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## Eastern Cape Department of Health

### Budget Analysis

2007/08

May 2007

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### Key Findings and Recommendations

- The budget allocation for the Health Administration Programme has decreased by 20.80 percent in real terms from 2006/07 to 2007/08. This programme is charged with ensuring sound human resource and financial management. The Eastern Cape Department of Health has an overall vacancy rate of 35.8 percent and has received its ninth audit disclaimer in ten years. This decrease in allocation for this critical programme is a direct contradiction to the department's policy undertakings.

*National and Provincial Treasury must ensure that the budget allocation for this critical programme increases in order to ensure that vacancies are filled, which is likely to result in improved service delivery performance and financial control in the Department.*

- The total budget allocation for HIV/AIDS programmes has increased by 5 percent in real terms for the 2007/08 financial year, despite the fact that the Department overspent its Comprehensive HIV and AIDS Grant by 21.03 percent. The Department's targets regarding HIV/AIDS programmes have risen significantly at the same time. For example, the ARV rollout target has increased by 48 percent, from 27 000 to 40 000 patients to be put on treatment by the end of the 2007/08 financial year, while the target for the number of facilities offering Voluntary Counselling and Testing (VCT) has increased from 803 to 834.

*National Treasury and the National Department of Health must increase the Eastern Cape Health Department's HIV/AIDS budget in order to ensure increased targets are met. The Department needs to engage with Provincial Treasury to motivate for an increase in budget allocation for the upcoming financial years. If no further funds are forthcoming the Department is likely to experience significant cost pressures in attempting to meet its increased targets. The Department must monitor its expenditure closely, thereby enabling it to account to National and Provincial Treasury, and the National Department of Health, on the constraints that it may face given the insignificant increase in budget allocation for HIV/AIDS in the Province.*

- The Department's total budget allocation for capital assets for the 2007/08 financial year is R906.86 million. This is a 50.58 percent increase in real terms from 2006/07. However, the Department under spent its R454.51 million adjusted allocation for capital infrastructure in the 2005/06 financial year by 21.18 percent.

*The Department must address the constraints that are hindering successful infrastructure development in order to ensure effective spending. It must do so by capacitating its existing staff and employing (or outsourcing) skilled personnel who have the necessary capacity to ensure that budgets for capital infrastructure are spent effectively.*

## **Introduction**

The South African Constitution commits government departments to the progressive realisation of various socio-economic rights within available resources. These rights include the right to education, healthcare, housing and social welfare.<sup>1</sup> The PSAM defines social accountability as the obligation by public officials and private service providers to justify their performance in progressively addressing the above rights via the provision of effective public services. In order to effectively realise these rights through the delivery of public services, state departments and private service providers responsible for the management of public resources must implement effective accountability and service delivery systems. These include: planning and resource allocation systems; expenditure management systems; performance monitoring systems; integrity systems; and oversight systems. The effectiveness of these systems can be established by monitoring their information outputs. To evaluate these systems, the PSAM has developed a set of evidence-based tools for monitoring the information produced annually by each system.

Government seeks to ensure that it addresses the most pressing social and economic needs of those that they serve through the prioritisation of public resources within the annual budget. This report analyses the impact of policy priorities (national, provincial, sectoral and departmental) on the Eastern Cape Department of Health's 2007/08 budget and on its ability to implement effective and efficient service delivery and accountability systems in the up-coming financial year. In addition, assumptions informing both policy priorities and budget allocation trade-offs are analysed in terms of the Department's external and internal service delivery environment.

## I. Policy Priorities

The South African Constitution states that everyone has the right to access health care services. In addition, the Constitution asserts that it is a requirement of the state to take reasonable measures, within its available resources, to achieve the progressive realisation of the right to access health care services.<sup>2</sup>

The Eastern Cape Department of Health states that its mission is 'to provide and ensure accessible comprehensive integrated services in the Eastern Cape, emphasising the primary health care approach, utilising and developing all resources to enable all its present and future generations to enjoy health and quality of life.'<sup>3</sup>

The strategic goals of the Department over the Medium Term Expenditure Framework (MTEF)<sup>4</sup> period are<sup>5</sup>:

- 'A modern professional and effective health care organisation with appropriately managed human resources, adequate financial resource and technology within a conducive work environment
- An effective service delivery platform based on the Primary Health Care approach and a seamless referral system
- Improvement of access to and quality of services
- Effective governance and accountability'

Thus, the Department intends to focus on:

- Restructuring the shape and size of the health system,
- Building the service delivery platform by creating the right infrastructure,
- The recruitment and retention of human resources,
- Creating a conducive environment for all staff and patients; and
- Accelerating access in the quest towards quality care.<sup>6</sup>

It is with these objectives in mind that the Eastern Cape Department of Health has highlighted some key policy areas which will receive particular attention during the 2007/08 financial year:

### 1. Human Resources:

The Eastern Cape Department of Health has made Human Resources a policy priority for the 2007/08 financial year. The Department acknowledges that it is responsible for recruiting, training and retaining human resources, and aims to become the employer of choice within the Eastern Cape for health professionals. The Department recognises that there is a shortage of healthcare professionals within South Africa and intends to address this matter via Project 5 000 which aims to recruit five thousand health professionals, including specialist doctors, medical officers, pharmacists, nurses, clinical support health personnel and health care givers over the next three years.<sup>7</sup> The Premier remarked in her 2007 State of the Province Address that this project will reduce the burden of high patient ratios currently being experienced by nursing and medical staff within public health institutions in the province.<sup>8</sup>

One of the key assumptions underlying the Eastern Cape Department of Health's budget allocation is to increase its baseline for the compensation of employees in an effort to attract, recruit and retain health professionals as part of the Department's Project 5 000 initiative.<sup>9</sup>

The focus on human resource development within the health sector is in line with national policy objectives<sup>10</sup> and is consistent with the Province's wider policy framework under the Skills Attraction and Retention Strategy which aims at attracting and retaining the 'appropriate talent to drive and accelerate service delivery.'<sup>11</sup> Building human resource capabilities in the Eastern Cape is also one of the strategic focus areas of the Provincial Growth and Development Plan (PGDP).<sup>12</sup> In recognising the central role played by professional staff in the delivery of quality health care,<sup>13</sup> the Medium-term budget priorities include paying special attention to salaries, skills and attracting more people to the health profession.<sup>14</sup> This includes implementing a new remuneration dispensation<sup>15</sup> for health professionals over the MTEF period.<sup>16</sup> Priority will also be given to the recruitment and retention of nurses as they constitute the bulk of health professionals.

