

SPEECH PRESENTED TO THE PROVINCIAL LEGISLATURE BY THE MEC FOR FINANCE, MR J.L MAHLANGU, MPL, ON THE OCCASION OF TABLING THE MPUMALANGA ADJUSTMENT BUDGET: 2008/2009

Tuesday, 18 November 2008

Madam Speaker, Mrs YN Phosa
Honourable Premier, Mr TSP Makwetla
Honourable Deputy Speaker, Mr BJ Nobunga
Colleagues in the Executive Council
Honourable Members of the Legislature
Members of the House of Traditional Leaders
The Director General, Mr K. Ngema
The Head of the Department of Finance, Mr R.S Tshukudu
Other Heads of Departments
Distinguished Guests
Members of the Media
Ladies and Gentlemen

.....And it shall come to pass!

When tabling the National Budget in February this year, Finance Minister Trevor Manuel warned that there were "storm-clouds on the horizon." When he presented the Mid-Term Policy Statement on 21 October 2008, the Minister added a rider to "the storm clouds" he referred to, by saying "Liduduma lindlule. The thunder will pass. Storms come and go. Some are more ferocious than others. We must look beyond the storm."

Fortunately Madam Speaker, Honourable Members, we can breath a sigh of relief because our financial system has been largely cushioned against the global financial market turmoil. This cushion is provided by the stringent liquidity asset requirements for financial institutions imposed by the Reserve Bank and the National Credit Act, which imposes controls on the granting and controlling of credit, amongst others. Although the price of crude oil has come down from its peak of 150 US dollars a barrel in May of this year to the current level of below 49 US dollars per barrel, South Africa cannot derive the benefit of the current price because of the almost simultaneous deterioration of our currency, which is currently R10.06 to the dollar. However the downward trend of the price of oil is a good sign that indeed, it shall come to pass.





The September 2008 *Financial Stability Review* report of the South African Reserve Bank forecast that consumer price inflation will be within the targeted range of 3 – 6 percent in the second quarter of 2010. The high food prices continue to be unbearable to our people, most importantly, to those who live below the poverty line. These unfavourable conditions, are not here to stay – for indications are that they will pass.

Madam Speaker, Honourable Members, during the dark hard days of apartheid, one of our liberation stalwarts, *Inkosi* Albert John Mvumbi Luthuli, encouraged us not to give up our struggle for freedom, but to "Go forward in faith," – believing that one day, South Africa will be a free country. Speaking during a public meeting organised by the South African Congress of Democrats in Johannesburg in 1958, *Inkosi* Luthuli said and I quote:

"The difficulties may be great, but nothing has beaten man if he has striven.There is a challenge which you and I must meet. We cannot dodge it.

I cannot believe that all of us, who are here will fail South Africa - because we are cowards and apathetic. I believe, we all will do our best - whatever the difficulties are.

.... Go in faith and believe in the sanity of posterity".

We "Go forward in faith" Madam Speaker, Honourable Members, believing that it shall come to pass, for we believe that tough times never last. I strongly believe that there are no pessimists amongst us or even in the midst of our people, for if there were, we could have not been able to free ourselves from the bondages of apartheid. Faith! – is what kept us going forward, during those dark days of apartheid. The storm is not yet over, but we can see the signs of sunshine in the horizon.

The adjustment budget we are proposing this afternoon, is a sign that our government will always live up to its promise – that of providing "a better life for all." It follows the Executive Council Budget *Lekgotla*, at which the Mid-Term Review was done and pressing service delivery issues were prioritised for funding. The additional funding provided herein, is meant to ensure that service delivery is enhanced and fast-tracked. Through this adjustment budget, we want to ensure that the objectives of the sixteen (16) adopted Provincial APEX Priorities and the Five (5) Flagship Projects are realised. All hands must be on deck, to ensure enhanced housing and infrastructure delivery; to ensure that our children receive good education under favourable conditions; and that food security is strengthened through campaigns such as *Masibuyel' emasimini*, amongst others.





In order to do this Madam Speaker, we must have an understanding of how the provincial economy is performing, and how it is anticipated to perform in future.

