Address by Mr J Block (MPL) MEC FOR FINANCE, ECONOMIC DEVELOPMENT AND TOURISM to the Provincial Legislature on the Occasion of tabling the Northern Cape Appropriation Bill, 2012

06 MARCH 2012

Honourable Speaker

Honourable Acting Premier, Ms Griezelda Cjiekella

Members of the Executive Council

Honourable Members of the Provincial Legislature

Mayors and Councilors Present

Distinguished Guests

Comrades and Friends

Ladies and Gentlemen

Introduction

On the 21st March our country and people will remember the over sixty people who were shot and killed by the police in Sharpeville by celebrating human rights day. It is therefore befitting that at the time when the world is recovering from the impact of an economic recession which has threatened those living in poverty and pushed even more into abject poverty, we remember and reflect on the subject of human rights. We do this aware of the fact that human rights cannot be limited to civil and political rights but must include second generation rights.

Former President Nelson Mandela captured this most appropriately when he addressed the United Nations on the 50th Anniversary of the Universal Declaration of Human rights and said, I quote: “the very right to be human is denied everyday to hundreds of millions of people as a result of poverty, the unavailability of basic necessities such as food, jobs, water and shelter, education, health care and healthy environment”. Honourable Members, this begs the question, how does our allocation of resources address the issue of human rights in the current context of governance?

It is our considered view that government must play a central role using the budget as a tool to transform society by influencing the level of economic activity, creating job opportunities and protecting the poor and many more from being pushed into abject poverty. It is in this context that we refer to creating a developmental state with capacity to develop and implement progressive policies that will result in the realization of human rights as envisaged in the

Constitution of the Republic.

Indeed, human rights must find concrete expression in the budgets and economic policies of government. Accordingly, today we table the third budget of the administration of President Zuma. It represents our commitment to work together to improve quality and access to service delivery, pursue rapid economic growth and create employment opportunities, as well as deal with poverty and underdevelopment. The budget proposals we make represent our endeavour to look at different answers and solutions, to re-examine our plans, and set a more deliberate, more focused course.

While the world and the country are still recovering from the aftermath of the recession, we must remember that for the average citizen of South Africa, and indeed, the Northern Cape, where too many people live below the breadline, recession is forever a reality. The emergence of the world from recession does not resolve the socio-economic divide and inequality that our people still experience. In the aftermath of the recession we remain one of the most unequal countries in the world. President Jacob Zuma rightly captured this state of affairs in his state of the nations address when he said that despite progress we have made to improve the lives of our people, the triple challenge of unemployment, poverty and inequality persists and that Africans, women and youth continue to suffer most from this challenge. Provincial budget remains one of the tools of redistribution that can mitigate the socio-economic divide and inequality experienced by our people.

Economic Outlook

Honourable Speaker, International economic conditions remain distressed. The global recovery is threatened by intensifying strains in the euro area and fragilities elsewhere. While there are signs of a revival in the US economy, much of Europe is expected to fall into recession during 2012. Emerging markets are predicted to continue to perform strongly, but growth in China and India is projected to moderate in the year ahead. A high degree of risk clouds the global outlook. Financial conditions have deteriorated, growth prospects have dimmed, and downside risks have escalated.

Global output is projected to expand by 3¼ percent in 2012. This is largely because the euro area economy is now expected to go into a mild recession in 2012 as a result of the rise in sovereign yields, the effects of bank deleveraging on the real economy, and the impact of additional fiscal consolidation.

Growth in emerging and developing economies is also expected to slow down because of the worsening external environment and a weakening of internal demand. The most immediate policy challenge is to restore confidence and put an end to the crisis in the euro area by supporting growth, while sustaining adjustment, containing deleveraging, and providing more liquidity and monetary accommodation.

In other major advanced economies, the key policy requirements are to address medium term fiscal imbalances and to repair and reform financial systems, while sustaining the recovery. In emerging and developing economies, near-term policy should focus on responding to moderating domestic growth and to slowing external demand from advanced economies.

Concerns about banking sector losses and fiscal sustainability widened sovereign spreads for many euro area countries, which reached highs not seen since the launch of the Economic and Monetary Union. Bank funding all but dried up in the euro area, prompting the European Central Bank (ECB) to offer a three-year Long-Term Refinancing Operation (LTRO). Bank lending conditions moved sideways or deteriorated across a number of advanced economies.

The International Monetary Fund (IMF) expects global growth to decelerate from an estimated 3.8 per cent in 2011 to 3.3 per cent in 2012, down from the previous forecast of 4 per cent. Emerging markets are expected to remain the primary sources of economic expansion, though growth will be slower than in recent years. Advanced economies are projected to grow by only 1.2 per cent in 2012.

In many developed countries, the process of reducing debt in the public and private sectors will be a considerable drain on growth in the decade ahead. Growth prospects have also declined as a result of rising structural unemployment and lower investment.

Recent global trends, however, are not linear. There are signs of a nascent recovery in the United States, with growth accelerating in the second half of 2011 and stronger-than-expected employment data. The latest global manufacturing surveys show that activity is picking up. Interventions by the European Central Bank to provide liquidity to banks have helped to calm markets, buying time for a resolution of the debt crises facing Greece, Italy, Spain and Portugal.

Interest rates will remain low in most developed countries over the medium term. The US Federal Reserve has said that interest rates will stay near zero until mid-2014. This should support capital flows to countries where investment returns are higher and underpin demand for commodities, including gold.

The challenges stemming from high levels of global liquidity will continue. While much of the capital flowing to emerging markets reflects structural dynamics and stronger growth prospects, short-term capital flows are highly sensitive to fluctuating interest rate differentials and risk appetite. As seen during the second half of 2011, sharp reversals may occur as a result of uncertainty and swings in investor sentiment, fuelling macroeconomic instability in developing countries.

Trends in major economies and regions include the following:

• US growth is projected to remain at 1.8 per cent in 2012. Non-agricultural employment has expanded by almost 2 million jobs over the past 12 months, supporting demand and reducing unemployment to 8.3 per cent. The housing market, however, remains weak, and fiscal consolidation will reduce demand as public spending slows.

