

VOTE 6: PROVINCIAL TREASURY

2015/16 BUDGET SPEECH



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INTRODUCTION

In my maiden budget speech for Vote 6 last year, I emphasized the significant reforms being undertaken by Treasury in financial management. These reforms include budget reforms and discipline, as well as reporting standards for all organs of the State. I undertook to focus Treasury's energies on ensuring budget discipline, prudent financial management and integrity, as these are prerequisites for good governance. The Province is, however, confronted by a sharply deteriorating economic environment and a declining equitable share allocation which will have knock-on effects on government revenues and available resources.

Provinces generally have to run a tight ship, but KZN has been affected to a larger extent in this MTEF period due to the previous Census data cuts, followed by the fiscal consolidation cuts. Provincial Treasury will have to tighten controls on expenditure management to ensure departments remain within budget and do not exceed available cash. We are well aware of the demand and pressures on our service delivery departments' budgets, but at the same time, we have to acknowledge the weaknesses in the financial control environment in some departments and public entities.

Treasury and the Executive will have to deal with these weaknesses fearlessly. In the budget we are submitting for consideration today, provision is made for continued and additional monitoring of budget spending and the cash position of departments. It is imperative that Provincial Treasury continues to maintain and improve the financial integrity of this province by:

- Provision of effective financial management advice;

- Institution of the necessary 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, and thereby improving service delivery.

A previous Minister of Finance once urged MECs for Finance to view themselves as the "Chief Financial Officers" of their respective Provinces. I am, as caretaker of the provincial finances, committed to laying a strong foundation for the best possible return on resources, and be the key link, through the Premier and with my colleagues on the Executive, to achieve clean governance and full compliance to financial prescripts.

To achieve these standards, 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.

As can be seen in some provincial departments and public entities, especially in cases of qualified (and worse) audit findings, and the meltdown in service delivery at local municipalities, **the lack of administrative and political accountability and responsibility is prominent.**

On the municipal front, steps should be taken to:

- Help improve compliance and inclusivity of the budget process;
- Improve the capacity to deliver on a range of financial management requirements, including accounting, cash management, investments and borrowing;
- Improve processes in supply chain management and the disposal of assets; and
- Improve infrastructure spending and revenue management.

There is no doubt that we cannot afford to continue to jeopardise service delivery at municipal level. It is our responsibility as Members of this Legislature, to take ownership of issues in the local municipalities. A lot of work lies ahead of us and a significant part of what we will do as Treasury will run in tandem with the work of the departments of the Premier and COGTA. It is planned that, by the time we come to the Adjustments Estimate, and most certainly when I need to table the main estimates for next year, considerable progress will have been made in improving efficiencies and achieving clean governance.

COMMITMENT OF THE PROVINCIAL TREASURY

Our focus for the 2015/16 financial year will again be directed towards the following:

1. Achieve more clean audit reports and in general an improvement in the 2015/16 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, the 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.

To make an impact, we have no option but to introduce and maintain more financial controls. The financial medicine prescribed may not be sweet, given the challenging circumstances, but, like medicine, the test is not in its taste, but in its effects:

- The first prescription is the implementation of the cost-cutting measures which I detailed at length in my Main Budget speech in March. We will have to be serious in our commitment to do away with non-essential expenditure. It is not possible for Treasury to police every single transaction undertaken by departments and public entities to ensure compliance, and we will have to rely on the support of the MECs and their management to enforce these measures. The cost-cutting measures must not be seen as a punitive exercise, but rather as a tool to promote responsible and accountable practices in spending public finances.
- The second prescription came from the Finance Portfolio Committee of this House in an effort to introduce control over upfront payments to service providers without proper monitoring mechanisms. I am certain that some of the rulings of the Treasury in this regard will not be popular, but we will have to be firm in our attempts to minimise the chances of possible fruitless and wasteful expenditure resulting from pre-payments.
- Thirdly, we have started to implement the first charges for unexplained irregular expenditure of departments and, in line with the Provincial Public Accounts Committee resolutions, first charges for unauthorised expenditure resulting from over spending of the Vote. We believe that departments had ample time to provide motivation or explanations for their irregular expenditure for consideration by the Treasury team and to ensure that controls are in place to prevent such expenditure.
- Fourthly, the National Treasury introduced “cash blocking” on the Basic Accounting System (BAS) with effect from 20 May 2014, which meant that accounts will be rejected for payment if the department has no cash available to honour such

payment. This has, in effect, shifted the release of actual payments to departments with Treasury responsible for the release dates only. Provincial Treasury has assisted, and will continue to assist, departments with temporary overdrafts where proof can be provided that additional funds will be appropriated to the department and funds are available in the Exchequer Account. This intervention clearly exposed some warning signs on the control environments, **or lack thereof**, at procurement stage. Departments must ensure that funds are available when **an order is issued** to eliminate over-commitments. The system does cause delayed payments to suppliers in some departments, and this will have to be managed carefully.

