



Member of the Executive Council  
for Finance  
FREE STATE PROVINCE

## **2016 FREE STATE PROVINCIAL BUDGET SPEECH**

**Hon. Elzabe Rockman  
MEC for Finance**

**8 MARCH 2016**

Honourable Speaker  
Honourable Premier  
Members of the Executive Council  
Members of the FS Legislature  
Executive Mayors and Mayoral Committee Members  
Director-General, Heads of Departments and Chairpersons of our Public Entities  
The Provincial Business Executive of the Office of the Auditor General  
Our Traditional Leaders  
Learners, their parents and educators who join us from the towns in the Ngwathe Local Municipality  
Distinguished guests,

It is indeed a privilege to be given the opportunity to present the 2016 Budget of the Free State Province on International Women's Day. This is the day we celebrate the social, economic, cultural and political achievements of women across the world, whilst looking ahead to future opportunities for women.

We present this Provincial Budget humbled by the significant historical context that continue to shape our journey. The moments that we commemorate this year include;

- The 60-year anniversary of the historical 1956 women's march to the Union Buildings. The strength, determination and defiance of 20 000 women against inequality and injustice continue to inspire us.
- The 53<sup>rd</sup> year of the establishment of the Organization of African Unity (OAU) in 1963 and the evolution of the OAU through the Sirte Summit in 1999 and the 2002 Durban Summit which launched the African Union.
- The release of the late ANC President, *Tata* Nelson Mandela and the unbanning of liberation movements 26 years ago

Hon. Speaker, we declared 2016 as; "The Year of Advancing People's Power: Local Government Elections is in your hands". Over the past weekend, thousands of people participated in the voter registration process. Our appreciation goes to the men and women across the province who continue to work with the Electoral Commission of South Africa to ensure the credibility and efficiency of our elections machinery.

We owe it to the individuals and organizations that have shaped the road to our democracy to exercise our hard-won right to vote. Let it be our commitment to ensure that we exercise this most basic of our Constitutional rights. It is one of the ways in which we take responsibility to promote active citizenry and to strengthen development, democracy and accountability as one of the six inter-linked priorities of the National Development Plan.

## **THE DEVELOPMENT AGENDA**

Hon. Speaker, no government develops its strategies, programmes and plans in isolation of the global development agenda. The year 2000 saw the introduction of the eight Millennium Development Goals, commonly known as MDGs. The 2015 Human Development Report and the MDGs Final Report of 2015, reflect that substantial progress has been made towards the achievement of the MDGs.

Post 2015, there is consensus that the world must further shift onto a path of inclusive, sustainable and resilient development. The global development agenda was set and agreed to in September 2015 in the form of 17 Sustainable Development Goals (SDGs) that replaces the MDGs. The SDGs are consistent with the vision of the National Development Plan (NDP) as well as the Free State Growth and Development Strategy (FSGDS).

The six identified priorities that are the critical elements for the realization of the vision of the National Development Plan, remain the guiding principles of our key strategic policy documents, including the Medium Term Strategic Framework (MTSF), the Free State Growth and Development Strategy and our departmental strategic plans. Our provincial and local government sectors further focus and coordinate our programmes of implementation through our respective Annual Performance Plans (APPs) and Integrated Development Plans (IDPs).

## **CHALLENGES OF THE FISCAL ENVIRONMENT**

The priorities set out in the National Development Plan continue to shape our resource decisions as we strive to achieve Vision 2030. When delivering his budget speech on the 24<sup>th</sup> February 2016, our Minister of Finance, Mr. Pravin Gordhan, spoke eloquently about our strength, resilience and determination to overcome our economic challenges.

It is undoubtedly a long and arduous journey towards Vision 2030. There is no guarantee that the road ahead will be any less strenuous. The only guarantee is that there will be new and differing challenges to the ones that we faced yesterday and today. We remain steadfast in our resolve to continue moving forward. Our detractors may question our strategies, cast aspersions on our tactics and ridicule our implementation initiatives but they will not divert us from our chosen path.

At the heart of our fundamental belief and commitment to our chosen path, is the undeniable fact that we are a people on the southern-most tip of this great continent, Africa. We are an essential part of this continent, intrinsically linked to its past and future and drawing our strength from the collective and individual histories of its people.

The spirit of Africa and its people was not broken by being colonized, marginalized and disenfranchised. Indeed, hon. Speaker, let us remind ourselves of the Ethiopian proverb that says; “The elephant does not limp when walking on thorns.” We are adamant that we will not be defeated by the challenges of our fiscal environment.

## **ENVIRONMENTAL CHALLENGES**

Hon. Speaker, none of us have been left untouched by the consequences of the devastating drought that has not yet loosened its grip on the Free State. Our response is led and coordinated by the Office of the Premier with the invaluable support of the National Departments of Water and Sanitation as well as Agriculture, Forestry and Fisheries as well as our own Provincial Departments of Agriculture and Rural Development and Cooperative Governance & Traditional Affairs.

We remain encouraged and inspired by the invaluable contributions of non-profit organizations, organized agriculture, the private sector and the countless individuals who have donated tanked and bottled water and animal feed.

Whilst our experience of water shortages are immediate, the consequences for food security and food prices will be felt long after the rains start to fall. We must continue to act responsibly in the utilization of this scarce resource.

