

**Provincial Government Western Cape
Provincial Treasury**

**MEDIUM TERM BUDGET
POLICY STATEMENT**

2006 - 2009



PR: 218/2005
ISBN: 0-621-36373-1

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Printed in the Republic of South Africa
For the Government Printers Cape
by Formeset Printers Cape

Foreword

In line with the thrust of the 2006 national Medium Term Budget Policy Statement (MTBPS), the theme of accelerated and shared economic growth also shapes the 2006 Medium Term Expenditure Framework for the Western Cape. The Province requires a type of economic growth which serves to reduce inequality and spread the benefits of that growth to all sectors of the population. By connecting marginalised communities to skills development and job opportunities, well-targeted and well-designed transport and infrastructure investment has the potential to enable the poor to share in the benefits of economic growth at the same time that it benefits the economy as a whole.

The 2006 WC MTEF represents the latest instalment in a wider emerging development plan for the Western Cape. The MTBPS speaks to the iKapa Elihlumayo strategies, which are in the process of finalisation and rollout, as well as the nascent Provincial Growth and Development Strategy (PGDS) being developed under the leadership of the Department of the Premier. The PGDS will weld the iKapa Elihlumayo strategies together, providing a comprehensive growth strategy for the Western Cape.

In this policy context, the 2006 Western Cape MTBPS lays out a fiscal policy which emphasises the shared aspect of accelerated and shared growth. In concrete terms, this translates into: sustained infrastructure investment, further allocations for the social and economic sectors, and a boost to the Expanded Public Works Programme. However, if we are to augment the flow of resources to the built environment and the creation of sustainable human settlements, we must accompany this increased infrastructure investment with internal improvements in state performance. Therefore the WC MTBPS 2006-2009 also focuses on the drive to enhance the capacity of the state to deliver, addressing the human resource, institutional and strategic obstacles which are hindering government's ability to provide quality services.

As part of improvements in financial governance, changes were introduced into the budget drafting process this year which created more room for consultation and debate regarding the expenditure priorities of departments, clusters, and the Province as a whole. The confluence and integration of national and provincial priorities then comes through in the 2006 MTEF allocations which serve to further national objectives at the same time that they provide support to the iKapa Elihlumayo strategies.

The purpose of the MTBPS is to provide readers with a clear message of where the Province is going—what the challenges are, and how the Province plans to deploy its limited resources to tackle those challenges over the next three years. The MTBPS outlines the regional economic outlook and expresses the medium-term revenue and expenditure directions of the Province. The picture provided by this information furnishes a strong basis for important debate leading up to the tabling of the Provincial 2006/07 Budget on 17 February 2006.

A handwritten signature in blue ink, appearing to read 'Lynne Brown', is centered on a light blue rectangular background.

LYNNE BROWN
MINISTER OF FINANCE AND TOURISM

NOVEMBER 2005

Contents

Chapter 1	Overview	1
	1.1 Introduction	1
	1.2 Economic Analysis & Framework	1
	1.3 Service Delivery Priorities Over the 2006 MTEF	2
	1.4 Enhancing the Capacity of the State to Deliver	7
	1.5 Conclusion	8
Chapter 2	Economic Analysis and Framework	9
	2.1 Introduction: Accelerated Shared Growth Initiative for South Africa	9
	2.2 What is Shared Growth and Development?	9
	2.3 Growth-Sensitivity Analysis	10
	2.4 Economic Outlook	11
	2.5 Labour Market Performance	14
	2.6 Accelerated Shared Growth Diagnostic Scan	16
Chapter 3	Service Delivery Priorities Over the 2006 MTEF	19
	3.1 Overarching National and Provincial Strategic Objectives	19
	3.2 Additional Allocations Over Baseline, by Key Priority Area	21
	3.3 Key Expenditure Priorities for the Western Cape	23
Chapter 4	Enhancing the Capacity of the State to Deliver	37
	4.1 Improving Financial Governance	37
	4.2 Provincial and Local Government Interface	43
	4.3 Department of the Premier (DOTP) Strategies to Build Internal Capacity and Communication	46
Chapter 5	Financing	49
	5.1 Transfers from National	49
	5.2 Provincial Own Sourced Revenue	52
	5.3 Asset Financing Reserve	56
	5.4 Borrowing	56

Chapter 6	Expenditure Trends	59
6.1	Introduction	59
6.2	Outcome of the 2004/05 Budget	59
6.3	Half-year Spending Estimates for 2005/06	60
6.4	Adjustments Estimate	61
6.5	Expenditure and Budget Trends	62
6.6	Expenditure by Economic Classification	63

Abbreviations

ACSA:	Airports Company of South Africa
AG:	Auditor-General
ASB:	Accounting Standards Board
BAS:	Basic Accounting System
BEE:	Black Economic Empowerment
BER:	Bureau for Economic Research
BPO:	Business Process Outsourcing
CASIDRA:	Cape Agency for Sustainable Development in Rural Areas
CASP:	Comprehensive Agricultural Support Programme
CCT:	City of Cape Town
CFO:	Chief Financial Officer
CIDB:	Construction Industry Development Programme
CPD	Corporation for Public Deposits
CSG:	Child Support Grant
DBSA:	Development Bank of Southern Africa
DEA&DP:	Department of Environmental Affairs and Development Planning
DEDAT:	Department of Economic Development and Tourism
DG:	Disability Grant
DORA:	Division of Revenue Act
DoT:	Department of Transport (National)
DoTP:	Department of the Premier
DPW:	Department of Public Works
ECD:	Early Childhood Development
EDU:	Economic Development Unit
EHS:	Environmental Health Services
ELSEN:	Education for Learners with Special Education Needs
EMIS:	Education Management Information System
EPWP:	Expanded Public Works Programme
FAS:	Foetal Alcohol Syndrome
FDI:	Foreign Direct Investment
FET:	Further Education Training
FETC:	Further Education and Training Certificate
FMS:	Financial Management System
FSD:	Farmer Support and Development
GDP:	Gross Domestic Product
GDPR:	Gross Domestic Product by Region
GEPF:	Government Employees Pension Fund
GET:	General Education and Training
GRAP:	Generally Recognised Accounting Practice
GSSC:	Gauteng Shared Services Centre

HEI:	Higher Education Institutions
HIS:	Hospital Information system
HIV/AIDS:	Human Immune Virus/Acquired Immune Deficiency Syndrome
HRD:	Human Resource Development
HRDS:	Human Resource Development Strategy
HSRC:	Human Sciences Research Council
ICS:	Improvement in Conditions of Service
ICT:	Information Communication Technology
IDC:	Industrial Development Corporation
IDIP:	Infrastructure Delivery Improvement Programme
IDP:	Integrated Development Plans
INP:	Integrated Nutrition Programme
ISRDP:	Integrated Strategic Renewal Development Programme
IYM:	In-year monitoring
LCC:	Loan Co-ordinating Committee
LED:	Local Economic Development
LOGIS:	Logistical Information System
LRAD:	Land Redistribution and Agricultural Development
MEC:	Member of Executive Council
MEDS:	Micro Economic Development Strategy
MFMA:	Municipal Finance Management Act
MIG:	Municipal Infrastructure Grant
MoA:	Memorandum of Agreement
MoU:	Memorandum of Understanding
MSP:	Master Systems Plan
MTBPS:	Medium Term Budget Policy Statement
MTEF:	Medium Term Expenditure Framework
NGO:	Non-governmental Organisation
NMIR:	National Minimum Information Requirements
NQF:	National Qualification Framework
NSDP:	National Spatial Development Perspective
NTSG:	National Tertiary Services Grant
PDC:	Provincial Development Council
PERSAL:	Personnel and Salary Administration System
PER&O:	Provincial Economic Review and Outlook
PES:	Provincial Equitable Share
PFMA:	Public Finance Management Act
PGDS:	Provincial Growth and Development Summit
PGWC:	Provincial Government Western Cape
PHC:	Primary Health Care
PIG:	Provincial Infrastructure Grant
PMTCT:	Prevention of Mother-to-Child Transmission
POS:	Public Ordinary Schools
PPP:	Public Private Partnerships

PSDF:	Provincial Spatial Development Framework
PSNP:	Primary School Nutrition Programme
QALYs:	Quality-Adjusted Life Years
RED:	Real Enterprise Development
SARS:	South African Revenue Services
SASSA:	South African Social Security Agency
SCF:	Social Capital Formation
SCFS:	Social Capital Formation Strategy
SETA:	Sector Education and Training Authority
SIP:	Strategic Infrastructure Plan
SITA:	State Information Technology Agency
SMME:	Small Medium and Micro Enterprise
SMS:	Senior Management Service
TB:	Tuberculosis
TCF:	Technical Committee on Finance
TIPS:	Trade and Industry Policy Service
UPFS:	Uniform Patient Fee Schedule
URP:	Urban Renewal Programme
URS:	User Requirement Statement
WCNCB:	Western Cape Nature Conservation Board
WECCO:	Western Cape Clean-up Operation
WCED:	Western Cape Education Department
Wesgro:	Western Cape Investment and Trade Promotion Agency

Tables

1	Fiscal Framework of the Western Cape	4
2	Macro-Economic Outlook for South Africa: 2005/06 to 2008/09	12
3	Outlook for the Western Cape economy: 2005/06 to 2008/09	14
4	Labour market aggregates: 2000-2004	15
5	Additional equitable share funds for national policy priorities for the Western Cape	22
6	Fiscal Framework of the Western Cape	49
7	Conditional grants framework 2005/06 – 2008/09	51
8	Contribution of Departments to Provincial own revenue 2005/06 – 2008/09	52
9	Western Cape own revenue by source 2005/06 – 2008/09	53
10	Expenditure by Department, 2004/05 – 2005/06	60
11	Expenditure per economic classification, 2004/05 and 2005/06	61
12	Results of trawling for money	62
13	Provincial expenditure for 2001/02 to 2004/05 financial years and budgeted allocations for 2005/06 to 2007/08 as reflected per vote in nominal terms	63
14	Province's expenditure for 2001/02 to 2004/05 financial years and budgeted allocations for 2005/06 to 2007/08 as reflected per economic classification	64

Figures

1	Real and nominal expenditure on the Roads Infrastructure Programme in the Department of Transport and Public Works	24
2	Comparison of actual expenditure and budgeted figures for 2003/04 – 2005/06 on Transfers and Subsidies	65

Overview

1.1 Introduction

The 2006-2009 Western Cape Medium Term Budget Statement (MTBPS) builds on previous fiscal policies issued by the Provincial Government, the latest national policies and work done both within the Province, especially on the iKapa Elihlumayo strategies, as well as joint interactions with the national government over the last couple of months. Its goal is to elicit comment and encourage debate on proposed medium term expenditure and revenue priorities before the annual budget and MTEF are finalised.

The main themes of the 2006 WC MTEF include: the increased conditionality of the equitable share funds, and their allocation for specific programmes in the health, education, social development, and economic sectors; the critical spatial dimension which must underpin and direct infrastructure investment and housing plans; the drive towards supporting the built environment and establishing sustainable human settlements; and the need to enhance the capacity of the state to deliver.

1.2 Economic Analysis & Framework

The second chapter provides an economic backdrop to the MTBPS, with a focus on the concept of shared growth and development, and prospects for achieving it. Shared Growth is a development strategy that views poverty reduction and economic growth as being interdependent goals over the medium to long term. While higher levels of economic growth are essential to reducing poverty over the medium- to long term, they are a necessary but insufficient condition. Equity also matters in the pursuit of growth and development.

However, over the period 1995 to 2000, South Africa's growth performance, while buoyant, was accompanied by increased inequality to the extent that it actually contributed to rising poverty levels and eroded any gains from growth. Yet shared growth may well be achievable in the future. South Africa's real Gross Domestic Product (GDP) growth is forecast to top 4,3 per cent during 2005 (4,2 per cent for the

fiscal year 2005/06) while the short-term outlook for the Western Cape economy remains upbeat. Real Gross Domestic Product by Region (GDPR) growth is forecast to average 4,2 per cent over the period 2005/06 to 2008/09, slightly higher than the national average of 4,1 per cent. Growth is forecast to peak at 4,7 per cent in 2005/06, while inflation is set to average 4,5 per cent over the projection period, in line with the national average.

Yet unemployment remains a serious issue, in South Africa and the Western Cape specifically. In 2004, the Western Cape experienced a broad unemployment rate of 26,3 per cent and narrow unemployment rate of 18,6 per cent – compared to national figures of 40,1 per cent and 26,2 per cent, respectively. Striking differences in broad unemployment estimates are evident across race groups and the prevalence of high rates of unemployment among key groups (Africans, women and the youth) point to the intractable, structural nature of unemployment in South Africa, and the Western Cape more specifically. Confronting structural unemployment will demand medium- to long-term planning and interventions on both the labour demand and labour supply sides.

In summary, the growth performance of South Africa and the Western Cape have improved considerably since the 1990s. Having achieved democratic consolidation and macroeconomic stabilisation, the challenge over the next 10 years is to accelerate economic growth, enhance employment creation, and broaden economic participation to the levels that are conducive to reducing poverty and achieving shared gains. A more detailed analysis of shared growth and the binding constraints which block growth in the Province will be presented in the 2006 Provincial Economic Review and Outlook, which is due to be tabled in the Provincial Parliament by the end of March 2006.

1.3 Service Delivery Priorities Over the 2006 MTEF

National and Provincial Policy Framework

The Province's 2006 Medium Term Expenditure Framework (MTEF) must align with national imperatives while simultaneously providing the direction and necessary resources to pursue specific provincial priorities—as articulated in the iKapa Elihlumayo strategies and the nascent Provincial Growth and Development Strategy (PGDS). The overarching theme of the national 2006 MTEF is accelerated and shared economic growth, however economic growth must be understood in all its complexity and cannot be limited to the traditional economic sectors. The attainment of shared growth requires an appreciation of the critical linkages between social capital, skills development, and infrastructure investment.

The national government sets out the following five focal points for the **national 2006 Budget Policy Framework**:

- Accelerating economic growth and investment in productive capacity;
- Promoting opportunities for participation of marginalised communities in economic activity and improving the quality of livelihoods of the poor;

- Maintenance of a progressive social security net, alongside investment in community services and human development;
- Improving the capacity and effectiveness of the state, including combating crime and promoting service-oriented public administration; and
- Building regional and international partnerships for growth and development.

These national priorities—particularly the goals of speeding up economic growth and development, building capacity of the state, and improving social cohesion and social services—are picked up again at the provincial level and made manifest in the context of the Western Cape. First announced by the provincial government in the MTBPS 2003-2006, the iKapa Elihlumayo strategies lay out how the Western Cape government aims to attain the goals of higher economic growth, higher levels of employment, lower levels of inequality, and a sustainable social safety net. The main iKapa Elihlumayo strategies resonate with the priorities emanating from national government. They are:

1. The Provincial Spatial Development Framework (PSDF), led by the Department of Environmental Affairs and Development Planning;
2. The Micro Economic Development Strategy (MEDS), led by the Department of Economic Development and Tourism;
3. The Human Capital Development Strategy (HCDS), led by the Department of Education;
4. The Social Capital Formation Strategy (SCFS), led by the Department of Social Services and Poverty Alleviation; and
5. The Strategic Infrastructure Plan (SIP), led by the Department of Transport and Public Works.

Driven and developed by the Department of the Premier, the Provincial Growth and Development Strategy (PGDS) incorporates and synthesizes the iKapa Elihlumayo strategies and the main elements of the municipal Integrated Development Plans (IDPs). Currently in the early drafting stage, the PGDS will draw upon and weld together all the iKapa Elihlumayo strategies to come up with an overarching strategy for growth and development in the Province.

Additional resources over the 2006 MTEF

As stipulated in the national 2005 MTBPS, over the next three years, national government will transfer an additional R46 billion to provinces in order to support social services and the development of economic and community infrastructure. The intended objective is to make the funds available for strengthening the health, education and social development sectors; to boost provincial functions related to the economic sector (rehabilitation and maintenance of provincial roads, support for agriculture and tourism); and to expand Government's labour-based and labour-intensive programmes.

Of the R46 billion channeled to provinces by national government, R30,9 billion is added to the equitable share while R15,1 billion will be transferred as conditional grants. Nationally, a further R4,8 billion has been added to the Provincial Equitable Share (PES) to provide for the implementation of the Government Employee Medical Scheme (GEMS).

In the Western Cape, the 2006 MTEF expenditure priorities will be financed via three main sources: transfers from national government (including equitable share and conditional grants) which together form 91,5 per cent of the budget in 2005/06; provincial own revenue (taxes and fees) which contributes 6,7 per cent; and the Asset Financing Reserve which contributes the remaining 1,9 per cent in 2005/06.

Table 1: Fiscal Framework of the Western Cape

Source R000's	2005/06	2006/07	2007/08	2008/09
	Adjustments		Medium Term Estimates	
	Budget			
Equitable share	12 072 469	13 452 173	14 898 459	16 538 467
Conditional grants	6 914 887	7 548 380	8 342 293	9 025 897
Transfers from National	18 987 356	21 000 553	23 240 752	25 564 364
Own revenue	1 381 765	1 341 862	1 386 752	1 405 270
Asset Financing Reserve	386 039	624 107	290 294	300 000
Total	20 755 160	22 966 522	24 917 798	27 269 634
Contingency reserve	52 550	55 000	55 000	55 000

The Western Cape's equitable share allocation increases from R12,072 billion in 2005/06 to R13,452 billion in 2006/07, R14,898 billion in 2007/08 and R16,538 billion in 2008/09. From 2005/06 to 2006/07, the Western Cape's share of the total equitable share allocation nationally decreased from 8,86 per cent to 8,81 per cent.