• The eurozone grew by an estimated 1.6 per cent in 2011, but much of

the region is expected to experience recession in 2012. The combination of fiscal austerity, stressed credit markets and concerns about the capitalisation of banks has reduced confidence. The potential for default by Greece is a significant risk that could precipitate dislocation in financial markets and a break-up of the currency union.

• Gross domestic product growth in China is projected to slow to 8.2 per cent in 2012, down from an estimated 9.2 per cent in 2011. Brazil's GDP is forecast to grow by 3 per cent in 2012 (2011: 2.9 per cent). Gross domestic product growth in India is projected to be 7 per cent in 2012 (2011: 7.4 per cent).

• Sub-Saharan Africa continues to benefit from high commodity prices. Growth in the region is projected to increase from an estimated 4.9 per cent in 2011 to 5.5 per cent in 2012.

For some time a shift in the composition of global trade, production and investment has been under way. Emerging markets now account for more than 40 per cent of global imports, exports and industrial production.

Last year, Brazil overtook the UK to become the sixth-largest economy in the world. By 2016, the IMF expects BRICS (Brazil, Russia, India, China and South Africa) economies to account for 24 per cent of global GDP, up from 7 per cent in 1993, and China is projected to be the largest economy in the world based on purchasing power parity.

Shifts in the global economy provide considerable opportunities for growth and employment in South Africa and the African continent. For example, the World Bank projects that China could shed 85 million manufacturing jobs in the coming years as the economy's comparative advantage moves away from labour-intensive production and as wages for unskilled labour rise. South Africa can capture a greater share of world manufacturing through focused efforts to achieve a competitive position in

global production networks and supply chains.

South Africa's regional and global comparative advantages in mining, infrastructure development, retail, distribution, tourism, and financial and professional services offer significant potential for jobs and growth, particularly if underpinned by innovation and productivity gains.

The commodity boom, improved political stability and prudent macroeconomic policies have fuelled a sharp increase in African growth over the past decade. Gross domestic product growth averaged nearly 5 per cent in the 2000s compared with just over 2 per cent over the preceding two decades.

• Between 2000 and 2016, Sub-Saharan Africa is forecast to almost double its share of global gross domestic product, with per capita incomes rising by 110 per cent based on purchasing power parity.

• Africa's share of global FDI inflows has increased from an average of 1.9 per cent in the 1990s to 4 per cent between 2005 and 2011, and totalled US$54.4 billion in 2011. FDI inflows are strongest into East Africa, Central Africa and increasingly West Africa.

• Spending on infrastructure is projected to increase sharply over the next 20 years in Nigeria (506 per cent), Angola (347 per cent), Kenya (328 per cent) and Egypt (138 per cent).

• The number of internet users increased from 19 million in 2005 to 91 million in 2010. Mobile phone subscriptions more than tripled to 393 million over the same period.

• Some 70 per cent of Africa’s population is under age 30, representing a potential demographic dividend. South Africa’s stock of FDI in Africa has increased more than five-fold, from US$3 billion in 2005 to US$16.6 billion in 2010. South African investment has focused on natural resources in Southern and Eastern Africa, along with telecommunications, finance, retail and construction. South African companies in these sectors have operations in more than 15 countries. Efforts to foster closer economic integration should focus on developing regional infrastructure, one-stop

border policies and systems, removing non-tariff barriers such as import permits and reducing barriers to the movement of skilled labour.

The South African economy has demonstrated resilience in this environment. While global developments are likely to hold back higher growth over the short term, the domestic outlook remains positive. Gross domestic product (GDP) growth is expected to slow from 3.1 per cent in 2011 to 2.7 per cent in 2012. As the world economy strengthens, gross domestic product growth will accelerate to 3.6 per cent in 2013 and 4.2 per cent in 2014, led by robust household consumption, and stronger public- and private-sector investment. Government will focus on capital investment in infrastructure projects and reducing the cost of doing business through targeted interventions, including lowering port charges and broadband costs.

Strengths in the domestic economy will help to sustain growth. Household spending remains robust, private-sector investment is gradually rising and interest rates are low. There are encouraging signs of employment growth in the formal sector, with a net increase of 365 000 jobs reported over the past year. South Africa’s banks are well-capitalised. High levels of corporate saving are expected to enable increased investment spending as global uncertainty eases and business confidence strengthens.

Fiscal and monetary policies remain supportive of growth. Government will continue to monitor and adjust policy to changes in the domestic and global environment, while stabilising public debt at sustainable levels.

To reduce unemployment and poverty on a mass scale, the economy needs more rapid and broad-based growth. This requires policy reforms and actions by business and labour to reduce the cost of doing business, cut red tape, raise productivity, diversify exports, tap new markets for trade and take advantage of opportunities presented by enhanced regional integration.

Over the medium term and beyond, large-scale public-sector infrastructure investments will expand the capacity of the economy to grow more rapidly. Government is also implementing an economic support package to boost productivity, competitiveness, and research and development across the agriculture, mining, manufacturing and technology sectors.

The South African economy grew by an estimated 3.1 per cent in 2011. Gross domestic product growth is expected to slow to 2.7 per cent in 2012 before accelerating to 3.6 per cent in 2013 and 4.2 per cent in 2014 as the world economy recovers, and stronger domestic consumption and investment support rising job creation. Growth in private fixed capital formation is projected to rise from 4 per cent in 2012 to 6.8 per cent by 2014, underpinned by improving business confidence. Public investment growth will average 4.3 per cent per year over the next three years.

While export growth will accelerate over the medium term, imports are projected to grow more quickly in response to robust domestic demand. This will contribute to the current account deficit widening from an estimated 3.3 per cent of gross domestic product in 2011 to 4.4 per cent of gross domestic product in 2014. This level of deficit should be comfortably financed through a combination of foreign direct investment (FDI), international investment in the bond and equity markets, long-term foreign loans to public entities and trade finance.

