



Province of the  
**EASTERN CAPE**

MEC: FINANCE

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The Chairperson

Select Committee on Finance

National Council of Provinces

P.O. Box 15

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Dear Sir

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**REPORT ON CONDITIONAL GRANT AND INFRASTRUCTURE PERFORMANCE FOR THE  
SECOND QUARTER OF THE 2006/07 FINANCIAL YEAR.**

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**1. Purpose.**

The purpose of this report is to update the National Parliament on the second quarter performance of conditional grants and Infrastructure for 2006/07 financial year.

**2. Executive Summary.**

On 5 September 2006, the Eastern Cape Provincial Treasury appraised the Select Committee of Finance on first quarter performance of conditional grants and Infrastructure. In this report a further update is made on the expenditure trends in the second.

**2.1. Conditional Grants**

For 2006/07 financial year Eastern Cape has a budget of R26, 8 billion, of which R2, 8 billion and R3 billion is for Conditional Grants and Infrastructure, respectively. The Infrastructure budget includes Provincial Infrastructure (R742, 1 million) and Hospital Revitalization (R105, 3 million) Grants. This means that about R2, 1 billion or 72% of the Infrastructure budget is funded from equitable share.



Actual spending in the 1<sup>st</sup> quarter stood at R489, 7 million against projections of R677, 7 million, recording an under spending of R188, 1 million or 22, 7%. In relation to the budget this expenditure represents 17, 4%, against an expectation of 25% assuming a linear progression.

In the second quarter the trend on under-expenditure continues with actual expenditure standing at R552, 2 million against projections of R778 million, thus recording an under expenditure of R225, 9 million.

With the exception of four grants (Comprehensive Agriculture Support Programme, Comprehensive HIV/AIDS, Hospital Revitalization and Mass Sport Recreational Participation Programme) all grants have recorded under expenditure in the reporting period, with the following grants recording high levels of under expenditure:

- Forensic pathology services (85, 5%);
- HIV/AIDS life skills (69%);
- Integrated housing and human settlement development (66, 3%), and
- Health Professions Training and Development (64, 4%).

When using actual expenditure as a percentage of the budget, quarter on quarter performance of all the conditional grants, with the exception of health professions training and development has shown some improvement. While actual expenditure for the total grants stood at 17, 4% of the budget in the first quarter, this figure shows a marginal increase to 19, 7% of the budget in the second quarter.

## **2.2. Infrastructure.**

Expenditure for Infrastructure is standing at R1, 1 billion or 38% of budget in the second quarter. This is somewhat slow because one would expect that the expenditure should be around 50%, mindful of the fact that expenditure patterns on this item may not be linear. Housing and Local Government and Sports, Arts and Culture are showing no expenditure while the highest expenditure is recorded by Health (46%), followed by Agriculture (42%), Roads and Transport (38%) and Education (35%). The reasons for under-expenditure are included in the table in section 3.3. below.

### 3. Discussion

#### 3.1. Transfers.

Table 1: Transfers for April - September 2006.

Grant Type	Budget	Transfers April to June (R'000)	Transfers July to September (R'000)	Transfers April to September (R'000)	Transfers (April - September) as % of Budget
Comprehensive agriculture support programme	57,061	5,707	19,971	25,678	45.0%
Land care programme	6,675	668	2,336	3,004	45.0%
Further Education and Training	61,000	30,500	-	30,500	50.0%
HIV / AIDS Life skills (Education)	25,113	6,279	24,446	30,725	122.3%
National school nutrition program	233,882	58,471	58,471	116,942	50.0%
Comprehensive HIV/AIDS (Health)	218,021	54,504	36,336	90,840	41.7%
Forensic pathology services	79,994	19,999	19,999	39,998	50.0%
Health professions training and development	127,566	31,890	31,890	63,780	50.0%
Hospital revitalisation	105,318	26,328	26,328	52,656	50.0%
National tertiary services	374,203	93,552	93,552	187,104	50.0%
Integrated housing & human resettlement dev.	761,994	159,800	274,700	434,500	57.0%
Provincial infrastructure grant	742,057	185,514	185,514	371,028	50.0%
Mass sports and recreational participating program.	17,060	4,559	4,532	9,091	53.3%
<b>Total Conditional Grants</b>	<b>2,809,944</b>	<b>677,771</b>	<b>778,075</b>	<b>1,455,846</b>	<b>51.8%</b>

In the period April to September 2006, an amount of R 1, 4 billion or 52% of the budget has been received. All the receipts are in line with the payment schedule and no money has been withheld by national government.

