



**finance**

Department:  
Finance  
MPUMALANGA PROVINCIAL GOVERNMENT



# Policy & Budget Speech 2014/15

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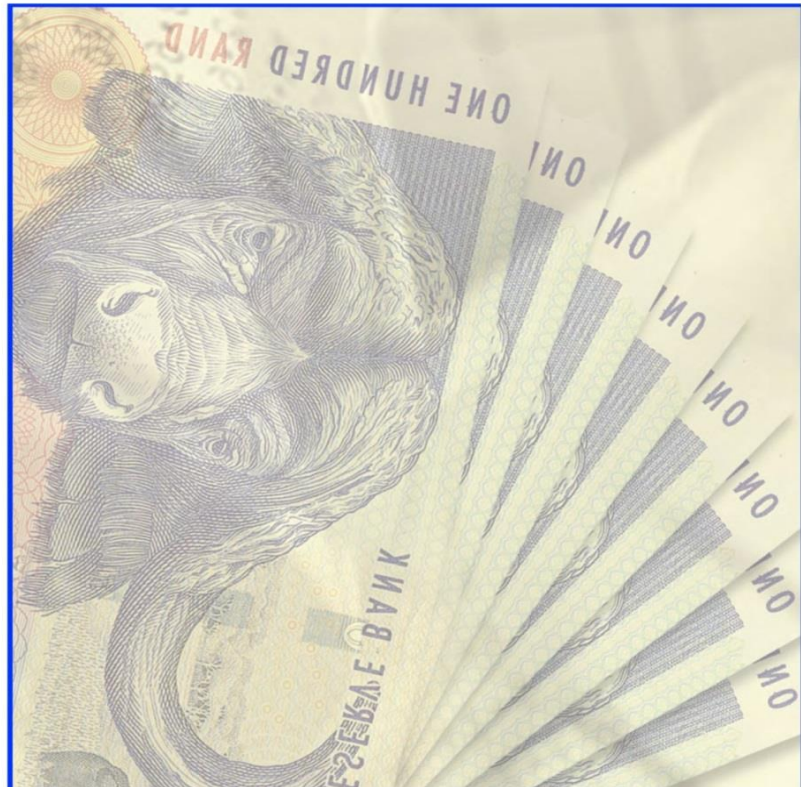
**Delivered by MEC for Finance, Economic Development  
and Tourism, Hon Sikhumbuzo Kholwane (MPL)**

**31 July 2014**

Policy & Budget Speech

2014

*Together We move South Africa Forward*



**SPEECH BY THE MEC FOR FINANCE, ECONOMIC DEVELOPMENT & TOURISM  
HON SIKHUMBUZO KHOLWANE (MPL) DURING THE OCCASION OF TABLING OF  
THE POLICY AND BUDGET OF THE DEPARTMENT OF FINANCE TO THE  
MPUMALANGA PROVINCIAL LEGISLATURE, MBOMBELA**

31 JULY 2014

Honourable Speaker

Honourable Premier

Honourable Deputy Speaker

Colleagues in the Executive Council

Honourable Members of the Provincial Legislature

Members of Mayoral Committees for Finance

Provincial Chairperson of SALGA

Representatives of Women in business

Chairperson and Members of the Provincial Audit Committee Forum

Distinguished guests

Comrades and friends

Members of the media

Ladies and gentlemen

### **Introduction**

I have the singular honour to introduce the 2014/15 Policy and Budget Priorities of Vote 3, the Department of Finance. This budget is framed fundamentally by the protracted struggle led by the ANC to bridge the gap between the haves and have not's.

Because we understood that political freedom is the beginning of our journey but building a national democratic society is both the primary objective and principal means of growth and development.

Departing from this premise, the ANC-led government has taken the lead in mobilising and uniting all South Africans around a common vision of Economic Transformation that puts South Africa first. This strategic task has been re-affirmed by the ruling party's election manifesto to guide our work over the next five years.

Madam Speaker, amidst the many hills still to be climbed, the plans and work of the Department of Finance has and will continue to contribute in putting building blocks of a good story to tell over the next five (5) years, as guided by our provincial economic blue print to remain a steadfast, growing vibrant and inclusive economy by investing in modern



infrastructure, ensuring a decent quality of life for all, reduced poverty and creating decent employment opportunities.

This is a good story that must be written by all of us by utilising allocated resources in line with our plans.

Karl Marx observed that ***“Human History is like a river, from any given vantage point, a river looks much the same day after day, but actually it is constantly flowing and changing.”***

To the detractors of the ruling party everything looks the same, but the masses of our country know as rightfully defended by the former President Thabo Mbeki when he said ***“tomorrow will be better than today.”***

Honourable Speaker and members Vladimir Lenin once said:

***“In developing countries that are bringing about progressive socio-economic transformation, fiscal policy is subordinated to the task of winning economic independence, developing the national economy, and expanding the internal resources of finance for social and economic progress.”***

The policy and budget is tabled during an important year in which we celebrate key milestones in the sphere of fiscal management and financial governance.

