted at growing the economy and creating employment.

The 2008 WC MTBPS provides the fiscal envelope within which the Provinces pursue its agreed priorities over the period 2008-2011.

Introduction

Policy imperatives at provincial level provide access to services such as Education, Health, Housing, Infrastructure, etc. Recent allocations to provinces have made significant strides in improving the quality of social and economic services. These policies in the main are also aimed at reducing inequality and increasing investment in communities. Policies also provide a basis for sustainable livelihoods; much needed skills development; improved governance; and regional economic development.

Government's 2004 election mandate has as cornerstones improved economic growth and inclusion. These two are among the objectives taken up in the Medium Term Strategic Framework (MTSF), 2004 - 2009. The MTSF aims to put economic growth on a higher growth path and at the same time bring about a more inclusive sharing of the benefits of improved economic growth. The strategy further presupposes that increased levels of job creation will reduce the dependency of able-bodied South Africans on social security grants.

The South African economy, in recent years, has attained a higher rate of growth, fixed investment and job creation. The 2008 National MTBPS and Chapter 1 of this document, convey the message that the South African and Western Cape's economic outlook is positive. To sustain the economic growth trajectory, and to improve the capacity of the economy to at least maintain current growth levels, a number of macro-economic challenges need to be addressed: more jobs need to be created; inflation needs to be kept at acceptable levels; interest rates kept at levels that do not punish investment in productive capacity; saving rates increased; and the current account deficit decreased.

National and Provincial Services Delivery

The Mid-Term Review: "Towards a Ten Year Review", published by the Presidency in October 2003, showed that considerable progress has already been made in improving the access to and quality of government services. The Review highlighted that government has made large investments to improve infrastructure, lower the cost of doing business and provide social services.

However, despite these large investments in road, rail, ports and ICT the economy has been unable to keep up with higher economic and social demands. Furthermore critical backlogs also remain within the provision of education and health care services.

'Perceptions of Government Performance and Service Delivery' survey released in May 2007

Findings from the "Perceptions of Government Performance and Service Delivery: A population survey of the Western Cape", commissioned to the Institute for Democracy in South Africa, was released in May 2007. The survey provides a snapshot of Western Cape citizen's perceptions regarding service delivery in the Province.

Government has invested greatly in expanding service delivery in education, housing, municipal services, health care, etc. The impact of the investment was tested in the survey questions. The findings suggest that the Western Cape's population is more positive about their living conditions than they are about their economic conditions.

Approximately 80 per cent of the sample population felt that they had access to most basic services and facilities. Basic services and facilities include: schooling, health services, police stations and electricity.

Respondents, in general, were positive about government's performance in providing school education, meeting the needs of vulnerable groups, promoting Black Economic Empowerment, building infrastructure, etc. They were also positive with regard to government's progress in improving basic health services, maintaining roads and business development.

Survey respondents were positive about government's performance

The survey results suggest that government should prioritise addressing challenges in: housing delivery, fighting crime, reducing unemployment, narrowing the gap between rich and poor and boosting economic growth.

Defining the strategic direction

The Medium Term Strategic Framework and the Medium Term Expenditure Framework are powerful instruments in aligning the Provincial Growth and Development Strategy (PGDS), sector and departmental plans and budgets, municipal Integrated Development Plans and budgets with national development objectives. The fore-mentioned plans and budgets bring about greater predictability on what communities and organs of state can expect from government.

In keeping with South Africa's cooperative governance principles, provinces are expected to express the national priorities in their budgets. The PGDS is the main document setting out the Province's growth and development agenda and thus is the key reference point for aligning national policy priorities (described above) with provincial spending priorities. This MTBPS hangs on the draft PGDS as its policy anchor.

The Western Cape's Provincial Growth and Development Strategy (iKapa strategy) analyses and responds to the current and anticipated economic, social, environmental and spatial trends in the Province. The iKapa strategy furthermore provides a broad strategic and spatial development framework, which allows for the coordination of planning, spending and investment activities of government and private actors in pursuit of their objectives. These objectives include: sustainable natural resource utilisation and management; attracting investment; job creation; welfare provision; safety and security; and human resource development.

iKapa strategy provides broad strategic and spatial development framework

The PGDS contains an indication of the development potential at district level; the Province's proposed economic growth trajectory; and an indication of the sectors and the areas with comparative advantage in which the Province plans to invest. These development potential areas are identified with a view of attracting appropriate infrastructure investment and development spending from the various national and provincial sector departments and the private sector.

Ecological sustainability is another key priority of the PGDS, which promotes shared growth and development. The Climate Change Response Strategy, a key informant of PGDS sets the development path, where environmental and natural resources are protected. The focus for the Province in this regard will be on renewable energy, energy and water efficiency, waste reduction and recycling to mitigate and adapt to the effects of climate change.

Lastly, the Provincial Growth and Development Strategy also provides a clear indication of the Province's long-term Infrastructure Investment Programme. This programme aims to maintain existing economic activities and unlock the latent potential within the Province.

Linking the planning instruments to actions over the medium-term in the national context

The strategic thrust set by government generally for the next three years assumes that programmes contained in the 2004 Medium Term Strategic Framework and updated in subsequent years are well established. The strategic focus for the next three years include: macro economic and social interventions; improving the capacity of the state; and establishing productive partnerships with civil society and the private sector.

National government intends to maintain its macro-economic stance of ensuring a stable and competitive exchange rate and managing macro economic indicators in the interest of higher levels of economic growth and development. In pursuit of these goals, the following actions will be undertaken:

- Continue infrastructure investment, which will lower the cost of doing business; crowd in private sector investment; and improve the capacity of the economy to produce capital goods and infrastructure supplies.
- Develop a National Industrial Policy Framework, which will be implemented and updated annually to ensure the country meets local demand, increases exports and ensures that more jobs are created.
- Develop and update a Human Resource strategy to meet the demands of the economy.
- Put targeted interventions in place to bring more people into economic activity through the public works programmes; job creation strategies; SMME development; land reform, etc.

- Finalise a comprehensive social security strategy to be implemented towards 2011, which will encourage universal retirement coverage amongst the employed and those needing state assistance.
- Speed up the provision of basic services such as the provision of water, sanitation and electricity, and create steps to address household poverty.

Government also prioritised building the capacity of the State in those sectors that provide economic services.

Further developments are underway to improve the macro-organisation of the state as it pertains to intergovernmental relations and the creation of a single public service.

The broad priorities identified above will inform the strategic direction and the extent to which certain priorities are taken up in budgets and implemented over the next three years.

These objectives would serve as catalysts for improvement across a whole front of government work and are included under the following broad strategic goals:

- Accelerated growth.
- Infrastructure programmes.
- Improved skills base for the country.
- Shared growth – second economy interventions.
- Community infrastructure and universal access.
- War on poverty, and issues of health and social cohesion.
- Improved state capacity and regional environment.

The Accelerated and Shared Growth Initiative for South Africa (AsgiSA) identifies impediments to higher levels of economic growth, addresses issues of unemployment and aims to reduce levels of poverty. AsgiSA is not a new government initiative for which new resources need to be made available. It is rather a strategy to re-package and refocus existing programmes and projects to achieve synergy and improve economic growth and poverty reduction outcomes. Shared economic growth targets the second economy and seeks to ensure that the benefits of economic activity are shared across communities.

Shared economic growth targets the second economy

Western Cape Government's 3-year spending plans

The 2008 MTEF for the Province will continue to pursue the objectives identified in the 2007 Budget:

- Strengthen strategic and economic infrastructure, including roads, public transport and housing.
- Boost skills development, learnerships and bursaries, FET colleges and job creation.
- Improve the quality and reach of social services such as in education, health care and access to social development services.
- Provide and support responsible and responsive governance.

Additional funding for key national policy priorities

The R79.8 billion additional allocations for spending across the three spheres of government over the 2008 MTEF, include an allocation of R37.1 billion or 46.4 per cent for provincial spending. The additional allocation to provinces includes amounts of R24.4 billion to the provincial equitable share and R11.8 billion to conditional grants over the next three years. The additional national equitable share spread over the MTEF amounts to an additional R5.9 billion in 2008/09, R9.5 billion in 2009/10 and R21.7 billion in 2010/11.

Estimated transfers of nationally raised revenue to the Western Cape Provincial Government grow at an annual average rate of 12.5 per cent in nominal terms over the 2008 MTEF. Transfers increase from R21.130 billion in 2008/09 to R24.926 billion in 2009/10 and are expected to rise to R27.622 billion in 2010/11.

The bulk of the transfers is intended to fund sector policy options, particular to the Health, Education and Social Development departments.

Allocations to the Social Services

The tight fiscal constraints, the competing needs of other spheres of government, particularly local government, and the higher than anticipated 2007 wage settlement leaves little room for spending beyond the key concurrent functions in provincial budgets. Nonetheless, the all-inclusive amount that goes to the Social Services Cluster (inclusive of Housing) rises by R8.6 billion or 15 per cent from R57.9 billion in the 2007 MTEF to R66.5 billion over the 2008 MTEF. The additional provincial equitable share is intended to fund identifiable programmes in education, health and social development. The additional funds allocated for social services are aimed at: improving access and quality of services, particularly in education, health and social development; human resource management in social services and implementing strategies to retain and attract skills; expanding welfare services to create an enabling environment for sustainable communities.

In **Education**, the revisions to the provincial fiscal framework are focused on consolidating current priorities. These priorities are aimed at ensuring greater access, improving the quality of services and achieving greater equity.

Funding over the MTEF allows for the expansion and deepening of Early Childhood Development (ECD). The Department of Education is responsible for the training of ECD practitioners, caregivers and parents. In addition the Department of Education will expand access to Grade R and improve the quality of Grade R education. Funding will be focused on increasing the per learner allocation, training additional personnel, improving their remuneration, providing additional learner-teacher support material and infrastructure where necessary.

The Department will continue to focus on Inclusive Education through current baseline funding. Inclusive Education is aimed at improving access for learners with special needs in mainstream education and special schools.

Over the 2008 MTEF additional funds are made available to enable the Department of Education to fully implement occupational specific dispensation requirements.

The Department of Education receives additional funds for growth in learner numbers to accommodate natural growth, inward migration and greater retention in the system.

The Government is able to make considerable savings by procuring textbooks on a large scale. Although this function will remain with provinces, the National Department of Education will develop a framework for a combined tender for all provinces to take advantage of the anticipated economies of scale. A combined tender will

Additional funds allocated to education, health and social services

Department of Education to expand access to Grade R

provide for a full set of textbooks for the implementation of the new curriculum statement to all Grade 10, 11 and 12 learners in sequential years starting in 2009.

Additional funds for the conditional grants in Education furthermore target improvement in infrastructure and the quality of school feeding as well as improved coverage of those learners who need it most.

In the **Health** sector, the priorities are to ensure that health services continue to improve access and that the quality of public health services is maintained and improved. A general boost to the baseline budgets will assist the Health department to deal with province specific budget pressures and better meet the needs of society, particularly the poor.

Additional funding for treatment of multi- and extreme drug resistant TB

Strengthening TB control, especially in the wake of multiple- and extreme-drug resistant TB, has been identified as a national priority. The number of patients suffering from the Multi-Drug Resistant TB (MDR-TB) and the Extreme Drug Resistant TB (XDR-TB) is increasing across the country and is placing severe pressure on the public health system. Interventions to cure and treat MDR-TB and XDR-TB patients include hospitalisation of patients for a minimum period of 6 months, more frequent testing and further treatment under community supervision. These interventions require resource provision for additional MDR-TB and XDR-TB units and the associated costs of hospitalisation, medicines, and lab tests. Additional funding will be added over the next three years to contribute to the costs of these services.

Additional grant allocations are also set aside to upscale the HIV and Aids programme. The health sector is faced with increasing demands due to the rapid treatment take up rate. At the end of 2006/07 approximately 282 736 patients were on ART treatment in the country and by 2011 estimates indicate that this figure will increase to over 600 000 patients.

Other conditional grants that will be augmented are the Hospital Revitalisation, Forensic Pathology Services and National Tertiary Services Grants (NTSG). A portion of the additional allocation to the NTSG grant is to augment diagnostic radiology, telemedicine and oncology.

Improving efficiency and effectiveness in dealing with children in conflict with the law

The **Department of Social Development** sector expanding services to children in conflict with the law. Currently, the Western Cape has four places of safety for children in conflict with the law. Two of these places of safety in Outeniquwa and Vredelus are currently being upgraded to level-3 facilities in order to implement the Complimentary Business Optimisation Model (COMBO model). The COMBO model aims to improve efficiency and effectiveness in dealing with children in conflict with the law.

There are also plans to align the incentives of caregivers at Home Community Based Care organisations funded by the sector. The current stipend paid to Home Community Based Caregivers by the departments of Health and Social Development is R1 000 and R500 per month respectively. The stipend for the social development sector is now set to increase to R1 000 per month.

Additional funds will be allocated over the 2008 MTEF for the expansion of Early Childhood Development. The funds will be used to increase the ECD subsidy and provide more direct funding for EPWP initiatives.

An Occupation Specific Dispensation strategy for Social Workers and other related occupations is being finalised and is due to be implemented from 1 April 2008. The strategy is part of government's new remuneration policy framework to attract and retain specialists and professions in the social development sector. The 2008 MTEF budget provides for the sector to implement the Occupation Specific Dispensation.

Additional funds will also be made available over the outer two years of the 2008 MTEF to augment the integrated housing and human settlements grant.

Allocations to the Non-Social Services

Economic Sector

The economic functions targeted for the allocation of additional resources are agriculture, roads and transport, SMME development and interventions that prioritise economic growth, employment creation, and contribute to rural development. The additional allocations to the economic sector via both the Provincial Equitable Share and Conditional Grants also give effect to government's labour-based and labour intensive programmes. Overall the resource contribution to the economic sector rises by R2.1 billion or 22.8 per cent from the 2007 MTEF to reach R11.4 billion in the 2008 MTEF.

A national priority of the agricultural sector is to intensify the focus on bringing previously excluded individuals, particularly land reform beneficiaries, into the mainstream agricultural sector. In this light, funding is allocated to boost the Comprehensive Agricultural Support Programme (CASP).

*Economic sector focus
on land reform
beneficiaries*

The specific economic priorities of the Western Cape are outlined in Chapter 4.

*2008 MTBPS anchored
on the PGDS*

Conclusion

Government's strategic focus in the next three years is to maintain the macroeconomic stance and social interventions; improve the capacity of the state and establish partnerships with civil society and the private sector. The 2008 WC MTBPS continues to pursue these objectives and is anchored on the Provincial Growth and Development Strategy. The proposed additional allocations to the provincial equitable share and the conditional grant baseline allocations will assist the Western Cape government to repackage and refocus its programmes and projects to achieve synergy and ensure that the benefits of economic growth are shared by all that live in the Western Cape.

