

SPEECH BY MEC FOR FINANCE, MRS YN PHOSA DURING THE OCCASION OF THE TABLING OF POLICY AND BUDGET SPEECH FOR THE DEPARTMENT OF FINANCE IN THE PROVINCIAL LEGISLATURE, MBOMBELA

03 June 2011

Honourable Speaker and Deputy Speaker
Honourable Premier, Mr D.D Mabuza
Provincial Secretary of the African National Congress, Mr Lucky Ndinisa
Chief Whip of the ruling party, Ms B.T Shongwe
Leader of government business, Mr MSA Masango
Colleagues in the Executive Council
Honourable Members of the Provincial Legislature
Director General, Mr JM Rabodila
Acting Head of Department of Finance, Mr JB Mbatha and other Heads of Departments
CEOs of our public entities
Provincial Commissioner of the Public Service Commission, Mr DS Mkhwanazi
Chairpersons and members of Audit committees
Senior Management and Chief Financial Officers
Representatives of labour, business, civil society and media
Distinguished Guests
Comrades and friends
Ladies and gentlemen

Good morning. Sanibonani!

It is a great honour to once again stand in this majestic House, during the youth month, to deliver the policy imperatives and budget proposal for the Department of Finance.

This is a month during which, 35 years ago, the young lions took it upon themselves to pave the way for an education system that is more inclusive, democratic and progressive.

We therefore join millions in commemorating this important month, mindful that the government of the people needs to continue implementing programmes that will put young people on a sustainable socio-economic footing.

Honourable Speaker, on 25 March 2011, we stood on this same platform to request the House to approve the provincial appropriation for the financial year of 2011/12.

We tabled the spending plan for the provincial government, fully aware of our collective conviction of succeeding in charting a prosperous path, aimed at contributing towards addressing the problem of poverty, unemployment and other associated challenges facing our society.

We then as we do now draw our inspiration from *Isithwalandwe* Nelson Rolihlahla Mandela when during the debate on the national budget, in March 1999, said, and I quote:

“As we address the necessary questions of deficits, interest and exchange rates, inflation, labour market flexibility, the affordability of social welfare systems and many others, we dare not forget that the purpose of it all, and the mandate which brings us to this house, is the continued and sustained improvement in the lives of each and every South African.”

Economic Outlook

Honourable Speaker, we accept this instructive advice.

Before we respond to the mandate that brings us to this House, allow me therefore to briefly outline the salient features of the economic environment in which we present our policy and budget for this financial year.

The provincial economic growth prospects appear to have improved and therefore growth forecasts have been revised upwards to 3.6 per cent this year in line with national growth expectations.

These growth rates, while they indicate an improvement, are unfortunately still too low to have a significant impact on the high unemployment rate. We must work together to address the high number of unemployed people in our province.

The national and provincial inflation outlook deteriorated in the last couple of months, mainly as a result of cost-push pressures, including administered prices.

The year-on-year national inflation rate for all urban areas, as measured by the consumer price index (CPI), increased to 4.2 per cent in April 2011. There has been therefore an upward revision to the CPI forecast by the South African Reserve Bank. Inflation is expected to average 5.1 per cent this year and 6 per cent in 2012.

The provincial inflation rate is also increasing and the April 2011 measurement was at 4.5 per cent. Mpumalanga’s inflation rate was higher than the national rate for the second consecutive month since December 2009.

Mpumalanga also moved up to the joint fourth highest inflation rate among the nine provinces, from the second lowest in January 2011.

Honourable Speaker, we are guided by this economic environment but most importantly the objective of ensuring that this budget moves us a step closer to

continued and sustained improvement in the lives of each and every citizen of the province.

We must, going forward, ensure focused attention and adherence to the objectives that inform this budget policy, which include:

- ◆ encouraging an increase in outputs and outcomes with limited resources;
- ◆ encouraging effective implementation of cost curtailment measures;
- ◆ upscaling the fight against fraud and corruption, and
- ◆ ensuring continued support to departments and municipalities.

