



Northern Cape Provincial Treasury

2019 Medium Term Budget Policy Statement and Adjustment Budget Speech

3 December 2019

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**ADDRESS TO THE PROVINCIAL LEGISLATURE ON THE OCCASION
OF THE TABLING OF THE NORTHERN CAPE ADJUSTMENT
APPROPRIATION BILL 2019 AND THE PROVINCIAL MEDIUM TERM
BUDGET POLICY STATEMENT BY MR. M.M. LEKWENE (MPL), MEC
FOR FINANCE, ECONOMIC DEVELOPMENT AND TOURISM**

03 DECEMBER 2019

HONOURABLE SPEAKER, Ms NEWRENE KLAASTE

HONOURABLE DEPUTY SPEAKER,

HONOURABLE PREMIER, Dr ZAMANI SAUL

MEMBERS OF THE EXECUTIVE COUNCIL

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LADIES AND GENTLEMEN

Honourable Speaker, It's a privilege to table the sixth administration's first Provincial Medium Term Budget Policy Statement (PMTBPS) and Adjustment Budget. This Provincial Budget Policy Statement and Adjustment Budget is tabled today against the backdrop of serious socio-economic challenges, both in South Africa and Sub Saharan region.

Honourable Speaker, the economy is not performing as we expected, there is tax shortfalls amounting to **R53 billion** in the current financial year which resulted in the downward revision of the economic growth rate of the country, this has further led to fiscal consolidation in the medium term across all government spheres.

Honourable Speaker, we have just launched the 16 Days of Activism Against Gender Based Violence which coincides with the commemoration of World Aids Day on the 1st of December. We as a country have resolved to eliminate Gender Based Violence and reduce the effects of HIV/AIDS epidemic. We salute the resilience of the victims. Thus amidst these difficult and pressing economic challenges, I want this esteemed house to take courage and note that we are able to overcome these turbulent times.

As we accelerate our programmes during these pressing times, let us learn from our Icon Tata Madiba, who once said "May our choices reflect our hopes and not our fears". Therefore, let us restore hope for our people by directing our efforts towards changing the landscape of poverty, unemployment and inequality.

Honourable Speaker, a budget gives expression to the policies and strategies of the Government of the day. A budget is more than just numbers, it is an instrument to facilitate the process of change. Change which affects the lives of our people. Behind a budget are people with needs and aspirations. While a budget may be considered a technical tool,

it must be informed by normative and political dimensions to give effect to government's priorities.

Honourable Speaker, this sixth administration has outlined key priorities which should enhance the provincial developmental trajectory, towards a modern, growing and successful Province. Honourable Members, in as much as we have taken a decision to do things differently with vigour and greater effort, we also need to take cognizance of the fact that we should move forward intelligently, responsibly and united.

The decisions we take today must define and secure the future for the people of the Northern Cape Province. By exercising diligence and innovation, we do not have any shadow of doubt that we will be able to improve and stimulate the provincial economy to create jobs and eliminate poverty.

Provincial Treasury, as the custodian of the public finances as mandated by the Public Finance Management Act (PFMA) and Municipal Financial Management Act (MFMA) as derived from the Constitution. We remain determined to play our part in contributing to an environment conducive for investments, economic growth, development and job creation. We will continue to play a leading role to realise the pronouncements made by the Premier on behalf of the Northern Cape Executive Council during the State of the Province Address, which amongst others includes:

- Building the capacity of the state and maximizing collaborative efforts to address the needs of our people; and
- Optimally leveraging and exploring the huge untapped potential of our mineral endowment and other dominant economic sectors in the province.

Economic Outlook

Honourable Speaker, the national economy recorded negative growth of -3.1 per cent in the first quarter of 2019 followed by positive growth of 3.1 per cent in the second quarter. The economy is estimated to grow at a low rate of 0.5 per cent in 2019, which is forecasted to accelerate slightly to 1.2 per cent in 2020 and 1.6 per cent in 2021 as indicated in the Medium Term Budget Policy Statement (MTBPS).

