
2010/11 BUDGET VOTE STATEMENT

BY

HONOURABLE SEISO MOHAI:
MEC FOR FINANCE,

IN THE

FREE STATE
PROVINCIAL LEGISLATURE

ON

THURSDAY,
18 MARCH 2010

Honourable Speaker;
Premier;
Members of the Provincial Executive Council;
Members of the Free State Legislature;
Marena le Dikgosi;
Community Leadership present here;
Distinguished guests;
People of the Free State;
Ladies and Gentlemen:
Good Morning!

We dedicate this Budget Vote to the memory of fallen anti-apartheid activists of Botshabelo. This we do as part of observing the 20 years of Mandela's release from prison. Most of these comrades played a vital role in the struggles that finally led to the unbanning of the ANC, SACP and PAC on the 2nd of February 1990 and the release of Mandela on the 11th February 1990. This was a response to the call by the South African Youth Congress that: **all youth to the battle field: Freedom or death, victory is certain!** This collective of youth activists, fought and defeated the Bantustans system. These fallen comrades from Botshabelo with whom I personally shared the trenches of the freedom struggle, include amongst others: Kaizer Sebothelo, Jazzman Mokgothu, Tate Ranthete, Roger Leqopo Teboho Melithafa, Bonaventure Nkhodi, Maniki Motlohi, Boiki Motlohi, Molefi Tau, Katango Makume, Mafusi Mpheteng, Prince Monaune and many others. Their families have joined us today as we table this Budget Vote aimed at accelerating service delivery to our people. We therefore, as an ANC Government, make a solemn commitment that we will never betray the cause to which they dedicated their lives.

1986 became the defining moment not only as a result of youth activism, but the broader call of ungovernability by the leadership of the ANC. We bow our heads in honour of their contributions and sacrifices. The intensification of the mass struggles on the aftermath of Mandela's release dealt a blow to the apartheid regime's tricks to prolong their stay in power as well as their tricks to weaken a non-racial democratic rule that was being negotiated. These mass struggles spearheaded by the fallen heroes led to the final demise of Apartheid in April of 1994 and thus *"the displacement of the apartheid political order by a democratic system became an established fact of the South African society"* as Mandela once quipped.

ROLE OF TREASURY IN THE CONTEXT OF A CHANGED PLANNING FRAMEWORK

Honourable Speaker, the fourth democratic government has adopted a framework for monitoring and evaluation, whose key and most important focus will be the outcomes of any political and executive activity we undertake as a Government. The outcomes-based planning, not only requires integration and co-ordination between departments in pursuance of key priorities, but the focus now moves towards the broader objectives of our government.

Given the financing responsibility and accounting role of the Treasury in terms of the Public Finance Management and the Municipal Finance Management Acts, and the new focus on outcomes-based model, this year our role will gain more prominence. Of all the outcomes, our key focus as the provincial Treasury is on the outcome that deals with Efficient, Effective and Development-oriented Institutions. The focus of this role is clearly entrenched in our broader role as a monitoring department for financial matters in the province. As a Department we have therefore started to ask questions in order to clearly align our role to the new outcomes-based approach, amongst these are the following:

- What are the Implications of the Outcome-Based Priorities (OBP) Performance Management for the Financial Management System at provincial and municipal levels?
- What ought to be the Treasury's response to the Outcome-Based Priorities (OBP) that mutually enhance financial management and accountability, and agile service-delivery as determined by the Executive Council of the province?
- How will the Treasury address revenue and expenditure administration and management within the province and specifically through department, given the nature of joint responsibility for a specific Outcome-Based Priority?
- For the Treasury: What is it responsible for achieving within the context of OBP? What institutional, organisational and management arrangements and alignments are required?

These and other related questions will be answered during the course of this financial year as reflected in this vote speech and probably throughout the entire MTEF.

PROGRESS AND CHALLENGES

Speaker, in order to be a “*leading and influential Provincial Treasury*”, we need to continuously reflect on the effectiveness of our role. There are specific things that we need put in place so as to enhance our strategic role as Treasury.

