

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

## **FOURTH QUARTERLY PERFORMANCE REPORT OF PROVINCIAL TREASURY FOR 2014/15 (VOTE 03)**

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### **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 Fourth Quarterly Performance Report for 2014/15 of Provincial Treasury is the tool used by the Committee to determine whether Provincial Treasury has proper plans and programmes to realise its strategic objectives as reflected in its Annual Performance Plan for 2014/15.

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 2014/15 financial year.

### **2. METHOD OF WORK**

The Honourable Speaker of the Legislature referred the Fourth Quarterly Performance Report for 2014/15 to the Committee for deliberations and report back to the House, in accordance with Rule 218 and Rule 131 of the Rules and Orders of the Mpumalanga Provincial Legislature.

The Committee was briefed by the Research Section on the overall performance of Provincial Treasury for the fourth quarter (January - March 2015) compared to the strategic objectives as reflected in the Annual Performance Plan (APP) for the 2014/15 financial year. The Committee wanted to determine whether Provincial Treasury executed its mandate in terms of the APP and if there was value for money. The Research Section briefed the Committee on the Fourth Quarterly Performance Report for the 2014/15 financial year on 31 July 2015. The Committee met with Provincial Treasury on 4 August 2015 to deliberate on the Provincial Treasury's Fourth Quarterly Performance Report for 2014/15. The Committee considered the draft Committee Report on the Fourth Quarterly Performance Report for 2014/15 Vote 03 on 12 August 2015.

### **3. STRATEGIC GOALS AND OBJECTIVES**

Provincial Treasury has the following Strategic Objectives for the 2014/15 financial year:

- Maintain Fiscal Discipline in the Province
- Assets and Liabilities support
- Efficient and Effective financial and corporate governance

### **4. OBSERVATIONS AND COMMENTS**

The Head of Department (HOD) made a presentation to the Committee on the Fourth Quarterly Performance Report. The HOD focussed mainly on the challenges as highlighted in the research document on Provincial Treasury's Fourth Quarterly Performance Report for the 2014/15 financial year.

### **5. ANALYSIS OF THE FOURTH QUARTERLY PERFORMANCE REPORT FOR 2014/15**

#### **5.1. SUMMARY OF THE FOURTH QUARTERLY PERFORMANCE REPORT FOR 2014/15**

- 5.1.1. Provincial Treasury achieved **52** out of **53 (98%)** planned targets for the fourth quarter of the 2014/15 financial year. The department was allocated an adjusted budget of **R272 024 000.00** for the 2014/15 financial year; and spent **R264 770 000.00 (97.3%)** of the allocated budget at the end of the fourth quarter which is **2.70%** below the 100%

benchmark from National Treasury. The department was underspending on Compensation of Employees and Payment of Capital Assets. An amount of R4 000 000.00 was shifted to the Department of Human Settlements during the Mpumalanga Second Adjustment Appropriation 2015.

5.1.2. The following was noted relative to the underspending on the 2014/15 budget:

- a. The underspending on **Goods and Services** was due to the additional funding meant for the intervention at the Department of Health, following the EXCO Resolution of 19-21 June 2014, to place the Department of Health under PFMA section 18(2) intervention. Due to the fact that the intervention was lifted, the budget that was allocated for this purpose was redirected during adjustments to an intervention at Dipaliseng Local Municipality and this led to the late commencement of this project.

Furthermore; an amount of R 3 500 000.00 relating to contractual obligations such as SITA (payment of transversal systems), Auditor-General and the operating leases were rendered during March 2015 and were paid after year-end.

- b. On **Payment of Capital Assets** underspending was mainly due to the budget that was reprioritised during the adjustment budget for the procurement of Storage Area Network device and the installation of infrastructure network for three stations, namely KwaMhlanga Government Complex, Department of Community Safety, Security and Liaison (at 21 Sheppard Street) and the Bethal Weighbridge.

5.1.3. In order to mitigate the underspending for the 2015/16 financial year; Provincial Treasury has appointed bid committees on time to fast track procurement processes and the functioning of bid committees has been included in the performance agreements of each committee member for assessment, in order to ensure that this work is prioritised.

