



PRESENTATION OF PROVINCIAL FINANCIAL RECOVERY PLAN KZN PROVINCE 2025-2029



KEY FINANCIAL INDICATORS



ACCRUALS 24/25 (i.e. invoices due and payable)= DOE 1 Rb
DOH R3,2b DOT R2,3b **TOTAL R7,8B**

INVOICES CAPTURED i.e. reflects in IYM **BUT NOT RELEASED**
(NOT CASH BACKED PAYMENTS) DOH:R1,3b, DOE R2,2B
TOTAL R4,6B

NB: The above places significant pressure on the fiscus as they must be cash funded from 2025/26 budget. **R12,4B ALREADY SPENT (9% OF TOTAL PROVINCIAL BUDGET)**

COE SPENDING PRESSURES 25/26

COE UNDERFUNDED : Dept did not budget for full costs of COE
– cash is moved from G&S to ensure salaries paid, but results in
“in year: budget cuts – **25/26 shortfall is DOH R2,4b and DOE R1b**

“IF THE CASH IS NOT THERE THE BUDGET DOES NOT EXIST

2025 /26 BEGINS IN THE RED for the province:

R12,4 B PAYMENTS DUE AND PAYABLE

R3,2 B COE DUE AND PAYABLE

RATES R500M DUE AND PAYABLE

SCHOLAR TRANSPORT R450M

Unauthorized expenditure first charge

If a department overspends they have to pay the money back to the revenue fund (first charge)

Overspend by one department means they have spent money they don't have and in effect have spent other departments money where they have overspent and thus impossible to approve rollovers when net overspend by the province

- DOE R954m over 7 years beginning in 2025/26 – **budget cuts of R136m** per annum for 7 years
 - *R63m incurred in 23/24 – SCOPA still to resolve*
 - *24/25?*
- DOH R91.6m over 7 years beginning in 2025/26 – **budget cuts of R13m** per annum for 7 years
 - *R1,1billion incurred in 23/24 – SCOPA still to resolve*
 - *24/25?*

INTRODUCTION

PROVINCIAL FINANCIAL RECOVERY PLAN



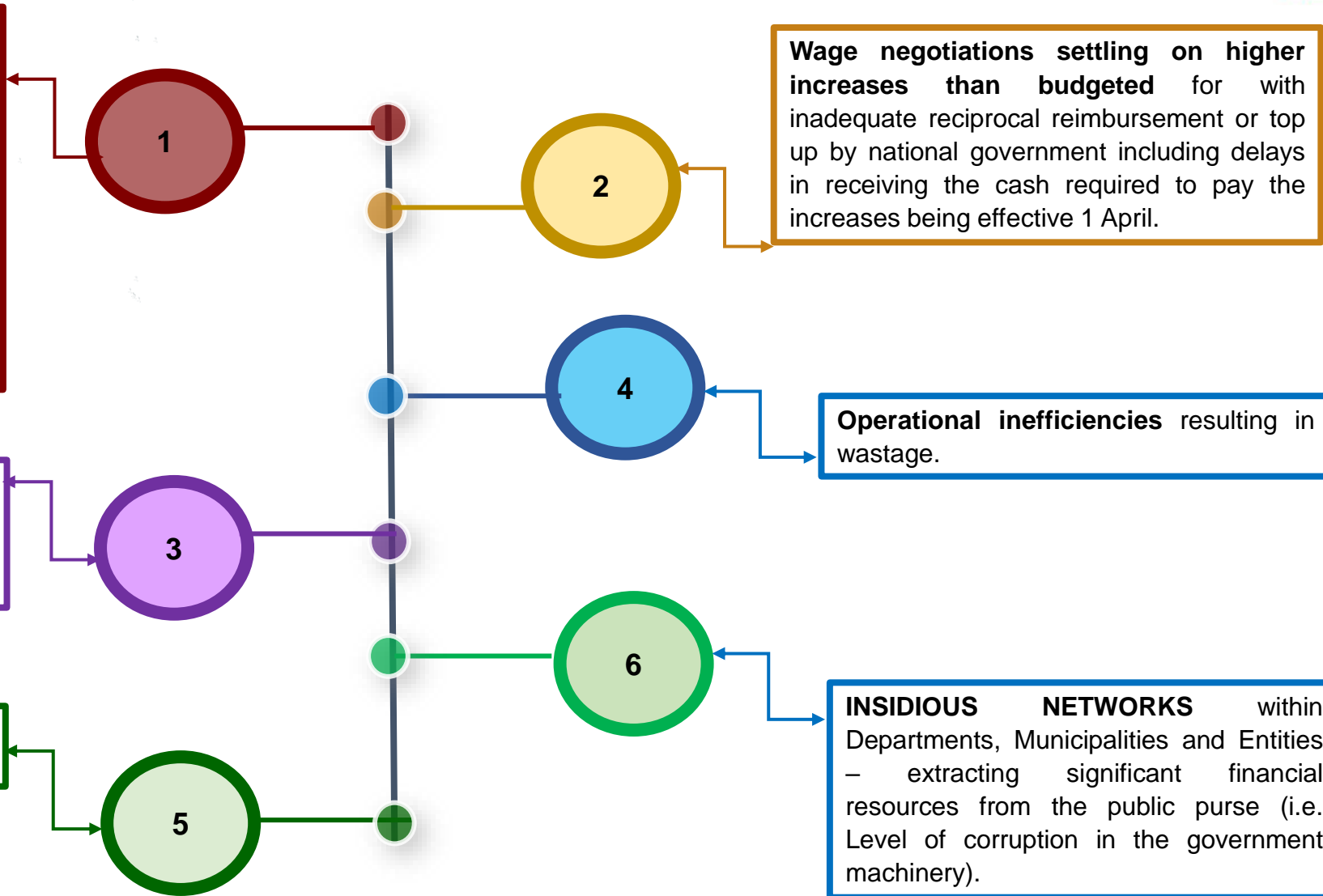
Strategies to be embarked on to restore and build **financial stability and fiscal sustainability**,;- and curtail the fiscal crisis that the Province finds itself embattled in.

