

PROVINCIAL ADJUSTMENTS BUDGET SPEECH

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MEC for Finance,
Economic Development
and Tourism

20 November 2018

10:00

Baobab Building,
Riverside Government Complex
City of Mbombela

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MPUMALANGA PROVINCE
REPUBLIC OF SOUTH AFRICA



**SPEECH BY THE MEC FOR FINANCE, ECONOMIC DEVELOPMENT AND
TOURISM, MR. SIKHUMBUZO ERIC KHOLWANE (MPL) DURING THE
OCCASSION OF THE INTRODUCTION AND TABLING OF THE PROVINCIAL
ADJUSTMENTS BUDGET FOR THE 2018/19 FINANCIAL YEAR AT THE
MPUMALANGA PROVINCIAL LEGISLATURE, CITY OF MBOMBELA**

20 NOVEMBER 2018

Honourable Speaker and Deputy Speaker;
Premier Honourable Refilwe Mtshweni;
Colleagues in the Executive Council;
Honourable Members of the Provincial Legislature;
Members of Mayoral Committees from all our municipalities;
Chairperson of the House of Traditional Leaders Inkosi Ngomane, and other esteemed members present;
Acting Director-General, Mr. Kgopana Mohlasedi;
Acting Head Official of the Provincial Treasury and other Heads of Departments;
Chairpersons of Boards and Chief Executive Officers of our Public Entities;
Business Executive of the Office of Auditor-General in Mpumalanga;
Chairpersons of Audit Committees and Risk Committees;
Representatives of Labour, Business, Civil Society and the Media;
Ladies and gentlemen;

Fellow Citizens of Mpumalanga, the Centenary celebrations of our remarkable struggle icons - the first democratic President, Nelson Mandela and one of the great daughters of our Mother land, maSisulu - must unite the nation around the ideals and values they stood and fought for, and for which they were prepared to die.

Ours is to build on the foundations they laid to move South Africa forward.

Honourable Speaker, the 2018/19 Provincial Adjustments Budget seeks to re-affirm the overwhelming and consistent electoral mandate since 1994, reminding us that *“no Political democracy can survive and flourish if the masses of our people remain in poverty, without land and without tangible prospects of a better life for all.”*

Lest we forget the year 2018 also marks the 20th anniversaries of the adoption of the 16 Day of Activism campaign by the South African Government.

In the government calendar year, November is known as the Disability Month inclusive of the 16 days for No Violence against Women and Children under the theme *“Hear me too!! End Violence against Women and Children”*.

It is our considered view that promotion of gender equality and women empowerment is central to government's efforts to combat poverty and stimulate sustainable development.

To this end, a budgetary process of a democratic and developmental state such as ours, presents before us an opportunity to continuously correct historical social and economic injustices.

At the centre of our work is to manage state resources on a fiscus scale which is biased to the poor, the vulnerable, the unemployed and low income workers.

In this context, it would be plain dishonesty to deny the proven truth that the ANC-led government has made significant progress in the correct direction.

The quality of life of many South Africans has improved through increased State investment in maintenance and development on public infrastructure such as roads, hospitals, schools, housing, water and sewer projects to stimulate inclusive economic growth and creation of much needed jobs.

As a matter of fact, our social security model ranks amongst the best in the world, and its practical programmes include but are not limited to, no-fee schools; free learner support material; free scholar transport; school nutrition programme; free access to primary health care; free basic services, and provision of social grants to millions of destitute families.

Despite these achievements, and true to its character of being honest and respecting voters by avoiding cheap populist slogans and lies, the governing party was the first to admit at whatever political cost that after more than two decades in control of state power, the fundamental structure of the apartheid economy is stubbornly refusing to collapse, leaving us with no option but to reaffirm our understanding that we are dealing with neo-colonialism of a special type.

However, we remain unshaken, and resolute in our national collective conviction that *"We shall overcome!"*

Our resolve on radical social and economic transformation defined in the second phase of the continuing transition seeks to confront and crush down the structural legacy of the apartheid economy into oblivion for once and for all.

