



Member of the Executive Council
for Finance
FREE STATE PROVINCE

2017/2018
ADJUSTMENT APPROPRIATION
BUDGET SPEECH

Hon. E.C. Rockman
MEC for Finance

21 November 2017

2017/2018 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;

Leadership from our local government sphere

Ladies and Gentlemen;

We appreciate the opportunity to table the 2017/2018 Adjustment Appropriation Bill and the 2017 Provincial Medium Term Budget Policy Statement. We declared 2017 as; “The Year of Oliver Reginald Tambo” in celebration of the life and legacy of this extraordinary leader. The OR Tambo legacy is characterized by the enduring values of selfless leadership, integrity and the pursuit of a united South Africa. We continue to strive towards achieving economic emancipation without which political freedom remains incomplete.

At the Provincial Research Colloquium held in October this year, Prof. Siphon Seepe reflected on the skewed patterns of ownership and leadership in the economy. He noted that; “There can be no sustainability in any economy if the majority is excluded in this manner.” Radical economic transformation must be a departure from what has become the norm and tradition; it must be innovative and progressive.

The characteristics of what we regard as radical economic transformation include;

- Fundamentally changing the structure of our economy as a producer and exporter of primary commodities through industrialization and moving up value chains;
- Intensifying efforts to promote greater inclusion of historically disadvantaged black people in positions of ownership, management, leadership and control, particularly but not only in the productive economy;
- Transformation of production relations to be less conflictual, characterised by more equitable benefit-sharing and by less inequality; and
- Placing job creation at the heart of work programmes and promoting a more inclusive job-rich pattern of growth.

Radical economic transformation that meet these characteristics will be able to realize the economic emancipation of our people.

One of the key enablers of ensuring the entry of SMMEs into the mainstream of the economy, is founded on the 30 day payment requirement as set out in section 38 (1)(f) of the PFMA and paragraph 8.2.3 of Treasury Regulations. We conduct and analyze the 30 Day Payment Reports with specific focus on the payment of suppliers and service providers, on a monthly basis.

At the end of October 2017, three provincial departments, namely Provincial Treasury, Agriculture and Rural Development and DESTEA maintained a consistent 100 % compliance rate with the 30 day payment requirement.

A combination of factors contribute to the challenge to achieve full compliance with the 30 Day Payment requirement. These include technical difficulties with the Central Supplier Database, the tax status of suppliers and service providers, disputed invoices and inadequate funding. Provincial Treasury, DESTEA and the Office of the Premier are combining their efforts to improve the provincial compliance rate.

OVERVIEW OF MACROECONOMIC CONDITIONS AND FORECASTS

Hon. Speaker, the projected global and regional economic outlook appears to maintain an upward trajectory with the International Monetary Fund (IMF) projecting global growth to reach 3.6% this year and 3.7% in 2018. Emerging markets and developing economies continue to be the main drivers of global growth, as their economic growth is projected to increase to 4.6 % in 2017.

Our national and provincial economic outlook is more constrained. This is evident from the downwards revision of South Africa's economic growth forecasts for 2017 from 1.3 % to 0.7 %. Though it is a marginal improvement on the 2016 growth rate of 0.3 %, it remains well below the NDP 2030 target of 5.4 %.

The subdued growth of the national economy is reflected in our provincial economy. Provincial growth is expected to slow further in 2017

to -0.2 %, from -0.1 % in 2016. The provincial economy is expected to recover from a 3-year drought-led recession to growth of 0.7 % in 2018. On average, the Province is expected to grow by 0.8 % in the period under review up to 2021, mainly driven by faster-than expected growth in the finance, transport and agriculture sectors.

Further investments in our Special Economic Zone over and above the combined R850 million already secured will provide much-needed stimulus to provincial economic growth. The secured investments relate to the manufacturing and operation of starch and chemical blending facilities, the manufacturing of chipboard and furniture and a beef abattoir.

The national and provincial economic outlook could benefit substantially from the recovery in commodity prices as well as the end of the drought in most parts of South Africa. The Crop Estimates Committee predicts that South Africa will produce 16.7 million tons of maize in 2017, which is more than twice the maize of 7.7 million tons produced in 2016. Although agriculture only contributes approximately 2.4 % towards the national economy, its impact on growth is sizable.

In mining, the prices of gold, coal and iron ore – amongst other minerals – are higher in the third quarter of 2017 than in comparison with the 2016 average prices. The recovery of both agriculture and mining may positively impact on the economic growth performance of South Africa.

The South African economy will, however, only maximize the potential of the economic growth in these sectors if it is able to move up the value-chain of these commodities through industrialization.

