



Wes-Kaapse Provinsiale Parlement Western Cape Provincial Parliament IPalamente yePhondo leNtshona Koloni

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DRAFT REPORT OF THE STANDING COMMITTEE ON FINANCE, ECONOMIC OPPORTUNITIES AND TOURISM ON THE ANNUAL REPORTS OF THE PROVINCIAL TREASURY AND THE WESTERN CAPE GAMBLING AND RACING BOARD FOR THE YEAR ENDED 31 MARCH 2023, DATED XXX

1. Introduction

The Annual Report programme for the 2022/23 financial year was advertised in newspapers, inviting stakeholders and members of the public to attend and participate in the virtual meeting and discussions.

Members of the Standing Committee on Finance, Economic Opportunities and Tourism (the Committee) deliberated on Part A: General Information, Part B: Performance Information and Part D: Human Resource Management of the Annual Reports of the Provincial Treasury and its Entity, the Western Cape Gambling and Racing Board, on 26 October 2023.

Members of the public were also given an opportunity to pose questions and make oral submissions. The Committee did not receive any input from the public for this Annual Report deliberation.

2. Overview

The Committee considered the Annual Reports of the Provincial Treasury and its Entity; Western Cape Gambling and Racing Board (the Board).

Before proceeding to the consideration of the Annual Reports, the Minister, the Head of Department, the respective Chief Executive Officer and Chairperson of the Board were given an opportunity to make opening remarks.

The Provincial Treasury and the Board received clean audit outcomes for the 2022/23 financial year.

3. Deliberations on the 2022/23 Annual Reports

3.1 Provincial Treasury: Findings/Concerns and Observations

3.1.1 Minister M Wenger, Minister of Finance and Economic Opportunities, noted that Provincial Treasury continued to be a critical and integral driver of good governance within the Western Cape Government (WCG) by implementing and constantly improving on processes and systems that underpinned a maximum impact on the ground, and spoke to every cent of public money that was spent. This was evident from the audit outcomes for the year under review, where every department in the WCG received an unqualified audit outcome. This was the best audit outcome received by the WCG in half a decade.

- 3.1.2 There were a number of municipalities in the Western Cape that were under severe financial distress, especially Beaufort West Municipality, which incurred less expenditure than expected. Provincial Treasury provided dedicated, direct and extensive support to municipalities throughout the financial year. During the year under review, Beaufort West Municipality was the only municipality under formal intervention in terms of Section 139 of the Constitution. Provincial Treasury held cash flow intervention meetings with Beaufort West Municipality thrice a week, which was also supplemented with support from consultants, and grant support was provided to them. Consultants assisting the Beaufort West Municipality found errors in processes, and inconsistencies in general valuations and billings.
- 3.1.3 The local government support Unit within the Provincial Treasury provided ongoing support to municipalities throughout the year, which included monthly monitoring of municipalities. If the team observed a decline in performance, immediate action was taken. There were exogenous reasons for municipal challenges as well as reasons internal to specific municipalities. The COVID-19 pandemic saw a decline in municipal revenue collection, which impacted massively on municipalities with weaker governance foundations. Droughts and floods were also examples of exogenous factors that added to the financial challenges experienced by certain municipalities post-pandemic. The Provincial Treasury engaged with municipalities on good governance processes and engaged in detailed governance assessments of municipalities. If municipalities did not implement good governance policies and procedures, then this would lead to financial troubles later. The Provincial Treasury monitored the municipalities through monthly reports, which were also brought to the Minister's attention monthly. The Provincial Treasury also wrote to municipalities to query particular data items.
- 3.1.4 Recently, a Constitutional Court judgment and a circular from the National Treasury impacting on procurement caused serious challenges for the supply chain processes in all provincial departments. However, Provincial Treasury had developed a Supply Chain Management (SCM) Strategy approximately ten years ago, which was revised accordingly if there were any SCM changes. There were also SCM fora that were run with provincial departments and municipalities, where governance matters were discussed. Provincial Treasury met with National Treasury on a quarterly basis to ensure that they were kept abreast of new developments when the circulars were released, so these changes could easily be communicated to the provincial departments and municipalities. Therefore, the Western Cape was in a better position to respond to the changes issued in the circular.
- 3.1.5 There was a concern about instances where prices of certain commodities that were being procured through SCM processes were very high. This was why the drafting of specifications for bids and quotes was extremely important. Provincial Treasury spoke to the benchmarking of commodities, indicating that they started publishing unit prices of commodities during the COVID-19 pandemic because of the exorbitant prices of goods and services at the time. These unit prices were also published publicly. After the COVID-19 pandemic, the Provincial Treasury continued to publish its disclosure reports but without the unit prices because of the large number of commodities that they were dealing with; however, they have started revamping the SCM system, focusing on value-based SCM. Part of this process was to supply as much information as possible, not only to users within departments and municipalities, but for the private sector as well. The information is available; however, there was a challenge in respect of correlating all the information for commodity prices because different sectors were using

different financial systems. The intention was to get to the point where the Provincial Treasury could supply departments and municipalities with a list of benchmarking prices; however, a decision still needed to be made in respect of whether it was “good policy” to publish the information publicly.