Cluster Progress, Performance and Plans

In alignment with national policy priorities, the Western Cape's Provincial Growth Development Strategy (PGDS), department plans and key deliverables, the 2008 MTEF builds on progress made in 2007/08 and responds to emerging service delivery challenges.

The enhancement in the quality and the expansion of social services remain a key focus area over the 2008 MTEF. The Social Cluster will prioritise investment in Early Childhood Development, strengthening TB control and up-scaling HIV and Aids interventions. Over the 2008 MTEF, the Economic cluster will continue to give support to Government's labour intensive and labour-based programmes as well as contribute to rural development. Skills development, infrastructure, the Expanded Public Works Programme, and training and support to emerging farmers and land reform remain high on the agenda of the Economic Cluster. Built environment departments will work closer together to support municipalities to change spatial arrangements in settlements so that the settlements function more efficiently. 2008 MTEF priorities for the Governance and Administration cluster are focused on promoting greater inter-departmental and inter-governmental collaboration. The cluster will promote, amongst others, greater spatial integration/co-ordination and internal capacity building.

Introduction

The Western Cape provincial departments are grouped into three broad categories or clusters. These clusters are: Governance and Administration, Economic and Social. Departments within a cluster: strive to achieve common broad goals; negotiate on funding allocations; execute trade-offs on policy options; raise awareness on the challenges facing them; and explore possibilities of complementary actions and synergy.

Budgeting is about setting priorities and trading priorities off against each other. Trade-offs are always required in the budget process because the resources required to fund priorities most often outstrip the available funding resources.

Additional funds from National Government have in the main been used to address sector priorities and to fund the 2007 public service wage agreement.

Most additions are for personnel related expenditure

Most of the additions to the 2008 Budget are earmarked for personnel related expenditure. The wage agreements and initiatives to improve the conditions of service of particular professions such as teachers, health- and social workers have put the Province's budget under pressure. Approximately 60 per cent of the obligations resulting from the wage agreement are funded by National Government. The remaining 40 per cent needs to be found from within the Province's budget through improving efficiency and making trade-offs.

Provincial clusters are exploring possibilities for greater efficiency

Provincial clusters, with the prospect that little to no additional funding other than to maintain their current levels of service are available, have started to explore possibilities for greater efficiency among them. A number of areas where possibilities for complementarities and synergy exist have been identified below:

- Planning and Research – most departments have established units and where these do not exist the function is outsourced. Research planning, findings and data are often not shared across the departments.
- Urban restructuring and the development of Spatial Development Planning (Environmental Affairs and Development Planning, Economic Development, Transport and Public Works, Housing, Local Government, etc.).
- Early Childhood Development (Education, Health and Social Development; and the City of Cape Town).
- Training (Teachers – pre- and in-service; Education and Health professionals such as teachers, nurses, social workers, provincial traffic police, sport coaches, agricultural training, etc.).
- Capacity building initiatives in municipalities (Department of the Premier, Provincial Treasury, Local Government and Housing, Environmental Affairs, etc).
- HIV/AIDS (Education, Social Development, Cultural Affairs and Sport, and Health).

The funding of policy priorities has both national and provincial dimensions. Policy priorities for functions shared by national and provincial departments requiring additional resources are identified at various intergovernmental fora. National sector departments bid for additional resources to fund the policy priorities. Funding occurs either through the Provincial Equitable Share and/or conditional grants. The extent of the funding is negotiated initially through technical forums such as the National Medium Term Expenditure Committee and 10x10 engagements. Functional 10x10 processes exist for Education, Health, Social Development, Local Government and Housing, Transport and Public Works and Agriculture.

There are a number of provincial sectors, where no 10x10s exist. The challenge in this regard provides a funding mismatch - policies made nationally are not commensurate with national funding to implement them at provincial or municipal levels.

Social Cluster

As noted in Chapter 3, over 2008 MTEF the Social Cluster will continue to consolidate efforts to improve access and quality of services. The Cluster is putting special emphasis on Early Childhood Development with the focus being on training, improving remuneration and more direct funding for EPWP initiatives. Furthermore, the Cluster is putting special emphasis on lessening the burden of disease, by amongst others strengthening TB control and scaling up the roll-out of Anti Retro-Viral treatment.

Department of Education

Over the 2008 MTEF the key focus areas of the Department of Education remain better access, improved quality and greater equity.

To realise the objectives of quality, access and equity, the Department has begun its redesign process. The redesign process is being guided by the objectives of the Human Capital Development Strategy, which is one of the base documents for the PGDS. The organisational design phase for both the macro and micro - structure has been completed and the macro structure approved by the Provincial Executive Council.

Enhancing Quality Education

R80 million was allocated in 2007/08 to the six Further Education and Training (FET) Colleges for the second year of the three-year FET College Sector Re-capitalisation Programme. A further amount of R77.305 million has been allocated for 2008/09. The enhanced funding for FET colleges will help ensure that skills development is aligned to the Micro Economic Development Strategy (MEDS) and national needs as outlined by the National Human Resource Development

Alignment of FET programmes to meet needs of the economy

School Safety continues to be a priority

Strategy and AsgiSA. There has been a special focus on the expansion of the West Coast College in support of the economic growth that is taking place in that region. The course programmes in the West Coast are aligned with the MEDS and the region has the second largest intake of National Curriculum (Vocational) NC(V) students in the Western Cape. The NC(V) programme is being encouraged by the National Department of Education as it speaks directly to equipping learners with appropriate skills to enter the labour market.

The need for improved school safety remains a key priority for the Department of Education. Interventions by the Department include: community engagement, peer guidance programmes, training, school management and improved physical safety facilities for schools at risk. The Community Policing Forum together with the School Governing Bodies has managed to recruit 500 Bambanani Volunteers as part of the Bambanani School Safety Volunteer Programme. (Making schools a safe learning home for all)

The Quality Improvement, Development, Support and Upliftment Programme (QIDS-UP) remain a focus of the Department. QIDS-UP is a "redress" programme, which is aimed at providing basic resources such as equipment, supplies, infrastructure and personnel development to the poorest schools in the province.

Specific projects include:

- Effecting emergency repairs in 96 schools in quintiles 1 and 2 with the support of the Department of Transport and Public Works.
- Enhancing and enriching of teaching and learning strategies by piloting curriculum enrichment (extra-mural) programmes in 8 schools located in the Presidential Nodal Areas.
- Supporting 109 ECD sites by providing them with outdoor equipment.
- Ensuring a minimum level of library resources are provided for all 407 QIDS-UP schools (377 primary and 30 secondary schools).

The Department is using the QIDS-UP programme to consolidate other interventions. For example 22 of the 407 schools are located in the presidential Nodal areas, 14 of the 30 secondary schools are schools identified for additional support through the National Strategy for Learner Attainment (NSLA) and 5 of the 30 secondary schools are Dinaledi schools which are focused on improving mathematics and science outcomes.

As indicated in Chapter 3, provision of special needs education in both mainstream and special schools remains a focus over the 2008 MTEF. Average per learner spending on special needs education in the Western Cape for 2006 was R26 681. This expenditure is above the national average expenditure of R22 490 per learner in 2006.

Programmes to improve access and equity

The Department of Education has expanded the number of no fee schools for 2007 to a total of 652. These cover the poorest primary and secondary schools in National Quintiles 1–3, accommodating approximately 346 000 learners or 37.6 per cent of all learners. Although the Department has expanded the no fee school programme to National Quintile 3 schools in 2007 there are pressures from poor schools in National Quintile 4 and 5 schools to be granted no fee school statuses.

The Western Cape Department of Education currently allocates the target amount of R738 per National Quintile 1 learner, significantly above the adequacy benchmark of R554 per learner and above the national average of R667 per National Quintile 1 learner. The Western Cape adheres to the targets determined by the Minister of Education.

The baseline makes provision for the continued expansion of Early Childhood Development (ECD) services to the poor over the 2008 MTEF. The Department is responsible for the training of ECD practitioners, caregivers and parents.

In addition to providing training, the Department is also responsible for increasing access for all 5 year olds to Grade R. The Department currently places an additional 6 000 learners per year in Grade R facilities. Greater access to Grade R is being targeted in poor and rural communities and is being accompanied by the provision of new teaching and learning kits. The focus over the 2008 MTEF is to not only increase the number of Grade R places available, but to improve quality of delivery and learning outcomes.

*Improving access to
Grade R in rural and poor
communities*

Enhancing the Quality of our Teachers and Principals

Teacher development and improved school management were identified as priorities in the 2007 MTEF. The Department has targeted 160 principals to participate in the two-year Advanced Certificate in Education (ACE) programme. Registration of 60 principals has been delayed as one of the Higher Education Institutions has not been granted accreditation. These principles will register and commence their classes in January 2008. Bursaries will be awarded to under-qualified educators wanting to upgrade their qualification to a minimum teaching qualification (REQV 13 – Relevant Education Qualification Value (Matric plus 3 year formal qualification)) through the completion of the two-year National Professional Diploma in Education (NPDE).

Department of Health

Strengthening the health sector to improve access and the quality of health care services remain high on the agenda of the National Government. The focus is in supporting the sector to ensure that the public health service meets the needs of the people, with a specific focus on the poor. The Department will be intensifying its focus on the 2007/08 key deliverables and will be expanding on these deliverables in 2008/09.

Implementing the Comprehensive Service Plan

At the provincial level the strategic planning of the Department of Health is driven by the implementation of the Comprehensive Service Plan (CSP), which is based on Health Care 2010. Health Care 2010 was developed to improve the quality of the health care service and to provide a financially sustainable health service in the Western Cape. The CSP, was approved for consultation by the Provincial Cabinet on 19 July 2006, and approved for implementation after more consultation, by the MEC for Health on 11 May 2007. This plan provides a guideline for the implementation of Health Care 2010 at all levels of care. The ultimate goal of the CSP is to reshape the service platform to treat patients at the level of care most appropriate to their need.

Given that the CSP provides strategic direction to the activities of the Department, elements of the CSP are encompassed in all the key deliverables. Therefore in 2008/09 the Department will continue with the phased implementation of the CSP and expand on all 2007/08 key deliverables.

Expanding Emergency Medical Services capacity

The aim of restructuring the Emergency Medical Services (EMS) is to improve response times progressively to ultimately achieve the nationally defined targets of 15 minutes in the Metro and 40 minutes in the rural areas. The Department received additional funding in the 2007 MTEF to expand the EMS capacity and to aid in preparations for 2010 FIFA World Cup. The size of the ambulance fleet is being increased particularly within the Metropolitan area with the purchase of new ambulances. To deliver more efficient emergency medical services, the Department is exploring alternatives to the shift systems and is currently piloting Mobile Data Terminals to improve communications between the ambulances and hospitals. During this year the pilot programme will be extended to 100 ambulances in the Cape Town Metropolitan area and in 2008/09 will be rolled out to the rural areas.

*Increased capacity for
Emergency Medical
Services*

Despite the increased investment in vehicles, equipment and communication, the lack of sufficient and appropriately trained personnel continues to be a factor limiting the improvement in response times. The Department is in the process of remedying this situation in the current financial year by training 122 students in Life Support Programs ranging from the basic to the advanced levels. Furthermore, as part of providing effective emergency medical services with a view to preparing for the 2010 FIFA World Cup, the Department plans to recruit and train 300 matric graduates in January 2008 as ambulance practitioners. After one year of training the students would be qualified at the basic life support level and would be able to advance to the higher levels.

Improved salaries and conditions of service for nurses

Improving patient transport services

As part of improving its patient transport services to health facilities the Department has established HealthNET hubs at Tygerberg hospital to manage rural HealthNET services. A hub is also located at the Heideveld Clinic to manage the service within the Metropole. The number of patients being transported is increasing as new patient transporters are being delivered to the Metropolitan service. This service provides patient transport within the Metropolitan area and for patients discharged from hospitals to surrounding areas. Hubs and facilities are yet to be created in rural areas.

Developing Human Resource capacity

National government has made funding available in the current MTEF for the Health Professionals Remuneration Review (HPRR). The HPRR is intended to improve the ability of the public health sector to attract and retain staff by improving salaries and conditions of service. Following negotiations, the Occupational Specific Dispensation (OSD) for nurses has been developed and identified for implementation in 2007. Key features that the OSD include revised salary structures, a pay progression system, and career pathing. The Department is currently conducting training on the implementation of the OSD for nurses at all health care facilities.

The performance of the Department of Health is also strongly linked to its human resource and financial management capacity. The Department is currently recruiting staff to capacitate these two areas. However, the Department is struggling to retain staff given the shortage of these skills in the province and will continue to train staff in the various functions.

The Burden of Disease in the Western Cape

In partnership with a consortium of universities, the Western Cape Department of Health is currently engaged in a three-year project on the reduction of the Burden of Disease in the province. The aim of the project is to delineate the Burden of Disease and its main contributors. The project also aims to identify interventions that might reduce the burden of disease, with a specific focus on the upstream risk factors of material and social deprivation.

Key findings from initial reports indicate that the 5 leading causes of premature mortality in the Western Cape are: HIV/AIDS, homicide/violence, Tuberculosis, road traffic injuries and heart disease. Cape Town and the Boland Overberg Region were studied much closer and were found to be plagued by a quadruple burden of disease characterised by the HIV/AIDS epidemic, emerging chronic diseases, pre-transitional diseases, poverty related conditions and a remarkably high burden of injuries. Two other components of the burden have been highlighted. Firstly, the burden of mental illness/disease which is not well reflected in mortality data as it mainly results in the burden being felt in the social services sector and in communities at large and secondly, the burden of childhood diseases, which is often masked by the adult burden. The Comparative Risk Assessment component of the SA National Burden of Disease study done by the Medical Research Council showed the top six risk factors for the country as indicated in the table below.

Table 4.1: Deaths attributable to selected risk factors

Rank	Risk factor	% total deaths
1	Unsafe sex/STIs	26.3
2	High blood pressure	9.0
3	Tobacco	8.5
4	Alcohol harm	7.1
5	High BMI	7.0
6	Interpersonal violence	6.7

The first Burden of Disease report released in June 2007 represents an important step in gaining a better understanding of the burden of disease and its causes in the province. Given the focus on the upstream factors, interventions will require inter-sectoral collaboration and commitment.

Strengthening programmes for TB control and people living with HIV and Aids

According to the Burden of Disease study as at June 2007, HIV/Aids and TB together constitute the largest burden of premature mortality in the Western Cape. The Province also has the highest TB incidence with the total number of cases reported above 40 000 per year since 2001. The Department developed a strategy to respond to the growing TB epidemic and accelerate the response to TB. Five high TB and HIV burden sub-districts with sub-optimal TB programmes were targeted. In the previous financial year the 5 sub-districts: Khayelitsha, Cape Town Eastern, Klipfontein, Breede Valley and Drakenstein all showed a significant improvement in their TB cure rates. Findings from the Burden of Disease study indicated that 22 clinics accounted for about 35 per cent of the provincial TB burden. The sub-districts with the greatest number of high burden facilities are Khayelitsha, Klipfontein and Mitchells Plain. Future plans of the Department entail concentrating interventions on the facilities with the highest TB burden.

