

FREE STATE  
PROVINCIAL TREASURY

Strategic Plan (Revised)  
for  
2020 – 2025



**treasury**  
Department of  
Treasury  
FREE STATE PROVINCE

[www.treasury.fs.gov.za](http://www.treasury.fs.gov.za)

# Executive Authority Statement

The Provincial Treasury Strategic Plan for 2020-2025 has been developed with due regard to the PFMA, the MFMA and other key pieces of legislation, the National Development Plan and the Medium Term Strategic Framework. The plan had been revised with due regard to the prevailing economic and fiscal challenges that the country and province face as a result of COVID-19.

Whilst we do not yet know the full extent of the impact that the virus will have on our society and economy, it is safe to say that we will have to deal with an impact on our fiscus that will be far greater than anything we have experienced in recent history. The need for financial prudence and fiscal discipline is now greater than ever and there is no better time for us to institutionalise and concretise the principles of transparency, accountability, responsibility, efficiency and effectiveness in the use of our limited public resources. As Provincial Treasury we will continue to pursue sustainable and accountable fiscal governance in provincial departments, entities and municipalities.



**Ms G. Brown**

We will continue to support provincial departments, entities and municipalities to ensure that unwanted expenditure and negative audit outcomes are gradually reduced and ultimately curbed. We will continue to explore and introduce innovative measures to ensure that we institutionalise good practices and financial discipline and above all, we will see to it that the limited resources that we have are optimally used to improve service delivery to the benefit of all our people and that as government we live up to the high standard of excellence that we have set for ourselves.

I herewith endorse the 2020-25 Strategic Plan of the Provincial Treasury and affirm my commitment to support the achievement of the outcomes that are embodied herein.

A handwritten signature in black ink, appearing to read 'G. Brown', written in a cursive style.

**Ms G. Brown**  
**Executive Authority: Free State Provincial Treasury**

# Accounting Officer Statement

Provincial Treasury plays a pivotal role in enforcing public finance management legislation and building capacity in departments, entities and municipalities to achieve the objectives of such legislation. It is an institution that seeks to promote fiscal coordination across the spheres of government.

The Free State Provincial Treasury strives to be an innovative and resilient partner in prudent fiscal management, socio-economic growth and service delivery. Its mission is to promote socio-economic inclusiveness for shared growth through innovative fiscal management, sustainable resource management and good governance.

Over the past five years the impact of fiscal consolidation and resultant expenditure ceilings forced the Department to seek appropriate funding solutions for the provincial priorities in a financially sustainable manner. Through extensive engagement processes that informs the development of the provincial budget, the Department succeeded in developing a provincial budget that addressed the imperatives of fiscal consolidation and financial sustainability whilst also creating an enabling environment within which economic development and infrastructure-led growth could take place.



**Mr M.N.G. Mahlatsi**

The provincial and local government audit outcomes over the past year were less than satisfactory and not reflective of our commitment to good governance. As the custodian of public financial management in the province, the Department continued to execute its mandate of monitoring and oversight in pursuit of the provincial government's transformation and economic development agenda. The Department endeavoured to strengthen the financial management environment at both provincial and local government level to improve internal control environments, compliance with laws and regulations and the implementation of consistent and appropriate consequence management measures.

The Department succeeded in achieving most of its programme performance indicator targets for the past five years. Good progress has been made towards the achievement of the 5-year strategic objectives. Areas that need further attention include effective and efficient infrastructure delivery, performance of departments and entities in terms of the key control matrix and monitoring and supporting municipalities towards improved budget management and audit outcomes.

We enter the new planning cycle with an unprecedented challenge brought about by COVID-19. The pandemic has already impacted on the economy and fiscus of the province. We had to reprioritise the provincial budget for 2020/21 and revise departmental operations to ensure that we are able to fulfil our mandate within the constraints brought about by the measures we are implementing to mitigate the spread of the virus.

Given the magnitude of the challenges we face as a province, we will pursue the outputs and milestones that are amplified in this plan with vigour and persistence as we are determined to ensure that we make an impact and we play our role in a manner that will ensure that service delivery is not only a priority but compels us to ensure that we excel. We have taken note of the challenges that exist and are indeed very serious in ensuring that the department achieves the outputs outlined in the annual performance plan.

Over the 2020-2025 period the Department will focus on ensuring sustainable and accountable fiscal governance in provincial departments, entities and municipalities. We will aim to not only ensure financial sustainability in the constraint fiscal environment but will be working towards building contingency reserves for the province. Our focus will be on ensuring that we improve our cash coverage in the province, reduce accruals and payables and unauthorised expenditure at both provincial and local government level.

To improve financial accountability the Department will work towards reducing irregular and fruitless and wasteful expenditure at provincial and local government level, improving the quality of financial statements and reducing the number of audit findings in an effort to improve the audit outcomes for the province.

An area that would receive particular attention is the institutionalisation of the Framework for Infrastructure Delivery and Procurement Management (FIDPM) and the Infrastructure Delivery Management System (IDMS) as this would form the foundation for creating opportunities for social and economic growth through infrastructure investment. The Department will also focus on building its own capacity to support departments and municipalities in this regard.

Lastly, the Department will focus on ensuring sound and responsive management practices in the department, as this is a critical enabler to achieving the other outcomes.

I wish to acknowledge the MEC for Finance for her vision, leadership and support, our stakeholders such as National Treasury, the AGSA and the Portfolio Committee on Public Accounts and Finance for their valuable inputs and the management and staff of Provincial Treasury for their commitment and dedication in crafting this plan and for making the achievable thereof possible. I thank you all.

I herewith submit the 2020-25 Strategic Plan of the Provincial Treasury and affirm my commitment to ensure the implementation of the outcomes that are embodied herein.



**Mr. MNG Mahlatsi**  
**Accounting Officer of Provincial Treasury**

# OFFICIAL SIGN-OFF

It is hereby certified that this Strategic Plan:

- Was developed by the management of the Free State Provincial Treasury under the guidance of the MEC for Finance, Mrs Gadija Brown
- Takes into account all the relevant policies, legislation and other mandates for which the Free State Provincial Treasury is responsible
- Accurately reflects the impact and outcomes which the Free State Provincial Treasury will endeavour to achieve over the period 2020 – 2025.

M.G. Sithole  
**Chief Director: Corporate Services**

Signature: 

P.E. Lebone  
**Chief Director: Sustainable Resource Management**

Signature: 

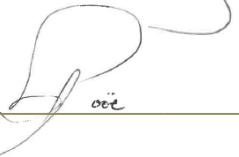
T.M. Mabilo  
**Chief Director: Asset and Liabilities Management**

Signature: 


M.A. Sesing  
**Deputy Director General: Financial Governance**

Signature: 

I. Pooe  
**Acting Chief Director: Municipal Finance Management**

Signature: 

M.P. Mokoena  
**Chief Financial Officer**

Signature: 

A.M.J. Hattingh  
**Director: Strategic Management**

Signature: 

M.N.G. Mahlatsi  
**Accounting Officer**

Signature: 

**Approved by:**

G. Brown  
**Executive Authority**

Signature: 

# CONTENTS

## Table of Contents

<b>PART A: OUR MANDATE</b>	<b>7</b>
1. CONSTITUTIONAL MANDATE	7
2. LEGISLATIVE AND POLICY MANDATES	7
3. INSTITUTIONAL POLICIES AND STRATEGIES OVER THE FIVE YEAR PLANNING PERIOD	9
4. RELEVANT COURT RULINGS	9
<b>PART B: OUR STRATEGIC FOCUS</b>	<b>10</b>
5. VISION	10
6. MISSION	10
7. VALUES	10
8. SITUATIONAL ANALYSIS	11
9. EXTERNAL ENVIRONMENT ANALYSIS	13
10. INTERNAL ENVIRONMENT ANALYSIS	18
<b>PART C: MEASURING OUR PERFORMANCE</b>	<b>21</b>
11. INSTITUTIONAL PERFORMANCE INFORMATION	21
12. KEY RISKS AND MITIGATIONS	23
13. PUBLIC ENTITIES	25
<b>PART D: TECHNICAL INDICATOR DESCRIPTION (TID)</b>	<b>26</b>

## Abbreviations and Acronyms

AFS	Annual Financial Statements
AGSA	Auditor General South Africa
CFO	Chief Financial Officer
COE	Compensation of Employees
COGTA	Department of Cooperative Governance and Traditional Affairs
FIDPM	Framework for Infrastructure Development Procurement Management
FSGDS	Free State Growth and Development Strategy
GDP	Gross Domestic Product
ICT	Information and Communication Technology
IDMS	Infrastructure Delivery Management System
IFMS	Integrated Financial Management System
IYM	In Year Monitoring
MEC	Member of the Executive Council
MFM	Municipal Finance Management
MFMA	Municipal Finance Management Act
MTBPS	Medium Term Budget Policy Statement
MTEF	Medium Term Expenditure Framework
MTSF	Medium Term Strategic Framework
NDP	National Development Plan
NSDF	National Spatial Development Framework
PERO	Provincial Economic Review and Outlook
PFMA	Public Finance Management Act
SALGA	South African Local Government Association
SCM	Supply Chain Management

## Part A: Our Mandate

### 1. Constitutional Mandate

The Provincial Treasury's mandate is based on Chapter 13 of the Constitution of the Republic of South Africa Act, 1996 (Act No.108 of 1996).