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.

Departmental receipts collection – R932.322 million (up from R839.470 million in 2014/15): 11.4% increase

The department has three main sources of revenue:

- **Tax receipts:**
 - **Casino taxes:** It is expected that this will generate R556.890 million, which is up by R89.575 million from the actual collection in 2014/15.
 - **Horse racing taxes:** The estimated revenue from this source is R91.337 million, up by R20.132 million from the actual collection in 2014/15.

The performance of these two sources in 2014/15 was well below the estimates and can be ascribed to the constrained global economic circumstances causing an under-performance in the industry. It is, however, expected that there will be a significant increase once the additional book-making rights and expansion in

casino facilities become operational, hence the substantial increase in the estimates for 2015/16.

- **Interest received:** The revenue from this source relates 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 R283.341 million which is R26.232 million less than the actual collection in 2014/15. The reason for this reduction in the estimate is based on the assumption that the provincial budget cuts implemented over the MTEF will reduce the positive daily bank balances in the IGCC account.

Donor funds – R120 million from the European Union for the period 2014/15 to 2016/17

These funds are allocated for the establishment of Science Parks or Techno-Hubs to be located in Pietermaritzburg, Newcastle, Port Shepstone and Richards Bay. The main aim of these parks is the commercialisation of innovative ideas through which processes, projects and strategies are formulated to create job opportunities and business synergies. Due to a number of unforeseen circumstances, the start of the project was delayed and no funds were spent in 2014/15. The project has started and the funding has been rescheduled to ensure that all funds are spent by the end of 2016/17.

Programme 1: Administration – R123.089 million (up from R118.312 million in 2014/15)

The increase of 4% in the allocation is to provide for inflationary pressure only. 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. Both offices, together with other officials of the department, actively participate in **Operation Sukuma Sakhe** and funds have been provided to enable the department to assist in the co-ordination of service delivery at grassroots level.

Honourable Members will recall that I mentioned last year that the Financial Literacy Partnership Programme was in the process of being registered as an independent Trust. This process was finalised in January 2015 and provision has been made in my budget to subsidise the Trust for three years, where after it should become self-sufficient by also obtaining funds for the programme from non-government sources. In this regard, I refer you to table 6.10 on Page 284 of the EPRE.

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. True communication goes beyond providing people only with information. It requires continuous interaction with the community and other stakeholders to ensure a two-way process of sharing ideas, knowledge and opinions. We have therefore re-configured our outreach campaigns **from paying for huge gatherings** with marquees, catering, transport, public address systems, toilets etc., etc., to one of taking the department to the community and households themselves.

The new approach entails reaching out to NGOs and NPOs or other legitimate social formations in a particular area that serve the poor and challenged communities and households. In consultation with them, we will 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.

Treasury is blessed with well-functioning administrative support units to support the branches. These are the unseen and dedicated staff ensuring that our salaries are paid,

that vehicles are available, that accounts are paid, that stationary is readily available, doing our quotations, provide our technology requirements and in general ensure that the ship's engine is functioning smoothly. In this group I would like to include my office staff and the staff in the HOD's office, who at times are expected to do miracles.

Programme 2: Fiscal Resource Management – R103.567 million (up from R87.023 million in 2014/15)

The high increase of 19% is as a result of delays in the deployment of the Infrastructure Crack Team in 2014/15 due to special investigations, as well as delays arising from appeals, in the appointment of service providers on the Treasury panels which limited support provided in this area to municipalities. Funds were therefore surrendered in the Adjustments Estimate, on condition that the baseline is not reduced. If the 2014/15 original budget (R110.123 million) is compared with the new budget, there is a reduction of 6% which is due to the once-off allocation for the Crack Team in 2014/15.

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.

