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

2017/18 ANNUAL PERFORMANCE PLAN AND BUDGET VOTE OF THE PROVINCIAL TREASURY FOR (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 the Provincial Treasury (the department) and hold it accountable through various measures.

The consideration and scrutiny of the 2017/18 Budget Vote of the Provincial Treasury is the tool used by the Committee to determine whether the department has proper plans and programmes to realise its strategic objectives and ultimately to deliver basic services to the citizens of Mpumalanga.

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 pass Budget Vote 03 for the 2017/18 financial year.

2. METHOD OF WORK

The Speaker of the Legislature referred the following documents to the Committee for deliberations and report back to the House, in accordance with Rule 190(4) of the Rules and Orders of the Mpumalanga Provincial Legislature:

- Annual Performance Plan (2017/18)
- Strategic Plan (2015 – 2020)
- Departmental Budget

- Organisational Structure
- Cost Per Head

The Committee was briefed on 09 May 2017 by the Researcher on the analysis of the APP that was tabled on 11 April 2017. The Researcher briefed the Committee on the efficiency of the APP to meet the policy priorities of the department in line with its allocated budget. The Committee raised a number of questions that were sent to the department for written responses.

The department appeared before the Committee on 11 May 2017 to present its APP with supporting budget documentation. Thereafter, the Committee met on 23 May 2017 to consider its report on budget vote 3.

3. OVERVIEW BY THE MEC FOR FINANCE; ECONOMIC DEVELOPMENT AND TOURISM

The Committee noted the following from the overview given by the MEC for Finance; Economic Development and Tourism, Hon SE Kholwane:

- a. The Annual Performance Plan embraces the present socio-economic challenges facing the Province and the country at large which are precipitated by low economic growth and historical consequences of pre-democracy underdevelopment that our government inherited.
- b. The department has submitted a proposal to the Executive Council to merge some directorates between the Provincial Treasury and the Department of Economic Development and Tourism.
- c. The directorates will be merged in order to integrate the human resource that both departments have which includes among others the directorates responsible for Human Resource, Internal Audit, and Communication.
- d. Labour unions are engaged on posts level 1 to 12. However, the process of appointing officials from post level 13 upwards has already commenced.
- e. Provincial Treasury is mindful of its shared responsibility to work within its mandates and means to address the social and economic challenges facing the society; and that is why the department is taking a different approach to municipal support this financial year.
- f. The only limiting factor on municipal support is that of insufficient human and financial resources.

- g. The building blocks for delivery on the programme of action of the Provincial Treasury is encapsulated in the 2017 State of the Province Address which places effective business processes, strong controls and accountability for the use of the resources at the centre of the plan to build a developmental state.
- h. When the Provincial Budget was introduced, some of the critical performance areas that the Provincial Treasury will pursue were mentioned, amongst which include:
- Driving a support programme aimed at improving revenue stream and related controls to meet the adjusted medium term (MTEF) targets for the Province;
 - Provide hands-on support to enable seamless implementation of a common reporting system (Municipal Standard Chart of Accounts) on government expenditure in local government; and
 - Tap into the resources and programmes of and work with strategic partners to improve financial administration and improve the audit outcomes of the public institutions, especially at the municipal level.
- i. Provincial Treasury will elaborate on the work that is being done in relation to these areas of work when the Policy Statement and Budget of the Provincial Treasury is tabled.
- j. The MEC reaffirmed Provincial Treasury's commitment to ensure allocative efficiencies and continue to improve on systems to support programmes that advance the National Development Plan and Mpumalanga Vision 2030.
- k. The department will ensure standardisation of prices across all departments and municipalities in order to leverage the procurement power of the Mpumalanga Government within the context of the amended Preferential Procurement Regulations.
- l. Furthermore, the department will strengthen support to SMMEs and cooperatives.
- m. The department has been delegated by the Executive Council to develop the Infrastructure Development Management System (IDMS). This means that the department will monitor all infrastructure projects for the province to ensure that infrastructure projects are planned and completed on time.
- n. The department will maintain its clean audit outcome and maintain the clean audit outcomes in the province while strengthening support to those departments and municipalities that could not achieve clean audit outcomes.

