



Policy and Budget Speech

**by Mr Sikhumbuzo Kholwane, MPL
MEC for Finance,
Economic Development
and Tourism**

**29 May 2018
Mpumalanga Provincial Legislature
Riverside Park
City of Mbombela**



provincial treasury
MPUMALANGA PROVINCE
REPUBLIC OF SOUTH AFRICA



**SPEECH BY THE MEC FOR FINANCE, ECONOMIC DEVELOPMENT
AND TOURISM, HONOURABLE SE KHOLWANE (MPL) DURING THE
OCCASION OF THE TABLING OF THE POLICY AND BUDGET OF
VOTE 3 (PROVINCIAL TREASURY) FOR THE 2018/19 FINANCIAL
YEAR AT THE MPUMALANGA PROVINCIAL LEGISLATURE
CITY OF MBOMBELA. 29 May 2018**

Honourable Speaker and Deputy Speaker;
Honourable Premier, Ms. Refilwe Mtshweni;
Colleagues in the Executive Council;
Honourable Members of the Provincial Legislature;
Members of Mayoral Committees and other Councillors present;
Chairperson of the House of Traditional Leaders;
Acting Director-General, Mr. Matthews Mohlasedi;
Head Official of 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;
Representatives of Labour, Business, Civil Society and the Media;
Esteemed guests;
Ladies and gentlemen;

POLICY CONTEXT

I rise at your behest to remind this August House that, when the ANC came to power in 1994 it inherited a fragmented bureaucracy which included a Bantustan Treasury department.

Truth be told, in just over two decades of a democratic South Africa, a lot of work has been done to correct the colonial Treasury philosophy of the elite few and the powerful, guided by the allocation of state resources based on class, gender and the colour of one's skin.

The structure of Public Finance needed to be overhauled.

We were clear from the onset that, in order to prioritise Reconstruction and Development, we had to start by defining and building the developmental role of treasury as the central dispenser of equitable share of state resources.

Just to illustrate my point, even the engineers of state capture knew that to effectively capture the state completely, you needed to capture Treasury in all three spheres of government, most certainly that would have been *the final nail in the coffin* for our beloved country.

Thanks to the resilience of society led by the African National Congress, the rolling train of state capture which sought to sell our country to the highest bidder had to be stopped somewhere.

The developmental role of Treasury was aptly phrased by the President of the Republic of South Africa, his Excellency, Cyril Ramaphosa in his maiden State of the Nation Address when he said,

We are determined to build a society defined by decency and integrity that does not tolerate the plunder of public resources, nor the theft by corporate criminals of the hard earned savings of ordinary people”.

The core mandate of Treasury is not only defined by its technical strength on revenue collection, expenditure controls and financial administration, it must also be an enabling tool of the state in the execution of its developmental mandate including but not limited to:

Creating an enabling environment for inclusive growth and development;

Equitable allocation of resources which seek to raise living standards by prioritising the poorest of the poor; and

Strengthening the fight to eradicate or reduce levels of poverty, unemployment and inequality through expanded employment levels, income support and empowerment.

In this regard, the 2018 State of the Province Address by the former Premier who is now the Deputy President of the Republic of South Africa, Honourable DD Mabuza, was equally on point when he underlined that:

As government of the African National Congress, we are going to take full advantage of procurement reforms that came into effect in April 2017 to help us achieve significant local content.

The main focus of, and 2018/19 priorities of the Provincial Treasury will be to closely monitor alignment of departmental budgets to the imperatives of radical socio-economic transformation.

Most certainly, as captured in the 2018 State of the Province Address, government must be the driver for socio-economic transformation.

Government spending would be meaningless if it does not elevate the economic status and well-being of the people it serves.

We take a cue from the recent National Conference of the governing Party, which has resolved that corruption must be fought with the same intensity and purpose that we fought poverty, unemployment and inequality.

National Treasury has recently revealed that it has uncovered 12 000 people who have passed on but in terms of active records are still purported to be doing business with government.

The report states that there are 14 000 state employees, who are listed as Directors of Companies that have been awarded state contracts.



We are working with National Treasury to access province-specific data in order to develop a responsive strategy.

The report further shows that inflated prices and fraud committed by suppliers, consumes 40 percent of the R6 billion state budget for goods and services.

A process to review the pricing by suppliers will be undertaken this year to ensure provincial government does not pay inflated prices for goods and services.

