



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

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DRAFT REPORT OF THE STANDING COMMITTEE ON FINANCE ON THE 2016/2017 ANNUAL REPORTS OF PROVINCIAL TREASURY AND ITS ENTITY THE WESTERN CAPE GAMBLING AND RACING BOARD

The Standing Committee on Finance, having considered the Annual Reports of Provincial Treasury and the Western Cape Gambling and Racing Board for the 2016/2017 financial year, reports as follows:

1. Introduction

Annual Reports are key instruments by which the Western Cape Provincial Treasury (the Department) and its Entity the Western Cape Gambling and Racing Board (the Board) reports on its performance during a financial year. The Department's performance and that of its Entity is measured against set targets and budgets as outlined in its Strategic Plans and its Annual Performance Plans for the period under review. In addition hereto, it accounts for the success of each Programme implemented.

The Annual Report Programme for the 2016/2017 financial year was advertised in various newspapers, inviting stakeholders and members of the public to attend and participate in the discussions. The Committee deliberated on Part A: General Information, Part B: Performance Information and Part D: Human Resource Management of the Annual Reports of the Department and its entity.

For the year under review the Department received its fourth consecutive clean audit report. It was also awarded 4th place (jointly) at the National Batho Pele Excellence Awards in the category "Best Ethical and Professional Department".

2. Overview

The consideration of the Annual Reports of the Department and the Board took place on 24 October 2017. As part of its oversight function, the Committee considered the Annual Reports as per Standing Rule 105(1) of the Western Cape Provincial Parliament. It provides standing committees with the power to consider Departmental Annual Reports submitted in terms of the Public Finance Management Act (Act 1 of 1999).

The Minister in his introductory remarks elaborated on "Taking the Budget to the People". He indicated that he has actively engaged with the district municipalities to ensure that the community as a whole has a better understanding of what the budget entails. He informed the community during public engagements about the budget and various stages of the projects in their regions and requested that they conduct oversight over the projects by informing the Department of any irregularities and faults.

The Committee commenced with a page-by-page consideration of Provincial Treasury's Annual Report followed by that of the Board.

3. Provincial Treasury

3.1 Background

- 3.1.1 Minister Meyer, in his foreword remarks on the Annual Report of Provincial Treasury informed the Committee of the challenges experienced due to budget cuts and the impact thereof.
- 3.1.2 Minister Meyer, in his Medium Term Budget Policy Statement (MTBPS), incorporated a provincial risk statement which identified water security and the drought experienced in the Western Cape as a major risk to the economy, employment and environment.
- 3.1.3 He listed the following fiscal and budget policy principles that underpinned the planning and budgeting processes:
 - 3.1.3.1 Allocative efficiency to achieve a balanced allocation of resources that reflects the projects of government and considers programme effectiveness based on evidence.
 - 3.1.3.2 Fiscal sustainability from a provincial perspective that focuses on maintaining stability in key government programmes and managing risks in a constrained economic and fiscal environment. The main focus would be on the appropriate balancing of a fiscal aggregate that ensures a sustainable fiscal position in the medium to long term.
- 3.1.4 A Fiscal Risk Strategy was included into the main budget to deal with unforeseen and unavoidable expenditure caused by the current drought and recent disasters in the Western Cape. An amount of R75 million was made available for drought relief and for the disaster management in Knysna, including other areas in the Western Cape.
- 3.1.5 Fiscal consolidation entails reducing government expenditure and/or increasing revenue. A key mechanism is the reduction of personnel to ensure sustainable budgets. The Western Cape capped its budget process to ensure the lowest personnel expenditure ratios in the main budget.
- 3.1.6 Fiscal discipline ensures that all provincial departments and entities remain within budget limits and avoids irregular, fruitless and wasteful expenditure.
- 3.1.7 The 2014 Public Sector Supply Chain Management Review conducted by National Treasury provided an assessment of the current SCM system and provided a roadmap for reform. The SCM Review published in 2016 provided insight into the progress made since the inception of the review to date.
- 3.1.8 The Office of the Chief Procurement officer accelerated measures to make it easy for business and government to transact; and at the same time ensure that government purchase what it needs at the right time, the right price in the correct quantities and that the purchased items are delivered to the right location.
- 3.1.9 The use of technology, via the business intelligence tools and data analyses of procurement information, was strengthened to present SCM performance information to departments to enable better procurement governance requirements and to support improving procurement planning initiatives within departments.

3.1.10 Provincial Treasury is currently working with National Treasury on the Central Supplier Database to improve on service delivery. This is to streamline supplier relationship management.

