

VOTE 3: POLICY AND BUDGET SPEECH PRESENTED BY THE MEC FOR FINANCE, MRS Y.N PHOSA, MPL, TO THE MPUMALANGA PROVINCIAL LEGISLATURE

Thursday, 27 August 2009

Honourable Speaker, Mr J.M Mthembu;
Honourable Premier, Mr D.D Mabuza;
Honourable Deputy Speaker, Ms V.S Siwela;
Chief Whip of the Majority Party, Mr M.S.A Masango;
Colleagues in the Executive Council;
Honourable Members of the Provincial Legislature;
Acting Director General of the Province, Mr J.S Mgidi;
The Head of the Department of Finance, Mr R.S Tshukudu;
Other Heads of Departments present;
Members of the media;
Distinguished guests;
Comrades and friends;
Ladies and gentlemen;

Good Afternoon!

Honourable Speaker, Honourable Members, allow me at the onset, to congratulate the President, His Excellency Mr Jacob Gedleyihlekisa Zuma and the Premier of Mpumalanga, the province with the *pioneering spirit*, Honourable David Dabede Mabuza, on the successful completion of their first 100 Days in office.

We wish to commend these leaders with the following words by Susan Jeffers:

“Knowing that we can make a difference in this world is a great motivator. How can we know this and not be involved?”

It is only proper that as we come to the closing of the activities in celebration of the women's month, we salute the role played by the women of this country in the various spheres of their lives as we engage in the struggle for the building and formation of the nation previously disintegrated by colonialism of a special type. We appreciate the efforts of the current democratic state in transforming the gender relations and thus restore the dignity of women. Indeed a lot has changed.

I am humbled and appreciate the opportunity given to us, to address this august house on the occasion of tabling the policy and budget speech of Vote 3: the Department of Finance. We are further humbled by the continuing confidence by the ruling African National Congress, in trusting us to manage the provincial fiscus. It is the responsibility that we re-commit to fulfil with passion to ensure that we steer our province in the right direction, that is, towards fulfilling the commitments made by the ruling party during the past elections and previously.

ECONOMIC OUTLOOK

It is therefore prudent Honourable Speaker, that we must inform the House about the prospects of our economy going forward. The economy remains firmly in the grips of a recession. The South African economy contracted at an annualized 3 per cent in the second quarter of 2009, compared with a 6.4 per cent decline in the first quarter. This is the first time since 1992 that the national economy has experienced three successive quarters of negative growth. The good news is that the economic slowdown has itself began to slow down. Economists argue that South Africa's economic performance could also have been worse, were it not for the quick action of policy-makers.

Our government's commitment to spend R787 billion on infrastructure over the next three (3) years, along with increased social spending; and President Zuma's push to create hundreds of thousands of job opportunities, will help prevent the economy from slipping into an even deeper recession.

Indeed, as Economic Development Minister indicated to newspaper reporters yesterday, most of the R2, 4 billion allocated to the national jobs fund would end up in the pockets of workers through training allowances, rather than companies. This would support consumer spending and help drive a rebound in the economy. It also looks as if aggressive fiscal and monetary policy globally, had substantially reduced risks of a deeper economic contraction and set the foundation for stabilising the global economy. Although there are already signs of a global economic recovery, the effects will take some time to filter through to our economy which tends to lag behind world markets.

It is expected that the national economy will experience a negative growth rate of 2 per cent this year and the provincial economy a negative growth rate of 3 per cent. Looking beyond the economic crisis, positive growth rates of 2 per cent are forecast for South Africa and 1.6 per cent for our province. It is however unfortunate Honourable Members, that thousands more people join the jobless ranks every month as the recession grinds on. According to Statistics South Africa's Labour Force Survey, the South African economy shed 267 000 jobs in the second quarter of this year while 302 000 more people gave up looking for work in the same period.