An urgent priority for the Department is to effectively deal with the multiple and extreme drug resistant TB (MDR-TB and XDR-TB). The Department has already put measures in place for early identification, admission and treatment of XDR-TB patients. In the 2008 MTEF, the Department will continue to strengthen its TB programmes to effectively deal with the challenges related to increasing MDR and XDR-TB patients.

A major priority for the Department remains the fight against HIV and Aids. Some of the achievements made possible with dedicated funding are:

- Antiretroviral Treatment (ART) services have been expanded to all districts in the Western Cape and currently 50 ART service points are registered.
- The number of ART patients registered are 26 111 and are expected to continue to increase at a rapid rate.
- Efforts targeted at the Prevention of Mother-to-Child Transmission (PMTCT) has resulted in the mother-to-child transmission rate declining to 5.4 per cent.

Expanding the roll-out of anti retroviral treatment

Additional funding allocated in the 2007 MTEF is being used to expand the ART services, offer increased counseling and support and undertake prevention interventions in high transmission areas.

Department of Cultural Affairs and Sport

The Department's mission is to empower the people of the Western Cape through unity and cohesion in arts, culture, heritage, sport and recreation.

During the 2008/09 financial-year, the Department will accelerate implementation of the social and human capital development programmes and will also contribute to the development of sustainable economic integrated development initiatives. The departmental programmes would place emphasis on the 21 key areas identified by the Provincial Cabinet in an effort to reduce poverty, create employment and fight crime. The Department will, in particular, focus its efforts on addressing socio-economic inequalities and enhancing social cohesion.

The Department will utilise its public entities (Western Cape Cultural Commission; The Heritage Western Cape and The Language Committee) of which it has an oversight role, more strategically to strengthen departmental social development initiatives.

Improving Provision of Library Services

Libraries play an important role not only in promoting and enhancing human capital but also in ensuring that access to information resources is increased and a culture of reading is promoted.

Improving the institutional capacity of libraries

Over the 2007 MTEF the Department received R91.512 million as a conditional grant from the National Department of Arts and Culture to improve the working conditions of staff and procures relevant reading material. The Department will continue to support libraries and also continue to engage national government on possible financial resources for libraries.

2010 FIFA World Cup Non-Infrastructure Investment

2010 FIFA World Cup spin-off will benefit local communities

The Department has established a 2010 World Cup Directorate, which will focus on delivering legacy programmes that will target football development, and cultural and heritage promotion. This Directorate will also rollout public viewing programmes in the run-up to 2010. The aim is to create positive links for tourism and also to market and promote the Province as a preferred destination.

In 2007/08 financial year the Department received R4.211 million, which was earmarked for the non-infrastructure related aspects of the 2010 FIFA World Cup. Furthermore, during 2008/09 the Department will build on and consolidate the resources allocated in the previous year for promoting and developing sport and culture, and international exchange programmes. The Department will continue to focus on the delivery of these programmes in line with the 15 areas earmarked for social and economic development.

Maintaining the sport school in Kuilsriver

The previous year posed some challenges and achievements. The Department will continue to expand its services and make its presence felt in communities across the Province. The Department will continue to use the Sport School in Kuilsriver as the vehicle to enhance the performance of young athletes. During the current financial year, the school enrolled 67 grade 8 and 9 learners and will continue to enrol learners in other grades.

Oral History Research, Community Collections and Exhibitions

In communities where there are not yet museums, memories and memorabilia of important events should be captured and collected so that they can become part of the collective memory of this nation. The Department will embark on a process to collect the oral histories of the Western Cape in its efforts to add new collections. Furthermore, the Department will explore showcasing these collections in new exhibitions at selected museums.

The Oral History Programme should further promote culture and heritage that will make the youth aware of the importance of understanding their heritage and also teach them how to use museums as centres for research, education and information. Furthermore, museums can play an important role for local economic development. Some Western Cape towns have demonstrated the benefits that museums can offer for local economic development.

Improving institutional capacity to boost service delivery

The Department has established a unit for strategy formulation, research, monitoring and evaluation in order to enhance the Department's strategic capacity and its ability to monitor and evaluate programmes. A key focus area for institutional improvement is to enhance organisational performance and accountability, strategic planning, risk management and internal audit.

Over the 2008 MTEF, the Department will embark on a decentralisation initiative in an effort to bring services closer to local communities. The focus here is to improve service delivery to beneficiaries by gradually establishing 6 integrated departmental districts aligned to local government boundaries. The decentralisation initiative would enable local communities to participate in policy and programme development and implementation.

Improving the Department's accessibility and strengthening institutional performance and accountability

Department of Social Development

The exit of the social security function to the South African Social Security Agency (SASSA) in 2006 has allowed the Department of Social Development to redefine its core business, repositioning itself to consolidate and deepen its social welfare interventions and initiatives. During the 2007/08 financial year, the Department started with the implementation of the ten-year Integrated Service Delivery Plan (ISDP). This plan is a redefinition of the Department's strategic goals and objectives to align itself with the National Integrated Service Delivery Model (ISDM) launched in 2005. The ISDM identifies four internationally recognised levels of intervention, namely Awareness and Prevention, Early Intervention, Statutory/Crisis Intervention and Reintegration into society. The strategy focuses on eight programmes, these programmes are: Children and Families, Capacity Building, Disabilities, HIV/Aids, Older Persons, Substance Abuse, Sustainable Livelihoods and Youth. The eight programmes offer services at all the four levels of intervention mentioned above. The ISDM mandates the social development sector to adopt a different approach to service delivery, making it more relevant to meeting the needs of the poor and the most vulnerable.

Reports from the Department show that it has made progress in achieving its 2007/08 key deliverables. The following are the key achievements made.

Expanding the number of persons reached through the Expanded Public Works Programme (EPWP)

Orientation to the Section 75 of the Children's Bill

733 of the 950 staff targeted for the orientation of the Section 75 of the Children's Bill, have undergone a two - day orientation workshop. A comprehensive phase two of the training programme is currently in place. The Department has been able to increase the ECD subsidy from R6.50 per child to R7.50 per child. The total number of registered children at ECD centres have increased to 59 629 and is intended to grow by 10 000 annually.

In the first quarter of the current financial year, 76 Home Community Based Care (HCBC) organisations have been funded. Over 60 per cent of the funding went towards funding small and emerging HCBC projects. 20 of the HCBC organisations funded have established support groups for both children and adults. Two district offices; Guguletu and Mitchell's Plain have been identified for the piloting of psychosocial support to children and families. Another 20 funded HCBC organisations have job creating projects, 50 HCBC organisations have food relief schemes and 10 000 youth were reached through prevention initiatives. There are currently 240 interns employed by the Department. 1 500 ECD practitioners have received ECD learnerships through the EPWP programme.

Strengthening initiatives to reduce the supply of and demand for drugs

Two additional Local Drug Action Committees have been established, increasing the number of fully functioning committees to 26 in the Province. Five mini summits for individuals and families affected by substance abuse were held, where the opportunity was given to communities and families to inform the Department's strategies to fight substance abuse.

Employment of Social Auxiliary Workers to lessen the burden on social workers

A total of 60 Social Auxiliary Workers (SAW) have been employed to help reduce the administrative burden experienced by social workers. 34 of these SAW are employed on salary level 5, 26 are employed on salary level 3. SAWs employed on salary level 5 have a Grade 12 certificate or equivalent plus a 1-year Social Auxiliary Work course certificate recognized by the South African Council for Social Service Professions (SACSSP) and must be registered with the relevant Council. Social Auxiliary Workers on salary level 3 have a Grade 12 certificate or equivalent plus relevant experience. Salary Level 3 SAWs are put on a learnership programme for a Social Auxiliary Work Certificate. On successful completion of the learnership programme, candidates will be upgraded to salary level 5. Potential candidates are sourced from interns who previously worked in the Department, from rural areas, poverty stricken areas and those who are unemployed.

*60 SAW employed/
recruited to reduce high
workload on social
workers*

Social Development policy priorities for the new 2008 MTEF

The national policy imperatives continue to influence the work of the Department. Additional funds have been provided to the social development sector to scale up social welfare services to enable the sector to deal with the demands associated with sustainable community development, and to put the sector in a position to implement the different social welfare services legislation.

Expansion of registered Early Childhood Development centres

Additional funds are allocated over the 2008 MTEF for the expansion of ECD. The number of children receiving the ECD subsidy is set to increase by over 10 percent per annum over the MTEF period. Plans are also in place to increase the ECD subsidy per child per day to above the R7.50 that is currently paid per day.

Improving services in places of safety for children

The Department of Social Development is improving its services in places of safety for children in conflict with the Law. The Western Cape has four places of safety for children in conflict with the law. Two of these places of safety, in Outeniquwa and Vredelus, are currently being upgraded. The intention is to upgrade these places of safety to a level-3 facility in order to enable the implementation of the Complimentary Business Optimisation Model (COMBO model). The aim of the COMBO model is to improve efficiency and effectiveness in dealing with children in conflict with the law.

Upgrading places of safety for children in conflict with the law

Expansion of HCBC to restore equity between the Health and Social Development Sectors

The discrepancies in the amounts of stipends received by Home Community Based Care (HBC) organisations funded by the Department of Social Development and the Department of Health have received attention at national. HCBC organisations funded by the Department of Social Development pay their caregivers a monthly stipend of R500, while HCBC organisations funded by the Department of Health pay their caregivers R1 000 stipend per month, for the same services rendered. Plans are in place to restore equity between the Health and Social Development sectors.

Strategy to attract and retain social work professionals

An Occupation Specific Dispensation strategy for Social Workers and other related occupations is being finalised and will be implemented by 1 April 2008. The strategy is part of the new government remuneration policy framework to attract and retain specialists and professions in the social development sector. The 2008 MTEF budget provides for the sector to implement the Occupation Specific Dispensation.

Department of Community Safety

The Department of Community Safety continues to tackle the social and indicative challenges of crime in communities across the Western Cape. To achieve this objective, The Department will continue to support the South African Police Services (SAPS) in an attempt to create a safer environment in the Western Cape. A key intervention planned is to place greater emphasis on alleviating the social processes that lead to criminal behaviour in our communities.

Furthermore, the Department is also playing an important role in the implementation of the social transformation programme that was identified by the Western Cape's Premier, in his 2007 State of the Province Address. The social transformation programme forms the backdrop to provincial government's response to high incidents of crime, linked to increased drug trafficking and gangsterism, as reported in the 2006/07 crime statistics provided by SAPS. The social transformation programme identifies 15 priority areas namely; Mitchell's Plain, Khayelitsha, Manenberg, Hanover Park, Nyanga, Elsies River, Bishop Lavis, Delft, Kleinvlei, Gugulethu, Phillipi, Muizenberg, Vredenburg, Paarl and Oudtshoorn. The programme aims to unite these communities against crime, strive towards building social capital, and establish strong social networks within these communities.

Through its community mobilization strategy the Department will lead the social engagement in partnership with Community Police Forums and Community Safety Forums in the identification and development of co-coordinated safety initiatives within these 15 priority areas.

Need for additional volunteers for the 2010 FIFA World Cup safety demands

The Department is also responsible for capacitating, equipping, and training the Bambanani volunteers (neighbourhood watch volunteers) to perform social crime prevention activities in communities and at schools. These volunteers receive SETA accredited training, which is funded through the Expanded Public Works Programme. As a result of this training, more than 700 volunteers have been recruited as Group D police reservists in the SAPS and some are being absorbed by the private security industry. The Department has developed a system to track active neighbourhood watch members to ensure a controlled environment. The Department is anticipating an increase in demand for additional volunteers in order to meet the safety and security demands of the 2010 FIFA World Cup.

*More than 700
volunteers recruited as
police reservists*

Reducing road and pedestrian fatalities on provincial roads

The Motor Vehicle Accident Strategy will be in its second year of implementation in 2008. The aim of this strategy is to reduce road fatalities by 5 per cent. During the current financial year the number of traffic officers deployed on the Western Cape roads increased from 440 to 493. All provincial traffic centres are now operational on a 24-hour, 7-day-a-week cycle.

However, this cycle has created a huge challenge for the Department, as it is not being implemented in the local authorities. Currently, the services of traffic officers in local authorities are restricted to shifts. Therefore, to ensure an integrated and seamless service, an alignment of this cycle between the Western Cape Provincial and Metro Traffic Policing, SAPS and other law enforcement agencies will be necessary.

Furthermore, the Department has entered into a partnership with the National Youth Service (NYS) and the Department of Transport in an attempt to reduce pedestrian fatalities on roads. The partnership aims to deploy 100 youth volunteers in the identified hazardous locations to assist with community based road safety awareness-raising programmes. The Department has also implemented additional pedestrian safety projects and programmes. In addition, the Department will continue to engage non-governmental organisations, community police forums, and other community forums to raise road safety awareness in local communities.

Implementing pedestrian safety projects to reduce fatalities on roads

Improved security services for the PGWC

As a result of conducting awareness sessions with employees, visitors and guests of the Western Cape Provincial Government, coordination of security services within this sphere of government has considerably improved. Furthermore, the Department also undertook a consultative process with other Provincial Departments in an effort to achieve support for the implementation of the centralized security model for the Province. However, due to severe capacity constraints in the Department's security risk management component, it is unable to implement all element of the centralised security model.

Economic Cluster

Over the 2008 MTEF, the Economic Cluster will continue to give support to Government's labour intensive and labour-based programmes as well as contribute to rural development.

Department of Agriculture

The key role the agricultural sector has to play in promoting shared growth and development is spelt out in both AsgiSA and the PGDS. The Western Cape Department of Agriculture's strategic policy direction is also guided by the National Strategic Plan for Agriculture in South Africa, the Agriculture and Agri-Business Sector Plan and the Strategic Plan for Farm Worker Development as well as the National priorities identified in Chapter 3.

Developing human capital in the agricultural sector

The Department's Human Capital Development Strategy's (HCDS) ultimate aim is to transform the agricultural sector through training. The strategy mainly focuses on addressing the shortage of critical and scarce skills faced by the sector and empowering historically disadvantaged groups. The strategy is in its final stage of development, however, this year the Department has already undertaken a variety of skills development programmes and allocated bursaries for specialised training.

