

**Speech by Eastern Cape MEC for Department of Finance Mr Phumulo Masualle, on the occasion of the tabling of the 2014/15 Eastern Cape budget**

06 Mar 2014

Honourable Speaker,  
Honourable Premier,  
Honourable Members of the Executive Council,  
Honourable Members of the Legislature,  
Honourable Mayors,  
Esteemed Traditional and Religious Leaders,  
Our esteemed guests,  
Ladies and gentlemen.

Our communities joining us from Walter Sisulu University Hall, Ntabankulu Town Hall, Tshabo 2 Community Hall, Grahamstown Town Hall, the Dordrecht Thusong Centre, Masakhane Community Hall, KSD College and New Brighton Hall and listeners of our various community radio stations.

Good morning!

Honourable Speaker, I stand here to present the twentieth budget of a free and democratic South Africa and the last budget in this term of office in our province. Incidentally, it is the first since our Father of the Nation, Tata Nelson Mandela, is no longer physically with us. We have a duty to live up-to His and our metaphysical long walk to freedom. Over the last two decades and the last five years in particular, we have laid a very strong foundation whose legacy will bear everlasting perennial fruits long after we are gone.

Honourable Speaker, in framing the 2014 Budget, we are driven by a commitment to care for all our people. We have sought to balance the utilisation of human, environmental and financial resources to create not only a legacy, but also heritage for our province. In just under twenty years, we had to adjust the way government works. Since the previous regime catered only for a smaller community, it is now our responsibility to distribute limited resources amongst a bigger and wider community.

This is necessary in order to reduce poverty and restore fully the dignity of our nation. We accordingly, recognise the demand for rapid delivery of the much needed services within our communities and understand the impatience that often get demonstrated in some parts of the province. As the Premier has correctly cautioned, such actions should though not lead us into destroying that which we already have.

We would like to assure all our citizens that we are hard at work to ensure that every citizen of our province shall have access to and enjoy an enduring good quality of life. We urge our people to be more patient as there are no quick-fix solutions to the many challenges that face us today.

Honourable Speaker in 2012, our country's long-term collective development aspirations as embodied in the National Development Plan was launched by our esteemed President. Vision 2030 requires a fundamental change in the way Government and the Private Sector operate. There is an urgent need to unlock the binding constraints to SA's progress. The budget we table here today takes the first steps towards the realisation of that vision.

**Economic performance and outlook**

As we continue to walk the path of development, we must be mindful of the realities of our circumstances and those of the changing global economy. This Budget proposal was therefore designed against the backdrop of global economic uncertainty. The province, despite its wealth of natural resources, has experienced disappointing economic performance in the post recessionary economy like the rest of South Africa. In 2013/14, provincial production in the auto sector was hampered by severe industrial action. Structural inefficiencies in the economy exist whereby the economy undertakes limited value addition to primary production. However, the provincial outlook remains positive for 2014 as public sector investments are driving provincial growth. In addition, the province has a competitive manufacturing sector which is of national strategic importance, but linkages between the two sectors need to be enhanced.

### **Gross Domestic Product growth**

Honourable Speaker, over the last year our country's economic growth slowed down owing to instability in the mining and auto industries, high consumer indebtedness and continued sluggish growth in the economies of our major trading partners. Despite this our country still recorded a positive growth of 1.8% of GDP.

South Africa's economy is expected to accelerate its recovery to an estimated growth rate of 2.7% this year to 3.5% in 2016. This continued recovery in growth is premised on maintaining macroeconomic stability, and improving resource mobilisation and utilisation. In addition, investment in priority sectors including the commencement of major infrastructure projects will spur economic growth.

During the first three quarters of 2013, overall growth for the provincial economy slowed down further to 1.5; 2.1 and 1.5 per cent respectively on a year-on-year basis, with Manufacturing, Transport, Wholesale and Trade contributing the most in terms of the overall slowdown. Low levels in domestic consumer demand were the main contributing factors to slow growth in Wholesaling, Retail and Transport for the first three quarters of 2013.

Inflation is projected to average about 6.2% this year and around 5.9% over the medium term. The exchange rate is expected to deteriorate owing to capital flight as the US continues tapering the Quantitative Easing program. While weakened exchange rate is a positive development for exporters, it further weakens our trade balance as imports become more expensive.

Honourable Speaker, ultimately, the maintenance of macroeconomic stability led to an average growth of 3.4% in the last 10 years. This stability is vital for our long-term economic growth and structural transformation prospects.