## **ECONOMIC OUTLOOK**

Hon. Speaker, allow me to briefly reflect on the global, regional and national economic outlook before turning towards our provincial economic outlook.

### **Global Economic Outlook**

The International Monetary Funds' Global Outlook for 2016 noted that global economic activity remained subdued in 2015. Growth in the emerging markets and developing economies – whilst still accounting for over 70 percent of global growth - declined for the fifth consecutive year. A modest recovery continued in advanced economies.

Global growth is projected at 3.4 percent in 2016 and 3.6 percent in 2017. Overall, forecasts for global growth have been revised downward by 0.2 percentage points for both 2016 and 2017. These revisions reflect to a substantial degree, but not exclusively, a weaker pickup in emerging economies than was forecast in October 2015.

### **Regional Economic Conditions**

The IMF launched its Regional Economic Outlook for Sub-Saharan Africa during October 2015. Economic woes facing our region include the slump in oil - and

commodity prices, high energy prices and the general weak global financial environment.

We reported in our November 2015 Provincial Medium-Term Budget Policy Statement (MTBPS) that growth in the economies of sub-Saharan Africa is projected at 3.8 percent, down from an earlier forecast of 5.75 percent in 2015, and 4.3 percent in 2016. Whilst this is still stronger than world output and advanced economies, it is lower than emerging markets and developing countries. Nevertheless, growth in sub-Saharan Africa provides us with new economic opportunities.

## **National Economic Conditions**

Honourable Speaker, last week Statistics South Africa confirmed that the country's real Gross Domestic Product at market prices increased by 1.3 percent in 2015, following an increase of 1.5 percent in 2014. This was indeed lower than an earlier estimate of 1.5 %.

The main contributor to the slowdown in 2015 was agriculture. Severe drought conditions saw the industry contracting by 8.4 percent, the largest annual fall in agriculture production since 1995.

The finance industry, however, expanded by 2.8 percent. As this is the largest industry, comprising 21 percent of the entire economy, its increase in activity was the main positive contributor to the 1.3 percent annual rise in GDP.

The mining industry recorded the highest growth of all ten industries, expanding by 3.0 percent. Of the four major minerals (i.e. platinum, iron ore, gold and coal), only the platinum group recorded a production increase in 2015.

National Treasury projects the growth forecast for the South African economy in 2016 at 0.9 %. This is a downward reduction from the 1.3 % forecast in the national Medium Term Budget Policy Statement of October 2015.

## **PROVINCIAL ECONOMIC CONDITIONS**

### **Provincial Growth Rate**

Honourable Speaker, Statistics South Africa reported that our provincial economy grew by 1.7 percent in 2014. The unofficial estimate of growth for 2015 is 0.4 percent, and is forecast to increase to 0.6 percent in 2016. The almost stagnant growth rate of the provincial economy is primarily informed by the following factors;

- The slowdown in the agriculture sector
- Declining output and low prices for commodities coming from our province

- Stagnated manufacturing as well as
- Marginal growth in the government and communication services sector

These four industries account for approximately 50 percent of the provincial economy. With 70.2 percent of manufacturing in the province emanating from commodities such as fuel, petroleum, chemical and rubber products, the effect of the slump in commodity prices on the provincial economy is clearly illustrated.

Our aim to target growing small- and medium-sized enterprises through special economic zones, township economies and a black industrialist programme will certainly help us to turn the corner.

### **Labour Market Conditions**

Despite the subdued economic conditions, the Free State has made some progress in the fight against unemployment. Statistics South Africa reports that year-on-year, the official unemployment rate declined by 2.4 percent from 32.2 percent in the fourth quarter of 2014 to 29.8 percent in the fourth quarter of 2015.

Similarly, our labour absorption rate increased by 2.5 percent from 41.5 percent in the fourth quarter of 2014 to 44 percent in the fourth quarter of 2015. This happened against the backdrop of growth in the labour force as well as an increase in the labour participation rate.

### **Economic Transformation, Skills and Labour Market Dynamics of the Free State**

Provincial Treasury is completing a study on the economic transformation, skills and labour market dynamics of the Free State for the 13-year period between 2002 and 2015. It can already be indicated that one of the main findings of this study is that the shift in the structure of the provincial economy has created a need for a new skills package.

Our extensive investment in recent years to provide financial support to students pursuing their studies at tertiary institutions as well as our internship and experiential training programmes will directly support the new skills requirements in the tertiary sector of the provincial labour market. The study, however, indicates that there should be added momentum to skills development to support a thriving manufacturing sector.

The detailed findings and recommendations of this study will be released in the near future. We foresee that this will form the foundation of extensive engagements that the Office of the Premier, Provincial Treasury and the Department of Economic & Small Business Development, Tourism and Environmental Affairs will be initiating with our national and provincial government partners, state-owned enterprises as well as the private sector.

## Provincial Economic Interventions

During the 2016 State of the Province Address, the Honourable Premier announced a number of key interventions to be implemented in order to strengthen our efforts to achieve accelerated and inclusive economic growth in the province. The successful realization of both the NDP and the FSGDS is predicated on the implementation of Strategic Infrastructure Projects (SIPs).

