

REPORT OF THE PORTFOLIO COMMITTEE ON PREMIER'S OFFICE; FINANCE; ECONOMIC DEVELOPMENT AND TOURISM

FIRST QUARTERLY PERFORMANCE REPORT OF PROVINCIAL TREASURY FOR 2015/16 (VOTE 03)

1. INTRODUCTION

The **Portfolio Committee on Premier's Office; Finance; Economic Development and Tourism** (the Committee) has a Constitutional mandate, in terms of Section 114(2)(b) of the Constitution of the Republic of South Africa (Act 108 of 1996) read with Rule 131 of the Mpumalanga Provincial Legislature to oversee the performance of Provincial Treasury and hold it accountable through various measures.

The consideration and scrutiny of the First Quarterly Performance Report for 2015/16 of Provincial Treasury is the tool used by the Committee to determine whether Provincial Treasury has proper plans and programmes to realise its strategic objectives as reflected in its Annual Performance Plan for 2015/16.

The Committee tables this report, in accordance with the provisions of the Rules and Orders of the Mpumalanga Provincial Legislature as an account of its oversight work done for consideration and adoption in order to monitor Provincial Treasury's budget for the 2015/16 financial year.

2. METHOD OF WORK

The Honourable Speaker of the Legislature referred the First Quarterly Performance Report for 2015/16 to the Committee for deliberations and report back to the House, in accordance with Rule 218 and Rule 131 of the Rules and Orders of the Mpumalanga Provincial Legislature.

The Committee was briefed by the Research Section on the overall performance of Provincial Treasury for the first quarter (April - June 2015) compared to the strategic objectives as reflected in the Annual Performance Plan (APP) for the 2015/16 financial year. The Committee wanted to determine whether Provincial Treasury executed its mandate in terms of its APP and if there was value for money. The Research Section briefed the Committee on the First Quarterly Performance Report for the 2015/16 financial year on 19 August 2015. The Committee met with Provincial Treasury on 29 October 2015 to deliberate on Provincial Treasury's First Quarterly Performance Report for 2015/16. The Committee considered the draft Committee Report on the First Quarterly Performance Report for 2015/16 Vote 03 on 18 November 2015.

3. STRATEGIC GOALS AND OBJECTIVES

Provincial Treasury has the following Strategic Outcome Oriented Goals for the 2015/16 financial year:

- Provide prompt, continuous, effective and efficient administrative support to all line functions in departments.
- Provide quality advice and support on Provincial and Municipal Fiscal Policy, Budget and Expenditure Management and economic impact of provincial public policy and expenditure; and Infrastructure Coordination.
- Monitor and support the implementation of Transversal Systems, Information Technology Services, Assets, Liabilities, Public Private Partnerships and Provincial Supply Chain Management to Votes, public entities and municipalities to achieve full compliance to applicable legislative frameworks in the next five years.
- Ensure efficient and effective financial and corporate governance in the province in line with legislation by 2020.

4. OVERVIEW BY THE MEC FOR FINANCE, ECONOMIC DEVELOPMENT AND TOURISM, HON SE KHOLWANE, ON THE FIRST QUARTERLY PERFORMANCE REPORT FOR 2015/16

The MEC for Finance; Economic Development and Tourism made the following remarks:

- Provincial Treasury tabled its presentation on the First Quarter Performance Report for 2015/16 shortly after the Minister of Finance has presented the Medium Term Expenditure Framework and Adjustment Budget for the country.
- It is envisaged that Provincial Treasury will table the Provincial Adjustment Budget as mandated by the Public Finance Management Act, 1999 [Act No 1 of 1999] (PFMA) and in accordance with section 31 of the same legislation.
- During the tabling of Provincial Treasury's policy and budget statement, to which the first quarter report flows from, it was stated that the departmental milestones, current and future performance plans, will be guided by fundamentals of addressing the structural constraints which hinder service delivery, accountability and good corporate governance.
- It was further indicated that these constraints range from shortage of skills; budget which is not linked to performance; inefficiencies and wastages and unmodernised supply chain management amongst others.
- Many of the commitments that are set out in Provincial Treasury's policy and budget statement are at different stages of implementation; of which the following was cited:
 - o The project of staff verification is underway. Provincial Treasury has already verified the details of officials in Provincial Treasury and the Department of Health using the biometric-online fingerprint verification system.
 - o Provincial Treasury is rolling out a Centralised Supplier Database as part of the modernisation of the Supply Chain Management processes. Provincial Treasury is currently visiting various parts of the Province to assist with the registration on this system. The process of registering businesses on the database will continue until 31 March 2016.
 - o In order to assist the municipalities recover debts owed by departments, Provincial Treasury has established a Debtors Committee which will mediate between the departments and the municipalities in instances of financial disputes for rates and taxes and service charges.

