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Department of
Treasury
FREE STATE PROVINCE

2014/15 ADJUSTMENT APPROPRIATION SPEECH

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20 November 2014

Honourable Speaker;

Premier;

Members of the Executive Council and

Members of the Free State Legislature

DG, Heads of Departments, CEOs and leaders of our public and private institutions;

Ladies and Gentlemen;

We present the 2014/15 Adjustment Budget for the Free State Province today against the background of the Medium Term Budget Statement delivered by the hon. Minister of Finance, Mr Nhlanhla Nene, on 22 October 2014.

Our provincial adjustment budget is informed by the broader international and national context that continues to shake the fiscal foundations of many developed and developing nations. The world economies are facing uncertainties and instability, with the question of economic growth remaining a constant concern across the globe.

Earlier this week, we learnt that the economy of Japan, the third biggest economy in the world, has slipped back into a technical recession.

Germany, widely regarded as Europe's manufacturing powerhouse, registered growth of only 0.1% in the third quarter.

Following the recent meeting of the G20, it has been reported that there is growing concern that the *Eurozone* is teetering on the brink of a possible third recession, with high unemployment and falling growth. Emerging market economies, which were the driver of growth in the early stages of the global economic recovery, are now slowing down.

Hon. Speaker, the past few years have illustrated the extent to which we are not immune to the challenges that are characterizing the global economy. Our own fiscal challenges have not ended and it is projected that it will continue to be one of the prominent features over the forthcoming MTEF period. In the Mid-Term Budget Statement, the Minister of Finance announced that the projected economic growth of the country has been adjusted downward from 2.7 percent to 1.4 percent with National Treasury projecting growth to reach 3 % by 2017.

Whilst we are grappling with the triple challenges of unemployment, poverty and inequality, the World Bank's "SA Economic Update 2014" found that South Africa's fiscal policies are cutting the rates of poverty and inequality, and that tax and social benefits are effectively redistributing income from the rich to the poor. It reported that our fiscal policies lifted 3.6 million South Africans out of poverty during 2010/11. But it also acknowledged that South Africa remains one of the most unequal countries in the world, given the original problem of excessive income inequality. The report confirms that fiscal policy must be complemented by higher and more inclusive economic growth and job creation.

Whilst acknowledging the progress we have made in, for example, the education and health sectors and expanding access to basic services to the poor, we will have to come to terms with the fundamental question on how we will sustain the gains that we have made through economic growth and job creation.

When I tabled the 2014/15 main budget earlier this year, I emphasized the imperative that we face to exercise increased fiscal discipline as well as the prudent utilization of public resources in order to achieve improved outcomes. I must reiterate that call for fiscal prudence. We have been fortunate in enjoying the support of the hon. Premier, Members of the Executive Council, the Free State Legislature and our provincial public entities in our endeavour to promote the effective, efficient and economic use of resources.

This is evident from the audit outcomes recorded by our provincial departments and provincial public entities for the 2013/14 financial year. I must, hon. Speaker, congratulate the Provincial Treasury, the Department of Sport, Arts, Culture and Recreation, the Free State Legislature and the Fleet Management Trading Entity for obtaining the so-called “clean” audit status.

I must equally acknowledge the improvement in the audit outcomes of the Departments of Public Works and Economic Development, Tourism and Environmental Affairs as well as the Free State Development Corporation and the Free State Tourism Authority who have all improved their audit outcomes to an “unqualified” opinion. We are equally proud of the fact that we have maintained our position that no department or provincial public entity received a “disclaimer” opinion.

Economic Outlook

Global Economic context

Hon Speaker, as indicated earlier, the global economic recovery is still fragile with alarming signs of instability beginning to emerge. The International Monetary Fund (IMP) has also flagged increased income inequality as one of the issues that may become a dominant factor in the global economy. This is because inequality affects both the macro-economy and the design of macro-economic policy in many countries.

The growth prospects for the world economy in 2014 have been revised downward to 3.3 percent, 0.4 percent lower than in April 2014. In light of this downward revision, low-income countries will need to avoid a build-up of external and public debt. Whilst some low-income countries succeeded in maintaining strong economic growth, their external environment has also been rapidly changing. Foreign direct investment has started to moderate with declining commodity prices whilst commodity related budget revenues and foreign exchange earnings are at risk.

