

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

2018/19 THIRD QUARTER REPORT OF THE PROVINCIAL TREASURY (VOTE 03)

1. INTRODUCTION

Rule 218 (1)(2) and (3) of the Rules and Orders of the Mpumalanga Provincial Legislature requires the Member of the Executive Council responsible for a provincial department to table quarterly reports to the Speaker, within thirty (30) calendar days after the end of the quarter.

The Portfolio Committee on Premier's Office, Finance, Economic Development and Tourism has a mandate in terms of Section 114 (2)(b) of the Constitution of South Africa, 1996 to oversee the performance of the Provincial Treasury (the treasury) and hold it accountable.

The consideration and scrutiny of the Third Quarter Performance Report for the 2018/19 of the Provincial Treasury is the tool the Committee uses to determine whether the Provincial Treasury has proper plans and programmes to realise its strategic objectives.

2. METHOD OF WORK

The MEC tabled the Third Quarter Performance Report to the Legislature. Subsequently, the Speaker of the Legislature referred the 2018/19 Third Quarter Performance Report to the Committee for deliberations and report back to the House, in accordance with Rule 190 (4) and Rule 131 of the Rules and Orders of the Mpumalanga Provincial Legislature.

On the 20 February 2019, the Committee considered a detailed analysis of the 2018/19 Third Quarter Report and raised key observations and questions that were sent to the department for written responses. Thereafter, on 28 February 2019, the Committee interacted with the Acting Head Official and the Senior Management team of the Provincial Treasury on the Third Quarter Report. The Committee met again on 26 March 2019 to consider its draft report.

3. GENERAL OBSERVATION

The Committee made the following general observations:

- a) The 2018/19 Third Quarter Report was correctly Tabled by the Honourable MEC within 30 days after the quarter as required by the Rules and Orders of the Mpumalanga Provincial Legislature;
- b) Treasury achieved 95% (37 of 39) planned targets during the period under review and spent 76% of the adjusted budget of **R332 670 000.00**.
- c) The MEC tendered an apology for not attending the meeting.

4. ANALYSIS OF THE FOURTH QUARTER REPORT

4.1. BUDGET ANALYSIS

The table below outlines the achievement of targets and spending per programme

Spending per programme

| Programme R'000 | % Target Achieved | Adjusted Budget 2018/19 | Expenditure | % of Expenditure |
|-----------------------------------|-------------------|-------------------------|----------------|------------------|
| Administration | 100% | 94 391 | 72 567 | 76.9% |
| Sustainable Resource Management | 90% | 59 542 | 38 727 | 65.0% |
| Assets and Liabilities Management | 90% | 144 262 | 115 630 | 80.2% |
| Financial Governance | 100% | 34 475 | 24 520 | 80.2% |
| Total | 95% | 332 670 | 251 444 | 75.6% |

The adjusted budget allocation for the 2018/19 financial year is **R332 670 000.00**. Provincial Treasury spent 75.6% of this budget as at the end of the third quarter.

4.2. Budget Expenditure per Economic Classification

The table below outlines the spending per Economic Classification

Spending per Economic Classification

| Programme R'000 | Adjusted 2018/19 | Budget | Expenditure | Over/Under expenditure % |
|-------------------------------------|-----------------------------|----------------|--------------------|-------------------------------------|
| Compensation of Employees | | 193 594 | 149 567 | 77.2% |
| Goods and Services | | 123 093 | 88 465 | 71.9% |
| Total transfer for subsidies | | 1 287 | 1 479 | 114.9% |
| Payment for Capital Assets | | 14 696 | 11 933 | 81.2% |
| Total | | 332 670 | 251 444 | 75.6% |

i. Under expenditure on Goods and Services

The Committee noted that the Provincial Treasury was underspending on Goods and Services. Provincial Treasury reported that the underspending on Goods and Services is due to funds allocated to Technical Support at Municipalities moving slow due to delays on procurement process and that expenditure will be stabilised by January 2019. The Committee enquired on the causes of the delays in the procurement process for Technical Support at Municipalities and the impact it has on municipalities. In response, Provincial Treasury reported that:

- a. National Budget Council Resolution in June 2018 mandated National Treasury (IGR) to urgently develop, within one month, a clear programme of action for interventions in municipalities that:
 - Recognises the importance of a credible and effective mechanism to address systemic risk;
 - Is based on improvements to existing monitoring and evaluation systems, including greater public transparency on the state of individual municipalities;
 - Promptly escalates intervention to the MFRS in terms of clear administrative triggers;
 - Involves a significant strengthening of the MFRS;
 - Is coordinated with a response to current litigation.
- b. Furthermore, Provincial Treasury reported that during the Ministerial visit, it was indicated that five (5) municipalities in the province namely Emalahleni, Lekwa, Thaba Chweu, Govan Mbeki and Msukaligwa Local Municipalities were amongst the 87 municipalities in the country that were deemed to be distressed or dysfunctional.
- c. On 11 October 2018, the Executive Council took a resolution to intervene into the affairs of the Emalahleni, Lekwa, Thaba Chweu, Govan Mbeki and Msukaligwa Local Municipalities

by way of a mandatory interventions as provided for in Section 139(5)(a) of the Constitution. And to take the required steps in accordance with the provisions of section 139(1)(a) of the MFMA towards the development of a Financial Recovery Plan.

- d. In addition, Provincial treasury reported that the appointment of service providers for technical support was put on hold awaiting the response from the Minister of Finance with regard to development of Financial Recovery Plans, as the indicators were that the Province might be required to assist the Financial Recovery Services Unit in National Treasury with the development of the Recovery Plans.
- e. On 12 October 2018, Provincial Treasury requested the Minister of Finance for the support of the Financial Recovery Services with the development of the FRP for Lekwa, Thaba Chweu, Govan Mbeki and Msukaligwa Local Municipalities under the guidance of the FRS.
- f. The response from the Minister of Finance was received wherein the Minister requested the Provincial Treasury to commence with the development of the FRP for Lekwa, Thaba Chweu, Govan Mbeki and Msukaligwa Local Municipalities under the guidance of the FRS.
- g. After consultation with Financial Recovery Services, the Provincial Treasury started a process of appointing service providers from the departmental database, to assist with the development of the FRPs in Lekwa, Thaba Chweu, Govan Mbeki and Msukaligwa Local Municipalities.
- h. The Provincial Treasury appointed and introduced the service providers to local municipalities.
- i. The development of the FRP is anticipated to be concluded by the end of March 2019.
- j. On how the expenditure on Goods and Services will be stabilised, the Provincial Treasury reported that the projected completion of the contract for the above municipalities is mid-March 2019 and all invoices should be processed by end of March 2019.

5.2. ANALYSIS PER PROGRAMME

5.2.1. PROGRAMME 1: ADMINISTRATION

Programme purpose

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

The Committee noted the following on Programme 1:

a) Spending Pattern

Budget expenditure per Economic Classification

| Programme R'000 | Adjusted Budget 2018/19 | Expenditure | Over/Under expenditure % |
|-------------------------------------|------------------------------------|--------------------|-------------------------------------|
| Compensation of Employees | 60 828 | 47 284 | 77.7% |
| Goods and Services | 31 298 | 23 429 | 74.9% |
| Total transfer for subsidies | 701 | 416 | 59.3% |
| Payment for Capital Assets | 1 564 | 1 438 | 91.9% |
| Total | 94 391 | 72 567 | 76.9% |

The adjusted budget for the programme is **R94 391 000.00**. The actual budget spent at the end of the third quarter is **R72 567 000.00** which is 76.9% of the budget.

b) Programme Performance

This programme achieved 100% (7 of its 7) targets in the third quarter of the 2018/19 financial year.

5.2.2. PROGRAMME 2: SUSTAINABLE RESOURCE MANAGEMENT

Programme purpose

The Programme exists to promote optimal and effective Provincial and Municipal fiscal policy in line with applicable financial management prescript.

The Committee noted the following on Programme 2:

a) Spending Pattern

Budget expenditure per Economic Classification

| Programme R'000 | Adjusted budget 2018/19 | Expenditure | Over/Under expenditure % |
|------------------------|------------------------------------|--------------------|-------------------------------------|
| | | | |

| | | | |
|-------------------------------------|---------------|---------------|--------------|
| Compensation of Employees | 44 140 | 33 998 | 77.0% |
| Goods and Services | 15 395 | 4 722 | 30.7% |
| Total Transfer for Subsidies | 7 | 7 | 100% |
| Total | 59 542 | 38 727 | 65.0% |

The adjusted budget for Programme 2 is **R59 542 000.00**. The expenditure at the end of the third quarter is **R38 727 000.00** or 65%.

b) Programme Performance

This programme achieved 90% (9 of its 10) targets during the third quarter of the 2018/19 financial year.

