



Member of the Executive Council
for Finance
FREE STATE PROVINCE

2021/22 ADJUSTMENT APPROPRIATION BUDGET SPEECH

Hon. Gadija Brown

MEC for Finance: Free State Province

26th November 2021

Hon. Speaker Sifuba;

Hon. Premier Me. Sisi Ntombela;

Members of the Executive Council;

Members of the Free State Legislature;

Executive Mayors, Mayors and Councilors;

Director-General of the Province, Heads of the respective Departments,
Chief Executive Officers and leaders of our public and private
institutions;

Municipal Managers;

Special Guests;

Esteemed Ladies and Gentlemen;

Good morning!

Dumelang!

Goeie môre!

Molweni!

Sanibonani!

INTRODUCTION

Madam Speaker, warm greetings to all and I thank you for this opportunity given to me to present the 2021/22 Adjustment Budget. Today I table this provincial adjustment budget during the period of 16 days of activism dedicated primarily on generating an increased awareness on the negative impact of gender-based violence on women and children. The 16 Days of Activism Campaign for *No Violence against Women and Children* is an international United Nations-endorsed initiative and campaign that takes place annually from 25 November (International Day of No Violence against Women) to 10 December (International Human Rights Day).

Our message is clear, violence against women and children is abominable and cannot be tolerated by any society that is built on principles of honour, love and respect for human life. We must root out the perpetrators of these shameful deeds in our societies and subject them to judicial processes. I ask of all of us to take a firm stance against gender based violence.

Hon Speaker, this Provincial adjustment budget is tabled exactly 25 days after the recent Local Government Elections held on November 1, 2021 and I wish to congratulate all newly elected Councils within the FS Province and the Country at large. We remain hopeful that the Provincial Adjustment Budget will bring the much-sought support to our municipalities in their plight to build better communities together through the different deliverables which are to be implemented in the respective local municipalities through the budgets of the different provincial departments.

Hon Members, the scourge of the COVID-19 has contributed to an unprecedented number of job losses and has widened the inequality gaps between the haves and the have-nots. Our recovery out of this economic meltdown will require us to practice most stringent cost containment measures and tight fiscal spending patterns. It requires us to prioritise, to meticulously align our funding to APEX priorities as outlined by this 6th Administration, with special emphasis on the Economy, Jobs and Infrastructure.

We must create conditions which are conducive to build the FS we want during these difficult period which is indeed a test of our resilience and character as a leadership collective.

We wish to welcome the recovery rate of COVID-19 cases in our province as well as the impressive outcomes of the COVID-19 vaccination outreach programme by the Department of Health in our Province under the MEC for Health, Hon. MEC Montsheng Tsiu, her Department and the leadership collective indeed deserve a vivacious round of applause.

As I present this budget, Hon. Speaker I would like to reaffirm that as the executive of this province, we remain resolute and steadfast, we remain resilient in the face of these harsh and unforgiving economic conditions. The wellbeing of the people of the Free State remains a driving force and we shall therefore overcome these conditions.

With that said Madam Speaker, we are delighted to hear of the positive development related to the prospecting of natural gas and helium in Virginia. We trust that the investment made by Renergen will have positive spin-off for the district of Matjhabeng and the province as a whole.

We were also excited to hear that the town of Boshof is set to host six of the twenty-five new solar power farms in the country. These are really exciting developments and we hope that they will come to fruition and serve as impetus to the provincial economy.

OVERVIEW OF MACROECONOMIC CONDITIONS AND FORECASTS

Global and national economic outlook

Madam Speaker, it is required of me to briefly provide a synopsis of the impact of COVID -19 on our economy. The pandemic had a detrimental effect on the global economy in the past year and even the current year. The world economy contracted by 3.5 percent in 2020, following growth of 3.2 percent and 2.5 percent in 2018 and 2019 respectively. According to the World Bank, following last year's gloomy economy, the global economy is projected to grow by a significant 5.6 percent in 2021 and 4.9 percent in 2022, its strongest post-recession pace in 80 years.

