

**ADDRESS TO THE PROVINCIAL LEGISLATURE ON THE OCCASION OF THE TABLING OF THE NORTHERN CAPE ADJUSTMENT APPROPRIATION BILL 2017 AND THE PROVINCIAL MEDIUM TERM BUDGET POLICY STATEMENT BY MR. M.N. JACK (MPL), MEC FOR FINANCE, ECONOMIC DEVELOPMENT AND TOURISM**

**23 NOVEMBER 2017**

**HONOURABLE SPEAKER, Mr KENNY MMOIEMANG**

**HONOURABLE PREMIER, Ms SYLVIA LUCAS**

**HONOURABLE DEPUTY SPEAKER**

**MEMBERS OF THE EXECUTIVE COUNCIL**

**MEMBERS OF THE NORTHERN CAPE LEGISLATURE**

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**THE DIRECTOR-GENERAL**

**HEADS OF DEPARTMENTS AND MUNICIPAL MANAGERS**

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**LADIES AND GENTLEMEN**

**Honourable Speaker and Members,** It gives me great privilege to table the 2017/18 Medium Term Budget Policy Statement (MTBPS) of the province and Adjusted Estimates of Provincial Revenue and Expenditure (APRE) for consideration of the House and People of the Northern Cape.

As I am about to present the medium-term budget, I am reminded of the journey that all South Africans, including the people of the Northern Cape will be embarking on, in the fight against the abuse of children and women when the 16 days of activism for no violence against women and children kickstart on Saturday

We strongly condemn the killing and abuse of women and children around the country. Several cases of murder and abuse have been reported in the media and according to the SA Medical Research Council, three women are killed by their intimate partner every day in South Africa.

News of the killing of women has sparked an outcry among South Africans and has also put the spotlight on the Gender Based Violence in the country. We call on South Africans to unite against the attacks and killing of women and children, as well as human trafficking.

The South African public, people of African continent and the international community are celebrating 2017 as the centennial of Oliver Reginald Tambo. Through O.R. Tambo's advocacy on gender equality, our country has laid foundation for women to thrive in a democratic society.

**Speaker**, improving our economic growth outlook over the period in advance remains our biggest challenge. If we are to overcome the triple challenge of inequality, poverty and unemployment in the Province, we have to grow the economy and create more jobs.

The National Development Plan commits the country to create 11 million job opportunities and tripling the size of economy by 2030.

Government is working to undo the structural unemployment problems created by apartheid.

South Africa's unemployment problem has its roots in our divided past where the apartheid state deliberately excluded black people from opportunities in the labour market.

From the late 1970s through to 1994 the results were high levels of poverty and inequality, slow economic growth, falling investment and rising joblessness. In the early 1990s, the rate of employment had shrunk to under 40 per cent, leaving South Africa with one of the lowest employment levels in the world.

The new democratic government inherited this unemployment problem and began putting measures in place to address it. However, as it stemmed from deep rooted structural issues, there was no quick fix. In 1994 only 39.8 per cent of working-age adults had a job.

Through the Nine-Point Plan we are investing in job creation projects to improve the country's jobs situation. We are also accelerating our infrastructure build programme to help bring more people into the country's job market.

However, government cannot do it alone. People of the Northern Cape with an aptitude for business and entrepreneurship should start their own small business and assist government in creation of more jobs.

*Kodwa ke, urhulumente asokuze akwenze yedwa oku. Abantu baseMntla-Koloni abanesiphiwo sezoshishino nakwezorhwebo mabaqale amashishini abo amancinci ukuncedisa urhulumente ekudaleni imisebenzi eliqela.*

*Privaat belegging is van kardinale belang om ons vaardigheidsbasis te laat groei en werkgeleenthede in die land te skep.*

*Die privaat sektor kan help deur leerlingskapsprogramme op te stel om jongmense te help lei.*

**Honourable Speaker**, this speech provide a concise report and narrative on the composition of expenditure compared to the original approved budget tabled in this house earlier this year. Our budget preparation process takes place within a transparent medium term expenditure framework that enhances fiscal discipline, however, I also need to highlight that lack of proper planning limit our ability to accurately forecast on our revenue resulting in under collection of set targets.