## 2. Financial Management and Improving Audit Outcomes:

The Department has made financial management and improving audit outcomes a policy priority as it has received nine Disclaimers of Opinion from the Auditor-General in the last ten years. The Department intends working with the Provincial Treasury to develop and implement an audit improvement plan. This plan aims at addressing: audit queries raised by the Auditor-General; improvements in the Department's future audit outcomes; the initiation and implementation of financial and administrative interventions at Head Offices, Districts and Health Facilities; and intensifying the recruitment and absorption of employees with the appropriate financial, human resource and supply chain management skills.<sup>17</sup>

## 3. Infrastructure Development and Management:

The Department regards Infrastructure Development and Management as a policy priority for this financial year. The Department intends to implement and complete a number of projects within the Province that will upgrade, rebuild, refurbish and re-arrange health facilities in the Eastern Cape. This includes rebuilding the Cecilia Makiwane Hospital into a world class level one modern hospital, and refurbishing and re-arranging Frere and Livingstone hospitals into modern tertiary hospitals. Dora Nginza Hospital will be upgraded to improve the psychiatric, burns, tuberculosis and cardiology care offered. The Department also intends to build additional clinics in under-resourced districts. This includes building six clinics in Matatiele, and ten clinics in Alfred Nzo.<sup>18</sup>

Investment in infrastructure and the importance thereof has been highlighted as a priority in the Province, as well as at national level, within the broader framework of reducing poverty in accordance with Accelerated and Shared Growth Initiative for South Africa (ASGI-SA). Government regards its broader capital investment programme as being focused on creating economic opportunities for businesses and individuals and on improving household living conditions. Budget allocations for infrastructure investment are increasing as a share of general government expenditure with the assumption that this will provide a strong platform for accelerated future economic growth.<sup>19</sup> Infrastructure, which includes the eradication of backlogs and the development of

enabling infrastructure for economic growth and development, is regarded as one of the strategic focus areas of the PGDP.<sup>20</sup> As the Provincial Finance MEC highlighted in his 2007 Budget Speech, 'underpinning the challenge of reducing poverty and inequality in the province is the need to provide and sustain adequate and appropriate infrastructure.'<sup>21</sup>

The Hospital Revitalisation grant is intended to ensure the modernisation of hospital infrastructure and equipment, and includes funding improved medical equipment systems, management development and strengthened financial management capacity in hospitals.<sup>22</sup> Additional allocations towards the hospital revitalisation and national tertiary services grants have been made in order to allow additional hospitals to enter the programme, and to fund radiology and oncology equipment to strengthen cancer treatment services.<sup>23</sup> According to the 2007/08 Provincial Budget Statements, the underlying assumption behind this increased allocation for the upgrading and maintenance of hospitals is to improve the quality of health services to be rendered.<sup>24</sup>

#### 4. HIV and AIDS

The Eastern Cape Department of Health regards HIV and AIDS as a Priority Health Programme. The Department has prioritised the management of the AIDS pandemic through a Comprehensive Plan which aims to prevent the spread of the disease, and treat those who are infected. The targets for the 2007/08 financial year are:

- to increase and upscale access to comprehensive HIV and AIDS care;
- to increase treatment for people living with HIV and AIDS from 27 000 to 40 000 patients;
- to increase the number of facilities offering Voluntary Counselling and Testing (VCT) from 803 to 834;
- and to increase the number of patients accessing Home Based Care from 121 482 to 150 000.<sup>25</sup>

According to the PGDP<sup>26</sup>, the HIV and AIDS programmes (including the HIV and AIDS Comprehensive Plan) in the Eastern Cape are designed to:

- maintain the status of the HIV-negative individuals in the province through improved awareness, advocacy and prevention programmes.
- provide an enabling and supportive environment throughout the public sector for effective treatment of AIDS and opportunistic infections.
- ensure that those who are infected with HIV, but have not developed AIDS, progress as slowly as possible to the latter stage.
- strengthen the health system, particularly its human resource capacity, to deliver quality health care which is responsive to the pandemic.

The expansion of the prevention and treatment of HIV and AIDS is also regarded as one of the Province's nine high-impact priority projects initiated within the wider framework of ASGI-SA.<sup>27</sup> The South African government has also, for this financial year, committed itself 'to intensify the campaign against HIV and AIDS and to improve its implementation of all elements of the comprehensive approach such as prevention, home-based care and treatment.'<sup>28</sup>

## 5. Emergency Medical Services (EMS):

The Department has prioritised EMS and intends to continue implementing the EMS Turnaround Strategy which aims to improve medical services and patient transport. The objectives for this plan include developing and equipping Computerised Control Command Centres, improving service delivery and response times, providing appropriate vehicles, employing additional personnel, and upgrading and installing effective communication systems throughout the Province.<sup>29</sup>

In the 2007/08 financial year the Department plans to develop a modern EMS Station in Port Elizabeth and build a new EMS District Head Quarters in Mount Ayliff, and a substation in Alfred Nzo. The Department also plans to provide equipment for all EMS vehicles which will establish a vehicle tracking and monitoring system. Staffing levels will also be increased in order to ensure that the number of single crew ambulances is reduced. In addition, the Department aims to improve EMS in rural areas, and to reduce response times in both rural and urban areas.<sup>30</sup>

Strengthening of EMS is a national policy priority in the social services sector. It is hoped that these improvements will increase capacity in the social services sector in preparation for the 2010 FIFA World Cup.<sup>31</sup>

## II. Budget Analysis

The Eastern Cape Department of Health receives the second largest departmental budget allocation in the Province. For the 2007/08 financial year, the Department received a budget of R8.14 billion.