In addition, South Africa and the Free State must prepare and position itself for the Fourth Industrial Revolution and the challenges it brings about. One of the main challenges is undoubtedly the necessity to find ways of adapting and using technologies to remain globally competitive, whilst maintaining and creating jobs in a high-unemployment environment.

Downside challenges currently facing our economy include the country's sovereign credit rating, the exchange rate as well as consumer and business confidence. Constructive cooperation and collaboration between government, business and civil society remains crucial to place the country's growth rate back on a higher trajectory.

POVERTY AND UNEMPLOYMENT

The 2017 Mid-Year Population Estimates records the Free State's share of the total population at 5.1 %. It is important that we reflect on the poverty and unemployment levels recorded by Stats SA as these illustrate our progress in improving the economic status of our people.

Unemployment

The 3rd Quarter Labour Force Survey of 2017 of Stats SA reflected the Free State position as follows;

- The official unemployment rate in the Free State decreased from 34.4 % in the 2nd quarter to **31.8** % in the 3rd quarter of 2017. The number of employed persons increased by 44 000 or 5.7 %.

- When discouraged work seekers are taken into account, the expanded unemployment rate of the province has also decreased from 40.5 % in the 2nd quarter to 38.5 % in the 3rd quarter of 2017.
- Compared to the previous quarter, the largest unemployment rate decrease were seen at the 15 to 24 age group by 6.4 percentage points, and the 25 to 34 age group which decreased by 4.0 percentage points in the third quarter of 2017. Taking a 3 year view, the rate of youth unemployment in the province has decreased by 5.7 % from 47.6% at the end of the third quarter of 2014 to 41.9 % at the end of the third quarter of 2017.
- The formal sector (excluding agriculture) accounts for 59.6 % of employment in the Free State, with the informal sector (excluding agriculture) contributing 17.8 %, private households 12.4 % and agriculture 10.3 %.

Though the decline in unemployment levels in the Free State is a positive sign, the provincial unemployment rate remains the second highest amongst provinces. The Free State is one of five provinces – the others being Gauteng, Mpumalanga, Eastern Cape and Northern Cape – where the unemployment rate remains higher than the official national unemployment rate of 27.7 %.

Poverty

Stats SA's latest Poverty Trends in South Africa Report reveals the following about the Free State;

- The poverty headcount in the Free State changed from 62.0% in 2006 to 68.1% in 2009, then declined to 52.4% in 2011 and increased slightly to 54.9% in 2015. [This is the poverty headcount according to the Upper-Bound Poverty Line, i.e. R992 per person per month.]
- In terms of ranking provinces according to their poverty gaps (from highest to lowest), the provinces had the lowest poverty gap values over the measured data points in 2015. These were the Free State at 25.1 %, Western Cape at 14.7 % and Gauteng at 13.2 %.
- The proportion of older persons receiving old-age grants in the Free State was 94.1 % in 2015; and
- 64.4 % of poor households with children received child support grants in the Free State in 2015

These statistics, together with an abundance of other available research and data, will enrich our planning, budget and implementation processes, not only at provincial but also at local government level.

GOVERNANCE & ACCOUNTABILITY

Hon. Speaker, Goal 16 of the United Nations' Sustainable Development Goals is dedicated to the promotion of peaceful and inclusive societies for sustainable development, the provision of access to justice for all, and building effective, accountable institutions at all levels. The Goal 16 targets include, amongst others, to -;

- Substantially reduce corruption and bribery in all their forms; and to
- Develop effective, accountable and transparent institutions at all levels

Transparency International's Global Corruption Barometer is the world's largest survey which asks citizens about their direct personal experience of corruption in their daily lives. The latest findings of this series recorded that although 57 % of people globally thought their governments were doing badly at fighting corruption in their respective country, nearly 1 in 4 people said that they paid a bribe when accessing public services in the last 12 months. In addition, the survey recorded that about 40 % of victim organizations fear the consequences of bad publicity more than the loss of revenue through acts of fraud and corruption.

These contradictions say much about the values and ethics we bring into our work environments and call for some serious self-introspection. We must respond appropriately to the growing demand for the promotion of a culture of ethical governance and intolerance of fraud and corruption in the public and private sector. It requires of us to consciously change our attitudes and behaviors at an individual level and cascade that to our immediate and broader work environments. At the commemoration of International Corruption Day last year, Minister Jeff Radebe commented; "The fact is, corruption cannot flourish if we all take personal responsibility to stop it."

