

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

SECOND 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 Second 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 (APP) 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 Second 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 Research Section compiled a research analysis on the overall performance of Provincial Treasury for the second quarter (July - September 2015) compared to the strategic objectives as reflected in the 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 analysis was circulated to the Committee prior to the meeting with Provincial Treasury. The Committee met with Provincial Treasury on 04 December 2015 to deliberate on Provincial Treasury's Second Quarterly Performance Report for 2015/16. The Committee considered the draft Committee Report on the Second Quarterly Performance Report for 2015/16 Vote 03 on 17 February 2016.

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. OBSERVATIONS AND COMMENTS

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

5. ANALYSIS OF THE SECOND QUARTERLY PERFORMANCE REPORT FOR 2015/16

5.1. SUMMARY OF THE SECOND QUARTERLY PERFORMANCE REPORT FOR 2015/16

The Second Quarter Performance Report for Provincial Treasury is aligned to the 2015/16 APP as submitted to the Legislature. Provincial Treasury achieved 38 (95%) out of 40 planned targets for the second quarter of the 2015/16 financial year. Provincial Treasury spent 47.5% of its allocated budget for 2015/16 financial year which is 2.5% below the National Treasury benchmark of 50%. The spending pattern per programme indicates some fluctuations; with Programme 1: Administration being the highest in expenditure at 52.7% and Programme 4: Financial Governance indicating under-expenditure at 36.7%.

The performance of the Provincial Internal Audit Unit is a matter of concern since feedback reports in terms of the effectiveness of the Audit Committee for six departments, ten municipalities and two public entities were not finalised. The unit also failed to issue two reports on readiness of quality assurance review for Ehlanzeni District and the Department of Public Works, Road and Transport due to limited capacity in the Provincial Internal Audit Unit.

5.2. 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 achieved 100% of its targets for the second quarter of the 2015/16 financial year. This programme had seven planned targets and achieved all as outlined in the second quarter performance report.

Expenditure analysis

Programme R'000	Main budget 2015/16	Expenditure	Over/Under expenditure %
Administration	74 688	39 355	52.7%

This programme was allocated a budget of R74 688 000.00 for the 2015/16 financial year and has spent 52.7% of the budget in the second quarter; which is 2.7% above the National Treasury benchmark of 50%.

Economic Classification:

Programme R'000	Main budget 2015/16	Expenditure	Over/Under expenditure %
Compensation of Employees	45 194	23 174	51.3%
Goods and Services	27 632	14 339	51.9%
Total transfer for subsidies	531	209	39.4%
Payment for Capital Assets	1 331	1 633	122.%
TOTAL	74 688	39 355	52.7%

This programme has spent 51.3% of the budget allocated to Compensation of Employees, 51.9% on Goods and Services, 39.4% on Transfers and Subsidies and 122% on Payment for Capital Assets. The overspending on Compensation of Employees is due to one (1) SMS member who was transferred to Provincial Treasury without a budget; and payment of overtime which was not budgeted for. It was also indicated that overspending on Payment for Capital Assets is due to procurement of computer equipment, GG vehicles and the number of items to be procured which were increased after the conclusion of the budget.

The Committee noted the following on Programme 1:

1. On request from the Committee, Provincial Treasury made a presentation on the impact of the moratorium on the filling of vacant funded posts, as pronounced by former National Minister of Finance, Hon N Nene, in the Medium Term Budget Policy Statement on 22 October 2014 (MTBPS, 2014), in terms of service delivery and organisational structures of departments.

The former National Minister of Finance pronounced the objective of the moratorium to be as follows: "To contain compensation budget pressures, government personnel headcounts will be frozen for the next two years. Any increase in personnel will be funded from existing allocations. The National Treasury, the Department of Performance Monitoring and Evaluation, the Department of Public Service Administration and officials from other departments will conduct a review over the next year to consider the permanent withdrawal of funded vacancies. Natural attrition will create space for new appointments. Exceptions will be considered for critical positions, with the onus on departments to justify exceptions. Provincial governments will be strongly encouraged to follow the same approach."