ECONOMIC OUTLOOK OF MPUMALANGA

Population

The 2007 Community Survey by Statistics South Africa indicates that the population of Mpumalanga has increased by nearly 280 thousand from almost 3.4 million in 2001, to just over 3.6 million. This represents an 8.2 percentage increase in the population between 2001 and 2007. The population growth rate per annum however, decreased from 2.3 percent in 1997 to 0.5 percent in 2007. Forty-one-point-nine (41.9) percent of our people live in the Ehlanzeni District, 33.7 percent in the Nkangala District and 24.4 percent in the Gert Sibande District. The youth in the province continue to constitute the largest share of the population, with 55 percent being under the age of 25 years.

Poverty Index

Madam Speaker, the poverty level of the province is still relatively high, but there are indications that it is on a downward trend. Global Insight's Regional Explorer indicates that our poverty rate has decreased from 57.1 percent in 2004 to 51.1 percent in 2007, showing a reduction of six (6) percent. It is also encouraging to see that the percentage of people living on less than a dollar per day, has also declined from 4.7 percent in 2004 to 2.1 percent in 2007.

The Unemployment Rate

The results of the Quarterly Labour Force Survey published by Statistics South Africa in October 2008 indicate that the unemployment rate of Mpumalanga decreased from 27.4 percent in March 2005 to 23.2 percent. The latest figure is the same as the national average. The decreasing poverty and unemployment rate Madam Speaker, Honourable Members, is an indication that all is not doom. It is a sign that our policies are working and that we are on the right track to deliver on our election promises, amongst them, to eradicate poverty and reduce unemployment.

As far as employment is concerned, figures for the 2008 third quarter indicate that 924 thousand people were employed, which represents a 2.7 percent quarter to quarter increase. Formal employment forms 59.2 percent of the total employment in the province; whilst informal employment 22.4 percent.





The trade sector is responsible for almost 25 percent of employment in Mpumalanga; private households 9.5 percent and the agriculture sector 8.9 percent.

Economic Sectors and Growth

Mpumalanga's contribution to the South African economy remained largely unchanged over the last ten years. The share contribution is currently 6.8 percent. Our mining sector contributes 18.7 percent, electricity 13.4 percent and agriculture 8.9 percent. The economy of the Province is fairly diverse, with the largest contributors being mining and quarrying (19.4 percent), manufacturing (17.7 percent), finance (11.4 percent) and trade (9.4 percent). The contribution by primary to total industries in the province is 25.8 percent, secondary industries 27.2 percent and tertiary industries 47 percent.

The provincial gross domestic product (GDP) growth rate since 2000, is lower than the national rate. Global Insight Regional Explorer indicated an average economic growth rate of 3 percent for Mpumalanga for the period 1996 – 2007. The 2008 rate is forecast to be 3.3 percent and for the period 2007 – 2012, to average 3.8 percent. A growth rate of 7.5 percent is expected in this period in the construction sector, 4.5 percent in the manufacturing sector and 4 percent in the electricity sector. One of the major challenges for Mpumalanga is to convert economic growth into employment and jobs, especially in the formal sector.

Economic Development per District

Madam Speaker, Honourable Members, Global Insight Regional Explorer indicates that the contribution of the Nkangala District to the economy of Mpumalanga is 37 percent, Gert Sibande 34 percent and Ehlanzeni 29 percent. Gert Sibande recorded the highest economic growth rates from 2005-2007 and Ehlanzeni the lowest. The growth rate of Gert Sibande in 2007 was 5.3 percent compared with Ehlanzeni's only 2.0 percent. The mining and manufacturing sectors of Gert Sibande contribute more than 50 percent to the district's total industries. Gert Sibande is prominent in the province in terms of its agricultural share (39 percent) and manufacturing (55 percent). Nkangala's mining sector is responsible for 31 percent of the district's total industries, manufacturing 14 percent and finance and community services 27 percent. Nkangala continues to be the highest producer of electricity in Mpumalanga (more than 70 percent).





Ehlanzeni's economy is very diverse with community services contributing 25 percent to the district's total industries. It is however responsible for 45 percent of Mpumalanga's trade sector activities. There is still a gap however, between the three districts in terms of their contribution to the provincial GDP. The gap between Ehlanzeni and Gert Sibande and also Nkangala, is 5 and 8 percent respectively. Ehlanzeni has the largest population of the three districts at 41.9 percent, but its economic contribution is the lowest at 29 percent. However, Ehlanzeni has the potential to make a bigger contribution to the economy of the province, by increasing its manufacturing sector and by fully optimising its competitive advantage in terms of its agricultural base.

