


Vote Speech
2008/2009



treasury

Department of
Treasury
FREE STATE PROVINCE

**2008/09 VOTE SPEECH
OF THE FREE STATE PROVINCIAL TREASURY (VOTE 4)
TABLED IN THE FREE STATE PROVINCIAL LEGISLATURE
BY MR. PHI MAKGOE,
MEC FOR FINANCE ON THURSDAY,
17 APRIL 2008**



"Public finances are one of the best starting points for an investigation of society. The spirit of a people, its cultural level, its social structure, the deeds its policy may prepare- all this and more, is written in its fiscal history"

Joseph Schumpeter (Economist)

1. INTRODUCTORY REMARKS
2. OVERVIEW OF SOME KEY DEPARTMENTAL ACHIEVEMENTS IN THE PAST FINANCIAL YEAR
3. ACHIEVEMENTS IN RESPECT OF TRANSVERSAL TREASURY FUNCTIONS
4. OVERVIEW OF THE PROPOSED AGGREGATE MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)
EXPENDITURE PROPOSAL
5. ALLOCATIONS TO DIFFERENT DEPARTMENTAL EXPENDITURE PROGRAMMES
6. SOME REMAINING CHALLENGES
7. CONCLUDING REMARKS

1. INTRODUCTORY REMARKS

Honourable Speaker of the Free State Legislature
Madam Premier of the Province
Honourable Members of the Provincial Executive Council,
Honourable leaders of our political parties and Honourable Members of Provincial Parliament
Honourable Mayors and Councilors
Morena Dikgosi le Mafumahadi,
Director-General of the Province and other leaders of the public service,
Business community, trade union leadership, media organizations present here
Distinguished guests, friends and comrades
Treasury officials,
People of the Free State

It is indeed a great honour and a privilege to be bestowed an opportunity to present the 2008/09 expenditure proposal for the Free State Treasury Department to this august house this afternoon.

Honourable Speaker, Ladies and Gentlemen, let me seize this opportunity to pay tribute to the struggle icon, the African National Congress stalwart and the MK veteran who passed away on April 1 2008. It was with immense shock and grief to learn that our beloved hero has perished.

To many Comrade George Carpede was an outstanding cadre and highly regarded by his comrades and colleagues. He was an inspiration and example of what we had to do to achieve our liberation. As we pause for the moment of silence we extend our heartfelt condolences to his family, friends, comrades and colleagues.

We pledge to Comrade George and other fallen heroes and heroines that - 'we will never betray the trust you bestowed on us when you helped to give us the possibilities to transform South Africa into a democratic, peaceful, non-racial, non-sexist and prosperous country committed to the noble vision of human solidarity'.

In our earnest quest to bridge the chasm between the first and the second economy, we must heed the clarion call made 50 years ago by the Congress of the People in Kliptown that we must speak with one voice and act in partnership to build a South Africa defined by happiness and a common dream. As we seek to consolidate the progress we have made in building a better Free State - lets unite in action and say - 'enough of everything that made our country to contain within it and represent much that is ugly and repulsive in human society.'

Honourable Speaker, in this budget Vote we intend to outline a brief indication of the achievements we have attained during the past financial year that ended on March 31 2008. This will be followed by the presentation of the main expenditure proposals and highlighting of some critical areas the Free State Treasury Department will focus on in the 2008/09 financial year and the rest of 2008/09-2010/11 Medium Term Expenditure Framework (MTEF) period.

2. OVERVIEW OF SOME KEY DEPARTMENTAL ACHIEVEMENTS IN THE PAST FINANCIAL YEAR

Honourable Speaker, Honourable Members will recall that during the tabling of the 2007/08 Treasury Vote in this House last year, we highlighted several issues and critical challenges that we would focus on during the 2007/08 financial year.

Accordingly, we are delighted to be in a position to report achievements and significant progress to this House with regard to both departmental own operations as well as transversal treasury functions.

3. ACHIEVEMENTS IN RESPECT OF DEPARTMENTAL OWN OPERATIONS

More Effective Human Resource Management

Honourable Speaker, I am thrilled to report on the department's own operations. A sharper focus on human resources development, was one of the main areas of focus of our department in the 2007/08 financial year. We also remain committed to this ideal of building much needed skills and enhanced human resources management over the 2008/09-2010/11 MTEF period. I wish to put on record that there is already a commendable improvement on the departmental human resources management through our effort to:

- Significantly decrease the department's vacancy rate from 35.5% in 2006/07 to 18, 5% in 2007/08
- Establish a much-needed Human Resources Development Policy and Research Division with effect from October 1 2007, These initiatives have resulted in the finalization of policies and strategies which came into effect on February 1 2008 to respond to the challenges related to Recruitment and Selection, Skills Retention, Working hours, Remunerated overtime, Resettlement and Special leave.

