

**VOTE 3: POLICY AND BUDGET SPEECH PRESENTED TO THE
MPUMALANGA PROVINCIAL LEGISLATURE
BY THE MEC FOR FINANCE,
MR J.L MAHLANGU, MPL
Thursday, 19 June 2008**

Madam Speaker
Honourable Premier
Colleagues in the Executive Council
Honourable Members of the Legislature
The Director General of the Province
The Head of Department of Finance
Other Heads of Departments present
Distinguished Guests
Members of the Media
Ladies and Gentlemen

I wish to thank you for the opportunity you are affording me to present the 2008/2009 Budget of the Department of Finance. I also wish to thank you for taking your valuable time off to attend this auspicious occasion.

I would also like to dedicate this speech to the memory of my late father, Abram Mahlangu, who passed away untimely, on July 21, ten years ago. He was a pillar of strength to me, but I was unfortunately robbed of him, unexpectedly. I hope that his soul is resting in eternal peace.

Madam Speaker, Honourable Members, it would be unbecoming of me, if I did not take this opportunity to add my voice to the countless voices of reason within our country, on the attacks on foreign nationals living in our country. The image of the country has been tarnished by the barbarism and sheer thuggery of those involved.

The economy, especially tourism and foreign direct investment, have been negatively affected. No words enough can condemn this un-South African behaviour, and the law must take its course, and those involved be dealt with as harshly as they dealt with the foreign nationals.

“Zithande wena macangi, begodu uzitsheje khonapho uthande nabanye, Ecadi kwakho, unikele ngothando noma indro incane kangakani, ubuntru ngikho lokho.” (*a)

(A translated quote from Justice Yvonne Mokgoro, Judge of the Constitutional Court)

*“It is when you love yourself first, that you love others enough to keep giving, however little. That is what Ubuntu is” (*a)*

Madam Speaker, Honourable Members, during the tabling of the National Budget in February 2008, the Minister of Finance painted a scenario for the international and South African economies, and concluded that there were storm clouds ahead. In deed, the storms are with us.

Headline inflation has risen from 1.4 per cent in 2004 to 10, 3 per cent in 2007. Last month, the Consumer Price Index breached the 3 per cent to 6 per cent target of the Reserve Bank, surging to 10.4 per cent. The Reserve Bank increased the repo rate by another 50 basis points during the past week. Food inflation has risen from 2.3 per cent in 2004, to 10.3 per cent in 2007.

The Consumer Price Index for food was 15.7 per cent in April 2008. Added to this is the oil price, which has breached the 150 dollars per barrel recently. There is a prediction that oil will reach between 150 and 200 US dollars per barrel within the next six to 24 months, which would push 93 octane petrol in South Africa, to between R 12 to R16 a litre, and the year-on-year increase to more than 70%.

Global food and oil prices have elevated inflation, coming on the back of a further depreciation in the rand-dollar exchange rate.

If, Madam Speaker, you add the latest results that show that the Southern African economy grew by a modest 2.1 per cent in the first quarter of this year, then you are likely to believe that these are not only storm clouds, but a complete turbulence.

However, as the Minister of Finance indicated recently,

“Short-term turbulences do not detract from the fact that our economy is dynamic, and growth is robust.”

Indeed, prior to 1994 the economy was grossly under-performing. However, the economic fundamentals that have been in place have seen the economy moving from the under-performance prior to 1994, and has averaged no less than 4 per cent, to date. It therefore stands to reason that the economy will indeed withstand the current turbulence. Expectations are that growth will be no less than 4 per cent at the end of the fourth quarter.

Honourable Members, much has been said about the economy of our Province in the tabling of the provincial budget speech in March, and much will still be said in the tabling of economic cluster departments’ budgets.

*Fa re ne re eme mo pele ga ntlo e, e tlotlegang mo ngwageng o fetileng, fa Seete-bosigo a ne a tlhola malatsi a le some-a-mabedi le bobedi, re ile ra rebola lenaane-tshepiso. (*b) Allow me then to report on these:*

- ♦ **Develop a Provincial Policy on Budgets and Expenditure**

As the policy has various elements, for example threshold values for under-spending, how to deal with unauthorised, irregular, fruitless expenditure, etc.

The various aspects of the policy are being dealt with on a gradual basis. Agreement has to be reached on each issue, before moving on to the next. This is work progress.

