



Northern Cape Provincial Government

Northern Cape Provincial Treasury

**ADJUSTMENT APPROPRIATION  
BILL SPEECH  
2021/22**

**We serve with passion. We deliver on time.**

**ADDRESS TO THE PROVINCIAL LEGISLATURE ON THE OCCASION OF  
TABLING OF THE NORTHERN CAPE ADJUSTMENT APPROPRIATION  
BILL FOR THE 2021/22 FINANCIAL YEAR AND THE PROVINCIAL  
MEDIUM TERM BUDGET POLICY STATEMENT**

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DEVELOPMENT AND TOURISM**

**HONOURABLE SPEAKER & DEPUTY SPEAKER**

**HONOURABLE PREMIER**

**MEMBERS OF THE EXECUTIVE COUNCIL**

**HONOURABLE MEMBERS OF THE PROVINCIAL LEGISLATURE**

**MAYORS AND COUNCILLORS**

**DIRECTOR-GENERAL, HEADS OF DEPARTMENTS & MUNICIPAL  
MANAGERS**

**DISTINGUISHED GUESTS**

**COMRADES AND FRIENDS**

**MEMBERS OF THE MEDIA**

**OUR LISTENERS AT HOME**

**LADIES AND GENTLEMEN**

## Introduction

**Honourable Speaker**, it is an immense privilege to address you today in this august house, as I table the third Medium Term Budget Policy Statement of the 6th Administration under the stewardship of our Honourable Premier Dr Zamani Saul.

**Honourable Speaker**, we table this Medium Term Budget Policy Statement (MTPBS) just five days after we commemorated the passing of one of our founding fathers of this democratic dispensation, late President Mandela, who himself continues to stand as a towering pillar of the global common good. For all his life, he served the noble cause of social partnership and lasting peace founded on social justice.

President Mandela brought together the social partners in the service of ensuring decent work for all, fully knowing that decent work is not only about a pay cheque, but is also a source of meaning, purpose, and dignity.

Let me take this opportunity to congratulate all new Councillors from various political and community formations on their new responsibilities. Furthermore, on behalf of the executive council to pledge our support as provincial government. **Honourable Speaker and Members**, ultimately, ours is to provide basic services to our communities and we will continue to provide the necessary assistance in this regard.

COVID-19 has forced us to change our business processes and provided us with opportunities to make in depth introspection on what we spend our resources. Whilst we are on our way to recovery, we cannot underestimate the devastating consequences that were brought about by this pandemic. It therefore follows that our spending priorities are deeply entrenched in the social sector departments, this in line with our endeavour to pursue social justice and protect the most marginalised in our communities. This objective becomes clear when we look into these adjustments and interventions

proposed towards consolidating our social spending. A significant amount of this adjustment relates to the Presidential Employment Initiative to provide decent work opportunities to unemployed youth.

**Honourable Speaker**, even with the current mechanism in place to manage the wage bill, we continue to allow the both Health and Education space to appoint frontline personnel in respect of teachers and health professionals. We are cognisant of the adverse implications that may result if these critical posts are not filled with the necessary speed but we also need to balance the risk of overspending that may result in a bigger problem for the province, thus far, we have managed to balance the two in a manner that allows services to continue.

Furthermore, as part of allowing other departments the necessary leverage to consider critical posts, we have allowed departments to reprioritise from underperforming areas towards compensation of employees including using the projected underspending in compensation of employees to augment resources in the appointment of identified critical posts. I also need to indicate that Provincial Treasury does not determine which posts are critical or not, this decision is left entirely to departments to make such determinations based on service delivery imperatives.

**Honourable Speaker**, our focus in the short to medium term is to reduce the provincial debt and free the much needed resources back into service delivery programmes, reduce our irregular expenditure, consolidate our municipal support programme using a more “hands on” approach, progressively implement our SOPA commitments and implement consequence management for poor performance both in the context of the budget i.e. poor spending especially conditional grants and lack of proper governance in departments.

**Honourable Speaker** and **Members**, we need to be firm in implementing consequences for unauthorised expenditure, it is not only non-compliance in terms of the PFMA, but also an opportunity cost because scarce resources that

should be directed at service delivery programmes, are earmarked towards redeeming unauthorised expenditure at a huge cost to service delivery.

**Honourable Speaker and Members,** conditional grants especially infrastructure, remains a central catalyst for growth in stimulating the provincial economy. We remain committed to streamlining our infrastructure investment in the province. It is our intention to focus on projects that can yield a bigger impact on service delivery and the economy of the province at large. We have also directed infrastructure delivery departments to prioritise completing the existing projects to provide more focus on high impact projects going forward.

