



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

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REPORT OF THE STANDING COMMITTEE ON FINANCE ON THE ANNUAL REPORTS OF THE PROVINCIAL TREASURY AND ITS ENTITY, THE WESTERN CAPE GAMBLING AND RACING BOARD, FOR THE YEAR ENDED 31 MARCH 2024, DATED 12 NOVEMBER 2024

1. Introduction

The Annual Report programme for the 2023/24 financial year was advertised in newspapers, inviting stakeholders and members of the public to attend and participate in the discussions.

Members of the Standing Committee on Finance (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 21 October 2024.

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, and the Chairperson of the Board were given an opportunity to make opening remarks.

The Provincial Treasury and the Board received clean audit outcomes for the 2023/24 financial year.

3. Deliberations on the 2023/24 Annual Reports

3.1 Provincial Treasury: Findings/Concerns and Observations

3.1.1 The Provincial Treasury achieved a clean audit outcome for the eleventh year in a row, which showed its commitment to managing public money responsibly and maintaining high standards in financial governments. In total, the Western Cape received unqualified audits for all its government departments and entities. The Minister further indicated that the targets which Provincial Treasury did not reach in the 2023/24 financial year were beyond their control; however, the Department was committed to reviewing those targets that were reactive and based on other actions of stakeholders.

3.1.2 A key area of focus for the year under review was the provision of support to municipalities within the Western Cape, given the challenges faced by local government, especially in terms of finances. The Provincial Treasury supported municipalities during audits and helped them to improve their financial management skills. In terms of interventions, the Provincial Treasury

also supported vulnerable municipalities such as the Beaufort West Municipality and Kannaland Municipality with Financial Recovery Plans to help them overcome their financial challenges. The Beaufort West Municipality was reaping the benefits of this support as they were showing progress in respect of the various terms and conditions set out in their Financial Recovery Plan.

- 3.1.3 During the 2023/24 financial year, the Provincial Treasury dealt with fiscal constraints, especially in respect of limited funding and capacity. This meant that Provincial Treasury had to find innovative ways to continue to deliver quality services, while managing capacity. Irrespective of the challenges, the Provincial Treasury was committed to strengthening its financial governance, supporting municipalities and ensuring that every cent of public money that was spent by government brought value to the people of the Western Cape.
- 3.1.4 The Minister noted that fiscal discipline was required in a constrained budgetary environment. South Africa was sitting at just under 75% of debt to Gross Domestic Product (GDP), and this was projected to increase in the coming years. Essentially, this meant that South Africa was projecting to spend more money on debt service costs than on the actual services needed by South Africans. Furthermore, it meant that the National Treasury would have to be more careful in its consideration of where money would be spent and the amount given to provinces. The provincial equitable share formula was also based on the full pot of money that all nine provinces received. So, an increase in debt services costs had a direct impact on the different amounts of money that national departments, provinces and local government were able to receive. Although high debt to GDP was not unique to South Africa, there was a concern that the country was unable to repay its debt, so it was important to spend on items such as infrastructure that would generate future revenue, which would allow the country to repay its debt.
- 3.1.5 The provincial government did not have a credit rating; however, this was something the government could explore. In order to do this, the provincial government had to ensure that all the good governance practices were in place. The first question that provincial government would be asked was whether it was able to repay its debts. The Provincial Treasury was dabbling with the questions of how to consolidate some of its revenue and how to enhance some of their revenue sources. For example, online gambling has brought in more taxes to the Provincial Revenue Fund than traditional casinos have, which was not previously anticipated. However, online gambling was still illegal in South Africa, so there was a need to expedite the online gambling legislation, so we did not lose those gambling taxes. The taxes from this industry would go directly to provinces, which would bolster provincial budgets.
- 3.1.6 The Provincial Treasury projected a 51% population growth in the Western Cape over the next few years. This growth was directly related to “in-migration”. If the province’s GDP did not grow fast enough, there was a possibility that there would not be enough finances to service the people of the province. The Minister noted that National Treasury has taken the stance that the national fiscal envelope would remain the same, which meant that the National Treasury would not be increasing the pot of money sent to the different spheres. It was projected that there would also be an under-collection of national tax revenue. This put the provinces under immense strain after many years of budget cuts to the provincial budget. Some of these budget cuts were also imposed on conditional grants.
- 3.1.7 The Provincial Treasury assisted four municipalities (Kannaland Municipality, Beaufort West Municipality, Cederberg Municipality and Matzikama Municipality) to access Eskom’s

Municipal Debt Relief Programme. This was a three-year programme that municipalities had to successfully comply with, and there were 41 conditions that had to be met, in order for the debts to be written off. All four municipalities have completed the first year of the programme.

