



REPORT OF THE PORTFOLIO COMMITTEE ON PREMIER'S OFFICE, FINANCE, ECONOMIC DEVELOPMENT AND TOURISM ON THE MPUMALANGA ADJUSTMENTS APPROPRIATION BILL, 2014 [B4 – 2014]

1. INTRODUCTION

The Portfolio Committee on Premier's Office, Finance, Economic Development and Tourism (the Committee) has a mandate in terms of section 114 of the Constitution of the Republic of South Africa, 1996, read with rule 131(b)(c) and (d) of the Rules and Orders of the Mpumalanga Provincial Legislature (the Rules), to conduct oversight over the Department of Finance.

The **Mpumalanga Adjustments Appropriation Bill, [B4-2014]** (the Bill) was tabled in the House on 18 November 2014; where-after, it was referred to the Committee for consideration and report back to the House.

2. OBJECTIVES OF THE BILL

To effect adjustments to the appropriation of money from the Provincial Revenue Fund for the requirements of the Province in respect of the 2014/15 Financial Year; and to provide for matters incidental thereto.

3. METHOD OF WORK

The **Mpumalanga Adjustments Appropriation Bill, 2014** was referred to the Committee immediately after tabling in the House on 18 November 2014. Preceding the tabling of the Bill in the House was a lock-up-session where the MEC and HOD for Finance briefed the Committee on the adjusted estimates of provincial revenue, prominent features of the national fiscal relative to the province and also the global, national and provincial socio economic perspective. Subsequently, the Committee interacted on the Bill as follows:

- a) The Committee and Chairpersons of all Portfolio Committees met with the all affected accounting officers and chief financial officers of provincial departments on 20 November 2014 to consider the Bill. In the interaction with the departments, the Director General in the

Office of the Premier and the HOD for Finance were present to advise the Committee in all the deliberations with the below listed departments:

- Vote 1: Office of the Premier
- Vote 2: Mpumalanga Provincial Legislature
- Vote 3: Department of Finance
- Vote 4: Department of Cooperative Governance and Traditional Affairs
- Vote 5: Department of Agriculture, Rural Development, Land and Environmental Affairs
- Vote 6: Department of Economic Development and Tourism
- Vote 7: Department of Education
- Vote 8: Department of Public Works, Roads and Transport
- Vote 9: Department of Community Safety, Security and Liaison
- Vote 10: Department of Health
- Vote 11: Department of Culture, Sport and Recreation
- Vote 12: Department of Social Development
- Vote 13: Department of Human Settlements

The following departments were turned back and asked to correct their presentations namely:

- Vote 6: Department of Economic Development, Environment and Tourism
- Vote 8: Department of Public Works, Roads and Transport
- Vote 9: Department of Community Safety, Security and Liaison
- Vote 10: Department of Health

The following questions were posed to the departments, the Office of the Premier and the Legislature:

- 1) Whether the adjusted appropriated budget allocated to the department for 2014/15 was deemed as insufficient; and if so:
 - a. To what amount the budget is underfunded; and
 - b. If a deficit was envisaged for 2014/15;
 - i. To what extent will it be; and
 - ii. Which core programmes will be affected negatively due to the deficit.

- 2) In case 1(b) above applies, what cost effective measures will be considered (a detailed plan was to be provided in this regard).
- 3) Whether departments have proper business plans implemented to spend the adjusted Appropriated budget; before year-end to prevent a possible March-spike.

b) The Committee met on 25 November 2014 to finalise the Committee report.