ROOT CAUSE ANALYSIS

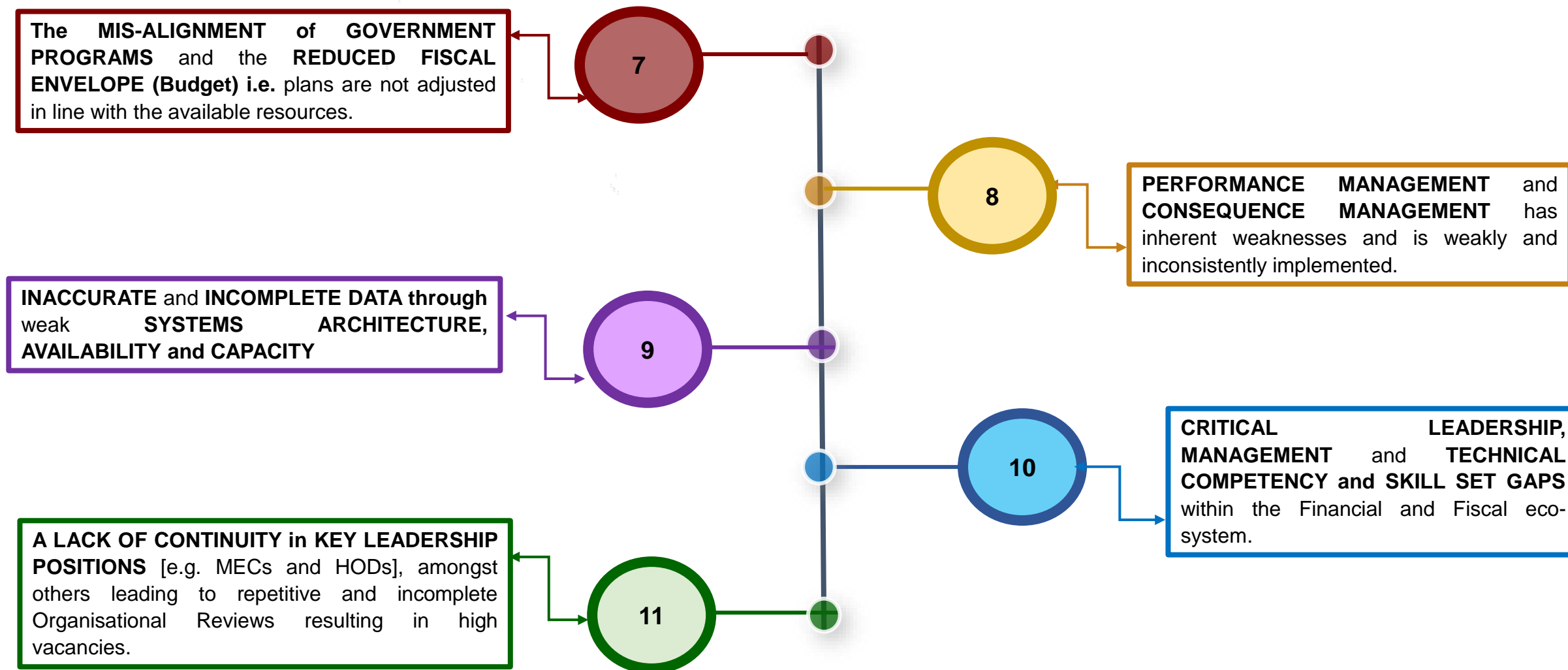
The **national fiscal consolidation** resulting in direct budget cuts -in the past 4 years total cuts of **R66,917B**, next three years cuts total **R36 297B**. The national review of the Provincial Equitable Share formula which until this year had resulted in a reduction in the allocation to KZN (reductions reflected in the number above)- Slight reprieve with amendments to PES formula for 2025/26 MTEF in KZN favour resulting in additional funding of R555m, R1,3billion, R2billion over MTEF

Accumulation of accruals – bad practice of overcommitting the department, utilizing goods and services for COE and capturing payments on BAS knowing that there are no funds available.

