



Member of the Executive Council
for Finance
FREE STATE PROVINCE

2018 FREE STATE PROVINCIAL BUDGET SPEECH

**Hon. Elzabe Rockman
MEC for Finance**

14 MARCH 2018

Honourable Speaker

Honourable Premier

Members of the Executive Council

Members of the FS Legislature

Our local government and traditional leadership

Director-General, Heads of Departments, Chairpersons and Chief Executive Officers of our Public Entities

The Provincial Business Executive and representatives of the Office of the Auditor General

Representatives of political parties and the organized sectors of local government, business, labour and civil society

Learners, parents and educators from the schools that reached the finals of the 2018 Provincial Budget Essay Competition, namely Moemedi High School and Eunice Girls High from Bloemfontein, Popano and Setjhaba se Maketse Secondary Schools, both from Botshabelo

Distinguished guests

We appreciate this opportunity to return to the Xhariep district to deliver the 2018 Free State Budget Speech.

Let me begin with tabling the following documents for consideration by this House:

- The Appropriation Bill for 2018
- The Explanatory Memorandum to the Bill

- The 2018 Estimates of Provincial Revenue and Expenditure, including the Estimates of Capital Expenditure and;
- A copy of the 2018 Free State Provincial Budget Speech.

The Xhariep district is designated as the Springbok Route by our provincial tourism authority. Our first democratic President Nelson Mandela must have been talking about Xhariep when he reflected that; *“The Free State landscape gladdens my heart, no matter what my mood. When I am here, I feel that nothing can shut me in that my thoughts can roam as far as the horizons.”*

The semi-arid hills, valleys and open grassland plains and prairies, broken by the mighty Orange River and imposing Gariepdam, capture the tranquil vastness and unapologetic harshness that is the very soul of the Southern Free State. It is a spiritual and symbolic heartland that has given birth to generations of men and women whose courage enabled them to transcend the perceived limitations of their humble beginnings. What better inspiration for our journey to achieve our Vision 2030 than the example of Lucas Majosi who hailed from the small, rural town of Zastron?

Lucas Majosi received the highest award gained by an African soldier in the Second World War, namely the Distinguished Conduct Medal. Hon. Speaker, allow me to acknowledge and pay our respects to the Majosi family who has joined us here today. Their presence is the most powerful reminder that the heroes and heroines of our history are from us and amongst us. The indisputable bravery shown by Lucas Majosi would years later be emulated in the struggle contributions of Xhariep leaders such as Albert Nzula, Aron Mokgomotsi, Rider Mofokeng, Teboho Sikisi, Fezile Basholo, Joko Motloi, Mokoai Moletsane, Levo Mokgithle, Marcia Taole, Gideon Sekhobo and Lovemore Koto.

During recent months, the Xhariep district has been hard hit by the loss of comrades such as Lucy Moeng (Fauresmith), Lerothodi Mohajane (Jagersfontein) Puleng Mohlabane (Zastron), Hendriena Oliphant (Koffiefontein), Sydwell James (Bethulie) and Ishmael Reit (Koffiefontein). We also pay our respects to the selfless contribution

made by these comrades to our struggle for political and economic freedom in our lifetime.

We declared 2018 as the “*100 Years of Nelson Mandela: The Year of Renewal, Unity and Jobs*”. We commemorate the centenary of the births of two of our greatest South Africans, the late former President Nelson Mandela and *Mme Albertina Sisulu*. Their extraordinary moral strength and resilience over a lifetime of persecution and hardship has laid the foundation for our journey to realize the founding principles of the Freedom Charter and the ideals and objectives of our National Development Plan.

It is also appropriate that we acknowledge that this year marks the 40th commemoration of the passing of Robert Mangaliso Sobukwe (former national secretary of the ANC Youth League and founding father of the PAC) and the 25th year of the brutal assassination of Chris Hani, General-Secretary of the South African Community Party.

We are undoubtedly emerging as a nation from a turbulent past on the journey towards remaking our country from its mixed legacy of the undeniable burden of poverty, inequality and unemployment. Addressing Free State leaders in September 1994, former President Mandela emphasized that; *“Freedom... must be understood as the transformation of the lives of ordinary people in the hostels and the ghettos; in the squatter camps; on the farms and in the mine compounds. It means constant consultation between leaders and members of their organisations; it demands of us to be in constant touch with the people, to understand their needs, hopes and fears; and to work together with them to improve their conditions.”* This is the enduring principle which must guide us on this journey of creating a new society based on equity and social justice.

We are called upon to address not only the radical socio-economic transformation of our country but also to focus our attention on the specific dynamics faced by women, the youth and the disabled. The brutal realities of the narrowing fiscal space that we have experienced over the last few financial years require an uncomfortable acknowledgment of the profound changes we have had to make in determining our priorities as well as in our planning and implementation processes.

If we are to succeed in ensuring that radical socio-economic transformation translates to a practical change in the lived experience of our people, we must ensure that we remain focused on strengthening the three key levers to the implementation of the National Development Plan. These are identified in the Budget Prioritisation Framework or Mandate Paper that guides the preparation of the 2018 Budget process, as follows;

- Growing the economy
- Enhancing the capabilities of South Africans and
- Building a capable state

The Mandate Paper is an instrument for budget prioritisation and ensures that resource allocation supports the implementation of the NDP within the prevailing socio-economic context and fiscal framework. Seven priorities were approved by Cabinet for the 2018 Budget, including;

- Job Creation and Small Business Development
- Youth Development
- Infrastructure expansion and maintenance
- Land reform, smallholder farmer and agriculture development
- Comprehensive social security, education and skills
- The integrated plan to fight crime and
- Advancing the national interest in SADC, the African continent, BRICS and Indian Ocean RIM Association

Our resource allocations in favour of advancing these priorities are informed by the particular context of the global, regional and national economic outlook and consequently also our provincial economic outlook.

Global, Regional and Domestic Economic Outlook

Hon. Speaker, global economic activity continues to strengthen with global output estimated to have grown by 3.7 % in 2017. Some 120 economies, accounting for

three quarters of world Gross Domestic Product (GDP), have seen an improvement in growth in year-on-year terms in 2017. This is the broadest synchronized global growth upsurge since 2010.

