

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

2018/19 FIRST 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 First Quarter Performance Report for the 2018/19 of the treasury is the tool the Committee uses to determine whether the treasury has proper plans and programmes to realise its strategic objectives.

2. METHOD OF WORK

The MEC tabled the First Quarter Performance Report to the Legislature. Subsequently, the Speaker of the Legislature referred the 2018/19 First 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 23 August 2018, the Committee considered a detailed analysis of the 2018/19 First Quarter Report and raised key observations and questions that were sent to the department for written responses. Thereafter, on 28 August 2018, the Committee interacted with the MEC, Head Official and the Senior Management team of the department on the First Quarter Report. The Committee met again on 12 September 2018 to consider its draft report.

3. GENERAL OBSERVATION

The Committee made the following general observations:

- a) The 2018/19 First 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) The Committee raised questions to the treasury for written responses.
- c) Treasury achieved 95% (36 of 38) planned targets during the period under review.

4. MEC'S OVERVIEW

The MEC presented a brief overview on the performance of the department for the quarter under review. The following points were noted on the overview presented:

- a. The MEC appreciated the opportunity given to the department to appear before the Committee and expressed his gratitude to the Members of the Committee for their advice and insight on matters pertaining the department.
- b. He reported that the department is appearing before the Committee shortly after the Auditor General of South Africa has finalised auditing the PFMA institutions in the country.
- c. The MEC reported that the Provincial Treasury has achieved 95% of the targets during the period under review.
- d. In addition and in line with the Policy and Budget Commitments, the treasury has commenced with the three (3) year Accounting Professional Development Programme, which seeks to expand the pool of competent professionals in the public sector. The programme is implemented in partnership with National Treasury and the South African Institute of Professional Accountants (SAIPA).
- e. Dedicated support teams have been identified and deployed to assist some of the municipalities in the area of Contract Management and Supply Chain Management, amongst others.
- f. The slow spending by departments has assisted the Provincial Treasury to gain more funds in the form of interest on the account balance with the provincial banker.

- g. One of the key priorities of the department, working together with COGTA, District Municipalities and SALGA is to assist municipalities to prioritise the implementation of the recommendations from various governance structures.
- h. The Minister of the Department of Cooperative Governance and Traditional Affairs will be in the province to assist the four municipalities that has a number of challenges.
- i. The **R2 000 000 000.00** target on revenue collection is believed to be achievable, despite the status of the economy of the province.
- j. The Executive Council has delegated MECs to actively assist Thaba Chweu Local Municipality to deal with its challenges.

5. ANALYSIS OF THE FIRST QUARTER REPORT

5.1. BUDGET ANALYSIS

The table below outlines the spending per programme

Spending per programme

Programme R'000	Planned Target	Target Achieved	% Target Achieved	Budget 2018/19	Expenditure	% of Expenditure
Administration	8	8	100%	95 929	22 797	23.8%
Sustainable Resource Management	9	9	100%	58 395	12 796	21.9%
Assets and Liabilities Management	10	8	80%	135 457	28 009	20.7%
Financial Governance	11	11	100%	32 925	8 741	26.5%
Total	38	36	94%	322 706	72 343	24.4%

The total appropriated budget allocation for the 2018/19 financial year is **R322 706 000.00**. Treasury spent 24.4% of this budget as at the end of the first quarter.

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 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	Main Budget 2018/19	Expenditure	Over/Under expenditure %
Compensation of Employees	64 150	16 341	25.5%
Goods and Services	29 514	4 972	16.8%
Total transfer for subsidies	701	158	22.5%
Payment for Capital Assets	1 564	1 326	84.8%
Total	95 929	22 797	23.8%

The appropriated budget for the programme is **R95 929 000.00**. The actual budget spent at the end of the first quarter is **R22 797 000.00** which is 23.8% of the budget.

i. Low spending on Goods and services

The Committee noted that the treasury reported that the low spending on Goods and Services is due to actual expenditure for audit costs, fleet services, operating lease, property payments and traveling costs being lower than anticipated. The Committee enquired whether the costs were reduced on fleet services, operating lease, property payments and audit costs. The treasury reported that the savings on the audit costs are as a result of improved state of readiness for audit process in the current financial year. This was a commitment made previously by the Executive Authority to the Committee that less time will be spent by the treasury during audit period and that savings will be generated. The readiness for audit has resulted in reduced hours spent by the Auditor General, as well as reduction in audit costs paid by the Provincial Treasury by approximately **R500 000.00**.

The reduction in **fleet services** cost is because of procurement of new GG vehicles, which resulted in the reduction of running costs (maintenance and repairs), which were the main cost drivers on old fleet.

On **operating leases**, the reduction in costs is as a result of two (2) contracts for office accommodation that are currently under dispute.

On **property payments** (electricity and water), the projected expenditure was based on the actual expenditure of the previous year. The low spending is due to late billing by the Department of Public Works, Roads and Transport. The Department of Public Works, Roads and Transport has not billed the treasury for May and June 2018. The expenditure should adjust accordingly, once the billing by the Department of Public Works, Roads and Transport is up to date.