Of the 18 SIPs intended to radically change the national landscape, we have identified 14 to address economic development and service delivery in our province. These include;

- The Special Economic Zone at Tshiame in Harrismith as well as the Harrismith Logistics Hub with the focus on agro-logistics; fuel distribution depot; a vehicle distribution center and a food processing plant. These projects support the objectives of the Industrial Policy Action Plan to stimulate the manufacturing sector.
- Integrated urban space and public transport programmes, including the N8 corridor development; aero-city concept for Bram Fischer airport node as well as the revitalization of mining towns.
- Integrated municipal infrastructure, including but not limited to the rehabilitation of water and waste water treatment works in various municipalities in the province as well as bulk water schemes in Xhariep, Masilonyana, Tokologo, Setsoto, Dihlabeng, Phumelela and Nketoana
- Green energy including development of a solar park in Xhariep, exploration of natural gas in Matjhabeng as well as underground coal gasification in Masilonyana.
- The establishment of five Agri-Parks, which will boost agro-processing for the province;
- The implementation of the Black Industrial Development Programme that will bolster value for the benefit of local enterprises and thereby expand the manufacturing capacity chains in the province;
- Co-operation agreements with other global partners, thereby promoting the Free State as an ideal investment destination; and
- The introduction of a tourism grant to capitalize on the current successes of the tourism industry.

We call upon the private sector to join hands with us in unlocking the economic growth and development potential of this province.

## **2016 FISCAL FRAMEWORK**

Hon. Speaker, let me now turn my focus to the 2016 Medium Term Budget. The Minister of Finance set out the details of the acceleration of fiscal consolidation, the slowdown of national revenue and the reduction in the expenditure ceiling in the national budget speech.

As indicated by the Minister, provincial MECs responsible for Finance have agreed to a Joint Action Plan to address expenditure management. The Free State is well positioned to give effect to this Joint Action Plan. This is illustrated by some of the following;

### **Managing the Provincial Wage Bill**

Our focus for the upcoming financial year will be on the downward management of our wage bill across all the departments with a view to redirect funds to other key priorities. Some of the measures that will be undertaken include:

- In addition to the general reduction in the wage bill necessitated by the proportional reduction of each department's share of the provincial budget, a further provincial-specific reduction on Compensation of Employees has been implemented for all provincial departments. We maintained a differentiation between the SHE-departments (Education, Health and Social Development) and other departments in this regard.
- We recognized the necessity to exercise more stringent control over the provincial wage bill when we introduced the central management of the provincial PERSAL system in 2014. Whilst maintaining this arrangement, we will escalate the monitoring and reporting on personnel numbers, specifically persons exiting the public service.
- Other initiatives will include the continuation of head counts and implementation of corrective measures, the review of organizational structures with a view to eliminating redundant positions, restricting the filling of non-critical and contract appointments and the proactive management of incapacity leave and overtime

### **Provincial Public Entities**

- At the start of the 2009 term of government, a review and rationalization of provincial public entities was conducted. This led to the reconfiguration of the

three provincial public entities that currently exist. We confirm that we will conduct a further review of our provincial public entities to ensure that we have eliminated possible duplication in functions between departments and entities.

### **Cost Containment Measures**

- We developed cost containment measures in addition to those recommended and/or prescribed by national government. This has ensured that we limit the growth of spending on non-core programmes and expenditure items. The budget for cost containment items in the 2016/17 financial year has been further reduced by R35.844 million.

Honourable Speaker, the shrinking provincial revenue envelope continues to present us with particular challenges but also the opportunity to maximise fiscal discipline that will result in optimizing the efficiencies and effectiveness of our processes and systems.

Over the next three year Medium Term Expenditure Framework, the Free State loses R410.422 million as a result of equitable share data changes. In addition, the acceleration of fiscal consolidation and the reduction of the expenditure ceiling results in a further loss of R832.079 million from the provincial budget. In total, the Free State therefore loses R1.243 billion over the forthcoming 3-year Medium Term Expenditure Framework.

Hon. Speaker, in the medium term ahead, the Province will spend:

- R30.840 billion in 2016/17
- R32.871 billion in 2017/18 and
- R34.946 billion in 2018/19

Our fiscal framework grows by 4.5 percent in 2016/17 from R29.849 billion in 2015/16 to R30.840 billion in 2016/17. The growth of our budget over the MTEF is approximately 5.4 percent in comparison to projected inflation of 6.8 %. I will briefly reflect on the dynamics of each revenue stream of the Province.

### **Equitable Share**

Our equitable share increases from R22.002 billion in 2015/16 to R22.994 billion in 2016/17. This represents an increase of 4.5 percent. In the outer years, our allocations amount to R24.590 billion and R26.134 billion respectively. Over the MTEF period our equitable share allocations grow by an average of 5.9 percent.

## **Conditional Grants**

Conditional Grants account for 22.8 percent of our total allocation over the MTEF period. This remains remain the second largest source of revenue for the Province. I must emphasize that grants are transfers from the national sphere of government aimed at supplementing our own provincial initiatives and to implement national priorities. We will maintain our two non-negotiables associated with these grants, namely that spending must be in accordance with the purpose of the grant and underspending against these grants is unacceptable.

Conditional grant allocations grow by an average of 4.3 percent and amount to R21.752 billion over the MTEF period. The amount is disaggregated as follows;

- R6.815 billion in 2016/17,
- R7.218 billion in 2017/18 and
- R7.718 billion in 2018/19.