Government proposed a series of measures to narrow the deficit and stabilise debt over the medium term. Some of the elements of the fiscal package are as follows:

- **Reduce growth in spending:** Government will lower its 2014 Budget expenditure ceiling by R25 000 000 000.00 over the next two years.
 - **Strengthen budget preparation:** Government will place greater emphasis on longer-term planning and efficient resource allocation, within a fiscal framework that links aggregate expenditure and economic growth beyond the medium term.
 - **Freeze government personnel headcounts:** Government will also review funded vacancies.
- a. **The positive impact of the moratorium:** The shift of the composition of expenditure from consumption to investment can be evidenced on the availability of funding in the adjustments to fund government priorities. When the budgets were developed a consideration had to be made on how the Province can freeze growth in headcounts as resolved by the Budget Council and pronouncements made by the former Minister of Finance in the MTBPS, 2014 as Provinces were directed to maintain an expenditure ceiling and fund own priorities from a process of re-prioritisation. The budget allocated to Provinces had been declining over the past MTEF and continues to decline; hence, the introduction of expenditure ceilings.

The Executive Council then took a decision to restrict growth in the headcounts in order to raise funds to cushion the reduction in provincial budgets and to cushion the impact of

the introduction of an expenditure ceiling without impacting negatively on service delivery. The reduction in budgets was targeted mainly on compensation of employees budgets as well as non-core areas of spending.

Each year the assessment of provincial budgets revealed that budgets allocated to compensation of employees were hardly spent and as such were always utilised to defray possible over-expenditure on other items of economic classification. When budgets were developed all funded vacant posts were frozen and funding was reduced upfront to fund in the main water and sanitation programme in the Province.

- b. The impact of the moratorium in terms of service delivery:** Funds were immediately available from a consumption item to investment. This created a funding for service delivery to continue uninterrupted despite the reduced budget baseline in the Province.

The wage agreement was concluded at higher than budgeted for; the budgets were developed at 5.8%, however, were concluded at 7%. Housing allowances were increased from R900 to R1200; the Government Employees Medical Scheme (GEMS) was increased by 28%. The afore-mentioned amounts were not budgeted for and the Province requested approximately R502 000 000.00 from the National Revenue Fund. However, the Province only received an amount of R307 134 000.00. All provinces had to re-prioritise and fund the shortfall from own funding. As indicated in the adjustment appropriation process there were only four votes that were considered for funding; the rest had to fund from savings generated from the frozen posts. So funds that were accumulated during the period of moratorium were utilised to cushion the shortfall on wage increases as the existing personnel must be paid all their benefits and on time throughout the year whilst expenditure ceilings are kept within acceptable limits. Service delivery has been cushioned by savings generated from the moratorium.

- c. The negative impact of the moratorium:** One of the unintended consequences currently being experienced is the fact that staff morale is very low. The workload of two or three people is performed by one person and employees are not compensated for the additional work as government cannot afford payment of acting allowances. Acting allowances are supposed to be paid from higher posts that are funded; however, these posts are not funded or may have been abolished. During a period of moratorium there

is also no opportunity for upward mobility. This period should be utilised to check whether the current employees are all gainfully employed, whether each institution, each and every programme is fit for purpose so that when the moratorium is lifted the administration is lean and the existing staff are placed where they can assist the administration to be more efficient.

- d. Impact of abolished posts to organisational structures:** The abolishment of posts would have a negative impact if the organisational structures were submitted to the Department of Public Service Administration (DPSA). Given that these structures were not submitted to DPSA and the abolishment only took place in the Province these posts are abolished in the Persal system and not on the organogram. When the moratorium is lifted and once all processes have been followed to obtain approvals it will be possible to create posts as these posts still exist in the organisational structures.
- e. Savings made by the Province on withholding posts to date:** Since the moratorium was declared savings were surrendered to the Provincial Revenue Fund; and these funds were used to fund the priorities during the adjustment appropriation process. Approximately R233 000 000.00 in savings were generated during the preparation of 2015/16 budgets. The entire amount was appropriated during the Main Appropriation in March 2015 in the following areas:
- R5 000 000.00 for staff verification in Provincial Treasury
 - R10 977 000.00 for the Commission to improve the conditions of Farm Dwellers
 - R200 000 000.00 was allocated to the Department of Human Settlements for water related projects in various municipalities
 - R10 000 000.00 to Provincial Treasury for Revenue Enhancement in departments. This amount is being utilized to fund implementation of revenue related projects in the Department of Health and Department of Community Safety Security and Liaison
 - R3 000 000.00 allocated to the Office of the Premier for the implementation of the Mpumalanga Delivery Coordination model
 - R5 000 000.00 allocated as support to municipalities in the Provincial Treasury