The bid committees met as scheduled and their work has been concluded. All bid committee members have been trained in order to strengthen issues of capacity. Furthermore, the department developed procurement plans for goods and services above R 500 000.00 which is a requirement and strict adherence is expected.

The department also developed a procurement plan for items that are below R 500 000.00, although it is not a requirement. These plans are monitored on a monthly basis by MANCO and EXCO to ensure that tenders are adjudicated on time and in accordance with the procurement plans.

5.1.4. The following was noted relative to the non-filling of funded vacant posts in the 2014/15 financial year:

- a. 21 Positions could not be filled in the 2014/15 financial year. However, two (02) critical positions have since been filled in the 2015/16 financial year through the rationalisation process, namely that of Chief Financial Officer and Director: Provincial Fiscal Discipline.
- b. Since officials were appointed to act in vacant positions; the non-filling of funded vacant posts did not have a negative impact on the implementation of the planned targets for the 2014/15 financial year.

## 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.**

Programme 1 achieved **100%** of its targets for the fourth quarter of the 2014/15 financial year. This programme had eight (08) targets in the fourth quarter as outlined in the APP and has managed to achieve all targets successfully.

#### Programme 1: Expenditure analysis

Programme R'000	Main budget 2014/15	Adjusted budget 2014/15	Expenditure	Over/Under expenditure %
Administration	79 919	76 544	76 160	99.5%

This programme remained with a total adjusted budget of **R76 544 000.00** for the 2014/15 financial year and has spent **99.5%** of the budget in the fourth quarter which is slightly below the **100%** benchmark. This indicates that the department has underspent on this programme by 0.5%.

**Programme 1: Economic Classification:**

Programme R'000	Adjusted budget 2014/15	Expenditure	Over/Under expenditure %
Compensation of Employees	<b>43 147</b>	<b>42 592</b>	<b>98.7%</b>
Goods and Services	<b>30 616</b>	<b>30 987</b>	<b>101.2%</b>
Total Transfer for Subsidies	<b>621</b>	<b>551</b>	<b>88.7%</b>
Payment for Capital Assets	<b>2 160</b>	<b>2 027</b>	<b>93.8%</b>
Payment for financial assets	-	<b>3</b>	-
<b>TOTAL</b>	<b>76 544</b>	<b>76 160</b>	<b>99.5%</b>

This programme spent **98.7%** of the budget allocated to Compensation of Employees, **101.2%** on Goods and Services, **88.7%** on Transfers and Subsidies and **93.8%** on Payment for Capital Assets. The department indicated that the underspending on Transfers and Subsidies is due to cost of legacy projects being lower than anticipated.

The department further indicated that underspending on Payment for Capital Assets is due to office equipment and furniture which were purchased according to the procurement plan and the savings will be surrendered to Treasury.

**The Committee noted the following on Programme 1:**

- a. The department conceded that it underspent on Payment for Capital Assets during the 2014/15 financial year. However, the department improved on the procurement of capital assets in the 2015/16 financial year by appointing bid committees on time and by ensuring that bid committee meetings take place as scheduled.

As evidence that the department improved in this regard; it was reported that in the first four months of the 2015/16 financial year, out of six (06) items on the procurement plan on assets above R 500 000.00, four (04) [supply of switches, video conferencing,

procurement of six (06) GG vehicles as well as computers and laptops] have already been awarded and procurement processes are underway for the remaining two (02) items, namely on office furniture and domestic equipment.

- b. It was reported that the payment for financial assets amounting to R 3 000.00 will not result in an unauthorised expenditure. This expenditure was as a result of debts written-off against savings accumulated at the end of the financial year in line with the departmental write-off policy. The debt amounted from officials who retired before tax recalculations could be made and the money could not be recovered from the Pension fund because the officials had already received their pension pay outs when the recalculation took place.

The departmental write-off policy allows the accounting officer to write off debt if recovery will be uneconomical and cause hardships. Due to the fact the ex-employees are no longer working at the department and that the cost to recover the debts will be higher than the amount to be recovered, the department took an informed decision to write off the debts.

## **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 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.**

Programme 2 has achieved **100%** of its targets for the fourth quarter of the 2014/15 financial year. This programme had 16 targets in the fourth quarter as outlined in the APP and all targets were achieved.