**Table 1: Eastern Cape Department of Health by Economic Classification, 2003/04 – 2009/10<sup>32</sup>**

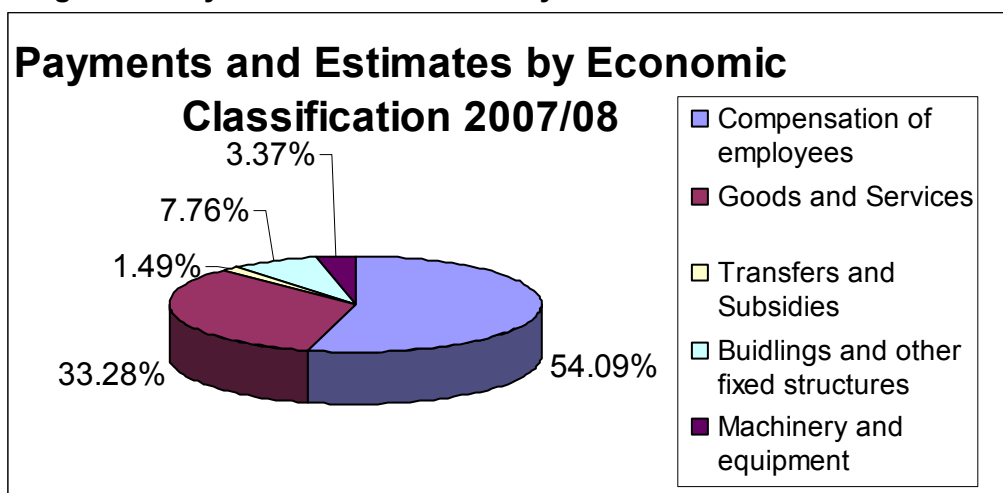
(R' 000)	Outcome			Main Appropriation 2006/07	Adjusted appropriation 2006/07	Revised estimate 2006/07	Medium-term estimate			Real Change between 2006 and 2007	Real Average Growth over MTEF	
	Audited 2003/04	Audited 2004/05	Audited 2005/06				% change from revised estimate 2006/07	2007/08	2008/09			2009/10
<b>Current payments</b>	<b>3,981,751</b>	<b>4,362,474</b>	<b>5,028,652</b>	<b>5,575,289</b>	<b>6,389,357</b>	<b>6,238,577</b>	<b>7,114,313</b>	<b>14.04</b>	<b>7,973,101</b>	<b>8,376,539</b>	<b>5.94</b>	<b>4.51</b>
Compensation of employees	2,815,673	3,230,694	3,444,788	3,732,330	3,869,873	3,921,810	4,404,596	12.31	4,695,117	4,934,051	8.29	3.56
Goods and Services	1,166,078	1,131,780	1,583,864	1,842,959	2,519,484	2,316,732	2,709,717	16.96	3,277,984	3,442,488	2.33	6.12
Interest and rent on land												
Financial transactions in assets and liabilities												
Unauthorised expenditure						35		-100.00				
<b>Transfers and Subsidies to</b>	<b>735,595</b>	<b>447,074</b>	<b>733,308</b>	<b>853,621</b>	<b>374,605</b>	<b>545,652</b>	<b>121,566</b>	<b>-77.72</b>	<b>53,784</b>	<b>56,114</b>	<b>-69.12</b>	<b>-42.34</b>
Provinces and municipalities	142,304	216,129	246,724	250,643	253,356	260,404	70,000				-73.71	-86.86
Departmental agencies and accounts	593,291	195,272	429,203			39						
Universities and technikons												
Public corporations and private enterprises		11,258	10,102	572,526	17	193,813		-100.00			-100.00	-100.00
Foreign governments and international organisations												
Non-profit institutions		4										
Households		24,411	47,279	30,452	121,232	91,396	51,566	-43.58	53,784	56,114	-59.53	-20.02
<b>Payments for capital assets</b>	<b>525,666</b>	<b>370,669</b>	<b>358,224</b>	<b>463,791</b>	<b>573,037</b>	<b>543,453</b>	<b>906,864</b>	<b>66.87</b>	<b>925,906</b>	<b>923,674</b>	<b>50.58</b>	<b>14.52</b>
Buildings and other fixed structures	361,858	343,887	266,609	372,452	461,391	428,786	632,247	47.45	619,592	616,412	30.38	6.39
Machinery and equipment	163,736	26,781	91,615	91,339	111,646	114,667	274,617	139.49	306,314	307,262	134.04	45.52
Cultivated assets	72	1										
Software and other intangible assets												
Land and subsoil assets												
<b>Total economic classification</b>	<b>5,243,012</b>	<b>5,180,217</b>	<b>6,120,184</b>	<b>6,892,701</b>	<b>7,336,999</b>	<b>7,327,682</b>	<b>8,142,743</b>	<b>11.12</b>	<b>8,952,791</b>	<b>9,356,327</b>	<b>5.60</b>	<b>3.54</b>

The total budget allocation for the Department has increased by R805.77 million, or 11.12 percent, in nominal terms from the 2006/07 financial year. Once the effect of inflation is taken into account, this amounts to a 5.60 percent increase in real terms.

The bulk of the Department's 2007/08 budget allocation will go towards the compensation of employees which takes up 54.09 percent, or R4.40 billion, of the total budget. Of the remaining 45.91 percent, 33.28 percent will be dedicated towards goods and services (see Table 1 and Diagram 1).



**Diagram 1: Payments and Estimates by Economic Classification 2007/08**

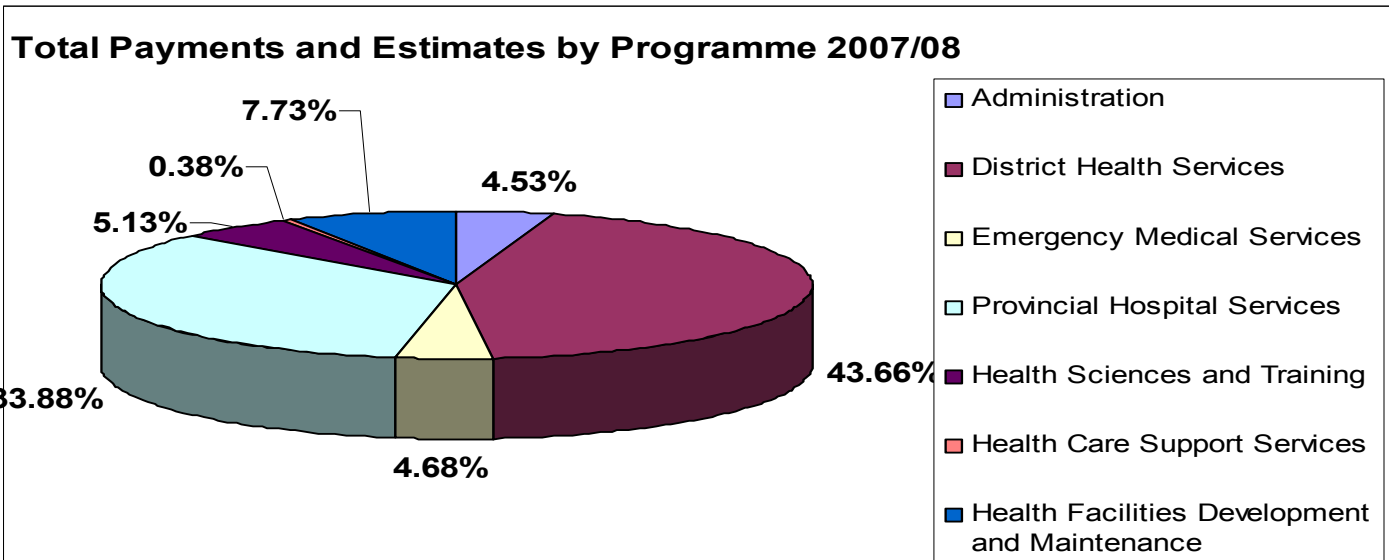


In terms of 2007/08 budget allocations by programme, the majority is allocated to the District Health Services Programme, which receives R3.56 billion, or 43.66 percent, and the Provincial Hospital Services Programme, which receives R2.76 billion, or 33.88 percent, of the R8.1 billion available to the Department (see Table 2 and Diagram 2).

