

MPUMALANGA ADJUSTMENT APPROPRIATION BUDGET SPEECH

TUESDAY, 05 DECEMBER 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

Head of Departments and public entities

The business community

Other government social partners

Distinguished guests

The media

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 Banzi 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 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.

BRIEF ECONOMIC OVERVIEW:

The Statistics SA's Labour Force Survey indicates the provincial unemployment rate at 27,4% in March 2006, which is 0,9% higher than the national rate for the same period.

However, the national economy is creating more job opportunities than the number of new entrants joining the labour market. The challenge is to sustain this economic growth because in as much as we have more job opportunities created than required for 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. 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, with the rural areas 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 spent 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 and other bigger and smaller companies.

We have, in the past, cautioned against low savings tendencies. The eventual effect of no - or low saving, on a broader level, is that investment financing therefore had to depend largely on foreign capital.

Uncontrolled consumer spending has a dual effect. First, too much money chasing few goods results in a higher demand for the goods, and inflation. Should the demand for the goods not be met internally, then the goods or their substitutes will be imported, resulting in pressure on the current account, as more imports than exports will result in a current account deficit.

The 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.

ECONOMIC SECTORS PERFORMANCE UP TO NOVEMBER 2006

The growth structure of the economy remains similar, with the manufacturing sector remaining the best performing sector in the province followed by mining, community services and the electricity sector. According to the preliminary estimates from Global Insight for 2005, manufacturing contributed 27.2% slightly lower than 30% in 2004, mining contributed 23.8%, followed by community services at 12.3%, trade at 10.2% and electricity at 10.1%. It should be noted that the figures utilised in this analysis are preliminary and will be finalized as the annual growth figures are released. The manufacturing sector is estimated to be contributing R17.4 billion to the economy of the province and mining contributing R13.8 billion. The re-commissioning of power stations in Camden, Komati and Grootvlei will enhance the capacity of the electricity sector and therefore increase its economic contribution.

The agriculture sector which is declining at a faster pace should be enhanced in the province through various measures as it is critical for alleviating the poverty prevalent in some parts of the province.

The construction sector is one of the poorest contributors to the regional GDP and is one of the most labour intensive sectors and a sector with ease of entry which can contribute faster to growth. This poses a challenge for us as a provincial government as infrastructure development is a key priority of government and a facilitator of other economic activities. We need to make concerted efforts, in partnership with the private sector and other provinces to enhance the performance of the construction sector as a matter of urgency.

The scope for further growth exists in the Business process outsourcing (BPO) and call centre industry, the information communications technology (ICT), and the MICE (Meetings, incentives, conferencing and events industry) in areas such as Emalahleni, Dr J.S Moroka, Thembisile and many others which can pool and attract both domestic and international tourists.

There has been a shift from agriculture being the main employer in the province to the community services sector contributing more to employment. The main employing sectors are the community services, agriculture, wholesale and retail trade and manufacturing. The Global Insight 2005 formal sector employment estimates indicate that the community services sector contributed 19.1% to employment while the agriculture sector contributed 17.5%, followed by trade at 15.4% and manufacturing at 12.2%. In real terms the community services sector employs an estimated 108 000 people, agriculture employs 99000 people, followed by trade at 87000 and manufacturing at 69000. This is a concern because it appears that government is the main employer as compared to the sectors that should be contributing more. The agriculture sector is declining in its contribution to employment.

The move by our provincial government to make water as a flagship project will assist the sector to grow as water shortage remains one of the major impediments to the growth of this sector. Other factors affecting this sector are the unfavourable weather conditions, access to finance and support to farmers, use of agricultural land for other economic activities rather than agricultural activities, input prices, etc which we need to address as government.

The trade off between the sectors that grow faster and their contribution to employment should be encouraged. Sectors such as manufacturing should be encouraged to have downstream and value added activities that will absorb more labour so as to have a balanced contribution between growth and employment. The same approach goes for mining which is growing at a faster rate but employing less.

