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Department of
Treasury
FREE STATE PROVINCE



FREE STATE PROVINCIAL TREASURY BUDGET VOTE SPEECH

2014





2014/15 PROVINCIAL TREASURY BUDGET VOTE SPEECH

Elzabe Rockman, MEC for Finance

8 July 2014

Honourable Speaker;

Premier;

Members of the Executive Council and

Members of the Free State Legislature

Community Leaders present

Ladies and Gentlemen;

Madam Speaker, we enter our fifth term of democratic government inspired by the confidence and overwhelming support of our people. We remain committed to ensure that the priorities and commitments of the ANC's election manifesto are consistently and comprehensively implemented through government programmes. This constitutes our road map towards the realization of Vision 2030 as encapsulated in the National Development Plan.

Honourable Speaker, John F. Kennedy said that; *“To state the facts frankly is not to despair the future, nor indict the past. The prudent heir takes careful inventory of his legacies, and gives a faithful accounting to those whom he owes an obligation of trust.”*

We present this Budget Vote Speech which seeks to provide an accurate reflection of Provincial Treasury's progress over the past year whilst outlining our priorities and programmes for the current financial year.

PROGRESS AND CHALLENGES IN 2013/14

Honourable Speaker, the Provincial Treasury executes its mandate within the constraints of the broader national and provincial fiscal environment. We intensified our efforts to ensure that there is an understanding amongst all our stakeholders of the shrinking provincial fiscal envelope and the consequences thereof.

This effort has been met with renewed commitment and effort from provincial departments and our local government sector to prioritize critical programmes, to ensure cost-efficiencies and maintain appropriate levels of compliance and accountability in the execution of their mandates.

The key commitments we made during the budget vote speech last year included;

- Providing support to secure alternative funding and maximizing own revenue
- Budget reprioritization
- Monitoring of expenditure
- Supply Chain Management
- Financial Governance

- Fraud and Anti-Corruption
- Combined Assurance Model
- Integrated Business Continuity

I will briefly outline our progress against these key commitments.

Alternative funding and own revenue

The process of providing support to secure alternative funding has resulted in the Department of Sport, Arts, Culture and Recreation securing funding from the European Union for; “Asset management of library materials with Radio Frequency Identification Technology” for the current and next financial year.

We exceeded the provincial own revenue target for 2013/14 with R43 million and increased the total amount of provincial own revenue to R899 million in the previous financial year.

Budget Reprioritization

The Provincial Medium-Term Expenditure Hearings (PMTEC) towards planning and budgeting for future priorities has been strengthened as we extended the forum to include the Provincial Budget Task team.

These hearings formed the foundation from which the Executive Council engaged in an extensive budget consideration process which involved our municipalities, provincial public entities and national departments with a footprint in the Free State.

We will continue with our pre- and post budget benchmark exercises to assess the extent to which the implementation of departmental budgets gives effect to the agreed sector and provincial priorities.

Monitoring of expenditure

The total provincial fiscal envelope consists primarily of our equitable share funding, conditional grants and provincial own revenue. We introduced a new mechanism to publicize government's intentions of strengthening service delivery and the monitoring thereof by the publication of all earmarked provincial funds in a Provincial Gazette.

A new Instruction Note on Cost Containment Measures was introduced as we pursued our mandate to monitor provincial expenditure. This contributed significantly to contain expenditure within allocated budgets of Departments. It also consolidates national and provincial cost containment measures for departments and public entities.

We have conducted robust expenditure reviews with provincial departments which have enabled us to engage departments timeously on emerging patterns indicative of possible over- and under-expenditure. This has greatly enhanced our budget and expenditure management processes.

The public service plays a critical role in service delivery. We have to achieve a balance between freeing up resources for service delivery whilst maintaining a professional, skilled, efficient and effective public service. Specific attention has been given to contain the provincial compensation bill.

A benchmark exercise has been conducted with other Provinces to ensure implementation of best practices to manage personnel and personnel related expenditure. The process of establishing the functionality for a provincial compensation specialist has been finalized.

Supply Chain Management (SCM)

Hon Speaker, with regard to Supply Chain Management, we can report that the development of a toolkit for Supply Chain Management practitioners has been finalized and will be launched in August 2014. A comprehensive training programme will be rolled out for Supply Chain Management practitioners.

A new transversal catering contract was concluded and 55 service providers were appointed. Capacity building for SMMEs will be undertaken in collaboration with SEDA and Standard Bank.