Fiscal consolidation has also impacted on the allocation of conditional grants to Provinces. The 2016/17 allocations for Education Infrastructure and Health Facility Grants declined by 8.8 percent and 15.9 percent when compared to the 2015/16 budget. Furthermore, the Ilima/Letsema grant in the Department of Agriculture & Rural Development and the Mass Participation and Sport Development grant of the Department of Sport, Arts, Culture and Recreation decrease by 3 percent and 33 percent respectively.

On a more positive note, the Comprehensive HIV/AIDS grant, the Provincial Road Maintenance grant, the Public Transport Operations grant and Substance Abuse grant increase by 11 percent, 10 percent, 9 percent and 193 percent respectively.

## **Provincial Own Receipts**

Hon. Speaker the revenue we collect in the province is mainly driven by Motor Vehicle Licenses and patients' fees. The prevailing socio-economic conditions also impact on the ability of the Province to achieve the estimated targets for revenue.

Our Revenue Enhancement Allocation are beginning to yield positive results. In 2014/15, we allocated R23 million for the repair of vehicle roadworthy testing equipment and for the procurement of laser speed cameras. We have seen improved revenue generation by the Department of Police, Roads and Transport with revenue collected at the end of February 2016 increasing by 7.4 percent in comparison to the same period last year. In 2016/17 Provincial Treasury will continue with its initiative to recover debt owed by ex-employees of the public service.

We must make mention of the fact that we have provided for a slower revenue contribution from the game auctions facilitated by the Department of Economic & Small Business Development, Tourism and Environmental Affairs. This is partially as a result of the impact of drought conditions on provincial game stock but also because of our commitment to upscale our investment in support of the transformation of the game industry.

We continue to engage with institutions that utilise our services with the aim to strengthen our relationships and systems for timeous payments of services rendered. Our engagements with the Ministry of Health in Lesotho as well as the Road Accident Fund will enhance our revenue collection initiatives in line with the objectives outlined in the Joint Action Plan.

Our projected revenue for the MTEF amount to R1.029 billion in 2016/17, R1.062 billion and R1.093 billion in 2017/18 and 2018/19 respectively. On average our estimated revenue grows by 2.7 percent over the MTEF.

## **THE 2016/17 MTEF ALLOCATIONS**

Honourable Speaker, I now turn my focus to the 2016 MTEF proposed allocations to departments in accordance with the provincial government's cluster approach. Details are set out for each vote in the 2016/17 Estimates of Provincial Revenue and Expenditure as well as the 2016/17 Appropriation Bill.

### **SOCIAL SECTOR CLUSTER**

The Social Sector Cluster comprises of the Departments of Education, Health, Social Development and Sport, Arts, Culture and Recreation. The allocation to this cluster in 2016/17 amounts to R22.909 billion or 74.3 percent of our total provincial budget.

#### **Education**

During the tabling of the 2015 provincial budget, I mentioned that the Provincial Treasury and the Department of Education will be working together to address structural budget matters and the strengthening of financial management in the Department. Our collective efforts will continue to yield positive results as can be seen from the following indicators;

- The projected over expenditure for the current financial year is estimated to reduce with almost 46 % from the R589 million of the previous financial year to a projected R261 million at the end of the current financial year.
- The Department settled the full amount of R270 million for accruals from prior financial years

- A Headcount was concluded and the findings identified by the project will enable us to further realize efficiency gains on the personnel budget. We continue to work on managing the compensation of employees' budget towards a split of 80/20.
- Reprioritization of funds towards curriculum programmes.
- Piloting of prepaid electricity meters in schools in the Mangaung Metropolitan Municipality. To date, 34 schools have converted to prepaid meters. This initiative is aimed at achieving two objectives, namely; (i) ensuring that schools pay for the services utilized whilst encouraging responsible energy use and (ii) strengthening local government revenue collection. The intention is to expand this initiative to all other districts in the near future.

Our investment in quality education plays a key role in accelerating and achieving social transformation. Hence, the Department of Education continues to receive the largest share of the provincial budget. The Department receives an allocation of R38.796 billion over the 2016 MTEF. This amount is divided as follows:

R12.060 billion in the 2016/17,  
 R13.022 billion in the 2017/18 and  
 R13.713 billion in the 2018/19.

The allocation will provide for, amongst others, the following priorities:

- Funding of schools, including the funding of quintile 1,2, and 3 schools ("no fee" schools) in line with South African Schools Act
- Learner Teacher Support Materials
- The expansion of Grade R
- Grade 12 support programmes
- School Nutrition Programme
- School Connectivity
- Training and Development of Educators
- Hostel Support and
- Education Infrastructure

The achievements of our learners in the National Senior Certificate examination continues to be our source of pride. Our 2015 matric pass rate was recorded at 81.6 percent and we maintained our third position amongst best-performing provinces. We must congratulate hon MEC Makgoe and his team for ensuring that the stability and consistency in our education sector gives effect to the Namibian proverb that; "Learning expands great souls."

Our provincial bursary programme has enabled youth of our province and beyond to pursue their studies at various institutions of higher learning. We fully support the elevation of higher education amongst the funding priorities of national government. Our primary focus will remain on supporting and maintaining students who benefit from the provincial bursary programme.