**Programme 2: Expenditure analysis:**

Programme R'000	Main budget 2014/15	Adjusted budget 2014/15	Expenditure	Over/Under expenditure %
Sustainable resource management	<b>46 946</b>	<b>45 330</b>	<b>44 378</b>	<b>97.9%</b>

The budget for this programme decreased by a total of R1 616 000.00 after the second adjustment. The overall spending of the programme is 97.9% of the adjusted budget of R45 330 000.00.

**Programme 2: Economic Classification:**

Programme R'000	Adjusted budget 2014/15	Expenditure	Over/Under expenditure %
Compensation of Employees	<b>32 085</b>	<b>32 066</b>	<b>99.9%</b>
Goods and Services	<b>7 205</b>	<b>6 272</b>	<b>87.1%</b>
Total Transfer for Subsidies	<b>6 000</b>	<b>6 000</b>	<b>100.0%</b>
Payment for Capital Assets	<b>40</b>	<b>40</b>	<b>100.0%</b>
<b>TOTAL</b>	<b>45 330</b>	<b>44 378</b>	<b>97.9%</b>

This programme spent **99.9%** of the allocated budget for Compensation of Employees, **87.1%** on Goods and Services, **100%** on Transfers and Subsidies and **100%** on Payment for Capital Assets. The department indicated that the underspending on Goods and Services was due to audit fees and travelling cost being lower than anticipated.

**PROGRAMME 3: ASSETS AND LIABILITIES MANAGEMENT****Programme purpose and budget expenditure**

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

Programme 3 achieved **100%** of its targets for the fourth quarter of the 2014/15 financial year. This programme had 17 targets in the fourth quarter as outlined in the APP and the department achieved all targets.

**Programme 3: Expenditure analysis**

Programme R'000	Annual budget 2014/15	Adjusted budget 2014/15	Expenditure	Over/Under expenditure %
Assets and Liabilities Support	<b>113 790</b>	<b>115 048</b>	<b>122 145</b>	<b>97.5%</b>

The budget for this programme increased by R1 258 000.00 during the budget adjustment. This programme has a total adjusted budget of R115 048 000.00 for the 2014/15 financial year; and has spent **97.5%** of the budget which is below the **100%** benchmark. This indicates that the department has underspent on this programme by **2.5%** on the allocated budget.

**Programme: Economic Classification:**

Programme R'000	Adjusted budget 2014/15	Expenditure	Over/Under expenditure %
Compensation of Employees	<b>48 717</b>	<b>48 269</b>	<b>99.1%</b>
Goods and Services	<b>64 018</b>	<b>62 503</b>	<b>97.6%</b>
Total transfer for subsidies	<b>96</b>	<b>95</b>	<b>99.0%</b>
Payment for Capital Assets	<b>2 217</b>	<b>1 277</b>	<b>57.6%</b>
Payment for financial Assets	<b>-</b>	<b>1</b>	<b>-</b>
<b>TOTAL</b>	<b>115 048</b>	<b>112 145</b>	<b>97.5%</b>

The department spent **99.1%** of its allocated budget for Compensation of Employees, **97.6%** on Goods and Services, **99%** on Transfers and Subsidies and **57.6%** on Payment for Capital Assets. The department indicated that the underspending on Goods and Services is under Computer Payment due to delays on the renewal of license fees for the Content Keeper and Sepsesam and non-implementation of the annual increase on the safety web system as anticipated. The department also indicated that the underspending on Payment for Capital Assets was on budget reprioritization during the adjustment budget for the procurement of the storage area network device and the installation of infrastructure network.

**The Committee noted the following on Programme 3:**



- a. The department confirmed that they were aware of the consequences of not renewing the relevant license fees. The department commenced with the processes of renewing the licenses before the expiry date; however, circumstances beyond their control led to the delay. It was noted that the license fee has since been renewed.

The department initiated procurement processes to appoint a service provider to provide the service before the expiry date of the Sepsesam license fee. However, when the procurement processes were concluded, the service provider who was appointed at the time as the lowest bidder indicated that prices had increased due to fluctuations in the exchange rate between the dollar and the rand. The revised prices were higher than the other two highest bidders. The department tried to negotiate with the other two service providers; however, they also indicated that their prices also increased. This necessitated that the procurement processes be started afresh, hence the delay.

