

Madam Speaker

Let me preface my budget submission with the remarks by former President Nelson Mandela at his Inauguration as the President of the Republic of South Africa in 1994. He says:

“We have triumphed in the effort to implant hope in the breasts of millions of our people. We enter into a covenant that we shall build a society in which all South Africans, both black and white, will be able to walk tall, without any fear in their hearts, assured of their right to human dignity – a rainbow nation at peace with itself and the world”.

In presenting the first budget of the Department of Finance since its separation from the Economic Development component, and especially a day after the Tenth Anniversary of our new Constitution (8th May 1996),

I have elected to invoke the instructive words of the former President to remind all of us that, whilst we have entered our *Season of Hope*, many of our people remain on the outskirts, without benefiting from our many developmental programmes that are key to restoring their human dignity, and with it, their ability to walk tall.

May I also take this opportunity to remind Honourable Members that this budget presentation takes place almost two months after the country has experienced another successfully free and fair local government elections. For us this is another confirmation of the durability of our Constitutional democracy. This happened despite the remarkably prescient, if flawed, predictions by advocates of doom.

However, we need to tread carefully as we celebrate the successful hosting of our municipal elections. With our local government system barely six years only, many are still experiencing birth pains associated with their establishment phase and the continued transformation in their financial systems. Accordingly, as government we will have to respond both systematically and programmatically.

Madam Speaker

The separation from Economic Development means that the Department will now focus exclusively on the mandate of managing the financial affairs of the Provincial Government and supporting municipalities with their financial reforms. In this

respect, two main Acts that will guide our endeavours are the Public Finance Management Act and the Municipal Finance Management Act (2003).

The successful implementation of these two Acts will automatically ensure that government departments and municipalities are able to manage their financial affairs better and deliver improved and sustainable services.

Our financial management support is strategic and we regard it as an enabler because through this support we ensure that business activities of departments are funded in a systematic manner. This will in turn enable departments to implement necessary programmes and realise their priorities set in their annual performance plans.

Our Performance

This budget Madam Speaker, builds on the foundation set by the many business plans presented to your august house in the past.

It is therefore not a stand alone but part of a continuum of the many events which culminate in an integrated service delivery to our clients. Before presenting the business plan for the MTEF allow me to provide a bird's eye view of our achievements in the past financial year on which our business plan is built.

- ✓ Prepared a set of financial statements and annual reports for 2004/05 financial year.
- ✓ Established (towards the end of 2005) a Unit to assist municipalities in the implementation of their financial reforms in terms of the MFMA.
- ✓ Compiled and submitted a balanced adjustments budget for 2005/06 financial year.
- ✓ Completed phase one of the Electronic Tendering and Quotation System.
- ✓ Managed the Provincial Revenue Fund efficiently, ensuring that departments accessed their budgeted cash flow streams timeously.

- ✓ Paid our creditors within the agreed to timeframe where invoices were submitted on time.
- ✓ Successfully migrated the Walker financial system to a higher version, Elovon2 (E2), and
- ✓ Piloted an Inventory Management System in the Departments of Health, Education and Agriculture.

Strategic focus for the year ahead.

Madam Speaker, our performance plan is consistent with the five-year Strategic and Performance Plan we submitted in 2005/06 financial year.

We are in the main pursuing the realisation of our strategic goals in a cost effective manner, key of which are:

- ✓ Provision of leadership in all facets of strategic financial management in the Province.
- ✓ Delivery of financial management (inclusive of risk management), Supply Chain Management and specialised auxiliary services for the Treasury.
- ✓ Promotion of effective financial resource allocation and efficient budgeting services to the North West Provincial Administration.
- ✓ Compliance with the Public Finance Management Act and the Municipal Finance Management Act through monitoring and reporting frameworks.
- ✓ Reforming the provincial procurement system in line with the supply chain management legislation and best practices.
- ✓ Ensuring that annual financial reporting is a true reflection of the financial position of the province and facilitation of the effective and efficient management of liabilities.

- ✓ Provision of effective and efficient internal audit services to the North West Provincial Administration and,
- ✓ Provision of provincial Information Communication Technology (ICT) direction and integrated ICT infrastructure that will bring about efficient, effective and competitive improvement of government service delivery.

Madam Speaker, realising these goals means that we need to address various objectives within our programmes.

I will now highlight our key focus areas for the period ahead.

- **Institutionalising the Department**

I have already mentioned that the budget I am presenting is the first under the new department.

Institutionally we are implementing uniform organisational structures for provincial treasuries and our programmes are in line with the new structure.

The uniform structure is borne out of a lengthy research by both the National and Provincial Treasuries on a best practice model for treasuries in the country.

This structure which is also in line with the National Treasury will simplify and standardise reporting for treasuries.

As the structure is uniform it will provide a firm base on which the cost of running treasuries will be determined.

The structure is not deviating significantly from the current one, but aligns complementary programmes for efficiency purposes.

