

PRESENTATION TO THE PORTFOLIO COMMITTEE ON PUBLIC SERVICE AND ADMINISTRATION

Financial Status of Provincial Departments under Administration

| National Treasury | 06 June 2012



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Background to provincial interventions

- EASTERN CAPE
 - Cabinet resolved to intervene in the Eastern Cape Department of Education in terms of section 100 (1) (b) of the Constitution in March 2011.
 - This was a direct intervention implemented as a result of:
 - Provincial failure to ensure effective management of personnel due to non-compliance with post-provisioning norms
 - Poor management of supply chain in respect of LTSM, leading to non-delivery of textbooks to section 20 schools at the start of the school year
 - Non-compliance with National School Nutrition Programme policy
 - Failure to effectively manage the school infrastructure development programme.

Background to provincial interventions

- LIMPOPO

- Cabinet implemented section 100 (1) (b) of the Constitution in respect of 5 departments (Provincial Treasury, Education, Health, Public Works, and Roads & Transport).
- This is a direct intervention by the national executive in respect of the operational affairs of the relevant departments.
- HODs have thus surrendered their accounting officer functions in terms of section 36 of the PFMA
- In 2011/12 the provincial government accumulated unauthorised expenditure of R2.7 billion.
- Despite numerous warnings from the National Treasury during the first half of the year, the situation was not addressed.
- As a result, by 31 October 2011, the province exhausted its overdraft limit with its commercial banker (R500 million) and the SARB (R757 million).
- In addition to the above, a number of departments (Education, Health, and Roads and Transport) were found to be engaging in irregular supply chain/ procurement practices that were further draining provincial resources.
- The department of Public Works was unable to provide basic management services in respect of infrastructure contract management and provincial property management.

Background to provincial interventions

- FREE STATE

- Cabinet implemented section 100 (1) (a) of the Constitution in respect of the Provincial Treasury and the department of Police, Roads and Transport (DPRT).
- This is an intervention by which the province operates in terms of instructions from the national executive in respect of its legislative mandate.
- HODs thus maintain their accounting officer functions but are accountable to national cabinet for the execution of these functions.
- The DPRT had entered into illegal and unfunded contractual commitments for the construction of 23 roads in the province.
- The Provincial Treasury had not acted in accordance with the PFMA in failing to prevent the creation of this obligation on the state.
- Therefore the two critical issues are:
 - Addressing the supply chain practices within the DPRT, as well as untangling the 23 roads malady;
 - Ensuring that the Provincial Treasury is both capacitated and focused on its responsibilities in respect of the PFMA and the Constitution.

Background to provincial interventions

- GAUTENG

- Cabinet resolved that an intervention agreement be entered into between the national executive and the province in respect of which the Gauteng Department of Health would be assisted to resolve significant financial and service delivery challenges.
- Accordingly, an agreement was entered into between the Ministers of Finance and Health, and the Premier of Gauteng Province.
- The Gauteng Department of Health has accumulated unauthorised expenditure of R4.2 billion due to continuous budget overruns since 2009/10.
- This department is therefore insolvent, as payments to service providers can only be made by delaying payments to other service providers, or by permanently utilising overdraft facilities in the form of a permanent revolving credit.
- In addition to addressing Health-specific issues, the agreement also outlines responsibilities on the province to address other sectors where the financial implications have also affected the Health sector (e.g. public works projects, and the GSSC)

Current financial status

- Eastern Cape Education

Eastern Cape: Education as at 31 March 2012 (Section 32)

	Main Budget	Adjusted Budget	Preliminary Outcome	Actual spending as a % of adjusted budget	(Over)/ Under	% (over)/ under of adjusted budget
Current Payments	20,765,505	21,029,290	21,425,768	101.9%	(396,478)	-2%
Compensation of Employees	19,410,179	19,991,328	20,345,316	101.8%	(353,988)	-2%
Goods and services	1,355,326	1,037,962	1,080,452	104.1%	(42,490)	-4%
Interest and rent on land	-	-	-	-	-	-
Transfers and subsidies	2,614,888	2,731,420	2,767,369	101.3%	(35,949)	-1%
Payments for capital assets	1,254,315	1,384,175	884,642	63.9%	499,533	36%
Payments for financial assets	-	-	-	-	-	-
TOTAL	24,634,708	25,144,885	25,077,779	99.7%	67,106	0%