5. OBSERVATIONS AND COMMENTS

The Head Official (HO) of Provincial Treasury made a presentation to the Committee on the First Quarterly Performance Report for 2015/16. The HO focussed mainly on the challenges as highlighted in the research document on Provincial Treasury's First Quarterly Performance Report for the 2015/16 financial year.

6. ANALYSIS OF THE FIRST QUARTERLY PERFORMANCE REPORT FOR 2015/16

6.1. SUMMARY OF THE FIRST QUARTERLY PERFORMANCE REPORT FOR 2015/16

Provincial Treasury's First Quarter Performance Report is aligned to the 2015/16 Annual Performance Plan (APP) as submitted to the Legislature.

Provincial Treasury achieved 39 out of 41 **(95%)** planned targets for the first quarter of the 2015/16 financial year and was allocated a budget of **R287 550 000.00**. At the end of the first quarter the department spent **R54 788 000.00** translating to 19.1% spending which is 5.9% below the 25% benchmark. The spending pattern per programme indicates some fluctuations; with Programme 1 being the highest in expenditure at 22.1%, Programme 2: Sustainable Resource Management indicating an underspending of 15.6%. The rest of the programmes are around 19% which is below the 25% benchmark.

Throughout all the programmes the department attributed the underspending of the budget on Compensation of Employees (COE), to the non-implementation of the salary adjustment for SMS members and the low spending on Goods and Services to SITA payments, audit fees, operating lease, printing and traveling cost being lower than anticipated.

The Committee noted the following:

1. Provincial Treasury has not been doing well in terms of spending its allocated budget; even when compared to the previous financial year. Provincial Treasury reported that it projected to spend R 68 754 000.00 in the first quarter; however, only R 54 788 000.00 was spent. The underspending was mainly as a result of the following:

- a. Compensation of Employees

The salary adjustments for all levels were not paid as per the projections. It was noted that salary adjustments are paid centrally and programmatically by National Treasury through the PERSAL Desk.

The 6.4% for Levels 1-12 was paid during July 2015 which occurred only in the second quarter. The remainder of 0.6% and the housing allowance increase of R 300.00 to qualifying personnel were paid during August 2015. The 28% increase relevant to GEMS was not paid during the first quarter as anticipated; and it is still being implemented in a staggered manner.

The annual salary adjustment of SMS members was supposed to be implemented with effect 1 April of each financial year and expenditure was projected as such. However, there was a delay in the implementation which is beyond the control of Provincial Treasury as such an adjustment is done by the Department of Public Service and Administration and National Treasury. The salary adjustments have since been implemented during August 2015 and the expenditure in this regard has now been adjusted.

b. Goods and Services

The underspending is mainly as a result of SITA payments, audit fees (the department reduced time spent by External Auditors during the audit), operating leases, travel and subsistence for the first quarter being lower than anticipated at the time of budgeting. The department will revise its projections accordingly.

c. Transfers and Subsidies

The department projected to transfer R 3 000 000.00 for data cleansing to Nkangala District Municipality during the first quarter; however, there was a delay in finalising the paper work. The total amount has since been transferred during July 2015 and expenditure has been adjusted accordingly.

2. The following measures have been implemented to mitigate the underspending in the subsequent quarters:

a. Compensation of Employees

The salary adjustments have since been implemented in August 2015, backdated from 1 April 2015, and expenditure has been adjusted accordingly.

b. Goods and Services

It was noted that there are improvements on the performance of bid committees during the 2015/16 financial year. In the 2015/16 financial year bid committees were appointed during April 2015. Provincial Treasury submitted the departmental Procurement Plan to Provincial Supply Chain Management on 30 April of each year, in line with the Provincial Treasury circular.

Performance of bid committees is improving when compared to that of the previous financial years. The bid committees have scheduled dates which enforces that meetings take place as planned on a bi-weekly basis. In cases where there are urgent bids that are required to be concluded, the Committees have been convened as such. These are bids where they would have been referred back by the Accounting Officer.

As an example the tender on the revenue enhancement was cited. In this matter the Committee concluded its work; however, it was later discovered that the bid specification was not adequate. The specification was not clear as it referred to the revenue enhancement in the Provincial Administration instead of in departments, public entities and/or municipalities.

