

BUDGET

VOTE 03

Speech

Mr PV MKHATSHWA, MPL
**MEC for Finance, Economic
Development & Tourism**

11 June 2021

Let's Grow Mpumalanga together



provincial treasury
MPUMALANGA PROVINCE
REPUBLIC OF SOUTH AFRICA



**ADDRESS BY THE MEC FOR FINANCE, ECONOMIC DEVELOPMENT AND
TOURISM, MR. PV MKHATSHWA (MPL) ON BUDGET VOTE OF THE
MPUMALANGA PROVINCIAL TREASURY FOR 2021/22
11 June 2021**

- Honourable Speaker and Deputy Speaker
 - Honourable Premier Refilwe Mtshweni-Tsipane
 - Colleagues in the Executive Council
 - Chief Whip of the Majority Party
 - Honourable Members of the Provincial Legislature
 - Acting Director-General, Head Official of Provincial Treasury and all senior government administrators
 - The leadership of trade unions
 - Citizens of Mpumalanga
 - Ladies and Gentlemen
1. It is my greatest honour to present to this August House the Policy Priorities and Budget for Vote 3: Provincial Treasury.
 2. This budget is presented in tandem with the 25 years commemoration of the historic adoption of the first democratic Constitution of the Republic by the democratically elected representatives of the people of South Africa.
 3. The Constitution positioned itself as a strategic framework guiding the work of the democratic Government in its quest to push back the legacy of apartheid and build a state capable of executing its responsibilities of pursuing a developmental agenda in the interests of the people.
 4. Delivering the Presidency Budget Vote on 03 June 2021, President Cyril Ramaphosa expressed a view that a capable state is critical to development, service delivery and to strengthening cooperative governance.
 5. We continue to canvass for a capable developmental state with a character of public officials underpinned by ethics, professionalism, accountability and the utmost respect of public money.
 6. The disruptions of the 'black swan' events of Covid-19 reinforces our resolve to forge ahead with our plans and unwavering commitments to pursue growth and development.



7. This Budget Vote forms part of the ongoing work of the Provincial Government in its quest to contribute to the policy discourse hinging on the ideals of the developmental state which is interventionist in character.
8. According to the American author, Professor Chalmers Johnson, the developmental state takes place when the state has a focused role on the growth and development of the economy and undertakes necessary policy measures to accomplish this long-term objective.
9. Despite the inherent challenges and the impact of the coronavirus, the Provincial Treasury has been working tirelessly in ensuring that fiscal policy is used to respond decisively to the hardships confronting citizens.
10. As we forge ahead with our resolve to rebuild our economy and set the Province in the development trajectory, we need not be oblivious of the *Indlulamithi* Scenarios of 2030.
11. The year 2030 for the *Indlulamithi* Scenarios was chosen to coincide with the National Development Plan (NDP) timelines and those of the UN's Sustainable Development Goals (SDGs).
12. *Indlulamithi* Scenarios posits that there are three sets of possibilities, three stories of how South Africa's future, as a cohesive and coherent nation, might unfold.
13. The three Scenarios speaks about:

a. iSbhujwa – An enclave bourgeois nation

Epitomizing a loose-limbed and jumpy, with a frenetic edge, iSbhujwa is a South Africa torn by deepening social divides, daily protests and cynical self-interest.

b. Nayi le Walk – A nation in step with itself

In a precise sequence of steps, this scenario choreographs a vision of a South Africa where growing social cohesion, economic expansion, and a renewed spirit of constitutionalism get South Africa going.

c. Gwara Gwara – A floundering false dawn

In a nation torn between immobility and restless energy, and Gwara Gwara is the name for a demoralized land of disorder and decay.

14. President Ramaphosa remarked during the launch of the South Africa Scenario 2030 that *those who have the means to help build a better nation to resist the role of spectator and use the scenarios to “move from the armchair to the drawing board”*.
15. We will, in this context, continue to enhance internal capacity, manage institutional performance and ensure qualitative support on PFMA and MFMA to departments, public entities and municipalities in the quest to build a better nation.

