

VOTE 6: PROVINCIAL TREASURY

2017/18 BUDGET SPEECH



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Budget address by Ms B F Scott MPL

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On tabling of the Vote 6 Budget in the Provincial Legislature

3 May 2017

INTRODUCTION

Madam Speaker. Honourable Members. As I mentioned in the provincial Budget Speech which I delivered in this House on 7 March 2017, National Treasury has had to intensify its fiscal consolidation programme as a result of a subdued economic outlook, as well as the need to provide additional funding to new social spending priorities. KwaZulu-Natal has suffered substantial budget cuts over the last few MTEF periods. Some of these cuts related to the annual data update of the equitable share formula, while others relate to National Treasury's fiscal consolidation plan. Unfortunately, we are not spared from budget cuts over the 2017/18 MTEF. In addition, a provincial reprioritisation exercise was undertaken with regard to the remuneration of *Izinduna*.

Sovereign rating down grade

In the recent past, two rating agencies namely Standard and Poor and Fitch downgraded South Africa's credit rating to below investment grade i.e. junk status. The local currency did weaken, but since then, the Rand has regained lost ground.

The credit rating downgrade implies higher debt service costs, which will have to be financed through increased taxes or reduced public spending. This is not good for economic growth in general, and therefore all efforts need to be directed towards ensuring that there is no further downgrade of South Africa's credit rating. The recent efforts by National Treasury and the Hon. Minister of Finance to engage investors and to indicate the country's commitment to fiscal discipline will go a long way towards preventing further downgrades.

Fiscal consolidation

This fiscal consolidation cut implemented by National Treasury over the 2017/18 MTEF, alongside budget reductions relating to the annual data updates of the equitable share formula and the provincial reprioritisation undertaken, has meant that Vote 6: Provincial Treasury loses R3.559 million in 2017/18, R3.982 million in 2018/19 and R6.323 million in 2019/20.

With this background in mind, Provincial Treasury has renewed its resolve to do more with less!

Given the enormous demand for Treasury's services and the limited resources available to satisfy demand, it is vital that all available resources be used as effectively and efficiently as possible. As Peter Drucker says, I quote: *"Efficiency is doing things right, effectiveness is doing the right things."* Provincial Treasury aims to do the right things, and to do them well.

As with all departments that experienced equitable share reductions, this is an opportunity for Treasury to focus on our priority areas. The Public Finance Management Act will continue to guide us in delivering on our strategic objectives. We will continue to strive to *"Be the centre of excellence in financial and fiscal management in the country."*

In the budget we are submitting for consideration today, provision is made for the continued monitoring of spending against the budget by departments and public entities. Cash management will continue to receive the attention it deserves. The bulk of Provincial Treasury's budget allocation in the 2017/18 MTEF is for financial management, i.e. a general oversight of all departments', municipalities' and public entities' budget processes, as well as internal audit, SCM, and support for transversal and interlinked financial systems. In addition, Provincial Treasury will continue to implement a number of transversal projects, such as Operation Pay-on-Time, Operation Clean Audit, irregular expenditure projects, and the Municipal Support Programme, among others. Provincial Treasury's focus will be on regular hands-on engagement and support to departments, public entities and municipalities to enhance their financial accounting and reporting performance, as well as continued staff development and training programmes to develop

and retain the requisite financial management skills and expertise. I will expand on these programmes a little later in this speech.

To achieve our goals, Provincial Treasury will have to rely on the co-operation and buy-in from departments, public entities and municipalities. The oversight role Provincial Treasury plays is extremely important and has been very successful in this province over the last few years. Our successes include remaining cash positive since May 2010, incurring less than a 1% deviation from the provincial budget in the last 5 years, the improvement of audit outcomes in departments and public entities, to name a few.

I am truly blessed to lead a dynamic Team who give of their best, in the face of many adversities. They do not rest and they do not settle for anything less than the best. I believe in providing firm leadership to my team in Treasury. We are here to assist and support in all areas of financial management and to provide guidance, advice and technical expertise. It is also our role, though, to highlight areas where there is a breach of the Public Finance Management Act or where the Executive Council-approved cost-cutting measures are not being adhered to.

COMMITMENT OF THE PROVINCIAL TREASURY

Our focus in the 2017/18 financial year will again be directed towards the following:

1. Achieve more clean audit reports and in general an improvement in the 2017/18 audit outcomes;
2. Take effective steps toward the elimination of fraud and corruption in government;
3. Ensure transparent and fair supply chain management practices. To focus on the enhancement of broad-based Black Economic Empowerment (B-BBEE) through effective SCM policies;
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 a strong relationship 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 has been reduced by R67.4 million from R675.3 million in 2016/17 to R607.9 million. This reduction of 9% will place enormous pressure on Provincial Treasury's resources to provide assistance to departments, public entities and municipalities. We will thus have to reprioritise some of our initiatives and simply have to work smarter to achieve our goals.