We welcome the launch of the Inclusive Development Index by the World Economic Forum which provides an alternative metric of national economic performance. This index advocates for a global system that will - at its core - be greener, more equitable, more respectful of diversity and particularly gender parity and must ensure that the Fourth Industrial Revolution unfolds with humanity at its centre.

The aggregate growth forecast for the emerging markets and developing economies for 2018 and 2019 remains unchanged, with marked differences in the outlook across regions. Emerging and developing Asia will grow at around 6.5 % over 2018–19, broadly the same pace as in 2017. The region continues to account for over half of world growth. Growth is expected to moderate gradually in China and to pick up in India. In Latin America, the recovery is expected to strengthen, with growth of 1.9 % in 2018 (as projected in the fall) and 2.6 % in 2019.

The growth pickup in Sub-Saharan Africa (from 2.7 % in 2017 to 3.3 % in 2018 and 3.5 % in 2019) is characterized by a modest upgrade to the growth forecast for Nigeria but more subdued growth prospects in South Africa at an estimated 1.5 %. Positive indicators such as the stabilization of inflation, the strengthening of our currency and emerging positive indications of investor sentiment and business confidence have the inherent potential of supporting our economic recovery trajectory.

The hon. Premier outlined in the State of the Province Address the extent to which our continued collaboration with more than 35 countries from all continents will further create an enabling environment that will promote and encourage direct and indirect foreign investment in the Free State. It will also further support the expansion of the emerging growth that we have seen in our export base.

Provincial Socio-Economic Dynamics

Hon. Speaker, inter-provincial migration patterns significantly influence the provincial population numbers and structures in South Africa. Our Free State provincial population statistics indicate amongst others that;

- Our provincial share of the national population has decreased from 5.8 % in 2002 to 5.1 % in 2017
- Almost a third of our provincial population is concentrated in the Mangaung Metro
- Between 1996 and 2016, significant declines in the relative population shares of the Matjhabeng and Maluti-A-Phofung municipalities were observed
- There were moderate declines in the relative shares of the populations of the municipal areas of Mophaka and Ngwathe
- Only the Mangaung, Metsimaholo and Dihlabeng municipal areas have experienced an increase in their relative share of the provincial population

These intra-provincial migration trends where population growth in most - especially non-urban municipalities - is negative, are not accompanied by a concurrent reduction in the costs of service delivery. On the contrary, the costs of extending and expanding government services to non-urban and rural areas increases exponentially. The negative population growth trends are also reflected in the limitations faced by non-urban municipalities when it comes to development and economic growth potential and furthermore constrains revenue-raising abilities.

Our provincial population statistics furthermore illustrate the imperative to address the socio-economic experiences of youth and women in particular. This can be summarized as follows;

- Women constitute slightly more than 50 % of the provincial population but do not constitute more than 35 % of the province's labour force. The unemployment rate of women declined marginally from 38.4 % in the fourth quarter of 2016 to 38.1% in the fourth quarter of 2017.

Provincial Treasury has partnered with the National Treasury, the Department of Women and the Commission for Gender Equality to pilot a project on Gender Responsive Budgeting through the financial assistance of the Belgian Development Agency. We believe that this initiative will advance gender mainstreaming in the planning and allocation of fiscal resources, not only at provincial but also at national level.

- The most recent youth unemployment statistics for the fourth quarter of 2017 reflects unemployment amongst the age group 15 to 24 in the Free State as 62.2 % and the age group 25 to 34 as 38.4 %. This represents a marginal increase of 0.1 % and a decline of 1.7 % respectively in a year-on-year comparison for the two age groups.

These statistics must be seen in the context of the Fourth Industrial Revolution and the impact it will have on the youth population, not only of South Africa but also on the African continent and beyond. It is estimated that 60% of the workforce in Africa is under 30 years old. According to the World Economic Forum's Future of Jobs study, the result of the Fourth Industrial Revolution could be a net loss of over five million jobs in 15 major developed and emerging economies, including South Africa. Education and training for future skills is therefore critical.

Our sustained investment in the appropriate development initiatives will ensure that we facilitate the enabling environment within which youth development, aligned to future provincial, national and international requirements can take place. These development initiatives include;

- the Provincial Bursary Programme which supports students at both national and international universities,
- the introduction of Fee-Free Education as well as
- our direct and indirect facilitation of internship, learnership, apprenticeship and work-based programmes.

In addition, new initiatives such as the ICT Skills Academy at Maccauvlei and the Youth *Connekt* Summit will further support and unlock the development potential of youth in the Free State.

Provincial Economic Growth

The Free State economy is estimated to have contracted by 0.2 % in 2017 after remaining stagnant in 2016 and marginal growth of 0.4 % is projected for 2018 with further growth projections reaching 0.7 % growth by 2020.

With a 32.6 % provincial unemployment rate recorded in the Fourth Quarter of 2017 (as per the Quarterly Labour Force Survey of StatsSA), there was a slight increase in unemployment in comparison to the third quarter of 2017 but a 2.1 % decrease on the year-on-year comparison with 2016.

A brief comparison of the year-on-year Free State employment statistics by industry indicate the following emerging trends between the 4th quarters of 2016 and 2017;

- Positive growth was experienced in agriculture (19.7 %), construction (39.8 %), transport (8.1 %), finance (61.3 %) and community and social services (10.9 %) whilst
- Employment losses were experienced in mining (-5.8 %), manufacturing (-6.1 %), utilities (-13.6 %), trade (-15.4 %) and private households (-5.9 %).

Recent statistical publications reflect more positive signs in the mining industry as a result of higher mineral prices and global demand with the main beneficiaries of this being manganese ore, diamonds, chromium and iron ore. Gold mining, however, continued its production decline and consequently its impact on employment. StatsSA reflects that; “Just over two in every three gold mining jobs in 1995 no longer exist. Gold mining employed about 380 000 people in 1995... falling to about 119 000 people in 2014.”

It is also of concern that whilst the Growth Value Add (GVA) of the manufacturing sector has shown an average annual growth rate of 1.16 % between 2006 and 2016, this has not translated consistently in a sustained increase in employment numbers. We anticipate that the revitalization of Industrial Parks in Botshabelo and Phuthaditjhaba, the further developments of the Maluti-a-Phofung Special Economic Zone (MAP-SEZ) and the black industrialist programme will serve to further support and enhance the employment creation potential of the manufacturing sector in the Free State.

