

**2016/17 ADJUSTMENT
APPROPRIATION
BUDGET SPEECH**

**Hon. EC Rockman
MEC for Finance**

25 November 2016

2016/17 ADJUSTMENT APPROPRIATION SPEECH

Hon Speaker;

Hon. 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 appreciate the opportunity to table and present the 2016/17 Adjustment Appropriation bill to the Free State Legislature today. When we presented the Appropriation bill during March this year, we reflected on the fact that this year marks the 60-year anniversary of the historical 1956 women's march to the Union Buildings. It is symbolic that we present this bill on the International Day of No Violence against Women and Children which also signifies the beginning of the 16 Days of Activism campaign. This year's campaign will be held under the theme; "Count Me In: Together Moving a Non-Violent South Africa Forward".

The ANC government has placed the socio-economic empowerment of women and the advancement of gender equality at the centre of government. The 16 Day Campaign highlights physical and emotional violence and abuse, including the violence of poverty, starvation, humiliation and degradation. We urge all hon. Members to support the 16 Days of Activism campaign by wearing the white ribbon – symbolizing peace and a commitment to never commit or condone violence against women and children - by participating in events and programmes and by speaking out and acting against the abuse of women and children.

We are mindful of the fact that we are fast approaching the mid-point of our 2014 to 2019 Medium Term Strategic Framework (MTSF). It calls upon us to commence with a process of reflection on the progress we have made to achieve our priority outcomes and to adapt our implementation plans to ensure that we fulfil the commitments we set for ourselves. We will undertake this process with a firm commitment to achieving the objectives set out in the National Development Plan that will lead us in our journey to achieve Vision 2030.

As we undertake this review process, we will be reminded of the 2016 Free State Community Survey results that indicate, amongst others, that;

- The total population recorded for the Free State in 2016 was 2.8 million with the Mangaung Metro and Thabo Mofutsanyane district having the highest number of households.
- The youth (aged between 15 and 34) make up 37.4 % of the total Free State population.
- The Free State recorded the highest proportion (30.6 %) of households who reported that their main dwelling was a RDP or government subsidized dwelling as compared to other provinces.
- 84.5 % of households in our province reported that they had access to safe drinking water.

- The Free State recorded the highest percentage of households – 90.8 % - that had access to electricity for cooking.
- The poverty headcount in the Free State remains unchanged at 5.5% in 2011 and 2016. The scope and extent of our social security net is illustrated by the official statistics of the South African Social Security Agency. As at 30 September 2016 - the total number of grant beneficiaries in the Free State stood at to 987 thousand 337 individuals

These statistics offer a snapshot of our journey towards achieving Free State Vision 2030 that is derived from the National Development Plan and expresses a shared desire to reorder the provincial growth and development landscape to bring about meaningful changes.

One of the single largest threats to achieving the vision of the National Development Plan and Free State Vision 2030 remains the high and pervasive levels of unemployment. Earlier this week, we noted that the 3rd quarter national unemployment rate was measured at 27.1 % whilst the Free State official unemployment rate was measured at 34.2 %. Our expanded unemployment rate also increased to 40.4 %. Within the broader statistics of unemployment is a critical sub-text of unemployment, specifically amongst youth and women.

The performance of the provincial economy must improve substantially if we are to reverse the current poverty and unemployment trends in the Free State. Bold, carefully considered and targeted interventions will change the future economic growth of the Free State.

Our economic development strategy integrates the programmes and initiatives of all three spheres of government to accelerate provincial economic growth.

The implementation of the Free State Growth and Development Strategy must undoubtedly be accelerated in order to enable us to reverse these traumatic levels of unemployment. This is not a task that can be achieved by the provincial government alone. We reaffirm our commitment to work with the private sector to escalate investment and the creation of decent job opportunities in the Free State.