In the Western Cape, a total of R2,302 billion of PES funds will be added to the current baselines to support initiatives in these key priority areas over the 2006 MTEF:

- Additional R1,707 billion for social services (health, education and social development) over the MTEF.
- Labour-intensive programmes (EPWP) in the social sector, including community and home-based care health workers, nurse and pharmacist assistants, Early Childhood Development (ECD) and youth learnerships, will receive an additional R368 million funds.
- Economic functions in the Province are to benefit from R226 million in additional funds over the 2006 MTEF.

Specific expenditure priorities

The Strategic Infrastructure Plan (SIP) and the Provincial Spatial Development Framework (PSDF) must serve as the two main planning tools to guide policy and implementation in the area of infrastructure development. These plans should provide an overall framework or plan for the **built environment** in the Western Cape which can ensure that investments in infrastructure, housing, transport and public facilities have the intended effect of creating safe, livable and sustainable communities.

Over the current MTEF, **infrastructure expenditure** in these sectors is rising steadily in nominal terms, and maintaining its share of total expenditure due to the impact of the Asset Financing Reserve (AFR). A large portion of the resources budgeted for infrastructure will be spent on the construction and maintenance of roads—key

pieces of infrastructure for opening up and enhancing economic activity. Resources from the AFR and additional resources from national government will be used to augment budgeted expenditure in 2007/08 and 2008/09. Two large projects in the Cape Town metropolitan area—the N2 Gateway housing project and the Klipfontein Corridor—will provide a focus for housing, transport and infrastructure development over and beyond the 2006 WC MTEF.

Over the 2006 WC MTEF, the Province aims to further its implementation of the **Human Capital Development Strategy (HCDS)**. Through an intensive process in partnership with the provinces, national government has identified the following education priorities to receive additional funding over the 2006 WC MTEF:

- Reduction of backlogs in school equipment (National Quality Development and Upliftment Programme for Public Schools);
- Expansion of Early Childhood Development (Grade R);
- Human resource systems and teacher development;
- Implementation of Revised National Curriculum Statement for Grades 7-9 and Grades 10-12;
- Implementation of Revised Norms and Standards for School Funding (No-fee schools);
- Special schools;
- Education Management Information System (EMIS); and
- Recapitalising Further Education and Training (FET) Sector (via a conditional grant for this purpose).

In the **health** sector, the 2006 WC MTEF continues support for HealthCare 2010 as well as channeling additional PES funds to health priorities identified collaboratively by national and provincial spheres of government:

- Primary health care, including taking over responsibility of the City's PHC;
- Emergency Medical Services;
- Human Resource Strategy;
- Information Systems; and
- Modernisation of Tertiary Services.

Via conditional grants, national government is channelling resources to continue to **revitalise hospitals and equipment**, with a specific focus on regional specialist hospitals. As of 1 April 2006 the **forensic pathology services** currently operated by SAPS will become a provincial function, funded via a new conditional grant for this purpose.

As was the case for Education and Health, the national priorities for the Social Development sector were developed between the national and the provincial spheres. They include:

- Social Welfare Services Programmes: These include interventions to support Non-Government Organisations (NGOs) and private welfare organisations as well as a new policy on financial awards to service providers;
- Social Assistance: The focus in this area will be on the disability management initiative and social assistance transfers and administration;
- Establishment of the Social Security Agency (SASSA): Issues related to the final arrangements around staffing, budgets and the role of the different national and

provincial departments of Social Development are in the final stages of resolution; and

- Progressive implementation of the Older Persons Bill, the Children's Bill and the Child Justice Bill, as and when these bills are enacted.

The 2006 WC MTEF combines these national priorities with the implementation of the province's **Social Capital Formation Strategy (SCFS)**—launched in October 2005. The SCFS aims to strengthen social cohesion by creating safer communities, strengthening networks and increasing access to government services and information. Furthermore, safer schools, school sport and preparations to host the Western Cape leg of the 2010 FIFA World Cup will receive additional resources over the 2006 MTEF.

Economic services are undoubtedly central to the achievement of national government's primary goal of accelerated and shared economic growth. In this vein, national government intends to support economic sectors (provincial road maintenance and rehabilitation, agriculture, economic affairs and tourism) that directly support growth, and to give effect to Government's labour-based and labour intensive programmes. Particular attention has to be given to addressing the fragmented spatial economy and those constraints which limit the growth and prospects of emerging farmers, informal traders, and small enterprises. The 2006 WC MTEF expenditure priorities are therefore drawn from the Provincial Spatial Development Framework (PSDF), which serves as a map for redressing provincial spatial, social and economic distortions in the Province.

National government is also calling for higher rates of investment in specific sectors which have been identified as critical areas, with regard to their current or potential role in providing jobs. The Province has identified Business Process Outsourcing (BPO) Call Centres as an area for important growth potential. Other priorities identified by the provincial economic cluster that have been taken up over the next three years include:

- Capitalising on the initiatives of the national government around the Western Cape Leg of the FIFA World Cup 2010 to foster economic growth and improve social cohesion;
- Implementation of the PSDF and the Law Reform implementation;
- Enhanced public transport safety programmes and contracts, together with accelerating the Klipfontein rapid transport project;
- Extending and sustaining road maintenance and rehabilitation and other infrastructure;
- Sharp rise in bursaries in the transport, public works and roads sectors (engineering and technical);
- In Agriculture, better and more efficient use of irrigation water; an employment creation project: the Olifants-/Doring River Water Resource Development; and expanding agricultural training especially to emerging farmers, aiding transformation in this sector; and
- A sharper focus on waste disposal facilities and the recycling economy.

The 2006 MTEF also includes a drive to expand the application of EPWP principles in the social sector. Via the PES, **EPWP programmes** implemented by the Departments of Health, Education and Social Development, will receive an additional R368 million

over the MTEF, for programmes including community and home-based care health workers, nurse and pharmacist assistants, ECD and youth learnerships.

1.4 Enhancing the Capacity of the State to Deliver

Achieving the service delivery priorities outlined for the 2006 MTEF will not be possible without important improvements in government as the instrument of delivery. The theme of improved state capacity is promoted by national government in the 2005 MTBPS which calls for institutional reforms to boost the performance of the state. In the Western Cape, it is clear that success of the iKapa Elihlumayo strategies depends upon increasing the ability of the state to improve quality of services, speed up implementation and monitor outcomes more effectively.

Given that effective financial governance is a major factor in government's capacity to deliver, initiatives are underway to directly enhance and promote overall efficiency, efficacy and economy in resource use. These initiatives include:

- The development and implementation of an **Integrated Financial Management System (IFMS)** for the government as a whole. The IFMS is intended to enhance compliance with the PFMA and other relevant legislation in all provincial departments (including Provincial Parliament);
- The **Infrastructure Delivery Improvement Plan (IDIP)**, initiated in July 2004, which aims to enhance the efficiency and efficacy of departmental infrastructure delivery, as well as to address the chronic under-spending of infrastructure allocations;
- **Public-Private Partnerships (PPPs)**. Provincial Treasury has set up a dedicated PPP Unit to provide provincial departments and municipalities with developmental technical assistance and support for developing PPPs;
- Continued focus on **reducing the vacancy rates for posts in the component of the Chief Financial Officer (CFO)** of provincial departments;
- **Risk management** processes implemented in each provincial department, based on risk assessments undertaken in 2005;
- Development of a new **procurement-related Broad Based Black Economic Empowerment (BBBEE) Policy/Strategy** for the Western Cape Province; and
- Major initiatives of the Department of the Premier (DoTP) to improve **internal social and human capital**, as well as to improve **coordination and communication** between provincial departments. Other major policy priorities in this area include the establishment of a province-wide **monitoring and evaluation** system and efforts to capacitate municipalities particularly with regard to implementation of their IDPs and the Municipal Finance and Management Act (MFMA).

Provincial and local government interface will also become an increasingly important area over the 2006 MTEF, as municipalities are challenged to comply with the **Municipal Finance Management Act, 2003 (MFMA)** and provinces endeavor to provide support to local government for this purpose. Although the MFMA took effect on 1 July 2004, the roles and responsibilities of provincial treasuries and similarly those of provincial departments of local government only became effective on 1 July 2005. The Act remains a challenge, although a number of collaborative initiatives have been launched from both departments. Further strengthening of the

Department of Local Government and Housing's monitoring and evaluation capabilities, as well as further capacity-building of municipalities, are part of the 2006/09 MTBPS expenditure priorities.

As part of these efforts to strengthen and deepen provincial and local government engagements, in 2005 Cabinet resolved that a **Local Government MTEC Framework** (LG MTEC) be facilitated between provincial departments and municipalities. The MTEC process was initiated to address the need for greater consultation and interaction between provincial departments and municipalities in aligning planning priorities, development strategies and resources, particularly in a spatial context. Based on the Cabinet resolution, the Provincial Treasury and the Department of Local Government and Housing have scheduled a series of engagements between provincial departments and municipalities as part of the annual financial calendar. Four rounds of engagements are underway: the introductory LG MTEC 1 engagements in October 2005; one-on-one engagements between municipalities and provincial departments, organised by Department of Local Government and Housing; LG MTEC 2 in January 2006 which focuses on the budget allocations; and finally LG MTEC 3 budget assessments and visits in April-May 2006.

1.5 Conclusion

In summary, the 2006 WC MTEF demonstrates a close linkage between national allocations to the provinces and the drive to place the country on an accelerated growth path. Close collaboration between national and provincial spheres of government in the 2006 MTEC process has resulted in additional funds added to the PES which are specifically targeted for particular health and education priorities, economic functions, and EPWP programmes in the social sector.

As such, the WC MTBPS 2006-2009 is significant for two primary reasons. Processes leading up to the finalisation of the WC MTBPS 2006-2009 exhibited greater depths of consultation between spheres of government, including a new push to strengthen provincial and local government engagement over the 2006 MTEF. Furthermore, as a document of fiscal policy, the WC MTBPS 2006-2009 reinforces and carries forward major policy initiatives of national government, at the same time that it integrates these objectives with the existing iKapa Elihlumayo strategies. Together with the emerging PGDS, the MTBPS forms a basis for understanding how the Province aims to pursue the goal of accelerated and shared growth over the medium term. The 2006/07 Budget, to be tabled in the Provincial Legislature 17 February 2006, will take its lead from the directions described here.

Economic Analysis and Framework

2.1 Introduction: Accelerated Shared Growth Initiative for South Africa

Government has recently unveiled its new economic growth and development strategy, under the leadership of Deputy President Phumzile Mlambo-Ngcuka. Known as the *Accelerated Shared Growth Initiative for South Africa* (ASGI-SA), the framework aims to accelerate our economic growth to between 6 and 8 per cent by 2014.

Over the past ten years, South Africa has achieved considerable success in macroeconomic stabilisation, laying a solid foundation for sustainable development. However, high levels of unemployment and poverty persist, stretching the development chasm.

Driven by these harsh realities, Government's new accelerated shared growth strategy drives a tough, relentless development agenda. By focusing attention, resources and capacity on key areas such as infrastructure development, sector investment strategies and small business expansion, ASGI-SA aims to unblock structural barriers that inhibit rapid economic growth and shared development in South Africa.

2.2 What is Shared Growth and Development?

Said simply, *Shared Growth* is a development strategy that views poverty reduction and economic growth as being interdependent goals over the medium to long term. While higher levels of economic growth are essential to reducing poverty over the medium- to long term, they are a necessary but insufficient condition. *Equity* also matters in the pursuit of growth and development.

High levels of equity enhance the impact of accelerated growth on poverty reduction. In turn, boosting the long-term growth potential of an economy depends upon a more equitable distribution of income, capabilities and geographic location of communities and upon economic activity that enables the benefits of growth to be shared. A shared growth strategy must therefore be simultaneously pro-growth *and* pro-poor – a relationship that removes a false dichotomy in the debate and points to their interdependency.

Seen against empirical evidence drawn from a wide range of developing country experiences, on average and over time, growth does result in the reduction of poverty. However, it is the *quality of growth* that matters for the extent of impact on poverty. This means that the way in which wealth is created (the *quality of growth*) is just as important as the *level of growth*.

When poor people have access to tangible assets (e.g. land, housing, water, energy, sanitation, transport, credit) or intangible assets (e.g. education and health), they hold the means to participate in economic activity and therefore are better placed to benefit from economic growth.

The key policy lessons to be learnt are:

- Economic growth that is accompanied by improved equity will have a greater impact on reducing poverty than growth that leaves distribution unchanged.
- Increased inequality can offset the benefits of growth to the poor, reducing the poverty impact of future growth.

It is precisely these conclusions that have shifted the debate towards shared growth and development. It is therefore important that Government enhance its understanding of the interaction between growth and equity, and how these impact on poverty over time.

2.3 Growth-Sensitivity Analysis

In the context of South Africa and specifically the Western Cape, has post-1994 growth been pro-poor and therefore shared among a broader national and provincial population base?

According to data from the 1995 and 2000 Income and Expenditure Surveys, at the national level, the wealthy have experienced vigorous, above-average growth in their expenditure, compared to sluggish growth experienced by people in the lower income decile at the national level. Most importantly, expenditures of the poorest at the bottom end of the income distribution grew the slowest.

Furthermore, expenditures for Coloured and White poor outstripped those of the African poor, suggesting a racial bias that conflates the already weak pro-poor growth performance.

There is also evidence that South Africa's growth performance has become less pro-poor over time. Using growth in average income as a proxy for economic growth, results at the national level show that in 1995, using a poverty line of R322 per month,

a one per cent increase in average income would reduce the poverty gap by one per cent. By 2000, this had receded to 0,87 per cent.

Further analysis shows that increased inequality is a key reason for higher poverty levels nationally and as such, has negated any gains experienced through economic growth.

Frankly stated, over the period 1995 to 2000 South Africa's growth performance, while buoyant, was accompanied by increased inequality to the extent that it actually contributed to rising poverty levels and eroded any gains from growth. This is the antithesis of a shared growth experience.

Similar analysis at the provincial level will be completed for the 2006 *Provincial Economic Review and Outlook* (PER&O).

2.4 Economic Outlook

Although shared growth was not attained in the past, does the recent performance and the medium term outlook for the South African economy, and more specifically, the Western Cape, suggest that shared growth and development can be achieved in the future?

Nationally

Given the extent of openness of the national and regional economy, it is necessary to examine developments at the global level. Following strong growth in 2004, the global economy slowed down and became more uneven, with the Euro area and Japan lagging behind the strong performances of the USA and China.

Global economic growth began turning upward again from the middle of 2005. However, following hurricanes Katrina and Rita, higher crude oil prices are placing upward pressure on inflation, drawing the attention of central banks globally.

It is still expected that the expansion in the global economy will be sustained, underpinned by corporate fixed investment spending and hiring, supportive interest rates and strong developing country economic performances (notably China). However risks remain loaded on the downside.

Led by the US Federal Bank, the normalisation of interest rate levels in the major industrial countries may lead to a slowdown or reversal of capital inflows to emerging market economies (such as South Africa) that are making use of capital inflows to finance the widening current account deficits associated with weak export performance.

Turning to the domestic scene, the South African economy is well underway to register above 4 per cent real GDP in 2005. Real GDP growth came in at 4,5 per cent during the first half of 2005.

Domestic growth remains remarkably broad-based. On the demand-side of the economy, final household consumption expenditure is poised to register close to

6 per cent real growth in 2005, and government final consumption expenditure, 4,1 per cent.

Real private fixed investment grew by 9 per cent during the first half of 2005, including a particularly buoyant private residential construction sector. Furthermore, public sector fixed investment spending is taking off and is projected to grow by between 8 and 9 per cent during 2005.

Overall, real GDP growth is forecast to top 4,3 per cent during 2005 (4,2 per cent for the fiscal year 2005/06), with the possibility of an upward revision pending the update of South Africa's national account statistics to be announced towards the end of November 2005.

It is key that policy-makers and other stakeholders in the economy capitalise on this opportunity – termed by some as South Africa's economic 'sweet-spot' – to implement the required micro-economic reforms to elevate the economic growth and employment performance of the economy to the target 6 to 8 per cent band.

Table 2: Macro-Economic Outlook for South Africa: 2005/06 to 2008/09

	Average 1999-2004	2004	2005F	2006F	2007F	2008F
<u>Expenditure on GDP</u> (real per cent change):						
Household consumption	3,7	6,1	5,7	3,9	3,3	3,7
Fixed investment	3,7	9,4	7,9	7,9	9,2	10,9
Gross domestic expenditure (GDE)	3,6	6,3	4,4	4,6	4,4	5,3
Exports	2,3	2,9	6,0	6,1	5,5	5,6
Gross Domestic Product (GDP)	3,2	3,7	4,3	4,1	3,9	4,0
<u>Inflation, interest & exchange rates</u>						
CPIX inflation	6,9	4,3	4,4	5,3	4,7	4,9
PPI inflation	6,7	0,7	3,1	5,2	4,9	5,3
Prime overdraft rate	14,71	11,30	10,63	11,38	11,13	10,75
R/\$ exchange rate	7,70	6,45	6,39	6,85	7,44	8,1
R/euro exchange rate	7,85	8,01	8,03	8,56	9,07	9,72

Source: Bureau for Economic Research

Western Cape

The Western Cape economy has shared in the historic upswing phase of the South African economy; real GDP growth in the region is estimated at 4,2 per cent for fiscal year 2004/05, rising to 4,7 per cent in fiscal year 2005/06 and dropping to 4,3 per cent in the 2006/07 financial year.