Lack of realization of the stark reality and therefore no shift in reducing spend



ROOT CAUSE ANALYSIS Contd...





PROVINCIAL FINANCIAL RECOVERY PLAN:- IMPACT STATEMENT



1. KZN Province Fiscal Restoration and Stability
(Remain within budget with no spending pressures , accruals managed within 30-day norm)
2. Increased Revenue for the Province

PROVINCIAL FINANCIAL RECOVERY PLAN:- SHARED VISION & LEGACY

- A well referenced Fiscal rescue and recovery benchmark and case study in inclusive and sustainable fiscal transformation
- Capable financial teams across all Departments, Municipalities and PE's
- A benchmark in clean governance and established principles of an ethical state
- An IFMS that is fully and effectively functional across the Province
- Technology fully leveraged for financial and fiscal efficacy and accountability – with uniform financial systems across the Province. All primary and secondary financial data is at hand.

PROVINCIAL FINANCIAL RECOVERY PLAN:- SHARED VISION & LEGACY Contd...

- LEAN and efficient processes that result in “calm efficiency”
- KZN advocates for, and influences financial legislation
- “SUSTAINABLE RESOURCE ALLOCATION IN ALL CRITICAL SECTORS [85 :15 existing but needs to change towards more funding economic sector] ... WITH ATTRACTIVE ECONOMIC GROWTH, A DECLINING DEPENDENCY ON SOCIAL GRANTS AND ENHANCED SERVICE DELIVERY ACROSS KZN”



PROVINCIAL FINANCIAL RECOVERY PLAN:- WORKSTREAMS

Workstream One (A);- **Departmental Specific Interventions and Financial recovery plans (DOH, DOE, DSD, DOT, Ithala SOC limited)**

Workstream One (B);- **Municipal Support (Municipalities in distress)**

Workstream Two;- **Fiscal and Financial Governance**

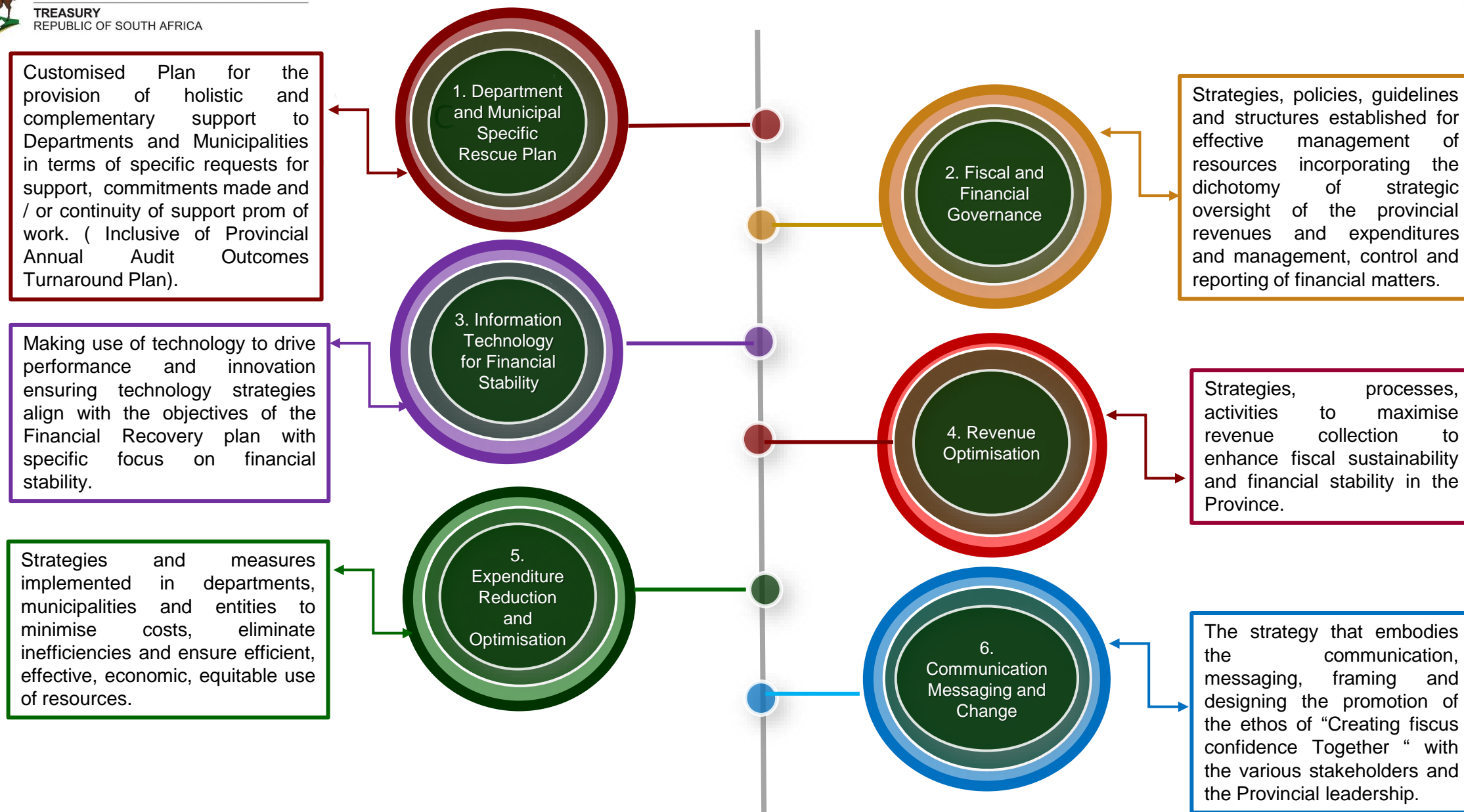
Workstream Three;- **Revenue Optimisation**