In line with the department's commitment to improve the skills of Treasury officials as well as the skills of the Free State youth, we have funded 28 part-time bursaries and 29 full-time bursaries for the 2007 academic year, at a cost of some R1, 5million. A further 3 part-time bursaries and 11 full-time bursaries were awarded for the 2008 academic year.

Honourable Speaker, it is our contention that the privilege of being part of a historic process of implementing the Government Programme of Action require selfless public service cadres who are willing to put the interest of the downtrodden and marginalized people first.

Since the dawn of democracy in 1994 the ANC-led government has deliberately put the interest of all the people of South Africa at the top of its agenda. The Provincial budget speech we delivered last month highlighted the Free State Government's commitment to accelerate advances towards the achievement of strategic priorities.

Through our 2004 Election Manifesto we entered into contract with the people of the Province that we will create an enabling environment for economic growth and job creation. We promised the Free Staters, that together with them we will wage war against criminality, poverty and ill-health. Most importantly we promised to build an effective and caring government. As a part of our humble contribution to the alleviation of poverty, job creation and the skilling of the Free State young people the department has enlisted the services of 22 interns through our Internship Programme in 2007/08. We are proud to report that 18 of these interns are now part of the Provincial Treasury permanent staff establishment.

Improved Financial Management Performance

Honourable Speaker, with regard to financial management performance, we have managed to exceed the provincial target of 83% set for key financial management performance indicators, by achieving an average of 95% for the 2007/08 financial year. Furthermore, 93% of our suppliers were paid within 30 days. We have also developed a system for follow-up and the proper finalization of outstanding payments.

Fully Functional Internal Audit Unit

Honourable Speaker, after struggling with high staff turnover for some time, all posts in our Internal Audit Unit were filled during 2007/08. The unit adopted a process-based approach and jettison a function based approach, to reduce audit-cycle time and promote value-add. Through this strategy, 16 of the 23 audits initiated during the 2007/08 financial year were concluded and this enabled the department to obtain assurance with regard to the adequacy and effectiveness of controls in respect of a number of departmental processes and operations. Likewise, certain control weaknesses identified, could be effectively addressed through the implementation of appropriate improvement measures. A Risk Management component was also established in the department which further promoted compliance with the Public Financial Management Act.

4. ACHIEVEMENTS IN TERMS OF TRANSVERSAL TREASURY FUNCTIONS

Regarding achievements in respect of transversal treasury functions emanating from various pieces of mandating legislature, but mainly the Public Finance Management Act (Act 1 of 1999, as amended), Treasury Regulations promulgated in terms of Section 76 of this Act and support functions to be executed with regard to Municipalities in terms of the Municipal Finance Management Act (Act 56 of 2003), the following achievements, can inter alia be reported.

Collaborative Efforts To Achieve Adjusted Own Revenue Target

Honourable Speaker, the Provincial Treasury had its work cut out to achieve the challenging adjusted provincial own revenue target of R503-million, passed in the 2007/08 Provincial Adjusted Budget. This achievement was made possible by efforts of the Revenue Task Teams and the work of forums such as the monthly revenue bilaterals, aimed at fostering an understanding and appreciation of the significance of provincially collected revenue as an important source enabling the funding of critical priority areas of the provincial government.

Development Of In-Year Monitoring Tools For Public Entities

Honourable Speaker, I am happy to report to this House that due to initiatives of our department, an in-year financial reporting and monitoring tool, similar to the In-Year Monitoring Model (IYM) used for provincial departments, was developed for Provincial Public Entities. This model was successfully rolled-out during June 2007 to public entities to enable more effective and appropriate monthly reporting in line with the requirements of the PFMA.

With regard to the monitoring of non-financial performance information, the framework utilized for non-service provincial departments, was also adopted in respect of public entities, to facilitate reporting in this regard.

Honourable Speaker, as a result of these initiatives, the ability of this government to monitor the performance of its public entities has been significantly strengthened, as the Free State is now the only province that has such framework in place to effectively gauge the performance of the entities on a monthly and a quarterly basis.

Continued Improved Spending On Provincial Infrastructure

Honourable Speaker on the provincial infrastructure, this government's commitment towards infrastructure delivery is well documented in the records of this House and its portfolio committees for all and sundry to see.