### **Budget Structure**

Now let me turn to the structure of the 2014 Budget. Honourable Speaker, in recent years, recurrent expenditure has tended to crowd out capital expenditure in the provincial budget. There is ongoing work to balance core staff and support staff in an effort to skew it heavily towards core service delivery skills. Over the 2014-2016 medium-term, we have commenced on a viable and sustainable drive to implement measures aimed at correcting this imbalance in the budget structure. In the 2013 Budget speech, I noted that Government would focus on cutting recurrent expenditure to sustainable levels through the reduction of waste, corruption and duplication in the functions of government agencies.

Practical steps that have been undertaken in this regard include:

- Ensuring effective management of the PILIR.(Policy on Incapacity Leave and Ill-Health Retirement)
- The verification of employees was undertaken in the departments of Health and Education in 2013. This will be extended to the department of Rural Development and Agrarian Reform in 2014.
- The process for reviewing public entities, rationalising and reducing duplication of mandates among different government agencies has begun. We have agreed as a Cabinet to close those subsidiaries to public entities that are dormant by end of this financial year, and review the lossmaking entities.

On the revenue side, our contribution to the provincial revenue was R1 billion in the current financial year, a mere 1.6% of our budget needs. We are exploring ways to enhance revenue from various sources to ensure that sufficient resources are provided to improve service delivery.

### **Budget Framework for the 2014 Medium Term Expenditure Framework (MTEF)**

Our budget framework for the next three years is designed to achieve national and provincial policy objectives in a constrained fiscal environment.

These are also aligned with the NDP proposals and include:

- An inclusive economic growth;
- increasing the pace of creation of decent employment, particularly for the youth;
- rural development and agriculture;
- promoting human capital development;
- transforming human settlements;
- ensuring social security and safety for our peoples; and
- strengthening governance and accountability.

#### 1. Strategies for promoting inclusive economic growth and creating decent employment

##### **1.1 Infrastructure delivery**

One of the key pillars for economic growth stimulation is investing in infrastructure development. This investment will contribute significantly to the stimulation of activities within the construction industry. With the renewed focus on local economic development and the promotion of small businesses, we are encouraging engagement of local built sector service providers, contractors and manufacturers in the construction and maintenance of provincial government projects.

##### **Roads**

Decent road network throughout the province is crucial for growth, investment, employment creation and poverty reduction. It facilitates trade and commerce and allows farmers to access markets for their

products thereby promoting their welfare. Provincially, we have re-gravelled 917km our road network. We have also done blacktop patching over 66 438 km which includes pothole repairs.

Honourable Speaker, whilst we acknowledge the work undertaken, you will agree with me that many of our roads need urgent attention. It is for this reason that we are devoting resources to deal with these challenges over the next three years. R3.6 billion has been allocated to the Department of Roads and Public Works for provincial road maintenance over the MTEF period. Through this budget, we intend continuing to improve the general conditions of our provincial road network.

### **Public Works**

Need for office space in Bhisho and surrounding areas has increased substantially. The high demand coupled with limited supply has led to provincial government paying substantial amounts in lease costs. A major focus for the next 3 years is to implement the Bhisho office park, modernise Bhisho office buildings and where feasible, build own buildings in available government land. This will reduce expenditure on leased buildings and reduce the number of buildings which present health hazards and unpleasant working environments. The Public Works programme is allocated R3.7 billion over the MTEF.

### **Health and Education infrastructure**

Infrastructure development has contributed significantly to job creation in the Education and Health sectors. One such example is the Cecilia Makiwane Hospital project. In that project, 28 locally based contractors who were further supported by 32 sub-contractors undertook infrastructure projects.

OR Tambo district was selected as a National Health Insurance (NHI) pilot site. The national department of Health will refurbish and construct health facilities in this district. Provincially, a number of large projects are under-way and others have been planned over the MTEF. Examples of such projects include the completion of St Elizabeth's hospital, Livingstone Oncology unit, various health clinics and the upgrade of various facilities.

In the education sector, we have built 261 and 15 Grade R classrooms. Approximately 40 schools were provided with water, sanitation, electricity and maintenance during 2013/14. R2.9 billion and R3.1 billion are allocated to the education and health departments respectively for infrastructure delivery over the MTEF. The Accelerated Schools Infrastructure Development Initiative (ASIDI) program is targeting to eradicate the remaining mud schools in the province over the MTEF.

Making existing Health and Education facilities functional Honourable Speaker, one of the major challenges our people are exposed to is poorly maintained or inadequate social facilities.