Another concern is the gap between the districts in terms of annual per capita and house-holds income. Nkangala shows the highest and Ehlanzeni the lowest figures in this regard. Global Insight also indicates gaps in terms of the Gini coefficient, that is, the measurement of income inequality of the districts. Gert Sibande has the worst at 0.66 and Ehlanzeni the best at 0.64.

MID-TERM REVIEW

Madam Speaker, Honourable Members, we were able to hold the Medium Term Expenditure Committee (MTEC) Hearings with Departments during this quarter as planned, to discuss amongst others, the expenditure estimate proposals and to review progress against commitments made to this house, when Departments tabled their respective Policy and Budget Speeches earlier this year. The discussions were quite robust and have afforded us the opportunity to re-prioritise where necessary.

The Mpumalanga Gambling Levies Act has been passed, whilst the process of passing the Mpumalanga Tourism Levies Bill is progressing well. We hope that the latter Bill will be finalised before the end of office of the current administration. Both the Act and the Bill deal with revenue collection, and it is hoped that their coming into effect will surely boost provincial revenue collection. We are also in the process of facilitating the passing of the Mpumalanga Finance Laws Repeal Bill, 2008. This piece of law seeks to repeal old order legislation that has fallen into disuse, and specifically repeals the Municipal Consolidated Loans Fund Ordinance, 9 of 1952 and the Local Authorities Capital Development Ordinance Fund, 9 of 1978.

As a way of enhancing the delivery of information technology infrastructure, the Department was also entrusted with the responsibility to facilitate the signing of all contracts with SITA (State Information Technology Agency).





We can report that with the assistance of the State Law Advisors in the Office of the Premier, this process is almost reaching its finality as about 80 percent of Departments have already signed.

Asset Management Reform

Madam Speaker, Honourable Members, in order to address the problem of asset management in the Province, which is the root cause of audit qualifications or emphasis of matters, we have developed the Provincial Asset Management Framework, which is still in a draft form. We are currently in consultation with other stakeholders within the province before the framework can be finalised. We have further constituted the Provincial Asset Management Task Team as instructed by the Executive Council, to address the audit outcomes with regard to asset management.

The Task Team has already conducted one-on-one meetings with Departments; identified root causes and risks attached to asset management which lead to poor performance and audit qualifications. Intervention plans were also developed and are being implemented in consultation with Departments. We believe that this type of intervention, will improve our asset management and lead to less or no qualifications at all.

Cash Management Policy

As promised Madam Speaker, Honourable Members, the provincial cash management policy, though in a draft form, has been completed. This policy will assist in providing a strategic direction on the management of the provincial revenue fund, which includes the management of investments for the province. We are in consultation with stakeholders before the policy can be formally adopted.

Capacitation of Supply Chain Practitioners

In our quest to produce a top cadre of Supply Chain Practitioners, we have through the University of Pretoria, introduced a one-year certificate programme on supply chain and asset management. So far, 25 officials from departments, municipalities and public entities have been enrolled. We hope that this intervention will bear fruit and improve our supply chain and asset management.





Submission of annual financial statements to the Auditor General

With regard to complying with Section 40(1)(c) of the PFMA, we can report that all departments, but two (2), submitted their annual financial statements to the Auditor-General by 31 May 2008. The remaining two (2) only managed to submit the next working day.

Audit outcomes

We are pleased to inform the house that no Department or Public Entity received a disclaimer in the 2007-2008 financial year audits. We however still experience qualified audit reports, as eight (8) Departments and Public Entities received qualified audits. Our commitment towards producing fourteen (14) unqualified audit reports remains unwavering. We will leave no stone unturned to assist Departments and Public Entities to realise this dream of producing unqualified audit reports. Eleven (11) Departments and Public Entities received unqualified audit reports. Let me in the same breath, congratulate the Mpumalanga Gambling Board for receiving an unqualified report with no emphasis of matters and also congratulate the Head of the Department of Finance and his team for continuing to produce unqualified audit reports. This can only encourage others that ".....nothing has beaten man, if he has striven."