This programme provides an informed and well-researched fiscal framework for the allocation of resources and the monitoring of expenditure trends against the appropriated funds and consists of the following functions:

- 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 presently 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 the light of the budget cuts resulting from the fiscal consolidation implemented by National Treasury. The unit is also responsible to ensure optimal collection of provincial own

revenue which has become even more important in the light of the mentioned budget cuts. Public Finance will continue with its monthly expenditure and revenue analysis and, where there are signs of in-year pressures, act immediately so that KwaZulu-Natal remains on its stable trajectory.

- The **Economic Analysis and Infrastructure unit** is responsible for robust economic analysis and the monitoring of infrastructure planning and delivery throughout the province. The economic and infrastructure team, in collaboration with the Department of Economic Development, Tourism and Environmental Affairs, was responsible for the bid to National Treasury for European Union donor funding for the establishment of the four science parks referred to earlier in my speech. The unit will control and project-manage the whole process. This unit is also responsible for the Infrastructure Development Improvement Plans in the province and 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. They also provide direct support to Health, Education, Public Works and Treasury on the roll out of the Infrastructure Development Management System.
- A crucial unit included in this programme is the **Municipal Finance unit**, whose main function is to give effect to the duties and functions assigned to Provincial Treasury in the Municipal Finance Management Act (MFMA). Being at the coal-face of service delivery, municipalities often make headlines in the media and it is imperative that the unit vigorously monitors the budgets of municipalities. This includes the review of municipal expenditure, revenue collections and borrowing. This is an area that needs substantial support from both Treasury and COGTA, if government wishes to ensure proper service delivery at grassroots level. **This is where visible service delivery that makes a difference in the everyday lives of our communities takes place.**

The Municipal Support Programme will again provide technical assistance in selected municipalities, in addition to the basic level of support offered to all municipalities. A new initiative from National Treasury is the introduction of a

uniform Standard Chart of Accounts (SCOA) for municipalities which will require the unit to assist with the piloting of this in some of our municipalities and to monitor the readiness of the other municipalities to undertake the migration thereof into their financial systems.

Programme 3: Financial Management – R319.778 million (down from R330.695 million in 2014/15)

The decrease of 3.3% is a result of once-off allocations made in 2014/15 to assist various departments who received qualified audit outcomes and to roll out the contract management project. The allocation has therefore reverted to the baseline requirements as most of the assistance has been, or is about to be, finalised.

The main purpose of this branch is to ensure effective and efficient management of the provincial physical and financial assets by:

- Practicing transparent financial reporting and setting norms and standards in terms of the national accounting requirements;
- Enforcing acceptable cash flow management;
- Ensuring transparent and fair supply chain management practices;
- Providing advice to departments, public entities and municipalities on proposed Public Private Partnerships; and
- Maintaining the optimum functioning of the transversal financial systems which include BAS, the Hardcat asset management system and the Biometric Access Control system.

This branch plays a vital role in building capacity at institutions by assisting in various fields, lending hands-on support and issuing directives and guidelines. Some officials, however, are not abiding by financial legislation, directives and guidelines. In fact, we have cases where these prescripts are blatantly ignored by certain officials, resulting in qualified audit opinions as well as irregular and wasteful expenditure. 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. Our policies and procedures must be clear and enforceable and our capacity building initiatives must be enhanced. 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.

I am pleased to announce that the **e-Procurement system** is entering its testing stages and the pilot at KZN Provincial Treasury is scheduled to start in May 2015 and is on track to be run as a dual system with the current system being used. The system is planned to go live in Provincial Treasury in July/August 2015. COGTA and the Department of Sport and Recreation have indicated their intention to participate as pilot sites before going live. The aim is to roll out the e-Procurement system to all provincial departments by December 2015. We are in close contact with the national Chief Procurement Officer to ensure that the various systems are compatible.

The **Public Private Partnerships (PPP)** unit continues to provide technical support on any possible PPP project envisaged by departments, public entities and municipalities and assists on an ongoing basis in the following areas:

- In developing the exit strategy for the Inkosi Albert Luthuli Central Hospital and participating in the final works survey as required by the PPP agreement.
- Assisting three municipalities with investigations into the feasibility of projects and concession contract management.

As mentioned in my speech on Vote 6 last year, Treasury inherited the **Gaming and Betting** function from the Premier's Office and this function has been placed under Programme 3. The function includes the control over the KwaZulu-Natal Gaming and

Betting Board. The House is aware that the terms of office of the Board members expired and that new Board members have been appointed. In examining the surpluses and the expenditure trends of the Board, Treasury has reduced the transfer payment to the Board as indicated in Table 6.9 of the *EPRE* by R6.744 million Year on Year, in line with the national fiscal consolidation exercise and our own cost-cutting measures.

