

2017 FREE STATE PROVINCIAL TREASURY BUDGET VOTE SPEECH

Honourable Speaker

Honourable Premier and Members of the Executive Council

Members of the Legislature

Honourable Speaker, today we conclude the detailed consideration of the Appropriation Bill for 2017/2018 and these budget vote presentations. We have made suggestions, recommendations and criticized the budget proposals and highlighted certain areas of improvement required to our implementation plans. We have done so determined to ensure that the allocation of our very limited resources achieves the maximum impact to bring about real and tangible improvements in the lives of all of our people.

This is the democracy in action that answers the call of the Freedom Charter that; "The People Shall Govern" as translated in the Bill of Rights in our Constitution. In striving for South Africa's political freedom, late President Tambo advocated that without the accompanying economic emancipation, our hard fought political freedom will have little meaning. This wisdom continues to ring true as our country quickens its pace to transform the economy and ensure the prosperity of all in our society.

Hon Speaker, the celebration of International Women's Day during March is particularly relevant in a time when our priority is to bring about radical economic transformation. The report "Gender Equality and the Millennium Development Goals" (2003) states that;

“Gender inequality, which remains pervasive worldwide, tends to lower the productivity of labour and the efficiency of labour allocation in households and the economy, intensifying the unequal distribution of resources. It also contributes to the non-monetary aspects of poverty – lack of security, opportunity and empowerment – that lower the quality of life for both men and women. While women and girls bear the largest and most direct costs of these inequalities, the costs cut broadly across society, ultimately hindering development and poverty reduction”.

This United Nations theme for 2017 is Women in the Changing World of Work: Planet 50:50 by 2030. In a message in support of International Women's Day, the UN Secretary-General António Guterres called for change; "...by empowering women at all levels, enabling their voices to be heard and giving them control over their own lives and over the future of our world".

In much the same way that we have initiated an analysis of our infrastructure spent, it is time for us to conduct a gender analysis of the provincial budget. This will enable us to collate, analyze and evaluate the real gender-specific and gender-biased resource decisions we make and how this impacts on the socio-economic status of women and men as well as the aspects of equality between women and men.

Provincial Treasury will be initiating this project during the forthcoming year. We will be drawing on the support of and collaborate with the National Treasury the Ministry of Women in the Presidency, the Department of Public Service and Administration, the Public Service Commission, the Human Rights Commission as well as other stakeholders in the NGO and private sector.

Hon Speaker, during the provincial budget speech, I detailed the economic policy and legislative journey that we have traversed since 1994. In 2015, the Nine Point Plan further outlined specific focus areas to boost economic growth and create employment. There are two further critical developments that have already been announced this year, namely the implementation of the amended Preferential Procurement Regulations and the introduction of the national minimum wage by no later than May 2018.

These two developments are directly responsive to the current South African realities pertaining to income, wealth, employment, poverty and inequality. Radical socio-economic transformation must be supportive of job creation and accelerating shared and inclusive economic growth.

Provincial Treasury traditionally does not render services directly to the public as we are at the centre of monitoring and conducting oversight of the provincial government's transformation and economic development agenda. This budget vote speech aims to provide an overview of our performance during the current financial year and outlines our priorities and programmes for the 2017/18 financial year.

2016/2017 Overview

Hon Speaker allow me to remind the hon. House that during last year's National Batho Pele Excellence Awards our Head of Department, Mr. Godfrey Mahlatsi, received a silver award for being the second best Provincial HOD in the country – not only amongst Provincial Treasuries but indeed amongst all provincial departments in the country.

This is well-deserved recognition for one of the most loyal, dedicated and committed public servants I have the privilege to work with.

The Free State Provincial Treasury received an award as the third best provincial department in the country. I must pay tribute to each and every one - from the most junior to the most senior - of the members of Team Provincial Treasury for this achievement. They have collectively proved that they are able to make possible the seemingly impossible.

