

**ADDRESS BY MR J BLOCK (MPL) MEC FOR FINANCE, ECONOMIC
DEVELOPMENT AND TOURISM TO THE PROVINCIAL LEGISLATURE ON
THE OCCASION OF TABLING BUDGET VOTE FOR PROVINCIAL
TREASURY**

30 APRIL 2015

Honourable Speaker

Honourable Premier — Ms Sylvia Lucas

Colleagues in the Executive Council

Honourable Members of the Provincial Legislature

Senior Management and Officials of the Provincial Treasury

Comrades and Friends

Ladies and Gentlemen

Honourable Speaker, South Africa's transition to democracy was one of the world's most iconic testimonies of tolerance and peaceful co-existence. In his public response to xenophobic attacks, on April 16, at the National Assembly, President Jacob Zuma said, "Criminal elements should not be allowed to take advantage of the concerns of citizens to sow mayhem and destruction. Any problems or issues of concern to South African citizens must be resolved peacefully and through dialogue. It is the responsibility of all South Africans to promote social cohesion, peaceful co-existence and good relations,"

Honourable Speaker, for many decades, South Africans in many parts of the country have lived side by side with people from other countries with no acts of violence, as such - few individuals cannot be allowed to reverse and undermine our historical achievements. South Africa is the country that cherishes human rights hence it is crucial to protect the basic rights of every human being within our borders, including foreign nationals. It is my humble request to all in our province to spread the word of opposing any violent activities, to utilize every opportunity to educate people about the need to co-exist with people from other countries. Humanity, democracy and protection of the law are indivisible. What begins as an attack on people from other countries, as we have witnessed, opens the way to the killing, rape and looting of property belonging to fellow South African citizens.

Honourable Members, we can also not turn a blind eye to the fact that there are other foreign individuals who are doing criminal activities in our land, but that does not allow us as South Africans to take the law into our own hands; let us join forces with law authorities to stop criminal activities. Furthermore, let us continue to educate our communities to be vigilant and avoid being manipulated by criminals, opportunists who seek to exploit people's fears and concerns.

Honourable Speaker, let me take this opportunity also to acknowledge the people of the Northern Cape for not forgetting the hospitality that was given to our brothers and sisters who were in exile in the neighbouring countries and the rest of the continent, as well as other parts of the world during the days of struggle.

Honourable Speaker, coming to the business of the day, Provincial Treasury is working tirelessly to ensure that the National Development Plan outcomes are realised and will address the socio-economic challenges of the province. As a key role player in this regard, one of the focus areas will be to provide support that will enhance improvement of financial management, governance and service delivery within the local government sphere.

Therefore, to give effect to our Municipal Support Programme, we have identified key focus areas as part of our strategic interventions which will address issues raised by the Auditor General and this will influence an improved organisational culture within municipalities. Special attention will be given to the 11 municipalities that received a disclaimer audit opinion as follows:

- Hands-on support to municipalities in areas of financial management, governance and accountability by means of strengthening oversight roles, powers and functions;
- Capacity development and transfer of skills to municipal officials by providing technical assistance in dealing with unauthorised, irregular, fruitless and wasteful expenditure.
- Training will be provided to the Budget and Treasury Office of municipalities which will include but not limited to financial management issues and improvement of internal controls.

In order to assist the rest of the municipalities, Treasury will further strengthen the shared services in the district municipalities in areas of internal audit and financial

governance. This will enable them to effectively assist their local municipalities. We will be visiting all five district municipalities to assess their needs and capacities, thereafter the appropriate interventions will be implemented. This will include the deployment of financial management experts who will provide hands-on support to local municipalities through the district municipalities.

The Municipal Support Programme will not be executed in isolation but will be synchronised with the Municipal Finance Improvement Programme II launched by National Treasury on 17th of April 2015. This will ensure that our provincial initiatives are aligned and have maximum impact on our municipalities.

Honourable Speaker, through Provincial Treasury interventions there has been a remarkable improvement in the approval of budgets by municipalities in the province. Processes are underway to further assist municipalities in ensuring that their budgets are funded in order to improve service delivery to the communities. Treasury will continue to provide training to all municipalities on budget issues.

To further assist municipalities in improving revenue management and collection, we have developed a revenue procedure manual and revenue enhancement guide. We have also developed tools to analyse cash flow management, which will serve as an early warning system enabling Provincial Treasury to proactively identify potential cash-flow challenges and to further determine appropriate interventions.

Honourable Members, the recent withholding of local government equitable share to affected municipalities was an extraordinary step taken by the National Treasury after persistent failures to honour the debts they owe to Eskom, Water Boards and other creditors delivering services to the municipalities. This action followed years of engagements and warning to municipalities that they must pay what they owe. The following general observations about the causes of municipalities' failure to pay their creditors were made:

- Poor leadership and weak financial management;
- Municipalities inability to set cost reflective tariffs;
- Poor revenue management has meant that payments due to creditors far exceed revenue collected; and

- Past repayment arrangements were not affordable and realistic, that is not cash backed, and in many cases were signed merely for compliance.

