



Province of the
EASTERN CAPE
PROVINCIAL TREASURY

EASTERN CAPE **BUDGET SPEECH** 2012/13

Province of the Eastern Cape
INTRODUCTION OF THE MAIN BUDGET ESTIMATES AND
APPROPRIATION BILL 2012-13:
ADDRESS TO THE PROVINCIAL LEGISLATURE

Honourable MEC Phumulo Masualle
06 March 2012

Honourable Speaker,
Premier,
Members of the Executive Council,
Members of the House,
Traditional Leaders,
Honourable Mayors and Speakers,
Honoured guests,
Community members watching in public viewing areas
Leaders of Political Parties, friends, ladies and gentlemen,

2012 marks the centenary of the African National Congress as a liberation movement. Hundreds of thousands of South Africans have suffered, struggled and died to achieve the freedom that today we may take for granted. We owe it to our revolutionary forebears to continue in our proud tradition of selfless sacrifice and struggle.

Our transformation effort is far from over, although as will be set out in this speech, we continue to make steady progress. The budget I table here today is a budget for growth and transformation. But every budget is very

much about trade-offs and how we resource our priorities. If we are to see our transformation through to its logical conclusion, we must tilt the balance away from consumption spending towards investment spending to grow and transform our productive base.

What came through clearly from President Zuma's State of the Nation Address and Minister Gordhan's Budget Speech was the emphasis given to infrastructure spending as a catalyst for growth of the real economy. This approach lies behind the economic success stories of countries such as Brazil and China. As the Eastern Cape, with our three ports, two IDZs, and undeveloped catchments such as the Umzimvubu, we stand to benefit greatly from the R850 billion national MTEF infrastructure programme.

Honourable Members, as stated by the Minister of Finance in his budget speech "this budget has been crafted at a challenging but hopeful time". The fiscal challenge over the next three years is complex. Government needs to support job creation, maintain social wage expenditure, and finance economic transformation as outlined in the New Growth Path, while narrowing the fiscal deficit. Achieving these objectives requires government to work within a sustainable fiscal framework.

This 2012/13-budget framework supports growth and employment, while strengthening government's commitment to fiscal sustainability and support to the most vulnerable of our citizens.

In tabling this 2012/13 Budget, we will provide a succinct overview of recent dynamics in the global, national and provincial economy. This will be

followed by an examination of our fiscal outlook and how we will resource our priorities. We will conclude with a breakdown of the departmental allocations.

1. ECONOMIC OUTLOOK

The worldwide financial crisis of 2008 led to a sharp drop in economic output. It also showed that the model of growth popular over the previous two decades was no longer sustainable. This failed model was based on consumer spending and easy credit. Stagnation in productive industries was ignored as the economy relied on these other sources of growth. An economy that was over-dependent on credit meant that the crisis took the form of a financial crisis. But all the focus on finance concealed the roots of the problem: the failure to build the productive economy.

It is possible to observe some key trends in the world economy. First, we are seeing the emergence of a crisis of growing unemployment (particularly youth unemployment) and increasing inequality. Second, developing economies are on the rise and a new balance of power is emerging. The South is on a much higher growth trajectory than the North. Third, old economic paradigms and orthodox models are increasingly losing legitimacy.

In this context, we need to remember that the Eastern Cape and South Africa are part of the world economy. We cannot avoid or ignore global crises, much as we might desire this. What happens to the global economy

impacts on us here at home. The ongoing global economic crisis threatens to undermine our efforts to grow the economy and eliminate poverty.

The world GDP growth is expected to be 3.3 per cent in 2012, shrinking by about 0.5 per cent. Our counter-cyclical fiscal stance as Government has allowed us to weather the worst of the global crisis at home. In South Africa expected GDP growth is 2.8%. This will improve going forward with forecasts of 3,6% and 4,2% for 2013 and 2014.

As a province we have recovered well from a negative 4.2% in the 2nd quarter of 2009, to positive 3% growth in the 4th quarter of 2011. This year our growth forecast is projected at 2,8%, rising to 3,8% in 2013, 4,1% in 2014, and 4,4% in 2015. By 2016, we expect growth rates upward of 5% as the benefits of our massive capital injection in ports, rail, road, and energy infrastructure begin to yield output returns.