Provincial, District and Local Municipalities Socio-Economic Review

Honourable Speaker, our proposed allocation of resources as we indicated in the past, is informed by a thorough analysis of the social and economic material conditions in the province. It is for this reason that together with the budget proposals for the 2012/13 financial year, we publish a comprehensive fourth edition of the Northern Cape Socio-Economic Review that includes provincial, district and local municipalities.

The significance of this socio-economic review lies in the contribution it can make in informing allocation of resources, it is also critical in guiding the formulation of interventions aimed at stimulating growth and development in the province. If properly studied and reviewed, the analysis and findings of this publication are also expected to assist government to achieve broad allocative efficiency. It is meant to result in a choice of public goods and services that can best improve the quality of life and advance sustainable growth and development in the province. Most importantly, the findings also serve as part of the monitoring and evaluation aimed at determining the impact that government programmes have on service delivery and development broadly in the province.

Honourable Speaker, in the past we indicated that in the immediate, our challenge is to find ways to change the structure of the provincial economy. Such a structural change must result in rapid economic growth and creation of decent jobs. In order for such growth to result in new job opportunities it is imperative that our focus be on sectors that are labour intensive in operation.

To this end we welcome the Acting Premier’s announcement in the state of the province address that the Northern Cape Provincial Government successfully launched the Kimberley International Diamond and Jewellery Academy on the 4th November 2011 and that 50 students were registered for a diamond cutting and polishing course in 2011 and will graduate at the end of this month. We also welcome the further announcement she made around the completion of the renovations to the current infrastructure of the Kimberley Diamond and Jewellery Centre. The acting Premier further announced the conclusion of the Cooperative Agreement signed between the Provincial Government and the Diamond and Jewellery Company of Armenia in order to develop a mutual beneficiation strategy. These announcements represent efforts to change the structure of our economy and open up new opportunities for entrepreneurs to enter the diamond cutting and polishing industry while the training of students provide skilled labour in the area we did not have before.

The provincial and national economy followed a similar pattern between 2001 to 2011 with an exception of 2003 where the provincial economy grew at a faster rate than the national economy and it is projected to follow the same pattern in 2012 and 2013. The national economy is projected to grow by 2.7 and 3.6 percent in 2012 and 2013 respectively while for the same period the provincial economy is projected to grow by 2.9 and 3.6 percent respectively.

Good performance in the manufacturing and construction industries led to the highest growths in 2006 at 5.6 and 4.1 percent for South Africa and the Northern Cape respectively. Even though both economies contracted by -1.5 and -3.2 percent in 2009 as a result of a global turmoil, they have since improved to 2.9 and 1.9 percent respectively in 2010. During 2011 the provincial economy grew by 2.4 percent while the national economy grew by 3.1 percent. Both economies are projected to decline in 2012 before they pick up in 2013.

The tertiary sector continues to be the main contributor towards the gross domestic product of the province with an average rate of 50 percent, followed by primary and secondary sectors at 33 and 7 percent respectively for the period 2001 to 2010. Although the agriculture industry was amongst the lowest contributors towards the gross domestic product by region at an average rate of 7 percent for the period 2001 to 2010, it remains the second highest employer in the province after community services. Mining was the highest contributor at an average rate of 26 percent. Because of the contraction and gradual decline in mining which has negatively affected Namakwa, the provincial government has identified fishing and mariculture as an alternative to boost the economy. The industry has a growth potential of over 2 000 job opportunities over a ten year period

Local Government Review

Honourable Speaker, last year, National Treasury published together with the medium term budget policy statement 2011, the local government budget and expenditure review covering the period 2006/07 to 2012/13 years. The review focuses on the role municipalities need to play in supporting the new growth path and the realisation of government‘s twelve outcomes.

While there are many examples of councils, mayors and municipal managers striving to provide effective leadership and making progress with strengthening governance, there are instances where serious governance shortcomings still remain. The systems that are under greatest pressure are procurement, billing and revenue collection, staff appointments and the planning and zoning functions.

Firstly, the review investigates the performance of local government in supporting economic growth. It updates previous information on the growth in demand for municipal infrastructure. It assesses the extent to which municipalities have used the opportunity afforded by the recent slower economic growth to address some of the infrastructure backlogs that had arisen and whether municipal infrastructure plans

and the quality of services provided is adequate to meet the needs of the new growth path. It analyses trends in municipal capital spending relative to these priorities and provides an initial assessment of a range of services that are important to supporting economic growth.

Secondly, the review highlights the different development challenges facing rural and urban municipalities when it comes to fulfilling their development roles – particularly the provision of basic services in support of the government's outcomes. It explores the very different contexts within which rural and urban municipalities operate, and how these different contexts impact upon the finances of rural and urban municipalities, the kinds of service delivery challenges they face, and the choice of technology and service levels appropriate to the rural and urban contexts. This analysis highlights the need to provide for greater differentiation in the design of the local government fiscal framework, and the need for a differentiated approach to the

assignment of functions to municipalities, based on their individual capacity to effectively manage them.

Thirdly, the review focuses on the importance of good governance and accountability in ensuring the effective and efficient stewardship of municipal resources, and the ongoing challenges of ensuring that proper and ethical standards of governance and administration are upheld. It highlights the further steps taken to improve the quality and usefulness of municipal financial information. It also re-emphasises the significant challenges that exist with the capacity of municipal Budget and Treasury Offices, and the importance of stabilising the senior managements of municipalities.

This review identifies the following issues that are impacting on the performance of municipalities in combating poverty and supporting economic growth:

1 The quality of leadership and governance. This aspect is critical to how a municipality performs. Effective leadership and good governance contribute enormously to ensuring a municipality makes positive progress in delivering services and extending infrastructure. To improve the capacity of municipalities to perform their functions, there is an urgent need to stabilise the senior management cadre of municipalities, appropriate technical skills need to be in place.

2 To ensure that municipalities remain going concerns, able to sustain existing services and progressively extend services, they need to ensure that the municipal budget is funded in accordance with the legal requirements set out in the Municipal Finance Management Act (2003). If a municipal budget is unfunded, it is not a credible budget – either the revenue projections are unrealistic, the operating expenditures are too high, or the capital budget is too ambitious. In most instances there are problems in all three areas. Correcting these problems involves going back to basics – and ensuring that the municipality only budgets to spend what it will realistically collect in revenue, eliminates all non-priority spending and has adequate cash reserves to back its existing obligations.