### 2. Legislative and policy mandates

The existence of the Provincial Treasury and its operations are governed by the following legislative and policy mandates:

#### 2.1 Legislative mandates

##### **Public Finance Management Act, 1999 (Act No. 1 of 1999)**

The Public Finance Management Act (PFMA) regulates financial management in the national government and provincial governments. It aims to ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively and it provides the responsibilities of persons entrusted with financial management in the said governments.

The Provincial Treasury is established in terms of Section 17 of the PFMA (Act No. 1 of 1999) and its functions and powers are set out in Section 18 of the Act. These include amongst other, that the Provincial Treasury must prepare and exercise control over the implementation of the provincial budget and promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities of provincial departments and provincial public entities.

The Provincial Treasury must, furthermore, enforce the Act and prescribed standards and generally recognised accounting practices and uniform classification systems in provincial departments. It must also comply with the Annual Division of Revenue Act and monitor and assess the implementation of that Act in provincial public entities as well as the implementation of national and provincial norms and standards in provincial public entities. Provincial Treasury must intervene by taking appropriate steps, which may include the withholding of funds, to address a serious or persistent material breach of the Act by a provincial department or provincial public entity.

The Act allows the Provincial Treasury to assist provincial departments and provincial public entities to build their capacity for efficient, effective and transparent financial management and to also investigate any system of financial management or internal control applied by such departments and entities.

##### **Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003)**

The Act aims to secure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government and it establishes treasury norms and standards for the local sphere of government.

Section 5(4) of the MFMA, 2003 (Act No. 56 of 2003) determines that the Provincial Treasury must, amongst other, monitor compliance with the Act by municipalities and municipal entities, the preparation of their budgets and the monthly outcome thereof as well as the submission of reports as required by the Act.

It may further assist municipalities in the preparation of their budgets. It may exercise any powers and must perform any duties delegated to it by the National Treasury in terms of the Act and may take appropriate steps if a municipality or municipal entity in the province commits a breach of the Act.

## **Annual Division of Revenue Act**

This Act is passed annually to provide for the equitable share of revenue raised nationally amongst the national, provincial and local spheres of government for the particular financial year. It determines each province's equitable share and allocations to provinces, local government and municipalities from national government's share as well as the responsibilities of all three spheres pursuant to such division and allocations. The Act sets out specific duties for the Provincial Treasury.

## **2.2 Policy mandates**

### **National Development Plan**

The National Development Plan (NDP), which was adopted in September 2012, aims to eliminate poverty and reduce inequality by 2030. In order to achieve this South Africa has to, amongst other, spend more on investment and also improve the quality of such spending through better planning, sound procurement systems and greater competition in the economy. There is a need for greater efficiency in all areas of government expenditure, because the overall envelope is likely to grow relatively slow over the medium term. Particular attention needs to be given to managing the government wage bill, making resources available for other priorities.

Provincial Treasury has to ensure that the provincial fiscal policy framework supports the priorities of the National Development Plan and systems and processes are put in place to reduce inefficiencies in expenditure, improve accountability and support the achievement of a capable and developmental state.

### **Medium Term Strategic Framework**

The Medium Term Strategic Framework (MTSF) 2019-2024 outlines the implementation priorities across South Africa's national development priorities for sixth administration. It aims to address the challenges of unemployment, inequality and poverty through the following three pillars:

- Achieving a more capable state
- Driving a strong and inclusive economy
- Building and strengthening the capabilities of South Africans

The MTSF 2019-2024 is both a five-year implementation plan and an integrated monitoring framework. It translates the ruling party's electoral mandate into government's priorities over a five-year period. The three pillars underpin seven priorities, which will be achieved through the joint efforts of government, the private sector and civil society. The priorities are:

- Priority 1: A capable, ethical and developmental state
- Priority 2: Economic transformation and job creation
- Priority 3: Education, skills and health
- Priority 4: Consolidating the social wage through reliable and quality basic services
- Priority 5: Spatial integration, human settlements and local government
- Priority 6: Social cohesion and safe communities
- Priority 7: A better Africa and world

The MTSF 2019-2024 serves as a five-year building block towards achieving Vision 2030. All national sector plans, provincial growth and development strategies, municipal integrated development plans, departmental strategic plans and annual performance plans must be aligned to the MTSF 2019-2024. It provides a clear, transformative framework within which national, provincial and local government can plan for and drive service delivery.

## **Free State Growth and Development Strategy**

The Free State Growth and Development Strategy (FSGDS) is steeped within the National Development Plan and serves as the development framework for the entire province. It is an important instrument to shape and coordinate the allocation of resources across government and societal spectrum based on the provincial development needs and priorities.

Provincial Treasury is responsible to ensure that the provincial budget is aligned to the provincial priorities as set out in the FSGDS. In addition, Provincial Treasury has to assist and support provincial departments, public entities and municipalities towards the implementation of Pillar 6: Good governance, Driver 15: Foster good governance to create a conducive climate for growth and development, Long-term Programme: Improve the overall financial management in governance structures in the province to ensure clean audits and appropriate financing towards the growth and development of the province.

### **3. Institutional Policies and Strategies over the five year planning period**

The following are key policies and strategies that the Department will continue with or initiate:

- Ensuring that financial sustainability within the constraint fiscal environment and working towards building contingency reserves for the province
- Supporting the Provincial Government to implement innovative programmes aimed at stimulating the economy of the province
- Using government procurement as a tool to assist in transforming the economy and closing some of the gaps that exist from the unequal society of the past and advance economic opportunities for previously disadvantaged designated groups, small businesses and locally produced goods
- Improving accountability and governance and ensuring that irregular expenditure in the province is reduced and ultimately eliminated
- Supporting the improvement of intergovernmental coordination, specifically with regard to infrastructure investment and the district model

Provincial Treasury's strategy for the next five years is based on two key elements, which are oversight and capacity building.

The Department will continue to exercise oversight through regular monitoring activities and comprehensive feedback to the administrative and political leadership of departments, public entities and municipalities.

Capacity building is a two pronged strategy with one leg directed at building the financial resources of the province through generating savings by ensuring more effective utilisation of available funds and value for money to build reserves and the other leg directed at building capacity within departments, entities and municipalities to effectively manage and account for the finances in the respective organisations.

### **4. Relevant Court Rulings**

No relevant court rulings applicable to the department.

## Part B: Our Strategic Focus

### 5. Vision

An innovative and resilient partner in prudent fiscal management, socio-economic growth and service delivery.

### 6. Mission

To promote socio-economic inclusiveness for shared growth through:

- Innovative fiscal management;
- Sustainable resource management; and
- Good governance.