4. COMPLIANCE WITH THE FRAMEWORK FOR THE STRATEGIC PLAN AND ANNUAL PERFORMANCE PLAN IN TERMS OF THE NATIONAL FRAMEWORK

The Committee made the following observations with regards to the structure of the Strategic Plan 2015/16 – 2019/20 and the APP 2017/18 in compliance with the National Treasury Framework for Strategic Plans and Annual Performance Plans:

4.1. Strategic Plan

The Strategic Plan 2015/16 - 2019/20 for the Provincial Treasury is aligned with the National Treasury framework for Strategic Plans and Annual Performance Plans.

4.2. Annual Performance Plan

The Annual Performance Plan 2017/18 of the Provincial Treasury is in compliance with the National Treasury Framework for Strategic Plans and Annual Performance Plans.

4.3. Alignment of Strategic Plan and APP

Strategic Plan of the Provincial Treasury for the period 2015-2020 is aligned to the Annual Performance Plan of the 2017/18 financial year.

5. GOVERNMENTAL PRIORITIES

5.1. Government Priorities

Table 1 below outlines the Government Priorities for the department.

Table 1: Government Priorities

Government Priorities	Department Outcomes	Department's Strategic goal
1. Improving education 2. Improving healthcare 3. Creating decent work 4. Fighting crime and corruption 5. Rural development and land reform.	<p>Outcome 9: Responsive, accountable, effective and efficient developmental local government system</p> <p>Sub-Outcome 3: Sound financial and administrative management</p> <p>Outcome 12: An efficient, effective and development oriented related public service.</p> <p>Sub-Outcome 4: Efficient and effective management and operation system</p> <p>Sub-Outcome 5: Procurement systems that deliver value for money</p>	<p>Strategic goal 1: Administrative support services Prompt, continuous, effective administrative support to all line functions in the Department</p> <p>Strategic goal 2: Ensure efficient and effective financial, ICT, and corporate governance in the Province, in line with legislation and policies Provide advice, support and monitor public sector institutions on legislation and prescript.</p>

Provincial Treasury supports all government priorities as it monitors the usage of all resources allocated to provincial departments, municipalities and public entities. Provincial Treasury is also aligned to the National Outcomes and provides support in terms of Outcomes 9 and 12 and is not a lead department. Page 93 of the APP under Annexure F indicates that the strategic goals were reviewed and reduced to two goals.

5.2. Annual Performance Plan against Policy Statements

Table 2 below outlines the Annual Performance Plan against Policy Statements:

Table 2: Annual Performance Plan against Policy Statements

SONA	SOPA	Department's Commitments
In the State of the Nation Address (2016) the President indicated that the Back to Basic local government plan was launched in September 2014 and 2015 was a year of intensive implementation, and in the second phase of implementation national government will engage in more active	The Premier in his State of Province Address 2016 paragraph 27 indicated that the current economic conditions dictate that the state must position itself differently to achieve desired results with reduced fiscal allocation to priorities.	The planning of targets was done in line with the principle that more had to be done with fewer resources both financially and human resources. Provincial Treasury will also support departments and entities to generate

<p>monitoring and accountability measures which will include unannounced Municipal visits, sport checks of supply chain management process, the implementation of recommendations of forensic reports, site visits of Municipal Infrastructure Grant funded projects, and increased interventions to assist struggling Municipalities.</p>		<p>own Provincial revenue to R2 400 000 000.00.</p>
<p>The President emphasised that we all have much to do to turn the economy around and cut wastage because this difficult period is for a while, but when the economy recovers, all will be proud for having done the right thing.</p>	<p>In paragraph 29 of the State of the Province Address the Premier indicated that accountability for performance and prudent utilization of public resources are essential features of a capable and development oriented government.</p> <p>It was further indicated on paragraph 37 that government will continue with the rationalisation process across administration to ensure the equitable distribution and utilisation of available human resource to drive the implementation of service delivery priorities.</p>	<p>Provincial Treasury is responsible for the equitable allocation and optimal utilization of provincial resource to ensure quality service delivery and a better life for all through effective financial management and financial discipline, as well as effective monitoring of resources utilisation on Provincial and Municipal level.</p>
	<p>In paragraph 31 the Premier indicated that the Province in many ways pre-empted recent calls for cost curtailment and continues its proactive shift away from a consumptive narrative towards one that has the delivery of services as its apex priority.</p>	<p>Provincial Treasury will among others, prioritise programme activities that are aimed to:</p> <ul style="list-style-type: none"> -Strengthen procurement practice through the implementation of an online procurement system. -Intensify support to Municipalities to improve their financial viability and audit outcomes in the context of the integrated Municipal Support Plan.