Last week we participated in International Fraud Awareness Week as part of the global effort to minimize the impact of fraud. We have actively encouraged key officials in the broader public sector environment to

pursue the Certified Fraud Examiner (CFE) qualification. This has resulted in us now having 22 qualified CFEs in our broader public sector environment (that is provincial and local government) with a further 17 who will be attending and completing the course during the current financial year. We anticipate to see the impact of this programme on our internal control environment as we increase our ability to identify and prevent weaknesses and, equally importantly, to deal decisively with the intentional contravention and circumvention of our regulatory framework.

Provincial Audit Outcomes

The provincial audit outcomes for the 2016/17 financial year produced three so-called “clean audits”, from the Free State Legislature, Provincial Treasury and the Provincial Revenue Fund whilst the Department of Health obtained an unqualified audit opinion.

We expect that the required corrective measures have been taken to address the regression in the audit outcomes of the Office of the Premier and the Fleet Management Trading Entity. Though there was a 14 % improvement in the number of qualification findings in provincial departments, we remain concerned about the following areas;

- Accruals, Payables & Commitments
- Classification of expenditure, specifically Transfers & Subsidies and Goods and Services
- Capital expenditure, movable tangible assets, Immovable tangible capital assets as well as the occurrence and accuracy of capital expenditure and the impact of work-in-progress
- Irregular expenditure

- Financial health of certain provincial departments

Hon. Speaker, we need to emphasize the fact that a conscious decision was taken to ensure that the Province reduces its cumulative irregular expenditure that dates as far back as 2007. Provincial Treasury initiated the process of investigating irregular expenditure incurred in previous years. The initiative was piloted in the Departments of Education, Health and Human Settlements. The first phase of the process involved the verification of 20 000 payment documents for the period 2010/11 to 2015/16 for the Department of Health, as well as the investigations of 7 thousand 474 irregular expenditure cases for the three departments.

The first phase of the investigation was completed at the end July 2017 and the results are:

- 3 thousand 324 cases of irregular expenditure to the value of R539 million were identified in the Department of Health;
- 1 thousand 217 cases to the value of R480 million were found not to be irregular expenditure;
- For 6 thousand 257 cases to the value of R2.8 billion, no losses were incurred and the affected departments are in the process of putting measures in place to comply with the relevant requirements to ensure that the total irregular expenditure can be decreased in 2017/2018.
- A potential loss of R5 million has been identified and further investigation is now in process in all three Departments to determine liability and recoverability.

Municipal Audit Outcomes

We have previously reflected on our local government audit outcomes for the 2015/16 financial year during which 6 municipalities improved their audit outcomes but 3 municipalities obtained a disclaimer audit opinion. The “Consolidated Report of the Audit General on the outcomes of local government completed by 15 January 2017” reflected an overall improvement in the quality of submitted annual financial statements and annual performance reports. Particular concern was, however, expressed regarding material non-compliance with laws and regulations and the continued regression in financial health.

The audit process of our municipalities for the 2016/17 financial year is currently in process. It is anticipated that most of the audits will conclude by the end of November 2017. The current audit process will be an indicator of whether our municipalities have developed the internal capacity and resilience to withstand the impact of management changes resulting from contractual arrangements linked to local government elections.

It is evident that the realization of substantial improvements in our governance arrangements, including compliance with applicable legislation in the provincial and local spheres of government, will undoubtedly support and strengthen our pursuit of the goals of the National Development Plan.

THE 2017/18 MID-YEAR EXPENDITURE REVIEW

Hon. Speaker, allow me to briefly reflect on the expenditure patterns that has emerged during the first six months of the current financial year. Let me hasten to add that we should take into account that expenditure is not a purpose onto itself but is linked to what we conceptualized and set out in our Annual Performance Plans.

Our initial provincial fiscal framework, as tabled in March 2017, amounted to R32.901 billion. An amount of R24.522 billion related to the provincial equitable share; whilst R7.267 billion and R1.112 billion related to conditional grants and provincial revenue, respectively.

We allocated R32.898 billion to all provincial departments to provide for provincial and national priorities, including Health and Education which accounted for 68 % of the total fiscal envelope.

By the end of the second quarter of the current financial year, we had spent R17.014 billion or 51.7 % of our total fiscal purse. This is slightly above the linear norm of 50 % but it does reflect our intention to deliver on much needed public services. Three departments were above the spending norm of 50 percent, namely the Office of the Premier, Public Works and Infrastructure as well as Education. Budget pressures relate mainly to the provincial bursary programme in the Office of the Premier, the payment of utilities, rates and taxes in Public Works and Infrastructure and compensation of employees and transfers to schools in Education.