Whilst the provincial budget remains a primary tool for the provincial government to accelerate socio-economic transformation, it must be complemented by other initiatives. The unfolding modernization of the supply chain environment in the public sector, including the development of new public procurement legislation, the review of the regulatory environment around preferential procurement as well as the introduction of the Central Supplier Database and the eTender portal are all key elements that will support our quest to improve provincial economic growth and reverse the triple challenge of unemployment, poverty and inequality.

Our commitment to the continued implementation of a sustainable and strong governance framework resulting in an improved and viable financial management environment and audit outcomes for the provincial government and provincial public entities remain intact. We continue to engage constructively with the Office of the Auditor-General on both the provincial and local government audit processes.

The overall provincial audit outcomes for the 2015/16 financial year has been disappointing. Five Provincial Departments declared disputes on the audit outcomes. These disputes relate primarily to the interpretation of legislation and regulations, the Modified Cash Standards and the underlying principles. Some of these disputes are currently under review by National Treasury whilst various other engagements are being pursued to conclude these matters as soon as possible.

Notwithstanding the disputed audit outcomes, renewed emphasis on the financial control environment are required to ensure that we get back on track with the improvement of our audit outcomes. Provincial Treasury has therefore strengthened its coordination and monitoring initiatives, including the following;

- Monthly monitoring and evaluation of Key Control Matrix (KCM) reports of departments and entities,
- Implementation of the audit action plans of all auditees,
- Improvement and strengthening of the internal control environment within the broader provincial government sphere as well as
- Implementation of various consequence management initiatives.

We will further prioritize an engagement with all Audit and Risk Management Committees of provincial departments and public entities to ensure that we strengthen this critical level of governance within our financial management environment.

OVERVIEW OF MACROECONOMIC CONDITIONS AND FORECASTS

Hon. Speaker, our provincial economic outlook cannot be divorced from national and global trends. The global economy also continues to exhibit uncertainties compounded by, amongst others, the rebalancing of the economy of China, the BREXIT vote in June as well as the recent results of the presidential election in the United States of America.

Across the world, a combination of fiscal and monetary policies are being used to balance the combined effects of subdued economic activity and underlying inflationary pressures mainly arising from supply-side factors. The potential in the United States' economy is a dual-edged sword offering a potential boost in global demand but this may result in renewed inflationary pressures across the world. There are also no easy economic answers that lie in the East as China's economy is still undergoing a fundamental change which will shift away from the course of export-led growth of the past three decades.

We must ensure that we take full advantage of the socio-economic opportunities and possibilities that BRICS offer. This is evident from even the most cursory glance at the statistics;

- As of 2015, the five BRICS countries represent over 3.6 billion people, or half of the world population and
- the five nations have a combined nominal GDP of US\$16.6 trillion, equivalent to approximately 22% of the gross world product

The provincial government's international bursary programme is one of the ways in which we are optimizing this opportunity through structured relationships with higher education institutions in India, China and Russia. This is also expanding to other areas such as arts and culture, information technology, trade and the economy.

NATIONAL OUTLOOK

Hon. Speaker, the Medium Term Budget Policy Statement (MTBPS) forecast the growth of the national economy by 0.5 % in the 2016 calendar year and by 1 % in the current fiscal year (ending March 2017). The further forecast is that it may rise to 1.7 % in 2017.

There seems to be a pervasive negativity that occupies our national discourse. Recently, the Founder of Discovery, Adrian Gore, reminded us that in spite of the challenges that remain, our country has made advancements in a number of areas. These include the following;

- Our country's economy is four times larger than it was in 1994;
- Our anti-retroviral programme is the biggest in the world;
- Millions of our people have been lifted out of poverty;
- Life expectancy has increased from 51 years in 2005 to 56 years in 2012;

Recent data points to another expansion of economic activity in the third quarter following the rebound of growth of 3.3 percent in the second quarter of 2016. Growth in manufacturing production recovered in August and the Purchasing Managers' Index (PMI) entered

expansionary territory in September, signalling improving business conditions in the manufacturing sector.