I draw inspiration from their technical skills and expertise, their enthusiasm, commitment and dedication to support, advise and guide our departments and entities and ultimately our quest to serve all the people of the Free State. They truly embody the spirit of "Batho Pele". This makes the loss in February this year of two of our young officials, Mme Mpho Ngalo from our IT section and Mr Samuel Monaheng from our Municipal Finance Management unit, so painful. We pay tribute to the memory of these two officials taken from us far too soon. Our thoughts remain with their families.

Allow me to highlight some of our activities during the 2016/17 financial year.

Provincial Revenue

Collection of provincial revenue remains one of our core functions. The prevailing unfavourable socio-economic conditions characterized by lower growth and stubborn unemployment impacts on our ability to raise revenue.

Our current revenue performance as at the end of February 2017 indicate that we had already collected R932 million or 87% of the target. This is a marginal improvement compared to the same period in 2016 at which time we had reached 84 % of our target. There is still, however a risk of under collection of revenue in the current financial year. I trust that our revenue generating departments will respond positively.

Budget Management

Hon. Speaker, our socio-economic transformation as well as our fight against unemployment, inequity and poverty demand from us to strategically manage, allocate and utilize provincial resources.

We implemented our provincial budget process and conducted our Provincial Medium Term Expenditure meetings with all provincial departments and public entities. There is a growing positive response from our national departments to attend and participate in our PMTEC hearings and we will continue to pursue these interactions. Our engagements during the PMTEC hearings as well as the adjustment appropriation process fed into the budget process for the 2017/18 financial year. Indeed, it constituted the foundation for identified priorities, funding requirements and efficiency gains.

Cost containment

The implementation of cost containment measures by all departments have resulted in a decline of 6.6 % on expenditure on non-core items at the end of the third quarter of 2016/17 when compared to the same period in 2015/16.

Furthermore, comparing the same two quarters, budgets in respect of cost contained items declined by a net amount of R136.385 million— with the following departments reporting significant decreases:

- Health decreased by R161 million 463 thousand 688
- SACR decreased by R20 million 585 thousand 171
- Agriculture decreased by R18 million 737 thousand 848
- Social Development decreased by R8 726 715

Economic Analysis

Hon. Speaker, we remain committed to ensure that our budget and policy decisions remain firmly supported by evidence-based economic research and analysis. Since 2013/14 to date, a total of 19 studies were initiated, of which 18 (i.e. 94.7%) has been completed.

A 2-day Research Colloquium convened in September last year. Participants were drawn from provincial and local government with limited participation from other sectors. The colloquium focused on the following studies,

- Socio-economic Impact Assessment of MACUFE 2015;
- Pilot Study on the Financial Viability of selected Municipal Resorts in the Fezile Dabi District;
- Alignment between economic transformation and skills development in the province;
- Poverty and Inequality in the Free State;
- The Impact of EPWP spending on economic growth and job creation; and

- District Economic Profiles.

The Research Colloquium will be an annual initiative and will involve the academic, NPO and private sectors together with that of the provincial and local government.

In our quest to encourage awareness and understanding of the provincial budget process amongst the youth, we extended our annual Grade 12 Provincial Budget Essay Competition to all schools in Quintiles 1 to 3. The challenge to learners in this year's competition was to draft the provincial budget. Learners were required to prioritise service delivery whilst also stimulating job creation and economic growth. Our congratulations again go to the overall winner, Lephoi Mokopu from the Thahameso Senior Secondary school in Bolata village, Qwaqwa. We appreciate the sponsorships of Standard Bank and Vodacom in encouraging our youth to participate in this annual project.

Integrity of the payroll

Hon Speaker, during the provincial budget speech I reflected extensively on our programme of headcounts aimed at physically verifying the existence of officials appointed on the PERSAL system. Let me briefly remind you of the findings;

- In total we have physically verified all 724 officials in COGTA; 340 in Human Settlement; 628 in the Office of the Premier and 386 in Provincial Treasury.
- Since the budget speech, the headcount in DESTEA has been finalized and all 693 officials have been verified.