Conversely, three departments experienced spending below the linear norm, namely Human Settlements, Agriculture and Rural Development as well Sport, Arts, Culture and Recreation. We are closely monitoring expenditure patterns in our provincial departments, particularly as it relates to the potential impact on conditional grants.

Our budget for the current financial year aimed to maintain our investment in socio-economic infrastructure given the potential impetus for economic growth that this may achieve. Provincial spending on capital assets amounted to 46.5 % at the end of the second quarter of the current financial year. Though slightly under the linear norm, we are confident that our infrastructure spend will be optimal in the current financial year and will further support the creation of decent work opportunities.

COST CONTAINMENT MEASURES

Hon. Speaker, the current fiscal policy stance of promoting and strengthening fiscal consolidation, fiscal discipline and fiscal sustainability, over the medium term continues to guide our efforts and decisions as the provincial government. Our review of expenditure on deemed non-essential items indicate that we have reduced the share of funds allocated to non-essentials from 4.4 % in 2015/16 to 3.9 % in 2017/18.

Given our current economic and fiscal space, we should continue to strengthen our cost containment measures. We periodically revise our instruction notes and ensure their monitoring in the monthly and quarterly key control matrix processes.

Hon. Speaker, the capacity of the state and service delivery are intrinsically linked to its public servants. We have been experiencing increasing budget pressures relating to compensation of employees as a result of increases that are higher than inflation. This has particularly impacted on our Department of Education.

We have initiated a number of measures to curtail spending on compensation, including the filling of critical vacancies, determining limits on compensation of employees for all departments and entities and PERSAL blocking. In addition, we initiated the programme of headcounts in provincial departments. The first phase of our headcount programme verified a total number of 55 thousand 231 officials of which only 8 was not verified due to various stages of incapacity leave. The current phase of the headcount programme in the Departments of Police, Roads and Transport, Public Works and Infrastructure, Sport, Arts, Culture and Recreation and Fleet Management seeks to verify an additional 5539 officials.

These measures are beginning to have the achieved outcome as the compensation of employee's budget as percentage of the total provincial budget has declined from 61.1 % in 2016/17 to 59.2 % in 2017/18.

PROVINCIAL PUBLIC ENTITIES

We are pleased that the Legislature concluded the legislative process that resulted in the restructuring of our provincial public entities as envisaged during the Provincial Budget Speech in March this year. The Free State Gambling, Liquor and Tourism Authority came into being following the hon. Premier's assent to the legislation on 12 May 2017.

THE 2017/18 FISCAL FRAMEWORK

Hon. Speaker, the 2017 MTBPS tabled by the Minister of Finance on the 24th of October 2017 reflected on the difficult economic environment of our country and the adverse impact thereof on revenue and the fiscal framework as a whole.

The continuing fiscal consolidation stance, in the midst of slow economic growth, has dire consequences for provinces, especially economically limited provinces such as ours. The impact of fiscal consolidation is that there are no new funds allocated to our province. We have to deal with our in-year cost pressures through enforcing technical and allocative efficiencies. We continuously need to conduct vigorous analysis of our budgets and reprioritize towards core programmes and frontline services.

ESTIMATED PROVINCIAL OWN REVENUE

Hon. Speaker, in the 2016/17 financial year we collected just above one billion rands in revenue. This is a notable achievement for a province of our size. Our Department of Police, Roads and Transport continues to be the main revenue generator for the Province and we acknowledge the commitment of the Department to ensure that we achieve our revenue target.

In the current financial year, the province estimates to collect R1.1 billion. In the first six months, revenue collected amounted to R562 million or 50.6 % which is in line with the linear norm of 50 % at mid-year point.

We have thoroughly reviewed the performance of departments and their respective projections going forward. As such, we have taken a conscious decision to retain the current revenue estimates for 2017/18. We anticipate that we may be able to review our current revenue estimates during the last quarter of the current financial year, given the intention of DESTEA to proceed with the provincial game auction in addition to providing continued support to emerging game farmers through the donation of game.

THE 2017/18 MID-YEAR BUDGET ADJUSTMENTS

Hon. Speaker, the 2017/18 adjustment budget process was initiated through extensive and vigorous discussion during the Provincial Medium-Term Expenditure Committee hearings. The objective was to deepen the understanding of the in-year and MTEF budget pressures and the plans to deal with these challenges.

Our engagement in the PMTEC was primarily informed by the need to reprioritize funds to core programmes, the management of the provincial wage bill and personnel numbers as well as identifying and enhancing technical and allocative efficiencies. Given the current provincial fiscal environment, our only choice to deal with the in-year budget pressures have been through the aggressive reprioritization of funding within and between departments to fund provincial pressures.

