

ADJUSTMENTS ESTIMATE BUDGET SPEECH

PRESENTED BY: MAUREEN MODISELLE

MEC FOR FINANCE

DATE: 22 NOVEMBER 2007

Introduction

Honourable Speaker, In March this year I presented to your august House the main budget which catered for our priorities for the financial year ending on 31 March 2008.

We are aware, however, that an institution of the magnitude of the Provincial Administration with its complex administration processes will be required to review its financing plans to determine whether there have been adjustments to operations, which require financing adjustments or not.

It is on the basis of the anticipated adjustments that provision has been made in Section 31 of the Public Finance Management Act (PFMA) for the MEC for Finance to present the Adjustments Budget to your august House, Honourable Speaker, for its consideration.

I am pleased to respond to the requirements of Section 31 of the PFMA and accordingly table the Adjustments Appropriation Bill 2007.

According to this section of the PFMA, an adjustments budget may contain the following:

- Additional funds that have become available to the Province
- Unforeseen and unavoidable expenditure
- Money to be appropriated which was not announced in the main budget speech
- Money approved by the MEC for Finance in terms of Section 25 of the PFMA
- Shifting of funds within and between votes
- Funds rolled over from the preceding financial year
- Utilisation of savings under a main division within a vote.

Madam speaker as you will recall from my presentation of the Provincial MTEF Budget, I highlighted that, as a Province, we were going to face a challenge of losing close to R2 billion (Two billion Rand) as a result of the disestablishment of cross-boundary municipalities.

Six months into the budget year my predictions have come true in that the Province is faced with a serious challenge of a budget shortfall in the Department of Education. The shortfall is estimated to be in the region of R1 billion (One billion Rand).

The Department of Education used the wrong information with respect to the number of officials transferred to and received from Gauteng and Northern Cape provinces and thereby understated the financial impact of demarcation on their department by R500 million (Five hundred million Rand). This has put the Provincial Treasury under extreme financial pressure. To make matters worse, the shortfall grew over the first six months of this financial year to a staggering R1 billion (One billion Rand). The Provincial Treasury has conducted an investigation to determine the reasons for this increase. We have now received the final report and after studying it, we will decide on corrective action to be taken. We are determined not to allow any department to undermine our efforts to have a financially stable province.

Madam Speaker, faced by such an enormous budget shortfall we as Treasury, have not sat on our laurels but decided to take a pro-active step to ascertain what exactly caused the budget shortfall in the Province. We realized that part of the problem was due to a shortcoming in the Financial and Fiscal Commission (FFC) formula. The effect of this was that the North West Province's portion of the equitable share was dramatically reduced after taking into account the impact of the disestablishment of municipal boundaries.

We have since consulted the FFC to review the formula and are hopeful that changes to correct this anomaly will be effected in the upcoming MTEF.

In the mean time the Provincial Treasury has devised some interventions to manage the budget shortfall by adopting the following measures:

- Appealing to National Treasury for assistance with extra funding;
- Engaging departments on a one on one basis to identify possible savings that can be utilized to bridge the gap;
- Adopting cost reduction measures on administrative expenditure and other goods and services;
- Filling of only critical vacant posts;
- Engaging the Department of Education to determine the areas that triggered the budget pressures as well as ensuring that the same is not repeated in future.

Madam speaker, I am confident that these measures we have adopted will remedy the situation to enable us successfully manage the budget during the 2007- 08 financial year.

The Adjustments Budget

Honourable Speaker, I wish to bring to the attention of the House that provinces are continuously receiving less funds for the adjustments budgets.

This stems from the fact that National Treasury assumes that provinces in general do not have the capacity to spend their budgets.

In view of the fact that we have not been doing well on spending in the past and it has been very difficult on the part of National Treasury to allocate additional funding only for it to be rolled over.

Nevertheless, we are developing sufficient capacity for planning and we can therefore not be far off the mark with the implementation of our budget.

We are actually pleased to inform your august House, Honourable Speaker, that capacity to spend has improved significantly in departments.

The Adjusted Figures for 2007/08 Financial Year.

Revenue Sources

Revenue forms a basis for funding expenditure and it is therefore important to indicate the amount of revenue which has become available for use in the 2007/08 Provincial Adjustments Budget.

The adjustments budget makes provision for an additional amount of R1 146,094 million (One billion one hundred and forty six million ninety four thousand Rand) in respect of revenue.