This recovery is, however, uneven and largely reflects sharp rebounds in some major economies. In many emerging market and developing economies (EMDEs), the outlook is expected to remain below the pre-pandemic levels, considering the hesitancy to vaccinate which will continue to weigh negatively on economic activity. The global outlook remains subject to significant downside risks, including the possibility of

additional COVID-19 waves and financial stress amid high EMDE debt levels.

Hon. Speaker, our beloved South Africa was not immune to the economic effects of the pandemic. Instead, COVID-19 added to the woes of an already ailing South African economy, which had registered a mere 0.5 percent average growth two years prior to the pandemic. The national economy declined by a weighty 6.4 percent in 2020. Following this sharp recession in 2020, the South African economy is forecast to grow by 5.1 percent in their recent projections according to National Treasury and by, 2.1 percent in 2022 and 1.5 percent in 2023, with the recovery benefiting from a gradual relaxation of COVID-19 restrictions and stronger commodity prices.

Provincial economic review and outlook

Hon. Members, our provincial economy remains heavily strained and battered. Growing the provincial economy remains one of the most pressing challenges faced by the province, and part of a solution to some of the challenges such as poverty and unemployment.

The Free State economy has been in a recession since 2018, averaging -2.7 percent in the past three years. The pandemic exacerbated the situation.

The provincial economy contracted by a staggering -7.4 percent in 2020. All sectors declined with the exception of agriculture, the biggest contractions were in construction (-20.3 per cent), transport (-15.2 per cent) and mining (-12.6 per cent). We project that the provincial

economy will grow by 4.7 percent in 2022 and average just 2.0 percent in the MTEF.

Job loss is the most severe and immediate impact of the COVID-19 crisis. Hon. Speaker, approximately 40 thousand jobs were lost last year in the province. At the end of 2020, the unemployment rate was estimated at 33.4 percent, which was the third highest in the country behind Gauteng and Eastern Cape with 34.1 percent and 47.9 percent respectively. The latest data shows that the official unemployment rate in the Free State increased to 36.5 percent in the 2nd quarter of 2021, which is 0.9 percent higher than the 35.6 percent recorded in the 1st quarter.

Policy implications

Hon Members, there is a need for long term robust growth within the province. Our aim is to explore new innovative ways to partner with the private sector, non-profit organisations and communities in order to create jobs and reduce unemployment. For this to happen we will be required to support local business innovations and accelerate local procurement. Infrastructure remains one of the critical elements in boosting local economic growth. As a result, a concerted effort has already been taken to accelerate infrastructure delivery to reap maximum benefits for the province.

(MEC Nxangisa) - Agriculture still shows potential for growth in the province, therefore it is critical to direct more investment to the sector so as to stimulate growth and support to emerging and young farmers. Focus investment that targets promotion of agro-processing, agri-parks and export of agricultural products must be promoted.

2020/21 AUDIT OUTCOMES

Hon. Members, I am delighted by the recognition given by the Auditor-General in sighting the year-on-year progress on the Annual Financial Statements of the province. Thank you for the collective work, Speaker, Hon Premier and MEC's. Although the overall audit outcomes for 2020/21 financial year remained stagnant from 2019/20, there was an improvement of 29 per cent in the number of disclaimer/qualification findings and the total number of non-compliance with laws and regulations by departments and entities improved with 5 per cent during the (2020/21) financial year. One entity received a clean audit opinion during the 2020/21 financial year and no department received a disclaimer of audit opinion during the 2020/21 financial year.

All PFMA Institutions, Executive Authorities, Accounting Officers, Chief Executive Officers and Chief Financial Officers of departments and entities signed pledges on 11 November 2021 to enhance quality service delivery, good governance and fiscal and financial management to further promote the improvement of the audit outcomes in the province.