### 7. Values

- **Accountability**  
*We will honour our commitments; we will take responsibility and we will act in a transparent manner*
- **Assertiveness**  
*We will be honest, firm and decisive in our interaction with stakeholders*
- **Collaboration**  
*We will be considerate in working with our stakeholders to realize shared goals. We will be devoted, dedicated and involved*
- **Professionalism**  
*We will continuously develop our knowledge, skills and competency. We will deliver high quality work and behave politely.*
- **Integrity**  
*We will conduct ourselves with uncompromising standards and principles as individuals, as teams and as a department*

## 8. Situational Analysis

The Medium Term Strategic Framework (MTSF) identifies a Capable, Ethical and Developmental State as a critical enabler for the effective implementation of the priorities of government and the achievement of the NDP 2030 goals. It underpins all seven priorities of the MTSF and has the following outcomes:

- Improved leadership, governance and accountability
- Functional, efficient and integrated government
- Professional, meritocratic and ethical public administration
- Social compact and engagement with key stakeholders
- Mainstreaming of gender, empowerment of youth and people with disabilities

Interventions that will impact on Provincial Treasury include:

- Enabling leadership in national and provincial departments to build capacity and also intervene to resolve blockages in government bodies and administrations. This includes the drafting and approval of a Sections 100 and 139 Monitoring and Intervention Bill and the development of a programme by national and provincial departments to capacitate and intervene in state institutions with challenges.
- Improving financial management capability in the public sector which includes strengthening of the Municipal Financial System, implementation of the Integrated Financial Management System (IFMS) in the public sector, developing a programme to strengthen the supply chain management and procurement system in the public sector and developing a programme to strengthen asset management in the public sector.
- Taking measures to eliminate wasteful, fruitless and irregular expenditure in the public sector. Targets in this regard include 100% elimination of wasteful and fruitless expenditure in public sector institutions by 2024, 75% reduction of irregular expenditure by 2024 and 75% reduction of qualified audits in the public sector by 2024.
- Improving coordination between national, provincial and local government to improve service delivery.
- Monitoring implementation of Gender, Youth and Disability responsive planning, budgeting, monitoring evaluation and auditing framework.

Provincial Treasury, as one of the departments at the centre of the provincial government, will have to play a key role in building a capable, ethical and developmental state with specific emphasis on institutionalising clean, responsive, accountable, effective and efficient government.

Priority two, Economic Transformation and Job Creation, identifies faster and inclusive growth as key to improving and sustaining higher living standards and successfully reducing the inequalities that still puncture the economy. For this, South Africa's productive capacity, human capital and state capability need to be improved urgently. Amongst the outcomes and interventions for this priority, the following will impact more directly on Provincial Treasury:

- Investing for accelerated inclusive growth which includes reviewing the macroeconomic policy to support growth and developing and implementing a framework for a just transition to a low carbon economy.
- Re-industrialisation of the economy which includes industrialisation, localisation and exports and requires support for localisation and industrialisation through government procurement.

- Improving quality and quantum of investments, particularly improving the quality and rate of infrastructure investment and the target of 8% public sector contribution by 2024.
- Increasing participation, ownership and access to resources and opportunities by women, youth and persons with disabilities which includes, amongst other, expanding government spend on women, youth and persons with disabilities through preferential procurement with targets of 40% for women, 30% for youth and 7% for people with disabilities by 2024.

In supporting municipalities, Provincial Treasury takes cognisance of Priority Five, Spatial Integration, Human Settlements and Local Government. Particularly the following outcomes, interventions and targets:

- Shared national spatial vision and frames to support integration between sector departments, provinces and regions and the adoption of a National Spatial Development Framework (NSDF), requiring amongst other the development of detailed implementation plans for each of the NSDF priority action areas and departments being capable of reporting on projects spatially by March 2021.
- Integrated service delivery, settlement transformation and inclusive growth in urban and rural places which requires, amongst other, supporting intergovernmental action in support of national development objectives and local needs through piloting, refinement and implementation of the District Development Model.
- Municipalities prepared to deal with climate change which requires capacitation of municipalities to fund and implement climate change programmes and adaptation measures.

According to the 2019 Medium Term Budget Policy Statement, South Africa's public finances have deteriorated since the 2019 Budget, mainly due to lower growth and tax revenue as well as increased support to state-owned companies. Measures to respond to these include spending reduction of R49.5 billion over the next two years and limiting non-interest expenditure growth to CPI inflation in the outer year.

In line with government's commitment to stabilise public finance, Provincial Treasury's strategic focus for the next five years will be on fiscal sustainability. The Department will continue to support the province with stringent budget reprioritisation towards high impact programmes that support economic growth and aligning the budget process to the ever changing environment and needs of the people of the province. Attention will be given to revenue enhancement, optimisation of the use of resources, innovation, infrastructure delivery and cost containment, particularly with regard to the wage bill.

The Department will furthermore focus on governance and accountability at both provincial and local government level, with an emphasis on annual financial statements, irregular expenditure, fruitless and wasteful as well as unauthorised expenditure and supply chain management compliance.

In fulfilling its legal mandate and achieving its strategic outcomes, Provincial Treasury relies heavily on the support of its stakeholders. These include the National Treasury, political leadership and accounting officers/authorities and chief financial officers of provincial departments, public entities and municipalities, the provincial Department of Cooperative Governance and Traditional Affairs (COGTA), the South African Local Government Association (SALGA), the Auditor General of South Africa (AGSA), the Portfolio Committee on Public Accounts and Finance of the Free State Legislature and the Provincial Budget Committee.

The Department relies on the political and administrative leadership of provincial departments, public entities and municipalities to implement prudent financial management and ensure compliance with legislative requirements to enhance accountability and the quality of financial reporting.

The Department of Cooperative Governance and Traditional Affairs and SALGA are key role-players in enhancing financial management at local government level. Provincial Treasury and COGTA are in the process of concluding a Memorandum of Understanding to clarify roles and responsibilities in order to ensure effective and efficient support and oversight to municipalities.

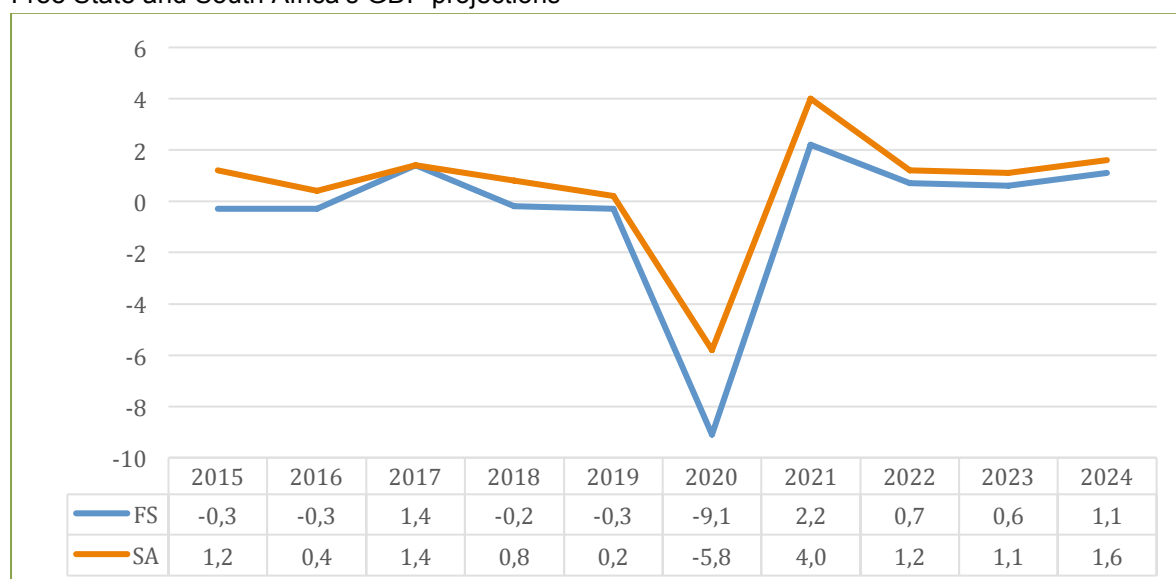
Provincial Treasury works closely with the Auditor General South Africa and the Portfolio Committee on Public Accounts and Finance with regard to ensuring financial accountability.

## 9. External environment analysis

The economic impact of the COVID-19 pandemic on South Africa and the Free State has been largely disruptive in 2020. Notably, the country entered a pre-pandemic technical recession in the last quarter of 2019, and the current pandemic has magnified pre-existing risks to South Africa's economic outlook. The South African economy is projected to decline by 5.8 per cent in 2020, followed by a low-base effect recovery of 4.0 per cent in 2021 (IMF, 2020).

The Free State economy has been recording recessions for the past two years, equivalent to -0.2 per cent and -0.3 per cent in 2018 and 2019 respectively. Similar to the national economy, the Free State is projected to yield a record economic decline of 9.1 per cent in 2020 due to the pandemic and the subsequent measure of national lockdown aimed at reducing COVID-19 contagion and protecting human lives. However, the provincial growth rate is projected to recover from a recession of -9.1 per cent in 2020 to 2.2 per cent in 2021. Beyond 2021, the base effect on growth will wither and the Free State is expected to record an average growth of 0.8 per cent between 2022 and 2024, which is 0.5 percentage points below the national average growth over the same period.

