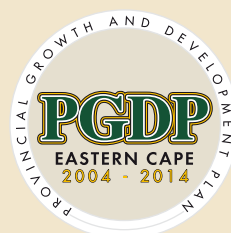




Province of the
EASTERN CAPE
PROVINCIAL TREASURY

BUDGET SPEECH

2010/11



Ikamva eliqaqambileyo!

Province of the Eastern Cape
2010 Budget Speech

MEC Mcebisi Jonas

3 March 2010

Honourable Speaker

Honourable Deputy Speaker

Honourable Premier,

Members of the Provincial Executive Council,

Members of the Provincial Legislature,

Chairperson of the House of Traditional Leaders and Traditional
leaders present, Religious leaders and the representatives of civil
society,

Heads of all chapter nine institutions

Chairperson of the South African Local Government Association
Eastern Cape,

Executive Mayors and Councillors,

Director General and top management of our administration,

Members of the media, guests, comrades, friends, ladies and
gentlemen,

Molweni nonke bantu be Phondo lase MpumaKapa, ababukele
kwindawo ngendawo.

We are honoured to present the main annual 2010/11 budget of the Eastern
Cape Provincial government, the sixteenth of our democratic dispensation. We
stand today ninety nine days to the start of the 2010 FIFA World Cup, truly a

landmark for our adolescent democracy, which will boost SA's status as a world player, "**KE NAKO!**"

The budget we are presenting today is, of course, a fiscal expression of the ruling party's electoral mandate and Government's Medium Term Strategic Framework. Specifically, we express our commitment to improve the quality of education and health services, create more work opportunities, support rural development and fight against crime and corruption. All these priorities were eloquently dealt with by the Premier in her recent State of the Province Address.

Despite the global recession and despite the over-expenditure reported in last November's Adjustments speech, this budget demonstrates provincial government expenditure increasing strongly in real terms, with large increases in high-priority areas, such as school nutrition, HIV/AIDS and TB treatment, public work opportunities and infrastructure provision.

Also, despite frequent public commentary to the contrary, it is clear that the provincial government is becoming an increasingly vibrant core of our socio-economy, providing much needed economic stability and new opportunities in times of private economy distress. We think many people miss this "big picture" and so become unnecessarily gloomy about our future prospects. The process of increasing the value-added by our public delivery system is firmly underway, confirming the assertion made by comrade Walter Sisulu that:

"It is a law of life that problems arise when conditions are there for their solution"

We are in continuous search for new solutions.

Mister Speaker, this presentation is structured as follows:

Firstly, we will briefly comment on the economic context and outlook of this budget, Secondly, we will outline our present fiscal challenges and our strategic responses to these. Thirdly, we will comment on the local government context. Fourthly we will review and provide an overview of the 2010/11 budget. Finally we will announce the Departmental allocations.

Commentary on economic context and outlook

Our Province was badly hit by the global recession. Stats SA's Labour Force Survey estimates that 95,000 jobs were lost in this Province between the final quarter of 2008 and the final quarter of 2009. These lost jobs account for 7% of all jobs in the Province. The Eastern Cape lost more jobs proportionally than SA as a whole, where job losses accounted for 6.3% of total employment. These job losses have put our work creation efforts back by five years, returning us to employment levels last reported in Q3 2004.

Of the 95,000 jobs lost, 52,000 were in our manufacturing sector, which accounts for a quarter of all manufacturing jobs in the Province. This contraction of our manufacturing sector was significantly more pronounced than in any other Province.

While the scenario sketched here appears to be overwhelmingly negative, it is a testimony to the fortitude and resilience of our people, our industries and our government that there are many positives to report on also.

It is pleasing that our motor industry has resumed growth. Mercedes Benz is back to full production and new vehicle sales in SA in January 2010 were 15.5% higher than in January 2009. Also, Stats SA report that the production of motor vehicles was 14.4% higher in the final quarter of 2009 than the previous quarter.

The new export order for VW Polos is also very pleasing. VWSA's exports will be twice their 2009 levels in 2010.

