

VOTE 6: PROVINCIAL TREASURY

2016/17 BUDGET SPEECH



MS BELINDA FRANCIS SCOTT

MEC for Finance

PROVINCE OF KWAZULU-NATAL

Budget address by Ms B F Scott MPL

MEC for Finance

On tabling of the Vote 6 Budget in the Provincial Legislature

12 April 2016

INTRODUCTION

I will begin this speech with a quote from Robin Sharma which states: *“To the victim, adversity is bad. To the leader – the warrior – hard times are life’s richest times of growth, opportunity and possibility. Use them to fly.”*

Members are aware of the fiscal climate in which provincial departments are tabling their budgets. I explained this at length when I tabled the Main Budget speech in this House on 10 March 2016. I also explained the fiscal consolidation plan that National Treasury is rolling out to ensure the sustainability of our finances and government programmes. As a result of the expenditure ceiling of the country being cut by R25 billion over the next three years, with the focus being on curtailing personnel spending by all spheres of government, the budget of most provincial departments in KwaZulu-Natal were cut. Provincial Treasury did not escape from this unscathed and Vote 6 was therefore also affected by these budget cuts.

Given the enormous demand for Treasury’s services and the limited resources available to satisfy that demand, it is therefore imperative that all available resources be used as effectively and efficiently as possible. As the quote by Robin Sharma says, this is our time to look for opportunities and possibilities, while ensuring that the work of Treasury does not falter.

The Public Finance Management Act remains our guiding legislation. The objective of this Act is to enable managers in the public sector to manage, while being accountable for the use of the resources made available to them. The long-term vision behind this Act sees a public sector that has:

- Sound financial systems and processes, producing the necessary information to managers
- Transparent budgeting processes
- Effective management of revenue, expenditure, assets and liabilities
- Unqualified financial statements.

I undertake that Treasury will continue to focus on ensuring budget discipline, prudent financial management and integrity, as these are prerequisites for good governance.

As with all departments that experienced equitable share reductions, this is an opportunity for Treasury to focus on our priority areas. We will lead by example and therefore ensure that only absolutely critical posts are filled during this period of fiscal consolidation.

As a result of the fiscal consolidation cuts, Provincial Treasury will have to tighten controls on expenditure management to ensure departments remain within their reduced budgets and that they do not exceed the available cash. Besides the regular expenditure management processes undertaken by Treasury, one of the main projects Treasury will be involved in is the rationalization of public entities. I spoke about this in the Main Budget speech and am pleased to announce that this process is gaining momentum. A Task Team consisting of members from the Office of the Premier, Provincial Treasury, the Department of Agriculture and Rural Development and the Department of Economic Development, Tourism and Environmental Affairs has been established and this Task Team has developed a Terms of Reference and has met on various occasions to determine the various milestones that must be achieved. As this work unfolds, I will report back to this House.

Where financial control weaknesses are identified in departments and public entities, Treasury and the Executive will have to deal with these weaknesses assertively. In the budget we are submitting for consideration today, provision is made for continued monitoring of spending against the budget, as well as the cash position of departments. With the budget cuts imposed on the province, it is essential that Provincial Treasury provides assistance and support to departments and entities by:

- Provision of sound financial management advice;
- Implementation of the required processes to improve overall financial management practices across departments and public entities;
- Production of timely in-year early warning reports; and
- Tightening of systems and processes to reduce the possibility of abuse and corruption.

Our support to departments and public entities continues to be a holistic one with the various units in Treasury working jointly in providing support in areas such as supply chain management, financial management, risk management, assurance services, forensic services, revenue and expenditure management, to name but a few.

To achieve our goals, I will have to rely heavily on my HOD and the three branches of my department, namely Fiscal Resource Management, Financial Management and Internal Audit.

I believe in providing firm leadership to my team in Treasury. We are here to assist and support departments and public entities in the various aspects of financial management and to provide guidance, advice and technical expertise in these areas. Equally important, though, is our role to expose departments and public entities who chose to ignore the Public Finance Management Act. There are some departments and Public entities who behave as though the cost-cutting measures are not applicable to them. This will have to stop. I rely on the Executive of this province to assist me in this process. I have also had discussions with the Chairs of the respective Portfolio Committees, as well as the Auditor General to ensure that delinquent departments and public entities are dealt with decisively.