### **Economic Outlook**

**Honourable Speaker,** although worldwide economic recovery is continuing, the pace has slowed due to the pandemic. The International Monetary Fund (IMF) projects that the global economy will grow by 5.9 per cent in 2021, up from a contraction of -3.1 per cent in 2020. With a projection of 4.9 per cent growth in 2022.

The Advanced Economies were severely impacted, with a contraction of -4.5 per cent in 2020. Honourable Speaker, projections indicate growth expectations of 5.2 per cent in 2021 and 4.5 per cent in 2022. Although slightly less pronounced, the Emerging and Developing Countries also experienced a contraction in 2020 of -2.1 per cent. The recovery is also expected to be more prominent with projected growth of 6.4 per cent in 2021 and 5.1 per cent in 2022.

**Honourable Speaker,** Sub-Saharan Africa experienced a contraction of -1.7 per cent in 2020 and has growth projections of 3.7 per cent in 2021 and 3.8 per cent in 2022. The contraction of -6.4 per cent recorded in South Africa in 2020 is far worse than what was experienced in Sub-Saharan Africa as well as Emerging and Developing Countries as a whole. In his Medium Term Budget Policy Statement, Minister Godongwana indicated that the South African

economy is estimated to grow by 5.1 per cent in 2021, which is higher than the 3.3 per cent growth that was forecasted during the main budget in February of this year. Further growth forecasts, according to National Treasury, indicate growth expectations of 1.8 per cent in 2022, 1.6 per cent in 2023 and 1.7 per cent 2024. The moderate growth for the current financial year is as a result of positive expected global growth, as well as higher commodity prices, and the easing of lockdown restrictions in the country.

**Honourable Speaker**, there are a number of reasons that contribute to the long term decline in the South Africa's GDP growth rate. According to the Honourable Minister of Finance, Enoch Godongwana, these relate to structural weaknesses in the economy, poor education outcomes as well as external shocks. Lower economic growth is also affected by the increase in public debt, which has elevated borrowing costs across the economy. For the economy to grow faster a strongminded implementation of policy reforms is required to promote confidence, investment, competitiveness, entrepreneurship as well as job creation in the country.

**Honourable Speaker**, according to STATSSA third quarter GDP data, the economy grew by negative -1.5 per cent compared to a growth of 1.1 per cent in the second quarter of this year. Industries that contributed to this negative growth was trade, manufacturing and agriculture.

**Honourable Speaker**, the economy of the Northern Cape contracted by 0.6 per cent in 2019, which was below the national economic growth of 0.2 per cent over the same period. With the Covid-19 restrictions that were necessitated in 2020, the Northern Cape economy is also expected to have contracted in 2020, however, with fewer restrictions in 2021, we expect some recovery during this year.

**Honourable Speaker**, the pandemic has not only affected the economy, jobs have not been spared also. As published by Statistics South Africa (Stats SA), the national unemployment rate was 34.9 per cent in the third quarter of 2021.

This is an increase of 4.1 percentage points from the third quarter of 2020. The number of employed people decreased by 409 000, with the number of unemployed people increasing by 1.1 million year-on-year. The unemployment rate increased by 0.5 percentage point on a quarterly basis. Also on a quarterly basis, there was a decrease of 183 000 in the number of unemployed people, while the number of employed people decreased by 660 000. The number of discouraged work-seekers increased by 545 000.

**Honourable Speaker**, on an annual basis in the Northern Cape, the unemployment rate increased by 1.8 percentage points from 23.1 percent in the third quarter of 2020 to 24.9 per cent in the third quarter of 2021. The number of employed people decreased by 11 000 and the number of unemployed people increased by 5 000. The number of discouraged work-seekers increased by 45 000. On a quarterly basis, the unemployment rate decreased by 3.2 percentage points. The decrease in unemployment rate was as result of an increase in employment in all industries, except for Construction and Transport. The number of employed people increased by 19 000 while the unemployed decreased by 9 000.

**Honourable Speaker**, youth unemployment remains a serious challenge, through Initiatives such as the Presidential Employment Stimulus, Youth Employment Service, EPWP, NYDA schemes and entrepreneurial funding support for youth must all be prioritised. Similarly, training and development opportunities administered through entities such as NCEDA must be taken on roadshows to bring to the attention of the youth. Our intervention includes the National Student Financial Aid Scheme (NSFAS) and the Northern Cape Premier's Bursary Fund to support studying opportunities as part Government's initiatives to address youth unemployment.