SUSTAINABLE RESOURCE MANAGEMENT

- ♦ **Monitoring of infrastructure spending**

We continue to be challenged by low-spending on infrastructure. However, we continued to build not only our monitoring and evaluation capacity, but the capacity of delivery departments to plan and implement projects. We have ensured that there is constant workshopping on the Infrastructure Delivery Improvement Programme, and as a result, the plans for the coming years have already been submitted to the National Treasury.

- ♦ **Review of the operations of Public Entities**

A dedicated official responsible for the support and monitoring of Public Entities has been appointed. The new entities have not yet been registered because of prolonged consultations between various stakeholders within the public service.

However, recommendations have been submitted to the Minister of Finance to approve the registration of the Mpumalanga Parks and Tourism Agency, and the Mpumalanga Economic Growth Agency as Schedule 3 (c) entities.

- ♦ **Budget and Expenditure Management**

Madam Speaker, we continued to monitor the implementation of the provincial budgets in compliance with the PFMA, the Division of Revenue Act, Treasury Regulations and Provincial Legislature mandates.

Our focus was also on building provincial capacity on the budget process, expenditure management and non-financial data collection, processing and analysis of this information as to link information with departmental and Annual Performance Plans. Various workshops were held to address these challenges.

- ♦ **Own Revenue Budget Outcomes**

In pursuing its mandate, the Fiscal Policy Unit continues to assist the provincial departments to optimize own revenue collection for the effective allocation of resources in line with government priorities over the MTEF.

The target for the 2007/08 financial year was to assist provincial departments to collect estimated own revenue amounting to R337. 855 million. The provincial departments were assisted to collect R506. 649 million, which is R168. 794 million or 49 % above the estimated collection of R337. 855 million. All provincial departments were able to meet their annual targets.

The Provincial Treasury will continue to assist the departments through monthly Own Revenue forums, cash office site visits and monitoring of monthly revenue trends to ensure that all departments collect against set targets.

- ♦ **Assist Department to identify new revenue sources**

The new sources of revenue are identified through benchmark exercises with other Provinces. Provincial departments are always encouraged to identify new sources of revenue in order to improve and increase the revenue collection.

ASSETS AND LIABILITIES MANAGEMENT

- ♦ **Supply Chain Management**

Madam Speaker, Honourable Members, in order to improve on the beneficiation of the previously disadvantaged individuals from government procurement, we have developed a customised Mpumalanga Preferential Procurement Policy framework. This follows intense consultations and we are in the final rounds of consultation with the National Treasury, in order to avoid conflicting policy provisions.

*Sitawuqhubeka sikhuphule lizinga lemahhovisi etfu eku-tender kute kutsi ancedze umphakatsi. Sitawuqhubeka futsi nekulungisa sihlolisise tikhalo nekunganeliseki kwemphakatsi, ngekufuna tindlela letinye teku lungisa tinkinga temphakatsi. (*c)*

Madam Speaker, Honourable Members, in our quest and drive of ensuring a capacitated, and a 21st century class of practitioners on Supply Chain Management, we have during the previous financial year trained 560 municipal and departmental officials and committee members on SCM processes, development of specifications, managing bid evaluation and bid adjudication as well as on contract management. We intend to train and capacitate more officials in the current financial year.

- ◆ **Asset Management**

The issue of asset management by Departments, Public Entities and Municipalities remains a challenge. We are working very hard to address the issue, which continues to haunt us as it is the bone of contention in the Auditor General's Reports. Our efforts to assist Departments in this regard are proving to be fruitful, as the issue is given priority by all Departments. We have, during the previous financial year, supported Departments in order to improve the management and accounting on assets.

- ◆ **Liabilities Management**

We have established the Public Sector Liabilities Management unit to support all departments and municipalities with the management of liabilities. It is our view that an organisation that does not know the extent of its liabilities and commitments, is vulnerable. Our focus in this regard will be to build capacity within the unit, as well as to identify key risk areas and develop plans to mitigate, so that the provincial government is able to effectively manage its liabilities.

FINANCIAL GOVERNANCE

- ◆ **Accounting Services**

Madam Speaker, Honourable Members, the Accounting Services Unit in the Department continues to support and monitor the implementation of, and compliance with prescribed Accounting Policies, the Public Finance Management Act (PFMA), the Municipal Finance Management Act (MFMA), Treasury Regulations and other legislation by Provincial Departments, Municipalities and Public Entities.

This entails that all municipalities must comply with Generally Recognised Accounting Practices / Generally Accepted Municipal Accounting Practice (GRAP)/(GAMAP) by 2009/10 and convert their reporting format in terms of the Institute of Municipal Finance Officers (IMFO) to GRAP/GAMAP.

