

**ADDRESS TO THE PROVINCIAL LEGISLATURE ON THE
OCCASION OF THE TABLING OF THE NORTHERN CAPE
ADJUSTMENT APPROPRIATION BILL 2018 AND THE
PROVINCIAL MEDIUM TERM BUDGET POLICY
STATEMENT BY MR. M.N. JACK (MPL), MEC FOR
FINANCE, ECONOMIC DEVELOPMENT AND TOURISM**

21 NOVEMBER 2018

HONOURABLE SPEAKER, Mr KENNY MMOIEMANG

HONOURABLE PREMIER, Ms SYLVIA LUCAS

HONOURABLE DEPUTY SPEAKER

MEMBERS OF THE EXECUTIVE COUNCIL

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LADIES AND GENTLEMEN

Honourable Speaker, it is my pleasure and honour to present the 2018 Medium Term Budget Policy Statement and Adjustment Budget before this esteemed House today.

Honourable Speaker, before I could go in to the details of our Policy Statement this morning, allow me to reflect on the happenings of the past months, when every Sunday afternoon, approximately 17h00, it was referred to as “The Thato O’Clock.”

The time was made to be synonymous, by the community of the Northern Cape, to a young lad, Thato Makape, who has become a regular feature in our television screens, when appearing on the 14th season of Idols SA.

Hailing from a mining town of Postmasburg, in the Tsantsabane Municipality of the Northern Cape, he holds the record for the longest traveller to an Idols audition, after he travelled an astounding 1 250km over days – using buses and taxis and all his money – to get to Cape Town for the auditions in February after also doing a try-out in Durban. THAT IS THE TRUE DEFINITION HOPE AND PERSISTENCE.

Thato did not only put Postmasburg in the map- but the entire Northern Cape. Every Sunday 5pm, will remain Thato O’Clock for years to come.

Not only does Thato’s story brings hope to the hopeless, it is also an indication that dreams do come, no matter the situation we find ourselves in.

Over twenty-five years, the ANC-led government has improved the lives of the majority of the people.

Much of the momentum of change was sustained during last ten years, though we could have moved faster, and the quality of services could have been much better. Regrettably, there were also reversals in some critical areas.

We are cognizant of the difficulties and challenging fiscal constraints in which our country and province currently finds itself in. We are weary of the thousands and thousands of workers who have been retrenched in most sectors of our economy, and this continues to be a worrying factor for us.

We need to speedily and continuously turn the economic tide in favour of the ordinary working class and the poor of our Province and ensure that we guard against the rising levels of inflation, which on its own, only serve to kill the workers small wages.

We further welcome President Cyril Ramaphosa's stimulus packages, which between and amongst others, seeks to boost interventions in key and strategic infrastructure development initiatives.

We hope as a Province, that our share of the 'cake' will lead to mega infrastructure developments which on their own will mitigate the rising levels of unemployment and lead to massive jobs opportunities.

Honourable Members, this policy statement gives us an opportunity to reflect on the context within which we are proposing to fund some of the priorities included in this adjustments. This is a product of extensive consultations with key stakeholders and should translate to tangible outputs in the short term.

As we build this nation and 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.

In the words of our Minister of Finance, Honourable Tito Mboweni, during his maiden Medium-Term Budget Policy Statement presentation he said; *“Our performance should be measured by whether people are gainfully employed, whether our children are learning in decent schools, and whether we have health care facilities that are up to standard.”*

Honourable Members, this budget is further presented at a time when we need to rededicate our efforts towards the values and objectives of our democracy in a unitary, developmental State.

The current pace of slow growth and tightness of the fiscal path presents opportunity for a policy framework which balances between the consolidation policy stance and providing for a package of policy actions to protect the gains made through consolidating expenditure, while at the same time mitigating the unintended consequences,

This framework provides a solid fiscal base to craft the 2019 MTEF budget and the current fiscal stance will have to be maintained to:

- Improve allocative efficiency to ensure that critical service delivery programmes are not impaired by budgetary shortfalls,
- Scale up efficiency gains as there is no substitute for doing more with less,

- Build the necessary buffers in a narrow fiscal space for long-term sustainability,
- Maintain the current fiscal consolidation efforts in order to yield long term gains which must be protected from reversals, while unintended negative consequences must be mitigated,
- Enforce fiscal discipline and implement consequences management for non compliance,
- Use our financial management systems more effectively to prevent and deter prevalence of budget over-commitments.

