



MEDIA STATEMENT: JOINT MINISTERIAL TEAM ON LIMPOPO SECTION 100 INTERVENTION

19 JANUARY 2012

1. National government had to take emergency measures towards the end of 2011 because technically, the Limpopo Province was bankrupt.
2. On 22 November 2011 it became clear that the province would not be able to pay teachers, doctors, nurses, social workers, service providers and other public sector employees.
3. Throughout last year, National Treasury had cautioned the Limpopo Provincial Treasury that the province would not have sufficient cash to finance its 2011/12 budget obligations.
4. The Province has been spending beyond its means. This has to stop.
5. Currently the Province faces a potential shortfall of R2 billion at the end of this financial year. National Treasury will have to restructure the province's finances in order to find savings of R2 billion to cover the shortfall.

6. The Provincial Treasury in Limpopo had an overdraft at the South African Reserve Bank of R757million in November 2011. The province wanted to increase the overdraft facility by R1 billion.

7. Once National Treasury received the request from the province to increase its over draft facility, officials undertook a careful due diligence and came to the conclusion that without a Section 100 (1)(b) intervention the Province would not be put on a sound financial footing.

8. 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.”*

9. Limpopo had also requested an additional R500million on its overdraft facility from a commercial bank. The bank refused this request and terminated this facility.

10. Why has this situation come about in Limpopo? The province has large, accumulated unauthorised expenditure which has grown from R1.5 billion in 2009 to R2.7 billion 2011.

11. Accruals in the form of unpaid expenditure (unpaid invoices) grew to R500million at the end of March 2011.

12. Officials from national government are currently in Limpopo to ensure that the provincial treasury and provincial government as a whole is placed on a sound financial footing; that it is able to exercise proper financial management, ensure fair and transparent procurement and deliver appropriate services at the correct costs to our people in Limpopo.

13. Cabinet’s decision to intervene in the province’s financial management demonstrates our belief that clean administration and efficient service delivery is critical to achieving and sustaining a better life for all.

14. Core Financial Problems

- By December 2011 it became apparent that the provincial treasury management function in Limpopo had collapsed - there was no proper cash management system in place and the budget section of the provincial treasury appeared to have been dysfunctional.
- In recent times the Province was paying certain service providers 8 times in a month. The frequency of payments did not provide for an opportunity for proper verification, nor did permit proper management of cash. This practice will not continue as it leads to bad business practices.
- Every effort will be made to pay service providers within 30 days. However, payments to service providers must be substantiated with proper documentation as required in law.
- Expenditure reporting was shown not to be credible. Supply chain management processes were generally not in line with legal requirements
- Possible illegal payments by certain departments to service providers have emerged
- Further investigation will determine how the Province and its executive made these decisions

15. There are only some of the serious indications to warrant further investigations

16. The intervention by national government has identified, the following —

16.1 Health

In the Limpopo Health Department:

- Poor asset management
- R400 million in irregular expenditure of goods and services (mostly medical equipment) in contravention of SCM regulations
- This was not included in the financial statements submitted to the Auditor-General last year
- R427 million in assets with no supporting documents

The department projects it will overspend its budget by R461million.

As part of the Cabinet intervention, the national Department of Health began work in Limpopo on 8 December 2011.

One area of intervention has been that of processing payments to providers of services to the public health system in the province.

As at 14 December 2011, the province owed suppliers R138million but only half these payments – R67million – could be verified and approved for payment by December 23.

It is clear that failure to pay suppliers and possible refusal by suppliers to do business with the provincial administration would be a direct threat to public health in Limpopo.

The national department has since assisted in verifying payments and settling accounts with service providers, while calling on all health facilities to continue procuring essential services for the continued smooth running of public health in the province.

16.2 Education

Various controls have been shown to be extremely weak:

- The Department has not properly managed its Supply Chain Management systems
- The Department did not order Learner Training Support Material on time
- Accumulated unauthorised expenditure has amounted to R2.2 billion
- There are 2400 excess teachers
- There are 200 “ghost teachers”
- The Department did not pay invoices on time (accruals amounted to R190 million)
- Projections are that the Department will overspend its budget by R293 million
- Certain schools did not receive any transfer of funds during 2011 in accordance with the national norms and standards making it difficult for the day to day running of the schools.

As a result, the National Department of Basic Education has set up a task team to ensure

that learners and interests in the education sector in Limpopo are not compromised.

The Department has assessed how it could and should intervene to ensure that learner resources such as textbooks and stationery are delivered to schools.

Meanwhile, workbooks on literacy and numeracy from Grade R to Grade 9 and maths and science textbooks for Grade 10 are being delivered to all government schools in Limpopo.

The National Department is also assisting in such areas as school nutrition, scholar transport and human resource development.

16.3 Public Works

The Limpopo Department of Public Works identified a number of risks in a report to Minister Thulas Nxesi towards the middle of December 2011.

Risks relating to lease management, asset management, information management systems infrastructure planning and project management, and supply chain management were regarded as critical to the province's cash crisis.

In one area of its work, the intervention team found that consultancy fees accounted for an unusually high proportion – 25%, or a quarter - of infrastructure costs, which is about 7% higher than the average at national level.

The team has also identified weaknesses in asset management with some provincial departments acquiring and registering immovable assets without the provincial Public Works being part of these processes.

Shortcomings include the following:

- No asset management system in place
- Supply chain management violations
- Awarding tenders without bidding process
- Modification of existing contracts to increase tender value
- No safeguards in place

Various other weaknesses have been identified for further investigation and details will be made public when the circumstances allow.

Roads and Transport

Some of the challenges unearthed by the Cabinet intervention are the following:

- No contract management system in place
- Internal controls are weak
- No oversight over Limpopo Roads Agency

It should be clear to all South Africans and especially the people of Limpopo that these shortcomings could not be left unattended by a government that is responsible, accountable and committed to improving the conditions in which all of live.

As the Supreme Law of the country, the Constitution empowers the National Executive to act in the best interest of citizens and of the country as a whole.

We are doing our duty because the people of Limpopo deserve better.

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