- Compensation of employees budget outcome improved to -1.9% compare to -2.9% in 2010/11;
- Nevertheless, the capital budget is still effectively subsidising the COE budget, due to the poor personnel management situation in the provincial department

Measures to strengthen the department

- The most critical focus area is to stabilise the personnel situation.
- The finance section of the department has been temporarily stabilised by the deployment of National and Provincial Treasury officials to the following functions:
 - CFO;
 - Supply Chain;
 - Risk and internal control
 - Internal audit
- A project plan has been finalised between DBE, DPISA, National Treasury, provincial Education and Provincial Treasury
- There are many aspects to this plan, which is directed at ensuring that the post-provision norms are adhered to. The most critical aspects are:
 - Headcount audit and PERSAL clean-up (the DPISA has finalised a plan in this respect)
 - Payroll audit
 - Labour relations
- It is important to note that there have been numerous turnaround plans and strategies drafted for this department before. The key to success in this instance will be improved co-operation from the district system of the department and better labour relations.

Current financial status

- FREE STATE (Provincial Treasury)
 - There has been an improvement in the province's financial performance.
 - The province overall under-spent its budget by 1.7 per cent in 2011/12, which is an improvement of the 3.8 per cent under-expenditure recorded in 2010/11.
 - The Provincial Treasury has completed the capacity evaluation assessment and prepared in consultation with the acting Chief Audit Executive a remedial action plan to address identified skills gaps
 - Cost containment measures have been communicated in writing to all departments and are in the process of implementation. The measures are to ensure that fiscal discipline is maintained and any over commitment of the budget is eliminated.
 - Critical posts were filled in the Provincial Treasury, which translated into a balanced spread of skill and a well-functioning unit. Re-deployment out of the Provincial Treasury could present a challenge.

Current financial status

- FREE STATE (Police, Roads and Transport)

Table: Free State: Police, Roads And Transport expenditure as at 31 March 2012 (Sec32)

	Main budget	Adjusted budget	Preliminary outcome	Preliminary outcome as at 31 March 2012	Actual spending as % of adjusted budget	(Over)	Under	% (Over)/ under of a djusted budget
<i>R thousand</i>								
Current payments	628 590	682 834	614 704	614 704	90.0%	–	68 130	10.0%
Compensation of employees	427 248	422 922	402 724	402 724	95.2%	–	20 198	4.8%
Goods and services	201 342	259 912	211 980	211 980	81.6%	–	47 932	18.4%
Interest and rent on land	–	–	–	–	–	–	–	–
Transfers and subsidies	220 002	241 089	226 080	226 080	93.8%	–	15 009	6.2%
Payments for capital asset:	616 865	917 679	876 629	876 629	95.5%	–	41 050	4.5%
Payments for financial asset	–	–	–	–	–	–	–	–
<i>of which: NPNC</i>	421 344	501 001	438 060	438 060	87.4%	–	62 941	12.6%
Total	1 465 457	1 841 602	1 717 413	1 717 413	93.3%	–	124 189	6.7%

- A Technical Advisory Panel (TAP) was established at the end of December 2011 by the Department of Police, Roads and Transport to assist the department on technical issues as an essential support to top management. There is high level representation by SANRAL and the construction fraternity at large. Specific attention is directed towards resolving the challenges experienced regarding the 23 roads projects.
- The province was instructed to initiate a forensic investigation into the 23 roads project, to deal with any misconduct or unlawful action that took place.