A major part of the challenge is to get the basics of cash management and revenue management right. This means understanding the relationship between financial planning and effectively managing municipal cash resources and ensuring that regular bank reconciliations of municipal accounts are undertaken. In respect of revenue management it means paying attention to the integrity of billing information, the accuracy of bills and having dedicated managers able to build administrative implementation systems that integrate each component of the revenue value chain. In addition, a careful balance will need to be struck between adjusting taxes and tariffs to cover the full, long term costs of service delivery and improved expenditure efficiencies.

Managing necessary price increases will require a long term view and sensitivity to growing pressures on household budgets. Such increases will also need to be mitigated by improved expenditure efficiencies that increase productivity in all services.

3 There is an urgent need for all municipalities to pay greater attention to maintaining their existing assets. Systems of asset management and levels of spending on repairs and maintenance need to be improved. To assist in financing this spending it is important that tariffs for the trading services are cost reflective, incorporating all the input costs associated with the production of those services. The

clarification of the institutional responsibility for electricity distribution should lay the foundation for improved management of electricity assets.

4 Municipalities need to revisit how they fund their capital budgets. Generally, national capital grants are intended to finance the rollout of infrastructure for addressing service delivery backlogs and extending access to basic services. Municipalities are still expected to fund the on-going development and extension of infrastructure related to the economic and trading services for which they are responsible. To do so, municipalities need to examine the balance between their

operating budgets and capital budgets, and ensure they structure their operating budgets so as to generate the surpluses required to fund infrastructure. Also, creditworthy municipalities need to explore opportunities for leveraging private finance for the expansion and delivery of services, especially those that support local economic development. There is considerable scope for expanding the use of

development charges to finance infrastructure investment, based on the principle that direct beneficiaries of services should shoulder the associated costs.

5 Municipalities need to reconceptualise their current programmes to ensure greater access to basic infrastructure and services in order to combat poverty more effectively. Here, effective spatial planning and land use regulations governing development are crucial. Improving the access of poor households to the urban economy requires better use of strategically located urban land, municipal infrastructure investment decisions can be used creatively to provide appropriate incentives to the private sector.

There is also considerable scope for municipalities to generate more employment through their activities. A range of opportunities for labour intensive programmes and service delivery practices have not been adequately explored.

6 More inputs are also required from national government to contribute to the improvement of municipal capacity. The following technical functions require particular attention: sewerage and water treatment plant operators, road maintenance supervisors, health inspectors and planning and project managers. In particular, there needs to be better co-ordination between policy instruments. For

example, grants may be squeezing out borrowing and community/user contributions and undermining sound asset management practices. Greater emphasis needs to be placed on the self-financing of the trading services, the transparent operation of subsidies and clear incentives for municipal performance.

The ability of municipalities to rise to these challenges will ultimately be determined by the quality of their governance and administrative practices. Stronger, more participatory governance practices will only have a meaningful effect if municipalities provide stable and attractive work environments. As provincial and national government, we need to take seriously these issues and collectively act upon them.

Expanded Public Works Programme

Honourable Speaker, one of the areas where the province both at municipal and provincial level can exploit additional funding, is in the implementation and reporting on expanded public works programme incentive grant. The expanded public works programme incentive grant is performance based and public bodies qualify only upon reporting.

Northern Cape municipalities do not have any threshold to meet, meaning that they qualify for payment from the very 1st job opportunity they create and report, on the other hand, Provincial Departments have certain thresholds to meet before accessing their incentive allocations. It is disappointing to report that only 13 out of the 32 municipalities qualified for allocation of incentives given that there are infrastructure projects taking place in almost all municipalities at any given point in time. Eight provincial departments are participating in this 2011/2012 financial year.

Municipalities were allocated R47 million worth of incentives and to date they have accessed only R5, 5 million or 12% of the total allocation. Provincial infrastructure departments received R4, 8 million worth of incentives and were only able to access R757 000 or 16% of the allocation. What is encouraging is the fact that environment sector department had an allocation of R1, 530 million and have at least accessed 50% of their allocation. Social sector departments have an allocation of R13, 8 million and have accessed to date R11 million or 85% of their allocation. This sector continues to be the strongest expanded public works programme performing sector in the Province.

Challenges cited includes but not limited to the following.

Erratic and inconsistent reporting by municipalities and provincial departments.
Capacity in municipalities and other departments to ensure that their projects have the maximum labour intensity to maximise work opportunities.
Capacity in municipalities and other departments to ensure that maximum labour intensive projects are designed and reported on.
Lack of cooperation and commitment from municipalities and other departments resulting in acute and continued underreporting.

Honourable Speaker, these challenges are not overwhelming, they can be resolved. What is needed is the determination and little extra effort to do the right thing which is to report accurately. Kwa-Zulu Natal receives every year since the inception of the incentive grant in excess of R200 million. Honourable Speaker, our province needs this extra funding to do many other things that we are unable to fund through our budget. For the province to increase its share of this incentive grant, I have directed Provincial Treasury to establish a dedicated temporary capacity to work hand in hand with the Department of Roads and Public Works to put in place processes and procedures to streamline the reporting to ensure that the province can increase its share of the incentive grant.

Municipal Audit Outcomes & Operation Clean Audit

Honourable Speaker, on the 15th of December 2011, a preliminary municipal audit outcome report indicated that twelve (12) or 37,5% of municipal audit reports were outstanding and that the majority would be finalized in the new calendar year.

The reason for the delay was that outstanding audit reports were caused by fifteen (15) municipalities that could not submit annual financial statements on the due date which was 31 August 2011.

Three [3) or 9,4% of municipalities received qualified audit reports, eleven (11) or 34,4% received unqualified audit reports while six (6) or 18,7% received disclaimer of audit opinions. In the previous municipal financial year 2009/10 there was seventeen (17) disclaimers of audit opinions.

