

FREE STATE PROVINCIAL TREASURY 2018 BUDGET VOTE SPEECH

3 May 2018

Honourable Speaker

Honourable Premier and Members of the Executive Council

Members of the Legislature

Our local government and traditional leadership

Ladies and gentlemen

Hon. Speaker, today we conclude the budget vote debates of the 2018 Appropriation Bill in the shadow of the month of April that caused the nation immense grief with the passing away of Mme Winnie Madikizela-Mandela, Dr Zola Skweyiya and former Ambassador George Nene.

They followed the April passing of the historical giants in South African's history such as Oliver Tambo, Chris Hani and Solomon Mahlangu. The month of April concluded with the tragic passing of Akhumzi Jezile, Siyasanga Kobese and Thobani Mseleni whose loss extends far beyond the creative industry. Indeed, their passing, together with all others who have lost their lives in road fatalities, serves to remind us of the responsibilities we accepted in support of the United Nations' Decade of Action for Road Safety.

April is also the month during which we commemorate and celebrate Freedom Day; marked by our transition to democracy. It is also characterized by our right to religious freedom as we marked significant events on the Christian and Muslim calendars. These are examples of the living manifestation of the Bill of Rights enshrined in our Constitution.

The year 2018 commemorates the centenary of the birth of two of our most prominent South Africans, former President Nelson Mandela and Mme Albertina Sisulu. In his State of the Nation address, the hon President reminded us that this is not a symbolic commemoration. We must take direct action towards the achievement of their shared vision of a better society. This requires that we significantly improve the scale and intensity of our struggle against unemployment, poverty and inequality.

We enter the month of May with the commemoration of Workers' Day. The inclusion of the fundamental rights of workers, trade unions and employers in the Bill of Rights and Constitution continue to be a landmark in the break with our divisive past. Our labour environment is characterized by debates around the introduction of the national minimum wage, proposed amendments to labour legislation, wage negotiations in both the public and private sector as well as the various dynamics of mainstreaming youth in the economy, including skills development and employment.

We remain deeply aware of the scope and extent of inequality that characterizes our society in general but also of the specific dynamics that it imposes on our workplaces. The World Bank report; "Overcoming

poverty and inequality in South Africa: an assessment of drivers, constraints and opportunities” highlights the impact of income inequality – defined increasingly by education, jobs and geography, although race and gender continue to play key roles.

Income inequality is identified as the largest contributor to inequality overall in South Africa. This is illustrated by the fact that the top percentile of households holds 70.9% of wealth whilst the bottom 60% of households hold just 7% of wealth in our country. This remains a critical area of work that has to be addressed by government, trade unions and the private sector.

Our national discourse is dominated by the call for radical economic transformation. This essentially requires the fundamental improvement of the position of black communities, specifically women and youth, in the economy. Key elements that will advance the achievement of radical economic transformation include;

- the use of legislative and regulatory instruments such as preferential procurement and ensuring fair and equitable competition in the economy,
- continued and accelerated transformation of key economic sectors and industries,
- land reform (including expropriation without compensation) and

- upscaling initiatives such as the Black Industrialist programme and investing in the development of businesses in our townships and rural areas.

Hon Speaker, the foundation of radical economic transformation is the sound principles and values of good governance and clean administration in both the public and private sector. Let us understand that radical economic transformation is not the beneficiation of the chosen few at the expense of the majority of the economically disempowered and disadvantaged in our society. Equitable and fair competition amongst designated procurement groups, whether it is black business in general or black women or black youth, must be practiced in theory and in action.

Preferential procurement regulations must be applied and enforced consistently. It cannot be acceptable that the Auditor-General notes [in the 2016/17 Consolidated General Report on National and Provincial Audit Outcomes] that auditees - both at national and provincial government level - demonstrate a lack of understanding and awareness and even a disregard of the requirements of preferential procurement.

Radical economic transformation will not be achieved unless the public and private sector respect, comply and uphold financial and other governance processes. As much as the framework for public financial management at provincial and local government level is prescribed, it will be beneficial for both the public and private sector to collaborate on the realization of the principles and values of voluntary codes such as the King

IV Report. There can be no compromise to ensure clean administration from all role-players to achieve responsive, accountable, effective and efficient provincial and local government.