**Table 2: Eastern Cape Department of Health by Programme, 2003/04 – 2009/10<sup>33</sup>**

Programme (R'000)	Outcome						Medium-term estimate				Real Change between 2006 and 2007	Real Average Growth over MTEF
	Audited 2003/04	Audited 2004/05	Audited 2005/06	Main Appropriation 2006/07	Adjusted appropriation 2006/07	Revised estimate 2006/07	% change from revised estimate					
							2007/08	2006/07	2008/09	2009/10		
1. Health Administration	215,110	245,207	248,398	256,792	443,357	438,243	<b>369,065</b>	-15.79	410,751	404,195	-20.80	-6.78
2. District Health Services	2,518,346	2,558,483	2,812,011	3,052,765	3,314,391	3,268,683	<b>3,555,512</b>	8.78	3,950,820	4,157,172	2.07	2.96
3. Emergency Medical Services	194,488	125,234	219,052	397,098	256,540	297,438	<b>380,734</b>	28.00	419,492	439,563	41.21	15.57
4. Provincial Hospital Services	1,764,282	1,708,351	2,043,109	2,169,097	2,269,097	2,269,097	<b>2,759,089</b>	21.59	3,039,852	3,161,366	15.69	6.81
5. Central Hospital Services												
6. Health Sciences and Training	122,884	159,948	327,406	397,431	387,382	387,382	<b>417,915</b>	7.88	460,380	492,885	2.65	3.44
7. Health Care Support Services	23,027	10,440	36,049	32,255	21,505	22,257	<b>30,701</b>	37.94	33,826	35,401	35.83	13.74
8. Health Facilities Development and Maintenance	404,875	372,554	434,159	587,263	644,727	644,582	<b>629,727</b>	-2.30	637,670	665,745	-7.07	-3.48
<b>Total payments and estimates</b>	<b>5,243,012</b>	<b>5,180,217</b>	<b>6,120,184</b>	<b>6,892,701</b>	<b>7,336,999</b>	<b>7,327,682</b>	<b>8,142,743</b>	<b>11.12</b>	<b>8,952,791</b>	<b>9,356,327</b>	<b>5.60</b>	<b>3.54</b>

**Diagram 2: Payments and Estimates by Programme 2007/08**



In addition to its equitable share allocation<sup>34</sup>, the Department receives conditional grants which are supplementary funds given to the Department to address specific, high-priority, needs. They are usually transferred from national departments to provincial departments and, unlike the department's equitable share allocation, may only be spent in a way that is consistent with their intended use.<sup>35</sup>

The Department's total conditional grant allocation has risen significantly for the 2007/08 financial year, from R953.08 million in 2006/07 to R1.26 billion in 2007/08. This represents a 32.30 percent increase in nominal terms, and a 25.88 percent increase in real terms (see Table 3).

**Table 3: Eastern Cape Department of Health, Conditional Grant allocations, 2003/04 – 2009/10<sup>36</sup>**

Conditional Grant Allocation (R '000)	Outcome			Main appropriation 2006/07	Adjusted appropriation 2006/07	Revised estimate 2006/07	Medium-term estimate				Real Change between 2006 and 2007	Real Average Growth over MTEF
	Audited 2003/04	Audited 2004/05	Audited 2005/06				% change from revised estimate 2006/07	2007/08	2008/09	2009/10		
1. Health Prof. Train & Dev.	79,873	97,464	131,957	127,566	133,482	133,482	133,944	7.98	140,641	151,362	-4.52	-0.42
2. Hospital Revitalisation	90,751	116,354	127,612	105,318	125,071	125,071	246,750	97.29	228,966	189,985	87.71	18.58
3. Cholera Epidemic		6,000										
4. Hospital Management	14,553	14,647	22,986									
5. Integrated Nutrition	172,465	23,933	24,622									
6. National Tertiary Services	195,504	272,036	384,970	374,203	374,203	374,203	428,912	14.62	462,559	501,796	9.06	5.29
7. Comprehensive HIV/AIDS	38,934	98,970	162,361	218,021	232,071	232,071	233,204	0.49	264,563	314,972	-4.39	5.96
8. Forensic Pathology		1,000	605	79,994	88,255	88,255	68,135	-22.80	58,129	52,499	-26.54	-19.54
9. Provincial Infrast. Grant							150,000		194,370	194,370		9.73
<b>Total payments and estimates</b>	<b>592,080</b>	<b>630,404</b>	<b>855,113</b>	<b>905,102</b>	<b>953,082</b>	<b>953,082</b>	<b>1,260,945</b>	<b>32.30</b>	<b>1,349,228</b>	<b>1,404,984</b>	<b>25.88</b>	<b>9.24</b>

## Human Resources:

The allocation for the Department of Health's Administration Programme (Programme 1) has decreased by 15.79 percent in nominal terms from the 2006/07 Revised Estimate of R438.24 million, to R369.07 million in 2007/08.<sup>37</sup> This is a 20.80 percent decrease in real terms from 2006/07 to 2007/08. There is also a 6.47 percent decrease in real average growth over the medium term expenditure period for this programme (see Table 2).

The objective of the Department's Health Administration Programme is to 'ensure the management of financial, human, information and infrastructure resources.'<sup>38</sup> According to the Department's 2005/06 Annual Report, the Health Administration Programme had a vacancy rate of 41.9 percent, while the Department had a total vacancy rate of 35.8 percent at the end of that financial year.<sup>39</sup> Given this, the reduction in this programme's budget allocation is of grave concern in light of the Department's pressing human resource needs and weak financial management.