In the 2006/07 financial year, nine (9) municipalities converted their reporting formats which was based on (IMFO) and are now reporting in terms of GRAP/GAMAP standards. Within the nine, five (5) are high capacity, three (3) are medium and one (1) is low capacity.

*Gedurende die 2006/07 finansiële jaar, het sewe (7) uit dertien (13) Departemente ongekwalifiseerde ouditverslae ontvang, terwyl ses (6) gekwalifiseerde ouditverslae ontvang het. Provinsiale Tesourie het 'n plan daargestel om die aangeleenthede op te volg wat deur die Ouditeur-Generaal uitgewys is ten einde 'n herhaling van dieselfde oudit aangeleenthede te voorkom. (*d)*

Furthermore, a plan is in place to assist departments to be well prepared in providing correct information during the audit process.

♦ **Support Municipalities**

The Municipal Finance Unit in the Provincial Treasury is responsible to provide support to municipalities and monitor compliance with the Municipal Finance Management Act (MFMA). The unit has supported municipalities to meet the requirements of the MFMA. Hands-on-support was provided with regard to completing monthly and quarterly reports. Further training on annual reports, Service Delivery and Budget Implementation Plans, mid-year assessment and the budget process was provided to Municipalities who requested assistance.

All municipalities have adopted their budgets for 2007/08 financial year on time, and annual reports were tabled in their respective Councils as required by section 127(2) of the MFMA. Oversight reports were adopted in 12 Municipalities, while the other six are in the process of adopting them.

♦ **Risk Management**

A Risk Management Forum, chaired by the Department, has been established. It is a forum where information is shared amongst risk management and internal audit units from departments, to identify and address challenges experienced.

*In the 2006/07 financial year, seven (7) out of thirteen 13 Departments, obtained unqualified audit opinions and six (6) obtained qualified audit opinions. Provincial Treasury has a plan to follow-up on matters raised by the Auditor General to prevent repetition of the same audit queries. (*d)*

♦ **Audit Outcomes**

Out of twenty-one (21) Municipalities, sixteen (16) got unqualified reports, four (4) received qualified reports whereas one (1) is still in progress.

♦ **Interlinked Financial Systems**

The different transversal systems, Persal, BAS and Logis have been grouped together under the Interlinked Financial Systems Directorate to streamline all processes regarding systems.

The unit has been engaged in the toning of the Standard Chart of Accounts. The toning is aimed at aligning the programme structures between budget documentation and the financial system (BAS).

This will ensure standardisation of the objective structures in order to improve the ability to extract meaningful data to monitor government expenditure, and also to improve the reporting on infrastructure expenditure.

All Departments have from 01 April 2008, adopted the standardisation of the objective structure. This means that from now on, the budget as well as the expenditure will be reported in terms of the new reporting structure.

This Unit will also focus on the utilisation of the current Management Information System, called *Vulindlela* by managers in departments and will furthermore provide the necessary training to operate the different transversal systems to improve utilisation thereof.

♦ **Norms and Standards**

The unit has achieved its planned outputs for the year with focus on areas such as management arrangements, planning and budgeting, assets and liabilities, and revenue and expenditure.

We have developed and implemented the Provincial Treasury Strategy to monitor the remedial actions taken by all Departments and Public Entities on the audit findings for the 2006/07 financial year.

♦ **Information Communication Technology**

Madam Speaker, Honourable Members, we continue to implement transversal systems so that our suppliers and customers are paid on time, and that all data required is safely stored for provincial government to manage its business. For this reason, we commissioned the development of a Master System Plan.

The Master System Plan is based on the premise that there is a need to integrate our delivery systems, strategies and activities, and provide a one-wholesale approach which will be a benefit to the province, that is, being cost-effective, providing value for money and responding appropriately to the needs of our clientele. It is for these reasons, that we fully support the development and strengthening of the *Thusong Service Centres* (MPCC) which intend to provide a one stop comprehensive service to our people at a place closer to where they live, at an affordable cost of course.

OUR PLANS FOR THE 2008/2009 FINANCIAL YEAR

Madam Speaker, Honourable Members, we promise to continue to carry-out our mandate with zeal as enshrined by the Constitution of the Republic of South Africa, 1996 (Chapter 13 of Act 108 of 1996), the National Treasury Regulations and the Public Finance Management Act (PFMA) Act 1 of 1999 (as amended by Act 29 of 1999). The said legislation mandates us to:

- Prepare and manage the Provincial budget
- Enforce uniform treasury norms and standards
- Promote and enforce transparency and effective management in respect of revenue, expenditure, assets and liabilities of Provincial Departments and Provincial Entities;
- Ensure that Provincial fiscal policies do not materially and unreasonably prejudice national economic policies.