	<p>In paragraph 33 of the State of the Province address the Premier indicated that the Province has made progress with regard to streamlining organisational structures with a view of halting wastage and duplication, and with the implementation of the moratorium on filling of vacant posts.</p>	<p>Provincial Treasury will address the shortfall in human resource through the rationalisation process as the capacity will be identified within Provincial Treasury and elsewhere in the Provincial Administration</p>
	<p>In paragraph 38, the Premier indicated that as part of saving measures, a comprehensive review will be conducted on the current regional service delivery model to identify and eliminate overlaps, wastage, and duplications. Recommendations will be made on the new cost effective regional service delivery model that reduces costs and enhances efficiencies, effectiveness and public accountability.</p>	<p>Together with National Treasury the Provincial Treasury is currently busy with the project of Modernisation of Supply Chain Management where a focus will be on 20 main service providers to decrease and ensure efficiencies on spending.</p>

The Committee noted the following on the Annual Performance Plan against policy statements:

- i. A strategy to improve the audit outcomes of municipalities was developed following extensive consultation with representatives from district municipalities, SALGA, GOGTA, Provincial Treasury and the Office of the Premier. As part of the Integrated Municipal Support Plan (IMSP) operationalisation process MSP task teams have been established to take responsibility of the different pillars as identified in the Back to Basics concept:
 - Pillar 5 deals with financial management; and within Pillar 5 eight (08) task teams were established to deal with the different aspects within Financial Management:
 - o Task Team 1 will focus on quality of submitted financial statements (PT)
 - o Task Team 2 will focus on quality of performance information and oversight by MPAC and COGTA
 - o Task Team 3 will focus on supply chain management (PT)
 - o Task Team 4 will focus on internal controls (PT)

- Task Team 5 will focus on human resource management (COGTA)
- Task Team 6 will focus on information technology issues (PT)
- Task Team 7 will focus on property, plant and equipment (PT)
- Task Team 8 will focus on unauthorised, irregular, fruitless and wasteful expenditure (COGTA)

The task teams collaborate with district municipalities in the implementation and alignment of the respective support plans as indicated in each pillar.

- ii. All municipalities will be supported; however, priority will be given to disclaimed municipalities (eMalahleni and Thaba Chweu local municipalities). Special attention will be given to eMakhazeni and Msukaligwa local municipalities that moved from receiving disclaimers during the 2015/16 financial year. Chief Albert Luthuli local municipality and Gert Sibande district municipality regressed during the 2015/16 audit and was therefore also prioritised.

6. OBSERVATIONS AND COMMENTS

The Head Official (HO) and the management team made a presentation to the Committee on the department's budget documentation for the 2017/18 financial year; however, Provincial Treasury primarily focused on the questions raised as per the research analysis.

7. ANALYSIS OF THE DEPARTMENTAL ANNUAL PERFORMANCE PLAN

7.1. PART A: STRATEGIC OVERVIEW

7.1.1. UPDATED SITUATIONAL ANALYSIS

The Provincial Treasury's approach to the 2017/18 budget allocation process for all the departments was to maintain an appropriate balance between revenue and expenditure. The allocations had to reflect the priorities in terms of the Mpumalanga Provincial Government in line with the National Development Plan 2030 and ensure efficient quality services. Provincial Treasury supports all government priorities as it monitors provincial departments, public entities and municipalities on the utilisation of all resources allocated to them. The focus on resource allocation

is still on shifting the composition of expenditure away from consumption but towards investment in infrastructure.

7.1.2. ORGANISATIONAL ENVIRONMENT

Provincial Treasury has an initial approved organogram with 433 posts. However, after the introduction of the PERSAL clean-up and the moratorium on the filling of vacant funded posts, the Provincial Treasury has an approved establishment of 289 posts of which all 289 posts are filled. The provincial moratorium on the filling of vacant and funded posts is still being implemented. The temporal staff complement consisting of interns, Work Integrated Learning, Experiential Training Programme and Municipal Specialist totals 75.