National Economic Context

During the tabling of the mid-term budget statement, the Minister of Finance indicated that the budget framework focused on; "... restoring balance to the nation's finances, bolstering investment, and achieving better value for money in public expenditure..." .

Provincial Economic & Fiscal Context

The growth projections of the Free State economy largely mirror those of the national economy and as a result, growth projections for the province remain subdued. Growth is projected to decline from 1.3 % in 2013 to 0.7 % in 2014. It is further projected that a slow but steady recovery will result in a gradual increase in economic growth to reach 3.6 % by 2017.

Provincial economic activities continue to be sustained by the tertiary sector which currently contributes approximately 59 % to the provincial economy. The dominance of the tertiary sector indicates that the Free State has a comparatively modern economy with a focus on service industries rather than the traditional primary industries.

The tertiary industries also dominate employment in the province, estimated by Statistics South Africa at 72 % in the third quarter of 2014. The share of the primary industries in the provincial economy, which includes mining and agriculture, is estimated at 11 %. The decline of the sector has had huge repercussions in terms of employment in the province as it is labour intensive. The achievement of improvements in the primary sector could be one of the keys to reversing growing unemployment. Statistics South Africa reported the provincial unemployment rate at 35.0 % in the second quarter of 2014 and a decrease to 34.6 % in the third quarter of 2014.

Honorable Speaker, we need to step up the reforms as envisaged in the National Development Plan and the FSGDS to moderate consumption, boost savings and expand on productive investments.

Policy Compass

Hon Speaker, it is critical to remind the hon. House that our journey towards a prosperous and fair society is guided by the National Development Plan (NDP) and the 2014-2019 Medium Term Strategic Framework (MTSF). These policies are very clear on what needs to be done to address the challenges of poverty and inequality. Our national economy needs to grow at least at around 5 % annually; and this projected growth must be inclusive and strive towards the creation of sustainable jobs.

As we presented our budget earlier this year, we indicated that our plans, as quantified in monetary terms, are focused on the identified priorities of government, including education, health, job creation, food security and rural development, expanding access to housing and basic services, building a democratic developmental state and creating conditions for the promotion of social cohesion and nation building.

Our budget decisions must be made in favour of these priorities within the Medium Term Strategic Framework whilst ensuring that our limited fiscal envelope responds to the objectives of the NDP and the aspirations of our people. The decisions and choices we make today, will have resounding repercussions over the years to come.

The 2015 Medium-Term Expenditure Framework

Hon Speaker, the national fiscal position over the medium-term expenditure framework also holds certain implications and consequences for provinces.

The fiscal consolidation policy stance, adopted by national government, strongly advocates for the reduction of the budget deficit and public debt. The 2014/15 Medium Term Budget Statement translates this policy position into the reality that is projected reduction of the budget deficit from 4.1 % this year to 2.5 % over the next three years and a lowering of the expenditure ceiling by **R10 billion** in 2015/16 and **R15 billion** in 2016/17.

The Free State is already experiencing the impact of these structural changes. The lowering of the expenditure ceiling will result in the province losing **R210.9 million** in the 2015/16 financial year and **R111.1 million** in the 2016/17 financial year from its fiscal envelope. Furthermore, the data changes brought about by the 2011 Census as well as the current statistics relating to the health component of the equitable share formula, pose particular challenges for the Free State. The implementation of the budget cuts to accommodate the reduction of the budget deficit leaves no doubt that we will be operating within a very confined and constrained fiscal space.

Hon. Speaker, during our recent Medium Term Expenditure meetings and the adjustment budget bilaterals, our consistent message to all Departments and public entities has been that; *"Times are tough and it's going to get tougher"*. We have been encouraged and strengthened by the response that there have been different but equally difficult times before and we have consistently met and rose above those challenges. This is not the time to be depressed and disheartened but to find a new courage and determination to achieve the best possible outcomes within the limitations of our fiscal position to bring about real and meaningful change that will improve the lives of the people of the Free State.