4. LOCK-UP-SESSION ON THE BILL ON 18 NOVEMBER 2014

OVERVIEW ON THE BILL BY THE MEC FOR FINANCE

The MEC for Finance, Hon SE Kholwane, indicated in his overview that:

- The 2014 Adjusted Estimates of Provincial Revenue and Expenditure firmly focused on addressing, step by step, the long term transformation challenges of our Province.
- The 2014 Adjusted Estimates of Expenditure seek to provide for the following imperatives:
 - a. To build provincial economic capacity through a heightened fiscal discipline, guided by collective commitments to shift government's expenditure from consumption to investment, and
 - b. To ensure that the principles of intergenerational equity are not compromised so that future generations do not have to pay debts for our comfort today.
- The domestic economic growth outlook remains weak, following growth rates of minus 0.6 % in the first quarter and positive growth of 0.6 % in the second quarter of 2014.
- The Medium Term Budget Policy Statement (MTBPS) of 22 October 2014 points to a reduced economic growth rate of only 1.4% this year for South Africa – much lower than the 2.7% forecasted in the 2014 National Budget in February 2014.

- The provincial economic growth rate has also been revised downward to only 1.3% this year.
- The provincial unemployment rate was measured at 29.3% at the end of the third quarter of 2014. Almost 75% of the unemployed are young people below the age of 35 years.
- The construction industry was the main contributor to job creation in Mpumalanga on a quarterly and annual basis, supported by the finance and transport industries.
- The Provincial Government has spent 48.5% of the provincial budget amounting to R36.4 billion by 30 September 2014, compared to 48 % in the same period last year.
- The expenditure on Compensation of Employees was 47.2% in the first six months, compared to 48.5 % in the same period in the 2013/14 financial year
- Spending on conditional grants has remained constant at 50% between the two financial years.
- We have also retained 90.4% of unspent conditional grants funds to complete unfinished projects which were started in the previous financial year.
- Failure to pay service providers within 30 days of receipt of invoices has adverse impact on the growth of small business
- The Province contributes only 2% of own revenue to the total Provincial Fiscal Framework.
- The total Provincial Fiscal Framework increases from R36.469 billion to R37.068 billion. The increase of R598.421 million is due to rollovers

5. PRESENTATION BY PROVINCIAL TREASURY ON THE 2014/15 ADJUSTED BUDGET

The HOD for Finance indicated the following to the Committee:

- The Office of the Premier receives a net increase of R11 448 000.00 which adjusts the budget from R205 372 000.00 to R216 820 000.00. Included in the adjustment are allocations for the establishment of the Desks for Elderly Persons and Youth; Inauguration, Imbizo and the Information and Communication Technology in the Office of the Premier. The function of the Office of the Status of the Disabled Persons and Office on the Rights of the Child is shifted to the Department of Social Development with a budget of R4 552 000.00.
- The Provincial Legislature's budget increases by R17 633 000.00, from R273 488 000.00 to R291 121 000.00. The increase includes voted funds that remained unspent during 2013/14 financial year as well as revenue generated by the Legislature amounting to R1 513 000.00 and R6 120 000.00 for public participation and education in order to encourage the community to participate in law making processes.
- The Department of Finance receives a net increase of R7 855 000.00, adjusting the budget from R268 169 000.00 to R276 024 000.00. The department receives an additional allocation of R10 000 000.00 to cover cost of the intervention at the Department of Health. The statutory and operational budget of R2 145 000.00 will be transferred to the Department of Economic Development and Tourism.
- The net increase on the budget of the Department of Co-operative Governance and Traditional Affairs amounts to R54 295 000.00. This increases the allocation from R418 792 000.00 to R473 087 000.00. Included in the increase is an amount of R31 000 000.00 rescheduled from the previous financial year for the provision of water reservoirs in the municipalities and R18 000 000.00 for procurement of equipment for Disaster Management Centre. R12 773 000.00 was added as a rollover on the Equitable Share funding.