The Financial and Fiscal Commission (FFC), an important body that makes a determination of the budget allocations at the national level, celebrates its 20 years of existence.

I would like to take this opportunity to congratulate the FFC on this key milestone and also congratulate the former speaker of the House, Mr Sipho Lubisi who has been appointed as a part time member and welcome the other newly appointed members of the Commission, Dr Gilingwe Mayende and Dr Sibongile Muthwa.

We are looking forward to working with the FFC and new Commissioners in advancing fiscal prudence and discipline in the Provincial Administration.



Honourable Speaker

As government we have set ourselves a target to improve the audit outcomes of the public institutions and we will continue to do so until we have achieved 100% clean audit.

Madam Speaker, as today we outline the Policy priorities of Vote 3, we are mindful that the Auditor General of South Africa is issuing the audit outcome reports for Provincial Departments and Public Entities. ***What a coincidence?***

We are looking forward to the outcomes of the audit of the provincial departments and public entities as they signify the year in which clean audit targets should have been achieved for this sphere of government.

### **Separate votes**

The Honourable Premier has granted approval for the Department of Finance to remain as a separate vote in order to maintain its independence and therefore be able to perform its mandate as envisaged in section 17 of the Public Finance Management Act and other related legislation.

We will continue to engage the Executive Council on the issue of re-designating the department from the Department of Finance to the Provincial Treasury to ensure alignment with other Provincial Treasuries.

### **Provincial Performance Review**

The Provincial Government has made many strides in the areas of budget management, municipal finance and general financial governance.

We have moved a step closer to ensure that the departments, especially the Social Development, Health and Education are allocated the full amount as part of the drive to minimise in year budget adjustments;

In aggregate, Provincial Departments have spent 98.5 per cent or R33.7 billion of the combined adjusted budgets of R34.2 billion in the 2013/14 financial year. This represents a significant spending increase



Government has strengthened the governance and oversight on financial management at the local government sphere, through the establishment of Municipal Public Accounts Committees and Finance MUNIMEC amongst others;

The Department of Finance held targeted retreats on litigation, human resource, internal audit to diagnose and define the approach to address the challenges that impedes the achievements of the clean audits by the provincial departments and public entities, and

We identified a challenge and ably turned around the situation in the Departments of Community Safety, Security and Liaison as well as Agriculture, Rural Development, Land Administration and Environmental Affairs

Notwithstanding these achievements,

- spending on adjusted budgets remains a challenge in the provincial departments;
- in spite of the support provided to the municipalities most of them are still struggling;
- the municipalities regressed in the audit outcomes of municipalities for 2012/13 as evidenced in the Report of the Auditor General which was released yesterday [30 July 2014];
- departments still incur accruals and in some cases these are not disclosed up-front for management purposes, and asset management continues to be an accounting nightmare for many departments and public entities;
- While measures were put in place to restrict the officials from doing business with the government, there are cases of officials other than those on the provincial payroll who continue to undermine the policy frameworks.

To this end we will upscale the level of support on financial management; take decisive steps to restore the financial controls; and support the introduction of measures to improve supply chain management and financial governance in the provincial and local government.

### **Policy Mandate and pronouncements**

Honourable Speaker

The Government has adopted a blue print of our programme of service delivery, The National Development Plan, informs us that:



***“Considerable attention will be devoted to fiscal impact on development through improved efficiency in government spending, and maintaining appropriate balance between investment and consumption expenditure”.***

It is in the context that the Honourable Premier in his State of the Province Address communicated a vision where the Provincial Departments and public entities will contribute in the realisation of a Province that:

- Invests in infrastructure built programmes;
- Invests in broadband infrastructure and deploy information and communication technology to improve service delivery;
- Improves business processes and build transparency and accountability into financial management and procurement practices;
- Scales up capacity and strategic support to municipalities on financial management;
- Leverages private sector investment to improve public service and infrastructure, and
- Prevents wastage of public resources.

Honourable Speaker, I will now outline our programme in response to these priorities.

### **Investment in infrastructure**

Investment in infrastructure is critical in boosting the economy and creating jobs for the people of Mpumalanga.

The Honourable Premier, Mr DD Mabuza announced that the Province will spend R18.5 billion on infrastructure built programme in the next five years.

The Department will, working closely with other departments, ensure that there is compliance with the reforms associated with the Infrastructure Conditional Grants. Furthermore, the infrastructure delivery departments will be supported to put in place the necessary financial controls.

