



**NORTHERN CAPE PROVINCIAL GOVERNMENT**

# **ADJUSTMENT APPROPRIATION BILL SPEECH 2022/23**

**23 November 2022**

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

**ADDRESS TO THE PROVINCIAL LEGISLATURE ON THE OCCASION OF TABLING OF THE 2022 NORTHERN CAPE ADJUSTMENT APPROPRIATION BILL, BY MR A VOSLOO (MPL), MEC FOR FINANCE ECONOMIC DEVELOPMENT AND TOURISM**

- **HONOURABLE SPEAKER & DEPUTY SPEAKER**
- **HONOURABLE PREMIER, DR ZAMANI SAUL**
- **MEMBERS OF THE EXECUTIVE COUNCIL**
- **HONOURABLE MEMBERS OF THE PROVINCIAL LEGISLATURE**
- **MAYORS AND COUNCILLORS**
- **THE DIRECTOR GENERAL, HOD's & MUNICIPAL MANAGERS**
- **ALL SECTORS OF THE SOCIETY**
- **MEMBERS FROM ALL MEDIA HOUSES**
- **DISTINGUISHED GUESTS**
- **ALL LISTENERS ON COMMUNITY RADIO STATIONS ACROSS THE LENGHT AND BREATH OF THE PROVINCE**
- **ALL VIEWERS ON SOCIAL MEDIA PLATFORMS**
- **LADIES AND GENTLEMEN**

**Good Morning**

## Introduction

It is my privilege to present to this House and fellow Northern Cape citizens the 2022 Medium Term Budget Policy Statement of the 6<sup>th</sup> Administration.

**Honourable Speaker**, as policymakers we are constantly faced with unpredictable events and shocks. What makes the current situation especially challenging is that we are facing a sequence of ill-fated events – the pandemic, the energy crisis, the raging conflict between Russia and Ukraine and high inflation with a direct bearing on escalating cost of living. These events resulted in economic devastation and human tragedy, leaving businesses under strain, with some facing the threat of liquidation.

**Honourable Speaker**, economic distress is not only a statistic, but a very human, very real, and often painful series of shocks. Men and women have lost their jobs. Households cannot pay for rent or food. However, there are signs of economic recovery as the leading business cycle gradually improved since reaching a low-point in 2020 and there is renewed resilience in the markets. We are cognisant of the vulnerability and poverty that are deep-rooted. These structural challenges require sustained, broad-based transformation of our economy, beyond the present recovery.

As the late Comrade Chris Hani once said, there is “another struggle to make freedom and democracy worthwhile to ordinary South Africans... We must build a different culture in this country and that culture should be one of service to people.”

**Honourable Speaker**, this Medium-Term Budget Policy Statement presents the fiscal framework within which the Executive Council will work to deliver on the priorities of the 6<sup>th</sup> Administration as a symbol of our maturing democracy in service to our people.

Today through this Medium-Term Budget Policy Statement we would like to inform the Legislature of changes in the economic outlook since the provincial budget was tabled in March. It also shares with this august house the developments in public policy that will shape the budget to be tabled in March 2023. Most importantly, it invites the Legislature and the citizens of the Northern Cape to reflect on our priorities, performance and plans to address the challenges we face as we shape the future of our beautiful province.

**Honourable Speaker**, allow me to re-affirm the strategic focus of the 6<sup>th</sup> Administration in relation to fiscal policy and indicate that this strategic thrust continues to guide the budget

processes directed by the overarching vision of a modern, growing and successful province. It is worth mentioning that we have improved considerably on the following indicators:

- The province's cash liquidity levels improved with a positive bank balance over the last two financial years;
- The 2023 fiscal framework assumes a surplus aimed at unforeseen disasters and fiscal shocks;
- A reduction in unauthorised expenditure as we are moving towards a debt free province by 2024;

**Honourable Speaker**, these noted improvements can only be maintained if departments don't overspend. This will provide us with an opportunity to look at other competing priorities in the province. Unfortunately, the province is struggling to contain irregular expenditure. The current intervention, led by the Office of the Premier, pertaining to the investigation of historical irregular expenditure will definitely be of great assistance in this regard.