South Africa's current growth trajectory is far below compared to the projections for Sub Saharan Africa, which is forecast between 3.2 and 3.7 per cent for 2019 to 2021.

Furthermore, the country's debt to GDP ratio is expected to peak at about 70 per cent in 2022/23 financial year. This poses serious risks to the country's public finances. Debt service costs have already surpassed investment in social spending and remains the single biggest expenditure item in the budget. This scenario is already reducing government's ability to deliver services and cannot continue unabated.

In response to this, the Minister of Finance in his 2019 MTBPS alluded to the President's stimulus package. This includes structural reforms aimed at igniting the economy in the short to medium term, encompassing the following strategies:

- Prioritising tourism and agriculture as job creating sectors,
- Expanding the country's ability to provide electricity through the commencement of the fifth round of the Independent Power Producer (IPP) programme for renewable energy, which includes the granting of licences for small-scale power generation projects;
- Enhancement of ports of entry and railworks;

- Reducing the costs of doing business in the country, which will significantly alleviate pressure on our small business sector; and
- Most importantly, reducing red tape in the public sector.

Honourable Members, these reforms position our Province at a significant competitive advantage. We need to leverage on our Province's Extreme Tourism Portfolio, Diverse Agriculture Sectors and Renewable Energy Projects. We should prioritise these initiatives along with infrastructure development as they will greatly boost the growth of our economy over the next two years.

Honourable Speaker, looking at the provincial economy, Statistics South Africa reported a growth rate of 2.8 per cent in 2017, which is an improvement from the -1.2 per cent experienced in 2016. The official numbers for 2018 will only be released by STATS SA in 2020.

The unemployment rate of the province for the third quarter of 2019 was standing at 29.8 per cent. This is slightly higher than the previous quarter. The increase in unemployment is mainly in the mining, construction, community and social service sector. It is therefore essential that we intervene and prioritise these sectors in order to create jobs. The new administration with its foresight has already started conceptualising interventions to bring about measurable deliverables and timesframes to ensure that progress is monitored and the necessary support is provided to this process.

2020 Medium Term Expenditure Framework

Honourable Members, the national growth trajectory has a direct bearing on the province's equitable share and any change in fiscal policy does impact our fiscal framework immediately, which tend to impact on our three year rolling budget cycle and forward planning. This is inevitable considering that 98 per cent of the budget is a direct transfer from National Government and the provincial revenue contributes only 2 per cent of the total provincial budget.

In order to narrow the fiscal deficit, boost the economy and improve the quality of spending, government is reducing part of the shortfall in revenue by reducing baselines across all spheres and slow down the growth in spending over the 2020 Medium-Term Expenditure Framework (MTEF). To this effect, National Treasury communicated the first preliminary reduction amounting to **R193 million**. Subsequent to this it was revised to **R348 million** over the 2020 Medium Term Expenditure Framework (MTEF). **This is an indication that the final allocation could have even more detrimental effects for the province.**

Honourable Members, I must emphasise that these reductions will have a bigger impact in smaller provinces such as the Northern Cape which only gets 2.6 per cent of the nationally collected revenue over the 2020 Medium Term Expenditure Framework (MTEF) period.

Honourable Members, as indicated previously, total fiscal reductions amounts to **R348 million** over the 2020 Medium Term Expenditure Framework (MTEF) , of which:

- An amount of **R17.7 million** relates to adjustments to baseline as a result of the impact of new data updates in the Provincial Equitable Share formula.
- An amount of **R193 million** is also reduced to cater for fiscal consolidation efforts and lastly;
- **R136 million** is reduced directly from cost of employment due to revised CPI inflation projections.

Honourable Speaker, in order to ensure that we sustain current levels of service delivery especially in Health and Education, we have applied a general cushion to all departments to minimize the impact of the cut. Off the total reduction of **R348 million**, an amount of **R88.7 million** is drawn down from reserves to cushion departments and ensure that services are not disrupted, it is worth noting that these numbers are preliminary.

Honourable Speaker, as part of our efforts to provide for urgent priorities, an additional earmarked amount of **R88.3 million** is made available within the equitable share over the 2020 MTEF to cater for the following priorities; Gender Based Violence, absorption of Social Work graduates and institutionalisation of the Sanitary Dignity Project.