Hon. Members, Provincial Treasury facilitated the Anti-Corruption session on the 17 November 2021, during the week identified by ACFE as "International Anti-Fraud Awareness Week". The objective of this session was mainly to strengthen the preventive and detective measures and implementing corrective measures and consequence management to deter Fraud and Corruption. The Province will now be aligning Implementing Programs to ensure that the objective of the National Anti-Corruption Strategy is realised.

Local Government

Local government elections have just been successfully concluded, once again bearing witness to our country's robust democracy. As we congratulate new and incoming municipal councils, our key message to the Mayors and Councilors is to be hands-on on oversight, compliance and governance to transform the financial and service delivery quadrants at this sphere.

MEC Dukwana - The functionality of Municipal Public Accounts Committees and the Disciplinary boards must receive the highest priority. Municipal councils must make a resolute decision to address and reduce unauthorized, irregular expenditure, fruitless and wasteful expenditure, improve audit outcomes, and render effective services. It is important to realize that in order for our municipalities to remain financially viable, they must also have funded budgets and or have funding plans.

Hon. Speaker, as municipalities are in the middle of audits, our Provincial Treasury's team in partnership with COGTA is giving hands-on support to our municipalities during the audit process, with the express aim to assist municipalities to improve their audit outcomes.

We are acutely aware of the debt owed by municipalities to bulk service providers such as ESKOM and Water Boards. Provincial COGTA and Treasury is playing a key role as part of the Intergovernmental Steering Committees to resolve these challenges. Likewise, we are assisting municipalities to improve their collection rates.

THE 2021/22 MID-YEAR EXPENDITURE REVIEW

Provincial expenditure

Hon. Speaker, allow me to focus on our provincial mid-year performance of revenue and expenditure. Our initial provincial fiscal framework as tabled on the 9th of March 2021, amounted to R38.655 billion, from this amount R29.055 billion related to provincial equitable share; whilst R8.459 billion and R1.142 billion related to conditional grants and provincial revenue, respectively.

We allocated R38.625 billion to all provincial departments and Provincial Legislature to provide for provincial and national priorities, including Health and Education which accounted for 71.5 percent of the total fiscal envelope.

By the end of the second quarter of the current financial year, we had spent R19.059 billion or 49.3 percent of our total fiscal purse. This is slightly below the linear norm of 50 percent.

Hon. Speaker; we will continue working with all departments to ensure that all the allocated funds, especially conditional grants, are spent as planned within the current financial year. Ours is to ensure that we derive value for money spent and we continue igniting provincial economy through government spending. We also continue to appreciate and acknowledge the role of our private partners in this regard.

Own Revenue

Madam Speaker, the Minister of Finance in tabling the Medium Term Budget Policy Statement reflected on the positive developments with regards to tax collections. Tax collections have exceeded expectations

in the short term and thus revenue for 2021/22 is now estimated to reach R1.5 trillion as compared to R1.4 trillion tabled during February 2021.

At provincial level, we have managed to surpass the norm as at end of October 2021, our revenue collection totaled R681.609 million or 59.7 percent of the original target. The amount collected include a payment of R61.000 million received from Lesotho Government for health care services provided.

Madam Speaker, the capacity of the province to collect own revenue has been severely impacted by the subdued economic growth as well as the advent of the pandemic. As a result, we had to re-assess the estimated provincial revenue projections for the current financial year. Emanating from deliberations with all affected departments and the Free State Gambling, Tourism and Liquor Authority, we decided to revise the estimated revenue downward by R21.693 million. For obvious reasons, this is one of the sectors which was mostly affected by the much needed COVID-19 restrictions.

The total revenue estimate for the current year is thus adjusted downward, from R1.142 billion to R1.120 billion, which represents a reduction of 1.9 percent as compared to a decline of 9.8 percent implemented in 2020/21 financial year. Hon. Premier, I must mention the recurring effects of the pandemic resulted in slow recovery in the gambling and hospitality industries. Furthermore, outdoor activities were limited which equally reduced the number of tourists even in our resorts, museums, and cultural centers.