Additional bursaries, learnerships and internships to transform agriculture through training

The Department allocated R1.470 million for 50 bursaries and 54 interns are currently receiving workplace experience. The bursaries cater for both internal and external candidates who are pursuing higher education studies in Agriculture. Augmented by funding from the National Skills Fund, the Department's Further Education and Training (FET) programme was expanded by increasing the number of learnerships particularly for unemployed youth from rural areas. Accommodation and training is offered free of charge to a large number of the students who are unemployed. In 2008/09 the Department plans to offer an additional 100 learnerships, 100 internships and 50 new bursaries to previously disadvantaged individuals.

Focus on land reform beneficiaries and emerging farmers

Emerging farmers require more than just technical skills to ensure the sustainability of their enterprises. The Department is, therefore, placing a strong emphasis on providing infrastructure and training to emerging farmers to make their businesses more sustainable.

Strong emphasis on assisting land reform beneficiaries with training and infrastructure

A total of 152 Comprehensive Agricultural Support Programme and food security projects are at different stages of implementation. During the current year, emerging farmers are benefiting from agriculture infrastructure projects ranging from irrigation water storage dams, repair work to irrigation dams, fencing and drainage. In 2008/09 the Department aims to support another 50 land reform projects through an intensive support package aimed at improving production and increasing the financial viability of the projects.

The mentorship programme for land reform projects is also underway. It will consist of two components, one focusing on mentoring current extension officers and the other on assisting beneficiaries of conditional grants and land reform. As part of the mentoring programme, the Structured Agricultural Training programme of the Department will be training extension officers in project and business management.

The Department also plays a role in assisting emerging farmers to market their products to end consumers. The Department has succeeded in facilitating market access for emerging farmers to the Phillipi Fresh Produce market, SPAR, Tiger Brands and other domestic markets. Currently 15 producers have met export requirements by the South African Agri Academy, have been linked to buyers in the UK and have formal contracts to export. In 2008/09 the Department plans to extend its marketing support programme by facilitating an additional 10 export contracts, and by assisting emerging farmers to access domestic markets.

Increasing export potential of emerging farmers

During recent years the Department had to contend with various outbreaks of trade sensitive diseases such as African horse sickness, avian influenza, and Classical Swine Fever that threaten both exports and food safety. Additional funding has been provided in the 2007 MTEF to boost the Veterinary Services programme to assist in securing export markets.

Additional funding will be provided in the outer year of the 2008 MTEF for the Department to expand on current programmes in support of the land reform targets and to improve the sustainability of new farming units.

Protecting agricultural and environmental resources

Water and land are the two major natural resources, which forms the basis of farming. Therefore protecting and ensuring optimal use of these resources, particularly agricultural water is a top priority for the Department. The Department's Sustainable Resource Management programme promotes efficient water use through technology transfer, support services, on-farm training and water conservation projects. These projects will continue and be extended into the future.

Targeting the efficient use of water

The Department launched a waterwise and biodiversity awareness campaign on 4 September 2007. The campaign targets different groups in the Cape Winelands and Overberg municipalities. Information sessions, poster exhibitions, distribution of educational materials to farmers, the public and school children are some features of the campaign. In 2008/09, the campaign will be extended to the other 3 district municipalities (Central Karoo, Eden and Cape Winelands) and will be directed at 3 000 youth through the Junior Land Care programme. The Department plans to extend this key deliverable in 2008/09 by launching a real-time information website to assist farmers to increase water use efficiency.

The Department is the driver of the agricultural component of the Province's Climate Change Strategy and Action Plan. All these interventions mentioned above are either directly or indirectly part of the Department's response to mitigating the effects of climate change.

Department of Economic Development and Tourism

The Department of Economic Development and Tourism (DEDAT) plays a critical role in meeting the national and provincial goals of ensuring shared economic growth, employment creation and poverty alleviation.

Skills Development

2007 MTEF funding for workforce development is stepped up in 2008/09 and 2009/10 and will enable the Department to scale up its current skills development interventions. The focus on skills development will assist in overcoming the barriers that the skills constraint currently poses not only to the growth of the sectors identified in the Province's Microeconomic Development Strategy as those with high growth, good prospects for broad based black economic empowerment and employment creation, but also to the economy as a whole. Furthermore, the up-skilling of the Western Cape's workforce will provide the region with a competitive advantage.

Existing initiatives have focused on developing skills strategies and interventions for targeted sectors and building partnerships with relevant stakeholders. Key sectors targeted include the Business Process Outsourcing/Call Centres, Oil and Gas Supply and Tourism. Within the BPO/Call Centre more than 800 learners have received NQF level 2-certification. In the Oil and Gas sector, the Department has secured National Skills Funding and has set up more than 100 learnerships throughout the Province. Smaller programmes have been launched for the tooling, boat building, film and clothing sectors. A training programme has also been initiated to enable tourist guides to gain practical working experience.

Creating a competitive workforce

Furthermore, the Department has initiated a number of research projects in order to analyse sector specific demand side data that will inform future interventions. Lastly, to promote the alignment and collaboration of joint interventions for skills development, the Department has been working closely with numerous stakeholders across the province. These stakeholders include the Learning Cape Initiative, the Centre for Extended Learning, representatives of FET Colleges in the Province, the regional Sector Education Training Authority (SETA), the Department of Education as well as the Department of the Premier who is spearheading the Scarce Skills Task Team.

Developing employable skills

Broadening Economic Participation

Small business development remains a key focus area for the Department. Key interventions for small businesses include the provision of financial and non-financial services to entrepreneurs often operating in the informal sector. Complimenting the financial initiatives are mentoring programmes, which aim to enhance the viability and growth potential of small and informal sector businesses.

Sector specific support is provided to the key sectors in the Province via 15 Special Purpose Vehicles (SPV). The SPVs allow the public and private role players to collaborate in the running of a number of specially designed support interventions. In 2006/07, the SPV programme has contributed over 12 000 new employment opportunities, assisted 2 000 SMMEs and trained more than 3 500 learners. Furthermore, more than 1 200 BEE companies have been assisted and projects in the rural areas have targeted opportunities in aquaculture and fishing.

The Department has identified the need to expand the Creative Precinct project, which is currently running as a pilot in Nyanga and Manenberg. The aim of this project is to support a network of art and crafts small and medium sized enterprises. By concentrating the support spatially, the Department hopes to generate commercial energy in the precinct areas. An allocation for this priority is made in the outer year of the MTEF.

Efforts to ensure a greater spread of economic participation throughout the province are being led by the Department's Local Economic Development interventions. These interventions include the development of economic profiles of municipal areas, the identification of economic opportunities and the provision of finance through the Rural Economic Assistance Fund to facilitate and implement pioneering pilot projects that can have a catalytic impact on rural communities.

Spreading economic opportunity to rural areas

The institutional review process, which made its recommendations earlier this year, recommended the establishment of a body to support investors to develop and implement projects. The proposed body, dubbed the Cape Catalyst, would be responsible for providing the project management expertise and industry specialist knowledge to investors in order to drive the projects from conceptualisation to implementation. An allocation for this priority is made in the outer years of the MTEF.

Department of Environmental Affairs and Development Planning

The Department's mission is to foster human well-being, through promoting equitable access to natural resources, facilitating economic development, redressing the spatial legacy and ensuring environmental integrity towards sustainable development of the Western Cape.

Health Care Waste Management Bill

The Department's Health Care Waste Management Bill is under consideration in the Provincial Legislature. The Health Care Waste Management Bill seeks to provide for the effective handling, storage, collection, transportation, treatment and disposal of health care waste. The objective of the Bill is to promote integrated health care waste management by reducing the risks of health care waste to human health; preventing the degradation of the environment; preventing the illegal dumping of health care waste; furthermore to promote sustainable development, and ensuring responsible management of health care waste within the Province. Public comments regarding the Health Care Waste Management Bill were collated and considered.

Strengthening the Environmental Economy through awareness and empowerment programmes

The Department embarked on a project to conceptualise and contextualise the Western Cape Environmental Economy. The first report entitled An Overview of the Western Cape Environment Economy and Strategies for Development has been completed. The report contained two business plans on Energy Generation from Solid Waste and Water Desalination and Water Recycling. The next phase will be the development of further business plans and the implementation of pilot projects.

Integrated Energy Strategy for the Western Cape

During the 2006/07 financial year, the Integrated Energy Strategy was finalised and the renewable energy programme and action plan was finalised. An investigation into a solar water geyser pilot study in the Hessequa Municipality has now been initiated and implementation will commence during the third quarter of the 2007/08 period.

Climate Change

Recently climate change has received global, national and provincial attention. At provincial government level climate change has been aligned to the Provincial Spatial Development Framework. The Department of Environmental Affairs and Development Planning has completed the formulation of the Western Cape Climate Change Strategy and Action Plan. The Department intends to establish a Climate Change unit to build the Province's capacity to take up the interventions proposed in the Action Plan. The Department Climate Change Programme needs to focus on strategies to increase the social and economic resilience of poor and vulnerable communities to climate change impacts.

Climate change sits high on the Province's developmental agenda

The Department will enhance the role that Cape Nature is able to play in monitoring changes in climate. Cape Nature has an extensive climate-monitoring network throughout the Western Cape and data dated back to the early 1900's. In some cases these long-term datasets are critical to understanding climate trends and patterns. There are plans to upgrade and expand the existing climate monitoring network. Cape Nature's livelihood programme, which focuses on skills development of farm labourers, will also be expanded.

The Department hosted some 800 delegates at a conference on Renewable Energy and Climate Change. Renewable energy technologies were showcased at the conference.

Interaction with the Provincial Development Council (PDC) is critical to ensure that the views of social partners are incorporated into the policy development and implementation process.

PSDF implementation

The Department has dedicated resources to municipalities, which they can access to develop local plans and strategic frameworks for deploying the instruments and policy approaches laid out in the PSDF for spatial restructuring. Municipalities can access funds to commission technical work on where and how physical densification can occur in their settlements, on delineating urban edges, on identifying settlement locations where functional and income mixing should be promoted, and on reviewing their Spatial Development Frameworks (SDFs). The Department has also developed a number of documents to guide municipalities in the development of local frameworks and policies for improvement of the spatial efficiency of settlements.

Provincial funds available to support municipalities to develop local SDFs

Many municipalities have used these departmental resources to put in place policies, and in some places more concrete restructuring agendas are beginning to emerge. However, in many cases, municipalities are struggling with the implementation of SDFs. Spatial restructuring is a technically complex and long - term process for which there is little precedence in South Africa.

Municipalities, especially those that have not as yet developed the capacity to undertake restructuring on their own, need to be given constant and intensive support if they are to succeed. For instance, many municipalities need to be shown how their investments in public infrastructure and subsidised housing and their granting of certain land use rights can be used in concert to develop more spatially efficient and equitable settlements. The acquisition of land for well-located, socially and functionally integrated residential areas remains a tricky economic and technical problem for both the development planning and housing sectors. The Province aims to address these support gaps in an intervention, which combines the resources and energies of a number of the provincial departments currently giving support to municipalities in the field of settlement creation.

Inclusionary housing

Inclusionary housing instrument aimed at leveraging contributions from developers in the term of subsidised housing units

Together with the National and Provincial Departments of Housing, the Department of Environmental Affairs and Development Planning has been developing an instrument aimed at achieving integration between different income groups (social integration) within housing developments. The so-called “inclusionary housing instrument” is aimed at leveraging contributions from developers in the form of housing units for the subsidized housing market within developments in exchange for public assets e.g. land, service infrastructure, or land use rights, to promote increased development densities. The Housing Department has on its books a number of projects in which developers voluntarily provide subsidised housing stock within developments in exchange for public assets or enhance land use rights. In consultation with the National Housing Department, the Department of Environmental Affairs and Development Planning is considering the implications and impacts of making such contributions mandatory.

The Urban Restructuring Initiative

A number of departments provide technical support to cities and towns in the Province to restructure their townscapes. The key departments offering this support are the Environmental Affairs and Development Planning, Local Government and Housing and Transport and Public Works. The Urban Restructuring Initiative will co-ordinate efforts of these Departments and others. To be effective, the support to towns will be tailored for particular local contexts and only a limited number of municipalities will be selected for support. The Departments' investments in public infrastructure and subsidised housing and their granting of certain land use rights, over medium to long term period, can be used in concert to develop more spatially efficient and equitable settlements. These Departments also have oversight roles in a number of key local planning processes and over certain planning instruments i.e. IDPs, housing chapters in IDPs, Spatial Development Frameworks, and Integrated Transport Plans.

Furthermore, a number of provincially funded physical investment projects, including infrastructure and subsidised housing projects, have significant potential to contribute positively to the physical restructuring of urban settlements at the local level. This potential is often not realised because the projects are submitted for planning and environmental approval in advanced stages of the project design phase and there is great pressure on authorities to pass the projects speedily. The restructuring initiative thus also includes the setting up of a mechanism through which advice can be given to government project developers on how projects can be oriented and packaged from the outset to maximise their urban settlement restructuring contributions.

Department of Local Government and Housing

Housing

Implementation of Isidima

The recently launched Sustainable Human Settlement Strategy (SHSS), or Isidima, identifies the subsidy instruments that can be used to shift the location of subsidised housing from the outskirts of cities and towns, closer to economic cores of cities and towns, and thus increase social and functional integration within settlements.

Key instruments of Isidima include in situ upgrading via the UISP, rental housing subsidies and credit linked subsidies

Through the in situ upgrading of informal settlements, the Upgrade of Informal Settlement Programme (UISP) Grant, can be used to improve the housing conditions of many poor people while retaining the locational advantages that many informal settlements currently enjoy. In situ upgrade also allows support networks that have built up over time in communities in informal settlements to be preserved.

Rental housing instruments, a number of which are still being developed and refined, can be used to provide well-located, short-to medium-term housing opportunities, for individuals not wishing to make commitments needed for acquiring and maintaining a housing asset.

Using the finance linked subsidy instrument, private resources can be harnessed from households at the top of the income band to which subsidies are available and from banks to produce well-located houses. The top of the income band eligible for subsidised housing is often called the "gap market" because there is very limited housing stock available to supply this part of the market.

Isidima also considers how the rate at which subsidised housing is produced can be increased, so that government can begin to reduce the backlog that exists in subsidised housing. Although the pool of public funding for subsidised housing has been increased, the value of the subsidies have been increased to improve the quality of the asset produced. In 2007/08, the basic maximum subsidy was increased from R42 100¹ to about R62 600 to finance the increase in house size from between 30 and 36 m² to 40 m² and increase in the quality of the unit. The Department is unable to increase the rate of subsidised housing production using public resources alone, but aims to increase output by leveraging more private resources for housing, and making greater use of incremental approaches for supplying housing. Greater use will be made of finance-linked subsidies, and the Province is in the process of assisting the National Housing Department to develop the “inclusionary housing instrument” (see above). In the light of the commitment by the banks to make loans available to the subsidy market, under the auspices of the Financial Services Charter, the Department also expects banks to develop affordable financing instruments. Instruments need to be developed to enable the upper end of the subsidy income band to afford housing being built for the gap market. The Department is also drawing in the resources of large employers to provide subsidised housing for their employees.