## **Health**

Hon. Speaker, working together with the Department of Health, we can confidently state that we have achieved stability in the financial position of the Department. We have emerged from an extremely tumultuous period in our provincial health sector. Our progress is evident from the substantial reduction in accruals, overtime expenditure and the reprioritization of funds towards frontline services in various health institutions including the Medical Depot.

The budget for the department increases by R169.897 million or 6.1 % over the 2016 Medium Term Expenditure Framework. Additional funding is allocated to initiatives that will strengthen health service delivery in rural areas, achieve efficiency gains through targeted maintenance of critical clinical equipment and additional funding towards the Medical Depot.

In total, the Department of Health is allocated R29.165 billion over the MTEF. The allocation is divided as follows;

- R9.048 billion in 2016/17,
- R9.687 billion in 2017/18;
- R10.429 billion in 2018/19.

Hon. Speaker, I am sure that Hon MEC Malakoane shares my acknowledgement of the wisdom we get from Ghana that tells us that; “Money is not the medicine against death.” Our spending priorities in the health sector remain in line with the key outputs of the National Development Plan (NDP), including;

- An increase in life expectancy
- A decrease in maternal and child mortality
- Escalating the fight against HIV/AIDS and TB and
- Strengthening of health systems.

It should be noted that a total amount of R33.5 million has been shifted from the provincial budget allocation to the National Department of Health as a result of the implementation of the HPV vaccine programme by the national department. It is anticipated that this function will be transferred to the province in the 2018/19 financial year and provision is made in the outer year for the financial implications.

## Social Development

Hon. Speaker, a budget of R3.540 billion is allocated over the 2016 MTEF to provide for social services for the poor, the vulnerable and those with special needs. Furthermore, the allocation provides for improving the quality of child care and protection services, care for older persons, substance abuse interventions, victim of abuse support and the provision of shelter for homeless persons.

The MTEF allocation includes an amount of R113.529 million earmarked for the following priorities;

- The normalization of stipend funding of ECD practitioners and matrons as well as the funding formula for ECD centres in line with relevant national prescripts. We reiterate our appreciation for the support we will receive from the National Lottery Commission in respect of the funding of ECD infrastructure in the province. Hon MEC Ntombela, the power of our ECD initiatives are captured by a proverb from Sierra Leone that; “He who takes a child by the hand takes a mother by the heart.”
- Provision is made for a cost of living adjustment of 7.8 % in funding for statutory and non-statutory non-profit organisations and
- The provision of sanitary towels to poor schools throughout the province. The Department of Social Development will be the lead provincial department for this programme.

Substantial work remains to be done with regard to the phasing in of the funding model for statutory and non-statutory non-profit organisations. Provincial Treasury is leading a team together with provincial and national stakeholders that will further focus on this matter.

The total allocation to the department of Social Development amounts to;

R1.145 billion in 2016/17,  
R1.162 billion in 2017/18 and  
R1.232 billion in 2018/19.

Hon. Speaker, included in the allocations for 2017/18 and 2018/19 is the new grant earmarked for early childhood development and the amounts of R19.863 million and R30.670 million are allocated respectively. Furthermore, there is an amount of R74.447 million over the 2016 MTEF allocated towards Substance Abuse Centres.

## **Sport, Arts, Culture and Recreation**

Hon. Speaker, the allocations to the Department of Sport, Arts, Culture and Recreation are as follows;

- R655.128 million in 2016/17
- R641.030 million in 2017/18 and
- R672.645 million in 2018/19.

Over the MTEF the department will spend R1.923 billion to implement the priorities that include;

- Library services
- Sport development and mass participation
- Arts and culture programmes, including MACUFE. Despite our funding restrictions, we have allocated an additional amount of R17 million as an investment in the creative economy of the province, including support to artists, photographers and community radio stations.

To a large extent, the Department of Sport, Arts, Culture and Recreation embodies the soul of government. None of us doubts the inherent value and potential of the sport, arts and culture sector in the achievement of key priorities such as the promotion of social cohesion, unity and nation building. We fully understand the wisdom of the African proverb that reminds us that; "Until lions have their historians, tales of the hunt shall always glorify the hunter". Yet our resourcing of the Department continue to confine the scope of work we can undertake in this sector.

This restriction is always mitigated by the initiatives undertaken under the leadership of hon. MEC Leeto to source additional support and funding for programmes from the private and non-governmental sectors. We record our appreciation for this support that we will continue to receive.

Hon. Speaker, we must also commend the Department for the successful completion of the Dr. Petrus Molemela stadium and the Siphon Mutsi Indoor Sport Centre. The 2016 MTEF allocation will further assist the department to implement and expand infrastructure projects such as stadia in Kroonstad, Sasolburg, Odendaalsrus and Welkom as well as the Heroes' Parks in Thaba Nchu and Parys.

## **ECONOMIC AND INFRASTRUCTURE CLUSTER**

Hon. Speaker, our investment in infrastructure remains critical for prosperity, job creation and the promotion of equity. The Departments that form part of the Economic and Infrastructure Cluster, shoulder the responsibility to guide us towards achieving

these goals. In the 2016/17 financial year, we are allocating more than R6.648 billion or 21.5 percent of the total provincial budget to this cluster.