REVENUE

Departmental receipts collection – R217.645 million (down from R859.859 million in 2016/17):75% decrease

The main reason for this decrease is the movement of the Gaming and Betting revenue to Vote 1: Office of the Premier as determined by Premier's Minute No.2 of 2016. The bulk of Provincial Treasury's revenue is now interest revenue from the provincial bank

accounts. 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. An area that we will give more attention to in this financial year is the tendency by some departments 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

Funding for the rollout of the Techno-Hubs project was allocated for a three-year period. The aim was to deliver Techno-Hubs in Pietermaritzburg, Port Shepstone, Newcastle and Richards Bay. The 2017/18 financial year is the last year of this funding. During the 2016/17 financial year, expenditure on this project accelerated as three of the hubs reached construction stage. The delays in the Pietermaritzburg site were attributed to delays in finalising the Environmental Impact Assessment (EIA) process. The entire budget is committed and will be spent by the end of the 2017/18 financial year. Provincial Treasury has requested National Treasury to release the last tranche of funds. Construction on the other three sites will be complete by the end of November 2017. Extensive marketing of these hubs is on-going and potential tenants, both from academic institutions and the private sector, have shown interest in occupying these buildings.

R720 000 from the Public Sector SETA for the period 2016/17 to 2017/18

These funds will be utilised 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.

Global Fund R420 million for the period 2016/17 to 2018/19

The Global Fund to Fight AIDS, Tuberculosis and Malaria (TGF) is a financing institution established in 2002 to increase the resources allocated towards the fight against the three diseases, HIV and AIDS, Tuberculosis and Malaria. The organisation is based in Geneva,

Switzerland, and does not implement programmes themselves but, instead, the programmes financed are implemented by recipient countries through a public-private partnership that consist of the Country Co-ordinating Mechanism (CCM), the Principal Recipient, and Sub-recipients (SRs).

The Global Fund (TGF) approved the South Africa CCM request for funding for HIV/AIDS under the New Funding Model. In KwaZulu-Natal, the Principal Recipient for the grant is KZN Provincial Treasury. The estimated approved funding for KZN Treasury as the Principal Recipient over three years is approximately R420 million.

EXPENDITURE PER PROGRAMME

Programme 1: Administration – R151.596 million (up from R134.552 million in 2016/17)

The increase of 13% in the allocation is mainly due to a full function shift from Programme 3 of the IT service for Treasury functions to Programme 1.

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

This programme is geared towards effecting Sections 83, 107 and 119 of the MFMA which state, inter alia, that **“the accounting officers, senior managers, the chief financial officers and other finance officials of a municipality must meet the prescribed financial management competency levels.”**

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 to add more value in the functionality of the municipalities, and form a pool of prospective suitable candidates for permanent employment opportunities in the municipalities.

The programme directly addresses the lack of suitably qualified and experienced candidates that certain rural municipalities are faced with, resulting in critical posts either remaining vacant or occupied by unsuitably qualified incumbents.

Operation Sukuma Sakhe

The province developed and implemented Operation Sukuma Sakhe (OSS) in order to promote intergovernmental relations to improve government service delivery in the province. The HOD is deployed to support the Ethekwini Metro in rolling out OSS activities in all 110 Wards. Likewise, I, as a MEC, am the OSS District Champion for the Umgungunglovu District.

IGR represents the HOD in all OSS structures and facilitates the co-ordination of the Metro quarterly reports to the Office of the Premier. This includes war room 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. For my assigned District, these tasks are carried out by my Ministry.

Community outreach and social responsibility

As mandated by the Constitution of the Republic of SA, 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 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.

Both I and my HOD have community outreach and social responsibility projects that include:

- Donation of school uniforms, used computers and other resources to needy learners identified through the war rooms.
- Assisting drought stricken areas by providing and improving tank water supply at schools.
- Lobby sponsorship for schools for infrastructure development and repairs.
- Working with DSD to provide assistance to accredited NGOs, with a focus on orphans and the elderly.

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 2017, this department

welcomed a further two trainee chartered accountants, making a total of five who are currently undergoing training towards becoming Chartered Accountants (CA). 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.

- Provincial Treasury has made financial investments through the Thuthuka Bursary Fund for students in financial management who want to pursue the CA route. There are a total of 79 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 – R96.056 million (down from R103.056 million in 2016/17)

The decrease of 7% is mainly caused by fiscal consolidation, as well as certain funds being moved from Municipal Finance to Special Interventions in Programme 5. The activities in this programme will continue at the same level as previously.

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.