The Department is in the process of producing an “Implementation Road Map” for Isidima

The Road Map will set delivery targets for each instrument and municipality, and thus determine a path for changing the mix of instruments currently in use. The Road Map will also indicate how the Department will gear up its own capacity to change the mix of instruments. The Road Map will also consider how the Isidima strategy will be promoted amongst municipalities and how municipalities will be supported to implement it.

Pilot projects

Construction has started in some of the pilot projects

In order to explore how the key instruments identified in Isidima can be combined and how public assets can be used to leverage private resources for subsidised housing, the Department is supporting the implementation of a number of innovative housing delivery projects in particular municipalities. For instance, the in situ upgrade in the industrial area of Bossiesgif in Plettenberg Bay is under way. The development is taking place on land that was previously privately owned. The development site was assembled through land swaps in which public land better located for industrial use was swapped for the old industrial land. Many of the pilot projects being run by the Department include portions that target the gap market, and nearly all occur on public land. The price at which public land is made available to developers is proving to be a critical factor for making units affordable to the targeted beneficiary groups.

¹ The allowance for variance in geotechnical conditions is excluded.

Rental housing

The Department has established a Rental Housing Steering committee consisting of role players from within and outside government to drive the implementation of subsidised public rental housing. The Steering Committee has identified a number of “restructuring zones” in Cape Town. Restructuring zones are geographic areas in the economic core of cities and towns targeted for increases in social and functional integration and for densification. Social housing projects need to occur in restructuring zones to receive the nationally funded Restructuring Grant, which is used to top-up individual housing subsidies that flow through the housing conditional grants received by provinces. The Steering Committee is in the process of submitting three social housing project applications, which is comprised of a total of 820 units, for the Restructuring Grant funding.

Over the MTEF, the Department aims to designate restructuring zones in a number of towns in key economic non-metro motor regions in the Province i.e. George and Plettenberg in the Southern Cape, and Drakenstein in the Winelands.

Incremental housing

The Department will continue to explore how the housing process can be made more incremental, and thus how the coverage of the subsidy programme can be broadened and the number of beneficiaries served in a year can be increased. The People Housing Programme (PHP) subsidy remains a critical instrument in the housing process. Potentially the PHP approach allows the cost savings in the building of housing units generated from beneficiaries’ labour contributions to be used to construct larger and better quality units.

The Department will continue to explore ways to expand the coverage of the subsidy programme

N2 project

During 2006/07 the role of the Department in the N2 Gateway project shifted substantially. The service provider overseeing the N2 Project, Thubelitsha Homes, became contracted directly to the National Housing Department, while the Department became responsible for administering the payment to Thubelitsha Homes. Over the last year and a half, Thubelitsha Homes has focused on producing serviced sites in the Delft area. Its target for the end of 2007/08 is just over 10 500 housing units to be built in the Delft area.

Thubelitsha Homes aims to dramatically accelerate its delivery of housing units

Department of Transport and Public Works

A number of the Department’s priorities and plans are dealt in Chapter 3. This subsection considers the Department’s skills development priorities, both within the Department and in the broader built environment sector.

EPWP

In 2006/07 more than 44 000 EPWP compliant work opportunities were created in the Province, considerably higher than the results recorded in 2005/06 of 28 000 EPWP job opportunities. The results fall comfortably within the national annual targets of 24 000 job opportunities for the Western Cape between 2003/04 and 2008/09. The Department of Transport, roads and Public Works has been able to significantly improve the quality of reporting on the implementation of the EPWP in the Western Cape.

Some sectors within the EPWP programme have shown weaker results, although there have been indications that the situation is improving. The social sector EPWP focusses on providing accredited theoretical and practical training on home-based care, lay councilor and early childhood development. Social sector has increased its EPWP results markedly in 2006/07 and is set to accelerate its output in 2007/08 so that by end the 5 year period, it will have met its total target of 16 000 job opportunities. In 2008/09, the Education Department will make greater use of its FET Colleges to provide the training for ECD courses. The Health Department aims to expand the scope of its EPWP programme to include the training of Emergency Care Technicians to address skill gaps in Emergency Medical Services.

Since 2006/07 the government has been seeking to scale up the impacts of the EPWP in infrastructure by increasing expenditure on roads and expanding the use of labour intensive methods in maintenance and construction from minor gravel roads into more major gravel roads and some tar roads. The Roads Branch has responded by embracing new methods for routine maintenance and the surfacing of gravel roads that are better able to absorb labour. The Branch is exploring the setting up of multi-functional, geographically based maintenance teams, which would service much smaller service areas. The upgrading of the road from the N7 to Algeria is a good example of how the Branch make gravel road upgrading more labour intensive.

Improvements in the municipal sector have been harder to achieve. The EPWP unit has re-deployed its staff to assist municipalities to identify infrastructure projects that can become EPWP compliant and to design the projects in such ways that they do indeed become EPWP compliant.

The Department of Transport, Roads and Public Works also working with regional office of the Department of Labour to improve the flow of training resources to EPWP projects.

Skills development in the infrastructure/built environment

The Province has been financing a bursary scheme housed in the Department aimed at developing professional level technical skills. The National Skill Fund (NSF) and the private sector also contribute to the funding of the scheme. By 2008/09 the scheme will have 250 bursaries on its books. In three years time the scheme should be generating entry level professionals at a scale that starts to impact on the skills constraints felt in the sector.

The Department is co-ordinating the delivery of a large number of learnerships

To develop skills at the artisan level in the built environmental sectors, in the main, the Department began co-ordinating the delivery of a large number of learnerships. The so-called Learnership 1000 programme began in 2006/07 and is scheduled to end in 2008/09. The NSF predominantly funds the programme. Of the first intake of learners, 550 are currently undergoing experiential training in the road and building construction sectors and 100 in other sectors such as professional driving and arts & culture management. The bulk of the first intake will graduate in March 2008. The second intake is due to occur towards the end of 2007/08 and numbers 560. Just over a third of the new intake will be trained in built environment disciplines, while the bulk will be enrolled in call centre operator learnerships.

Building the internal capacity of the Department

The boom in the construction sector has exacerbated the shortage of professional skills in the built environment sector. Technical capacity constraints, particularly in the Department's Public Works Programme, have been sharply felt. The Department's approach to dealing with this constraint is aimed at drawing a significant number of entry - level professionals into its ranks and developing the skills of new professionals through the provision of an accredited, experiential training and mentorship programmes run by retired professionals. During 2007 progress has been made with implementing this approach. Over the MTEF, the Department expects to employ many more entry-level professionals as its bursary scheme starts to bear results.

Department aims to draw in significant number of entry level professionals and mentor them using retired professionals

Given that Supply Chain Management (SCM) is a key function in the Department, the Department has set up a central SCM compliance and monitoring unit to support the programme level decentralised units that carry out this function. The unit is developing training courses to address skill gaps in the SCM system in the Department: i.e. contract management and project management. At present, the Department uses a great number of its professionals as contract managers and not in professional roles. The development of contract management skills within the SCM system should free up professionals for use in professional roles. The SCM unit is also developing a system to monitor the Department's compliance with the SCM procedures and to evaluate the overall SCM system in the Department.

Governance and Administration Cluster

As a Cluster, the Government and Administration Departments play a critical role in promoting greater inter-departmental and inter-governmental collaboration. Over the 2008 MTEF, the Cluster continues to play a key role in developing strategic capacity within provincial departments thereby improving the Provincial Government's capacity to delivery effectively and efficiently. At the Provincial level the Governance and Administration Cluster is responsible for co-ordination the Provinces' preparations for 2010 FIFA World Cup.

Department of the Premier

The Department of the Premier provides strategic leadership and holistic governance to the entire provincial government. A central policy imperative of the DoTP is to ensure that the Provincial policies and strategies are aligned to the national policy framework, including the National Programme of Action and AsgiSA. This inter-sphere policy integration is necessary to ensure effective service delivery.

The DoTP is in a strategic position to ensure that the provincial government is positioned as a developmental government, which is responsive to the needs of the previously marginalised people. The Developmental State as advocated by government finds expression in the DoTP's mandate, which is people-oriented, responsive, interventionist in favour of the poor, well managed, partnership-based and globally connected. It is integrated on the provincial level and coordinates effectively across the spheres of government.

The DoTP will work towards the following in 2008/09:

- Implementation of the Provincial Growth and Development Strategy.
- Improving capacity and effectiveness of the state and creating a service-orientated public administration.
- Building social cohesion through Social Transformation Project.
- Providing Strategic Leadership, Co-ordination and Communication for 2010 FIFA World Cup.

Implementation of the Provincial Growth and Development Strategy

The PGDS is the main provincial policy strategy, which seeks to accelerate economic growth, create employment opportunities and reduce poverty. The PGDS has passed the Green Paper process (Draft policy) after an intensive policy formulation process characterised by strong public participation.

Implementation of the PGDS will accelerate economic growth, create employment opportunities and reduce poverty

For the 2008/09 financial period, the DoTP will focus its efforts on ensuring that the PGDS is implemented. Central to the implementation of the PGDS is strong co-ordination and support that the Department will provide to Provincial Departments to enable them to implement the PGDS. The DoTP will further engage social partners and State Owned Enterprises to accelerate the PGDS implementation. Strengthening of intergovernmental relations to smooth the implementation of the PGDS is paramount.

In addition, the provincial government in collaboration with the Organisation for Economic Co-operation and Development (OECD) is busy with a Territorial Review of the City and adjacent area to deepen the PGDS process, offer possible economic growth opportunities and integrated development initiatives. The Territorial Review initiative has been influenced by recent global and national policy discourse, which emphasises the concept of city-regions as the drivers of economic competitiveness and social development.

Improving capacity and effectiveness of the state and creating a service-orientated public administration

A developmental state cannot successfully function without technical and skilled human capital. Civil servants need to be able to translate government policies and programmes into real deliverables that will change the lives of many people, particular people who are poor. The focus of government is to ensure that civil servants are up-skilled to be able to confront the demands of the developmental state. The Accelerated Development Programme and the Executive Development Programme are consequences of the government objective to strengthen the capacity of the state to improve service delivery. Over the 2008 MTEF period both programmes will be further rolled-out. The Cape Administration Academy remains a key training institute that needs further attention. Efforts are required to introduce relevant course content that will speak to the demands of the democratically responsive and technical equipped government.

Broadening ICT to the wider provincial community, particularly increasing access to rural communities, will improve government services to the people who are poor. The Department will continue to establish more E-centres; E-Jamborees and improve the content of the Cape Gateway web site. Over the 2008 MTEF period the DoTP will invest on revitalising IT infrastructure; improve management of IT; improve human resource capacity and apply a more cost effective and efficient management of IT resources throughout the provincial government.

Building social cohesion through Social Transformation Initiative

The Department takes its cue from the national perspective on the importance of creating a crime-free society and the challenge posed by poverty and unemployment. Furthermore, the birth of the Moral Regeneration Movement laid the foundation for the creation of the Social Transformation Initiative.

The Premier has identified 21² areas which need urgent social and economic investment to fight crime; gangsterism; reduce poverty; create employment opportunities; accelerate implementation of the Integrated Sustainable Rural Development programme and further concentrate on former Project Consolidate areas. The Social Transformation Initiative attempts to link-up the 21 areas, which urgently need social investment with the resources and information of government. It also provides for drawing all sectors of society together in a network that strives towards the achievement of a

The Social Transformation Programme seeks to intervene in the most marginalised communities to ensure that the imperatives of the PGDS find expression.

² These areas include Mitchell's Plain, Khayelitsha, Manenburg, Hanover Park, Nyanga, Elsies River, Bishop Lavis, Delft, Kleinvei, Gugulethu, Phillipi, Muizenberg, Vredenburg, Paarl, and Oudtshoorn, in addition to the Integrated Sustainable Rural Development Programme and Project consolidate areas.

common purpose in a collective manner in line with the provincial vision of A Home for All.

Providing Strategic Leadership, Co-ordination and Communication for 2010 FIFA World Cup

The 2010 FIFA World Cup preparations in Cape Town are firmly underway. The Department will intensify its co-ordination and communication role in preparation of the 2010 FIFA World Cup. The non-infrastructure projects have also commenced, some of the highlights include the hosting of the “90 minutes for Mandela Match” on 18 July 2007 which brought with it a broadcast footprint of 150 territories around the World, a resounding success for Cape Town and the country.

The Department also plays a leading role in the Accommodation work-stream of the 2010 FIFA World Cup. The Accommodation work-stream strives to effect economic legacies, which will contribute towards the achievement of the PGDS objectives.

The Western Cape Youth Commission will play a critical role to ensure young people in the Province take advantage of the opportunities that the 2010 FIFA World Cup event offers and develop life skills focusing in the 21 prioritised areas. In addition, the Premier as part of the BRICA (which refer to: Brazil, Russia, India and China) agreement will invite teams from these countries to play in South Africa as part of the build up towards 2010.

Department of Local Government and Housing

Local government

Monitoring & evaluation of municipalities

The Department’s Monitoring and Evaluation (M&E) Directorate is responsible for monitoring the institutional health of municipalities according to standards outlined in legislation. The M&E function allows the Department and the Province to design and target support at municipalities where necessary. The Directorate has developed a monitoring tool, which consists of 50 indicators weighted to produce an overall score. The tool is used to obtain a quarterly “snapshot” of each municipality, which serves as an early warning of municipal failure. The tool has been piloted and is being fine-tuned to make it more streamlined, and to incorporate new indicators that are being developed by the National Department and the best elements of monitoring systems used in other provinces.

Department has developed a tool used to obtain a quarterly snapshot of each municipality which acts as an early warning of municipal failure

Municipal capacity building

In its 2005/06 Capacity Building Strategy, the Department argued for a departure from established capacity building practice. The Department concurred with municipal staff consulted at the time that the traditional approaches of providing off-site, theory-based, short courses were not particularly effective in building capacity. Support geared to address particular, real problems, on-site, was seen as more effective. Much of the expertise necessary for this type of support was thought to exist in government, particularly in local government and it was thought that capacity could be shared and built upon through the development of systems and instruments for sharing. Furthermore, given that certain technical capacity and expertise is scarce within government and that scale economies exist for its provision, system capacity or services could be developed centrally and shared.

A pool of experts drawn from provincial departments and outside that is available for deployment to provide prolonged or regular on-site support at the request of the municipality:

- A set of new capacity building instruments was included in the strategy;
- The sharing of core municipal technical systems and capacity across municipalities;
- An internship programme to build up entry-level professionals or technicians;
- A system of peer advice and external mentoring for senior managers;
- The formulation of municipal capability and capacity benchmarks against which continuous monitoring should occur, and
- The centralised development and distribution of policy and system resources for municipalities.