Free State and South Africa's GDP projections



Source: Statistics South Africa, 4<sup>th</sup> quarter, 2019; IMF WEO, April 2020 & IHS Markit, 2020

Every economic sector in South Africa would have been affected directly/indirectly by the global and national economic shutdowns in 2020. The most obvious economic indicators, which will be negatively impacted by the pandemic and subsequent measures, will be a country's fiscus, particularly lower revenue and a reprioritisation of expenditure. The budget deficit may widen, together with a further deterioration in gross debt in the coming years. The trade balance will also be negatively affected in the 2<sup>nd</sup> quarter of 2020 due to factory- and business shutdown, as well as a

reduction in global commodity demand, which will have an adverse effect on exports. In South Africa export demand is expected to fall by 40-75 per cent, except agricultural exports, which are expected to match pre-crisis expectations (National Treasury, 2020).

Per sector analysis within the provincial economy projects that almost all the industries will decline in 2020, with the deepest contractions projected for construction (-24.1 per cent), mining (-19.2 per cent) and transport (-10.0 per cent). Construction will be affected by movement restrictions and constraints on supply and demand. A small amount of construction activity is expected in order to provide infrastructure to support COVID-19 medical and containment, although it is unlikely to offer significant offset to a reduction in building and construction activity. Large contractions in mining production are expected, as the industry confronts imposed closures of certain mines as well as temporarily lower global demand. Countrywide, mining production has already decreased by 47.3 per cent year-on-year in April 2020, with the largest contributors being Iron Ore (-68.7 per cent), PGM (-62 per cent) as well as Gold (-59.6 per cent). Gold is one of the main mining commodities also present in the Free State. With limited production in the economy, exports and imports, as well as movement restrictions, the transport industry might have the 3<sup>rd</sup> deepest contraction in 2020. The only industry that is projected to grow in 2020 in the province is agriculture (4.3 per cent), as the industry and the food supply sector are considered among essential systems for livelihood during the pandemic and remained fully operational. National Treasury forecasts only a 0-10 per cent decline of the industry nationally. Moreover, the Department of Agriculture, Land Reform and Rural Development announced a R12 billion disaster fund to counteract the effects of COVID-19 and ensure sustainable food production post the pandemic. In spite of the positive outcomes related to COVID-19, the threat of African swine fever (in the Eastern Cape) and the foot-and-mouth disease outbreaks (in Limpopo) could affect agricultural output significantly

The gradual re-opening and functioning of the economy from May 2020 will have a positive impact on the economy, particularly in 2021. Most industries are expected to recover and grow, however the structural challenges within the electricity industry as well as impact of the pandemic on government fiscus will keep the industries declining in 2021, by an estimated 1.6 per cent and 1.0 per cent respectively.

The official unemployment rate in the Free State was recorded at 35.0 per cent in the last quarter of 2019, which is 2.1 percentage points higher year-on-year and 0.6 percentage points higher on a quarter-to-quarter basis (*Statistics South Africa, 2020*). The indicator is also 2<sup>nd</sup> highest in the country, behind Eastern Cape. The structural causes of unemployment in South Africa are numerous and multifaceted, reflecting skills-mismatch between workforce and industry demand, a subdued economic environment and high inequality. Changes in the sectoral composition of employment in the province towards a more capital- and skill-intensive economy has meant that fewer and new low-skilled jobs are becoming available.

An analysis by age group reveals that young people have the highest unemployment rate in the province, equivalent to 49.1 per cent for cohort 15-34 years in the 4<sup>th</sup> quarter of 2019. A deeper analysis shows that one fundamental problem remains the provincial economy's low capacity to absorb labour. The current employment to population ratio (absorption rate) is just 41.1 per cent in the last quarter of 2019, and has been declining for the entire year. Also, the absorption rate increases with age, being lowest at 10.5 per cent for age cohort 15-24 years.

With a deepening recession expected in the province in 2020 due to the pandemic and measures taken to overcome the COVID-19, the labour indicators are expected to worsen further in the current year, and may take longer to improve even as the economy starts to recover in 2021.

Provincial Treasury which is, amongst other, responsible for the preparation and implementation of the provincial budget and enhancement of provincial own revenue is challenged to develop a fiscal policy framework that will contribute to inclusive economic growth whilst ensuring delivery on priorities of government.

The provincial fiscal landscape has drastically changed. The 2020/21 Supplementary budget tabled by the Minister of Finance revised the collective provincial share of the budget from R649 billion in the 2020 budget to R645 billion. The R500 billion socio-economic package announced by the President includes R20 billion earmarked for health and other frontline services in the fight against the COVID-19 pandemic. The R20 billion is funds that provinces had to reprioritise within the 2020/21 baselines and repurposed towards COVID-19 measures. The province was able to re-allocate R1.114 billion towards COVID-19 response measures. National Treasury, in consultation with national departments and provinces reprioritised funds from conditional grants towards COVID-19 measures. The net effect on the province is a reduction of R461 million on the conditional grants allocated to the province in March 2020.

The provincial fiscal framework over the 2020 MTEF amounts to R124.141 billion, which is a decline of 1.2 per cent when compared to the budget that was tabled in March 2020. The following are fiscal risk areas for the province:

- The cash position of the province
- Increasing COE bill as percentage of budget
- Slow spending of grants
- Opportunity cost of poor spending (economic growth/job opportunities)
- Litigations in some of the departments, (medico legal claims and NAWONGO court case)

The equitable share is the main source of revenue for provinces and consists of six components (education, health, basic share, poverty, institutional and economic element) that capture the relative demand for services between provinces and take into account specific provincial circumstances. The most weighing factor in the equitable share formula is the population dynamics. For example the education component is driven mostly by learner population, health component by patient population without medical aid, basic share by total population count, etc. According to Statistics South Africa (2019 Mid-year population estimates), the Free State Province accounts for a total population of 2.89 million, or 4.9 per cent of the total population in South Africa ranking the second smallest share of the South African population. The province is sparsely populated at 22 people per km<sup>2</sup> and approximately 20 per cent of individuals living in rural farming areas. The low portion of Free State population in relation to other provinces dictates a smaller portion of nationally raised revenue.

The provincial own generated revenue was expected to grow by 2.5 per cent over the MTEF. Although it represents a small share of the provincial envelope, it plays a vital role in supplementing national transfers. About 85.6 per cent of the total provincial own revenue is generated mainly by two items; motor vehicle licenses and sales of goods and services, which come from services rendered at hospitals (patient fees). The remaining share of 14.4 per cent comes from items such as interest, dividends and rent on land; casino taxes; financial transactions; fines; penalties and forfeits; sales of capital assets; transfers received; horse racing taxes and liquor taxes. The concentration of the sources of revenue in the province poses a serious risk to the fiscal sustainability of the province and efforts to diversify revenue streams for the province need to be accelerated. The dire effect of the COVID-19 lockdown on the provincial economy is also expected to impact on provincial own revenue. Preliminary indications are that the province might under collect by as much as R305 million. The department will work closely with departments to strengthen revenue collection. Current sources of revenue need to be strengthened and new revenue sources developed.

Compensation of employees currently accounts for 62 per cent of the provincial budget and it is projected to increase to 64 per cent by 2022/23. The unsustainably high levels of the public sector wage bill will have to be managed downwards to unlock funding for other priorities as well as derive efficiency on compensation of employees' budgets.

Payables and accruals have increased from R1.9 billion in 2014/15 to R2.2 billion in 2018/19 (16 per cent increase). The high level of payables and accruals increases pressure on the budget and impacts on financial sustainability as the province starts the financial year on a deficit. As an example, according to the AGSA PFMA 2017-18 Consolidated Report on National and Provincial Audit Outcomes the Free State Department of Education was in a particularly vulnerable position as it has already spent 78 per cent of its 2018/19 operating expenditure budget in 2017/18.

With regard to good governance, the increase in irregular expenditure in the province is of concern. Irregular expenditure in provincial departments and entities increased by 47 per cent from R1.7 billion in 2014/15 to R2.5 billion in 2018/19. Accumulated irregular expenditure amounted to R14 billion at the end of the 2018/19 financial year. Fruitless and wasteful expenditure increased from R11.6 million in 2014/15 to R40.3 million in 2018/19, which amounts to 0.12 per cent of the provincial expenditure.

The provincial audit outcomes for the 2018/19 financial year showed a slight improvement with two departments improving from qualified opinions to unqualified and two from disclaimer to qualified opinions. One trading entity also improved from adverse to qualified.