The following key factors constrain even higher rates of growth in the Western Cape over the medium term:

- The 2003 - 2004 drought affected the agriculture and agri-processing sectors, both of which are key to the Western Cape economy;

- The strengthening of the rand exchange rate has also had a disproportionate impact on the region's industrial base and agriculture;
- In line with national experience, manufacturing exports in the region plummeted, whilst import competition (particularly from China and India) picked up strongly;
- In the field of corporate management and logistics, there are indications that changes related to information, communication and technology (ICT) are benefiting Gauteng-based national head offices to the detriment of Western Cape-based regional head offices.
- Finally, the earlier boom in European tourist arrivals appears to be tapering off, affected in part by the strong rand.

The fact that the Western Cape economy was able to achieve an estimated 4 to 5 per cent growth rate over 2004 to 2005 in the face of the above-mentioned headwinds is testimony to the strong economic performances of the construction, retail & wholesale, financial & business services (including property development & real estate) and transport & communication sectors.

A number of niche manufacturing and services industries (including agro-processing, automotive components, boat- & ship-building, high-end clothing and furniture manufacturing, call centres and the film industry) have also contributed strongly to regional growth. However, the strong rand exchange rate has dampened activity in a number of these thriving industries.

Enhancing Regional Economic Development

While global and national forces are important, regions are able to play a significant role in shaping their own future, taking the best of their natural resources, climatic conditions, geographic location, biodiversity, and human knowledge and skill to hone their competitive edge, and driving forward a differentiated regional development agenda.

Strategies for regional economic growth differ, but all hold certain aspects in common – identification of regional growth assets and evaluation as to how they might be employed, encouragement and coordination of collaborative processes in order to plan and implement change, together with the instilment of a regional mindset that accepts and adapts to change. Furthermore, regional governments play a key role in triggering the learning process in key upcoming sectors.

The Western Cape's *Microeconomic Development Strategy* (MEDS) is presently firmly located within the first stage of the process – that is, understanding the key sectors that drive growth in the Western Cape economy and assessing their potential to contribute to an accelerated shared growth and development agenda in the Province.

The MEDS has undertaken detailed research into 14 sectors – agriculture and fishing & aquaculture in the primary sector; clothing & textiles, metals & engineering, electronics, biotechnology, film, craft, oil & gas, and cultural industries in the secondary sector; tourism, call centres/BPO, financial services, and ICT in the tertiary sector – and 4 cross-cutting activities (SMMEs, human resource development, energy and transport).

Although the Provincial economy is notably quite diverse and future growth is likely to rest on a broad base, it is still necessary to prioritise certain sectors and activities, given limited resources. Thus the MEDS process suggests prioritisation of 5 key sectors that have high impact in terms of both output and equity objectives. These are call centres/ BPO, oil & gas, tourism, ICT and SMMEs.

Overall, the short-term outlook for the Western Cape economy, as set out in table 3 below, remains upbeat. This is despite external risks, particularly in relation to exchange rate volatility and crude oil price pressures.

Real GDP growth is forecast to average 4,2 per cent over the period 2005/06 to 2008/09, slightly higher than the national average at 4,1 per cent. Growth is forecast to peak at 4,7 per cent in 2005/06, while inflation is set to average 4,5 per cent over the given period, in line with the national average.

Table 3: Outlook for the Western Cape economy: 2005/06 to 2008/09¹

	Average 1999- 2004	2004/05	2005/06F	2006/07F	2007/08F	2008/09F
GDPR (R billion; current prices):		182,6	201,3	220,4	240,5	259,8
Real per cent growth	4,1	4,2	4,7	4,3	3,5	4,3
GDPR deflator	6,8	5,6	4,6	6,1	3,3	4,2
CPI inflation	5,5	2,4	4,1	5,0	4,5	4,4
GDPR by sector (real per cent change):						
Agric, forestry & fishing	1,0	1,5	2,7	2,8	1,6	2,1
Mining and quarrying	(2,4)	10,6	1,1	1,2	(0,4)	0,4
Manufacturing	1,7	2,8	2,9	2,9	2,2	3,6
Electricity, gas and water	3,4	2,5	3,7	3,3	2,5	3,8
Construction	6,5	6,5	7,2	6,9	6,0	7,9
Retail trade & catering	6,7	6,3	5,1	4,7	3,7	5,0
Transport & communication	6,5	5,5	6,0	5,5	4,2	5,9
Financial & business services	5,9	4,4	5,7	5,1	4,4	4,2
CSP services	3,9	4,9	4,3	4,1	3,7	4,6
General government	(0,3)	1,6	3,1	2,4	2,3	2,3
Western Cape GDPR	4,1	4,2	4,7	4,3	3,5	4,3

1. Fiscal years ending 31 March

Source: Bureau for Economic Research

2.5 Labour Market Performance

Having a job that earns a wage, salary or any other form of income from economic activity is the best way that people are able to share in the benefits of economic growth.

The most comprehensive source of labour market data in South Africa is the biannual Labour Force Survey (LFS), conducted by Statistics South Africa. This is a nationally representative survey of approximately 100 000 individuals from which a variety of labour market and other data may be sourced.

Between 2000 and 2004, the working age population in the Western Cape grew relatively rapidly, at 3,3 per cent a year – amounting to 3,1 million individuals in 2004.

Over the same period, the broad labour force (including discouraged work-seekers) has expanded at an average rate of 3,7 per cent a year, while employment appears to have grown by 2,4 per cent a year, or 153 000 jobs over the period.

This means that in 2004, the Western Cape experienced broad unemployment of 26,3 per cent and narrow unemployment of 18,6 per cent. These figures compare favorably to national figures of 40,1 per cent and 26,2 per cent, respectively.

Table 4: Labour market aggregates: 2000-2004

	2000 (Thousands)	2004 (Thousands)	Total Change		Average Ann. Growth	
			Thousands	Per cent		
Western Cape						
Working Age Population	2 764	3 147	383	13,8	3,3	*
Employed	1 538	1 691	153	10,0	2,4	
Broad Unemployed	451	604	154	34,1	7,6	
Broad Labour Force	1 988	2 296	307	15,4	3,7	*
Narrow Unemployed	317	387	69	21,9	5,1	
Narrow Labour Force	1 855	2 078	223	12,0	2,9	
Discouraged Work seekers	133	218	84	63,2	13,0	*
South Africa						
Working Age Population	26 951	29 305	2 354	8,7	2,1	*
Employed	11 713	11 643	(70)	(0,6)	(0,1)	
Broad Unemployed	6 560	8 083	1 524	23,2	5,4	*
Broad Labour Force	18 272	19 726	1 454	8,0	1,9	*
Narrow Unemployed	4 082	4 135	53	1,3	0,3	
Narrow Labour Force	15 795	15 778	(17)	(0,1)	0,0	
Discouraged Work seekers	2 478	3 948	1 471	59,4	12,4	*

Source: Own calculations; September 2000 and September 2004 LFS (Statistics SA); SARB (2005).

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

Looking more closely at the composition of employment, there are approximately 1,7 million people employed in the Western Cape, of which approximately one half (50,6 per cent) are Coloureds, 27 per cent Whites and 21,1 per cent Africans.

Africans account for a smaller share of employment (21,1 per cent) than of the labour force (27,8 per cent), while the converse is true for Whites. The result is that Africans have the highest unemployment rate at 44 per cent, followed by Coloureds at 25,3 per cent and then Whites at 6,6 per cent.

An encouraging trend is the rapid employment growth among matriculants. In 2004 there were 162 000 more matriculants employed than was the case in 2000. This represents an annual average growth rate of 9,9 per cent, and 30,4 per cent of the Western Cape employed in 2004.

Considering the sectoral distribution, the tertiary sector is by far the dominant sector of the Provincial economy. Almost 1,1 million workers (representing 64,7 per cent of total employment) were employed in the tertiary sector in 2004, compared to 441 000 in the secondary sector, and 153 000 in the primary sector.

Focusing on unemployment, the segmentation of the labour market is clear. Striking differences in broad unemployment estimates are evident across race groups, as detailed above.

Similar to the national pattern, female unemployment at 23,4 per cent is more than 6 percentage points above that for male unemployment. However the figure for 15-24 year olds is in excess of 52 per cent.

Generally, lower levels of education are associated with higher rates of unemployment. Unemployment amongst those with incomplete primary, complete primary and incomplete secondary education ranges between 32 and 37 per cent, dropping to 21,3 per cent for those who hold matric certificates.

The prevalence of high rates of unemployment among key groups (Africans, women and the youth) point to the intractable, structural nature of unemployment in South Africa, and the Western Cape more specifically. Confronting structural unemployment demands medium- to long-term planning and interventions on both the labour demand and labour supply sides.

The South African labour market has a deficient aggregate demand problem. As economic activity increases, the tertiary sectors take the lead, demanding workers with certain types of high-level skills which the unemployed and the poor do not possess.

On the labour demand side, interventions need to enhance economic activity in labour-based sectors (such as SMMEs), facilitate broad-basing of economic participation, and enhance labour market performance. One such intervention is the provision of appropriate career guidance and labour market information to young people and graduates.

On the supply side, the need to upgrade the skills base is well known. The skills gap is vast. Education and training, particularly in respect of mathematics and science, are critical to stimulate employment absorption, and in turn to accelerate long-term economic growth potential.

2.6 Accelerated Shared Growth Diagnostic Scan

In summary, the growth performance of South Africa and the Western Cape, have improved considerably since the 1990s. Having achieved democratic consolidation and macroeconomic stabilisation, the challenge over the next 10 years is to accelerate economic growth, enhance employment creation, and broaden economic participation to the levels that are conducive to reducing poverty and achieving shared gains.

Recent comparative international shared growth experiences show that the rate and quality of growth is determined by a country's ability to integrate into the global economy, its capacity to maintain sustainable government finances and sound money, and its ability to put into place an institutional environment in which contracts can be enforced and property rights established.

The key message here is that the quality of government institutional capacity matters for accelerated shared growth and development.

In most developing countries, financial, human and administrative government institutional capacity is limited and must be prioritised. It is necessary to focus particularly on the removal of those economic distortions that are binding constraints on growth, and which will have the biggest direct impact if removed.

At the national level, considerable work is being done by the AGSI-SA technical task team to identify the key binding constraints and therefore attendant policy interventions to accelerating and broad-basing economic growth and job creation at the national level.

The changing intergovernmental landscape tests provinces to do the same. Proactive shaping of the regional economic development agenda demands that provinces identify key binding constraints to shared growth within an intergovernmental context. It is necessary to identify the binding constraints and attendant policy interventions, and subsequently match these to national, provincial and local policy levers. Where policy levers are within the provincial domain, they will be subject to provincial political and resource prioritization. National and local policy levers demand a different approach, testing intergovernmental coordination, coherence and integration. Ultimately, accelerating shared growth within the dynamics of intergovernmental interaction presents a challenge to all in the system and will require coordinated action from all spheres of government.

Service Delivery Priorities Over the 2006 MTEF

Chapter 2 provided an overview of the current socio-economic situation in the Province and what the needs are, and thus served as a platform for understanding what the Province's priorities must be over the medium term. The Province's 2006 Medium Term Expenditure Framework (MTEF) must align with *national* imperatives while simultaneously providing the direction and necessary resources to pursue specific *provincial* priorities—as articulated in the iKapa Elihlumayo strategies and the nascent Provincial Growth and Development Strategy (PGDS). Given the backdrop and direction provided by the national 2006 MTEF, this chapter identifies the main expenditure priorities for the Western Cape 2006 MTEF, and demonstrates how those priorities link back with and reinforce the *Accelerated Shared Growth Initiative for South Africa* (ASGI-SA) and other national objectives.

3.1 Overarching National and Provincial Strategic Objectives

The overarching theme of the 2006 national MTEF is accelerated and shared economic growth. However economic growth must be understood in all its complexity. National Cabinet has committed to a target of halving unemployment and poverty by 2014, and achieving a growth rate of 5 per cent by 2008. In order to achieve this, Government must focus on connecting the first and second economies through interventions which bring marginalised sectors into the fold and crowd in private sector investment. The approach to economic growth which is required goes beyond the traditional economic sectors. Instead the attainment of *shared* growth demands an appreciation of the critical linkages between social capital, skills development, and infrastructure investment. In order to ensure that the rents of economic growth are shared by all sectors of the population over the medium to long-term, Government's growth strategy must incorporate interventions in the education, housing and social services sectors which connect marginalised people and communities to growth opportunities. This can be achieved through improved educational outcomes, enhanced skills development opportunities, more efficient and far-reaching public transport systems, and the location of infrastructure investment in areas with economic growth potential.

However, the most well-thought out and researched strategies will be unsuccessful without due attention to the improvement of government's internal capacity. Therefore enhancing the performance of the state is another pervasive theme of the national government plans. Attention is focused on the human resource, institutional and strategic obstacles which are hindering Government's ability to provide quality services.

These overarching objectives are reflected clearly in the 2006 National MTEF, which demonstrates a strong push in the budget towards investment in the built environment and improving human resources and access to quality services in the social sector. The following five focal points for the 2006 Budget Policy Framework are put forward by national government in the MTBPS:

1. Accelerating economic growth and investment in productive capacity;
2. Promoting opportunities for participation of marginalised communities in economic activity and improving the quality of livelihoods of the poor;
3. Maintenance of a progressive social security net, alongside investment in community services and human development;
4. Improving the capacity and effectiveness of the state, including combating crime and promoting service-oriented public administration; and
5. Building regional and international partnerships for growth and development.

These national priorities—particularly the goals of speeding up economic growth and development, building capacity of the state, and improving social cohesion and social services—are picked up again at the provincial level and made manifest in the context of the Western Cape. First announced by the provincial government in the 2003 MTBPS, the iKapa Elihlumayo strategies lay out how the Western Cape government aims to attain the goals of higher economic growth, higher levels of employment, lower levels of inequality, and a sustainable social safety net. The main iKapa Elihlumayo strategies resonate with the priorities emanating from national government. They are:

1. The Provincial Spatial Development Framework (PSDF), led by the Department of Environmental Affairs and Development Planning;
2. The Micro Economic Development Strategy (MEDS), led by the Department of Economic Development and Tourism;
3. The Human Capital Development Strategy (HCDS), led by the Department of Education;
4. The Social Capital Formation Strategy (SCFS), led by the Department of Social Services and Poverty Alleviation; and
5. The Strategic Infrastructure Plan (SIP), led by the Department of Transport and Public Works.

Driven and developed by the Department of the Premier, the Provincial Growth and Development Strategy (PGDS) incorporates and synthesizes the iKapa Elihlumayo strategies and the main elements of the municipal Integrated Development Plans (IDPs). Currently in the early drafting stage, the PGDS will provide the strategic direction and scope for a provincial-wide development programme. The Strategy will address the issues associated with the apartheid space economy, sustainable

development, poverty reduction and employment creation. The PGDS should also provide the necessary frameworks for both public and private sector investment, indicating areas of opportunities and development priorities. Furthermore, the Strategy must focus on addressing key implementation blockages and institutional reform where necessary.

In order to ultimately achieve the Province's development objectives, all the key stakeholders must understand and agree on how these various strategies and frameworks fit together. The National Spatial Development Perspective (NSDP) can provide the spatial analysis to guide development in the Western Cape, but the iKapa Elihlumayo strategies and IDPs are required to flesh out the detailed objectives and plans in each of these pivotal areas. The five core iKapa Elihlumayo strategies thus provide a reference point for Provincial Government Department budget prioritisation. The PGDS then draws upon and welds together all the iKapa Elihlumayo strategies to come up with an overarching strategy for growth and development in the Province.

3.2 Additional Allocations Over Baseline, by Key Priority Area

As stipulated in the 2005 National MTBPS, national government will transfer an additional R46 billion to provinces in order to support social services and the development of economic and community infrastructure over the next three years. The intended objectives are: to make the funds available for strengthening the health, education and social development sectors; to boost provincial functions related to the economic sector (rehabilitation and maintenance of provincial roads, support for agriculture and tourism); and to expand government's labour-based and labour-intensive programmes.

Of the R46 billion channelled to provinces by national government, R30,9 billion is added to the equitable share while R15,1 billion will be transferred as conditional grants. For the Western Cape, the additional allocations to the Provincial Equitable Share (PES) amount to R353,4 million in 2006/07, R883,7 million in 2007/08 and R2,524 billion in 2008/09.

Nationally, of the total R30,9 billion added to the PES over the MTEF, R20 billion or 65 per cent is provided for the education, health and social development sectors. The specific national priorities in these areas are detailed in the section below. Another 8 per cent or R2,6 billion of the PES additions are intended for economic functions, while R4,2 billion is for the Expanded Public Works Programme (EPWP) within the social sector (education, health and social development).

A further R4,8 billion has been added to the PES to provide for the implementation of the Government Employee Medical Scheme (GEMS).

For the Western Cape, a total of R2,302 billion of equitable share funds will be added to the baseline to support initiatives in these key priority areas over the MTEF:

- Additional R1,707 billion for social services (education, health and social development) over the MTEF;

- Labour-intensive programmes in the social sector, including community and home-based care health workers, nurse and pharmacist assistants, ECD, and youth learnerships, will receive an additional R368 million funds; and
- Economic functions in the Province are to benefit from R226 million in additional funds over the 2006 MTEF.

Table 5 shows the PES funds added to the baseline in the 2006 MTEF for each of these key priority areas.

Table 5: Additional equitable share funds for national policy priorities for the Western Cape

Sector	Total 2006 MTEF
Social Sector	R1,707 billion
<i>Education</i>	<i>R936 million</i>
<i>Health</i>	<i>R440 million</i>
<i>Social Development</i>	<i>R331 million</i>
EPWP for Social Sector	R368 million
Economic Services	R226 million
Total	R2,301 billion

Together with allowances for inflation, general growth, expected changes in conditional grants and own revenues, as well as internal technical adjustments and shifts, the total anticipated spend on Education will be R22,8 billion over the next three years or R2,5 billion more (12 per cent rise) than the 2005 MTEF. Given the same assumptions, the total spend for Health for the 2006 MTEF is R20,4 billion, which is R2 billion (11 per cent) more than the 2005 MTEF. Similarly, Social Development rises to R17,6 billion, an increase of R1,8 billion (12 per cent) compared to the 2005 MTEF estimates.