2. FISCAL OUTLOOK AND STRATEGY

Honourable Speaker, Minister Gordhan has warned of our constrained fiscal environment that has arisen as a result of global economic uncertainty. We need to use our remaining “fiscal space” with the utmost care. Uncertainty affects everyone and requires prudence in the allocation and spending of our limited resources.

In terms of better using our limited fiscal space as a Province to achieve our development objectives, our approach as Treasury can be summarized in a five - fold strategy:

- (1) Strengthening fiscal discipline
- (2) Incrementally redirect the budget towards investment spending to fight poverty, create jobs, and transform society
- (3) Improve spending capacity and performance in delivery areas of high impact
- (4) Leverage higher levels of resources from national government, state-owned entities and the private sector
- (5) Use procurement to better optimize the impact of the spend

We will now briefly unpack how we are doing in each of these strategic intervention areas.

2.1 Strengthening fiscal discipline

Honourable Speaker, we have made steady progress in rooting out financial mismanagement in the Province. We cannot afford swings between over and under expenditure - both are signs of financial mismanagement. While we still have a few hurdles to cross, we are, I am happy to report, getting to the point where there is heightened level awareness and closer correlation between planned and real expenditure in many of our departments.

In 2009/10 we experienced a significant exposure in the Provincial Revenue Fund that expressed itself in abnormal accruals, huge unauthorized expenditure, and persistent over expenditure. As a recovery plan, Provincial Treasury had to intensify the budget implementation and expenditure control mechanisms to ensure that departments not only

remain within their budget allocations but also fully comply with the relevant legislation and regulations.

The hallmark of this has been the intensive review of budget baselines to redirect spending from non-core to priority programmes. More than R1.2 billion had been identified and has helped us maintain our recovery plan and finance other priority programmes like the acquisition of fleet stock, finance bill and build critical capacity in some departments. These measures will continue to form a critical element of our budget strategy and going forward it is through this initiative that we will increase investments that support job creation.

2.2 Incrementally shift budget towards investment spending

We have noted with concern that in some departments such as Health and Education spending still exceeds the appropriated resources, particularly on Compensation of Employees (COE). This, if allowed to run its course, will ultimately crowd out expenditure on service delivery, particularly infrastructure. And whilst we experience this unprecedented growth in the wage bill, this has not necessarily been complemented by higher levels of productivity.

This budget has introduced austerity measures to curb over expenditure on COE. This year we will be undertaking a thorough review of the expenditure mix at provincial level so as to address the unsustainable expenditure trajectory. This review will also look at how we populate organizational structures. Our feeling is that in many instances we have

“top heavy” organizational structures, with too little capacity at points of delivery. This must change if we are to become the developmental state to which we aspire.

2.3 Improve spending capacity and performance in delivery areas of high impact

The third component of our fiscal strategy is to strengthen spending capacity and performance in areas of high development impact. In particular we are putting measures in place to improve spending on conditional grants and infrastructure. This is especially important since conditional grants are used to finance high priority programmes, and conditional grants form an increasing share of provincial government revenue.

There can be no excuse for infrastructure underspending in a province with such enormous service needs and backlogs. We have done a thorough diagnosis of our infrastructure delivery model, and are putting new capacity and systems in place to streamline operations. Key to this is the establishment of a Centralised Project Management Unit (CPMU) in the Department of Roads and Public Works, for which we have allocated R38 million over the MTEF period. This will be complemented by the accelerated development of infrastructure skills and capacity in departments as per the national Infrastructure Delivery Improvement Plan (IDIP). Treasury is also increasing its oversight and monitoring capacity to ensure that bottlenecks are addressed timeously.

2.4 Leverage higher levels of resources from national government, state-owned entities and the private sector

The fourth component of our fiscal strategy – that of leveraging resources from national SOEs - recognizes that we do not – as Provincial Government - have the fiscal resources to implement catalytic projects that will structurally transform and industrialize the province. Here we have done well, with President Zuma announcing a major new south eastern node that will improve the industrial and agricultural development and export capacity of the Eastern Cape region. We will unpack this with specific resource allocation details later in this address.

