



Northern Cape
Provincial Treasury

Budget Vote Speech 2018/19

Tabled on 26 June 2018

by Hon. Mac Jack

MEC for Finance, Economic Development and Tourism



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ADDRESS BY HON MAC JACK, MEC FOR FINANCE, ECONOMIC DEVELOPMENT AND TOURISM TO THE PROVINCIAL LEGISLATURE ON THE TABLING OF THE BUDGET VOTE 8 FOR PROVINCIAL TREASURY.

26 JUNE 2018

Honourable Speaker

Honourable Premier — Ms Sylvia Lucas

Colleagues in the Executive Council

Honourable Members of the Provincial Legislature

Executive Mayors, Mayors and Speakers of our municipalities present

Heads of Department

Senior Management and Officials of the Provincial Treasury

Comrades and Friends

Ladies and Gentlemen

Today, the 26th of June, is a significant day in the history of our country. Traditionally, the day is observed by the African National Congress and its alliance partners, as well as by many other bodies, including anti-apartheid movements and various international organisations, as ‘South Africa Freedom Day.’

Honourable Members, the 26th of June was so chosen because it was on this day in 1950, that the first national **stay-at-home** strike was organised as a mark of protest against the Suppression of Communism Act and other undemocratic and unjust legislation.

It was, again, on 26 June 1952, that the historic Campaign of Defiance of Unjust Laws was launched. But above all, 26 June was chosen as 'South Africa Freedom Day' as it commemorates the historic adoption, on 26 June 1955, of the Freedom Charter by the Congress of the People of South Africa, a multi-racial conference of the opponents of apartheid and racial discrimination. That historic document declared that *"South Africa belongs to all who live in it, black and white"* and that *"no government can justly claim authority unless it is based on the will of all the people."*

Honourable Speaker, in this month of June, we are not only commemorating the 42nd anniversary of the 16 June 1976 uprisings, but we are also paying homage to the two struggle icons, Solomon Tshekisho Plaatje, the first secretary general of the Mass Democratic Movement, who passed on the 19th June 1932 and the former President of the African National Congress, Pixley ka Isaka Seme, who left the world of the living on 7th June 1951.

It was in the same month, 105 year ago, when Plaatje experienced the passing of the notorious Natives' Land Act of 1913. Sol Plaatje, noted in his book, **Native Life in South Africa**, *"Awakening on Friday morning, June 20, 1913, the South African native found himself, not actually a slave, but a pariah in the land of his birth."*

A servant of the people, Sol Plaatje, travelled extensively on his bicycle, recording the negative impact the legislation had on black people. In his book, he described the gruesome effects of the Natives' Land Act on ordinary people, who had their land suddenly taken away from them.

Pixley ka Isaka Seme became President General in the midst of the Great Depression, a period that threw up challenges that would have overwhelmed even the most capable of leaders in the Mass Democratic Movement.

The Great Depression, which lasted from 1929 to 1941, was a severe economic downturn caused by an overly-confident, over-extended stock market and a drought that struck the southern parts of Africa, including South Africa.

Just like in the era of **Seme and Plaatje**, South Africa has managed to escape a looming recession and the recent ratings have brought about a renewed hope.

There is no doubt, **Honourable Speaker**, that in every street, in every corner of our society, that our people are encouraged by the New Dawn - an era of renewed hope. South Africans are embracing the fact that **Thuma Mina** is all about every South African, regardless of their colour or race, and getting directly involved in finding solutions to the challenges we face, as a country.

Ndime apha njengomthunywa wabantu, where the call to serve and facilitate radical economic transformation has become louder than ever before.

Ons is heeltemal bewus van die massiewe taak wat voorlê en bly meedoënloos in die bereiking van die Nasionale Ontwikkelingsplan se doelwitte van 'n inklusiewe sosio-ekonomiese groei vir ons provinsie en ons is vasbeslote dat, ongeag hoe klein die aksie is, laat ons die wêreld vir die beter verander - net soos Madiba en uMama Sisulu, gedoen het.