The specification also requested the development of a revenue strategy whilst the strategy already existed as it had been developed in-house. The Head Official failed to ensure that the specification was developed correctly and timeously and the Head Official took full responsibility for this failure. Improvements on the specification have already commenced. It is envisaged that the revenue enhancement strategy tender will be re-advertised during October 2015; and the focus will be on Public Entities as guided during the Strategic Planning session and only in a few departments. A separate tender will be issued on the revenue enhancement in municipalities.

The following was noted on progress made on the conclusion of tenders for the 2015/16 financial year:

Tenders Above R500 000:

The work of bid committees has been concluded during the second quarter as per previous guidance and this directive of the Executive Authority.

Travel and Accommodation Tender

There is one tender that has been concluded late as the validity of the tender had expired twice; namely the Travel and Accommodation tender.

The department took an informed decision and re-advertised the tender in a special bulletin during June 2015. During the same period, the National Treasury issued an Instruction Note stopping all awarding of travel and accommodation and allowing only a month to month renewal.

Provincial Treasury requested an exemption as the month to month arrangement could not have worked for audit purposes and the exemption was duly granted. The tender has now been concluded on 17 September 2015 and appointment letters were issued on the same day.

Out of 25 current tenders/contracts, eight are for IT contracts that are renewed annually. There are 17 tenders outstanding, 11 of which have already been concluded within the first six months of the 2015/16 financial year.

Five of the outstanding six tenders will not be advertised since there were an alternative in rendering the services; namely the following tenders:

- i. Skills development
- ii. Wi-Fi Government Complex
- iii. Training of SCM officials
- iv. Safety Web license Fee
- v. Staff verification Software

The only tender that has not been concluded is the one on Revenue Enhancement; as referred to in paragraph b. above.

Tenders Below R 500 000:

Out of 23 tenders, 11 contracts are for supply chain contracts. Four were concluded within the first six months and the outstanding eight will be finalised as planned.

The following tenders will be advertised during the third quarter to avoid late appointment as they are planned for the fourth quarter.

- i. Printing of 2016 Estimates of Provincial Revenue and Expenditure
- ii. Simulcast for Provincial Budget 2016/17
- iii. Design, Layout and Printing of 2016 Calendars
- iv. Printing of 2015 Adjusted Estimates of Provincial Revenue and Expenditure
- v. Printing of Annual PERO report
- vi. Upgrading of Government Complex Server
- vii. KVM Console
- viii. Wireless Access Points

The following improvements were implemented thus far during 2015/16:

- i. Inclusions of Committee work in all performance agreements of members.
- ii. All senior managers and bid committee members have been sent for training on Supply Chain Management at the School of Government (Palama) during July 2015.

Beyond 2015/16

- i. Appointment of committees during March of each year prior to the commencement of a new financial year.
- ii. Specifications to be prepared much earlier; preferably before the start of the financial year.

- iii. Specifications to be subjected to the scrutiny and guidance of MANCO prior to submission to the Bid Specification Committee.
- c. In terms of Transfers and Subsidies it was noted that the total amount of R3 000 000.00 for Data cleansing has been transferred during the month of July 2015 as planned.

6.2. ANALYSIS PER PROGRAMME

PROGRAMME 1: ADMINISTRATION

Programme purpose and budget expenditure

This Programme is responsible for the political, financial and administrative management of the department. The programme provides prompt, continuous, effective and efficient administrative support to all line functions in the department.

Programme 1 has achieved **75%** of its targets for the first quarter of the 2015/16 financial year. The programme had eight (8) targets and achieved six (6) as outlined in the department's first quarter performance report.

Sub-programme: Management Services failed to compile one (1) risk register; instead a draft report was finalised but not approved. It was also noted that the department did not report on the performance indicator for producing one performance report.

Expenditure analysis

Programme R'000	Main budget 2015/16	Expenditure	Over/Under expenditure %
Administration	74 688	16 503	22.1%

This programme was allocated a budget of R74 688 000.00 for the 2015/16 financial year and has spent **22.1%** of the budget in the first quarter which is **2.9%** below the **25%** benchmark.

Economic Classification

Economic Classification R'000	Main budget 2015/16	Expenditure	Over/Under expenditure %
Compensation of Employees	45 194	10 770	23.8%
Goods and Services	27 632	5 553	20.1%
Total transfer for subsidies	531	169	31.8%
Payment for Capital Assets	1 331	11	0.8%
Total	74 688	16 503	21.1%

In this programme Provincial Treasury has spent **23.8%** of the budget allocated to Compensation of Employees, **20.1%** on Goods and Services, **31.8%** on Transfers and Subsidies and **0.8%** on Payment for Capital Assets. The department indicated that the underspending on Payment for Capital Assets is due to the fact that capital assets will be procured in the second quarter of the financial year.