Public Finance – This unit manages the entire provincial budget and ensures that the province remains within the approved fiscal framework. This is achieved within a very difficult and tight fiscal regime. We remain committed to ensuring that service delivery takes centre stage, and that the funds allocated to benefit our well deserving communities indeed reach them. The cost-cutting measures remain in place as we still cannot afford lavish events and expenditure items that are not directed at service delivery for our people. The management of the provincial purse is a joint effort and all Executive Authorities and Accounting Officers are urged to play their part in this regard.

Public Finance will continue to engage National Treasury and ensure that the province gets its fair share of nationally raised funds. Various initiatives at national, including the revision of the equitable share formula and its components, are on-going and this unit is playing a critical role in these initiatives.

Infrastructure and Economic Analysis – This unit is responsible for ensuring proper planning and monitoring of the efficient delivery of infrastructure in the province, as well as providing the much needed economic analysis that informs our budget decisions. National Treasury issued the Standard for Infrastructure Procurement and Delivery Management (SIPDM) which became effective in July 2016 as part of strengthening the Infrastructure Delivery Management System (IDMS). This unit will ensure that, as a province, we comply with these prescripts and that our delivery of infrastructure is well planned and achieves value for money. The panel of built environment specialists commonly known as the “Infrastructure Crack Team” will continue to assist municipalities, departments and public entities to unblock infrastructure projects and fast-track infrastructure spending.

For the first time in this MTEF, the unit published the *Estimates of Capital Expenditure (ECE)* which I tabled with the provincial budget in March this year. This publication lists all infrastructure projects per department that will be rolled out this year and over the MTEF. This is a useful document in ensuring timeous planning of our infrastructure projects, and it also enhances the capacity of this House to play an effective oversight role on infrastructure delivery in our province.

The Municipal Support Programme (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.

In developing the Programme of Work for 2017/18, we have re-assessed the impact of our support and concluded that a hybrid approach was necessary to improve the overall financial well-being of municipalities. The 2017/18 Programme of Work was developed and agreed with other key role players within Provincial Treasury namely, Supply Chain

Management, Infrastructure and Financial Reporting, to ensure targeted intervention at municipalities and a holistic support plan.

The focus of the plan will remain on improving audit outcomes, as well as enhancing service delivery. Two new projects will be launched in 2017/18 and these are the Grant Management and PAYE Review projects.

It must be noted that the benefit to municipalities will only be achieved when unconditional commitment to good governance, responsible financial management and improved service delivery is obtained from municipalities. This includes the buy-in and commitment from all political and administrative staff within municipalities. Strong and participatory governance practices will only have a meaningful impact once municipalities provide a stable and attractive work environment, and Councils appoint the right people with the right qualifications and experience. It is therefore incumbent upon the political and administrative leadership at municipalities to be vigilant with regard to early identification of financial problems that could threaten their liquidity and service delivery obligations.

Programme 3: Financial Management –R213.820 million (down from R295.563 million in 2016/17)

The decrease of 28% is mainly as a result of the sub-programme: Gaming and Betting no longer being a part of this programme as the function moved to Vote 1: Office of the Premier during 2016/17.

Furthermore, as I mentioned previously, the Treasury specific IT functions have been moved to Programme 1 from this programme.

The main purpose of this programme 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 province's resources. The issuing and monitoring of provincial directives and norms and standards is pivotal in practising transparent and sound financial management.

The province cannot tolerate a total disregard of financial prescripts by persons appointed **for the specific purpose of ensuring financial discipline and integrity in their departments.**

The **Supporting and Interlinked Financial Systems** sub-programme continues to provide support for financial systems in the province. This unit, together with the assistance of the State Information Technology Agency (SITA), has successfully rolled out version 5 of the Basic Accounting System (BAS) to all departments. BAS is the financial system used by all provincial departments and is managed by national SITA.

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

The **Financial Reporting** unit deal with a number of matters, for example, the Minister of Finance promulgated Government Gazette No. 37577, Municipal Regulations on Standard Chart of Accounts (mSCOA), on 22 April 2014. Municipalities and their respective entities are required to transact in compliance with the requirements of this Regulation **from 1 July 2017**. The **Financial Reporting** unit is actively monitoring and supporting municipalities and their respective entities in readiness for mSCOA implementation. The unit continues to place emphasis on the Operation Clean Audit campaign, ensuring enhanced financial management in all spheres of government, including training and development of officials and reconciliation of provincial and municipal government accounts.

The sixth 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)** is currently putting in place all necessary policies, to ensure that the mandate of Radical Economic Transformation is achieved. This is in line with the resolutions of the Procurement Indaba, which are currently being implemented at different levels of government in the province. This will

include the implementation of the new PPPFA Regulations of 2017. The unit has further finalised the Events Management transversal contract, and is currently in the process of awarding the bid for bond paper. Strategic sourcing was undertaken in an aim to ensure streamlining of SCM processes for many frequently procured goods and services by different state institutions, including public entities.