Allow me then to table our plans for the 2008/2009 financial year, as detailed in the following programme structures of the Department:

PROGRAMME 1: ADMINISTRATION

As indicated earlier on, we commit to source the best capacity in all the vacancies that occur during the financial year.

We will award bursaries to a further twenty one (21) external students to study for disciplines in the fields of financial management, IT and auditing.

Twenty (20) learners will be enrolled in the learnership programme while a further twenty (20) interns will be enrolled in the internship programme.

The processes for the passing of the Mpumalanga Unauthorized Expenditure Bill are underway. The Department is also in the process of facilitating the passing of the Mpumalanga Finance Laws Repeal Bill, 2008. The latter Bill seeks to repeal old order legislation that has fallen into disuse and specifically repeals the Municipal Consolidated Loans Fund Ordinance, 9 of 1952 and the Local Authorities Capital Development Ordinance Fund, 9 of 1978.

The Department is also currently facilitating the passing of the Tourism Levies Bill and the Gambling Levies Bill. Both Bills deal with revenue collection. It is hoped that the coming into effect of the latter Bills will surely boost provincial revenue collection once the Acts are passed.

PROGRAMME 2: SUSTAINABLE RESOURCE MANAGEMENT

The unit will continue to promote and monitor the alignment of **departmental strategic plans, performance plans and budgets**. It will continue to conduct analysis of departmental budget documentation and provide advice to departments, to ensure that departmental budgets are aligned with the broad national and provincial policies and priorities.

The unit will monitor the implementation of the provincial budgets to ensure compliance with the PFMA, Division of Revenue Act (DORA), Treasury Regulations and Provincial legislative mandates.

We commit to provide **financial and non-financial performance information** to the Provincial Legislature that will enable them to exercise their oversight function on service delivery.

Our focus will continue to be on **building provincial capacity on budget process, expenditure management and non-financial data collection**, processing and analysis so as to link this information to departmental Annual Performance Plans (APPs). A series of workshops has already been planned to address these challenges.

Furthermore, we shall endeavour to improve communication of information and co-operative governance within the province on all treasury issues through the Budget process schedule.

The unit will convene the Medium-Term Expenditure Committee hearings, which will be held during September 2008.

PROGRAMME 3: ASSETS AND LIABILITIES MANAGEMENT

A Cash Management Policy for the province is currently being formulated.

*Nawumbisi lowu wu ta hi pfuna ku famba hi ndlela leyinene ka mafambisele ya hina eka nkwama wa hina wa Xifundza leswi katsaka na vuvekisi bya Xifundza. (*e)*

We will continue to explore strategies and interventional mechanisms to improve on our training, so that there is value adding, and that we are able to locate government procurement strategically to support service delivery and infrastructure development. This will include the provision of guidelines on procurement of infrastructure projects, which will contribute in improving and expediting service delivery on infrastructure. It is our commitment to step up this type of intervention moving forward, for it has brought greater improvements.

We also plan to develop a Provincial Asset Management Policy Framework, aimed at ensuring uniformity, standardisation, interpretation and implementation, as well as the creation of the necessary structures and policies in Departments.

PROGRAMME 4: FINANCIAL GOVERNANCE

Our Accounting Services Unit will continue to support and monitor Departments, Municipalities and Public Entities with regard to the implementation of - and compliance with prescribed policies and Acts.

We will beef up personnel in the Provincial Risk Management Unit, which will continue to provide support on the Risk Management function to provincial departments, municipalities and public entities. The unit plans to embark on road-shows to market the risk management function, and to promote a uniform risk management approach within the province through the development of Risk Management methodology.

There will also be training and workshops provided to municipalities and departments on Enterprise Risk Management as a capacity building mechanism. The Unit will continue to provide hands-on support to departments and municipalities by attending risk assessment sessions, and actively participating and guiding during such sessions.

In the current financial year, our Norms and Standards Unit will continue to monitor compliance with financial and non-financial norms and standards to ensure proper financial management in Provincial Departments, Public Entities and Municipalities.

We will continue to monitor all infrastructure projects in all infrastructure Departments, Municipalities and Public Entities and will provide specific recommendations for implementation to address some of the challenges currently experienced in terms of these projects.