**Honourable Speaker**, allow me to take the members back to the speech of 2020 where I announced a huge reduction amounting to **R5.3 billion** on our equitable share as a province and consequently the budget deficit amounting to **R749 million** in the 2023/24 financial year. These reductions were imposed by Cabinet as part of a broader strategy to reign in debt and narrow the budget deficit. Through this we have demonstrated fiscal discipline and allocative efficiency in our choices and trade-offs proving that we have a resilient and solid system.

Allow me to take this opportunity to indicate the measures implemented to balance the numbers to allow stability in departments while protecting the fiscus from further downward revisions. This is against the backdrop of a projected deficit tabled in March 2022, which is now addressed in this policy statement.

**Honourable Speaker**, we have on numerous occasions alluded to the process of reviewing the equitable share formula at a national level. In the context of the Northern Cape, it was our view that the sparsity factor in relation to the cost of delivering services must be accounted for in the formula. Although still in the infancy stage, we are delighted that there is finally a realisation by national that it costs considerably more to deliver services in the province given our vastness.

**Honourable Members**, the review considered, amongst other factors, the Risk Adjusted Index of the health component which has already resulted in an upward adjustment for the provincial equitable share. Various factors, including sparsity, has been taken into account for the potential costs associated with delivering health care services in the province. These adjustments will be implemented through a phased-in approach, with two-thirds of the changes implemented in the first year of the MTEF (2022/23 financial year) and 100 percent of the changes effected in the outer two years (2023/24 and 2024/25).

**Honourable Speaker**, referring to how we managed the deficit, these adjustments coupled with other unallocated funds emanating from the 2022 MTEF, helped us to curtail the risk given that the projected shortfall is dealt with completely without any reductions to baselines.

**Honourable Speaker**, an additional **R1 billion** was allocated to the Province for the departments of Health and Education over the next three years. I will provide details when I get to the specific allocations. We will continue to look deep into departmental baselines to ensure that we also provide resources towards other provincial competing priorities. This will be through better allocative efficiencies and further reprioritisation across and between sector departments.

**Honourable Speaker**, a clear and stable fiscal framework lays the foundation for continued engagement with business and other stakeholders with the necessary conviction that we grow the economy of the province in line with our developmental agenda.

## **Economic Overview**

**Honourable Speaker**, although the South African economy has opened up following the pandemic, we are part of the global economic village, and are impacted by previously mentioned economic challenges.

The International Monetary Fund (IMF) projects that the global output will grow by only **3.2 percent** in 2022 and **2.7 percent** in 2023, down from **6.0 percent** in 2021. Advanced Economies are projected to grow by **2.4 percent** in 2022 and **1.1 percent** in 2023. This is much lower than the **5.2 percent** growth recorded in 2021.

Emerging Market and Developing Economies are projected to grow by **3.7 percent** in each of 2022 and 2023, down from **6.6 percent** in 2021. The economy of Sub-Saharan Africa is projected to grow by **3.6** and **3.7 percent** respectively in 2022 and 2023, following growth of **4.7 percent** in 2021.

**Honourable Speaker**, during his Medium-Term Budget Policy Statement, Minister Godongwana indicated that the following long standing structural impediments continue to hinder our economy from growing:

- Our unreliable electricity supply;
- The costly and inefficient ports and rail network;
- Crime and corruption;
- Weak state capacity; and
- High levels of market concentration and barriers to entry that suppress the emergence and growth of small businesses.

**Honourable Speaker**, in the midst of these ever present challenges, the South African economy is estimated to grow by a very low **1.9 percent** in 2022, followed by **1.4 percent** in 2023, **1.7 percent** in 2024 and **1.8 percent** in 2025, according to the National Treasury.

**Honourable Speaker**, on the **labour statistics at a national level**, the unemployment rate decreased by **0.5 percentage points** from **34.4 percent** in the second quarter of 2021 to **33.9 percent** in the second quarter of 2022. The number of discouraged work-seekers, employed and unemployed people increased by 251 000, 620 000 and 168 000 respectively. On a quarter-to-quarter basis, data shows that the unemployment rate decreased by **0.6 percentage points**.