Within the economic sector, spending on Transport and Public Works (mostly roads) over the 2006 MTEF will be R728 million (or 13 per cent) more than was previously estimated in the 2005 MTEF, for a total spend of R6,5 billion in the sector over the next three years. Spending on Agriculture will total R852 million in the 2006 MTEF (a 12 per cent increase from the 2005 MTEF) and spending on Economic Development will amount to R610 million, or a 15 per cent increase from the 2005 MTEF. Estimated spending on Housing, based on current disbursement ratios between the provinces, could rise by R578 million (35 per cent) compared to the 2005 MTEF, to reach a total of R2,2 billion over the new MTEF. The latter number is still subject to finalisation by the national government.

In aggregate, the new 2006 WC MTEF provides an additional R6,4 billion to the social sector (education, health, community safety, social development and cultural affairs and sport), constituting a 12 per cent increase from the 2005 MTEF. The economic sector allocation will increase by R1,49 billion (or 16 per cent) in the 2006 MTEF, compared to the previous MTEF. Overall spending in the Province is expected to rise from R66,7 billion (2005 MTEF estimate) to R74,7 billion over the next three years, or an overall increase of 12 per cent.

The remainder of the chapter outlines the new 2006 WC MTEF priorities for the departments, as well as those spending priorities from the previous 2005 MTEF which carry through into the new MTEF as part of the departmental baselines.

3.3 Key Expenditure Priorities for the Western Cape

The additional funds in the 2006 WC MTEF are intended to further specific national objectives, but will also link closely to the iKapa Elihlumayo strategies.

3.3.1 Supporting Infrastructure and the Built Environment

National priorities regarding the built environment emphasise the creation of *sustainable human settlements*. The establishment of sustainable human settlements demands attention to all the elements of a neighbourhood or community, instead of a narrow focus on the construction of houses. According to the *Breaking New Ground* (BNG) policy, delivery agencies should aim to build mixed-use, more convenient, denser neighbourhoods, which are more accessible to social services and economic opportunities available in cities and towns, and thus minimise the need for expensive movement of people, goods and services. Higher density settlements would also help create the thresholds that are necessary for viable public transport, and thus either reduce the need for or increase the spread of transport subsidies. A greater diversity of tenure options (catering for a variety of needs, including rental) will be promoted.

Towards this end, national government is requiring that provinces ensure that housing delivery supports the development of Integrated Housing Settlements and also takes heed of geographical realities. In planning for housing delivery, the Province must pay attention to where homes are built—in relation to accessible public transport and job opportunities—and whether those homes are built in a manner that achieves livable and likable communities. This kind of well-functioning built environment also depends upon sound local planning and coordination, and the appropriate balance between public and private sector functions.

Currently under development by the Province, the Strategic Infrastructure Plan and the Provincial Spatial Development Framework are the two main planning tools to guide policy and implementation in the area of infrastructure development. Together these two iKapa Elihlumayo strategies provide an overall framework or plan for the built environment in the Western Cape which can result in investments in infrastructure, housing, transport and public facilities that have the intended effect of creating safe, livable and sustainable communities.

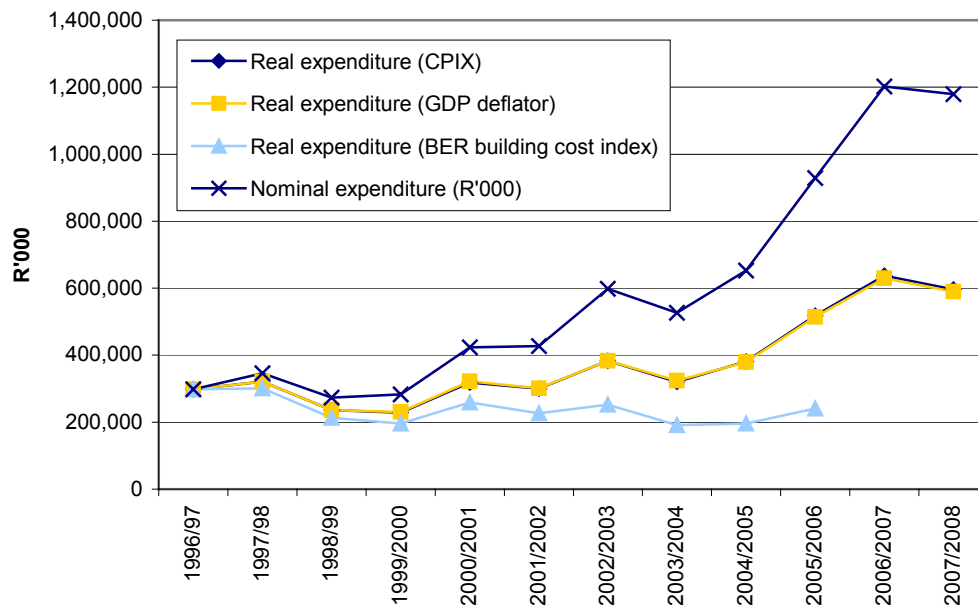
3.3.1.1 Strategic Infrastructure Plan

To be released in early 2006, the Strategic Infrastructure Plan (SIP) is the Province's strategy for maximizing the economic and social impact of infrastructure investment—on the one hand targeting new infrastructure in areas with high economic potential, while on the other hand pursuing the aims of integrated human settlements. The SIP will address two substantive priorities:

- A well-functioning built environment, which is critical for economic growth and social inclusion. It provides an enabling context for economic growth by cutting down the costs of doing business and providing opportunities for new businesses. The role that public transport plays in creating and giving access to economic opportunities is especially critical; and
- The possibility of significantly stimulating upstream segments of the construction value chain, and thus employment generation, by moving towards more sustainable infrastructure designs and construction methods.

Over the 2006 WC MTEF, infrastructure expenditure in the Health, Education, Housing, Transport and Roads sectors is rising steadily in nominal terms, and as a share of total expenditure. Half of the resources budgeted for infrastructure will be spent on the construction and maintenance of roads—key pieces of infrastructure for opening up and enhancing economic activity. Figure 1 shows how expenditure on roads infrastructure in the Department of Transport and Public Works has climbed over the last decade. However, in real terms, the increase is less drastic. The Bureau for Economic Research (BER) building cost index is based on the contract prices of non-road projects, but may give a better picture of the costs of roads building than the simple CPIX or GDP indices.

Figure 1: Real and nominal expenditure on the Roads Infrastructure Programme in the Department of Transport and Public Works



Note: 2005/06 figures are the average of the first 5 months of the financial year. Given that the trend is one of rising costs, the index is likely to be an underestimate.

Sources: For period 2000/01 to date, deflators calculated from CPIX and GDP inflation figures from Budget Statements 2005 and 2004; prior figures from Budget Statements 2002 and 2001 and from Appropriation Statements 1997/1998; Bureau for Economic Research Update; Provincial Treasury calculations.

At present the paucity of engineering professionals and project managers in the country is blocking enhanced infrastructure planning and delivery. Via the SIP, the Province will also plough substantial resources into addressing this constraint. The Infrastructure Delivery Improvement Plan (IDIP), described further in section 4.1.2, is an additional mechanism which will be important in ensuring the efficient and effective utilisation of funds for infrastructure.

Over the 2006 WC MTEF, three large projects in the Cape Town metropolitan area will provide a focus for housing, transport and infrastructure development over the medium term:

- The **N2 Gateway** housing project, a pilot project for BNG, is a challenging and ambitious initiative involving all three spheres of government;
- Construction of the **Klipfontein corridor**, a joint project of the Province and the City of Cape Town. The Klipfontein project involves the development of a public transport corridor linking economic core of the city to the poor areas in the southeast area of the city. It will also provide a spatial framework for creation of new economic opportunities on the Cape Flats; and
- The creation of a transport infrastructure and network of sports and community facilities, in anticipation of the **2010 FIFA Soccer World Cup**.

Disaster Management Centre

A collaborative initiative by the Departments of Local Government and Housing, Health and Community Safety has resulted in the establishment of an integrated Disaster Management Centre. Satellite centers across the Province will also aid municipalities and double as communication hubs for ambulance and traffic services. This project is to be taken further in 2006, with approximately R7 million allocated for the operation of the Centre over the 2006 MTEF.

Housing

In the previous 18 months, the Department of Local Government and Housing has moved in two broad respects to improve housing delivery. It has:

- Reformulated geographic targeting of housing subsidies to municipal areas. This was done in order to ensure that the housing backlog is addressed equitably, and that new settlements and communities are located near long-term economic opportunities, and are thus economically sustainable; and
- Enhanced the support provided to municipalities, as the primary planning and implementation agencies for subsidised housing. Enabled by the introduction of three-year allocations to municipal areas, municipalities are now in a much better position to plan subsidised housing delivery over the medium term period.

The Department of Local Government and Housing is currently developing a strategy to implement the BNG policy framework in the Western Cape. To be launched towards the end of November 2005, the Strategy will look at new approaches for leveraging private resources for well-located subsidised housing.

Significantly addressing the housing backlog remains a key issue. The BNG with its prescriptions for increasing densities, creating more compact forms, and improving location, will also have the effect of increasing the unit cost of housing in the short term. To address this problem, the social housing and credit-linked instruments have been developed for households with monthly incomes of between R3500 and R7000,

thereby filling a gap in the subsidy system. The aim of these instruments is to extend the reach of the subsidy programme into low and middle income households, thereby improving the operation of housing markets at the lower end and facilitating better movement between markets. The Upgrade of Informal Settlements Programme (UISP) grant – a new instrument – and the People’s Housing Process grant provide a means to make a real dent in the housing backlog.

Public Transport

The Department of Transport and Public Works, together with its municipal partners, faces a daunting challenge in transforming the current subsidy system in place for public transport in the Metro area. The present system which involves a single bus operator is to be replaced by a suite of route-based, scheduled services on the basis of longer-term contracts, which will be awarded through competitive tendering processes, thus fulfilling the provisions of the National Land Transport Transition Act. The Klipfontein Corridor project is one of the public transport routes identified for subsidy.

The intention is to use this process to help leverage the formalisation of the taxi industry by encouraging taxi operators to form consortia with other operators to tender for the scheduled service routes. The scrapping allowances, flowing from the taxi recapitalisation process, can provide a source of capital for the new services. However important issues must still be addressed, including the institutional and financial roles and responsibilities of the Province and the City in the development and improvement of a subsidised transport system in the Metro area.

3.3.1.2 Provincial Spatial Development Framework and the Integrated Law Reform Project

The PSDF, due for release at the end of November 2005, is a policy framework and implementation strategy for the geographical targeting of provincial service delivery and regulatory interventions.

At the macro level, the PSDF follows the National Spatial Development Perspective (NSDP), by establishing a geographically based framework identifying sites where “fixed investment” has a very high probability of generating high economic and employment growth, and where poor areas can be included within that success. By sending out signals to local government and the private sector, the investment framework aims to crowd in complementary investment from these sources and thus generate an enabling environment for economic growth and development.

The NSDP and the fixed investment framework in the PSDF require a fundamental shift in the way that fixed investment decisions are taken across government. For instance, the frameworks stipulate that fixed investments in Presidential Nodes and Project Consolidate areas, where these localities are not identified as areas of high economic potential, be limited and resources redirected to the identified areas. Over the next two years, the President’s Office which drives the NSDP will promote the use of this framework in making investment decisions across government. Through the PSDF, the Province will play a similar leadership and monitoring role in the Western Cape, in order to ensure that future development is aligned with the PSDF.

At the micro level, the PSDF offers a number of prescriptions and codifications for the internal arrangement of settlements and the use of natural resources in order to promote internal operational efficiencies within the built environment. One of the key mechanisms suggested by the PSDF is the placement of no-development boundaries around urban settlements. Referred to as ‘urban edges’, the mechanism primarily works by constraining land supply and causing land prices to rise, thereby inducing more efficient land use. By limiting urban sprawl, the implementation of urban edges can have the effect of slowing rising land prices in areas outside the urban edges, which in turn can facilitate land reform and the development of subsidised housing in those areas. However, there are potential problems with the strategy, such as enforcement, which will need to be further examined.

Working in tandem with the PSDF, the Integrated Law Reform Project (ILRP) is aimed at re-engineering the legislative framework governing land development in the Province. Its goal is to enable implementation of the SIP and PSDF, by streamlining decision-making in the development control process. The ILRP also endeavours to improve the quality of planning decisions by adopting a “triple bottom line” approach which promotes sustainability.

At present, three separate approval processes—regarding land use, environmental impact, and heritage impact—severely lengthen and complicate the process of acquiring a building or land use permit. The purpose of the ILRP is to design new legislation to replace this with a single system for parallel decision-making which allows for a smoother articulation between the three approval processes. Closer integration between the processes will not only speed up the process, but also allow for more interaction between the officials in the different disciplines, and thus give rise to better decisions. To be successful, the ILRP must also be synchronized with national legislation in this area, namely the National Environment Management Act (NEMA) and the National Heritage Resources Act (NHRA).

3.3.2 Enhanced Social Services and the Expanded Public Works Programme

Social services continue to be an overriding national priority. Across the sector, the common emphasis is upon increasing peoples’ access to good quality services in the public sector, via better utilisation of human resources and improvement of information for planning interventions and for monitoring service delivery. Service delivery information must be improved in accuracy, scope, depth and timeliness. With better quality and more detailed information, it becomes possible to improve planning, targeting and monitoring of interventions.

3.3.2.1 Education and the Human Capital Development Strategy

Educational cost pressures are comparatively high in the Western Cape relative to most other provinces. According to the WCED, teacher salaries are higher-than-average due to their higher level of qualifications and experience. The positive spin-off from this is better quality education, but the Province also spends comparatively more than other provinces on learner transport, thus pushing up its overall costs. Taken together with the necessity to pursue agreed-upon national policy imperatives,

these realities continue to test the ingenuity of the Western Cape Education department (WCED).

Through an intensive process in partnership with the provinces, national government has identified the following priorities over the 2006 WC MTEF:

- Reduction of backlogs in school equipment (National Quality Development and Upliftment Programme for Public Schools);
- Expansion of Early Childhood Development (ECD) (Grade R);
- Human resource systems and teacher development;
- Implementation of Revised National Curriculum Statement for Grades 7-9 and Grades 10-12;
- Implementation of Revised Norms and Standards for School Funding (No-fee schools);
- Strengthening of special schools;
- Education Management Information System (EMIS); and
- Recapitalising Further Education and Training (FET) Schools and expanding FET College Learner Support (via a conditional grant for this purpose)

In the Western Cape, the Human Capital Development Strategy (HCDS) builds on these national objectives and lays out the additional core objectives and programmes to be pursued by the WCED. Led by the WCED, the HCDS is aimed at all people living in the Western Cape, but places particular emphasis on the youth. Its goal is to address past inequalities and demonstrate the Province's commitment to ensuring improved educational opportunities for all learners in the Western Cape. By doing so, it also supports the achievement of other national and provincial objectives, such as: an accelerated shared economic growth path; an increased rate of investment in productive capacity; and greater participation of marginalised communities in economic activity.

The main goals of the HCDS are as follows:

1. To improve the **conditions of education**, with a specific emphasis on strong school management, infrastructure, equipment, etc.;
2. To improve the **educational environment**, with a focus on crime and social breakdown involving the Department of Community Safety and Social Services and Poverty Alleviation;
3. To improve the **quality of education**, through classroom management, teacher competence and development, and developing relevant curriculum packages; and
4. To support the MEDS by providing opportunities for **skills and qualifications** in vocational education through the Further Education and Training (FET) College sector.

While the HCDS is primarily focused on school learning, it also seeks to encourage and promote lifelong learning. As such, the HCDS promotes ECD activities as well as strengthening the FET college system.

The importance of ECD in improving learning outcomes stretches further than just education, and consequently the Departments of Social Services and Poverty Alleviation, Health and Education have collaboratively developed a "Revised Draft Integrated Provincial Early Childhood Development Strategy" that informs their

activities across the three departments. In order to expand access to Grade R learning, the WCED has changed its funding model away from paying Grade R educators' salaries. This system is being replaced by a subsidy model whereby schools are paid a certain amount per learner, on a sliding scale.

The promotion of vocational and occupational training through the FET college sector will help promote direct links between education and training and the needs of the labour market. In order to meet this challenge, a number of new course offerings have been made available at the six FET colleges in the Western Cape. Another key objective of the HCDS is to increase participation rates in FET colleges. Targets have been set to increase Full-Time Equivalent enrolments from 17 500 in 2004 to 30 000 by 2014. Greater access to FET colleges is also being promoted through a scheme to provide study loans to poor and deserving learners studying new FET programmes in line with the MEDS. There are also plans to expand the loan scheme over the MTEF, with the number of loans increasing each year by 200, from 1 300 in 2005/06 to 1 700 for 2007/08.

The FET College re-capitalisation is another critical component of the larger effort to increase the pool of critical skills, with the ultimate aim of enhancing economic development. In response to this need, a conditional grant to support FET recapitalisation was introduced, effective from 1 April 2006. Nationally, the grant totals R500 million in 2006/07, R600 million in 2007/08 and R807 million in 2008/09.

In dealing with the issue of quality education, the HCDS has placed specific emphasis on improving literacy and numeracy outcomes. The promotion of mother tongue education forms part of this strategy.