COMMITMENT OF THE PROVINCIAL TREASURY

Our focus for the 2016/17 financial year will again be directed towards the following:

1. Achieve more clean audit reports and in general an improvement in the 2016/17 audit outcomes;
2. Take effective steps toward the elimination of fraud and corruption in government;
3. Ensure transparent and fair supply chain management practices;
4. Ensure on-budget spending (in all departments) through effective in-year monitoring of expenditure and sound cash management;
5. Maintain the present positive provincial cash position;
6. Enhance assistance to municipalities and public entities to ensure prudence in financial management; and
7. Provide further assistance to departments, public entities and municipalities to unlock stagnant infrastructure projects.

Our goals underscore the necessity for Provincial Treasury to have strong relationships with all MECs, their departments and public entities. In collaboration with the Premier and COGTA, Provincial Treasury will strive to build strong relationships with all municipalities. These relationships will have to be built on **trust and effective advice and support**. We all need to work as partners in promoting good governance and acceptable service delivery.

OVERVIEW OF OWN REVENUE, DONOR FUNDING AND EXPENDITURE PER PROGRAMME

I will now deal specifically with Treasury's own revenue collection, the donor funding secured by the department as well as the main service delivery objectives and funding of each of Provincial Treasury's programmes for the coming year. Full details are contained under Vote 6 of the *Estimates of Provincial Revenue and Expenditure (EPRE)* and in the Annual Performance Plan of the department.

The baseline of the department, in line with the Provincial Executive Council decision following the Directive of the Presidency and National Treasury, has been reduced by R32.5 million from R707.8 million to R675.3 million. This reduction of 4.6% will place enormous pressure on the Provincial Treasury resources to provide assistance to departments, public entities and municipalities in the MTEF period. We will have to reprioritise some of our initiatives and simply have to work smarter to achieve our goals.

REVENUE

Departmental receipts collection – R859.860 million (down from R932.322 million in 2015/16):7.7% decrease

The main reason for the decrease is the under collection of Taxes for Casinos and Horse racing. The department has three main sources of revenue:

- **Tax receipts:**

- **Casino taxes** (*which includes Limited Payout Machines and Bingo gaming*): It is expected that this will generate R478.167 million, which is up by R11.831 million (2,9%) from the actual collection in 2015/16.
- **Horse racing taxes** (*which includes bookmaker bets*): The estimated revenue from this source is R79.171 million, up by R2.141 million (2,8%) from the actual collection in 2015/16.

The performance of these two sources in 2015/16 was again well below the estimates and can be ascribed to the constrained global economic circumstances causing an under-performance in the industry.

- **Interest received:** The revenue from this source relates mainly to interest received by the Provincial Revenue Fund on daily positive bank balances in the Inter-governmental Cash Co-ordinating (IGCC) account at the Reserve Bank. To maximise interest, withdrawals from this account are done only when cash is needed and includes withholding funds lying idle in departmental accounts. The estimated revenue from interest is R301.754 million which is R50.792 million (14.4%) less than the actual collection in 2015/16. The reason for this reduction in

the estimate for 2016/17 is based on the assumption that the substantial budget cuts implemented over the MTEF, will negatively affect the daily bank balances in the IGCC account. An area that we will give more attention to in this financial year is the tendency by some departments to continue to make substantial pre-payments to service providers long before the service is delivered, This reduces our cash availability with the resultant loss in interest revenue.

DONOR FUNDS –

R120 million from the European Union for the period 2015/16 to 2017/18

These funds are allocated for the establishment of Science Parks or Techno-Hubs to be located in Pietermaritzburg, Newcastle, Port Shepstone and Richards Bay. Due to a number of unforeseen circumstances, the start of the project was delayed and minimal funds were spent in 2015/16. The project planning and inception is underway and the funding has been rescheduled to ensure that all funds are spent by the end of 2017/18.

A new allocation R720 000 from the Public Sector SETA

These funds will be utilized to support 20 students from the TVET colleges to undergo in-service training in the department. Selected students will be paid a stipend of R2 000 per month for 18 months.

EXPENDITURE PER PROGRAMME

Programme 1: Administration – R134.552 million (up from R123.089 million in 2015/16)

The increase of 9.3% in the allocation is mainly due to a function shift from Programme 3 of the IT service for the Treasury functions from the Transversal financial systems controls. This programme is responsible for the executive and strategic functions of the department and includes the overall managerial and corporate responsibilities of Provincial Treasury. It comprises the Offices of the MEC, the Head of Department, the

Chief Financial Officer and Corporate Services, which includes the Human Resource Management component.