Following the elections in early 2007, in 2006/07 the Department focused on orientating new elected councilors, in partnership with the South African Local Government Association (SALGA), and assisting municipalities to appoint municipal managers and other senior managers. The Department formulated capability and capacity benchmarks and profiles for municipalities to enable the Department to evaluate of municipalities' capacities. Over the MTEF the Department will focus on assisting municipalities to develop schemes through which savings in the cost of delivering services, especially internal services, can be made by sharing technical capacity and systems across municipalities. The Department will also begin to set up a system of peer advice and mentoring for senior managers and establishing a "pool of experts" to which municipalities can refer.

Municipal support geared to address particular real problems, on-site, is seen as most effective

Furthermore, the Department will begin to withdraw the intensive support it has been providing to Kannaland and Cederberg municipalities since 2002/03. It will seek to reconfigure local institutional arrangements in the districts in which these municipalities occur to ensure that over the longer-term, more sustainable municipal delivery arrangements are put in place for municipalities which for structural reasons are not able to build up or retain sufficient delivery capacity. Part of the solution to structural capacity constraints is thought to be the sharing of services across municipalities.

Disaster Management

The Provincial Disaster Management unit carries out activities in all three facets of disaster management - prevention, response and recovery – for provincial scale disaster risks and actual disasters. The unit also assists municipalities to carry out their disaster management responsibilities.

The unit will be building up its staff complement over the MTEF and developing subject specialists for the different facets of disaster management. The unit has also made progress in setting up the intergovernmental institutional framework for disaster management in the province. The political and technical intergovernmental forums will be officially launched soon.

The Provincial Disaster Management unit continued to operate the satellite-based dispatching system for emergency services across the whole of the Western Cape. The system is housed in the Provincial Disaster Management Centre, while despatching centres are located in the provincial centre and in each district municipality. The Disaster Management Unit has provided resources to the Central Karoo District to establish a disaster management centre, which will also double as a dispatching centre for emergency services.

Enhanced disaster management response capability will be required during 2010 FIFA World Cup event. At present, there is no dedicated national funding to develop response capability, as is the case for medical emergency and law enforcement services.

Provincial Treasury

The Provincial Treasury plays a critical role in ensuring the prudent, effective and efficient use of public resources. Promoting and enforcing fiscal discipline and allocative efficiency will be especially important in the 2008 MTEF, as provincial governments are confronted by tight fiscal envelopes.

Leading into 2008/09, Provincial Treasury will facilitate discussions between line departments to ensure that greater synergy and complementarities in the use of public resources occur across departments. For instance, the departments in the Governance and Administrative Cluster are currently looking at ways of integrating the various research capabilities that exist within departments in the Province. Such integration will eliminate the duplication in data collection and acquisition, and lower research costs. Collaborative approaches to research and policy development will also increase the responsiveness of the provincial strategic planners and policy makers to the policy and service delivery environment.

Furthermore, departments providing support to municipalities on creating efficient and sustainable built environment, will work more closely together to give that support. Greater collaboration between these departments will allow the Province to deploy the full range of provincial powers and policy instruments that impact on settlements and better co-ordinate their application in spatial restructuring. Provincial departments have oversight of local Spatial Development Frameworks, Integrated Development Plans, Integrated Transport Plans, and the adjudication of changes in land use rights.

The Treasury has made progress in understanding what factors drive growth at a regional level in the Province. The Local Government MTEC process, facilitated by the Treasury, is aimed at achieving better alignment between spending by provincial departments in municipal areas and spending undertaken by municipalities themselves with the aim of enhancing shared growth at a regional level in the Province.

The Provincial Treasury also provides direct technical support to both provincial departments and municipalities in the field of financial governance and supply chain management. Much attention has been given towards building internal audit functionality within the province, which continues over the MTEF. The intention is to in time provide technical support on internal audit to municipalities as well.

Conclusion

This chapter shows that the spending plans of departments are closely linked to national and provincial priorities. This is particularly so for concurrent functions such as Education, Health and Social Development. Further alignment is also seen from agriculture and Transport. Provincial specific priorities and plans remain on the radar screen over the medium term.

This Chapter also takes forward the commitment of the various clusters to foster greater complementarities, synergy and economy in areas, which may be cross-cutting within and between them. In essence this means exploring measures to do more with limited resources. Allocations to the various clusters show healthy increases, which allow for improving access and quality of services directed at communities.

Provincial Infrastructure

The strategic framework for infrastructure investment runs from AsgiSA through to the Provincial Growth and Development Strategy (PGDS) and its constituent strategies (PSDF, Isidima and the SIP), and aims to give a spatial dimension to the shared growth objectives of the Western Cape. Preparing for hosting the 2010 FIFA World Cup in the Western Cape is a significant aspect of the Province's PGDS. The Provincial Spatial Development Framework (PSDF) begins to show how to direct the location and type of investment across the Province to improve the structure and performance of the space economy. Infrastructure investment should be directed towards the metropolitan area, the Saldanha-Vredenburg area, the Southern Cape Coastal area, and the Breede River and Olifants River Valleys. The Province's Strategic Infrastructure Plan (SIP) and the PGDS highlight the importance of investment in transport infrastructure and operating systems.

The Health, Education and Roads Infrastructure Plans show that departments are finding it difficult to strike a balance between the construction of new facilities and the maintenance of existing ones.

The Province's integrated transport priorities include improving the safety and security of public transport and making freight logistics chains more cost effective within the Province.

The National Treasury has introduced the mega-project funding framework to allow provinces to bid for national capital resources for projects of national significance.

Introduction

Investment in infrastructure opens up access to social services, increases the productivity of the economy, creates economic opportunity and brings poor communities into the mainstream economy. For AsgiSA, infrastructure investment is critical to removing some of the “binding constraints” to shared growth in South Africa. AsgiSA singles out as key constraints the long distances between the places where people who are poor work and where they reside, which pushes up the price of labour and the high cost, and the low efficiency and capacity of the national logistics system for moving goods and conveying services across the country.

Provinces playing key roles in the delivery of infrastructure, co-ordination investments across spheres, lobbying for infrastructure of national significance, and supporting municipalities to manage infrastructure

Key infrastructure roles of the Province

Provincial governments play a number of important roles in infrastructure investment:

- Provinces deliver certain key social, economic and administrative infrastructure importantly health, education and roads;
- Because provincial governments operate at the regional or “meso-level” in the economic planning regime in the country, they are well positioned to align and co-ordinate local, national and their own infrastructure investment with the aim of creating coherent, well functioning local infrastructure networks and built environments;
- The provinces’ regional perspectives also positions them well to formulate coherent visions and plans for the development of provincial economic regions, and to lobby national infrastructure investment agencies for the types of investments which will unlock shared growth;
- Provinces also play a role in supporting municipalities at a technical level in making investment decisions and setting up infrastructure management systems, providing financial support or directing national financial resources, for example housing subsidies, for infrastructure investments; and
- Through its regulatory functions, provinces can influence the location, content, operation and use of public and private infrastructure investments. A province’s regulatory and oversight functions include land use, municipal spatial planning, environment management and the regulation of public transport operators.

National Priorities

AsgiSA lays out a strategic agenda for reconfiguring the infrastructure networks and the built environment they service. The agenda is as follows:

- Following the National Spatial Development Plan (NSDP), provinces should channel their economic infrastructure resources, including housing subsidies to areas of high economic potential, and support municipalities to plan and develop infrastructure at levels that will be economically sustainable, given the trajectory of their economies;
- By supporting and overseeing municipalities in settlement planning, adjudicating the granting of land use rights and in some case granting land rights, and packaging housing subsidies into projects, provinces should also seek to improve the internal structure of human settlements. The national government's guiding policy for the restructuring human settlements, Breaking New Ground (BNG), calls for human settlements with higher densities, where social groups and land uses are more integrated with each other;
- Provinces should invest in the provincial road network to improve freight and service logistics in provincial economies.
- Provinces should also streamline the current regulatory frameworks for public authorisation of new infrastructure investment and spatial developments, which to some extent hamper investment;
- The government has put in place the Expanded Public Works Programme (EPWP), in which the infrastructure sector aims to increase the employment creation spin-offs by switching to more labour-intensive construction methods, and develop labourers' and small contractors' skills during the construction phases of projects. Provincial governments have a key role in co-ordinating and driving the implementation of the EPWP across levels of government in their provinces;
- As direct providers of infrastructure, provinces also have a role to play in addressing the capacity and skills constraints within the construction industry, current inhibiting the drive to expand and better direct infrastructure investment; and
- The preparation for the 2010 FIFA World Cup is also a critical aspect of AsgiSA's drive to reconfigure infrastructure as the event can be used as a catalyst for a number of strategic investments in roads, public transport and related infrastructure.

National infrastructure priorities include directing investment to areas of high economic potential, improving the internal structure of cities and towns, switching to more labour intensive construction methods

An infrastructure plan aims to show how the projected infrastructure spending and the location of the spending of a department gives support to the department's strategic plan

Over recent years, the National Treasury has put in place a programme to build government's own capacity in infrastructure planning and delivery. The Infrastructure Delivery Improvement Programme (IDIP) is aimed at improving the effectiveness and efficiency of planning and delivery of provincial public sector infrastructure through institutionalising best practice tools and building the capacity of planning and delivery agencies. For instance, the IDIP has been supporting provincial departments and programmes to develop "Infrastructure Plans". An infrastructure plan aims to show how the projected infrastructure spending and the location of the spending of a department gives support to the department's strategic plan to expand and/or reconfigure its service delivery. Infrastructure plans also aim to indicate how proposed expenditure is to be financed, and how construction expenditure is to be traded off against new construction priorities.

Provincial infrastructure priorities

For the last four years, the Western Cape has been developing a strategic policy framework that responds to all the national infrastructure priorities. The evolution of the policy framework and its content has been documented in last year's MTBPS. Below we briefly summarise the Western Cape's strategic policy framework for infrastructure.

PSDF shows how to direct investment across the Province to improve the structure and performance of the space economy.

The Provincial Spatial Development Framework (PSDF) takes the NSDP as a starting point and develops a more refined framework for the spatial distribution of capital investment in the Western Cape. The framework begins to show how to direct the location and type of investment across the Province to improve the structure and performance of the space economy. Aside from the metropolitan area, two other significant areas have the potential to be 'regional motors' which grow and defuse the benefits of growth. These are the Saldanha-Vredenburg area and the area between Mossel Bay and Plettenberg Bay along the South Cape Coast. A number of development corridors are also identified – Olifants River and the Breede River. The economy of these development corridors is mainly based on agriculture production and the processing industries.

The PSDF provides more details on the characteristics of the desired internal structure for human settlements

Breaking New Ground (BNG) receives support from both the PSDF and the recently launched Sustainable Human Settlement Strategy (SHSS), (Isidima). The PSDF provides more details on the characteristics of the desired internal structure for human settlements. The Framework starts to identify the instruments that local and provincial governments can use to achieve these objectives, such as the placement of no-development boundaries (called "urban edges") around urban settlements.

The Province's Strategic Infrastructure Plan (SIP) and PGDS highlight the importance of investment in transport infrastructure and operating systems. Investment in transport and infrastructure is designated by the PGDS as its "path breaking strategy". Transport infrastructure and operations need to be seen as an integrated system in which public, private and non-motorised modes work together to provide access as efficiently as possible. In developing integrated transport the Province shares the responsibility of public transport provision with local and national government - mainly in the form of State Owned Enterprises (SOEs) and part of the province's road and freight network are nationally managed.

Investment in transport and infrastructure is designated by the PGDS as its "path breaking strategy"

The lifecycle of a building/infrastructure is generally considered to be 50 years, but routine and periodic maintenance is required to ensure that the lifespan of 50 years is achieved.

However, because of the pressure to address backlogs in the supply of infrastructure, maintenance is often neglected and considerable maintenance backlogs are built up. The SIP points out the importance of striking a balance between the construction of new facilities and maintenance of existing ones. In some cases, the Province will quite possibly have to rationalise its infrastructure to allow it to properly maintain its asset base. The asset management regime currently advocated by the Government Immovable Asset Management Bill, will provide for a set of institutions and practices to enable public infrastructure managers to properly trade off construction and maintenance priorities, and to approach rationalisation sensibly. The Province is in the process of setting up these institutions and adopting these practices.

Maintenance often neglected because of pressure to address supply backlogs

Provincial Response

This subsection considers the Province's agenda for direct investment in infrastructure, health, education and roads and also briefly looks at how the Province is responding to the integrated transport priorities laid out in the SIP and the PGDS.

Other aspects of the Province's response to the broader infrastructure priority framework are either covered in thematic boxes found throughout this document under EPWP, 2010 FIFA World Cup, urban restructuring, or Chapter 4. Chapter 4 deals with the "cluster progress, priorities and plans" of departments. The provincial implementation of Isidima and the interventions to develop skills in built environment within and outside of government are considered in this chapter.

Infrastructure plans for direct investment

Health

The building of district hospitals in under-serviced areas is a key strategic focus for the Health Department

The Department of Health delivers services through a network of hospitals, clinics and community health centres. The Department is reconfiguring this facility network so that the network is better aligned to the health service delivery strategy (Health Comprehensive Service Plan). To do this the Department aims to:

- Construct a number of new district hospitals in under-serviced areas. District hospitals form the backbone of the primary health care services of the Department in that they support a network of clinics within districts, and provide overnight beds for care that can be rendered by general practitioners.
- Upgrade regional hospitals in fast growing economic centres outside the Cape Town metropolitan area.
- Rationalise specialised services including psychiatric hospitals and central hospitals.
- Upgrade facilities associated with the transfers of a range of functions to the provincial health departments including emergency medical services facilities, TB hospitals, forensic and pathology service facilities.

The facilities linked to a number of functions recently transferred to the province to improve delivery will be upgraded

District hospitals

The Department is building a new district hospital in Vredenburg. National funding from the Hospital Revitalisation Programme has been requested for new district hospitals in Somerset West (Helderberg), and Mossel Bay.

The Department has also identified that there is a serious need for district hospital services in the south east section of the Metropolitan area, where 64 per cent of all people without health insurance in the metro are located. Hospital revitalisation funding has been requested for two new district hospitals in the south east sector, and detailed design for these hospitals has been completed.

Funding has also been requested to replace and expand Victoria District Hospital, to upgrade Hermanus District Hospital and to build the essential new Khayelitsha and Mitchell's Plain District Hospitals.

Regional hospitals

The Department is upgrading its regional hospitals in George, Worcester and Paarl.

Specialised services

Central hospitals: Specialised services currently delivered through three central hospitals will be rationalised to eliminate duplication.