Despite considerable progress regarding equal access to education, equality of and improvement in outcomes still remains a challenge. In order to meet these challenges, the WCED in its HCDS has identified a number of programme-based strategies as well as cross-cutting initiatives, including school management and organisational re-engineering. Furthermore, the Department has initiated a number of projects/programmes centered on subject and career guidance. In doing so, the HCDS aims to set up stronger links between school outcomes, the supply of skills beyond the school system, and the demand for skills within the Provincial and the South African economy. A new learner-tracking initiative will enable the Department to monitor the progress of learners through the public school system. This project will not only prove useful in obtaining accurate learner numbers, but is also useful in understanding the effects of HCDS interventions and helping to target those strategies.

3.3.2.2 Health sector

While the Western Cape Health department also has to deal with higher than average per capita costs than their counterparts in other provinces, the national and provincial MTEF frameworks identify the following priorities for the health sector. As in the case of Education, these priorities were developed in a collaborative fashion between the national and provincial spheres.

Emergency Medical Services

One of the key national and provincial health priorities is to improve the provincial emergency medical services (EMS) response times in order to comply with national targets. This is to be achieved via the rejuvenation of the ambulance fleet, improvements to the communication systems, and provincialisation of the EMS— which is already well underway in the Western Cape.

Primary health care

With the advent of the 2005 MTEF, provinces took over full responsibility for primary health care services that were previously the domain of the non-metro municipalities. What remains to be transferred is primary health care still administered by metropolitan municipalities. Over the 2006 MTEF it is anticipated that this will also progressively become a provincial responsibility. The advantage of these shifts is that health care service delivery will be unified, thus simplifying the experience for the beneficiary and improving efficiency and the quality of overall health care.

In line with national health priorities, the Department of Health intends to strengthen Primary Health Care (PHC) through additional staff, upgrading PHC Tuberculosis (TB) services, extending the opening hours at community health centres, and PHC computerization. At the district level, the Department has compiled District Health Plans to facilitate integrated planning between the provincial department and local governments, while in rural municipalities a task team manages the remaining provincialisation of PHC services.

Human Resource Strategy

Reversing low staffing levels in public health services, particularly for nurses, have been prioritised at both the provincial and national sphere as part of the National Health Human Resources Framework. There is to be a strong push for improved management and intensified recruitment, in order to address the shortage of health professionals in the sector.

Hospital revitalisation and modernisation of services

New resources to revitalise and modernise tertiary services and equipment have now been made available, with a specific focus on regional specialist and tertiary hospitals. The purpose of modernising tertiary services in the Western Cape is to remove unnecessary duplication of tertiary services between the three central hospitals in the Province. The modernisation of tertiary services will also serve the purpose of deepening expertise in the relevant fields by identifying a unique package of services for each hospital (e.g. heart surgery only at Groote Schuur and cancer treatment at Tygerberg hospital only). The Department's progress towards Healthcare 2010 and improved management of acute and sub-acute care feed into this initiative.

With regard to hospital revitalisation, the non-metro hospitals of George, Worcester, Vredenburg and Paarl are being upgraded; the Victoria and Hottentots Holland Hospitals will be relocated; and two new district hospitals are to be built in Khayelitsha and Mitchell's Plain. The Hospital Information System (HIS) has been initiated at the central hospitals. Over the 2006 WC MTEF, it is estimated, based on current disbursement ratios, that a total of R103 million will be added to the Western Cape's Hospital Revitalisation conditional grant. However this is still subject to

national decision-making and provincial spending performance in the 2005/06 financial year.

Forensic pathology services

Although the 2005 adjustment estimates substantively initiate this process, from 1 April 2006 the Forensic pathology services currently operated by South African Police Services (SAPS) will fully become a provincial function. In aggregate, provinces will receive conditional grant funds for this function to the amount of R525 million in 2006/07, R551 million in 2007/08, and R467 million in 2008/09.

Through its primary health care services programme, the Health department is also an important player in the realization of the Social Capital Formation Strategy which is discussed below. In addition, further research work has been initiated under the personal guidance of the head of the Department to get a better grip on the burden of disease and its informants in the Western Cape, with the ultimate purpose of lowering morbidity and mortality trends in the Province.

3.3.2.3 Social Development Services and the Social Capital Formation Strategy

As was the case for Education and Health, the national priorities for the Social Development Services and Social Capital Formation Strategy were developed between the national and the provincial sphere. They include:

- Social Welfare Services Programmes: These include interventions to support Non-Government Organisations (NGOs) and private welfare organisations as well as a new policy on financial awards to service providers;
- Social Assistance: The focus in this area will be on the disability management initiative and social assistance transfers and administration;
- Establishment of the Social Security Agency (SASSA): Issues related to the final arrangements around staffing, budgets and the role of the different national and provincial departments of Social Development are in the final stages of resolution;
- Progressive implementation of the Older Persons Bill, the Children's Bill and the Child Justice Bill, as and when these bills are enacted.

The 2006 WC MTEF combines these national priorities with the implementation of the Province's Social Capital Formation Strategy (SCFS)—launched in October 2005. In alignment with national priorities, the SCFS aims to strengthen social cohesion by creating safer and healthier communities, strengthening networks and increasing access to government services and information. In essence, the Strategy is the Province's plan to arrest and reverse the decline in social capital in the Province that is visible in: high levels of crime particularly amongst the youth, motor-vehicle accidents caused by driver attitude and fitness, alcohol and drug abuse, AIDS and TB, and gang activity. The following programmes have been identified as key in achieving the desired outcomes:

- Safer schools and programmes to address the gang culture in the Province;
- Substance abuse reduction programmes;
- Motor Vehicle Accident Intervention Strategy;
- Promoting sports and recreation, particularly school sports;
- Poverty reduction;

- Youth development;
- NGO sector transformation;
- Early Childhood Development; and
- Hosting the 2010 FIFA World Cup.

Substance Abuse

High levels of alcohol and drug abuse undoubtedly contribute to crime in the Western Cape and demand that the Province prioritises the rollout of substance abuse strategies as well as youth treatment and prevention programmes. Starting in June 2005, the substance abuse strategy was rolled out. The strategy pursues a three-pronged approach: it aims to reduce the supply of drugs, lessen the demand for drugs, and increase the treatment and rehabilitation options available in the Province. With the increase in 'Tik Tik,' the current focus is moving away from inpatient treatment towards sustainable community based treatment programmes.

Creating safer schools, and addressing gang culture in the Province

Safety at school is becoming an increasingly important issue in the Western Cape and an additional R20,3 million has been added to assist in dealing with this serious problem. Rates of murder, rape, armed robbery and crimes against women and children are at higher levels in the Western Cape than any other province. Gangs, alcohol abuse and domestic violence are powerful contributing factors. Particularly in the Cape Flats, schools are target areas for the recruitment of new gang members, selling of drugs and inter-gang conflict. Through its People Orientated Problem-Solving (POPS) approach, the Department of Community Safety has joined forces with the Department of Education to mobilise communities and other law enforcement agencies to fight crime in our schools and to deploy Bambanani volunteers to the most needy schools. The Safer Schools Programme is a school-based project aimed at providing schools with the tools to manage the security of teachers and students and limit the growth of gangs.

Motor Vehicle Accident Intervention Strategy

Motor vehicle accidents remain a serious cause for concern in the Province and continue to impact negatively on the Department of Health's budget. In Cape Town, transport injuries are the second leading apparent manner of non-natural deaths (25 per cent of all deaths) after violent deaths (55 per cent). During the 2005/06 financial year, the Department of Community Safety received an additional R4 million earmarked for the formulation of a decisive intervention strategy for reducing motor vehicle accidents. The results of this study are to be taken forward in the new year.

Sport and recreation, particularly sports in schools

The Department of Cultural Affairs and Sport is also focusing its energy on reviving school sports by providing facilities and financial support for school games, especially schools in poorer areas. R10,4 million has been provided over the MTEF to prepare the way for a sports school.

Furthermore, the Department will play a central role in the Province's plans and preparations to host the Western Cape leg of 2010 FIFA World Cup. In September 2005, the Department together with the City of Cape Town and other key stakeholders, submitted a draft strategic framework for the Western Cape leg of the

2010 FIFA World Cup. Beginning in 2006/07, the Department will begin rolling out some of the non-infrastructure related aspects of the Framework, including programmes involving arts and culture, football and youth. The Department will also establish and capacitate a small, high-powered unit to coordinate the 2010 FIFA World Cup preparations in the Province. To assist the Department, R14,5 million has been provided for this purpose over the 2006 WC MTEF. This is apart from the R60 million that has already been provided in the 2005 WC MTEF as a contribution for sport stadium upgrades.

Youth and Early Childhood Development

The SCFS focuses on youth, as the most vulnerable group in our communities. Programmes aimed at strengthening family life and the protection of children are an important focus of the SCFS, including projects to combat child trafficking and the sexual exploitation of children. A collaborative initiative between the Department of Social Service (DSS&PA) and the City of Cape Town aims to reintegrate 120 children living on the streets back into their communities.

Initiatives to support youth include programmes to build networks, peer mentoring programmes, life-skills training, and the establishment of multi-purpose centers in our communities. Unemployed youth are also empowered with skills through the Expanded Public Works Programme and their accompanying learnerships.

Provincial Poverty Reduction Strategy

The scarcity of formal job opportunities creates greater demand for the social sector to develop innovative strategies that can minimise the impact of limited job opportunities. As part of the strategy, the DSS&PA plans to increase its service provision in under-resourced areas, increase the number of district offices, and provide for additional community development workers, the majority of whom will be youth and women. Implementation of the strategy will receive priority during the next financial year.

NGO sector transformation

The NGO sector plays a crucial role in the continued efforts towards family strengthening, and helps to provide impoverished and marginalised communities with bridging and linking social capital. The SCFS underlines the contribution which the NGO sector makes in extending networks to the poor, the vulnerable and those with special needs by requiring each department in the social cluster to strengthen civil society structures and invest in building the capacity of these structures. During the current financial year, the Department of Social Services and Poverty Alleviation completed the first phase of a funding formula that will guide the future allocation of resources to non-profit and non-governmental organisations, based on consideration of equity and need.

3.3.2.4 Expanded Public Works Programme

The EPWP is an important underlying initiative of government which has links to the provincial lead strategies concerning social and human capital as well as economic growth. The Department of Transport and Public Works (DTPW) is the driver of EPWP for all provincial and municipal agencies in the Western Cape. Up to now, the majority of EPWP programmes have been in the areas of construction and maintenance of roads, public works and environmental projects, although there are challenges regarding how programmes in these sectors can be made more labour-intensive in a manner which retains efficiency.

With the 2006 WC MTEF, there is a drive from national government to expand the application of EPWP principles in the social sector. EPWP programmes in the social sector, including community and home-based care health workers, nurse and pharmacist assistants, ECD and youth learnerships, will receive an additional R368 million over the MTEF.

3.3.3 Strengthening Economic Sectors and Business Support Services

Economic services are undoubtedly central to the achievement of national government's primary goal of accelerated and shared economic growth. In this vein, additional funds in the PES are intended to support economic sectors (provincial road maintenance and rehabilitation, agriculture, economic affairs and tourism) that directly support growth, and to give effect to government's labour-based and labour intensive programmes. Particular attention is given to addressing the fragmented spatial economy and those constraints which limit the growth and prospects of emerging farmers, informal traders, and small enterprises. Accelerated growth will also be achieved nationally by investing in road and rail transport and providing support to sector-based industrial policy initiatives. National government intends to further enhance growth through broad-based economic empowerment and the alignment of research and development objectives with industrial policy.

In implementing these strategies, the Province must carefully consider the geography of the Western Cape—where particular areas of need are, and why. Using a spatial perspective to plan economic and social interventions will greatly increase their impact. The 2006 WC MTEF expenditure priorities are therefore drawn from the Provincial Spatial Development Framework (PSDF), which serves as a map for redressing provincial spatial, social and economic distortions in the Province.

National government is also calling for higher rates of investment in specific sectors which have been identified as critical areas, with regard to their current or potential role in providing jobs. The Province has identified Business Process Outsourcing (BPO) and Call Centres as an important potential area for growth. Other priorities identified by the provincial economic cluster that have been taken up over the next three years include:

- Capitalising on the initiatives of the national government around World Cup 2010 to foster economic growth and improve social cohesion;
- Implementation of the Provincial Spatial Development Framework (PSDF) and the Law Reform project;

- Enhanced public transport safety programmes and contracts, together with accelerating the Klipfontein rapid transport project;
- Extending and sustaining road maintenance and rehabilitation and other infrastructure;
- Sharp rise in bursaries in the transport, public works and roads sector (engineering and technical);
- In Agriculture, better and more efficient use of irrigation water, an employment creation project: the Olifants-/Doring River Water Resource Development, and expanding agricultural training especially to emerging farmers, aiding transformation in this sector;
- Promotion of the BPO and Call Centres sector; and
- A sharper focus on waste disposal facilities and the recycling economy.

3.3.3.1 Micro-economic Development Strategy

Economic development private sector support

The MEDS is a provincial strategy to provide direct support to the private sector in a manner which increases the rate of growth of the Western Cape economy, broadens participation and increases employment. Support is given to particular economic sectors, by providing tailor-made services required by the sector or by strengthening sector associations which facilitate the provision of support services to those sectors. Support is also given directly to small businesses, in the form of business support services. The Province aims to create a better enabling environment for business, by facilitating regulatory reform and better provision services related to business information and intelligence, investment and export promotion. Given that 80 per cent of provincial economic activity takes place within the metro, many of these initiatives are undertaken in collaboration with the City of Cape Town.

Released in stages since July 2005, with more to come, the MEDS is essentially a collection of economic sector-based strategies for sectors identified as having good prospects for growth. The Strategy prioritises the sectors by weighing the likely costs of proposed interventions against the likely impact—measured in terms of employment, revenue and empowerment. The sectors receiving the highest priority are: call centres and business process outsourcing; tourism; information and communication technology; and the oil and gas service industry. Small business support is also prioritised.

The Department of Economic Development and Tourism is in the process of setting up local centres for providing support services to small businesses, called Real Enterprise Development (RED) doors. Seven out of the projected 35 RED doors have been fully established at present, and the Province is in the process of opening another two. Notably, the MEDS acknowledges the risk of setting up a network of new, government-run support centres. To mitigate this risk, the system needs to be regularly monitored and evaluated, and shifted where necessary.

Agricultural sector support

The agricultural sector is the target of the Province's most developed and extensive sector support intervention. Driven by the Agricultural Department, the intervention includes: provision of support services in a range of fields; research and development for the sector; and formal, accredited training at a number of levels. The Department of Agriculture, together with labour and industry, has developed a sector strategy. The Strategy was released for debate in July 2005, under the auspices of the Provincial Development Council, and is currently being refined and detailed.

At the beginning of 2005, the Department began restructuring its farm support and extension services to better balance the supply of services across commercial and emerging farmers, and thus enhance shared growth. Good progress has been made, with approximately two thirds of posts filled, and staff deployed to a newly established network of decentralised offices which are more accessible to client groups.

The Department has also set up the Farm Worker Development Programme aimed at raising the social profile of this marginalised group. At present a number of small projects which receive funding are providing information to farm workers regarding their rights, and assisting them in addressing specific social problems, such as foetal alcohol syndrome.

Together with the Department of Environmental Affairs and Development Planning, Agriculture is also developing a strategy for managing climate change and water constraints in the Western Cape, both of which have a significant impact on the health of the sector. The departmental strategy must address the management of catchment areas, enhance water demand management practice in agricultural areas, and support institutions for pricing agricultural water. Resources have been provided to augment the Department's irrigation improvement project, setting the scene for more work on water demand management in agriculture.

In summary, the provincial strategies and programmes described in this chapter reflect the overarching theme of the national 2006 MTEF—accelerated and shared economic growth. However, as the iKapa Elihlumayo strategies attest, economic growth must be understood in all its complexity i.e. recognising the links to social capital, skills development, and infrastructure development. The iKapa Elihlumayo strategies and the PGDS will thus serve as the vehicles by which the Western Cape pursues these national priorities in the context of the unique realities on the ground in this Province.

Enhancing the Capacity of the State to Deliver

Achieving the service delivery priorities described in Chapter 3 will not be possible without important improvements to government as the instrument of delivery. The theme of improved state capacity is promoted by national government in the 2005 MTBPS which calls for institutional reforms to boost the performance of the state. In the Western Cape, it is clear that the success of the iKapa Elihlumayo strategies depends upon the Province's ability to improve quality, speed up implementation and monitor outcomes more effectively.

The drive to strengthen the capacity of the state to deliver quality services has a number of facets: improving financial governance; strengthening communication, planning and monitoring by provincial departments; and reinforcing the alignment between provincial and municipal policy objectives and implementation. This chapter describes the directions the Province will take in these areas over the MTEF.

4.1 Improving Financial Governance

Given that effective financial governance is a major factor in government's capacity to deliver, a number of steps are underway to directly enhance and promote overall efficiency, efficacy and economy in resource use. The aim of these initiatives is to improve transparency and accuracy of financial information, and to heighten compliance.

4.1.1 Setting up supporting and interlinked financial systems

National Treasury is currently in the second phase of the development and implementation of an Integrated Financial Management System (IFMS) for the government as a whole. The IFMS is intended to enhance compliance with the PFMA and other relevant legislation in all provincial departments (including Provincial

Parliament). It is envisaged that the project will take up to five years to complete. For a period of time, the new integrated solution will consist of a mixture of new upgraded and old applications systems. However each phase will see increasing levels of rationalisation, inter-operability and modernisation of applications.

Currently, a number of different systems are in place: the Basic Accounting System (BAS), Logistical Information System (LOGIS), Personnel and Salary Administration System (PERSAL) and Vulindlela (Management Information System).

BAS is an online system that caters for all the basic requirements of a cash-based accounting system. National Treasury will be replacing the current mainframe and making provision for future upgrades, in order to improve response times and increase the mainframe's ability to process large volumes of data.