Investment promotion initiatives such as our participation in BRICS, the facilitation of the Global Trade Bridge and the establishment of the Free State SA Invest One Stop Shop will continue to ensure that the Free State province becomes the preferred destination of national and international investors with the consequent positive impact on our provincial economic growth. Optimizing the growth potential of the tourism industry remains one of the potential key drivers of potential economic growth. This will be further supported by the establishment of the Karoo Regional Development Initiative announced by the hon. Premier during the State of the Province Address.

Appreciating economic trends and the implications thereof at the local sphere of government level is critical to understanding economic growth in the province. For example, between 2006 and 2011, only 10 local municipalities grew at a rate that is above the provincial average. Growth rates above 3 % were recorded in only 4 of those 10 municipalities, namely the Mangaung Metro and the local municipalities of Mohokare, Dihlabeng and Metsimaholo.

Going forward, the projected marginal growth in the provincial economy will be sustained by the Mangaung Metro, the Dihlabeng Local Municipality and a number of other smaller municipalities. The impact of the mining sector on the local economies of municipalities such as Masilonyana and Matjhabeng has been evident from their negative growth rates since 1996.

It is imperative that we address the increasing debt burden of municipalities together with the decline in revenue base and escalating demand for free basic services. Specific focus must be given to the capacitation and resourcing of local municipalities.

A specific intervention that is required is to ensure the development and implementation of realistic and effective local economic development plans and priorities in support the Free State Growth and Development Plan and consequently the National Development Plan. This will also enable our municipalities to be the focal points for the achievement of the Sustainable Development Goals.

The revenue base of our municipalities must be expanded through the multiple economic development programmes of provincial government. This includes programmes such as Township and Rural Enterprises, Expanded Public Works, Community Works, Contractor Development and Township Revitalization.

We must also find answers to some perplexing questions. One of those would be how SASSA's monthly social grant expenditure of over R730 million in the Free State benefit our township economies and advance the principles of Radical Economic Transformation? This is also relevant of the substantial investment made annually by SANRAL in our provincial roads infrastructure as well as the annual procurement spent of national departments and State Owned Enterprises (SOEs) in the Free State.

The sobering reality is that the quantity of jobs that needs to be created is way beyond the capacity of the state. President Ramaphosa outlined the imperative for a social pact during his delivery of the ANC's January 8th Statement when he stated that; *"Our vision is an economy that encourages and welcomes investment, offers policy certainty and addresses barriers that inhibit growth and social inclusion. Our commitment is to build strong partnerships in which efficient and accountable government agencies, responsible citizens and businesses, effective trade unions and civil society work together for the common good"*.

Transformation of Provincial Procurement

Hon. Speaker, the Central Supplier Database (CSD) of National Treasury serves as the single source of key supplier information for organs of state from 1 April 2016. Its purpose is to reduce duplication of effort and costs for both supplier and government whilst enabling electronic procurement processes. The Free State Province has 18 thousand 302 suppliers registered on the CSD. This constitutes approximately 4.04 %

of total suppliers on CSD. We are aware of CSD challenges that have been experienced from time to time by suppliers, specifically around tax clearance issues and bank data verification. We encourage the business community to utilize our CSD support centres when such challenges arise.

It is important to acknowledge that we do not regard the number of Free State suppliers as the most important yardstick to determine whether the introduction of the CSD has positively impacted on the business environment of the Free State. We have requested that the Central Supplier Database provide us with information on the actual procurement spent on suppliers according to the breakdown per province, industry, equity, gender and youth.

An analysis of these components will inform us if the CSD is beneficial to facilitate the entrance of the previously disadvantaged sector into the mainstream of the economy and to further support and sustain broad-based economic empowerment programmes.

We are about to complete the first full year since the implementation of the 2017 Preferential Procurement Regulations. Last year we indicated that; “This revision is largely influenced by the need to provide for a mechanism to empower certain categories –Small, Medium and Micro Enterprises (SMMEs), co-operatives, township and rural enterprises - through procurement. Specific set-asides for youth and women will be accommodated through these measures.” At the end of the current financial year and as current contractual obligations are ending, we will be able to determine the extent to which we have made progress with the implementation of this policy position.

We have noted the stated intention of national government to submit the Public Procurement Bill to Cabinet for gazetting for public comments. The economic cluster departments will actively coordinate engagement initiatives in respect of the bill, both within and beyond the provincial government. It is our view that procurement reforms are a process and not an event. We will always ensure that the province participates in the reforms and make sure that such reforms are not inhibitors but enablers for the private sector to participate in public procurement.

The 2018 State of the Province Address outlined the details of the provincial government's support to SMMEs and cooperatives through procurement as well as other financial and non-financial support. Our provincial commitment in this regard is further demonstrated by an analysis of our transversal procurement contracts. From 2014 to date, 131 private sector companies participated in the transversal contracts arranged through Provincial Treasury and benefited from expenditure to the value of R800 million.

The transversal tenders favour predominantly private sector participants in the SMME sector. Of the total number of 131 participants, the following can be highlighted;

- 97 % is based in the Free State
- 88.5 % is black-owned
- 49.5 % is female-owned and
- 15 % is youth-owned

A single issue that will fundamentally address the major concerns of the business community is strict adherence to the requirement to settle undisputed payments within the prescribed 30-day period. This has been a recurring theme in the input that we received from the business community for the preparation of this budget.

We emphasize the stance of National Treasury on this matter, namely that the payment of suppliers on time is regulated by the PFMA and MFMA and non-compliance constitutes financial misconduct. The only motivation for payment outside the prescribed period will be when a valid dispute is raised between a procuring department or entity and the relevant supplier. Provincial Treasury, the Monitoring and Evaluation Unit in the Office of the Premier and DESTEA will intensify their collective effort to combat non-compliance on payment of suppliers in 30 days.

THE 2018 FISCAL FRAMEWORK

Hon Speaker, National Treasury's 2018 Budget Review reflects on the significant changes made to the national fiscal framework following the tabling of the Medium

Term Budget Policy Statement [MTBPS] in November last year. Key features include R85 billion in spending reductions, raising an additional R36 billion in 2018/19 through revenue measures (including an increase in VAT), funding for fee free higher education and training and a higher contingency reserve.