2. The overspending on Compensation of Employees in this programme is due to one (1) SMS member who was transferred to Provincial Treasury without a budget; and payment of overtime which was not budgeted for. It was explained that when rationalisation or a transfer is done the understanding is that the receiving department has necessary funding as this is not a function shift where funds must follow function. It was indicated that the plan to establish a Programme 5 for support to municipalities was no longer funded; however, the Provincial Treasury welcomed additional capacity to assist with the mandate of assisting various government institutions. During the adjustment period the department realised savings in Goods and Services due to services costing lower than anticipated, as a result, those realised savings were utilised to cover the budget of the SMS member that was transferred to Provincial Treasury without a budget.
3. Clarity was given on the expenditure on approved overtime while there was no budget for it. The item 'overtime' is one of those areas that are always targeted for cost curtailment purposes; hence, no budget is allocated when budgets are developed. The overtime worked was due to the workload that was not anticipated during the budgeting period; hence, it was not budgeted for. The overtime is one of cost curtailment areas and is only approved with the signature of the Accounting Officer when it is proven that it is necessary, unforeseen and unavoidable.

There are only two offices that were allowed to work overtime, namely the Office of the Chief Financial Officer and the Office of the Head Official. In the Office of the Chief Financial Officer, the work load was assessed on capturing of database of new suppliers as well as updating of existing supplier information.

The overtime in the Office of the Head Official was approved in exceptional cases for preparation for the following meetings: Budget Council, Budget and Finance Committee and Budget Forum, amongst others. The documentation is sent by the Minister's Office and the time of submission is always beyond Provincial Treasury's control. Provincial Treasury has identified savings from resignations that took place during the first six months of the financial year to cover the overtime.

4. Clarity was given on the increase of items to be procured after the budget was concluded. It was indicated that the departmental needs analysis influenced the increases as the evaluation indicated the demand for additional services that needed to be procured. There were cases of office equipment that was reported stolen in the

Casteel and Mangwane Thusong Centres. The need for additional government vehicles also influenced the increase; however, this could have been avoided had the procurement plan been influenced by a proper needs analysis. The needs analysis only focussed on Head Office and excluded the needs in the regional offices. Provincial Treasury is aware of the consequences of overspending and has put systems in place to correct this and to ensure that it is not repeated. In order to ensure that the possible overspending is corrected, Provincial Treasury identified savings to ensure that it remains within the allocated budget. The demand management unit has been strengthened as it became evident that our analysis of demand prior to the development of a procurement plan needed improvement.

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 second quarter of the 2015/16 financial year. This programme had 11 planned targets 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	24 126	38.3%

Programme 2 has been allocated a budget amount of R63 074 000.00 for the 2015/16 financial year and it has spent 38.3% of the allocated budget which is 11.7% below the National Treasury benchmark of 50%.

Economic Classification

Programme R'000	Main budget 2015/16	Expenditure	Over/Under expenditure %
Compensation of Employees	36 075	18 560	51.5%
Goods and Services	23 946	2 533	10.6%
Total Transfer for Subsidies	3 000	3 033	101.1%
Payment for Capital Assets	53	-	0.0%
TOTAL	63 074	24 126	38.3%

Programme 2 spent **51.5%** of the allocated budget for Compensation of Employees, **10.6%** on Goods and Services **101.1%** on Transfer for Subsidies and nothing was spent on Payment for Capital Assets. It was indicated that the underspending on Goods and Services was mainly on special projects, like revenue enhancement strategy and economic research, which were not carried out as planned. Provincial Treasury mentioned in the first quarter report that these two projects were planned for the second quarter; however, nothing has been done to date. It was further indicated that overspending on Transfers and Subsidies is due to payments on gratuity leave for two officials who resigned.