**Honourable Speaker**, provincially; the Northern Cape's unemployment rate decreased from **28.1 percent** in the second quarter of 2021 to **23.7 percent** in the second quarter of 2022, which is a decline of **4.4 percentage points**. The number of employed people and the discouraged work-seekers increased by 62 000 and 13 000 respectively, while unemployed people decreased by 1 000. Between quarters one and two of 2022, the unemployment rate decreased by **1.2 percentage points**. The number of employed and unemployed people decreased by 3 000 and 8 000 respectively, while the discouraged work-seekers increased by 16 000.

## **Municipal Finance**

**Honourable Speaker**, changing the trajectory of the current state of affairs at local government remains a priority of the Province. An amount of **R17.5 million** is allocated towards providing support to municipalities on supply chain management and revenue related matters. In terms of supply chain management support, **R5.1 million** is earmarked

towards the implementation of a capacity building project, which will be rolled out over a period of 18 months and targeted at all 31 municipalities.

This intervention aims to ensure that supply chain officials meet the minimum competency requirements as required by the National Treasury. It comes on the backdrop of the recent audits of municipalities that highlighted an increase in the number of non-compliance matters with supply chain management prescripts. This is despite the various reforms and interventions that have been put in place by the Province and National Government. The non-compliance has a direct impact on the achievement of sound financial management and service delivery by municipalities. The intervention will focus on a multi-targeted approach to training, which includes on-the-job and formal accredited training.

**Honourable Speaker**, our municipalities are faced with serious financial constraints that can mainly be attributed to poor debt collection processes and records management. This is symptomatic of inaccurate data and ineffective internal controls within the municipal revenue value chain.

This necessitated support from Provincial Treasury and to this end, an amount of **R10 million** is set aside to fund a project on revenue enhancement initiatives. The interventions will be implemented over a period of 18 months and will target all local municipalities in the province with the aim of improving the ability of municipalities to effectively collect revenue owed to them. This will ultimately improve their cash flow positions and improve service delivery.

## **Infrastructure**

**Honourable Speaker**, the **Spatial Planning and Land Use Management Act (SPLUMA)** seeks to address the past spatial and other development imbalances created by the Group Areas Act. Land, and the management thereof, becomes a critical aspect for society in ensuring we facilitate spatial transformation and allowing better utilisation of our land portfolio. This would enable us to give effect to the socio economic upliftment and development of our cities, to ensure they are more functional in terms of their economic and social use.

**Honourable Speaker**, the SPLUMA Act therefore focuses on the correction of the historically spatial distorted settlement patterns within the country and province, so that we

create a uniform, recognizable and comprehensive system of spatial planning and land use management, targeting promotion of social and economic inclusion, irrespective of race.

In an effort to support implementation and promote the collective coordination of SPLUMA, in the province, we have allocated **R 15 million** towards the review of the Spatial Development Frameworks of 8 municipalities of which 5 municipalities are in the Pixley Ka Seme district; 2 in the ZF Mgcawu District and 1 in the Francis Baard District under the guidance of the department of Cooperative Governance Human Settlements and Traditional Affairs.

**Honourable Speaker**, government is introducing an innovative social infrastructure mechanism to address issues that affect the delivery of infrastructure. This mechanism will address the speed, financing and funding, quality of delivery, mass employment and maintenance. The new delivery mechanism, called front loading, will allow provinces and municipalities to access and bring forward allocations to implement shovel ready infrastructure projects, subject to the new provisions included in the 2022 Division of Revenue Amendment Bill. Section 7 of the 2022 Division of Revenue Act is now amended through the Division of Revenue Amendment Bill to allow for such an instrument to be considered. **Honourable Speaker and Members**, the details will be provided in the speech in March 2023.

## **Procurement**

**Honourable Speaker**, this august house will recall that the Constitutional Court declared in February 2022 that the Minister of Finance's 2017 regulations in relation to the Preferential Procurement Policy Framework Act (PPPFA) are illegal and invalid. The invalidity of the regulations were suspended for 12 months to provide the Minister with adequate time to proclaim new regulations.