With the full support and participation of all relevant departments and oversight structures, this province pulled-out all the stops to ensure:

- Effective implementation of the infrastructure delivery improvement programme (IDIP) in targeted departments
- Full compliance to the conditions of the Division of Revenue Act (DORA) and the Infrastructure Grant to Provinces (IGP)
- Effective and timeous reporting on infrastructure delivery through the In-Year Monitoring and Infrastructure Reporting Models (IYM and IRM).

Due to these and other efforts, I am in a position to report to this House that, unlike other provinces whose transfer of Infrastructure funds from National Treasury were delayed as a result of slow and unsatisfactory performance with regard to the delivery on infrastructure projects, all infrastructure funds due were transferred to the Free State Province during the 2007/08 financial year.

Sharper Focus On Supply Chain Management And Asset Management

Efforts to support more informed asset management in the province continued in earnest in 2007/08 through various road-shows and bi-lateral meetings aimed at capacitating asset management practitioners in line departments. In addition, 208 evaluation reports were issued, highlighting problems in respect of physical asset management in an attempt to assist departments to address observed short-comings.

A quantum leap towards further entrenching more effective and efficient supply chain management practices, was also taken with the implementation of a supplier system in provincial departments and entities, that now enables them to categorize suppliers, manage quotations and profile prospective suppliers with regard to matters such as historically disadvantaged individuals, equity ownership, small, medium and micro enterprises and black economic empowerment status. Furthermore, through efforts related to the management of supporting and interlinked systems, the supplier register was maintained at 100% during the 2007/08 financial year, making it possible to enable payment of suppliers in-line with the prescripts of the PFMA. The Treasury Department also trained 499 users of the Basic Accounting System (BAS) during 2007/08 to ensure that transversal systems are used effectively and efficiently and that information captured on the system is credible and accurate.

Honourable Speaker, all of the aforementioned achievements, now puts this government in a much better position to monitor the effectiveness of procurement and asset management and to gauge the attainment of government objectives with regard to matters such as the development of provincial SMME's and the promotion of Broad-Based Black Economic Empowerment (BEE).

Improved Financial Management Through Effective Governance

Honourable Speaker, this House will be pleased to be informed that due to the implementation of, *inter alia*, financial management bi-laterals, the continuation of the practice of producing monthly treasury oversight monitoring reports in respect of key performance indicators regarding various accounting matters, as well as effective engagement in audit steering committees, the Free State province has been selected as the most improved province in the financial management by National Treasury.

In addition, the 2007/08 financial year saw significant improvements with regard to reporting requirements emanating from the Municipal Finance Management Act (MFMA), largely arising from capacity building initiatives and technical support provided to municipalities by the Provincial Treasury Department.

It is also interesting to note that monitoring of financial management at provincial public entities, also commenced from April 1 2007 and the following areas were already covered during the 2007/08 financial year, namely bank reconciliations, expenditure and revenue management, asset management, risk management and internal audit.

5. OVERVIEW OF THE PROPOSED AGGREGATE MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF) EXPENDITURE PROPOSALS

Honourable Speaker, with your indulgence allow me to briefly outline the proposed aggregate medium term expenditure framework (MTEF) expenditure proposals for my department. For ease of interpretation, I will use rounded nominal figures throughout my speech.

As already announced in the 2008/09 Appropriation Bill tabled in this House, the following are the proposed rounded allocations to the Provincial Treasury over the 2008/09-2010/11 MTEF period, namely:

- R137million in 2008/09, which represents a nominal increase of 8% compared to the previous year
- R147 million in 2009/10, representing further growth of 7%; and
- A further 6% increase in 2010/11, to an amount of R156 million in the last MTEF year

Honourable Speaker, may I for the benefit of researchers, analysts, commentators and the public at large, briefly indicate the main types of services rendered by my Free State Treasury Department.

At most people know the Provincial Treasury derives its service mandate mainly from the Public Finance Management Act, the Municipal Finance Management Act, associated regulations, various other pieces of legislation, policy frameworks and best practice prescripts and guidelines, which necessitate that Provincial Treasury Department renders services to provincial departments to inform and promote sustainable resources management, asset and liability management and effective financial governance.

Expenditure On Programme 1: Administration

The main purpose of Programme 1, which includes sub-programmes for the Office of the MEC, Management Services, Corporate Services, Financial Management Services for the department itself, as well as Internal Audit Services, is to provide leadership, ensure strategic management of all departmental operations and provide appropriate auxiliary support services to all other programmes of the department.

It is important to indicate that this programme is only engaged in operations that support the effective and efficient operation of departmental programmes and operations, and is not involved in any function that directly renders transversal treasury functions to other provincial departments and public entities, as such functions are performed by the 3 remaining programmes of the department.

