



Member of the Executive Council
for Finance
FREE STATE PROVINCE

FREE STATE PROVINCIAL TREASURY

2019 BUDGET VOTE SPEECH

17 July 2019

Honourable Speaker, Deputy Speaker

Honourable Premier and Members of the Executive Council

Chief Whip of the FSL and Members of the Legislature

Mayors, Speakers, Councillors and traditional leadership

HOD of Provincial Treasury, DG and HOD's

Chairpersons and CEO's of State owned entities

Leadership of the ruling party the African National Congress

Leadership of financial institutions

Senior management and leaders of the Auditor General South Africa

Leadership of auditing and risk management houses

Provincial Commissioner of the Public Service Commission

Leadership of the Free State Black Business Chamber, Bloemfontein

Business Chamber of Commerce and Industry and other business chambers and associations present

Invited guests, ladies and gentlemen

Honourable Speaker, it is a privilege to present this budget vote in the 25th year of our democracy and on the eve of commemorating the birth of one of the greatest South Africans of all time, former President Nelson Rolihlahla Mandela, #MandelaMonth.

In an address at the International Women's Forum Conference in 2003 Madiba said, and I quote "*One of the distinguishing characteristics of a progressive nation and people is the ability to learn, to modify positions and to advance to newer and more progressive points of departure*". Honourable Speaker, as we start, what the Honourable Premier calls #Building the Free State We Want, let us be mindful of the lessons to be learned from our past and open ourselves up to new ideas and thinking. Let us be at the forefront of innovation and position ourselves to face our challenges with resolve and fortitude. Let us boldly embrace the opportunities that the 4th Industrial Revolution offer us to, as the World Economic Forum says, "*look beyond technology and find ways to give the greatest number of people the ability to positively impact their families, organisations and communities*".

Honourable Speaker, as Provincial Treasury it is our task to help build a capable, ethical, developmental state and, as it is in our mission, to *instil prudent financial management and good governance*. We do this within the context of the wider economic environment and the constrained fiscal position of the province.

Honourable Speaker, in framing this budget speech for this department we have been guided by the following principles:

- Protection and growth of the Free State Economy
- Job creation through new industries and government expenditure
- Utilisation of the Free State Fiscus to address the challenges facing our province
- Oversight, measurement, monitoring and evaluation.

The Department will continue to drive these principles by outlining the following in this budget speech.

1. Current status and outlook of the Global, regional and domestic economy
2. Labour Market outlook

3. 4th industrial revolution its opportunities and threats
4. Sustainable resource management, which will address research and the provinces fiscal position
5. Asset and Liability Management and its role in economic transformation for the province
6. Governance and risk management
7. Financial governance and reforms for Municipalities

Global, Regional and Domestic Economic Outlook

Honourable Speaker, I present a synoptic overview, first on the economic condition in the global economy, followed by regional and domestic economies. The recent economic growth forecast by the International Monetary Fund (as of April 2019, in the World Economic Outlook) across these economies are mostly revised downward, indicative of weakening growth around the globe.

On the global economy, the world economy enjoyed a cyclical upswing since 2017, with global growth peaking at 4 percent in 2017, falling marginally to 3.8 percent in the first half of 2018 before decelerating to 3.2

percent in the second half of 2018. Since then, global growth has become weaker with a notable decline in business confidence, tightened financial conditions, and increasing policy uncertainty across many economies.

The world economy is projected to grow at 3.3 percent for 2019 (a decline from the prior forecast of 3.5 percent at the end of 2018) and 3.6 percent in 2020. Main factors weakening the global growth includes, among others: the apparent slowdown in global trade, retaliatory trade tariff hike associated with the ongoing US-China trade tension, lower crude oil prices (oil prices dropped from a four-year peak of \$81 a barrel in October 2018 to \$61 in February 2019) which reduce the prospect of a surge in economic activities in oil exporting economies, policy-induced economic growth slowdown in China, turbulent UK's Brexit negotiations with the EU, and other country-specific factors across the euro-area.

Over the past six months, GDP growth projections for the United States, China and Europe have been revised down. Though demand remains strong in the United States (US), growth remain fragile with a much lower projection of 2.3 percent in 2019 (declined from 2.9 percent in 2018) and mild decline to 1.9 percent in 2020 due to the unwinding of fiscal stimulus,

restrictive monetary stance to raise interest rates by the Federal Reserve, lower world oil prices and tariff hikes arising from tensions with China. Growth in China is projected to decline to 6.3 percent in 2019 (from 6.6 percent in 2018) and 6.1 percent in 2020. In the UK, growth is expected to fall to 1.2 percent (from 1.4 percent in 2018) and a marginal increase to 1.4 percent in 2020. In the Euro area, growth is expected to fall to 1.3 percent in 2019 (from 1.8 percent growth in 2018) and 1.5 percent in 2020.

Aggregated growth for developed economies is expected to fall from 4.6 percent to 4.5 percent in 2019, mainly due to lower oil prices and trade risks, before rising to 4.9 percent in 2020. Over the next two years, growth is projected to recover in Latin America, to 1.4 percent in 2019 and 2.4 percent in 2020. Growth in the Asia region is anticipated to remain resilient at 5.4 percent in 2019 and 2020 respectively.

