



Northern Cape Provincial Treasury

Budget Vote 8

We serve with passion. We deliver on time.



NCPT

NORTHERN CAPE PROVINCIAL TREASURY

10 September 2019

BUDGET VOTE SPEECH

The Honourable MEC: MARUPING LEKWENE, MP

Provincial Treasury

**ADDRESS BY MEC MARUPING LEKWENE FOR FINANCE, ECONOMIC
DEVELOPMENT AND TOURISM TO THE PROVINCIAL LEGISLATURE ON THE
TABLING OF THE BUDGET VOTE FOR PROVINCIAL TREASURY
29 AUGUST 2019**

Honourable Speaker

Honourable Deputy Speaker

Honourable Premier — Dr Saul Zamani

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, as South Africa commemorates 25 years of Democracy, we cannot help but reflect on legacy related challenges such as socio-economic inequality, youth unemployment, food insecurity, hunger and poverty. While we seek new ways in dealing with these challenges, it is important to ensure that our implementation strategies and targets moves the country and our province to an equitable society.

Let us walk amongst our people, let us not be indifferent to our people, let us work side by side with our people so as to create a better tomorrow, foster unity and consolidate the gains which were achieved by the democratic state.

In recognition of the complexity of South Africa's historical and persistent structural inequality, this department will facilitate a process of realigning the provincial government priorities to respond to these challenges. We need to develop strong administrative systems and processes that will prevent corrupt practices and inefficiencies in government systems.

Honourable Speaker, as we present the budget of vote Eight (8) today, we need to be mindful of the tasks that lie ahead and pay particular attention to the founding principles of our constitution. A constitution that is based on a value system which seeks to ensure that the state promotes human dignity, to achieve equality and the advancement of human rights and freedom, to create a non-sexist and non-racial society, to ensure its supremacy, the rule of law, accountability, responsiveness and openness.

Any government that is not responsive to the realisation of these rights and does not concern itself with the provision for the needs of its people is not conducting itself accountably; as such, it replaces openness with lack of transparency and falls short of what is expected by the people and the Constitution. The public administration, including public entities, is meant to be ethical, effective and efficient. People's needs must be responded to and public participation in policy-making must be encouraged. Services must be provided impartially, fairly, equitably and without bias.

Honorable Speaker, in his State of the Province address, the Honourable Premier Dr. Zamani Saul has set out a challenging but achievable agenda for our Province. This

calls for each public servant to stretch themselves to fulfil the requirements of Chapter 2 of the Public Service Regulation on the Code of Conduct which states that:

“An employee shall be creative in thought and in the execution of his or her official duties, seek innovative ways to solve problems, and enhance effectiveness and efficiency within the context of the law”. It has therefore become essential that we all set this agenda at the center of our functions and activities to ensure that we achieve our vision of being a modern, growing and successful province.

Economic overview

Honourable Speaker, The last GDP growth rate published by Stats SA in 2017 indicated a growth of 2.8 percent for the province, which was above the national growth of 1.4 percent and also the highest in the country. Mining and quarrying and general government services were the largest contributors to the provincial economy, collectively accounting for slightly over a third of the GDP.

The national GDP grew by 3,1 percent in the second quarter of 2019. This after a contraction of 3,1 percent in the first quarter with mining, finance, trade and general government services being the largest positive contributors.

The national unemployment rate increased from 27.6 percent in the first quarter of 2019 to 29.0 percent in the second quarter. The provincial rate increased from 26.0 percent to 29.4 percent over the same period. Nationally, jobs were lost in Mining, Transport, Finance and Private Households. The province recorded a high rate of job losses in the Agriculture, Transport, Community and Social Services sectors. Increased unemployment and low economic growth continues to put pressure on available resources nationally and provincially.

Provincial Fiscal Position

The new administration inherited a massive cumulative unauthorised expenditure which is an indication of evolving financial problems as a result of continuous overspending by some departments and accruals which are not cash backed – a situation that if ignored or unresolved will threaten the future sustainability of the province and seriously compromise our social programmes.