Both the MEC for Finance and Head of the Department have substantial national commitments in the Budget Council and other national financial structures, and funds have been allocated for this purpose.

Our efforts to maintain real dialogue between government and ordinary citizens on the budgetary requirements will continue and funds for this initiative are provided in my office's budget, as well as in Programme 5.

Through the Inter-governmental Relations Unit (IGR), the HOD Office continues to be very instrumental in driving National Treasury and Local Government Seta Programmes targeted towards meeting the minimum competency levels in financial management of the municipalities in the province namely:

Minimum Competency Regulation

The programme is aimed at improvement of financial management competencies and levels of Municipal Managers, Chief Financial Officers and Supply Chain Managers to increase opportunities for the attainment of improved audit outcomes by the municipalities.

Municipal Finance Internship Programme

The programme is geared towards training municipal interns employed in areas such as strategic planning and management, municipal budgeting, supply chain and finance to develop their skills in order add more value in the functionality of the municipalities and form a pool of prospective suitable candidates for permanent employment opportunities in the municipalities.

Operation Sukuma Sakhe

the OSS programme is a catalyst for change. It monitors and evaluates impact by government departments programmes in all wards in a specific local municipality. The intention for government is to change the lives of communities for the better. This entails

war rooms visits to evaluate their functionality; review the integration of key areas of OSS with a specific focus on HIV/Aids and TB within the wards, social ills intervention as well as integrated service delivery; encourage public participation through engagement with the local communities; and visit and evaluate local service delivery through key projects.

The HOD through IGR also plays an active role in supporting Ethekewini Metro Political Champion in rolling out Operation Sukuma Sakhe in all 103 Wards following up on Service Delivery matters and other inter-governmental interventions of the province in the Ethekewini Metro.

Community outreach and social responsibility

As mandated by the Constitution of the Republic, Provincial Treasury continues to maintain real dialogue between government and ordinary citizens on service delivery issues. While the Department provides information, it also interacts with the community and other stakeholders to ensure a two-way process of sharing ideas.

We continue with our new approach of reaching out to NGOs and NPOs or other legitimate social formations in a particular area that serve the poor and challenged communities and households. Our motto is to make an impact and provide tangible assistance to address specific needs either attended to by the department itself or securing the assistance of a sponsor. The department has willing officials and an effective communication unit to undertake this function.

The HOD has community outreach and social responsibility projects that include:

- A donation of school uniforms, used computers and other resources to needy learners identified through the War Rooms.

Expanding the pool of financial skills in the KZN Provincial Government

- KZN Provincial Treasury received accreditation from the South African Institute of Chartered Accountants (SAICA) as a training office. In March 2016 this department welcomed its first intake of trainee chartered accountants who are

currently undergoing training towards chartered accountants. This programme is responding to the call from the President to increase the capacity of the state and to expand the pool of financial skills in the country. Through this initiative, KZN Treasury will also strengthen the capacity of government departments and municipalities to manage their finances prudently.

- The department has made financial investments through Thuthuka Bursary Fund for students in financial management who want to pursue the CA route. There are a total of 64 students who are currently funded by the department. All of these students come from various District Municipalities in KZN and are expected to serve the Province upon completion of their studies. They are a feeder to the training programme mentioned above.

Programme 2: Fiscal Resource Management – R103.056 million (down from R103.567 million in 2015/16)

The relatively small decrease is mainly caused by the baseline cuts enforced by the economic situation. The activities in this programme will continue at the same level as previously but all new plans will have to be reconsidered.

The main purpose of Programme 2 is the effective management and monitoring of the provincial and local government fiscal resources and budget processes. We will continue to ensure fiscal stability in the province by closely monitoring departmental and municipal revenue and expenditure in order to improve the robustness of the budget process.

The Public Finance unit is responsible for the management of the provincial MTEF process and the preparation of the Estimates of Provincial Revenue and Expenditure, which is being debated by this House. As pointed out in previous years, the functions are largely process driven and, as such, remain unchanged from year to year. The work done by this unit requires extreme accuracy and exceptionally good negotiating skills, especially in light of the latest budget cuts that were implemented by National Treasury in an effort to stabilise government spending and debt. These budget cuts were

communicated late to provinces by National Treasury, however the Public Finance unit rose to the challenge and the 2016/17 budget was tabled in the Provincial Legislature within the regulated timeframe. The unit is also responsible to ensure optimal collection of provincial own revenue which has become even more important in light of the mentioned budget cuts and the constrained economic environment. Public Finance will continue with its expenditure and revenue analysis of both departments and public entities and, where there are signs of in-year pressures, act immediately so that KwaZulu-Natal remains on its stable trajectory. In an effort to ensure a sustainable and stable fiscal environment, the unit has once again re-issued the latest cost-cutting circular and will continue to monitor departments' and entities' compliance with this circular.