Official unemployment (excluding discouraged workers) increased from 23.5 per cent in the first quarter to 23.6 per cent in the second quarter of 2009. According to the expanded definition of unemployment which includes discouraged workers, South Africa's unemployment rate jumped to 32.5 per cent in the second quarter. Economists believe that the economy could shed up to 700 000 jobs before it starts to recover next year. Our province is also influenced negatively in terms of job losses and unemployment. The number of people who lost their jobs in Mpumalanga in the second quarter ended June 2009 were 39 000 according to Statistics South Africa.

The province's official unemployment rate has therefore increased from 24.7 per cent in the first quarter to 26.5 per cent in the second quarter. Among the nine provinces, our province had the second biggest increase, that is, 1.8 per cent of increased unemployment in the second quarter of 2009. Mpumalanga's unemployment rate according to the expanded definition, jumped to 35.5 per cent in the second quarter as a result. With regard to inflation, the official headline inflation outcome for June 2009 at 6.9 per cent surprised pleasantly, after it remained sticky beyond expectations over the preceding five months.

The good news is that the food price index actually declined on a monthly basis for the first time since February 2007 to 10.2 per cent. The July 2009 inflation figures indicated a further decline in the inflation rate to 6.7 per cent and the food index to 8.3 per cent. This spells good news to the poor who spend a high percentage of their income on food. The provincial inflation rate for July 2009 was at 7.8 per cent, which is the highest figure of all the provinces. Our mining sector has already begun to bounce back, and this is mainly due to the rise in global commodity prices. The sector expanded by 5.5 per cent in the second quarter after it crashed by 33 per cent in the first quarter. Manufacturing, agriculture, financial services, retail and wholesale trade continued to decline.

As a Department, we would like to welcome and congratulate Ms Gill Marcus on her appointment as Governor of the Reserve Bank. The South African Reserve Bank continued to cut interest rates in August 2009 despite stubborn price pressures in a bid to help jolt the economy out of a recession. The Bank has now lowered lending rates by five percentage points since December 2008. This more flexible monetary policy, will contribute to South Africa's economic recovery in the next couple of months. This is a good sign that we must now start to look beyond the storm and pave the way for faster economic growth, in order to rekindle our economy for the sole benefit of our people.

It is our responsibility; we cannot dodge it – lest we will all be blamed for letting South Africa and its people down.

Honourable Speaker, Honourable Members, having explained the prospects of our economy which now informs our point of departure, I also deem it significant that we must build on the foundation laid by former MEC for Finance, Mr J.L Mahlangu when he presented the departmental policy and budget speech on 19 June last year. Allow me then to start by reporting on the progress made regarding commitments made in the 2008-2009 policy and budget speech.

REVIEW OF THE 2008-2009 FINANCIAL YEAR

1. Administration

In the past financial year, we promised to **fill all vacant posts** in order to effectively perform our treasury functions as mandated. We can report that due to resignations, internal promotions and re-alignment of functions in response to the need for curtailment of costs and the subsequent filling of only critical posts, we filled only 48 of the 150 vacant funded posts, and shifted the savings to core priorities. Our vacancy rate now stands at 23,5 per cent. As promised in the previous financial year, we have **awarded twenty one (21) external students with bursaries to study for disciplines in the fields of financial management, IT and auditing**, in order to increase the skills base in the said fields. Furthermore, **a total of twenty (20) learners and twenty (20) interns were enrolled and trained** as promised.

Under legal matters, we committed to facilitate the passing of the **Mpumalanga Unauthorized Expenditure Bill of 2007, the Mpumalanga Finance Laws Repeal Bill, 2008, the Mpumalanga Tourism Levies Bill and the Mpumalanga Gambling Levies Bill.**

We can report that the Mpumalanga Gambling Levies Bill has been finalised and we are currently awaiting public comments on its regulations. The **Mpumalanga Finance Laws Repeal Bill, 2008** was processed during the term of the previous administration, but could not be finalised. It will be resuscitated in the current financial year.

With regards to the Mpumalanga Tourism Levies Bill, I can report that we are currently consulting various stakeholders to determine the feasibility of introducing the levy in light of the current recession. We also need to check our compliance in terms of section 3 of the Provincial Tax Regulation Process Act, 2001 (Act 53 of 2001), as it is a money Bill. The Act seeks to amongst others, regulate an intergovernmental process that must be followed by provinces in the exercise of their power in terms of section 228 of the Constitution to impose taxes, levies and duties imposed by national legislation.