R47million will be allocated to this programme in 2008/09, which is virtually the same as the 2007/08 allocation; This allocation will increase with 10% to R52million in 2009/10 and a further 5% to R55million in 2010/11.

In addition to the normal work executed by this programme, particular focus will be on work executed by the internal audit unit in 2008/09 with regard to concerted efforts to be implemented directed at capacity building in respect of the development and implementation of appropriate internal controls within Treasury informed by processes, procedures and systems to identify and monitor risks in an ongoing manner. Focus will also be on the assessment and evaluation of controls that impact on the accurate recording of financial

and performance information, to enhance reliance of the Auditor-General on work performed by the internal audit unit. In addition, quality assurance programmes will be implemented to ensure full compliance with the standards of the Institute of Internal Auditors.

Expenditure On Programme 2: Sustainable Resources Management

The main purpose of programme 2, the programme for Sustainable Resource Management, is to provide advice and support to the MEC on matters related to provincial economic analysis, fiscal policy, public finance development and strategic management and co-ordination of the annual provincial budget process.

In addition to the sub-programme for programme support which provides for the cost related to the efficient management of the programme itself, this programme is comprised of the following sub-programmes:

- Economic analysis
- Fiscal policy
- Budget management
- Public finance

Proposed allocations to this programme are as follows over the MTEF period:

- R17,5million in the first year
- R17,5 million in the second year
- R18,5million in the third year

Resulting in initial growth of 30% in 2008/09, no growth in the second year, and 6% in 2010/11.

In respect of budget management, key focus areas for the 2008/09 financial year would be to:

- Ensure that necessary improvements are brought into Annual Performance Plans of departments and public entities to ensure effective linkages between appropriation of funds and key deliverables
- Assess the allocative efficiency of departments in respect of priority areas and resultant service delivery objectives
- Participatory budget formulation through various capacity building initiatives
- Improve analytical skills in provincial departments to prepare MTEF budgets

Further work to be executed by fiscal policy in the 2008/09 financial year will, inter alia, relate to efforts to:

- Draft and finalize a 5-year fiscal framework for the province
- Further capacitate provincial departments on the revenue forecasting model
- Improve processes of risk management with regard to revenue collection, management and administration
- Publish comparative revenue analysis reports, to enable even more effective exploitation and optimization of revenue sources by collecting departments and public entities

Following good progress towards the finalization of the Provincial Socio-economic Review in 2007/08, the economic analysis directorate will continue its work to better inform the drafting and monitoring of the provincial budget through publication of the following documents, namely:

- The Provincial Socio-economic Review and Outlook to be released every 5 years and reviewed annually
- A Social Accounting Matrix for the province, to be reviewed annually
- The Provincial Labour Market Review, to be released quarterly

In addition, preparatory work will also proceed in earnest to finalize a Free State Regional Econometric Model, to be completed by 2011/12.

Honourable Speaker all of this work that will continue in 2008/09 and beyond will improve the analytical ability of the Provincial Treasury to analyze changes in the socio-economic variables of the province to ensure that the provincial budget meaningfully impact on identified provincial needs whilst at the same time, supports sustainable provincial growth and development.

Expenditure On Programme 3: Asset And Liability Management

The main purpose of this programme, which, in addition to programme support, includes sub-programmes for asset management, liability management and supporting and interlinked financial systems is to provide policy guidance and facilitate the effective and efficient management of physical and financial provincial assets, private-public partnerships and liabilities.

The proposed allocation to this programme decreases from R52-million in 2007/08 to R50-million in 2008/09. It will however increase with 5% to R53-million in 2009/10 and a further 6% to R56-million in 2010/11.

Some of the major areas of focus in 2008/09 regarding physical asset management will involve work to:

- Intensify monitoring of the effectiveness of asset management in various departments
- Ensure effective redress of shortcomings with regard to asset management highlighted in audit reports of various departments

With regard to Supply Chain Management, particular focus will be on the monitoring of performance management in departments as well as to ensure meaningful participation of Free State based SMME's and HDI's in public procurement.

Honourable Speaker, in addition to the abovementioned, the implementation of the new Basic Accounting System databases, with effect from April 12008, allows for:

- Improvement with regard to reporting on infrastructure spending
- More accurate alignment of programme structures of budget appropriations and BAS structures
- Review of the classification and categorization of items in the goods and services structures
- Improvement in the functional classification of expenditure

All of the mentioned improvements and enhancements will enable better tracking of expenditure and more effective reporting on expenditure results versus budgeted appropriations which will assist oversight organs such as the Legislature and the Provincial Executive Committee in discharging their monitoring and oversight responsibilities.