Comrades, let us be earnest in our response to our president's call of *Thuma Mina*. Our sincerity starts with taking responsibility and accountability for the state of affairs in our Local Government, Provincial Departments and Public Entities. As leaders of government, our primary responsibility resides in Chapter 10 of the South African Constitution, section 195 which states that Public Administration should be governed by democratic values and principles which include amongst others:

- Promotion and maintenance of high standard of professional ethics;
- Promotion of efficient, economic and effective utilisation of resources;
- Services must be provided impartially, fairly, equitably and without bias;
- People's needs must be responded to and the public must be involved in policy making; and most of all
- Public administration must be accountable.

Honourable Members, the fiscal health of the province has been deteriorating over a period of time. This is a cause for concern and we have acknowledged this risk as the Executive Council. Whilst pressures in the health and education sector have contributed to this situation, we

cannot absolve other departments from this problem and hence our turn around strategies includes all departments and public entities. During the 2017/18 financial year we had **projected an overdraft of R530 million**, however after implementing various measures to stabilise the province's fiscal position and implementation of prudent cash management strategies, the province closed with a negative bank balance of only **R86 million at year end**.

I need to announce that due to the moratorium on appointments, the province has been able to stabilise personnel numbers over the past three years.

We have been able to contain the personnel numbers only to filling critical vacant and funded positions, hence service delivery programmes meant to improve the lives of our people were not negatively affected. Provincial Treasury will continue to combat the infiltration of ghost workers through the compulsory biometric verification of newly appointed employees three months from appointment. As part of strengthening processes of appointments, the guideline on moratorium will be adjusted to combat the usage of contract workers which has unintended consequences. This adjustment has already been agreed by EXCO and this also includes the timeline for approval of the filling of vacant and funded posts

Honourable Speaker, in an effort to improve our obligations and ensure that the province restores a sound fiscal trajectory, Provincial Treasury tabled a set of fiscal measures for Executive Council's adoption in January 2018. These measures are intended to assist in improving our fiscal position in the short to medium term and I can report that these are already being implemented as I speak and they include the following:

- redirecting funds of slow spending programmes to new emerging priorities;
- enforce and ensure strict compliance with section 31 of the PFMA during the adjustment estimate;
- ensure that savings on compensation is declared back to the revenue fund during the adjustment processes in order to cushion the overdraft balance;
- regulate the appointment function to ensure compliance with the moratorium by revoking departmental PERSAL functions for non-compliant departments.

Honourable Speaker, let me reiterate the fact that municipalities are the backbone of service delivery. The MFMA provides the framework and guidelines for the sound and sustainable management of the financial affairs of municipalities and sets out clearly the norms and standards for local government. These guidelines require several layers of complex bureaucratic procedures, but they establish a regulatory framework designed to minimise fraud and corruption. Municipalities must therefore subscribe to the regulations to ensure good financial governance.

In terms of the Municipal Structures Act (MSA), a municipal council is required to appoint a Municipal Manager (MM) with relevant skills and expertise to perform relevant functions of the position.

The MM therefore as an accounting officer of a municipality is responsible for all major operations, and overall accountability for administration of the municipality. Needless to say, the Chief Financial Officer (CFO) is another critical position as he or she is responsible for overseeing the overall municipality's financial management.

A report, recently released by National Treasury titled “State of Local Government Finances and Financial Management as at 30 June 2017”, painted a very disturbing picture for our Province. It indicates that out of 31 municipalities, 21 or 68 percent of MMs were in acting positions and 26 percent of CFOs were in acting capacity. It further indicates that out of 31 MMs only 9 meet the minimum competency levels and with regard to CFOs, out of 31 only 8 meet the minimum competency level. Of the 86 Senior Managers, only 19 meet the minimum competency level.

This is well evidenced by the poor state of municipal finances which is a serious challenge. A number of municipalities in the province have liquidity challenges and are failing to collect revenue, hence service delivery is negatively affected. It needs to be noted that municipalities' total operating revenue is derived as follows:

- Sixteen percent (16%) is from property rates,
- Forty seven percent (47%) from service charges,
- Ten percent (10%) from other revenue and
- Twenty seven percent (27%) from operating grants including equitable share transfer.