- Only 7 of the 31 thousand 172 officials in the Department of Education could not be verified and further action is in the process of being taken in this regard.
- Only 1 of the 20 662 officials in Health was not verified and the official retired on the grounds of ill-health.
- Only 3 officials must still be verified in the ongoing headcount in the Department of Agriculture and Rural Development.

Headcounts will continue in the forthcoming financial year in the Departments of Police Roads & Transport, SACR and Public Works and Infrastructure.

Provincial audit outcomes for 2015/16

Hon. Speaker, we remain disappointed and concerned with the audit outcomes for the 2015/16 financial year which saw an overall regression. A number of disputes were subsequently declared. There is substantial work that remains to be done to regain our progress with improved audit outcomes but we must accept that we are traversing a very rocky road. We urge National Treasury to prioritize the appointment of the National Accountant General as the continued vacancy in this critical position is not conducive to stability in the accounting environment of the public sector.

Provincial Treasury has concluded that there is no tangible prospect that its dispute around the SITA matter will be resolved in the foreseeable future. In order to avoid the current dispute also impacting on the audit of the 2016/17 financial year, we have requested the hon. Speaker to refer

the annual report and audited financial statements to the Committee on Public Accounts and Finance without further amendments and without withdrawing the dispute. The dispute, however, will be pursued through alternative means.

With the assistance of the Office of the National Accountant General, the Office of the Auditor-General and the Department of Human Settlements are making progress in resolving the dispute around accounting matters and we are cautiously optimistic that the dispute in Human Settlements may be settled before the end of the current financial year.

The dispute in the Department of Agriculture and Rural Development has been referred for further consideration by the Office of the National Accountant General. DESTEA is awaiting the outcome of this dispute as the same principles will be applied to the Department.

The dispute in Sport, Arts, Culture and Recreation remains unresolved. It appears that the dispute regarding interpretation is now between the Office of the National Accountant General and the Office of the Auditor General. It seems unlikely that this matter will be resolved before the end of the current financial year.

We are encouraged by the improvement in the audit findings relating to non-compliance. These findings decreased with 33% in 2015/16 and relate mainly to human resource management, governance and liability management. We are also encouraged that our initiatives to enhance the quality of Annual Financial Statements are beginning to show positive trends.

The implementation of an additional assessment of the draft annual financial statements for 2015/16 resulted in resolving 95% of the findings initially raised for departments and 99% of the findings raised for entities. The AGSA findings were mainly on secondary notes which is excluded from the scope of Provincial Treasury assessments.

Our improvements in the municipal audit environment has been substantial. This is illustrated by the fact that in 2008 the audit opinions for the 23 non-delegated municipalities in the Province were as follows:

- 2 unqualified with other matters
- 1 qualified
- 5 adverse and
- 15 disclaimers

Since 2009 we have seen continuous improvement in audit outcomes and the 2015/16 audit opinions for the 23 non-delegated municipalities are as follows;

- 1 unqualified with no matters (clean) – Fezile Dabi DM
- 15 unqualified with other matters,
- 4 qualified and
- 3 disclaimers.

Our local government leadership, the senior management and officials of our municipalities must be acknowledged and recognized for the work they have done to ensure that we achieve improved audit outcomes. In addition, the support from the Municipal Finance Management Unit of Treasury, COGTA and SALGA have been key to achieving these improvements.

I am informed, hon. Speaker, that the audit in Maluti-a-Phofung LM has been concluded and is current in the quality review process. We are cautiously optimistic for an improved audit outcome in the Maluti-a-Phofung LM as well.

Risk Management and Internal Audit

Provincial Treasury continues to support provincial departments to enhance governance. Our target for 2016/17 was for all departments to achieve a 90% compliance level with relevant key performance indicators. The actual performance exceeded our expectations and departments performed as follows:

- Risk Management Units - 10 departments achieved an average of 95%
- Risk Management Committees - 9 departments achieved an average of 96%
- Fraud Risk Management - 9 departments achieved an average of 97%
- Internal Audit Activities - 10 departments achieved an average of 94%
- Audit Committees – 11 departments achieved an average of 97%

We have also made significant progress in the establishment of Audit Committees as well as Internal Audit and Risk Management units at municipalities. We facilitated our quarterly regional Fraud Risk Management awareness sessions which addressed, amongst others, Financial Management Fraud, Human Resources Fraud, Disclosure in relation to conflict of interest, SCM – Tax Fraud and developments around Fraud Risk Management.