The timely and targeted state intervention is unavoidable, but should focus on a limited number of priorities to ensure that the committed resources are utilized effectively and efficiently, and this is the thrust of our 2018 Provincial Adjustments Budget.

Honourable Speaker

We table this budget cognizant of the prevailing social, political and economic challenges; and with full knowledge that the road ahead is uneven, as pointed out by the Minister of Finance, but it must be travelled nonetheless.

ECONOMIC REVIEW AND OUTLOOK

The global economic outlook is expected to remain broadly favourable over the short term, but medium term risks are tilted to the downside due to elevated policy uncertainties amidst the escalating trade tensions and tightening global financial conditions.

National economic growth

National Treasury has revised the country's real GDP (gross domestic product) growth forecast down by an average of 0.3 percentage points over the 2018-20 period, with an annual average growth rate of only 1.5 percent in the 3 year period.

The economic growth for this year is projected to be as low as 0.7 percent (down from the 1.5 percent expected in February 2018), before picking up to 1.7 percent in 2019 and gradually improving thereafter, to reach 2.3 percent in 2021.

The overall decline in the second quarter of 2018 was almost exclusively due to the fall in agricultural production.

Provincial economy

These economic realities have a negative impact on Mpumalanga, as a result, a low provincial economic growth rate of around 0.5 percent is expected for 2018.

Employment trends

Despite these difficult economic circumstances, the province has performed relatively well on job creation.

According to the Quarterly Labour Force Survey (QLFS) of Statistics South Africa, the Province recorded an annual net job creation (job gains minus job losses) of 27 470 – This was the third highest job creation number among the 9 provinces.

The provincial employment performance in this period translates to an achievement of almost 40 percent of the annual job creation target despite a very weak economic environment.

Notably, key industries in our province such as mining and manufacturing as well as trade, recorded job gains between the third quarter of 2017 and third quarter of 2018.

Agriculture however, recorded job losses of 8 192 in the same period in line with the decline of agricultural production.

The provincial unemployment rate remains high, but declined by 0.7 percentage points in the third quarter to 32.5 percent.

The very high female youth unemployment rate of 56.4 percent is a huge concern and must be treated as a top priority by Provincial Government and its social partners. It should form part of all our economic policies, strategies and plans.

Government response

Honourable Speaker, we know what needs to be done to address the structural weaknesses which are holding back economic growth.

President Ramaphosa, is leading the process to address the country's economic challenges by means of several initiatives which include the R50 Billion Stimulus Package and the recent National Jobs Summit.

The focus on key industries such as agriculture; mining; manufacturing; tourism as well as infrastructure; the financing of Black businesses and the importance of township economic development, can be highlighted in this regard.

As part of the renewed push towards industrialisation, job creation and faster levels of economic growth, government has set an ambitious target of attracting 100 billion dollars in new investment within five years. The recent investments summit took place against this background

We must collaborate with National Departments and other relevant stakeholders regarding the roll-out of the Stimulus Package, as well as the implementation of resolutions of the Jobs and Investment Summits, on provincial level. We should therefore position the province to also benefit from all these great initiatives.

Similarly, the Provincial Government is hosting Public Private Partnership symposium here in the City of Mbombela.

The primary objective of the symposium is to forge ties between government and business in order to foster the economic growth necessary to create jobs and reduce poverty and inequality in our Province.

The symposium will further provide an opportunity for the government to showcase possible investment opportunities and infrastructure projects to potential financiers.

Honourable Speaker,

Mpumalanga is one of the most productive regions in South Africa, and offers a myriad of investment opportunities in established sectors and industries such as mining, tourism, agriculture, forestry, and manufacturing, amongst others.

Our Province has an abundance of investment opportunities which makes Mpumalanga an investor's potential dream destination as recently confirmed by the *e-based business confidence survey* conducted by the Department of Economic Development and Tourism in the beginning of 2018.

According to the survey, 93 percent of the respondents indicated that they will recommend Mpumalanga as an investment destination. To the investors out there, we wish to say - Mpumalanga is open for business.