Workstream Four;- **Expenditure Reduction and Optimisation**

Workstream Five;- **Information Technology**

Workstream Six;- **Communications and messaging**

THE 6 WORKSTREAMS UNPACKED



WORKSTREAMS UNPACKED

WORKSTREAM ONE (A):- SPECIFIC DEPARTMENTAL INTERVENTIONS



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SPECIFIC DEPARTMENTAL INTERVENTIONS

The focus of this workstream is to identify specific financial recovery interventions in the following public institutions which are facing financial challenges:

- Department of Education
- Department of Health
- Department of Social Development
- Department of Transport
- Department of Public Works and Infrastructure

WORKSTREAMS UNPACKED

WORKSTREAM ONE (A):- SPECIFIC DEPARTMENTAL INTERVENTIONS



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FOCAL AREAS

- i. Detailed analysis of the **In-Year -Monitoring** reports to identify leakages.
- ii. **Analysis of payables and accruals** and implement a payment plan for suppliers.
- iii. **Employee verification in order** to eliminate all ghost employees ;- only verified and authorised people are employed and paid (excluding Department of Transport).
- iv. **Performance Information:** To ensure that funds spent is represented by service delivery
- v. **Risk management:** to evaluate internal controls and business processes.
- vi. **Invoice tracking (LOGIS):** Explore existing systems to assist with invoice tracking.
- vii. **Supply Chain Management:** to strengthen compliance and capacity.
- viii. **Governance:** to ensure improved oversight.



WORKSTREAMS UNPACKED

WORKSTREAM ONE (A):- SPECIFIC DEPARTMENTAL INTERVENTIONS Contd...

DEPARTMENT	SPECIFIC REVIEWS AND FOCUS
Department of Education	<ul style="list-style-type: none">• NSNP• Norms and Standards• Staff loans• Scholar transport and learners with needs
Department of Health	<ul style="list-style-type: none">• Beds for rented accommodation and conversion of 24hr CHC• Stock levels at PPSD• Hub and Spoke model• Partnership with NPOs• Centre of Excellence
Department of Transport	<ul style="list-style-type: none">• Transfers to Implementing agents
Department of Social Development	<ul style="list-style-type: none">• Verification of NPO/NGOs
Department of Public Works and Infrastructure	<ul style="list-style-type: none">• Property rates – immovable asset portfolio

WORKSTREAMS UNPACKED

WORKSTREAM ONE (A):- SPECIFIC DEPARTMENTAL INTERVENTIONS Contd...

FOCAL AREA: ITHALA SOC LIMITED:

Treasury will need to lead in the aspects relating to matters pertaining to the provincial fiscus whilst the shareholder department, EDTEA, would need to focus on the revised strategy and mandate, shareholding and legal aspects thereof.



WORKSTREAMS UNPACKED

WORKSTREAM ONE (B):- MUNICIPAL SUPPORT

REDUCTION IN THE NUMBER OF MUNICIPALITIES:

It was agreed that this task is a long-term initiative that cannot be controlled by Provincial Treasury and should be driven by CoGTA and the Municipal Demarcation Board. Once the engagements have taken place the detailed action plan will be included in this plan.