Economic Outlook

Honourable Members, across the world people continue to face economic hardship with subdued growth rates, increased unemployment and declining living standards. Developing countries are expected to grow by **4.7 per cent** in 2018. South Africa's national economy fell into a technical recession in the second quarter of 2018,. The growth forecast has been revised from **1.5 per cent** to **0.7 per cent** after which it is forecasted to accelerate slightly to **1.7 per cent** in 2019 and over **2 per cent** in 2021.

According to Statistics South Africa, the Northern Cape economy grew in 2016 at a very slow rate of **0.3 per cent**, which was even slower than the **0.8 per cent** growth in 2015. Mining and quarrying and General government services made the largest contributions to the provincial GDP.

Honourable Speaker and Honourable Members, according to Statistics South Africa, the Northern Cape unemployment rate for the third quarter of 2018 was at **27 per cent**, slightly lower than the national unemployment rate of **27.5 per cent**. The provincial unemployment rate declined by **1.9** percentage points from the previous quarter and it declined by **2.9** percentage points from the third quarter of 2017. The industry that employed the most people in the province was community and social services.

Weaker economic growth as well as high unemployment can impact negatively on the fiscus due to potentially lower tax income and can lead to a higher demand for basic services. It is going to be difficult going forward as government would have to re-look at the budget and reprioritise without impacting on service delivery. It is thus important for provincial departments to reprioritise and tighten expenditure.

2019 Medium Term Expenditure Framework Fiscal Framework

Honourable Members, the current fiscal outlook remains constrained. In simple terms, low growth implies that we collect less revenue. On the 24th October, Minister Tito Mboweni announced that revenue will be **R27.4 billion** less than expected.

He further announced that the expected revenue shortfall will be **R24.7 billion** in 2019/20 and **R33 billion** in 2020/21. This means that government must continue to prioritise capital investment and stabilise national debt. This is furthermore, a call to action to all who are charged with managing and overseeing the public funds.

Honourable Speaker, the average growth of the provincial budget over the 2019 Medium Term Expenditure Framework is **5.6 per cent** whilst the equitable share grows with an average of **7.4 per cent** over the same period. Conditional grants shows a negative growth of **6.1 per cent** in the base year of the 2019 Medium Term Expenditure Framework. This is attributed to the once off performance incentive received on infrastructure spending. Lastly own receipts grows with an average of **5.7 per cent** over the 2019 MTEF.

The growth in the equitable share is mainly driven by additional resources earmarked for various national priority programmes such as the sanitary dignity project as well as the phasing in of the substance abuse treatment and social worker grants into Equitable Share.

Furthermore, additional resources have also been allocated over the medium term expenditure framework for interventions at our various municipalities as well as the capacitation of infrastructure units to ensure that proper monitoring of the implementation of infrastructure projects takes place.

Similar to previous years frameworks, the 2019 budget continues to be informed by weak economic growth. The country's economy has contracted in the first two quarters of 2018, and as I have already mentioned, the economy is in a technical recession.

Honourable speaker, new social spending priorities will require fiscal consolidation and reprioritisation of funds within baselines.

Last year, I announced that there was a process underway at a national level to review the Provincial Equitable Share (PES) Formula.. I would like to inform members that the province has lost an amount of **R166 million** over the 2019 medium term expenditure framework as a result of this review of which **R22.9 million** is in 2019/20, **R56.9 million** in 2020/21 and **R86.7 million** is in 2021/22.

Although the Province has lost money in the 2019 budget framework, I must also indicate to the members that a lot of work still needs to be done as part of this review, i.e looking into specific peculiarities of provinces like the remote nature of our province and the type of data to be used in the components of the formula.

Departmental baselines have been protected from these cuts in the last two years of the medium term. However, baselines have been cut in the **2019/20 financial** year due to depletion of reserves to cushion departments. Notwithstanding the cuts in other department's baselines, we have protected the **Departments of Health and Education** so as to ensure that essential services are not negatively affected.

Despite the reductions as a result of the Provincial Equitable Share review, the province has received an additional amount of **R155.1 million** over the medium term expenditure framework in order to address the following national priorities.