The Budget Review furthermore outlines the key imperatives to improve the efficiency of spending, strengthening good governance and acting against corruption as well as policy and administrative reforms required to support faster economic growth. The impact of these measures affects both provincial and local government but unavoidably also households and individuals.

We are in support of the proposed review of the basket of VAT zero rated items and will be encouraging public participation in this process. This is an opportune moment to ensure the inclusion of sanitary products in the zero-rated basket and bring an end to this gender discriminatory tax.

The 2018 National Budget announced further cuts to our equitable share and conditional grants. The Free State's fiscal envelope decreases by R1.303 billion in allocations over the forthcoming three-year with R411 million reduced from equitable share and a further R892 million shed from conditional grants. Our provincial departments and provincial public entities must absorb these cuts through stringent reprioritization of their available resources towards core basic services and ensuring that frontline service delivery standards are not compromised.

An extensive programme focused on cost containment of non-core items was introduced in the Free State during the 2014/15 financial year. The share of funds allocated to non-essentials reduced from 5.1 % in 2013/14 to 3.9 % in 2017/18. In comparison with the 2017/18 financial year, the baseline allocations towards non-core items in the new financial year is constrained to a below-average Consumer Price Index (CPI) increase of 5.3 %. Though we have made progress, it is our belief that there are still greater efficiencies to be achieved.

Cost containment of the public wage bill in the provincial budget remains unchanged over the forthcoming MTEF. The 2018/19 financial year will be the third year of the

three-year period of implementing the reduction of wage ceilings for provincial departments. Hon. Members will remember that the COE component of all provincial departments was reduced by 1 % over the 2016 MTEF with the exception of the Departments of Education and Health which had a marginally smaller reduction.

The focus on reducing the number of “out of adjustment” and contract posts also support the containment of the wage bill. An assessment of the cost reductions achieved will be conducted and will be used as a baseline to inform a further review and proposals to be made to the Treasury Committee and the Executive Council.

Though we have made gains in strengthening good governance and sound financial management practices in the provincial sphere of government, our most recent audit outcomes still suggest significant room for improvement. This is specifically applicable to the identified risk areas of the quality of performance reports, supply chain management and financial health of departments.

To ensure that the Free State reduces its cumulative irregular expenditure dating as far back as 2007, Provincial Treasury introduced interventions in terms of Section 18 of the PFMA and initiated a process of investigating irregular expenditure of previous years in the Departments of Health, Education and Human Settlements.

This process has already yielded substantial results. This is evident from the following;

- The qualification area of the completeness of irregular expenditure in the Department of Health has been resolved,
- 1 thousand 217 cases were removed from the irregular expenditure registers of the three Departments as these cases did not meet the definition of irregular expenditure and
- The investigation of 7 thousand 474 cases have been undertaken and
- 6 thousand 257 investigations to the value of R2.8 billion were finalised and relevant information has been provided to the departments to complete the process.

This initiative has resulted in the strengthening of the internal control environment and operational procedures of the three Departments. We anticipate that it will impact positively on future audit outcomes. Phase II of the intervention project will continue in 2018/19 and will be extended beyond the three Departments to also include the Departments of Agriculture and Rural Development as well as Sport, Arts, Culture and Recreation.

Our provincial anti-corruption initiatives are information and knowledge-based and characterized by ongoing professional development. A broad coalition of public sector stakeholders and institutions supporting democracy has been established to intensify provincial anti-corruption initiatives. This coalition extends to our private sector partnerships in hosting annual events such as the International Fraud Awareness Week and the forthcoming Anti-Corruption Summit. Our current programmes will be further strengthened through active engagement with the Competitions Commission that will be pursued in the forthcoming financial year.

2018 MTEF ALLOCATIONS

Hon Speaker, the Free State is allocated **R111.179 billion** over the MTEF as follows;

- **R34.893 billion in 2018/19;**
- **R36.812 billion in 2019/20;** and
- **R39.474 billion in 2020/21.**

The province will have to accommodate the impact of Improvement of Conditions of Service (ICS) and inflationary related adjustments to Compensation of Employees (COE) for the next two financial years. This means that the province has been further tasked with the responsibility of trying to find additional funds through reprioritization in order to offset unavoidable salary adjustments.

I will briefly reflect on the dynamics of each revenue stream of the Province.

Equitable share

Our equitable share grows at an average rate of 7.0 % over the MTEF. The total equitable share allocation of the Free State over the MTEF is **R84.357 billion** with an allocation of **R26.178 billion** in 2018/19 and the balance of **R58.179 billion** for the remaining two outer years.

Conditional Grants

Conditional Grants are earmarked funds from national departments intended for the implementation of national priorities as well as to supplement our own provincial initiatives. In 2018/19, **R7.561 billion** has been allocated as conditional grants. This amount marginally decreases to **R7.528 billion** in 2019/20 before it is projected to increase to **R8.089 billion** in 2019/20. The average growth of conditional grants over the MTEF is a marginal 2.6 %.

In the forthcoming financial year, our Department of Education will benefit for the first time from the Performance Based Incentive Grant for infrastructure in the amount of R133.5 million and this amount is included in the total education infrastructure grant allocation of R755 million for 2018/19. This is as a result of improvements achieved with infrastructure planning.

Our provincial Department of Health qualified for the Performance Based Incentive Grant for infrastructure for the second time. Health received an amount of R95.1 million in respect of this grant. The amount is also included in the total infrastructure conditional grant allocation of R576 million for 2018/19.

Provincial Own Revenue

Hon Speaker, provincial own revenue remains essential in augmenting our fiscal envelope as it provides a financial base from which we are able to fund our provincial priorities. Our provincial revenue has maintained an average annual growth rate of 5.5

% over the last five financial years. We project to generate provincial revenue of **R1.153 billion** in 2018/19, **R1.213 billion** in 2019/20 and **R1.277 billion** in 2020/21. In total, revenue estimates for the current MTEF period amount to **R3.643 billion** with an average growth of 4.7 %.

Our main source of provincial revenue remains motor vehicle licenses. Khutso Moleleki, a Grade 12 learner from Setjaba-Se-Maketse in Botshabelo suggested that *“We should review the frequency of vehicle licensing, not only as a way of optimising revenue from this source but to also improve road safety by ensuring that un-roadworthy vehicles are removed from our roads”*. We unequivocally support initiatives to promote road safety but the frequency of vehicle licensing is unlikely to be viable at this stage. We will, however, continue to support the optimization of this revenue source through benchmarking, the review and alignment of tariff structures and the further refinement of current practices.