### **Economic Outlook**

**Honourable Speaker**, the IMF projected that global economic growth will increase steadily in the medium term growing by 3.6 per cent in 2017, and 3.7 per cent in 2018, with advanced economies being expected to grow at a slower pace than emerging market and developing economies. China's growth is expected to slow down marginally from 6.8 to 6.5 per cent between 2017 and 2018.

Honourable Speaker and Honourable Members, the MTBPS is tabled at a time following recovery from a technical recession experienced by South Africa. Despite the recovery, the national economy remains weak and National Treasury indicated that the growth expectations of the country were revised downward from an initial expectation of 1.3 per cent growth in 2017 down to 0.7 per cent growth expected in 2017. In

2015, the provincial economy grew at 0.9 per cent according to Statistics South Africa. The province should take advantage of the weak Rand to increase its exports and to boost the provincial economy.

According to Statistics South Africa, in the third quarter of 2017, the Northern Cape unemployment rate was 29.9 per cent, compared to the national unemployment rate of 27.7 per cent. The provincial unemployment rate did however decrease from 30.5 per cent in the second quarter of 2017. This high unemployment experienced in the province should serve as motivation for us as a province to come up with labour intensive initiatives that will increase the rate at which jobs are created. This is important as an increase in unemployment can potentially put more pressure on the fiscus as more people can become dependent on the state.

### **2018 MTEF Fiscal Framework**

**Honourable Speaker**, the average growth of the provincial budget over the 2018 MTEF is **6 per cent** whilst the equitable share grows with an average of **7 per cent** over the same period, conditional grants shows growth of **2 per cent** and own receipts grows with an average of **4 per cent** over the MTEF.

The growth in the equitable share is mainly driven by additional resources earmarked to augment the historical shortfall in the Improvement of Conditions of Service and further additions are provided to the Department of Education to assist with the associated costs related to the growth in learner numbers in the province.

Similarly to the current's year framework, the 2018 budget continues to be informed by weak economic growth. For the second quarter of 2017, growth rebound to **2.5 per cent**, quarterly annualized from a previous contraction of **0.6 per cent** in the first quarter of 2017. In spite of the rebound growth, the economy remains fragile and this is reflected in the downward revision of the overall growth for 2017 to **0.7 per cent** in the Medium Term Budget Policy Statement (MTBPS) from **1.3 per cent** at the time the 2017 Budget was tabled in February of this year.

Over the medium term, growth average **1.5 per cent** – a sluggish economic growth implies the same for tax revenue growth.

Moreover, new social spending priorities will require fiscal consolidation alongside additions to the budget. In spite of these pressures on the fiscus, efforts have been made to protect departmental baselines.

The changes to the 2018 MTEF framework reflect both fiscal consolidation that is kept at minimum and other adjustments made to departments are still catered for within the overall budget framework without compromising fiscal consolidation of the province.

**Honourable Speaker**, let me take this opportunity to explain to the house the revisions to the provincial equitable share formula. These revisions are informed by the change in methodology used to collect learner enrolment numbers i.e. Learner Unit Record Information Tracking System (LURITS). The system allows for detailed information to be collected on scholars including modules they are taking and their progress through the schooling system.

Revisions to the provincial equitable share formula are also informed by data from census 2011, age cohorts, District Health Information Services for patient load data, 2011 risk adjusted index, insured population as per the 2016 general household survey and 2010 income and expenditure survey. The new share across provinces will be phased in over three years.

These revisions have resulted in the province receiving an additional amount of **R43 million** over the 2018 MTEF. Over the same period, provision is also made for the following priorities:

- The Department of Social Development is provided with an amount of **R5.3 million** in the 2018/19 financial year and this grows to **R21 million** over the 2018 MTEF for the Prevention and Early Intervention Programmes to fight violence against women and children.
- The Department of Social Development is also provided with an amount of **R11.6 million** in the outer two years of the 2018 MTEF, towards the provision of social welfare services rendered by Non Governmental Organisations in the province. This is in response to the National Association of Welfare Organizations and Non-Governmental Organizations (“NAWONGO”) Court Case Judgement. Flowing from this judgement, an expenditure review is underway which will assist in quantifying the gap between the funding of the various social services and the cost of these services.
- An additional amount of **R256 million** is also provided for the province in the outer year of the MTEF for the provision of wage inflation. This additional amount is not for new appointments but to compensate departments, especially Health and Education to deal with the historical shortfall in respect of Improvement of Conditions of Service.
- The Department of Education has been allocated an amount of **R257 million** over the 2018 MTEF, to specifically deal with increase educator numbers as a result of growth in learner numbers.