Regional growth for the Middle East, North Africa, Afghanistan, and Pakistan regions are forecasted to fall to 1.5 percent in 2019, before recovering to about 3.2 percent in 2020. In sub-Saharan Africa, the weak performance of sub-Saharan Africa's two largest economies – Nigeria and

South Africa – continues to weigh on the region. Aggregated growth for the SSA region is expected to pick up to 3.5 percent in 2019 and 3.7 percent in 2020 (from 3.0 percent in 2018). Broadly, a buoyant growth of more than 4 percent anticipated in many African countries in the region, including Kenya and Rwanda, over the next five years.

While Nigeria's economy is expected to expand by 2 percent this year and 2.2 percent in 2020; growth in South Africa is expected to marginally rise to 1.2 percent in 2019 (from 0.8 percent in 2018) and 1.5 percent in 2020, taking into account the prevailing weak investment environment, a more fragile recovery in household income and decline in export demand, especially from China and Europe due to declining growth in the domestic economies of these main trading partners.

The outlook of the domestic labour market is gloomy, as the long-term unemployment rate continues to rise in South Africa, especially among the youth. The available labour data from Statistics SA (as of April 2019) showed an increase in the official unemployment rate to 27.6 percent in the first quarter of 2019 (from 27.1 percent in the 4th quarter of 2018).

Employment declined significantly by 238 000 (or 1.4 percent) in the first quarter of 2019 with the shedding of jobs across all sectors. To put this in context, the formal sector shed about 126 000 jobs, the information sector 68 000 jobs, 31 000 jobs in private households and 12 000 jobs in the agricultural sectors.

Despite the structural, fiscal (e.g. widening fiscal debt standing at 50.1 percent) and socio-economic challenges (high unemployment and poverty rates) facing our country, we remain optimistic that the combined effect of: lower inflation (expected to average 5.2 percent in 2019), steady investment growth projected to pick up from 1.5 percent in 2019 to 3 percent in 2021); disinflation in fuel prices by 1.3 percent in 2019 (as global commodity price falls) as well as the appreciation of the Rand against the US dollar (projected at R14.1 to \$1 on average) will put the South African economy on a steady upward trajectory and also boost both consumer and business confidence.

Honourable Speaker, in addition, our domestic economy will also gain from encouraging institutional efforts, such as the R300 billion pledge by large corporations made during the President's Investment Summit in 2018,

intensive infrastructure investment of about R526 billion earmarked by the national government and the contribution of R100 billion to a blended-finance infrastructure fund over the next decade in the form of new spending, reprioritisation and guarantees.

Provincial Economic Growth and Labour Market Outlook

The economic performance of the province remains intrinsically linked to that of the domestic and global economy. The provincial economy slid into a technical recession in 2018 with a negative growth of 0.1 percent (from 1.4 percent growth rate in 2017) largely driven by the decline of agriculture (12.6 percent), mining (2.9 percent) and construction (1.7 percent) including lacklustre growth of the other industries in 2018.

In the last quarter of 2018, the highest growth rates were recorded in agriculture, transport and manufacturing, equivalent to 17.6 percent, 8.0 percent and 4.4 percent respectively. Nonetheless, the performance of the mining and construction sectors is expected to drop markedly by 9.3 percent and 5.9 percent respectively in 2019.

In 2019, the provincial growth is projected to be stagnant (0 percent growth rate) before improving to about 1.2 percent in 2020. This forecast is reinforced by poor sectoral performance reflected in the gross value added growth rate of -0.3 percent and 0.9 percent expected in 2019 and 2020 respectively.

Similar uninspiring performance can be seen in the available estimated quarterly data from Information Handling Service (IHS) Global Insight. The provincial economy is expected to contract by 3.9 percent in the first quarter of 2019 accompanied by a sizeable decline in mining (21.1 percent), manufacturing (9.1 percent) and electricity (6.9 percent) sectors. On the positive side, in the same quarter, a positive growth rate of about 6.1 percent, 2.6 percent and 0.2 percent are forecasted for the agriculture, finance and community service sectors.

Overall, strong performance is expected in the agriculture sector with a growth rate of about 9.5 percent, followed by finance (2.3 percent) and transport (1.7 percent) in 2019. At the sectoral level, the province has a comparative advantage in five industries, namely agriculture, mining, electricity, transport and community services. It is important to continue to

robustly link the performance of the primary industries to manufacturing, whilst strengthening our competitive advantage in the electricity and transport industries.

Honourable Speaker, on the labour dynamics of the province; akin to the official unemployment rate for the country, the Free State had the highest unemployment rate of 34.9 percent in the first quarter of 2019 (an increase of 2 percentage points from the recorded unemployment rate of 32.9 percent in the fourth quarter of 2018).

Total employment contracted by 0.4 percent between in the fourth quarter of 2018 and the first quarter of 2019. This contraction was due to the 32 000 jobs shed in the formal sector. On the positive side, private households, the informal and agricultural sectors created 16 000, 9 000 and 3 000 jobs respectively.

