

PROVINCIAL APPROPRIATION ADJUSTMENT SPEECH

Tuesday, 14 November 2006

The Honourable Speaker, Mrs Pinky Phosa

The Honourable Premier, Mr Thabang Makwetla

Colleagues in the Executive Council

Members of the Legislature

Members of the House of Traditional Leaders

The Director-General

Heads of departments and public entities

The business community

Other government social partners

Distinguished guests

The media

Ladies and Gentlemen

Honourable Premier, Madam Speaker, Members of the legislature, ladies and gentlemen, when the Honourable Trevor Manuel, the Minister of Finance, addressed the National Assembly on the tabling of the 2006 Medium Term Budget Policy Statement and the 2006 Adjustments Appropriation Bill, he opened his address by quoting and depicting two characters from a play written by Athol Fugard, titled "Sizwe Bansi is dead". Along the play's storyline, the minister had this to say: (I quote)

“Today, twelve years into our democracy, we still have dreams beyond the world we know, and we still have mountains to climb in pursuit of fairness, justice and opportunity. But we have broken open that desperate strong-room of dreams; we are now living out our hopes and aspirations, writing laws that put people first, building institutions that respect people’s rights, constructing houses, creating jobs, providing services”.

(Close quote)

The extract from the Minister’s address highlights the challenges that government is faced with and government’s determination to deal with them for a better life for all and to address our people’s hope. This determination is best described by this adapted quote from by Eileen Caddy, when she said:

“The secret of making something work in one’s life is, first of all, the deep desire to make it work; then the faith and belief that it can work; then to hold that clear definite vision in your consciousness and see it working out step by step, without one thought of doubt or disbelief.”

Therefore nothing equates to self-belief and determination. Achievement is simply triumph over obstacles. Any challenge brings within an opportunity to succeed.

Economic overview:

The economy is creating more job opportunities than the number of new entrants is joining the labour market. The challenge is to sustain this economic growth because in as much as we have more job opportunities created than new entrants to the labour force, the unemployment challenges

that have been with us for so many years are diluting the positive impact of the economic performance on employment rates. As a result, we are still far from victory in this regard. We do take note that 1.1 million jobs have been created in the three years to end March 2006, with approximately 50% of this being in the past year. The fact of the matter is that most of these jobs have been in metropolitan areas and the rural portions of our country getting an insignificant figure. Therefore, unemployment remains a bigger challenge for a province, like Mpumalanga, that is mostly rural. Having stated that, we also realise that the time ahead is full of opportunities for employment in the province. For example, Eskom has set aside R97 billion for electricity infrastructure expansion. It has launched a project called "Return to service". Most of this five-year budget will be spend in the province as three power stations, being Camden near Ermelo, Grootvlei near Balfour and Komati near Middleburg, are in the province. Eskom will spend R10.8 billion in 2006 / 2007 on its capacity expansion programmes.

Another notable example is the investment by SASOL of R14.3 billion on Turbo fuel optimisation and polymer expansion project. These projects will create a notable size of job opportunities, on and above, the other mining investments by SASOL.

We have, in the past, cautioned against low savings tendencies and uncontrolled consumer spending. The eventual effect of no- or low saving, on a broader level, is that investment financing therefore had to depend largely on foreign capital. Persistent increase in inflation has led to the interest rate increase three times by 0.5 basis percentage points to 8.5% on the 13

October 2006. This move is meant to contain the level of inflation within the target band. This will however, have a negative effect on consumers and SMMEs as increased interest rates means an increase in debt service costs, hence our previous warning during the previous Financial Year's Appropriation Adjustment and the previous Budget Speech against spending. CPIX increased from 4.9% in July to 5.1% in September 2006.

According to Statistics SA's Labour Force Survey, 27.4% of the population in the province was unemployed in March 2006, which is higher than the 26.5% national unemployment rate for the same period.