- **Department of Social Development** has been allocated an amount of **R13.7 million** over the medium term expenditure framework for the Food Relief function shift from national. Furthermore, the Social Worker as well as the Substance Abuse Treatment Grants have been phased into the equitable share.

- **Provincial Treasury** has been allocated amounts of **R15 million** over the medium term expenditure framework for the the increase of technical capacity of infrastructure units as well as **R29.9 million** over the medium term expenditure framework in order to strengthen the support interventions at municipalities.
- **Department of Education** has been allocated an amount of **R8.8 million** in the 2019/20 financial year for the provision of sanitary products for schoolgirls from grade 4 upwards.
- **Department of Health** has been allocated an amount of **R26.4 million** in the 2021/22 financial year to provide for the absorption of doctors returning from Cuba.

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 **R1.2 billion** over the next three years which represents an average growth of **5.7 per cent**.

2018/19 Adjustment Budget Allocations

Honourable Speaker, let me reiterate that we had to be mindful of the economic outlook and the financial position of the province when crafting this Adjustment Budget.

These proposals were made under very difficult circumstances, which required us to be very cautious and to move only within what is available and not to negatively impact on our objective to clear the province's cumulative unauthorised expenditure. Furthermore, as we approach 2019, the year of general elections, it would be very irresponsible of us to table a budget that is not forward-looking and that does not have the interest of the masses at heart.

To this end, we have once again gone through a rigorous consultation process with all stakeholders in order to come to a fair and impartial conclusion on how to address various and genuine in year pressures amounting to **R165.6 million**.

The original budget tabled in March this year amounting to **R17.1 billion** is set to be adjusted with an amount of **R434.4 million**. Of this total adjustment an amount of **R171.3 million** or **39 per cent** represent roll overs of both conditional grants and equitable share.

This is not new money but merely a reallocation of unspent funds needed to finalise committed programmes that are overlapping into the current financial year.

It is already very clear from the onset that there are very little provincial reserves to accommodate in year pressures. In this regard, **R89 million** is made available, some of which is from the over collection of own revenue.

Honourable Speaker, the departments have declared savings amounting to **R82.2 million**. Of which **R76.5 million** has been reprioritised from these savings to fund various in year pressure. An amount of **R5.3 million** represents self financing sourced through retained funds by the Provincial Legislature.

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

The **Department of Education** has been allocated an additional amount of **R20 million** to cover the shortfall in respect of Improvements on Conditions of Service.

An additional amount of **R10 million** has been provided to the **Department of Health** to deal with the relocation and transfer of patients from West End Hospital to the New Mental Health Hospital. **R5 million** was made available to operationalise various new clinics.

As a result of the outbreak of Polio Disease in Gauteng, an amount **R2 million** is set aside for the surveillance and detection in the province. Conditional Grants increase by an amount of **R102.1 million**, of which **R60.1 million** represents roll overs and **R42 million** is an adjustments in respect of the Health Facility Revitalisation Grant to supplement the implementation of the conditions based maintenance in the province.

Honourable Speaker, Department of Social Development has been allocated an additional amount of **R12.5 million** of which **R3.3 million** is meant for the renovation and upgrading of Lerato Place of Safety, **R5 million** relates to social relief of distress, whereas, **R4.2 million** relates to roll over of Substance Abuse Treatment Grant.

Department of Sport, Arts and Culture has been allocated an additional amount of **R41.4 million**, of which **R29.3 million** relates to conditional grants roll overs and **R1.8 million** is approved equitable share roll overs. Furthermore, **R5 million** is allocated towards the repairs and maintenance of AR Abass Sport Complex and Mayibuye Cultural Centre, whilst **R2.5 million** relates to cultural and creative arts projects.

The Department of Agriculture, Land Reform and Rural Development has been allocated a total amount of **R139.5 million** off which **R19.5 million** relates to roll overs to complete projects emanating from the previous financial year, **R85 million** is reamarked to assist commercial and emerging farmers with animal feed due to the persistent drought which assists 2379 farmers based mainly in the Namakwa and Pixley ka-Seme districts. Included in the total amount, **R35 million** is allocated to the Land Care conditional grant to focus on the various aspects including soil care and water conservation related to the drought situation in the Pixley Ka Seme, John Taolo Gaetsewe and Frances Baard district municipalities and will cover 12128 hectares.