We conducted risk assessment workshops to identify and assess risks that may impact on performance and we subsequently developed strategies to mitigate the risks. The results of the risk assessment were utilised by the internal audit unit to develop and implement internal audit plans which were approved by the Audit Committee.

2. Sustainable Resource Management

As mandated, we continued to conduct **analysis of departmental budget documentation and provide advice to departments**, to ensure that departmental budgets are aligned with the broad national and provincial policies and priorities. We ensured **compliance with the PFMA, the Division of Revenue Act (DORA), Treasury Regulations and Provincial legislative mandates** by departments and public entities.

However, the commitment to **provide financial and non-financial performance information to the Provincial Legislature** to enable it to exercise its oversight function on service delivery was not done constantly. It is a challenge that we promise to overcome during the current financial year. We conducted a series of workshops to build the provincial capacity **on budget process, expenditure management and non-financial data collection, processing and analysis** so as to link this information to Departmental Annual Performance Plans as promised. We managed to convene the Medium-Term Expenditure Committee hearings during September 2008 as promised, in order to better allocate the limited financial resources at our disposal.

3. Assets and Liabilities Management

In our quest and drive of ensuring a capacitated cadre of practitioners on Supply Chain Management, we have during the past financial year trained 636 municipal and departmental officials and committee members on SCM processes. This included training on the development of specifications, managing bid evaluations, adjudication of bids as well as on contract management. We intend to train and capacitate more officials in the current financial year. Our intervention in capacitating SCM practitioners in the province is starting to bear fruit.

During the past financial year, we enrolled 25 officials from departments, municipalities and public entities for a one year certificate programme on supply chain and asset management through the University of Pretoria. They have since written their final examination in July this year and we are currently awaiting the release of the results and graduation by those who successfully completed the programme.

We promised to launch the Provincial Public Private Partnership Policy framework, and we can report that the policy framework was launched on the 25th November 2008.

We have supported departments and municipalities in order to improve on the management and accounting on assets. This area however, still remains a major challenge, and it is our intention to dedicate more effort and energy in order to improve on it. Our intervention in this regard included the development of a Provincial Asset Management Policy Framework to ensure uniformity, standardisation, interpretation and implementation. We will in the current financial year, process this policy framework through our clusters and solicit the approval of the Executive Council.

Honourable Members, we have also established the Public Sector Liabilities Management unit to support all departments and municipalities with the management of liabilities. This is with a view that an organisation that doesn't know the extent of its liabilities and commitments, is a vulnerable organization that is meant to fall and die, and can't stand the test of time.

Our focus in this regard is still to build capacity within the unit as well as to identify key risk areas and develop plans to mitigate, so that the provincial government is able to effectively manage its liabilities. Our process of finalising the **Mpumalanga Preferential Procurement Policy Framework** has been put on hold after consultation with the National Treasury. This is because National Treasury is in a process of reviewing the framework. We will report back to the house once the reviewed framework has been completed. We also committed to **develop the Provincial Cash Management Policy and guidelines on procurement of infrastructure projects.**

We can report that drafts of the Provincial Cash Management Policy and Guidelines on Procurement of Infrastructure Projects have been finalised and we are currently consulting all stakeholders to solicit their buy-in.

Regarding the implementation of the Master Systems Plan (MSP) developed in the 2007-2008 financial year, we can report that we have engaged the services of SITA (State Information Technology Agency) to assist in managing the procurement of a service provider since it is their mandate to do so. Currently, SITA has issued a request for proposals on behalf of the Province and we envisage that this process would have been concluded by the end of the financial year.

4. Financial Governance

On financial governance, we continued to **support and monitor Departments, Municipalities and Public Entities with regard to the implementation of - and compliance with prescribed policies and Acts.** Our intervention and support to departments continues to bear fruit in terms of the audit outcomes. I am proud to announce that no department received a disclaimer audit opinion from the Auditor General as a result. For the audit outcomes of the 2008-2009 financial year, eleven (11) out of 14 votes received an unqualified audit opinion, compared to nine (9) in the 2007-2008 financial year. This illustrates improvement.