This rot cannot be allowed to continue to deepen the crisis of scarce state resources thereby robbing the poor of a better life as well.

To this end, the Provincial Treasury will take the lead in fighting corruption in the most unprecedented manner because corruption undermines service delivery and radical socio-economic transformation.

With the indulgence of the Premier, Honourable Refilwe Mtshweni, my colleagues in the Executive Council, Members of the Provincial Legislature, joining hands with all political parties and civil society, we will and must win the war against corruption in order to sustain transformation and growth into the future.

At the same time, the ANC led government must remain unapologetic about using the State spending power to develop Youth, Women, People with Disabilities and Military Veteran entrepreneurs, including supporting the Black Industrialist Programme.

Honourable Speaker,

Recognising that we are tabling priorities for the last financial year of the current electoral cycle, it is prudent to reflect on some of the policy pointers.

This Policy and Budget vote is framed in the context of our five-year programme which directs all public institutions to contribute in building a state that is capable of delivering basic services; and that which is accountable on the use of public resources.

It expounds succinctly the responsibility of Provincial Treasury in supporting Departments, Municipalities and Public entities to improve audit outcomes, thereby setting the Province on the revered path to wholesome clean governance.

It takes into account the six “game changers” that are critical to improve the capacity and financial performance of our Municipalities which are Municipal Standard Chart of Accounts (mSCOA), Supply Chain Management, Asset Management, Funded Budgets, Revenue Management and Audit Improvement strategies.

FISCAL CONSOLIDATION

In the past years we have continually emphasised that the current economic and fiscal environment places an obligation on the whole public sector to be prudent in the use of limited resources and exploring means to deliver more with less.

Progress has been made in implementing key pragmatic interventions to support the fiscal consolidation programme both at the national and provincial level in the past three years.

However, tight expenditure controls over the medium term expenditure framework, will be necessary to protect the integrity of the provincial budget and consequently the fiscal standing of our country in the global markets.

In order to balance the expenditure ceilings and the expectations to accelerate delivery of basic service services, we will continue to assess the effectiveness and efficiency of our spending.

We will also keep an eye on financial performance of the provincial institutions to ensure that budgets are used solely to advance the developmental goals of the state.

To this end, the Provincial Treasury will this year assess the implementation of cost curtailment measures across provincial government departments with a view of identifying innovative means to save more resources and direct such to expand service delivery.

REVENUE COLLECTION

Honourable Speaker

The economy has not grown at the required levels and as such the amount of national transfers to the Province has continued to decline.

As stated in the budget speech in March this year (2018), the reduction in the equitable share of the province for 2018/19 is R117 million 545 thousand, R129 million 838 thousand for 2019/20 and R138 million 321 thousand in 2020/21.

These reductions will also be reflected in the conditional grants.

Honourable Speaker

The impact of these reductions could only be minimised by using the limited resources prudently and also through a concerted effort to increase revenue collection.

The less revenue collected, the more difficult it will be for the Provincial Government to sustain service delivery priorities.



As stated in the 2018 Provincial Budget Speech, we are optimistic of achieving the revised target of R4.2 billion in provincial own revenue in the 2017 Medium Term Expenditure Framework (MTEF) period.

The Province has collected R2.4 billion in the first two years of the 2017 MTEF period - R1.1 billion in 2016/17 and R1.3 billion in 2017/18.

To give ourselves a better chance of impacting significantly on service delivery, we will further adjust the revenue projections upwards for 2018/19 from R1.3 billion to R1.9 billion when we table the Adjustments Appropriation (Budget) in November 2018.

The Provincial Treasury is working closely with Departments of Health and Community Safety, Security and Liaison to improve the revenue collection for the Province.

We have agreed with the Department of Community Safety, Security and Liaison on a methodology to collect outstanding motor vehicle licensing fees.

I also want to appeal to the motorists to ensure that their vehicles are licensed annually to avoid license fee accumulation.

With regard to the health sector, we will be engaging on the same process which will also include conducting a detailed operational analysis in the revenue management value chain such as admissions, billing and revenue as well as debt management.

SUPPLY CHAIN MANAGEMENT (SCM)

Honourable Speaker

The Provincial Treasury is at the centre of the radical transformation agenda, underscored by its role in transformative supply chain management practices, which localise procurement in order to increase domestic production, thereby contributing to job creation, amongst others.