These are critical interventions that will also move us a step closer to the realisation of an efficient, effective and development orientated public service.

It is therefore important to insist that all officials in various departments must ensure that the goods and services they procure, not from their companies, result in better, improved and accountable delivery and most importantly, that this government and the people derive value from public spending on different programmes.

Honourable Speaker, before we outline our plans to give effect to the budget objectives that we articulated earlier, allow me to reflect on the outcomes of our performance for the last financial year of 2010/11.

Review of performance

During the previous reporting period, the Department fulfilled its commitment to building and strengthen capacity of departments and municipalities to realise accountable service delivery. As a result of the interventions in this regard:

- ◆ A total of 472 officials were trained on legislation, accounting standards, compilation and pre-auditing of annual and interim financial statements;
- ◆ 121 officials received training on asset and inventory management and other training sessions on the new budget formats and regulations were conducted to medium and low capacity municipalities in order to contribute to improvement in compliance with submissions of statutory reports;
- ◆ 540 officials received training on supply chain management processes and practices, contract management, asset management and inventory management as well as public private partnership for both departments and municipalities;
- ◆ 27 officials (from provincial and local government) successfully completed a certificate programme on supply chain management; and
- ◆ 25 officials were enrolled on the same programme so that we can realise the required efficiency at the centre of the value chain of delivery.

We committed the resources to these interventions with the hope that all officials who benefited will in turn assist government to realise resource efficiencies and value for money. The expectation is that the beneficiaries of these programmes should inspire and provide others with hope, instil positive attitudes and good work

ethics in the administration. They must contribute to our efforts of addressing unauthorised expenditure, irregular expenditure, wasteful and fruitless expenditure in our government.

Honourable Speaker, we continued to manage the provincial information technology systems. We have also capacitated officials to use the network infrastructure effectively. About 650 officials were trained on information technology applications and security in order to increase operational efficiency in departments.

On the occasion of the tabling of the provincial budget, we committed ourselves to implement the resolution of SCOPA on preventing officials from doing business with government. A practice note to restrict government officials from doing business with their departments and other departments has been issued in this regard.

Honourable Speaker, we also held a successful Internal Audit and Risk Management Symposium as part of our capacity building programme.

The department provided training and induction to Audit Committee members in the Province in order to enable them to focus and give attention to strategic areas in departments, municipalities and public entities.

This effort is necessary in our quest to ensure effective accountability in the process of service delivery oriented state machinery.

We have also initiated a process which aims to assist in expediting the annual auditing processes in our administration. The Norms and Standard unit has issued guidelines for filing and storage of documents to support auditing processes in departments and municipalities.

As part of improving the governance systems, we established an Audit Committee Forum consisting of Audit Committee Chairpersons. The Forum is an important platform for the Chairpersons to discuss matters of governance and to identify solutions for common challenges experienced in the provincial government.

During the year under review, ten (10) municipalities were supported to perform the risk assessments and compile risk management plans.

Honourable Speaker, we are guided by a common goal of ensuring sustainability and credibility of the provincial and municipal budgets so that the broad objective of improving the quality of lives of all our people is realised. Accordingly, we have extended the medium term expenditure committee hearings to include municipalities.

These engagements will become the focal point of our work as we continue to strengthen financial management processes and governance systems in local and provincial government.

We welcome the audit outcomes of the local government sphere as they signal progress that is expected in the next coming financial years.

Working together with all the stakeholders, we will continue to provide support to municipalities as part of a programme to cultivate an environment which will make it possible for us to achieve the objective of realising clean audit reports across the province.

Honourable Speaker, during the 2009/10 financial year, not a single department in the Province received a disclaimer from the Auditor-General. Eleven (11) out of thirteen (13) votes received unqualified audit opinions, with one vote receiving a clean report during the same reporting period.

In response to this state of affairs, we jointly developed a turn-around action plan with departments and public entities to address all issues raised in the audit reports for the 2009/10 financial year.