SUSTAINABLE RESOURCE MANAGEMENT

Honourable Speaker

16. A fundamental task of the Government is to respond to the socio-economic needs of the society - be it education, health care, roads infrastructure, child welfare, amongst others. The Government provides these needs through borrowing from the markets and tax revenue from national and provincial sources.
17. It is no secret that the low economic growth precipitated by the effects of the necessary lockdown measures has impacted revenue sources.
18. National Treasury implemented significant budget cuts due to the more than R300 billion reduction in the wage bill from 2020/21 to 2023/24 fiscal period. As a result, the Provincial Equitable Share will be reduced to R205.9 billion over the 2021 MTEF, and the provincial contribution is expected to be R16.4 billion over the same period.
19. It is worth noting that about 85% of Provincial Equitable Share reductions for provinces are effected on Compensation of Employees, with the Provincial contribution at R14.6 billion over the MTEF.
20. Local Government Equitable Share (LGES) reduction on a national level amounts to R14.7 billion over the 2021 MTEF.

21. At the Provincial level, Equitable Share is projected to grow at an average annual rate of 4.4% over the MTEF. As a result, components of the Local Government Equitable Share that benefit poor and rural municipalities will grow in line with inflation.
22. Conditional grants are growing above inflation at 7.3% over the MTEF, and the Province must take advantage of this growth by spending all allocated funds and reap maximum benefit.
23. The infrastructure spending is, however, protected from the reductions except where there is evidence of perpetual underspending. To this effect we call upon all infrastructure implementing Departments to ensure prudent spending and deliver quality products. Funds should strictly be utilized for the purpose for which they are intended.
24. It is against this backdrop that the Minister of Finance indicated in his Budget Vote on 20 May 2021 that we must continue to "*pursue a balanced and prudent fiscal strategy in order to stabilize the public finances*". This is a necessary and urgent task for all, especially the budget offices in all departments, public entities and municipalities.

Revenue Collection

25. The country is facing a harsh economic climate. As a result, we are experiencing low economic growth, which translates to less revenue at national and provincial levels.
26. As a Province, we collected R1.7 billion own revenue for the last financial year. This is hardly enough to offset budget cuts in the recent period. For the 2021/22 MTEF, we have projected to collect just over R5.6 billion.
27. We will work together with the Department of Community Safety, Security and Liaison to review the process flow of the motor vehicle licence and registration and install cash secure and merchants devices to close leakages in our registration authorities.
28. We will further conduct benchmarks with other provinces to identify new sources from which revenue can be enhanced and maximized.

29. All other Departments must continually review their systems to improve and explore new revenue streams to augment the receipts from national fiscus.

Infrastructure delivery

30. The proposed Zero-Based Budgeting requires a rigorous analysis of infrastructure budgeting and the associated expenditure. With infrastructure deemed a cornerstone of the economic recovery, every rand invested must be backed by real calculations to maximize the achievement of socio-economic objectives.
31. The success in turning around the impact of Covid19, through infrastructure development and maintenance, will be highly reliant on the leadership by Provincial Treasury, appropriate talent, structures and culture within the provincial Administration.
32. The recently launched Infrastructure Build Anti-Corruption Forum seeks to bring confidence in the procurement of infrastructure and its associated delivery. In an effort to realise better infrastructure investment, the Government has created the Budget Facility for Infrastructure Funding which seeks to have infrastructure investment to about 10% of the GDP.
33. As things stand, the infrastructure investment within the Province is around 10% of the annual allocation. Provincial Treasury will endeavour to keep this quantum of investment. We have already supported the submissions of the provincial departments to Budget Facility for Infrastructure Funding and to Infrastructure South Afrika for consideration of the investment pipeline.

ASSETS AND LIABILITIES MANAGEMENT

Honourable Speaker

34. Our Five Year Strategic Plan requires us to *leap into the future* by taking advantage of technological advances to digitalize financial systems, thereby improving productivity and ensuring efficient use of limited resources.
35. Covid-19 has taught us that automation is the way to go. Accordingly, we have introduced Business Process Automation (BPA) which has automated all the business processes in the Provincial Administration by utilising modern

technologies and ICT to create a collaborative, communication-based, transparent and sustainable environment for our citizens and Government.