Following the outcomes of the 2012 Management Performance Assessment Tool (MPAT) process, Provincial Treasury, in collaboration with the Department of the Premier, facilitated an intervention through the SCM Forum to improve compliance. The 2013 assessment showed noticeable improvement in all areas assessed. Further interventions will be undertaken during this financial year.

Financial Governance

Provincial Treasury continued with capacity building of officials in departments and entities in various identified areas such as financial statements, asset & liability accounts and accounting manuals.

We intervened on outstanding interdepartmental claims and in the process instituted direct recoveries from departments PMG accounts to the value of R 37.3 million

The 2014 target for all Departments and Entities to obtain the so-called clean audits, i.e. unqualified audit opinions with no findings, was always going to be ambitious. We have, however, sustained our steadfast improvement with regard to the provincial government's 2012/13 audit outcomes. Unqualified with no finding audit opinions improved from 5 in 2011/12 to 7 in 2012/13, whilst there was no department/entity with a disclaimer audit opinion.

Provincial Treasury was extensively involved in the 2012/13 external audit process to resolve audit matters and provide support to departments and entities. A comprehensive programme was implemented to address the 2012/13 audit findings. This programme includes the;

- Assessment of remedial action plans and monthly progress reports and providing feedback to departments and entities
- Addressing matters relating to risks, debt, immovable assets, budget management, debt, predetermined objectives, IT governance issues and Supply Chain Management through the Forum of HODs and CFO Forum.

In further pursuit of our efforts to improve the quality of annual financial statements, Departments prepared Interim Financial Statements for three quarters of the last financial year. These interim statements were

assessed by Treasury and feedback has been provided to departments and entities.

Fraud Prevention and Anti-corruption

Hon Speaker, we conducted a comprehensive review of the centralized supplier database system. The hon. Premier mentioned in his State of the Province address, that we consequently removed six hundred and ninety two (692) service providers from the database in which public servants held an interest.

A comprehensive process is currently underway to determine whether public servants who had been doing business with government had the required approval to perform remunerative work outside the public service. The necessary action will be instituted by Departments against those officials who have failed to comply with the required Public Service Regulations.

We have also assisted municipalities to commence with a clean-up process of their indigent registers to ensure that free basic services only benefit those who legitimately qualify to receive such services.

We conducted Fraud Awareness Sessions, aimed at increasing alertness about Fraud Management within the Private and Public Sector, in Bloemfontein, Kroonstad and Bethlehem as part Internal Fraud Awareness Week during November last year.

The Provincial Treasury also continues to coordinate the membership and participation of relevant officials of the Free State provincial

government in the Association of Certified Fraud Examiners. There are approximately 50 public servants who are now members of the Association.

Combined Assurance

We promised to embark on the roll-out of Combined Assurance to provincial departments and public entities in order to integrate the results of assurance providers on the critical identified risks. I can report that a Combined Assurance Framework was developed and after consultation with the Chief Risk Officers and Chief Audit Executives, rolled out to departments and public entities for implementation.

Integrated Business Continuity

We also undertook to capacitate departments and entities with regard to Integrated Business Continuity Plans. In this regard, Chief Risk Officers and Chief Audit Executives were trained to enable provincial departments and public entities to operate even in the face of a catastrophic disaster in their respective environments.

Together with National Treasury, we have embarked on a process of assessing Internal Audit Units on their state of readiness before the Internal Audit Activities undergo the External Quality Assurance required. During 2013/14 the departments of Social Development, Cooperative Governance & Traditional Affairs and Human Settlements were assessed. This programme will continue during the current financial year.

2014/15 AND BEYOND

Honourable Speaker, allow me to reflect on the 2014/15 financial year and beyond.

Economic Outlook

During the tabling of the 2014/15 Provincial Budget, I alluded to the daunting economic challenges faced by the global and national economies. The Free State Province has not been immune to these challenges and provincial economic growth is projected only to reach pre-recession levels in 2017.

It is against this background that I again remind the hon House that we remain supportive of fiscal consolidation and committed to ensure that government spending is managed effectively, efficiently and economically.

As the Provincial Treasury we will continue to ensure that the Provincial Budget process gives effect to the 2014-2019 Medium-Term Strategic Framework initiatives and reflects alignment to the National Development Plan as well as the revised Free State Growth and Development Strategy (FSGDS) in order to accelerate economic growth, eliminate poverty and reduce inequality.

I will now deal with the details of the respective programmes.