The Committee enquired on why the treasury failed to properly budget for Goods and Services. The treasury reported that the projections for the current financial year were based on previous year spending trend under the same items for the same period under review. In view of the above, the spending appears lower than anticipated and is attributed to spending efficiencies in audit management and the procurement of new GG vehicles during the quarter under review.

b) Programme Performance

This programme achieved 100% (8 of its 8) targets in the first 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	Main budget 2018/19	Expenditure	Over/Under expenditure %
Compensation of Employees	44 266	11 970	27.0%
Goods and Services	14 122	826	5.8%

Total Transfer for Subsidies	7	-	-
Total	58 395	12 796	21.9%

The appropriated budget for Programme 2 is **R58 395 000.00**. The expenditure at the end of the first quarter is **R12 796 000.00** or 21.9%.

i. Low expenditure on Goods and Services

The Provincial Treasury reported that the underspending on Goods and Services is mainly on travelling costs which have reduced drastically as a result of cost containment measures that were put in place such as sharing of vehicles when attending meetings and clustering of treasury teams when conducting visits to municipalities in their respective districts.

The Committee enquired on the measures implemented by the treasury to mitigate the low spending in the programme in future. The treasury reported that the main consideration of budget management was on introduction of spending efficiencies in view of the current fiscal challenges facing the country. Savings accumulated because of cost containment measures and efficiency measures (which includes requesting officials to share vehicles when attending meetings and clustering of treasury teams when conducting visits to municipalities) will be shifted to Programme 4, which has an overspending on the procurement of valuer. This was necessary to improve the audit outcomes of the Department of Education.

b) Programme Performance

This programme achieved 100% (9 of its 9) targets during the first 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 2018/19	Expenditure	Over/Under expenditure %
Compensation of Employees	59 360	16 397	27.6%
Goods and Services	69 405	11 143	16.1%
Total transfer for subsidies	525	469	89.3%
Payment for Capital Assets	6 167	-	0.0%
Total	135 457	28 009	20.7%

The appropriated budget for the programme is **R135 457 000.00**. The actual budget spent at the end of the first quarter is **R28 009 000.00** which is 20.7% of the annual budget.

b) Programme Performance

This programme achieved 80% (8 of the 10) planned targets during the first quarter of the 2018/19 financial year.

The Committee noted that the Sub-programme; Supply Chain Management failed to monitor three (3) Votes and seven (7) Municipalities on Contract Management. The target was not achieved due to late submission of Circular no 39. The Committee enquired on the reasons the Circular was not issued on time. The treasury reported that the circular was not issued on time due to the fact that the reforms currently undertaken by National Treasury to review the entire guideline on contract management were still underway.

The Framework with its supporting documents was presented to the National Treasury's EXCO on 10 August 2018 with the intention to roll it out in September 2018. However, in the meantime, work was done to support and train departments on how to upload contracts on the LOGIS system. All contracts have been uploaded to the system.

The Committee requested the treasury to provide a list of departments and municipalities that were not monitored on Contract Management. The treasury reported that:

- i. **Department of Public Works, Roads and Transport:** the department's contract management using LOGIS is completed as this aspect was not depended on National Government.
- ii. **Department of Health:** the department's contract management using LOGIS is completed as this aspect was not depended on National Government.
- iii. **Department of Education:** the department's contract management using LOGIS is completed as this aspect was not depended on National Government.
- iv. **Thaba Chweu Local Municipality:** A dedicated MFIP Advisor has been assigned solely to this municipality by National Treasury and one of his key focus areas in SCM and Contract Management.
- v. **eMalahleni Local Municipality:** A dedicated MFIP Advisor has been assigned solely to this municipality by National Treasury and one of his key focus areas in SCM and Contract Management.
- vi. **Dr.JS Moroka Local Municipality:** Guidance has been provided directly to SCM Officials. Effective implementation of contract management is currently work-in-progress.
- vii. **eMakhazeni Local Municipality:** Guidance has been provided directly to SCM Officials. Effective implementation of contract management is currently work-in-progress.
- viii. **Msukaligwa Local Municipality:** a meeting with this municipality to guide them on contract management has not yet taken place.
- ix. **Lekwa and Mkhondo Local Municipalities** have not been uploaded.

The treasury assured the Committee that these departments and municipalities will be supported before the end of the second quarter.

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	Main budget 2018/19	Expenditure	Over/Under expenditure %
Compensation of Employees	59 360	16 397	27.6%
Goods and Services	69 405	11 143	16.1%
Total transfer for subsidies	525	469	89.3%
Payment for Capital Assets	6 167	-	0.0%
Total	135 457	28 009	20.7%

The appropriated budget for the programme is **R135 457 000.00**. The actual budget spent at the end of the first quarter is **R28 009 000.00** which is at 20.7% of the annual budget.

The Committee enquired on the reasons for the inadequate budgeting on Goods and Services. The treasury reported that the urgent appointment of a qualified valuer to assist the Department of Education with the quality review of the infrastructure values was higher than anticipated. This assisted the Department of Education to improve its audit outcomes for the 2017/18 financial year.

Furthermore, the Committee enquired on what has been done to ensure that actual expenditure for this line item is contained within the available budget at the end of the financial year. The treasury reported that savings have been identified through reprioritisation and funds will be shifted to the line item during the budget adjustment process. The treasury assured the Committee that overspending will not occur at the end of the financial year.

b) Programme Performance

The programme obtained 11 of its 11 (100%) planned targets during the first quarter.

5. FINDING

5.1. The Provincial Treasury is in a process of finalising the Contract Management Framework.

6. RECOMMENDATION

- 6.1. The treasury must ensure that consequence management is implemented on departments that are not complying with the framework.

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 First Quarter Performance Report for the 2018/19 financial year.

In addition, the Chairperson extends a word of thanks to the MEC, 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 12 October 2018, 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**

27.09.2018

DATE