36. Virtual engagements, automation of financial statements, electronic leave management and invoice tracking systems have already been introduced and utilised by departments in the 2020/21 financial year. The invoice tracking system in particular will assist us in ensuring that suppliers are paid within 30 days and that non-compliance is detected and that those responsible are held accountable.
37. Detailed planning for the second phase of the project is underway which entails amongst others:
 - e-Procurement meant for the procurement value chain in its entirety;
 - implementing a system for the rotation of suppliers;
 - electronic documents submission that will eliminate contact through papers, given the new normal brought by Covid19 pandemic;
 - e-Recruitment that will allow our citizens to submit employment applications online, and
 - Revenue collection systems at the point of sale.
38. All these systems will result in long term efficiency benefits for the Province.

Supply Chain Management

39. Supply chain management is a major challenge in departments, municipalities and public entities, which leads to qualified audit opinions. The Provincial Treasury will ensure that this function is improved. All stakeholders will be expected to cooperate. Our efforts will focus on the following:
 - Training of bid committees;
 - Effectiveness of preventative controls;
 - Training on contract management;
 - Timely implementation of procurement plans;
 - SCM compliance, particularly on the National Treasury issued Instruction Notes and Treasury Regulations, and
 - Compliance with the PFMA and MFMA provisions.

40. In order to improve on financial governance and avoid unnecessary litigations, the Provincial Treasury will introduce probity audits for high value and high risk bids throughout the Provincial Administration.
41. We call upon all Departments to take advantage of the training sessions we will be organizing to hone the skills of the financial management practitioners. We will be working with different SETAs in this regard so as to tap into resources at their disposal in order to massify this programme.
42. Departments, entities and Municipalities must ensure that they employ suitably qualified officials in the financial management discipline. We must take this area of work very serious if we are to change the landscape of our Province.

Municipal Finance Support

43. Local government performance has consistently declined despite financial injection, capacity building, and enabling legislation and regulations. We have thus agreed together with the Department of Cooperative Governance and Traditional Affairs on the following “game changers” to address municipal performance failures:
 - Support municipalities to develop credible funded budget, and improve the functioning of the entire revenue value chain,
 - Build and further augment capacity in municipalities to fully implement Municipal Standard Chart of Accounts (MSCOA) to improve budgeting, transacting and reporting.
 - Follow up on monthly procedures that Municipalities are supposed to perform, e.g. bank reconciliations
 - Review the functionality of supply chain management units in municipalities; and
 - Focus on improving the oversight and control environment in municipalities.
44. In an effort to improve compliance on systems of internal control, we will support Municipalities on records management and proper filing of documents to ensure complete, relevant and accurate information for financial reporting.
45. The Provincial Treasury and COGTA have entered into a divorce-less marriage in order to improve performance, oversight and consequence management.

46. The truth of the matter is that Municipalities must do their part. Therefore, we call upon all finance officials, CFOs and Accounting Officers to restore the pride and integrity of our municipalities by re-dedicating and committing themselves to their work. We also call upon all Councils to play their part and support the financial management value chain in its entirety.

FINANCIAL GOVERNANCE

Risk-based Governance

47. In her State of the Province Address, the Honourable Premier Refilwe Mtshweni Tsipane said

This Administration will strive to give our people the confidence they are looking for in the management of public funds".

48. We will continue to support and enhance the work of governance structures across the Province to effectively perform their oversight and assurance role in the interest of the people of Mpumalanga.
49. The Provincial Risk Management unit will focus on monitoring and evaluating the functionality of Risk management Committees and assist stakeholders in identifying and managing critical risks within the Supply Chain Management, Asset Management, including recurring issues that mostly contribute to the negative Audit Outcomes.
50. The Provincial Treasury is also partnering with the Institute of Risk Management South Africa (IRMSA) with the intention to establish a Regional structure, facilitate capacity development programmes for practitioners and further improve the Risk Maturity within the Province.
51. The Audit Committees fulfil a vital role in corporate governance to ensure the integrity of reporting, internal controls and the identification and management of risks. The Provincial Internal Audit Unit will evaluate the effectiveness of Audit Committees and provide feedback to the relevant Accounting Officers.
52. We appeal to all Committees to remain steadfast in their oversight duty by providing independent assessment and assurance on the implementation of government programmes.