PROGRAMME ONE: ADMINISTRATION

Hon Speaker, the role of this programme is to provide leadership and strategic management in accordance with legislations, regulations and

policies as well as to ensure that there are appropriate support services to all other programmes. The programme is allocated R87.9 million.

Our aim is to continue our good story and build on our record of obtaining clean audit opinions for the past four consecutive years.

We will continue to strive to pay our creditors within 30 days. An average of 97.8% of creditors was paid within 30 days whilst in the last quarter of the previous financial year 100% was attained.

Our recruitment strategy will focus on the appointment of persons with disabilities in order to reach the national target of 2% as well as the employment of unemployed graduates who received bursaries from the Free State provincial government.

PROGRAMME TWO: 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. This programme is allocated an amount of R29 million.

One of the major activities to be undertaken this financial year includes the production of the 20-year Socio-Economic Review & Outlook (SERO) of the Free State Province. This publication provides a deeper understanding of the socio-economic state of the province, act as a Planning and Monitoring & Evaluation tool, and also influence future allocations of scarce resources.

A consultative process with our district and local municipalities has identified the need to strengthen socio-economic intelligence within the local government sector. As a result, the department will also develop a Socio-Economic Profile document of the Free State's Metro and District Municipalities (Municipal Economic Review & Outlook). This will provide an opportunity to municipalities to improve their economic intelligence in support of enhanced planning for economic growth, job creation, and socio-economic improvement.

We have identified the need to pursue a closer working relationship with the Department of Economic and Small Business Development, Tourism and Environmental Affairs in the area of conducting research on the broader Free State economic issues. This will extend the scope of our existing research priorities.

Hon Speaker, we must make mention of the fact that the province has substantial outstanding debt from various sources, including ex-employee debt. A comprehensive debt recovery programme will be implemented under this programme.

The role of the Provincial Treasury remains particularly exciting and challenging in the context of the national and provincial fiscal framework. The 2015/16 Provincial MTEC hearings will maintain the principles of efficiency, reprioritization and trade-offs in the planning and budgeting for future priorities to ensure continuous prudent financial allocation within the Province.

Monitoring of spending and performance against planned targets and reporting on expenditure progress by all departments will remain one of

the responsibilities executed by this programme. Quarterly monitoring of the implementation of cost containment measures will also continue.

Provincial Treasury has a number of budget implementation strategies in place. These will focus, for example on measures to control expenditure of compensation in the Department of Education as well as the implementation of a comprehensive Intervention Strategy to strengthen financial management in the Department of Health.

Allow me to pause here, hon. Speaker, and reflect briefly on the intervention strategy being implemented in the Department of Health. The strategy focusses essentially on four main areas, namely;

- Stabilizing the functionality of health facilities through ensuring the availability of funding to secure an uninterrupted supply of medicine and medical consumables.
- Financial management, information systems and governance. Amongst the key objectives in this area is to accomplish integration and interface between a multitude of required financial information systems utilized by the department and health facilities. In addition, extensive business re-engineering processes will be addressed.
- Human Resources, including the remuneration dispensation applicable to health professionals, including specific focus areas on overtime and incapacity leave as well as ensuring that critical vacancies can be filled within available funding levels.

- Infrastructure Delivery, including the development and implementation of funding strategies to ensure that key components of the health infrastructure value-chain are appropriately maintained or replaced.

We need to acknowledge that failures in the financial management systems of the Department of Health negatively affected the consistent delivery of the quality health services that we strive to achieve. We are, however, convinced that our intervention strategy is comprehensive and responds appropriately to the challenges that have been identified and that stability in the health sector will soon be restored.

PROGRAMME 3: ASSET AND LIABILITY MANAGEMENT

The role of this programme is to promote the effective management of provincial assets and liabilities. The programme has been allocated R63.4 million.

We will be arranging additional transversal contracts to ensure cost effectiveness and economies of scale. Performance of all existing transversal contracts will be monitored.

A process is underway for the procurement of a new centralized supplier database system which will address the challenges with system performance and deficiencies that are experienced with the current system.

As indicated before, the SCM Toolkit will be launched this year together with an extensive training programme. The Toolkit has been designed to

provide both provincial and municipal Supply Chain Management practitioners with a comprehensive standardized approach and process towards supply chain management and will improve compliance with reporting requirements.

We will continue to monitor the quality and quantity of infrastructure spending as well as physical progress on individual infrastructure projects.

We have made considerable progress in the implementation of the new Infrastructure Delivery Management System (IDMS). The IDMS is aimed at infrastructure and procurement planning, project implementation, and operation and maintenance of facilities. Both the Departments of Education and Health have complied with the first round of the DoRA performance-based budgeting and bidding process. Provincial Treasury is the custodian of IDMS and in consultation with the National Treasury we will expand and consolidate our current capacity.