I must also reiterate that as a province, we will continue with our resolve to enhance revenue collection through identification of new revenue

sources and implementation of systems such online bookings for our facilities. Madam Speaker, various departments have outlined their respective plans and strategies on how they intend to enhance own revenue collection over the MTEF period ahead. The implementation of these plans will be closely monitored and be reported to the relevant forums in the year ahead.

Cost Containment Measures and the Budget Process Reforms

Hon. Speaker, we emphasise that as a province, we are still in a tight fiscal space with little reserves to address much of the in-year pressures, which is expected to continue over the 2022 MTEF. Thus, for this adjustment budget and potentially even the 2022 MTEF, we will continue to comply and implement both the National Treasury and our own province specific cost containment measures. We will team-up with all our provincial departments to focus on identifying and dealing with inefficiencies in the system, through the Spending Reviews and Zero-Based Budgeting approaches, and re-channel any realized savings to high impact priorities.

Hon Speaker, pressures on the provincial fiscus would persist, emphasising the urgent need to implement the proposed budget process reforms, which include— the said Zero-Based Budgeting and the spending reviews as a means to redirect funds towards key policy priorities and growth-enhancing programmes.

Compensation of Employees

Hon. Speaker, our provincial wage bill which accounts for 63 percent of the total 2021 budget continues to pose further fiscal risks for the

province. Furthermore, the recent public-service wage agreement, which breached the budget ceiling for compensation of employees further aggravates the fiscus position and crowds-out key service delivery priorities.

The aforementioned 2021 wage agreement includes a once-off non-pensionable cash gratuity of between R1 220 to R1 695 for officials at level 1 to 12 and is implementable from 1 April 2021 to 31 March 2022. The commitment was not provided for in the 2021 budget as a result of budget cuts implemented across provinces. However, National Treasury has allocated R921 million to the province to cater for the cost for the once-off cash gratuities. I will reflect on these allocations later when I deal with in-year adjustment.

Hon. Speaker, we have urged all the departments to review their respective organizational structures and to conduct skills audits with the view to identify—(i) excess staff, (ii) eliminate obsolete and duplicated functions, (iii) transfer excess staff to other departments in need of such and (iv) re-skilling and allocating new functions to existing officials.

Provincial Treasury working with the Office of the Premier will continue with management and activation of PERSAL functionality before appointments are implemented by respective departments.

Infrastructure Investment

Hon. Speaker, the Minister of Finance alluded to the fact that, Economic Reconstruction and Recovery plan identifies infrastructure development as a critical component of changing our economic fortunes. He further indicated that the infrastructure fund is an important intervention towards our strategic goal of ensuring that total investment in public infrastructure

is nearly 30 percent of gross fixed capital formation by 2030 as envisioned in the National Development Plan.

Madam Speaker, in the current financial year the province is investing more than R4.4 billion on infrastructure projects. This allocation supports close to 425 projects implemented by various departments within the province. There is however a need to expedite implementation of these projects and concomitant spending of the allocated funds.

2021/22 ADJUSTMENT BUDGET

Madam Speaker, the 2021 adjustment budget, as guided by section 31 of Public Finance Management Act provides for—(i) allocation of earmarked funds from national, (ii) for 2020/21 financial year approved conditional grants' rollovers and (iii) appropriation of reprioritized funds towards key provincial in-year budget pressures.

As indicated earlier, this adjustment is set within the very constrained fiscal space. Our reserves are depleted and our provincial needs are far higher than the available fiscal purse. We have therefore resolved that this 2021 adjustment budget will continue to be guided by the following principles:

- *Identification of inefficiencies within departments and entities and re-channelling of resources towards high impact programmes/priorities;*
- *Scaling down on the implementation of non-core programmes;*
- *Promotion of trade-offs within and between the provincial departments;*
- *Reprioritization of budgets to fund key provincial priorities and pressures.*

Madam Speaker, these are some of the tough decisions that we must implement. We are in the midst of deteriorating resources and we therefore have to derive more tangible service delivery outcomes from the limited resources that we have at our disposal.