7.2. PART B: PROGRAMMES AND SUB-PROGRAMME PLANS

7.2.1. BREAKDOWN OF PROGRAMME RECEIPTS AND PAYMENTS

Table 3: Breakdown of programme receipts and payments

Programme Allocation R'000	Outcomes 2015/16	Adjusted Appropriation 2016/17	Main Budget 2017/18	Share of the Budget 2017/18
Administration	79 733	86 074	89 559	31%
Sustainable Resource Management	52 830	44 439	52 614	18%
Assets and Liabilities Management	110 577	128 222	120 889	42%
Finance Governance	29 951	28 731	26 882	9%
TOTAL	273 091	287 466	289 944	100%

The Provincial Treasury received a budget allocation of **R289 944 000.00** which indicates an increase of 1% when compared to the 2016/17 adjusted budget of **R287 466 000.00**. The main appropriation for the department has been fluctuating in the financial period 2015/16; 2016/17 and 2017/18 by -1%, 5% and 1% respectively.

Programme 3 remains one of the programmes which receive almost half of the budget for the department as it is at 42% in the 2017/18 financial year. Programme 4 received the smallest budget allocation of 9%. The budget for Programmes 1 and 2 increased by 4% and 18% respectively while the budget for Programmes 3 and 4 both decreased by 6%.

Economic Classification

Table 4 below outlines the budget allocation per Economic Classification.

Table 4: Budget per Economic Classification

Budget Allocation R'000	Outcomes 2015/16	Adjusted Appropriation 2016/2017	Main Budget 2017/2018	Share of the Budget 2017/18
Compensation of Employees	151 406	161 576	171 006	59%
Goods and Services	107 028	110 929	112 409	39%
Transfer and Subsidies	3580	2 887	705	0%
Payment for Capital Assets	11 065	12 074	5 825	2%
Payment for Financial Assets	12	0	0	0%
TOTAL	273 091	287 466	289 945	100%

Compensations of Employees

Compensations of Employees received 59% of the budget allocation for Provincial Treasury. The Provincial Treasury's budget allocation for this line-item has over the past three (03) financial years been increasing in the financial years 2015/16; 2016/17 and 2017/18) by 7%, 7%, and 6% respectively.

Goods and Services

The budget allocation for Goods and Services is 39% of the Provincial Treasury's budget allocation. This line-item budget allocation has decreased by 13% in the 2015/16 financial year, increased by 4% in 2016/17 and further increased by 1% in the 2017/18 financial year.

Transfer and Subsidies

Transfers and Subsidies received 0% of the budget allocation of the Provincial Treasury's budget.

Payment for Capital Assets

The budget for the Payment of Capital Assets line-item amount to 2% of the total Provincial Treasury's budget for the 2017/18 financial year. The budget allocation for this item increased over the past three financial years by 260% from 2014/15 to 2015/16 financial year, increased by 9% from 2015/16 to 2016/17 and increased by 56% from 2016/17 to 2017/18 financial year.

The Committee noted the following on the breakdown of programme receipts and payments:

i. In order to assist municipalities with cash flow management, revenue management, supply chain management, contract management and assets management the following support programmes were developed:

a. Cash flow management

- Develop and implement a proper cash flow management system to monitor projected, cash and SDBIP
- Municipalities to develop a realistic revenue budget that is collectable based on prior year trends
- Daily reconciliation and management of Electricity Vendor Accounts
- Introduction of debts write-offs and early settlements incentive scheme
- The Cash Flow model (weekly that progresses to a monthly planning and reporting tool) was enhanced from previous similar models and distributed in February 2017

The above models have been introduced to all municipalities. The responsiveness to guidance provided will determine the level of success of the support to municipalities.

b. Revenue Management

- Poor credit control:
 - o Revenue management plans were introduced in all Gert Sibande municipalities in 2014 and most have customised their plans to their needs.
 - o Lekwa and Msukaligwa local municipalities were the first pilot institutions. Steering committee meetings between finance and the technical departments were introduced in these municipalities.
 - o Dr Pixley Ka Isaka Seme and Mkhondo local municipalities have used these plans; however, sustainability in Mkhondo local municipality remains a challenge due to capacity constraints - mainly in the Budget and Treasury office as well as fiscal discipline on the management of finances.
 - o Introduction of customer care within municipalities.

These models have been introduced to all municipalities. The sustainability varies from municipality to municipality. Enforcement of municipal by-laws, policies and standard operating procedures within the municipalities Establish a dedicated credit control unit within municipalities.