Transversal term contracts

In line with our commitment to progressively implement the reforms in Supply Chain Management, we have awarded the contract for travelling and accommodation services to three agencies as part of the first phase of implementing transversal term contracts.

This business decision will enable government to manage price escalations and contribute to budget efficiency measures.

To further broaden access to opportunities, and enable small businesses and cooperatives to participate in transversal term contracts, we will work with all

relevant stakeholders to identify and develop suppliers of commodities such as toilet paper, bottled water, cleaning material and catering services.

To support these initiatives, the Provincial Treasury will provide policy guidance on strategic sourcing.

Central Supplier database

The Central Supplier Database (CSD) was introduced in all spheres of government, and training was provided to officials as well as service providers to ensure smooth implementation thereof.

According to the National Treasury there were 4 387 suppliers that were registered on the Central Supplier Database of which 787 have not disclosed their Historically Disadvantaged Individual (HDI) status which represents 17.94 per cent of all suppliers

What is worrying though is that there were 284 unregistered suppliers who did business with government in 2017/18.

We call upon all current and prospective suppliers to ensure that their HDI details are updated on CSD.

We will conduct a survey to evaluate CSD user experience and use such data to address the reported challenges with the system.

Honourable Speaker

As at the end of March 2018, the Provincial Government spent R10.24 billion to procure goods and services of which R5.6 billion, was spent on Black owned companies which constitutes 68 percent.

Of this amount, R2.3 billion was spent on black women; R1 billion on black youth and R1.1 billion on People with Disabilities, while R1.1 billion was spent on Military veterans in furtherance of the objectives of the Preferential Procurement Policy Framework.

More work still needs to be done to ensure that spending is reflective of the demographics of the Province.

OPTIMUM UTILIZATION OF FINANCIAL SYSTEM

Honourable Speaker,

The financial systems such as BAS, Logis and Persal are critical for operational efficiency, and when they are underutilised the potential for financial exposure and critical data loss increases.



BAS

We will continue to provide training to officials to improve the utilisation of functions such as disbursement and cash blocking in order to improve budget controls.

Logis - Contract management

In an endeavour to strengthen capacity for optimal use of current systems, the Provincial Treasury is capacitating departments on the use of the contract management module in the Logistics Information System (Logis).

This initiative was piloted in the Department of Economic Development and Tourism and Provincial Treasury, and it will be extended to Departments of Social Development; Health as well as Public Works Roads and Transport in this financial year.

Persal

Honourable Speaker

Record keeping of personnel information is one of the critical principles of good governance, which must be complied with by all departments in line with the National Minimum Information Requirements (NMIR) Legislation.

We will continue to monitor implementation of the strategy which is aimed at ensuring credible and compliant records on the Persal System.

SUPPORT TO MUNICIPALITIES

Municipal audit outcomes

According to the Auditor General, Mpumalanga is one of the most improved Provinces on municipal audit outcomes for the 2016/17 financial year.

According to the municipal audit outcomes:

- Three municipalities that improved from a qualified audit opinion to unqualified with findings are, Gert Sibande District, Thembisile Hani and Chief Albert Luthuli Local Municipalities.
- Audit opinions of fourteen municipalities remained unchanged.
- Emalahleni Local Municipality improved from a disclaimer to a qualified audit opinion, and
- Only one municipality from the 20 in the Province regressed which is Steve Tshwete Local Municipality which moved from a clean audit to unqualified with matters of emphasis.

We need to acknowledge improvement when it happens.

Honourable Speaker

While recognizing the above improvement, the matter of fruitless and wasteful, irregular and unauthorized expenditure remains a concern.

The challenges that engulf Thaba Chweu Local Municipality - which is the only municipality that has a disclaimed audit outcome - must be dealt with NOW.

To this end, the municipality will be assisted to prioritise the implementation of the recommendations of the forensic audit report.

The Provincial Treasury will further assist the Municipality with the review of the control environment and support this institution to improve in areas as highlighted by the various oversight institutions.

Targeted support will also be given to all other municipalities with qualified audit outcomes.

Management's responsibility is to implement the recommendations made by the internal auditors in order to improve the systems of internal control.

Only with the full co-operation of management will the internal auditors be a key factor in ensuring that an organisation is effectively managed and that its resources are not misused or misappropriated.