GOVERNANCE

The 2005/2006 Financial Audit outcomes, saw the province getting twelve unqualified and one qualified report, with two departments attaining clean audits, two with one matter of emphasis, and the other departments with matters of emphasis ranging from three to eight, unlike in the previous financial year audit outcomes, where we got a disclaimer, one qualification, and others unqualified, with many matters of emphasis.

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.” (Close quote)

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, together with the National Treasury, in the process of appointing additional Provincial Technical Assistance Teams, which will hopefully bring with it much needed assistance, and eventually the envisaged skills transfer that will bring about improvement in infrastructure spending. I must also add that we have embarked on a training schedule for officials in the Infrastructure Units of

those departments that are responsible for 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 unshakeable determination to strengthen internal controls and the emphasis on good governance, nothing will stop us from achieving our goal.

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 delegated to the province 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.

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 yet become measurable.

Our six-month spending benchmarks are a proportional consideration of the monthly portions that work perfectly in terms of personnel costs. The other cost components are not as straight forward as that, but the benchmarks still remain 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.

ADJUSTMENT BUDGET ALLOCATION

Madam Speaker, the budget tabled earlier in February was R12.805 billion. The adjustment budget will increase the budget by R27 million which will result in the revised total budget of R12, 832 billion. The Province received additional funding from National Government of R2.410 million; comprising R 350 000 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, amounts 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 R436, 0 million is from the amounts surrendered by departments.

Details of the Adjustment Budget per Department

- 2.1. The Main Appropriation of R149 million of the **Office of the Premier** has been reduced by the surrendered amount of R40 million which was intended for the branding of the Province. This amount therefore will be allocated to the Office of the Premier for the next two Financial Years. The adjusted budget amounts to R109 million.

- 2.2. The **Provincial Legislature** was reduced by R40 million, earmarked for the Parliamentary Village. It received a roll over of R0.870 million. The adjusted budget amounts to R73 million.

- 2.3. The **Department of Finance** budget was not adjusted and remain the same at R134 million.
- 2.4. The **Local Government and Housing** received a rollover of R80 million, and surrendered R150 million for the Housing Fund. The adjusted budget amounts to R555 million.
- 2.5. The **Department of Agriculture and Land Administration** received rollover of R30 million, and surrendered R65 million for Gutshwa Dam. The adjusted budget amounts to R475 million.
- 2.6. The **Department of Economic Development and Planning** received an additional adjustment of R121 million from Mpumalanga Parks Board. The adjusted budget amounts to R322 million.
- 2.7. The **Department of Education** received a rollover of R153 million, and surrendered R45 million. The adjusted budget amounts to R6.326 billion.
- 2.8. The **Department of Public Works** received a rollover of R1 million and received additional funding of R14 million for security services, the adjusted budget amounts to R310 million.
- 2.9. The **Department of Safety and Security** received a roll over of R0.116 million. The adjusted budget amounts to R42 million.

- 2.10. The **Department of Health** received additional funding of R120 million. The adjusted budget amounts to R3.032 billion.
- 2.11. The **Department of Roads and Transport** received a rollover of R5.756 million and additional adjustment of R22.9 million (R6 million for the Feasibility Study on Moloto Road, R16 million for the purchase of Graders for Municipalities). The adjusted budget amounts to R991 million.
- 2.12. The **Department of Culture, Sport and Recreation** received additional funding of R35 million, R10.745 million is allocated for MACfest International in the Department of Culture, Sport and Recreation, R15 million is allocated for the construction of Samora Machel Monument; R5 million for the rehabilitation of the Naledi Village housing the Mpumalanga Academy of Sport; R4.600 million is allocated for supporting various sport events like the Dunhill Golf Challenge. The adjusted budget amounts to R 129 million.
- 2.13. The **Department of Social Services** budget has been reduced by R96 million. The adjusted budget amounts to R334 million.

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 the Consolidated Provincial Financial Statement.

As we are five days from the end of the end of the 16 Days of Activism against Women and Children Abuse, let me caution all those involved in any form of abuse, including emotional abuse, that their days are numbered, and they must just desist from such tendencies.

Finally, allow me, Madam Speaker, 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.

To my family, I say, thank you.

I thank you.