Despite the reported "fragility" of the global economic recovery and talk of the possibility of a "double-dip recession", Minister Pravin Gordhan was able to increase his 2010 GDP growth expectation from 1.5% to 2.3%. Fourth quarter 2009 GDP figures released last week show annualized growth of 3.2% between Q3 and Q4 last year. The recession seems to be over.

It is important to note that Provincial Government spending was "countercyclical" during last year's recession. That is to say, while our provincial economy contracted by more than 2% in real terms, provincial government spending continued to increase in real terms, by about 4%. Provincial government spending has therefore provided some economic "cushion" and stability. Certainly the impact of the recession would have been much more severe if provincial government spending had contracted along with the private economy.

Similarly, in the coming year, provincial economic growth will be boosted by a strong increase in real provincial government spending, which will be outlined shortly.

What lessons can be learned from our experience of the recent recession? We think there are five:

Firstly, we have no instruments at provincial level to respond speedily and effectively to companies in distress. **Secondly**, there were difficulties in drawing on national response measures, which points to the need for improved co-operation with national government. **Thirdly**, the recession confirmed the fragility of our manufacturing sector and the cost disadvantages it faces. **Fourthly**, the recession brought industry, government and labour together at the provincial level and highlighted the need for this joint problem-solving to be continued.

Fifthly, the recession emphasised the crucial importance of adopting new approaches to the spending of scarce public resources. Since the private sector has contracted, there is more urgency to controlling the costs of public service delivery, so as to free up resources for improved service delivery in high priority areas. We must increase the value-added by our public delivery system.

Our strategy moving forward incorporates these lessons, and gives content and effect to the notion of the “developmental state”.

Fiscal challenges and responses

In preparing the present budget, Provincial Treasury identified **ten** inter-related challenges. We will outline these challenges and our responses to each of them.

The **first** challenge is the potential overspending against budgets in the 2009/10 financial year by the two largest departments: Health and Education. This has already been reported in last November’s Adjustments speech and in a press release dated 4 February 2010. The estimated overspending against the adjusted budget for 2009/10 is now expected to be nearly R2.1 billion, or about 4.9% of the main allocation for 2009/10. Health accounts for nearly R1.6 billion of this amount, and Education for R640 million. This estimated over-expenditure mainly relates to higher than budgeted employee costs.

A consequence of this overspending is an estimated deficit of nearly R2.8 billion in 2009/10. This is being financed by drawing on our provincial reserves and by the careful management of cash flows and contractual obligations.

Our immediate response to this challenge was to propose that R900 million be “top-sliced” from each of the three budgets of the next Medium Term Expenditure Framework period. We plan to do this without compromising future key service delivery.

Going forward, these overspending pressures must be dealt with decisively. This points to the need for stronger monitoring and oversight, including the oversight of the standing committees of the Legislature. Provincial Treasury has established a Technical Support Unit to support all Departments in key areas such as human resource management, financial management, supply chain management and improving business processes.

It is often said:

“We didn’t actually overspend the budget; the allocation simply fell short of our expenditure”

Such an attitude is clearly not acceptable to this administration. Spending must be in line with budget allocations.

The **second** fiscal challenge is the need to cut expenditure on non-core goods and services. This would have been a priority even in the absence of the overspending just mentioned. Our research on provincial government procurement indicates that far too much money is spent on non-core items such as travel, accommodation and catering.

A circular has been issued to departments instructing the curtailment of this kind of spending.

We are pleased to report that in preparing this budget we have, working together with provincial departments, been able to reduce spending on non-core items by R403 million in the 2010/11 budget. Further work should continue to yield more savings. These savings will be directed to higher priority spending.

The **third** challenge is to reduce outsourcing wherever possible. All too frequently we find consultants' reports that contain recycled and re-packaged information that is already in the public domain. All too often we find consultants hired to do the work of full-time employees. Our response must be to reduce our dependency on consultants, improve management of contracts, and increase our capacity to in-source comprehensively.

The **fourth** challenge relates to procurement generally. Minister Pravin Gordhan recently said in his budget speech:

“Through a combination of corrupt practices, inefficient procurement, poor planning...we are not getting the kind of value from our purchases that our people deserve. Even where there is absolutely no corruption, we sometimes give contracts to people who cannot implement them and so houses are left without roofs, roads crumble when it rains; water schemes break down and school books fail to get delivered.”