We are currently in the process of implementing the Human Resource Capacitation Strategy to support the IDMS in the Department of Health and Education.

Whilst we experienced significant cash flow pressures on the Provincial Revenue Fund during the past financial year, all appropriated funds were transferred to Provincial Departments in line with the adjusted appropriation. Efficient cash management procedures and practices were implemented to ensure that the Provincial Revenue Fund did not rely on temporary bridging or overdrafts. This will be maintained during the current financial year.

We are continuously improving the cash management procedures and practices within the Free State Provincial Government. Efficient utilisation of surplus funds by way of investment processes will also continue.

PROGRAMME 4: FINANCIAL GOVERNANCE (INCLUDING MUNICIPAL FINANCE MANAGEMENT)

The role 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 programme has been allocated R48.3 million of which R27.7 million has been allocated to Municipal Finance.

With regard to financial governance, formal training sessions will continue in the current financial year. We will assess the quarterly Interim Financial Statements and the draft Annual Financial Statements of departments to assist them to improve their quality and ultimately audit opinions.

Public and trading entities will be required to prepare and submit bi-annual Interim Financial Statements from the current financial year to further improve on the timely implementation of Provincial Treasury findings, accuracy and completeness of their Annual Financial Statements.

Financial Governance will furthermore continue to assess compliance and effective implementation of Risk Management and Internal Audit

related Legislation, prescripts, frameworks and applicable standards in departments and public entities.

Municipal Finance

Provincial Treasury has adopted a more pro-active approach towards supporting municipalities in strengthening their budgeting and financial management processes. During the previous financial year, we visited all 24 municipalities and engaged directly with the political leadership and senior management of municipalities on a range of issues, including the improvement of financial management and audit outcomes, revenue enhancement and other support that the Provincial Treasury could provide.

This process unfolds in cooperation and support of the sterling work done by the Department of Cooperative Governance & Traditional Affairs with their support programme to municipalities. I must also mention, honourable Speaker that Provincial Treasury and COGTA have formalized a memorandum of understanding which clearly details our responsibilities with regard to financial management and Governance.

In order to assist municipalities to recover outstanding debtors and improve their revenue collection, the Operation Patala programme was initiated. As part of this programme, Provincial Treasury assessed municipalities' indigent registers and advised municipalities on the required data clean-up to be performed. We have consistently emphasized that free basic services must only be provided to qualifying registered indigents and have encouraged municipalities to adopt policies that allow for continuous registration.

In an effort to provide adequate support to ensure that the draft municipal budgets for 2014/15 are credible, sustainable and funded, Provincial Treasury conducted various budget bi-laterals and road shows. We wish to express our appreciation for the enthusiastic and positive response that we received from all Mayors and senior management during these engagements.

Working together with NERSA, the Provincial Treasury facilitated a process that resulted in all municipalities in the Free State achieving a 100% rate on the submission of D- forms and tariff applications.

Honourable Speaker, it is regrettable that the Free State local government sector may not achieve the 100% clean audit target for 2014. Our progress in achieving improved audit outcomes remain slow. There are, however, positive indications as our engagements with municipalities as well as the Municipal Support Programme of COGTA begin to reap rewards.

Conclusion

To achieve what has been set out Honourable Speaker, the Provincial Treasury has been allocated an amount of R709.6 million over the 2014 MTEF period of which R226.7 million will be utilised in the 2014/15, R236 million in 2015/16 and R246.9 financial year.

In conclusion Honourable Speaker, we are mindful of our people's expectation, as espoused in Vision 2030, that;

"We know our learders as we have elected them and pledged them into office:

- *They are wise in the use of our wealth*
- *Wise in knowing and understanding our wishes and needs*
- *Wise in expecting us to express ourselves to them in any appropriate manner we have agreed to be allowable*
- *Wise in not silencing those who criticise, but enable them through our rules of engagement, to be even more rigorous in supporting a just society*

Honourable Speaker, we take these expectations seriously and are committed to the highest level of service delivery.

We continue to rely on the cooperation and collaboration of all provincial departments, provincial public entities and local government to ensure that we achieve our mandates and that we move the Free State forward.

Speaker, allow me to thank the CEO of Provincial Treasury, Mr Mahlatsi, together with all the officials for their commitment and tireless efforts to bring about the change we want.

I thank you.