The Auditor-General also highlighted the fact that the personnel and salary system had not been sufficiently updated to reflect certain staff movements. Problems in this regard included officials who had left the Department not being de-activated timeously on the system and paypoint managers not certifying the payrolls to confirm that officials listed were indeed employed at the relevant paypoints.<sup>40</sup>

The decrease in allocation to the Health Administration Programme is likely to contribute to the Department failing to fill the vacancies in this programme, and in the Department as a whole. This will have adverse effects on the Department's ability to exercise sound financial management and is likely to result in the Department underspending its budget where there have been significant increases in allocation. As the MEC for Finance stated in the 2007/08 Budget Speech, one of the greatest challenges to departments is effectively spending their budget allocations as 'there is more cash available to spend than the capacity of departments to spend.' The need for Departments to build capacity in their administration in order to step up spending was thus emphasised.<sup>41</sup>

The decrease for this critical programme is of concern given the fact that the Department regards human resources as a policy priority. In order for the Department to address its alarming vacancy rates and capacity constraints, it needs its budget for this vital programme to increase rather than decrease by 20.80 percent. Also of concern is a reduction in budget allocation to the sub-programme: Management which has been budgeted 20.68 percent less in real terms in 2007/08 when compared to its budget for 2006/07.<sup>42</sup> This is likely to result in the Department being unable to attract the skilled staff necessary for it to improve its managerial performance. The Accounting-Officer of the Department, Mr. Lawrance Boya, has attributed the Department's history of poor financial management to problems resulting from acute staff shortages. According to him, the high vacancy rate in the Department results in a lack of proper supervision and management of finances.<sup>43</sup>

In order to ensure an improvement in the Department's overall performance, including financial management, the Department needs to ensure that it fills vacant posts as soon as possible. In the Department's words, its 'inadequate budget has for years militated against the filling of vacant posts.'<sup>44</sup> The Department has been allocated an increase of R534.73 million, from R3.87 billion to R4.40 billion, for the compensation of employees in the 2007/08 financial year. This is an 8.29 percent increase in real terms. While this

increase in allocation is welcome, the Department needs to ensure that these funds are spent effectively by ensuring that the vacant posts in the Department are filled and that staff are retained. This is unlikely to occur given the almost 20.80 percent decrease in the budget allocation for the Health Administration programme which is charged with ensuring sound human resource management. If this Programme, which itself has a vacancy rate of 41.9 percent, is incapacitated by staff shortages, it is unlikely that it will be able to recruit and retain staff within the Department despite the increased funds allocated for the compensation of employees.

The Department intends to address its alarming vacancy rates through Project 5000. While this initiative is necessary, the Department needs to ensure that it focuses on retaining staff. The Department reported in March 2007 that in the 2006/07 financial year, 3500 new staff members were recruited while 1700 left the public health service.<sup>45</sup> The Department needs to ensure that measures are put into place to retain personnel once they have been recruited.

The decrease in budget allocations for the Health Administration Programme would appear to be a trade-off with the increase in allocation for the EMS Programme. The allocation for EMS has increased by R83.30 million, from the 2006/07 Revised Estimate to 2007/08, while the Health Administration allocation has decreased by R74.29 million over the same period. If EMS is being prioritised over Health Administration in terms of budget allocation, this trade-off is problematic given the fact that the EMS Programme itself has a vacancy rate of 49%.<sup>46</sup> Despite the increase in budget allocation for EMS, it is the Health Administration Programme that is charged with Human Resource management and would thus need to recruit the necessary staff for the EMS Programme. If the Health Administration is incapacitated by staff shortages due to its inadequate budget allocation, it is unlikely that the necessary EMS staff will be recruited.

#### Financial Management and Improving Audit Outcomes:

It is the responsibility of the Eastern Cape Health Department to maintain effective, efficient and transparent systems of financial management to guarantee that its facilities are appropriately funded and deliver quality health services. Over the past few years, the Auditor-General has repeatedly highlighted inadequate financial management, ineffective internal controls and poor in-year monitoring by the provincial Department of Health. The Auditor-General has also noted that the activities of the Department are not adequately, continuously and effectively monitored and supervised by management, which has impacted on the extent to which the Department is able to ensure financial and related systems operate effectively.<sup>47</sup> The Auditor-General also issued the Health Department with its ninth disclaimer in ten years at the end of the 2005/06 financial year. These weaknesses have clearly had an adverse effect on service delivery.

The Department of Health's 2006/07 financial performance as at 31 March 2007 is also of concern. According to the unaudited Fourth-quarter Provincial Budget Figures released by the National Treasury, the Eastern Cape Department of Health has under spent its 2006/07 budget allocation by R132.32 million.<sup>48</sup>

Given the Department's record of poor financial management, more funds need to be directed towards improving capacity among existing staff and recruiting additional staff to fill vacant critical posts. Regarding vacancies relating to financial management, the average vacancy rate for 'Finance and economic related', 'Financial and related

professional' and 'Financial clerks and credit controller posts' is 49 percent, with only 243 of 494 posts filled by the end of the 2005/06 financial year.<sup>49</sup>

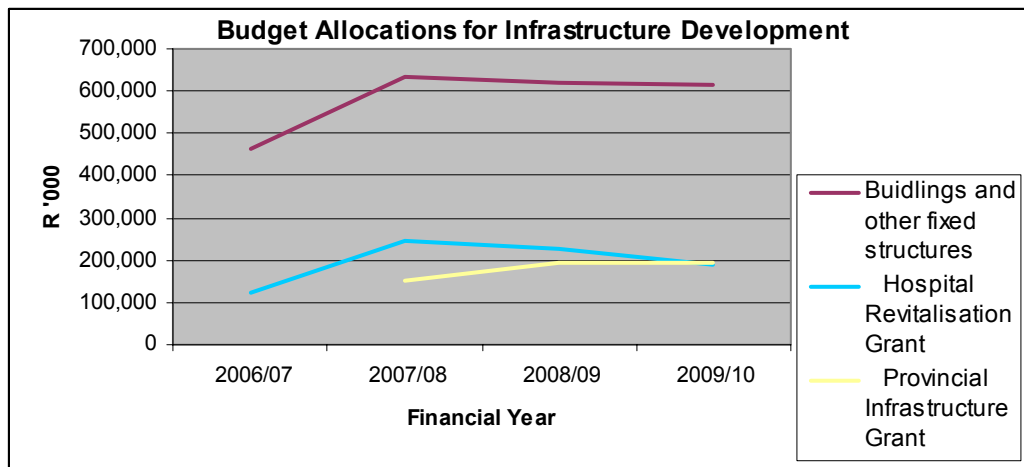
The decrease in the budget allocation for the Health Administration programme, which is charged with ensuring sound financial management in the Department, is likely to result in the Department being unable to adequately address its human resource problems in this programme. This is likely to result in further poor financial management.