Honourable Speaker, there are various interventions across departments to optimise provincial own revenue, these interventions will improve our revenue targets in the medium term. Provincial own receipts will amount to **R1 billion** over the next three years which represents an average growth of **6 per cent**.

#### **Public Expenditure and Financial Accountability (PEFA): Assessment & Outcomes - Northern Cape**

Honourable Speaker, allow me to share a synopsis of the Public Expenditure and Financial Accountability (PEFA) assessment and outcomes of the province.

PEFA is an internationally recognised and widely accepted methodology used to measure the performance of a public finance management system – by comparing the public finance system against international best practices used to determine if a country and in this particular instance the province has tools to deliver three main public finance management outcomes, namely;

- Aggregate fiscal discipline;
- Strategic allocation of resources, and
- Efficient service delivery.

Honourable Speaker, the province was assessed using the following Dimensions: **(a) credibility of the budget, (b) comprehensiveness and transparency (c) policy based – budgeting (d) predictability and control in budget execution.**

Honourable Speaker and Members, the Northern Cape scored among the highest provinces in the budget comprehensiveness and transparency Dimension, which relate to the comprehensiveness of the budget process and high quality of budget documentation.

However, we scored relatively low in the predictability and control of the budget execution dimension mainly due to challenges in payroll audits especially in Health and Education, coupled with lack of competency and insufficient capacity which was found to be the main cause of poor contract management and ineffective supply chain management processes.

**Honourable Members**, this finding correlate with our huge irregular expenditure in the province. We need to put extra ordinary measures to strengthen our procurement processes.

### **2017/18 Adjustment Budget Allocations**

Honourable Speaker, we are extremely cautious and mindful of our fiscal position as a province, however, some emerging urgent priorities needed to be considered in this adjustment.

These proposals have been subjected to a thorough process of engagements by all stakeholders with the guidance of the Treasury Committee.

We have been clear that we will not consider pressures that are not palatable with our current realities as a province and hence we have managed to accommodate in year pressures amounting to **R77.8 million** only, this against a background of total in year pressures amounting to **R1.2 billion** presented by provincial departments.

Our original budget tabled in March this year amounting to **R16.1 billion** is set to be adjusted with an amount of **R442.7 million**. However, I need to provide context in this regard, of this total, an amount of **R294.7 million** or **66 per cent** represent roll overs in respect of both national conditional grants amounting to **R229 million** and provincial equitable share constituting **R65 million**. This is not new money but unspent funds needed to finalise committed programmes that are over lapping into the current financial year.

An amount of **R67.1 million** or **15 per cent** of the total adjustment amount represent Improvements on Conditions of Service (ICS) which is mainly allocated to the departments of Health and Education. Other adjustments sourced from provincial reserves amount to **R80.7 million** or **18 per cent** of the total adjustment to fund numerous in year pressures. Furthermore an amount of **R6 million** has been received by the Department of Transport, Safety and Liaison from the Road Traffic Management Cooperation (RTMC) to deal with road safety programmes in the province.

An amount of **R5 million** represent self financing sourced through retained funds by the Provincial Legislature. Lastly, Provincial Treasury has declared savings amounting to **R6.126 million** mainly as a result of savings emanating from funded vacant posts.

I need to reiterate **Honourable Speaker** that factoring out roll overs amounting to **R293 million**, self financing of **R11 million**, ICS of **R67 million** and declared savings by Provincial Treasury, the nett actual addition to the original budget in terms of the equitable share is only **R80.7 million** which constitute **18 per cent** of the total adjustments of **R442.7 million**.

Honourable Speaker, we are an interventionist economy and we need to always ensure that despite our constraints, certain tradeoffs are made to ensure that we respond positively to some of the urgent pressures as presented by various departments during the budget process.

I now turn my attention to the specific proposals included in this adjustment. The Department of Education has been allocated an additional amount of **R38 million** to cover the shortfall in respect of Improvements on Conditions of Service.

Similarly an additional amount of **R27.9 million** has been provided to the Department of Health to deal with the shortfall in respect of Improvements on Conditions of Service. Furthermore, amounts of **R144.4 million** and **R24 million** have been approved as roll overs in respect of conditional grants and equitable share respectively.