- 3.1.6 For the year under review, the Provincial Treasury was focused on “project preparation facility”, which received an allocation of R83 million for various projects to assist departments to start looking at different phases and preparations for credible project pipelines. During the current 2023/24 financial year, the Provincial Treasury looked at “alternative financing”, which explored different approaches to draw investment from outside the public purse. Infrastructure, which often had a great economic return, was not always fundable through the public fiscus, hence the exploration of a “blended financing modality”. Provincial Treasury has secured technical assistance support from the World Bank and will explore the concept of blended financing instruments, which was piloted initially in the energy sector.
- 3.1.7 The Provincial Treasury has started working with the Department of the Premier and the Department of Social Development to implement a broader approach to gender responsive budgeting, while considering how the Department should develop policies and planning in terms of gender responsiveness. The Provincial Treasury was also learning from the Department of Women, Youth and Persons with Disabilities, that developed a framework and a roadmap in respect of gender responsive budgeting that had to be implemented by 2026.
- 3.1.8 It seemed that the Provincial Treasury’s staff were under immense pressure because of their workloads. The Provincial Treasury has implemented new rules of engagement to address this concern such as streamlining meetings, streamlining the frequency of meetings, ensuring that engagements are more productive, and respecting deadlines and responsiveness. Ultimately, the aim was to change the way officials engaged with one another in order to prioritise a work-life balance, and the overall health and well-being of the staff.
- 3.1.9 There were six bursaries offered by Provincial Treasury that were not taken up by successful recipients due to changes in the students’ academic choices, students securing financial stability and securing alternative funding such as scholarships. The Provincial Treasury’s bursary included an amount for fees, textbooks and stationery, but did not include money for transport and accommodation. It was noted that some potential bursars declined Provincial Treasury’s offer to take the bursary/loan offered by NSFAS, which provided for transport and accommodation as well. The Provincial Treasury was in the process of assessing its bursary policy, including looking at the “missing middle”, which were students of families who were in the middle-income bracket. The Provincial Treasury also planned to visit schools in collaboration with the Western Cape Education Department to raise awareness about it being the employer of choice.
- 3.1.10 The Municipal Economic Review and Outlook (MERO) was published two months after the Provincial Economic Review and Outlook (PERO) was published. The decision to “decouple” the tabling of the MERO and PERO was to align the PERO to the budget timelines in the Public Finance Management Act (PFMA), and to align the MERO with the municipal budget timelines. This was to ensure that the information was as accurate or up to date as possible for municipalities to use in their budget process.
- 3.1.11 Succession planning within the Provincial Treasury was extremely important, especially for officials who have invested many of their working years within the Department. This was noted in respect of the departure of the previous Head of Department, Mr D Savage. It was

critical that there was succession planning in these instances to fill critical posts, especially for officials who hold institutional memory. The Provincial Treasury had a talent management strategy, which spoke to succession planning. The succession planning strategy was also linked to the bursary programme that encompassed both internal and external initiatives. The Provincial Treasury promoted officials internally; however, it was also noted that the Department has also become the training ground for officials who then received offers from municipalities, national government and the private sector.

3.1.12 There were two municipalities in the Garden Route that had unfunded budgets at the end of March 2023. Adopting unfunded budgets was not legal in terms of Section 18 of the Municipal Finance Management Act. The Provincial Treasury worked closely with municipalities in order to avoid unfunded budgets. There were a few municipalities in the province that were, for more technical accounting reasons, potentially unfunded; however, the Provincial Treasury worked with them to ensure that between the tabled budgets and the adopted budgets, they made the necessary changes to get to a funded budget position. The Provincial Treasury then monitored these municipalities to ensure that they did not regress to an unfunded budget position when it came to the adjustment budgets.

3.1.13 The National Treasury has empowered provincial treasuries across the country to have direct control over the condemnation of irregular expenditure within their respective departments and municipalities. The Western Cape accounted for approximately 3% of the irregular expenditure in the country. When the authority was given to the provinces, the Western Cape addressed more than 1 000 cases, and there was a significant drive amongst the departments and entities to reduce irregular expenditure. Provincial Treasury and the Department of Local Government were responsible for training councillors and officials about irregular expenditure. Most of the irregular expenditure occurred in the supply chain space. The Provincial Treasury's programmes were designed to assist officials to better understand the procurement space to avoid irregular expenditure.