Provincial Treasury, as the custodian of public financial management in the province will continue to engage and coordinate relevant stakeholders, encourage political and administrative commitment to governance and clean administration and to support and enable employees in the public sector to discharge their duties in a manner that forms the cornerstone of governance excellence. We execute our monitoring and oversight mandate in pursuit of the provincial government's transformation and economic development agenda.

This budget vote speech aims to provide an overview of our performance during the previous financial year and outlines our plans and programmes for the 2018/19 financial year.

Overview of the 2017/18 Financial Year

Hon Speaker, let me briefly outline some of the key aspects of our work during the previous financial year;

Provincial Revenue

According to the preliminary figures for the 31st of March 2018, the province has exceeded the revenue target of R1.112 billion by 0.9 percent

or R10.040 million. This is a significant improvement compared to under collection of R30.403 million in the last financial year. We congratulate all departments that have assisted us in reaching our provincial revenue target.

Budget Management

Various budget reforms were successfully concluded in the previous financial year, including the transfer of the budget of the Cuban medical students programme to the Department of Health and the creation of the FS Gambling, Liquor and Tourism Authority (FSGLTA).

The first phase of the creation of a trading account for the Free State Training and Development Institute and the Provincial Bursary Programme has been concluded and this remains an area of ongoing work.

We secured support from the National Treasury, the Belgian Development Agency and various other national government departments to pilot gender responsive budgeting in the Free State provincial budget. This is also ongoing work that we expect to be concluded by the end of the second quarter of the new financial year.

Our engagements with district and local municipalities during the municipal budget process were supported and enhanced by all role-players of the broader government sector. These engagements indeed formed the foundation from which we invoked the provisions of section 139(4) of the

Constitution which led to the dissolution of the Metsimaholo Local Municipality.

Accruals and Payables

The provincial Interim Financial Statements as at 31 December 2017, indicate that there has been a projected decline in accruals and payables from R1.361 billion reported in the previous financial year to R851 million. Although progress is made to deal with these matters, the level of accruals and payables will continue to impact significantly on available financial resources in the new financial year.

Economic Analysis

During October 2017, Provincial Treasury hosted a provincial Research Colloquium under the theme; “*Fostering a resilient, thriving, inclusive and competitive economy for human development*” to share findings and recommendations from research conducted by the Department. Arising from this initiative, the Central University of Technology is championing the development of a Provincial Research Repository, which was one of the direct objectives of the colloquium.

Irregular expenditure

To ensure that the province reduces its cumulative irregular expenditure dating back as far as 2007, Provincial Treasury intervened in

terms of section 18 of the PFMA. We initiated a process of investigating irregular expenditure of previous years in the departments of Health, Education and Human Settlements. We have previously outlined the gains achieved through this objective, specifically the improvement in the audit outcome of the Department of Health. Phase II of the intervention project will continue in 2018/19.

Integrity of the payroll

Hon. Speaker, Provincial Treasury concluded its programme of provincial headcounts aimed at physically verifying the existence of officials appointed on the PERSAL system with the completion of the provincial headcount process which resulted in the verified existence of 60 thousand 589 (60 589) officials.

Centralised Supplier Database

Since the establishment of the national Centralised Supplier Database (CSD) in April 2016, Provincial Treasury has been providing onsite support to potential service providers to register on the CSD. This has been supplemented by our various outreach programmes that has encouraged potential suppliers in smaller towns and rural areas to register on CSD. We have also collaborated with the National Treasury, SARS, SEDA and DESTEA to conduct supplier roadshows across the province.

Six thousand 782 (6 782) new suppliers were registered on the CSD during the past year. Currently the Free State has 18 thousand 657 (18 657) or approximately 4.04 % of the total number of suppliers registered on the CSD. As indicated during our provincial budget speech, 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.

An analysis of the actual procurement spent on suppliers according to the breakdown per province, industry, equity, gender and youth will enable us to determine whether the CSD has assisted us 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.

Roll-out of the Free State Supplier Management System (FSSMS)

We introduced the Free State Supplier Management System (FSSMS) to further advance the objectives of the Preferential Procurement Policy Framework Act (PPPFA) and to address identified weaknesses of our previous provincial database. The FSSMS extract supplier information from National Treasury's Central Supplier Database (CSD) and import into the Contract Reporting Management system (CRM) data store and automatically updates daily. Since the 3 April 2017, it is mandatory for all provincial departments and entities to utilise the system.