This is as a result of years of neglect and no maintenance. In certain instances, access by road network and washed away bridges is near impossible. To overcome this, R688 million over the MTEF is allocated to the ECDC for improving functionality of existing health and education facilities. This includes ensuring that access roads and bridges leading to these facilities will be attended to, particularly in rural and smaller municipalities that often struggle to implement and access infrastructure. The latter is mainly due to budget constraints and capacity challenges.

### **Access to water and sanitation**

Access to water has been prioritised by government and expansion in access has improved over the last 20 years. Municipalities form the last link in the water distribution chain. In addition to their own resources, municipalities in the Eastern Cape received R13 billion from the fiscus to improve reticulation,

sanitation and sewage processing plants.

Lack of access to water and adequate sanitation has a crippling effect on the provision of education and leads to health hazards that burden the health system. In many instances, it also threatens social cohesion and stability. It is for these reasons that the provincial government following the injunction of the State President that the Bucket system is an insult to our people, is therefore allocating R850 million over the MTEF from own revenue to support struggling municipalities. The implementation will be undertaken by the Coega Development Corporation on behalf of the province.

### **1.2 Small, Medium And Micro Enterprise (SMME) Development**

The NDP identifies the SMME sector to be the key driver of employment creation for the coming years. In the past we have supported the SMME sector through our public entities. We will further intensify the effort through preferential procurement schemes within provincial government departments.

Public entities have facilitated or saved more than 26 823 jobs over the last 5 years through the provision of finance, implementation of high impact projects, investments and trade promotions. Through the flagship Household Contractor programme, 58 000 work opportunities will be created during the 2014/15 financial year. The Early Childhood Development program currently employs 5 456 people.

The Expanded Public Works Program has created over 120 000 job opportunities in the last 5 years and will be intensified over the MTEF with an allocation of R111 million in 2014/15. All these programs will be intensified in the years ahead. Our intention is to aggressively reverse the scourge of unemployment and poverty.

### **1.3 Youth Employment and Engagement**

Honourable Speaker, according to Census 2011 our province's population is relatively young, with the youth comprising more than half the population. It is equally important to prepare our youth for non-formal employment through expansion of vocational education and training centres. In addition, we need to provide access to finance for those that might want to be self-employed. Our provincial entities ECDC and ECRDA have made funding opportunities available to our youth in the forthcoming years. Youth Cooperatives are budgeted for by the Departments of Social Development, Agriculture and DEDEAT.

Our procurement regime will also be geared further to encourage youth participation. Coega Development Cooperation and East London IDZ have implemented internships, youth development programmes and training schemes including driving skills that have benefitted more than 4 000 young people and trained 10 000 people in the last 3 years. Overall, the province created over 400 green jobs; created 20 357 job opportunities; skilled 2 927 through sector development and there was extensive progress made towards the localisation of manufacturing and trade within the province.

### **1.4 Tourism, Sports, Arts and Heritage promotion**

Honourable Speaker, tourism has become an important generator of economic growth. It gives me great satisfaction to report that we successfully hosted the AFCON Cup in 2012. Through the Home of the Legends project we have been able to market and brand the Eastern Cape as a tourist destination. This is proved by the increase in the number of visitors at the Nelson Mandela museum.

Our government intends to intensify the roll-out of the Home of the Legends project and expand its footprint internationally so as to achieve our developmental targets for tourism. Our aim is to diversify the tourism base by improving accessibility to our national parks, heritage sites, and natural attractions.

Government will also continue to enhance capacity in the hospitality industry. The tourism sector is allocated R149 million over the MTEF in the departments of Sport, Recreation, Arts and Culture, DEDEAT and the ECPTA.

## **2. Rural Development, Food Security and Agriculture**

Honourable Speaker, agricultural development remains a top priority as a way of addressing rural poverty, unemployment and food insecurity. Current global food shortages present immense opportunities for our province as we have vast arable land that is under-utilised. It is Government's desire to see the agricultural sector grow to its full potential with our many small-scale farmers graduating to become prosperous medium to large-scale producers.

In the next three years, we will pay more attention to the Agricultural sector focussing on improving our internal administrative systems, re-directing funds towards core business and working with stakeholders to find ways of making the sector more attractive for investments. The sector has commenced with plans to set up two additional Mills and create market links in 2014/15. As this is a priority, the budget baseline will be reviewed once credible plans are presented.

Our intention is to increase agricultural primary production over the next three years. As agriculture production is relatively labour intensive and includes opportunities for all workers, this government believes it would make sense to intensify efforts in realising the potential of our agricultural resources. This sector has a potential not to only generate incomes and a livelihood for the majority of our people, but to transform the economy.