Honourable Speaker, a total amount of **R46.4 million** has been allocated to the **Department of Roads and Public Works**, of which **R20 million** is earmarked to augment the Expanded Public Works Programme (EPWP), which continues to create job opportunities in the province. **R20 million** is also provided for the consolidation and surveying of immovable assets and **R6.4 million** relates to the ongoing upgrades of the Hotazel-Tsineng road project.

Department of Cooperative Governance, Human Settlements and Traditional Affairs has been allocated an amount of **R32.4 million** in respect of a conditional grant roll overs. An additional amount of **R16.9 million** is made available, of which **R3.9 million** relates to traditional leaders, **R8 million** for the water reticulation project in Siyathemba Municipality and **R5 million** for the provision of decent sanitation in Ubuntu Municipality.

Honourable Speaker, Department of Economic Development and Tourism has been allocated an additional amount of **R22.5 million**, of which an amount of **R13 million** relates to approved equitable share roll overs while **R5 million** is earmarked for the Youth Development Conference, **R4.5 million** is set aside for the urgent maintenance of Mittah Seperepere Convention Centre.

Department of Environment and Nature Conservation has been allocated an amount of **R8 million** to address a number of unforeseen pressures including asbestos radiation shortfall and other mandates emanating from national policy priorities.

Honourable Speaker, Office of the Premier has been allocated an additional amount of **R6.9 million**, of which **R4.9 million** is in respect of approved equitable share roll overs from the 2017/18 financial year and an amount of **R2 million** in respect of service delivery intervention programmes and oversight work.

The Provincial Legislature is allocated an amount of **R20.3 million** of which **R15 million** is earmarked for constituency. A further amount of **R5.3 million** is also made available from the retained funds of the Legislature to address various pressures.

Provincial Treasury's baseline has been reduced by an amount of **R27.9 million**.

Department of Transport, Safety and Liaison has been allocated an additional amount of **R29.8 million**. **R5.6 million** relates to roll overs in respect of 2017/18 financial year, of which **R961 thousand** relates to conditional grants and equitable share amounts to **R4.7 million**.

An additional amount of **R24.2 million** is made available, of which **R10 million** relates to the Boegoebay/Port Nolloth ports commitments, **R3 million** is allocated for Special Economic Zones (SEZ) initiatives and **R11.2 million** relates to outstanding payments for Learner Transport from 2017/18 financial year.

Conclusion

Honourable Speaker, the march to a better South Africa freed from divisions of the apartheid past – an aspiration shared by all the people of our country – can now be pursued at a faster pace.

We have started to revive the economy, to speed up growth and creation of economic opportunities. The stimulus and recovery plan sets us on a course to improve the lives of all the people. Working with all sectors, we shall renew and strengthen state institutions and point the economy towards a better life for all.

The road ahead will not be easy. Renewal will sometimes pose difficulties and there will be resistance to the fight against corruption. But, the march to a better South Africa is unstoppable.

Honourable Speaker, permit me an opportunity to thank the Honourable Premier **Ms Sylvia Lucas** for her continued support and involvement in the budget process.

My sincere appreciation for invaluable and constructive contributions also goes to the following:

- My colleagues who serve on the Treasury Committee and the Executive Council for their support as we strive to maintain aggregate fiscal discipline which is a collective responsibility.
- Head of Departments (HODs) and Chief Financial Officers (CFOs) for cooperation and help which is of utmost importance in arriving at these budget proposals.

- The Provincial Treasury staff for their commitment and dedication, under the leadership of the Acting HOD, and the Ministry for their support.

Honourable Members, as we approach the end of Mama Albertina Nontsikelelo Sisulu's centenary, we find solace to her words when she said:

"We are each required to work our own road and stop, assess what we have learnt and share it with others. It is only in this way that the next generation can learn from those who have walked before them. We can do more than tell our story. Then it is up to them to make of it what they will."

United in our diversity, together we shall realise the vision 'to improve the quality of life of all citizens and free the potential of each person'.

Honourable Speaker, I hereby table the Provincial Medium Term Budget Policy Statement, Adjusted Estimates of Provincial Revenue and Expenditure and the Adjustment Appropriation Bill 2018.

I thank you