Honourable Speaker, Department of Social Development has been allocated an additional amount of **R6 million** of which **R3 million** is meant to augment the shortfall in the budget of the substance abuse treatment care centre while another **R3 million** relates to social relief of distress.

A further amount of **R45.7 million** has been approved as roll overs in respect conditional grants and equitable share.

Department of Sport, Arts and Culture has been allocated an additional amount of **R19.2 million** of which **R16.6 million** relates to conditional grants and **R1.8 million** in terms of the equitable share approved roll overs.

Department of Agriculture, Land Reform and Rural Development has been allocated an amount of **R14.8 million** also in the form of roll overs to complete projects emanating from the previous financial year.

Honourable Speaker, a total amount of **R23.5 million** has been allocated to the Department of Roads and Public Works to address various priorities. Of this total amount, **R12 million** is earmarked to augment the Expanded Public Works Programme (EPWP) which continues to create job opportunities in the province. A further amount of **R10 million** is also provided for contractual obligations. An additional amount of **R1.5 million** relates to a conditional grant rollover.

Department of Cooperative Governance, Human Settlements and Traditional Affairs has been allocated an amount of **R8.9 million** in respect of a conditional grant roll over.

Honourable Speaker, Department of Economic Development and Tourism has been allocated an additional amount of **R6.5 million**. The Honourable Premier indicated during the State of the Province Address that there is a need for a Renewable Energy Summit to take place in the province and the objective is to share crucial information with the Northern Cape community and aspiring emerging SMMEs in the renewable energy space. It is important to indicate that the objective of the conference is to create awareness and promote integrated renewable energy planning in the province and across all spheres of Government. An amount of **R3 million** is allocated for this purpose.

**Honourable Speaker**, Special Economic Zones (SEZ) Programme is one of the tools meant to accelerate the implementation of government's industrial development programme as indicated in the Industrial Policy Action Plan (IPAP). In order to expedite the implementation of the Special Economic Zones Programme, both technical capacity and financial constraints have to be addressed in the province. Department of Trade and Industry (DTI) is currently providing funding to assist with operational costs of this project.

However, Honourable Speaker and Members, this funding will be discontinued at the end of the current financial year and thus this funding will assist to ensure the sustainability of SEZ's. An amount of **R2.6 million** in the current financial year and **R35.9 million** over the MTEF has been provided for Special Economic Zones (SEZ). An amount of **R0.973 million** is allocated to public entities for the ICS shortfall.

Department of Environment and Nature Conservation has been allocated an amount of **R3.6 million**. Honourable Speaker, the department is leading in measures to remediate the natural environment contaminated with asbestos within the province and as such **R3 million** is allocated for this purpose.

Honourable Speaker, Office of the Premier has been allocated an additional amount of **R10.4 million**, of which **R4.2 million** is in respect of approved equitable share roll overs from the 2016/17 financial year. An amount of **R3.4 million** relates to the contractual obligation.

Honourable Speaker, the President and the Cabinet chose Northern Cape to host the 2017 national women's day which was a national event. The president graced the national event held in Kimberley.

Approximately 20 000 people attended the national event from all five regions of the province. The Office of the Premier was tasked with coordinating this event in the province.

As such an amount of **R2.5 million** is allocated to reimburse the Office of the Premier for the expenditure incurred in this regard.

An amount of **R0.214 million** relates to the Thusong Service Centres. This will assist the Office of the Premier to coordinate one stop shop centres for communities to have access to government services.

The Provincial Legislature is allocated an amount of **R21.5 million** of which **R5.2 million** is earmarked to augment the current allocation in the baseline for the rehabilitation of the Legislature precinct and **R9 million** is earmarked for political parties support. A further amount of **R1.4 million** is also made available to top up the oversight work and research requirements.

Honourable Speaker, Provincial Treasury has been allocated an additional amount of **R25.1 million** which relates to equitable share rollovers. An amount of **R6.1 million** has been declared as a savings and this amount has been redirected to other provincial priorities.

Department of Transport, Safety and Liaison has been allocated an additional amount of **R28 million** of which **R6.6 million** relates to conditional grants and equitable share roll overs in respect of 2016/17 financial year.

Honourable Speaker, Boegoebay is 70km from Port Nolloth and is part of our four key infrastructure projects in the province, namely Upington cargo, De Aar cargo hub and Belmond.