- 3.1.8 The Provincial Treasury and the Department of Local Government (DLG) played a dual role in supporting municipalities. The DLG was the lead on infrastructure matters and there was a forensic audit unit within the DLG. The Provincial Treasury did not deal with fraud and corruption cases in respect of infrastructure projects at municipalities, as these matters were dealt with by the DLG. From a supply chain perspective, the Provincial Treasury assisted municipalities with procurement planning as this had to be a transparent process. In the case of fraud, the Western Cape Government made transfers to municipalities, and these municipalities had to report back monthly on their spending and compliance with the conditions attached to the transfers and grants. If there were concerns about financial and governance challenges in municipalities, the Provincial Treasury halted the transfer of funds to those municipalities and paid service providers directly. It was challenging to prevent fraud within municipalities because the Provincial Treasury was a small team that did not have the capacity to check all tenders and transfers within all 30 municipalities in the Western Cape. Hence, the Provincial Treasury placed emphasis on good governance and having the right governance controls and systems in place at provincial and municipal level, minimising the opportunity for fraud and corruption. The Provincial Treasury also indicated that it was important to note that although it had monitoring responsibilities over most of the municipalities within the province, the City of Cape Town (the City) was a non-delegated municipality (along with the 17 largest municipalities) according to the Municipal Finance Management Act (Act 56 of 2003), which meant that the National Treasury retained direct responsibility for the City. The Provincial Treasury partnered with its National Treasury counterparts during engagements with the City on their budget and governance matters.
- 3.1.9 The supply chain environment was a challenging area for government due to non-compliance issues. Additionally, the Provincial Treasury's Supply Chain Management (SCM) unit, who were dealing with these issues, were under pressure due to capacity constraints. There was a concern that the constrained environment could lead to making more mistakes. The Provincial Treasury noted that the Western Cape Government was the leanest government in South Africa, and there were officials that had to take on two or more job descriptions in comparison to their counterparts in other provinces. SCM was a sought-after skill, and the Western Cape Government also could not compete with the salaries offered for this skill by local municipalities and metros. This also meant that officials were being poached faster than the rate at which the provincial government could appoint them. This matter was also a challenge for the rest of the units within the Provincial Treasury due to salary offers being more competitive in other spheres of government as well as the private sector. The Provincial Treasury also had an aging staff complement, which has led to many of the resignations or retirements within the 2023/24 financial year.
- 3.1.10 In terms of public procurement, it was noted that any law or legislation that did not meet constitutional requirements was going to be challenged. The Minister confirmed that the Western Cape Government (WCG) would be challenging the Public Procurement Act (Act 28 of 2024) in court if the National Minister of Finance and/or the President of the Republic of South Africa was not willing to consult the provinces and municipalities to rectify the unconstitutional issues in the Act. One of the issues was that a big percentage of the 2017

preferential procurement regulations were incorporated into Chapter 4 of the Public Procurement Act (the Act), along with a few compulsory requirements. Firstly, the framework included in the Act was much broader than what the meaning of the word “framework” should be in terms of the Constitution of the Republic of South Africa. The framework in the Act spoke to setting targets and requirements that should have been included in the preferential procurement policy, which was the purview of the organs of state. According to the Provincial Treasury, the framework issued by the Minister of Finance in respect of the Act usurped the obligation of the organs of state to deal with their own target settings and incentives when looking at preferential procurement. Section 217 of the Constitution empowered the procuring organs of state to have their own preferential procurement policy. Secondly, many of the matters in the 2017 preferential procurement policy made their way into the Act after the legislation had made its way through the provinces for comment. The Provincial Treasury was concerned about the processing of the Act, as the version of the Bill that was processed through the National Assembly and the National Council of Provinces was not the version of the Bill that was commented on. This meant that there was minimal time given for comments on the Bill. The Act, as assented to, was also materially changed from the version of the Bill that was commented on during the public participation process. The Provincial Treasury approached the President to discuss this matter and to propose solutions to rectify some of the issues in the Act; however, they received a response from the President indicating that he did not see any constitutional encumbrances and he subsequently referred the Provincial Treasury’s communication to the national Minister of Finance. The Minister of Finance has not responded to the Provincial Treasury on this matter.

