



finance
MPUMALANGA PROVINCE
REPUBLIC OF SOUTH AFRICA



29 May 2015

POLICY AND BUDGET SPEECH FOR VOTE 3

Hon SE Kholwane, MPL

**MEC for Finance, Economic Development and Tourism
Mpumalanga Provincial Legislature, Mbombela**

Together We Move South Africa Forward

SPEECH BY THE MEC FOR FINANCE, ECONOMIC DEVELOPMENT AND TOURISM, HON SE KHOLWANE (MPL) DURING THE OCCASION OF TABLING OF POLICY AND BUDGET OF VOTE 3 FOR THE 2015/16 FINANCIAL YEAR, MPUMALANGA PROVINCIAL LEGISLATURE, MBOMBELA

29 May 2015

- Honourable Speaker and Deputy Speaker
- Honourable Premier, Mr DD Mabuza
- Honourable Members of the Executive Council
- Chief Whip of the Majority Party, Honourable Johanne Mkhathswa
- Honourable Members of the Provincial Legislature
- Executive Mayors and Members of the Mayoral Committees
- Chairperson of the House of Traditional Leaders, Kgoshi ML Mokoena
- Director-General, Dr Nonhlanhla Mkhize
- Head official in the Provincial Treasury, Ms Nombedesho Nkamba and other Heads of Departments
- Chairpersons of Boards and Chief Executive Officers of the Public Entities
- Business Executive of the Office of Auditor-General in Mpumalanga
- Chairpersons of Audit Committees and Risk Committees
- ANC Provincial Secretary, Comrade Lucky Ndinisa
- Provincial Secretary of the SACP, Comrade Bonakele Majuba
- Provincial Secretary of Cosatu, Comrade Fidel Mlombo
- Provincial Secretary of SANCO, Comrade Mike Soko
- Representatives of Labour, Business, Civil Society and the Media
- Esteemed guests
- The People of Mpumalanga
- Ngiya nibingelela nonke

POLICY CONTEXT

Madam Speaker

- 1.** It gives me a great honour to stand here in this august house to table the Policy and Budget of Vote 3.
- 2.** This budget is tabled four days after we have celebrated Africa Day.
- 3.** It is therefore befitting, with your indulgence, to join millions of fellow South Africans to outrightly condemn Xenophobia in whatever shape and cover it may assume.

4. The ancestral spirits of founding fathers and mothers of our glorious movement must be feeling betrayed by this kind of anarchy.
5. These misguided attacks are politically, socially and economically compromising our country. This is not what the liberation struggle was about. We say “Never again shall it happen” in our name.
6. The Ruling Party continues to represent the hope of the nation by rallying all sectors of society around its 2014 election manifesto, Vision 2030 and the Constitution of the Republic of South Africa which recognises that the poor are just as equal as everybody else.
7. The National Development Plan enjoins all South Africans to accept and understand that there will be no easy way out to a radical second phase of transition.
8. In the 1992 “Ready to Govern“ blue print, the ANC cautioned that, and I quote:

“It is important that we plan development on step by step basis, concentrating our resources on realisable targets at each stage”.
9. To this end, our Departmental milestones, current and future performance plans will be guided by fundamentals of addressing the structural constraints which hinder service delivery, accountability and good corporate governance.
10. These constraints range from shortage of skills; budget which is not linked to performance; inefficiencies and wastages; unmodernised supply chain management, poor leadership and governance.
11. The 2015/16 budget of the Provincial Treasury seeks to focus on the corrective measures for some of these challenges.

REVIEW OF PERFORMANCE: ACHIEVEMENTS, CHALLENGES AND WAY FORWARD

Madam Speaker

12. Transparency and accountability are key principles that underpin any democratisation process.
13. These principles are the cornerstone of our corporate governance strategy, which seeks to build a developmental state that is both responsive to the needs

of and accountable to the people, but more importantly, that is able to intervene when a need arises.