On employment by industry and gender, more men (456 000) were employed relative to women (347 000) across major sectors. In the first quarter of 2019, female employment declined by 5 000 compared to the decline of about 2 000 among men. On a year-on-year basis, the number

of women in employment increased slightly by 1 000, while the number of men in employment decreased by 12 000.

Our youth (aged 15 to 34 years) is becoming the most vulnerable in the provincial labour market with an official unemployment rate of 48.1 percent in the first quarter of 2019 (13.2 percentage point above the provincial average in the country). Across all age categories, the unemployment rate continues to rise, except for the 55 to 64 years category.

Honourable Speaker, in the light of the difficult socio-economic challenges in our province, it is of utmost importance, that the provincial government pay closer attention to the rising youth unemployment and labour market barrier facing women by implementing social-inclusive and employment generating strategies exclusively targeting these two groups.

Clearly the robust long-term growth rate, needed to reduce the persistently high unemployment and raise the revenues for social and economic development requires far-reaching structural reforms. In this vein, we put forward some remedial actions to address the challenging socio-economic conditions in the province, which include:

- i. Implementation of proactive (i.e. research-based) interventions in the agriculture, mining and manufacturing sectors. The manufacturing sectors have been empirically proven to have a higher multiplier effect, and export-diversification is the possible catalyst to boost economic growth in the province.
- ii. Intensify public investment on labour-intensive programmes, e.g. EPWP and CDP, to create transitory jobs and to equip the large proportion of unskilled workers (about 80 percent of the Free State's population), to effectively deal with the high unemployment and poverty rates in the province.
- iii. Revise the province's infrastructure implementation model to enhance the delivery of quality public services, remove infrastructure bottle-necks and incomplete projects and effectively deal with project cost overruns.
- iv. Given the declining fiscal allocation, the provincial government need to attract external funding and foreign direct investment into the

province, to support growth, infrastructure development, and augment the insufficient fiscal allocation.

- v. The provincial government should ensure that the Maluti-A-Phofung SEZ continues to attract investment to boost growth and reduce the unemployment rate. The revitalization of industrial parks in Phuthaditjhaba and Botshabelo should be monitored to become a vibrant investment attraction. Tourism remains a key industry that is able to attract not only domestic but also international tourists.
- vi. Pursue smart service delivery interventions aligned to the 4th Industrial Revolution.
- vii. Focus on job creation and business opportunities for young people.

Preparation for the 4th Industrial Revolution

Honourable speaker, it is in line with the president and our premier's vision that we embrace the digital future and continue to prepare our learners and our workforce across provincial and municipal structures for the

emerging 4th industrial revolution that brings with it new opportunities of smart cities, digital governance, and improved service delivery.

As we embrace this digital future, our ever-deeper dependence on connected technology will continue to grow at a corresponding pace together with the vulnerability of our critical systems and infrastructure. This together with the unprecedented growth in the new number of digital threats to us all - added to an already long existing list of cyber threats to our systems and infrastructure, shows we are under a silent and costly siege.

Honourable Speaker, It is not necessary for me to elaborate further today on the full extent of this risk and potential exposure of the province and its municipalities to these grave and very real threats we all face today, as it is by now well documented – both locally and abroad.

We must however remain at all times mindful that these issues represent one of the primary concerns facing governments on a global scale but its impact is very much local - affecting all spheres of our lives and every

sector of our society and causing unacceptable human suffering and rising financial losses.

Honourable Speaker, we are all fully awakened to the fact that criminals never sleep, cyber attackers continue to explore new channels of opportunity and implementing new sophisticated fraud schemes to increase their earnings. We are faced subsequently with increasingly sophisticated cyber-attacks against our public and private businesses with stakes that are getting higher and more damaging than ever before. Furthermore, the seemingly heartless nature and greed of crime has no limits or prejudice as mounting evidence reveals how with apparent impunity, such crime preys also on the most vulnerable of our citizens calling us all to urgent, immediate and continuous action.

Honourable Speaker, in response to this challenge, we must embark on a decisive plan of action that includes a comprehensive and proactive approach to addressing this growing and urgent challenge for our province. This must include a full review and change programme that seeks to improve how the provincial workforce and leadership, together with the critical processes and technology are improved and ultimately

strengthened. This programme towards a Free State Security Operation Center (FSOC) must take swift viable steps to shore up the province's defenses and in so doing, provide a platform from which to enable our departments and municipalities in achieving a standard of cyber assurance that will reduce the overall vulnerability of the provincial departments, municipalities and all of our citizens.

Honourable Speaker, we will be working closely with the Office of the Premier and the Free State Provincial Government Information Technology Council to support the digitising of government towards 4IR. We will, amongst other, prioritise the upgrading of the Free State Provincial Government technology infrastructure in digitising government towards the 4IR.

A Free State ICT Governance Steering Committee, working closely with the Provincial Government Information Technology Council will be set up to oversee and report on the ICT transformation journey in the province.