MID YEAR PERFORMANCE AND SPENDING OUTCOMES

The government continues to prioritise delivery of the most basic services to the people.

We continue to make progress on key priorities such as education, health, social protection and governance.

As articulated in the 2014 Election Manifesto of the governing party, our commitment to institutionalize long-term planning, integration and coordination within the state to drive inclusive growth and job creation remains intact.

We are already implementing the Macro Economic policy injunctions guided by the National Development Plan, Industrial Policy Action Plan and National Infrastructure Plan.

In this regard, the bulk infrastructure for the Mpumalanga International Fresh Produce Market (MIFPM) will be completed by the end of 2018/19 financial year; the work towards establishing several industrial technology parks as well as the Nkomazi Special Economic Zone is progressing well.

Honourable Speaker, it will be remiss if I don't take this opportunity to thank both the Ministers of Finance and Trade and Industry, Mr. Tito Mboweni and Dr Rob Davies, respectively for committing to fast track the SEZ process as one of the economic game changers for the Province.

Honourable Speaker

The 2014 electoral mandate also instructed us to promote local procurement to increase domestic production and create decent jobs by directing the state to progressively buy at least 75 percent of its goods and services from South African producers, and to support SMMEs and Cooperatives.

As reported in the Provincial Treasury's Policy & Budget Statement in May 2018, the Provincial Government spent R10.2 billion to procure goods and services of which R5.6 billion translating to 68 percent, was spent on Black owned companies during 2017/18.

During the first six (6) months of the current financial year, the Provincial Government spent R 5.5 billion on goods and services, of which 55% was from black owned companies. We commit ourselves to surpass the 2017/18 milestone.

To demonstrate our practical commitment, the Provincial Treasury has issued an instruction note on the non-negotiable need for empowerment of the targeted groups, and will continue to monitor the application of the Preferential Procurement Policy Framework Act by departments and public entities.

In order to fulfil the mandate of a capable and developmental state, depending on equitable share alone is *not an option*, we therefore need to keep increasing our own revenue base to ensure sustainable livelihoods for our people.

2018 ADJUSTED FISCAL FRAMEWORK

Provincial Own Revenue

The 2018 January 8 Statement of the governing Party recognizes the fact that, despite the attention we have given Socio-Economic Transformation, our economy has not performed well.

The weak economic environment continues to undermine Government's revenue collection capacity, and thus puts provincial budget under pressure.

Notwithstanding these challenges, and appreciating that more resources are required for service delivery, we reaffirmed in 2016/17 financial year the target of R4.2 billion on provincial revenue collection over the MTEF period, from a low base of R864 million, and our ambition paid off.

For the past two (2) financial years of the 2016/17 MTEF we exceeded the annual targets set for collection of own revenue.

We are encouraged by progress made thus far, as in 2017/18 we collected R1.344 billion which was 13.8 percent above the target.

Working together within the framework of inter-governmental relations, the Provincial Treasury has started to accelerate the strengthening of systems in order to further enhance Provincial revenue collection mechanisms.

We note with appreciation a number of investors who are expressing renewed confidence in SA, Mpumalanga included.

We hope these initiatives will assist the Province to meet its own revenue targets in order to augment the resources required for the delivery of basic services and the fulfillment of the electoral mandate.

Overview of Provincial Adjustments Framework

Honourable Speaker

We must underline that compiling Adjustments budget is a function of very long hours of rigorous robust engagements.

It calls upon us to make hard choices and difficult but necessary tradeoffs. Naturally, this may result in certain programmes receiving additional funding whilst others will be required to accelerate delivery within baseline budget or having to release funding to other unavoidable socio-economic pressures.

This adjustments budget seeks to protect spending on core social programmes that benefit the poor.

The Executive Council has approved an amount of R432 715 million for 2018/19 Provincial Adjustments Budget.

The Adjustments Appropriation Bill provides a total of R417 215 million, thus increasing the budget already allocated to departments from R48 107 442 billion to R48 524 657 billion.

This excludes R15.5 million which remains in the Provincial Revenue Fund and is ring fenced for Disaster Management in the event that such occurs.