We have also made significant progress in accessing commitments from the DBSA's Jobs Fund to support initiatives such as Auto incubator, skills development through Coega, Agro processing and Forestry.

2.5 Use procurement to better optimize the impact of the spend

Honourable speaker, the fifth leg of our fiscal strategy is to optimize the impact of the provincial spend through more strategic use of procurement and supplier development. As you are aware, the Province has been at the forefront of driving value-for-money procurement. In this regard, a project for the establishment of a Price Index upon which departments could measure value-for-money in their procurement of goods and services was initiated and has been implemented.

3. ALLOCATIVE PRIORITIES

Our development priorities as a country for this term of office are derived from the Medium Term Strategic Framework, which is Government's expression of the priorities of the manifesto of the ruling party.

At Provincial level, these national priorities are integrated into the Provincial Strategic Framework, which is also informed by the 10-year Provincial Growth and Development Plan of the province.

We will now look at how we are performing in each priority area, and which interventions we will prioritize that will be funded over the MTEF.

3.1 Creating decent work and growing the economy

Honourable Speaker, last year in this house we said that Government should work together with the private sector and the other social partners to create jobs in six priority areas: infrastructure development; agro-processing; metals beneficiation; manufacturing; the green economy and tourism.

I am happy to announce significant progress in all these sectors, which is an achievement given the uncertain global economic context. Investors, Honourable Speaker, are voting with their feet (or rather their purse), and showing huge confidence in our provincial economy.

Among recent investments are:

- A R2.4 billion private-sector driven Wind Generation Project in Cookhouse which will roll out 70 Turbines and contributing no less than 135MW (mega-watt) to the National Grid;
- The R3.3 billion renewable energy projects championed by the ELIDZ (Langa and Ikhwezi);
- The R1 billion FAW automotive investment launched last week; and
- The R42 billion Kalagadi Resources 320 000 ton a year high-carbon ferromanganese smelter at the Coega Industrial Development Zone

Our IDZs are clearly beginning to show impact, which will be greatly reinforced through national government's spend on ports, roads, rail and energy.

We have recently completed our Jobs Strategy which sets out clear programmes to create 150 000 new jobs by 2014. Our EPWP Phase 2 projects are progressing well, with a targeted 116 958 work opportunities in the next financial year. Working together, we will continue the trend of decreasing unemployment in the Eastern Cape. Key instruments such as the Co-operatives Fund and the Jobs Fund, continue to receive priority. We will also be working closely with DEDEAT to look at fresh approaches and new instruments to support industries in distress. We will also focus specifically on how to improve youth employability as well as youth-owned SMMES. The private and public investments that we are, announcing must hold out real benefits for our youth.

3.2 Building social and economic infrastructure

Since 2009 our focus has been to build and mount a coherent programme for engaging the national government and its agencies to accelerate the industrialization of the province. Recognising that the Eastern Cape has always developed on the periphery of the national economy, the objective of our current efforts is to strategically reposition the Eastern Cape at the core of the national economy.

Significant gains have already been made in ensuring that they are actioned. Among achievements to date in this regard are:

- Port investment of R7.5 billion to date;
- An additional R20 billion committed for ports, rail and back-of-port infrastructure which will create 21 000 jobs;
- A Transnet allocation of R1 billion for ports for 2012/13;
- Approval of the Wild Coast N2;
- SANRAL allocation of R1.8 billion for road infrastructure for the Eastern Cape for 2012/13;
- ESKOM allocation of R2.8 billion for distribution and transmission infrastructure for 2012/13;
- Investment of R5 billion in KSD infrastructure upgrade; and
- In excess of R20 million for detailed feasibility and design of the Umzimvubu Dam and Hydro-electric Project, in terms of the DWA sector plan and TCTA appointed as implementing agent.

Honourable Speaker, these projects will address the systemic and structural weaknesses of the Eastern Cape, which are related to our historical position as a marginal province and the only source of cheap and unskilled labour for the developed economic nodes in the country.