## **Municipal Finance**

**Honourable Speaker**, unlike national and provincial spheres of government, which receives their revenue in the form of direct transfers from the national fiscus, municipalities were structured to operate as private entities in that they generate up to 90 per cent of their revenue from imposing cost recovery tariffs on services rendered. When municipalities do not collect revenue from its customers or communities do not pay for services rendered, the consequence is failure by municipalities to pay creditors as is the case in most of our municipalities in the province. Municipalities are now heavily reliant on the 10 per cent which relate to grants and equitable share from national as opposed to collecting own revenue from its clients. It is for this reason that when the equitable share tranches are withheld, municipalities cannot even afford to pay salaries. I want to repeat, the equitable share from National Treasury that we have become so reliant on constitute a fraction of the total revenue of municipalities.

**Honourable Speaker**, I would really like to take this opportunities to appeal to councillors to encourage communities to pay for services rendered and to focus on revenue optimisation initiatives to build culture of paying for services. Cash flow remains the heartbeat of a sound and sustainable pathway towards recovery in our municipalities and hence my emphasis on our people to start paying for services.

**Honourable Speaker**, the issue of unfunded budgets remains a serious concern as it's a reflection of the inability of municipalities to fund their plans. Municipalities are expected to ensure that their budgets are funded in terms of Section 18 of the MFMA and associated reporting must be mSCOA compliant. 18 municipalities in the province adopted unfunded budgets for the 2021/22 budget year, this is barely an improvement compared to 19 in 2020/21. In our efforts to deal with the issue of unfunded budgets, Provincial Treasury has been working closely with municipalities to draw up credible repayment



arrangements with their creditors especially Eskom and the Water boards however the municipalities end up defaulting on these arrangements due to cash flow challenges. Provincial Treasury has further assisted municipalities to draft budget funding plans to move these budgets from unfunded to a funded position over time.

**Honourable Speaker**, 6 of our municipalities have financial recovery plans in place (i.e. Dikgatlong, Kai Garib, Renosterberg, Ubuntu, Magareng and Phokwane) however we need to raise our concern regarding the slow or non-implementation of these financial recovery plans by municipalities including the persistent failure to report progress on these plans as required. The Provincial Treasury with the assistance of National Treasury are currently in the process of preparing a financial recovery plan for !Kheis municipality, this in an attempt to resolve the financial difficulties this municipality is currently faced with.

All these efforts are however often frustrated by the rising costs of delivering services, rising employee related cost and the deteriorating revenue base of municipalities. The decreasing ability of the resident to continue paying for the services also put the municipalities' finances under strain, this was more precipitated by the current situation with the pandemic.

## **Audit Outcomes.**

**Honourable Speaker**, sound financial management and good governance is central to Provincial Treasury's mandate to regulate financial management in the provincial government. To this end; it is worth mentioning that the Province has registered a marginal improvement in audit outcomes for the financial year 2020/2021. We have seen three departments maintaining their clean audit status. These departments are Office of the Premier, Provincial Treasury and Department of Social Department. The Auditor General has noted that one department which is Department of Economic Development and Tourism has registered a significant improvement such that it is very close to obtaining a clean audit. Working together with the department, minor non-compliance matters will be addressed during the year in anticipation of a clean audit status in the next audit cycle.

**Honourable Speaker**, I would like this August house to note that currently there are no disclaimer and adverse audit opinions in the Province. The majority of departments are maintaining the financially unqualified opinions with findings, as Provincial Treasury we would like to make a point that this is by no means a matter of complacency, measures are in place to help them to obtain much more favourable audit outcomes. These measures include working with Premiers' Office to strengthen the Operation Clean Audit (OPCA) committee that is led by the Director General. The committee will be inviting departments to report on the progress made on implementation of action plans and account for non-implementation thereby instilling the culture of consequence management.

Furthermore, different Units of Provincial Treasury have been mandated to address internal control deficiencies within their areas of responsibility. A collective approach is required to attain more clean audits in the Province

## Compensation of Employees

**Honourable Speaker**, the growth in compensation spending is driven mainly by two forces, an increase in personnel numbers and an increase in remuneration. Of the two, the increase in remuneration has been the highest as it accounts for the bigger share of the increase in spending and the growth in personnel numbers accounting for the remainder.

**Honourable Speaker**, it is worth noting that in 2017, compensation of employees baseline was **R9 billion** or **56 per cent** of the total budget of **R16 billion**. Current expenditure on compensation of employees has grown from **56 per cent** in 2017 to **59 per cent** in 2021 of the total provincial budget.

Over the same period of 2017 to 2021, compensation of employees spending increased with **23 per cent**, however, the growth in head counts declined from 24 285 to 23 989. All departments experienced a decline in headcount numbers except for the social sector departments.