4.2.3. PROGRAMME 3: ASSETS AND LIABILITIES

Programme purpose

This Programme is responsible for the monitoring and support in terms of Transversal Systems, Information Technology Services, Assets, Liabilities, Public Private Partnerships and Provincial Supply Chain Management to departments, public entities and municipalities.

The Committee noted the following on Programme 3:

a) Spending Pattern

Budget expenditure per Economic Classification

| Programme R'000 | Main budget | Expenditure | Over/Under expenditure % |
|-------------------------------------|--------------------|--------------------|---------------------------------|
| Compensation of Employees | 61 222 | 47 194 | 77.1% |
| Goods and Services | 70 851 | 56 907 | 80.3% |
| Total transfer for subsidies | 557 | 1 034 | 185.6% |
| Payment for Capital Assets | 11 632 | 10 495 | 90.2% |
| Total | 144 262 | 115 630 | 80.2% |

The adjusted budget for the programme is **R144 262 000.00**. The actual budget spent at the end of the third quarter is **R115 630 000.00** which is 80.2% of the annual budget.

b) Programme Performance

This programme achieved 90% (9 of the 10) planned targets during the third quarter of the 2018/19 financial year.

i. Performance of Municipalities

Noting that most municipalities are struggling with the management of Assets and Liabilities, the Committee enquired on the reasons the Provincial Treasury the target to monitor Municipalities on the implementation of GRAP standards. Provincial Treasury reported that it is providing support and monitoring municipalities within the context of GRAP standards including the audit outcomes. Furthermore, the Provincial Treasury reported that Quarterly Assessment Management Forums are utilized to monitor and share best practices on the management of assets. Regular visits are conducted to provide the required assistance and support. However, the challenge is that they do not have sufficient staff to deal with assets. Feedback letters are provided to the municipalities and escalations are made to the Municipal Managers. In addition, the provincial Treasury reported that planned support to the municipalities will be provided during the 4th quarter.

ii. Moratorium on Funded Vacant Positions

The Committee enquired on how much has been saved by the province in the 2018/19 financial year under Compensation of Employees due to vacant positions not filled. Provincial Treasury reported that an amount of R293 811 000.00 was shifted from Compensation of Employees as unspent funds due to appointments not done. The funds has been shifted to infrastructure and goods and services.

5.2.4. PROGRAMME 4: FINANCIAL GOVERNANCE

Programme purpose

The objective of this Programme is to facilitate, monitor, support and provide professional advice to ensure good governance in the Province.

The Committee noted the following on Programme 4:

a) Spending Pattern

Budget expenditure per Economic Classification

| Programme R'000 | Adjusted budget 2018/19 | Expenditure | Over/Under expenditure % |
|------------------------------|-------------------------|---------------|--------------------------|
| Compensation of Employees | 27 404 | 21 091 | 77.0% |
| Goods and Services | 5 549 | 3 407 | 61.4% |
| Total transfer for subsidies | 22 | 22 | 100% |
| Payments for Capital Assets | 1 500 | 0.0 | 0.0% |
| Total | 34 475 | 24 520 | 71.1% |

The adjusted budget for the programme is **R34 475 000.00**. The actual budget spent at the end of the third quarter is **R24 520 000.00** which is at 71.1% of the annual budget.

b) Programme Performance

The programme obtained 12 of its 12 (100%) planned targets during the third quarter.

5. FINDING

- 5.1. The Provincial Treasury has appointed service providers to develop the Financial Recovery Plans (FRPs) for Lekwa, Thaba Chweu, Govan Mbeki and Msukaligwa local municipalities.
- 5.2. The Provincial Treasury will provide planned support to municipalities during the 4th quarter.

6. RECOMMENDATION

- 6.1. The Provincial Treasury must ensure that the Financial Recovery Plans are implemented in the municipalities as mentioned in Finding 1 above.
- 6.2. The Provincial treasury must report to the Committee how the municipalities were supported during the fourth quarter.

7. 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 the Provincial Treasury's Third Quarter Performance Report for the 2018/19 financial year.

In addition, the Chairperson extends a word of thanks to the acting Head Official and senior management officials for availing themselves to deliberate on matters pertaining to the treasury. 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 on the implementation of all recommendations in this report should be forwarded to the Committee by 30 April 2019, unless stated otherwise, and thereafter on a quarterly basis.



HON FV MLOMBO, (MPL)

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

26.03.2019.

DATE