As Minister Gordham indicated, it is indeed a time of hope. Never before has the province been so well positioned and featured so prominently on the national development agenda. These projects will change the face of the Eastern Cape, will connect us globally and with our hinterland, and bring in the investment we need to help us address our triple challenge of poverty, unemployment and inequality. These investments by the SOEs will also bring much needed jobs in their own right, and provide huge opportunities for our business community.

Besides these national investments, we are also expanding our own infrastructure investment to underpin long-term job-creating growth and development. The bulk of the infrastructure allocation resides in the Departments of Education, Health, and Roads & Public Works, with an MTEF allocation of R16,2 billion. In addition, we have allocated R7, 3 billion over the next three years for housing and human settlements infrastructure. This brings our provincial allocation to R23.5 billion for the next 3 years.

3.3 Rural development

Honourable Members, the rural development challenge in our province is well put by Mr. Kongo who writes:

“Ndinga uMphathiswa angagxininisa kwezizinto zilandelayo ngemeko yakwa Ndindwa eDebe Nek, sinemeko yeendlela ezimbi kakhulu, nemeko yeetoilets ezingekhoyo kulelali yethu. Iindlela phakathi elalini zoonakala zade zavuleka iindonga, loo nto yenza imeko ibenzima ukuba kuhambe iimoto ezizisa iinkonzo ezinjengee ambulance ezizokuthatha abantu abagulayo”

Our Rural Development Strategy makes clear that rural development is much broader than simply agricultural development, but must focus on an integrated package aimed at addressing human need and raising rural incomes.

In the year ahead, our rural development focus will be on the following:

- Creating sustainable human settlements in rural communities, with a package of housing, access roads, water reticulation, sanitation and electrification;
- Rolling out agricultural infrastructure such as fencing, dipping tanks and the like;
- Continuing with our programme to revitalize the irrigation schemes;
- Food security;

- Supporting the commercialization of primary production, linked to agro-processing investment; and
- Small town revitalization.

3.4 Education

Honourable Speaker, we all agree that for the Eastern Cape to prosper and compete successfully, the most important investment in our economy and in our future will be in the education of our children and young people in general.

There has been some confusion, even deception, on what the case is with respect to the national intervention of S100 (1) (b). We must be emphatic that as a province, we have always welcomed and supported the intervention in the challenges afflicting the department of Education.

Given that Education as a proportion of the entire provincial budget is well over 45%, any minor deviations or even significant departures from this base, the impact there-of is transmitted immediately and with consequences across the entire provincial budget.

It was thus imperative that both the national and provincial spheres of government, find agreement on how best to ensure the success of the intervention. Essentially each of the parties has a role to play. It is in this context that the arrangement of the 5 a-side must be understood.

Education is still faced with systemic challenges at administrative level that require commitment from all stakeholders to resolve. The educational infrastructure to support quality learning and teaching remains a far cry from what is desirable

Honourable members, while the 2012 post declaration sought to ensure that there is a qualified educator in front of every learner, realizing this remains a challenge. It is important that all the stakeholders in this sector cooperate with each other in finding solutions to these vexing questions in the interest of our learners and indeed our future.

Honorable Speaker, the primary focus of this budget in Education is investment in excellence in the classrooms and improving standards for all. We intend supporting strong leadership in schools by offering greater autonomy and flexibility for schools that are succeeding and strengthening school governance. This we will do in the context of the intervention as championed by the Minister of Basic Education.

3.5 Health

Honourable Speaker, this is one of the two departments that account for nearly three quarters of total provincial spending. To achieve operational efficiency, a number of initiatives have been undertaken in the health sector. These include rationalisation of all health facilities and revitalisation of primary healthcare, pharmaceutical and radiology services.

Over the MTEF, the department will continue to work intensively on its multi-year turnaround processes, rationalised service delivery platform as well as getting ready for the implementation of the National Health Insurance. Honourable Members, we are totally committed to the delivery of quality health services over the coming MTEF.

Honourable speaker; the radical reform of the public health system has been set at the top of the priorities of the Medium Term Strategic Framework. At the heart of this must be a comprehensive Primary Health Care Package.