**Infrastructure Development and Management:**

The Department's allocation for buildings and other fixed structures has increased from R461.39 million in 2006/07 to R632.25 million for 2007/08. This is a 47.45 percent increase in nominal terms, and a 30.38 percent increase in real terms. The Department has also received a large increase in allocation for machinery and equipment from R111.65 million to R274.62 million (see Table 1). This represents an increase in nominal terms of 139.49 percent, or 134.04 percent in real terms. The Department's Hospital Revitalisation Grant has also increased significantly from R125.07 million in 2006/07 to R246.75 million for the upcoming 2007/08 financial year. This is an increase of 87.71 percent in real terms. The Department also received an allocation of R150 million from the Provincial Infrastructure Grant (see Diagram 3).

The Department has a total of R906.86 million available for capital assets in the 2007/08 financial year. This is a R333.82 million or 50.58 percent increase in real terms from the R573.04 million available in the 2006/07 financial year.

**Diagram 3: Budget Allocations for Infrastructure Development**



While this increase in allocation is welcomed and corresponds to the Department's policy priority of addressing infrastructure problems in the province, the Department must ensure that these allocations are spent effectively. Performance in previous financial years has indicated that the Department has been unable to properly spend its infrastructure allocations. For example, the Department spent only 78.82 percent of its R454.51 million adjusted capital budget in the 2005/06 financial year.<sup>50</sup> In the same financial year the Department under spent its Hospital Revitalisation Conditional Grant by R30.01 million, or 19.09 percent.<sup>51</sup>

In contrast to this, the Department overspent the Hospital Revitalisation Grant (HRG) by 28.35 percent, or R29.86 million, during the 2006/07 financial year according to the unaudited Fourth quarter spending results released by National Treasury.<sup>52</sup>

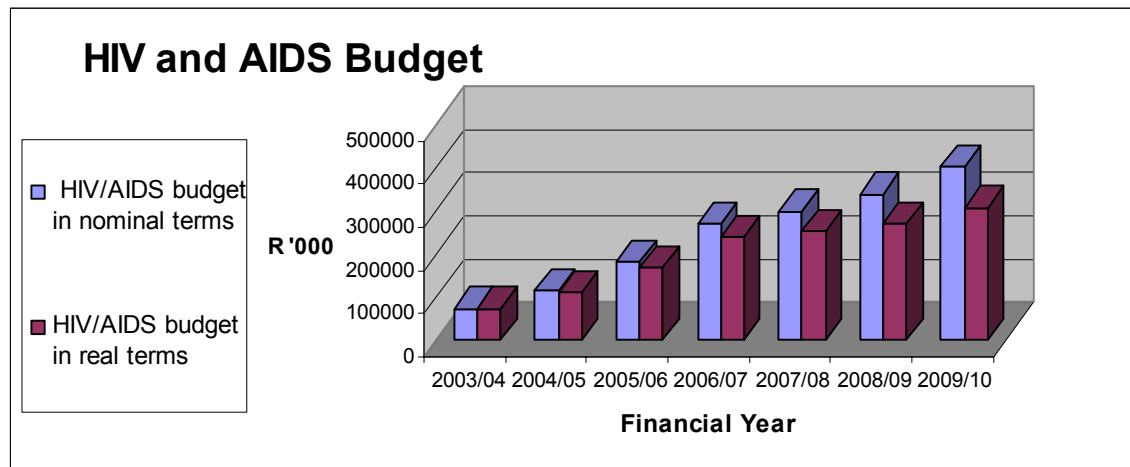
The Department has yet to account to the provincial Legislature for this over expenditure which could be the result of inadequate funding for the 2006/07 financial year. It will be interesting to see if the Department properly spends its greatly increased allocation for HRG in the 2007/08 financial year. It is clear that for it to be able to do so it needs to overcome its current constraints. The Department has identified some of its constraints as a lack of capacity; a lack of skilled personnel for health technology; weakness in architectural, mechanical and electrical planning and implementation; and, protracted procurement processes.<sup>53</sup> The Department must ensure that measures to overcome these constraints are implemented in order to respond effectively and ensure that its increased allocations are used to realise their intended purposes. A failure to do so is likely to result in the Department under spending its increased HRG budget allocation which will inevitably hinder service delivery.

### HIV and AIDS

HIV and AIDS programmes receive their budget allocation from the equitable share as well as the Comprehensive HIV and AIDS Conditional Grant. The Comprehensive HIV and AIDS Grant increased by 0.49 percent in nominal terms from R232.07 million in 2006/07 to R233.20 million in 2007/08<sup>54</sup>. In real terms, this is a decrease of 4.39 percent from 2006/07 to 2007/08. This decrease in allocation is worrying given that unaudited Fourth-quarter Provincial Budget Figures released by the National Treasury indicate that the Eastern Cape Department of Health overspent its Comprehensive HIV and AIDS grant by 21.03 percent, or R48.79 million in 2006/07. This clearly demonstrates the need to increase rather than decrease real allocations for this vital grant.<sup>55</sup>

Overall the Department's budget allocation towards the HIV/AIDS sub-programme increased by five percent in real terms, from R271.07 million in 2006/07 to R299.14 million in 2007/08 (see Diagram 4).

**Diagram 4: HIV and AIDS Programmes Budget Allocations<sup>56</sup>**



According to the Health Department's 2006/07 Integrated Business Plan for HIV and AIDS, it aimed, by the end of March 2007, to have a total of 26 911 people registered for anti-retroviral (ARVs). However, the Department of Health informed the PSAM that, as at the end of June 2005, there were already 30 851 patients on the ARV roll-out waiting list. This means that if the Department reached its target of 27 000 patients by the end of March 2007, it would still not have addressed the alarming number of people already in desperate need of treatment as of June 2005, a number which is clearly going to have increased since that date.

The Premier announced in February 2007 that her administration sought to increase the number of people accessing ARVs from 27 000 to 40 000.<sup>57</sup> This undertaking needs to be met with an allocation which is commensurate with the stated objective.