This system assists with the management of suppliers through rotation of suppliers and contract award history information for provincial contract management within the Free State Provincial Government. This system also allows Departments and entities to select suppliers at district and town level. The strengthening of the support to this system remains ongoing work for the new financial year.

Transversal contracts

To date, Provincial Treasury has arranged 8 transversal contracts on behalf of the Free State Provincial Government. One hundred and thirty-one (131) companies have been appointed through these contracts and the provincial government incurred expenditure amounting to approximately R800 million with these companies. An analysis of this procurement spent indicate that black-owned, provincial companies have been empowered but that the procurement spent on female and youth-owned companies can improve significantly.

All transversal contracts advertised after 1 April 2017 included pre-qualification criteria with regard to preferential procurement and all of these required BBE level 1 to 3 as a minimum.

Audit outcomes

Hon Speaker, we saw a slight improvement in provincial audit outcomes with the number of qualified audit opinions decreasing from 8 for the

2015/16 financial year to 6 for the 2016/17 financial year and Provincial Treasury, the Free State Legislature and the Provincial Revenue Fund obtaining “clean” audits.

Provincial Treasury introduced monthly and quarterly reporting on key performance indicators with the aim to improve compliance with legislation requirements. These indicators are revised on an annual basis to address external audit findings on non-compliance as well as those identified through the Management Performance Assessment Tool (MPAT).

Hon Speaker, our municipal audit outcomes for the 2016/17 financial year were disappointing. Twenty municipal audits have been finalized and shows a disconcerting pattern of stagnation (with 12 unchanged outcomes and regressions (8 regressions)).¹ Three municipal audits have not been finalized to date. Our capacity in this space has been further compounded by additional accounting reforms such as a new chart of accounts and financial reporting standards.

Fraud Prevention, Risk Management and Internal Audit

Provincial Treasury has facilitated various initiatives with regard to the areas of risk management, internal audit and fraud awareness at both provincial and local government level. These initiatives include a combined

¹ Unchanged audit outcomes: Dihlabeng (U), Lejweleputswa (U), Mantsopa (Q), Matjhabeng (U), Metsimaholo (U), Moqhaka (U), Nala (U), Phumelela (U), Setsoto (U), Thabo Mofutsanyane (U), Tswelopele (U), Xhariep (U)
Regressions: Kopanong (Q), Mangaung (Q), Fezile Dabi (Q), Letsemeng (Q), Mohokare (Q), Nketoana (Q), Tokologo (Q) Incomplete audits: Maluti-a-Phofung, Mafube, Masilonyana

approach of facilitating training and skills development sessions, regular monitoring sessions, revision and implementation of existing Fraud Prevention Plans and Response Strategies and facilitating fraud awareness sessions.

We recently concluded the appointment of new Shared Audit Committees and are pleased that women representation increased from 24 % in the previous to 47 % whilst our women representation amongst chairpersons of Shared Audit Committees increased to 67 % from the previous 25 %. The qualifications of members of our Shared Audit Committees include 5 LLB degrees, 2 Masters of Business Administration and 5 other Master degrees in the fields of Accounting, Forensic Investigation, Forensic Accounting, Business Systems and Information Technology as well as a range of other post-graduate qualifications.

It is also particularly pleasing to note that the overwhelming majority of our Shared Audit Committee members are black professionals. We are confident that our highly skilled and qualified Audit Committee members will significantly support and guide our efforts towards the establishment of a culture of accountability, good governance and clean administration.

Provincial government departments have individually and collectively been responding to the call to implement consequent management action to strengthen clean governance in the provincial environment

The 2018/19 Medium Term Expenditure Framework

Hon. Speaker, the 2018/19 MTEF starts off with significant developments in the legislative space with the Public Procurement Bill, the Political Party Funding Bill, the Public Audit Act Amendment Bill in various stages of consideration in the National Assembly and the National Council of Provinces (NCOP). The finalization of these pieces of legislation may impact the core business of Provincial Treasury with regard to budget and supply chain management as well as financial governance.

We pursue Provincial Treasury's mission, *to instil prudent financial management and governance*, through the following strategic goals:

- Ensuring an efficient, effective and development-oriented department;
- Supporting departments, municipalities and entities towards improving financial accountability and sustainability;
- Enhancing processes, practices and systems towards efficiency gains, to eliminate waste and derive value for money; and
- Improving the development and management life cycle of infrastructure and assets.