Last year we pronounced on injunctions on the following five key areas: (1) People-development; (2) Own-source revenue; (3) Support to Provincial Departments (4) Support to Municipalities; and (5) improved infrastructure delivery.

Speaker, a strong government requires an effective strategy! For this to happen, it is critical that we recruit and retain the best! In this regard we undertook to introduce competency-based assessment for supervisory positions. I'm pleased to report to this house that we conducted eleven competency assessments on critical posts from salary level nine to twelve. In some instances we have even included work-based activities to ensure that we appoint people that have the skills to do the work.

In order to confront the reality of declining revenue for the province, we also undertook last year to:

- closely monitor the collection of own-source revenue by departments;
- develop appropriate systems and mechanisms to monitor donor funding; and
- conduct on-going research to optimize funding for the province.

Speaker, in spite of the progress that we have made in this regard, the challenges in this area of our work are immense! Nevertheless, our heightened monitoring and bilaterals we have had with departments assisted the province to register marked improvements in the overall provincial revenue collection. We have also registered tremendous success in ensuring that the revenue collected by Departments on monthly intervals is deposited into the Provincial Revenue Fund (PRF). We are from a situation where the deviation, that is, monthly revenue collected not deposited into the PRF was 12%. In rands and cents, we are talking more than R33 million. Today, through our efforts, the difference between the revenue collected and deposited by Departments into the PRF is almost zero. This improves the general status of the Provincial Government with regard to cash flow and prudent investment.

Provincial Treasury is committed to assist the Departments to optimize their revenue collection and hence we are working together on projects with different Departments to achieve this. Most of these projects are going to continue for more than one year and they are as follows:

- **Property Project** – to ensure measures are in place for property revenue collection (*contracts, payments from tenants and list of rented properties with estimated revenue*);
- **System Linkage with Health, SARS and Dept of Labour** – to identify a system that will assist the Department of Health to classify patients according to their income group;
- **Game Auction** – to build processes for the Gaming Auction that will ensure that the Free State Government does not lose revenue generated from this auction. We are working together with the Department of Economic Development, Tourism and Environmental Affairs to ensure that the coming auction for Gaming in April 2010 is successfully run;
- **Resorts** – to enable the Department of Economic Development, Tourism and Environmental Affairs to have booking systems in place and ensuring that revenue is properly collected at resorts. The progress on this project is delayed by the shortage of staff at these resorts;
- **Tariffs** - Departments must submit revised tariffs to Treasury for approval annually, and
- **Gambling Board** – Jointly with Department of Economic Development, Tourism and Environmental Affairs, Gambling and Racing Board and Provincial Treasury, a procedure manual has been developed for the collection and payment of gambling revenue and it will be implemented after the Free State Gambling Levies Bill is approved.

On the support to departments, we committed to improve the capacity in the areas of asset management, supply chain management, and internal audit. In collaboration with PALAMA, we have rolled out training sessions on SCM-related issues to departments. We also monitored departments and (schedule 3A and 3C) public entities on compliance with SCM prescripts. On internal auditing, nine departments achieved the required compliance rate of 65% of Internal Audit KPIs from and seven departments achieved the required compliance rate of 65% on Audit Committees. The average compliance rate, for both internal audit activities and Audit Committees, increased by 8% from 2008 to September 2009. Whereas the average compliance for both risk management activities and Risk Management Committees has increased by 17% since 2008 until September 2009.

The inefficient provincial procurement regime and late payment of creditors is a matter that we seriously have to attend to. Our observation is that in many Departments there is still a lack of proper controls and systems as well as professional specialisation amongst officials dealing with

SCM. These are areas in which we will work together with the other Departments to further improve.

The current state of affairs as given by the Auditor General's Report for 2008 requires urgent attention from all of us. The report reflects that the Free State has the highest number of qualifications for Departments and disclaimers for municipalities in audit opinions. The Premier of the Province has directed that Provincial Government Departments and municipalities will have to put drastic measures in place to curb this un-conducive situation. To this end a framework has already been outlined in the form of Vision Clean Audit 2014.