Programme 4: Internal Audit – R131.558 million (up from R125.749 million in 2014/15)

The 4.6% increase is to allow for inflationary pressures. In the outer years of the MTEF, the budget of this programme decreases as a result of the once-off allocations of R16 million for special projects in 2014/15 and 2015/16. Our Internal Audit services are under substantial funding strain 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 Internal Audit unit works closely with the Provincial Audit and Risk Committee to promote accountability and control in areas of governance, financial management, compliance, risk management and forensic investigations. The new Audit Committee is functioning well and has the capacity to access top departmental management structures to ensure that risk exposures are addressed. The new members were appointed during February 2015 and the Committee has reviewed all the 2014/15 quarterly reports of departments. It will also be able to do the reviews of the Annual Financial Statements of the departments for 2014/15, prior to the submission thereof to the Auditor General.

The unit will continue to provide support in risk management to departments, public entities and municipalities. Special attention will be given to assist with the development and roll-out of business continuity plans, IT governance frameworks, and evaluations of Occupational Health and Safety practices.

The three units of the Internal Audit Branch are visible in all provincial departments and some public entities and will constantly implement more strategies that will increase the visibility and effectiveness throughout the provincial government. They have made good progress in promoting a culture of effective risk management by promoting continuous awareness through focused assessments and risk-based auditing. The main challenge that confronts all three units is to obtain the buy-in of departments. The ultimate value of Internal Audit does not lie in the number of assignments conducted, but in the acceptance and *effective implementation of the recommendations made to the management* in various client departments. This area is still a matter of concern as any delay by management to institute corrective actions impedes the effectiveness and efficiency of the audit.

Programme 5: Growth and Development – R34.159 million (down from R46.693 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, which have proved to be an ideal forum for our people to indicate what lies at the heart of their needs and requirements. The allocation remains within the inflationary increase but, as stated previously, I have re-configured our campaigns from paying for huge gatherings to one of taking the department to the community and households themselves. It is anticipated that this approach will generate substantial savings which can be diverted to other programmes.

- **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 are still provided in 2015/16 are the Shayamoya eco-complex and the Bhongweni light industrial park in the Greater Kokstad municipality. These projects are almost complete and provision has therefore been made for final payments.
- **Special Projects.** The only project presently catered for in this and the next financial year, is to undertake the repairs of the floors at the Inkosi Albert Luthuli Central Hospital. The project should have been finalised, in terms of the agreement with the PPP partners in 2004, **by 2010**. Due to the budget pressures in the Department of Health, this agreement was not honoured. It is vitally important for the final works survey due to be undertaken, that these floors be repaired. The 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. Treasury will reimburse the Department of Health for all payments made to the consortium in terms the progress reports. The project is due to be finalised by mid-2016.

CONCLUSION

Someone once said: *“Good government is the outcome of private virtue”*. If the integrity and commitment from everyone in the provincial government is beyond reproach, some of our functions in the Treasury would indeed be unnecessary. Unfortunately this is not the case and proper governance has been identified as a priority that needs our urgent attention. Treasury will continue to review the performance of the existing governance structures and processes in the provincial administration. We all have a role to play in ensuring that our people receive the services they require and deserve. For a few years now we have pointed out the major wastage and inefficiency in our procurement system. Through a combination of corrupt practices, inefficient procurement, disregard for procedures, poor planning and in some instances, collusion with and within the private sector, we are not getting full value from our purchases.

We also need to mitigate the impact of the economic downturn, and steps will have to be taken to reduce non-core baseline costs, to cut out unnecessary or doubtful value expenditure and overall, increase efficiencies and better control over our finances. Provincial Treasury has already identified a number of ways to do this, which include:

- Tightening expenditure and cash management;
- Tightening supply chain and asset management;
- Improving accounting standards and transparency;
- Sharpening control over our financial systems and associated data integrity;
- Improving infrastructure spending; and
- Assisting Accounting Officers and CFOs to improve systems and process management within their departments.

Similar focus areas have been identified on the local government side. Notably, steps should be taken to help improve the compliance and inclusivity of the budget process; and to improve the capacity to deliver on a range of financial management requirements, including accounting, cash management, investments and borrowing.

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 parties to support the 2015/16 budget of R712.151 million for Vote 6, in light of the initiatives and the deliverables of the Provincial Treasury outlined in this report.

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

Thank you.