- The Department of Agriculture, Rural Development, Land and Environmental Affairs budget decreases by R15 986 000.00 from R1 071 000 000.00 to R1 055 000 000.00.
- The budget of the Department of Economic Development and Tourism decreases by R92 679 000.00 from R861 772 000.00 to R769 093 000.00 due to a function shift of Environmental Affairs to the Department of Agriculture, Rural Development, Land and Environmental Affairs with a budget of R86 338 000.00.
- The allocation of the Department of Education increases by R160 534 000.00 from R16 102 000 000.00 to R16 263 000 000.00. Included in the increase is a conditional grant roll over of R16 723 000.00 from the National School Nutrition Programme Grant and R10 602 000.00 from the Equitable Share rollover.
- The budget of the Department of Public Works, Roads and Transport increases by R47 954 000.00 from R4 193 000 000.00 to R4 241 000 000.00. This increase includes funding of R35 750 000.00 from the Disaster Recovery Grant to repair and replace infrastructure damaged as a result of declared disasters that occurred during the 2013/14 financial year, and R1 021 000.00 from the Equitable Share rollover. R40 000 000.00 of this increase is allocated for the Coal Haulage road infrastructure which signifies the Provincial Government's commitment towards improving this strategic road network.
- The Department of Community Safety, Security and Liaison's budget reduces by R8 954 000.00 from R1 027 000 000.00 to R1 019 000 000.00.
- The net increase of the budget of the Department of Health is R40 937 000.00, taking the allocation from R8 991 000 000.00 to R9 032 000 000.00. The net increase of the budget of the Department of Health is R40 937 000.00, taking the allocation from R8 991 000 000.00 to R9 032 000 000.00.

- The department has reprioritized R170 000 000.00 of which R70 000 000.00 is for the building of the Sabie Hospital, while the balance will fund major cost drivers in goods and services.
- The Department of Culture, Sport and Recreation receives a net increase of R1 368 000.00, increasing its budget from R442 208 000.00 to R443 576 000.00.
- The Department of Social Development receives a net decrease of R11 756 000.00 adjusts the department's budget from R1 232 000 000.00 to R1 220 000 000.00. Notwithstanding the decrease, an additional funding amounting to R4 700 000.00 is allocated to the social relief programme.
- The budget for the Department of Human Settlements will increase by R385 772 000.00 from R1 380 000 000.00 to R1 766 000 000.00. Included in this allocation is R111 270 000.00 as a conditional grant rollover from the Human Settlement Grant and R12 498 000.00 from the Equitable Share Funding.

Furthermore, R273 000 000.00 is added to the baseline of the department for infrastructure upgrade, construction of sewer and water treatment works as well as construction of reservoirs in the following municipalities:

Govan Mbeki - R59 000 000.00; Lekwa - R20 000 000.00; Emalahleni - R40 000 000.00; Bushbuckridge - R74 000 000.00 and Mbombela - R80 000 000.00.

6. DELIBERATIONS WITH THE VARIOUS DEPARTMENTS

VOTE 1: OFFICE OF THE PREMIER

The Office of the Premier receives a net increase of R11 448 000.00 which adjusts the budget from R205 372 000.00 to R216 820 000.00. The Office of the Premier indicated to the Committee that the allocation is sufficient and that there is no envisaged deficit and therefore no programmes will be negatively affected. In addition, the Office of the Premier indicated it has proper plans to ensure that all expenditure is executed as planned.

VOTE 2: MPUMALANGA PROVINCIAL LEGISLATURE

The Mpumalanga Provincial Legislature's budget increases by R17 633 000.00, from R273 488 000.00 to R291 121 000.00. The Legislature has experienced challenges in respect to the IT systems in the chamber and committee rooms. R10 000 000.00 is allocated for the upgrading of the public display in the chamber and committee rooms.

The Committee noted that the Legislature, in terms of the in-year monitoring report at the end of September 2014, projects to overspend its budget by R 18 576 000.00. However, it was noted from the documentation received from Legislature, a shortfall of R8 000 000.00 on Goods and Services is envisaged at the end of the financial year because of contractual obligations in the IT and Institution Support Sections.

The Legislature receives an adjustment of R16 120 000.00, it is specifically allocated as follows:

- (i) R10 000 000.00 for the IT system
- (ii) R6 120 000.00 for Public Education

VOTE 3: DEPARTMENT OF FINANCE

The Department of Finance receives a net increase of R7 855 000.00, adjusting the budget from R268 169 000.00 to R276 024 000.00. The department has proper plans to spend the increased adjusted budget. The department further affirmed the sufficiency of the budget to meet its mandate.

