



GAUTENG PROVINCE

PROVINCIAL TREASURY
REPUBLIC OF SOUTH AFRICA

REMARKS BY GAUTENG MEC FOR FINANCE AND E-GOVERNMENT, MS. NOMANTU NKOMO-RALEHOKO, ON THE OCCASION OF THE NATIONAL COUNCIL OF PROVINCE'S DISCUSSION ON FISCAL LEAKAGES, VIRTUAL PLATFORM, 30 AUGUST 2022.

Chairperson of the NCOP, Honourable Amos Masondo.
Deputy Chairperson of the NCOP, Honourable Sylvia Lucas.
Minister of Finance, Honourable Enoch Godongwana.
MECs of Finance present here.
Representatives of SALGA who are here with us today.
Ladies and Gentlemen.

Thank you for the opportunity given to us today to participate in this National Council of Province's discussion on *"Measures to mitigate against the cost and impact of fiscal leakages on the economy and the delivery of services to communities."*

This is an important discussion that comes at the time when our country is grappling with many socio-economic challenges including low economic growth, the rising cost of living and stubbornly high unemployment.

As government, we have had to do much more with less resources, prioritise and reprioritise budgets, and act decisively in our efforts to fight corruption to ensure that every rand is spent on delivering better services to more people.

Honourable Members, the past few years have seen an increasing focus by Gauteng Provincial Government (GPG) to revisit the composition of the provincial budget and ensure that more goes towards investment and away from consumption expenditure, without necessarily introducing austerity measures.

The current Medium-Term Expenditure Framework (MTEF) period is characterised by a fiscal strategy to restrict growth in public expenditure

and reduce public debt, while increasing capital expenditure to support long-term economic growth.

As the country emerges from the aftermath of the COVID-19 pandemic with public finances still under pressure, and which is expected to continue for the short- to medium-term, it is incumbent upon all role-players to realise greater efficiencies to ensure that more is achieved with the current level of financial resources in the baseline.

GPG has in recent years innovated a strategy on Cost Containment and Value for Money, as well as formulated specific Cost Guidelines for Infrastructure Delivery.

As a way of stemming leakages from the system, in the 2015/16 financial year, Gauteng Provincial Treasury (GPT) drafted a Cost Containment Circular to all GPG departments (based on a similar National Treasury Instruction), outlining in detail the areas in which expenditure was to be curtailed, and the necessary control measures to be instituted that would ensure that all expenditure incurred was necessary, appropriate, paid promptly and subsequently reported upon by respective Accounting Officers.

Furthermore, departments would be forced to stick to spending plans and avert budget over-runs from uncontrolled spending and failure to take responsibility for over-commitments.

Under the category of general and administrative line items, cost containment measures were applied to 'Administrative Fees', 'Advertising', 'Catering: Departmental Activities', 'Consultants: Business and Advisory Services', 'Operating Payments', 'Travel and Subsistence' and 'Venues and Facilities'.

The GPG wage bill currently constitutes 56 per cent of the appropriated budget. While this compares relatively favourably compared to the 62 per cent average for all nine provinces, the reality is that the steady increase of the headcount and concomitant wage bill, and its gradual crowding out of other components of the budget is of more concern than ever before over.

Stabilisation of the wage bill – the single largest line item in the GPG budget – remains a priority, given the binding resource constraints the province, and country faces. Rising personnel spending strains provincial

budgets, especially in labour-intensive departments and limits resources for complementary inputs needed for the delivery of quality services.

Areas of concern include the practice of employing individuals additional to the existing establishment. Notwithstanding that this is the prerogative of accounting officers and dependent on the identification of resources to fill these posts; in practice, the filling of posts additional to the fixed establishment means utilises funding from vacant posts, and when these vacant posts are filled, the establishment is de facto expanded, causing pressure on the overall budget.

The Infrastructure Cost Guideline aims to establish and prescribe a standardised cost approach for infrastructure procured by GPG, to make it more affordable and enhance value for money thus ensuring 'effective, efficient and economical' use of public funds related to infrastructure investments. The Infrastructure Cost Guideline thus promotes good governance and prudent financial management.

The implementation of the Infrastructure Cost Guideline is also considered as a key building block towards the effectiveness of zero-based budgeting for infrastructure projects. Thus, it is an integral additional part of the evidence-based budget reforms introduced by GPT in the 2016/17 financial year.

It is applicable to all Gauteng Provincial Government Departments, Trading Entities, Public Entities of Gauteng Provincial Government as listed in Schedule 3 of the Public Finance Management Act, 1999 (Act No. 1 of 1999, as amended), and Implementing Agents appointed by Gauteng Provincial Government.

It includes the procurement of immovable assets and the delivery of all infrastructure projects irrespective of the source of funding across all categories of infrastructure investments.

The Infrastructure Cost Guideline includes the following:

- Purchase of Immovable Assets: Not Owned by Government
- Purchase Immovable Assets: Government Owned
- Leasing of Immovable Assets: Not Owned by Government
- Leasing of Immovable Assets: Government Owned
- Implementing Agent
- Client Department
- Professional Service Providers
- Contractors

In each section an indication is provided of the principles that shall underpin the approach in which the key cost drivers are to be managed and controlled.

Careful consideration has been given to the huge challenges that GPG has encountered where infrastructure projects proceeded prior to the township establishment being proclaimed, before obtaining the required statutory approvals and/or site hand over prior to readiness to proceed with construction, all of which culminate in excessive delays and associated cost increases.

A cornerstone of the Infrastructure Cost Guideline is that all procurement shall take place through competitive bidding.

In addition, that only services that are essential to each infrastructure project are procured & paid for and that payment is always linked to validation and verification of the services rendered to Gauteng Provincial Government.

Professional Service Providers are divided into different categories. Fees are structured based on the deliverables, and the prescribed hourly rates of Professional Councils shall not be followed, as rates shall be based on competitive bidding.

In the case of Contractors, the costs shall be based on either sector specific cost guidelines that have been issued and are deemed appropriate, or following a methodology based on a rate per square metre/unit.

Examples of the application of this methodology are included across typical infrastructure project types of the province.

Thank you