Municipalities continue to table budgets that are not fully funded and therefore not implementable. Of the 31 delegated municipalities, only 5 municipalities tabled funded budgets for 2018/19 financial year, these include the following:

- Kareeburg Local Municipality;
- Namakwa District Municipality;
- Frances Baard District Municipality;
- Umsombomvu Local Municipality; and
- Karoo Hoogland Municipality.

Furthermore, those municipalities with unfunded budgets did not table plans outlining clear measures to be implemented to move from unfunded to funded budgets.

Although the Constitution, Section 215(3)(b), makes provision for preparing a deficit budget across all sphere of government, the same Constitution is crystal clear that deficit must be financed. In other words, this emphatically means that a municipality must demonstrate that its budget is properly financed as required in terms Section 18 of MFMA.

Honourable Speaker, while these problems pose greater challenges to the success of some of our interventions, we together with Coghsta remain committed to assisting municipalities in finding amicable solutions to their municipal financial management and good governance.

To this effect, Provincial Treasury continues to be the driving forth towards promoting good financial governance within the province.

We have adopted the game changers identified by national treasury as our key priority areas for improvement of local government finances, namely: implementation of Municipal Standard Chart of Accounts (MSCOA), Revenue enhancement, Audit outcomes, Asset management, Supply chain Management, Budgeting and reporting.

In implementing the game changers, we will, amongst others, continue to assist municipalities and departments in improving revenue management and debt collection, by implementing of various strategies, which include;

- Data cleansing projects for municipalities;**
- Supporting municipalities to re-model their service tariffs to ensure that they are cost reflective;**
- Continue to support municipalities in the implementation of repayment plans for Eskom and Water Board debt and**
- Debt collection projects for departments**

We may employ more initiatives, however there needs to be a demonstration of strong commitment to integrity, ethical values and the rule of law in the local government sphere. While good governance and accountability are the cornerstones of good financial management, there is a general lack of accountability and this was echoed in the Auditor General Report on the 2016/17 audit outcomes.

While responsibility can be delegated, this does not abdicate accountability. Accountability remains the responsibility of the accounting officer for municipalities and departments or accounting authority in the case of public entities. We have seen situations whereby managers enjoy

the powers conferred to them by the PFMA and MFMA but the accountability is disowned. There is general lack of commitment to the rule of law which is characteristic to an environment where wrong doing is not followed by consequences.

The results of these failures will be late payment of creditors, continued incurrence and accumulation of Unauthorised, Irregular, Fruitless and Wasteful expenditure, and non-implementation of recommendation from assurance providers.

However, we remain committed to supporting them to achieve their objectives and will work tirelessly to ensure that they remain abreast with developments and are capacitated. It is on this basis that we will be providing training on the following:

- GRAP and modified cash standards;
- King IV
- Financial Misconduct.

Furthermore, as part of professionalising the public sector, National and Provincial Treasury partnered with South African Institute of Professional Accountants (SAIPA) to train ten (10) graduates. We are in the process of having Provincial Treasury accredited as a training provider for SAIPA articles.

The office of the Provincial Accountant General will reposition itself in improving efficiency and promoting accountability within the province by:

- Piloting automated invoice tracking system;
- Assisting affected departments with the completeness of irregular expenditure register and addressing it as prescribed;
- Collaborating with the Standing Committee on Public Accounts to intervene in financial governance failures.

Honourable Members, our shared provincial internal audit and audit committee model has proved to be successful. Those services were also successfully expanded to the Northern Cape listed public entities and has yielded notable improvements in risk management and internal controls. Governance, financial sustainability and performance management will be the focus areas in the current financial year.

Taking a look at public procurement, the implementation of the National Central Supplier Database in the province has assisted to a large extent to centralise and manage supplier related information, however, we are still experiencing challenges with the completeness of supplier information on the database. There are a great number of suppliers in the province that have not updated their status relating to the BBBEE levels and designated groups as identified in the Preferential Procurement Regulation of 2017.

The Provincial Treasury, in partnership with the Department of Economic Development and Tourism, will increase its efforts to engage with suppliers in the province to update their credentials on the database. This will assist in identifying strategic procurement opportunities to advance

designated groups and apply pre-qualification criteria stipulated in the Regulation.