53. Properly functional Internal Audit Units provide valuable support to Departments, Municipalities and Public Entities as part of the combined assurance framework. Key controls, high and emerging risk areas must be assessed and recommendations made for improvement implemented without any further delays.
54. All Accounting Officers and Chief Financial Officers must support and be seen to be implementing the recommendations of the assurance practitioners and committees to improve financial management across the system.

Improving financial reporting and accountability

55. Accurate and complete financial statements underpin the democratic principles of public accountability and transparency. We will focus on strengthening the capacity of officials to prepare the Annual Financial Statements (AFS) through training on Generally Recognised Accounting Practice (GRAP).
56. This initiative will help to improve institutional reporting, compliance with disclosure requirements and reduce the material adjustment findings on financial statements.
57. In addition, we will monitor the readiness of Provincial Departments and Entities on preparing the AFS and compiling appropriate referenced working paper files to be ready for the audit process.
58. Through this support, we aim to maintain a Clean Audit outcome as an institution. We will also support DEDT, OTP, MRTT, DARDLEA and MTPA to also strive for clean audits at the end of the current financial year. These Departments need to eliminate the findings on their Audit Reports and improve on their control environments with a sense of urgency.

Improving Capacity of Financial Management Practitioners

59. Provincial Treasury will continue to implement capacity development programmes targeting financial practitioners to boost the profile and performance in all aspects of the financial administration.
60. Our Partnership with the South African Institute of Professional Accountants (SAIPA), which aims to professionalize the financial management practitioners within the Provincial Government, is on course.

61. Twenty Seven (27) practitioners have been certified Professional Accountants so far. We plan to register fifteen (15) more practitioners in the 2021/22 financial year.
62. We will this year bring on board the South African Institute of Chartered Accountants (SAICA) to increase the number of professional accountants in the system. In addition, we plan to involve other professional bodies in relation to risk management, auditing, supply chain management and others.

BUDGET ALLOCATION PER PROGRAMME

63. **Programme 1:** Administration is allocated **R111.3 million**.
64. **Programme 2:** Sustainable Resource Management received **R63.8 million** to maintain a sustainable budget structure critical to preserving the provincial budget and assisting us to realize a desirable societal impact of the public finances, including infrastructure delivery.
65. **Programme 3:** Asset and Liabilities Management gets **R235.7 million**.
66. **Programme 4:** Financial Governance's share is **R70 million** to embed good financial governance practices throughout the Provincial Administration.
67. The total appropriated budget for Vote 3: Provincial Treasury for the 2021/22 financial year amounts to Four Hundred and Eighty-One Million and Fifty-Seven Thousand Rand (**R481 057 million**).

ACKNOWLEDGEMENTS

68. As I conclude, let me take this opportunity and thank:
 - Premier Hon. Refilwe Mtshweni-Tsipane for your leadership and counsel, and my colleagues in the Executive Council for their support.
 - Chairperson and all Members of the Portfolio Committee on Premier's Office, Finance, Economic Development and Tourism, for your frank engagements and guidance on the plan of the Department;

- I have had a good though hectic stint at the helm of the Provincial Treasury thus far, and for that, I want to profusely thank the Head of Provincial Treasury, Ms. Gugu Mashiteng, Management and Staff in the Office of the MEC for their commitment and professional support; and
 - Last but not least, the leadership of the African National Congress for giving policy clarity that advances people's aspirations of a better life for all.
69. I hereby table the Policy and Budget for Vote 3: Mpumalanga Provincial Treasury for the 2021/22 financial year for consideration by the esteemed House.

I thank you.



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