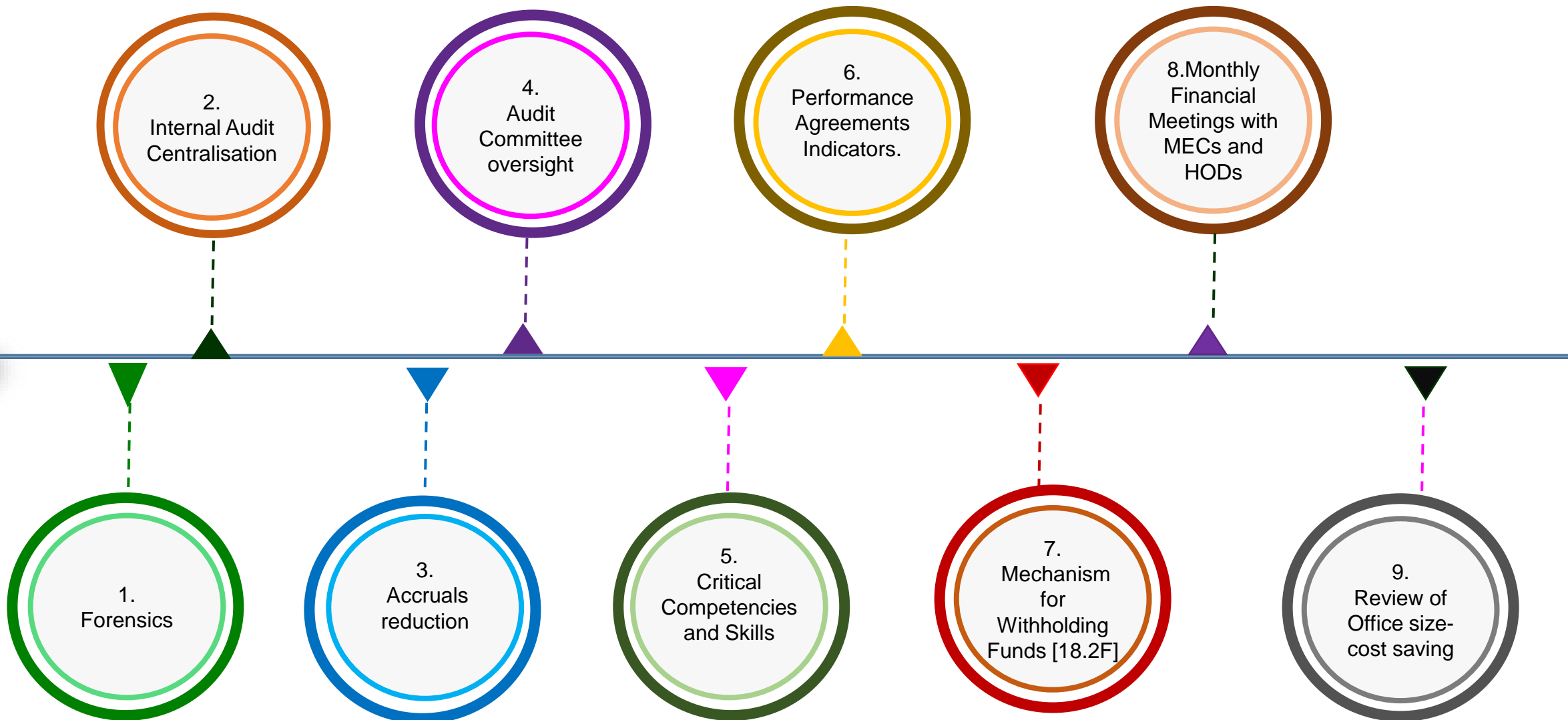
SPECIFIC MUNICIPAL SUPPORT

The following municipal specific matters are to be addressed and have been unpacked in detail below:

- i. 26 Municipalities that require support.
- ii. Reduce number of municipalities with Unfunded Budgets.



WORKSTREAM 2: FISCAL MANAGEMENT AND GOVERNANCE FOCAL AREAS



WORKSTREAMS UNPACKED

WORKSTREAM THREE:- REVENUE OPTIMISATION



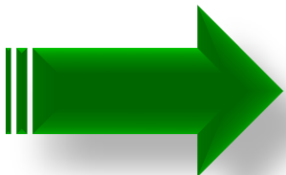
PROBLEM STATEMENT

The province has seen a decline in revenue for several reasons articulated earlier. To ensure that this critical source of funding is protected and more importantly grows given the national fiscal constraints, the workstream are focusing on:

- i. Revenue enhancement of existing sources
- ii. Identification of new revenue streams for the province

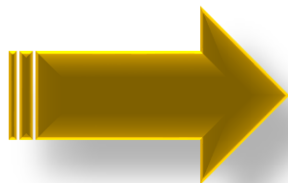
WORKSTREAM 3 FOCAL AREAS

Department
of Health



- Revenue collection business process
- Patient Fees and Means testing
- Revenue from Correctional Services
- Revenue from Road Accident Fund
- Revenue from COIDA
- Departmental Capacity to collect revenue
- Potential Revenue Sources
- Revenue Retention Principle

Department of
Public Works
and
Infrastructure



- Rentals from state owned assets
- Sale of immovable properties
- Billboards and cell phone towers on state property

WORKSTREAM 3 FOCAL AREAS

Department
of Transport

- Own Revenue Collection business process
- Motor Vehicle licenses (taxes)
- Fines and penalties
- Sales of goods and services
- Abnormal load permits
- RTI revenue (learner and drivers licenses)
- Potential revenue sources

Department of
Economic
Development,
Tourism and
Environmental
Affairs (and public
entities)

- Seashore leases
- Environmental fines
- Liquor licenses
- Online Gambling



WORKSTREAM FOUR: EXPENDITURE REDUCTION AND OPTIMISATION FOCAL AREAS



1. Addressing “over-65’s” on PERSAL

This was seen as one of the “quick wins” in that the state has a 65-year retirement age policy. The first step was to gather information on how many over 65s there currently are on 65 and then to analyse this data. This required a request to be made to the Office of the Premier to provide a PERSAL report, followed by a desktop exercise to analyse the current over 65s. Once this is understood and cleaned up, the departments will need to indicate the reason for the continued employment of officials beyond their retirement age.