This amount is made up as follows:

- Unspent funds brought over from 2006/07:
R488 million (Four hundred and eighty eight million Rand)
- Additional conditional grants and other funding received from the National Treasury: R526 million (Five hundred and twenty six million Rand)
- Other available revenue: R132 million (One hundred and thirty two million Rand)

Surrenders

The following departments surrendered part of their savings from the personnel expenditure to bridge the gap in the budget shortfall:

- Office of the Premier: R12 million (Twelve million Rand)
- Department of Finance: R13 million (Thirteen million Rand)
- Department of Sport, Arts and Culture: R12 million (Twelve million Rand)
- Department of Economic Development and Tourism: R5 million (Five million Rand)

- Department of Social Development: R124 million

The Department surrendered an amount of R124 million (One hundred and twenty four million Rand) of which R105 million (One hundred and five million Rand) is from their personnel budget due to challenges in appointing social workers and R19 million (Nineteen million Rand) from transfer payments resulting from a delay in the expansion of services to underserved areas.

- Department of Agriculture, Conservation and Environment: R6 million

The Department requested an amount of R6 million (Six million Rand), originally budgeted for the Directorate for Entrepreneurial Development (DED) to be suspended and kept in the Contingency Reserve. DED is in the process of winding down Agriserve and the funds will not be used in the current financial year.

The departmental adjustments are as follows:

The total additional allocation to be included in the adjustments budget amount to R1 146,094 billion (One billion one hundred and forty six million, ninety four thousand Rand). This amount represents an increase of 8% of the original budget of R14 412,358 million (Fourteen billion four hundred and twelve million three hundred and fifty eight thousand Rand) to R15 558,452 million (Fifteen billion five hundred and fifty eight million four hundred and fifty two thousand Rand).

It is allocated as follows to the various departments.

Office of the Premier

The Department's main Budget reduces by R11,280 million (Eleven million two hundred and eighty thousand Rand) to R234,997 million (Two hundred and thirty four million nine hundred and ninety seven thousand Rand).

An amount of R230 000 (Two hundred and thirty thousand Rand) is being transferred from the Department of Finance to the Office of the Premier for the review and update of the IT Master Systems Plan.

The Provincial Legislature

With the additional funding amounting to R12,236 million (Twelve million two hundred and thirty six thousand Rand) the total budget for the Legislature is increased to R109,534 million (One hundred and nine million five hundred and thirty four thousand Rand).

A rollover of R12,086 million (Twelve million and eighty six thousand Rand) was recommended of which R8,604 million (Eight million six hundred and four thousand Rand) is allocated for the implementation of the ORACLE Financial System and an amount of R3,482 million (Three million four hundred and eighty two thousand Rand) for the completion of the Legislature's new building.

In addition the Legislature received R150 000 (One hundred and fifty thousand Rand) as a donation for the Apac Conference which they can retain in terms of Section 22(1)(a) of the PFMA.

The Department of Health

The Department's main budget increased from R3 754,518 billion (Three billion seven hundred and fifty four million five hundred and eighteen thousand Rand) by R162,110 million (One hundred and sixty two million one hundred ten thousand Rand) to R3 916,628 million (Three billion nine hundred and sixteen million six hundred twenty eight thousand Rand).

A total amount of R60,830 million (Sixty million, eight hundred and thirty thousand Rand) has been rolled over from the previous financial year 2006/07. The rollover includes conditional grants amounting to R45,600 million (Forty five million and six hundred thousand Rand).

The Department also received an additional amount of R30,961 million (Thirty million nine hundred and sixty one thousand Rand) from the National Treasury for Multiple Drug Resistance, Extreme Drug Resistance- TB and R600 000 (Six hundred thousand Rand) from the Belgium Embassy for HIV/TB collaboration.

Learnership funds amounting to R2,268 million (Two million two hundred and sixty eight thousand Rand) was provided from the Contingency Reserve. The department also received R848 000 (Eight hundred and forty eight thousand Rand) from Health and Welfare SETA grant to support the learnership programmes.

A shortfall of R65 million in infrastructure was funded with an amount of R45,682 million (Forty five million six hundred and eighty two thousand Rand) surrendered by various departments from their infrastructure allocations and a rollover of R19,572 million (Nineteen million five hundred and seventy two thousand Rand) from the Department of Education's infrastructure allocation for 2006-07.

Department of Sport, Arts and Culture

The Department's main budget decreases from R320,237 million (Three hundred and twenty million two hundred and thirty seven thousand Rand) by R10,031 million (Ten million and thirty one thousand Rand) to R310,206 million (Three hundred and ten million, two hundred and six thousand Rand).