We will closely monitor expenditure to ensure sustained delivery of infrastructure programme.





## Information technology governance and systems

In our address to this august House on Thursday, 24 July 2014, I indicated that the Department of Economic Development and Tourism will lead the process of developing the Provincial Information Communication Technology (ICT) Master Plan.

The Department of Finance will also play a critical role in this process, including in the implementation of the plan to bridge the digital divide, with specific focus on using IT systems to improve service delivery.

The provincial government is investing heavily in information technology through various departments and mainly through the Information Technology unit in the Department of Finance. The Department has budgeted **R70 million 679 thousand** to ensure a sustained delivery of Information Technology services to the Provincial Government.

## Financial management and procurement practices

### *Transversal systems*

The department is responsible for providing the financial transversal systems such as BAS, LOGIS, and PERSAL which support business processes in the provincial government.

In pursuance of this critical service, the Department will harmonise the financial systems to the operational context of service delivery and capacitate the officials of all departments.

Honourable Speaker

## Fighting crime and corruption

The theft of personal information has become a common enemy for persons and business. The provincial government is improving the measures to protect private information of the service providers.

We have completed the implementation process of the Payment Clearing and Fraud Detection System.



The system, which is interfacing with the banks, will protect information of suppliers from being tempered with by corrupt officials.

We have trained the officials to ensure that this system is fully operational. The system will be “live” on the 11 August 2014.

## **Prevent leakage and wastage of public resources**

### *Local procurement*

The promotion of local procurement is at the centre of the provincial government programme of taking Mpumalanga business along in the journey of Moving South Africa Forward.

The provincial government will look at the current procurement policy to ensure that it is in line with the objective of ensuring 75% of goods and services are procured locally.

The Province has already adopted a customised procurement policy that supports the cooperatives and small enterprises in the identified areas where the Comprehensive Rural Development Programme is being implemented.

It is therefore important for the provincial government to discourage tender brokers if we want to develop small enterprises and co-operatives that add value to the provincial economy.

### *Payment of service providers*

Honourable Members,

We have intensified the efforts of supporting and monitoring departments to pay for services rendered within 30 days after receipt of invoices.

There are signs of improvement in the payment of suppliers since we made it a requirement for the departments to submit monthly reports to the Provincial and National Treasuries. In future, we will name and shame these departments that are not complying.

### *Prices of commodities*

The issue of supply chain management are being dealt with in order to ensure a fair, equitable and inclusive citizenry in the procurement of goods, services and work.





We have also raised a concern about the high costs of various items that the government procure from service providers.

During the previous financial year, we established a price standardisation committee with a view to influence the pricing of goods and services that are provided to government especially in our hospitals.

We want to see an end to the practice of overpricing of frequently procured commodities, and value-add in the public procurement practices and outcomes.

#### *e-procurement systems*

As part of improving procurement, the Department has rolled out e-procurement systems to 10 provincial departments.

We will, this year, roll-out the system to the remaining 2 departments to ensure efficiency and accountability in the supply chain management processes.

#### **Skills development for financial management**

The Department has over the past years rolled out skills development opportunities to improve capacity in transversal functions such as supply chain management, financial accounting, and assets management amongst others.

We have set aside R900 thousand to rollout the SCM training programme for officials in the provincial government and local municipalities. We will enrol 25 officials on a one-year certificate programme with the University of Pretoria.

The investment in skills development is intended to capacitate the officials to fully implement the SCM to take the province forward with credible supply chain processes.

Honourable Speaker,

I am glad to announce that we have extended the period of internship from 12 to 18 months in the Department.



This follows the calls made by the students from our Universities of Technology and Further Education and Training that the 12 months period is not adequate to enable them to qualify for their diplomas and degrees.

### **Support to departments on intervention**

Honourable Speaker

#### *Intervention in Department of Health*

The Department of Finance has been directly involved in and supporting three departments that experienced variety of challenges in their financial control systems since November 2013.

While the Departments of Community Safety, Security and Liaison and Agriculture, Rural Development Land Administration and Environmental Affairs have been assisted, the situation in the Department of Health left the Executive Council with no option but to invoke Section 18(2) (g) of the PFMA.

The Constitution mandates us to prioritise the health of the society and that is what the intervention seeks to achieve. We are determined to address the challenges in the Department of Health.

A team of leaders have been appointed to begin a process of tightening the controls, improving contract management, stabilising the finance of the department amongst others.

It is in the best interest of the Provincial Government to have all departments managing their financial resources effectively, for this is an important barometer of the effectiveness of the governance systems.

### **Support to municipalities on financial management**

Honourable Speaker

We have noted the report of the Auditor General on the audit outcome of the municipalities for the 2012/13 financial year.