Our response must be to improve our procurement systems. In this regard we have already completed a study of provincial government procurement. The recommendations contained in this report will guide the establishment of an independent verification unit to check major procurement transactions (past, present and future) and the development of a procurement price index to ensure that we get value for money. Corrupt practices will be exposed and dealt with. In particular, collusion between government officials and suppliers will be stamped out.

The **fifth** challenge relates to the depletion of reserves in the Provincial Revenue Fund. This has resulted from the over-expenditure mentioned previously. Our response to this challenge must be tighter expenditure management. With reduced reserves we now have no margin for error!

Our **sixth** challenge relates to maintaining the balance of spending between Cost of Employees, Goods and Services, Transfers and Subsidies and Capital Expenditure. Over the last few years, expenditure of these four categories as a percentage of total provincial government spending has averaged:

- Cost of Employees: 60%
- Goods and Services: 20%
- Transfers and subsidies: 12%
- Capital Expenditure: 8%

In 2009/10 the proportion of spending on employees crept up.

We are pleased to announce that we have been able to design the next MTEF expenditure budgets so that these historical averages are, at worst maintained, but at best, improved. It is, of course, critical that increasing the cost of employees does not negatively impact on other categories of spending.

In view of the dominance of the cost of employees in our total budget there is a clear need for us to upgrade our Human Resources management capability and to improve oversight thereof. The Office of the Premier and Provincial Treasury will be conducting value for money evaluations of our personnel expenditures and will undertake a personnel verification exercise.

In particular, we wish to avoid the situation where overspending on employee costs is financed from under spending on critical procurement of Infrastructure projects and goods and services.

The **seventh** challenge relates to the need to maintain our improved spending on conditional grants and infrastructure, which is much better than a few years ago.

Our response must be to continue to strengthen spending capacity in these areas. National Treasury's support to the Province under the Infrastructure Development Improvement Programme has been of particular assistance.

The **eighth** challenge relates to the need to raise revenue from new sources. The Premier in her State of the Province address has already mentioned our efforts to raise additional resources to accelerate the eradication of mud schools. Provincial Treasury, working with social partners, must intensify our search for new funding sources, including donor mobilization and management.

The **ninth** challenge is to ensure that the Province fully accesses budget increases of the national departments. For example, Minister Pravin Gordhan announced in his recent budget speech that DTI would be receiving an additional R3.6 billion to support investment and production in the automotive components and clothing and textile industries. It is clearly incumbent on DEDEA to ensure that provincial enterprises are beneficiaries of these new funds. Another example is the Agri-Parks community project which raised R37 million from the national Department of Rural Development

The **tenth** and final challenge is to increase expenditure budgets in high-priority delivery areas and where development impact can be achieved. Re-prioritisation must continue to be a central feature of our planning and budgeting processes.

We are pleased to be able to announce that we have been able to do this, as it will be shown when we present the overview of the 2010/11 budget.

Mister Speaker, the context of this budget would be incomplete without reflecting on the state of local government and our responses thereto.

Local Government

Local Government is a crucial component of our public service delivery system, and the transformation of this sphere has probably been the largest undertaking within our entire transformation process. This transformation process has not been without its challenges. Issues of weak governance and accountability, political in-fighting and skills deficits have severely compromised service delivery. At an objective level these challenges have been exacerbated by low and shrinking municipal revenues, combined with growing demand for municipal services. This situation can only be addressed with the help of National and Provincial government, and by growing local economies to improve the municipal revenue base.

As the Premier has already observed, last year the Department of Local Government together with National Treasury completed an assessment of the state of our municipalities. The MEC for Local Government and Traditional Affairs will be elaborating on this.

Priorities going forward include:

- To develop and start implementation of Turn-Around strategies for municipalities. In 2010/11 we are allocating an additional R40 million to improve this hands-on support.
- To develop an initiative for the attraction and retention of scarce skills in municipalities
- To support 25 municipalities to achieve clean audit outcomes in 2010/11.

The question of the funding formula for local government is of grave concern to us. We therefore support the initiative for the review of equitable share formula by National Treasury.