With regard to the commitment to develop Risk Management methodology, we can report that the methodology was developed and approved for implementation. The programme is now focusing on ensuring that the methodology is being applied, and attending to the possible requests of modifying it for the purpose of improved results. Furthermore, as promised, we held **Risk Management road-shows** in the three districts including at Bushbuckridge, and a total of 847 learners were reached. These learners were encouraged to choose Risk Management and Internal Auditing as their career choice.

We further provided training and awareness workshops to five municipalities. However there is still a challenge of municipalities not having a dedicated unit to look at risk matters and we intend to assist in this regard in the current financial year. Our Norms and Standards Unit continued **to monitor compliance with financial and non-financial norms and standards**, to ensure proper financial management in Provincial Departments, Public Entities and Municipalities. We continued to **monitor and provided advice regarding infrastructure projects** in all infrastructure departments, municipalities and public entities as promised and mandated.

In order to improve the effectiveness of internal audit processes, the **Provincial Internal Audit Unit has conducted assessments to analyse current gaps and have developed and implemented a strategy to address those gaps**, to ensure improvement in internal audit functions. We further reviewed the Operational plans and quarterly progress reports of departments, public entities and municipalities **to ensure that they address the identified high-risk areas**. This is in an attempt to reduce qualification opinions from the Auditor-General, and to strengthen the internal control and financial governance framework in the Province.

As mandated, **we provided support and capacity building to the 20 delegated municipalities** in order to strengthen and improve their financial management and compliance to the Municipal Finance Management Act.

OUR PLANS FOR THE 2009-2010 FINANCIAL YEAR

Honourable Speaker, Honourable Members, we commit to continue to perform our mandated responsibilities as directed by Chapter 13 of the Constitution of the Republic of South Africa, Act 108 of 1996, the Public Finance Management Act (PFMA) Act 1 of 1999 (as amended) and the National Treasury Regulations.

In terms of these legislative and policy frameworks, we are required to:

- Prepare and manage the Provincial budget
- Enforce uniform treasury norms and standards
- Promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities of Provincial Departments and Provincial Entities;
- Ensure that Provincial fiscal policies do not materially and unreasonably prejudice national economic policies.

In order to enable us to effectively carry-out our mandate, the budget structure of the department has been organised into four (4) programmes, namely, **Administration, Sustainable Resource Management, Assets and Liabilities Management** and **Financial Governance**. Allow me then Honourable Speaker, to present our plans for the 2009-2010 financial year, detailed as follows:

PROGRAMME 1: ADMINISTRATION

It is normally said that for an institution to be successful, it must regularly undergo the process of introspection or evaluation. This is to enable it to see whether it is properly constituted to effectively execute its mandates or not. As a result, we have since realised that we can perform much better if we re-organise ourselves. We are therefore currently in the process of re-organising the department, in order to be more efficient in carrying-out our mandate.

However as alluded to earlier, due to the current economic crisis facing the country, we commit that only critical funded posts will be filled in the current financial year, once the new structure is approved.

Through our Economic Analysis sub-programme we will continue to provide socio-economic research in line with the MTSF priorities in order to inform provincial fiscal policy development and the annual budget process, to assess the impact of provincial public policy and spending on the quality of life of provincial citizens, to quantify the economic impact of provincial government expenditure as well as to assist municipalities with reliable and consistent socio-economic data for planning (IDP & LED) purposes. This will contribute to the provincial growth and development strategy. This sub-programme will be moved to programme 2 in terms of the National Treasury guideline.

The Transversal Services caters for the physical and psychological well-being of our employees. In this regard we have already embarked on a programme on Physical Health and Wellness, focusing on all female officials in the Department as part of the emancipation of women.

We will also embark on personal financial management activities where officials will be trained on the management of their own personal finances to relieve them of the burden of the unscrupulous micro lenders. This will ensure that the department's personnel are free of stress caused by acute indebtedness. Furthermore, we will embark on a programme on HIV/AIDS, STIs and condom usage to contribute to the alleviation of the spread of HIV and AIDS, guided by the programmes of the Department of Health.