The Economic Analysis and Infrastructure unit is, amongst others, responsible for the study of the provincial economy, which in turn supports the allocation of scarce resources in the province. This is done through district profiling, public policy analysis, economic research and contribution to the annual report of the Provincial Treasury. In addition, the unit produces publications on the socio-economic review and outlook (SERO) of the province and a provincial economic review and outlook (PERO) of the same. A series of fiscal policy workshops will take place of the next number of years to develop, discuss and debate economic ideas and strategies and strategic partnerships and projects.

The unit will continue to assist in the allocation of municipal resources by involving itself with the municipalities directly, through conducting workshops and attending municipalities' IDP forums and providing municipalities with economic expertise and data. The unit is fully involved in the financial literacy project which addresses economic issues that deal with financial issues on all levels such as government employees, out of school youth and vulnerable women, among others.

The Unit will continue to assist departments, public entities and municipalities to unlock stagnant infrastructure projects through the appointment of experts on the Crack Team

panel of service providers. Significant value has been derived from the past deployments.

The Municipal Support Program (MSP) within the Municipal Finance Unit was established to assist and provide technical support to delegated municipalities in financial distress and has had a positive impact on the financial management within municipalities.

The MSP is committed to supporting its clients and finding ways to improve service delivery. The MSP aims to institute further financial improvement measures that would assist in resolving the financial management issues encountered by municipalities. These include assisting municipalities with specific challenges impacting on sound financial management such as cash management, review of value added tax returns and processes and grant management.

The MSP also engages with other sub-programmes within Provincial Treasury to support municipalities with challenges that they are specifically skilled to assist with. These include supply chain management, risk management, infrastructure management and asset management.

The selection of municipalities is based on the extent of support required and the municipality's unreserved acceptance of support offered. Successful implementation of support initiatives hinges on commitment by the municipal leadership and staff in embracing the improvements and implementing the processes introduced.

Programme 3: Financial Management – R295.563million (down from R319.778 million in 2014/15)

The decrease of 7.5% is a result of once-off allocations made in 2015/16 to assist various departments who received qualified audit outcomes and to roll out the contract management project. The allocation has therefore reverted back to the baseline requirements as most of the assistance has been, or is about to be finalised. Furthermore as stated previously under programme 1 funds for the Treasury specific IT functions, have been moved from this programme to programme 1.

The control over and maintenance of the **Transversal Financial Systems** is the responsibility of this Programme Manager who must ensure that these systems are fail-safe and prevent fraudulent and corrupt practices. During 2014/15 the SITA mainframe functions for PERSAL moved to Centurion resulting in a substantial saving which we will be utilising for the upgrading of the scanners for the Biometric Access Control System to conform to the latest available technology. It is expected that the whole project will be rolled to all approved users in the province by the end of July 2016.

The main purpose of this branch is to ensure that all the financial management systems and processes utilised in the province lend itself to the effective and efficient management of the provinces resources. The issuing and monitoring of Provincial directives and norms and standards is pivotal in practicing transparent and sound financial management.

The province can no longer tolerate a total disregard of financial prescripts by persons appointed **for the specific purpose of ensuring financial discipline and integrity in their departments.**

The teams managing the sub-programmes of **Financial Reporting, Supply Chain Management** and **Norms and Standards**, must take proactive steps to ensure that timely interventions are in place to prevent negative audit opinions, irregular and wasteful expenditure.

The fifth consecutive clean audit of Vote 6 and the Provincial Revenue fund bear testimony to our commitment and adherence to sound financial management prescripts.

The Provincial Supply Chain Management unit (SCM) will implement transversal contracts for events management and purchasing of paper during the next financial year. This is to ensure streamlining of SCM processes to many frequently procured goods and services by different state institutions, including public entities.

I am pleased to announce that the Department has concluded the process of developing the e-Procurement Tool and the setting up of a price benchmarking system

which is meant to automate SCM processes thereby minimising human manipulation thereof. The Department will commence with the implementation of the e-Procurement Tool in departments from April 2016 through a phased implementation process. The tool will provide an interface with the National Treasury Central Supplier Database which will serve as the single source of all supplier information for government. The price index system will be updated on an ongoing basis, and will initially comprise the most frequently procured items by government.