The Logistical Information System (LOGIS) is a computerised system that manages two of the core functions of supply chain management, namely logistics and disposal management. With the creation of an asset register, departments/institutions utilising LOGIS are now in a position to more effectively control and manage their movable assets. As part of the establishment of the new integrated financial management system, the LOGIS system will be replaced by the new asset management system. A 3-year time frame has been set for this transition.

PERSAL is an integrated human resource and salary management system that was designed to comply with all aspects of governmental regulations, prescripts, instructions and policies (including SARS). PERSAL is a stable system that holds the information of approximately 1,1 million employees. The open-ended nature of the system allows it to cater for continuous enhancement to accommodate new statutory and user requirements.

Together, the planned changes to these systems will ensure that:

- Proper internal controls exist;
- Asset management requirements can be met;
- Human Resource planning and personnel administration functions are adequately supported; and
- National Treasury's drive towards establishing accrual accounting in the public sector is supported.

4.1.2 Better Management of Physical Assets of the Province

The management of physical assets is another critical component of effective and efficient financial governance. Over the MTEF, the Infrastructure Delivery Improvement Plan (IDIP) and Public Private Partnerships (PPPs) are two important ways the Province aims to maximise benefits from its physical assets.

The goal of National Treasury's IDIP is to enhance the efficiency and efficacy of departmental infrastructure delivery, as well as to address the chronic under-

spending of infrastructure allocations. The IDIP process began in July 2004 with the establishment of a Programme Management Unit responsible for the overall management of the IDIP. Phase I of the IDIP, which focused on the Department of Education, produced a detailed analysis of current processes as well as identifying gaps. A five-year Infrastructure Plan for the Department was then developed, which also included an assessment of human resources required to carry out the programme. Phase II of IDIP involves the Department of Transport and Public Works (given that Public Works is the main infrastructure delivery agent in the Province) and then moves on to the Department of Health in the next financial year.

The ultimate intended outcome of the IDIP is a co-ordinated and integrated infrastructure delivery process, clearly identifying roles, responsibilities and accountability amongst the key role-players. However as the IDIP moves into Phases II and beyond, the success of the program will depend upon the commitment from participating departments to ultimately reap the benefits of the process.

PPPs are a second key tool the Province hopes to use to manage and optimise its physical assets. PPPs have the potential to combine private sector interests with the developmental goals of the Western Cape Government as contained in its iKapa Elihlimayo vision. However, provincial departments are likely to experience challenges as a result of a general paucity of skills required to implement PPP's, given the multi-faceted functions involved in these projects. To address this, the Provincial Treasury has set up a dedicated PPP Unit to provide provincial departments and municipalities with developmental technical assistance and support, including assessment of PPP projects.

Other enhancements in infrastructure management which are being consolidated, include a shift in resources for education and health infrastructure from Public Works to the departments of Education and Health. This was done to establish clearer lines of accountability between the line departments and the Department of Public Works, in fulfillment of DORA provisions. Service level agreements have been signed between the departments, while the funds to cover detailed planning and project management for education and health infrastructure have remained on the budget of Public Works. Over time this arrangement is intended to lead to greater efficiency.

4.1.3 More Efficient Procurement Procedures and Supply Chain Management (SCM)

Apart from better management of its immovable assets, the Province must continue to improve the way in which it handles the provisioning and procurement of goods. These systems are absolutely critical to the capacity of the state to deliver quality goods and services in a timely and efficient manner.

SCM units are currently in operation in all provincial departments, although at varying levels of capacity. The recruitment of skilled and competent personnel for the SCM units continues, while ongoing training is also provided to enhance skills.

Furthermore, an SCM Programme Review process has been embarked upon to focus on three key areas: efficiency of the business processes and vendor performance; compliance to prescripts and regulations; and value for money. The goal of the Programme Review is to streamline processes and to assure that government service delivery objectives will be achieved efficiently and cost effectively. The programme emphasizes early review for maximum value-added. To this end, an Assessment Unit has been established which will be responsible for assessing the current state of SCM in departments. It would then be possible to identify the gaps and areas of concern and to proactively address them by way of policies, treasury instructions, practice notes, training etc. Presently, needs are being addressed once they have been identified or highlighted.

Over the 2006 WC MTEF, Provincial Treasury is to house a newly-established Centre for Expertise within its structure to provide strategic support to departments and municipalities. The Centre will: offer further training and expert advice to departmental and municipal SCM officials (particularly regarding the procurement of high value strategic items); provide up-to-date advice to departments on modern SCM practices; and also play a monitoring role.

The performance of the management company which houses the Province's database of strategically-important government suppliers who are critical to the delivery of public sector contracts is currently under review. A strategy will be implemented to make the supplier database more efficient and accessible to both local and provincial spheres of government.

In order to promote procurement efficiency, the Strategic Sourcing Team within the SCM unit, is continually evaluating and assessing opportunities for co-operative procurement in order to ensure that the public sector is able to secure the best value for money. The team will also investigate the possibility of facilitating transversal contracts on commodities of low value and high volume, in order to better leverage government spending power.

4.1.4 Building Capacity to Comply with the Municipal Finance Management Act, 2003 (MFMA)

Although the Municipal Finance Management Act, 2003 (MFMA) took effect on 1 July 2004, the roles and responsibilities of provincial treasuries and local government departments only became fully effective on 1 July 2005. In response to the new MFMA responsibilities, both the Provincial Treasury and the Department of Local Government and Housing have been strengthened. Further additions to the Department have been made to improve the capacity of municipalities themselves as well to foster better monitoring and evaluation.

For municipalities, the MFMA became effective on 1 July 2004, but implementation and compliance were delayed based on the capacity of municipalities i.e. high, medium and low capacity. All municipalities are required to comply fully with the MFMA by 1 July 2008.

Full compliance with the MFMA will require municipalities to stabilise and secure their finances and ensure sustainability, in order to maximise their capacity to deliver services to all their residents, customers and investors. Local government will be challenged regarding: adoption of uniform budget formats, and improvement of revenue and expenditure management, cash management and supply chain management. In response to these challenges, a Municipal Chief Financial Forum has been brought into being to assist municipalities and to aid communication between provincial and local government.

4.1.5 Closing the Gap on Vacancy Rates in Financial Management

Key posts in CFO offices in provincial departments have recently been filled, resulting in the vacancy rate for financial-related staff dropping from 26,2 per cent in 2004/05 to 24,9 per cent in 2005/06.¹ The reduction in the vacancy rate constitutes an important step towards improving financial management and has already resulted in a gradual progression and improvement in nominal compliance to the PFMA by departments and public entities over the last two years.

In the medium term, government is focusing on closing the current average vacancy gap from 24,9 per cent to 5 per cent, as set out by National Treasury as a norm. To achieve this, the Province will have to develop better strategies to bridge this gap, including financial management human resource plans focusing on resource and capacity building. As CFO capacity strengthens and posts are filled, the Province will be able to move towards ensuring substantive compliance by departments and public entities.

4.1.6 Proactively Understanding and Managing Risk

Through the risk assessment process, departments identify potential future events that could hinder the accomplishment of departmental objectives. The department then attempts to forecast the likelihood of that event and its potential impact on the achievement of departmental objectives. The benefit of a risk assessment is that management is then aware of these possible events and can apply appropriate risk responses and institute the appropriate level of control to mitigate the risks. This proactive initiative thus contributes to effective and efficient service delivery.

In March 2005, a risk assessment exercise was conducted by Internal Audit across all 12 provincial departments (excluding Provincial Parliament), in order to enable the Province to focus and prioritise its efforts to achieve control assurance and sound governance. These risk assessments are to form the basis of the risk management processes within each of these departments in 2006 and beyond.

¹ These are average percentages across the board over the two financial years.

Analysis of the initial results show that risks relating to *operations* clearly outweighed all other types of risks, constituting 48 per cent of the total risks identified. *Strategic* type risks made up a further 28 per cent of the identified risks, *information* type risks 16 per cent, with only 8 per cent of the perceived risks relating to *financial* issues. Risks relating to people, culture and capability issues, namely: Human Resources, Service Delivery, Authority and Responsibility, Resource Allocation, and Learning Organisation, make up 32 per cent of all provincial risks.

This type of risk assessment and analysis can be a tremendously valuable tool for the executive PGWC management, not only in their annual strategic planning cycle, but also as and when major policy, strategic or structural changes are effected. During the 2006/07 financial year, the Provincial Treasury will continue to facilitate risk assessments within all provincial departments, inclusive of the Provincial Parliament, and ensure the development of risk management reports. Thereafter departments must take responsibility for risk management, whilst the Provincial Treasury will co-ordinate and monitor associated processes and develop a provincial risk profile.

4.1.7 Implementation of Broad Based Black Economic Empowerment (BBBEE) Policy

Over the MTEF, the formulation of a new Broad-Based BEE Procurement Policy/Strategy for the Western Cape Province, which reinforces and complements the national and provincial drive towards accelerated and shared economic growth, has become critical. The Province's strategy will be derived from the national policy framework on BBBEE that is still to be completed. The Western Cape policy will practically address the relevant political, social and economic conditions that pertain to the Province. Because of the large stakeholder consensus in constructing the strategy, implementation of the strategy will benefit from the support and involvement of business leaders, workers, cities, municipalities, civic organisations and community activists. The provincial policy principles will most likely also include:

- The promotion of provincially-based black companies/groups;
- Preference for consortiums that have locally-based community representation; and
- Employee involvement (in ownership and other elements of the BBBEE scorecard).

The Province will also aid BBBEE by providing support for the development of: E-procurement; other procurement systems; as well as access to a supplier database of verified/accredited suppliers.

4.1.8 Migration to accrual accounting

Proper implementation of the PFMA requires the adoption of Generally Recognised Accounting Practices (GRAP) to support sound public financial management. Such policies, guidelines and practices will ultimately operate on the basis of accrual accounting—widely accepted as the international best practice. By enhancing transparency and accountability regarding revenue, expenditure, assets and liabilities, the accrual system can provide government with an information base on which to make well-balanced and meaningful long-term decisions. Under the accrual basis of accounting, information is provided on: the resources controlled by the entity; the full economic cost of operation and cost of providing services; the actual financial position; and actual changes in the financial position of efficiency. Further, it is imperative for the financial information to be timeous and accurate, in order to derive the benefits from accrual accounting.

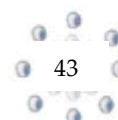
4.2 Provincial and Local Government Interface

Financial governance is closely linked to the critical area of policy and planning alignment between the different spheres of government. If provinces and municipalities are to seize upon and maximise their developmental role, it will be vital that implementation and planning issues are addressed cooperatively.

The MFMA requires that the accounting officer of a municipality must immediately submit the annual budget to Provincial Treasury for assessment after it is tabled in the municipal council. The assessment focuses mainly on IDPs, capital and recurrent revenue (sources of revenue), capital and operating expenditure budgets, cash flows, liquidity and provincial-municipal alignment and interface elements.

One of the critical issues to emerge from the 2005 reviews was the general absence of socio-economic information which ideally should inform a municipal IDP. In contrast, municipal IDPs are largely based on the wants and needs of community members, which has proved difficult to sensibly incorporate into municipal budgets. In view of this, the Provincial Treasury and the Department of Local Government and Housing are partnering on an analytical research project that aims to develop socio-economic profiles at district municipal level in the Western Cape. Socio-economic profiling will enhance the understanding of the existing patterns and dynamics in the local sphere. Such analyses should contribute towards an improved provincial-local interface as well as ensuring better inter-linkages in provincial and local economic growth and development planning, budgeting and delivery.

Draft profiles will be finalised towards early December. These will form the basis of focused engagements with the district Provincial Information Management System (PIMS) centres as municipalities enter the IDP and budget planning processes over the new MTEF. A summary of the profiles is to be published in the 2006 Provincial Economic Review and Outlook (PERO).



4.2.1 Local Government MTEC Framework

Based on what was learned through the municipal budget assessments and subsequent visits to municipalities during May and June 2005, the Cabinet resolved that an MTEC process be facilitated between provincial departments and municipalities. The MTEC process was initiated to address the need for greater consultation and interaction between provincial departments and municipalities in aligning planning priorities, development strategies and resources, particularly in a spatial context. Based on the Cabinet resolution, the Provincial Treasury and the Department of Local Government and Housing have scheduled a series of engagements between provincial departments and municipalities as part of the annual financial calendar. In brief, the following provisional cycle of engagements has been identified and scheduled:

Local government MTEC 1: Introduction

The main purpose of the Local Government MTEC 1 engagement was to provide municipal managers and provincial heads of departments the opportunity to meet and initiate high-level discussions on planning priority alignment, development strategies and resource alignment in a spatial context. During the LG MTEC 1 engagements held on 10-12 October 2005, heads of the provincial social and economic clusters and district municipal managers shared their respective planning priorities, development strategies and indicative resource allocations in a spatial context i.e. per district geographical area. A similar process was put in place to improve the interface between the City and the Province.

Local Government: One-on-one engagements

As a result of the Local Government MTEC 1 engagement:

- One-on-one engagements will be scheduled by the Department of Local Government and Housing up to December 2005, in order to facilitate focused interaction between municipalities and the departments in the social and economic clusters.
- Consideration will be given to replicate the cluster approach of national and provincial government at local government level, i.e. Social -, Economic - and Governance and Administration Clusters.
- The District (DIF) and Metro Intergovernmental Forums (MIF) will be used to further enhance intergovernmental relations, with a particular focus on aligning the planning priorities and resources.

At a Premier's Intergovernmental Forum (PIF) held in Stellenbosch in October 2005, it was resolved that an Executive Committee² be established to exercise oversight over the engagements and other incidental matters, to progressively foster closer alignment, and to remove any other impediments towards better governance.

² Represented by District municipal managers, the heads of the Department of Local Government and Housing and the Provincial Treasury, heads of the provincial Social and Economic Clusters and the CEO of SALGA.

Local Government MTEC 2: Budget and Allocations

This engagement will take place during January 2006 and has provisionally been scheduled to largely focus on budgets and allocations in relation to planning priorities identified during the LG MTEC 1 process. The LG MTEC 2 will primarily involve those provincial departments which intend to make allocations available to municipalities over the 2006 MTEF.

Local Government MTEC 3: Budget Assessments and Visits

The budget assessments complete the cycle for the new financial year and are scheduled to take place in April and May 2006. Apart from the other areas normally covered, this round will need to determine whether budgets speak to the socio-economic planning priorities and whether provincial and municipal resources have been aligned in a spatial context.

4.2.2 Functions and powers

With the assistance of the national government, certainty has been reached with respect to primary health care services in the non-metro municipalities, with a similar promise of resolution in the metros over the 2006 MTEF. However, some uncertainties remain. The main outstanding issue, due to its financial magnitude, relates to community libraries. Over the next year, the National Treasury will determine the full cost of library services and develop an appropriate funding framework for this function. In the meantime, these uncertainties negatively impact on the financial situation of municipalities and financial sources available to them. In order to reach an objective and sustainable resolution to the issue, the Province completed a situational analysis this year. A five-phase methodology was proposed to take the process forward:

- Phase I - Situational analysis (completed)
- Phase II - Framework for the transfer of the balance of functions
- Phase III - Interim service level and delivery agreements
- Phase IV - Position analysis
- Phase V - Final position

The Premier' Intergovernmental Forum (PIF) resolved at a meeting in Stellenbosch on 26 October 2005 that a technical committee to the PIF be established to deal with the outstanding functions and powers issues. This is to ensure that the dilemma is adequately resolved and functions optimally placed by 1 July 2007.

4.3 Department of the Premier (DOTP) Strategies to Build Internal Capacity and Communication

The national drive towards improving government's capacity to deliver is supported in the Western Cape by major initiatives of the Department of the Premier. Currently the Department is in the midst of a comprehensive review of its roles, functions and responsibilities in the Province, which will have consequences for its structure. Over the next few years, the DoTP plans to concentrate its manpower and thinking upon strategies to improve internal social and human capital, as well as to improve coordination and communication between provincial departments. Other major policy priorities in this area include the establishment of a province-wide monitoring and evaluation system and efforts to capacitate municipalities particularly with regard to implementation of their IDPs and the MFMA.

4.3.1 Internal Social and Human Capital Development Strategy

The Internal Social and Human Capital Development Strategy identifies a series of problems regarding the management of human capital development. In order to address these challenges the DoTP is engaging in a number of review processes, including a skills audit of the public administration and a cultural organisational review. As part of the Province's strategy to meet the training needs of its employees, it is necessary for the Cape Administrative Academy to restructure, both as to the method of financial management and pedagogic approaches, and in terms of a re-orientation of its course offerings based on the findings from the skills audit. The latter is particularly relevant as the Province is spending approximately R209 million per annum on training, despite uncertainty as to whether this adequately prepares its staff to deal with the challenges of moving the Province onto a shared accelerated growth path.

The provision of learnerships is another important mechanism which individual departments can use to assist with skills development. Without taking into account the increased allocations for EPWP in the social sector, the Departments of Local Government and Housing and Health have embarked on strategies to increase the number of learnerships appointed within their departments for 2005/06, collectively accounting for more than 800 learnerships. Similarly, the Department of Social Services and Poverty Alleviation will fund 200 learnerships each year from 2006/07 to increase the capacity of ECD teachers.

As part of its Internal Human Resource Development Strategy, the Department of the Premier is also developing a specialised curriculum targeted at the SMS level.

4.3.2 Co-ordination and Communication

The DoTP also plays a central role in ensuring improved and more effective co-ordination across the different spheres of government, as well as across different provincial departments. The Premier's Intergovernmental Forum has started the preparatory work for bringing about such alignment, in addition to the recent IDP hearings, municipal budget assessments, and the recent Local Government MTEC engagements.