The Economic & Infrastructure Cluster is constituted by the Departments of Agriculture and Rural Development, Economic & Small Business Development, Tourism and Environmental Affairs, Public Works and Infrastructure, Police, Roads and Transport and Human Settlements as well as our provincial public entities.

### **Agriculture and Rural Development**

Hon. Speaker, the Department of Agriculture and Rural Development receives just over R2.339 billion over the MTEF. This includes the following allocations;

- R745.825 million for 2016/17
- R778.286 million in 2017/18 and
- R815.866 million in the last outer year.

The 2016/17 budget allocation includes R241.387 million which relates to conditional grants in respect of agricultural support programmes, Illima projects, the EPWP agriculture-specific programmes and the Land Care grant.

Hon. MEC Khoabane will be familiar with the Nigerian proverb that says; “Fine words do not produce food”. To ensure that we are able to translate our priorities into action, funding over the MTEF include;

- Hlasela Tlala projects
- Capacitation of Extension Officers
- Veterinary clinics and animal vaccination
- Mohoma-Mobung projects and the Comprehensive Rural Development programme

Hon. Speaker I must also indicate that national government has set aside an amount of R137 million to deal with the effect of disasters. The amount is unallocated over the MTEF and is ring-fenced for this purpose.

### **Economic and Small Business Development, Tourism and Environmental Affairs**

Hon. Speaker, the Department of Economic and Small Business Development, Tourism and Environmental Affairs is allocated the following funding;

- The 2016/17 allocation amounts to R493.548 million and includes an amount of R2.629 million which is earmarked for EPWP projects.

- In 2017/18 the department receives R511.786 million; and
- R537.550 million for 2018/19.

The Department is responsible to execute an enormously challenging vision, namely; “A prosperous Free State that enhances the quality of life through integrated and sustainable economic growth.” This Department leads us on our journey towards radical socio-economic transformation.

Whilst creating an enabling environment for such economic transformation and development, the Department cultivates constructive relationships and engagements with the local and international private sector and organized labour.

We do not underestimate the hope that the SMME-sector has placed in this Department to provide support and assistance to enable access to the main economy. It is generally accepted that a significant percentage of job creation and consequently economic growth will come through this sector. Tourism is another of our provincial economic sectors that still need to be nurtured to fulfil its inherent job creation and economic growth potential.

Key economic interventions referred to earlier, will further support our initiatives to support economic growth. This includes the facilitation of the Global Trade Bridge, the implementation of Strategic Infrastructure Projects as well as the promotion of investment and export opportunities.

Equal in importance to the economic development mandate of the Department, stands its responsibility to achieve its objectives around environmental management and protection. Key strategic issues include focus on cleaning of our rivers by removal of solid waste and alien invasive plants, protection of endangered species, landfill management and ensuring the reduction of carbon emissions to reach COP21 targets.

Hon. Speaker, transfers to our Public Entities amount to R98.728 million in 2016/17, R98.685 million in 2017/18 and R104.408 million in 2018/19. Free State Tourism Authority receives R41.977 million; R44.076 million and R46.632 million over the MTEF; whilst Free State Gambling and Liquor Authority is allocated R55.551 million; R53.349 million; R56.443 million over the MTEF period. We have also decided to match our allocation to FSGLA with revenue collected by the entity.

Our transfers to Free State Development Corporation is quite minimal due to the fact that the entity is self-sustaining and our contribution towards FDC is only R3.793 over the MTEF.

Given this mammoth task, Hon MEC Mashinini will appreciate the wisdom of the African proverb that says; “If you wish to move mountains tomorrow, you must start lifting stones today.”

## **Human Settlements**

Hon Speaker, funding allocations to the Department of Human Settlements over the MTEF are as follows;

- For 2016/17 the Department is allocated R1.335 billion for implementation of its core mandate that include delivery of incremental housing, social and rental housing, mixed housing development and land acquisition.
- In 2016/17, The Human Settlements Development Grant includes an earmarked allocation of R101.129 million for the rehabilitation of previous mining towns in the Matjhabeng and Moqhaka Municipalities.
- In the outer years the department is allocated R1.491 billion and R1.586 billion respectively.

The department will spend R4.412 billion over the MTEF period to deliver on the projects identified in the State of the Province Address. Over and above the housing conditional grants, the Province has allocated R150 million over the MTEF to fund the programme of the demolition and construction of two roomed houses. This is part of our response to address the increasing demand for the delivery of houses and human settlements.

Hon. MEC Mlamleli, let us remind our communities that; *“U ka nketsang, ha e ahe motse, motse ho ahoa wa morapeli”*.

We remain resolute in implementing the changes in spatial development as propagated by the National Development Plan. The N8 corridor development and the plans for inner city residential developments are progressing well whilst substantial progress has been made with regard to the delivery of housing units across all human settlements programmes.

## **Public Works and Infrastructure**

Hon. Speaker, I have already alluded to the expansion of infrastructure as a catalyst to our economic growth and job creation. We have made significant progress with the delivery of infrastructure throughout the Province with local economic benefits accruing to communities where these projects are implemented.

We acknowledge that challenges regarding the payment of municipal services continue to persist. One of our initiatives to address this challenge has been the establishment of the Provincial Debt Steering Committee that assists in the resolution of intergovernmental disputes in this regard.