Current financial status

- GAUTENG (Health)

<i>Economic classification</i>								
Current payments	20,086,491	20,376,456	21,695,874	21,695,874	106.5%	-1,319,418	-	-6.5%
Compensation of employees	13,182,665	13,425,885	14,154,627	14,154,627	105.4%	-728,742	-	-5.4%
Goods and services	6,903,826	6,950,571	7,541,157	7,541,157	108.5%	-590,586	-	-8.5%
Interest and rent on land	-	-	90	90	-	-90	-	-
Transfers and subsidies	1,260,665	1,378,487	977,220	977,220	70.9%	-	401,267	29.1%
Payments for capital asse	1,490,421	1,631,890	960,456	960,456	58.9%	-	671,434	41.1%
Payments for financial ass	-	-	3,199	3,199	-	-3,199	-	-
<i>of which: NPNC</i>	<i>8,164,491</i>	<i>8,329,058</i>	<i>8,521,666</i>	<i>8,521,666</i>	<i>102.3%</i>	<i>-192,608</i>	<i>-</i>	<i>-2.3%</i>
Total	22,837,577	23,386,833	23,636,749	23,636,749	101.1%	-1,322,617	1,072,701	-1.1%
						Net	-249,916	

- The budget outcomes indicate that the financial position of Gauteng Health is a significant challenge and it will take time to fully stabilise the department.
- The draft AFS for 2011/12 reflect accumulated unauthorised expenditure of R3.6 billion.
- An amount of R1.5 billion was made available to the department by the Provincial Treasury in the current financial year (2012/13) to settle health accruals. This payment assisted in restoring the supply of medicines and medical consumables to hospitals in Gauteng. The bulk of the money was paid to the Medical Supplies Depot (MSD R874 million) and municipalities (R230 million).
- In addition, the austerity measures focussing on contract management and core services costs are expected to yield savings of R2.1 billion, which will be redirected to offset accruals during the 2012/13 financial year.

Measures to strengthen the department

- GAUTENG (Health)
 - Delegations for the hiring of new staff has been implemented in order to facilitate:
 - A review of the organisational structure of the department (national department of Health is coordinating this effort);
 - SCM regulations and procedures are currently being reviewed and re-drafted to close loop-holes;
 - A team has been set-up and is working on addressing contract management practices within the department. Both the structure review and standard operating procedures are expected to assist with this effort
 - Cost containment measures, designed to make the department more efficient in its operations, are being implemented.

Current financial status

- LIMPOPO (Provincial Treasury)
 - Improved from a negative position in November 2011 to close at a positive R231 million overall at the end of March 2012.
 - The liquidity and solvency crisis is thus effectively solved.
 - Payments to suppliers are normalising.
 - Although the total payments outstanding are R1.1 billion in terms of the AFS, the bank balances now exceed this amount,
 - Therefore, a notice has been posted in the local media for suppliers still awaiting payment to submit their invoices and purchase orders directly to the Provincial Treasury, so that these can be verified and settled.
 - Going forward, the payment intervals of the province will be aligned to receipts from national government in order to avoid future liquidity problems.
 - A credible budget was drafted and tabled on 06 March 2012
 - A revenue enhancement strategy is being finalised and HR Task team to control personnel related pressures has been established.
 - A detailed plan has been developed to capacitate the budget planning and cash management functions within the provincial treasury.
 - A recruitment process is underway to fill the vacant HOD position and other critical positions in the provincial treasury, and
 - An integrated support plan to departments is being finalised

Current financial status

- LIMPOPO (Education)

Table: Limpopo: Education expenditure as at 31 March 2012 (S32)