The former President of Mozambique, Samora Machel, reminded us that; *“International solidarity is not an act of charity: it is an act of unity between allies fighting on different terrains toward the same objectives; the foremost of these objectives is to assist in the development of humanity to the highest level possible.”* The Free State provincial government assists in providing health care services to our neighbouring country, Lesotho. This is achieved through the treatment of referral patients particularly at the Pelonomi and Universitas Hospitals. To date, amounts of R20 million and R6.816 million have been received from respectively the Lesotho Government and Lesotho Netcare for this assistance.

We are encouraged that DESTEA was able to reintroduce its game auction earlier this month and another game auction will be scheduled for mid-2018/19. Game auctions will not compromise the provincial government’s commitment towards supporting the emerging black game farmer programme.

Provincial Treasury and DESTEA have initiated a review process to ensure that we maximize our provincial revenue from the regulatory authority of the FS Gambling, Liquor and Tourism Authority as well as environmental compliance.

The development of new and alternative revenue sources to further strengthen provincial own revenue must be prioritized. Provincial Treasury together with relevant departments will be conducting a review of all projects funded through our revenue enhancement allocation from its inception in 2011. This review will assess whether we have achieved the anticipated increase in revenue and to make the necessary adjustments where required.

THE 2018/19 MTEF ALLOCATIONS

Hon. Speaker, the continuation of fiscal consolidation requires us to do things differently. The budget we present today reflects the collective wisdom of our *stakeholders*; it brings life to our resolve to create better economic opportunities to our people through investment in our defined priorities. We have learnt from the Akan people of West Africa that; *“Wisdom is like a baobab tree, no one individual can embrace it.”*

The preparation of the provincial budget draws on the collective wisdom of the respective sectoral meetings at national and provincial level, engagements of the Budget Council and Budget Forum and the respective technical workings groups, recommendations of the Financial and Fiscal Commission (FFC), the President’s Coordinating Council, the special Cabinet meeting that involves Premiers and MECs responsible for Finance, our provincial Medium Term Expenditure Hearings, the newly-introduced technical workings sessions with provincial departments and provincial public entities, a national benchmarking exercise facilitated by National Treasury, the Executive Council and Provincial Budget *makgotlas*, the Treasury Committee and finally the Executive Council.

This is truly an extensive and comprehensive consultative process aimed at ensuring that we take individual and collective ownership and accountability for the implementation and management of the respective budget allocations to provincial departments and public entities.

Hon. Speaker, I now turn my focus to the 2018 MTEF proposed allocations to provincial departments. The details of the allocations are set out for each vote in the

2018/19 Estimates of Provincial Revenue and Expenditure as well as the 2018/19 Appropriation Bill.

SOCIAL SECTOR

Hon Speaker, fiscal consolidation has impacted on all Departments in the Social Sector, though we have shielded the Departments of Education and Health to a certain extent from the full impact that other provincial departments in this and other sectors have had to absorb. The Social Sector cluster is allocated 74.8 % from our total fiscal purse of R111.1 billion over the MTEF period. The Department of Education is allocated 39.2 %, the Department of Health is appropriated 30 %, whilst 3.6 % and 2 % goes to the Departments of Social Development and Sport, Arts, Culture and Recreation respectively.

EDUCATION

Hon. Speaker, we continue to take pride in the multiple achievements registered each and every year by our Department of Education. These achievements are registered across all the critical components of the Department; most notably our continued successes with the Grade 12 pass rate, the annual National Teaching Awards and the National School Nutrition Programme Best Schools and Districts Awards. We support and encourage all parents to participate actively in the elections of School Governing Bodies that will be unfolding throughout the month of March in all our public schools.

Hon. Makgoe, from Morocco we learn that; *“Instruction in youth is like engraving in stone”*. Our investment in our education sector remains a solid investment in the future of our country. The budget of the Department of Education grows by an average of 6.5 % over the 2018 MTEF. As inflation is projected at 5.3 % over the MTEF, the growth rate will gradually begin to impact positively on the baseline funding of the Department. The Department will spend more than R43 billion over the MTEF ahead as follows;

- R13.579 billion in 2018/19,
- R14.393 billion in 2019/20 and
- R15.649 billion in 2020/21.

Hon. Speaker, this budget makes provision for the following priorities, amongst others:

- Norms and Standards in our schools
- Learner Teacher Support Material
- Education Management Information System
- Expansion of Grade R programme
- School Hostels Support
- Matric support programmes
- Pre-Grade R training
- Provision for exemption of school fees and
- School Connectivity

HEALTH

Hon Speaker, the transformation of our socio-economic landscape requires continued improvements throughout the value chain of our health system. This is of particular relevance as we progress further on the path to ensure universal health coverage through the introduction of the National Health Insurance. The creation of an effective health system that prides itself on improved access to quality health care services, adequate and innovative staff, proper infrastructure and ICT systems as well as effective management cannot be compromised.

Our cooperation with the Department of Health to achieve improvements in its financial management environment resulted in an improved audit outcome for the 2016/17 financial year to an unqualified audit opinion. This has been the result of 4 years of intensive review of policy and practices to ensure that we achieve a sustainable path of improved financial management. Hon. Komphela, this has been an arduous journey to achieve stability in the financial management environment of the Department of Health. During this process, we have experienced the wisdom of the Ashanti people when they say that; *“You must act as if it is impossible to fail.”*

We have formally terminated the intervention in the Department of Health with effect 17 February 2018, noting that we have established joint workstreams that will continue to focus on specific areas of work. Inclusive in these workstreams is the review of

current contractual commitments, the ICT environment and future funding models for critical infrastructure and equipment requirements.