Priorities and plans for 2011/12 financial year

Honourable speaker, we reiterate that the principles of the 2011/12 provincial budget are to ensure that the limited resources, are allocated to critical outputs that can best result in increased number of quality jobs, improved health profile of the citizens, safer communities, attainment of quality education results and rural areas with developed infrastructure to realise the goal of a better life for all.

Accordingly, and like all other departments, we must play a critical role of ensuring that we succeed in achieving these priorities.

As a department, we will ensure that our planned outputs will lead to the attainment of the objects of outcome 9 (which is *a responsive, accountable, effective and efficient local government*) and 12 (that is *an efficient, effective and development oriented and an empowered, fair and inclusive citizenship*) are delivered.

We are confident of success because we have commenced the 2011/12 financial year motivated by the achievements made in the area of financial governance in the previous financial year.

Notable among these achievements, the department received the 'best annual report in the province and the overall winner of the Annual Public Sector Reporting' awards from the South African Institute of Government Auditors.

These awards put the department of Finance on the map with regards to good reporting and accounting on performance in the country.

Research based planning and delivery

Honourable Speaker, allow me at this point to share with the House words of wisdom by the Ladahki monk in Tibet, and I quote:

Just like the two wings of a bird must be balanced for it to fly, one cannot attain enlightenment unless wisdom is accompanied by compassion.

Honourable Speaker, the wisdom upon which the thrust of the work of the department rests is accompanied by our anxiety and passion for:

Continued and sustained improvement in the lives of each and every South African.

The enlightened planning and budgeting for different programmes of this department is therefore informed by carefully considered studies and analysis of available data.

During the previous financial year, we undertook economic research project/study to understand the salient features of our economy and specifically to discern the economic impact of Mpumalanga Government infrastructure expenditure in the rural areas of the province.

The outcomes of this pioneering study were shared with departments, and are currently being used to inform strategic interventions that the administration is implementing such, as the Comprehensive Rural Development Programme.

Revenue generation

The Honourable Speaker will recall that during the tabling of the provincial budget speech, we made a commitment to put more emphasis on supporting departments to maximize their own revenue generation and collection this year.

We reassert this position and commit to further assist departments in exploring avenues to raise additional revenue to fund amongst other things the finalisation and activation of the Money Bill.

A provincial revenue tariff register and Revenue In-Year Monitoring (IYM) system that has been developed will be useful in managing performance in this area of work.

Budget reforms

Honourable Speaker, we will intensify our work of ensuring responsiveness of the budgets to provincial priorities. This process will entail packaging of budget reform

agenda into specific projects that are geared towards a more enhanced support to provincial departments and public entities.

The work that will be undertaken in this regard will amongst other things, focus on:

- making major improvements on the utilisation of In-Year Monitoring reports as a management tool and no longer just a compliance report;
- reprioritisation of funds towards identified outcomes and provincial strategic objectives that support the change agenda;
- capacitating departments on the alignment of Annual Performance Plans against National Treasury frameworks and alignment of Annual Performance Plans to budgets, and
- improving the quality of the Estimates of Provincial Revenue and Expenditure.

Honourable Speaker, we will assess the spending priorities for the 2011 MTEF period to give this administration a real chance of pursuing and achieving the goal of a better life for all.

The budget review will take into account non recurrent expenditure; underperforming and slow spending programmes and impact on outputs; efficiency; savings; and carry through impact for the Adjustments Estimate and subsequent Main Budget.

A project on Budget and Programme structures, is amongst the non- negotiable focus area which entails capacitating departments. This reform allows for strategic plans to be complemented by a set of common strategic objectives for each of the programmes thereby ensuring uniform reporting and greater comparability between provinces.

Honourable Speaker, the department will, during the course of this year, undertake the second phase of the budget reform programme. The reforms are intended to ensure that Departments progressively allocate administrative costs to service programmes. This will improve accountability for all resources at an appropriate level of management where resources are used.

The second phase of implementation of this programme will be introduced during the 2011/12 financial year for incorporation during the first budget submission for the 2012/13 financial year.

Improving infrastructure expenditure

Honourable Speaker, a more focussed attention to institutionalisation of the Infrastructure Delivery Improvement Programme (IDIP) is necessary.