	Main budget	Adjusted budget	Preliminary outcome	Preliminary outcome as at 31 March 2012	Actual spending as % of adjusted budget	(Over)	Under	%(Over)/ under of adjusted budget
<i>R thousand</i>								
Current payments	18 937 537	19 118 954	19 081 453	19 081 453	99.8%	–	37 501	0.2%
Compensation of employees	17 055 572	17 168 362	17 291 130	17 291 130	100.7%	-122 768	–	-0.7%
Goods and services	1 881 965	1 950 592	1 790 323	1 790 323	91.8%	–	160 269	8.2%
Interest and rent on land	–	–	–	–	–	–	–	–
Transfers and subsidies	626 167	666 437	848 609	848 609	127.3%	-182 172	–	-27.3%
Payments for capital asset	1 295 615	1 282 769	1 231 643	1 231 643	96.0%	–	51 126	4.0%
Payments for financial assets	–	–	–	–	–	–	–	–
<i>of which: MFNC</i>	<i>2 508 132</i>	<i>2 617 029</i>	<i>2 638 932</i>	<i>2 638 932</i>	<i>100.8%</i>	<i>-21 903</i>	<i>–</i>	<i>-0.8%</i>
Total	20 859 319	21 068 160	21 161 705	21 161 705	100.4%	-182 172	88 627	-0.4%

- The department over-spent the 2011/12 budget by 0.4 per cent. This is a significant improvement on the 2.6 per cent over-expenditure of 2010/11.
- Combined with the improved cash position, this means the department will not be overwhelmed by outstanding accruals.
- Outstanding textbooks to learners are being delivered during June 2012.

Measures to strengthen the department

- LIMPOPO (Education)
 - Project of verification of learner and educator numbers is a critical next step in stabilising the future resourcing of this department.
 - The personnel structure of the finance and budgeting section is being reviewed and strengthened.
 - The financial and budget management, as well as controls, procedures and practices, are being implemented and constantly monitored.
 - The supply chain management policies and delegations are currently under review.
 - The procurement processes – from acquisitions to service delivery appointments – are being reviewed.
 - Contract management and administration is also under review and a checklist for compliance will be compiled.

Current financial status

- LIMPOPO (Health)

Table: Limpopo: Health expenditure as at 31 March 2012 (S32)

	Main budget	Adjusted budget	Preliminary outcome	Preliminary outcome as at 31 March 2012	Actual spending as % of adjusted budget	(Over)	Under	% (Over)/ under of adjusted budget
R thousand								
Current payments	9 993 921	9 991 473	10 035 291	10 035 291	100.4%	-43 818	-	-0.4%
Compensation of employees	7 147 605	7 359 270	7 737 160	7 737 160	105.1%	-377 890	-	-5.1%
Goods and services	2 846 316	2 632 203	2 298 131	2 298 131	87.3%	-	334 072	12.7%
Interest and rent on land	-	-	-	-	-	-	-	-
Transfers and subsidies	433 441	460 103	384 467	384 467	83.6%	-	75 636	16.4%
Payments for capital asset	1 160 539	1 220 109	955 129	955 129	78.3%	-	264 980	21.7%
Payments for financial asset	-	-	-	-	-	-	-	-
of which: NPNC	3 279 757	3 092 306	2 682 598	2 682 598	86.8%	-	409 708	13.2%
Total	11 587 901	11 671 685	11 374 887	11 374 887	97.5%	-43 818	340 616	2.5%

- Departmental accruals amount to R440 million, which accounts for the G&S and CAPEX under-expenditure

Measures to strengthen the department

- LIMPOPO (Health)
 - Headcount verification and PERSAL clean-up
 - A new organisational structure is envisaged as a result of
 - The Persal clean-up project; and
 - Appropriate job descriptions aligned sector goals and objectives.
 - Revised financial and procurement delegations are being drafted.
 - A new contract management process (contracts life cycle management and early warning system) is being implemented.
 - A new verification process for payments will be internalised within the finance structures of the Department.
 - An improved record management system is being designed.
 - The department is reverting to in-house pharmaceutical depot management. This was previously decentralised.
 - Increased capacity in financial management, human resources and information management.