In support of the Office of the Premier, an allocation will be made to put in place a central performance monitoring dashboard that measures progress

against the Auditor General findings and expenditure per department and municipality and tracks 30 day payment of service providers per department as well as for creating a new electronic platform for citizen engagement that will enable citizens to engage the Premier about issues such as corruption, bursaries, infrastructure problems, jobs, state of health facilities, etc.

Honourable Speaker, as part of the transformation of ICT in the province, an independent committee will be appointed to analyse the rationalisation of the IT in departments to have greater impact on service delivery. The committee will be expected to report its findings by the end of August 2019. This will be the beginning of a process of advancing towards shared services, both from infrastructure and applications point of view to leverage off economies of scale as well as to advance opportunities for the youth in the ICT sector to benefit off the transformation agenda.

SUSTAINABLE RESOURCE MANAGEMENT

Honourable Speaker, our **Sustainable Resource Management Programme**, whose role 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 has been allocated R49.826 million.

Collaboration on economic research

Honourable Speaker, during our recent budget bilaterals, I have reiterated the need to strengthen our collaboration with DESTEA, the Office of the Premier, FDC, Education, Agriculture and Rural Development, Human Settlements and COGTA as well as higher education learning institutions in the province with a view to conceptualize and implement development strategies such as Radical Socio-economic Transformation, Revitalization of Township Economies, Revitalization of Mining Towns and profiling of our municipalities.

In our endeavor to ensure that we mainstream evidence-based policy making and foster a culture of research in the Public Service, as advocated for in the National Development Plan, the Free State Provincial Treasury, together with relevant partners, will again host the annual Research Colloquium. The 2019 Colloquium will take place on 18-19 September

2019. Our intention is to bring even more partners on-board to robustly engage on enhancement of our financial policy decisions for our beloved province. # Building the Free State We Want.

Honourable Speaker, another initiative in enhancing evidence-based policy making is our Gender Responsive Budgeting project. The first phase of the project, which assessed current practices, has been completed and the second phase will commence in this financial year. A Steering Committee comprising of a variety of stakeholders such as National Treasury, the Department of Women, the Commission on Gender Equality the Department of Public Service and Administration, the Financial and Fiscal Commission (FFC), the Central University of Technology and the University of the Free State is anticipated to be formed in the current financial year.

Fiscal position

Honourable Speaker, the prevailing weak economic growth, socio-economic challenges and on-going fiscal conditions require of us to find innovative means to make use of the limited financial resources allocated

to the province in an efficient and forward-looking manner, as elucidated during the 2019 provincial budget speech presented on the 5th of March 2019.

We continue working with National Treasury on the review of provincial equitable share through the Technical Committee on Finance and the National Task Team on Equitable Share. The first task was to look at education and health components, which account for 48% and 27% of the formula, respectively. Thus far the education component, which mainly involves learner statistics in respective schools, has been revised and the information is now derived from LURITS (Learner Unit Record Information and Tracking System).

There is still work that has to be done on health as well as cost implications relating to rural and urban provinces with specific focus on delivery of services. This is on-going work that is anticipated to be completed by 2020/21. Honourable Speaker, I must reiterate the importance of proper and effective management of statistics as the formula is mainly driven by numbers.

Notwithstanding challenges of unemployment, inequality and poverty, the Provincial Treasury is determined to play a significant monitoring role for effective and efficient implementation of allocated budget across departments to achieve provincial priorities during the new financial year, through frequent bilateral engagements with the departments. Our vision is to build reserves over the Medium-Term Expenditure Framework (MTEF) and we will initiate this process in order to respond to emergencies and unforeseeable circumstances.

Honourable Speaker, provincial liquidity remains key in our drive towards effective fiscal management and in this regard we will continue to strengthen our processes through weekly assessment of provincial cash position as well as stringent management of bi-weekly cash disbursements. We will further ensure that on monthly basis we solicit inputs from relevant structures such as Forum of Heads of Department (FOHOD) on departmental cash management.

The implementation of cost containment measures by all departments and public entities remains a key strategy in unlocking funds from non-core items that have no material impact on service delivery. In this instance we

have noted a considerable reduction in the allocation of budget towards non-core items, the allocated budget declined by R29 million. Honourable Speaker, these are funds that the province has unlocked towards key service delivery items.

Honourable Speaker, stakeholder engagement constitutes the foundation for identifying priorities, funding requirements and efficiency gains. We will therefore continue engagements through the PMTEC hearings, adjustment appropriation process as well as the Budget Consultation sessions, which feeds into the budget process for the 2020/21 financial year. Despite our limited financial resources, the Provincial Treasury continues to take meaningful effort to ensure the realization of the key priorities highlighted in the 2019 Budget, with special focus on: Education, Health, Agriculture, Economy, Infrastructure, Fighting Crime, Land and Youth.

Honourable Speaker, I am pleased to announce to this august house that the National Treasury has embarked on a provincial Vulekamali outreach. Vulekamali is a user-friendly online budget information sharing website aiming to further entrench government's commitment to transparency and budget participation reforms. Participation in this outreach will be extended to civic

society organisations, provincial departments and learners in grades 11&12. The Free State event will take place in Bloemfontein on 25 – 27 July 2019.