Funding made available to the Department of Public Works and Infrastructure amounts to R1.486 billion in 2016/17 and R1.547 billion and R1.622 billion for 2017/18 and 2018/19 respectively. The total allocation to the department over the MTEF amounts to R4.655 billion and will fund key priorities such as;

- Municipal rates and taxes,
- Property payments
- Operating leases and
- Township Revitalization and EPWP programmes. The Province received an amount of R47.620 million for EPWP in 2016/17.

Hon MEC Kotzee, the Soga people of Uganda teaches us that; “Water that has been begged for does not quench the thirst.” Let us not under-estimate the inherent value of dignified work opportunities that are created through our township revitalization and EPWP programmes. We are confident that the Department will maintain its record of achievements as acknowledged through the Kamoso Awards.

### **Police, Roads and Transport**

Hon. Speaker, the Department Police, Roads and Transport is allocated R2.586 billion in 2016/17; R2.732 billion in 2017/18 and R2.869 billion in 2018/19. The department will spend well over R8.187 billion over the forthcoming MTEF.

I am quite certain that we all agree that proper road infrastructure and maintenance is critical for the growth of the economy. Our centrality as a Province puts us at core of freight transport and passenger movements. The economic spin-offs that is derived by our small towns from freight and passenger transport makes these small economies vibrant and create much needed job opportunities.

In addition to executing its responsibilities towards our roads infrastructure, the Department will also utilize its resource allocations to address other key priorities including;

- Provincial public transport, including regulatory responsibilities and road safety programmes
- Security programmes in government departments, including the expansion of the biometrics systems at government-owned buildings
- Crime prevention programmes, including our focus on gangsterism, human trafficking, stock theft and our envisaged cooperation with the South African Social Security Agency (SASSA)

Hon. MEC Komphela, our crime prevention programmes will do well if we take advice from the people of the Sudan. They say; “Stealing a drum is easy, but finding a place

to beat it, is not.” We must emphasize our cooperation with communities to ensure that we close down the market for stolen goods.

## **GOVERNANCE AND ADMINISTRATION CLUSTER**

Hon. Speaker, the Governance and Administration cluster comprises of the Departments that are seen to be at the centre of government, namely the Office of the Premier, Provincial Treasury, the Department of Cooperative Governance and Traditional Affairs and the Free State Legislature.

Our success as government is greatly informed by the efficient implementation of our laws, policies, regulations, systems and mechanisms. It is therefore fundamental that we support and enhance the coordination and oversight roles played by the Provincial Legislature, the Office of the Premier, COGTA and the Provincial Treasury.

Our significant achievements in the areas of good governance are evidenced by the following;

- Our 2015/16 provincial audit outcomes achieved no less than seven “clean” audits
- Our 2015/16 local government audit outcomes resulted in the first “clean” audit by a Free State municipality, namely the Thabo Mofutsanyana District Municipality.
- In addition to the improvement of audit outcomes of municipalities mentioned by the hon Premier in the State of the Province Address, the audit of the Ngwathe Local Municipality was subsequently finalized and the municipality joined the incredible achievement of the Nala Local Municipality by improving their audit outcome from a “disclaimer” to an “unqualified” audit opinion. This means that in the audit of local municipalities for the 2015/16 financial year, one third of Free State municipalities achieved an improved audit outcome.
- We significantly improved the provincial performance in the MPAT assessment.

The Governance and Administration cluster is allocated a total of R1.272 billion in 2016/17.

### **Office of the Premier**

The Office of the Premier receives R309.644 million in 2016/17; and the allocation decline slightly by 2.5 percent to R307.031 million in 2017/18. In the last outer year

the allocation amounts to R322.481 million. The Office of the Premier will spend R939.156 million over the MTEF period.

Funding will be allocated to priorities including;

- The expansion of the monitoring and evaluation capacity in the Office of the Premier
- The Intervention Unit and Community Development Workers, including our response to the Presidential Hotline and National Anti-Corruption Hotline
- The strengthening of the Provincial Policy and Planning function, including the transfer of the Transport Economist function from the Department of Police, Roads and Transport and providing support to the coordination of SIP project and programme implementation in the Free State
- Provincial Communication and ICT Strategy and the
- Free State Training and Development Institute

### **Cooperative Governance and Traditional Affairs**

Hon Speaker, the Department of Cooperative Governance and Traditional Affairs will receive R407.596 million for 2016/17 and R411.525 million for 2017/18. In the last year of the MTEF, the allocation increases to R430.835 million.

The local government landscape has in recent years been shaped by a number of developments aimed at strengthening this critical level of government. These developments have primarily been implemented under Government's Back to Basics programme and have included various initiatives focused on service and infrastructure delivery, citizen participation, good governance – including competency requirements – the Community Works Programme and the Integrated Urban Development Framework. COGTA also remains our lead department to coordinate provincial disaster management initiatives.

We acknowledge the voices of concern regarding the level of indebtedness of municipalities as well as debt owed to municipalities. It is our collective responsibility to ensure that we further promote a culture of civic responsibility and payment for services throughout all communities in our province.

The forthcoming elections will form the foundation of another significant year for the local government sector. Together with the South African Association of Local

Government (SALGA), the Provincial Treasury and other partners, focused support will be provided to municipalities to address post-election requirements.

