



Province of the  
**EASTERN CAPE**  
PROVINCIAL TREASURY

# RESPONSE TO FISCAL LEAKAGES EASTERN CAPE PROVINCE 30 AUGUST 2022 PRESENTED BY THE MEC OF FINANCE



*VISION:* We envision a prosperous province supported by sound financial and resource management.

# PRESENTATION OUTLINE

1. PURPOSE
2. BACKGROUND
3. FISCAL LEAKAGES IN THE PROVINCE
4. CONCLUSION

# 1. PURPOSE

The purpose of this presentation is to provide response with regards to the measures to mitigate against the cost and impact of fiscal leakages on the economy and the delivery of service to communities.



## 2. BACKGROUND

South Africa is the Unitary State with a size of 1,219 million square kilometres of which the Eastern Cape Province is the second biggest share after the Northern Cape Province of the nine Provinces with 169,580 square kilometres, with an estimated population size of 6,676,691 in 2022 as per the Mid-Year Population Estimates (MYPE).

The fiscal leakages is acerbated by the lack of integrated National and Provincial spatial Development Plan, especially to rural provinces that are characterized by huge infrastructure backlogs, inequality, poverty, hunger, as the current funding formula never really took into consideration the cost of service delivery to such provinces like ourselves. It became worse when we lost R54 billion to national as from 2013/14 to 2021/22 period.

### 3. FISCAL LEAKAGES IN THE PROVINCE (1 OF 11)

- **Medico Legal Claims and Legal Costs** – from 2017/18 to 30 June 2022, an amount of R3.252 billion has been spent. Contingent Liability is R30.779 billion as at 31 March 2022 which raises liquidity problems..

#### Mitigation strategies

- Section 18 (2) (G) implemented by the Province, Provincial Treasury, Office of the Premier and Health developed a turnaround strategy with particular focus on Service Delivery Model, Legal, Clinical, Human Resource Management, Information Communication, Financial Management and Governance matters including Forensic Matters, document already presented and approved by Cabinet Budget Committee and Executive Council of the Province;
- The province has also challenged the writs process through courts although lost but more lesson learnt.
- Requested National Treasury to facilitate the enactment of the reviewed State Liability Bill to include capped thresholds to be paid as balancing act between the delivery of health services and the payment of the medico-legal claims. The Minister of Finance has already written a letter to both Ministers of Justice and Health to resuscitate this critical intervention.

# FISCAL LEAKAGES IN THE PROVINCE (2 OF 11)

- The department of Health in the Province continue to experience huge Accruals and Payables amounting to R4.659 billion as reported at the end of 31 March 2022. These accruals are associated with the shortage of cash flow towards the end of the financial year due to the payment of these medico-legal claims attributed to continued litigations.

## Mitigation strategies

- Over and above the Section 18 (2) (G) that is being implemented by the Province, Provincial Treasury in collaboration with the Office of the Premier conducted a research study in Health and Education on the root cause of these ever increasing Accruals and Payables.
- The research was finalized and both departments have developed action plans that are presented monthly into a Finance Forum set for the two departments in an attempt to mitigate the challenges experienced at this level.



# FISCAL LEAKAGES IN THE PROVINCE (3 OF 11)

Provincial Treasury conducted site visits to Medicine Depots (Mthatha Depot and Port Elizabeth) in 2019 and some of the findings were as follows:

- Slow ICT connectivity with those facilities that have connectivity.
- Some facilities do not have connectivity, most clinics are using manual orders as the Medsas system is not accessible to all clinics which sometimes have its problems. A facility would fax an order and again deliver the same order, then the order is duplicated. The management indicated that sometimes, facilities do not receive what they have ordered whereas the order was given to the courier company. Some orders are stolen. They confirmed that, there is not even one instance where the courier company has taken responsibility for loss despite being engaged. The depot still investigating those cases and they do not have legal people based on the depot, they rely on head office.
- No system that enables depot to check stock level at facilities and no proper recording of the expiry of medicine as there is a huge volume of medicine awaiting disposal.

## Mitigation strategies

Due to the challenges of Broadband connectivity, the Province working with SITA initiated the process of implementing Broadband connectivity from a very depleted provincial envelop due to the slow implementation of this national function by SA Connect. The province is working closely with SA Connect to connect certain areas but this process due to magnitude will take longer. Health and Education are the most affected sectors.

# FISCAL LEAKAGES IN THE PROVINCE (4 OF 11)

Revenue Collection by the provincial departments is still a vexing issue in the province, where less appetite is at the low by provincial departments especially leveraging on the government property portfolio, transport services and health services that the province possesses.

## Mitigation strategies

The Province in collaboration with the University of Fort hare conducted a revenue study that confirmed this potential. The report was presented and approved by the Cabinet Budget Committee and EXCO in the Province for implementation. Provincial Legislature also conducted its research working with the Provincial Treasury to validate the study and strengthen its implementation. PT is working with the revenue departments towards the implementation of revenue plans developed by the departments. Monthly Revenue forums are held as to monitor the progress.



# FISCAL LEAKAGES IN THE PROVINCE (5 OF 11)

Management of Human Resources: The Province has budgeted for 138 172 headcount at a cost of R56 522 billion in 2022/23 financial year, which is 65.4 per cent of the total provincial budget. 24 667 of the headcount took sick leave at an estimated cost of R158.588 million as at the end of June 2022/23 financial year.