Expenditure On Programme 4: Financial Governance

Programme 4, financial governance, is comprised of the sub-programmes for programme support, accounting services, norms and standards: MFMA and risk management and internal audit.

Honourable Speaker the main object of this programme is to promote accountability through substantive reflection of financial activities of the province, as well as compliance with financial norms and standards.

The allocation to this programme will grow with 21% to R22-million in 2008/09, another 13% to R25-million in 2009/10, and a further 7% to R27-million in 2010/11.

Work related to financial governance will be further enhanced in 2008/09 with the development of key performance indicators to measure financial management performance of provincial entities, as well as the performance of internal audit and risk management units in provincial departments and other public entities. Honourable Speaker, the significance of this work that will be executed in 2008/09 is that it will go a long way to further promote sound financial management in the Free State Provincial Government and also promote reliance by external audit on work carried out by internal audit.

Honourable Speaker, support to municipalities to improve financial management practices at the local government level, will continue in 2008/09 with particular focus on compliance assessment and initiatives to build capacity in the areas of asset management, supply chain management as well as risk management at all municipalities in the province.

6. SOME REMAINING CHALLENGES

Before I conclude, it is important to indicate that notwithstanding our excellent achievements in the 2007/08 financial year and our intentions for the 2008/09 financial year as set out in the 2008/09 Budget Statement and the Department's 2008/09 Performance Plan, let me take this opportunity to register my grave concern about the growing incidence of provincial departments over-spending voted budgets.

Honourable Speaker, allow me to emphasize and put on record in this House, that we must never commit the mistake of believing that fiscal discipline is equal to the sum of individual department's spending pressures. Nothing, and I repeat, nothing can be further from the truth, as fiscal discipline calls for both allocative and operational efficiency as non-negotiable key ingredients. It is thus incumbent on each and every member of this House, to ensure a provincial public expenditure mix that is responsive to government's priorities and also enables a progressive reduction in operational running costs through PRODUCTIVITY gains.

Honourable Speaker, in a province where:

- Published 3-year medium term Expenditure Framework budgets also give indicative budgetary allocations for the two outer years of the MTEF period;
- Appropriate tools exist to track and monitor in-year financial expenditure against non-financial output performance results achieved;
- Acceptable accounting norms and standards, risk management and internal audit practices, prevails;
- Government's need for fiscal discipline is balanced with managerial decision-making freedom, informed by appropriate guidelines based on appropriate and acceptable methods of holding public managers accountable,

The incidence of some departments over-spending their voted budgets by huge margins, and some doing so year-after-year, is extremely disappointing if not downright embarrassing, as one gets a sense that some departments deliberately overspend their budgets without any regard for the knock-on effect that this has on the stability of the whole provincial fiscal position. It also boils down to a total disregard to take PFMA transgressions seriously.

These transgressions leave the Treasury short of wondering whether we were too enabling with the PFMA and whether we should not withdraw management and spending powers of transgressing departments. Honourable Speaker, I raise this matter openly in this House, to ensure the buy-in of Members to address this problem once and for all as such incidences introduces fiscal risks in this province that can neutralize all the good work of the provincial treasury and those departments that renders effective services in line with their service mandate within voted budgets.

7. CONCLUDING REMARKS

Honourable Speaker, let me conclude this presentation by saying that with these budget proposals, read together with my department's 2008/09 Annual Performance Plan, the Provincial Treasury has put its money where its mouth is, by clearly indicating what we will be doing in the 2008/09 financial year and beyond to take this Province forward.

Honourable Speaker, we are ready to raise the bar on excellence and break new ground by embracing leading edge ideas to consolidate the gains made in recent years and cross boundaries to share knowledge and create collaborative and innovative solutions to foster prudent financial management of public resource in this province.

Honourable Speaker, ladies and gentlemen, as we conclude I wish to express my deepest and sincere gratitude to the department's staffers under the leadership of Mr Donald Barlow for their sterling work to finalize the budget proposal for this vote.

In this presentation we attempted to raise some pertinent issues on which the Free State Treasury Department must continue to focus to discharge its obligation as the custodian of prudent public finance management. To this end the work of the Provincial Treasury Department must be to contribute to the realization of our revolutionary mission of reconstruction and development. Our work should demonstrate to the masses of our people that they have indeed and practically arrived at the Age of Hope.

Tsena ke ditholwana tse monate tsa tokoloho.

Ke a leboha!