In order to address this challenge in the future, it was agreed that future annual increments will be in line with the service level agreement.

## **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 achieved **99%** of its targets for the fourth quarter of the 2014/15 financial year. This programme had 12 targets as outlined in the APP and all targets were achieved.

The Sub-programme: Norms and Standards failed to facilitate the completion of the Financial Maturity Capability Maturity Model (FMCMM). The department indicated that two entities, which are MEGA and MGB, and six (06) departments did not submit the completed tool, namely the Departments of Health, Social Development, Community Safety, Security and Liaison, Public Works, Roads and Transport and Agriculture, Rural Development, Land and Environmental Affairs and Culture and Sport Recreation.

**Programme 4: Expenditure analysis:**

Programme R'000	Main budget 2014/15	Adjusted budget 2014/15	Expenditure	Over/Under expenditure %
Financial Governance	27 514	35 102	32 087	91.4%

The budget for this programme was increased by R7 588 000.00 during the second adjustment. This programme has a total adjusted budget amount of R35 102 000.00 for the 2014/15 financial year and has spent 91.4% of the budget which is below the 100% benchmark. Thus the department has underspent on this programme by 8.60% on the allocated budget.

**Programme 4: Economic Classification:**

Programme R'000	Adjusted 2014/15	budget	Expenditure	Over/Under expenditure %
Compensation of Employees	17 942		17 780	99.1%
Goods and Services	17 160		14 307	83.4%
TOTAL	35 102		32 087	91.4%

Under this programme the department spent 99.1% of the allocated budget for Compensation of Employees and 83.4% on Goods and Services. The department indicated that the underspending is mainly on Goods and Services where travelling cost were lower than anticipated and the budget initially allocated for the intervention at Department of Health which was later redirected to the intervention at Dipaliseng Local Municipality and there was a late commencement of the project. However, there is a commitment of R1 900 000.00 which will be paid in the new financial year.

**The Committee noted the following on Programme 4:**

- a. In order to prevent the late submission of the FCMC tool by the public entities and departments; it was resolved that the department will circulate the tool earlier to ensure that institutions are afforded adequate time to complete the questionnaire, as the capacity to complete the tool varies from one institution to another.

Follow-up by the department will also be intensified and hands-on support will be provided to those institutions experiencing challenges in this regard.

## **6. FINDINGS**

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

- 6.1. Provincial Treasury underspent on Goods and Services in Programme 3: Assets and Liabilities Management, namely under Computer Payment due to delays on the renewal of license fees for the Content Keeper and Sepsesam and non-implementation of the annual increase on the safety web system as anticipated.
- 6.2. The Sub-programme: Norms and Standards failed to facilitate the completion of the Financial Maturity Capability Maturity Model (FMCMM). It was indicated that two entities, which are MEGA and MGB, and six (06) departments did not submit the completed tool, namely the Departments of Health, Social Development, Community Safety, Security and Liaison, Public Works, Roads and Transport and Agriculture, Rural Development, Land and Environmental Affairs and Culture and Sport Recreation.

## **7. RECOMMENDATIONS**

**The Committee made the following recommendations:**

- 7.1. Provincial Treasury must improve on its processes to renew license fees on time; and ensure that the renewal of license fees will be finalised within the relevant financial year.
- 7.2. Provincial Treasury must ensure that it circulates its FMCMM tool in time to public entities and departments to ensure that institutions are afforded adequate time to complete the questionnaire. Furthermore, Provincial Treasury must continue to support public entities and departments in the completion of this tool to ensure quality documentation and timeous submission.

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

## 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 Fourth Quarter Performance for the 2014/15 financial year.

In addition, the Chairperson extends a word of appreciation to the Head of Department and senior management officials for availing themselves to deliberate on matters pertaining to the department.

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

**Unless otherwise stated a report detailing progress in the implementation of all recommendations in this report should be forwarded to the Committee by 30 September 2015, unless stated otherwise, and thereafter on a quarterly basis.**

HON PS NGOMANA (MPL)

12.08.2015

DATE

**CHAIRPERSON:**

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