**Honourable Speaker**, the Minister has released the revised Preferential Procurement Regulations 2022 on 4 November 2022, which will come into effect on 16 January 2023. This is the third revision of the Preferential Procurement Regulations since they were initially promulgated in 2001.

**Honourable Speaker**, in order to ensure that various organs of state are aware of the provisions of these Regulations and for smooth implementation and updating of supply chain management policies, National Treasury in conjunction with Provincial Treasury have



already conducted induction sessions during November 2022 with all the departments, entities and municipalities in the province.

### **Provincial Fiscal Framework: 2023 MTEF**

**Honourable Members**, the spending additions proposed in the framework are funded by **improved revenue estimates** and **the contingency reserve at national level**. This is a clear indication that the fiscal consolidation path is bearing fruit. Furthermore, due to fiscal discipline, government projects a primary surplus in 2023/24.

This national context is important for **Honourable Members**, as it provides certainty to the province that the baselines tabled in March 2022 will be maintained knowing fully well that no further reductions are expected for provinces.

It further signals that we need to deal with our debt obligation more rigorously as a province. I can confirm that provided no department overspent this year and in the following financial year, the province would be debt free by 2024. This will allow us more fiscal space towards investing in competing provincial priorities.

### **Aggregate Estimates**

**Honourable Speaker**, for the 2023/24 to 2025/26 financial years, the total budget of the province will amount to **R62.7 billion**. This is broken down into **R20.1 billion** in 2023/24, **R20.9 billion** in 2024/25 and **R21.6 billion** in 2025/26.

**Honourable Speaker**, the Provincial Equitable Share transferred from National Treasury remains our largest source of revenue by far, accounting for **74 percent** of the total budget of the province. The Provincial Equitable Share allocated to the province in the 2022 MTEF, amounted to **R44.9 billion**. Due to the impact of new data updates in the formula, the total technical adjustment of **R451.4 million** was made to the baseline of the province, with an adjustment of **R91.4 million** in 2023/24, **R159.8 million** in 2024/25 and **R200.2 million** in the 2025/26 financial year.

Budget Council approved the introduction of a new risk-adjusted index in the health component of the Provincial Equitable Share formula for the 2022 MTEF designed to factor in the relative cost of health care needs by age and sex, the total fertility rate of the female population, the burden of disease through premature mortality, a deprivation index to account for the impact of socio-economic factors and most importantly sparsity to account

for the potential costs associated with delivering health care needs. These changes will be phased in. The inclusion of sparsity is a step in the right direction for our province in order to address the high cost of providing services to our people due to the low population density of the province.

**Honourable Speaker**, these additions bring our technically adjusted Provincial Equitable Share to a total of **R45.3 billion** over the MTEF period. An amount of **R1.2 billion** is allocated to the province over the MTEF as additional funding to fund national priorities in the Health and Education sectors. This consists of **R352.5 million** in 2023/24, **R386.5 million** in 2024/25 and **R420 million** in the 2025/26 financial year. The total provincial equitable share from National Treasury thus amounts to **R46.5 billion**, of which **R14.9 billion** is for the 2023/24 financial year, **R15.4 billion** is for 2024/25 and **R16.2 billion** is for 2025/26.

The additional **R1.2 billion** is meant to address various pressures in the Departments of Health and Education. With regard to the Department of Health, funded priorities include the following:

- Compensation of employees pressures;
- Medical supplies;
- Laboratory services;
- Anti-retroviral and TB treatment and;
- Other costs drivers in goods and services, including reducing accruals.

The following priorities have been funded in the Department of Education:

- Equalisation in funding norms and standards;
- Compensation of employees shortfalls and
- Hostel subsidies
- Municipal Accounts

**Honourable Speaker**, whilst we are aware that the previous years' reductions affected all sectors, the impact in Health and Education was particularly detrimental. It affected the functioning of the system dramatically, we are therefore confident that these additional resources will go a long way in stabilising both on the compensation of employees and goods and services side.