The Committee noted the following on Programme 1:

1. The major reason for the non-completion of the risk register as planned for this quarter was due to the change of the template; which has been corrected. It was noted that there has been additions to the template of the risk register from National Treasury that were to be rolled out to all institutions in government in order to improve on matters of governance. Corrections were effected in this regard and it is not envisaged to happen again.
2. The overspending of 6.8% on Transfers and Subsidies relates mainly to the cost of legacy projects which was higher than anticipated. The department has identified savings on Goods and Services (travelling) which will be utilised during the adjustment budget to cover for the overspending incurred. The department will monitor its spending closely to ensure that the Transfers and Subsidies economic classification does not overspend.

PROGRAMME 2: SUSTAINABLE RESOURCE MANAGEMENT

Programme purpose and budget expenditure

This Programme exists to promote optimal and effective provincial resource allocation and utilization, efficient provincial budget management, accurate financial reporting on provincial revenue generation and maximization, provide quality and accurate socio-economic research reports to inform the provincial and municipal planning and budget

processes, promote efficient planning, implementation and management of infrastructure by provincial departments and municipalities, and provide technical support to delegated municipalities on the implementation of the MFMA.

Programme 2 has achieved **100%** of its targets for the first quarter of the 2015/16 financial year. The programme had 10 targets in the first quarter as outlined on the APP and has achieved all targets successfully.

Expenditure analysis

Programme R'000	Main budget 2015/16	Expenditure	Over/Under expenditure %
Sustainable resource management	63 074	9 853	15.6%

Programme 2 has been allocated a budget amount of **R63 074 000.00** for the 2015/16 financial year and it has spent 15.6% of the allocated budget which is 9.6% below the 25% benchmark.

Economic Classification

Economic Classification R'000	Main 2014/15	Expenditure	Over/Under expenditure %
Compensation of Employees	36 075	8 649	24.0%
Goods and Services	23 946	1 204	5.0%
Total Transfer for Subsidies	3 000	-	0.0%
Payment for Capital Assets	53	-	0.0%
Total	63 074	9 853	15.6%

This programme spent **24%** of the allocated budget for Compensation of Employees and **5%** on Goods and Services. It did not spend on Transfer and Subsidies and Payment for Capital Assets. Provincial Treasury indicated that the underspending on Goods and Services was mainly on travelling cost being lower than anticipated; and special projects, such as revenue enhancement strategy, economic research and efficiencies in spending, which are projects planned for the second and third quarter of the period under review.

It was further indicated that the underspending on Transfers and Subsidies is due to delays on the transfer of the data cleansing allocation which was planned for the first quarter; and the spending on Capital Assets will take place in the last quarter of this financial year.

The Committee noted the following on Programme 2:

1. The transfer of funds for the Data cleansing allocation to the municipality was delayed within the first quarter due to the revision on the decision to implement the project at Emalahleni Local Municipality. The project is now being implemented at the Emakhazeni Local Municipality. The approval letter for the revised allocation to the Emakhazeni Local Municipality was finalised during July 2015; and the funds were transferred by 31 July 2015.
2. That any savings in the economic classifications will be utilised to fund the shortfall on wage increases.

PROGRAMME 3: ASSETS AND LIABILITIES MANAGEMENT

Programme purpose and budget expenditure

This Programme is responsible for the monitoring and support on Assets, Liabilities, Provincial Supply Chain management, Public Private Partnerships, Transversal Systems as well as the provisioning of Information Technology Services to departments, public entities and in the Mpumalanga province.

Programme 3 has achieved **100%** of its targets for the first quarter of the 2015/16 financial year. This programme had 10 targets in the first quarter as outlined in the APP and has achieved all targets successfully.

Expenditure analysis

Programme R'000	Annual budget 2015/16	Expenditure	Over/Under expenditure %
Assets and Liabilities Support	115 076	21 378	18.6%

Programme 3 has been allocated a budget amount of **R115 076 000.00** for the 2015/16 financial year and has spent **18.6%** which is below the **25%** benchmark. This indicates that Provincial Treasury has underspent on this programme by **6.4%**.

Economic Classification

Economic Classification R'000	Adjusted budget 2015/16	Expenditure	Over/Under expenditure %
Compensation of Employees	51 319	12159	23.7%
Goods and Services	62 057	8 471	13.7%
Total transfer for subsidies	-	4	-
Payment for Capital Assets	1700	744	43.8%
Total	115 076	21 378	18.6%

Provincial Treasury spent **23.7%** of its allocated budget for Compensation of Employees, **13.7%** on Goods and Services and **43.8%** on Payment for Capital Assets. The department indicated that the underspending on Goods and Services is due to SITA payments being lower than anticipated. It was also indicated that the high spending on Capital Assets is due to accruals from the previous financial year, however, a roll over request has been submitted in this regard.