The following are the audit outcomes for provincial departments, public and trading entities (including the Housing Fund) and the Provincial Revenue Fund for the past five years:

Audit Outcome	Number of departments and entities				
	2014/15	2015/16	2016/17	2017/18	2018/19
Unqualified with no findings (clean)	8	4	4	2	2
Unqualified with findings	9	7	8	7	6
Qualified	2	7	6	6	9
Disclaimer	-	-	-	3	2
Adverse	-	1	1	1	-
<b>TOTAL</b>	<b>19</b>	<b>19</b>	<b>19</b>	<b>19</b>	<b>19</b>

Payment of suppliers within 30 days remains a major concern for the Department given the role that government procurement plays in the empowerment of SMMEs. By the end of September 2019 the province had 3 949 invoices to the value of R369,128,355.71 that were older than 30 days. A combination of factors has been reported to contribute to the challenge of paying suppliers within 30 days. These include difficulties with the Central Supplier Database, the tax status of suppliers and service providers, disputed invoices and inadequate funding.

In terms of Section 5(4) of the MFMA, 2003 (Act No. 56 of 2003) the Provincial Treasury must, amongst other, monitor compliance with the Act by municipalities and municipal entities, the preparation of their budgets and the monthly outcome thereof, as well as the submission of reports as required by the Act. It may further assist municipalities in the preparation of their budgets. It may exercise any powers and must perform any duties delegated to it by the National Treasury in terms of the Act and may take appropriate steps if a municipality or municipal entity in the province commits a breach of the Act. Currently the Department is responsible for 22-delegated municipalities.

The AGSA reported after the 2017/18 audit that the Free State local government environment displayed a total breakdown in internal controls as the province's political and administrative

leadership exhibited no response to improve their accountability for financial and performance management. The leadership did not implement AGSA's recommendation to ensure stability and the filling of vacancies in key positions, which resulted in the significant deterioration of municipal audit outcomes, service delivery and financial health. The province's audit outcomes have significantly regressed due to the continued deterioration in the accountability for financial and performance management. Nine municipalities regressed from the previous year, while none were able to improve their audit outcomes.

The following are the audit outcomes for the past five years:

Audit Outcome	Number of municipalities				
	2014/15	2015/16	2016/17	2017/18	2018/19
Unqualified with no findings (clean)	1	1	-	-	-
Unqualified with findings	12	16	11	3	3
Qualified	7	4	4	14	10
Disclaimer	3	2	7	4	2
Adverse	-	-	1	-	0
Audit pending	-	-	-	2	8
<b>TOTAL</b>	<b>23</b>	<b>23</b>	<b>23</b>	<b>23</b>	<b>23</b>

The AGSA is of the opinion that the financial crisis in the province is becoming a critical concern and that although some municipalities had been placed under provincial intervention in terms of section 139(1) of the Constitution, it was not effective, as these municipalities' financial sustainability did not improve. Several municipalities in the province qualified for mandatory intervention by the provincial executive in terms of section 139(5) of the Constitution, which is applicable when a municipality is in a serious financial crisis and is in material breach of its obligations to provide basic services or to meet its financial commitments.

The report from the AGSA further indicated that municipalities' financial health continued to deteriorate from a net current liability position. In addition, municipalities faced significant cash-flow constraints, as they neither maximised the billing of revenue from service charges and rates, nor the collection of amounts outstanding from consumers. Municipalities had a significant opening debtors book at R20 billion. Given their cash-flow constraints, municipalities fell behind with their payments for bulk purchases of electricity to Eskom by R11.6 billion and water to water boards by R4.4 billion (which were outstanding at 30 February 2020). Of these amounts, 91 per cent of the payments due to Eskom and 98 per cent of those due to the water boards were outstanding for more than 90 days.

Municipalities also incurred significant electricity and water distribution losses due to theft, illegal connections, poor monitoring of indigents' consumption, and poorly maintained infrastructure. Some municipalities failed to pay over contributions to third parties, such as pension funds and/or medical aids, which resulted in litigation and protest actions by affected employees.

Irregular expenditure disclosed in the financial statements increased from R1.6 billion to R1.9 billion in 2018/19, as all municipalities had material findings on procurement and did not prevent irregular expenditure as required by legislation. The continued disregard for procurement processes that resulted in irregular expenditure, coupled with limited consequences for these transgressions, created an environment vulnerable to misappropriation, wastage and the abuse of state funds.

The most common supply chain management findings that resulted in irregular expenditure related to three quotations and competitive bids not being obtained or invited, suppliers not submitting declarations of interest, and a lack of tax clearance certificates. According to the AGSA irregular

expenditure was not always adequately investigated to identify the officials to be held accountable for the possible recovery of losses, resulting in the year- on-year increase in the balance. Where irregular expenditure was investigated, officials were seldom held accountable but amounts were written off.

Only 12 of the 22-delegated municipalities submitted their annual financial statements for the 2018/19 financial year on 31 August 2019 to the AGSA as required by Section 126 (1)(a) of the MFMA. Three municipalities still have to submit their 2017/18 financial statements to the AGSA.

Three municipalities are under Section 139 intervention. National Treasury has already conducted financial recovery plans for Masilonyana, Mafube, Maluti-a-Phofung, Phumelela and Nketoana whilst Ngwathe and Kopanong have also been identified to be in urgent and critical distress.

The following are some of the additional challenges with regard to municipalities:

- Consistent increase in bulk service debt;
- Government debt to municipalities;
- Decrease in the equitable shares allocation to the Free State municipalities, especially those in rural municipalities due to migration of communities to the bigger municipalities for better prospects;
- Over-reliance on equitable shares allocation due to poor revenue collection;
- Declining economy and high unemployment due to closing down of mines and drought in the agricultural sector;
- Inability to attract new investments to support local economic development;
- Inability of municipalities to identify and address both water and electricity losses;
- Non cost reflective tariffs;
- Outstanding creditors;
- Outstanding debtors; and
- Low collections.

## 10. Internal environment analysis

The department provides support and oversight to all Departments, Public Entities and Municipalities in terms of the PFMA and MFMA.

The Department consists of the following five programmes:

### **Programme 1: Administration**

The role of this programme is to provide leadership and strategic management in accordance with legislation, regulations and policies as well as to ensure that there are appropriate support services to all other programmes.

### **Programme 2: Sustainable Resource Management**

The role of this programme is to provide professional advice and support on provincial economic analysis, fiscal policy, and the management of the annual budget process and the implementation of provincial budgets.

### Programme 3: Asset and Liability Management

The role of this programme is to provide policy direction, facilitate the effective and efficient management of assets, liabilities and financial management systems and procure transversal and cross-cutting goods and services.