As our contribution to turning this parlous state of affairs, we reaffirmed our mandate and duly committed that we will assist municipalities to improve their financial management. To date, we have convened training sessions on GRAP accounting standards, SCM, Risk Management and Internal Audit. We have sensitized municipalities on the role and importance of formalizing Risk Management structures within their establishments as required by the MFMA. Furthermore, we have trained relevant officials in municipalities on new budget and reporting formats. In so doing, we contribute to the realization of "Vision Clean Audit by 2014".

Honourable Speaker, one area where our performance as a province requires serious improvement is that of asset management. The inadequacy of asset management units in most Departments is largely responsible for our poor performance in this regard. There is high vacancy rate in most asset management units, lack of required skills and inappropriate reporting lines. We will later in this speech spell out some of the initiatives to be undertaken to improve the function of asset management and the results thereof.

Lastly, in the middle of the economic recession last year, infrastructure delivery became one of the strategies to stimulating ailing local economies and creating jobs. In recognition of this, and in an effort to maximize the value for our money and reduce wastage, we also undertook to monitor the delivery of infrastructure in various means that include site inspections and Quarterly Infrastructure Review meetings.

Speaker, submission of the Infrastructure Plan is a condition for accessing the Infrastructure Grant to Provinces, in terms of the Division of Revenue Act no 12 of 2009 and the Framework for Conditional Grants to Provinces. In this regard, we have also discovered that departments

are failing to submit infrastructure plans on time. Non submission affects the province's cash position as the transfer of the first of instalment of the IGP to provinces is dependent thereon. Furthermore, non submission of infrastructure plans leads to poor planning to deliver infrastructure on time.

OUTCOMES FOR TREASURY

Speaker, the outcomes-based approach represents one of the public sector reforms aimed at optimizing the value for money on the one hand, and accelerate service delivery on the other. It is an approach that in practical terms seeks to break down silos so as to expose everybody to the bigger picture. It is an approach that does not only force cooperation, but promotes joint-responsibility. Provincial Treasury still need to analyse the impact of this particular reform on its mandate, functioning and systems. We will come back to this house once we have fully engaged on this issue.

Together with the Legislature and the Department of the Premier, this department's strategic role is primarily to ensure that government institutions are efficient, effective and development-oriented. This role is essentially about Economic and Financial Governance, Administration and Management across all spheres of government, more so the provincial sphere. Provincial Treasury is a non-service delivery department and the main portion of the budget is allocated towards compensation of employees. 31.78% of the entire budget allocated to the department for the 2010/11 financial year is in respect of payments of goods and services. From the goods and services allocated budget 52% is for the maintenance of transversal systems (SITA) for the entire province.

Speaker, in pursuing the outcome of efficient, effective and developmental government, we contribute to a range of other outcomes. In conducting ongoing research on the Socio-Economic dynamics of our province; enhancing capacity within departments and municipalities to ensure that Vision Clean Audit by 2014 as pronounced by the Premier is attained; training departments and municipalities in different functional areas; and providing bursaries for the further education of officials employed, we support the development of skills necessary to take this province forward.

Our Health programme aims at improving the well being of its employees and their immediate family members, thus contributing to long and healthy life for all.

The creation of decent employment through inclusive economic growth is also one other outcome that benefits immensely from a range of our activities. These includes our intended intake of 20 interns and 10 learnership programmes from FET Colleges needing experiential learning to complete their studies, the latter being a new initiative for the 2010/11 financial year. We also intend to reduce the vacancy rate to 5% in line with the approved organizational structure, and in this regard, we will pay particular attention to improving employment equity figures of the department, especially with regard to people with disabilities.

We will promote the development of SMME's by striving to surpass the set procurement target and maintain the high performance we displayed in this ending financial year on our procurement expenditure for SMME's. As far as possible, Provincial Treasury will employ the use of local research advisors on Economic Analysis and HR consultants for Competency Assessment for supervisory positions from level 9 upwards.