### 3.2. Expenditure trends on Conditional Grants.

Table 2: Projected and Actual Expenditure on Conditional Grants by Type, April to September 2006

Grant Type	Budget	Transfers April to September (R'000)	Actual Expenditure April to September (R'000)	Over(-)/Under(+) (R'000)	Actual as % of Transfers	Over(-)/Under(+) as % of Transfers	Actual as % of Budget
Comprehensive agriculture support programme	57,061	25,678	23,858	1,820	92.9%	7.1%	41.8%
Land care programme	6,675	3,004	2,220	784	73.9%	26.1%	33.3%
Further Education and Training	61,000	30,500	30,525	(25)	100.1%	-0.1%	50.0%
HIV / AIDS Life skills (Education)	25,113	30,725	12,883	17,842	41.9%	58.1%	51.3%
National school nutrition program	233,882	116,942	90,535	26,407	77.4%	22.6%	38.7%
Comprehensive HIV/AIDS (Health)	218,021	90,840	110,491	(19,651)	121.6%	-21.6%	50.7%
Forensic pathology services	79,994	39,998	3,587	36,411	9.0%	91.0%	4.5%
Health professions training and development	127,566	63,780	54,277	9,503	85.1%	14.9%	42.5%
Hospital revitalisation	105,318	52,656	52,355	301	99.4%	0.6%	49.7%
National tertiary services	374,203	187,104	157,007	30,097	83.9%	16.1%	42.0%
Integrated housing & human resettlement dev.	761,994	434,500	163,989	270,511	37.7%	62.3%	21.5%
Provincial infrastructure grant	742,057	371,028	333,382	37,646	89.9%	10.1%	44.9%
Mass sports and recreational participating program.	17,060	9,091	6,737	2,354	74.1%	25.9%	39.5%
<b>Total Conditional Grants</b>	<b>2,809,944</b>	<b>1,455,846</b>	<b>1,041,846</b>	<b>414,000</b>	<b>71.6%</b>	<b>28.4%</b>	<b>37.1%</b>

Grant actual spending for the first six months is R1 billion against projections of R1, 4 billion, resulting in under-expenditure of R414 million or 28, 4% of transfers. This indicates some worsening of the situation, as under-expenditure has increased from R188 million in the first quarter to R226 million in the second quarter.

The lowest spending grants are Forensic Pathology (9%) and Integrated Housing and Human Settlement Development grant (37, 7%). This trend has been consistent from both the first and second quarter.

The highest spending grants are Comprehensive HIV/AIDS (121, 6%) and Further Education and Training (100, 1%).



**Table 3 below provides expenditure trends by grant for month.**

**Table 3: Under Expenditure on Conditional Grants by Type, April to September 2006  
(R'000)**

Grant Type	Budget 2006/07	April	May	June	July	August	September	Total
Comprehensive agriculture support programme	57,061	5,432	(955)	(1,738)	18,328	(16,866)	(2,381)	1,820
Land care programme	6,675	668	-	(469)	1,754	(221)	(948)	784
Further Education and Training	61,000	-	-	(25)	-	-	-	(25)
HIV / AIDS Life skills (Education)	25,113	5,954	(4,520)	(452)	3,772	15,336	(2,248)	17,842
National school nutrition program	233,882	48,125	(18,466)	(6,947)	38,496	(19,461)	(15,340)	26,407
Comprehensive HIV/AIDS (Health)	218,021	(8,607)	15,062	1,216	5,543	(25,505)	(7,359)	(19,651)
Forensic pathology services	79,994	19,724	(303)	(109)	19,483	(1,031)	(1,353)	36,411
Health professions training and development	127,566	8,320	8,178	(27,537)	8,141	7,345	5,055	9,503
Hospital revitalisation	105,318	6,671	2,145	(1,903)	(1,324)	508	(5,796)	301
National tertiary services	374,203	14,747	8,691	(865)	7,765	4,966	(5,207)	30,097
Integrated housing & human resettlement dev.	761,994	28,577	25,817	33,913	46,389	53,304	82,511	270,511
Provincial infrastructure grant	742,057	-	105,593	(80,965)	(58,428)	117,588	(46,142)	37,646
Mass sports and recreational participating program	17,060	4,559	(306)	(1,116)	3,184	(1,779)	(2,158)	2,354
<b>Total Conditional Grants</b>	<b>2,809,944</b>	<b>134,170</b>	<b>140,906</b>	<b>(86,997)</b>	<b>93,103</b>	<b>134,184</b>	<b>(1,366)</b>	<b>414,000</b>

### 3.3. Expenditure trends on Infrastructure.

**Table 4 provides information on Infrastructure expenditure for the first six month.**

Table 4: Trends on Infrastructure expenditure: April to September 2006.