Honourable Speaker and Members, as indicated earlier we need to act intelligently and responsibly. All departments should go back and actively reprioritise their budgets in line with the budget cuts, fund service delivery priorities and ensure quality of expenditure.

2019/20 Adjustment Budget Allocations

Honourable Speaker, let me first emphasise that an adjustment budget process is clearly determined and regulated in terms of the legal framework including when such adjustments may be tabled.

Section 31(1) of the PFMA stipulates that the MEC for Finance in a province may table an adjustment budget.

Section 31(2) states that an adjustments Budget of a province may only provide for the following –

- (a) the appropriation of funds that have become available to the province;
- (b) unforeseeable and unavoidable expenditure recommended by the Provincial Treasury Committee within a framework determined by the Minister;
- (c) any expenditure in terms of section 25;
- (d) money to be appropriated for expenditure already announced by the MEC for Finance during the tabling of the annual budget;
- (e) the shifting of funds between and within votes or to follow the transfer of functions in terms of section 42;
- (f) the utilisation of savings under a main division within a vote towards the defrayment of excess expenditure under another main division within the same vote in terms of section 43; and
- (g) the rollover of unspent funds from the preceding financial year.

Honourable Speaker, clearly from the above framework, we had to exercise extreme caution and find the necessary balance between what we could reasonably make available from the fiscus considering our tight

cash flow position and what is legally permitted in terms of guiding this process.

Honourable Members, in considering these proposals we had to be mindful of the economic outlook and the financial position of the province to ensure that we do not further compromise our cash flow requirements between now and the end of March 2020.

Honourable Speaker, the original budget tabled in March amounted to **R18.3 billion** and is set to be adjusted with an amount of **R187 million**, this will bring our total adjusted budget to **R18.4 billion**.

Honourable Speaker, of the total additional allocation of **R187 million**:

- an amount of **R76 million** or 40 per cent represents national roll overs and other adjustments in respect of conditional grants,
- an amount of **R24 million** or 12 per cent is comprised of equitable share roll overs;
- **R72 million** or 38 per cent is sourced from 2018/19 unspent funds and current year's savings from compensation of employees. Of the savings from compensation of employees **R43 million** has been reallocated to departments to address emerging in year pressures;
- and a further amount of **R37 million** is in respect of self-financing from revenue collected.

Honourable Members, I now turn my attention to the specific proposals included in this adjustment:

Honourable Speaker, Office of the Premier has been allocated an additional amount of **R24.3 million**, of which **R6.9 million** is in respect of equitable share roll over from the 2018/19 financial year.

Honourable Members, an amount of **R2.6 million** is made available to strengthen some of the preliminary work done on the commitments of the new administration.

Furthermore, **R3 million** is earmarked towards the Lerato Park Youth Development Training Programme. The Premier identified 700 students as part of his door to door campaign in Lerato Park. The first phase of the project involves 190 students that have been enrolled at TVET colleges to study various vocational and artisans programmes.

Lastly, Office of the Premier has declared savings amounting to **R16 million** mainly as a result of slow spending on the Information Technology Refresher Project, which will continue in the following year.

The Provincial Legislature is allocated an amount of **R28 million** of which **R10 million** is earmarked for the caucus fund and **R3 million** is earmarked to augment the current allocation in the baseline for leave gratuity payments to former Members of the Provincial Legislature. A further amount of **R15 million** is also made available from the retained funds of the Provincial Legislature to address various pressures.

Department of Transport, Safety and Liaison has been allocated an additional amount of **R35.6 million** of which **R876 thousand** relates to conditional grant and equitable share roll overs in respect of the 2018/19 financial year.

An amount of **R400 thousand** is made available for the appointment of a project manager for the Boegoebay project in Port Nolloth. A further **R30 million** is allocated as a means to augment the baseline for the payment of South African Post Office commission on the collection of revenue from motor vehicle licenses, **R22 million** of this amount is self-financed through the over collection on revenue.