Provincial Treasury has been allocated R347.832 million in 2018/19. The budget makes provision for, amongst other, funding of the provincial SITA obligations, financial intervention measures and our municipal support programme. The budget has been allocated 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 R113.941 million. The main cost drivers in this programme are centralised support services and Auditor General's fees.

Programme 2: Sustainable Resource Management

The role of the 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 R43.470 million.

Compensation of employees

Our public sector wage bill is currently estimated at an average of 65 percent of the provincial budget. We established a new component called Compensation Analysis. The work of this component is critical in ensuring that the compensation of employees' budget is curbed and is within 60 percent of the total provincial budget. This will enable us to free more financial resources for direct service delivery.

Collaboration on Economic Research

Hon Speaker, our collaboration with DESTEA and the Department of the Premier is ongoing and will further strengthen the conceptualization and implementation of key development strategies such as Radical Socio-economic Transformation, Revitalization of Township Economies, and the Revitalization of Mining Towns. Treasury and DESTEA also share analytical tools for economic research with a view to continue to bolster the research capacity in the province. The 2018 Provincial Research Colloquium will be held from 18 - 20 September 2018.

Provincial Revenue

Provincial own revenue collection continues to be one of the crucial functions that assist in ensuring that the provincial own priorities are adequately funded. Our January technical budget session with all provincial departments and entities, indicated that there is an urgent need to relook at our own revenue plans and proposals.

We 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. Particular areas of work will be undertaken together with the Department of Police, Roads and Transport, Public Works and Infrastructure, Health, DESTEA and the FSGLTA.

Budget Management

Hon. Speaker, the 2018 MTEF budget we presented on the 14th of March 2018 in Xhariep was the result of one of the most rigorous budget preparation processes that Provincial Treasury has ever facilitated. The process was characterized by what we refer to as the July engagements with National Treasury, participation in national technical and political budget structures, the October Provincial Medium-Term Expenditure Hearings, the adjustment appropriation process, our January technical engagements as well as the provincial budget lekgotla.

These processes have been guided and informed by critical policy decisions such as the Budget Mandate Paper, the State of the Nation and State of the Province Addresses as well as the national Cabinet lekgotla. Within the framework of our limited resources, we went to great lengths to ensure that key priorities such as Education, Health, Agriculture, Economy, Infrastructure, Fighting Crime, Land and Youth are funded over the MTEF ahead. The monitoring of the implementation of the allocated budget towards these national as well as our own provincial priorities will be upscaled during the new financial year.

Public Finance

Hon. Speaker, our Public Finance Directorate plays a key role with regard to the execution of the provincial budget and ensures that the province

remains within the approved fiscal framework. This objective must be achieved within our very constrained fiscal environment.

Our monitoring and evaluation programmes will be escalated to ensure that spending on core government programmes are done in the most economical and prudent manner possible. We will specifically enhance our quarterly infrastructure review engagements to focus both on financial and non-financial information regarding spending patterns and value-for-money derived from our expenditure infrastructure and conditional grants.

Provincial cost-cutting measures will continue to be in place and the current review of existing measures will result in further improved monitoring and control measures as we respond to the need to make available additional financial resources towards frontline delivery services.

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 R72,677 million.

Supply Chain Management

Provincial Treasury will continue to monitor and support departments to comply with supply chain management prescripts. We will continue to

provide accounting officers with a quarterly report on the status of their departments' compliance with regard to matters such as the achievement of 70% procurement spent to SMMEs, compliance with capturing of contracts awarded on the CRA system, reporting on transversal contracts, 30-day payments and deviation from procurement processes.

The Department will continue to procure cross-cutting goods and services through transversal contracts to ensure that we capitalise on economies of scale. We will furthermore monitor expenditure on transversal contracts, procurement outside of these contracts as well as the performance of service providers for the delivery of identified goods and services.

Hon Speaker, the payment of suppliers within 30 days remains a concern. We are aware of the role that government procurement plays in the empowerment of SMMEs. Together with the Monitoring and Evaluation Unit in the Office of the Premier and DESTEA we have to intensify our effort to improve the payment of suppliers in 30 days. We need to review our current monitoring and evaluation mechanisms to ensure that we simplify the process and shorten the turn-around time to unblock late payments.

Programme 4: Financial Governance

The role of this programme is to promote and enforce financial governance in the provincial government. The programme is allocated R 41,926 million.