The provincial preferential procurement processes will ensure that small enterprises receive full support by being inclusive and supportive to the previously disadvantaged individuals. The Supply Chain Management Unit in the Department of Finance embarked on road shows that were aimed at sensitising the youth about existing business opportunities and the type of assistance that they can get from government entities, private sector and the procurement advisory centres. The Department has realised the need for continuity and is working on the strategy to take the process forward.

GOOD GOVERNANCE

In the 2005/2006 Financial Year, we managed to get 12 unqualified reports and 1 qualified report. There are no disclaimers. We will continue in our quest to obtain only unqualified reports. We adopt the words of Harriet Beecher Stowe when she said: (I quote)

“When you get into a tight place and everything goes against you, till it seems as though you could not hang on a minute longer, never give up then, for that is just the place and time that the tide will turn.”

We will therefore never get weary of assisting our sister departments with compliance and developmental issues. Under spending on infrastructure has been a real challenge. We are in the process of implementing the IDIP model that will see the Province adding to the already appointed Technical Assistance Team for skills transfer and assistance in improving infrastructure delivery in the Province as part of government intervention to deal with shortcomings in infrastructure implementation. We, together with the National Treasury, are in the process of appointing additional Provincial Technical Assistance Team, which will hopefully bring with it much needed assistance, and eventually the envisaged skills transfer will bring about improvement in infrastructure spending. However, I must also add that we have embarked on a training schedule for officials in the Infrastructure Units of those departments that are responsible infrastructure delivery. This is to ensure that when the contract period of the Technical Assistance ends, we have sufficient internal capacity to sustain the implementation of infrastructure projects.

As stated in the past, we will continue to demonstrate our commitment to good governance. We still believe that if we continue with an unshakable determination to strengthen internal controls and the emphasis on good governance, nothing will stop us from achieving our goal in this regard. We cannot dwell on self-doubt, for no pessimist ever discovered the secrets of the

stars; or sailed to an uncharted land, or opened a new heaven to the human spirit.

Municipalities and the Municipal Finance Management Act

The spending patterns in Municipalities, in the Province, are of great concern. Added to that is the poor debt collection by municipalities that result in their inability to deliver services effectively.

The Municipal Support Unit in the Treasury has been capacitated appropriately and is working very closely with municipalities to deal with their challenges, which differ from one municipality to the other, even though there is a number of them that are commonly found in all municipalities. The most common problems are also dealt with at MuniMec meetings. In the Appropriation Adjustment last year I reported that I had begun visiting municipalities, and in February when I tabled the 2006/2007 Budget I also reported that I was left with one or two municipalities to visit. That has been done immediately after the local government elections. The visits have been of great assistance in forging better relations with the municipalities and we are going to embark on a second round of visits to strengthen the relations and also discuss and measure progress made since the last visit. Beyond good working relations, discussions held produced tangible results. This is demonstrated by the fact that all the 17 municipalities had their budgets approved by the 30th June 2006. Thirteen out of the seventeen have submitted their 2005 / 2006 Annual financial statements by the 31st of August 2006 to the Auditor-General. This represents a massive improvement compared to the previous years. The continuous capacity building efforts from

the Department of Finance to Municipalities and their cooperation is clearly yielding dividends. Due to the fact that we have a joint responsibility on municipalities, in the true spirit of cooperative governance, we have already signed a Memorandum of Understanding with our sister department, the Department of Local government & Housing, which we are working on its implementation.

PROVINCIAL EXPENDITURE

As reported in the Budget Lekgotla on the 8th of November 2006, the mid-term expenditure outcomes report indicates an overall improvement in provincial spending levels. However, we are not certain about the quality of the expenditure. There are value-for-money issues that must still be verified, more so as the impact of the expenditure has not become discernible.