This situation cannot be left unattended; hence we announced during the tabling of the adjustment appropriation bill last year, that we have set aside R29 million to be used mainly between Provincial Treasury and the Department of Co-operative Governance, Human Settlement and Traditional Affairs. These funding will ensure that the provincial government has resources to meet its commitments with regard to Operation Clean Audit 2014 within the municipal sphere.

I am happy to announce that that systems and processes have been put in place since we made the announcement, comprehensive terms of reference have been agreed upon, memorandum of understanding between Provincial Treasury and the municipalities to be assisted has been completed and that a closed tender will be issued during the cause of this week.

Support will be given to ailing medium capacity municipalities that were qualified on the incorrect application of GRAP 17. Support will also be provided to all low capacity municipalities towards the compilation of GRAP compliant asset registers. Municipalities that struggled to complete the 2010/11 financial statements due to technical know-how and capacity constraints will also receive assisted for a period of two years. (i.e. 2010/11 and 2011/12)

Debts Owed to Municipalities

Honourable Speaker, one of the commitments that we made in the past before this august house, is that we will assist municipalities recover moneys owed to them by government departments, I am happy to present to this house a report in this regard.

During September last year, we appointed a person on a temporary basis to be dedicated to resolving the unpaid long overdue accounts of municipalities.
At the beginning of September last year Sol Plaatje Municipality was owed R177, 614 million by government departments, R83, 214 million or 47% has being paid to the municipality,
An amount of R34,261 million in respect of mental hospital rates and taxes has been resolved but the amount has not been paid over to the municipality. The Municipal Manager and the relevant HOD will meet and discuss payment arrangements.
An amount R24,559 million in respect of expenditure incurred on roads and streets paving during 2001 has been recommended to be written off by the municipality. There seemed to have been a misunderstanding on the side of the municipality that the amount was going to be reimbursed by the Department of Road owed Public Works as a subsidy. In addition there was no signed agreement. The municipality conceded that they cannot provide any evidence in this regard and that they will instead write off the amount.

Honourable Speaker, in addition to the appropriation bill that we are tabling today, we are also tabling an additional adjustment estimates that includes R25 million in respect of additional funding to address the shortfall in the grant for the devolution of property rates, this amount will also be paid to the Sol Plaatje Municipality before the end of this month. Other than the Sol Plaatje Municipality, we still have other smaller amounts to the value of R23,313 million that we have agreed that they will be resolved before the end of this month. They include local municipalities such as Khara –Hais, Ga-Segonyana, Nama Khoi, Ubuntu and others

Operation Kgotso Pula Nala

Honourable speaker, last year the Premier in her state of the province address announced an amount of R10 million dedicated to assist struggling municipalities to meet they service delivery obligations. This amount was subsequently paid in instalments to the affected municipalities based on the business plans they have prepared and progress certificates of what they have achieved after the process of verification was completed. We have set aside, though not included in the appropriation bill, an amount of R50 million for Operation Kgotso Pula Nala to be utilize by the Departments of Roads and Public Works and Cooperative Governance, Human Settlements and Traditional Affairs. The two departments have been mandated to prepare a business case that outlines what needs to be done to revitalize our townships. We believe that, though small in quantum, the amount would contribute enormously to the revitalization of our townships.

Infrastructure Delivery

Honourable Speaker, South Africa and our province's infrastructure investment campaign is about providing goods and services that create a better working and living environment. By providing infrastructure such as electricity, water, sanitation, transport, telecommunications, hospitals and housing allows businesses to grow and individuals to enjoy a better quality of life. Our investments aim to eliminate the significant backlog of services that need to be provided, while keeping pace with new demands that are created as the economy grows and living patterns change.

In his state of the nation address, the President said that the country is going to launch a huge campaign of building infrastructure nationwide which will boost the level of economy and create job opportunities. The President also announced that the infrastructure plans include the expansion of the iron-one rail between Sishen in our Province and Saldanha Bay in the Western Cape Province and that this will also create large numbers of jobs in both provinces. We welcome these developments as they will have spinoffs for our Province.

Over next three years, the provincial government plans to invest R5, 557 billion into building roads, hospitals, clinics, schools, agricultural infrastructure and arts and culture and sporting facilities. For the 2012/13 financial year, the Province will spent R1, 842 billion on infrastructure building and maintenance which is more than double what the province spent in 2008/09 financial year. However, the challenge is that although the quantum of our infrastructure budget has increased by leaps and bounds, the capacity to plan and implement the infrastructure budget is still posing a challenge. To this effect we have requested the National Treasury to assist the department of Roads and Public Works with additional engineering capacity and the request is receiving favourable consideration.

The overall adjusted capital budget for the year ending 31 March 2012 amounts to R1, 596 billion; revised estimated spending is R1, 559 billion or 97, 7%. This represents an improvement on current spending compared with 79, 7% of the previous financial year. Key challenges relating to infrastructure as we reported in the past could not be resolved speedily and includes and not limited to the following areas:

The lack of clearly defined roles and responsibilities of departments in relation to infrastructure delivery resulting in silo approaches and also leading to failure to employ the skills that are needed.
Forward planning and the achievement of the alignment model is impaired by ad hoc changes in priorities and infrastructure budgets and plans are also not aligned making institutionalisation of alignment model problematic.
Human resources management and development in relation to infrastructure delivery is not been dealt with by the provincial departments as a strategic resource but rather as an administrative matter.

The focus of the staffing of infrastructure units in departments are mostly on post provisioning and existing staffing levels and not on efficiency levels, performance or competence. There is an urgent need for post provisioning norms in infrastructure units.
Capacity in the line departments to undertake a number of key activities in any given financial year – i.e. planning for future years, conducting feasibility studies, project design, initiating procurement for the next year, while managing or implementing current infrastructure projects, is lacking.

The provincial infrastructure grant has been increasing rapidly over the years, however, the skills, knowledge and expertise required for the successful implementation of the projects is lacking behind especially the planning and alignment of projects with the budgets. To address this challenge, we have partnered with National Treasury which has provided technical assistants for each major infrastructure departments including Provincial Treasury to address issues of planning and alignment.