Psychiatric Hospitals: Stikland Hospital will be replaced by a new facility. The unused section of the current Stikland site, which constitutes a large portion of the site, will be sold to finance the building of the new facility. National funding has been requested for the upgrading of Valkenburg Hospital.

The Department is also aiming to introduce 72 – hour psychiatric units into all district hospitals.

Health facilities associated with the service recently transferred to the Province

TB Hospitals: All TB hospitals have been provincialised with the view to improve TB treatment. These hospitals will require significant upgrading. At present, the Department has requested funding for the upgrading of Brooklyn Chest Hospital.

Forensic Pathology Services: The Forensic Pathology Services Grant accompanied the transfer of the forensic mortuaries from the South African Police Services to Health. The Grant covers the upgrading and replacement of physical infrastructure and operations. The Department began planning the upgrading facilities in 2006/07 and commenced with multi-year upgrading programme in 2007/08.

Emergency Medical Services (EMS): The ambulance service was recently transferred from local government to the Department of Health. Only a few of the ambulance stations were purpose built and appropriately located in hospital sites. The Department has built new ambulance stations in Caledon, Worcester, Lentegeur, Oudtshoorn and Hermanus, and is in the process of building new stations in Beaufort West and Riversdale, is in progress. During the MTEF period new ambulance stations are planned for Bredasdorp, Ceres, Swellendam, Vredendal, Vredenburg, Atlantis, and Leu Gamka.

Maintenance backlogs

The last detailed survey of the condition of health infrastructure was conducted in 1999 and revealed a maintenance backlog of R500 million. However, a number of health facilities have been upgraded or replaced since then.

Using a norm of 4 per cent of the replacement cost of the health infrastructure (estimated at R13.485 billion in 2007) it is estimated that the Department would ideally require an annual maintenance budget of R539 million.

Specialised services will be rationalised to eliminate duplication in the Province's central hospital network

Purpose-built ambulance stations are built throughout the Province

School building to be directed to areas where large new subsidised housing developments are occurring or are planned

Education

According to the Department of Education's Infrastructure Plan the Department aims to direct the bulk of school building to areas of high growth potential identified in the PSDF. In essence, school building will be directed to areas where large new housing developments, especially developments of subsidised housing, are occurring or are planned. In sparsely populated areas the Department provides school transport services for catchment areas that tend to be much larger than in densely populated areas. When new schools are built in rural areas, the costs of building a school need to be less than the total costs of transporting learners to school discounted over the lifespan of the school.

Table 5.1: Budget for building schools over the 2007 MTEF

Infrastructure Budget	MTEF 2007			Total MTEF R'000
	2007/08	2008/09	2009/10	
	R'000	R'000	R'000	
Maintenance	30 686	52 363	54 719	137 768
Construction	147 350	86 578	95 197	329 125

Of the 14 schools being built, seven primary and four secondary schools are being built in the metropolitan area

The Department's budget for building schools over the current MTEF is shown in the table above. Over the new MTEF the amount set aside for this purpose rises by R464.826 million or 48 per cent. Of the 14 schools being built, seven primary and four secondary schools are being built in the metropolitan area. The remaining schools are being built in the Southern Cape, West Coast and the Cape Winelands areas.

In addition to the school building currently occurring, the Department's infrastructure plan indicates that seven secondary schools, three primary schools and one school for learners with special needs need to be built. The need for schools is largely concentrated in the metropolitan area. The Overberg District is under-supplied by two schools. One school is required in the Cape Winelands area.

Maintenance

An annual maintenance budget norm of 2 per cent of the replacement value of the education infrastructure network suggests the Department should spend approximately R240 million to maintain its asset base

The asset replacement value of the education network is estimated at R12 billion. An annual maintenance budget norm of 2 per cent of the replacement value of the education infrastructure network suggests the Department should spend approximately R240 million to maintain its asset base. Table 5.1 indicates that over the MTEF the maintenance budget for schools ranges from about R30 to R55 million per year. The difference between the norm and actual spending on maintenance suggests that the maintenance backlog is growing.

In the first quarter of 2007/08, 77 per cent of the Department's maintenance expenditure of R4.9 million occurred in the metropolitan area.

2010 FIFA World Cup

Preparing for hosting the 2010 FIFA World Cup in the Western Cape is a significant aspect of the Province's Growth and Development agenda. Aside from the Province's contribution to the construction of stadiums to be used in the staging of World Cup events and as training venues, the Provincial Government is using the 2010 FIFA World Cup as catalyst for the supply of strategic infrastructure, particularly integrated transport infrastructure.

Although the Province did not sign guarantees with FIFA, it will have important roles in four key areas: integrated transport, health, sport and recreation and tourism.

Because visiting spectators will require transport from their places of accommodation and residences to the main stadium, fan parks, training venues and tourist sites, the 2010 FIFA World Cup can be used as catalyst for investments in public transport infrastructure and for setting up operational management systems.

The number of visitors expected in the Western Cape for the event has been revised since 2006 from 55 000 overnight visitors per day to 150 000 overnight visitors and 300 000 daily visitors. Because the number of beds within the immediate Cape Town area is approximately 40 000, the new visitor estimates mean a large proportion of visitors will have to find accommodation outside of the city. The demand for transport to World Cup events will be pushed out further from the metropolitan area to the rest of the province. Critical bottlenecks in the provincial road system will have to be removed to enable the daily influx of spectators.

The National Government has made resources available to enable cities hosting 2010 FIFA World Cup events to make the necessary investments into integrated transport infrastructure and system via the Public Transport Infrastructure and Systems (PTIS) Grant. To date, national government has made available R766 million for integrated transport infrastructure and systems mainly in the metropolitan area. The Cape Winelands area has also attracted some PTIS funding. In the middle of 2007 an application for further funding was made through PTIS 4. Amongst the key items included in the application were:

- A bus fleet
- A number of road upgrade projects to remove critical bottlenecks in the provincial road network
- Public transport facilities e.g. park and ride facilities
- The training and development of public transport drivers and traffic enforcers

Because the funding of PTIS 4 is still pending, it is difficult to determine in many cases the provincial funding allocated to a particular integrated transport project. The Province, through the Department of Transport & Public Works, is at present contributing towards the following transport initiatives although their final contributions have yet to be determined:

- The construction of public transport lanes, inward and outward bound, along the N2 Airport-City. The inward bound lane is completed between Airport and Mowbray, and preliminary indications are that the lanes have diminished travel times of public transport vehicles running between Khayelitsha and Mowbray by 30 minutes. Travel times for non-public transport vehicles have increased by 5 minutes.
- The hospital bend pre-selection scheme. This scheme is designed to decrease travel time at hospital bend by minimising lane crossing.
- The upgrading of Klipfontein Road to allow easier movement of public transport and non-motorised transport along its route. The upgrading of the road way is still in the planning stages and the Province is working with the City to finalise the detailed design of the middle section of Klipfontein Road. The construction phase on this middle section is due to start in 2008/09, with detailed design on the other sections set to occur simultaneously.

- The upgrading of the taxi rank and the creation of a network for non-motorised transport linking Khayamandi to the centre of Stellenbosch, linking tourist areas in the centre, and linking the centre to the proposed 2010 FIFA World Cup practice venue.
- Integrated fare management system and intelligence transport system (refer to section on Integrated Transport).

The Department will undertake phase 1 of the upgrading of the Koeberg Interchange, which due to its current low capacity, produces a bottleneck along the N1 access to the city centre.

The upgrading of the road section between Somerset West and Sir Lowry's Pass parallel to the N2 is an intervention aimed at removing a critical bottleneck in the Cape Town Functional Region.

Stadiums

The Provincial Government is also making a contribution of R212 million to the construction of the Green Point Stadium (Sport & Culture Budget), and R60 million for the upgrade of Athlone Stadium (Transport & Public Works Budget). Athlone Stadium is expected to be a training venue during the 2010 FIFA World Cup event. The Provincial Government will also play a part in the establishment of fan parks and public viewing areas across the Province.

Roads

The provincial road network, some 6 349 km of surfaced roads, 10 350 km of gravel roads and approximately 15 000 km of minor roads, together with weighbridges, is a crucial part of the transport system of the Province. The asset valuation of the road network, excluding bridge structures, is R31 billion. To form a more integrated system with public transport, roads needs to work with rail and air modes to open up economic opportunities.

The Roads Programme splits its budget across a number of maintenance and upgrade activities:

The Roads Programme splits its budget across routine maintenance, periodic road maintenance and lower and higher order construction activities

- **Routine maintenance** covers lower-order activities such as patching potholes, maintaining gravel shoulders of surfaced roads, cleaning culverts, grass cutting, etc. Over the MTEF, routine maintenance consumes approximately a quarter of the total roads budget.
- **Periodic road maintenance** activities include resealing and re-graveling.
- **Lower order construction** activities consist of the rehabilitation and the upgrading of gravel roads. These activities are often associated with periodic maintenance, since the role of these actions is essentially to keep the network functioning at current levels of performance.
- **Higher order construction** activities include the upgrading of surfaced roads and installation or upgrading of higher order road facilities, e.g. highway interchanges. The activity includes the upgrading of roads which may not necessarily be well used now, but when upgraded would unlock economic possibilities in the places the roads service.

The Department divides its resources for periodic maintenance and lower order construction across the roads network so as to minimise the “total transport cost”. The total transport cost is the cost to road users of running vehicles on the road and to government of providing and maintaining the network. Lowering these costs allows society to use more resources on things other than transport. Lower total transport costs are also good for growth and development as it makes economic activities that rely on transport more viable.

The Department divides its resources for periodic maintenance and lower order construction across the roads network to minimise the “total transport cost”

When allocating resources for periodic maintenance and lower order construction to the network, the Department uses a computer based optimisation model to analyse various maintenance and lower order construction options on the road network in terms of the optimisation model. Resealing, rehabilitation and gravel road upgrading tend to be directed to areas where traffic movement is greatest and thus to surfaced roads and well-used gravel roads, especially those used for tourism and agricultural freight. In 2007/08, periodic maintenance and lower order construction absorbs just under half of the budget.

Resealing, rehabilitation and gravel road upgrading tend to be directed to areas where traffic movement is greatest

The Department also uses its resources to prevent some of the less well-used surfaced and gravel roads from collapsing. This is because once the road has collapsed it is very costly to restore to a functioning state. Rescuing a collapsed road essentially requires rebuilding. The Department also dedicates a small portion of its budget to upgrading access roads to remote communities.

Between 2004/05 and 2007/08 the roads budget grew substantially from R676 million to R1.224 billion, at an average annual growth rate of 21.9 per cent. This increase has allowed the programme to address a number of the maintenance backlogs on the network, particularly the resealing backlog. The maintenance programme, however, came under pressure recently for two reasons. Firstly, over the last three years the costs of road works have more than doubled. Secondly, other roadwork priorities arose, displacing periodic maintenance and lower order construction.

Road maintenance is under pressure from dramatic increases in the costs of roads and high order upgrades necessary for hosting 2010 FIFA World Cup

In 2008/09 and 2009/10 the Department will take on higher order construction priorities to prepare the provincial network, especially those areas of network that fall within the metropolitan area, for the hosting of the 2010 FIFA World Cup. The share of the budget set aside for higher order construction grows from 2 per cent in 2007/08 to 20 per cent in 2008/09 and 26 per cent in 2010/11, mainly to accommodate the first phase of the Koeberg Interchange upgrade.

The “integrated transport” agenda will be taken forward by creating the system needed to host the 2010 FIFA World Cup

Integrated transport

In the period leading up to 2010, the Department of Transport and Public Works will take the Province’s “integrated transport” objectives forward by creating the systems needed to host the 2010 FIFA World Cup. The focus will be on the metro area and to some extent the broader metro functional region, which includes part of the Cape Winelands District and part of the West Coast Districts.

The Department will continue to work towards the objectives of restructuring the road-based public transport system to improve levels of service and accessibility along the key long-haul routes in the City and to tender out subsidised contracts along these routes. The vision is consistent with published national and provincial policies on empowerment, the transformation of the public transport service, taxi recapitalisation and the creation of an integrated transport system as a path-breaking intervention for economic growth.

Ensuring safe and crime-free public transport journeys is critical in promoting the shift from private to public transport.

Ensuring that passengers have a safe and crime-free journey throughout the travel chain is considered to be the single most important intervention to promote a shift from private to public transport. A safety and security strategy for public transport is in the final stages of development. The Department has already begun to implement crucial elements of the strategy such as the training of enforcement officials to better enforce taxi operation licenses. The Department is also formulating memoranda of agreement for each of the law enforcement agencies working in the public transport realm. The agreements will provide much clearer definitions on the role each agency should undertake in producing a safer environment for public transport travel.

Outside of Cape Town, the Department continues to provide support to municipalities by:

- Providing transfers for the planning and construction of public transport and non-motorised transport infrastructure;
- Formulating “mobility strategies” for selected geographic areas. Mobility strategies identify the mobility problems in an area and put forward exclusively transport solutions (rather than land use solutions) to these problems; and
- Giving financial and technical support for the drafting of statutory public transport plans and integrated transport plans followed by technical reviews of the results.

The Department is directing much of the support it provides to non-metro areas in George, in the Southern Cape. In consultation with the George Municipality, the Department has developed an operational plan for a road-based scheduled public transport service for George. The Department is financing the upgrade of the main public transport link between the commercial and industrial centres of George and

Thembaletu. This upgrade is part of a broader route-upgrading programme for George, is co-funded by SANRAL and the municipality, will be rolled out as funding becomes available. The Department has started to engage the taxi industry representatives on the restructuring of the system in George. It is envisaged that taxi operators will need to combine into a formal, single business entity to contract with the transport authority for the provision of the scheduled public transport service.

The Department of Transport and Public Works convenes and chairs the Provincial Freight Logistics Forum. Members of the forum include the National Department of Transport, organised business (in the form of the Cape Town Chamber of Commerce) the City and freight companies. The key problem the Forum is focusing on is the traffic bottlenecks at the port and the airport. The Department aims to release a Provincial Freight Logistics implementation plan in 2008/09. The Forum also identifies smaller concrete actions that can be taken in the short term to reduce the logistics chain and cut logistics costs. For instance, the forum is lobbying for changes in national legislation on the height restriction of transport vehicles to align the regulations with current industrial standards.

Provincial Freight Logistics implementation plan to be released in 2008/09

Mega-projects

The National Treasury has introduced the mega-project funding framework to allow provinces and municipalities to bid for capital resources for projects of national significance that they have identified. The mega-project framework provides for an intergovernmental project planning, appraisal and funding process in which bidding provinces and municipalities will have to contribute their own resources to projects in order to obtain national funding. The framework also provides a transparent, consistent and sound appraisal process for provincially identified projects.