- Inaccurate billing systems and valuation rolls reconciliations:
 - o Develop and maintain credible valuation rolls
 - o Reconciliation of Valuation Rolls to billing system
 - o Reconciliation of Category of Users to tariff structures and billing system
- Credibility of indigent registers in relation to social-economic challenges:
 - o Municipalities to establish Indigent Committees consisting of Ward Councillors, Department of Social Development, CDWs to develop Indigent Registers.

c. Expenditure Management:

- Over-commitment by municipalities:
 - o Centralization of SCM Unit within the CFO's office
 - o Develop and implement procurement delegations
 - o Develop and implement procurement plans
 - o Establish Finance Committees to monitor implementation of procurement plans and budget spending.
 - o Implement consequence management for over-commitments.

d. Supply Chain Management:

- Slow response by Management on SCM non-compliance:
 - o Internal Auditors to investigate all areas of SCM non-compliance and submit a report with clear recommendations to management and council and the respective Audit Committees.
 - o Accounting Officers to consider / implement recommendations from Internal Audit.
 - o Review SCM Internal Controls and Procedures and enforce compliance thereof.
 - o Develop SCM Compliance Checklists.
 - o Management to respond to all audit requests within two (02) working days as per AG standard.

- **Slow response by Accounting Officer on SCM non-compliance:**
 - Internal Auditors to investigate all areas of SCM non-compliance and submit a report with clear recommendations.
 - Executive Mayors to consider / implement recommendations from Internal Audit.
 - Review SCM Internal Controls and Procedures and enforce compliance thereof.
 - Develop SCM Compliance Checklists.
 - Accounting Officers to respond to all audit requests within 3 working days as per AG standard.

- **Slow response by Executive Mayors on SCM non-compliance**
 - Internal Auditors to investigate all areas of SCM non-compliance and submit a report with clear recommendations.
 - Audit Committee / MPAC to consider / implement recommendations from Internal Audit.
 - Review SCM Internal Controls and Procedures and enforce compliance thereof.
 - Develop SCM Compliance Checklists.

Executive Mayors to respond to all audit requests within five (05) working days as per AG standard.

- **Slow response by Oversight on SCM non-compliance (MPAC and Council)**
 - Internal Auditors to investigate all areas of SCM non-compliance and submit a report with clear recommendations.
 - Each EA to consider / implement recommendations from Internal Audit.
 - Review SCM Internal Controls and Procedures and enforce compliance thereof.
 - Develop SCM Compliance Checklists.
 - Oversight Committees are to respond to all audit requests within 5 working days as per AG standard.

- **Instability and high vacant rate on key positions within Municipalities**

- Advertise and appoint competent personnel in all key positions within the identified municipalities.
 - **Inadequate consequences on transgression and issues of Unauthorised, Irregular and Fruitless and Wasteful Expenditure**
 - Conduct investigations on all areas of transgression, including Unauthorised, Irregular and Fruitless and Wasteful Expenditure. Implement consequence management after consideration of the investigation outcome with clear recommendations.
 - e. Contract Management**
 - Contracts not performance based and no Skills Transfer takes place
 - Analysis of all contracts in municipalities to establish status quo of contracts
 - Review all contracts found not to comply with service level agreements.
 - Provincial Treasury has started a project where the contracts in disclaimed municipalities have been assessed whether they are performance based or not, and whether there are consequences where breaches are identified.
 - f. Asset Management**
 - Restatement of financial Statements and non-reconciliation of asset register
 - Review of Municipal Asset Register (Tangible and Intangible)
 - Physical Verification of Municipal Assets with an objective of ensuring existence, completeness and accuracy.
 - Compile and maintain GRAP Compliance Municipal Asset Register
 - Reconcile Asset Register to Municipal Ledger Accounts, trial Balances and Interim / Annual Financial Statements.
 - Asset management in all aspects (excluding Govan Mbeki and the District which appointed Asset managers) are mainly in the hands of service providers. Additions, Disposals, revaluation, determination of impairment as well as verification are mainly completed by the annual appointed service providers.
- ii. It was indicated that some challenges are experienced on the Centralised Supplier Database. Suppliers are registering and updating their details on the Central Suppliers Database; however, there is a delay in the verification of the banking details. This function is being performed at National Treasury which sometimes causes a delay during the

verification and payment of suppliers within 30 days. The Provincial Treasury has prepared a discussion document for consideration by National Treasury on the possible decentralization of the function to Provincial Treasuries.