- 14.** Allow me therefore, Madam Speaker, to give account of performance outcomes of the Provincial Treasury for the last financial year.
- 15.** In pursuit of the strategic task to harmonise the financial systems to the operational context of service delivery:
 - 15.1** Municipal support has been streamlined with the introduction of the Integrated Municipal Support Plan, thereby giving effect to the mandate of driving the agenda of service-orientated and accountable local government that is effective and responsive.
 - 15.2** There was an improvement in the Audit Outcomes of the Provincial Departments and Public Entities although it was not at the expected level.
 - 15.3** We would like to congratulate the Departments of Cooperative Governance and Traditional Affairs; Social Development, and Mpumalanga Regional Training Trust for having achieved Clean Audit Outcomes for the first time.
 - 15.4** While the Mpumalanga Gambling Board and Provincial Treasury have sustained Clean Audit Outcomes for the previous financial year, the overall performance for the Province was not good enough.
 - 15.5** The audit outcomes of our municipalities for the 2013/14 financial year were also not favourable.
 - Only two municipalities have sustained their clean audits, namely: Ehlanzeni District and Steve Tshwete Local Municipalities;
 - Five municipalities received disclaimers;
 - Bushbuckridge Municipality moved out of disclaimer to qualified audit opinion, and
 - There were noticeable improvements in Lekwa, Govan Mbeki and Dipaleseng Municipalities, all moving from qualified to unqualified audit opinion.
 - 15.6** We agree with the assertion that, for as long as other public institutions in the Province are still experiencing challenges that range from lack of skills to non-compliance with various legislations, our work remains incomplete.

- 15.7** The Provincial Treasury has taken a decision to move from oversight approach to hands-on support to Departments, Public Entities and Municipalities to address this situation.
- 15.8** Safetyweb [system] is being implemented to ensure that banking details as captured on Logis correspond to the details provided by the suppliers to the Banks.
- 15.9** Training was provided to the 1540 officials on transversal systems to enable compliance with systems' rules and regulations. Furthermore, 25 officials participated in a Certificate programme on Supply Chain Management during the 2014/15 financial year.

PRIORITIES FOR 2015/16

Wage bill

- 16.** In introducing the 2015/16 priorities, let me start by reflecting on the impact of the wage bill.

The improvement in Conditions of Services will have to be accommodated within the budget allocations of Departments during this financial year.

We will deal with this matter when we table the Adjustment Budget later this year.

- 17.** Taking a cue from the 2015 State of the Province Address which outlined the priorities of Government, we tabled a Provincial Budget that indicates how we plan to fund social and economic infrastructure and other service delivery programmes this financial year.
- 18.** This spending plan was clear in its focus on improving funding for health, education and integrated human settlements amongst others in our Province.
- 19.** The Provincial Treasury is central to the task of ensuring allocative efficiency towards funding of these priorities and fostering accountability in the use of limited resources to achieve more in the interest of our people.
- 20.** I will now reflect on the spending priorities of the Department for the 2015/16 financial year.

Improve efficiencies and reduce wastage

Madam Speaker

- 21.** In his State of the Province Address in March 2015, the Honourable Premier DD Mabuza underlined the fiscal context and the core task of the Provincial Treasury when he said, and I quote

“Given the shrinking budgets, it is imperative that we focus on enhancing efficiencies throughout the system to be able to do more with less”.

- 22.** Our plans draw on this guidance, and include specific focus on improving business processes, build transparency and ensure accountability into financial management and procurement practices in the Province.
- 23.** A process is underway to identify available solutions to reduce and eliminate expenditure on non-core activities.
- 24.** During the 2015/16 financial year the Department will also explore various system-based business solutions to maximise the efficiency of the Department, and to realise savings.

Staff verification

Madam Speaker

- 25.** It is no longer sufficient that the Provincial Treasury only ensures financial liquidity and timeous payments of salaries to employees.
- 26.** The head count of all Provincial Government employees and updating of PERSAL records is necessary to ensure compliance to prescripts and improve corporate and financial governance in the Province.
- 27.** Over and above the monthly confirmation of payrolls at pay-points, which has proved to be inadequate, the Department will roll out biometric - online fingerprint verification system to Departments of Public Works, Roads and Transport; Education and Health.

The project will be extended to Public Entities.

We will continue to ensure that there are no ghost employees in the Provincial Administration.

Impact of government expenditure

- 28.** The Department will continue to conduct socio-economic research to inform the Provincial and Municipal planning and budgeting processes.

We believe that the 2015/16 Provincial budget of almost R39 billion should be used as a tool for growth and development of society.

- 29.** The late President Julius Nyerere, whom without his name in the narrative on the struggle against colonialism in Africa Continent remains incomplete, said, and I quote:

“To measure country’s wealth by its gross domestic product (GDP) is to measure things, not satisfaction”.