**Honourable Speaker**, the second largest contributor to the provincial budget is the conditional grants, accounting for **23 percent** of the receipts of the province. The total

conditional grants allocated to the province amounts to **R14.4 billion** over the MTEF. Of this amount, **R4.7 billion** is allocated for the 2023/24 financial year and **R4.9 billion** is allocated for each of the 2024/25 and 2025/26 financial years.

An amount of **R1.8 billion** is estimated for own revenue over the 2023 MTEF. The growth in own revenue between the 2024/25 and 2025/26 financial years is minimal due to the collection challenges experienced by the Departments of Transport, Safety and Liaison and Health.

These two departments are also the main drivers of the provincial own revenue stream. Provincial Treasury is however assisting these departments to come up with new and innovative ways to improve collection. Although our own revenue only contributes about **3 percent** to the provincial receipts, it still plays an important role in funding provincially determined priorities. It is a matter of note that the increase from two to three percent share on own revenue is not necessarily as a result of improved collection rate, but in part due to the erosion of the equitable share which tend to increase the ratio of own revenue to national transfers.

**Honourable Speaker**, an amount of **R47.4 billion** will be paid to departments over the 2023 MTEF as equitable share funds, while **R14.4 billion** will be paid in the form of conditional grants. This leaves us with a total surplus of **R869.4 million** over the MTEF of which **R647.5 million** will be put towards our debt redemption strategy. During the 2023/24 financial year, **R15.4 billion** will be paid to departments in the form of equitable share and **R4.7 billion** in the form of conditional grants. This leaves a surplus of **R30.4 million** for the debt redemption strategy of the province.

### **Summary of Departmental Allocations**

**Honourable Speaker**, as we strive to get the finances of the province under control, we have only used three sources of funding, namely: **underspending of 2021/22 financial year, self-financing and monies of Improvement of Conditions of Services (ICS)**, which we are now allocating to departments to fund various pressures especially those related to the wage bill. Our Adjustment Budget makes available a total additional amount of **R695.3 million** to departments.

**Honourable Speaker** and **Honourable Members**, I will now provide a summary of the proposed adjustments.

An additional amount of **R307 million** is made available for the Improvement of Conditions of Service Services, of which the Department of Education is allocated **R127 million** or **41 percent** of the total allocation for the wage adjustments followed by the Department of Health with an amount of **R101.6 million** or **33 percent**. The balance of **R79 million** is proportionally allocated to all departments and entities to provide for the wage increases. **Honourable Members**, these adjustments will deal with the projected shortfall on compensation of employees and all departments will be in a position to contain the adjustments on compensation of employees.

## **Social Sector**

**Honourable Speaker**, the Social Sector is allocated a total additional amount of **R422.4 million** or **60 percent** of the total adjustment allocation. This sector continues to drive spending and it comes as no surprise that a significant share of these adjustments are directed towards our apex priorities.

Education is allocated an additional amount of **R249.6 million** including ICS to deal with various pressures ranging from compensation of employees to other related pressures goods and services.

**Honourable Speaker**, as part of our pursuance of a Modern, Growing and Successful province, at the cutting edge of our drive to modernise the province, is our ability to use technology more efficiently.

Technological literacy plays a pivotal role in preparing our children for the world after school. It is thus important to enhancing the learning experience of learners. As part of this, we are rolling out the EDUKITE software solution which will be loaded on 13 800 tablets.

**Honourable Speaker**, this solution consists of digital curriculum content that covers the South African CAPS curriculum. It engages the learners, improves their understanding and enhances the learning experience by using multimedia 2D and 3D animations, interactive simulations and virtual experiments. These animations bring concepts to life and brings out practical applications of concepts, thereby peaking learners' interest in the subject. There is no need for connectivity as the subject content is stored to the device or a storage card, which also allows learners to learn on the move or at times that fit into their schedules. Education will invest an amount **R86 million** towards this initiative.

Department of Health is allocated an additional amount of **R152.1 million** address various pressures especially in goods and services. Part of these adjustments includes an amount of **R50 million** to ensure that accruals are reduced at year end. A further amount of **R9.2 million** is rolled over from the previous financial for the procurement of EMS vehicles.