As far as the municipalities are concerned, I can report that the road is still thorny, but all is not lost, as we can see the light at the end of the tunnel. For the audits of the 2006-2007 financial-year, eleven (11) out of twenty-one (21) local and district municipalities received unqualified audit outcomes – though with emphasis of matters. Two (2) received adverse reports; five (5) disclaimers and three (3) were qualified.

Maximising investment in Information Technology

With regard to the operations of financial systems, that is, Logis, Persal, BAS and *Vulindlela*, we can proudly report that we are no longer experience down times. We are also currently busy developing procedure manuals for operating the systems securely, and monitoring the abuse of the system for fraudulent transactions, in order to take action.





Infrastructure roll-out and expenditure

Madam Speaker, Honourable Members, I'm pleased to inform the house that as at 30 September 2008, the Department of Education was the highest spender of the infrastructure budget at 75 percent, followed by the Department of Roads and Transport at 55 percent. As a result, the Department of Education has made significant strides in infrastructure implementation. Their expenditure relates to completion of school projects dating as far back as 2004.

On the other hand, the high fuel price during the first semester of 2008 has resulted in the higher than expected prices of products such as bitumen, used in the construction of roads. This has resulted in the increased contract price adjustments on the current roads projects. However these unforeseen and unavoidable costs have been catered for in this adjustment budget. We can also report that the Department of Roads and Transport has been able to produce reports on light road construction, provincial road inventory, map data, maintenance needs and provincial road asset value. These reports will assist the department in developing a road asset management system.

The expenditure figures for the Department of Culture, Sport and Recreation depict an improvement in the progress of projects with 44.4 per cent already under construction. The spending by the Department of Social Development is very low at 18.8 percent. As a result, the Department will be surrendering R26 million which was allocated for the construction of district offices. As for the Department of Health, indications are that 33.3 percent of their projects are locked in the retention stage, 24.4 percent are under design, 0.9 percent at tender stage, whilst 31.6 percent are at construction stage. Of main concern, is the slow spending of the Hospital Revitalisation Grant which to-date stands at 13 percent. As at the end of September 2008, the Department of Public Works had implemented 97 percent of its own projects and 3 percent are at design stage.

Separation of Departments

Madam Speaker, in order to enhance service delivery, the Executive Council has approved the splitting of the erstwhile Department of Local and Housing and the Department of Health and Social Services. This has resulted in the formation of the Department of Local Government (which remains vote 4), and the Department of Housing (which becomes vote 14). Provision for funding of organograms of the new Departments has therefore been made, in this adjustment budget.





The now defunct Department of Health and Social Services, which previously had two votes, that is, vote 10 (Health) and vote 13 (Social Services), have now been officially split into two Departments, namely the Department of Health and the Department of Social Development. The newly formed Departments have been proclaimed by the President.

TECHNICAL ADJUSTMENTS TO THE PROVINCIAL FISCAL FRAMEWORK Compensation of Employees

In terms of the wage agreement (Resolution 1 of 2008 of the PSCBC), the wage increase for 2008/09 was 10.5 percent due to higher than anticipated inflation increases. This is 3.4 percentage points higher than what provinces planned for when they tabled their 2008-2009 Budgets. In order to compensate for the costs associated with the higher than anticipated wage settlement, the National Treasury has proposed to increase our budget for compensation of employees by **R237.081** million. Similarly, shortfalls have arisen in the implementation of the Occupation Specific Dispensation (OSD) for nurses and **R82.377 million** has been made available to address the shortfall.

Inflation adjustments for medical equipment and supply costs

For goods and services, the Department of Health will receive an additional **R43.116** million, of which **R38.997** million will go towards covering higher than anticipated inflation costs for medical equipment and medicine costs. The remaining **R4.119** million will fund the three (3) new vaccines, which government plans to introduce in the next three (3) years, in order to reduce infant and child mortality rate.

Learner and teacher support material

An additional amount of **R7.460 million** has been made available as an adjustment for the provision of learner support material.

Conditional Grants

National School Nutrition Programme

The National School Nutrition Programme Conditional Grant will be adjusted by R29.684 million.





HIV and AIDS Programme

Additional funding amounting to **R 25.570 million** will be added to the baselines of the HIV and AIDS Programme in the Department of Health in order to meet the greater demands that arise due to the faster ARV take up rate.