In order to strengthen internal audit activities and improve oversight, we will further support Steve Tshwete Local, Nkangala and Gert Sibande District Municipalities with Quality Assurance Reviews.

Municipal revenue management support

Failure by the public sector institutions to pay municipal accounts has an adverse impact on cash flow and liquidity of our municipalities, and cannot be tolerated anymore.

I want to caution all provincial departments that failure to pay municipalities will result in Provincial Treasury invoking Section 18(2)(g) of the PFMA which states that a Provincial Treasury must intervene by taking appropriate steps, which may include the withholding of funds, to address a serious or persistent material breach of this Act by a provincial department or a provincial public entity.

Our focus for 2018/19 is to ensure that national and provincial departments including public entities pay their accounts while the process of addressing the billing system unfolds.



Uniform system of public accounting (mSCOA)

The Standard Chart of Accounts for Municipalities (mSCOA) which came into effect in July last year (2017) is by far the biggest reform in the history of Local Government.

It is not only a financial classification system or standardisation at a transactional level across all municipalities, but also a business reform that affects every part of the operations of a municipality.

The introduction of this system had its own unforeseen challenges which are being addressed in consultation with National Treasury.

The National and Provincial Treasury will continue to provide technical guidance on mSCOA implementation.

FINANCIAL GOVERNANCE

Bookkeepers for schools

In order to ensure that schools are able to submit audited financial statements to the Department of Education as required by legislation, the Provincial Treasury will appoint 15 graduates to perform bookkeeping services for 30 schools around Ehlanzeni District.

We will sustain the intervention in the outer years, covering all Districts of the Province.

Accounting Profession Development

As part of expanding the pool of competent professionals and supporting skills development, partnering with National Treasury and the South African Institute of Professional Accountants (SAIPA) we will enrol ten (10) unemployed graduates on a three (3) year training programme. They will be certified accountants once the programme has been completed.

We pride ourselves on being one (1) of the two (2) Provinces selected to pilot the programme along with the Northern Cape funded by the Finance and Accounting Services Sector Education and Training Authority (FASSET) to produce certified accountants in the public sector environment.

BUDGET ALLOCATION PER PROGRAMME

The Provincial Treasury has been allocated R322 million 706 thousand rand to implement various programmes of policy support, and provide guidance to the provincial departments, public entities and municipalities.

Division of allocations

The Administration component is allocated 95 million 929 thousand rand.

Programme two (2) which is responsible for the revenue enhancement strategy, provincial budget management and infrastructure coordination amongst others receives 58 million 395 thousand rand.

135 million 457 thousand rand is provided to the Assets and Liabilities Management Programme, and lastly.

The Financial Governance Programme is allocated 32 million 925 thousand rand in the 2018/19 financial year.

CONCLUSION

As I conclude, allow me take this opportunity to convey my profound appreciation to the movement of the people, the African National Congress for giving me this opportunity to lead the Provincial Treasury.

Many thanks to the Honourable Premier, Ms RM Mtshweni who is also the chairperson of the Budget & Finance Committee for your continued support.

I would also like to wholeheartedly thank the Chairperson and Members of the Portfolio Committee on Premier's Office; Finance; Economic Development and Tourism for supporting me in successfully carrying out the mandate of our glorious movement.

I would also like express my gratitude to my colleagues in the Executive Council and especially my counterpart, Hon. Mashilo for his support in the implementation of the Integrated Municipal Support Programme (IMSP).

I would like to convey my appreciation to the Acting Director-General, Head Official and all officials in the Provincial Treasury, for the administrative support and ensuring that mandates are implemented.

I would like to thank the officials serving in the Portfolio Committee on Premier's Office; Finance; Economic Development and Tourism including the legal services for their continued support.

Lastly but not least, I would like to thank my family and my children for being outstanding companions and my pillars of strength.

I now have the honour of tabling the Policy and Budget for Vote 3: Mpumalanga Provincial Treasury for the 2018/19 financial year.

I thank you.



Mpumalanga Provincial Treasury
Private Bag X 11205 | Mbombela | 1200
No. 7 Government Boulevard | Nokuthula Simelane Building
Upper and Lower Ground | Riverside Park | Mbombela

Tel: +27 13 766 4437 | Fax: 013 766 9449

 **Twitter:** @mptreasury
 **Facebook:** Mpumalanga Provincial Treasury
 **Website:** <http://treasury.mpg.gov.za>