We hosted the International Fraud Awareness Week Seminars with the support of the Association of Certified Fraud Examiners, the Business School of the University of the Free State and our private sector partners Standard Bank and PriceWaterhouseCoopers. The topics included, amongst other, Systemic Corruption, Corporate Intelligence and Demystifying Money Laundering. An additional Business sector seminar was held on 15 November to increase awareness on combatting fraudulent activities in the private sector. This initiative will also continue during 2017.

I have previously reflected on the officials from our provincial and local government who have successfully completed the Certified Fraud Examiners course and that we have virtually doubled the number of suitably qualified Certified Fraud Examiners in the province. The next round of training will commence in the 2017/18 financial year.

Municipal Financial Management

Hon Speaker, In terms of sections 5(3) of the Municipal Finance Management Act, Provincial Treasuries are obliged to assist National Treasury in enforcing compliance with the measures established in the Constitution and this Act. The Provincial Treasury's Municipal Finance unit does not only focus on the monitoring function, but has taken the lead by becoming actively involved at municipalities to provide hands-on support and train municipal officials on a number of disciplines.

This has included training on the Municipal Standard Chart of Accounts, linking Integrated Development Plans to MSCOA, assessment of indigent registers to identify government officials who are on the registers for

removal by municipalities, ensuring that municipal budgets are credible, realistic and in compliance with section 23 of the MFMA and training of SCM officials and MFMA Section 32 Committees.

2017/2018 AND BEYOND

Hon Speaker, Provincial Treasury's mission is to establish and promote prudent financial management and good governance. Provincial Treasury has been allocated R315,314 million in 2017/18 as follows;

PROGRAMME 1: ADMINISTRATION

The role of this programme is to provide leadership and strategic management in accordance with legislation, regulations and policies. The programme provides administrative support services to all other programmes. The Programme is allocated R103,840 million. The main cost drivers in this programme are compensation of employees, Auditor-General fees and centralised support services.

PROGRAMME 2: SUSTAINABLE RESOURCE MANAGEMENT

The role of this programme is to provide professional advice and support on provincial economic analysis, fiscal policy and the management of the annual budget process as well as the implementation of the provincial budget. The programme has been allocated R41,896 million.

Provincial Own Revenue

Hon Speaker, as mentioned during the tabling of the 2017 main budget, our forward projections for 2017 MTEF revenue collections are informed by the estimated economic growth in the next three years. Our projected own revenue is estimated to grow at 4.9 % over the forthcoming 2017 MTEF, generating a projected R3.522 billion as follows;

- R1.112 billion in 2017/18,
- R1.173 billion in 2018/19 and
- R1.237 billion in the outer financial year

I must make mention of the fact that we have established a team that will be looking into matters particularly relating to infrastructure investment and infrastructure assets that are currently under-utilized or unutilized. We encourage our provincial departments and provincial public entities to continue strengthening their respective revenue collection systems and find innovative ways of enhancing revenue.

Budget Management

Notwithstanding the sterling work that the province has done with regard to containment of the provincial wage bill as well as ensuring that there are no “ghost” employees in our system, the importance of continued containment of the provincial wage bill must not be underestimated. We have requested all provincial departments to review their anticipated recruitment targets for the new financial year and will be monitoring this process closely.

During the budget process we identified a number of matters that will result in efficiency gains, both from a governance and financial perspective. These include;

- The transfer of the budget of the Cuban medical students programme to the Department of Health
- The creation of a trading account that brings together the Free State Training and Development Institute and the Provincial Bursary Programme
- Provincial Treasury and the Department of Education will continue working together to address structural budget matters and strengthening of financial management in the Department.

Provincial Treasury also intends playing a stronger and more effective role in exercising its monitoring role regarding expenditure relating to legal action instituted, defended and settled by the provincial government.