The minor increase in the provincial allocation raises concerns about the current allocation of funds to meet the revised target of 40 000 patients accessing ARVs by March 2008. It seems highly unlikely that the Department will be able to fund a 48 percent increase in those receiving ARVs by March 2008 (from 27 000 to 40 000) when its budget is set to increase by only 5.00 percent over the same period. Critically, this insignificant budget increase also raises questions about the Eastern Cape Health Department's ability to contribute effectively towards the nationally planned 50% reduction in the rate of infection by 2011.<sup>58</sup>

Given the above factors it is necessary that appropriate resources are allocated to address the pressing need for anti-retroviral treatment. Failure to allocate a budget which is aligned to stated targets will result in targets not being achieved.

#### Emergency Medical Services (EMS):

The budget allocation for the EMS Programme increased by 21.79 percent in real terms, from R297.43 million in 2006/07 to R380.73 million in 2007/08. This programme is projected to experience a real average growth rate of 9.10 percent over the upcoming MTEF period.<sup>59</sup>

It is encouraging to see this increased allocation, given the service delivery problems that have plagued the provision of EMS in the Province. However, these additional resources will only result in improved service delivery if the programme is able to address its crippling staff shortages and other service delivery constraints. At the end of the 2005/06 financial year this programme experienced a 49% vacancy rate.<sup>60</sup> Unless this programme's vacancy rate is addressed it is likely that the Department will under spend the EMS Programme budget due to capacity constraints and human resource limitations. For instance, the Department failed to spend R140 million of the money it budgeted for ambulances, staff recruitment and the revamping of five ambulance centres in the 2006/07 financial year.<sup>61</sup>

It is encouraging to note that within the EMS Programme, the compensation of employees allocation has increased by 25.88 percent from the 2006/07 Revised nominal estimate. This is a significant increase of 51.21 percent in real terms from the 2006/07 allocation. In January 2007, the Department reported that attempts to attract qualified paramedics had been unsuccessful and that it had been forced to review its recruitment strategy.<sup>62</sup> The Department must ensure that the increased allocation is spent effectively by urgently addressing the high EMS vacancy rate and ensuring that posts are filled in order to ensure improve service delivery.



### III. Conclusion

The Department has prioritised a number of policies for the 2007/08 that require urgent implementation if the Eastern Cape Department of Health is to meet its mandate. In order for the Department to address these policy priorities, sufficient funds need to be allocated to the various programmes which are tasked with implementing them.

While some of the Eastern Cape Department of Health's policy priorities, such as Infrastructure Development and EMS, have been accompanied by large increases in budget allocations, the decrease in the budget allocation for the Health Administration programme is likely to have negative effects in terms of service delivery for all policy priority areas, because human resource shortages are not likely to be addressed, and financial management weaknesses are likely to persist. The almost negligible increase in the overall allocation to HIV and AIDS programmes is also likely to hinder the Department's attempts to prevent the spread of the disease, and provide treatment and care of those infected and affected by the disease.

While insufficient funding may have adverse effects on the Department's ability to implement the planned activities regarding each policy priority, if the Department faces capacity constraints, increases in budget allocations will not necessarily result in improved service delivery. The Department must ensure that it has the necessary capacity to be able to properly spend increased allocations. If the necessary capacity does not exist, service delivery constraints are unlikely to be overcome, and the Department may find itself under spending its budget allocations, and compromising service delivery. For example, the massive increase in the budget available for Infrastructure Development is likely to result in the Department under spending unless its current lack of capacity and procurement process problems are addressed. This is also true of the EMS programme which experienced budgetary growth in the 2006/07 financial year, but, due to capacity constraints, a high vacancy rate, and problems with procurement processes, this programme under spent by R140 million in 2006/07. Unless the Department addresses these systemic capacity related issues, it is unlikely that increased budget allocations will translate into more effective service delivery.

The decrease in the allocation for the Health Administration programme is of critical concern. This programme is responsible for financial, infrastructural and human resource management within the Department. A decrease in the budget for this vital programme is likely to result in the Department exercising poor financial control in all spheres of its performance and is also likely to result in poor human resource management. Unless this programme is properly funded, and capacity gaps are filled throughout the Department's various programmes and sub-programmes, the Department's difficulties in meeting its Constitutional mandate are likely to continue.

From 2007 the PSAM will produce seven main outputs: 1. Budget Analysis; 2. Strategic Plan Evaluation; 3. Expenditure Tracking Report; 4. Service Delivery Report, 5. Accountability to Oversight Report, 6. Scorecard; 7. Integrity Systems Evaluation. Together, these publications provide a comprehensive overview of the performance of government service delivery departments in respect of their implementation of accountability and service delivery systems necessary to realise socio-economic rights to education, health care, housing and welfare. The Budget Analysis and Strategic Plan Evaluation are forward-looking research outputs, produced at the beginning of the financial year. These outputs analyse the likely impact of policy priorities, budget allocations and planned activities on each department's ability to implement effective accountability and service delivery systems in the upcoming financial year. The remaining outputs are retrospective, and provide an analysis of each department's actual performance in the previous financial year. The current outputs, and those which will be completed during the course of 2007, can be accessed via [www.psam.org.za](http://www.psam.org.za).

<sup>1</sup> Constitution of the Republic of South Africa, Act 108 of 1996, Chapter 2, Sections 26, 27 and 29.

<sup>2</sup> Constitution of the Republic of South Africa, Act 108 of 1996, Chapter 2, Section 27.

<sup>3</sup> Eastern Cape Department of Health, Annual Performance Plan 2007/08 – 2009/10, p. 11.

<sup>4</sup> The MTEF refers to the three-year revenue and expenditure plans of provincial and national departments. Parliament or Legislatures only vote on the first year of the MTEF (i.e. the budget for the upcoming financial year). The two outer years of the MTEF, however, are set out by the national Treasury in order to guide future planning. Departments have some idea of how much money they will be allocated in the two outer years and can therefore produce plans that cover a three-year period. The following year, a new third year is added to the MTEF.

<sup>5</sup> Eastern Cape Department of Health, Annual Performance Plan 2007/08 – 2009/10, pp. 12-13.

<sup>6</sup> Ibid, p. 9.

<sup>7</sup> Eastern Cape Department of Health, Policy Speech, 2007/08. p. 5. Eastern Cape Provincial Legislature, Bhisho, 15 March 2007. available at <http://www.ecdoh.gov.za/uploads/speeches/160307103127.htm>

<sup>8</sup> State of Province Address 2007, p. 7. East London, 16 February 2007, available at [http://www.ecprov.gov.za/news\\_article.asp?id=185](http://www.ecprov.gov.za/news_article.asp?id=185)

<sup>9</sup> Eastern Cape Provincial Treasury, Budget Statement II, 2007/08, p. 58.