The Department of Social Development is allocated an additional amount of **R5.1 million** to continue the employ of additional social workers as part of the Presidential Stimulus Package.

## **Economic Sector**

**Honourable Speaker**, post the global pandemic that crippled many economies and as governments around the world continue with the recovery process, we have made advances to invest in the economic sector.

The Department of Agriculture, Environmental Affairs, Rural Development and Land Reform is allocated an additional amount of **R11.3 million** for the revitalisation of our provincial nature reserves and the upgrading of various infrastructure. This amount is the balance of the 2020 economic recovery intervention which is made available to complete the projects.

Department of Sport, Arts and Culture is and additional of **R15.9 million** mainly for the evaluation of heritage assets, this will go a long way in dealing with the audit outcomes of this entity.

Roads and Public Works is allocated an additional amount of **R80.4 million** to deal with the growing rates and taxes debt. Honourable Speaker, we have reached a settlement with Sol Plaatje Municipality in respect of our debt on rates and taxes. As part of this agreement, we are starting with an amount **R30 million** in this adjustment and hope to settle the balance by the end of the next financial year. An additional allocation of **R40 million** is earmarked towards the construction of a divergent wall and other related work in order to prevent water from flowing towards the road, given the above average rain forecast.

Cooperative Governance, Human Settlements and Traditional Affairs is allocated an additional amount of **R42.8 million** for municipal interventions across the province and the improvement of conditions of services.

## GOVERNANCE AND ADMINISTRATIVE SECTOR

**Honourable Speaker**, to promote the involvement of women, youth and people living disabilities in the mainstream economy, a new ministry within the Premier's office has been established. The office of the Premier is thus allocated an amount of **R35.3 million** to address pressures relating to COE and its oversight functions.

Provincial Legislature is allocated an additional amount of **R44.7 million** to fund pressures relating to the Legislature precinct, oversight and political functions including ICS.

Department of Transport, Safety and Liaison is allocated an additional amount of **R13.4 million** relating to ICS and COE with the aim of enhancing our own revenue collection, whilst Provincial Treasury is allocated an additional amount of **R17.5 million** for municipal support interventions.

**Honourable Speaker and Members**, I strongly believe together we can do more and better with the limited economic resources at our disposal to preserve human values.

Chief Albert Luthuli once said that "...you can only preserve human values by propagating them and creating a climate where these values will flourish." Our struggle for liberation was accompanied by a set of values and culture which permeated our glorious movement. These included respect for all, regardless of race or gender, a deep understanding that leaders serve communities, that they receive their power from ordinary people and that the privilege of serving one's community must never be abused.

In closing, allow me to extend our heartfelt gratitude and appreciation to all departments through my colleagues, the Members of the Executive Council and particularly the stewardship of the Honourable Premier, Dr Zamani Saul for his continued guidance and support in managing this portfolio. Collectively, with the Heads of Departments, Chief Financial Officers we managed to navigate the crisis brought about by the huge cuts across departments, of course with measures introduced to manage spending. I mentioned this due to the fact that the system is holding firmly, the revenue fund is liquid, the 2023 MTEF is well balanced and makes provision for fiscal environment in the medium term.

**Honourable Speaker**, once more we are stronger together than alone. It is not a matter of Provincial Treasury altruistically helping departments that we manage to cross the deep murky waters, but all the ideas and inputs shaped our collective wisdom.

**Honourable Speaker**, we are indebted to the Portfolio Committee in their oversight role which assisted greatly in keeping us accountable in line with our mandate and commitments. This to a great extent keeps us in the right direction and on our toes and helps us to excel.

**Honourable Speaker**, I would also like to express my gratitude to the entire team at Provincial Treasury led by the Head of Department, Dr Moses Gasela.

**Honourable Speaker** and **Honourable Members**, I now table the following documents for consideration by this august House:

- **The Northern Cape Adjusted Appropriation Bill, 2022;**
- **The Northern Cape Adjusted Estimates of Provincial Revenue and Expenditure (AEPRE) 2022/23 financial year; and**
- **The Northern Cape Medium Term Budget Policy Statement 2022.**

I thank you.