The 2014/15 Adjustment Budget

Hon. Speaker, I now turn my focus to the 2014/15 Adjustment Budget.

One of the immediate pressures that was placed on the provincial budget resulted from the public sector wage negotiations that settled on a 7.4 % increase whereas our budget guidelines provided for a 6.5 % increase. No additional funding was made available to provinces to accommodate the resulting difference and we therefore had to fund an estimated amount of R148 million from the provincial fiscus for the Improvement in Conditions of Services (ICS).

The adjustment proposal we are placing before the hon. House today was subjected to vigorous engagement and interrogation of our current budget allocations. Our starting point was to focus on internal reprioritization to unlock funds for the adjustment budget. Our objective was to reprioritize funds away from non-spending or slow-spending infrastructure projects and non-core goods and service items, deferral of some projects and programmes to the next financial year, identifying vacant funded posts and reprioritize funds to other priorities and allocating additional funds from provincial own revenue that has become available to the provincial fiscus. The additional funding that we derived from this exercise amounted to R215.7 million.

A significant part of the adjustment budget also deals with earmarked funds. An amount of R440.5 million which emanates from approved conditional grants rollovers will be allocated to specific departments.

A portion of the Health Facility Revitalisation Grant has been converted to an indirect grant and an amount of R18 million is made available to the Department of Health.

Other additional funds in the amount of R62.4 million emanates from donations from the following stakeholders:

- Road Traffic Management Corporation
- CATHSSETA
- HWSETA
- National Department of Arts and Culture
- Financial Intelligence Centre (FICA)
- EPWP
- Govan Mbeki Awards

In total, the additional amount that are available for the 2014/15 adjustment budget amounts to R589.9 million for allocation to departments to address specific identified requirements. This total excludes an amount of R143.0 million which was reprioritized from the 2014/15 Budget Baselines.

PROPOSED ALLOCATIONS

Hon Speaker, allow me to now deal with the proposed adjustment allocations for 2014/15.

I will firstly deal with the approved **conditional grant roll-overs** in the amount of **R440.5 million**. The details are as follows;

- The Department of **Health** is allocated an amount of **R141.5 million** to deal with commitments relating to the HIV/AIDS and Health Facility Revitalization grants.
- A total amount of **R56.2 million** is allocated to the **Department of Education** to deal with various commitments, including infrastructure delivery, HIV/AIDS and Nutrition in schools.
- **R235.6 million** is allocated to the **Department of Police, Roads and Transport** to continue with various roads projects which already commenced in the previous financial year.
- **R1.4 million** is allocated to the Department of **Agriculture and Rural Development** to continue funding of the Ilima/Letsema projects which also started in the previous financial year.
- The Department of **Sport, Arts, Culture and Recreation** receives an amount of **R5.7 million**. This relates to the Community Library Services grant and funding will cater for projects commitments of 2013/14.

Hon. Speaker, the second matter that we deal with relates to the **provincial equitable share roll overs** and this includes revenue and infrastructure enhancement allocations. After thorough evaluation of various departmental submissions an amount of **R14.4 million was approved**. This amount is made up of **revenue enhancement** amounting to **R6.6 million**, **R3.1 million** for **infrastructure enhancement** and **R4.7** for **equitable share roll-overs**.

The following departments' requests for roll overs were approved—

- Department of the Premier – R4.7 million towards tools of trade for Community Development Workers;
- Department of Health – R1.0 million towards a Revenue Enhancement project;
- Department of Public Works – R2.7 million towards Revenue Enhancement projects
- Department of Agriculture and Rural Development – R293 thousand towards Revenue Enhancement, specifically dairy production inputs at Glen Agricultural College
- Department of Economic Development – R3.0 million for Infrastructure Enhancement
- Department of Economic Development in favour of the Free State Gambling and Liquor Authority amounting to R2.6 million for Revenue Enhancement project and
- The Department of Sport, Arts, Culture and Recreation – R85 thousand for a braille machine.

We then proceed to the proposed allocation of the R215.7 million that has become available through the reprioritization of current budget allocations of departments and provincial own revenue. As anticipated, hon. Speaker, the Provincial Treasury received substantial funding requests for consideration in the adjustment appropriation process.