Disasters and other emergencies

In order to deal with the aftermath of the unforeseen natural disasters, an amount of **R5.3 million** is allocated to address storm damages to schools in the Bushbuckridge area.

ADJUSTED BUDGET PER VOTE

Madam Speaker, Honourable Members, the total amount appropriated by this house earlier this year during the main appropriation was R19 Billion, 7 Million, 619 thousand, which consisted of R18 Billion, 739 Million, 619 thousand allocated to the baseline of Departments, as well as R268 Million which remained earmarked in the Provincial Revenue Fund. Out of the R268 Million, R188 Million is now proposed to be allocated to Departmental baselines. It is therefore proposed that the Provincial Fiscal Framework be increased by R1 Billion, 646 Million, 707 thousand.

I now have the honour to present to the house the proposed adjusted budget for the 2008-2009 financial-year, per vote:

VOTE 1: Office of the Premier

The main appropriation budget of the Office of the Premier was **R182. 765 Million** and will now increase by **R29.011 Million** resulting in the adjusted budget of **R211.776 Million.** The additional allocation is to fund amongst others, anticorruption and awareness campaigns, review of the PGDS (Provincial Growth and Development Strategy), and allowances of traditional leaders.

VOTE 2: Mpumalanga Provincial Legislature

The approved budget of R97.223 Million for the Mpumlanga Provincial Legislature is proposed to be increased by R39.538 Million, of which R4.446 million is a rollover. This allocation is to fund an increment in the remuneration of public office bearers, hosting of the State of the Province address, maintenance of the chamber, funding of political parties and implementation of the new organogram for the legislature. The proposed adjusted budget is R136.761 Million.





VOTE 3: Department of Finance

The appropriated budget of **R201.062 Million** for the Department of Finance will increase by **R238.783 Million** resulting in an adjusted budget of **R439.845 Million**. It should be noted that the bulk of the additional allocation is earmarked to fund the five (5) flagship projects. The Executive Council took a decision to place the fund under the Provincial Treasury, but the fund will be available to Departments, as and when they require to utilise it. The other allocation will be used by the Department to amongst others, pay additional costs of the SITA account as a result of increased number of users-licences, and to also cover the shortfall on the funding of Operational Support Teams.

VOTE 4: Local Government

The allocated budget of **R245.229 Million** to the Department of Local Government will increase by **R86.700 Million**, to cater for the implementation of the water project in Nkomazi, Mbombela fire fighting equipment, and funding for personnel costs for implementing the new organogram of the Department. The proposed adjusted budget for the Department is now **R331.929 Million**.

VOTE 5: Agriculture and Land Administration

The Department of Agriculture and Land Administration will receive an additional R36.237 Million, which will result in its budget of R741. 576 Million being adjusted to R777.813 Million. The additional allocation is in respect of two grants, that is, the disaster management grant, as well as the comprehensive agricultural support programme. The capacity to spend the additional funding has been assessed. As a result, only R28.704 Million will be added to the disaster management grant out of a roll-over of R36.618 Million. An amount of R7.533 Million is added to the budget allocated for the purchase of production inputs in municipalities, where land has already been tilled.

VOTE 6: Economic Development and Planning

The budget of the Department of Economic Development and Planning will decrease by **R1 Million**, following a surrender by the Department. This will result in its original budget of **R442.654 Million** revised to **R441.654 Million**.





VOTE 7: Education

An additional allocation of **R422.826 Million** is proposed to be appropriated for the requirements of the Department of Education. This will increase its budget of **R8. 934 Billion** to **R9.357 Billion**. The additional amount is to fund the OSD (Occupation Specific Dispensation) for Educators, inflationary adjustment to learner and teacher support material, the school nutrition programme, and infrastructure, amongst others.

VOTE 8: Public Works

The Department of Public Works will receive an additional an amount of **R65.221 Million** to fund the marketing of the EPWP and the National Youth Service. It will also cover tuition and accommodation fees for one-thousand youth participating in the National Youth Service, as well as the acquisition of additional provincial properties. This will result in the Department's original budget of **R429.** 572 **Million** increasing to **R494.793 Million**.

VOTE 9: Safety and Security

The budget of the Department of Safety and Security will remain the same at **R68**. **132 Million**.