Honourable speaker, we are making steady progress in our readiness towards the National Health Insurance. Our efforts on HIV and AIDS, as well TB are beginning to show returns with the rate of new infections stabilizing.

The success of the health system is dependent on the capacity of the health human resources; in this regard expansion of the health professionals training will greatly benefit our health institutions including strengthening appropriate utilisation of the Eastern Cape – Nelson Mandela Academic platform.

3.6 Building a developmental state

Honourable Speaker, the Premier in her State of the Province Address outlined the progress we have made in building the kind of developmental state we need in the province. Having realized the weaknesses in

integrated planning the Executive Council resolved to establish a Provincial Planning Commission that will be tasked to address these challenges and focus on the long-term planning. Honorable members the establishment of the Eastern Cape Provincial Planning Commission has been finalised and the Premier will soon be announcing the names of Commissioners.

The other area of focus for us as Treasury is to support the functioning of local government. The persistent challenges experienced by the municipalities necessitate a review of the strategies employed in ensuring a viable system of local government. Our municipalities face serious challenges in these areas:

- Capacity constraints particularly in financial management as indicated by poor audit outcomes year after year;
- Absence of key controls and non-compliance with the laws and regulations;
- Unauthorized, irregular, fruitless and wasteful expenditure; and
- The inability to spend conditional grants.

Honorable Speaker, it is time to deal with the Province's chronic inability to implement much needed solutions. The Provincial Treasury in partnership with the department of Local Government and Traditional Affairs is reviewing its support to municipalities and seeks to implement a dedicated hands-on financial support programme. The programme will be located at district municipalities targeting local municipalities within a district. The approach is a shared services model and focuses on transfer of skills.

4. ALLOCATIONS

The fiscal envelop of the Eastern Cape stands at R56,2 billion in 2012/13 financial year and R179 billion for the MTEF. Departmental allocations per Votes are as follows;

4.1 Office of the Premier is allocated R404.5 million in 2012/13 totaling R1.3 billion over the MTEF for the following:

- Strengthening government oversight and broadening community participation in governance;
- General Co-ordination of the provincial government;

4.2 The Provincial Legislature is allocated R384 million totaling R1.2 billion over the MTEF for the following:

- Strengthening government oversight; and
- Taking parliament to the people

4.3 The department of Health is allocated R15.1 billion in 2012/13 totaling R48.9 billion over the MTEF to:

- Work on the NHI readiness programme;
- Retain much needed skilled doctors and health professions;
- Complete the Cecilia Makhiwane Phase 3 project which is the provision of nurses training college and accommodation;
- Construct a new tertiary hospital complex; and
- Maintain health infrastructure including equipment;

4.4 The department of Social Development is allocated R1.7 billion in 2012/13 totalling R5.9 billion over the MTEF for the following:

- Implementation of the Child Justice Act
- General welfare services.

4.5 The department of Roads and Public Works is allocated R3.7 billion in 2012/13 totaling R11.8 billion over the MTEF for the following:

- Infrastructure maintenance projects amounting to R1 billion in 2012/13;
- R166 million for repairs of flood damaged roads;
- R172 million for continuing construction of capital projects.

4.6 The department of Education is allocated R26.2 billion in 2012/13 totaling R83.1 billion over the MTEF to continue with the roll-out of:

- The School Nutrition Programme which is benefitting R1.6 million children in quintiles 1, 2 and 3;
- The funding of schools towards set Norms & Standards
- The funding of “no fee” schools which is currently at 80%, far above the National target of 60%;
- The learner teacher support material, with a proviso that textbooks and support materials must reach a child in classroom, on time and economically;
- Implementation of the 2012 Post Provisioning which allocates 35% of the educators of funded posts in remote and rural areas;
- R1 billion for building and renovating schools for the year 2012/13

4.7 The department of Local Government and Traditional Affairs is allocated R788.4 million in 2012/13 totaling R2.5 billion over the MTEF for the following:

- Strengthening “operation clean audits” to improve municipal administration;
- Support to Municipal Planning & Governance; and
- Traditional Governance.