Speaker, I earlier pointed out the importance of infrastructure. Whilst Provincial Treasury does not physically deliver infrastructure, it has a significant role to play in the establishment of an efficient, competitive and responsive provincial infrastructure network. In this regard, we will be monitoring budget expenditure and physical progress on infrastructure projects to support key infrastructure departments, notably Department of Public Works and Rural Development, Department Police, Roads and Transport, the Department of Cooperative Governance and Traditional Affairs (COGTA) and Human Settlement in achieving their mandates. We will further review performance of departments quarterly with respect to Infrastructure delivery, Asset Management, Cash Management, Conditional Grant Spending including Infrastructure site visits.

KEY /HIGH IMPACT ACTIVITIES TO BE UNDERTAKEN IN 2010/11

Effective implementation of outcome based budgeting

During the 2010/11 financial year, we will reform the budgeting process from an output to an outcomes-based process. In order to implement the process we will develop the prerequisite capacity within the relevant units. Training will be required and new procedures and policies will

have to be implemented in order to ensure successful implementation. The result will be a better aligned budget, better spending within the department and availability of funds for high priority areas. Same applies to the systems used to monitor the implementation of the budget.

Clean Audit for Provincial Treasury

During the 2010/11 financial year the Free State Provincial Treasury will seek to achieve a clean audit by implementing measures to address areas identified during the 2009/10 financial year annual audit. In this process the Internal Audit unit within the department will be more visible and will assist the department in achieving this.

Risk Management & Internal Audit for Vision Clean Audit by 2014

Speaker, we will continue the assessment of Risk Management activities as well as capacity building with the aim to increase the compliance rate by 10%. In this regard, we will assist 3 municipalities to establish Risk Management and to maintain Risk Management principles to ensure compliance.

On Internal Audit, the implementation of cluster Audit committees to enhance effectiveness will be aggressively pursued. This will contribute to effective Internal Audit activities which will provide assurance of implementation of effective internal controls. This will result in a decrease of fruitless, irregular and unauthorized expenditure.

In conjunction with the Department of Cooperative Governance and Traditional Affairs (COGTA), we will implement a database with generic policies and operational procedures for all main functions [including procedures to comply with Generally Recognized Accounting Practise (GRAP) standards] of municipalities. Hands on support to municipalities will be increased from 65 days to 104 days. This will increase credibility of information, decrease audit enquiries and improve Annual Financial Statements audit opinions as well as compliance with MFMA.

We will also continue with the assessment of Accounting related KPI's, capacity building and monthly assessment of departments' and entities' bank reconciliations and asset and liability items to improve financial management to improve the audit opinions of departments related to Annual Financial Statements.

Honourable Speaker, one of the most critical situations we are faced with is to improve credibility of our municipal budgets. In this regard, we will capacitate, evaluate and hold bilaterals with our municipalities to enhance the credibility of their budgets. Hands on support will be provided with the aim of ensuring that at least three municipal IDP's and budgets are aligned. This will improve service delivery.

Provincial Treasury will use the compliance tool developed in 2009/10 to assess and build capacity at municipalities in order to increase compliance by 10%. This will decrease non-compliance reported in the Audit report and also contribute to improve the perceptions of the communities about the municipal performance, thereby reducing the risk of social unrest and unwarranted damage to municipal property. It may also contribute to an improvement in the payment of municipal services.

Review of Procurement Process & Systems

As mentioned during the provincial Budget Speech two weeks ago, the management of transversal contracts for the procurement of goods and services in the FS Province will be centralized in the Treasury department. We will also review the procurement processes with an aim of introducing efficiency, reduce costs and eliminate wastage. For this year, we plan to have 3 transversal contracts in place.

Asset management

Speaker, as part of improvements that we will introduce in the performance of our asset management functions, we will spearhead the implementation of the following measures:

- Institution of disciplinary action by Accounting officers to ensure enhancement of good governance over asset management as provided for Chapter 10 of the PFMA;
- benchmarking, job evaluation and filling of all vacant post in all departmental Asset Management Teams as a matter of urgency;
- inclusion of Asset Management as a criteria in Performance Development Management System of all officials with a weight of 10 %;
- appointment of all officials as individual Asset Holders as part of the responsibilities as indicated in Section 45 of the PFMA;
- prioritizing of asset management matters by departmental Internal Audit with quarterly

reports submitted to Provincial Treasury;

- intensification of the role of departmental Asset Management Teams on internal monitoring and evaluation of asset management and compilation of the necessary reports.