The new programmes for the new organisational structures which have been included in the Budget Book are as follows:

New programmes

- Administration
- Sustainable Resource
- Management
- Asset and Liabilities
- Financial governance
- Municipal Finance Management
- Information Technology
- Statutory Payments

Financial Management Capacity Building Programme

We are continuing with the roll out and implementation of the PFMA. In order to be able to do this successfully we require capacity and knowledge of accrual accounting in the public service. To this end we will roll out phase two of the financial management capacity building programme. This programme targets programme managers who in the main are not financial experts.

The aim is not to convert them into financial experts but to prepare them to be able to make good judgement on the decisions they make on financial matters including budget management.

Improving financial management skills of this layer of management will certainly improve the quality of financial management and reporting.

Supply Chain Management

Since the dissolution of the Tender Board our challenge has been to ensure that the departmental procurement practices are in terms of the requirements of the PFMA.

I acknowledge that our Supply Chain Management is still in its infancy. Be that as it may this is an area in which we cannot falter.

Our challenge is to improve capacity in our Supply Chain Management units so that we can beat the challenges posed by this new business practice requirement.

I need to indicate that the Provincial Treasury has retained the compliance unit to assist departments to follow the correct procedures when procuring goods and services.

Additionally, this unit will coordinate training for the Supply Chain Management within government departments to ensure that the departmental procurement teams are well equipped to adjudicate and manage their contracts.

Regarding contracts which were approved by the Tender Board and are still in force, the Provincial Treasury will be the successor to the Tender Board and will therefore deal with the disputes arising from tenders awarded by the Board during its tenure.

To assist to facilitate effective management of the procurement, the Provincial Treasury is implementing an Electronic Tendering and Quotation System.

Phase one which involves the establishment of a database for creditors has already been completed. Phase two which includes the maintenance of the database, in-depth training of departmental procurement committees and improvement of the procurement process will be implemented in the coming financial year.

We are not going to abandon the manual tendering system immediately because of the ruralness of our province. We are however, going to work closely with municipalities to ensure that this system works because it provides a better alternative for effective service delivery.

Centralised Creditors Payments

We have now fully established Centralised Creditors Payments centres in our four districts. We have implemented a fully fledged Electronic Funds Transfer (EFT) and can now pay amounts in excess of R1 million through the EFT.

All departments except the Department of Education have been taken up in the Centralised Creditors Payments system.

We will be taking over the Department of Education in the new financial year.

Internal Audit Function

Our provincial internal audit function has now been fully established but is yet to reach its full potential due to the high rate of staff turnover in internal audit.

The high staff turnover rate is occasioned by the demand of internal auditors by other provinces and National Departments. The other reason is that the post levels of same functions within internal audit are ranked differently in the various provinces and national departments.

I am pleased though to inform this august house that the Audit Committee has been able to put in place the required technical documents and systems in line with the professional requirements of the Institute of Internal Auditors.

These documents will be useful during an external quality assurance review by the Institute of Internal Auditors during the third quarter of the coming financial year.

The Audit Committee whose term expired late last year has agreed to renew their term of office for another three years and we are currently busy finalizing the paper work. This step is welcomed because it will bring stability in the Internal Audit environment.

Implementation of the Public Finance Management Act (PFMA).

The implementation of the PFMA is a special project which started in April 2000. Due to its complexity it has been implemented in phases and each phase has been complementing the other.

For the coming financial year we will be consolidating all completed phases and move towards an accrual accounting system which is our ultimate goal. What is required therefore is a knowledge base within government system to manage and account business transactions in terms of accrual accounting basis.

It is on this basis that we plan to train officials to understand the basic things they need to do.

Implementation of Municipal Finance Management Act (MFMA)

Municipalities are fast emerging as the fulcrum of our three sphere system of government as they are at the coalface of our service delivery efforts. Thus, there has to be a causal relationship between municipal financial management capacity and sustainable service delivery.

Accordingly, in order to ensure that municipalities manage their resources efficiently, the Minister of Finance has delegated the monitoring, support and supervision of 21 municipalities to the Provincial Treasury.

In response to this, the Department has established a dedicated unit to assist municipalities. Already, a **Hands-On MFMA Roll-Out Plan** has been developed and is being implemented to assist municipalities with their financial reforms.

May I hasten to add that, as part of this **Plan**, the Department recently held a successful Colloquium with all municipal mayors, municipal managers and CFOs to consider their respective roles in the reformation of municipal finance management.

Additionally, following the announcement by Minister Trevor Manuel in his budget Speech on the 15th of February 2006, under a Programme called *Siyenza Manje*, the DBSA Development Fund is currently in the process of establishing a team of engineers, project managers and financial experts who will be deployed in capacity challenges facing municipalities.

I am certain that it will be a relief for honourable members to know that the Province has been identified as one of the provinces targeted during the pilot phase of undertaking this programme.

PRELIMINARY RESULTS for EXPENDITURE 2005/06

The preliminary results for the financial year 2005/06 show a marked improvement in spending compared to the previous financial year. In total the preliminary actual

expenditure amounts to R17,599 billion or 96,65% of the budgeted amount of R18,209 billion against 94,8% in the 2004/5 financial year.

