MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

Media statement

15 December 2011

Response to Mail & Guardian's story implying disunity in National Treasury's handling of section100 interventions in three provinces

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The Ministry of Finance wishes to express its dismay at the coverage in today's Mail & Guardian regarding Cabinet's decision to intervene in the financial management of three provinces.

Our Constitution and the Public Finance Management Act (PFMA) requires the National Treasury to enforce sound public finance and intervene where public institutions flout proper fiscal, financial and administrative procedures.

The reasons for the intervention were unambiguously communicated through a Statement by Cabinet and were extensively analysed by the media, commentators and the public at large.

Government has been open, frank and transparent about the rationale for these measures. For the record, there is no ulterior or "political" motive and nor has there been any ambiguity in Government's intervention in terms of Section 100 of the Constitution.

The allegation contained in the article that there is a "revolt" or disagreement within the ranks of National Treasury or this Ministry about Cabinet's directive to intervene in provincial administrations is without foundation or substance. In fact, officials from National Treasury have worked extraordinarily hard and have gone to great lengths to assist provincial departments with financial management and to prepare Gauteng, the Free State and Limpopo for this intervention.

In its Statement of 5 December 2011 Cabinet explained to the media and to South African citizens the reasons for the intervention as follows:

“1. National Government intervenes in Free State, Gauteng and Limpopo provinces

Cabinet has been concerned about the state of financial management and governance in certain provinces for some time. Cabinet has received reports on trends in provincial under spending, overspending and challenges with supply chain management.

The three provinces affected in varying degrees are Limpopo, Free State and Gauteng, the synopsis is as follows

1.1 Limpopo province

At the Cabinet meeting of 23 November 2011 the Minister of Finance reported on the request received by National Treasury from the Province of Limpopo for the approval of an additional overdraft facility.

Limpopo experienced a cash crisis two weeks ago. They used up their R757,3 million overdraft facility with the Corporation for Public Deposits (CPD). The CPD is the subsidiary of the South African Reserve Bank which facilitates banking arrangements that national, provincial governments and state owned entities have with the Reserve Bank within which they inter-lend to each other with the approval of the National Treasury. Limpopo had requested that their facility should be increased by R1 billion (to R1,7 billion)from the National Treasury for the province to pay salaries and wages on the 23 November 2011. This request was declined but alternative arrangements were made for an early transfer (2 days before the actual date of transfer) of their equitable share in order to be able to pay salaries.

The Minister of Finance was asked by Cabinet to urgently review the situation in Limpopo and other provinces and report back to Cabinet on proposed actions to be taken to improve the financial situation and its impact on service delivery and provincial functions.

1.2 Gauteng and Free State

Furthermore, Gauteng and Free State provinces requested assistance from the National Treasury. Gauteng requested assistance to address the challenges in the Health Department while the Free State identified Financial Management and non-compliance to Supply Chain Management processes in their Police, Roads and Transport department as issues that needed urgent attention.

The National Treasury and other relevant national departments have been engaging with various provincial departments over time with a view to assisting in improving financial management and service delivery. However, while some provinces have taken appropriate actions, the situation remains unsatisfactory.”

Since 2009 there have been successive Budget Council meetings between the Minister of Finance, the Deputy Minister of Finance and MECs for Finance. These meetings of the Budget Council regularly review the progress of provincial finances on the basis of provincial expenditure reports.

In addition, the National Treasury on several occasions alerted Limpopo to the fiscal risks in its spending patterns. On 31 October 2011 the Head of Department: Limpopo Treasury wrote to the National Treasury to request an adjustment of the Provincial Overdraft Facility. At this time there was a real possibility that Limpopo would be unable to pay the salaries of public servants and special arrangements were made by National Treasury for an early transfer of the province's equitable share to avoid non-payment of salaries.

As explained by the Director-General of the National Treasury in his letter of response to the province: "unless there is urgent action taken by the province to address these issues, the Limpopo Provincial Treasury is likely to preside over a serious failure of public systems and process for service delivery in the province."

Requests for National Government to intervene were also received from the Premiers of Gauteng and the Free State.

The intervention by National Government followed an extended period of interaction between National Treasury and provincial Departments of Finance. Proposals for national intervention were first taken to Cabinet on 23 November 2011. Cabinet requested further work to be done and revised proposals were submitted to Cabinet on 5 December 2011.

In view of this background, it is clear that due and proper process was followed and the intervention was a step of last resort.

These are the facts of the matter at hand and these facts are verifiable within the parameters of what can be disclosed publicly in terms of Cabinet and governance protocols.

During the course of this week the Mail & Guardian approached the National Treasury and this office with an email that was purportedly sent from a Treasury official's private email address containing a number of unsubstantiated allegations. National Treasury clearly indicated to the Mail and Guardian that the email in question was a hoax and did not represent anybody's view within National Treasury. The email is not valid. Notwithstanding our assurances, the Mail and Guardian persisted with their story, refusing to accept that the National Treasury is merely pursuing its mandate to ensure proper financial management takes place within government. With respect to the hoax email, National Treasury has referred the matter to law enforcement agencies for further investigation.

In responding to Cabinet's directive, the National Treasury has acted within the law and within the prescripts of the PFMA. We will continue to do everything possible to ensure that Government spends taxpayer's money wisely and prudently. We will do everything possible to stop frivolous expenditure and reckless financial management and adherence to proper and sound supply management procedures.

We invite the Mail & Guardian and other media to help us do just that.

ENDS

Issued by: Finance Minister Pravin Gordhan
15 December 2011