3. Procurement Plans to match budget

National Treasury Instruction Note 2 of 2016/17 prescribes the requirements for the compilation, submission and amendment of Annual Procurement Plans, including reporting on performance against the plans. The Instruction Note further prescribes that the Annual Procurement Plan must be aligned with the institution’s budget and the Annual Performance Plan.

The Annual Procurement Plan is to be compiled in MS Excel format and a template is provided with the Instruction Note. All expenditure on goods, works and services with a value greater than R500 000 should be included per transaction. This also applies to expenditure to be incurred in terms of transversal contracts or by any other means, items where tender processes have already commenced and procurement through agencies. Annual Procurement Plans are required to be submitted to the relevant Treasury by 31 March each year.

2. Budget right-sizing with APP

The intention here is to provide the information that the MEC for Finance requested in terms of how much budget remains when excluding conditional grants, Compensation of employees and fixed costs.

4. Reduction in Property Rates by > 20% and Liquidate unproductive assets

Given the significant expense incurred on property rate and the inadequate budget provided, attention has to be given to reducing this cost either through review of the actual billings, valuations or reducing the property portfolio to match the needs of the province.



WORKSTREAM FOUR: EXPENDITURE REDUCTION AND OPTIMISATION FOCAL AREAS



5. Reduction of Consultant spend by >30% and Reduction in S&T costs by 25%

7. Moratorium on provincial Christmas events, provincial events, international travel, organisational structural reviews, construction of new libraries and combo courts etc, and OSS events

The intention is to identify savings from hosting such events, and to redirect the funds towards budget pressures in the province and right-sizing the budget for KZN.

6. Monthly meetings with MEC

The Cabinet Resolution taken on 4 December 2019 indicated that all provincial departments are required to submit a monthly report on the status of key focus areas for submission to the MEC by the 15th of each month, with a copy submitted to KZNPT on:

The above list of reports to MECs was extended in October 2022 by way of a Treasury Circular to further enhance the oversight of the MECs. The following additional reports are required to be submitted to the MEC according to specific timelines provided:

In response to the above, departments are required to report using the templates circulated and the relevant Annexures included in National Treasury Instruction 02 of 2023/2024: month-end closure procedures for 2024/2025.

8. Limit Project launches to R50k

The intention is to identify savings from hosting such events, and to redirect the funds towards budget pressures in the province and right-sizing the budget for KZN.

WORKSTREAMS UNPACKED



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WORKSTREAM FIVE:- INFORMATION TECHNOLOGY FOR FINANCIAL STABILITY

PURPOSE

Access to reliable and complete information is crucial for decision making and planning. Information Systems should enable this shortcoming that exists currently as well as searching for technology that can enhance operational efficiencies and reduce the level of corruption particularly in supply chain management.



WORKSTREAM FIVE : INFORMATION TECHNOLOGY FOR FINANCIAL STABILITY FOCAL AREAS

1. Data Analysis Centre:

There are three data analysis processes applicable to Government and these are, i) Descriptive – What happened, ii) Diagnostic – Why did it happen and iii) Predictive – What is likely to happen. Data analysis can help in identifying bottlenecks and inefficiencies in government processes, leading to better resource allocation and service delivery.

3. Increase Band-width, and reduce costs by 60%

Government sources data lines through SITA and is charged a rental fee and port charges per data line. The Province has for years discussed problems with port charges as there is no basis for the large costs. The Western Cape and Gauteng have implemented a Government Private Network to minimise port charges and allow their Departments to have faster data lines at low costs. The KZN Province has also started discussions with SITA on the implementation and rollout of a Provincial Government Private Network.

2. Over 65 year olds have been taken off Persal as per policy and PERSAL General Clean-up (DOE Only):

Compensation of employees is the largest cost driver within the Provincial Administration and specifically for the Department of Education. There are issues of ghost employees, very high debts due to staff exists and incorrect linking of employees within the PERSAL system. A systematic step by step approach is required to assist the Department of Education to start cleaning its PERSAL data and develop and implement processes that will monitor that the PERSAL data remains mostly accurate.

4. Provincial SCM system approved and implementation [including Budget blocking]:

The Province is currently using manual processes within its Procurement processes for the majority of Provincial Departments. To increase efficiencies and increase compliance within Procurement, an electronic system is a must for the Province while awaiting IFMS from National Treasury. There are other Government Departments utilising Procurement systems while awaiting a system from National Treasury and the Province has looked at some of these and made a recommendation on one of these systems to be implemented and rolled out.