3.2 **Western Cape Gambling and Racing Board: Findings/Concerns**

3.2.1 It was noted that the Western Cape Gambling and Racing Board (the Board) made a significant recovery following the COVID-19 pandemic, in terms of the revenue that they were able to collect from gambling taxes and levies. However, the growth in the gambling sector has not been the same for all industries. There was no growth for the totalisator industry, while the casino industry experienced slight growth and recovery since the pandemic. There was some decline in the Limited Payout Machine (LPM) industry, while there was phenomenal growth in the sports betting industry. The LPM industry experienced significant and continuous growth due to the pandemic when people were in lockdown and could only access betting activities online. The Western Cape also does not have a cap on bookmaker licences, so there was a continued increase in the number of licences that were issued.

3.2.2 The Board also experienced a loss in income due to the expiry of some of its previous revenue sources. The Board was only allowed to collect legislated revenue and was not authorised to create its own revenue stream. The Western Cape Gambling and Racing Act sought to create these revenue streams for the Board; however, this legislation was being repealed. The revenue streams, which existed in the past, such as exclusivity fees and route operator fees,

have expired. Hence, the Board was dependent on the grant from the Provincial Treasury to be self-sufficient.

- 3.2.3 In the year under review, the Board implemented a committee which replaced the Responsible Gambling Forum. The Board felt that there needed to be a dedicated committee focusing on responsible gambling given the importance of the issue.
- 3.2.4 The growth in the gambling sector placed an enormous strain on the office of the Board to meet the expectation of licence holders. A major portion of the growth in the sector came from the betting industry, which meant more disputes and more licence applications. The Board needed more resources to deal with these matters, as staff was working overtime to keep up with the workload. This was unsustainable, so the Board completed a study to determine their needs going forward. The Board has presented a new funding model to the Minister and awaits approval thereof.
- 3.2.5 The Board, as a government entity, was required to enforce the principles of Broad-Based Black Economic Empowerment (BBBEE) in the industry, through the imposition of licence conditions. The Board resolved to review its current licensing processes to ensure compliance with the Supreme Court of Appeal judgement (Tsogo Sun Caledon (Pty) Ltd and Others v Western Cape Gambling and Racing Board and Another) when reviewing the BBBEE conditions imposed on licence holders. Subsequently, each licence holder's licence was renewed annually, and the Board adhered to the conditions imposed for each licensee. The Board also adopted a BEE policy that would guide the requirements for the gambling sector in the Western Cape.
- 3.2.6 The Board achieved a surplus for the 2020/21 and 2021/22 financial years, which they requested to retain. The surplus was then used to purchase office accommodation for the Board. The surplus achieved for the 2022/23 financial year was surrendered back to the provincial fiscus. The Board spent R25 million on the new premises; however, the existing lease was extended to the end of 2023 so the Board could refurbish and renovate the new office. The Board was reliant on the Department of Infrastructure to assist with the renovations for the new building.
- 3.2.7 It seemed that online gambling establishments preferred to apply for licences through the Western Cape's Board because it is seen as the best board in South Africa. This was because of the quality of responses and engagements that licensees received from the Board, in addition to the positive licence application processes and public participation experiences.
- 3.2.8 The Board has received a relocation application from Caledon Casino, which they have been considering. One of the burning issues was the impact of the relocation on the Overberg community. This was a complex matter because there was no legislation in effect that dealt with the relocation of casinos. This matter would be addressed in the Western Cape Twentieth and Twenty-First Gambling and Racing Amendment Bills. The Board has taken a cautious approach to this request and is in the middle of a probity process. The Board has also envisaged that public hearings will take place to engage with affected community members.

4. Resolutions/Actions

4.1 The Committee REQUESTED the following:

- 4.1.1 A detailed report from Provincial Treasury on the concept of alternative financing, once it is tabled at Cabinet; and
- 4.1.2 A detailed report from the Western Cape Gambling and Racing Board on the technical innovations that would pose any risks in the gambling sector, and the type of regulations this would require.

4.2 The Committee RESOLVED that:

- 4.2.1 The Provincial Treasury should demonstrate to the Committee the use of the Western Cape Government Tenders website, focusing on extraction of specific information, downloading of specifications etc.;
- 4.2.2 The Committee would visit the Procurement Client Centre; and
- 4.2.3 The Provincial Treasury should invite the Committee to its events with the Western Cape Education Department to raise awareness about its bursary programme.

5. Conclusion

The Chairperson commended the Provincial Treasury and the Western Cape Gambling and Racing Board for their excellent audit outcomes. The Chairperson thanked the Minister, the Provincial Treasury and the Western Cape Gambling and Racing Board for their preparation and responses to questions raised by the Committee members.

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MS CAT MURRAY, MPP
CHAIRPERSON: STANDING COMMITTEE ON FINANCE, ECONOMIC OPPORTUNITIES AND TOURISM
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