Through an extensive consultative exercise involving individual Departments, the Forum of Heads of Departments, the Provincial Treasury Committee and finally the Executive Council, we identified R162.457 million 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 identified through reprioritization are as follows:

- An amount of R30.1 million is allocated to the Department of Education to supplement the main budget allocation of transfers to schools (norms and standards).
- An amount of R10 million is allocated to the Department of Police, Roads and Transport in respect of learner transport.
- An amount of R85 million is allocated to the Office of the Premier in respect of our bursary programme for national and international students as well as supplementing the allocation towards goods and services.
- An amount of R23.054 million is allocated to the Department of Public Works and Infrastructure in respect of municipal services, rates and taxes as well as works required at the Boitumelo Thusong Service Centre in Thabong.

Transfer of functions

Provision is made in the Adjustment Appropriation Bill for the following transfers of budgets to accompany relevant transfer of functions;

- The horticultural function has been transferred from DESTEA to the Department of Agriculture and Rural Development and provision is made for the transfer of R7.916 million between the two Departments.
- Provision is made for the transfer of the budget relating to staff and operational costs arising from the transfer of the bursary function from the Department of Education to the Office of the Premier in the amount of R6.806 million.

Appropriation of additional funding

Hon. Speaker, the adjustment budget also deals with the proposed allocations of the approved rollovers, both in terms of conditional grants and equitable share.

Conditional Grants Roll Overs

The total conditional grants allocated to the province in the 2016/17 financial year amounted to R6.924 billion and the audited spending amounted to R6.669 billion or 93.3 %. We therefore technically underspent by R254.807 million though it should be noted that the funds were already committed but not yet spent at year-end for varying

reasons. An amount of R240.504 million was approved as roll-over by National Treasury.

We must surrender to National Treasury the amount of R14.303 million and the adjustment budget makes provision for this. The approved conditional grants rollovers are allocated as follows:

- R199.224 million to the Department of Education and mainly relates to education infrastructure grant;
- R38.935 million to the Department of Social Development for the construction of the Substance Abuse Centre; and
- R2.345 million is allocated to the Department of Agriculture and Rural Development to cater for agricultural support programmes.

Equitable Share Rollovers

Hon. Speaker; we also have our own provincial rollover process that relates to equitable share allocations. The total provincial rollover requests for equitable share amounted to R30.985 million. Only R28.709 million could be verified as committed and only R26.952 million was approved.

Let me briefly outline the details of the approved equitable share rollovers per department:

- R12.576 million is allocated to Provincial Treasury towards the recovery of ex-employees' debt, investigation of prior year irregular expenditure and municipal support programmes.

- R9.186 million is received by the Department of Agriculture and Rural Development for farmer support programmes and projects as well as capital assets.
- R5.190 million is appropriated to the Department of Economic and Small Business Development, Tourism and Environmental Affairs towards the revitalisation of train camps at Soetdoring Reserve and baling machines for waste management.

Donations and Retained Revenue

The Adjustment Appropriation Bill furthermore makes provision for the recognition of donations received by the Department of Human Settlements in the amount of R1.079 million. In addition, provision is made for the recognition of the retained revenue of the Free State Legislature at the end of the 2016/17 financial year in the amount of R9.012 million.

CONCLUSION

Hon. Speaker, during the budget vote speech of Provincial Treasury in March this year, I stated our intention to initiate a research project focusing on the gender analysis of the provincial budget. I am particularly pleased today to inform the hon. House that with the assistance of National Treasury, we have received confirmation of funding of this project from the Belgian / South African Study and Consultancy Fund in the amount of R2 million.

This project will enable us to analyze and evaluate the real gender-specific and gender-biased resource decisions we make and how this impacts on the socio-economic status and aspects of equality of women and men. We look forward to working with National Treasury and our various other partners in the public and civil society sector as well as the Legislature on this project.

Hon. Speaker, I wish to express my appreciation to;

- The hon. Premier and Members of the Executive Council for their commitment to ensure that we develop this adjustment budget in accordance with our stated priorities in a particularly tough fiscal environment;
- The hon. Members of this House and in particular the Public Accounts and Finance Portfolio Committee
- The Director-General, Heads of Departments, CEOs and Chief Financial Officers for their invaluable contribution during our rigorous engagements
- The HOD of Provincial Treasury and his team who continue to work tirelessly with our provincial departments and entities to ensure that we maintain a sound and sustainable fiscal environment.

I hereby table the 2017/18 Adjustment Appropriation Bill as well as the 2017 Medium Term Budget Policy Statement.

Thank you.