3.1.11 Provincial Treasury listed four strategic objectives for the year under review. These are to:

- Provide management and administrative support;
- Improve the understanding and application of accounting standards and financial reporting within municipalities;
- Improve the application of accounting practices in line with the reporting framework, prepare provincial consolidated financial statements and gradually drive finance governance reform; and
- Develop, monitor and advise on norms and standards of corporate governance within municipalities.

3.2 Findings

3.2.1 A review of the current SCM legislative framework by National Treasury is underway. This will culminate in a single public procurement legislation addressing all the legislative and regulatory inefficiencies in the system.

3.2.2 National Treasury is in the process of re-writing its policy regulations. The Central Supply Chain Database has been written into the new Preferential Procurement Regulations. In addition hereto there is a disclaimer written into the Central Supply Chain Database to address risks. Provincial Treasury is also in the process of putting mechanisms in place to ensure that the risks associated with the Database are addressed.

3.2.3 The Central Supply Chain Database has been identified as one of the key risk areas for the province. National Treasury is currently supporting ± 400 institutions on the Central Supply Chain Database and cannot always deal with requests made by provinces.

3.2.4 The Preferential Procurement Policy Framework Regulations, Cost Containment Instructions, Transversal contract requirements for various initiatives, revised functionality requirements on the Central Supplier Database, Government Commerce, revised B-BBEE sector codes, Local Content Instructions, Construction Industry Development Board standards and leasing standards were issued by National Treasury. This will further impact on the work of Provincial Treasury.

3.2.5 The Integrated Financial Management Systems (IFMS) Unit has successfully migrated BAS versions from 4 to 5 and updated all linked codes in PERSAL with minimal disruptions to service. The clean-up of system data in preparation for the eventual move to the IFMS has been a key focus area.

3.2.6 Approximately 120 000 B-BBEE companies countrywide has to be re-registered and captured onto the Central Supplier Database. The Provincial Treasury also assisted and supported provincial departments and municipalities to improve their management practices, financial practices and operations systems to achieve National Outcome 9: A responsive, accountable, effective and efficient local government system, and National Outcome 12: An efficient, effective and development orientated public service.

These initiatives assisted provincial departments and municipalities to enhance socio-economic opportunities, to support the development of expertise, to improve systems, and processes, to reduce inefficiencies, to enhance a high adherence to ethics, and to build a government that is accountable to its people.

3.2.7 Organisational environment

3.2.7.1 Provincial Treasury has implemented a number of initiatives to establish a pipe-line of public sector financial management specialists. E.g. Chartered Accountant Academy, Essay Writing Competition and Bursary Programme and placement of bursary obligators in provincial departments.

3.2.7.2 The Minister informed the Committee that Nedbank, the Department of Education and Provincial Treasury embarked on a bursary programme to grant bursaries to six best performing schools. He indicated that 15 bursaries are awarded annually for maths, economics and accounting students. The students form part of a three year bursary programme after which they are entered into an internship programme where their skills are utilised in the public service. In addition hereto Nedbank hosts a competition on, the best essay writing for previously disadvantaged schools. An overall amount of R301 000 was awarded to the winning schools. The qualifying criteria for the winning schools are provided by the Department of Education as they had the results of the schools across all districts.

3.2.8 Human Resource Management

3.2.8.1 The Western Cape Government is committed to taking a consistent and transparent fiscal policy approach to ensure fiscal consolidation, fiscal discipline and sustainability. The Fiscal consolidation entails reducing government expenditure and/or increasing revenue.

3.2.8.2 In every Vote there will be vacant posts that are not funded. Each Vote has to manage its Compensation of Employees (COE) upper limits to ensure that it does not exceed a certain percentage of its total budget, as this will result in fiscal erosion. During the Medium Term Expenditure Framework engagement with departments, the budget in a Vote is balanced with a head count. Posts are then filled once funding becomes available. The Minister indicated that National Treasury has made funding available for staffing capacity. He indicated that the funding for staffing should take a balanced approach.

3.2.8.3 Provincial Treasury indicated that the two vacant funded Chief Director posts are in the process of being filled. Provincial Treasury does not have a funding plan for organisational development where critical posts are outlined and funding is sourced from other less critical posts.

3.2.8.4 Employment Equity/Diversity Management

3.2.8.4.1 Provincial Treasury informed the Committee that it developed a new Employment Equity Plan in the 2016/2017 financial year. They indicated that there are two parts to the new Employment Equity Plan. The first part is the numeric goals and targets, and the second part deals with barrier identification as well as affirmative measures. Both sections of the plan are to be read in conjunction with one another as it informs the other.