- 30.** Drawing from this wisdom the Provincial Treasury together with all government departments, public entities and municipalities will continue to focus on the tangible results of service delivery more than impressive jargon and figures.

Economic Impact assessment

- 31.** The Department will undertake a research study, in this financial year, on the economic impact of Provincial Government spending, including infrastructure expenditure.
- 32.** The study will assess the extent to which spending of public resources impacted on and assisted in addressing socio-economic challenges such as unemployment.

Revenue enhancement

Madam Speaker,

- 33.** The current economic situation places a huge burden on the capacity of the Provincial Government to deliver services to the satisfaction of our people.
- 34.** The projected **R821 million 638 thousand** of Provincial Own Revenue generated is barely enough to meet the limitless demands on the fiscus.

The shrinking provincial budget has also led to readjustment of plans, including on the establishment of a dedicated Municipal Finance Unit in Provincial Treasury.

- 35.** In order to deal with the current fiscal constraints, the Executive Council has approved a budget for the implementation of the Revenue Enhancement Strategy.
- 36.** The more money we collect to strengthen provincial fiscus, the more we are able to deliver basic services and facilitate creation of more job opportunities.

Modernisation of Supply Chain Management (SCM)

Madam Speaker,

- 37.** We support initiatives that will bring about transparency and accountability in the procurement processes as well as expand access to opportunities using modern technology.
- 38.** In this regard, the Department will participate in the process of modernization of the Supply Chain Management, with specific focus on the implementation of the National Government's initiatives of a Centralized Supplier Database and Central Tender Portal.
- 39.** The National Treasury has agreed to pilot the modernisation processes of the SCM function, including the centralisation of the supplier database, in our Province.
- 40.** We will also introduce measures to improve transparency in the SCM environment and credibility of procurement plans of departments.

Payment of suppliers

Madam Speaker,

- 41.** We must support Small and Medium Enterprises to grow the provincial economy. I will comment on the support to the sector during the tabling of Vote 6: Economic Development and Tourism.
- 42.** However, in the context of the mandate of the Provincial Treasury, emphasis is on improving business processes, which include payment of suppliers within the stipulated timeframe.
- 43.** We have thus declared that payment to suppliers within 30 days of receipt of a valid invoice is a non-negotiable, and we are taking active steps to intervene.

Debts owed to Municipalities

- 44.** Given the serious nature and impact of non-payment of municipal accounts by Departments and Public Entities, the National Treasury is considering withholding their Equitable Shares, as it is the case with the municipalities that are defaulting on Eskom and Water Boards accounts.
- 45.** We expect the Departments and Public Entities to disclose fully the amounts owed to service providers, other Departments and municipalities when they submit annual financial statements for regulatory audits to the Office of the Auditor General today.
- 46.** We will table the amounts that are owed and repayment plan to the Executive Council and Premier's Coordinating Forum at the end of the first quarter.
- 47.** We will continue to engage in a consultative process with Departments, Public Entities and Municipalities to avoid the recurrence of non-payment of municipal accounts.

This is not a sky-rocket science to understand. If we don't pay our municipal accounts on time, municipalities will not be able to deliver services to the people. In fact, it is the communities that suffer most due to non-payment of municipal services.

Let me join my Colleague, Hon MEC Mtshweni in calling to all citizens to pay municipal services on time!

Support to Non-Government Organisations on accounting and auditing

Madam Speaker

- 48.** Non-Governmental Organisations (NGOs) are the allies of the Government in building better communities by bringing government services closer to the people faster and better on condition we work together.
- 49.** However, many of these institutions are not able to access government grants due to stringent requirements which include submission of audited financial statements.
- 50.** During the past three years, the Department spent R14.5 million on financial governance support to NGOs and schools.

We conducted gap analysis covering one thousand five hundred and thirty one (1531) schools and seven hundred and forty two (742) NGOs, of which 39

NGOs and 201 schools that were identified for support and assisted to prepare their financial statements, including auditing thereof.

We have also trained two thousand five hundred and seventy one (2571) administrative clerks in basic accounting principles and proper record keeping during the same period.

- 51.** During this financial year we will assist 27 NGOs in the Culture, Sport and Recreation sector with capacity development on reporting and auditing of their financial accounts.