We extensively engaged with departments to achieve and promote a common understanding of the fiscal environment within which we

currently operate and to reach substantial consensus on the proposed allocations.

Hon. Speaker, our proposals are as follows—

- An amount of **R25 million** is allocated to the **Department of Education** to cater for Hymaths and operational costs of the Department.
- **R28.5 million** is allocated to the **Department of Health** to provide additional funding for medical gas and medical consumables.
- An additional amount of **R67.5 million** is allocated to the **Department of Sport, Arts, Culture and Recreation** to cater for various programmes and projects in the field of arts and culture programmes, as well as infrastructure and sport and recreation projects. *Die provinsiale regering se bydrae tot die Fauresmith 200 Internasionale Uithourit en Vrystaat Rugby is ingesluit in hierdie bedrag.*
- The **Department of the Premier** is allocated an amount of **R30 million** to deal with matters relating to compensation of employees.
- **R19.9 million** is allocated to **Provincial Treasury** to provide for the implementation of the centralized supplier database, the provincial and municipal support programme and public information platform.

- The Department of **Economic Development, Tourism and Environmental Affairs** will receive **R1.5 million** as a transfer towards the Free State Tourism Authority.

It is important to point out that the Department has also reprioritized funds internally for the establishment of the Small, Medium, and Micro Enterprises (SMME) unit in line with the recent SMME Summit. The Department has set aside funding towards industrialization of the textile sector.

- **R30 million** is allocated to the Department of **Cooperative Governance and Traditional Affairs** to deal with amongst other disaster relief in respect of the recent veld fires in the Thabo Mofutsanyana district (R5 million), assistance to the Mafube Local Municipality (R6.5 million), financial commitments relating to the municipal support programme (R8.5 million) and a shifting of funds (R10 million) from the Department of Police, Roads and Transport in respect of a roads project in Viljoenskroon.
- The **Department of Public Works** will receive **R2 million** for poverty alleviation projects in Ficksburg, in the Setsoto Local Municipality.
- The **Department of Police, Roads and Transport** will receive **R8 million** to effectively respond to the risks and challenges of cash-in-transit management.
- The **Department of Agriculture and Rural Development** will receive **R10 million** to support production inputs costs.

- The **Department of Human Settlements** is allocated an amount of **R2.7 million** to provide for matters relating to ongoing forensic investigations, matters relating to information technology and other pressures.
- The **Department of Social Development** will be allocated an amount of **R500 thousand** in respect of social relief of distress.

The adjustment appropriation bill also provides for the shifting of funds as a result of the transfer of officials and the moving of functions between departments. Affected departments include the Office of the Premier and the Departments of Education, Economic Development, Tourism & Environmental Affairs and Agriculture and Rural Development. The bill also deals with the Free State Legislature's retention of revenue in the amount of R27 million.

CONCLUSION

In conclusion, Honourable Speaker, we must acknowledge the progress and achievements of the Free State provincial government as illustrated during this past week with visits by the hon. Premier and various MECs to a broad range of projects and programmes throughout all districts of the province.

We also wish to appreciate the contribution of our various partners, local municipalities as well as the broader public and private sector, to bring about real and meaningful change and transformation in the places where our people live and work. Our commitment to improved service

delivery speaks volumes from the trails that we have blazed through all communities in the Free State.

I must equally place on record my appreciation to the hon. Premier and MECs, as well as the HODs, CFOs and other senior management of provincial departments and the Free State Legislature, for their active and constructive participation in this process of developing our adjustment appropriation proposals. Our deliberations were enriched by the proposals and ideas they contributed to this process. Our collective approach is the practical manifestation of the saying; “*Re menwana ya seatla se le seng*”.

We appreciate the time and attention that the Chairperson and Members of the Portfolio Committee on Public Accounts and Finance will be giving to this Adjustment Appropriation Bill.

Hon. Speaker, allow me to also thank the CEO of Provincial Treasury together with all the officials who deal with Sustainable Resource Management, especially the Budget Office, for their commitment and tireless efforts to ensure that we completed the development of these adjustment appropriation proposals successfully.

I thank you.