In response to the audit finding of uncoordinated intervention in municipalities, the two departments have started a process of reviewing a Memorandum of Understanding (MOU) and preparation of an operational plan to streamline support to the Municipalities.

To this end as directed by the Executive Council, we are forging ahead with the plans to establish a dedicated unit, in the Department of Finance, which will streamline support on the implementation, monitoring and intervening on the municipal finance.

A dedicated unit must ensure that, over time, the municipalities are able to stand on their own; that the integrity of financial governance systems is enhanced and the people's confidence in the ability of the local government to stamp out the current audit challenges is boosted.

### **Partnership with private sector**

In line with the instruction of the Honourable Premier, we will pay particular attention to initiatives that will advance Public Private Partnerships as an alternative to the traditional procurement methods, but more importantly in the implementation of the Mpumalanga Economic Growth and Development Path (MEGDP).

The Department will also assist the provincial departments and municipalities in identifying the opportunities for private and public partnership, and assist in registering such in accordance with applicable legislative processes.

Last financial year the Department set aside funds to implement data cleansing project in selected municipalities due to limited financial resources.

We are pleased to report that SASOL is willing to partner with the government in this programme of assisting the municipalities to improve their billing systems, thereby enhancing their revenue generation which will assist with the provision of essential services to the people.



## Financial governance

Honourable Speaker

The International Federation of Accountants' reports, August 2001, New York (USA) states that:

***“Broadly speaking corporate governance generally refers to the process by which organisations are directed, controlled, and held to account, and is underpinned by the principles of openness, integrity, and accountability.***

***“Governance is concerned with structures, and processes for decision making, accountability, control and behaviour at the top organisational level”.***

This simply means corporate governance is equal to service delivery.

The institutions that are serious about the quality of their services do not compromise the corporate governance ethos and practices in all their transactions or services.

We believe that good corporate governance is a precursor to and enhance the standing of the provincial government in the eyes of the people.

Let me now turn to division of allocations per programme.

## Division of allocations

The Department receives an allocation amounting to **R268.1 million** for the financial year ending 31 March 2014. The overall budget increases by a percent compared to last financial year, which calls for efficient use of limited resources as well as strict adherence to cost containment strategies.

The proposed allocations for the four programmes of the Department of Finance are as follows:

Programme 1: Administration receives **R79.9 million** to ensure strategic support to the delivery programmes within the department.



The proposed allocation to Programme 2: Sustainable Resource Management is **R46.9 million** to promote optimal allocation of provincial resources; efficient budget management, accurate financial reporting on provincial revenue generation and maximisation.

**R113.7 million** is proposed for Programme 3: Assets and Liabilities Management to provide policy direction on supply chain and liabilities management and to facilitate effective and efficient management of provincial physical and financial assets, interlinked system and information technology amongst other responsibilities.

Programme 4: Financial Governance will receive **R27.5 million** 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.

I hereby table the policy and budget for Vote 3: Department of Finance for consideration by the Honourable Members.

### **Mandela month**

In our midst we have young men who are currently in camp as part of the department's programme for Mandela Month.

The department has started the youth camp as part of honouring the late Dr Nelson Mandela and importantly to ensure that the ethos of a humane and a caring nation as well as goodness of the world's icon is not lost in the generations of young people in the Province.

We wish them all of the best during the camp that end tomorrow.

Honourable speaker,

Dr Rolihlahla Mandela inspired the new form of partnership between the people. Through his guidance, which was ultimately recognised by the 192- Member States of the United Nations, many companies are forging partnerships that benefit our people.

We are partnering with the Big Five Harley Davidson to pilot an approach of getting the officials and communities to assist us to raise funds to build and furnish four houses for identified households. The houses will be built by contributions and not a single sponsor.



## Conclusion

I would like to thank the African National Congress and the Premier of the Province, Honourable DD Mabuza for giving me this responsibility to oversee the provincial budget on behalf of the people of Mpumalanga.

Many thanks go to the Members of the Executive Council who have demonstrated their support to the mandate vested on me.

I appreciate the support of the Chairperson Mr Pat Ngomana and Members of the Portfolio committee on Finance, Premiers' Office, Economic Development and Tourism for their guidance when we presented our plans and in ongoing engagement on matters of finance.

To my entire family, thank you very much for continuing to be my pillars of strength in this demanding and yet a just responsibility of leading progressive forces in and outside the government.

I would also like to convey my appreciation to the staff in the MEC's Office; the Head of Department who is currently at home recuperating, the Management and all the officials in the Department for their support in the execution of my duties.

Together we move Mpumalanga Forward with credible financial management system that promotes transparency and accountability for public resources.

I thank you.









**finance**

Department:  
Finance

MPUMALANGA PROVINCIAL GOVERNMENT

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