Hon. Premier, in September 2021 we spent three full days with all our provincial departments and entities during the Provincial Medium Term Expenditure Committee (PMTEC). Departments presented their respective challenges, financial and non-financial. We interrogated the presented challenges, we agreed on the recovery plans that must be implemented, such as internal reprioritization of baselines to address budget pressures. This adjustment is therefore the culmination of those fruitful discussions.

The submitted in-year budget pressures totaled more than R4.8 billion and were mainly driven by, inter alia, compensation of employees, municipal services, Covid-19 pressures and provision for statutory obligations for children, disabled and elderly persons.

In the absence of additional discretionary funds, we had to look deep into the current baselines to fund some of the key identified budget pressures. In doing so, Hon. Speaker, we identified a total of R76.184 million from Department of Sport, Arts, Culture and Recreation, Office of the Premier as well as Provincial Treasury.

The funds are reprioritized based on an intense spending analysis, thus an amount of R51.362 million is reprioritized from Provincial Bursary programme as a result of savings from the international bursary programme as some of those international students concluded their studies. The Provincial Government will continue to award bursaries to

the top 100 matriculants in the province during the new financial year. All students who are currently enrolled in the Free State Provincial Government bursary programme, their funding will continue for the duration of their studies.

An amount of R24.022 million comes from Charles Mopeli Stadium project. I must however indicate that the two projects still have remaining budgets to cater for on-going needs in a local context. We will continue monitoring spending patterns of all the funded programmes, including the aforementioned projects, with the view to reprioritize funds towards other pressing priorities.

Additional to the aforesaid amount, we reprioritized R42.097 million in June 2021 to address pressures brought by municipal services accounts.

Hon. Speaker, in addition to the aforementioned reprioritization, we have received earmarked funds to the tune of R1.530 billion from National sphere of government. In the subsequent paragraphs I will briefly outline the allocation of both, national and provincial funds.

2021/22 NATIONAL ADJUSTED ALLOCATIONS

Madam Speaker, the aforesaid allocation from national government is allocated as follows:

- R921.983 million is added to the provincial equitable share for payment of non-pensionable cash gratuities to officials on salary level 1 to 12 (part of 2021 wage agreements from Public Service Coordinating Bargaining Council).

- R334.412 million is allocated through equitable share to Education for employment of educator assistants and general school assistants in public ordinary and public special schools. This is continuation of Presidential Employment Initiative programme.
- R19.403 million is added to the equitable share of Health for employment of staff nurses and assistant nurses to fulfill the responsibilities required in the COVID-19 vaccination programme, COVID-19 wards and high care units.
- R12.000 million is allocated through equitable share to Social Development for employment of social worker graduates in the province.
- R20.176 million is allocated to Health through Human Resource and Training grant for placement of medical interns.
- A further amount of R3.479 million is allocated to Health through HIV, TB, Malaria and Community Outreach to allow the province to directly procure mental health services.
- A further R10.702 million added to the Early Childhood Development grant to support workers employed at various Early Childhood Development Centres across the province.

Madam Speaker, a total amount of R208.426 million for conditional grants is also approved to be rolled over to the current financial year for the following departments:

- Health will receive a rollover of R120.311 million;
- Education receives R17.258 million;
- Social Development receives R37.336 million;
- Agriculture and Rural Development will get R6.339 million; and

- Human Settlement is allocated R27.182 million.

We urge all the departments that received the rollovers to expedite spending of these funds as well as the implementation of the current projects and programmes without any further delays.

2021/22 PROPOSED PROVINCIAL ADJUSTED ALLOCATIONS

Hon. Speaker, these proposed allocations of reprioritized funds are a result of thorough consultation and deliberations with all the affected departments through the Forum of Heads of Departments (FOHOD). The recommendations of FOHOD were further deliberated by and approved by the Executive Council.