ADJUSTMENTS SPENDING PRIORITIES

Honourable Speaker, let me give an overview of spending priorities covered in this Adjustments Budget for the 2018/19 financial year.

Education

The National Development Plan enjoins us to prioritise education and skills development in an effort to improve the socio-economic circumstances of all people. In order to improve the learning environment, the budget of the department will be augmented with R50.2 million for the required Learner Teacher Support Material.

A special allocation of R66.872 million is also provided for completion of water and sanitation projects in public schools.

Health

The Government is continuously working to improve the health care services in all our facilities.

In our quest for zero-infection in our healthcare centres, R14.5 million is allocated to the Department of Health to acquire additional material for sterilization of medical equipment, commonly called autoclaves.

Additional R50 million is also provided in these adjustments for maintenance of health infrastructure.

We hope this intervention will assist the Department of Health to improve turnaround times for operations done in our hospitals.

Agricultural development programme

Our economic growth fortunes are connected to the performance of the agricultural value chain. Given the recent decline in agricultural production, it is important that government prioritise key developmental initiatives in the agricultural sector in order to improve the economy and consequently employment growth.

Accordingly, R25 million is added to the baseline for the completion of construction of Agri-Hubs in Mkhuhlu and Mkhondo.

Conditional grants amounting to R20.9 million is also provided for Comprehensive Agricultural Support as well as Poverty Relief and Infrastructure Development for continuing intervention in the agricultural sector.

Small business support

The Provincial Economy is the mirror image of the National Economy characterized by the concentration of the economy in the hands of the elite few which constrains sustainable and inclusive growth and transformation.

Given the importance of SMMEs and co-operative development in job creation, it follows logically that government must scale up financial and non-financial support to small businesses and cooperatives, especially to young entrepreneurs, in order to achieve our development vision of broad-based black economic empowerment and ownership.

In response to the call made by the Portfolio Committee on Premier's Office, Finance, Economic Development and Tourism, R22.5 million is provided to MEGA to fund among others, economic infrastructure projects.

Step by step, block by block we are on course to change the ownership structure of our Provincial Economy with greater emphasis on job creation, empowerment, industrial capabilities and diversification.

Through targeted investment and improved infrastructure more Townships and Rural Villages can become the expansion of provincial inclusive economic hubs.

Road infrastructure

The mobility of our people and economic performance of various industries is directly linked to the quality of road infrastructure.

Over and above the budget that was tabled in the Main Appropriation, a total of R170 million has been reprioritized for road upgrades and maintenance. Of this amount R100 million is provided to practically support municipalities with patchwork, regravelling and blading of road infrastructure, whilst R70 million is earmarked for maintenance and upgrades of provincial roads in Matsulu, Daggakraal and other routes in our strategic economic points.

Water and sanitation

As clearly stated in the 2018 Medium Term Budget Policy Statement (MTBPS) by the Minister of Finance, Hon. Tito Mboweni the final element of the President's plan to stimulate the economy focuses on investing in Municipal Social Infrastructure.

One of the urgent priorities of this government is to address the waste water management challenges in various parts of the Province.

To this end, over and above the R165 million which was allocated during the Main Appropriation Budget, a further R70 million is allocated to address sewer spillage in Lekwa, Msukaligwa and Govan Mbeki.

Preservation of cultural institutions

Honourable Speaker

Arts and Culture opens powerful spaces for debate about where a society finds itself and where it is going. It should be at the centre of the Moral Regeneration Movement which is a Civil Society led process to fight all forms of social ills including the scourge of corruption.

One of the early 19th century Marxist philosophers, Georg Lukacs asked this question,

“Who will free us from the yoke of western civilization?”

I want to argue that the answer to this question lies in the determination of the society to preserve that which helps hold the African identity – our culture.

Not only does it preserve National Identity, if promoted effectively, the Creative and Cultural industries can contribute substantially to small business development, job creation, as well as urban and rural development as studies have indicated.

It is against this background that a further R13.038 million is added for the ongoing cultural infrastructure delivery which is necessary for the preservation and promotion of our cultural heritage.