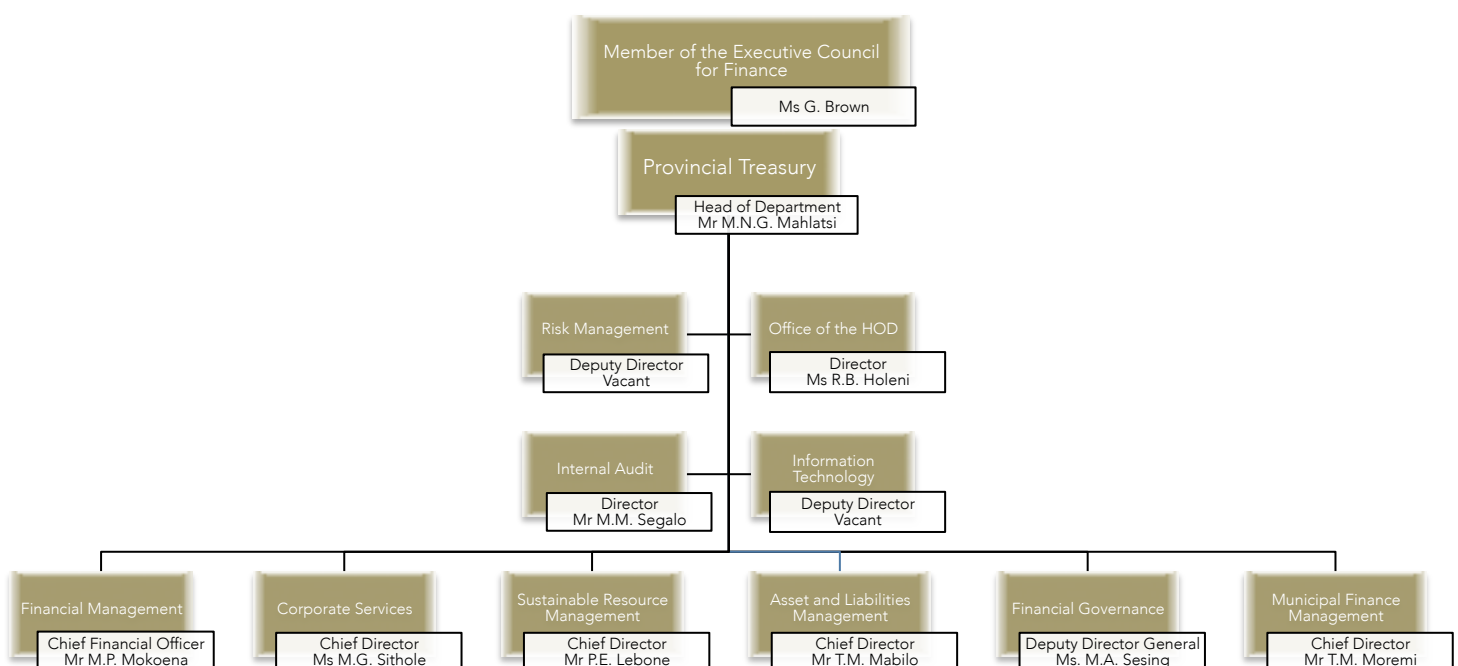
### Programme 4: Financial Governance

The role of this programme is to promote accountability through substantive reflection of financial activities of the province as well as compliance with financial norms and standards.

### 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 level.

The diagram below depicts the high level organisational structure of the Provincial Treasury.



The Department has a staff establishment of 429 funded posts, of which 376 are filled. The Department has a vacancy rate of 12 per cent. A number of critical vacancies had been filled to ensure that the Department is in a position to fulfil its mandate. Some of these positions were filled through internal promotions, which resulted in vacancies elsewhere in the Department. Capacity in the areas of monitoring and oversight of infrastructure and supply chain management is a concern, which is aggravated by the financial constraints in the province. The Department is exploring measures such as co-funding with National Treasury to address capacity in infrastructure. The Department's staff complement is well educated with more than 85 per cent of employees having a tertiary qualification.

The employment equity profile of the Department for employees with disabilities improved from 1.57 per cent at the beginning of 2019/20 to 1.86 per cent at the end of the financial year. This is however still below the target and a concerted effort is required to increase the number of employees with disabilities. Although the representation of women in SMS posts improved to 32 per cent, it is still below the target of 50 per cent.

The equity profile for the Department is as follows:

Occupational band	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top Management	5	0	0	0	2	0	0	0	7
Senior Management	8	0	1	3	3	2	0	1	18
Professionally qualified and experienced specialists and mid-management	26	1	0	2	18	0	2	9	58
Skilled technical and academically qualified workers, junior management, supervisors, foreman and superintendents	78	3	0	9	107	7	0	21	225
Semi-skilled and discretionary decision making	13	2	0	1	15	2	1	4	38
Unskilled and defined decision making	13	0	0	0	17	0	0	0	30
<b>Total</b>	<b>143</b>	<b>6</b>	<b>1</b>	<b>15</b>	<b>162</b>	<b>11</b>	<b>3</b>	<b>35</b>	<b>376</b>

The Department's budget is estimated to increase over the MTEF from the adjusted appropriation of R359.663 million in 2019/20 to R382.974 in 2022/23 (see the table below).

To enable the province to promptly respond to limit the spread of the COVID-19 virus, the MEC for Finance invoked Section 25 of the Public Finance Management Act for utilisation of funds from the Provincial Revenue Fund. The procurement of PPEs on behalf of the province was centralised in Provincial Treasury hence the considerable increase in the allocation for 2020/21.

Programmes	2020/21	2021/22	2022/23
	R'000	R'000	R'000
Administration	111 755	122 776	130 460
Sustainable Resource Management	55 958	60 729	63 821
Asset and Liability Management	287 889	88 874	91 332
Financial Governance	30 069	31 267	32 642
Municipal Finance Management	49 995	59 497	64 719
<b>Total</b>	<b>535 666</b>	<b>363 143</b>	<b>382 974</b>

Economic Classification	2020/21	2021/22	2022/23
	R'000	R'000	R'000
Compensation of employees	252 157	267 079	280 996
Goods & Services	280 336	93 004	98 775
Interest paid	-	-	-
Transfer payments	409	431	451
Capital payments (including finance leases)	2 764	2 629	2 752
<b>Total</b>	<b>535 666</b>	<b>363 143</b>	<b>382 974</b>

The Department received an unqualified with findings audit opinion for 2018/19 which is unchanged from 2017/18. At the end of March 2019, Provincial Treasury had accumulated irregular expenditure to the amount of R72.624 million. An amount of R 52,656 million relates to irregular expenditure of prior years for which condonation from National Treasury is awaited. An amount of R13.290 million was recorded as irregular expenditure in the 2018/19 financial year. All cases of irregular expenditure are being investigated and control measures will be developed and implemented to prevent irregular and fruitless and wasteful expenditure in future.

Governance of Information Communication Technology (ICT) structures and policies are in place in the Department but the use of ICT to improve efficiency is limited and the move to e-governance slow. The Department is in the process of conducting an assessment on network infrastructure for e.g. cloud readiness and IFMS readiness. Although limited, the Department has ICT capacity to develop solutions and applications. An example in this regard is the electronic registration process that was put in place for the annual provincial research colloquium and the app that was used to manage the papers and questions. The opportunities and challenges that the 4<sup>th</sup> Industrial Revolution offers have to be explored further.

## Part C: Measuring Our Performance

### 11. Institutional Performance Information

#### 11.1 Impact statements

<b>Impact Statement</b>	Sustainable and accountable fiscal governance in provincial departments, public entities and municipalities
-------------------------	---

#### 11.2 Measuring our outcomes

Outcome	Outcome Indicator	Baseline	Five year target
Sound and responsive management practices	Audit outcome	Unqualified with findings (2018/19 financial year)	Unqualified with no findings (clean)
Improved fiscal sustainability in provincial departments and public entities	Cash coverage: Bank balance as a % of the budget of the following year	-0.65% (2018/19 balance of -R243.84 million as % of 2019/20 budget of R37.27 billion)	-0.1%
	Accruals and payables as a % of the budget of the following financial year	5.9% (2018/19 Accruals and payables of R2.2 billion as % of 2019/20 budget of R37.27 billion)	5% or less
	Unauthorised expenditure as a % of the budget of the following financial year	1.7% (2018/19 Unauthorised expenditure of R617.6 million as % of 2019/20 budget of R37.27 billion)	1.2%
	Compensation of employees as a % of total budget	62%	60%
	Contingency reserves	R50 million	R100 million
Improvement in financial accountability in provincial departments and public entities	Fruitless and wasteful expenditure as a % of total expenditure	0.12% (R40.6 million of 2018/19 expenditure of R34.98 billion)	0.05%

Outcome	Outcome Indicator	Baseline	Five year target
	Irregular expenditure as a % of the total expenditure	7.1% (R2.5 billion of 2018/19 expenditure of R34.98 billion)	2%
	Percentage of Provincial Treasury findings on Draft Annual Financial Statements resolved	95.5% (2018/19 Draft AFS)	95% annually
	Percentage compliance to the minimum requirements of the AFS work file	4 Departments scored between 80 and 89% and 8 departments scored 90% or higher (2019/20 3 <sup>rd</sup> Quarter IFS work file)	12 Departments ≥ 90% 2 Entities ≥ 80%
	Total number of audit qualification paragraphs	47 (2018/19 financial year)	12 (75% reduction)
	Number of departments and entities to achieve a score of 90% or higher on Risk Management and Internal Audit KPIs	<b>Risk Management:</b> 7 Departments and 1 public entity <b>Internal Audit:</b> 8 Departments and 1 public entity	<b>Risk Management:</b> 12 Departments and 2 public entities <b>Internal Audit:</b> 12 Departments and 1 public entity
Improved fiscal sustainability in municipalities	Number of municipalities with fully funded budgets as at 30 June	8 (2019/20 budget)	16
	Number of municipalities in financial distress	10	5
Improvement in financial accountability in municipalities	Unauthorised expenditure as a % of total expenditure	32.9% (*R3.16 billion of total expenditure of R9.6 billion for 2018/19)	10%
	Fruitless and wasteful expenditure as a % of total expenditure	4.17% (*R0.40 billion of total expenditure of R9.6 billion for 2018/19)	2.5%
	Irregular expenditure as a % of the total expenditure	7.53% (*R0.72 billion of total expenditure of R9.6 billion for 2018/19)	5%
	Number of municipalities that concluded the FCMMS self-assessment	6	16
	Number of municipalities that submitted the Annual Financial Statements on time	13 (2018/19 financial year)	22
	Total number of audit qualification paragraphs	**120 (2017/18 financial year)	80
FIDPM and IDMS institutionalised in the province for effective and efficient infrastructure delivery and management	Infrastructure Progression Model (IPM) assessment score	<b>Departments:</b> 1 Dept at 51.75% and 1 Dept at 49.75% (Only two departments assessed in 2018/19) <b>Municipalities:</b> Baseline to be established with 2020/21 assessment	<b>Departments:</b> 8 Depts at 80% or higher  <b>Municipalities:</b> 10 Municipalities at 50% or higher