The 2016 national Medium Term Budget Policy Statement seeks to consolidate these gains by outlining a detailed programme for the next three years that balances inclusive growth, economic transformation and fiscal sustainability. These elements will also translate into the provincial government's fiscal policy positions over the Medium Term Expenditure Framework.

THE 2016/17 MID-YEAR EXPENDITURE REVIEW

Hon Speaker, let me briefly reflect on the mid-year spending patterns. We allocated R30.829 billion to all provincial departments to provide for provincial and national priorities, including Health and Education which were allocated 69 percent of the total budget. This amount is constituted as follows;

- R22.984 billion relates to provincial equitable share
- R6.816 billion is from conditional grants' allocations and
- R1.029 billion—our estimated provincial revenue.

As at the end of the second quarter of the current financial year, we had spent R15.829 billion or 51.3 percent of our total fiscal purse. This is slightly above the linear norm of 50 % but it does reflect our intention to spend prudently and deliver on much needed public services.

Provincial spending on capital assets amounted to 47 percent of the allocated budget of R2.469 billion. Though slightly under the linear norm,

we are confident that our infrastructure spent will be optimal in the current financial year and will further support the creation of decent work opportunities.

FISCAL POLICY AND THE BUDGET FRAMEWORK

Hon Speaker, the 2016 Medium Term Budget Policy Statement reflects on the current and arising economic constraints, globally and domestically. The revised economic growth rate and the resultant downward revision of projected national revenue by R23 billion for the current financial year clearly indicate the challenging fiscal position of the country.

These economic challenges, together with the continuing implementation of fiscal consolidation, calls for clear commitment to prudent financial management. Ours is to remain resilient in facing these challenges. Our roles and responsibilities are to ensure that the utilization of the very limited resources at our disposal directly address the needs of our people.

Fiscal consolidation introduced spending limitations in 2012 and as remain in place. We also continue to implement our agreements in the national Budget Council as reflected in the Joint Action Plan for fiscal consolidation. This includes, amongst others;

- Containing administrative personnel expenditure
- Improving revenue collection,
- Reducing, scaling down and/or closure of redundant and underperforming programmes and entities, and

- Intensifying the implementation of cost-containment measures.

During the tabling of the 2016/17 budget, we emphasized our resolve to implement the Joint Action Plan. Our personnel expenditure remains stable at around 50.6 percent of the total budget of R18.6 billion.

Hon Members will recall that the salary adjustment of public servants resulted in a budget shortfall that provinces are required to accommodate from within their budget envelope. We need to continue to be innovative and prudent in providing for this shortfall. We are immensely appreciative of the continued support and cooperation that we receive from the broader provincial government sector to ensure that we keep to the expenditure ceiling on compensation of employees.

The draft legislation that will combine two of our public entities, namely Free State Tourism and the Free State Gambling and Liquor Authority, was published for public comment on the 21st of October 2016. We are convinced of the efficiency gains that will be brought about by this incorporation.

The revised cost containment measures underpin government's resolve to redirect resources to identified priorities. Though we have achieved on average a 4.2 % decline in expenditure on non-core items over the last 3 financial years, we believe that there remains substantial scope to achieve further savings and efficiency gains.

The Executive Council approved the revised cost containment measures with effect from 01 November 2016. We will continue our rigorous engagements with a focus on;

- identification of inefficiencies in the system;
- scaling down and/or postponement of less strategic programmes/projects;
- promotion of trade-offs within and between spending priorities of provincial departments and entities; and
- Identification of efficiency savings on non-core items.

ESTIMATED REVENUE

Hon. Speaker, allow me to briefly reflect on the estimated revenue for 2016/17 and the 2017 MTEF period. The current revenue collection is at 50 % which is in line with the expected collection after six months of the current financial year.