Municipal finance

Another key priority for the current administration is Local Government, because this is the sphere of government closest to the people.

The service delivery agenda of local government is key to achieving a better life for all communities.

The Provincial Government will continue to assist municipalities with the review of the control environment and provide targeted support for improvement of financial administration including their Revenue Enhancement Strategies. This support seeks to ensure that unfunded and under-funded mandates are progressively eliminated.

Accordingly, R10 million is allocated to the Provincial Treasury to finalise and activate Financial Recovery Plans for five distressed municipalities.

Furthermore, R16 million is added to the baseline of COGTA for the Municipal Audit Outcome Improvement programme.

CHANGE IN BUDGET ALLOCATION PER VOTE

The Executive Council has approved the changes to baseline allocations of Votes as follows:

VOTE 1: Office of the Premier

The budget of the Office of the Premier is increased from R281.778 million to R322.792 million.

VOTE 2: Provincial Legislature

The budget of the Provincial Legislature increases from R346.647 million to R369.824 million to strengthen public participation.

VOTE 3: Provincial Treasury

The allocation to the Provincial Treasury increases from R322.706 million to R332.670 million.

VOTE 4: Co-operative Governance and Traditional Affairs

The budget of the Department of Co-operative Governance and Traditional Affairs increases from R522.260 million to R524.163 million, included in this allocation is R6.5 million towards renovations of the Palace of King Makhosonke II as well as five Traditional Council offices, namely Ndlela, Empakeni, Mdluli, Nikwakuyengwa & Siboshwa and procurement of office furniture for 13 Traditional Council Offices.

VOTE 5: Agriculture, Rural Development, Land and Environmental Affairs

In order to expand the support to emerging farmers, the Department of Agriculture, Rural Development, Land and Environmental Affairs' budget increases from R1 180.437 billion to R1 212.417 billion.

VOTE 6: Economic Development and Tourism

Despite the reduction in the budget of the Department of Economic Development and Tourism from R1 198.058 billion to R1 187.452 billion, we were able to reprioritize R20 million towards skills and job placement for youth – one of the priorities that we announced in the policy and budget speech of the department.

VOTE 7: Education

The budget of the Department of Education is increased from R20 973.433 billion to R21 073.289 billion to improve the outcome of the schooling system.

VOTE 8: Public Works, Roads and Transport

The budget of the Department of Public Works, Roads and Transport is increased from R4 987.002 billion to R5 196.763 billion.

VOTE 9: Community Safety, Security and Liaison

The budget of the Department of Community Safety, Security and Liaison increases from R1 222.822 billion to R1 256.293 billion to facilitate the takeover of the licensing function from some municipalities, completion of the Vehicle testing station, the Driving license testing control system and maintenance of road safety amongst others.

VOTE 10: Health

The budget of the Department of Health will be reduced from R13 278.174 billion to R13 189.591 billion.

VOTE 11: Culture, Sport and Recreation

Department of Culture, Sport and Recreation's budget is increased from R468.461 million to R481.738 million.

VOTE 12: Social Development

Without compromising the core mandate of the Vote, the 2018/19 budget of the Department of Social Development will be reduced from R1 551.584 billion to R1 549.036 billion.

VOTE 13: Human Settlements

The allocation to the Department of Human Settlements increases from R1 774.080 billion to R1 828.629 billion to improve housing, water & sanitation infrastructure in pursuance of sustainable livelihoods for all.

CONCLUSION

Honourable Speaker

The Minister's Medium Term Budget Policy Statement that was tabled in Parliament last month chronicled the challenges facing the country, and highlighted difficult choices that, collectively, we must make to reestablish the economic and fiscal policy stability.

Accordingly, all departments and public entities should improve efficiencies in order to sustain delivery of the non-negotiables within the current budget allocations for the year ended 31 March 2019.

We have demonstrated, with this adjustments budget, the centrality of service delivery in all our endeavours by reducing allocations from consumption to investment in roads, agricultural projects, education and health care services.

This adjustments budget will assist our economic recovery to gather pace as we prioritise interventions that support the social and economic wellbeing of our people.