PROGRAMME 2: SUSTAINABLE RESOURCE MANAGEMENT

Honourable Members, collecting more revenue for the province is our priority during these trying times of recession. We had planned to assist departments to collect own revenue amounting to R480 million during the current financial year.

However first quarter outcomes reveal that collectively as a province, we have already collected R129 million. This is a sign that we are doing well and will collect even more revenue by the end of the financial year. It is therefore significant in the light of the current economic climate that we must:

- Continue to generate more own revenue;
- Continue to identify new sources of revenue; and
- Ensure that monies due to the state are collected and safeguarded in order to make more funds available for the funding of provincial priorities.

We will therefore continue to empower officials in departments, through the planned **24 revenue training workshops and 12 revenue forum meetings**. We commit to continue to support municipalities to fully adhere to the Municipal Finance Management Act.

In order to ensure quality infrastructure delivery, we are currently conducting a review on the efficacy and cost effectiveness of the various support programmes in infrastructure departments. We believe that this will assist us to better support these departments to deliver the required infrastructure.

With respect to cost curtailment measures introduced during May 2009, the programme has developed a tool that will monitor progress. The House is appraised on the functionality of the tool, that amongst others:

- The tool uses information from the Vulindlela system;
- Information on expenditure can be downloaded at the lowest detail on a daily basis;
- Report on commitments (orders) that are generated in the system without budgets;



- Provides an early warning system on each item of expenditure and encourages preparation for shifting of funds (virements of funds) during adjustments;

PROGRAMME 3: ASSETS AND LIABILITIES MANAGEMENT

Honourable Speaker, one of our major objectives is to ensure that there is spread and direct beneficiation by all the people of the province from government procurement. The objective is also to ensure that companies owned by the marginalised sector of the society, women, youth and people with disabilities, get empowered through our procurement processes. We will therefore, continue to ensure that this mandate is executed in the current financial year.

We have an obligation to improve financial resource management, particularly in the context of the current economic situation, therefore we will be embarking on a benchmarking exercise with model Provincial Treasuries such as KwaZulu Natal and Free State. The benchmarking exercise may lead to certain measures being introduced in the province. We will convene regular cash management forums as a platform for information sharing and exchange of ideas on sound cash management within departments.

In order to contribute in the reduction of collusion, fraud and corruption in departments we will introduce a Practice Note on rotation of staff members in Supply Chain Management. This Practice Note will also promote multi-skilling amongst all officials and will be introduced taking care of the applicable laws of the country. We will enforce compliance and further emphasise the need for best practice within supply chain management. We will also introduce a mechanism within which all officials that deals with procurement undergo security clearance.

PROGRAMME 4: FINANCIAL GOVERNANCE

The Programme, **Financial Governance**, is mandated to ensure that there is effective and efficient financial and corporate governance in the Province. This entails ensuring compliance with the prescribed accounting policies, the Public Finance Management Act (PFMA), the Municipal Finance Management Act (MFMA), the Treasury Regulations and other Legislations. We will therefore continue to provide support to departments, public entities and municipalities on accounting issues, risk management, internal audit processes and on compliance with financial norms and standards.

We are also currently developing an action plan to address all issues raised by the Auditor-General on the audit report for the 2008-2009 financial-year in order to improve internal controls in Departments and Public Entities. We are further currently engaging departments to develop action plans to close the gaps that were identified when we were assessing their financial management capability maturity towards the end of the previous financial year. We will continue to monitor the progress on the action plans to ensure that they are implemented.

It is planned that the model will be introduced to municipalities in the current financial year, in order to perform gap analysis and map up interventions needed to assist municipalities to eradicate those gaps. The Provincial Internal Audit housed within the Provincial Treasury will continue to provide hands-on support and assist municipalities with the compilation of internal audit plans, in order to improve internal audit focus areas, to build capacity and to ensure that plans are completed on time. We have also planned to continue to advocate for the enterprise risk management to additional six municipalities to ensure that they understand the importance of the function.