Honourable Speaker, we announced in the main speech in March that an amount of **R40 million** has been allocated to the Department of Roads and Public Works as part of on-going negotiations between the Provincial Government and Sol Plaatje Municipality. This is to find an amicable solution to the outstanding debt in respect of Rates and Taxes.

Whilst negotiations with the municipality are still on-going in this regard, we are setting aside another **R40 million** in this adjustment budget towards settling this obligation. An additional amount of **R21.6 million** is also provided as part of EPWP in order to create job opportunities. Lastly, an amount of **R10 million** is provided for the Galeshewe Urban Renewal Programme (GURP).

Honourable Speaker, Department of Economic Development and Tourism has been allocated an additional amount of **R14.6 million**. Of this amount, **R11.6 million** will address the Kimberley Diamond Cup shortfall and **R3 million** relates to an equitable share roll over in respect of 2018/19 financial year. The Department of Economic Development and Tourism has surrendered an amount of **R26 million** from the Economic Growth and Development Fund (EGDF) whilst the department is addressing the shortcomings in the current funding and disbursement model. These funds will be reallocated in the next financial year once all due processes have been finalised in order to continue to support small business.

The Department of Sport, Arts and Culture has been allocated an additional amount of **R3.9 million** of which **R3.3 million** relates to conditional grants and **R658 thousand** is in respect of equitable share roll overs.

Honourable Speaker, Provincial Treasury has redirected an amount of **R5 million** to Department of Co-operative Governance, Human Settlements and Traditional Affairs (COGHSTA) as part of the development of Financial Recovery Plans and other interventions at municipalities. A further amount of **R16 million** is reduced from the current year's baseline as declared savings emanating from slow progress on projects. These projects will be accelerated in the new financial year.

An amount of **R19.9 million** has been allocated to the Department of Co-operative Governance, Human Settlements and Traditional Affairs(COGHSTA), of which **R10.9 million** relates to conditional grant and equitable share roll overs. An additional amount of **R5 million** is also provided to augment the baseline for municipal interventions.

An additional amount of **R5 million** has been provided to the Department of Health to provide for data capturers, revenue and asset verification clerks. Conditional Grants have been adjusted with an additional amount of **R29.1 million**; of which **R9.8 million** is in respect of the Human Resources Capacitation Grant to cater for the shortfall on compensation of employees and **R19.3 million** is in respect of the National Health Insurance for contracting of Health professionals. Furthermore, the Human Papillomavirus Vaccine Grant has been reduced with an amount of **R1.3 million** due to the change in the target group vaccination from grade 4 to grade 5 girls.

Honourable Speaker, Department of Social Development has been allocated an additional amount of **R8.9 million** of which **R4.6 million** relates to an equitable share roll over and **R4.3 million** is meant for the continuation of repairs and refurbishment at the Lerato Place of Safety.

Department of Agriculture, Land Reform and Rural Development has been allocated an amount of **R45.6 million** of which **R40.6 million** relates to conditional grant roll overs to complete projects emanating from the previous financial year and an amount of **R5 million** is towards drought relief. A further amount of **R30 million** has been reprioritised from other grants to ameliorate drought relief efforts whilst national Government is looking at a more long-term and sustainable solution.

Department of Environment and Nature Conservation has been allocated an amount of **R4.6 million** which relates to equitable share roll overs from the 2018/19 financial year.

In conclusion, Honourable Speaker this adjustment budget was truly a difficult balancing act, we had to exercise caution and weigh up the impact of the funding priorities against what is available. There are many pressing priorities, thus it is required that we completely re-engineer our approaches and processes in order to improve the value chain of service delivery. Let us take conscious decisions that will result in long lasting impact for our communities. Let our choices and actions out-live us and create lasting legacies for those that will come after us. There is much wisdom in the greek proverb that said:

“A society grows when an old man plant trees in whose shade they know they shall never sit”.

Honourable Speaker, I hereby table the 2019 Provincial Medium Term Budget Policy Statement, Adjusted Estimates of Provincial Revenue and Expenditure and the Adjustment Appropriation Bill. I thank you.