7.2.2. ANALYSIS PER PROGRAMME

PROGRAMME 1: ADMINISTRATION

Programme purpose and budget allocation

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.

Table 5: Budget allocation per sub-programme

Budget Allocations R'000	Outcomes 2015/16	Adjusted Appropriation 2016/2017	Main Appropriation 2017/2018	Share of budget 2017/2018
Member of Executive Council	0	0	0	0
Management Services	33 603	37 526	39 637	44%
Financial Management	41 922	44 025	45 019	50%
Internal Audit	4 208	4 523	4 903	5%
TOTAL	79 733	86 074	89 559	100%

This programme received a budget allocation of **R89 559 000.00** for the 2017/18 financial year which is 31% of the budget allocation for the Provincial Treasury. The budget allocation for this programme increased by **R3 485 000.00** or 4% when compared to the budget for the 2016/17 financial year. The Sub-Programme: Financial Management has been allocated half of the programme's budget allocation at 50% and Sub-Programme Internal Audit received the lowest share of the budget which is at 5%.

Compensation of Employees has been allocated a budget amount of **R55 981 000.00**, Goods and Services **R29 880 000.00**, Transfer and Subsidies **R705 000.00** and Payment for Capital Assets **R2 993 000.00**; and each of the items take up a share of 63%, 33% , 1% and 3% respectively of the budget for the 2017/18 financial year. The budget for Compensation of Employees increased

by 11% when compared to the 2016/17 budget allocation. Goods and Services increased by 0%, Transfers and Subsidies decreased by 15% and Payment for Capital Assets decreased by 39%.

The Committee noted the following on Programme 1:

- i. The high expenditure of 123% on the budget of the Transfer and Subsidies line-item in the 2016/17 financial year was mainly for officials who retired during the year. According to the PERSAL system there are no planned retirements in the Provincial Treasury for the current financial year; hence, the decrease in the allocated budget for 2017/18.
- ii. In terms of Compensation of Employees' budget for the province, the department reported that the province is at 63% of the total budget. This was as a result of the introduction of new benefits by the DPSA during the 2016/17 financial year.

PROGRAMME 2: SUSTAINABLE RESOURCE MANAGEMENT

Programme purpose and budget allocation

This Programme is responsible for promoting optimal and effective provincial resource allocation and utilisation, efficient provincial budget management, accurate financial reporting on provincial revenue generation and maximisation, provide quality and accurate social-economic research reports to inform the provincial budget and planning process, 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.

Table 6: Budget allocation per sub-programme

Budget allocations R'000	Outcomes 2015/16	Adjusted Appropriation 2016/2017	Main Budget 2017/2018	Share of budget 2017/2018
Programme Support	1 614	1 444	1 767	3%
Provincial Administration Discipline	14 138	9 323	9 109	17%
Budget and Expenditure Management	8 914	9 459	10 031	19%
Municipal Finance	24 448	20 184	27 398	52%
Infrastructure Co-ordination	3 716	4 029	4 309	8%
TOTAL	52 830	44 439	52 614	100%

This Programme has received an increase of 18% in the 201718 financial years when compared to the 2017/18 financial year. The sub-programme: Municipal Finance has been allocated most of

the Programme's budget allocation which is 52% while sub-programme: Programme Support and Infrastructure Co-ordination received the smallest allocation at 3% and 8% respectively.

This Programme has been allocated an amount of **R40 209 000.00** for Compensation of Employees which is 76% of the programme's budget. Goods and Services has been allocated an amount of **R12 405 000.00** which is 24% of the programme's budget. There was no allocation for Transfer and Subsidies, Capital Assets and Financial Assets in the current financial year.

The following targets were added under the Municipal Support sub-programme:

- Eight (08) municipalities will be supported in improving revenue management and debt collection. The department also indicated on page 16 of the APP that support programmes were developed to assist these municipalities with improvement of cash flow management, revenue management, SCM, contract management and assets management.
- Twenty (20) municipalities will be monitored on the implementation of Audit Responses Plan based on the 2016/17 audit outcomes.