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) collected R1,5 billion through gambling taxes and levies for the year under review. It was reported that the gambling industry also contributed R30,7 million towards Corporate Social Investment (CSI) initiatives in areas within the Western Cape. The Board was in the process of amending certain issues relating to the licence conditions, which would allow for mandatory CSI contributions. Currently, there were CSI contributions, but this was on a discretionary basis for licence holders, specifically in the bookmaking or betting sector.
- 3.2.2 There was significant growth in the gambling industry during the 2023/24 financial year, especially in terms of online sports betting, which the Board had managed well despite resource and fiscal constraints.
- 3.2.3 In respect of challenges, the Board noted that it struggled with inadequate resources to perform its mandate, which led to duties being more taxing for the current staff complement.
- 3.2.4 The Board also struggled to achieve full financial self-sustainability and continued to struggle with the slow process of rolling out legislated gambling offerings. It was noted that the Board was a 3C Entity as listed under the Public Finance Management Act (Act 1 of 1999), which meant that it would always be dependent on some resources from the provincial fiscus.
- 3.2.5 The Board was one of the lowest remunerated entities in the Western Cape, which has impeded the Board’s ability to attract and retain the necessary skills needed to regulate and oversee the gambling industry in the province.

- 3.2.6 There was a discussion about the Board falling under the responsibility of the Department of Economic Development and Tourism instead of the Provincial Treasury, as was the case in other provinces. The Minister noted that there was no data or evidence yet to prove that it would be better for the fiscus if the Board was overseen by the Department of Economic Development and Tourism instead of Provincial Treasury.
- 3.2.7 The Board had various processes in place to ensure that the province was not susceptible to an increase in the overstimulation of gambling in the province. The Board engaged in a public participation process to inform members of the public when there was an application for a gambling licence in that specific area. This was advertised in local newspapers and local media in those areas. The Board also conducted its own research prior to the rolling out of any new type of gambling. The Board established a responsible gambling unit, which would focus on educating and creating public awareness about responsible gambling, and to advise the public about the harms related to gambling. There was a concern that the engagements with the members of the public, who were most affected by gambling harms, were not as structured as the engagements with the industry players.
- 3.2.8 In terms of illegal gambling in the Western Cape, the Board engaged in road shows, especially outside of the metro, to create awareness about illegal gambling and the role of the Board. There was a direct correlation between illegal gambling and revenue growth in the industry. If the province did not act on illegal gambling, then the revenue growth in the industry would decline. The Board had a good working relationship with the South African Police Service (SAPS), which included monthly conversations about joint operations and training sessions with designated legal offices within SAPS to assist them with identifying illegal gambling. The Board has continued to educate the members of the public about illegal gambling through community police forums.
- 3.2.9 During the year under review the Board indicated that they were waiting for funding to fill vacant posts. There was a concern that this delay could have a negative impact on the regulatory environment if the Board could not deliver on what they were mandated to do. The Board was unable to generate any revenue other than what was allowed in the Western Cape Gambling and Racing Act (Act 4 of 1996). Therefore, depending on the outcome of the request for funding, the Board has not filled any vacant posts. If the funding application was unsuccessful, the Board would need to reorganise the staffing structure to redirect staff to areas of priority. The Minister indicated that the team would be going through the budget process to see how they could best accommodate the Board on the matter of vacancies.

4. Resolutions/Actions

4.1 The Committee REQUESTED the following:

- 4.1.1 A detailed report from the Provincial Treasury on the Small, Medium and Micro Enterprises and the Broad-Based Black Economic Empowerment businesses that procured services from the Western Cape Government;
- 4.1.2 A detailed report from the Western Cape Gambling and Racing Board on the managing of Corporate Social Investment initiatives in respect of the different gambling licensees; and

- 4.1.3 A detailed report on the work the Western Cape Gambling and Racing Board was doing with respect to responsible gambling; and
- 4.1.4 A list of areas from the Provincial Treasury indicating where the 45 bursary holders resided in, in respect of the External Bursary Programme and the Nedbank Essay Writing Initiative.

4.2 The Committee RESOLVED the following:

- 4.2.1 To visit the Provincial Treasury's Procurement Client Centre; and
- 4.2.2 To request that the Provincial Treasury brief the Committee on their alternative financing model for maintenance in terms of infrastructure.

5. Conclusion

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



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MR P JOHNSON, MPP
CHAIRPERSON: STANDING COMMITTEE ON FINANCE, ECONOMIC OPPORTUNITIES AND TOURISM
DATE: 12 NOVEMBER 2024