\* The baseline is based on the audited figures of 15 of the 22-delegated municipalities, 7 audits for 2018/19 were not yet finalised

\*\* The baseline is based on the audited figures of 19 of the 22-delegated municipalities, 3 audits for 2017/18 were still outstanding

### 11.3 Explanation of Planned Performance over the Five-Year Planning Period

Sound financial management is a key component of achieving MTSF Priority 1: A Capable, Ethical and Developmental State. In accordance with its mandate in terms of the PFMA and the MFMA, Provincial Treasury is responsible for ensuring sound and sustainable financial management in provincial departments, public entities and municipalities.

The outcomes above are all key aspects of sound financial management and contribute directly to the achievement of the following interventions under Priority 6 in the MTSF:

- Improve financial management capability in the public sector
- Measures to reduce wasteful and fruitless expenditures; and irregular expenditure in the public sector.

The outcomes furthermore contribute to the achievement of Pillar 6: Good Governance, Driver 15: Foster good governance to create a conducive climate for growth and development of the Free State Growth and Development Strategy.

The outcomes will only be achieved if provincial departments, public entities and municipalities collaborate with Provincial Treasury and implement recommendations made by the Department. A critical success factor is for oversight bodies such as the Legislature, municipal councils and the boards of entities to fulfill its oversight obligation in keeping executing authorities and accounting officers/authorities accountable. A critical enabler is effecting of consequences for poor performance and transgressions.

## 12. Key Risks and Mitigations

Outcome	Key Risk	Risk Mitigation
Sound and responsive management practices	<ul style="list-style-type: none"> <li>• Failure to recruit and retain skilled personnel</li> </ul>	<ul style="list-style-type: none"> <li>• Review the Recruitment and Retention Strategy</li> <li>• Sufficient budget for skilled personnel</li> <li>• Implementation of the workplace skills plan for the department</li> </ul>
Improved fiscal sustainability in provincial departments and public entities	<ul style="list-style-type: none"> <li>• Incurring of accruals and unauthorized expenditure</li> </ul>	<ul style="list-style-type: none"> <li>• Scaling down or deferment of programmes/projects</li> <li>• Re-prioritisation of budgets from non-core to core services</li> <li>• Implementation of cost-containment measures</li> </ul>
Improvement in financial accountability in provincial departments and public entities	<ul style="list-style-type: none"> <li>• Non-adherence to legislative reporting requirements by departments and entities which will result in inaccurate reporting by Provincial Treasury</li> <li>• Failure by departments and public entities to implement assurance provider's recommendations</li> </ul>	<ul style="list-style-type: none"> <li>• Interact with executive authorities and accounting officers/authorities of departments/entities via the MEC for Finance and HOD for Treasury on issues of non-adherence/non-compliance</li> <li>• Issue non-compliance letters</li> <li>• Issue and monitor implementation of legal prescripts / policies / SOPs / instruction notes / frameworks and circulars to guide implementation</li> <li>• Do regular follow-ups</li> <li>• Reminders prior to due dates</li> </ul>

Outcome	Key Risk	Risk Mitigation
		<ul style="list-style-type: none"> <li>• Site visits to verify information</li> <li>• Monitoring and evaluation of information (e.g. KCMs) in systems and models</li> <li>• Assessment reports with recommendations</li> <li>• Training/ Forums / Workshops / Bilaterals / consultation and engagements with departments &amp; entities</li> </ul>
Improved fiscal sustainability in municipalities	<ul style="list-style-type: none"> <li>• Unfunded budgets</li> </ul>	<ul style="list-style-type: none"> <li>• Conduct budget bilaterals</li> <li>• Conduct Mid-Year Review</li> <li>• Conduct adjustment budget sessions</li> <li>• Support municipalities with technical support on budgets</li> <li>• Monthly monitoring of section 71 reporting and identifying distress municipalities.</li> <li>• Support municipalities with development of financial recovery plans through the MFRS.</li> </ul>
Improvement in financial accountability in municipalities	<ul style="list-style-type: none"> <li>• Non-adherence to legislative reporting requirements by municipalities which will result in inaccurate reporting by Provincial Treasury</li> <li>• Failure by municipalities to implement assurance provider's recommendations</li> </ul>	<ul style="list-style-type: none"> <li>• Interact with mayors and accounting officers of municipalities via the MEC for Finance and HOD for Treasury on issues of non-adherence/non-compliance</li> <li>• Issue non-compliance letters</li> <li>• Issue and monitor implementation of legal prescripts / policies / SOPs / instruction notes / frameworks and circulars to guide implementation</li> <li>• Do regular follow-ups</li> <li>• Reminders prior to due dates</li> <li>• Site visits to verify information</li> <li>• Monitoring and evaluation of information in systems and models</li> <li>• Assessment reports with recommendations</li> <li>• Training/ Forums / Workshops / Bilaterals / consultation and engagements with municipalities</li> </ul>
FIDPM and IDMS institutionalised in the province for effective and efficient infrastructure delivery and management	<ul style="list-style-type: none"> <li>• Inability of Provincial Treasury, departments and municipalities to enforce and support implementation of National Treasury Instruction No 3 of 2019/20</li> </ul>	<ul style="list-style-type: none"> <li>• FIPDM and IDMS institutionalization promoted and facilitated by Provincial Treasury at all provincial governance structures (CFO Forum, Cluster meetings, FOHOD and EXCO)</li> <li>• Capacitation of all departments' and municipalities' infrastructure units in terms of human resources and training</li> <li>• Departmental and municipal management enforce and support institutionalization of FIDPM and IDMS</li> </ul>

Outcome	Key Risk	Risk Mitigation
		<ul style="list-style-type: none"> <li>• Departmental and municipal management support for assessment of level of institutionalization through IPM</li> <li>• Departmental and municipal management support for all infrastructure planning and monitoring initiatives by Provincial Treasury</li> </ul>

### 13. Public Entities

The Department does not have public entities.

## Part D: Technical Indicator Description (TID)

<b>Indicator Title</b>	Audit outcome
<b>Definition</b>	Audit outcome refers to the opinion expressed by the Auditor General
<b>Source of data</b>	Administrative records
<b>Method of calculation /assessment</b>	N/A
<b>Assumptions</b>	AGSA conducts an audit
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	On-target
<b>Indicator Responsibility</b>	Programme Managers