Provincial Own Revenue

Honourable Speaker, the lacklustre economic and tight financial condition in our country necessitates the impetus to proactively generate sufficient “own revenue” to meet the provincial financial obligations, rising demand for public services and creating a buoyant economy. In the main, the revenue generating function remains crucial as a supplementary financial resource for departments to fund key priorities.

Looking at the pre-audited figures for the 2018/19 financial year, we were able to achieve a 99.9 percent revenue collection rate by generating the total sum of R1.158 billion (against the projected estimate of R1.159 billion). In this regard, Honourable Speaker, please allow me to express our profound gratitude to all provincial departments for their concerted effort to generate ample “own revenue”.

Honourable Speaker, Provincial Treasury will continue to provide concrete support to departments to harness their revenue-generating potential and strengthen the revenue enhancement strategy of the province. Key service delivery oriented provincial departments such as Police, Roads and Transport, Public Works and Infrastructure and Health have been allocated an amount of R23.100 million to initiate projects that will enhance revenue during the 2019/20 financial year.

In the current financial year, these REA projects are explicitly geared towards: upgrades of testing stations, maintenance of rental properties and appointment of case managers. We will also be prioritising funds towards construction, maintenance and rehabilitation of weigh bridges for protection of our road infrastructure and for the purpose of revenue collection.

Addressing the Growing Provincial Wage Bill

Honourable Speaker, government is mindful that the growing wage-bill is a thorny issue that is pushing its financial health to the precipice of fiscal indebtedness, hence the need to take tough but life-saving decisions.

I am pleased to apprise you that the provincial government is adhering to its fiscal consolidation strategy by taking concrete steps to rein in the government's growing wage bill. In this context, the Executive Council has resolved to:

- Reduce the number of “out of adjustment” expenditure,
- Minimize the number of contract posts,
- Enforce adequate regulatory oversight on the appointment function on PERSAL system, and
- Improve the adherence to the adopted stringent cost-containment measures aimed at efficiency savings on non-core items spending, across all provincial departments.

More importantly, central government (the Department of Public Service and Administration) has begun the process of introducing the prescribed “*voluntary early retirement without penalties policy*” targeting public employees between the ages of 55 and 59 years. Honourable Speaker, the provincial government supports this stance, however departments

should be careful not to release critical staff where internal capacity has not been built.

Presently, in the province, we have about eight thousand, seven hundred and thirty-three (8, 733) employees within the stipulated age group, while about one thousand nine hundred and seventy-eight (1, 978) employees are above the age of 60, who are due for retirement. Notably, the provincial government aims to meticulously manage the voluntary retirement process in a responsible, humane and sensitive manner.

The success of this process (in the event that all identified employees retired willingly) will not only reduce the growing wage bill but also generate substantial savings by replacing the retired officials with new young employees at a much lower notches of public servant's salary.

Improving infrastructure delivery and maintenance

To cope with the promising technology-driven 4th industrial revolution, the national government has acknowledged the need for noteworthy innovation in the construction and infrastructure industries in South Africa.

Nonetheless, the public sector is lacking in the requisite skill and technological know-how that is available in the private sector required to maximise possible growth-enhancing and job creation spillovers of the 4th Industrial Revolution.

In this regard, we assert that the resurgence of a vibrant and strong private sector involvement in the province is important, in order to gain from the economic growth-enhancing and employment-generating opportunities associated with intensive infrastructure investment. Hon. Speaker, the realisation of this benefit has compelled the National Treasury to introduce tangible infrastructure reforms.

Most notably, a new Framework for Infrastructure Procurement Delivery Management (FIPDM) is introduced to replace the Standard for Infrastructure Procurement Delivery Management (SIPDM). The introduced FIDPM (on 26 April 2019) will become effective from 1st October 2019. A national plan to roll out FIDPM together with the latest Standards for Uniformity (SFU's) has been developed. All infrastructure units in the province will be participating in the workshops to be convened by National Treasury from July to September 2019.

Furthermore, the provincial government continue to intensify its effort to create transitory employment opportunities through infrastructure projects by raising its financial commitment on infrastructure from R4.368 billion allocations for the 2018/19 financial year to R4.543 billion in 2019/20.

ASSET AND LIABILITY MANAGEMENT

Our **Asset and Liability Management** Programme is responsible for promoting effective management of provincial assets and liabilities, procuring transversal and cross-cutting goods and services and managing and maintaining transversal financial systems in the province. The programme is allocated R87, 520 million.

Payment of suppliers within 30 days

One of the focus areas of the programme is the payment of suppliers within 30 days. Late payment of suppliers continue to seriously undermine the sustainability of Small Medium and Micro Enterprises and in an effort to deal with the non-compliance of late or non-payment, the Provincial

Treasury established a grievance process where suppliers can register complaints on outstanding payments or non-payment.

It remains a priority for the Free State Provincial Government to settle all contractual obligations and pay all the money owing within the prescribed or agreed period.