We continue to recognize and restore our system of traditional leadership. We will continue to provide support to enable the efficient functioning of our House of Traditional Leaders.

### **Provincial Treasury**

Hon. Speaker; Provincial Treasury is allocated R326.766 million in 2016/17 and R303.057 million in 2017/18. The budget will increase to R316.468 million in 2018/19. In total, Provincial Treasury will spend R946.291 million over the MTEF to strengthen and implement its oversight and coordination functions.

Our established partnerships with the Association of Certified Fraud Examiners (ACFE), the South African Institute of Chartered Accountants (SAICA), the South African Institute of Internal Auditors (SAIIA), the South African Revenue Service, the National Prosecuting Authority, Eskom and NERSA together with our provincial and national departments as well as our various private sector partners will continue to strengthen the implementation of our mandate. Provincial Treasury's funding priorities remain;

- Responsible and responsive sustainable resource management, including monitoring of expenditure and revenue performance
- Strengthening of financial governance, including the sustained improvement in provincial and local government audit outcomes as well as fraud risk prevention and response plans
- Asset and liability management
- Strengthening of municipal financial management

Another critical area of our ongoing work is our monitoring of the payment of suppliers within the stipulated period of 30 days. The on-going consultations between departments and Treasury have resulted in a substantial decline of payments made after 30 days and we will continue to escalate our initiatives in this regard.

### **Free State Legislature**

Honourable Speaker, the resourcing of our provincial legislature remains a key priority. The Free State Legislature is allocated R228.232 million in 2016/17, R233.855 million in 2017/18 and R244.731 million in 2018/19. Hon. Speaker over the MTEF our Legislature will spend R706.818 million.

The financial management environment of the Free State Legislature has been reshaped with the finalization of the Financial Management of Parliament and Provincial Legislatures Act, No 34 of 2014. There are substantial implications for the internal operations of the Legislature to give effect to these legislative provisions. Though the Legislature was required to implement the proportional reduction in its baseline allocation, we have exempted the Legislature from the further provincial-specific targeted reduction in compensation of employees over the MTEF to make provision for the unavoidable consequences of its new financial management environment.

Other spending priorities of the Legislature continue to include;

- Consideration of provincial legislation and legislation dealt with by the National Council of Provinces as well as providing for participation in the NCOP processes
- Public participation, awareness and education,
- Oversight through the Committee system and
- Support to political parties in the Legislature
- Once-off funding is also provided for the hosting of the annual conference of the Association of Public Accounts Committees (APAC) that is scheduled to take place later this year.

## **CONCLUSION**

Hon Speaker, it has become our tradition as Provincial Treasury and our Provincial Department of Education to extend our search for answers to our young people in this province through the Grade 12 Budget Essay Competition. This year we gave an opportunity to the learners of the Ngwathe Local Municipality.

Learners from Edenville, Heilbron, Koppies, Parys and Vredefort, accompanied by their educators and parents, are here with us today. Allow me to appreciate the efforts of our officials from both Provincial Treasury and the Education Department as well as our sponsors – Vodacom and Standard Bank - for making this competition a success.

Seven high schools participated in the competition and the following learners - in no particular order - achieved the top 5 positions:

- Jeannett Khumalo from Boitlamo Secondary - Parys
- Mmatisetso Modiko from Sediba-Thuto Secondary - Heilbron
- Dieketseng Mofokeng from Sediba-Thuto Secondary - Heilbron
- Melvin Tokelo Mohale from Rebatla-Thuto Secondary - Koppies
- Khabonina Nhlapo: from Sediba-Thuto Secondary – Heilbron

Hon. Speaker, please join me in congratulating the winner of the 6<sup>th</sup> iteration of the Grade 12 Provincial Budget Essay Competition who is Khabonina Nhlapo from Sediba-Thuto Senior Secondary in Heilbron. One of the key recommendations from her essay is that we should budget one percent for contingency reserves to deal with emergencies and unforeseeable circumstances. This is sound advice that supports our objective to ensure responsive resource management in the Free State.

Hon. Speaker, allow me to express my profound appreciation to:

- The hon. Premier who continue to inspire and challenge us to make the impossible possible;
- My colleagues in the Executive Council who, together with their Accounting Officers and Chief Financial Officers, faced the tough task to determine the priorities and help us develop this provincial budget that will take us further on our journey towards achieving the real and radical improvement of the socio-economic lives of our people;
- Yourself, hon. Speaker, and the management team of the Legislature as we initiated the new approach towards developing the budget of the Legislature
- The Public Accounts and Finance Committee, under the leadership of Comrade Neels van Rooyen, who will now be taking the consideration of the Appropriation Bill forward and
- The Chief Executive Officer and the officials of Provincial Treasury for their sterling work and unwavering support throughout this budget process

Hon. Speaker, I conclude with the most inspiring of African proverbs. It says;

“Every morning in Africa, a gazelle wakes up. It knows it must run faster than the fastest lion or it will be killed. Every morning in Africa a lion wakes up. It knows it must outrun the slowest gazelle or it will starve to death. It doesn’t matter whether you are a lion or a gazelle. When the sun comes up, you better start running.”

I hereby table the 2015 Appropriation Bill and the accompanying documents.

I thank you.