**Honourable Speaker**, despite the reduction in headcount numbers across the province, Health, Education and Social Development continues to experience positive growth. During April 2017 to September 2021, headcount numbers increased in the Departments of Education, Health and Social Development contributing 22 per cent, 30 per cent and 21 per cent respectively. The growth is mostly in frontline personnel including teachers, social workers and clinical posts in Health.

**Honourable Speaker**, I need to indicate that moving forward, we will allow all departments to fill vacant and funded posts subject to the standard procedure on the filling of vacant and funded posts given the current process by the Department of Public Service and Administration (DPSA) of aligning organisational structures with the Medium Term Expenditure Framework. This mechanism allows Provincial Treasury to manage headcount numbers within available funds whilst allowing space for critical funded posts.

## 2021/22 Adjustment Budget Framework

**Honourable Speaker** as indicated by the Minister of Finance during the MTBPS that part of government's fiscal strategy over the next MTEF is to provide support for economic recovery and reconstruction through both structural reforms and short term spending measures.

**Honourable Speaker**, I am pleased to announce that we closed our provincial bank account with a net positive amount of **R365.1 million** as at end March 2021, a significant improvement compared to what the 6<sup>th</sup> Administration inherited. As part of stabilising our cash flow reserves, we tabled a budget a surplus of **R63.6 million** in the main budget, this amount has been set aside for debt redemption, **Honourable Speaker**, this money goes towards building our contingency as a province. I must say I was sceptical when the Premier gave me this mandate last year that despite our fiscal positions, the province will have to turn around its fortunes and build enough reserves to allow us space to finance some of the urgent service delivery imperatives. I can announce that indeed we manage to turn around this situation.

**Honourable Speaker**, looking at the aggregates, the original budget tabled in March this year is set to be adjusted with a net amount of **R905.8 million** that comprises of the following sources of funding:

- **R7.6 million**- Conditional grants adjustments;
- **R234.9 million**- Roll overs of conditional grants;
- **R518.1 million**- Provincial equitable share adjustments;
- **R36.7 million** of equitable share roll overs;
- **R143.5 million** – Funding of in-year pressures and re-allocations from previous year's unspent funds.
- **R35 million** – Declared savings

**Honourable Speaker**, the additional money that the province received includes an amount of **R4.2 million** for Early Childhood Development to

increase the subsidy portion of the grant, **R2.7 million** for Human Resource and Training Development Grant for the appointment of medical interns and **R649.000** is a top up on the HIV, TB, Malaria and Community Outreach grant.

The provincial equitable share adjustments of **R550.1 million** includes an amount of **R156.2 million** in respect of Presidential Youth Employment Initiative to address poverty alleviation; mass employment; skilling of youth; reduction of youth unemployment; creation of social values; and the provision of decent job opportunities.

Furthermore, **R393.8 million** has been provided to cover the public sector wage agreement of which **R184.8 million** and **R116.5 million** is allocated to the departments of Education and Health respectively and the remaining amount is shared among other departments.

An amount of **R143.5 million** from the provincial equitable share has been provided to fund priority interventions for economic recovery initiatives.

An amount of **R271.6 million** or **27.9 percent** 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 over lapping into the current financial year.

### **Departmental Allocations**

**Honourable Speaker**, some of the key adjustments in this framework include the following:

Department of Education receives an amount of **R141.8 million** earmarked towards the implementation of the Presidential Youth Employment Initiative.

This programme is envisaged to create 6793 job opportunities across the province as follows:

- Frances Baard – 1714
- JTG – 2045
- ZF Mgcawu – 1204
- Pixley ka Seme – 1106
- Namakwa – 724

An amount of **R33 million** has been allocated to the Department of Roads and Public Works of which **R30 million** is in respect of job creation initiatives which is part of Economic Recovery and **R3 million** is allocated towards the Skills Development Programme Augmentation (SETA Construction Work Programme).

The Department of Economic Development and Tourism is allocated an amount of **R13.098 million** of which **R7 million** is earmarked as part of the economic recovery initiatives.

**Honourable Speaker** an amount of **R4.5 million** has been allocated to the Department of Sport, Arts and Culture of which **R1.5 million** is in respect of National Resistance Liberation Heritage Route programme. The project involves technology enhancement through mapping initiative to connect all heritage sites while developing new tourism routes.

**Honourable Speaker**, sport tourism has been one of the fastest growing sectors in tourism. Sport tourism has a huge potential to stimulate the local economy and in pursuit of this vision, provincial government has made available **R3 million** to support our interventions in this regard.