VOTE 4: DEPARTMENT OF COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS

The net increase on the budget of the Department of Cooperative Governance and Traditional Affairs amounts to R54 295 000.00. This increases the allocation from R418 792 000.00 to R473 087 000.00. Included in the increase is an amount of R31 000 000.00 rescheduled from the previous financial year for the provision of water reservoirs in the

municipalities and R18 000 000.00 for procurement of equipment for Disaster Management Centre. R12 773 000.00 was added as a rollover on the Equitable Share funding.

The department indicated that;

- (i) R42 994 000.00 is for water projects including rollover of R 11 994 000.00.
- (ii) R 18 000 000.00 is for a Provincial Disaster Management Centre.
- (iii) R 779 000.00 is for a rollover of Goods and Services.

The department indicated that the budget is sufficient; although noting, that it will affect the filling of critical funded posts in the department but confident that by April 2015, those critical funded posts will be filled. The department has proper plans to spend the adjusted budget.

VOTE 5: DEPARTMENT OF AGRICULTURE, RURAL DEVELOPMENT, LAND AND ENVIRONMENTAL AFFAIRS

The Department of Agriculture, Rural Development, Land and Environmental Affairs' budget decreases by R15 986 000.00 from R1 071 000 000.00 to R1 055 000 000.00.

The department has indicated that the budget allocated is sufficient. The department further indicated that:

- (i) R 14 700 000.00 will be for emergence relief to repair damaged agriculture infrastructure.
- (ii) R 86 338 000.00 will fund the function shift of environmental affairs to the Department from the Department of Economic Development and Tourism.

The department provided the Committee with proper plans to spend its allocated adjustment budget.

VOTE 6: DEPARTMENT OF ECONOMIC DEVELOPMENT AND TOURISM

The budget of the Department of Economic Development and Tourism decreases by R92 679 000.00 from R861 772 000.00 to R769 093 000.00 due to a function shift of Environmental Affairs to the Department of Agriculture, Rural Development, Land and Environmental Affairs with a budget of R86 338 000.00.

The department indicated that:

- (i) A total budget of R344 107 000.00 has been transferred to Public Entities and the Zithabiseni Resort.
- (ii) A total of R86 338 000.00 has been reduced owing to a function shift of Environmental Affairs to DARDLEA.
- (iii) R6 486 000 is a reduction of Compensation of Employees as a result of unfilled funded positions from the period 1 April 2014 to 31 October 2014.

The department provided the Committee with proper plans to spend its budget until March 2015 and have assured the Committee that the budget is sufficient and will not compromise service delivery.

Mpumalanga Economic Growth Agency (MEGA)

The entity indicated the following:

- (i) The budget is sufficient for the period ending 31 March 2015; however, the entity is experiencing cash flow constraints.
- (ii) Balanced Annual Budget of R274 296.00 surplus was budgeted for the 2014/15 financial year this excluded the following prior year cash obligations:
 - a. City of Tshwane debt was understated by R34 923 506.00.
 - b. MAFISA loan repayment was understated by R3 799 998.00.
 - c. VAT owed on Special Government Grants received understated by R5 923 880.00.

- (iii) The entity is expecting a cash flow deficit of R32 817 602.00 as at 31 March 2015.
- (iv) The following core programmes will be affected negatively due to the deficit:
 - a. Funds for on-lending amounting to R21 100 000.00 in respect of Agricultural loans (R7 000 000.00), SMME Development loans (R5 800 000.00) and Housing loans (R8 300 000.00) not available. The net effect of this is that the entity's ability to deliver on its mandate of providing development finance is constrained.
 - b. Limitations in funding impair the entity's ability to proactively address the dilapidated state of commercial properties. The net effect of this is that the entity has to settle for rental rates below market rate which in turn results in a loss of potential revenue.