Section 65 subsection (2)(e) of the Municipal Finance Management Act of 2003, states that the Accounting officer of the municipality is responsible for the management of the expenditure of the municipality and that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement unless prescribed otherwise for certain categories of expenditure.

National Treasury is empowered by Section 216(2) of the Constitution to stop the transfer of funds, conditional and non-conditional grants, to any organ of state that commits a serious or persistent breach of the measure prescribed to promote transparency, accountability and the effect financial management of the economy, debt and the public sector.

Honourable Speaker the withholding of funds was informed by the above legal prescripts. Let us take cognisance of the fact that as at 31st December 2014, municipalities total outstanding debt to the Water boards and Eskom amounted to R2.3 billion and R4.6 billion respectively, of which Northern Cape's portion was R62 million and R219 million. This information clearly indicates that urgent intervention was required.

Provincial and National Treasury has been engaging with municipalities on the issue of non-payment of creditors over several years through various forums and circulars. There were several cases where we have tried to resolve disputes between municipalities and creditors. Municipalities have repeatedly agreed that they will pay amounts they owe, but in many cases this commitment has not been honoured. On the 6th of March 2015, National Treasury issued a correspondence to all municipalities encouraging them to settle, confirm payment arrangements with Eskom and Water Boards and also to inform their political leadership. The deadline of this request was 13th March 2015. In addition, the municipalities were required to request assistance with financial recovery plans. These conditions would have allowed the release of the withheld equitable share.

Honourable Speaker, none of the eleven municipalities within the province complied with the requirements before end of March 2015, and thus did not receive their equitable share payment. Funds will be released as soon as municipalities demonstrate their compliance with the requirements set by National Treasury.

Currently National Treasury accompanied by Provincial Treasury, Department of Cooperative Governance and SALGA, is in the process of meeting with each of the affected municipalities to gain a better understanding of the circumstances that led to them not paying their creditors and to agree on which steps must be taken for the equitable share funds to be released. These meetings will also agree on what additional support can be provided to the municipalities, to assist them to change and improve their management practices.

However, this process is not only focused on municipalities, National Treasury also reviewed debt owed to municipalities, in respect of property rates and service charges and it intends to impose similar requirements on defaulting national and provincial departments. Provincial Treasury will lead the enforcement of these requirements on provincial departments.

Honourable Speaker, the implementation of various financial management reforms in the local government has found other municipalities unable to respond effectively. There is a disjuncture amongst municipalities, municipal entities and other spheres of government on how they classify revenue and expenditure. This led to the promulgation of the Municipal Regulations on Standard Chart of Accounts, SCOA, by Minister of Finance in April 2014. The objective of the regulation is to standardize and ensure consistency in classification of municipal transactions across all 278 municipalities and their entities. The standardisation will allow for comparison of information between municipalities, improved transparency, accountability and governance. All municipalities are expected to be SCOA compliant by 1st July 2017 and preparatory work has begun in that regard.

Honourable Speaker, promotion of compliance with Supply Chain Management prescripts also features prominently in our priorities. The recently released Public Sector Supply Chain Management Review by the Office of the Chief Procurement

Officer is a candid reflection of the current state of Supply Chain Management in the public sector and reforms to address concerns will be implemented during the 2015/16 financial year. The Northern Cape Provincial Treasury will lead the implementation of the reform processes in the province with the support of all the provincial departments and report on progress made to National Treasury on a quarterly basis.

Honourable Speaker, the current tough economic conditions are impacting negatively on the role of small businesses contribution to job creation, equity and access to markets. This can also be aggravated by the failure of departments to pay within 30 days. In order to address this non-compliance, we have conducted workshops in all districts. The focus of these workshops was to highlight the role that each official plays in ensuring that invoices are timeously paid. It also touched on efficiencies within departmental process flows and prevention methods of unauthorized, irregular and fruitless & wasteful expenditure. These interventions led to the provincial average of non-compliance to significantly reduce from 17% in 2013/14 to 9% in 2014/15 financial year. Departments are further required to develop detailed improvement plans on how best to address challenges impeding them from paying suppliers within the prescribed time frame. We will continue to monitor the implementation of these improvement plans.

Honourable Speaker, in enhancing the financial management skills within departments, the province enrolled officials on the Association of Accounting Technicians programme. At the time, National Treasury had committed itself to fund 30 officials and the province funded 73 making a total of 103 officials. I am pleased to report that out of the said total, 80 officials or 78% have been deemed competent. The acquired skill will assist these officials to add value to their organisations by improving internal controls and audit outcomes. The programme has also exposed the urgent need to continue with trainings of this nature.