<sup>10</sup> State of the Nation Address 2007, 9 February 2007, p. 11, available at <http://www.info.gov.za/speeches/2007/07020911001001.htm>

<sup>11</sup> State of Province Address 2007, p. 11.

<sup>12</sup> Provincial Growth and Development Plan (PGDP), 2004-2014, p. 15.

<sup>13</sup> Budget Review 2007, p. 135

<sup>14</sup> Ibid, p. 118.

<sup>15</sup> This will include improving the salary packages of nurses with effect from 1 July 2007 as part of the Nurses Package Improvement Process.

<sup>16</sup> Budget Review 2007, p. 128

<sup>17</sup> Eastern Cape Department of Health, Policy Speech, 2007/08, p. 10

<sup>18</sup> Ibid, p. 6

<sup>19</sup> Budget Review 2007, p. 122

<sup>20</sup> PGDP 2004-2014, p.15

<sup>21</sup> Eastern Cape Provincial Treasury, Budget Speech, 2007/08, p. 8

<sup>22</sup> Budget Review 2007, p. 141

<sup>23</sup> Eastern Cape Provincial Treasury, Budget Speech, 2007/08. p. 13

<sup>24</sup> Eastern Cape Provincial Treasury, Budget Statement II, 2007/08, p. 58

<sup>25</sup> Eastern Cape Department of Health Policy Speech, 2007/08, p. 8

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- <sup>26</sup> PGDP 2004-2014, p. 170
- <sup>27</sup> State of the Province Address 2007, p. 13
- <sup>28</sup> State of the Nation Address 2007, p. 11
- <sup>29</sup> *Impilo*, Vol 3. June 2006, p. 7.
- <sup>30</sup> Eastern Cape Department of Health Policy Speech, 2007/08. p.4
- <sup>31</sup> Budget Review 2007, p.138
- <sup>32</sup> Eastern Cape Provincial Government Budget Statements II, 2007/08, p. 59. In Tables 1, 2 and 3 in this analysis, the figures for 2003/04, 2004/05 and 2005/05 are audited *expenditure*, while the figures for 2006/07 are a combination of un-audited *incurred expenditure* and *projected expenditure*. The outer years are MTEF projections (*projected allocations*). All figures (R'000) are nominal (they do not factor in the effect of inflation on buying power). The percentages in the last two columns were calculated using real figures. CPIX (projected inflation figures) were used to calculate what the real buying power would be for each of the budget allocations in the budget horizon (2003/04-2009/10). The 'deflated' figures were then used to calculate the real growth percentages shown in the last two columns. The deflators for each year are: 2003/04 – 1; 2004/05 – 1.043; 2005/06 – 1.084; 2006/07 – 1.134; 2007/08 – 1.191; 2008/09 – 1.247, 2009/10 – 1.303
- <sup>33</sup> *Ibid*, p. 58
- <sup>34</sup> Funds distributed to provinces by the National Treasury are known as equitable share allocations. These funds are allocated to enable provinces to provide basic services and perform the functions for which they are responsible. Equitable share allocations are unconditional – provinces determine how their equitable share is distributed to particular departments and programmes in line with national policies and priorities.
- <sup>35</sup> See the Division of Revenue Act 2007 for more information, available at <http://www.info.gov.za/gazette/acts/2006/a2-06.pdf>
- <sup>36</sup> Eastern Cape Provincial Government Budget Statement II 2007/08. p. 57
- <sup>37</sup> *Ibid*. Table 3.3, p. 58.
- <sup>38</sup> Eastern Cape Department of Health, Annual Report 2005/06, p. 20.
- <sup>39</sup> *Ibid*, p. 282.
- <sup>40</sup> *Ibid*, 2005/06, p. 194.
- <sup>41</sup> Eastern Cape Provincial Treasury Budget Speech, 2007/08. p. 5.
- <sup>42</sup> Eastern Cape Provincial Government Budget Statement II, 2007/08, p 61.
- <sup>43</sup> 'Bhisho health boss rapped for shambles', Daily Dispatch, 28 March 2007.
- <sup>44</sup> Eastern Cape Department of Health, Annual Performance Plan, 2006/07 – 2008/09, p. 14.
- <sup>45</sup> 'Multi-Million rand injection to retain and recruit Health Professionals', Eastern Cape Department of Health News, 16 March 2007, Eastern Cape Department of Health News
- <sup>46</sup> Eastern Cape Department of Health, Annual Report 2005/06, p. 111.
- <sup>47</sup> *Ibid*, p. 196.
- <sup>48</sup> National Treasury 4th Quarter Spending Results, 2006/07. Taken from the Statement of Receipts and Payments for the 4th Quarter ended 31 March 2007, Eastern Cape Province
- <sup>49</sup> *Ibid*, p. 285
- <sup>50</sup> Eastern Cape Department of Health, Annual Report 2005/06, p.233
- <sup>51</sup> *Ibid*, p. 255
- <sup>52</sup> National Treasury 4th Quarter Spending Results, 2006/07. Taken from Conditional Grants transferred from National Department and Actual Payments made by provinces, 4th Quarter ended 31 March 2007, Eastern Cape Province.
- <sup>53</sup> Eastern Cape Department of Health Annual Performance Plan, 2007/08-2009/10, p. 239 - 240
- <sup>54</sup> Eastern Cape Provincial Government Budget Statement II 2007/08, p. 57, Table 3.2
- <sup>55</sup> National Treasury 4th Quarter Spending Results, 2006/07. Taken from Conditional Grants transferred from National Department and Actual Payments made by provinces, 4th Quarter ended 31 March 2007, Eastern Cape Province
- <sup>56</sup> These figures are the HIV/AIDS sub-programme allocations under Programme 2: District Health, Eastern Cape Provincial Government Budget Statement II 2007/08, p. 65
- <sup>57</sup> State of Province Address 2007, p. 7. East London, 16 February 2007, available at [http://www.ecprov.gov.za/news\\_article.asp?id=185](http://www.ecprov.gov.za/news_article.asp?id=185)

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- <sup>58</sup> National HIV and AIDS and STI Strategic Plan for South Africa (Draft 9), p. 11
- <sup>59</sup> Eastern Cape Provincial Government Budget Statement II, 2007/08, p. 58, Table 3.3
- <sup>60</sup> Eastern Cape Department of Health. Annual Report 2005/06, p.111
- <sup>61</sup> 'Health underspends R140m', Daily Dispatch. 22 January 2007
- <sup>62</sup> Ibid.