The Department of Health will spend more than R33.3 billion over the next MTEF period. The budget responds to key sector priorities as expressed in the 2014 - 2019 Medium Term Strategic Framework. The allocation is disaggregated as follows over MTEF—R10.403 billion in 2018/19, R11.079 billion in 2019/20 and R11.847 billion in 2020/21. The allocations make provisions for the following priorities, amongst others:

- Medicine, Medical Supplies and Medical Waste
- Laboratory Services (NHLS) and Blood Supply and Services
- Food Services and Relevant Supplies
- Infrastructure and Non-Infrastructure Maintenance
- Children’s Vaccines
- Anti-Retroviral treatment
- Medical Depot

SOCIAL DEVELOPMENT

Hon. Mahasa, at the retirement thanksgiving service for Archbishop Desmond Tutu in June 1996, Madiba cautioned that; *“As long as many of our people still live in utter poverty, as long as children still live under plastic covers, as long as many of our people are still without jobs, no South African should rest and wallow in the joy of freedom.”*

The Department of Social Development remains central in the fight against social ills arising from the impact of the triple burden of poverty, unemployment and inequality. It is our frontline defence of the vulnerable sections of society; the disabled, the elderly, the poor, orphans, children in conflict with the law and victims of abuse. Our resolve to address the needs and requirements of the disability sector as articulated in the 2016 Disability Summit, with specific attention on employment and procurement processes, will continue in earnest in the coming MTEF period.

The department is allocated R1.266 billion in 2018/19, R1.321 billion in 2019/20 and R1.385 billion in 2020/21. Additional funding included in these allocations over the MTEF amount to R68.263 million, specifically to fund programmes aimed at violence against women and the financial implications arising from the NAWONGO court judgement.

We confirm that this budget makes provision for a cost -of-living increase of 5.3 % for 2018/19, 5.4 % for 2019/20 and 5.5 % in the outer financial year of the MTEF for statutory services rendered by the NGO sector. In addition, other funded priorities include;

- ECD and Partial Care
- Office on the Rights of Children
- Victim Empowerment
- Substance Abuse Treatment Grant
- Sanitary towels initiatives
- Social Workers Grant

The hon MEC of Social Development will further elaborate on critical issues such as our provincial sanitary towel project, the envisaged opening of the Dr Beyers Naude Substance Dependency Halfway House in Clarens and progress made with the Substance Abuse Centre in Botshabelo.

SPORT, ARTS, CULTURE AND RECREATION

Hon. Speaker, the Department of Sport, Arts, Culture and Recreation continues to champion social cohesion programmes in the province. If we are to achieve the objectives of the National Development Plan, we cannot fail in our programmes aimed at promoting social integration, inclusion and mutual solidarity in our communities. Indeed, hon. Leeto, to achieve the vision of the National Development Plan, we must bring to life the traditional African wisdom that says; *“Milk and honey have different colors, but they share the same house peacefully.”*

In doing so, we also have an obligation to ensure that the written and oral recordings of our history, culture and heritage, as well as our cultural artefacts and symbols of pride restore the dignity of previously disenfranchised communities. The Department's work in respect of the commissioning and installation of statues, the development of the Wesleyan precinct and the Heroes Park support this objective.

It is evident that President Ramaphosa has breathed inspiration into all communities as he takes the practical lead in promoting healthy lifestyles through his walks. It is our hope that the healthy lifestyle initiative and programmes already implemented by our Provincial Department will gain further momentum from the President's inspiration.

Our budget allocation for the Department of Sport, Arts, Culture and Recreation R2.219 billion over the 2018 MTEF as follows;

- R727.010 million for 2018/19,
- R740.399 million and
- R751.818 million in the outer years.

The budget caters for, amongst others, provincial library and archives services, infrastructure development, arts and culture, recreation and heritage as well as the EPWP programme. The Department will take the lead in coordinating the provincial government's programme of celebrating Madiba's centenary. Public input received emphasized the need for sport infrastructure, specifically in the Xhariep region, recognition of former Free State Football legends, support for community radio stations and photographers.

We still believe that the creative arts hold the potential of unlocking another dynamic in the provincial economic growth narrative. It is our collective responsibility to add momentum to our consideration of appropriate interventions that will realize this potential.

ECONOMIC AND INFRASTRUCTURE CLUSTER

Hon. Speaker, the seven priorities set out in the Mandate Paper for the development of the 2018 Budget are all supportive of the primary objective to urgently address the economic recovery of our country. It also ensures that our resource allocations are aligned to the achievement of the National Development Plan.

Provincial economic growth must enhance our investment in agriculture, infrastructure, tourism, our township economies and rural enterprises. We need to substantially reduce unemployment, especially amongst youth and women. The province will invest more than R22.6 billion on economic and infrastructure programmes over the 2018 MTEF.

HUMAN SETTLEMENTS

Hon. Speaker, the Department will spend more than R4.3 billion implementing its key sector priorities over the forthcoming MTEF. In the main, the budget allocation to the department provides for the implementation of comprehensive human settlements in the province with the following allocations;

- R1.392 billion in 2018/19,
- R1.452 billion in 2019/20 and
- R1.543 billion in 2020/21

The allocation mainly emanates from conditional grants and thus caters for human settlements needs, title deeds restoration and EPWP programmes. Included in the budget is the allocation of R93 million over the MTEF earmarked for the demolition and replacement of two roomed houses. The budget further makes provision for revitalization of mining towns in Matjhabeng as well as decent housing for our military veterans.

The Human Development Settlement Grant framework has been reformed to provide funding for the eradication of the pre-2014 title deeds registration backlog and the

professional fees associated with it, as well as beneficiary verification. In this regard an amount of R159 million has been reprioritised from Human Settlement Development Grant to new conditional grant called “Tittle Deeds Restoration Grant”.

Hon. Ntombela, the need for housing were one of the strongest themes in the budget inputs we received from the public. Specific requests were made for areas such as Ward 35, Matjhabeng and Tsepong, Verkeerdevlei and Bethlehem. We are acutely aware of our people’s demand that we fast-track the pace at which we deliver our human settlements. Indeed, we must take to heart the advice of the people of Nigeria who tells us that; *“We live by hope but a reed never becomes a Iroko tree by dreaming”*.

PUBLIC WORKS AND INFRASTRUCTURE

Hon. Speaker, infrastructure development remains at the heart of provincial and national economic growth. The Free State projects to spend more than R13 billion over the 2018 MTEF on infrastructure investment. Our Department of Public Works and Infrastructure is the central implementing agent for infrastructure development. More than ever, the principles of proper planning, value-for-money, professionalism and the timely delivery of infrastructure projects must characterize all our projects.