In order to improve the effectiveness of internal audit processes, the Provincial Internal Audit Unit has planned to conduct assessments to analyse current gaps and develop a strategy to address those gaps, to ensure improvement of internal audit functions, where necessary. This is in line with the Unit's aim of striving to improve the quality of internal audit processes in provincial Departments, Public Entities and Municipalities.

Operational plans and quarterly progress reports will also be reviewed to ensure they address the identified high-risk areas of departments, public entities and municipalities in order to support the initiative to reduce qualification opinions from the Auditor-General, and to strengthen the internal control and financial governance framework in the Province. Due to the fact that this is a newly established Unit, a lot of emphasis will also be placed on communicating the roles and responsibilities of this Unit, the internal audit units established in Department and the different committees established for the purposes of oversight.

We are currently liaising with the Internal Audit Unit in the Office of the National Accountant-General at the National Treasury, to ensure that they keep abreast of new developments in the internal audit field, and also to enable capacity building in the Unit.

The Municipal Finance Unit plans to intensify the communication with and hands-on support to municipalities, to enable pro-active identification of gaps and provide more capacity building where needed, to strengthen and improve financial management.

We commit to continue to provide IT service and support to the Province and will implement the recommendations of the Master Systems Plan. Our quest is to provide world class ICT service to the Province.

ALLOCATIONS PER PROGRAMME

Madam Speaker, Honourable Members, allow me to present the proposed budget allocation for Vote 3: Department of Finance, per programme, for the financial year ending 31 March 2009:

PROGRAMME 1: Administration

A total amount of **R67. 873 million** has been allocated to Programme 1, Administration, which is responsible for the political, financial and administrative management of the Department.

PROGRAMME 2: Sustainable Resource Management

In order to continue to provide professional advice and support on Provincial and Local Government's Fiscal Policy issues, infrastructure co-ordination, budget and expenditure management as well as on Municipal Finance Management issues to the Executive Council, Provincial Departments, Public Entities and delegated Municipalities, Programme 2, Sustainable Resource Management, has been allocated an amount of **R27. 418 million**.

PROGRAMME 3: Assets and Liabilities Management

An amount of **R26. 014 million** has been allocated to Programme 3, Assets and Liabilities Management, to continue to provide policy direction, facilitating the effective and efficient management of physical and financial assets, Public Private Partnerships (PPP), liabilities management and Supply Chain Management to all Provincial Departments and Municipalities.

PROGRAMME 4: Financial Governance

In order to ensure financial and non-financial compliance and to promote accountability, and to provide IT support services to the province, Programme 4, Financial Governance, has been allocated an amount of **R79. 757 million**.

BUDGET PROPOSAL: 2008-2009 FINANCIAL-YEAR

Madam Speaker, Honourable Members, the total amount proposed to be appropriated for the 2008/2009 financial year, for the requirements of the Department of Finance, Vote 3, is **R201. 062 million**.

CONCLUSION

In concluding, Madam Speaker, Honourable Member, let me take this opportunity to thank the Honourable Premier for his continuing confidence in me and affording me an opportunity to lead this Department. To my colleagues in the Executive Council and the Legislature, your valuable support is always appreciated.

To my predecessor in the Finance portfolio, Honourable Mmathulare Coleman, who is now responsible for the Department of Education, I wish to thank you with these words from William Arthur Ward:

*"The mediocre teacher tells. The good teacher explains.
The superior teacher demonstrates. The great teacher inspires."*

To the Head of the Department of Finance, Mr. Rabeng Tshukudu, continue with the sterling job of steering the finance ship. My challenge to you is to continue to receive unqualified audit reports, which is a sign of good management and leadership.

To my family, I wish to thank you for the support and the tolerance you have given me.

Finally, as we wound up the last eight months or so of this administration, I wish to remind my political colleagues that just as the late Martin Luther King had a dream that one day, there would be racial justice and an integrated society in America, the freedom we enjoy today was also borne out of a dream and a vision that one day, we will be free. We will continue being free, and striving for a better life for all, if we continue with this dream and vision, as, in the words of Joel Chapter 2, verse 28:

"...and it shall come to pass after this, that I will pour out my spirit upon all flesh: and your sons and daughters shall prophesy: your old men shall dream dreams, and your young men shall see visions."

Let there be dreams. Let there be visions – for our country, South Africa!

Let us continue the vision of a better life for all South Africans. Let the African National Congress keep the dreams its founding fathers, and the visions of the current leadership alive – for it is through this collective vision, and a desire to create a better life for all, that this country will remain free.

Ngiyathokoza!