The Executive Council directed that the Provincial Treasury develops a proposal for the ring-fencing of infrastructure cash flows in order to ensure that infrastructure budgets are available when needed to fund services rendered.

All infrastructure projects that will be implemented in the 2011/12 financial year together with their budgets are to be gazetted in a Provincial Gazette.

The list of projects to be gazetted has already been submitted to the national transferring department as required by the Division of Revenue Act No. 6 of 2011, Section 9 (2) (d).

Honourable Speaker, whilst we appreciate the fact that the gazetted projects will be used by the Province as a baseline for monitoring progress on projects, there is still room for improvement in the engagements between the provincial departments and the Integrated Development Plan processes at the municipal level.

The needs of the people as articulated in an IDP document should guide the planning processes and not the other way round as is the case in some instances.

Fighting fraud and corruption

The Honourable Premier, Mr DD Mabuza in his State of the Province Address in February, said and I quote:

"We are determined to ensure that this administration becomes a beacon of accountable and clean governance".

We share the view of the Honourable Premier in this regard, noting that any achievement would not have value if we do not maintain or exceed the level of success that we set and attained during the previous financial year.

Accordingly, and in line with our plans to respond to this expectation, we will enforce the implementation of the practice notes on rotation and vetting of staff working in these core functions which are critical for prosperity of emerging and established businesses.

The enforcement of these practice notes is intended to improve efficiencies in the procurement of goods and services in all departments and most importantly, to assist the government to act decisively against fraud and corruption.

We will implement the tender regime that was announced by the Minister Pravin Gordhan on the 30th of May 2011. This regime is intended to enhance compliance monitoring and improve accountability in supply chain management. It will also assist the provincial government to counter fraud and corruption.

Improving financial governance

Honourable Speaker, we attach great importance on all prescripts that govern financial performance in this administration.

Accordingly, the Financial Governance branch will monitor implementation of and compliance with prescribed policies and Acts and also provide hands-on support and capacity building to departments, public entities and municipalities where needed.

The department has identified key areas for training which include legislation; accounting standards and annual financial statements.

We will, during this financial year, work harder to improve accountability in the Province and assist departments and municipalities to timely submit, to the Auditor General, financial statements that adhere to the prescribed standards.

We will furthermore support departments and municipalities to improve financial management. The Internal Auditors have been trained and will still be supported to enable them to pre-audit the Interim Financial Statements as well as the Annual Financial Statements.

During the course of this year, the risk management methodology and guidelines will be updated in order to adequately address the delivery challenges in the provincial environment. Training shall be provided, awareness and assessment sessions will also be conducted for departments, municipalities and public entities.

Honourable Speaker, the department has, as previously reported, implemented a Financial Management Capability Maturity Model (FMCMM) for the province. The results of the model are used to monitor compliance with financial and non-financial norms and standards by identifying high risk areas that require our attention.

This model is a critical governance improvement tool which is being used to determine whether we are moving towards accountable service delivery or not. We are continuously engaging departments to develop action plans for closing the gaps that are or may be identified after assessing the reports emanating from the application of the model.

In order to improve the effectiveness of internal audit processes, the Provincial Internal Audit Unit will assess internal audit plans and reports of departments, municipalities and public entities in order to provide guidance and support to these public institutions.

We will during the course of this year develop and monitor implementation of a Charter for Audit Committees and an Internal Audit Manual in order to support the initiatives aimed at improving governance in the administration.

Honourable Speaker, working together with our colleagues in departments of Education and Social Development, we will also ensure that the Section 21 schools, No-fee schools, Non-Governmental Organisations and Non-Profit Organisations are assisted to comply with the financial policy requirements, thus enabling them to receive the grants they need or deserve.

An amount of R7, 5 million has been allocated for this project aimed at improving financial management of these entities.

Improving supply chain management

Honourable Speaker, we commit to a public education and awareness on public sector tendering so that our people are afforded a real chance of accessing economic opportunities.

In addition, we will facilitate enrolment of 25 officials from departments, municipalities and public entities to participate in a certificate programme on supply chain and asset management during this financial year.