Deriving savings through limiting expenditure on non-core items

The implementation of cost containment measures will continue. Following the review by National Treasury and introduction of new national instruction notes, Provincial Treasury has initiated the provincial review process. The reviewed provincial instruction note will be issued in due course. We expect that Departments will emulate the cost reduction examples set by the Departments of Health, Agriculture, Social Development and SACR mentioned earlier.

Cash Management

We will continue to promote effective cash management in the province. Our role is not limited to the management and disbursement of cash to departments. We are also required to ensure that there is improved spending of cash in line with the agreed cash plans of the respective departments.

Last year I indicated that we have implemented various strategies to contain actual cash disbursements within the available cash resources of departments and this strategy will continue in the MTEF period. The alignment of BAS disbursement runs to payment schedules has assisted in terms of cash management. This measure will be sustained over the 2017 MTEF period. Conditional grant cash will only be released as and when the funds are received from the relevant national departments.

PROGRAMME 3: ASSET AND LIABILITY MANAGEMENT

The role of this programme is to promote effective management of provincial assets and liabilities, procure transversal and cross-cutting goods and services and manage and maintain transversal financial systems in the province. The programme is allocated R76,814 million.

Roll-out of the 2017 Preferential Procurement Regulations

The Preferential Procurement Regulations 2017 are premised on three interrelated government policy objectives:

- Socio-economic transformation,

- Promotion of small enterprises, cooperatives, rural and township enterprises; and
- Promotion of local industrial development.

The aim of the Preferential Procurement Regulations, 2017 is to provide an added advantage to designated groups and Small, Medium and Micro Enterprises (SMMEs) also classified as Exempted Micro Enterprise (EMEs) and Qualifying Small Business Enterprise (QSEs) in the Broad Based Black Economic Empowerment (B-BBEE) Act and Codes of Good Practice.

Provincial Treasury has been conducting an awareness campaign on the 2017 Preferential Procurement Regulations in all five districts of the Province. The campaign aimed to create awareness under all Free State suppliers of the changes to the Regulations and how it will affect them. Provincial Treasury and DESTEA will cooperate in the monitoring of the implementation of the new Preferential Procurement Regulations.

Payment of suppliers within 30 days

Hon Speaker, we are acutely of aware of the role that government procurement plays in the empowerment of SMMEs. We have therefore continuously provided support in ensuring that suppliers' concerns are addressed in regard to late payment or non-payment of invoices older than 30 days.

Monthly consultations takes place between Provincial Treasury and provincial departments to ensure the credibility of information submitted in the 30-day payment reports.

This is, however, an area where our monitoring role should be upscaled with practical interventions where necessary. Again, we will cooperate with DESTEA and the Monitoring and Evaluation Unit of the Office of the Premier in this regard.

National Treasury Centralised Supplier Database

The National Central Supplier Database (NCSD) has been live since 1 April 2016. Currently, the Free State has 11 thousand 875 suppliers registered on the CSD. This constitutes approximately 3.96% of the total national CSD, which has more than 300 000 active registered suppliers.

There is clearly a need for Free State enterprises to improve their participation on the CSD. Provincial Treasury continues to support potential suppliers with self-registration, especially in small towns during sites visits and roadshows. We want to encourage municipalities to engage with Treasury to assist potential suppliers on designated days or during activities.

The **Free State Supplier Management System (FSSMS)** was deployed in December 2016. The system will assist with supplier rotation management from the CSD and will assist departments and entities to capture/upload contracts to ensure better monitoring and contract management performance. This will also assist Provincial Treasury to play an oversight role in terms of supplier rotation within departments and entities.

PROGRAMME 4: FINANCIAL GOVERNANCE

The purpose of this programme is to promote and enforce financial governance in the provincial government and is allocated R29,054 million.

Accounting

In executing our mandate we will be paying particular attention to enhancing oversight and support on irregular and fruitless expenditure, specifically with regard to the finalisation of investigations, internal controls and consequence management.