An amount of R1,519 million (One million, five hundred and nineteen thousand Rand) from provincial funds was rolled over while R1,578 million (One million five hundred and seventy eight thousand Rand) for the Mass Sport Participation Grant was not rolled-over by the National Treasury. This amount must be repaid to the National Revenue Fund.

Department of Economic Development and Tourism

The total adjusted budget of the Department of Economic Development and Tourism amounts to R297,486 million (Two hundred and ninety seven million, four hundred and eighty six thousand Rand) an increase of R24,790 million (Twenty four million seven hundred and ninety thousand Rand).

Of the R62,466 million (Sixty two million four hundred and sixty six thousand Rand) requested rollovers only those relating to committed projects amounting to R29,229 million (Twenty nine million two hundred and twenty nine thousand Rand) were approved. Treasury identified project management as one of the key performance areas for improvement in infrastructure spending. An additional amount of R561 000 (Five hundred and sixty one thousand Rand) was provided to assist the Department with project planning.

Department of Finance

The adjusted budget of the Department has been reduced by a net amount of R7,929 million (Seven million nine hundred and twenty nine thousand Rand) leaving a revised figure of R254,617 million (Two hundred and fifty four million six hundred and seventeen thousand Rand).

The following amounts were rolled over from the preceding financial year:

- Financial Management Training: R4,507 million (Four million five hundred and seven thousand Rand)
- Infrastructure capacity building: R2,178 million (Two million one hundred and seventy eight thousand Rand)

The following are additional allocations that were approved during the year for the Department from the Contingency Reserve:

- Fraud prevention campaign: R2,500 million (Two million five hundred thousand Rand)
- North West Growth Fund: R7,825 million (Seven million eight hundred and twenty five thousand Rand)

Department of Education

The total additional allocation for the Department amounts to R772,091 million (Seven hundred and seventy two million and ninety one thousand Rand) which amounts to an increase of 14.5% of the original budget to R6 096,036 million (Six billion and ninety six million thirty six thousand Rand).

The Department requested an amount of R1,005 billion (One billion and five million Rand) to fund the expected shortfall on their personnel budget. Included in this amount are additional salary increases for educators of 2% which, according to the Provincial Treasury, was not funded. After careful scrutiny and recalculation of the shortfall only an amount of R772,091 million (Seven hundred and seventy two million and ninety one thousand Rand) could be substantiated for funding in the adjustments budget.

This amount takes into account the following:

- Backdated salaries amounting to more than R50 million (Fifty million Rand)
- R33 million (Thirty three million Rand) to be deducted in respect of no-work-no-pay for workers who went on strike during June 2007
- Additional allocation of R23 million (Twenty three million Rand) for marking fees
- R300 000 (Three hundred thousand Rand) provided by the Provincial Treasury to assist the Department with infrastructure planning
- R39,713 million (Thirty nine million and seven hundred thirteen thousand Rand) rolled over from the preceding financial year
- A donation of R10 million (Ten million Rand) received from the Netherland's Embassy for the Education Development Support Centres.

Department of Developmental Local Government and Housing

This Department has been allocated an additional amount of R113,777 million (One hundred thirteen million and seven hundred and seventy seven thousand Rand) increasing the main budget to R1 113,079 billion (One billion one hundred thirteen million and seventy nine thousand Rand). Rollovers account for R5,900 million (Five million and nine hundred thousand Rand) and Learnerships for R1,800 million (One million and eight hundred thousand Rand) of the total allocated amount.

An additional amount of R105 million (One hundred and five million Rand) has been received to increase the Integrated Housing Development Grant. This amount is to assist with the provision of housing for the Khutsong community affected by the looming dolomite emergency.

Department of Transport, Roads and Community Safety

This Department receives an additional allocation of R30 million (Thirty million Rand) increasing the original budget to an adjusted figure of R1 564,110 million (One billion, five hundred and sixty four million one hundred and ten thousand Rand).

The Department received an amount of R30 million (Thirty million Rand) from the Bojanala District Municipality for the co-funding of a road that is being constructed between Makapanstad and Bosplaas.

Department of Public Works

The Department receives a net amount of R21,747 million (Twenty one million, seven hundred and forty seven thousand Rand) increasing the original budget to an adjusted figure of R494,880 million (Four hundred and ninety four million, eight hundred and eighty thousand Rand). Of the additional allocation, R1 million (One million Rand) was rolled over from the previous financial year.