4.8 The department of Rural Development and Agrarian Reform is allocated gets R1.6 billion in 2012/13 totaling R5 billion over the MTEF for the following:

- Implementation of the Rural Development Strategy;
- Enhance the implementation of Asgisa projects which are provision of crops and implements;
- Rehabilitation of various irrigation schemes;
- Farmer Support Programs; and
- Support to the Agricultural Schools of Excellence.

4.9 The department of Economic Development, Environmental Affairs & Tourism is allocated R936 million in 2012/13 totaling R2.9 billion over the MTEF for:

- Attracting investment in the industrial parks thus creating much needed jobs;
- Regulation and environmental management;

- Continued lobbying for investment on Economic Infrastructure investments projects such as Mthombo that we need as a province;
- Ensuring that SOE investments in harbors and logistics networks are implemented as promised; and
- Job stimulation and support to Co-ops.

4.10 The department of Transport is allocated R1.3 billion in 2012/13 totaling R 4.2 billion over the MTEF for the following:

- To improve provision of Public Transport with a view to implementing a unified transport plan in the entire province;
- Provision of scholar transport for learners from needy homes;
- To provide capacity for management of government fleet services;
- To improve Traffic Management; and
- To improve Revenue administration capacity;

4.11 The department of Human Settlements has been allocated R2.5 billion in 2012/13 totaling R8.2 billion over the MTEF for:

- Focus spending on informal settlement upgrading, rural development (Integrated Rural Housing Programme), affordable rental housing and social housing and the supply of affordable housing finance;
- R7.3 billion of the human settlement grant will be spent on the completion of over 50 000 housing units;

- The urban settlements development infrastructure grant will target improving bulk infrastructure in our metros, namely, Buffalo City Metro and Nelson Mandela Bay Metro;
- Projects that will commence in 2012 include Ezibeleni project, Cradock project, and the Middelburg project; and
- Continue with the projects in Mt Ayliff which is an Urban Regeneration project to be completed by end of December 2012.

4.12 Provincial Planning and Treasury gets R352.1 million in 2012/13 totaling R1.1 billion over the MTEF for the following:

- Establishing and operationalizing the Provincial Planning Commission until a permanent institutional arrangement is finalized; and
- Strengthening of financial management in municipalities.

4.14 The department of **Sports, Recreation, Arts & Culture** is allocated R705.4 million in 2012/13 totaling R2.2 billion over the MTEF for the following:

- Revitalization of Heritage Route;
- Revitalizing the Bayworld Museum;
- Sports tourism events at both local and international levels; and
- The South African Traditional Music Awards to promote cultural heritage.

4.15 The department of Safety and Liaison is allocated R64.3 million in 2012/13 totaling R211.5 million over the MTEF for the following:

- Community policing projects to fight crime;
- Civilian oversight with focus on crime committed on women and children; and
- Focus on stock theft and cross-border challenges;

5. CONCLUSION

In conclusion, Honourable Speaker, I would like to assure the people of the Eastern Cape that in framing this year's budget, we have ensured:

- (a) That we complement and give expression to national government's strategic intent to build a major South Eastern Development node to reposition the province in the national landscape;
- (b) That education and health continue to receive priority; and
- (c) That capacity building in infrastructure delivery is prioritized and partnerships to assist in infrastructure delivery are strengthened.

Honourable members, the 2012 MTEF framework will be severely constrained. I urge my colleagues in the executive to enforce reforms in their respective departments so that we can spend the meager resources available to the State to meet the needs of our people.

Honourable Speaker, allow me the opportunity to thank the Honourable Premier of the Province for the guidance and wisdom shared in the allocations and putting together of this budget.

I also thank members of the Cabinet Budget Committee and the entire Executive Council for the insight demonstrated on engagements and the support granted during the process of crafting this budget. I also convey words of appreciation to members of the Portfolio Committees for conducting oversight to strengthen financial management in the Province. I would also like to thank Provincial Treasury staff for their effort in putting together a balanced budget. Lastly, I would like to thank those many members of the public who took time to give advice and ideas on what to fund, and how to strengthen governance and improve service delivery.

Honourable members, I now submit to you a budget proposal and the appropriation bill for 2012-2013.

I thank you.

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