Financial Management

Honourable Speaker, recently we have seen media reports where certain provincial treasuries in two provinces and departments in three provinces were being put under section 100 of the Constitution.

This was as a result of poor financial management where accumulated unauthorized expenditure was allowed to go unchecked and no provision or attempt made to set aside funds to redeem the accumulated unauthorized expenditure, accruals in the form of unpaid invoices were increasing uncontrollably to huge proportions that were unable to be managed. Provincial treasury management function had collapsed. Budget section of the provincial treasury appeared to have been dysfunctional. In recent times the provinces were paying certain service providers 8 times in a month. The frequency of payments did not provide for an opportunity for proper verification, nor did permit proper management of cash. Supply chain management processes were generally not in line with legal requirements Poor asset management and millions of rands in assets with no supporting documents

Honourable Speaker, one of the emerging financial management challenges is manifesting itself in the form of accruals which represent outstanding suppliers' invoices that were not paid at the end of the financial. For the year ended 31 March 2011, the total accruals were standing at R354, 121 millions of which R148, 570 million were incurred by the Department of Health and were not supported by rollover requests or cash to be surrendered to the provincial revenue fund.

R143, 737 million was for the Department of Roads and Public Works for outstanding invoices and were supported by capital rollover requests to the value of R115, 456 million and current rollover requests. The majority of departments had smaller amounts that were supported in most cases by rollover requests and where rollover requests were not granted the amounts could easily be accommodated within the current budget.

The challenge becomes critical where these outstanding invoices cannot be accommodated within the current budget and they had to be delayed for payment. The risk is not only on the departmental budgets but they adversely affect SMMEs survival as half of these outstanding invoices at the end of the financial year were 30 days and more old. This has to come to a stop. We cannot preach the compliance with the Public finance Management Act and the Treasury regulations with no consequences on those who delays payment to suppliers without reasonable cause.

Honourable Speaker, non-compliance with Treasury Regulation 8.2.3 had reached significant levels whereby departments were blatantly disregarding the requirement to make timeous payments to their creditors within thirty (30) days from receipt of an invoice. This has led to the Minister in the Presidency responsible for Performance Monitoring and Evaluation issuing a communiqué during June 2009 requesting departments to ensure compliance with Treasury Regulation 8.2.3. On 2 December 2009, Cabinet also resolved that departments must implement mechanisms to ensure that payments to creditors are made within thirty (30 days) from receipt of an invoice. The National Treasury also issued a circular on 31 May 2010 urging all accounting officers to institute measures to ensure that all their obligations are paid within the prescribed period.

Despite the a-foregoing, many departments are still not effecting payment to their suppliers within thirty (30) days from receipt of an invoice. This undesirable practice has now reached disturbing levels and besides being in contravention of the PFMA and Treasury Regulations, this practice is severely affecting the cash flow positions and sustainability of businesses, especially the small medium and micro enterprises (SMME's).

Many of such businesses are closing down largely due to financial constraints whilst others are resorting to drastic measures to keep afloat, which include the retrenchment of employees. These measures are counterproductive to Government's priorities, which include the creation of decent jobs through inclusive economic growth.

All departments are required to have in place systems (processes and procedures) that will enable the tracking of each invoice received from the various service providers. The system referred to above may either be manual or electronic in nature and such a system must also be able to track progress with the processing of each invoice. At any given time, such a system must be able to provide information related to the date on which an invoice was received, the date on which it was paid and the time period between the date of receipt and the date of payment, if the invoice was indeed paid.

To this end honourable speaker, I have mandated Provincial Treasury that when the Public Finance Management Act land the Treasury regulations are not adhered to, actions must be taken against those who do not comply with the law in line with the prescripts of financial misconduct.

Cumulative Unauthorized Expenditure as at 31 March 2011

Honourable Speaker, in the past, we have reported that the current provincial government inherited accumulated unauthorized expenditure of R676, 101 million from the previous government. This was mainly due to the overspending of the legislated budgets by the Departments of Health and Education to the tune of R366, 623 million and R241, 316 million respectively while all other departments had accumulated unauthorized expenditure of R64, 647 million from the 2004/05 to 2008/09 financial years.

Between 2009/10 and 2010/11 financial years, Health and Education overspent their budgets by R80, 944 million and R13, 644 million respectively and all other departments overspend their budgets during the same period by R18, 767million. Although the overspending has somehow moderated, the overspending poses a serious risk for the provincial budgets as the amount set aside to finance the overspending does not increase over the medium term.

Continuous overspending of departmental budgets would lead to a situation where the cash flow would be adversely affected and the province finds itself in a position where it is unable to meet its obligations. In line with the debt redemption strategy, R287 million has been set aside to reduce the accumulated unauthorized expenditure from a total of R789, 454 million to R502, 454 million at the end of the current financial year. At the end of 2013/14 financial year, another R250 million will be available to reduce the accumulated unauthorized expenditure to R252, 454 million by the end of 2014/15 financial year.

Honourable Speaker, incurring unauthorized expenditure is against the Public Finance Management Act and is regarded as financial misconduct. Over the years the province has been incurring unauthorized expenditure and the act was not implemented to deal with unauthorized expenditure effectively.

Provincial Treasury has been directed to work with the provincial labour relations office in the Office of the Premier to start to formulate financial misconduct charges against those officials and accounting officers who break the law.

Fiscal Framework

Honourable Speaker, the budget process is mainly characterized by contestation for limited resources by different departments and public entities. Resources are not always available to fund the priorities identified by sector departments. Often than not departments are forced to reprioritize within available resources and the more efficient use of available resources remains the rule.

Government has had to make difficult choices in order to ensure that despite the shortfall in revenue and the unfavourable economic outlook; public services are provided with no hindrance and that large scale public investment in infrastructure development is implemented.

The 2012 MTEF budget is tabled against a backdrop of huge reductions in the provincial equitable share as a result of adjustments due to new data updates and health components changes in the equitable share formula. The 2012 MTEF reduction happens at a time when all the discretionary provincial reserves have been exhausted mainly as a result of cuts in the previous financial years' equitable share baseline. Over the 2012 MTEF R274, 756 million has been reduced as a result of the data updates and changes in the equitable share formula. If was a painful exercise to cut this amount from the baseline of departments but the process of arriving at the R274, 756 million at National Treasury level was fair.