Our six-month spending benchmarks are a proportional consideration of the monthly portions, which works perfectly in terms of personnel costs. The other cost components are not as straight forward as that, but the benchmarks still remains a powerful tool that raises early warning signals. After stating this, all what one is saying is that we may not be at the levels that we were in the last financial year, at the same period of the year, but this does not necessarily mean we are going to do less better than the previous financial year.

It is worth mentioning that in all spheres of government, the main contributing factor to low levels of service delivery is no longer lack of funding but incapacity. This has emerged time and again and the low spending patterns are also one of the many indications of this challenge. The challenge of

capacity is particularly in terms of appropriate skills rather than personnel or head counts. This is a challenge that should not be taken lightly because certain skills could be in short supply in terms of quantity or could be in terms of quality. On the latter, we are faced with a danger of being complacent as a Province, or even as a Country, that we have no challenge because we have an abundance of skills, in a particular field, only to find that in that very same field of that specialised task, our level of errors is in multi-folds higher than international equivalents. Therefore a situation like that, regarding high margin for error, throws the country's competitiveness out of the window, and leaves it reliant on imported skills. We cannot shy away from pointing out that this challenge is rooted in the apartheid and colonial past. However, we cannot fold our hands and apportion blame without doing something to take us out of that quagmire. The most important thing at this stage is to fast track the importation of skills for the short term, while focus and efforts are on the local skills development initiatives. The joint initiative on priority skills acquisition (Jipsa) has called for government's urgent intervention to ease obstacles in the importation of scarce skills so as to deal with the increasing demands for infrastructure development. The Immigration Amendment Bill will partly address this challenge since the Bill will increase the period of intra-company transfers from two to four years. We are hopeful that the trend that the Public Sector loses more officials to the Private Sector will change, and once that happens, the skills transfer that would have taken place will come-in handy for the Public Service. That process may take longer, that is why as a Province, we have our Executive Development Programme that is already in progress. This is not an "off-the-shelves" Executive Development Programme but a

corrective action that addresses the results of a skills audit that was conducted amongst management personnel in the Provincial Administration.

ADJUSTMENT BUDGET ALLOCATION

Madam Speaker, the budget tabled earlier in February was R12.805 billion. The adjustment budget will decrease the budget by R3.925 million which will result in the revised total budget of R12.801 billion. The Province received additional funding from National Government of R2.41 million, comprising R350 000 for Agricultural Land care Programme, R2.06 million for Forensic Pathology Services. Unspent funds from the 2005/2006 financial year that were approved as rollovers, amount to R118.484 million. An amount of R142.519 million is from provincial surpluses, made up of R59.519 million which was to provide for the Government Employees Medical Scheme, which will not be used in this financial year, and R83 million own receipts over-collected. An amount of R435.998 million is from the amounts surrendered by departments.

Madam Speaker, allow me to table the Adjustment Budget in terms of the PFMA, Act 1 of 1999 (As amended by Act 29 of 1999), subject to subsection

(3). This adjustment budget only provides for:

- The appropriation of funds that have become available to the province
- Unforeseen and unavoidable expenditure recommended by the (Provincial) Executive Council of the province within a framework determined by the Minister;
- Any expenditure in terms of section 25;

- Money to be appropriated for expenditure (I have) already announced for finance during the tabling of the annual budget;
- The shifting of funds between and within votes or to follow the transfer of functions in terms of section 42;
- The utilisation of savings under a main division within a vote for the defrayment of excess expenditure under another main division within the same vote in terms of section 43; and
- The roll-over of unspent funds from the preceding financial year

Madam Speaker, allow me to table the 2006/2007 Adjustment Appropriation Bill and Consolidated Provincial Financial Statement.

As we are approaching the World Aids Day on the 1st of December, we urge our people to double whatever contribution they have been making in combating aids and impart as much life skills especially those that will minimise or eliminate the spread of HIV and AIDS.

Madam speaker, allow me to conclude by wishing the Premier, members of the Executive Council, members of the Legislature, public servants especially those from my department and all our guests a very happy and safe Festive Season.

I thank you.