The Committee noted the following on Programme 2:

- i. It was indicated that the main criteria used to support municipalities are those municipalities who cannot honour or who are struggling with payment of bulk suppliers (ESKOM and Water Boards); and they are prioritized in the selection. All municipalities are assessed during the draft budget assessment period (March and May) and recommendations are made to assist them in ensuring budgets are funded prior to adoption in the various Councils. Recommendations are specific to the situation that prevails in a municipality. Recommendations are in the form of assumptions and if those agreements and assumptions are not adhered to municipalities are found to have viability issues. These municipalities are Thaba Chweu, Emalahleni, Emakhazeni, Lekwa, Msukaligwa, Mkhondo, Chief Albert Luthuli, Govan Mbeki, Victor Khanye, Mbombela and Thembisile Hani local municipalities.
- ii. The huge increase on the allocated budget for the Goods and Services line-item is mainly for the provision of dedicated and focussed support in municipalities to ensure sustainable solutions are implemented.

PROGRAMME 3: ASSETS AND LIABILITIES

Programme purpose and budget allocation

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.

Table 7: Budget allocation per sub-programme

Budget allocations R'000	Outcomes 2015/16	Adjusted Appropriation 2016/2017	Main Budget 2017/2018	Share of budget 2017/18
Programme Support	1 507	1 226	1 325	8%
Provincial Supply Chain Management	15 270	16 403	16 010	13%
Public Sector Liability	4 669	5 185	4 759	4%
Physical Assets Management	4 741	6 955	7 187	6%
Interlinked Financial System	11 751	13 472	11 521	10%
Information Technology	72 639	84 981	80 087	66%
TOTAL	110 577	128 222	120 889	100%

This programme has received a budget allocation of **R120 889 000.00** which is 42% of the total budget allocated to the department. The budget for this programme has decreased by **R7 333 000.00** or 6% when compared to the 2016/17 financial year. The sub-programme: Information Technology has been allocated most of the programme's budget allocation which is 66% while sub-programme Public Sector Liability received the smallest allocation at 4%.

An amount of **R53 926 000.00** has been allocated to Compensation of Employees which is 45% of the budget allocated to the programme. The budget for Compensation of Employees increased by **R2 958 000.00** in the current financial year. The allocated budget for Goods and Services is **R64 131 000.00** indicating a decrease of 6% when compared to the 2016/17 financial year. Payment for Capital Assets received 2.3% of the programme's budget indicating a decrease of 61%.

The Committee noted the following on Programme 3:

- i. In order to ensure full cooperation by Votes, municipalities and public entities in the 2017/18 financial year non-compliance letters will be sent and the matter will be elevated to the PMC, Cluster and the Executive Authority where there is continued non-compliance. In cases where there are challenges in understanding the requirements, the Provincial Treasury will continue to provide training on supply chain management to departments, municipalities and public entities.
- ii. The huge decrease in payment of Capital Assets is as a result that additional IT infrastructure assets such as routers and switches that were bought during the 2016/17 financial year. The need of the department for 2017/18 financial year is must less when compared to the previous financial year; hence, the decrease in the allocation.

PROGRAMME 4: FINANCIAL GOVERNANCE

Programme purpose and budget allocation

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

Table 8: Budget allocation per sub-programme

Budget allocations R'000	Outcomes 2015/16	Adjusted appropriation 2016/17	Main Appropriation 2017/18	Share of the budget 2017/18
Programme Support	7 863	6 999	4 218	16%
Accounting Services	4 949	5 481	5 342	20%
Norms And Standards	13 560	12 414	13 164	49%
Risk Management	1 986	2 229	2 366	9%
Provincial Internal Audit	1 593	1 608	1 792	7%
TOTAL	29 951	28 731	26 882	100%

This programme has received a budget allocation of **R26 882 000.00** which is 9% of the total budget allocated to the Provincial Treasury. The budget for the programme has decreased by 6% when compared to the budget for the 2016/17 financial year. The sub-programme: Norms and Standards has been allocated most of the programme's budget allocation which is 49%; while sub-programme: Provincial Internal Audit received the smallest allocation of 7% for the 2017/18 financial year.

An amount of R20 889 000.00 has been allocated to Compensation of Employees which is 78% of the budget allocated to this programme. The budget for Compensation of Employees has decreased by R1 849 000.00. The allocated budget for Goods and Services is R5 993 000.00 and this indicate a decrease of 6% when compared to the budget for the 2016/17 financial year. There is no budget allocated to Transfers and Subsidies, Payment of Capital Assets and Payment for Financial Assets in the current financial year under this programme.