Department	2006/07 Budget	2006/07 Actual Expenditure as at (IYM) 30 September 2006	Balance to end of the year	Exp as % of budget	Reason for variances from relevant departmental representatives
	R'000		R'000		
Roads&Transport	1,546,215	586,795	959,420	38%	The Roads section has indicated three large projects have been finalized. Two of these projects have been awarded and one is at the procurement stage.
Health	587,263	268,612	318,651	46%	The main reason for the minor variance (50%-46%) is due to delays in spending as a result of poor weather conditions over the last two months.
Education	696,344	245,561	450,783	35%	There were delays in the transfers to the implementing agent(IIDT) due to the department dealing with the queries surrounding the transfers to implementing agents. The transfer has been made but not within the timelines for the second quarter.
Public Works	76,706	17,366	59,340	23%	The major projects have only started in september due to delays in the procurement processes and planning. Spending is expected to increase substantially over the next few months as the major projects have now commenced.
Sport	22,974	-	22,974	0%	The infrastructure is implemented by an implementing agent(IIDT). The management has recently reviewed its decision on the implementing agent, in order to ensure infrastructure expenditure is increased. The process is now complete.
Social Development	25,805	7,872	17,933	31%	The main reason for the minor variance (50%-46%) was due to the delays in the issuing of an order for the Grahams Town multi purpose centre. Expenditure is now expected to increase as the order has now been generated.
Agriculture	57,061	23,858	33,203	42%	This main reason for this minor variance(50%-42%) is due to seasonality and delays in project implementation were due to challenges experienced by the contractors in the implementation of projects.
Housing, Local Government & Traditional Affairs	25,364	46	25,318	0%	This project consists of the construction of offices and chambers for traditional leaders and courts. The under-expenditure is due to some delays experienced in planning.
<b>TOTAL</b>	<b>3,037,732</b>	<b>1,150,110</b>	<b>1,887,622</b>	<b>38%</b>	

### 3.4. Comments on expenditure trends by grant.

#### 3.4.1. Department of Health

Business Plans for all the conditional grants for the period 2006/07 were approved and signed by both the Provincial and National Health departments. Whilst the Provincial department does not have a grant specific risk management plan, there is a generic one for the entire department, through which possible conditional grant risks are mitigated.

Table 5: Projected and Actual Expenditure on Conditional Grants by Type, April to September 2006

Grant Type	Budget	Transfers April to September (R'000)	Actual Expenditure April to September (R'000)	Over(-)/Under(+) (R'000)	Actual as % of Transfers	Over(-)/Under(+) as % of Transfers	Actual as % of Budget
Comprehensive HIV/AIDS (Health)	218,021	90,840	110,491	-19,651	121.6%	-21.6%	50.7%
Forensic pathology services	79,994	39,998	3,587	36,411	9.0%	91.0%	4.5%
Health professions training and development	127,566	63,780	54,277	9,503	85.1%	14.9%	42.5%
Hospital revitalisation	105,318	52,656	52,355	301	99.4%	0.6%	49.7%
National tertiary services	374,203	187,104	157,007	30,097	83.9%	16.1%	42.0%
Total	905,102	434,378	377,717	56,661	87.0%	13.0%	41.7%

- **Comprehensive HIV and Aids**

The purpose of this grant is to enable the health sector to develop an effective response to the HIV and Aids epidemic and other related matters. Through this grant, in the previous financial year the Province has been able to roll out ART sites for HIV and Aids patients in 48 clinics.

In the period April to September 2006, transfers of R 90, 8 million were received, while expenditure for the same period amounted to R110, 5 million or 121, 6% of actual transfers. This expenditure pattern yielded an over expenditure of R19, 7 million or 21% of actual transfers.

- **Forensic Pathology Services**

The purpose of this grant is to provide a comprehensive Forensic Pathology Services (FPS) in order to ensure impartial professional evidence for the criminal justice system concerning death due to unnatural causes.

The grants funds personnel, infrastructure (mortuaries), capital assets and operational expenditure. Some personnel claims are still outstanding from SAPS as the transfer negotiations are currently taking place.

Transfers of R39, 9 million have been received in the period April to September 2006. Of these transfers only R3, 6 million or 9% of the actual transfers has been spent hence an under expenditure of R36, 4 million or 91% of actual transfers.