The Committee noted the following on Programme 3:

1. The spending on Transfer and Subsidies (compared to no planned budget in the 2015/16 financial year) is due to the payment of leave gratuity for an official who resigned during the first quarter; and that the resignation was not anticipated at the time of budgeting. It is envisaged that the savings on the vacant post will be utilised during the adjustment budget to cover the overspending on Transfers and Subsidies.

Section 31 of the PFMA allows for the shifting of funds to defray possible over-expenditure and this section will be utilized to shift funds during adjustment in November 2015.

PROGRAMME 4: FINANCIAL GOVERNANCE

Programme purpose and budget expenditure

This Programme serves to facilitate, monitor, support and provides professional advice to ensure good governance in the Province.

Programme 4 has achieved **100%** of its targets for the first quarter of the 2015/16 financial year. This programme had 13 targets and achieved all in the first quarter as outlined on Provincial Treasury's first quarter performance report.

Expenditure analysis

Programme R'000	Main budget 2015/16	Expenditure	Over/Under expenditure %
Financial Governance	34 712	7 054	20.3%

Programme 4 has been allocated a budget of **R34 712 000.00** for the 2015/16 financial year. It has spent **20.3%** of the budget in the first quarter which is below the **25%** benchmark. This indicates that the department has underspent on this programme by **4.7%** on the allocated budget.

Economic Classification

Economic Classification R'000	Main Budget 2015/16	Expenditure	Over/Under expenditure %
Compensation of Employees	19 662	4 467	22.7%
Goods and Services	9 350	2 587	27.7%
Payment for Capital Assets	5 700	-	0.0%
Total	34 712	7 054	20.3%

Under programme 4 the department spent **22.7%** of the allocated budget for Compensation of Employees and **27.7%** on Goods and Services and there was no procurement of assets under Payment for Capital Assets.

The department indicated that even though the spending on Goods and services is high, it is according to plan and is as a result of a commitment from the previous financial year for the intervention at Dipaliseng Local Municipality. On Payment for Capital Assets the department indicated that the low spending is due to the procurement of staff verification software that was suspended since a less expensive option was considered from the Department of Home Affairs; however, the budget will be redirected to other priorities in the department.

The Committee noted the following on Programme 4:

1. The Department of Home Affairs (DHA) has entered into an agreement with a service provider to enhance the staff verification process whereby the information on the Home Affairs National Identification System (HANIS) is compared with the information on the PERSAL system; and where an exception report can be generated.

The DHA was requested to allow Provincial Treasury to participate in the contract with the service provider as allowed in terms of Treasury Regulation 16A6.6. an a response in this regard is awaited from the DHA.

It was indicated that Provincial Treasury will not spend the amount of R5 700 000.00 that is budgeted for the procurement of staff verification software; instead the spending will be in the vicinity of R930 000.00. These are savings that were not envisaged. Provincial Treasury has been used as a pilot project and the verification is now complete. The staff verification is currently being performed in the Department of Health. Provincial Treasury will thus participate in an existing tool and will not go on tender in this regard anymore.

7. FINDING

The following is the finding of the deliberations with Provincial Treasury:

- 7.1. Provincial Treasury achieved 95% of its planned targets in the period under review compared to 19.1% expenditure of its budget allocated and various reasons were provided for the underspending of 5.9% of its budget.

8. RECOMMENDATION

The Committee made the following recommendation:

- 8.1. Provincial Treasury must implement its planned targets as per its APP for 2015/16 to avoid underspending on its budget.

The Committee moves that the House adopts the report with the above recommendation.

9. CONCLUSION

The Chairperson takes this opportunity to thank the Members of the Portfolio Committee for their active participation and constructive contributions during the deliberations on Provincial Treasury's First Quarter Performance for the 2015/16 financial year.

In addition, the Chairperson extends a word of appreciation to MEC SE Kholwane, the Head Official and senior management team for availing themselves to deliberate on matters pertaining to the department.

The Chairperson would also like to thank the support staff for contributing to the production of this report.

Unless otherwise stated a report detailing progress in the implementation of all recommendations in this report should be forwarded to the Committee by 29 January 2016, unless stated otherwise, and thereafter on a quarterly basis.



HON PS NGOMANA (MPL)

26/11/15

DATE

CHAIRPERSON:

**PORTFOLIO COMMITTEE ON PREMIER'S OFFICE; FINANCE; ECONOMIC
DEVELOPMENT AND TOURISM**