The Department of the Premier is also responsible for ensuring greater alignment and integration of the NSDF, PGDS, PSDF, IDP's and iKapa Elihlumayo within the Province. In meeting this challenge, it is essential that the various structures and intergovernmental forums are reconstituted and re-established in line with the new cluster framework. This will ensure that institutional systems such as strategic plans and budgets have the desired impact and are aligned with national, provincial and local government priorities in order to facilitate seamless governance.

Effective implementation of the iKapa Elihlumayo strategy is not only dependent on internal communication, but also rests with a successful two-way communication strategy with the citizens of the Western Cape. In order to meet this challenge the Department is responsible for the further roll-out of the *Home for All* campaign, Izimbizos (National, Provincial, Municipal and Staff), enhancing and promoting the use of intranet, maximising the use of Multi-purpose Community Centres, etc.

Another important element of co-ordination is monitoring and evaluation. In order to execute this function, a province-wide Monitoring and Evaluation System is being developed to track and assess the impact of the iKapa Elihlumayo strategies over time.

Finally, the promotion of a culture of human rights forms a central tenant of the work of the Department of the Premier. In better meeting its obligations to the most vulnerable, and ensuring the protection and promotion of the rights of children, the Department is to establish a Commissioner for Children at the beginning of the 2006/2007 financial year. The Commissioner will be responsible for protecting and promoting the interest of children in the spheres of health services, education, welfare services, recreation, amenities and sport.

Financing

The priorities described in the preceding chapter will be financed via three main sources: transfers from national government (including equitable share and conditional grants) which together form 91,5 per cent of the budget in 2005/06; provincial own revenue (taxes and fees) which contributes 6,7 per cent; and the Asset Financing Reserve which contributes the remaining 1,9 per cent in 2005/06.

Table 6: Fiscal Framework of the Western Cape

Source R000's	2005/06	2006/07	2007/08	2008/09
	Adjusted Budget	Medium Term Estimates		
Equitable share	12 072 469	13 452 173	14 898 459	16 538 467
Conditional grants	6 914 887	7 548 380	8 342 293	9 025 897
Transfers from National	18 987 356	21 000 553	23 240 752	25 564 364
Own revenue	1 381 765	1 341 862	1 386 752	1 405 270
Asset Financing Reserve	386 039	614 107	290 294	300 000
Total	20 775 160	22 956 522	24 917 798	27 269 634
Contingency reserve	52 550	55 000	55 000	55 000

5.1 Transfers from National

The division of nationally raised revenue amongst the three spheres of government reflects Government's commitment to policy priorities including: improved access to services; expanded economic participation; greater economic growth (local, regional, provincial and national), and the development of sustainable communities. Estimated transfers of nationally raised revenue (equitable share and conditional grants) to the Western Cape Provincial Government over the medium term are shown in Table 6 above. The table indicates that the provisional estimates of national transfers to the Province grow by 7 per cent in real terms from R18,987 billion in 2005/06 to R21 billion in 2006/07. By 2008/09 total transfers are expected to rise to R25,564 billion.

5.1.1 Equitable share

The Western Cape's equitable share allocation increases from R12,1 billion in 2005/06 to R13,5 billion in 2006/07, R14,9 billion in 2007/08 and R16,5 billion in 2008/09. As described in Chapter 3, these increases are in line with nationally-identified priorities including: education, health, and social welfare services; implementation of the Expanded Public Works Programme; the expansion of economic infrastructure in support of accelerated and shared growth; and the introduction of the new Government Employees Medical-aid Scheme (GEMS).

The equitable share formula allocates funds across provinces using demographic and economic statistics that attempt to capture the relative demand for public services in each province. It is updated with the release of official data sources such as the Census, the annual General Household and Education SNAP Surveys. These surveys capture information on various aspects of the living circumstances of South African households and include information on education, health, activities related to work and unemployment, housing, and household access to service and facilities.

The use of these data sources has resulted in the Province receiving a proportionally smaller allocation of nationally raised revenue over the medium term. The Western Cape's share of the total equitable share allocation decreases from 8,86 per cent in 2005/06 to 8,81 per cent in 2006/07.

5.1.2 Conditional grants

In aggregate, conditional grant transfers to the Province, based on current disbursement patterns, are calculated to increase by 3,8 per cent in real terms from R6,9 billion in 2005/06 to R7,5 billion in 2006/07. By 2008/09, conditional grants to the Western Cape total R9 billion.

Based on 2005/06 values, the Department of Social Services and Poverty Alleviation and the Department of Health together administer 89,5 per cent of grants, with Social Services administering 62,2 per cent and Health 27,3 per cent. Similarly, the Department of Housing received 6,8 per cent of the total grant allocation, while the Departments of Education, Transport and Public Works, Agriculture and Cultural Affairs and Sport together administer 3,6 per cent of grants.

A number of changes to the conditional grant structure are introduced as from 2006/07. These changes include:

- The *introduction* of two new conditional grants, the Forensic Pathology Services Grant (Health) and the Further Education and Training Recapitalisation Grant (Education), funds have been transferred to the Province in 2005/06 to facilitate the shift of the forensic pathology services function to provinces;
- The *merging* of the Hospital Revitalisation Programme with the Hospital Management and Quality Improvement Grant; as well as merging of Human Settlement and Redevelopment Grant into the Integrated Housing and Human Settlement Development Grant; and

- The *termination* of the Integrated Social Development Services, Integrated Nutrition and the HIV and Aids (Community Based Care) Conditional Grants and the phasing of financing for these programmes into the equitable share.

Table 7 provides the projected allocation of conditional grants to the Provinces. These projections assume that a) additional funds allocated to the grants will be disbursed according to the present allocation formulae, and b) Western Cape 2008/09 conditional grant amounts will grow at the same rate as the national aggregate figure for that particular grant. The Table notes the introduction, merging and inclusion of conditional grants over the medium term.

Table 7: Conditional grants framework 2005/06 - 2008/09

Grant R'000	2005/06	2006/07	2007/08	2008/09
	Adjusted Budget	Medium Term Estimates		
Social Assistance Grants	4 002 671	4 299 923	4 699 659	5 128 268
National tertiary services	1 214 684	1 272 640	1 322 744	1 388 881
Integrated housing and human settlement development	456 740	609 172	765 521	845 977
Health professions training and development	323 278	323 278	339 442	356 414
Social Assistance Administration	236 234	250 839	276 670	302 760
Hospital revitalisation	172 038	222 853	223 401	257 277
Provincial infrastructure (Transport and public works)	92 557	124 329	190 891	203 511
Comprehensive HIV and AIDS	82 451	115 670	121 454	128 085
Provincial infrastructure (Health)	55 229	61 829	80 262	85 880
Provincial infrastructure (Education)	55 229	61 829	80 263	85 881
National school nutrition programme	48 895	48 313	50 729	54 493
Provincial infrastructure (Agriculture)	25 832	5 000	5 240	5 476
Disaster relief	24 500			
Integrated social development services	20 034			
Agricultural disaster management	18 000			
Hospital management and quality improvement	17 608			
Comprehensive agriculture support	17 206	20 648	33 426	35 030
Forensic pathology services	14 583	68 347	79 152	55 637
HIV and AIDS life skills education	11 198	11 870	12 464	13 303
Human settlement and redevelopment	9 373			
HIV and AIDS community based care	6 089			
Integrated nutrition programme	5 288			
Mass sport and recreation participation programme	2 670	4 340	4 328	4 605
Land care: Poverty relief and infrastructure development	2 500	3 000	3 247	3 403
Further education and training college sector recapitalisation		44 500	53 400	71 016
Total conditional grants	6 914 887	7 548 380	8 342 293	9 025 897

5.2 Provincial Own Sourced Revenue

At present, provincial own sourced revenue is largely limited to motor vehicle licence fees, gambling revenue and hospital fees. In aggregate, provincial own sourced revenue is projected to decrease from R1,38 billion in 2005/06 to R1,34 billion in 2006/07 and then increase again to R1,41 billion in 2008/09. Table 8 below shows the sources of own revenue over the medium term by department, and highlights the fact that the Departments of Transport and Public Works, Health and Provincial Treasury contribute the lion share of Provincial own revenue.

Table 8: Contribution of Departments to Provincial own revenue 2005/06 - 2008/09

Department (R' 000)	2005/06	2006/07		2007/08		2008/09
	Adjusted Budget	Revised estimate	Changes to baseline	Revised estimate	Changes to baseline	Estimate
Provincial Administration	538	510	(28)	510	(28)	510
Provincial Parliament	58	58		58		58
Provincial Treasury	285 541	290 000	8 093	309 153	8 254	310 579
Community Safety	518	646	128	685	167	740
Education	11 092	11 641	(7 259)	12 217	(6 957)	12 821
Health	254 410	203 262		200 294		191 462
Social Services	1 100	272	(7 938)	275	(7 935)	280
Housing	25 090	25 090		25 090		25 090
Environmental Affairs	28	58		88		88
Transport and Public Works	783 082	783 285	(23 007)	806 847	(22 380)	832 107
Agriculture	13 170	11 620		12 110		12 110
Economic Development and Tourism	4 000	15 000		19 000		19 000
Cultural Affairs and Sport	3 138	420	(269)	425	(279)	425
Total receipts	1 381 765	1 341 862	(30 280)	1 386 752	(29 158)	1 405 270

Table 9: Western Cape own revenue by source 2005/06 - 2008/09

Source R000's	2005/06 Adjusted Budget	2006/07	2007/08	2008/09
		Medium term estimates		
Tax receipts	922 565	958 426	993 341	1 003 266
Casino taxes	168 281	219 660	245 816	270 408
Horse racing taxes	14 000	15 200	15 700	16 215
Motor vehicle licences	731 554	753 501	776 106	799 389
Liquor licenses and other taxes	3 730	14 730	18 730	18 730
Sales of goods and services other than capital assets	242 421	229 289	237 019	239 590
Transfers received	63 788	26 624	17 956	9 124
Fines, penalties and forfeits	350	350	350	350
Interest, dividends and rent on land	107 537	58 985	51 557	27 948
Sales of capital assets	24 046	49	49	49
Financial transactions in assets and liabilities	26 058	23 474	23 468	23 468
Total	1 381 765	1 341 862	1 386 752	1 405 270

5.2.1 Motor vehicle licence fees

Motor vehicle registration and licensing, roadworthy testing, the issuing of learners and drivers licences, and other traffic-related activities are performed in terms of the Road Traffic Act of 1989. The Province, compared with other provinces such as Gauteng and KwaZulu-Natal, has the highest tariff for motor vehicle licence fees. All revenue collected in terms of this Act accrues to the collecting agents, while 88 per cent of all licence fees collected are recorded as revenue of the Department of Transport and Public Works.

Motor vehicle licence fees contribute R732 million to provincial own revenue in 2005/06 and are projected to increase to R754 million in 2006/07, R776 million in 2007/08 and R799 million in 2008/09. This constitutes an annual average real decrease of 1,7 per cent over the MTEF.

The tariff increases for motor vehicle licence fees are agreed between the Provincial Treasury and the Department of Transport and Public Works. In anticipation of the implementation of the fuel levy in 2006/07, it was agreed that the motor vehicle licence revenue would only be adjusted by the annual average vehicle population growth rate of 3 per cent over the 2005 MTEF. However as a direct result of the delays in approval of the fuel levy, motor vehicle licence fee revenue will be adjusted by the growth in vehicle population and the inflation rate of 4,7 per cent in 2006/07. For 2007/08 and 2008/09, only adjustments to the annual average growth in vehicle population are provided for.

5.2.2 Hospital fees

Hospital patient fees (incorporated under 'sales of goods and services other than capital assets') are expected to contribute R169 million to provincial own revenue in

2005/06. This amount is projected to decrease to R154 million in 2006/07, R160 million in 2007/08 and remain constant at R160 million in 2008/09. The slower than anticipated growth rate in hospital patient fees is largely attributed to the decreased tariffs for hospital patient fees.

The largest proportion of revenue generated by the health sector is from user fees, which include Medical Aid Schemes, the Workmen's Compensation Fund, and the Road Accident Fund. The remainder comes from boarding and lodging, parking fees, fees charged to doctors for using state facilities for private patients, and income from health training activities.

The Health Department is continuously devising strategies to enhance revenue generation. Amongst these are: improvements to current billing systems at hospitals and clinics, debt collection and payment methods; increased fees charged to public and private patients (UPFS) in line with inflation; and structuring of fees to better reflect cost.

The introduction of the Government Employees Medical-aid Scheme (GEMS) in 2006/07 and the phasing in thereof over the medium term should also contribute to higher revenues due to an anticipated increase in the number of paying clients.

5.2.3 Interest

Budgeted interest revenue contributes R107,6 million to Provincial own revenue in 2005/06. This is projected to decrease sharply over the 2006 MTEF to R59 million in 2006/07, R52 million in 2007/08 and to R28 million in 2008/09. The variances are due to a change in accounting and financing policies for roads infrastructure. In future only interest revenue accruing from annual revenue flows are taken into account for budgeting purposes. The interest revenue related to the newly created Asset Financing Reserve remains in the Reserve to sustain financing for roads maintenance and rehabilitation over the medium term.

The higher interest revenue collection in 2005/06 is due to better market analyses, investing for longer periods, and the slower-than-anticipated expenditure patterns by departments which result in more cash on hand for investment purposes.

Since 2005/06 there has been a change in institutional arrangements with regard to the payments of Social Assistance grants. Previously, Social Services and Poverty Alleviation generated own revenue from interest accumulated through the ALLPAY advances. However the introduction of the South African Social Security Agency (SASSA) considerably decreased the potential revenue by approximately R24 million over the MTEF. This is due to the fact that the funds will now be paid into the account of the National Department of Social Development.

5.2.4 Gambling and Casino Taxes

Casino taxes (including limited gambling machines) are the third largest source of revenue available to the Province. These amounts have increased from R168 million in 2005/06 to R220 million in 2006/07. By 2008/09, casino taxes are expected to reach R270 million.

Gambling and racing in the Province is regulated and controlled by the Western Cape Gambling and Racing Board (a Public Entity that reports to the MEC responsible for Finance and Tourism through the Provincial Treasury). The Board is self-sustainable and would not require capitalisation in the foreseeable future.

Casino taxes and interest from bank balances and investments are to a large extent dependent on the unexpected increase or decrease in disposable income of households in the Western Cape. This is a result of: low or high interest and exchange rates, unexpected sale of licences and business rights and the frequency at which gamblers get more time to gamble, especially over holiday periods.

5.2.5 Liquor licence fees

Liquor licences contribute R3,7 million in 2005/06, although it is estimated that the revenue from the Liquor Bill, once enacted, will increase to R14,7 million in 2006/07 and R18,7 million both in 2007/08 and 2008/09. The Bill proposes that municipalities act as collectors of liquor licence fees. In this regard, planning for logistics is underway to:

- Determine the percentage of funds to be retained by municipalities;
- Finalise Service Level Agreements between the Department of Economic Development and Tourism and municipalities; and
- Cost the required infrastructure to deliver on the mandate as prescribed in the Liquor Bill.

5.2.6 Other sources of own revenue

The “other” sources of own revenue make up 18 per cent of the Provinces own revenue in 2005/06, however individually they are relatively small. These sources are essentially attributed to the sale of land and subsoil assets, registration, tuition and exam fees, horseracing taxes and recoveries from the previous financial years.

5.2.7 Revenue Incentive Policy

The revenue retention strategy of the Province creates incentives for departments to collect funds over their adjusted budgets by giving departments permission to retain and utilise any extra funds they collect. The scheme by and large reduces under-budgeting, unnecessary delays in spending and cash accumulation. With the endorsement of the strategy by Cabinet in 2003, accounting officers were given an opportunity to revise and adjust their own revenue budgets as from 2004/05 to more credible levels, resulting in increased expenditure allocations.

Despite this, departments still produce own revenue budgets that are at variance with actual collections. The Technical Committee for Finance ascribed this to a possible lack of capacity to accurately forecast and project revenue within departments. In response to this challenge, a proposal was endorsed to develop a revenue estimation model that would provide more accurate and robust estimates of current sources of provincial own revenue. The revenue estimation and forecasting model would be developed together with other provincial treasuries, National

Treasury and the major revenue collecting departments. It is envisaged that the model will be implemented during the financial year 2007/08.

5.2.8 Expanding the Provincial tax base

The Provincial Tax Regulation Act does not define the new taxes that provinces may impose but does regulate the process by which they are imposed. It is envisioned that by testing and researching the feasibility of various provincial taxes, an evolving list of “allowed” provincial taxes would emerge.

The Western Cape has identified a number of taxes for consideration, which include a Fuel Levy, the Bed Levy and the Developer Tax. The implementation of a Fuel Levy for the Province has already been researched and is currently before the national Minister of Finance for consideration and approval. Research into the feasibility of other taxes including a Bed or Tourism Levy and a Developer Tax has commenced, while research into other possible provincial taxes is also suggested.

5.3 Asset Financing Reserve

The third source of financing available to the Province is the Asset Financing Reserve (AFR). These reserves are currently in the Provincial Revenue Fund and have recently been ring-fenced to ensure that the Province achieves the goals of the Strategic Infrastructure Plan, as regards roads spending. The AFR funds are necessitated as a result of the crowding out of economic services spending by social services and the absence of other revenue sources to sustain road maintenance funding.

Allocations out of the financing reserves for the 2006 MTEF amount to R624 million in 2006/07 (including compulsory savings), decreasing to R290 million in 2007/08 and increasing again to R300 million in 2008/09.

Specific accounting rules and an investment strategy for the AFR are under development. It is envisioned that the Asset Financing Reserve would be run as a separate accounting entity within the Provincial Revenue Fund. For all purposes besides roads maintenance, it would operate along the same lines as a revolving credit fund. The Fund is subject to revised investment and draw-down policies, which requires that clear objectives for the investment and a minimum credit balance are explicitly defined. However, preliminary work suggests that the levels of financing would be sustainable over the medium term.