Honourable Speaker, the control environment within government institutions is forever changing and this requires management of risk on an ongoing basis. This implies that institutions must identify and analyse opportunities and risks and implement internal controls to address them. Provincial Treasury in this regard

continues to champion the strengthening of risk management within the Province. I am further pleased to announce that through our capacity building initiatives, risk management practitioners of all departments have been trained on fraud and risk management in the public sector, and this was in collaboration with PriceWaterhouseCoopers and National School of Government. We are confident that the impact of these training initiatives will contribute to the improvement of risk maturity levels of the province and subsequently enhance service delivery.

Honourable Speaker, the Shared Internal Audit Services has been strengthened. The 2015/16 financial year will be the first year where all 12 provincial departments will be serviced by our own appointed internal audit staff. The unit has also implemented combined assurance plans that enhance controls and oversight between the various stakeholders.

Honourable Speaker, our vision of being the heartbeat of sound financial management is not merely exercised in relation to our oversight role but we also exercise it internally. It is on this basis that we have employed all efforts to maintain our clean audit and we encourage all departments to follow the good example.

Honourable Speaker, one of Provincial Treasury's role is to ask whether our monetary investments within the different programmes and projects are resulting in growth and development within the province. In performing this role, we among others:

- Act as a facilitating agent towards achieving socio-economic objectives that contribute to the greater well-being of the general public;
- Promote the effective utilization and safeguarding of provincial resources; and
- Promote compliance and good governance within the province.

In fulfilling its mandate Provincial Treasury is allocated a budget of **R211.5 million** in the 2015/16 financial year as follows:

Programme1: Administration received an allocation of **R78.6 million**. The key outcomes of this allocation include the delivery of strategic support to my office and the Head of Department, operational and human resources support to all the staff

members of the Department, and the provision of effective financial management in pursuit of a clean audit outcome.

Programme 2: Sustainable Resource Management received an allocation of **R41.3 million** of which **R5.2 million** is earmarked for capacitating regional offices, who will be supporting municipalities. This programme plays a crucial role in informing the budget of the provincial government through the thorough analysis of the most pressing socio-economic needs facing our people and the allocation of resources to best meet these needs.

This team will continue to monitor the implementation of the provincial budget, including those of public entities. Strategic guidance will be provided to these administrations to ensure that resources are utilised effectively.

Programme 3: Asset and Liabilities received an allocation of **R44.3 million**. The team will continue to play a vital role in enforcing the effective and efficient management of financial systems, supply chain and asset management across the provincial and municipal spheres. This will ensure that loopholes for corrupt activities are closed. With its allocation, this programme will further focus on compliance with the supply chain and asset management regulatory regime, especially on municipalities, by ensuring data integrity and transparency in reporting. Training will be provided to the officials who deals with government financial transactions. In improving infrastructure delivery within the province, the Immovable Asset Management team will roll out the fourth phase of Infrastructure Delivery Improvement Programme which seeks to complete the work done in Phase III.

Programme 4: Financial Governance received an allocation of **R21.4 million** to strengthen and develop stringent accounting and financial management control practices within provincial and local government. This will contribute towards higher levels of governance. At a municipal level, the primary tasks of this programme will be to improve the application of GRAP accounting standards and financial reporting, so that full compliance to minimum standards is achieved. This intervention will further strengthen the internal control environment within municipalities.

Programme 5: Internal Audit is allocated **R25.8 million**. With this allocation, the unit will continue to ensure that Audit Committees function effectively and are value adding partners to the province. The Audit Committees will continue to operate under an approved and comprehensive Audit Committee Charter.

In conclusion, Honourable Speaker, Hubert Humphrey once said, "...the moral test of government is how that government treats those who are in the dawn of life, the children; those who are in the twilight of life, the elderly; those who are in the shadows of life, the sick, the needy and the handicapped." It is with this in mind that we are committed to delivering on each of government's goals and objectives to ensure that the mandate of those who elected and put us in power is fulfilled. Yes, a lot of work still lies ahead, but I believe we have laid a solid foundation.

I thank the Premier for ensuring that there is a solid foundation laid for the department to execute its broader mandate going forward and colleagues in the Executive Council for their unwavering support. We also know that we cannot meet our challenges without the dedication and joint effort of Accounting Officers, Chief Financial Officers, and all staff members of the Northern Cape Government. Through the guidance and leadership of this department, and through all of our efforts, we will make the lives of our people better.

I would also like to issue my sincere appreciation to the acting HOD, Mr Vuyisile Gumbo, Head of Ministry, senior management, ministerial staff and the entire Provincial Treasury for the execution of the department's mandate and for their forward thinking manner in which they are tackling this province's challenges. Our greatest man, Nelson Mandela once said, "And as we let our own light shine, we unconsciously give other people permission to do the same".

Lastly I also thank my family for always understanding even when I have to sacrifice their family time.

I hereby table the 2015/16 budget of the Provincial Treasury for the consideration of this house.

I thank you.