Mega-project funding frameworks allows provinces to bid for capital for projects of national significance

Mega-projects are defined as projects with a value greater than R300 million per annum and that take a minimum period of four years to complete. Mega-projects could take the form of green-field projects, national strategic capital expansion projects and projects aimed at restructuring and maintaining major capital works. The process will initially apply to projects identified by the provincial sphere of government. Local government and public entities will be brought into the framework in due course. Going forward, the mega-project identification work now needs to start in earnest.

Mega-projects are defined as projects with a value greater than R300 million per annum and take a minimum period of four years to complete

Conclusion

The PGDS and constituent strategies aim to give a spatial dimension to the shared growth objectives of the Western Cape by indicating where provincial departments should be directing their infrastructure investments. The PGDS gives the enhancement of the transport network in the Province as one of the key groups of infrastructure priorities.

The Health, Education and Road Infrastructure plans show that departments are following the PGDS when making new infrastructure investments. Departments are, however, finding it difficult to strike a balance between the construction of new facilities and the maintenance of existing ones.

Expenditure Trends

Achieving the goals and objectives contained in AsgiSA and the PGDS requires the efficient utilisation of financial resources. Half-year spending estimates for 2007/08 have seen continued improvements in departmental spending with 45 per cent of the total adjusted budget being spent for 2007/08 compared with 43.8 per cent for 2006/07.

Outcome of the 2006/07 Budget

Total expenditure for the Western Cape amounted to R18.849 billion in the 2006/07 financial year, compared to the total allocation of R19.458 billion. This resulted in an underspending of R608.964 million or 3.1 per cent of budget. The R608.964 million underspending compares unfavourably with the 2005/06 financial year where the underspending amounted to R283.3 million or 1.3 per cent of the total budget. It also compares unfavourably with the national underspending norm of 2 per cent.

The underspending includes funds totalling R307.533 million received in the adjustments budget during November 2006. These funds include R229.222 million for the N2 Gateway Project; R45.311 million for Disaster relief funding received via the Provincial Infrastructure Grant (PIG) and R33 million for the Agricultural Disaster Management Grant. Once the R307.533 million is discounted, the Province's underspending amounts to R301.431 million or 1.5 per cent of the budget.

In terms of its current mandate, the Provincial Treasury has approved roll-overs of R133.046 million, of which R45.311 million is for provincial infrastructure grant spending.

Provincial Treasury requested rollovers of R315.897 million from the National Treasury. National Treasury approved almost all these requests except for a small request for the Mass Sport Recreation Participation Programme of the Department of Cultural Affairs and Sport. The approved funds largely pertain to the Integrated Housing and Human Settlement Development grant and will be used on the N2 Gateway Project. An amount of R3.102 million has also been approved for the Further Education and Training College Sector Recapitalisation grant for the Department of Education, but as the funds have already been paid to the colleges in the previous financial year and thus form an unspent balance in their books, it has not been revoted.

Half-year spending estimates for 2007/08

Improvements in departmental spending in first half of 2007/08 financial year

The Province has spent R9.745 billion in the first half of the 2007/08 financial year, which constitutes 45 per cent of the adjusted budget of R21.667 billion for 2007/08. This expenditure constitutes a 14.13 per cent increase year-on-year, as spending for the first half of the 2006/07 year amounted to R8.539 billion or 43.8 per cent of the R19.458 billion budget.

In terms of economic classification, 45.9 per cent of the current payments allocation has been spent, while 40.3 per cent of transfers and subsidies has been spent. Spending on payments for capital assets amounted to 45.7 per cent of its allocation and compares very favourably with 30.6 per cent spent in 2006/07. The improved spending on payments for capital assets was due to the 49.9 per cent spending on buildings and other fixed assets with the Department of Health spending 51.2 per cent and the Departments of Education and Transport and Public Works each spending 45.8 per cent and 50.4 per cent of their respective budgets.

Tables 6.1 and 6.2 indicate the actual expenditure in 2006/07 and for the period 1 April 2007 to 30 September 2007, per provincial department and per economic classification.

Table 6.1: Actual expenditure per provincial department

Departments	2006/07		Adjusted Budget R'000	2007/08 Actual 1st Half Spending R'000	% Spent of Adjusted Budget
	Adjusted Budget	Actual Expenditure			
	R'000	R'000			
Department of the Premier	320 327	318 160	373 274	160 012	42.9%
Provincial Parliament	58 034	54 981	54 334	29 268	53.9%
Provincial Treasury	134 246	133 936	116 551	52 885	45.4%
Community Safety	184 124	182 205	205 342	91 251	44.4%
Education	7 115 861	6 920 362	7 822 732	3 546 037	45.3%
Health	6 476 348	6 419 515	7 427 290	3 449 405	46.4%
Social Development	727 971	719 516	901 564	408 967	45.4%
Local Government & Housing	1 266 109	1 035 711	1 431 861	529 085	37.0%
Environmental Affairs & Development Planning	184 669	183 327	184 194	97 222	52.8%
Transport & Public Works	2 321 437	2 254 031	2 388 183	1 089 439	45.6%
Agriculture	302 290	266 366	331 560	119 108	35.9%
Economic Development & Tourism	178 661	175 498	205 386	81 012	39.4%
Cultural Affairs & Sport	187 661	185 166	225 209	91 360	40.6%
Total	19 457 738	18 848 774	21 667 480	9 745 051	45.0%

Table 6.2: Actual expenditure per economic classification

Economic Classification	2006/07		Adjusted Budget R'000	2007/08 Actual 1st Half Spending R'000	% Spent of Adjusted Budget
	Adjusted Budget	Actual Expenditure			
	R'000	R'000			
Current payments	14 548 170	14 210 158	16 256 637	7 465 425	45.9%
Compensation of employees	10 087 103	9 725 272	11 260 977	5 277 856	46.9%
Goods and services	4 456 000	4 470 361	4 965 008	2 186 338	44.0%
Interest and rent on land					
Financial transactions in assets and liabilities	5 067	14 525	30 652	1 231	4.0%
Unauthorised expenditure					
Transfers and subsidies	3 124 513	2 933 318	3 585 620	1 446 238	40.3%
Provinces and municipalities	393 029	378 275	360 066	115 559	32.1%
Departmental agencies and accounts	207 573	211 521	149 250	87 165	58.4%
Universities and technikons	4 529	4 325	1 704	156	9.2%
Public corporations and private enterprises	48 150	94	61 871	18 069	29.2%
Foreign governments and international organisations	171	49 511	129	9	7.0%
Non-profit institutions	1 274 136	1 368 753	1 608 564	747 346	46.5%
Households	1 196 925	920 839	1 404 036	477 934	34.0%
Payments for capital assets	1 785 055	1 705 298	1 825 223	833 388	45.7%
Buildings and other fixed structures	1 460 988	1 395 071	1 540 671	768 857	49.9%
Machinery and equipment	270 913	261 694	260 348	57 897	22.2%
Cultivated assets	94	75	277		0.0%
Software and other intangible assets	11 376	20 914	11 396	6 171	54.2%
Land and subsoil assets	41 684	27 544	12 531	463	3.7%
Total	19 457 738	18 848 774	21 667 480	9 745 051	45.0%

Adjusted Estimates

Additional resources amounting to R239.196 million were provided in the national Adjustments Estimate for the impact of the wage settlement, health issues (HIV/Aids and MDR & XDR TB), flood damage and drought.

Over the 2007 MTEF period, the provincial focus of the adjustment estimates is to deal with the real pressures in Health spending (R87 million per annum). Other pressing issues are the pressures caused by the increased uptake of GEMS, requiring higher government contributions in Health (R20 million) and Education (R25 million). Furthermore, there is a need to augment the Asset Financing Reserve (AFR), which is nearing depletion. The augmentations will come from additional revenue collected in 2006/07 on gambling taxes and net surpluses (R49 million). Extra provision has been made for Information Technology (IT) infrastructure (R77.316 million equally spread between the 2007/08, 2008/09 and 2009/10 financial years). The delay in the promulgation of the liquor licensing bill caused a drop in anticipated revenues (R16 million) resulting in a reduction having to be effected to the budgetary allocation for Economic Development & Tourism.

Provision has also been made for the allocation of approved rollovers (R413.127 million) and revenue retention (R71.243 million), mainly limited to essentially unspent funds on conditional grants and committed capital/infrastructure items.

Expenditure and budget trends

Table 6.3 indicates the expenditure trends between 2003/04 and 2009/10, as well as budget allocations over the 2007 MTEF per department. The total provincial allocation increased from R18.849 billion in 2006/07 to R20.717 billion in 2007/08 and constitutes a 9.9 per cent increase in nominal terms. The Province's average annual nominal growth from 2003/04 to 2006/07 amounts to 12.9 per cent thus demonstrating a healthy growth trend.

Table 6.3: Expenditure and budget trends

Votes	Audited				Budget	Nom. Growth %	MTEF	
	2003/04	2004/05	2005/06	2006/07	2007/08	2006/07-2007/08	2008/09	2009/10
	R'000	R'000	R'000	R'000	R'000		R'000	R'000
Department of the Premier	312 936	288 662	296 048	318 160	337 076	5.95%	367 831	410 310
Provincial Parliament	41 004	43 599	48 227	54 981	71 939	30.84%	73 308	78 735
Provincial Treasury	65 421	102 333	114 275	133 936	119 001	(11.15)%	126 053	138 576
Community Safety	141 187	164 256	178 768	182 205	202 112	10.93%	218 387	243 270
Education	5 304 807	5 690 709	6 449 244	6 920 362	7 684 658	11.04%	8 497 205	9 340 516
Health	4 547 304	5 169 199	5 718 812	6 419 515	7 095 173	10.53%	7 942 423	8 411 769
Social Development	518 964	603 003	653 512	719 516	891 503	23.90%	1 058 098	1 141 856
Local Government & Housing	426 692	665 872	790 167	1 035 711	1 198 094	15.68%	1 438 332	1 704 873
Environmental Affairs & Development Planning	120 622	135 468	158 859	183 327	181 414	(1.04)%	207 254	252 029
Transport & Public Works	1 216 208	1 258 628	1 773 251	2 254 031	2 206 698	(2.10)%	2 321 379	2 417 059
Agriculture	160 591	196 893	258 515	266 366	290 212	8.95%	311 077	345 487
Economic Development & Tourism	122 755	126 439	142 006	175 498	214 152	22.03%	235 749	267 608
Cultural Affairs & Sport	134 477	148 932	165 705	185 166	224 522	21.25%	470 144	292 847
Total	13 112 968	14 593 993	16 747 389	18 848 774	20 716 554	9.91%	23 267 240	25 044 935
Difference		1 481 025	2 153 396	2 101 385	1 867 780		2 550 686	1 777 695
Nominal Growth		11.29%	14.76%	12.55%	9.91%		12.31%	7.64%
Average annual nominal growth (2003/04-2006/07)				12.86%				
Average annual nominal growth (2007/08-2009/10)								9.94%

Expenditure by economic classification

Table 6.4 below indicates provincial expenditure by economic classification. 'Compensation of employees' receives the bulk of provincial expenditure at R11.285 billion or 54.5 per cent of the 2007/08 budget and grows by 16 per cent in nominal terms from 2006/07 to 2007/08. Departments continuously shift funds away from 'Compensation of employees'. The deviation from main budget to actual expenditure for compensation of employees amounts to R322.919 million in 2004/05, R389.610 million in 2005/06 and R483.108 million in 2006/07. If this trend continues in the 2007 MTEF, the Province's allocation for improved condition of service (ICS) could be negatively impacted. From 2008/09 onwards Departments will have to budget realistically for compensation of employees, although some corrections will already be made in the adjustment estimates.

Table 6.4: Provincial expenditure per economic classification

Economic Classification	Audited				Budget	Nom. Growth %	MTEF	
	2003/04	2004/05	2005/06	2006/07	2007/08	2006/07-2007/08	2008/09	2009/10
	R'000	R'000	R'000	R'000	R'000		R'000	R'000
Current payments	10 320 754	11 404 352	12 571 734	14 210 158	15 934 599	12.14%	17 741 145	19 286 752
Compensation of employees	7 471 119	8 177 831	8 853 273	9 725 272	11 284 560	16.03%	12 393 267	13 524 138
Goods and services	2 834 378	3 213 949	3 708 127	4 470 361	4 645 342	3.91%	5 342 979	5 757 495
Interest and rent on land	2 243	-	-	-	-	-	-	-
Financial transactions in assets and liabilities	13 014	12 572	10 334	14 525	4 697	(67.66)%	4 899	5 119
Unauthorised expenditure	-	-	-	-	-	-	-	-
Transfers and subsidies to	1 850 135	2 133 937	2 703 065	2 933 318	3 161 589	7.78%	3 774 440	3 899 321
Provinces and municipalities	359 368	352 436	490 162	378 275	344 256	(8.99)%	602 919	308 324
Departmental agencies and accounts	188 099	139 420	161 096	211 521	141 729	(33.00)%	163 005	200 952
Universities and technikons	42 723	57 799	55 631	4 325	1 698	(60.74)%	1 987	2 245
Public corporations and private enterprises	23 793	37 924	45 548	49 511	36 247	(26.79)%	45 681	47 836
Foreign governments and international organisations	67	120	88	94	120	27.66%	120	120
Non-profit institutions	805 086	899 391	1 197 014	1 368 753	1 507 741	10.15%	1 590 363	1 693 186
Households	430 999	646 847	753 526	920 839	1 129 798	22.69%	1 370 365	1 646 658
Payments for capital assets	942 079	1 055 704	1 472 590	1 705 298	1 620 366	(4.98)%	1 751 655	1 858 862
Buildings and other fixed structures	693 505	813 045	1 137 573	1 395 071	1 319 632	(5.41)%	1 445 583	1 515 832
Machinery and equipment	240 428	229 718	272 170	261 694	285 828	9.22%	291 969	328 086
Cultivated assets	-	112	1 049	75	527	602.67%	24	30
Software and other intangible assets	5 909	8 944	22 398	20 914	10 878	(47.99)%	10 278	10 713
Land and subsoil assets	2 237	3 885	39 400	27 544	3 501	(87.29)%	3 801	4 201
Total	13 112 968	14 593 993	16 747 389	18 848 774	20 716 554	9.91%	23 267 240	25 044 935

'Transfers and subsidies' consume 15.26 per cent of the 2007/08 budget. The main 'Transfers and subsidies' allocations include R956.702 million for the housing subsidy programme, R762.755 million for allocations to schools and R344.256 million to local government.

Payments for capital assets decreases from R1.705 billion in 2006/07 to R1.620 billion in 2007/08, constituting a decrease of 4.9 per cent. The item 'building and other fixed structures' shows a nominal decrease of 5.4 per cent from 2006/07 to 2007/08, mainly due to the decrease in Education's allocation as a result of funding shifted forward in order to accelerate the provision of education facilities.