Financial management

Hon Speaker, we have been paying particular attention to enhancing oversight and support on irregular expenditure, specifically with regard to the finalisation of investigations, internal controls and consequence management. Earlier I have alluded to some of the successes achieved during the first phase of our intervention. Phase Two will continue in 2018/19 and we aim to further address investigations in the departments of Health, Education, Human Settlements and to extend the project to the Departments of Agriculture and Rural Development, Sport, Arts, Culture and Recreation, and DESTEA.

Provincial Treasury is currently reviewing the implementation of consequent management actions implemented by the provincial and local government sphere with regard to identified cases of financial misconduct in the broader public sector. We have requested information from the Public Service Commission and the National Prosecuting Authority (NPA) to supplement available information to ensure that the review is as complete and comprehensive as possible.

This process will enable us to determine the extent to which our current monitoring, oversight and reporting mechanisms need to be further strengthened and adjusted. It will also further enhance our continued monthly and quarterly reporting on key performance indicators to improve compliance with legislative requirements.

Risk Management and Internal Audit

Our oversight role as Provincial Treasury continues to be strengthened by our partnerships with, amongst other, the Association of Certified Fraud Examiners (ACFE) and the South African Institute of Internal Auditors (SAIIA). Currently we have 22 officials from various departments and municipalities in the province that have been qualified as Certified Fraud Examiners. An additional 12 officials will be undergoing the CFE training in 2018/19.

It is our intention to continue our partnership with the Business School of the University of the Free State, PWC, Standard Bank and the ACFE to drive the Anti-Fraud Awareness campaign in the province.

Hon Speaker, to promote and enforce risk management and internal audit practices in the province we will continue with our bi-annual assessments of departments and entities' compliance with the relevant legislation.

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 levels together with COGTA, SALGA and our national departments. The programme is allocated R75,818 million.

Hon Speaker, in developing the Programme of Work for 2018/19, we have re-assessed the impact of our support to municipalities. We concluded that a hybrid approach is necessary to improve the overall financial well-being of municipalities. The focus of the plan will remain on improving municipal budget and financial management as well as enhancing service delivery. We intend to roll-out the process of the verification of the integrity of the payrolls of municipalities at local government level this year.

It must be noted that the benefit to municipalities will only be achieved when unconditional commitment to good governance, responsible financial management and improved service delivery is obtained from municipalities. Strong and participatory governance practices will result in meaningful impact. The early identification of financial problems that threaten municipalities' liquidity and service delivery obligations could be avoided.

Provincial Treasury will continue to work with the Office of the Premier, COGTA and SALGA to explore viable options of addressing challenges relating to municipal debt, including outstanding debt owed to Water Boards, ESKOM and third parties. In public notices published since February 2018, Eskom announced its intention to interrupt supply to local municipalities due to the municipalities' failure to honour Eskom debt. Intensive negotiations facilitated by the provincial government between Eskom and municipalities delivered positive results.

It is our belief that sustainable payment arrangements have been made which have resulted in the suspension of the contemplated interruption of bulk supply to municipalities. Default on payment arrangements will reverse the gains that we have made. Eskom is also assisting in different municipalities to enhance revenue recovery and to train municipal personnel in areas such as tariff setting and loss recovery strategies.

Hon Speaker, much work has been done to strengthen risk management and internal audit structures in municipalities. In 2018/19 Provincial Treasury will continue to capacitate and monitor these governance structures in order to further strengthen them to add value and assist municipalities to improve internal controls.

Provincial Treasury has identified six municipalities, which will be assisted in improving their internal controls using the Financial Management Capability Maturity Model (FMCMM). These are the local municipalities of Mantsopa, Maluti-a-Phofung, Matjhabeng, Kopanong, Letsemeng and Ngwathe.

CONCLUSION

Hon Speaker, we remain committed to ensure that the financial resources of the province are used effectively and efficiently to serve our people and change their lives for the better.

I must extend my appreciation to our various public and private sector partners for their continued support of the work of Provincial Treasury and the support we receive through their various corporate governance and social responsibility programmes, specifically from Standard Bank and Vodacom.

Allow me to acknowledge and appreciate the support of the Premier, Members of the Executive Council, the Presiding Officers and members of the Public Accounts and Finance Committee for their support during the annual Appropriation bill process.

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 to ensure that Provincial Treasury executes its legislative mandate. Their support remains invaluable.

I thank you