Department of Health received **R82.6 million** of which **R9.2 million** is in respect of Presidential Youth Employment Initiative. To assist the Department of Health towards reducing accruals which have a negative impact on health care delivery system, **R70 million** is allocated to address the shortfall on goods and services.

Department of Social Development received **R9.4 million** of which **R5.1 million** relates to Presidential Youth Employment Initiative for the appointment of 80 social workers and **R4.2 million** for Early Childhood Development Grant to increase the subsidy portion within the grant.

The Department of Agriculture, Land Reform and Rural Development has been allocated an amount of **R5 million** as part of economic recovery initiatives.

Honourable Speaker, Provincial Legislature has been allocated **R9 million** to augment the baseline for constituency programme to strengthen the oversight function of the legislature.

An amount of **R2 million** is allocated to the Office of the Premier to build adequate technical capacity as part of our drive to upgrade our provincial IT infrastructure, and last but not least Provincial Treasury is declaring an amount of **R35 million** due to slow recruitment process.

## **2022 Preliminary Medium Term Expenditure Framework**

**Honourable Speaker**, despite the heavy cuts that we had to contend with in the 2021 MTEF amounting to over **R5 billion**, with regard to 2022 MTEF I can confirm that there will be no further budget cuts in the next three years which will allow us some stability in the short to medium term.

**Honourable Speaker**, due to annual data updates on the provincial equitable share formula, the province received an additional amount of **R20.1 million** in the 2022/23 financial year, this addition was mainly influenced by the health risk adjusted factor within the health component of the equitable share formula, however, it is a matter of noting that the province is also losing a net amount **R23.9 million** over the 2022 MTEF.

Other adjustments on the framework relates to an additional amount of **R367 million** in the first year of the 2022 MTEF to cater for the carry through implications of the implementation of the 2021 wage agreement until a new and long term wage deal is finalized.

**Honourable Speaker** our equitable share will amount to **R42.4 billion** which represent about 4 percent average growth over the 2022 MTEF, whilst our conditional grants amount to **R14.1 billion** and provincial own revenue budget of the province is expected to grow by 5.1 per cent from **R454.3 million** in 2021/22 to **R477.7 million** in 2022/23, after which it is expected to grow by a further 4.4 per cent to **R498.9 million** in 2023/24 and 4.5 per cent to **R521.8 million** in 2024/25.

Of the total equitable share and own revenue budget of **R14.7 billion** in the 2022/23 financial year, **R11.8 billion** or **80 percent** is allocated towards social sector departments, this is in line with our apex priorities which in the main includes to Education, Health and Social Development followed by economic sector at **R1.9 billion** or **13 percent** and lastly the governance sector accounts for **R1 billion** or **7.3 percent**.



## Conclusion

**Honourable Speaker**, as I close, let me once again call on the masses of our people to go and vaccinate because bottlenecks around vaccine availability have been dealt with and vaccine sites are easily accessible across the province.

**Honourable Speaker**, whilst we made good attempts to address some of our urgent priorities in the form of job opportunities across our social sector departments. We acknowledge that this is hardly enough given the high level of unemployment in the province but it does supplement our efforts to continue funding programmes that translate into tangible and immediate results given the huge challenge of unemployment especially among our youth.

**Honourable Speaker**, allow me to amplify from the recent policy statement of the Honourable Minister of Finance that there is light at the end of the fiscal consolidation tunnel. As indicated in the main speech, we are embarking on spending reviews to shift the composition of spending from an incremental approach to a more stringent approach that assess programme effectiveness to realise greater value in spending our limited funds.

**Honourable Speaker**, whilst I am leading this critical portfolio in these difficult times and during the midst of a pandemic that has crippled the economy of the world, I am glad that I do so knowing that I am fully supported by the executive council under the leadership of the Honourable Premier, Dr Zamani Saul, let me also take this opportunity to acknowledge the valuable engagements that we continue to have with the Portfolio Committee on Finance as part of our collective responsibility to enhance accountability through our different oversight roles that we play and lastly but not least **Honourable Speaker**, let me thank the Ministry and departmental staff for their continued hard work especially in managing the budget processes in these difficult times under the leadership of the Acting HoD, Ms Lephina Bosvark.

**Honourable Speaker and Honourable Members,** I hereby table –

- *The Northern Cape Adjustment Appropriation Bill, 2021/22 financial year;*
- *Adjusted Estimates of Provincial Revenue and Expenditure, 2021/22 financial year and the;*
- *2021 Northern Cape Medium Term Budget Policy Statement.*

**I thank you.**