Honourable Speaker, the Provincial Government will have to increase its effort to honour Government's undertaking to set aside 30 percent of public procurement to SMME's, cooperatives and township and rural enterprises through the preferential procurement measures. In achieving this objective, we will develop a Provincial Procurement Framework and Policy that will direct the province towards achieving the procurement targets of Government.

We have also embarked on a process to verify Public Servants who are conducting business with the state. Preliminary data indicates that sixty-three (63) officials from provincial departments are conducting business with state. The relevant accounting officers have been informed and investigation should be undertaken, and ultimately action should be taken urgently.

Honourable Speaker, allow me to table the 2018/19 budget vote amounting to **R302 million**. This budget is distributed as follows across the programmes:

Administration has an allocation of **R100 million** to enable it to provide strategic and operational support to programmes to respond effectively to the service demands placed on us by departments and municipalities. A key deliverable for the programme will be the finalisation of the organisational structure and the implementation of training initiatives to capacitate treasury officials to provide adequate support to clients.

As part of our commitment to improved and sustainable service delivery, we offer bursaries for undergraduate and postgraduate qualifications to our permanent employees aimed at improving their qualifications and equipping them for relevant and better service. We also have internship programme and currently have 25 young people appointed with their internship period of 18 months ending 31 July 2018, where after a new intake of 20 interns starting 01 August 2018 will follow. For the new intake we are targeting the TVET learners, as we know that after obtaining the N6 certificate, an 18 months practical training is required to receive National Diploma qualification.

Sustainable Resource Management has an allocation of **R68 million**. This includes an allocation for the Health Intervention Project and Data Cleansing Projects in municipalities.

Asset and Liabilities has an allocation of **R59 million**. These funds include the capacitation of the supply chain and asset management units. The Infrastructure Management unit is allocated an additional amount of R2.5 million to support sustainable improvements in the quality of infrastructure delivery, operations and maintenance.

Financial Governance has an allocation of **R36 million**. This budget has been allocated for the strengthening and development of accounting practices including the provision of support for MSCOA and assisting the departments with addressing irregular expenditure.

Internal Audit has an allocation of **R37 million**. With this allocation, the unit will continue to ensure that Internal Audit and Audit Committees function effectively and are value adding partners to the province.

In conclusion, Honourable Speaker, the department will never cease on its quest of ensuring effective management and monitoring of financial resources that respond to the socio-economic needs of our province.

In our endeavour to ensure a clean administration, we will continue to monitor and hold all our government institutions accountable through the implementation of consequence management.

Honourable Speaker, last year I made an undertaking, which was emphasised by President Cyril Ramaphosa this year, to intensify the fight against fraud and corruption, and called for a random life style audit for all public representatives, particularly supply chain management, finance sections and senior managers.

I am happy to announce that we managed to make inroads- together with the Department of Transport, Safety, and Liaison, we have commissioned a forensic audit of which a report will be released before the end of July. We are also in a process of investigating irregular expenditure in the Department of Health, a report will be issued in due course.

Provincial Treasury is committed to work tirelessly, and passionately to assist and contribute in building a more prosperous and inclusive economy, because we are truly inspired by the words of Pixley ka Isaka Seme, taken from his speech, The Regeneration of Africa, when he said,

I quote: *“The brighter day is rising upon Africa. Already I seem to see her chains dissolved, her desert plains red with harvest, her Abyssinia and her Zululand the seats of science and religion, reflecting the glory of the rising sun from the spires of their churches and universities. Her Congo and her Gambia whitened with commerce, her crowded cities sending forth the hum of business, and all her sons employed in advancing the victories of peace-greater and more abiding than the spoils of war.”*

Honourable Speaker, let me take this opportunity to thank my family and most importantly my beautiful wife for their understanding and support in my calling to serve the people of the Northern Cape.

Allow me to express appreciation to the Acting Head of Department, Mr. Thami Mabija and Head of Ministry, Mr Darius Babuseng and the teams they lead for their dedication and effort.

It is my pleasure to table the 2018/19 budget vote of the Provincial Treasury for the consideration of this house.

I thank you.