Improvement of financial and governance matters

Madam Speaker

- 52.** The Financial Management Capability Maturity Model (FMCMM) has been rolled out to all institutions in the Province to improve internal controls. As a result of the implementation of FMCMM the weaknesses in the systems of internal controls in Departments and Public Entities were identified and action plans developed. We await the outcomes of municipalities from the National Treasury.
- 53.** The Department will, during this financial year, focus on the implementation of the Back-to-Basics Programme with specific emphasis on the area of strengthening financial controls, to improve auditing outcomes in Departments, Public Entities and Municipalities which is non-negotiable.
- 53.1** We will strengthen various levels of governance structures in the Province through capacity building initiatives.
- 53.2** Department has allocated resources to assist Dipaleseng Local Municipality to clear prior year audit queries and to prepare for the 2014/15 financial year-end closure.
- 53.3** The support is also being provided to review and update the operational policies and improve revenue management, amongst others.
- 53.4** The Department will give special attention to Mkhondo; Emalahleni; Emakhazeni, Thaba Chweu and Msukaligwa, with specific focus on improving their filing systems which have led to these Municipalities getting disclaimed audit opinions.

53.5 We have commenced with District-wide Engagements through which we engage the Executive Mayors and MMCs for Finance on implementation of the Integrated Municipal Support Plan.

Partnerships to support municipalities

Madam Speaker

53.6 In an effort to deal with a number of factors that contribute to poor audit performance of the municipalities, we have entered into partnerships with various stakeholders such as SASOL and Municipal Infrastructure Support Agency (MISA).

Municipal assets

53.7 We have enlisted the services of Municipal Infrastructure Support Agency to support Municipalities on unbundling of assets, so that Provincial Treasury teams can focus on accounting treatment of transactions.

Municipal Finance Improvement Programme

53.8 Two Local Municipalities, that is, Victor Khanye and Emakhazeni are benefiting from the Municipal Finance Improvement Programme offered by National Treasury.

Sasol partnership on operating procedures

53.9 We have entered into partnership with SASOL to address the challenges of internal controls through development of standard operating procedures for all 21 municipalities with the gap analysis conducted in the following municipalities: Umjindi; Dipaleseng; Mbombela; Chief Albert Luthuli; Nkomazi; Dr Pixley Ka Isaka Seme; Mkhondo; Lekwa; Dr JS Moroka and Victor Khanye.

Data cleansing project

53.10 The Department has supported municipalities to improve billing systems. The following municipalities are benefiting from this project: Dr JS Moroka; Thembisile Hani; Emalahleni; Thaba Chweu; Bushbuckridge and Victor Khanye.

53.11 This year, an amount of **R3 million** has been allocated to Nkangala District to continue with data cleansing in Emalahleni Local Municipality.

Madam Speaker

Municipal Standard Chart of Account

53.12 Municipalities currently use different classifications in recording revenue and expenditure transactions.

Government is in the process of standardising the framework of budgeting, accounting and reporting, as part of the initiatives to 'set national standards and systems across all spheres of government'.

The introduction of the standardised Municipal Standard Chart of Accounts (mSCOA) project will require Municipalities to change their budgeting and reporting processes.

Victor Khanye Local Municipality and Nkangala District Municipality have been identified as the pilot in the Province.

The project is expected to be fully implemented in all Municipalities by July 2017.

A single version of the truth is possible with this strategic move, Honourable members.

Madam Speaker

53.13 A proper financial management, control systems and good governance will go a long way to instil public confidence and encourage more people to pay their municipal services.

Building the capacity of the state

54. The National Development Plan states and I quote:

“A capable state does not materialise by decree, nor can it be legislated or created from conference resolutions.

It has to be painstakingly built, brick by brick, institution by institution, and sustained and rejuvenated over time.”

Skills audit and development

- 55.** Building a capable state is therefore central to the effort of government to effectively implement the National Development Plan and Mpumalanga Vision 2030.
- 56.** We have to regularly assess performance against the goals of a developmental state; identify the binding constraints in the environment and position the administrative machinery to respond to new operational realities.
- 57.** It is critical to ensure that all personnel of the Departments and public entities are fit for purpose and possess the necessary skills and relevant experience to navigate the changing performance discourse in public and municipal finance management.
- 58.** Accordingly, the Department will this year undertake a skills audit and implement skills development projects targeting officials at salary levels 11 to 15, with a view to improve the capacity of the Provincial Treasury to implement the National Development Plan.