The Committee noted the following on Programme 2:

1. Clarity was given on the challenges that caused delays on the commencement of special projects. It was indicated that Provincial Treasury developed the Revenue Enhancement Strategy and changed the method of delivery that a tender is no longer necessary. The project was withdrawn from the tendering process and the budget will be used to procure computer assets for the Department of Health and the Department Community Safety, Security and Liaison. These two departments have a huge potential to generate revenues as per the strategy; and as such if they are assisted with equipment targeting officials dealing with revenue, revenue enhancement will be improved whilst the whole system of internal controls on revenue management is strengthened. The procurement plan was revised accordingly in order for the re-prioritisation of funding to other areas of need.

2. Provincial Treasury explained that the underspending during 2015/16 was as a result of savings generated from partnerships from the Department of Home Affairs and National Treasury on the training of Accounting Officers, Chief Financial Officers and SCM Practitioners. However, in 2014/15 Provincial Treasury was grossly underspending and the following was put in place; hence, the improvements that are recorded in 2015/16:

- Committees have been trained during July of 2015.
- Administrative issues like schedule of dates and adherence to set dates have also been strengthened.
- Revision to the configuration of the Committees is discouraged and only allowed if a member is transferred to another department or issues of workload are considered where the member's assignments are mostly involving travelling to municipalities. Otherwise committees are kept in place for the whole year.
- Committees were established in April 2015, which is an improvement to the previous year where establishment of committees had been delayed.
- Committees will be reviewed and established in March 2016 if a need arises.
- Corporate services has been requested to incorporate committee work to performance agreements of members.
- Progress on the procurement plan is a standing agenda item on MANCO and Departmental EXCO committees as part of reports from the Chief Financial Officer and also part of the monthly In-Year-Management reports that are presented to the Executive Authority for oversight purposes.

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 second quarter of the 2015/16 financial year. This programme had ten planned targets 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	60 379	52.5%

Programme 3 has been allocated a budget amount of R115 076 000.00 for the 2015/16 financial year and has spent 52.5% which is 2.5% above the National Treasury benchmark of 50%.

Economic Classification

Programme R'000	Main budget 2015/16	Expenditure	Over/Under expenditure %
Compensation of Employees	51 319	25 537	49.8%
Goods and Services	62 057	34 059	54.9%
Total Transfer for Subsidies	-	4	-
Payment for Capital Assets	1700	779	45.8%
TOTAL	115 076	60 379	52.5%

Provincial Treasury spent **49.8%** of its allocated budget for Compensation of Employees, **54.9%** on Goods and Services and **45.8%** on Payment for Capital Assets. It was indicated that the underspending on Goods and Services is mainly on SITA Payment due to inadequate budgeting for the service; and overspending on Transfers and Subsidies is due to payment of leave gratuity for an official who resigned during the first quarter of the financial year that was not budgeted for.

The Committee was satisfied with the performance in Programme 3 and no clarity seeking questions were asked in this regard.

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 **84%** of its targets for the second quarter of the 2015/16 financial year. This programme had 12 planned targets and achieved 10 as outlined on the department's 2nd quarter performance report.

Sub-programme: Internal Audit Unit failed to provide feedback reports in terms of the effectiveness of the audit committee for six departments, 10 municipalities and two public entities. The unit also failed to issue two reports on readiness of quality assurance review for Ehlanzeni District and the Department of Public Works, Roads and Transport due to limited capacity in the Provincial Internal Audit Unit.

Expenditure analysis

Programme R'000	Main budget 2015/16	Expenditure	Over/Under expenditure %
Financial Governance	34 712	12 736	36.7%

Programme 4 has been allocated a budget of R34 712 000.00 for the 2015/16 financial year and has spent **36.7%** of the budget in the second quarter which is **13.3%** below the National Treasury benchmark of 50%.