5. Financial Compliance templates

The Provincial Treasury disseminates and receives a lot of data to and from Departments in terms of Financial Management. This data sharing needs to be standardised and formatted correctly so that when the Provincial Treasury uses such data for consolidation and reporting, it is the same data across all Departments.

7. Project Codes on BAS

The Provincial Treasury is required to analyse expenditure trends by all Departments. This requires reporting from BAS and Vulindlela systems. One BAS item may be used for several activities, for example, catering may be for meetings, community events, marketing events, etc.

There is a need for Provincial Departments to group expenditure under one initiative/activity/event. This is required for Provincial Treasury to be able to analyse total costs for similar initiatives/activities/events. The BAS system does allow for a Project Code to be created and used. Departments to be requested to make use of Project codes on BAS.

6. PGITOC effectiveness on coordination and CIOs

There is a need for all Provincial Department's Strategic plans to incorporate an Information Communication Technology (ICT) Strategy and for the individual Department's ICT strategies to be consolidated into a Provincial ICT strategy. Importantly is the implementation and monitoring of the Provincial ICT strategy by the Provincial Government Information Technology Officers' Council (PGITOC).

The purpose of this task is for the Provincial Treasury to assist the PGITOC in the implementation and monitoring of the Provincial ICT strategy as this will have financial implications for the province and departments from time to time. This will ensure that where appropriate financial support is required, this is done timeously. Inputs from the PGITOC will also assist strategic discussions at an EXCO level within Provincial Treasury in line with the ICT resource that is recommended as per task eight.

WORKSTREAMS UNPACKED



WORKSTREAM SIX: COMMUNICATION, MESSAGING AND CHANGE

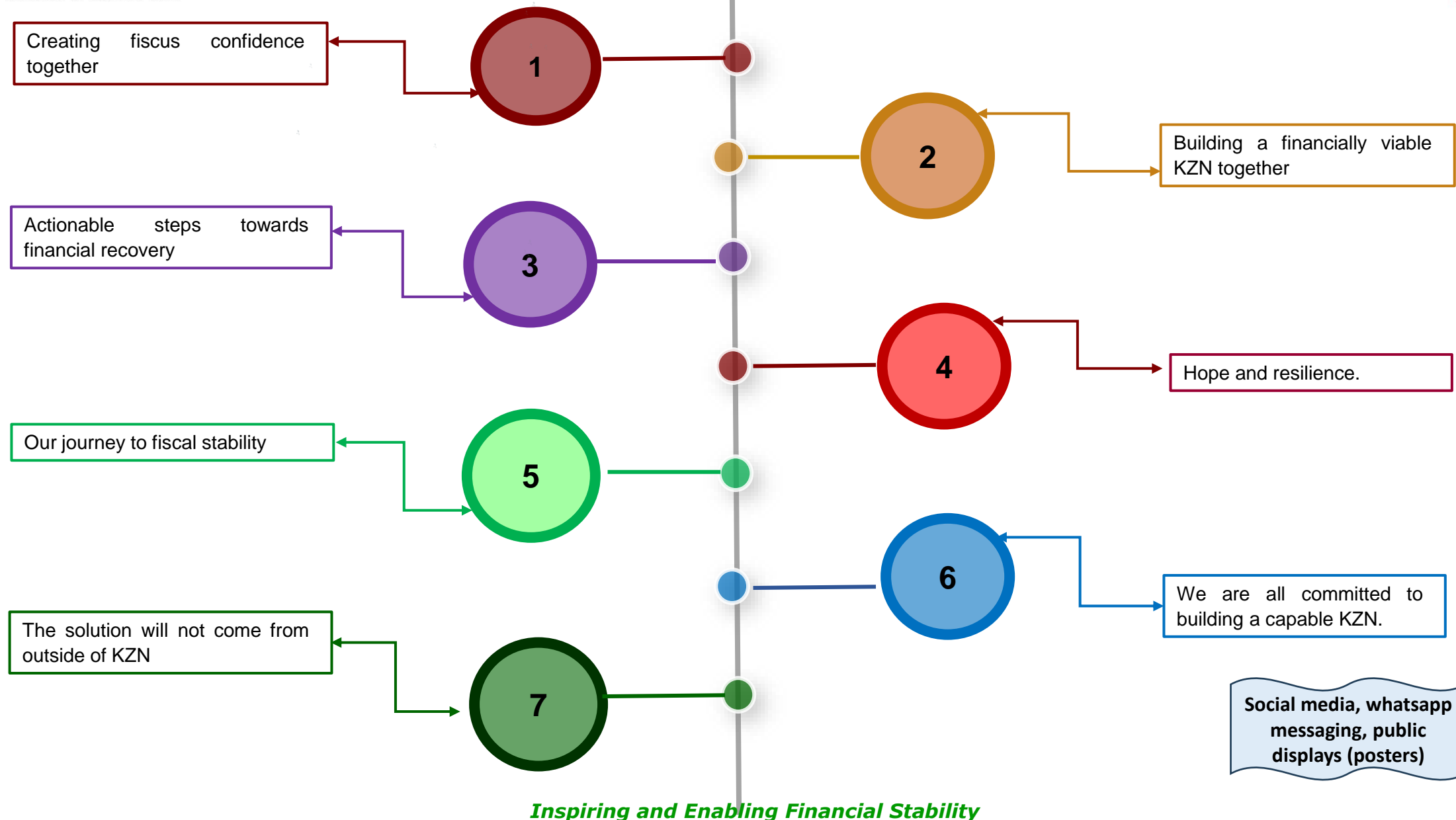
PURPOSE

Communications play an integral role in the execution of the strategy. The focus of this team is as follows: -