At the end of the 2018/19 financial year, the Province had cumulative debt which consists of **R921 million** of unauthorised expenditure, excluding accruals that are not cash backed. While it may be difficult to accomplish the task of reducing this debt over a five-year mandate, given pressing and competing priorities, our preliminary projections indicate that by 2022/24 this debt will be minimised to zero provided that no department is allowed to overspend.

Honourable Members, tough decisions and choices are inevitable, however, to improve the lives of our people we must first endure short-term pain to reap long-term and meaningful future benefits.

Madam Speaker, we table this Vote Budget within a very constrained provincial fiscal environment. This can partly be attributed to the continued increase in our debt levels, fiscal ill-discipline and continuous baseline cuts. As a result, there is a need for us to implement strict austerity measures without compromising service delivery. Honourable members our common enemy is poverty, unemployment and inequality and these cannot be ignored if we are to pursue and attain our provincial goal. We must be innovative with the limited resources at our disposal if we aspire to make any meaningful impact for the betterment of the lives of our people.

In response to this situation, Provincial Treasury will be playing a crucial role in this regard, hence our focus for the 2019/20 financial year will be:

1. Increasing revenue collection both at a Provincial and Local Government level;
2. Fully implementing the Provincial Preferential Procurement Framework (PPPF) which promotes local procurement to stimulate the local economy;
3. Continue to support municipalities on improving financial reporting and institutionalising good governance in order to improve service delivery;
4. Continue to monitor and support departments on non-compliance matters, especially relating to Unauthorised, Irregular and Fruitless and Wasteful expenditure,
5. Fully support and encourage departments to prepare the Province in responding to the new growth path that is unfolding and as it relates to the Fourth Industrial Revolution (4IR) aimed at modernising the province.

Revenue Collection

Madam Speaker, provincial own revenue contributes 2 per cent to the total provincial budget. Therefore, the Department continues to review the Provincial own revenue enhancement strategies which are critical in broadening the revenue base of the Province as well as support provincial departments to optimally collect own revenue.

At the end of the 2018/19 financial year Provincial Treasury initiated a debt collection project, aimed at collecting Provincial outstanding debt. We will continue to support

departments to enhance collection of revenue but it is our collective responsibility to be innovative in increasing the revenue base of the province.

Preferential Procurement Framework

Honourable Speaker, as indicated above our second priority is to stimulate the growth of our provincial economy. In a bid to ensure business growth of designated groups within the province and to transform the local economy, a Preferential Procurement Policy Framework was developed and approved in December 2018. The policy aims to increase local procure to 60%.

As at the end of the 2018/19 financial year, provincial government spending trends indicated that 40% of all procurement was from suppliers based in the Northern Cape, of this;

1. 85% was procured from Black owned companies;
2. 31% was procured from women owned companies; and
3. 16% was procured from youth owned companies.

These trends are currently being analysed in depth to determine the real socio economic impact in our province.

Madam Speaker, it is imperative for all institutions to incorporate the principles of the Preferential Procurement Policy Framework Act (PPPFA) and the Provincial Framework in their respective procurement policies and plans. Accounting officers will be held accountable for the non-implementation of the Act and the Framework. Provincial Treasury will play a guiding role in identifying groups of commodities in the

province that may be procured locally by provincial and local government. As already pronounced, the provincial government has embarked on a process to investigate the viability of insourcing certain commodities, such as cleaning and security services.

Furthermore, in conjunction with the Department of Economic Development and Tourism we will develop a Provincial Localisation Model that will serve as a strategy to advance local public procurement within the confines of the procurement laws of the country.

Honourable Speaker, we are pleased to report that Provincial Treasury has successfully put in place mechanisms to reduce late payments. However, we cannot over emphasise the importance of paying our suppliers on time due to the impact it has on the survival and sustainability of businesses. We managed to remain below the 10% deviation norm for late payments and have seen a reduction in late invoices.