Economic Classification

Programme R'000	Main Budget 2015/16	Expenditure	Over/Under expenditure %
Compensation of Employees	19 662	9 310	47.4%
Goods and Services	9 350	3 426	36.6%
Payment for Capital Assets	5 700	-	0.0%
TOTAL	34 712	12 736	36.7%

Under Programme 4 Provincial Treasury spent **47.4%** of the allocated budget for Compensation of Employees, **36.6%** on Goods and Services and there were no procurement of assets under Payment for Capital Assets. The department indicated that underspending on Compensation of Employees is due to inadequate projection for the period under review. The budget on Payment

for Capital Assets was mainly to procure staff verification software which was suspended since the Provincial Treasury participated in the Department of Home Affairs biometric contract.

The Committee noted the following on Programme 4:

1. The Committee expressed concern on whether the Provincial Internal Audit Unit has sufficient capacity to carry out the set targets. Provincial Treasury indicated that it does not have sufficient capacity in this Unit due to the moratorium that was placed on the filling of posts. The Unit currently has a 50% vacancy rate (two Assistant-Manager posts are filled while one Assistant-Manager and one Deputy-Manager post is vacant – the Deputy-Manager is the Head of the Unit). Provincial Treasury will consequently not be able to achieve its targets under this Unit. The Programme provided motivation for the filling of the posts due to the support and assistance provided to 12 departments, 21 municipalities and four public entities which will be submitted to Cabinet for consideration.
2. In order to avoid underspending at the end of the financial year Provincial Treasury reprioritised its budget during the adjustment budget process and savings on items such as the staff verification system, were surrendered to the Provincial Revenue Fund. Other projects such as the compilation and auditing of financial statements for NGOs have started.

6. FINDINGS

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

- 6.1. Provincial Treasury achieved 95% of its planned targets for the second quarter of the 2015/16 financial year.
- 6.2. The committee expressed its appreciation for the thorough explanation on the impact of the moratorium on the filling of funded vacant posts, as pronounced by former National Minister N Nene in October 2014; and indicated that it is the first time that the extent of the moratorium has been explained in such a comprehensive manner.
- 6.3. Provincial Treasury does not have sufficient capacity in the Provincial Internal Audit Unit due to the moratorium on the filling of funded vacant posts; and it was indicated that a motivation for the filling of the critical posts in this unit will be submitted to Cabinet. This

unit is instrumental in providing assistance and support to 12 departments, 21 municipalities and four public entities.

7. RECOMMENDATIONS

The Committee made the following recommendations:

- 7.1. Provincial Treasury must continue to lead by example in order to achieve 100% of its planned targets in the 2015/16 financial year, even though the moratorium on the filling of funded vacant posts impacts heavily on some of its activities.
- 7.2. A platform should be created where Provincial Treasury can extend its briefing on the moratorium on funded vacant posts to other relevant stakeholders as well to ensure a common approach on the matter.
- 7.3. Provincial Treasury must keep the committee informed on the outcome of its request as submitted to the Executive Council on the filling of critical posts in the Provincial Internal Audit Unit.

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

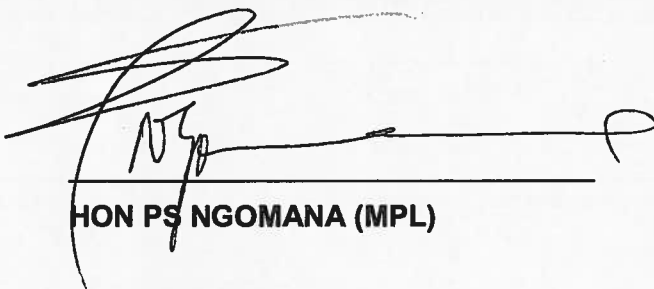
8. CONCLUSION

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 Second Quarter Performance for the 2015/16 financial year.

In addition, the Chairperson extends a word of appreciation to the Head Official and her senior management team for availing themselves to deliberate on matters pertaining to Provincial 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 in the implementation of all recommendations in this report should be forwarded to the Committee by 15 March 2016, unless stated otherwise, and thereafter on a quarterly basis.



HON PS NGOMANA (MPL)

24.02.2016
DATE

CHAIRPERSON:

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