We will furthermore promote the implementation of remedial plans to address prior year external audit findings relating to misstatements, non-compliance with laws and regulations and other Audit Report findings. Another focus area will include debt management, specifically staff and intergovernmental debt.

Internal Audit and Risk Management

We are confident that our system of shared Audit Committees are effective and we will be facilitating the appointment of shared Audit Committees for eight departments before 1 September 2017.

In order to strengthen internal controls, we will be finalising the acquisition of an Audit and Risk Management system, which will be centralised at Provincial Treasury, for departmental Internal Audit Activities and Risk Management. The system will enable these components to enhance compliance and effectiveness with applicable standards and frameworks

and ultimately assist related oversight committees to exercise their responsibilities adequately.

Our guidance will be focused on improving the auditing of Financial Statements, Information Technology and Performance Information as well as maintain and intensify our focus on the existence and effectiveness of internal control systems.

PROGRAMME 5: MUNICIPAL FINANCE MANAGEMENT

The role of this programme is to promote and improve the state of financial governance and management at local government level together with COGTA, SALGA and our national departments. The programme is allocated R63.710 million.

Local Government Equitable Shares

The local government equitable share formula was updated with the 2016 Community Survey data. The RSC Levy Replacement Grant growth rates were adjusted to assist rural district municipalities. In the Free State, only the Xhariep District municipality will benefit from a slight increase in the 2017/18 allocations.

The total allocations for the Free State municipalities are as follows;

- R3,4 billion in the 2017/18 financial year,
- R3,7 billion and
- R4 billion in the 2018/19 and 2019/20 municipal financial years respectively.

Revenue management is one of the “2017 game changers” mentioned by the hon. Minister of Finance during the tabling of the budget speech. The other game changers are the;

- Municipal Standard Charts of Account (mSCOA),
- Supply Chain Management reforms including the Centralised Database,
- Standard Infrastructure Procurement and Delivery Management
- the amended Preferential Procurement Policy Framework and
- Asset Management.

Provincial Treasury and COGTA will be facilitating extensive IDP and budget engagements with our district and local municipalities from April onwards.

Eskom and Water Boards

A Task Team has been established to deal with the Eskom and Water Boards arrear debts and the respective bulk service providers participate in this team. The task team is not only addressing current account payments but also underlying systemic issues such as the tariff structure, water and electricity losses, penalties and interest. Provincial Treasury and NERSA will continue to support municipalities to participate and comply with the relevant NERSA processes.

Tax

We have established our tax advisory capacity. Our focus is to assist both SARS and municipalities to ensure that matters regarding VAT refunds and non-compliance matters are resolved timeously and constructively.

These interventions will reduce over-reliance on external consultants for VAT review at exorbitant commissions. Through this relationship, SARS also conducts training in municipalities on tax-related matters such as VAT and PAYE.

CONCLUSION

Hon Speaker, there is a large hardwood tree on the west coast of tropical Africa that can live up to 500 years; it is called the Iroko tree. Nigerian wisdom reminds us that; “*We live by hope, but a reed never becomes an Iroko tree by dreaming*”. If we want to improve the socio-economic conditions of our people we must be prepared to take practical and decisive action.

We remain committed to ensure that the financial resources of the province is used effectively and efficiently to serve our people and bring about radical socio-economic transformation.

Hon Speaker, we continue to rely on the cooperation and support of all provincial departments, provincial public entities, local government and our partners such as SALGA, SARS, NERSA and others to ensure that the department delivers on its mandate.

I must also extend my appreciation to our private sector partners, notably the provincial banker, Standard Bank, for their continued support of our work not only as Provincial Treasury but also of the provincial government.

Let me also acknowledge and appreciate the support of the Premier, colleagues in the Executive Council, the Presiding Officers and members of the Public Accounts and Finance Committee for their support during the annual appropriation bill process. The plants on your desks, hon. Member is a gesture of our appreciation. Let me hasten to add that those were not bought with public funds!

I also wish to thank the CEO of Provincial Treasury together with the senior management and all the officials, including specifically the support staff in the Office of the MEC, for their commitment and hard work. Their support has been invaluable during this process.

I thank you.