Mpumalanga Tourism and Parks Agency (MTPA)

The following was indicated:

- (i) The entity is allocated R310 941 000 for the 2014/15 Financial Year. The projected own revenue for 2014/15 financial year is R20 000 000.00. The total budget for 2014/15 Financial Year is R331 941 000.00. All programmes are adequately funded.
- (ii) The entity will not incur a budget deficit at year end. The Accounting Officer will ensure that all Programmes stay within their allocated budgets through monthly monitoring of budgets versus spent.
- (iii) The entity has proper plans to spend its allocated budget.

Mpumalanga Gambling Board (MGB)

The entity did not receive additional funding. The entity indicated that its budget is sufficient for the period under review.

VOTE 7: DEPARTMENT OF EDUCATION

The allocation of the Department of Education increases by R160 534 000.00 from R16 102 000 000.00 to R16 263 000 000.00. The department indicated its budget was adjusted by 1% because of the following:

- (i) R 27 325 000.00 for approved roll over.
- (ii) R50 000 000.00 was reprioritized to cater for Learner Teacher Support (stationary)
- (iii) R5 400 000.00 to repair school infrastructure damaged by storm during the 2014/15 financial year.
- (iv) R120 000 000.00 for building one new school in Tekwane North and for rebuilding Mathibela and Mugena Schools.
- (v) Reduction of R 42 100 000.00 on Compensation of Employees.

The department indicated that it will fund:

- (i) R30 000 000.00 for water and sanitation for schools.
- (ii) R20 000 000.00 for bursaries shortfall due to the surrender of funds.

The department indicated that it has plans to implement the additional funds.

Mpumalanga Regional Training Trust (MRTT)

The entity did not receive any additional funding.

VOTE 8: DEPARTMENT OF PUBLIC WORKS, ROADS AND TRANSPORT

The budget of the Department of Public Works, Roads and Transport increases by R47 954 000.00, from R4 193 000 000.00 to R4 241 000 000.00. This increase includes funding of R35 750 000.00 from the Disaster Recovery Grant to repair and replace infrastructure damaged as a result of declared disasters that occurred during the 2013/14 financial year; and R1 021 000.00 from the Equitable Share rollover. R40 000 000.00 of this

increase is allocated for the Coal Haulage road infrastructure. The department indicated to the Committee that there are proper plans to implement the additional budget.

It was noted with concern that the department has overcommitted its budget for the period under review.

VOTE 9: DEPARTMENT OF COMMUNITY SAFETY, SECURITY AND LIAISON

The Department of Community Safety, Security and Liaison's budget reduces by R8 954 000.00 from R1 027 000 000.00 to R1 019 000 000.00.

The department indicated that the budget is sufficient and noted that:

- (i) Compensation of employees has been decreased by 2% and all the vacant and funded posts will be interviewed and only be filled in April 2015.
- (ii) The Compensation of Employees had a budget of R376 940 000.00 for 2014/15 financial year and had spent R185 538 000.00 (49.2%) at the end of September 2014 against National Treasury benchmark of 50%.
- (iii) The percentage under-spending of 0.8% translates to R3 015 000.00.
- (iv) The department will use the available budget until the end of the financial year.

VOTE 10: DEPARTMENT OF HEALTH

The net increase of the budget of the Department of Health is R40 937 000.00, taking the allocation from R8 991 000 000.00 to R9 032 000 000.00.

The department indicated that:

- (i) The Executive Council has committed to reach the funding norm during the 2015/16 financial year. Currently the funding gap amounts to R58 000 000.00. The department has reprioritized R170 000 000.00 of which R70 000 000.00 is for the building of the Sabie Hospital, while the balance will fund major cost drivers in Goods and Services.
- (ii) It envisages a budget deficit of R136 703 000.00.

(iii) Because of the envisaged budget deficit the following programmes will be affected:

- (a) District Health Services (R23 143 000.00)
- (b) Central Hospitals (R38 769 000.00)
- (c) Health Sciences and Training (R19 487 000.00)

The department indicated that a cost curtailment plan has been developed to offset the impact of the envisaged budget deficit. However, the Committee, given the magnitude of the envisaged budget deficit, believes that the plan could not cover the budget deficit, since the plan is not costed.