As part of the Provincial Treasury's oversight role, the following interventions are undertaken to address this concern and to improve on departments paying suppliers:

- Departments are required to report to the Provincial Treasury on their performance regarding payment of suppliers on a monthly basis and this report is submitted to National Treasury who later present it to the Forum of South Africa Heads of Department (FOSAD)
- On a monthly basis the Provincial Treasury engages with departments and entities before submitting exception reports to National Treasury on payment of suppliers in 30 days.

- Departments are required to develop and implement internal control processes to ensure compliance with the requirements pertaining to the payment of suppliers within 30 days.
- Provincial Treasury conducts annual road shows where suppliers are assisted to register their grievances of late or non-payment, onsite, with the Provincial Treasury and it is required of suppliers to submit documentary proof of outstanding payments.

SCM Interventions

Moving forward, the Provincial Treasury's will be focussing on strengthening and capacitating the Supply Chain Management team on contract management, supply chain management compliance, monitoring and support.

As part of supplier development and awareness the Department conducted its Annual Roadshow on 21 – 29 May 2019 in collaboration with the South African Revenue Services (SARS), Small Enterprise Development Agency (SEDA), Free State Development Corporation

(FDC) and the Department of Economic and Small Business Development, Tourism and Environmental Affairs.

The following issues were discussed with potential suppliers:

- Online registration on the Central Supplier Database (CSD)
- Application of the Preferential Procurement Regulation, 2017 and its benefits
- Submission of grievances of late/non-payments by departments and entities in terms of 30 day payment of invoices
- Tender opportunities in terms of bids advertised on the e-Tender Portal
- Compilation of business plans and conducting market research
- Compliance with Tax matters
- Business opportunities within Government

Local Economy

We encourage businesses to ensure that their information on the Central Supplier Database (CSD) is updated and complete especially with regard to the following fields: black youth; black women; black people with disabilities; military veterans, people living in rural or underdeveloped

areas or townships and cooperatives. This will assist our analysis of spend on designated sectors and further assist us to monitor progress on these targets. These designated sectors are our preference due to their previously disadvantaged background and it is important for us to know who they are so as to empower them better.

The Free State Provincial Government spent R 5.9 billion in 2018/19 and R908 million in the first quarter of 2019/20 on goods and services, of which 47 percent was spent on local suppliers and 46 percent on suppliers based outside the Province. The locality for the remaining 7 percent was not specified on the Central Supplier Database. Furthermore, 10 percent was spent on women, 17% percent on youth and 28 percent on people with disabilities. The biggest percentage of these sectors are unspecified and undefined.

Honourable Speaker, to grow our provincial economy we need to consciously ensure that our procurement spend is biased towards Free State based businesses and in support of our previously disadvantaged sectors.

It is critical that we create a platform to attract new investments and promote SMME development within the Province. To give effect to this, we will be working together with the Department of Economic, Small Business Development, Tourism and Environmental Affairs to find practical and legal ways to improve spending by the Free State Provincial Government within the borders of Free State.

FINANCIAL GOVERNANCE

Honourable Speaker, the President of Nigeria, Muhammadu Buhari once said, I quote *“As far as the constitution allows me, I will try to ensure that there is responsible and accountable governance at all levels of government in the country. For I will not have kept my own trust with the Nigerian people if I allow others abuse theirs under my watch”*.

In order to improve PFMA compliant audit outcomes by departments and entities, improved internal controls, stringent monitoring of implementation of remedial action plans and consequence management by accounting officers will be required. Provincial Treasury will engage departments on

the 2018/19 audit outcomes through bilaterals as soon as the regularity audits are finalised.

Provincial Treasury reviewed the draft Annual Financial Statements of all departments in May 2019 before they were submitted to the Auditor General to improve the quality thereof and ensure full compliance with the Modified Cash Standard (MCS). 18 Officials in Provincial Treasury performed 749 hours overtime to finalise the assessment of the Draft Annual Financial Statements to enable departments/entities the opportunity to consider the assessment results that resulted in 441 findings and eventually necessitated amendments to the Annual Financial Statements before submission to AGSA and Provincial Treasury as per the legislative timeframe of 31 May 2019.

As part of our mandate in terms of Section 18 of the PFMA, Provincial Treasury continues to raise red flags on audit and operational risks through the Key Control Matrix (KCM) assessments that are done on a monthly and quarterly basis to improve compliance with legislative requirements.

Irregular expenditure

To ensure that the Province reduces its cumulative Irregular Expenditure that dates as far back as 2007, the Free State Provincial Treasury in 2016/17 introduced an intervention in terms of Section 18 of the PFMA and initiated a process to investigate irregular expenditure of previous years in the departments of Health, Education and Human Settlements.

The objectives were to investigate irregular expenditure cases reported in prior years, which were not yet finalised, address the completeness of irregular expenditure to be reported in the Department of Health, transfer of skills related to identification, completeness, reporting and investigation of irregular expenditure; and make recommendations to improve the existing control measures to detect and prevent irregular expenditure.

The first phase of the project resulted in the finalisation of 6 257 investigations to the value of R2.8 billion. Of these, 1 217 cases to the value of R479.4 million, did not meet the definition of irregular expenditure and could be removed from the irregular expenditure register. The

qualification on completeness of irregular expenditure at the Department of Health was also resolved. Root causes for the transgressions were determined, remedial controls developed and issued to relevant departments for implementation. The appointed service provider also assisted with capacity building in the 3 departments.