Skills in supply chain management in the Province

- 59.** The National Development Plan also requires us to develop professional Supply Chain Management capacity through training and accreditation.
- 60.** We have set aside funding to expand access to skills development for officials in the Supply Chain Management in the Province.

Graduates skills development and placement

- 61.** Madam Speaker, as part of contributing to youth skills development, we will enrol 20 graduates in the internship programme of the Department this financial year.

The programme of internship in the Department has been extended from 12 to 18 months. This is to ensure that we strengthen the provincial skills base as one of the key priorities in the discourse of fighting youth unemployment.

Re-designation of Department of Finance

- 62.** Madam Speaker, last year we indicated that we will engage in a process to re-designate the Department of Finance to ensure conformity with other Provinces.

- 63.** We can now report that Schedule 2 of the Public Service Act, 1994 has been amended to give effect to name change from Department of Finance to Mpumalanga Provincial Treasury.

Alternative Funding Mechanism

- 64.** Mpumalanga Economic Growth and Development Path is our economic blue print as a Province. It can only be implemented successfully through intergovernmental relations and partnership with stakeholders.
- 65.** Governments throughout the world are increasingly mobilising private sector capital to finance infrastructure investments.
- 66.** Through attracting private capital expertise, the public sector is able to deliver strategic high impact projects at scale, on time, within budget and at a faster pace than would otherwise be the case using traditional procurement methods and funding.
- 67.** We can no longer continue to rely only on provincial fiscus to address the myriad of social and economic challenges.
- 68.** We will continue to identify and facilitate registration of possible projects that meet the criteria for public private partnership with the National Treasury and explore alternative funding mechanisms.

Social investment project

- 69.** Throughout the years, the Department has built a consistent tradition to contribute meaningfully to the lives of the less fortunate through its social responsibility projects.
- 70.** During the 2014 Mandela Month, we announced our partnership with the Big Five Harley Davidson Group wherein we planned to raise funds to build and furnish four houses for identified needy families.
- 71.** The fundraising initiative continues until the end of June 2015. We still call on our people to contribute towards the success of this initiative for community development.
- 72.** Wangari Maathari, an outstanding African daughter and 2004 Nobel prize winner had this to say, I quote:

“It is little things citizens do that makes a difference, my little thing is planting trees”

The big question to me and you is what are we doing to make a difference?

BUDGET ALLOCATIONS PER PROGRAMMES

73. Madam Speaker, let me now turn to division of allocations per programme.

Division of allocations

74. The Department receives an allocation amounting to **R287 million 550 thousand** for the 2015/16 financial year.

75. The overall budget of the Department increases by **R15 million 526 thousand or 5.7%** compared to the Adjusted Appropriation of the 2014/15 financial year.

76. The budget also confirms the shifting of the statutory allocation to Vote 6, Economic Development and Tourism.

77. **The proposed allocations for the four programmes of Vote 3 are as follows:**

78. Programme 1: Administration is proposed to get **R74 million 688 thousand**.

79. The proposed allocation to Programme 2: Sustainable Resource Management is **R63 million 74 thousand**.

80. **R115 million 76 thousand** is proposed for Programme 3: Assets and Liabilities Management.

81. Programme 4: Financial Governance is proposed to receive **R34 million 712 thousand**.

Madam Speaker,

Working together with our people we will surely Move Mpumalanga Forward.

82. Let me extend my appreciation to the African National Congress and Honourable Premier for entrusting me with the responsibility to lead the Provincial Treasury.

83. The immense support and guidance provided by the Budget and Finance Committee and Executive Council is highly appreciated.
84. Many thanks to the Chairperson and Members of the Portfolio Committee on Premier's Office, Finance, Economic Development and Tourism for continued guidance and support.
85. I would like to thank the Director-General for her support to the work of the Provincial Treasury.
86. To the Head of Department and officials in the Provincial Treasury, thank you for your ever present administrative support to my Office.
87. Lastly but not least, I would like to thank my family and children for being my pillars of strength throughout the vast but yet fulfilling responsibilities.
88. **I now have the honour of tabling the Policy and Budget for Vote 3: Mpumalanga Provincial Treasury for consideration by the Provincial Legislature.**

I thank you.