Current financial status

- LIMPOPO (Public Works)

Table: Limpopo: Public Works expenditure as at 31 March 2012 (S32)

	Main budget	Adjusted budget	Preliminary outcome	Preliminary outcome as at 31 March 2012	Actual spending as % of adjusted budget	(Over)	Under	% (Over)/ under of adjusted budget
Rthousand								
Current payments	731 262	731 607	718 246	718 246	98.2%	–	13 361	1.8%
Compensation of employees	575 314	575 314	567 155	567 155	98.6%	–	8 159	1.4%
Goods and services	155 948	156 293	151 091	151 091	96.7%	–	5 202	3.3%
Interest and rent on land	–	–	–	–	–	–	–	–
Transfers and subsidies	53 155	53 579	45 339	45 339	84.6%	–	8 240	15.4%
Payments for capital asset	52 647	52 647	24 274	24 274	46.1%	–	28 373	53.9%
Payments for financial asset	–	–	2	2	–	–2	–	–
<i>of which: MFNC</i>	209 103	209 872	196 432	196 432	93.6%	–	13 440	6.4%
Total	837 064	837 833	787 861	787 861	94.0%	-2	49 974	6.0%

- Departmental accruals exceed R40 million, so the under-expenditure is a reflection of late disbursement (payments) of cash rather than non-delivery of services.

Measures to strengthen the department

LIMPOPO (Public Works)

- The most critical element of the intervention is addressing irregularities in respect of lease management:
 - The department is paying higher than market rates for property leases/rentals.
 - The second is immovable asset management, wherein some departments have acquired (purchased) property without registering these in the provincial asset register.
- The functional structure for these objectives is already in place.
- The department needs to exercise effective controls, build capacity and enhance processes that relate to:
 - Supply chain management;
 - Immoveable asset management; and
 - Contractual management

Current financial status

- LIMPOPO (Roads and Transport)

Table: Limpopo: Roads And Transport expenditure as at 31 March 2012 (S32)

	Main budget	Adjusted budget	Preliminary outcome	Preliminary outcome as at 31 March 2012	Actual spending as % of adjusted budget	(Over)	Under	%(Over)/ under of adjusted budget
R thousand								
Current payments	1 765 265	1 911 700	1 724 715	1 724 715	90.2%	-	186 985	9.8%
Compensation of employees	867 303	878 121	864 576	864 576	98.5%	-	13 545	1.5%
Goods and services	897 962	1 033 579	860 139	860 139	83.2%	-	173 440	16.8%
Interest and rent on land	-	-	-	-	-	-	-	-
Transfers and subsidies	1 352 540	1 420 843	1 428 011	1 428 011	100.5%	-7 168	-	-0.5%
Payments for capital assets	512 529	336 533	299 484	299 484	89.0%	-	37 049	11.0%
Payments for financial assets	-	2 500	1 580	1 580	63.2%	-	920	36.8%
<i>of which: NPNC</i>	<i>2 250 502</i>	<i>2 456 922</i>	<i>2 289 730</i>	<i>2 289 730</i>	<i>93.2%</i>	<i>-</i>	<i>167 192</i>	<i>6.8%</i>
Total	3 630 334	3 671 576	3 453 790	3 453 790	94.1%	-7 168	224 954	5.9%

- The low expenditure outcomes are a reflection of a focus on improving the quality of expenditure to cut out waste and corrupt activities.
- Specifically, the 2010/11 audit outcomes identified a lack of contract management, poor internal controls and the absence of supporting documents for financial commitments to the value of R84.5 million.
- Therefore, the intervention has led to the gradual elimination of frivolous and irregular items that have been drawing funds away from critical service requirements in respect of the province's road network.

Measures to strengthen the department

- LIMPOPO (Roads and Transport)
 - A review is under-way and its main aim is a new organisational structure, appropriate job descriptions, and a project-based learning programme.
 - Alignment of actual expenditure with the Annual Performance Plan and the Strategic Plan of the department and a new monitoring tool is being implemented.
 - Other objectives of the turnaround plan include:
 - An appropriate contract management system for major “cost driving” projects
 - A procurement and reporting facility with adequate audit trail
 - Implemented sustainable transport policies, strategies and systems.
 - Implemented monitoring systems for public entities
 - New payment of suppliers’ compliance process linked to cash allocations

THANK YOU