To enhance the existing internal controls, Phase II of the intervention commenced in March 2019. The second phase of the project was expanded to include cases from the departments of Sport, Arts, Culture and Recreation, Agriculture and Rural Development as well as Free State Gambling & Liquor Authority. An amount of R4.5 and R5 million earmarked funding was made available in the 2018/19 and 2019/20 financial years respectively for this purpose. The contract is for a period of 2 years and makes provision for irregular expenditure cases of other departments/entities to be added to the project depending on budget availability.

Risk Management and Internal Audit

For the first time, Provincial Treasury conducted training for Chief Audit Executives (CAEs) and Internal Auditors on the review of Interim Annual Financial Statements (AFS) for departments and entities. This training will assist the CAEs and Internal Auditors to proactively review whether the department's financial statements are compliant with the relevant accounting frameworks and guidelines, strategically sample and test the figures in the financial statements to confirm that the financial information presented is valid, accurate and complete and assist to tie-up the audit file to the financial statements for validity, accuracy, completeness and usefulness of the Financial Statements with a view to submit high quality financial statements for audit purposes.

Provincial Treasury will be highly involved in the oversight of and support to departments to ensure that the PFMA regularity audits by the AGSA are finalised on time and without hindrances. The close working relationship between Provincial Treasury and the AGSA remains critical for the improvement of audit outcomes in the province.

In ensuring that there is compliance and effective governance systems in provincial government, all departments and public entities have employed a system of Risk Management where potential weaknesses are identified and strategies employed to minimise risks before they occur.

The departments and public entities have employed Internal Audit Systems, which provides reasonable assurance on compliance and effectiveness with regard to the system of Risk Management, Internal Control and Governance processes.

Departments and entities have also developed and are implementing Fraud Prevention Plans and Response Strategies. Financial Governance unit will continue to evaluate the effectiveness of Risk Assessments system in the departments and public entities and capacitate officials on the recent developments and techniques in fraud management through Fraud Awareness Strategies employed to promote ethical and fraud free environment within the province.

Anti-Fraud Awareness sessions will be held regularly to ensure that government officials are capacitated and acquire strategic guidelines and

principles in improving governance within the government and private sector in a build-up to the International Fraud Awareness Week that will be held later in the year.

The **Financial Governance Programme**, whose purpose is to promote accountability through substantive reflection of financial activities of the province as well as compliance with financial norms and standards is allocated R 30.682 million.

Honourable Speaker our provincial government entities are created to advance government priorities and it is important that we take a close look at their governance structures effectiveness in achieving such objectives. It is also important that our entities should be financially sustainable.

MUNICIPAL FINANCE MANAGEMENT

Honourable Speaker, our **Municipal Finance Management programme** is responsible for promoting and improving the state of financial governance and management at local government level together with

COGTA, SALGA and our national departments. The programme is allocated R83.391 million.

The programme provides tailor-made focussed technical support to respective municipalities. The unit consists of the following specialised functions; municipal budget, accounting services, and supply chain management. The standalone branch in this unit, internal audit and risk management provides coverage on municipal governance. The methodology of the unit is based on the National Treasury six national game changers approach, which simultaneously correlates with the back to basics approach.

A number of municipalities in the Free State Province are encountering serious cash flow problems due to low tax base and a culture of non-payment resulting in low collection rates. In most municipal areas, customers are accessing water and electricity at no cost due to illegal connections and free flowing meters. In addressing this challenge financial resources have been mobilised to support six municipalities on revenue protection, namely; Mohokare, Tokologo, Nala, Phumelela, Masilonyana and Mantsopa.

Honourable speaker, municipal failures have been deepening over the years, trade creditors and staff are not paid on time. The Provincial Treasury has commenced with improving the integrity of the payrolls of Matjhabeng Local and Lejweleputswa District municipalities. This project will be expanded to other municipalities to identify and remove “ghost workers”. It’s incumbent on Municipal Managers to review bloated organisational structures to reduce wastage and recommend, to Municipal Councils, structures that are “fit for purpose”, affordable and in line with regulatory prescripts. Overtime, bonuses and acting allowances must be carefully managed due to financial constraints.

The partnership with bulk service providers, more specifically Eskom is gaining momentum where we have seen a major of success at Phumelela Local Municipality and a similar project will be shortly rolled out to Maluti-A-Phofung Local Municipality.

Honourable speaker we will continue to use intergovernmental platforms working 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 view of the significant amounts of unauthorised, irregular and fruitless and wasteful expenditure, Provincial Treasury, together with CoGTA and SALGA have trained all municipalities, Municipal Public Accounts Committees (MPAC) to improve their capacity in investigating unauthorised, irregular and fruitless and wasteful expenditure. Given the challenges in procurement, which is a key driver to improve the economy, the National Treasury has secured funding for professionalization of supply chain management practices.

Honourable speaker, I am pleased to announce that 50 Supply Chain Management practitioners from Free State municipalities have been nominated for an 18-month formal training programme.