## **3. Promoting Human Capital Development**

Honourable Speaker, social welfare indicators such as literacy, safe water coverage, increased life expectancy, a reduction in infant and maternal mortality rates, depicts progress in our society's well-being and human development. All these indicators have improved over the last 5 years.

### **3.1 Investing in Education**

Provision of quality education is a lifelong investment we must continue to extend to our children if we are to secure the future of our nation. At a provincial level critical improvements in educational outcomes hinge on learner attainment and skills.

The 2013 matric results bear testimony that the efforts directed towards improving learner outcomes are paying off. Between 2009 and 2013, the number of Early Childhood Development centres has increased from 1 247 to 1 324.

Leadership and management in schools have a direct bearing on learner performance as it affects functionality or lack thereof. To this end, policy initiatives and interventions focused on remedying inefficiencies in schools will be intensified. Education gets the lion's share of the provincial budget at R87.3 billion over the MTEF.

### **3.2 Provision of Healthcare**

Honourable Speaker, access to healthcare services remains one of the key objectives of this Government. We shall continue to pursue health reforms to ensure effective healthcare delivery. Efforts to improve human resources management in the Health department are yielding positive results. The

province has made serious strides in dealing with the remuneration of Health Professionals and to this end, a once off allocation of R384 million was availed to the Health department during the adjustment process. In the last year, no reports of delayed salary payments were received in the Health sector.

More emphasis has been placed on skills development in the health sector. In the last year, the department awarded 1 275 health professional bursaries and employed 367 medical officers, 483 professional nurses and 121 pharmacists. The distribution, management and control of medicines and drugs was improved to avoid drug stock-outs that we have experienced in the past. Health has been allocated R54.6 billion over the MTEF.

#### **4. Transforming Human Settlements and improving performance of municipalities**

Honourable Speaker, our key priorities include accelerated delivery of housing opportunities and access to basic services. We have made strides in ensuring that human settlements are located closer to areas of economic opportunity.

##### **Provision of Houses**

Over the three year period, the department of Human Settlements delivered 56 103 housing units to qualifying beneficiaries and serviced 40 896 sites. As rural-urban migration intensifies, additional requirements for housing units and related services are also created. Accordingly, R6.7 billion has been allocated to the department of Human Settlements to provide much needed houses over the MTEF, thus the eradication of backlogs and shacks.

##### **Improving local government functioning**

Experience from other developing countries shows the importance of fiscally sustainable and well-functioning local governments for delivery of public services. Local governments have an advantage of being closer to the recipients of such services. We cannot tire from continuously improving the performance of municipalities and the services they provide. This involves bringing greater stability in municipalities and intergovernmental system and assisting them towards the optimal use of the limited resources.

Hon Speaker our towns and cities are dirty and this is a hazard that cannot be left unattended to, Provincial Government shall intensify the cleaning and beautification of our towns using the Concept of Youth Brigades in partnership with our Municipalities.

The provincial department of Local Government and Traditional Affairs is allocated R876 million in 2014/15 to deal with the functioning of local municipalities and assisting the institution of traditional leadership.

The province has also experienced a spate of natural disasters that have negatively affected many of our communities. Following proper assessments led by the department, we shall endeavour to provide the necessary relief as guided by the applicable prescripts.

#### **5. Social Welfare and Safety**

Honourable Speaker, we are a community that cares for its people, especially the most vulnerable and marginalised in society, whose voices often cannot be heard. The Department of Social Development and Special Programmes is allocated R2.1 billion in 2014/15 for, amongst others, programmes that target older persons, persons with disabilities, vulnerable children, abused children, orphans and children in

trouble with the law.

In the current year, 2 582 older persons and 1 164 persons with disabilities were assisted with residential facilities. Honourable Speaker, these are our most vulnerable people who need safety and security in their communities. To this end the department of Safety and Liaison has been allocated R78.9 million for the establishment of community safety forums, improving the effectiveness of community police forums and to support the Provincial Community Police Board.

## **6. Strengthening Accountability**

Honourable Speaker, Accountable Governance requires effective and dedicated leadership. Given our limited resources and the state of the economy, we cannot over emphasise the need for efficiency in how we deliver services and transform our institutions to make them more responsive. As a province, we still face challenges in service delivery that include the delayed implementation of Government projects, lack of adherence to financial management procedures, as well as corruption and misappropriation of public resources.

We have taken very strong measures to drastically improve this scenario and those are already bearing fruit. Strong governance, good financial management and accountability was restored and enhanced in the past 3 years, which has resulted in much needed revenue to be invested in provincial infrastructure development.