The Development Bank of South Africa (DBSA) and the province will co-fund part of the project to the tune of **R122 million** over a period of three years.

An amount of **R15.9 million** is allocated in the current financial year and **R47.3 million** over the next two years to the department of transport, Safety and Liaison to assist with costs associated with the feasibility study and other preliminary work related to technical engineering services.

### **Fiscal Consolidation Measures**

Honourable Speaker, we can report some success on the process of the moratorium approved by the Executive Council. Whilst other departments continue to circumvent the process by appointing contract workers in permanent posts, Provincial Treasury has forced departments to implement better controls mechanism internally to manage appointments.

These interventions assisted the Province to stabilize the headcount growth during the 2017/18 financial year. The Province realized an estimated saving of **R30.296 million** excluding the department of Health and Education on compensation of employees up to the end of October 2017.

However, some of the departments continued to fill vacant posts without the necessary recommendation from Provincial Treasury and Office of the Premier.

As part of the fiscal consolidation introduced by National Treasury across Government three years ago, we have stabilised the overall growth in personnel numbers in the province.

Although there is marginal reduction in terms of overall numbers in the province, personnel expenditure continue to grow exponentially mainly as a result of above inflation wage agreements especially on salary levels 01 to 12.

Honourable Speaker, as at the end of March 2016, the province had **26 881** employees which decreased to **26 363** as at the end of October 2017, this represent a net reduction of **518** employees between the same period. We intent to maintain this trajectory over the next two years whilst allowing for posts replacement to happen due to natural attrition.

To enforce compliance with the moratorium on the filling of vacant posts, Provincial Treasury will recommend to the Treasury Committee and Executive Council that the Appointment Function on PERSAL be withdrawn and regulated at Provincial Treasury.

Honourable Speaker, as I indicated in my introduction that we need to take drastic action to normalise our cash flow position, Provincial Treasury will take a set fiscal measures to Treasury Committee in January 2018 for consideration and approval. I will provide the necessary details in the main budget in this regard. The budget office is currently doing work to ensure that these measures will not affect core programmes in government. These will include but not limited to the following:

- Discontinuation of slow spending programmes;
- Limit approval of roll overs to capital projects only;
- Withdraw and centralise the appointment function of PERSAL to Provincial Treasury;
- Possible reductions in baselines.

Honourable Speaker, these measures are meant to result in significant savings in the short to medium term period and will come into effect in April 2018.

## Conclusion

Honourable Speaker, we are faced with hard choices, to continue doing more with less. That means we have to be sensible, calm and take a responsible approach that puts quality service first to our people. By living within our means, we will not burden future generations with debt from today's everyday spending.

Honourable Speaker, an open and orderly Public Financial Management System contributes to positive desirable outcomes and in order to progressively realise the vision of the National Development Plan (NDP), we need a transformation path that enable access to inclusive participation in the economy.

Honourable Speaker, if we can not deliberately introduce measures that allow for inclusive growth, we will be perpetuating the inequitable patterns of wealth inherited from the past system, and in this regard, the budget should be used as a catalyst to improve the livelihoods of our people and to this end, this adjustment proposes additional spending requirements to boost spending in departments.

Lastly, **Honourable Speaker and Members**, we need to strengthen overall accountability processes which remain ineffective despite a solid legal framework to hold officials liable for the misuse of public resources which undermine and compromises the ability of the provincial administration to respond adequately in improving the lives of our people.

Honourable Speaker, I would like to express my appreciation and gratitude to the Honourable Premier Me Sylvia Lucas for the continued support and involvement leading to the tabling of this budget.

The role of the Treasury Committee and the Executive Council cannot be over emphasised in this process especially in the context of maintaining aggregate fiscal discipline which is a collective responsibility and should not be confined to the MEC for Finance, and I am ever grateful for the role they play in this regard.



The administrative and political interphase is of utmost importance in arriving at these proposals and I would also like to appreciate the efforts of Head of Departments (HODs) and Chief Financial Officers (CFOs) for their assistance and continued support.

Let me also extend my appreciation to Provincial Treasury staff for their commitment and dedication, under the leadership of the Acting HOD, and the ministry for their support.

Honourable Speaker, I hereby table the Provincial Medium Term Budget Policy Statement, Adjusted Estimates of Provincial Revenue and Expenditure and the Adjustment Appropriation Bill 2017 for consideration by the House.

I thank you