An amount of R7,684 million (Seven million, six hundred and eighty four thousand Rand) was provided for infrastructure capacity building in the Department. An amount of R500 000 (Five hundred thousand Rand) was recommended for security at the residences of Political Office Bearers and R2,500 million (Two million, five hundred thousand Rand) for additional consultancy fees.

The Department has been given an additional allocation of R10 million (Ten million Rand) to cover the shortfall in municipal fees over which the Department has no control.

Department of Social Development

The adjusted budget of this Department amounts to R490,675 million (Four hundred and ninety million, six hundred and seventy five thousand Rand) showing a net decrease of R116,953 million (One hundred and sixteen million, nine hundred and fifty three thousand Rand).

An amount of R6,633 million (Six million, six hundred and thirty three thousand Rand) was rolled over from the preceding financial year for Secure Care Centres. An amount of R561 000 (Five hundred and sixty one thousand Rand) was allocated to the Department to assist with infrastructure planning.

Department of Agriculture, Conservation and Environment

The adjusted budget of this Department amounts to R567,876 million (Five hundred and sixty seven million, eight hundred and seventy six thousand Rand) a net increase of R61,878 million (Sixty one million, eight hundred and seventy eight thousand Rand).

An amount of R5,977 million (Five million, nine hundred and seventy seven thousand Rand) was rolled over for the Department from the preceding financial year and an additional conditional grant of R55 million (Fifty five million Rand) for disaster management was received from the National Treasury.

An amount of R6,363 million (Six million, three hundred and sixty three thousand Rand) is provided for the Department for the clearing of its suspense accounts. This amount was a duplication of rental levied by the Department of Public Works. The appropriation of this amount has no cash flow implications. In addition, an amount of R538 000 (Five hundred and thirty eight thousand Rand) was allocated for learnerships.

Contingency Reserve

The contingency reserve is a holding vote approved by the Legislature and provides mainly for the unforeseen and unavoidable expenditure.

The closing balance in this vote is R108,328 million (One hundred eight million, three hundred and twenty eight thousand Rand) which includes an amount R84,654 million (Eighty four million, six hundred and fifty four thousand Rand) for loans to be written off.

Loans to be written off

Agriserve Loans

Two loans were made available to the former Agricor for the Kraaipan silos R4 million (Four million Rand) in 1980 and R1,100 million (One million one hundred thousand Rand) for storage facilities in 1985. With the capitalized interest these two amounts have increased to R14,213 million (Fourteen million, two hundred and thirteen thousand Rand) and R2,942 million (Two million, nine hundred and forty two thousand Rand) respectively. According to available information the loans should have been converted into grants but

that was never implemented. DED, the successor of Agriserve, does not have the funds to repay the loan. Furthermore, the value of the assets has depreciated drastically over the years.

Agrichicks Ltd

A loan of R67,321 million (Sixty seven million, three hundred and twenty one thousand Rand) is still reflected in the provincial books of account for Agrichicks. Agrichicks was subsequently liquidated and the money cannot be recovered.

South African Development Trust Loans

An amount of R144 000 (One hundred and forty four thousand Rand) is reflected in the books of account as South African Development Trust Loans since 1986. This is one of the loans inherited from the former Bophuthatswana and there are no supporting documents to recover the money.

Senior Management Service Vehicle scheme

An amount of R34 000 (Thirty four thousand Rand) is reflected in the books of account as "SMS Vehicle Scheme". This "loan" was inherited from the former Bophuthatswana and no information is available regarding this amount.

Additional Appropriation

Madam Speaker, I am tabling additional estimates amounting to R1 146,094 billion (One billion, one hundred and forty six million, ninety four thousand Rand) as contained in the Schedule to the Adjustments Bill, 2007, which I request your august house to appropriate.

Conclusion

Honourable Speaker, the Adjustments Bill tabled here today was compiled under huge financial constraints. Sixty seven percent of the additional allocation went to one department, namely, Education. A number of departments assisted the Provincial Treasury in funding this adjustments budget. Not only did some departments surrender funds but many departments had to reprioritise to fund their own budget pressures. We would like to express our sincere appreciation to these departments.

Except for a few areas of under-spending, mostly conditional grants that are only appropriated in this adjustments budget, we are confident that most departments will be able to implement their budgets fully.

Finally, Treasury will continue for the rest of the financial year to monitor the spending trends of the departments and we will not hesitate to use our powers in terms of the PFMA to ensure that services are delivered.

I thank you.