## Mitigation strategies

Health and Education have developed their turnaround plans to deal with the management of Sick Leaves, Head Count and the movement of double packed Educators. Office of the Premier has a Provincial Committee (PSMT) that is charged with the responsibility of managing and approving of posts against the recruitment plans developed by provincial departments.

# FISCAL LEAKAGES IN THE PROVINCE (6 OF 11)

## Municipal Unspent Conditional Grants

### Mitigation strategy

- PT working with CoGTA has created a forum in which grant performance is discussed early and intervention are proposed
- Partnered with MISA and DBSA as part of intervention in infrastructure
- Implementation of Forward planning on Projects to be implemented;
- Building the technical capacity for municipalities to deliver
- Have multi year projects over a three year MTREF period
- Implement Procurement Plans at the beginning of municipal Financial Year;
- Compliance with Transferring Officers and Treasury conditions of the grants
- Avoid political influence of changing projects after they are approved by Transferring Officers;

# FISCAL LEAKAGES IN THE PROVINCE (7 OF 11)

## Revenue Forgone by Municipalities

### Mitigation strategy

- Develop proper financial recovery plans which should be aggressively implemented and supported by the Council
- Manage service deliver on water and electricity and ensure that there are proper capacity
- Municipalities should be not be allowed to present unfunded budget

## Loss of revenue billed and not collected by Municipalities

### Mitigation strategy

- Have proper billing system
- Manage maintenance of electricity and water loss through illegal connections and leakages
- Municipalities should collect up to the Treasury norm of 95 per cent of billed revenue;
- Councilors (Ward level) should make awareness to communities for importance to pay bills;
- Enforcement of Credit collection Policy by municipalities



# FISCAL LEAKAGES IN THE PROVINCE (8 OF 11)

## Inaccurate Tariffs

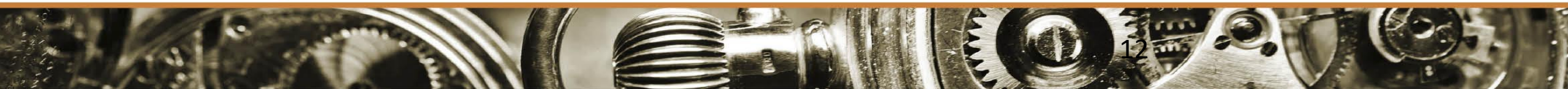
### Mitigation strategy

- Municipalities to ensure there is full costs recovery of the cost of bulk purchases on electricity and water;
- This will ensure that municipalities do not lose revenue based on the tariffs they charge to communities.

## Unauthorised Fruitless and Wasteful Expenditure

### ▪ Mitigation strategy

- Spending should be strictly per approved budget (exception to emergencies and disaster);
  - ❖ (Failure to spend within budget means additional financial resources not planned for are used)
- Municipalities to conform to the SCM regulations and avoid fruitless expenditure.



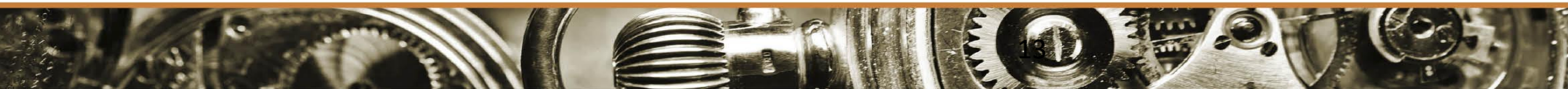
# FISCAL LEAKAGES IN THE PROVINCE (9 OF 11)

## Electricity and Water Losses.

- Mitigation strategy
  - Increase repairs and maintenance of Infrastructure assets to the Treasury Norm of 8 per cent
  - Municipalities should have repairs and maintenance plans in place and adhere to the plan.

## Employee Related Costs

- Mitigation strategy
  - Ensure there is accurate grading of municipalities;
  - There should be Job evaluations to ensure personnel are correctly placed and remunerated accordingly.



# FISCAL LEAKAGES IN THE PROVINCE (10 OF 11)

Poor contract management resulting in variation orders/ extension of contracts, deviations from normal procurement processes and cancellation of contracts.

## Mitigation Strategy:-

- Issued a Contracts Management Framework (CMF) and an Instruction Note.
- Review contracts registers and monitor adherence to the CMF on quarterly basis
- Issues a guideline on Variation Orders.



# FISCAL LEAKAGES IN THE PROVINCE (11 OF 11)

Failure by departments to plan their procurement, resulting in:

- Irregular expenditure
- Overspending of budget
- Deviations and variations

Mitigation strategy:

- Provincial Treasury has issued guidelines and an Instruction Note on the compilation and monitoring of Procurement Plans.
- Assist departments with the compilation of credible Procurement Plans.
- Monitor and report on adherence to Procurement Plans and report accordingly to the Budget Cabinet Committee and EXCO.

# 4. CONCLUSION

- South Africa remains a developmental state, building the pillars of a developmental state is a must. We cannot fail to invest in Education as to sharpen our capacity to be responsive to socio-economic needs.
- Health remains critical to preserve the key factor of production which is ‘Labour’
- Investment on ICT connectivity and infrastructure is a must for any developing country.
- We need to redress inequality, hunger and poverty as the level of social protests is beginning to reverse the gains of this freedom through the distraction of properties and infrastructure in our country.
- Invest on leadership sustainability

Dankie, thank you, enkosi, Kea loboaha, Ndo livhuwa.