Review of main priorities

Mister Speaker, we will now briefly review the main priorities of each of our key delivery areas. These priorities inform the allocative decisions reflected in the budget we are presenting. Respective MEC's will, of course, expand on this overview in their forthcoming policy speeches.

Education and skills

We intend to enhance the quality of education and skills development, focusing on improving foundation phase literacy and numeracy, and on increasing the number of learners passing grade 12 mathematics and science. We will build the skills and human resource base of the Province. To do this teacher training must be improved, in support of which the budget for professional development of educators is increased.

The Scholar Transport Programme will be intensified, the School Nutrition Programme maintained, no-fee schooling extended facilities and infrastructure improved, and learner and teacher support materials enhanced. We undertake to improve school safety and security and expand our early childhood development programme.

Through our Provincial Strategic Skills Programme we are building partnerships for skills development across all targeted growth sectors.

It should be noted that the budget for FET colleges has been shifted from provinces to the national department.

Our main challenge in implementing these key priorities is not so much budgetary constraint, but the sheer scale of our educational establishment. The

Provincial Department of Education employs about 87,000 people, a mammoth undertaking.

Health

The health profile of the Province will be improved through the provision of quality health care, with an emphasis on reducing infant, child and maternal mortality rates, and broadening access to anti-retroviral Treatment (ART) and to TB treatment.

We will strive to improve healthcare facilities, recruit more health professionals, ensure at least 80% of HIV/AIDS sufferers are on Anti Retroviral Treatment (ART) by 2011, and generally improve access to medicines.

During the 2009/10 financial year the provincial government's public health strategy was mainly geared towards improving access to public health care, intensifying the treatment and prevention of HIV/AIDS and TB, and increasing the number of medical professionals in public health facilities. In addition the Eastern Cape Department of Health undertook to reduce child mortality in the province through the Expanded Programme on Immunisation.

In order to address critical skills shortages, increase access and improve health outcomes in the province the Eastern Cape Department of Health undertook to spend an additional R120 million for the recruitment of medical professionals.

We are pleased to learn that of the planned 1 929 critical posts to be filled, 1 578 (or 82 %) were actually filled, of which 806 were clinical appointments and 772 were management, support and administrative appointments.

To reduce child mortality levels in the province an amount of R62 million was set aside through the Expanded Programme on Immunisation at the beginning of the

2009/10 financial year. This has enabled the department to achieve immunization coverage rates of about 90 percent for all one year olds in the province. These coverage rates will be maintained or increased in 2010/11.

Work opportunities

The Eastern Cape Provincial Government will support the creation of new work opportunities, moving resources towards labour-intensive sectors and public works programmes. We will work to speed up growth and to transform the economy to create decent work and sustainable livelihoods.

As the Premier has already announced, the expanded public works programme achieved 78,800 work opportunities in 2009/10, as against a target of 60,000. This significant achievement undoubtedly helped to compensate for the job losses associated with the global recession. The provincial target over the next five years is to create 480,000 work opportunities, and to link these to the National Youth Service, for the maintenance of public assets, such as clinics, hospitals, schools, and equip the youth with basic skills.

In 2009 we finalized the Provincial Industrial Development Strategy (PIDS) and launched a R50 million Co-operative Development Fund. We are presently finalizing various priority sector action plans associated with the PIDS, such as agro-industries, forestry, and tourism. In doing so, we will continue to support efforts to empower women, young people and people with disabilities.

Going forward, our focus will be on:

- collaborating with District Municipalities to support the implementation of mega-projects identified in IDP's and aligned to the PIDS.
- supporting IDZ's to lobby for incentives from national government
- exploring mechanisms for supporting green economic activity (e.g. through public entities)
- creating measures to halt de-industrialisation and improve support for distressed manufacturing enterprises. Mister Speaker, we will be allocating an initial R37 million in 2010/11, which will be augmented with funds from other sources, to improve our support to the non-automotive manufacturing sector. Details will be announced in due course.
- working with auto-assemblers to increase local content and develop supply chains
- promoting new economic activity such as capital goods (linked to public investment programme), petrochemicals, advanced manufacturing and renewable energy.
- strengthening provincial research, development and innovation networks
- improving the developmental impact of government and public entity procurement

Rural development

We will improve the quality of life in rural areas through a comprehensive rural development programme, based on land and agrarian reform and food security. Last year we launched our Rural Development Strategy and the Ilima Community Economies Initiative whereby communities grow food for the school nutrition programme.