Furthermore, the Provincial Treasury is in the process of establishing a unit which will focus on supporting municipalities to address unauthorized, irregular and fruitless and wasteful expenditure. This unit will also be supporting municipalities with development of financial recovery plans,

which plans aim to assist municipalities to regain and restore their financial sustainability. The department intends to procure the CATS system in support of municipalities for the compilation of annual financial statements and for internal audit processes.

Honourable speaker, it is incumbent on the MPAC committees to investigate irregular expenditure and recommend appropriate sanctions to the Municipal Councils on recovery and for possible consequence management.

Despite Provincial Treasury, CoGTA and SALGA providing in-depth training for municipalities to establish municipal disciplinary boards, the process of establishment thereof at Free State municipalities is slow and the functionality of the already established boards is of concern.

The Provincial Treasury notes the report on the audit outcomes of municipalities for the 2017/2018 financial year. The outcomes shows that only three (3) FS municipalities have received unqualified audits, fifteen (15) had qualified opinions (*three (3) improved from a disclaimer to a qualification audit opinions*) and two received disclaimers.

Honourable speaker I must also emphasise that governance structures should hold officials accountable for poor quality and late submission of financial statements. Note should be taken of Free State Municipalities spending significant amounts on consultants to prepare Annual Financial Statements despite having appointed CFOs' and budget and treasury officials.

The Provincial Treasury remains committed to assist municipalities in improving their financial management practices. However, the success and sustainability of the support initiatives can only be achieved if buy-in from both the political and administrative staff of the municipalities is obtained. Municipalities need to ensure that they continue to build internal capacity and improve on financial management processes and ultimately, service delivery.

With respect to the preceding, it should further be noted that the Provincial Treasury has developed a strategy aimed at improving local government audit outcomes. This strategy will be phased-in over the short, medium to long-term period.

ADMINISTRATION

Honourable Speaker, Provincial Treasury's core mandate is supported by the **Administration Programme** whose role it is to provide leadership and strategic direction. The programme provides administrative support services to all other programmes. The programme is allocated R116.205 million.

The Department has an approved post establishment of 428 posts, of which 380 posts are currently filled, and 48 posts are vacant. The Department improved its vacancy rate from 21 % at the end of March 2018 to 11% at the end of March 2019. The Department is in the process of filling 48% of its current vacancies, which should be filled during the 2019/2020 financial year.

The Department has 28 Senior Management Services (SMS) posts on its approved establishment, of which 25 posts are currently filled, and three vacancies exist. The Department is in process to fill all three of its SMS vacancies.

With regard to the gender composition of SMS members, 32% of the posts are filled by women, whilst 68% of the SMS posts are filled by men. The Department will therefore target women to be appointed in the three SMS posts, which will improve the representation of women in SMS posts to 39%. Overall the Department's workforce comprises of 56% women and 44% men. Of the 95 youth in the Department, 53 are female and 42 male.

Honourable Speaker, Provincial Treasury has a proud history of empowering youth. Over the past 13 years the Department had 141 young people, 75 females and 66 males, who passed through its internship programme. Of these 126, i.e. 89% were employed after completing the programme. Eighty-one of those (57%) were employed by Provincial Treasury whilst 45 found employment in other government departments, municipalities or the private sector. Those employed by Provincial Treasury started from salary levels 5 to 8. Of these, 15 progressed to Assistant Director and 5 to Deputy Director level, while the rest occupy posts of practitioners and specialist practitioners.

Honourable Speaker, 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. The Department has been allocated R367.624 million in 2019/20.

BUDGET ALLOCATION 2019/20

THE TOTAL FISCAL ENVELOPE OF THE DEPARTMENT FOR 2019/20 YEAR IS R367.624MILLION WHICH IS AN INCREASE OF 4.97% COMPARED TO 2018/19

SUSTAINABLE RESOURCE MANAGEMENT = R49.826 MILLION

ASSET AND LIABILITY MANAGEMENT = R87 520 MILLION

MUNICIPAL FINANCE MANAGEMENT = R83 391 MILLION

ADMINISTRATION = R116.205 MILLION

FINANCIAL GOVERNANCE = R30.682 MILLION

CONCLUSION

Honourable 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. We will play a critical role in enabling redistribution of public resources to meet the basic social needs of our people. We will Transform and diversify the financial sector and ensure that the industry serves the economy and the people of the Free State Province.

I must extend my appreciation to our various **public and private sector** partners for their continued support of the work of Provincial Treasury.

Allow me to acknowledge and appreciate my **family, my husband Gary, my boys Joaquin and Keayan, my mother Adeelah, my siblings** and all those who support me in being a representative of all citizens of the Free State Province.

To the **Premier and Members of the Executive Council** for their guidance and support. To the **African National Congress** and all its leadership for the faith and support that you have in me in taking forward the peoples resolutions of the ANC.

I also wish to thank the **Head of Department of Provincial Treasury, Mr Godfrey Mahlatsi** as he leads with the senior management and all the officials for their commitment to ensure that Provincial Treasury executes its legislative mandate.

Honourable Speaker, Members Ladies and Gentleman, I thank you