Hon. Kotzee, in order to deliver on this extensive mandate, be inspired by the approach of the people of Kenya who says that; *“She who has not reached her destination, never gets tired.”*

The Department will spend a total amount of R5.264 billion over the 2018 MTEF as follows;

- The allocation for 2018/19 amounts to R1.635 billion, which is inclusive of R410.464 million earmarked for municipal services and property rates and taxes as well as R127.387 million ring-fenced for township revitalization projects.

- For the two outer years the department will receive R1.769 billion and R1.860 billion respectively.

The allocation further provides for the implementation and coordination of the Expanded Public Works Programme. This is one of our critical short-term intervention programmes to provide work opportunities, especially in small and rural areas, and consequently also broadening the skills base and experience of participants in these programmes. Provision is also made for the Contractor Development Programme.

POLICE, ROADS AND TRANSPORT

The execution of the multiple mandates that fall within the scope of the Department of Police, Roads and Transport is supported by a budget allocation of R2.777 billion in 2018/19, R2.794 billion in 2019/20 and R2.933 billion in 2020/21.

Key funded priorities include;

- The construction and maintenance of the provincial road network
- The continuation of existing and implementation of new EPWP programmes
- Transport regulation and operations and our Fleet Management Trading Entity
- Learner Transport Programme and
- Oversight over policing and promotion of community policing

The State of the Province Addressed outlined some of the key priorities to be undertaken in respect of our provincial roads infrastructure, the advancement of the fight against crime, including programmes aimed at combating gangsterism, the strengthening of our provincial transport regulation, the contractor development programme and various EPWP initiatives. The Department has played a critical role in supporting our local government sphere with municipal infrastructure, critical service delivery related vehicles and equipment as well as fleet management services.

Applicable conditional grants received by the Department are the Provincial Roads Maintenance Grant and the Public Transport Operations Grant. The two grants

increase respectively by 2 % and the Public Transport Operations Grants increases by 3.2 % in the next financial year. The hon. MEC will outline the details of the projects and programmes funded by the grants during the budget vote speech.

Public input in the preparation of the budget included a request for consideration road projects, specifically the reconstruction of the R26 (the Frankfort – Tweeling – Reitz), tarring of the road between Verkeerdevlei and Brandfort and reconstruction of the road between Edenburg and Reddersburg, additional funding for programmes aimed at fighting gangsterism, new police stations in Thabong Far East and Bronville. I am sure the Department will take all these matters under consideration.

Hon. Mashinini, your Department's continued successes in contributing to the reduction of crime statistics and road fatalities in the Free State confirm the truth embedded in the saying that; *"A hunter with only one arrow does not shoot carelessly"*. This Department continues to demonstrate the successes to be achieved when strategy is implemented with focus and commitment.

AGRICULTURE AND RURAL DEVELOPMENT

Hon. Speaker, the Department of Agriculture receives R810.479 million in 2018/19, R836.338 million in 2019/20 and R885.053 million in 2020/21. Hon. Khoabane, I am sure we will not dispute the observation of the people of Ghana that says; *"Hunger is felt by the slave and the king alike."*

The budget makes provision for land care programme, support and training of farmers, veterinary services, infrastructure investments and implementation of agricultural projects. Public input received included detailed submissions on fish hatcheries, including the one in Xhariep, and Agriparks. We will share these inputs with the Department.

The Comprehensive Agriculture Support Programme (CASP) Grant is currently undergoing a review in order to improve the performance of the grant and to increase the number of black commercial farmers grow. A new blended financing model is currently under consideration that will directly address the traditional barrier to

commercialisation of farmers, namely access to capital. There is still substantial work that will be done during 2018 by the agriculture sector and it is anticipated that the current review process may have future implications for CASP conditional grant allocations.

DESTEA (ECONOMIC AND SMALL BUSINESS DEVELOPMENT, TOURISM AND ENVIRONMENTAL AFFAIRS)

Hon. Speaker, the Department remains our central coordinating department in our pursuit of radical economic transformation and provincial economic growth. This includes our programme of supporting township and rural economies. The Department's mandate further includes regulation and support of small, medium and micro business enterprises, tourism as well as the protection and management of the environment.

The budget allocation amounts to R631.931 million for 2018/19, R632.942 million for 2019/20 and R675.859 million for 2020/21. This allocation provides further for the following priorities:

- Creation and Support of Black Industrialists
- Environment programmes and Conservation
- Waste Management
- Transformation of Game Industry
- Support for waste pickers programme
- Revitalisation of Resorts
- Support of SMME's and Corporative
- Revitalisation of Textile Industry
- Flea Markets

Hon. Malakoane, I believe that DESTEA shares the philosophy of the people of Nigeria when they say; *"A man cannot sit down alone and plan for prosperity"*. We received quite a number of suggestions and ideas from the public on economic development,

the support of township economies and environmental management that we will share with you.

Transfers to our provincial public entities over the MTEF period amount to R487.038 million. The contribution of the Free State Gambling, Liquor and Tourism Authority is estimated to total R200.919 million over the MTEF. Transfer payments will be as follows;

- Free State Gambling, Liquor and Tourism Authority will receive R112.327 million in 2018/19 and R117.775 million and R124.253 million respectively in the outer years of the MTEF.
- Free State Development Corporation is allocated R42.833 million in 2018/19 and R44.124 million and R45.726 million in the outer two years. The FDC budget allocation includes transfers to the Maluti-A-Phofung Special Economic Zone but excludes transfer payments for the implementation of provincial projects on behalf of other Departments. We anticipate to derive substantial economic benefits from this project as set out in the State of the Province address. Provision is also made for the implementation of radical socio-economic transformation programmes by FDC.

DEPARTMENTS AT THE CENTRE OF GOVERNMENT

Hon. Speaker, the institutions at the centre of our provincial government are the Office of the Premier, the Department of Cooperative Governance and Traditional Affairs as well as the Provincial Treasury and the Free State Legislature. These institutions are critical in ensuring that public resources are utilized in an economic, efficient and effective manner. The Legislature is required to exercise its constitutional mandate, including performance of oversight, accountability and public participation initiatives in a dynamic and proactive manner

Hon. Speaker, over the next MTEF the three departments together with Free State Legislature will spend R5.188 billion.