VOTE 11: DEPARTMENT OF CULTURE, SPORT AND RECREATION

The Department of Culture, Sport and Recreation receives a net increase of R1 368 000.00, increasing its budget from R442 208 000.00 to R443 576 000.00.

The department indicated it considers the departmental budget sufficient and has developed proper plans to spend the additional allocation.

VOTE 12: DEPARTMENT OF SOCIAL DEVELOPMENT

The net decrease of R11 756 000.00 adjusts the department's budget from R1 232 000 000.00 to R1 220 000 000.00.

The department indicated to the Committee that:

- (i) An additional funding amounting to R4 700 000.00 is allocated to the social relief programme.
- (ii) Additional funding amounting to R4 552 000.00 is as a result of function shift of the Rights of Child and Status of Disabled Persons from the Office of the Premier to the department.

- (iii) A surrender of R10 000 000.00 from building and other fixed structures owing to slow progress on infrastructure delivery.
- (iv) A surrender of R11 008 000.00 from Compensation of Employees for funded posts not filled in the period April 2014 to 31 October 2014.

The department indicated that the budget is sufficient for the period ending in March 2015 and there are proper plans to implement the expenditure framework of the department.

VOTE 13: DEPARTMENT OF HUMAN SETTLEMENTS

The budget for the Department of Human Settlements will increase by R385 772 000.00 from R1 380 000 000.00 to R1 766 000 000.00.

The department indicated that:

- (i) R123 768 000.00 has been appropriated to the department as a roll over from previous financial year.
- (ii) R10 996 000.00 has been surrendered to the Provincial Revenue Fund to fund other provincial priorities.
- (iii) R273 000 000.00 has been received for Water and Sewer Bulk Infrastructure.

The department indicated that there are proper plans in place to spend the additional funding and that the department considers the budget as sufficient for the period ending March 2015.

7. FINDINGS

The Committee, after deliberating with all the departments, has made the following findings:

- 7.1. All the departments, with the exception of the Department of Health, found the budget allocation sufficient for the period ending March 2015.
- 7.2. All the departments have proper plans to utilise the funds allocated to them.

- 7.3. It was noted from the documentation received from Legislature, a shortfall of R8 000 000.00 is envisaged at the end of the financial year because of contractual obligations in the IT and Institution Support Sections.
- 7.4. Only the Department of Health is envisaging a budget deficit.
- 7.5. The cost curtailment plan of the Department of Health is not costed.
- 7.6. The Department of Public Works, Roads and Transport has overcommitted its budget for the period under review.

8. RECOMMENDATIONS

The Committee recommends the House to resolve that:

- 8.1. The Office of the Premier and the various Portfolio Committees of the Legislature must ensure that all departments adhere to the plans presented to the Committee through monitoring and oversight.
- 8.2. The Legislature must ensure that the additional funding allocated is utilised specifically for upgrading of IT System and Public Education. Furthermore, the Legislature must ensure proper implementation of its cost curtailment measures.
- 8.3. The Department of Health must cost its cost curtailment plan and submit the plan to the relevant Portfolio Committee by 05 December 2014.
- 8.4. The Executive Council must ensure that Accounting Officers put in place mechanisms, systems and tools to prevent accruals, and ensure that for every accrual incurred, there is a corresponding budget for it.
- 8.5. The Portfolio Committee responsible for Agriculture must follow up on the R5 million that is allocated to farmer support
- 8.6. The Executive Council must ensure that Accounting Officers have systems and mechanisms to detect and prevent irregular, unauthorised, fruitless and wasteful expenditure in the period under review.

9. CONCLUSION

The Chairperson extends his profound appreciation to Members of the Committee, all Chairpersons of Portfolio Committees, the MEC and HOD for Finance, the Director-General, Heads of Departments, Chief Financial Officers, and officials from the Provincial Treasury for their active participation and contributions during the deliberations on the **Mpumalanga Adjustments Appropriation Bill, 2014** as well as the support staff for contributing to the work of this Committee and the production of this report.



HON PS NGOMANA (MPL)

25 / 11 / 14 .
DATE

CHAIRPERSON

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