The department ascribes the under spending, amongst other things, to delays in procurement of equipment and physical construction of new mortuaries. Owing to high levels of under expenditure to date and the fact that some tenders are still at the procurement stage, it would seem that there is an overall risk of under spending, especially on Infrastructure.

- **Health and Professional and Training Development (HPTD)**

The purpose of this grant is to support the training and development of health professionals. This grant is for the execution of nationally assigned functions to provinces and is in terms of schedule 4 of the Division of Revenue Act (2006). Supported by this grant the department is targeting to train professional nurses, pharmacist, paramedics, doctors, etc, by getting into service level agreement with local universities.

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Out of a budget of R127, 6 million, R63, 8 million has been transferred in the period April to September 2006. Expenditure recorded in this period stands at R54, 2 million or 85, 1 % of actual transfers, leaving an under-expenditure of R9, 5 million or 14, 9 %.

- **Hospital Revitalization**

The purpose of this grant is to enable provinces to plan, manage, modernize, rationalize and transform the infrastructure, health technology, monitoring and evaluation of hospitals and to transform hospital management and to improve quality of health care, in line with national policy objectives.



R52, 7 million has been received in the first six months of the 2006/07 financial year, while actual expenditure is R52, 4 million or 99, 4% of actual transfers.

- **National Tertiary Services**

The purpose of the grant is to compensate provinces for the supra-provincial nature of tertiary services provision and spill over effects, and to enable provinces to plan, modernize, rationalize and transform the tertiary hospital services delivery platform, inline with national policy objectives, including improving access and equity.

R187, 1 million has been received in the period April to September 2006, while expenditure of R157 million or 83, 9% of transfers was recorded in the same period, leaving an under-expenditure of R30 million or 16, 1% of transfers.

### 3.4.2. Department of Education

All Business Plans have been signed by both Provincial and National Departments. About 9 Service Level Agreements (SLA's) have been received, including those of the National School Nutrition Programme, which has signed SLA's with 103 SMME's. Most of the SLA's appear to be at draft stage. No grant specific risk management plans exist for the grants in the department. The department is however starting to put systems in place with a view to minimize the risks relating to conditional grant.

Table 6: Projected and Actual Expenditure on Conditional Grants by Type, April to September 2006

Grant Type	Budget	Transfers April to September (R'000)	Actual Expenditure April to September (R'000)	Over(-)/Under(+) (R'000)	Actual as % of Transfers	Over(-)/Under(+) as % of Transfers	Actual as % of Budget
Further Education and Training	61,000	30,500	30,525	-25	100.1%	-0.1%	50.0%
HIV / AIDS Life skills (Education)	25,113	24,447	12,883	11,564	52.7%	47.3%	51.3%
National school nutrition program	233,882	116,942	90,535	26,407	77.4%	22.6%	38.7%
<b>Total</b>	<b>319,995</b>	<b>171,889</b>	<b>133,943</b>	<b>37,946</b>	<b>77.9%</b>	<b>22.1%</b>	<b>41.9%</b>

- **Further Education and Training (FET)**

The grant seeks to recapitalize the FET Colleges to improve their capacity to contribute to skills development training in the province. The grant is composed of transfer payments to 8 colleges in terms of Service Level Agreement and an Operational Plan. No services Level Agreement has been signed yet.

In the period April to September, R30, 5 million has been received with expenditure recorded at R30, 525 million.

- **Life Skills and HIV/AIDS Grant**

The purpose of the grant is to coordinate and support the structured integration of life skills and HIV and AIDS programmes across all learning areas in the school curriculum.

R24, 4 million has been transferred in the first six months of the 2006/07 financial year, while R12, 8 million or 52, 7% of the actual transfers has been spent, giving rise to an under-expenditure of R11, 5 million or 47, 3% of transfers.

- **National Schools Nutrition Programme Grant.**

The grant seeks to contribute to enhanced learning capacity through school feeding, targeting learners from grade1 to grade 4 (farm schools grade 7). 5046 schools with 983 412 learners are set to benefit from the programme in the current year.

Expenditure in the first six months is R90, 5 million, against transfers of R116, 9 million, resulting in under-expenditure of R26,4 million or 22,6% of the transfers.

### **3.4.3. Department of Housing, Local Govt. and Traditional Affairs**

The department is still in a process of drafting its Business Plans. Except for the Gazetting transfers to the municipalities there is no indication that Service Level Agreement and risk management plan on conditional grants exists.