The Committee noted the following on Programme 4:

- i. In order to ensure that the Provincial Internal Audit Unit is well capacitated a manager has been seconded from the Norms and Standards Unit within the Programme to the Provincial Internal Audit Unit to address the capacity shortage in the latter Unit; and also to lead and manage the Unit in order to achieve the planned targets for the year.
- ii. The decrease in the budget of this programme is due to the fact that the staff verification project was finalised in the 2016/17 financial year; hence, the funds will not be required again in the 2017/18 financial year. The decrease will not have an impact on the support provided by the Programme during this financial year.
- iii. Since there are no planned retirements according to the PERSAL system the department is not anticipating any expenditure in the Transfers and Subsidies line-item during the current financial year; hence, there is no budget provided.

8.3. PART C: LINKS TO THE LONG-TERM INFRASTRUCTURE AND OTHER CAPITAL PLANS

Provincial Treasury does not have long term projects to be implemented during the 2017/18 financial year. There are also no long-term infrastructure plans and other capital plans that outline the infrastructure investment needs.

Conditional Grants

Provincial Treasury does not receive any conditional grants.

Public Entities

Provincial Treasury does not have any public entities for which it is responsible.

Public-Private Partnerships

No public-private-partnership is managed by Provincial Treasury currently.

Links to other Departments

Provincial Treasury has a shared responsibility with the Department of Cooperative Governance and Traditional Affairs (COGTA) to provide support to municipalities in terms of the Municipal Finance Management Act (MFMA). In order to ensure a coordinated implementation of this responsibility, an Integrated Municipal Support plan was compiled with six (06) objectives addressing the Back-to-Basic Programme. COGTA is responsible for Objectives 1 – 5 and Provincial Treasury for Objective 6: Financial Matters.

Provincial Treasury shares responsibility with the Office of the Premier on monitoring and evaluation of provincial departments' and public entities performance; the Office of the Premier focusses on non-financial performance and Provincial Treasury focusses on financial performance.

9. FINDINGS

The following are the findings of the deliberations with Provincial Treasury:

- 9.1. The department has been delegated by the Executive Council to develop the Infrastructure Development Management System (IDMS).
- 9.2. The department has submitted a proposal to the Executive Council to merge some directorates between the Provincial Treasury (Vote 3) and the Department of Economic Development and Tourism (Vote 6).
- 9.3. The Provincial Treasury reported that the province is at 63% spending on Compensation of Employees.
- 9.4. A strategy to improve the audit outcomes of municipalities has been developed following extensive consultation with representatives from district municipalities, SALGA, COGTA, Provincial Treasury and the Office of the Premier.

- 9.5. Thaba Chweu, Emalahleni, Emakhazeni, Lekwa, Msukaligwa, Mkhondo, Chief Albert Luthuli, Govan Mbeki, Victor Khanye, Mbombela and Thembisile Hani local municipalities are struggling with payment of bulk suppliers (ESKOM and Water Boards).

10. RECOMMENDATIONS

The Committee made the following recommendations:

- 10.1. Provincial Treasury must ensure that the IDMS is finalised before the end of the 2017/18 financial year.
- 10.2. Provincial Treasury must do a work study on the sustainability of merging the identified directorates for Vote 3 and Vote 6.
- 10.3. Continue to monitor the spending on Compensation of Employees and ensure that the percentage is decreased during the current financial year.
- 10.4. The department must on a quarterly basis submit progress reports on the implementation of the strategy to improve audit outcomes of municipalities.
- 10.5. The department must submit quarterly reports on the financial viability of all municipalities in the Province and progress made towards uplifting the identified municipalities.

The Committee moves that the House adopts the report with the above recommendations and approves the Annual Performance Plan for 2017/18 as well as the budget for a total amount of **R 289 945 000.00.**

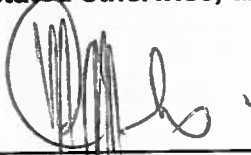
11. CONCLUSION

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 Budget for 2017/18.

In addition, the Chairperson extends a word of appreciation to the MEC for Finance; Economic Development and Tourism, the Head Official and senior management officials for availing themselves to deliberate on matters pertaining to Provincial Treasury.

The Chairperson would also like to thank the Committee support staff.

Unless otherwise stated a report detailing progress in the implementation of all recommendations in this report should be forwarded to the Committee by 30 June 2017, 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

23.05.2017

DATE

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