The unit has successfully completed the process of implementing Contract Management in all municipalities, and is currently monitoring progress with respect to post-implementation support. The unit is also implementing systems and mechanisms with the aim of reducing cases of SCM-related irregular expenditure in departments and municipalities.

Provincial Treasury 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 deploying hands-on resources at different institutions, to be responsible for identifying all SCM-related weaknesses and gaps with an intention of implementing sustainable SCM 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. An approval for the Feasibility Study for the Government Precinct was received from National Treasury in November 2016, and the Request for Qualification and Request for Proposal will be issued to the market during this financial year. Both the Contract Review and Exit Strategy for the Inkosi Albert Luthuli Central Hospital (IALCH) concession contract has been completed, and the unit is assisting the Department of Health in implementing the recommendation of both reports. The unit will continue with its intensive awareness campaigns and capacity building with various SMEs in the built environment in the province so as to enable these SMEs to partake in bigger projects such as PPP projects.

Programme 4: Internal Audit – R123.888 million (up from R121.683 million in 2016/17)

The small increase in baseline is an inflationary increase.

Assurance Services

The Internal Audit unit will continue to conduct objective assessments to provide assurance to departments on improving the effectiveness and efficiency of internal controls. These include evaluation of internal controls over financial, operational and performance management, as well as compliance and governance processes. Consulting services, which are advisory in nature are also generally performed at the request of the departments. The unit will also continue to conduct IT audits by assessing IT systems and related processes to determine if IT assets are protected, and to assess the integrity of data produced.

The implementation of action plans to address control weaknesses identified by Internal Audit will assist departments in proactively addressing potential issues that may have a negative impact on audit outcomes. These activities undertaken by the unit are supplemented by the guidance and monitoring functions of the Cluster Audit and Risk Committees, who independently assess the performance of departments on financial and performance management. We urge Accounting Officers to maximise the use of audit logs introduced by the unit, as the best tool to monitor progress in the implementation of audit recommendations by internal auditors, and external auditors as these are meant to improve the control environment in departments.

In order to reduce the funding pressures of the unit, Provincial Treasury has streamlined the internal audit service offering to be focused solely on provincial departments. This, together with a stringent rationalisation process to assess requests from departments for ad-hoc and special assistance, is aimed at relieving some of the financial constraints of the unit.

Forensic Services

Currently, the Forensic Investigation unit is investigating fraud and corruption amounting to approximately R6.9 billion, cumulative from 2009. Most of the allegations received and investigated are serious and complex in nature. The unit will continue to work hand-in-hand with the law enforcement agencies such as the ACTT, NPA, SAPS, SCCU and AFU on matters requiring criminal investigation. In addition, there have been a number of

criminal arrests made, successful disciplinary action conducted by some departments and of recent, there has been an AFU preservation order granted to the value of R546 million against a former official of one of the provincial department and various service providers.

The unit is inundated with allegations reported against local government institutions, provincial departments and a few from public entities. These investigations are very costly, and create serious financial pressures for the unit, hence it was decided that local government institutions and public entities have to fund their own investigations, disciplinary hearings and criminal investigations. Provincial Treasury will, however, assist wherever possible, but will prioritise investigation requests from departments.

Risk and Advisory Services

The risk and advisory unit's focus will be on the evaluation of internal control and risk management components across the provincial departments, with a view to recommending improvements that will see these functions working efficiently and effectively. It is our view that the effectiveness of these components, if well capacitated to support line management within departments, will enhance good governance, complement internal and external auditors' work and thus minimise audit queries. The success of this approach will result in more clean audits.

The unit will continue to assist all provincial departments with certain risk assessments (including fraud risk assessments) and monitoring of risk mitigation plans. The unit has also conducted an initial assessment on how departments are implementing risk management structures, and embedding risk management into its business activities.

Programme 5: Growth and Development – R22.484 million (up from R20.426 million in 2016/17)

This programme provides for two specialised functions which are either transversal to all the other programmes or specific once-off projects. These functions are as follows:

- The **Budget Communication sub-programme** is an allocation for budget and finance outreach initiatives mainly for the MEC's community outreach programmes. The allocation has been substantially reduced due to the re-configuration of the outreach campaigns from paying for huge gatherings to one of taking the department

to the communities and households themselves. These campaigns in the main include budget road-shows, reaching out to NGOs and NPOs through donations, donation of school uniforms, used computers and other resources to needy people, and Operation Sukuma Sakhe initiatives.

- **Special Projects** includes the following in 2017/18:
 - Funds are allocated for the tendering/procurement for the PPP Government Precinct and Legislature project.
 - An allocation of R5 million for interventions in departments, municipalities and public entities, as and when they arise. This funding will be used to ensure that critical financial management areas of concern in the province can be addressed immediately.

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 unwavering commitment.

I trust that I can depend on all the Honourable Members of this House to support the 2017/18 budget of R607.844 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.