<b>Indicator Title</b>	Cash Coverage: Bank balance as a % of the budget of the following financial year
<b>Definition</b>	Bank balance refers to the consolidated Provincial Revenue Fund bank balance as at 31 March
<b>Source of data</b>	Provincial Revenue Fund annual financial statement
<b>Method of calculation /assessment</b>	Sum of bank balances including Exchequer, CPD account, Call accounts and PMG accounts
<b>Assumptions</b>	Annual Financial Statements submitted timeously
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Lower percentage
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Accruals and payables as a % of the budget of the following financial year
<b>Definition</b>	Accruals and payables refer to current accruals and payables not recognised included in the notes to the consolidated annual financial statements
<b>Source of data</b>	Consolidated annual financial statement
<b>Method of calculation /assessment</b>	Total of current accruals and payables for the prior financial year as a % of the budget of the following financial year
<b>Assumptions</b>	Annual Financial Statements are accurate and complete and submitted timeously
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Lower percentage
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Unauthorised expenditure as a % of the budget of the following financial year
<b>Definition</b>	Unauthorised expenditure refers to current unauthorised expenditure included in the notes to the consolidated annual financial statements. Unauthorised expenditure is defined as (i) overspending of a vote or main division within in vote; or (ii) expenditure that is made not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.
<b>Source of data</b>	Consolidated annual financial statement
<b>Method of calculation /assessment</b>	Total of current unauthorised expenditure for the financial year as a % of the total provincial budget
<b>Assumptions</b>	Annual Financial Statements are accurate and complete and submitted timeously
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Lower percentage
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Compensation of employees as a % of total budget
<b>Definition</b>	Compensation of employees refers to the amount budgeted for basic salaries and wages, performance rewards, service bonuses, allowances and social contributions.
<b>Source of data</b>	Estimates of Provincial Revenue and Expenditure (EPRE)
<b>Method of calculation /assessment</b>	Budget for CoE for the financial year as a % of the total provincial budget
<b>Assumptions</b>	EPRE prepared timeously
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Lower percentage
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Contingency reserves
<b>Definition</b>	Contingency reserves refer to funds set aside for unforeseeable events/ occurrences.
<b>Source of data</b>	Administrative records
<b>Method of calculation /assessment</b>	N/A
<b>Assumptions</b>	EPRE prepared timeously
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Higher
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Fruitless and wasteful expenditure as a % of the budget
<b>Definition</b>	Fruitless and wasteful expenditure refer to current Fruitless and wasteful expenditure included in the notes to the consolidated annual financial statements. Section 1 of the PFMA defines fruitless and wasteful expenditure as “expenditure which was made in vain and would have been avoided had reasonable care been exercised”.
<b>Source of data</b>	Consolidated annual financial statements
<b>Method of calculation /assessment</b>	Total of current fruitless and wasteful expenditure for the current financial year as a % of the total provincial budget
<b>Assumptions</b>	Annual Financial Statements are accurate and complete and submitted timeously
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Lower percentage
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Irregular expenditure as a % of total expenditure
<b>Definition</b>	Irregular expenditure refers to current irregular expenditure in the notes to the consolidated annual financial statements. Irregular expenditure is defined in Section 1 of the PFMA as “expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including (a) this Act; or (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of that Act; or (c) any provincial legislation providing for procurement procedures in that provincial government.”
<b>Source of data</b>	Consolidated annual financial statement
<b>Method of calculation /assessment</b>	Total of current irregular expenditure for the financial year as a % of the total provincial expenditure
<b>Assumptions</b>	Annual Financial Statements are accurate and complete and submitted timeously
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Lower percentage
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Percentage of Provincial Treasury findings on IFS and Draft Annual Financial Statements resolved
<b>Definition</b>	The indicator refers to the percentage of findings from Provincial Treasury on the Interim and draft AFS of all departments and entities that were resolved prior to the annual audit to improve the quality of financial statements.
<b>Source of data</b>	Administrative records
<b>Method of calculation /assessment</b>	Number of findings resolved as a percentage of the total number of findings
<b>Assumptions</b>	Interim and Draft Annual Financial Statements submitted timeously
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Higher percentage
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Percentage compliance to the minimum requirements of the AFS work file
<b>Definition</b>	The percentage compliance refers to the outcome of an assessment of the AFS work file submitted by departments and entities to Provincial Treasury prior to the external audit against a checklist of requirements and agreement with figures reported.
<b>Source of data</b>	Administrative records
<b>Method of calculation /assessment</b>	The number of requirements met in terms of the checklist as a percentage of the total number of requirements
<b>Assumptions</b>	Draft Annual Financial Statements submitted timeously
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Higher percentage
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Total number of audit qualification paragraphs
<b>Definition</b>	Total number of audit qualification paragraphs refers to the findings that form the basis for a qualified opinion expressed in the audit report of departments and entities of provincial departments in the AGSA audit report.
<b>Source of data</b>	Annual Reports/Audit reports and AGSA consolidated report
<b>Method of calculation /assessment</b>	Simple count
<b>Assumptions</b>	Audit completed timeously
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Lower number
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Number of departments and entities to achieve a score of 90% or higher on Risk Management and Internal Audit KPIs
<b>Definition</b>	The score refers to the percentage that departments and public entities score, in terms of compliance and effectiveness of Risk Management and Internal Audit, on an assessment against a set of Key Performance Indicators.
<b>Source of data</b>	Administrative records
<b>Method of calculation /assessment</b>	Simple count
<b>Assumptions</b>	All departments and public entities implement effective Risk Management and Internal Audit systems
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Higher number
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Number of municipalities with fully funded budgets as at 30 June
<b>Definition</b>	Funded budgets refer to budgets with no deficit
<b>Source of data</b>	Administrative records
<b>Method of calculation /assessment</b>	Simple count
<b>Assumptions</b>	Budgets submitted timeously
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Higher number
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Number of municipalities in financial distress
<b>Definition</b>	Municipalities in financial distress refer to municipalities that are under Section 139 intervention and those that are unable to meet their financial commitments.
<b>Source of data</b>	Administrative records
<b>Method of calculation /assessment</b>	Simple count
<b>Assumptions</b>	Municipalities prepared financial statements timeously
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Lower number
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Unauthorised expenditure as a % of total expenditure
<b>Definition</b>	Unauthorised expenditure, as defined in Section 1 of the MFMA, in relation to a Municipality, means any expenditure incurred by a Municipality otherwise than in accordance with section 15 or 11(3) of the MFMA.
<b>Source of data</b>	Municipal Annual Financial Statements
<b>Method of calculation /assessment</b>	Total of current unauthorised expenditure for the financial year as a % of the total expenditure
<b>Assumptions</b>	Annual Financial Statements are accurate and complete and submitted timeously
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Lower percentage
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Fruitless and wasteful expenditure as a % total expenditure
<b>Definition</b>	Section 1 of the MFMA defines fruitless and wasteful expenditure as "expenditure which was made in vain and would have been avoided had reasonable care been exercised".
<b>Source of data</b>	Municipal Annual Financial Statements
<b>Method of calculation /assessment</b>	Total of current fruitless and wasteful expenditure for the current financial year as a % of the total expenditure
<b>Assumptions</b>	Annual Financial Statements are accurate and complete and submitted timeously
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Lower percentage
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Irregular expenditure as a % of total expenditure
<b>Definition</b>	Irregular expenditure refers to irregular expenditure in relation to a municipality or municipal entity as defined in Section 1 of the MFMA.
<b>Source of data</b>	Annual financial statements of municipalities
<b>Method of calculation /assessment</b>	Total of current irregular expenditure for the financial year as a % of the total expenditure
<b>Assumptions</b>	Annual Financial Statements are accurate and complete and submitted timeously
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Lower percentage
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Number of municipalities that concluded the FMCMM self-assessment
<b>Definition</b>	The FMCMM is a financial management assessment tool designed to help municipalities to assess their own level of financial management maturity and performance.
<b>Source of data</b>	Administrative records
<b>Method of calculation /assessment</b>	Simple count
<b>Assumptions</b>	Municipalities complete the self-assessments timeously
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Higher number
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Number of municipalities that submitted the annual financial statements on time
<b>Definition</b>	The indicator refers to the submission of the annual financial statements to the Auditor General for audit
<b>Source of data</b>	Administrative records
<b>Method of calculation /assessment</b>	Simple count
<b>Assumptions</b>	Municipalities finalise annual financial statements on time
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Higher number
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Total number of audit qualification paragraphs
<b>Definition</b>	The indicator refers to the total number of findings that form the basis for a qualified opinion expressed in the audit report of municipalities and municipal entities
<b>Source of data</b>	Annual Reports/Audit reports and AGSA consolidated report
<b>Method of calculation /assessment</b>	Simple count
<b>Assumptions</b>	Audit completed timeously
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Lower number
<b>Indicator Responsibility</b>	Programme Manager

<b>Indicator Title</b>	Infrastructure Progression Model (IPM) assessment score
<b>Definition</b>	The Infrastructure Progression Model measures the level of institutionalisation and impact of the IDMS within a department/municipality. It measures the capability and maturity as well as the performance in planning, procurement, delivery and management of infrastructure by a department/municipality using the IDMS methodology and highlights areas where further development is needed.
<b>Source of data</b>	Administrative records
<b>Method of calculation /assessment</b>	Simple count
<b>Assumptions</b>	IPM assessment conducted for departments with infrastructure and municipalities
<b>Disaggregation of beneficiaries</b>	N/A
<b>Spatial Transformation</b>	N/A
<b>Desired performance</b>	Higher number and higher score
<b>Indicator Responsibility</b>	Programme Manager

## **Annexures to the Strategic Plan**

### **Annexure A: District Development Model**

Not applicable