VOTE 10: Health

The Department of Health will receive an additional amount of **R414.206 Million** resulting in its budget of **R4.241 Billion** revised to **R4.656 Billion**. This additional funding is to cater for the shortfall on the OSD for nurses, inflationary pressure on the medical equipment and medicine, proposed new vaccines and inflationary pressure on the cost of ARV treatment, amongst others.

VOTE 11: Roads and Transport

The Department of Roads and Transport will receive an additional amount of **R156.039 Million.** This will increase the budget of the Department to **R1.703 Billion**, up from the appropriated amount of **R1, 547 Billion**. This amount is to fund the purchase of additional 100 traffic enforcement vehicles and equipment, maintenance of access roads and dilapidated streets in various municipalities, and to top-up funds budgeted for the construction of the N4 bypass road to the Mbombela Stadium, amongst others.





VOTE 12: Culture, Sport and Recreation

The Department of Culture, Sport and Recreation will receive an additional amount of **R30.687 Million**, resulting in the adjusted budget of **R239.620 Million**, up from the original appropriated budget of **R208. 933 Million**. The additional allocation, will amongst others, cater for the additional work at the Samora Machel Memorial, *MACF*est International and a general revision to the Departmental baseline.

VOTE 13: Social Development

The Department of Social Development will surrender a net of **R3.6 Million**, which will result in its budget of **R662.332 Million** decreasing to **R658.732 Million**. The Department had initially surrendered **R26 Million**, but require **R22.4 Million** to pay salaries of 181 Social Auxiliary Workers, and to re-position and market itself following separation from the Department of Health.

VOTE 14: Housing

The newly formed Department of Housing, which was separated from the Department of Local Government from 01 April 2008, will receive an additional R132. 059 Million, thus increasing its budget from R736.820 Million to R868.879 Million. The additional allocation will be used to fund the construction of additional 6000 housing units, and for the accreditation of municipalities, amongst others.

PROVINCIAL REVENUE FUND

Madam Speaker, an amount of **R80 Million** which was allocated for provincial special projects during the main appropriation, will remain in the Provincial Revenue Fund, still allocated for the same purpose.

PROPOSED ADJUSTED BUDGET: 2008-2009

The total adjusted budget proposed to be appropriated by this house for the 2008-2009 financial-year, to fund the requirements of the Province, in terms of Chapter 4, Section 31 of the Public Finance Management Act, Act 1 of 1999, as amended by Act 29 of 1999, is **R20 Billion**, 466 Million, 326 thousand.





TABLING OF THE BILL AND THE ADJUSTED ESTIMATES

Madam Speaker, I now have the honour of tabling the 2008-2009 Adjustment Budget Bill and the Adjusted Estimates of Provincial Expenditure in terms of Section 31 of the PFMA, Act 1 of 1999 (as amended by Act 29 of 1999).

CONCLUSION

This Adjustment Budget we are tabling this afternoon, indicates our commitment as the caring government – that of continuing in our quest to provide a better life for all. Government is doing all it can, to protect our people, especially the poorest of the poor, from the rising cost of food. It is not yet over, but we can see a bit of sunshine in the horizon – a good sign that it shall come to pass.

In concluding, allow me Madam Speaker, to thank the Honourable Premier, Mr TSP Makwetla, for his leadership and confidence in my capability to manage the purse of the Province; my colleagues in the Executive Council for their continuing support and advice. Appreciation also goes to members of the Budget and Finance Committee under the leadership of the Honourable Premier, for continuing to shape our budget and allocation policies; to members of the Portfolio Committee on Premier's Office, Finance and Safety and Security for their guidance.

To the Head of the Department of Finance, Mr Rabeng Tshukudu, continue to steer the finance ship to the right direction. To my wife and son, many thanks for your perseverance and understanding which allowed me to carry-out the mandate I've been given. To our guests, your presence is highly appreciated, and thank you for attending. Many thanks also go to the support staff in my office under the stewardship of Mr Sarel Mtsweni – you are a great supportive and dedicated team, who make things happen.

Madam Speaker, Honourable Members, once more I say, faith, is the cornerstone of positive things to come. Let us "Go forward in faith" and believe that these trying economic times, shall come to pass!





I close with the words of US Poet, Emily Elizabeth Dickinson, and I quote:

"Hope is the thing with feathers That perches in the soul. And sings the tune Without the words, and never stops at all."

Ngiyathokoza!

