MEDIA STATEMENT

28 July 2014

The National Executive has a Constitutional obligation to protect South Africa’s economic stability and governance. The provisions of Section 100 of the Constitution of the Republic of South Africa (1996) give the National Executive powers to intervene by taking appropriate steps to ensure fulfilment of an obligation by the province in terms of the Constitution or legislation.

Towards the end of 2011, Cabinet had been concerned about the state of financial management and governance in the Limpopo Province and had received reports on trends in provincial overspending and challenges with supply chain management. Some of the transgressions included service providers being paid twice a week. This led to serious cash-flow challenges and the procurement of hospital consumables via quotations instead of following the normal supply chain procedures. Such goods were mostly procured at a cost that was five, seven or even ten times the normal price. The Limpopo Province was technically bankrupt.

By November 2011, The Provincial Treasury in Limpopo had an overdraft of R757 million with the Corporation for Public Deposit, which is a subsidiary of the South African Reserve Bank. The Provincial Treasury requested an additional R500 million on its overdraft facility from a commercial bank. The bank refused the request and terminated this facility.

Once National Treasury received a request from the province to increase its overdraft facility, it became clear that without a Section 100 (1) (b) intervention the Province would not be able to proceed on a sound financial footing.

In 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.

The province had large accumulated unauthorised expenditure which grew from R1.5 billion in 2009 to R2.7 billion 2011.

Accruals, in the form of unpaid expenditure (unpaid invoices), grew to R500 million at the end of March 2011.

Cabinet took a decision to institute corrective measures by invoking Section 100 (1) (b) of the Constitution to resolve the material weaknesses in five Limpopo provincial departments: the Provincial Treasury, Education, Roads and Transport, Public Works, Health and Social Development. Cabinet deployed a National Executive
Intervention Administrative Team, led by Mr Monde Tom to Limpopo to institute emergency measures and ensure that the Provincial Treasury and the provincial government are able to exercise proper financial management, ensure fair and transparent procurement, and deliver appropriate services at the correct costs to the people of Limpopo.

A National Co-ordination Mechanism, in the form of an Inter-Ministerial Committee chaired by the Minister of Finance, was established to oversee the implementation of the intervention. The Section 100 (1) (b) intervention resulted in national government assuming the executive obligations of the relevant provincial departments; in other words placing the relevant provincial departments under administration of national government using Administrators.

**Successful turnaround of financial management and governance**

The Section 100 (1) (b) intervention in Limpopo has achieved its objectives, which is the successful turnaround of financial management and governance in the province.

A more efficient electronic accounting system has been put in place in the Provincial Treasury and is being rolled out in other provincial departments.

The Provincial Supply Chain Management (SCM) Policy has been reviewed. Under the guidance of the Office of the Chief Procurement Officer at National Treasury, Provincial SCM standard operating procedures (SOPs) and procurement reforms have been introduced. The province is implementing a centralised supplier database system, through which all suppliers in the province will be managed.

The financial position regarding cash, solvency and budget has been stabilised. A new cash management process has been put in place in conjunction with the Province’s new banker. The Provincial Treasury now retains even greater control over movements or transfers of funds than before; these controls are among the most stringent of any province.

A substantial number of outstanding invoices were processed, resulting in service providers being paid. The number of outstanding invoices is now among the lowest of all provinces.

Furthermore, accumulated unauthorised expenditure has been reduced from R2.7billion to R600 million; the rest will be wiped out in the 2016/17 financial year.

Medicines supply chain has been significantly improved and the medicine stock level has been raised from 48% to 78%. Direct delivery of medicines is now being piloted in tertiary and regional hospitals, which has cut out stock piling inefficiencies in pharmaceutical depots.

Refurbishment and installations of boilers in 19 hospitals and 52 autoclaves in 29 hospitals has been completed and this will address dysfunctional facilities.
The management of hospitals has also been improved through the appointment of 37 new hospital CEOs. There had been 40 vacancies when the Administration came in.

Eight new road upgrade projects were reinstated after being discontinued due to a lack of funds.

The funding of schools in terms of the National Norms and Standards for the funding of schools has been improved by 62% in 2012 to 90% in 2014.

An innovative procurement and delivery strategy for the learning and teaching support materials has been developed and is being successfully implemented.

A physical headcount of learners and educators has been completed with the assistance of Stats-SA. The outcome of the headcount is currently being consolidated with the databases in the Education Management Information System (EMIS – for learners) and the PERSAL, for educators.

In 2012, there were 2 544 temporary educators in the system. A process to profile these temporary educators against profiled vacant substantive and funded posts was initiated. Where a match was found, temporary educators were permanently absorbed. As at 31 March 2013, only 6 of the 2 544 temporary educators had not been absorbed permanently.

The post baskets of ordinary public schools have been determined and gazetted for the 2014 school calendar year.

With the assistance of the Office of the Chief Procurement Office, a new funding model for the learner transport programme has been finalised. A tender for the learner transport programme is in the process of being advertised.

By the end of the 2013/14 financial year, there had been a marked improvement in infrastructure planning, delivery and spending. The prioritisation of the water and sanitation projects was strategic and had borne good fruit. Most importantly, two projects are in an advanced stage of being rolled out namely, the condition assessment of education infrastructure and the geo-spatial analysis. These projects will further focus the department’s infrastructure planning, delivery, maintenance, upgrades and refurbishments.

Some progress was observed in the disciplinary processes undertaken, despite some areas still to be addressed.
Outstanding challenges to be addressed

While the provinces’ finances have stabilised, there are areas that still need to be addressed. These include:

- The conclusion of disciplinary and criminal cases;
- Appointment of competent senior managers in key positions;
- Addressing the skills gaps in financial management and infrastructure; and
- Resolving weaknesses in supply chain management systems.

The intervention team has, in collaboration with provincial heads of departments, put in place sustainability projects that respond to these systemic challenges.

Addressing these systemic challenges and maintaining the financial stability of the province will require commitment and ownership by the Premier and Provincial Executive.

The transition from section 100 (1) (b) to section 100 (1) (a)

Cabinet has therefore, approved the transition of the intervention from Section 100 (1) (b) to Section 100 (1) (a). This means that the MECs of the affected provincial departments will assume full executive powers to run the departments and the accounting officer role will revert back to HODs of the respective departments. The concurrence of the National Council of Province (NCOP) is being sought in terms of Section 100 (1) (2) (c) of the Constitution.

Cabinet has also given clear conditions that the Provincial Executive will have to fulfil as a pre-requisite for determining complete withdrawal. In this regard, the national executive authority will define the measures that the province will need to take to address identified areas of failure and will monitor the province’s progress. The province will also be supported to avoid relapse.

Cabinet mandated the Inter-Ministerial Committee to enter into a memorandum of understanding with the Premier and his executive. This is to give effect to Section 100 (1) (a) to make provision for outstanding issues and to exercise oversight and provide support on implementation of the sustainability projects.

Performance against these conditions will form the basis for determining the time at which both the transition to Section 100 (1) (a) is finalised as well as when the intervention is withdrawn altogether.

Limpopo Province is on track for efficient and effective service delivery

The Limpopo Province has turned the corner and its administration is in the process of being handed back to the Provincial Executive. There is a clear plan for the province to complete remaining tasks and deal with systemic challenges and risks.
The National Executive will continue to play an oversight role as part of the transition.

The Cabinet decision to intervene in the Limpopo Province clearly demonstrates Government’s commitment to clean administration and efficient service delivery that will result in achieving and sustaining a better life for all.