We have also successfully cleared the provincial unauthorised expenditure of R2.7 billion in the past 3 years which effectively cleared the over-drafts of education and health. Accordingly, we have managed to ensure that Provincial Revenue Fund holds a contingency reserve that will be used to intensify infrastructure delivery.

## **7. Allocations per department or programme**

Honourable Speaker, we would like to acknowledge the inputs that were received from members of the public who wrote to us. To you Mrs Magenuka from Pakamisa, Principal Cingo from Vulindlela Senior Secondary School, Saraceen Olay and many others, to you "sithi mazenethole". We have managed to incorporate some of your valuable advice in crafting the budget.

The Department of Education is allocated R27.9 billion in 2014/15 for Grade R universalisation, the realignment of schools, improving internal controls, continuing LTSM and School Nutrition. Over the MTEF, education is allocated R87.3 billion.

The Department of Health is allocated R17.5 billion in 2014/15 for the continued provision of quality health care services, LOGIS roll-out and the uninterrupted implementation of performance management and pay progressions. Over the MTEF, health is allocated R54.6 billion.

The Department of Social Development and Special Programmes is allocated R2.1 billion in 2014/15 to continue with the provision of youth care centres for children in conflict with the law, Early Childhood Development programme, the absorption of social workers and fighting substance and alcohol abuse. Over the MTEF, social development is allocated R6.7 billion.

The Department of Roads and Public Works is allocated R4 billion in 2014/15 for maintenance of infrastructure, the provincial road network and the delivery of provincial infrastructure. Over the MTEF, roads and public works is allocated R12 billion.



The Department of Rural Development and Agrarian Reform is allocated R1.8 billion in 2014/15 to enhance the implementation of the rural development strategy and the food security programme. Over the MTEF, rural development is allocated R5.6 billion.

The Department of Economic Development, Environmental Affairs & Tourism is allocated R1.4 billion in 2014/15 for the implementation of social and economic infrastructure by ECDC and Coega. Over the MTEF, DEDEAT is allocated R4.5 billion.

The Department of Transport department is allocated R1.7 billion in 2014/15 for the completion of the Mthatha airport and intensification enforcement. Over the MTEF, transport is allocated R4.9 billion.

The Department of Local Government and Traditional Affairs is allocated R876 million in 2014/15 to support traditional leadership institutions, intervene in targeted municipalities and to fund political parties represented in the Legislature for the general elections in line with relevant legislation. Over the MTEF, local government is allocated R2.6 billion.

The Department of Human Settlements has been allocated R2.4 billion in 2014/15 for the provision of quality human settlements in the province. Over the MTEF, human settlements is allocated R7.2 billion.

The Department of Sport, Recreation, Arts & Culture is allocated R769 million in 2014/15 for the upkeep of museums, maintenance of libraries and to support local arts and culture. Over the MTEF, DSRAC is allocated R2.4 billion. Provincial Planning and Treasury is allocated R377 million in 2014/15 for technical capacity required in municipalities, the departments of Education and Health and infrastructure support at ECDC. Over the MTEF, Treasury is allocated R1.1 billion.

The central administration, which consist of the Office of the Premier (OTP), Safety and Liaison and the Provincial Legislature are allocated a combined budget of R981 million in 2014/15 for public participation, crime prevention and provincial ICT needs.

Over the MTEF, safety, OTP and Legislature are allocated a combined budget of R3 billion.

## **8. Conclusion**

Honourable Speaker, with this budget framework the province is geared for success in the medium term which is also a great foundation for long term economic development and sustainability. This budget encapsulates the commitment we are making as a government to bettering the lives of our people. We remain committed in the new term to enhance the delivery of key services to our people.

Going into the new term the most important factor is our ability, capacity and capability to deliver on our undertakings to our people through the implementation of key programmes funded in this budget. We truly believe that these programmes hold the key to unlocking economic development that will create jobs and alleviate poverty in our province.

In closing, Honourable Speaker, allow me to express my sincere gratitude for the entire provincial government including entities and municipalities for their tireless efforts in the delivery of services to our people. Thank you to the Honourable Premier, my colleagues in the Executive Committee and the Legislature for their guidance in the past 5 years. A special thanks to the staff in my office for their commitment and dedication, the Head of Department Ms Mbina-Mthembu and the department as a whole.

Honourable Speaker, allow me to table the 2014/15 Budget for the Eastern Cape Province. I table the Appropriation Bill, the Estimates of Provincial Revenue and Expenditure.

I thank you all...!

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