Provincial Treasury will continue to support the departments that are still struggling to pay their suppliers on time and persistent non-compliance will be reported to the relevant Member of Executive Council for consequence management.

Unwanted expenditure

Madam Speaker, let me take this opportunity to demystify the concept of irregular expenditure as reported in the media. Which, if not properly understood it can lead to misunderstanding and misinterpretation of the presentation of the audit outcomes. There is a distinction made by the Public Finance Management Act between **unauthorized expenditure, fruitless and wasteful expenditure** and **irregular expenditure**.

“Irregular expenditure” means expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation.

In the case of irregular expenditure reported by provincial departments, public entities and municipalities, this expenditure cannot be looked at as money spend in vain. Services were rendered and goods were delivered. However, the challenge is that processes may not have been followed to the letter of the law.

The incurrence of these unwanted expenditures (especially the irregular expenditure) will be closely monitored to ensure that incidences are addressed as and when identified. Provincial Treasury established a technical committee that is currently developing a strategy to address irregular expenditure to ensure accountability and consequence management.

Furthermore, in pursuit of reducing unwanted expenditure and promoting prudent financial management, Provincial Treasury will roll-out and facilitate workshops on unwanted expenditure guidelines, frameworks and financial misconduct policy to ensure that all officials are aware of the consequences for departure from financial prescripts.

It is also on that note that Provincial Treasury will continue to champion the strengthening of Corporate Governance matters within the Province. The Shared Internal Audit unit with the Audit Committees will continue to provide oversight over financial and performance reporting, risk and compliance management, information technology and the audit action plans of departments.

Furthermore the Provincial Treasury will focus on capacitating members of Boards appointed to different Public Entities in the current financial year. This will be done through formal and informal training programmes which are aimed at empowering the Boards to discharge their oversight responsibilities.

Focussed approach to strengthen and streamline support to municipalities

Honourable members, local governments are by far the most critical role players in delivering services to our communities. This sphere of government is inherently at the coal face of service delivery and must serve as catalysts and instruments of power to change the lives of our people. These institutions must advance the transformation agenda of our country and become the bedrock of the creation of the developmental state which we all envisage.

Millions of voters who voted in the 2019 general elections have given a clear mandate to the ruling party to accelerate the process towards achieving the goal of a better life for all. In this regard, there are a number of key local government priorities that have to be addressed urgently.

One of these priorities relates to capacitating local government structures, which contributes to the inadequate financial planning and ineffective service delivery. Part of this challenge arises from the absence of the requisite skills that are critical for efficient financial management and service delivery to communities.

Inadequate or lack of service delivery can significantly affect the growth and development of our province. We need to conduct an introspection and admit our failures. We cannot move forward unless we acknowledge the situation. Amilcar Cabral once said: “Hide nothing from the masses of our people. Tell no lies. Expose lies whenever they are told. Mask no difficulties, mistakes, failures. Claim no easy victories”. Let me take this opportunity to make the call for change in this sphere. Transformation has become crucial.

The Municipal Finance Management Act (MFMA) aims to modernise budget and financial management practices by placing local government on a financially sustainable footing and supports cooperative government between the spheres of government. This maximises the capacity of municipalities to deliver services to its residents, users and customers. Whilst the primary responsibility of the Provincial Treasuries is to manage the financial affairs of the province, the MFMA provides for greater involvement of treasuries in the regulation and management of the financial affairs of municipalities and to take appropriate measures including monitoring, support and intervention, whenever necessary.

In order to achieve this goal, a collaborative approach is key between all oversight departments that are assigned with the responsibility of supporting and promoting functional municipalities. Our key partners being the Department of Cooperative Governance and Human Settlement and Traditional Affairs (COGHSTA) and SALGA. Emanating from our memorandum of agreement, NCPT is responsible for financial management matters, COGHSTA for governance and service delivery issues and

SALGA for capacity building matters. This partnership will find its full expression in the recently established MunMEC.

Honourable members, we have identified fifteen (15) municipalities that need our attention due to their financial position. These municipalities are as follows:

1. Nama Khoi
2. Ubuntu
3. Emthanjeni
4. Kareeberg
5. Siyancuma
6. Renosterburg
7. Tsantsabane
8. Joe Morolong
9. Kgatelopele
10. Phokwane
11. Siyathemba
12. Ga segonyana
13. Magareng
14. Dikgatlong
15. Kail! Garib

These municipalities are plagued with a variety of issues that hamper effective service delivery to our communities. We have commenced with identifying gaps in the financial management area. Strategies will be developed and included in the respective financial recovery plans. The implementation of the financial recovery plans is essential in the sustainability of the municipality. I should also mention that capacity is required for the implementation of these plans and Provincial Treasury will provide support through the intervention unit which is currently being established, however, it is the primary responsibility of a municipality to build its own internal capacity.

In addition to the financial sustainability of municipalities, the audit outcomes painted a bleak future, with only one clean audit in the province. The Auditor General recently reported in his general report that the deterioration in accountability has become an

embedded culture in the province which undermines the basic principles of transparency and good governance, which affects the level of public confidence in local government. As our former president Thabo Mbeki said: As Africans we need to share a common recognition that all of us stand to lose unless we transform our continent. In this context, we all stand to lose unless we transform our local government sphere. History will judge us harshly should we dare not truly change the living conditions of our people, we will live to see the same resistance that we displayed to the apartheid government. It is on this basis that I appeal to municipal councils, municipal managers and senior managers urgently prioritise the needs of our people, fill key vacancies with skilled officials and adhere to laws and legislation governing this sphere of government.

We are resolute to improve the state of local government thus much effort will be deployed to ensure that for the financial year 2019/20, all district municipalities and municipalities in our main towns should obtain clean audits.

Infrastructure

Honourable Speaker our country's developmental trajectory should be anchored in infrastructure development. The Infrastructure Delivery Management Programme within the Public Sector is by its nature ever evolving. Over the last ten years the infrastructure delivery agenda in the public sector shifted from concentrating on Provincial Infrastructure to a more integrated approach between Local and Provincial Government.

More emphasis is being placed on Intergovernmental Relations in terms of infrastructure delivery to foster effective and efficient delivery in order to support the national agenda of Urban Development and Spatial Transformation.

There is a critical need to focus more intensively on municipalities and the transformation of urban & rural spaces within the province. Therefore, the province will need to plan and implement infrastructure development in an integrated manner across all spheres of government. As part of trying to foster this integrated approach to planning, Treasury welcomes the district planning approach as announced by the President in his State of the Nation Address speech and the joined planning between the Province, Local Government and National and all its entities spearheaded by the Premier in the Province. This will ensure that infrastructure development becomes the conduit for economic growth and social cohesion as outlined the NDP.

Honourable Speaker, in view of the above plans and initiatives, allow me to table the 2019/20 budget vote amounting to **R313 million**. This budget is distributed as follows:

Administration has an allocation of **R106 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 in provision of adequate support to clients. The department aims to reduce the current vacancy rate significantly and ensure retention of staff.

Sustainable Resource Management has an allocation of **R79 million**. This allocation includes funds set aside for the municipal intervention unit, building capacity within the district offices and funds for priority projects that will improve the financial sustainability of 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 R5 million to support sustainable improvements in the quality of infrastructure delivery, operations and maintenance.

Financial Governance has an allocation of **R29 million**. This budget has been allocated for the strengthening and development of accounting practices including the provision of support to institution with addressing unwanted expenditure.

Internal Audit has an allocation of **R38 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, I want to remind this august house to always remember that “the people are not fighting for ideas, for the things in anyone’s head. They are fighting to win material benefits, to live better and in peace, to see their lives go forward, to guarantee the future of their children.”

Allow me to express appreciation to all officials in ministry and the departmental team for their unwavering dedication and effort. Let us continue to serve with passion and deliver on time.

It is my pleasure to table the 2019/20 budget of the Provincial Treasury for consideration by this house.

I thank you.