5.4 Borrowing

Although untested at provincial level (despite enabling legislation), borrowing is a potential fourth source of revenue for the Province. The Financial and Fiscal Commission has endorsed provincial borrowing but recommends that provincial treasuries adopt a cautious approach until the capacity for debt management and a more comprehensive regulatory framework with regard to borrowing is developed.

Such a framework would require provinces to meet the following prerequisites in order to undertake debt:

- A stable, predictable flow of annual revenue;
- The ability to identify infrastructure needs, prioritise and plan projects and implement them on schedule and on budget; and
- Access to credit in order to take advantage of private sector finance.

It is envisaged that by optimising the current tax base and expanding into new revenue sources, income from provincial own source revenue could be increased and subsequently used to fund potential borrowing in future years. Unfortunately, in the absence of uncommitted revenue flows, this option is as yet not open to the Province. It will only become possible when new sources of revenue, in particular the fuel levy, become a reality.

Expenditure Trends

6.1 Introduction

For the purpose of budget planning, previous and current expenditure trends of departments are analysed and aligned with policy priorities to inform the 2006 MTEF.

6.2 Outcome of the 2004/05 Budget

Total expenditure for the Western Cape amounted to R18,253 billion, compared to the total allocated amount of R18,671 billion in the 2004/05 fiscal year. Savings amounted to R418 million in 2004/05, of which R61,905 million consisted of compulsory savings and was re-allocated in the 2005 Budget for spending in 2005/06 (R26,905 million) and 2006/07 (R35 million).

A total amount of R268,640 million, inclusive of conditional grants amounting to R178,704 million (66 per cent), was approved to be rolled over and will be appropriated in the adjustments appropriation for 2005. The major share of the conditional grant rollovers includes R96,874 million of Housing Conditional Grants, namely the Human Settlement Development Grant (R76,509 million) and the Human Settlement and Redevelopment Programme (R20,365 million).

Other rollovers includes an amount of R48,812 million for the finalisation of 2004/05 infrastructure projects, including municipal public transport projects, construction of schools and projects relating to community access roads.

6.3 Half-year Spending Estimates for 2005/06

Expenditure trends in the first six months of the financial year were slower than was anticipated. Only R9,572 billion was spent in the first half of the 2005/06 financial year, which constitutes 45,1 per cent of the total adjusted budget for 2005/06. In the case of allocations for current payments, 46 per cent were spent, compared to 45,6 per cent spent of the allocations for transfers and subsidies. Only 35,7 per cent of the allocated payments for capital assets was spent. These trends are analysed, monitored and reported on by Provincial Treasury on a quarterly basis and inform the redirection of funds in the adjustments estimate.

Tables 10 and 11 indicate the actual expenditure in 2004/05 and for the period 1 April 2005 until 30 September 2005, per Provincial Department and per Economic Classification.

Table 10: Expenditure by Department, 2004/05 and 2005/06

Departments	2004/05		2005/06		
	Adjusted Budget	Actual Expenditure	Adjusted Budget	Actual 1st Half Spending	% Spent of Adjusted Budget
	R'000	R'000	R'000	R'000	
Department of the Premier	297 241	288 662	298 068	132 713	44,5
Provincial Parliament	33 300	30 707	41 081	17 785	43,3
Provincial Treasury	108 980	102 333	115 409	48 200	41,7
Community Safety	161 627	164 256	178 796	88 512	49,5
Education	5 516 384	5 690 709	6 504 659	3 063 597	47,1
Health	4 878 343	5 169 199	5 776 822	2 613 564	45,2
Social Services & Poverty Alleviation	4 326 504	4 261 612	4 933 431	2 302 169	46,7
Local Government & Housing	801 903	665 872	811 808	262 818	32,4
Environmental Affairs & Development Planning	137 417	135 468	159 020	76 969	48,4
Transport & Public Works	1 882 316	1 258 628	1 797 365	727 840	40,5
Agriculture	230 644	196 893	269 226	104 093	38,7
Economic Development	126 536	126 439	142 405	55 822	39,2
Cultural Affairs & Sport	156 239	148 932	168 312	72 337	43
Statutory Appropriation	13 561	12 892	14 917	6 269	42
Total	18 670 995	18 252 602	21 211 319	9 572 688	45,1

Table 11: Expenditure per economic classification, 2004/05 and 2005/06

Departments	2004/05		2005/06		
	Adjusted Budget	Actual Expenditure	Adjusted Budget	Actual 1st Half Spending	% Spent of Adjusted Budget
	R'000	R'000	R'000	R'000	
Current payments	11 671 510	11 521 983	13 114 299	6 036 932	46
Compensation of employees	8 311 414	8 206 787	9 257 140	4 405 047	47,5
Goods and services	3 347 458	3 302 782	3 849 390	1 630 282	42,35
Interest and rent on land	90		2 588		
Financial transactions in assets and liabilities	12 548	12 414	5 181	1 603	31
Unauthorised expenditure					
Total transfers and subsidies	5 836 917	5 659 941	6 540 285	2 984 247	45,6
Provinces and municipalities	387 606	355 890	495 107	176 852	35,7
Departmental agencies and accounts	140 425	136 226	153 547	68 570	44,7
Universities and technikons	54 240	57 899	58 723	27 107	46,1
Public corporations and private enterprises	70	70	40 206	27 558	68,5
Foreign governments and international organisations	42 683	37 924	150	16	10,7
Non-profit institutions	891 283	893 127	1 023 061	461 795	45,14
Households	4 320 123	4 178 358	4 769 491	2 222 349	46,6
Payments for capital assets	1 149 007	1 057 786	1 541 818	551 509	35,7
Buildings and other fixed structures	865 158	811 229	1 189 569	490 848	41,3
Machinery and equipment	257 503	220 612	288 411	54 471	18,8
Cultivated assets	112	112	132	36	27,3
Software and other intangible assets	22 201	21 948	10 306	4 010	38,9
Land and subsoil assets	4 033	3 885	53 400	2 144	4
Statutory Appropriation (Current Payments)	13 561	1 892	14 917	6 269	42
Total	18 670 995	18 252 602	21 211 319	9 572 688	45,1

6.4 Adjustments Estimate

Because additional resources were not made available in the national adjustment estimates (except for specific purposes), Provincial Treasury embarked on a trawling for money exercise within departments to determine whether funds were available within the 2005/06 provincial budget. The funds identified through the trawling exercise were shifted to the Department of Local Government and Housing to mitigate the pressures of the N2 Gateway project and to the Department of Education for accelerated school building delivery.

Table 12 below indicates the outcome of the trawling exercise. A total amount of R36,998 million has been identified that will be shifted between votes—specifically for the N2 Gateway project (R23,998 million in 2005/06) and for the accelerated school building delivery (R13 million in 2005/06).

Table 12: Results of trawling for money

Vote sourcing the funds	Amount shifted to N2 Gateway 2005/06	Amount shifted to Education 2005/06
	R'000	R'000
1 Department of the Premier	500	
2 Provincial Parliament		
3 Provincial Treasury	12 929	
4 Community Safety		
5 Education		
6 Health		
7 Social Services & Pov. Alleviation	6 300	
8 Local Government & Housing	4 269	
9 Environmental Affairs & Dev. Planning		
10 Transport & Public Works		
11 Agriculture		13 000
12 Economic Development		
13 Cultural Affairs & Sport		
Total	23 998	13 000

Additional resources from national government amounting to R65,8 million will be allocated to: the Department of Education for the National School Nutrition Programme (R8,7 million); Department of Agriculture for drought relief to farmers (R18 million); Department of Health for the Forensic Pathology Services Grant (R14,5 million) and Department of Local Government and Housing for flood relief for municipalities (R24,5 million).

The adjustment estimates will not only provide for the shifting of funds between votes and the allocation of additional funds, but also for the shifting of funds within votes, the roll-over of funds from the preceding financial year and for revenue retention.

6.5 Expenditure and Budget Trends

Table 13 below indicates the actual expenditure trends from 2001/02 to 2004/05, as well as the budget allocations over the 2005 MTEF per Department.

The total Provincial allocation for the 2005/06 fiscal year increased from R18,253 billion in 2004/05 (actual expenditure) to R20,628 billion in 2005/06. This constitutes a 7,94 per cent increase in real terms.

Table 13: Provincial expenditure for 2001/02 to 2004/05 financial years and budgeted allocations for 2005/06 to 2007/08 as reflected per vote in nominal terms

Votes	Audited				Budget 2005/06 R'000	Real Growth 04/05- 05/06 %	MTEF	
	2001/02 R'000	2002/03 R'000	2003/04 R'000	2004/05 R'000			2006/07 R'000	2007/08 R'000
Department of the Premier	279 089	335 724	312 936	294 939	298 112	(3,46)	308 338	324 305
Provincial Parliament (inclusive of Statutory)	30 557	35 227	41 004	43 599	55 598	21,80	59 074	62 444
Provincial Treasury	51 276	60 533	65 421	102 333	125 914	17,52	140 077	145 340
Community Safety	97 130	118 751	141 187	157 979	173 724	5,03	174 229	182 489
Education	4 394 562	4 802 240	5 304 807	5 690 709	6 259 846	5,06	6 768 527	7 242 726
Health	3 701 245	3 951 022	4 547 304	5 169 199	5 742 503	6,10	6 133 707	6 488 103
Social Services and Poverty Alleviation	2 384 809	3 138 474	3 770 627	4 261 612	4 917 483	10,21	5 201 316	5 647 807
Local Government and Housing	411 625	482 554	426 692	665 871	632 805	(9,23)	703 802	831 070
Environmental Affairs and Development Planning	92 660	120 470	120 622	135 468	158 720	11,90	162 242	162 581
Transport and Public Works	819 012	1 081 737	1 216 208	1 258 628	1 712 012	29,92	2 079 833	1 980 420
Agriculture	114 357	131 168	160 591	196 893	238 185	15,54	251 783	273 834
Economic Development	50 815	142 622	122 755	126 439	145 148	9,64	184 563	202 709
Cultural Affairs and Sport	89 859	108 478	134 477	148 932	167 799	7,61	168 185	176 571
Total	12 516 996	14 509 000	16 364 631	18 252 601	20 627 849	7,94	22 335 676	23 720 399
Difference		1 992 004	1 855 631	1 887 970	2 375 248		1 707 827	1 384 723
Nominal Growth		15,91	12,79	11,54	13,01		8,28	6,20
Real Growth		8,73	1,70	5,16	7,94		2,83	0,76
Average annual nominal growth (2001/02 - 2005/06)					13,30			
Average annual nominal growth (2005/06 - 2007/08)								7,23
Average annual real growth (2001/02 - 2005/06)					5,62			
Average annual real growth (2005/06 - 2007/08)								1,31

6.6 Expenditure by Economic Classification

Table 14 indicates provincial expenditure by economic classification. Not surprisingly the bulk of provincial expenditure is allocated to Compensation of Employees, followed by Transfers and Subsidies. Each of these categories is discussed below.

Table 14: Province's expenditure for 2001/02 to 2004/05 financial years and budgeted allocations for 2005/06 to 2007/08 as reflected per economic classification

Economic Classification	Audited				Budget 2005/06 R'000	Real Growth 04/05- 05/06 %	MTEF	
	2001/02	2002/03	2003/04	2004/05			2006/07	2007/08
	R'000	R'000	R'000	R'000			R'000	R'000
Current Payments	8 405 466	9 351 469	10 436 662	11 466 826	12 942 643	7,80	14 064 323	14 962 738
Compensation of employees	6 501 757	6 986 631	7 511 346	8 219 486	9 321 711	8,32	10 077 915	10 737 403
Goods and services	1 896 277	2 358 027	2 909 348	3 234 770	3 613 745	6,70	3 978 862	4 217 411
Interest and rent on land	2 752	1 922	2 243		2 588		2 718	2 854
Financial transactions in assets and liabilities	4 680	4 889	13 039	12 570	4 599	(65,06)	4 828	5 070
Unauthorised expenditure			686					
Transfers and subsidies to	3 380 329	4 334 044	4 985 482	5 659 977	6 241 245	5,32	6 466 909	7 028 582
Provinces and municipalities	276 799	297 403	357 968	356 708	393 976	5,49	259 438	263 507
Departmental agencies and accounts	159 196	159 357	204 101	136 092	187 204	31,38	171 721	155 217
Universities and technikons	34 291	41 075	42 723	57 799	60 083	(0,71)	63 857	67 159
Public corporations and private enterprises	178	233	541	37 924	442	(98,89)	1 206	2 277
Foreign governments and international organisations	113	100	67	70	100	36,44	110	115
Non-profit institutions	626 728	782 356	851 701	893 127	1 018 915	8,96	1 066 990	1 116 872
Households	2 283 024	3 053 520	3 528 381	4 178 257	4 580 525	4,71	4 903 587	5 423 435
Payments for capital assets	731 201	823 487	942 487	1 125 798	1 443 961	22,50	1 804 444	1 729 079
Buildings and other fixed structures	491 144	587 648	693 500	879 242	1 146 882	24,58	1 518 518	1 427 996
Machinery and equipment	231 158	233 984	240 854	220 611	274 167	18,70	269 597	284 051
Cultivated assets				112	52	(55,66)	58	110
Software and other intangible assets			5 896	21 948	9 460	(58,3)	5 771	6 322
Land and subsoil assets	8 899	1 855	2 237	3 885	13 400	229,43	10 500	10 600
Total	12 516 996	14 509 000	16 364 631	18 252 601	20 627 849	7,94	22 335 676	23 720 399

Overall the Compensation of Employees' expenditure consumed 45,03 per cent of the total Provincial budget in the 2004/05 financial year. This compares favourably with the 51,94 per cent spent on Compensation of Employees in 2001/02, 48,15 per cent in 2002/03 and 45,90 per cent in 2003/04. The sharp decrease in the portion of expenditure on Compensation on Employees is mainly due to the sharp increase on Social Security and increases in infrastructure spending.

Key services delivered by the Provincial Government, such as Education and Health, are highly labour intensive. Compensation of Employees expenditure in Health therefore consumed 54,64 per cent of the 2004/05 Health budget (59,99 per cent in 2002/03), whereas in the case of Education this figure was 80,22 per cent (84,55 per cent in 2001/02).

Payment for capital assets increases from R731,201 million in 2001/02 to R1,729 billion in 2007/08. Furthermore, Transfers and Subsidies increases substantially over this period, from R3,380 billion in 2001/02 to R7,029 billion in 2007/08. This is almost exclusively due to the increase in the number of Social Security beneficiaries and the resultant increase in Social Security grant expenditure. The main cost driver for this item is the growth in disability and child support grant beneficiaries.

The other main beneficiaries of Transfers and Subsidies, in nominal terms, are the Housing subsidy programme (R456,740 million), local government (R393,976 million), subsidies to schools (R300,800 million) and provincial public entities (R178,146 million), as budgeted in 2005/06.

Figure 2: Comparison of actual expenditure and budgeted figures for 2003/04-2005/06 on Transfers and Subsidies

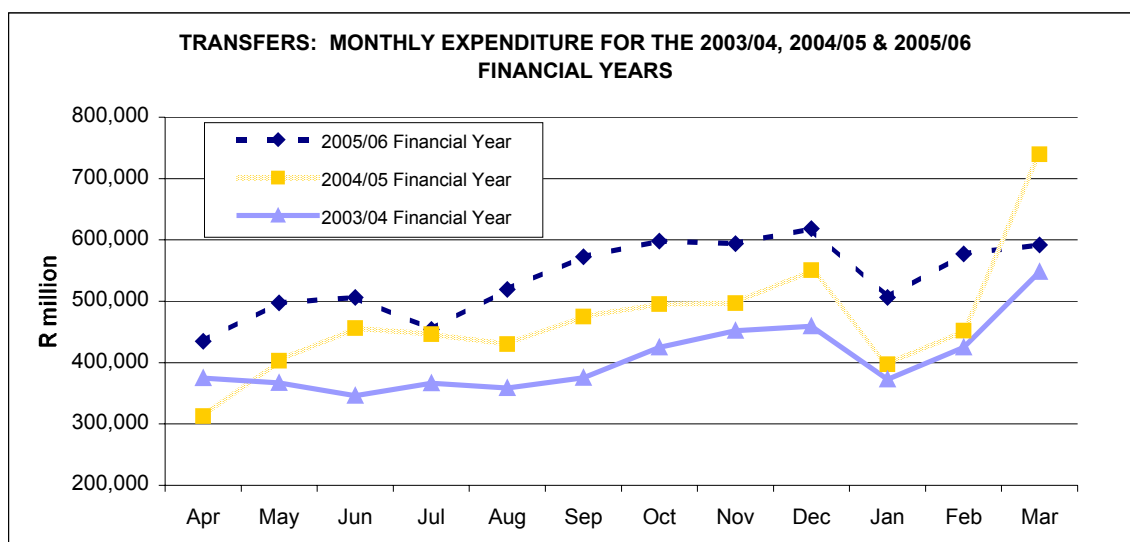


Figure 2 is a clear depiction of the “spike” pattern in the Province’s expenditure. For the last three years, expenditure (primarily Transfers and Subsidies) has increased steeply in the last month of the financial year—this is often referred to as the “March spike”. Reasons for this pattern include:

- The late clearing of suspense accounts;
- Delayed payments, for longer than the prescribed 30 days; and
- Transfers to agencies or institutions within and outside of government.

The Provincial Treasury instituted measures in 2005/06 to mitigate the March expenditure spike. Those measures include: tighter cash flow control over the last few months of the financial year; and requesting departments to surrender projected underspending in the adjustments estimate process.