Provincial revenue is mainly driven by motor vehicle registrations and licenses as well as patients' fees. We congratulate the Department of Police, Roads and Transport who have led our revenue collection initiatives with distinction. The Department has already generated 57 percent of its revenue target in the second quarter of the current financial year; this is above the 50% norm. Provincial Treasury has also achieved its revenue target for the year. There is still scope to improve significantly with regard to the collection of outstanding patients' fees, including our cooperation with the Road Accident Fund (RAF) and the Ministry of Health in Lesotho.

The Adjustment Appropriation Bill proposes a revision of estimated revenue for the current financial year by a marginal R42.4 million or 4.1 percent to R1.072 billion

THE 2016/17 MID-YEAR BUDGET ADJUSTMENTS

Hon Speaker, considering the constrained fiscal outlook and a need to continue to facilitate fiscal sustainability and financial prudence, provincial budgets were realigned to allow for the reductions and subsequent re-allocation of funds in the current financial year.

We have identified an amount of R155 million from within the current allocated budgets of provincial departments for reprioritization. These funds were identified from slow moving programmes and projects and are subsequently reprioritized towards key provincial government priorities. This is neither new money nor additional funding.

Reprioritization of allocated funds

The proposed re-allocation of funds are as follows:

- The Department of Education receives R17.2 million towards learner teacher support materials (LTSM) and hostel support programmes.
- Public Works and Infrastructure is allocated R10 million for additional work on the sanitation infrastructure required for the Trompsburg Hospital.
- The Department of Cooperative Governance and Traditional Affairs is allocated R23.5 million as it has had to provide financial support to the local government sector, including assistance to municipalities for emergency drought mitigation measures.

- An amount of R10 million is allocated to the Department of Police, Roads and Transport to accelerate and expand road projects.
- The Department of Agriculture and Rural Development is allocated R2.5 million to deal with outbreaks of swine fever and brucellosis vaccines. The allocation also provides for matters relating to import and export certification of animals and products.
- An amount of R17 million is allocated to the DESTEA in respect of the Free State Madeira Flower Festival and sport tourism development. The amount above includes R6 million allocated to FDC for the implementation of a telephony cost-saving programme across identified provincial departments.
- Provincial Treasury is allocated a total amount of R10.1 million for identified intervention measures in the financial management environment of the provincial government, transversal information technology systems and SITA servers as well as the augmentation of the Municipal Support Programme.
- The Department of Sport, Arts, Culture and Recreation receives an amount of R25.4 million as a result of additional events included in the annual Mangaung Arts & Cultural Festival (MACUFE), support to Free State Rugby, the OR Tambo Marathon and construction costs of the Dr. Molemela Stadium.
- The Department of Human Settlements is allocated an amount of R10 million to deal with the demolition and construction of two roomed houses in the province in order to provide decent shelter to our people in the province.

- The Office of the Premier will receive an amount of R29.3 million in respect of funding required for projects and programmes implemented on behalf of the provincial government as well as its corporate services function.

Transfer of functions

The function of transport economists was transferred from the Department of Police, Roads and Transport to the Office of the Premier as announced during the tabling of the Appropriation Bill during March. Outstanding matters have been resolved and the adjustment proposal makes provision for the transfer of R2 million in respect of the Harrismith Logistic Hub, whilst other funds relating to the Hub will be transferred over the 2017 MTEF.

Appropriation of additional funding

Hon Speaker, in addition to the reprioritization of funds, the adjustment appropriation bill further provides for additional net spending amounting to R257 million. The adjustment budget also deals with the proposed allocations of the approved rollovers, additional funding for conditional grants as well as the upward adjustment of provincial own revenue.