We will also train and empower officials in supply chain management divisions to effectively and efficiently operate transversal administrative systems such as *Persal*, *Bas* and *Logis*.

Information technology for development

Honourable Speaker, Information and Communication Technology (ICT) can help in improving our health and education circumstances as well as in creating economic and social opportunities.

When used appropriately, ICT can increase efficiency and effectiveness in production and distribution value chain, and creates new patterns of trade, economic performance and social development.

We will therefore continue to implement transversal systems so that our suppliers and customers are paid on time, that all data required is safely stored and to make it easy for the provincial government to manage its business.

We will also explore mechanisms to improve our practices and processes which includes the possibility of installation of a safetyweb. This will enhance our governance practices and therefore improve financial prudence.

We will also support the Thusong Service Centres with the objective of integrating our delivery systems, strategies and activities to respond to the needs of our communities.

The capital budget for programme three has accordingly been increased by 10 per cent to allow for replacement of information technology infrastructure especially for transversal systems.

Division of allocations for delivery programmes

Honourable Speaker, allow me to outline the overall proposed allocations for the programmes that make up the mandate of Vote 3, that is, Department of Finance, per programme, for the financial year ending 31 March 2012.

Programme 1: Administration receives a proposed total amount of **R68 million 636 thousand** to ensure strategic support to the delivery programmes.

Programme 2: Sustainable Resource Management is proposed to receive **R33 million 964 thousand** in order to promote optimal and effective provincial resource allocation and utilization, efficient provincial budget management, accurate financial reporting on provincial revenue generation and maximization.

The funds will also be used for provision of quality and accurate socio-economic research reports to inform the provincial budget and planning processes, promote efficient planning, implementation and management of infrastructure by provincial departments and municipalities, and to provide technical support to delegated municipalities on the implementation of the MFMA.

A total of **R85 million 854 thousand** is proposed to be allocated to Programme 3: Assets and Liabilities Management in order to provide policy direction on supply chain and liabilities management and to facilitate effective and efficient management of provincial physical and financial assets, among other responsibilities .

Lastly, it is proposed that Programme 4: Financial Governance receives **R28 million 119 thousand** in order to allow officials to continue to facilitate, monitor, support and provide professional advice on the requirements for financial and non-financial compliance as per prescripts; and to promote accountability within departments, public entities and municipalities.

Honourable Speaker, the resilience of the financial systems in the country protected the economy against the greatest tide – recession.

Our determination to continue to implement the programmes that bring about social and economic change will forever be in the realm of all who want to see the face of the communities improve for the better.

The convergence of our governance systems such as monitoring and evaluation, Provincial Internal Audit Forum and other structures will be critical in providing us with assurance that the expected results will be realised, within budget and prescribed timeframes.

I hereby table a budget of R216 million 573 thousand for Vote 3: Department of Finance for consideration by the honourable members.

This budget represents a 10 per cent decrease on the equitable share allocation as compared to the previous financial year. In line with the budget objectives outlined earlier, we have agreed to double our efforts to deliver the expected outputs notwithstanding the budget cuts that affected every department.

In conclusion, let me take this opportunity to extend my gratitude to the African National Congress and the Honourable Premier for entrusting us with the responsibility of managing the provincial finances.

I would also like to thank my colleagues in the Executive Council for continuously supporting our work as Team Finance.

A word of thanks also goes to the chairperson and members of the Portfolio Committee on Legislature Oversight, Premier's Office and Finance for contributing immensely to the successful execution of our mandate.

I would like to acknowledge the Auditor General, Chairperson and members of the Audit committee for their commitment to their profession and continuous sound advice to the Executive Authorities.

To the Acting Head of Department, management team and all officials in the Department of Finance, thank you very much for your commitment and support.

Above all, the greatest honour goes to our Lord Almighty for giving us strength, the spirit of wisdom and revelation in the knowledge of Him, that the eyes of our understanding be enlightened when we execute our responsibilities on a daily basis.

God Bless this policy and budget proposal.

I thank you.