The Department will continue to provide broad SCM related support to Departments, Municipalities and Public Entities which are found to be in distress in relation to their procurement systems. The support is provided by rendering hands-on resources at client's sites to be responsible for identifying all SCM related weaknesses and gaps with an intention of implementing sustainable reforms

The **Public Private Partnerships (PPP)** unit will continue to address the lack of capacity in departments and municipalities in identifying and managing PPP projects. The unit also aims to create and improve relationships between various stakeholders in the PPP process in order to promote better PPP deal flow, and to prevent deals taking place that are not considered to be value for money and/or affordable. The unit has embarked on intense awareness campaigns and capacity building with various SME's in the built environment in the Province so as to enable these SME's to partake in bigger project like PPP projects.

This programme is also responsible for the **Gaming and Betting function**, and it gives me pleasure to advise the House, that the KZN Gaming and Betting Board is now fully operational and has grown from strength to strength. During these tough economic times, the casino and horse racing revenue indicated an under collection of revenue compared to last financial year and in line with cost cutting measures, the KZN Gaming and Betting Board will receive a revised grant-in-aid for the 2016/17 financial year of R 38.255 million . The Finance Portfolio Committee is currently dealing with legislative amendments to the KZN Gaming and Betting Amendment Bill, which we hope will be passed soon.

Programme 4: Internal Audit – R121.683 million (down from R131.969 million in 2014/15)

The 9.9% decrease in the budget to budget allocation the baseline of this programme remains the same. The reduction is due to a R10 million once-off funding provided in 2015/16 to cover commitments of the Internal Audit Unit. Our Internal Audit services are under substantial funding constraints resulting from the increasing demand for special assurance services and forensic investigations.

The unit plays a vital role in enhancing the overall financial and performance management compliance and governance in departments and Treasury management will have to consider some relief within its overall funding envelope and the scaling down on special projects requested by departments. It is difficult to predict the number of requests or directives for forensic audit investigations that will be received during the year, making it extremely difficult to provide an accurate budget to this function.

The unit through its Risk and Advisory Services Section continues to assist all provincial departments, selected public entities, and close to 50 municipalities with risk assessments and monitoring of risk mitigation plans.

The internal audit unit has been instrumental in the successful review of all fraud prevention plans, Occupational Health and Safety reviews of all departments, selected public entities and municipalities. The unit will continue to assist these institutions in conducting fraud awareness training and fraud risk assessments during the 16/17 financial year.

Programme 5: Growth and Development – R20.426 million (down from R34.159 million in 2014/15)

This programme is utilised for the three specialised functions which are either transversal to all the other programmes or specific once-off projects to be controlled by the Provincial Treasury. These functions are as follows:

- The **Budget Communication** sub-programme is an allocation for budget and finance outreach initiatives. The allocation has been substantially reduced due to the re-configuration of our campaigns from paying for huge gatherings to one of taking the department to the community and households themselves.
- **Special Infrastructure Projects.** These are projects undertaken by municipalities but the funds are controlled by Treasury and released only on receipt of certified progress reports. The two projects for which funds were provided in 2015/16 are the Shayamoya eco-complex and the Bhongweni light industrial park in the Greater Kokstad municipality have been completed. No further projects are envisaged at present.
- **Special Projects.** The projects catered for in this sub- programme for the 2016/17 financial year are:
 - The finalisation of the repairs of the floors at the Inkosi Albert Luthuli Central Hospital. A decision was taken that the Treasury PPP unit be directly involved in the exercise and that the funds remain on the budget of the Treasury. This is a highly successful project and is due to be finalised by August 2016.
 - The preparation for and investigation into the exit strategy for the IALCH PPP which ends in February 2017. Funds have been provided in 2015/16 and 2016/17. Transaction Advisors have been appointed in terms of the Public Private Partnership guidelines and report should be finalised during 2016/17

CONCLUSION

I again wish to express my sincere gratitude to my HOD and all Treasury officials, as well as the officials in my Ministry, for all the hard and sterling work done and for their commitment.

I trust that I can bank on all the honourable members of the house to support the 2016/17 budget of R675.280 million for Vote 6, in light of the initiatives and the deliverables of Provincial Treasury outlined in this report.

It is now my privilege to formally table this budget for your consideration.

Thank you.