Given the economic outlook over the period ahead, growth in spending has to moderate as set out in the proposed fiscal framework. There is a need for greater emphasis on the effective use of resources and on reprioritising budget baselines to support long run service delivery and economic growth.

Expenditure needs to be realigned in terms of Government's priorities and the composition of the expenditure needs to shift towards spending on infrastructure over the 2012 MTEF period. Departments are expected to respond proactively by making every effort to find savings and reprioritise these towards government's priorities, especially in health and education and programmes that lend themselves to job creation. Efficiency in spending is the key towards protecting core priorities in provincial departments.

Provincial departments will have to reprioritise and align spending to core activities of government considering the cut in the baseline. Notwithstanding the reduction, it is the considered view of Provincial Treasury that if the wasteful expenditure and all the frills can be eliminated in the budgets, this will enhance efficiency in spending and therefore the impact of the reduction will be minimal.

Accordingly, Honourable Speaker, the province received an additional R279, 942 million over the MTEF. This amount is intended to deal specifically with the carry through effects in respect of improvement in conditions of services (ICS) mainly for the Departments of Education and Health. For the two outer years of the MTEF R117, 715 million has been added to the provincial equitable share baseline to cover expansion of no fees schools; universalization of Grade R and child and youth care and victim empowerment

The conditional grant framework changes include additional funds earmarked for the following:

The new National Health Insurance Grant. The purpose of this grant is to pilot and test innovative interventions and methods of service delivery that can be scaled up for national rollout as part of the phased implementation of the National Health Insurance.

For the department of Agriculture, Land Reform and Rural Development, there has been a significant increase in the Comprehensive Agricultural Support Programme Grant. This is earmarked to provided for the repair of flood damage in the province.

Other grants have been reduced to realize some savings used to other priorities at a national level.

The Northern Cape equitable share allocation for the 2012/13 financial year will increased by 5 per cent to R8, 255 billion. Conditional grants will increase by 15 per cent to R3,082 billion. Own revenue will increase by 3 per cent to R219, 873 million

The total provincial budget we table here today amounts to R11, 557 billion for the financial year 2012/13. The two outer medium term years increase to R12, 195 billion and R12, 851 billion respectively.

Provincial priorities that have been funded in this budget are for pressures already funded during the 2011/12 adjustment budget which had carry through effects. These pressures amount to R73, 578 million over the MTEF.

Honourable Speaker, let me take this opportunity to elaborate on departmental allocations for the 2012 MTEF period. It should be noted that our budget priorities continue to be characterized and informed by a pro-poor spending pattern to broaden access to basic services such as Education, Health and Housing for the poor.

Honourable Speaker, obviously not all provincial priorities could be funded as a result of limited resources and not withstanding our Debt Redemption Strategy and obligations. Our funded policy priorities emanates from a rigorous process of consultation and engagement in the Provincial Medium-Term and Expenditure Committee (PMTEC) and the MEC's bilateral that took place subsequent to the process of the PMTEC meetings.

Allocations

Social Sector Services

Honourable Speaker, the poverty levels in our country and the morally repugnant and social destructive forms of social inequality based on factors such as class, gender and ethnicity necessitates that unashamedly and unapologetically government prioritize social services. Accordingly, in the current budget cycle we seek to expand and improve quality of health and education services through various national and provincial policy interventions.

In this respect, the Department of Education's major priorities in the 2012 MTEF is to improve access and quality of education. Areas such as Early Childhood Development, Adult Basic Education, Further Education and Training are expected to contribute to the social capital development, benefiting all the citizens of the Northern Cape. Furthermore, the provision of basic infrastructure to schools such as clean water, decent sanitation, and electricity as well as speedy delivery of classrooms and learner and teacher support materials continues to be a key policy imperatives.

Development and maintenance of high quality and efficient education system that contributes to expansion of the skills base is not only critical to fighting poverty but also for growth and development of the economy. Our commitment in this respect finds expression in the proposed allocation that includes conditional grants amounting to R4, 197 billion for the 2012 financial year.

Honourable Speaker, in the health sector our priority is to improve the provision of quality healthcare, with particular emphasis on reducing infant, child and maternal mortality rates, and broadening access to antiretroviral and tuberculosis treatment. In order to give effect to these priorities the Department of Health is allocated a total amount of R3, 122 billion for the 2012 financial year.

Total allocations to the Department of Health include an amount of R3, 447 billion over the MTEF in respect of conditional grants. This comprises amongst others R1, 054 billion for the Hospital Revitalization Grant, R847, 966 million for the National Tertiary Services Grant, R900, 838 million for the Comprehensive HIV/AIDS Grant and Health Infrastructure Grant amounting to R317, 441 million amongst others

Honourable Speaker, proposed allocations to the Department of Social Development seeks to give impetus to the enhancement of social welfare to the citizens of this province to ensure the greatest impact on poverty alleviation. The total budget for this department amounts to R525, 897 million for the 2012/13 financial year. By 2014/15 financial year the budget would have grown to R615, 082 million.

The priorities for the Department of Social Development include extending early childhood development; expanding secure care services to children in conflict with the law and strengthening access to home and community-based care.

The Department of Sport, Arts and Culture 2012 MTEF priorities relates to sport development, promotion and preservation of heritage and libraries transformation. In this respect the department of Sport, Arts and Culture is allocated an amount of R223, 556 million for the 2012 financial year. This allocation includes R101, 366 million in conditional grants in respect of the Community Library Services and Mass Participation and Sport Development grant.

Economic Sector

The economic sector remains focused on championing the implementation of initiatives to grow, transform and diversify the provincial economy as well as integrated infrastructure investment to support economic growth and development. Land and Agrarian Reform Initiatives, implementation of the Northern Cape Diamond Strategy; economic and social infrastructure development and delivery of houses are some of the key issues on the programme of the economic sector. In the 2012 MTEF the policy priorities include initiatives to accelerate economic growth and development, as well as integrated infrastructure development and maintenance.