Internal audit reports for Departments will be evaluated to determine whether findings and recommendations are adding value and management action plans are being implemented and monitored.

As mandated, we will continue to assist low capacity municipalities to convert their reporting format from the Institute of Municipal Financial Officers (IMFO) into the General Recognised Accounting Practice (GRAP) by July 2009. Our intervention so far has resulted in 85 officials in the said municipalities being trained to prepare them to comply with GRAP reporting requirements.

ALLOCATION PER PROGRAMME:

Honourable Speaker, having outlined our plans, allow me then to present the proposed budget for Vote 3: Department of Finance, per programme, for the financial year ending 31 March 2010:

Programme 1: Administration

A total of **R85 million, 411 thousand** is proposed to be allocated to Programme 1: Administration, which is responsible for the political, administrative and financial support in the department.

Programme 2: Sustainable Resource Management

In order to continue to provide professional advice and support on provincial and local government fiscal policy issues, infrastructure coordination, budget and expenditure management to the Executive Council, provincial departments, public entities and municipalities, it is proposed that Programme 2: Sustainable Resource Management be allocated a total amount of **R34 million, 293 thousand**.

Programme 3: Assets and Liabilities Management

A total of **R29 million, 512 thousand** is proposed to be allocated to Programme 3: Assets and Liabilities Management to continue to amongst others, provide policy direction on supply chain and liabilities management, facilitate the effective and efficient management of provincial physical and financial assets.

Programme 4: Financial Governance

In order to continue to facilitate, monitor, support and provide professional advice to ensure financial and non-financial compliance to prescripts; and to promote accountability, a total amount of **R87 million, 181 thousand** is proposed to be allocated to Programme 4: Financial Governance.

PROPOSED TOTAL BUDGET

Honourable Speaker, Honourable Members, the total amount proposed to be appropriated to fund the requirements of **Vote 3: Department of Finance for the 2009/2010 financial year, is R236 million, 397 thousand.**

CONCLUSION

As the custodians of the provincial purse, we owe it to our people to continue to ensure that public funds are used fruitfully; that government receives value for money for services rendered; and that there is full accountability. We dare not falter in our mission of ensuring **a better life for all** our people.

As I conclude, may I take this opportunity to thank the Honourable Premier, Mr D.D Mabuza for his visionary leadership; my colleagues in the Executive Council for their constructive advice and support.

My appreciation further goes to the Members of the Legislature, especially the Portfolio Committee for their oversight and commitment to ensure that as the Executive, we fulfil the mandates given to us.

To the Head of the Department of Finance, Mr Rabeng Tshukudu, thank you for continuing to assist me and effectively steer the finance ship in the right direction. May I congratulate you and your management team for receiving once again, an unqualified audit report.

To my family, thank you for supporting me to serve our people.

To our distinguished guests, thank you for spending your time with us this afternoon. It can only mean that you are interested in contributing to shaping our policies and holding us accountable.

In closing, one of the paragons of compassion, the late Mother Teresa of Calcutta once said, and I quote:

“In the slums we are the light of God’s kindness to the poor. To the children, to all who suffer and are lonely, give always a happy smile. Give them not only your care, but also your heart.”

Honourable Speaker, Honourable Members, indeed we are the *light of God’s kindness to the poor*; we are the hope to all those vulnerable people in our communities, who go to bed on an empty stomach. We cannot therefore, turn a blind eye to their suffering or close our ears because we do not want to hear their cries. Let’s give them our hearts as a symbol of our compassion, by ensuring that we use public funds fruitfully; by ensuring that as departments, we do not under-spend on the allocated development funds; and by ensuring that no child goes to bed on an empty stomach.



The creation of a caring society is at the core of the ruling African National Congress's transformation agenda. Indeed, **Working Together We Can Do More** to build a caring society for our children and generations to come. We cannot afford to go to our graves with regrets.

Jackson H Brown, Junior concurs with Mother Teresa when he says:

"Earn your success based on service to others, not at the expense of others."

I thank you!