Honourable Speaker I concur with the school of thought that says:

“Economic growth without social progress lets the great majority of people in poverty, while a privileged few reap the benefits of rising abundance”.

We have ensured that this budget is oriented towards service delivery, giving effect to transformative procurement practice and ensuring that the greatest majority can associate with the adjustments to the provincial budget for 2018.

Let me take this opportunity and thank the Premier Hon. Mtshweni for your support on the work that we continue to do on behalf of the people of Mpumalanga.

My colleagues in the Budget and Finance Committee and the Executive Council thank you very much for your support throughout the grueling process of preparing this adjustments budget.

To the Chairperson, Hon Fidel Mlombo and all Members of the Portfolio Committee on Premier’s Office, Finance, Economic Development and Tourism, as well as Members of the Provincial Legislature thank you for your frank engagements with us on provincial budget management.

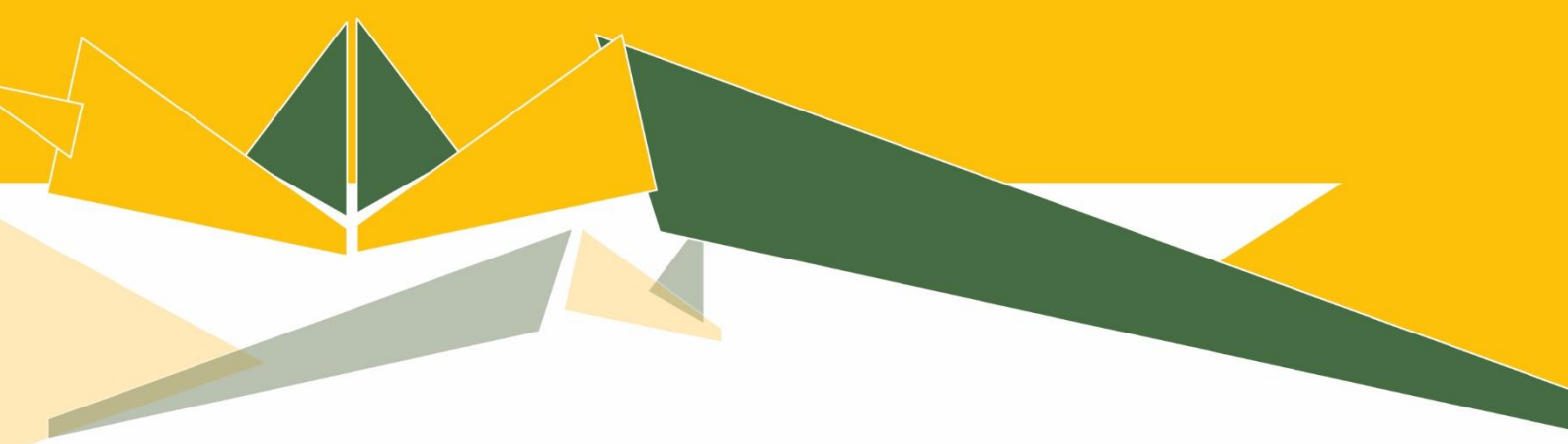
I would like to thank the administrative leadership provided by the Acting Director-General, Mr. Kgopana Mohlasedi and all Heads of Departments during the processes of preparing this adjustments Budget.

To the Acting Head Official of Provincial Treasury, Staff in the Office of the MEC and officials in Provincial Treasury who participated in the process of preparing this Provincial Budget, thank you very much for your patience and unwavering professional support.

I would also like to thank my family and children for the compromises they have had to make and to allow me space to execute the responsibilities vested on us by the African National Congress.

Honourable Speaker, I hereby, on behalf of the Executive Council, table the following Adjustments Budget documents for consideration by the esteemed Legislature:

- Provincial Adjustments Budget speech for 2018/19;
- Adjustments Appropriation Bill for 2018/19;
- Adjusted Estimates of Provincial Revenue and Expenditure for 2018/19, and
- Provincial Economic Review and Outlook 2017/18.



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