- Inform all stakeholders about the Provincial Financial Recovery Plan.
- Facilitate constant updates on progress.
- Develop key messages and the dissemination thereof.
- Facilitate change and support.



WORKSTREAM SIX: KEY MESSAGES



PROVINCIAL FINANCIAL RECOVERY PLAN:- IMPLEMENTATION

IMPLEMENTATION TEAM

- The **Premier** is the **Champion** of the Provincial Recovery plan for the province
- The **Executive Authorities** will drive and account progress to both the **Premier** as well as their respective **oversight structure (portfolio, PARC, AG)**
- The co-ordination at a technical level will be led by DG and COHOD with **Provincial Treasury** at **DDG** level DRIVING the key workstreams comprising **multi-skilled team of officials from all departments** and any other expertise that may be required:
- A terms of refence will be developed for each workstream
- The action plan developed by each workstream will be **presented to COHOD and Cabinet for endorsement**

CRITICAL SUCCESS FACTORS

Both the Cabinet and Legislature (GNU) must agree on the **policy stance** to be taken as well as a high-level strategy (fiscal rectitude with clear goals as defined earlier) that must be concise, clear and communicated consistently across all levels of government and externally by politicians and officials.

Transparency through Two-way **communication** is critical and thus engaging key stakeholders (staff, unions and broader public) on an ongoing basis to engage and express the best achievable policy outcomes, whilst soliciting input and support on ways and means to live within our means, to enhance service delivery, to achieve desired outcomes and to achieve the best value for money.

Support from critical role-players such as the Auditor-General, Public Service Commission and the Provincial Audit and Risk Committee

Improve **integration** at planning and implementation

Rebuilding **confidence** in government – attract investment and private partnerships

Commitment from all public servants – culture shift to serve and guard the public purse

Support from private sector and unions

Greater emphasis on providing **accurate projections** in IYMs

Align planning cycles to ensure alignment and realistic resource allocation

Inspiring and Enabling Financial Stability

HIGH LEVEL KEY RISKS IDENTIFIED

Stakeholder Misalignment:

Description: Differing priorities, differing strategies, lack of buy in/ commitment from all stakeholders, lack of shared vision; differing risk appetites.

Impact: Delays in decision making, resistance to financial recovery plan strategies

Mitigation: Early and transparent engagements, negotiations, stakeholder involvement, alignment through shared objectives.

Reputational Risk:

Description: Negative perception from the stakeholders and the public (lack of public trust)/ regarding the Provincial Financial Recovery Plan thereby affecting the acceptability and success of the Plan.

Impact: Failure to realise the planned/ expected benefits expenditure reduction and optimisation, revenue enhancement; improved fiscal management and governance).

Mitigation: Proactive communication strategy, stakeholder engagements and rebuilding the public trust, contingency planning.

Operational/ Execution Risk:

Description: Inability to execute financial recovery initiatives (e.g., operational inefficiencies; insufficient human and financial resources, changes in legislations, inadequate communication and engagements; inadequate coordination between workstreams).

Impact: Failure to realise the planned/ expected benefits expenditure reduction and optimisation, revenue enhancement; improved fiscal management and governance).

Mitigation: Strong monitoring and reporting of milestones, setting of accountability structures, adequate resource allocation, clear prioritisation of milestones, monitoring of policy changes, proactive communication strategy, proper coordination of workstreams.

Loss of Key Personnel/ Talent Loss:

Description: Departure/ Changes to executives or personnel critical in implementing the Provincial Recovery Plan.

Impact: Loss of institutional knowledge and disruption to the progress/ momentum of the Plan/ stalled financial recovery efforts..

Mitigation: Retention strategies, succession planning, adaptive planning.



WAY FORWARD



- PEC approval of the high level FRP – 11 June
- Workstream appointments -13 June
- Terms of reference and workplans for each workstream quantifying savings – 25 June
- Present Terms of reference and workplans for each workstream to PEC for approval – next cabinet meeting (mid-July)
- PEC to launch the FRP to all senior management (DDG, CD, CFO, SCM managers) – Mid July
- MEC Roadshows with all officials to ensure full commitment of all public officials and to drive the culture shift– July- September
- Briefing Oversight structures : Portfolio committees, SCOPA, PSC, Audit committee and AGSA– 30 July



THANK YOU

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KWAZULU-NATAL
TOGETHER**