Conditional grant rollovers

From the total available funding of R257 million, an amount of R165 million relates to nationally approved conditional grant rollovers and allocations per department are as follows:

- R128.3 million to the Department of Education in respect of Education Infrastructure, the National School Nutrition Programme, the Maths, Science and Technology and HIV and Aids grants;
- R20.8 million to the Department of Health which relates to the Health Facility Revitalisation Grant;
- R11 million to the Department of Social Development for the construction of the Substance Abuse Treatment Centre in Botshabelo;
- R2.8 million to the Department of Human Settlements for the construction of houses for military veterans;
- R1.6 million to the Department of Police, Roads and Transport relates to the Provincial Road Maintenance Grant in respect of the revitalization of provincial roads;
- Minor allocations are also made to the Department of Sport, Arts, Culture and Recreation from the Community Library Service Grant and to the Department of Economic and Small Business Development, Tourism and Environmental Affairs for EPWP purposes.

Provincial rollovers

We are further proposing provincial roll-overs in the amount of R8.9 million to various Departments that presented evidence-based

commitments. Five departments, namely Provincial Treasury, DESTEA, Public Works and Infrastructure, Agriculture & Rural Development and Sport, Arts, Culture and Recreation will receive the proposed roll-overs. The approval of these rollovers will assist in reducing financial commitments and accruals of the affected Departments.

Additional appropriation from conditional grants

The Department of Education will receive an amount of R6.5 million towards the National School Nutrition Programme (NSNP) Grant as a result of the conversion of the indirect conditional grant to a direct conditional grant. The additional funding is aimed at addressing the shortfall caused by higher than anticipated inflation for food and food-related products.

The Department of Sport, Arts, Culture and Recreation will receive an additional amount of R23.4 million in respect of the Mass Participation and Sport Development Grant. The additional funding corrects the allocation that was erroneously published in the 2016 Division of Revenue Act. The allocation will primarily assist with the construction of National Training Centre.

Additional allocation from provincial own revenue

Hon Speaker, as a province we recognise the excellent work done by our Department of Police, Roads and Transport in terms of optimizing our provincial revenue. The Department is allocated an amount of R41.4 million towards further revenue enhancement.

CONCLUSION

Hon. Speaker, we are pleased to acknowledge that various provincial departments have recently received recognition for excellence in performance. These include;

- The National Batho Pele Excellence Awards is a national recognition programme of the Department of Public Service and Administration. The purpose of the Awards is to recognize and celebrate service delivery excellence with an ultimate goal of entrenching professionalism in the public service. The Free State's achievements in the 2016 Batho Pele Excellence Awards were as follows;
 - The CEO of Provincial Treasury received the silver award in the category; " Best Head of Provincial Department of the Year".
 - FS Provincial Treasury obtained the third place in the category "Best Functioning Provincial Department of the Year".
 - The Department of Public Works shared the silver award in the category; "Best Ethical and Professional Department of the Year" with the Office of the Premier obtaining the third place in the same category.
- The Contractor Development Programme (CDP) of the Department of Police, Roads and Transport received the award for the "Most Innovative Service Delivery Institution" in the country during the annual awards ceremony of the Centre for Public Service

Innovation. The Awards seek to recognize and encourage innovation projects which contribute to the acceleration of service delivery as well as job creation.

Hon. Speaker, we conducted extensive engagements with provincial departments and provincial public entities in the preparation of this Adjustment Appropriation Bill. I must place on record our appreciation for the commitment of all the Heads of Departments, Chief Executive Officers of Public Entities, Chief Financial Officers and the technical teams for the constructive engagements during this process.

I wish to thank the Honourable Premier and Members of the EXCO for the guidance and robust discussions that resulted in the outcomes we present to the Legislature today.

The tabling of the Adjustment Appropriation Bill has become the traditional sign that the calendar year is winding down as this is one of the last pieces of legislation that the hon. House will deal with this year. I also wish to express my appreciation to all hon. Members of the House, and especially the Members of the Finance and Public Accounts Committee, for the continuous constructive engagements we enjoy.

I hereby table the 2016 Adjustments Budget alongside the Adjustment Appropriation Bill as well as the 2016 Medium Term Budget Policy Statement.

Thank you.