In terms of proposed departmental allocations, the department of Economic Development and Tourism is allocated an amount of R653, 904 million over the next three years of which R207, 281 million is for the 2012 financial year.

The target to provide adequate infrastructure for economic growth and development as set out in the revised provincial growth and development strategy is primarily driven by the Department of Roads and Public Works. Integrated infrastructure investment and expanded public works programme, are the key priorities for the department in the 2012 MTEF.

In this respect the Department is allocated an amount of R953, 066 million for the 2012/13 financial year. The budget grows to R1, 033 billion in the last outer year of the MTEF. The department also receives conditional grants that are included in the allocation to the amount of R529, 332 million in the 2012/13 financial year.

Honourable Speaker, the Department of Agriculture and Land Reform and Rural Development is charged with the responsibility to lead in the development of the agricultural sector and contribute towards the improvement of livelihoods in the province, by ensuring equitable access and participation in the agricultural value chain, improving global competitiveness, promoting sustainable use of natural resources and ensuring food security. To give effect to these policy priorities, the department's proposed allocation for the 2012 financial year is R730, 345 million. Included in this amount are condition grants amounting to R 504, 723 million in the 2012 financial year.

In Cooperative Governance, Human Settlements and Traditional Affairs, the focus remains to promote and facilitate sustainable, integrated human settlements and infrastructure development for effective service delivery. Key priorities for the department are provision of houses and sanitation as well as implementation of the Operation Clean Audits 2014 together with other stakeholders. In the 2012/13 financial year the Department is allocated an amount of R582, 761 million including conditional grants. This includes an amount of R322, 602 million in respect of Integrated Housing and Human Settlement Development Grant and housing disaster relief fund of R16, 949 million.

The Department of Environment and Nature Conservation is allocated an amount of R314, 236 million over the next three years.

Governance and Administration Sector

Honourable Speaker, The Governance and Administration sector's mandate is to harmonize the work of departments with related mandates and functions and coordinate the implementation of the provincial government programme of action. It strives to improve the quality of life of the people by improving the capacity and organization of the provincial administration. The cluster priorities are derived from government commitment to transform the system of governance to address the challenge of declining trust by entrenching the culture of accountability, honesty and transparency among public servants.

The main priority for the sector is to contribute to building a developmental state focusing particularly on improving the capacity and efficacy of the state, delivering quality services, entrenching a culture and practice of a transparent and compassionate public service and building partnerships with society and strengthening democratic institutions.

In terms of the proposed allocations, the Office of the Premier is allocated a total R475, 598 million over the 2012 MTEF.

The Provincial Treasury is allocated an amount of R46, 299 million over the 2012 MTEF. T

The Provincial Legislature is allocated an amount of R416, 367million over the next three years.

The Department of Transport and Safety and Liaison is allocated an amount of R884, 938 million over the 2012 MTEF. This amount includes an additional allocation of R300 million over the MTEF, that is being shifted to the department due to the shift of the scholar transport function from the Department of Education. Included in the total allocation are conditional grants amounting to R124, 125 over the MTEF in respect of the Public Transport Operations Grant.

Conclusion

Honourable Speaker, the allocations that we are tabling here today represents the government's response to the aspirations of the poor majority to better their lives. They echo our determination to make sure that service delivery and standard of living is improved, the economy grows and jobs are created. The impact of the economic recession on the country's productive capacity is still with us. We need to identify measures that will create additional decent jobs and identify opportunities for new areas of growth and economic participation, and progressively to set the country on a new growth path and development.

The current economic conditions suggest that government is challenged to do more with less. The need for prudent management and execution of spending plans becomes even more imperative to ensure that the set objectives are achieved in the most efficient, effective and economic manner. Undoubtedly, all of us do understand that moving forward we must be more efficient and prudent in the way we manage our resources and execute our spending plans.

Lastly, Honourable Speaker we are also tabling today the consolidated provincial socio-economic review which includes the province, the districts and local municipalities. The legacies bestowed in our communities make a study on socioeconomic conditions at both the provincial and local government level more compelling. The 2012 Provincial and District Municipality Socio-economic Review provides an analysis on economic outlook, demographic profile, labour market status and development indicators.

Considering the developmental backlogs in some district municipalities and the socio-economic conditions thereof, there is a need for development interventions in order to bring parity across all five districts. The above can be achieved through good governance, the existence of public-private partnerships and continued involvement and communication with the local communities.

I wish to conclude by extending my sincerest gratitude to the Honourable Premier Ms. Hazel Jenkins in her absence and wish her well during this period of recovery for her support and cooperation as well as the entire Executive Council for the understanding and ensuring that their respective departments work with us to arrive at the status quo. I would also like to extent my gratitude to the Acting Premier.

I must also thank the Heads of Department and Chief Financial Officers for ensuring that the Provincial Treasury receives the necessary information and documentation thereby assisting to table a credible budget.

Special thanks and recognition is extended to Mr. Vuyisile Gumbo, the Chief Director responsible for coordinating the budget process, Mr. Bakang Moea and his team of budget analysts that worked hard to prepare the estimates of provincial expenditure, Ms. Portia

Seameco and Mr. Bright Mahlangeni and their team which prepared the provincial and districts socio-economic review, Mr. Sello Mokoko, the Head Official of Provincial Treasury for his outstanding leadership of this important department and the officials in Provincial Treasury who laboured diligently and meticulously to ensure that the budget is tabled correctly and lastly the Ministry Staff that has supported me so well since I took office.

Honourable Speaker and Honourable Members I commend to you:

The Northern Cape Second Adjustments Appropriation Bill 2012
The Northern Cape Appropriation Bill 2012
The Estimates of Provincial Revenue and Expenditure for the 2012 MTEF
Provincial, District and Local Municipalities Socio-Economic Review

Honourable Speaker, courage is what it takes to stand up and speak but courage is also what it takes to sit down and listen. Criticism may not be agreeable, but it is necessary. It fulfils the same function as pain in the human body. It calls attention to an unhealthy state of things.

I thank you!: