



PROVINCIAL TREASURY
VOTE 12
POLICY SPEECH

2015/16



Province of the
EASTERN CAPE
PROVINCIAL TREASURY

EASTERN CAPE PROVINCE PROVINCIAL TREASURY POLICY SPEECH

BY MEC FOR FINANCE

19 MARCH 2015

Honourable Speaker

Deputy Speaker

Honourable Premier

Honourable Members

Our Esteemed Traditional Leaders and

Distinguished guests,

Ndiyabhotisa

Honourable Speaker, a few weeks ago I presented the Provincial Budget, today I will outline the work that will be done by the Provincial Treasury in the 2014/15 financial year to contribute towards the achievement of government priorities. I will do so being mindful of the fact that we meet here two days before our nation commemorates Human Rights Day. Our revered statesman and Nobel Peace Prize laureate the late Nelson Rholihlahla Mandela once described the 21st of March, as:

“A day which captures the essence of the struggle for the South African people and the soul of our non-racial democracy.”

Over the past 20 years, our government made phenomenal progress in addressing the basic or first generation human rights that relate to civil and political rights as enshrined in our constitution. What remains is to ensure the attainment of socio-economic and cultural rights for our people that manifest themselves in the form of poverty, unemployment and high levels of inequality. The level of inequalities that still exists in our country should be addressed as a matter of urgency.

Policy Priorities for 2015/16 Financial Year

Armed by both the State of the Province Address and the Budget Speech, Provincial Treasury will focus on the following priorities in 2015/16, : -

1. MANAGING THE PERSONNEL EXPENDITURE

Given the constrained fiscal environment, we have a duty to ensure that personnel expenditure is contained to acceptable levels as it crowds out investment spending. In the 2015/ 2016 financial year, Provincial Treasury will focus on the following to contain personnel expenditure:

- Provide technical support to assist with Persal clean-up. This will ensure data integrity on the department's personnel information; the project is expected to conclude on 31 March 2016.

- Continue to centralize the authorization of appointments in the Department of Education, until the Persal Management Structure is updated and aligned to National Treasury rules and regulations.
- Intensify our support in ensuring that the Human Resource Improvement Plan (HRIP) approved in 2014/15 is properly implemented in DRDAR, where CoE pressures will be contained through pay point clean up; employee verification exercise; exit management and procedure; talent management strategy and Human Resource Capacity Development Plan.

2. DEPARTMENT OF EDUCATION INTERVENTION

Honourable Speaker, we are working together with the Office of the Premier to intensify and extend Treasury's support to the Department of Education with the hope of ensuring efficiencies and improving operations and basic education outcomes. The intervention will focus on improving data management, ensuring the efficient management of human resources, implementing SCM reforms, refurbishment of the ICT infrastructure and enhancing infrastructure delivery and maintenance.

In order to achieve the above, a task team comprising of technical specialists/ experts in the highlighted areas has been

formed by Provincial Treasury in agreement with Department of Education. The task team will, whilst working on the project ensure the transfer of skills to the relevant employees of the department for a smooth transition upon completion of the project.

3. INTENSIFIED SUPPORT TO DRDAR

Honourable Speaker, the need to restructure and support the provincial agricultural sector is acknowledged. This is in line with the promotion and advancement of the agricultural sector as it has a potential to transform the provincial economy by creating jobs. Through extensive engagements between Treasury and the Department of Rural Development and Agrarian Reforms, the following areas were identified for prioritization in the 2015/16 financial year:

(i) Increasing Hectares Planted

No one can dispute the fact that, the province has the best arable land with great potential to increase crop production. Therefore the support to DRDAR will ensure that crop production in the province is maximised. This will entail increasing the number of hectares to be planted from 17 000 to 42 500 hectares.

(ii) Yields and Returns on Investment

Maximising yields and improving return on investment will also be prioritized in the upcoming financial year. The larger

area with great potential is on the eastern side of the province. The current low yields in this area will be improved through enhancing farmer support in the form of conducting studies and research on increasing productivity, providing equipment (mechanisation) and other production implements, providing technical services or assistance, storage facilities and creating market access for the produce.

(iii) Persal clean-up

In the 2015/2016 financial year, Provincial Treasury will continue to assist DRDAR in maintaining a reasonable balance between core staff and support staff. For this to be achieved, Provincial Treasury will intensify its support to ensure that the Human Resource Improvement Plan (HRIP) approved in the 2014/15 financial year is properly implemented within the department. This will entail supporting the organisational restructuring; placing of a moratorium on the appointment of administrative or support staff; cleaning up of Persal data; and employee verification exercises.

4. MUNICIPAL FINANCE GOVERNANCE

Honourable Speaker, we have a responsibility to strengthen our support to municipalities as they play a prominent role in the delivery of services to our people. Whilst we continue our work to improve financial management in the provincial

administration, we are committed in fulfilling our MFMA obligation of supporting and strengthening the capacity of municipalities to manage their financial resources. Our main focus is three pronged: infrastructure delivery support; improving financial management and sustainability.

Provincial Treasury will provide support to the ten targeted municipalities by placing a team of financial management specialists. They will focus on medium to long term support based on the specific areas of assistance required in each municipality. By embarking on this exercise we seek to improve financial reporting, accountability and oversight of municipalities leading to optimal use of resources.

5. STRENGTHENING THE PUBLIC ENTITY OVERSIGHT

Honourable Speaker, Public entities play an important role in driving the economic mandate of government through the support and development of key business sectors and industries.

Treasury has committed to perform a detailed holistic review of all public entities and subsidiaries in relation to their main functions, key activities, include revenue and expenditure streams in order to identify possible overlaps, gaps and possibilities for rationalization. The review will look at ways of creating value for money through the alignment of budgets of

public entities to government policy imperatives.

Therefore, over the 2015 MTEF, the following areas will be prioritized by public entities:

- **Renewable Energy:** Through the provision of solar systems and bio-digesters as alternative sources of energy to communities that are not connected to the national grid.
- It would be in the interest of the province to preserve the establishment of the **Wild Coast SEZ**. Preparations and the placement of necessary levers to ensure the viability of this IDZ is underway.
- **Agro-Processing:** Support of credible business plans and ideas in the agro-sector as part of transforming the provincial economy through agriculture.
- **Enhanced revenue collection** through the issuing of more gambling and bingo licenses.
- Refining and implementing a marketing strategy with an aim of promoting our province as a tourism destination.
- **Support to SMMEs**, co-operatives and development agencies implementing High Impact Priority Projects and also invest in the promotion of local trade to global market in order to attract foreign investors to the province.

6. ENHANCE INFRASTRUCTURE DELIVERY CAPACITY

Honourable Members, as I had announced in the provincial budget speech, a lot still needs to be done to address inefficiencies in the delivery of infrastructure. This has led to the proposal to appoint infrastructure response teams to assist municipalities that have spent less than 30 per cent of their infrastructure budgets as at end December 2014. The teams which are made up of engineers and project managers will be deployed to district areas.

Furthermore, there is a need to continue ensuring that there is value created whilst improving on spending.

7. LOGIS ROLLOUT AND INTEGRATED FINANCIAL MANAGEMENT SYSTEM (IFMS)

(i) IFMS EASTERN CAPE PILOT

Honorable Speaker, in light of the fundamental need of ICT systems in the enhancement of government's operations, our province, together with the Western Cape Province have been chosen to pilot the IFMS by National Treasury. This provides us with an opportunity to, amongst others, develop core Supply Chain Management (SCM) capability to implement governments SCM policies efficiently and effectively.

This system is an integration of PERSAL, BAS, LOGIS and Vulindlela. We expect development work to commence in

2015 and will be rolled out to all departments by 2021 in the province. The IFMS provides a modern, stable, transactional platform across spheres of government.

The Departments of Social Development and Provincial Treasury have been nominated as the provincial pilot sites.

The province will make pre-emptive preparations for the implementation of IFMS, which includes ensuring the availability of budgets and the readiness of the Provinces' human capital, technology and business plan for the implementation.

(ii) LOGIS: Rollout and support to Departments

Honourable Speaker, to improve procurement efficiencies in the province, Provincial Treasury has fully implemented the centralisation of the supplier registration system on LOGIS. In this exercise, all suppliers are registered at a central point to improve compliance to regulations. This has indeed put the suppliers of the Eastern Cape Province at an advantage as they will not have to re-register on the proposed National database.

Through this exercise, we have simplified the registration process and we will continue to enhance monitoring of supplier performance across the province and detect elements of corruption.

Honourable members, as the primary electronic procurement system for the Province, LOGIS will, in the upcoming financial year continue with consolidating the use of the system in 26 existing sites within the Department of Health through addressing connectivity challenges and roll out of the additional functions. Two additional new sites will be fully implemented on LOGIS. Preparatory work on the implementation of LOGIS on a new site in Dohne for the Department of Rural Development and Agrarian Reform (DRDAR) has already commenced and will be completed in 2015/16. In the Department of Education, the verification and clean-up of the asset register and loading of assets on LOGIS will be completed by the end of 2015/16 financial year in all 24 sites.

8. SUPPLY CHAIN MANAGEMENT REFORMS AND THE CENTRALIZATION OF PROCUREMENT TO IMPROVE EFFICIENCIES AND REDUCE FRAUD AND CORRUPTION

(i) SCM Reforms

Honourable Speaker, as was highlighted in the provincial Budget Speech, Supply Chain Management (SCM) is key in the accelerated delivery of services, ensuring value creation, socio-economic transformation and fiscal prudence.

A motion at national has been taken to professionalise the SCM environment in order to maximise the output and realize value for money. This will improve public sector SCM systems,

processes and skills and eliminate the elements of fraud and corruption in the system. A Master curriculum on Supply Chain Management developed at national will be rolled-out in various tertiary institutions in the 2016 academic year.

(ii) Centralization of Procurement

Honourable Speaker, National Treasury is driving the process of the centralisation of procurement across all spheres of government. To this end, commodities and services such as: computer equipment; mobile communications; Learner and Teacher Support Material; travel and accommodation; stationery and office supplies have been identified for centralised procurement.

As Provincial Treasury, we are actively involved in the process of centralised procurement initiatives undertaken at National level. In this process, the province will benefit as some of the shortcomings regarding fraud and corruption in SCM will be addressed.

(iii) Pricing Model Initiative

A National Treasury driven price benchmark revealed that our infrastructure pricing is not competitive and is the highest in the country. We are in full support of this national treasury Pricing Model Initiative which seeks to standardise pricing and we will share it with provincial departments, as we seek to influence

competitive pricing.

(iv) Transversal Contracts

Honourable Speaker, work has been done by the province wherein transversal contracts for forensic investigation services have been sourced. This is from the pool of seven commodities that have been identified by Provincial Treasury for transversal contracts. Working with National Treasury, we have also commenced with the process of arranging Provincial transversal term contracts. The economies of scale that we will derive from these contracts will ensure that the provincial administration realizes value for money in procurement.

Furthermore, engagements with Government Printing Works will continue for the procurement of commodities available from their catalogue. From this exercise, it is anticipated that the province will benefit a savings of approximately 20% on printing/ photocopy paper is likely to be received. Also, Provincial Treasury will assess the viability of implementing the Unified Communication System in all departments through a transversal contract. This system is already in place at Provincial Treasury and has seen the department save an average of 80 per cent per month on its telephone bill.

In the 2015/16 financial year, further processes to pursue contracting for other commodities will be carried out to realise

savings.

9. FINANCIAL GOVERNANCE

Honourable Speaker, our department is further charged with the responsibility of ensuring effective financial governance in the province.

(i) Financial Management Accountability Model

Provincial Treasury continues to strengthen the implementation of the Financial Management Accountability Model. The notion behind the model is to improve accountability by officials in order to ensure that all requisite financial management processes are followed to the latter.

The focus over the next 3 years will be on monitoring the implementation of the model in departments and improving co-ordination between relevant oversight structures. We are also increasing the level of engagement on the required standards of financial management towards improved audit outcomes. This includes continuing to improve the functioning and scope of the CFO forum and its supporting structures.

(ii) Audit Improvement Plan

Honourable Speaker, the goal of achieving acceptable audit outcomes in government remains active in our radar screens. Treasury has adopted the Provincial Audit Improvement Plan

(PAIP) which mainly focuses on reporting on the audit risks. This has recorded tremendous achievements as the province reflected comparatively better outcomes. However, one notes that there remains a tremendous amount of work to be done in improving the audit outcomes for departments like Education and Roads & Public Works due to their magnitude.

For the 2014/15 financial year, focus will be given on supporting and improving the audit outcomes of DRPW and Health from qualified to unqualified. Also, we will focus on addressing and reducing the number of findings in the departments that got unqualified audit opinions in the previous financial year.

Further to this, we will also focus on addressing irregular expenditure and improve on the management of accruals.

10. IMPROVING REVENUE FUND AND REPORTING

Honourable Speaker, in the Budget Speech we mentioned that given the constrained fiscus the province needs to find innovative ways of increasing own revenue. We said this, mindful of the fact that own revenue can create opportunities for new revenue streams that can be put towards improving public infrastructure and growing the economy. Provincial Treasury will ensure the enhancement of provincial revenue through efficient application of the Provincial Revenue Generation Strategy. Own revenue generation is done through but not limited to health; Transport;

Eastern Cape Gambling and Betting Board and the Eastern Cape Liquor Boarding. All these contribute 83.5 per cent to the total provincial revenue.

Honourable Members, working together with National Treasury and GIZ, we are developing a more efficient billing and collection system for provincial hospitals. We have witnessed an improvement in Department of Health's (DOH) revenue collections at the existing eight hospital sites where the electronic billing system is in place. We intend to roll-out to 12 hospital sites.

The provincial own revenue from casino and betting taxes through the ECGBB was augmented from the operation of six bingo halls in East London and Port Elizabeth, which will be expanded by a further nine bingo operators. In addition, the review of casino fees and liquor licence tariffs by the ECGBB and the ECLB, respectively, will also contribute towards projected high revenue collection.

Honourable Speaker, we take cognisance of the reality facing the country, a tight fiscal environment in which the Public Revenue Fund (PRF) operates.

Hence we are embarking on the following:-

- Centralisation of creditor payments through Basic Accounting

System (BAS) to maintain liquidity on departmental PMG accounts and the PRF;

- Intervention measures being considered for Personnel management with regard to PERSAL functions (appointments).
- Daily and monthly reporting of the provincial cash position with a view to maintain fiscal discipline.

There will be continuous monitoring to ensure that the payment of creditors is in line with the PFMA and is done within a 30 day period. On a monthly basis, reports will be sent to National Treasury indicating compliance to the PFMA as non-payment or delayed payment results in unnecessary cash flow crises for SMMEs leading many of them to close their operations.

Honourable members, we cannot afford to lose the jobs that are created by SMMEs and we must spare no effort to get the turnaround times for payments right.

11. HUMAN CAPITAL DEVELOPMENT

Honourable Speaker, in his State of the Nation Address, the President called on all public officials to go an extra mile in the work that we do to bring services closer to the people. A new organizational structure for Provincial Treasury has been approved. Employees will therefore be placed in areas

where their strengths and skills are needed to ensure that core functions are better equipped to achieve desirable results.

Honourable Speaker, in the main, Treasury will now focus on skills development for the second layer of management to further strengthen the management of the department.

In addition, we will continue to recruit youth in internship and learnership programmes to maximise the skills pool for the entire province. This is in preparation for the anticipated future provincial rollout of the Integrated Financial Management System whilst the province is still in the piloting phase.

The key change in the new organisational structure is the elevation of the Municipal Financial Governance unit to a Programme. Our aim is to intensify the oversight and supportive role that the department fulfils in municipalities.

Honourable Speaker, in the 2015/16 Budget Speech we made mention of key considerations that we set funds aside for, which include the Port St Johns Revitalisation. Treasury will support the institutions that are earmarked for this funding in developing credible business plans to access the funding.

12. BUDGET AND PROGRAMME ALLOCATIONS

Madame Speaker, I now present the budget allocations that will result in the attainment of our set policy imperatives in 2015/16. Provincial Treasury has a total budget allocation of R738, 492 million in 2015/16 and the break down per programme is as follows:

- Programme 1: Administration R144, 210 million;
- Programme 2: Sustainable Resources R66, 549 million;
- Programme 3: Asset and Liabilities R25, 864 million
- Programme 4: Financial Governance R90, 388 million
- Programme 5: Municipal Financial Governance R411,481 million

In terms of economic classification, the budget is allocation as follows:

- Current Payments R371, 919 million

Of which:

- Compensation of Employees R299, 990 million
- Goods and Services R71, 929 million
- Transfers and Subsidies R363, 425 million
- Payment of Capital Assets R3, 148 million

CONCLUSION

Honourable Speaker, I had an opportunity to unpack the budget on one of our national radio stations where most listeners seemed to agree with how we have allocated the budget.

However, they are unequivocal about their concerns with regards to whether departments will use the money for its intended purpose. They urged all of us both in the Executive and Legislature to pay particular attention to monitoring, monitoring and monitoring during this MTEF, so that we can detect early, the behaviour of diverting funds that are meant to better the lives of the people to non-core areas in the administration.

As Provincial Treasury, we want to assure our people that we will put all hands on deck to ensure maximum results on the policy priorities tabled in this house today.

We will also continue the cooperation we have with departments and municipalities to expedite service delivery to the people and to enhance financial management in our province. Furthermore, we will guard jealousy full compliance with legislative prescripts and enforce discipline where necessary.

Madam Speaker, allow me to table formally the Strategic Plan, Annual Performance Plan and Service Delivery Implementation Plan for 2015/2016 financial year.

Maz' enothole.



CONTACT INFORMATION

Private Bag X0029, Bhisho, 5605
Tel 040 101 0157 | Fax 040 101 0707
nomawethu.skoti@ectreasury.gov.za
www.ectreasury.gov.za