In addition, should departments consider outsourcing any asset management function to consultants in future, the Provincial Treasury must be engaged before any discussions with such consultants are initiated or take place. Departments will also be compelled to report on the Asset Management Key Performance Indicators on a monthly basis to Provincial Treasury. The development of Asset Management Delegations by Departments will also be made compulsory.

CONCLUSION

This year offers us an opportune moment to work out mechanisms to confront challenges we are faced with. More attention will be given to the quality of work that we are doing. We also envisage to work very closely with our local higher education institutions. We will discharge our responsibilities with vigour forging cordial relations, but resolute on matters that need to be attended to, including oversight and compliance. Compliance is not for own sake or some legal formality, it is about improvement of service delivery as informed by key priority areas of our government. Speaker, we believe that we will maintain good working relations with the portfolio committee on finance as it discharges its oversight mandate on our work as outlined in this vote speech. This relationship will also extend to the implementation of all money related bills in this house.

I continue to draw strength from the guidance of the Premier and the support of Members of Executive Council. Finally, Speaker I want to thank the Senior Management of the Provincial Treasury and the entire Treasury staff for their continued dedication to the work of this Department.

The 2010/11 Free State Treasury Budget Vote totalling R177, 509 million is hereby tabled and a further breakdown of the budget has been annexed.

I thank you.

ANNEXURE: 2010/11 FEE STATE TREASURY BUDGET VOTE

ESTIMATE OF EXPENDITURE

	Medium-term estimates		
R' thousand	2010/11	2011/12	2012/13
Equitable share	171,329	179,885	189,253
Departmental receipts	6,180	6,756	7,076
Total receipts	177,509	186,641	196,329

REVENUE COLLECTION

REVENUE ITEMS	2010/11 BUDGET	2011/12 BUDGET	2012/13 BUDGET
Sales of goods and services other than capital assets	96	101	106
Interest, dividends and rent on land	85,583	89,862	94355
Sales of capital assets	12	13	14
Financial transactions in assets and liabilities	291	306	321
TOTAL	85,982	90,282	94,796

BUDGET STRUCTURE

1.Administration	Office of the MEC, Management Services, Corporate Services, Financial Management, Internal Audit.
2.Sustainable Resource Management	Programme support, Economic Analysis, Fiscal Policy, Budget Management, Public Finance
3. Asset and liability Management	Programme support, Asset Management, Liability Management , Supporting and Interlinked Financial Systems
4.Financial Governance	Programme support, Accounting Services, Norms and Standards, Risk Management Provincial, Internal Audit Provincial

BUDGET ALLOCATION PER PROGRAMME

PROGRAMMES	2010/11 R'000	2011/12 R'000	2012/13 R'000
Administration	64,136	67,091	71,085
Sustainable Resource Management	21,156	22,221	23,607
Asset and Liability Management	60,024	63,119	65,234
Financial Governance	32,193	34,210	36,403
TOTAL	177,509	186,641	196,329

SHARE FROM ALLOCATED BUDGET

PROGRAMMES	2010/11 ALLOCATION	2011/12 ALLOCATION	2012/13 ALLOCATION
	%	%	%
Administration	36%	36%	36%
Sustainable Resource Management	12%	12%	12%
Asset and Liability Management	34%	34%	33%
Financial Governance	18%	18%	19%
TOTAL	100%	100%	100%

BUDGET ALLOCATION PER ECONOMIC CLASSIFICATION

ECONOMIC CLASSIFICATION	2010/11 ALLOCATION	2011/12 ALLOCATION	2012/13 ALLOCATION
	R'000	R'000	R'000
Compensation of employees	118,196	125,064	132,129
Goods and Services	56,413	60,654	63,560
Interest and rent on land	-	-	-
Transfer payments	500	535	572
Payments for capital assets	2,400	388	68

TOTAL	177,509	186,641	196,329
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SUMMARY OF SHARED PORTIONS