OFFICE OF THE PREMIER

Hon. Speaker, the Office of the Premier is allocated R611.279 million in 2018/19, R650.798 million in 2019/20 and R687.028 million in 2019/20. Some of the main priorities that are catered for in this budget allocation include;

- The Free State Provincial Bursary Programme and the FS Training and Development Institute as core to our strategy for appropriate and relevant skills development
- Coordination of youth programmes, including initiatives such as Youth *Connekt*, the Youth Summit and June month celebrations
- Implementation of the integrated Provincial Communication Strategy
- Community Development Workers
- Provincial Planning
- Provincial Monitoring Unit, including the Community Development Workers, the Intervention Unit as well as coordinating our provincial participation in the MPAT (Management Performance Assessment Tool) processes

Hon. Premier, writing in Long Walk to Freedom, the late former President Mandela reflects; *“There are times when a leader must move out ahead of the flock, go off in a new direction, confident that he is leading his people the right way.”* Your election as Secretary General signified that your time has arrived to commence with the next chapter of your journey. We believe that you will confidently lead the structures of the African National Congress on this journey towards the achievement of radical socio-economic transformation.

COGTA (COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS)

Hon Speaker, this Department is at the heart of our cooperative government relations with the local sphere of government and its related dynamics. The Department is allocated R443.329 million in 2018/19, R469.691 million in 2019/20 and R492.384 million in 2020/21.

Amongst others, the budget makes provision for the implementation of key programmes including;

- The Back to Basics, Operation Clean Audit and Municipal Support Programme
- The House of Traditional Leaders and related operations
- Disaster management, specifically procurement of fire-fighting equipment and
- Support for the establishment of water laboratories in municipalities

The Office of the Premier, together with COGTA, SALGA and Provincial Treasury, will continue exploring viable options of addressing challenges relating to municipal debt, including outstanding debt owed to Water Boards and ESKOM. Whilst the funding model of our local sphere of government is continuously reviewed, we have to address the creation of a sustainable own revenue base in our municipality.

Some of the key components of such a revenue base include the dynamic interaction between the rendering of and payment for services, protection of the vulnerable through comprehensive and reliable indigent registers as well as appropriate infrastructure and local economic development initiatives. The protection of the revenue base must be achieved through sound financial management and legislative and regulatory compliance. Hon. Ntombela, issues relating to financial management and delivery of basic services was one of the most recurring themes in the public input we received.

PROVINCIAL TREASURY

Our oversight role as Provincial Treasury continues to be strengthened by our established partnerships with the Association of Certified Fraud Examiners (ACFE), the South African Institute of Chartered Accountants (SAICA), the South African Institute of Internal Auditors (SAIIA), the South African Revenue Service (SARS), the National Prosecuting Authority, Eskom and NERSA. These partnership programmes will continue during the forthcoming financial year.

Our oversight work, together with the Department of the Premier, the Legislature and COGTA, has resulted in the marginal improvement of audit outcomes for the 2016/17 financial year with Provincial Treasury, the Free State Legislature and the Provincial Revenue Fund obtaining “clean audits. The province will continue in its efforts to improve financial governance, compliance with regulatory frameworks and financial management issues within municipalities and provincial departments.

Provincial Treasury is allocated R347.832 million in 2018/19; R343.926 million in 2019/20 and R351.622 million in 2020/21. This budget makes provision for, amongst others, funding the provincial SITA obligations, financial intervention measures and our municipal support programme. The following key priorities are also catered for in the budget:

- Responsible and responsive sustainable resource management, including economic analysis, budgets as well as the monitoring of expenditure and revenue performance
- Strengthening of financial governance, including the sustained improvement in provincial and local government audit outcomes as well as fraud risk prevention and response plans
- Asset and liability management and
- Strengthening of municipal financial management environment

Hon. Speaker, Provincial Treasury together with other stakeholders such as DESTEA, UFS and CUT will continue working towards enhancing research capacity and generating research work that inform decision making in the province. Following the success of the Provincial Research Colloquium during 2017, it is our intention to further develop and enhance this to become one of the primary research events on the national calendar. The Colloquium provides an ideal platform for participants to share and debate new and innovative research in our search to find solutions to the dynamic and evolving challenges confronting us.

FREE STATE LEGISLATURE

Our Provincial Legislature is allocated R253.118 million in 2018/19; R261.142 million in 2019/20 and R275.521 million in 2020/21. The funding allocations must enable our Legislature to continue to bring to life its mission of being an activist Legislature that champions democracy through the promotion of good governance and a culture of human rights by facilitating and enabling public participation, law-making and oversight that is vigilant, dynamic, proactive and responsive.

CONCLUSION

Honourable Speaker, it has become our tradition as Provincial Treasury and our Provincial Department of Education to extend our search for answers to our young people in this province through the Grade 12 Budget Essay Competition. The provincial budget competition was for the first time this year opened to all secondary schools in the province.

77 learners from 25 schools across the 5 districts of the province made it to the finals of this year's competition. Allow me to appreciate the efforts of our officials from both Provincial Treasury and the Education Department as well as our sponsors – Vodacom and Standard Bank - for making this competition a success.

Please join me in congratulating the learners who achieved the top 5 positions - in no particular order -:

- Kamogelo Mosime from Moemedi Secondary - Bloemfontein
- Bontle Shuping from Eunice Girls High - Bloemfontein
- Katleho Lekeka from Popano Secondary - Botshabelo
- Lebohang Nkeleku from Popano Secondary - Botshabelo
- Khutso Moleleki from Setjhaba se Maketse Secondary - Botshabelo

The winner will be announced during the Prize-giving ceremony immediately after the budget speech.

Hon. Speaker, allow me to express my appreciation to:

- The hon. Premier who consistently challenged us to find innovative solutions to ensure that we bring about real, meaningful change in the lives of our people;
- The Executive Council who, together with their Accounting Officers and Chief Financial Officers, have actively supported the budget process
- The Public Accounts and Finance Committee, under the able leadership of Comrade Neels van Rooyen, who will now be taking the consideration of the Appropriation Bill forward and
- Team Treasury, under the unwavering leadership of HOD Godfrey Mahlatsi, for their unwavering commitment and support throughout this challenging budget process

Let us strive to celebrate this 100 Years of Nelson Mandela in the spirit of what he believed, namely; *“What counts is not the mere fact that we have lived. It is what difference we have made to the lives of others that will determine the significance of the lives we lead.*

I thank you.