Infrastructure and conditional grant spending

Although a couple of departments are still reflecting substantial underspending, the preliminary results for the province as a whole, reflects a substantial increase as compared to the previous financial year. Total preliminary infrastructure spending, including infrastructure conditional grants, amounts to R1,823 billion or 88,65% of the budgeted amount of R2,057 billion. This is an increase of more than 14% compared to the 2004/05 financial year where spending was 74,5% of the budgeted amount.

The spending on conditional grants, excluding infrastructure conditional grants, is even more impressive. Spending amounts to R4,925 billion or 94,91% of the budgeted amount of R5,189 billion. This is almost 18% more than the expenditure of the previous financial year where spending was only 76,95%

There are still areas that need improvement in some departments and the financial controls in some departments are still not up to standard. To address these areas of concern, the budget provides for R8 million for supply chain management capacity building, R5 million for financial management training and R10 million for development capacity building, in each year of the MTEF.

The department will be vigilant and will ensure timeous reporting on any anticipated under spending so that corrective action is taken in time.

The Budget

The department has been allocated an amount of R261,8 million to carry out its business for the year ahead. This amount increases to R266,6 million in the MTEF.

Administration

This programme receives an amount of R30,6 million.

The Administration budget caters for the MEC's office and all the corporate functions servicing the department.

Some of the key businesses for this programme are to:

- Provide strategic leadership and political oversight to the departmental business.
- Implement department specific learnerships
- Manage the employment equity target of the department, and
- Coordinate and manage the recruitment policy.

Sustainable Resource Management

An amount of R31,7 million has been provided for the programme.

This programme is responsible for planning, design, implementation and monitoring of the provincial budget.

The main concern currently is under spending on infrastructure and conditional grants and this programme has been tasked to closely monitor expenditure trends in Government Departments to ensure that the budget is spent timeously and effectively to deliver the critical services to our people.

Regarding fraud and corruption it is anticipated that the fraud prevention plans of departments will be used to manage and minimise opportunities of fraud and corruption within the system.

We have already launched the "It's Your Budget Become A Player" campaign, which is a fraud awareness campaign. During the course of this financial year we will be launching the campaign at Local Government level in the various regions.

Asset and Liabilities Management.

The Asset and Liabilities Management receives R18,3 million.

This programme incorporates the Supply Chain Management, fixed assets and the Public Private Partnerships.

Financial Governance

An amount of R78,2 million has been provided for this programme.

The programme is responsible for the provision of accounting services, closing of provincial books of account and the preparation of the consolidated financial statements.

Municipal Finance Management Act (MFMA)

An amount of R6,4 million has been provided for this programme. Municipal Finance Management is a new programme borne out of the Municipal Finance Management Act.

As already indicated, this programme is responsible for the monitoring, support and supervision of municipalities in respect of their financial reforms.

Information Technology (IT)

Information Technology has been budgeted at R96,5 million. This programme is responsible for the provision of information, communication technology services to the provincial government.

For 2006/07 financial year the Information Technology will be working hand in hand with the State Information Technology Agency (SITA) to transfer all mandatory services to SITA as required by the SITA Act.

Statutory Payments

This is a programme catering for the repayment of liabilities which may arise from time to time.

I must indicate however, that in terms of the Provincial Borrowing Powers Act, the Loan Coordinating Council has resolved that provinces must not borrow in the interim until such time that there is a need to do so.

For the MTEF no budget has been provided because there are no liabilities raised directly or indirectly in our books.

There is therefore nothing to service

Madam Speaker,

Our challenge is to implement the budget presented here today and achieve our strategic goals.

However, as reflected in this submission, many of our programmes require the cooperation of other departments and/or organs of state. Thus, we commit to work ceaselessly with all role-players to ensure the achievement of the developmental goals set by the democratic state.

We remain convinced that the goals of a developmental state cannot be achieved by any one sphere or department of government working in isolation, but by all spheres and departments working in unison.

The hope implanted in the breasts of our people, about which Nelson Mandela spoke in 1994, has climaxed. It has reached the mental voyage to the farthest reaches of its limits.

Our people's hopes, wishes and dreams dictate that we galvanise all our energies and efforts into a single fountain of illumination to blaze away residues of poverty and advance an agenda 'to improve the quality of life of all citizens and free the potential of each person'.

In conclusion, Madam Speaker

I think I am not mistaken in believing that after twelve years of democracy and the positive mood in our people's current '*season of hope*', all of us have come to comprehend the prophetic words of former President Nelson Mandela in 1994 when he declared:

"Each time one of us touches the soil of this land, we feel a sense of personal renewal. The national mood changes as the seasons change".

Honourable Members

I believe our collective pledge to the future, expressed in the slogan, *A Better Life for All*, is enough to inspire all of us to address vigorously the central challenges of underdevelopment and degradation. And on that note I submit my Departmental Budget.

I THANK YOU.