Going forward we plan to:

- increase homestead food production by scaling-up the Siyazondla programme, which our evaluation exercises have shown to be a successful intervention
- establish a new Rural Development Agency by aligning the efforts of existing moribund entities
- create a new Provincial Rural Development Fund, initially capitalized at R450 million
- expand interventions such as Agri-Parks, a collaboration with Fort Hare which aims to increase community vegetable production, and community-public-private partnerships to build maize-meat value chains in the eastern part of the Province
- improve farmer support and extension services, and
- improve the provision of infrastructure in rural areas.

Infrastructure

In order to improve access to basic services and improve economic development in the Eastern Cape, provincial government undertakes sustained spending on infrastructure development, mainly targeting the building and improvement of roads and logistics infrastructure, health facilities, education and social infrastructure. A significant component of this budget is to be implemented through the Expanded Public Works programme.

We will continue to strengthen our social and economic infrastructure. We have a particular focus on the provision of provincial transport and logistics infrastructure. We will fast track the provision of rural access roads and explore innovative alternative surfacing methods.

Going forward we will be improving infrastructure planning through the establishment of a Centre for Public Infrastructure Delivery (in the Department of Public Works).

As already indicated by the Premier, we aim to eradicate mud schools by 2014. This is possible through our efforts to extend the fiscal envelope to include alternative sources of funding. In this regard we are presently arranging additional resources, outside of this budget, of R2.5 billion.

Housing

The Housing allocation was specifically aimed at delivering 20 000 housing units for the 2009/10 financial year, to rectify 9000 identified defective houses in the province, and to unblock all blocked housing projects and implement emergency housing programmes. The MEC will be outlining progress made and particular priorities moving forward.

Strategic overview of budget 2010/11

Total revenues of the provincial fiscus in 2010/11 are budgeted to be R48, 2 billion. This is a 14.2% increase over the amount budgeted a year ago for the 2009/10 financial year. Depending on the rate of price inflation over the coming year, this could represent a 9% increase in real terms. That is to say, provincial government revenues are set to expand much faster than the provincial economy as a whole.

Mister Speaker, we think we should pause to reflect on this. As a consequence of the recession, national tax revenues were nearly 10% less than budgeted in 2009/10. Provincial revenues are derived almost entirely from the national fiscus. But still our provincial revenues are budgeted to increase strongly in the coming year. It is a remarkable achievement, showing that the national component of our fiscal system is, as we expect you shall agree, working exceptionally well.

The provincial government thus has an additional R6.180 billion in revenue compared with a year ago. Total provincial revenues over the coming three year Medium Term Expenditure period are budgeted to be in excess of R155.239 billion. These are large amounts of money by any standards.

Mister Speaker, our total provincial revenues are presently derived from three sources. From the national government we receive two types of allocations, namely “equitable share” which covers generally unspecified spending, and “conditional grants” that are allocated to finance specific spending priorities. We also generate a relatively small amount of “own revenue”, mainly from motor vehicle registration and licensing, gambling and casino licensing, and interest payments on positive bank balances.

In the coming financial year about 83% of our total revenue will come from equitable share, nearly 16% will come from conditional grants and about 1% will come from our own revenues. It is notable that conditional grant receipts are budgeted to increase more than three times faster than equitable share receipts in the coming year, by an amount of 38%. This serves to emphasize the point we made earlier concerning the necessity to increase the focus, quality and pace of our spending of conditional grants.

We are budgeting to achieve a balance between total receipts and total payments in each of the MTEF years.

Mister Speaker, we now provide a few highlights from our expenditure budgets. Full details are, of course, available in the “Estimates of Provincial Expenditure”, which will be released today.

Comparing this year’s departmental allocations with those of a year ago you will note that major department’s receive above average increases in their allocations. Specifically:

- the Education Department’s budget increases by 16.6%
- the Health Department’s budget increases by 17.8%, and
- the Housing Department increases by 23.8%

These above average increases are aligned to the very high priority we attach to improving the delivery of education, health and housing in the Province.