The total amount identified for reprioritization amount to R118.281 million. Added to this is the amount of R30.000 million that remained unallocated in March 2021 due to the advent of Political Party Funding Act. We have received legal advice on this unallocated amount; hence it forms part of the proposed allocations for 2021 adjustment budget.

Madam Speaker, the total provincial available budget for allocation in this adjustment budget amounts to R148.281 million and is proposed to be allocated to the following in-year budget pressures.

- R30.000 million is allocated as per section 116(2) of the Constitution to support the Legislature in fulfilling its mandate with regard to financial and administrative matters;
- R15.000 million is allocated to the Department of Economic, Small Business Development, Tourism and Environmental Affairs for enterprise support programme and industrial parks;
- R10.000 million is allocated to the Department of Health as additional support for COVID-19 response;

- R10.000 million is allocated to the Department of Education to address budget pressures on Learner Teacher Support Materials; and
- R83.281 million is received by Department of Public Works and Infrastructure to address provincial budget pressures on municipal services, this amount includes reprioritization of R42.090 million mentioned earlier on in the speech.

Hon. Speaker, I have earlier indicated that the 2021 estimated revenue had to be adjusted downward by R21.693 million as a result of subdued economic outlook. However, this revenue has already been allocated to departments in March 2021. Therefore, for us to maintain a balanced fiscal framework, we have reduced the same amount from the expenditure side of all the departments. The reduction is proportionate to the revenue allocated to each department in March 2021.

2022 MEDIUM TERM EXPENDITURE FRAMEWORK

Madam Speaker, the 2022 MTEF period is going to be more challenging, fiscally. Fiscal consolidation course will be maintained throughout the MTEF period and is likely to be concluded in 2024/25 when the primary fiscal balance is attained; thus, the provincial fiscal framework remains under immense pressure.

There is therefore an urgent need to firmly do more with less resources at our disposal. We need to ensure that we put Free State on a fiscally sustainable trajectory. This can be attained through ensuring that we are fiscally disciplined, we allocate available funds to key provincial priorities, we implement spending reviews of our respective

programmes, we manage wage bill effectively through reviews of organizational structures and audit of available skills.

Madam Speaker, we are however delighted to indicate that the review of Provincial Equitable Share formula on health component has been concluded and thus informs the allocations for the 2022 MTEF ahead. The review is aimed at improving interprovincial equity with regard to equitable share allocation. Hon. Speaker, these adjustments to PES formula resulted in an improved allocation to the province. For now, Hon Speaker, we only have preliminary budget figures which may change, I will therefore share the details with the House when we table the 2022 main budget.

CONCLUSION

Madam Speaker, I wish to extend my word of gratitude to the Hon. Premier, Me. Sefora Ntombela for her unwavering support, guidance and leadership in these fiscally trying times. My sincere gratefulness to my esteemed Provincial Executive Council colleagues for their support in putting together this 2021 adjustment budget. Your support and commitment keeps us motivated and I really thank you for that.

I would also like to extend my deepest appreciation to Members of the Provincial Legislature and Members of the Finance Portfolio Committee for their support, continuous engagement and demand for accountability in the utilization of government resources.

Thank you to all the Accounting Officers of the departments and public entities, the Chief Financial Officers and all officials for their respective roles in ensuring that we attain fiscal sustainability for the province.

My sincere appreciation to my acting HOD, Me. Sasing and our dedicated team (team treasury) for the excellent work in putting together this budget. My dear family, I thank you for your continuous and unwavering support to my work. A sincere thank you to the organisation that I belong to; your political guidance keeps this ship on the right track.

My heartfelt gratitude goes out to the people of the province for the opportunity and honor given to us, as Members of the Executive Council, to implement government policies and priorities aimed at improving the wellbeing of our communities within the province.

Hon. Speaker, I hereby table the 2021/22 Adjustment Budget together with the associated Adjusted Appropriation Bill.

I thank you Madam Speaker.