We also highlight the following budget items:

- The Comprehensive Agriculture Programme increases its budget by 33% to R160 million. The total budget for the next three year MTEF period is R509 million.
- The School Nutrition Programme increases its budget by 44% to nearly R703 million. The MTEF budget is nearly R2.5 billion
- R793 million is allocated to Health to deal with anticipated cost pressures, in particular, outstanding payments
- The comprehensive HIV-AIDS programme increases its budget by 72% to nearly R691 million. The MTEF budget is over R2.5 billion.
- The hospitals revitalization programme increases its budget by 51% to nearly R361 million. The MTEF budget is over R1 billion.
- The Housing development programme increases its budget by 22% to nearly R1.6 billion. The MTEF budget is nearly R6 billion.

- The total provincial infrastructure budget for the coming MTEF is R17.2 billion.
- R30 million is allocated for promoting access and participation in the World Cup event
- Nearly R505 million is allocated to our public entities

Departmental allocations

The budget appropriations per vote are as follows. You will note that we round to the nearest million for ease of presentation. It should also be noted that these allocations are net of the “top-slicing” previously mentioned.

Vote 1: Office of the Premier: R424. 838 million

Vote 2: Legislature: R310. 629 million

Vote 3: Health: R13. 341 billion

Vote 4: Social Development: R1. 560 billion

Vote 5: Public Works and Roads: R3. 132 billion

Vote 6: Education: R22. 680 billion

Vote 7: Local Government and Traditional Affairs: R707. 627 million

Vote 8: Agriculture and Rural Development: R1. 502 billion

*Vote 9: Economic Development and
Environmental Affairs:* R839. 711 million

<i>Vote 10: Transport:</i>	R945. 106 million
<i>Vote 11: Housing:</i>	R1.826 billion
<i>Vote 12: Treasury:</i>	R304. 481 million
<i>Vote 14: Sports, Recreation, Arts and Culture:</i>	R602. 939 million
<i>Vote 15: Safety and Liaison:</i>	R47. 878 million

Conclusion

Mister Speaker, we do not expect any headlines in the popular media arising from this speech. If we were to quote recent headlines, such as:

“Eastern Cape bounces out of recession”

Or alternatively:

“Goat in Man’s Underpants”

....you can see that the competition is too stiff....

But beneath and beyond the headlines, Honourable Members, we trust the message will get out: that the budget now presented is indeed the fiscal expression of the ruling party’s electoral mandate, or, to use a vernacular:

“We put the money where our mouth is!”

Much as this budget looks good in terms of increasing expenditure budgets in high-priority areas, we wish to emphasize that, because of the overspending

pressures and the uncertain recovery, it is the most sensitive of budgets, pointing to the absolute necessity of strict financial management in 2010/11.

Let me take the opportunity to thank the Premier, for her leadership and guidance; my colleagues in the Executive Council for their input in putting together this budget; members of the Cabinet Budget Committee for their continued support and critical engagement in the budget process; members of the Portfolio Committee on Finance for their political oversight; DG and her top management, and finally the Provincial Treasury team.

Lastly we would like to thank all the members of the public for the constructive inputs that they submitted during the drafting of this speech. In this regard I would like to highlight a submission by a student from the University of Fort Hare which embodies the aspirations of our people and administration, when he stated that:

“We wish our Government could become more like those choral mass choirs with full orchestra that we sometimes are lucky to see on TV: organized, productive, harmonic etc, and we wish our Government could create value to its full potential, without wasting a cent of public monies. Yiya embovaneni vilandini”.

I hereby table the Eastern Cape Overview and Estimates of Provincial Expenditure for financial year 2010/2011, the Finance Bill 2010/2011 and the Budget Speech for the financial 2010/2011.

I thank you

NOTES

[illegible]

NOTES

[illegible]

NOTES

[illegible]

To obtain copies of this document contact:

Ms Nomawethu B Skoti-Mawonga

Manager: Communication Services
Eastern Cape Provincial Treasury

Address: Private Bag X0029
Bhisho 5605

Tel: 040 6094841/5960

Fax: 040 609 5961

e-mail: nomawethu.skoti@treasury.ecprov.gov.za

Website: www.ectreasury.gov.za