3.2.8.4.2 Currently no progress has been made in terms of the 50% target related to Senior Management Services (SMS) for woman in management positions. The Committee was informed that Treasury was 27% compliant and that the target can only be achieved as

vacant posts become available. They indicated that an Employment Equity Forum has been established but that implementation has proven to be challenging. They indicated that the targets are monitored from the shortlisting stage as a mechanism to achieve their target at the recruitment and selection stage.

3.2.8.4.3 Provincial Treasury informed the Committee that the target indicator for the financial year under review for people with disabilities is 5% and that Treasury has only achieved 1%. The Department is working on interventions to ensure that people with disabilities apply for positions within Provincial Treasury. Provincial Treasury informed the Committee that vacant posts are being advertised in organisations where the disabled are able to see the posts and subsequently apply for it.

3.2.8.5 Consolidated Financial Statements for the 2016/2017 Financial Year

Treasury indicated that the Annual Consolidated Financial Statements cannot be submitted as the financial statements of the Department of Agriculture is still outstanding. The Department of Agriculture and the Auditor-General are in disagreement on the classification of goods and services and transfer payments. The Auditor-General is in the process of consulting its technical unit on how to finalise the matter. According to Provincial Treasury, the outstanding transfer payments will affect the appropriation statement and will at a later stage be dealt with in the Adjustments Appropriation where the matter will be brought to the attention of the Committee.

3.3 Written and oral submission

The public was allowed an opportunity to provide inputs on the Annual Report.

- 3.3.1 Mr Mbiko from the Nyanga Development Forum addressed the Committee on the challenges experienced in obtaining information from the City of Cape Town on the:
- 3.3.1.1 Mayoral Urban Regeneration Programme; and
 - 3.3.1.2 Violence Prevention through Urban Upgrade Project.

3.4 Information Requested

- 3.4.1 The Committee REQUESTED that Provincial Treasury provide the Committee with the following:
- 3.4.1.1 List of schools and students that/who have received funds under the Provincial Treasury and Nedbank Joint Bursary Programme as well as the criteria used and/or applied in granting funds to students;
 - 3.4.1.2 Copy of Provincial Treasury's Employment Equity Plan and its Workforce Plan;
 - 3.4.1.3 Report that clarifies the content of the term "various" under Nature of the Project relating to Programme 2: Department of the Premier, on page 122, of the Annual Report;
 - 3.4.1.4 Update on the status of the accommodation for the Board;
 - 3.4.1.5 Copy of the Board and Provincial Treasury's Social Economic Report;
 - 3.4.1.6 List of consultants utilised by Provincial Treasury; and
 - 3.4.1.7 Report on the R18.6 million redistribution to the Kenilworth Racecourse.

4. Recommendations/Actions

4.1 The Committee RESOLVED to invite Provincial Treasury to brief it on:

4.1.1 The reasons for the inability of the Department of Agriculture to table their 2016/2017 Annual Report by 30 September 2017; and

4.1.2 The key findings of the Report into the sustainability of the Casino and Horse Racing Industry, once finalised.

4.2 The Committee RESOLVED to engage with the relevant authorities regarding Mr Mbiko's queries.

5. Western Cape Gambling and Racing Board (Board)

5.1 Overview

The Chairperson of the Board, Mr Arendse, and the Chief Executive Officer, Mr Abrahams, made introductory remarks which was followed by a page-page consideration of the Annual Report of the Board.

The Western Cape Gambling and Racing Board is a Public Finance Management Act (Act 1 of 1999) (PFMA) Schedule 3C provincial public entity mandated to regulate gambling and betting in the Western Cape.

The Board is authorised to have seven Board Members. During the year under review, the Board only had six members for a period of eight months. This was challenging when a quorum was required to decide on matters during Board meetings. Despite this constraint, all scheduled Board meetings were held and the Board was able to achieve its approved targets as set out in its Annual Performance Plan for the 2016/2017 financial year.

5.2 Background

During the year under review the Board achieved its set targets and honoured its mandate by processing 8 727 licence applications. The Board conducted 1 202 assessments on license holders and deliberated on nine disputes. The Board was instrumental in assisting punters with 16 self-exclusions. The Board conducted 32 Financial Intelligence Centre Act (Act 38 of 2001) (FICA) audits and 29 raids on illegal gambling establishments, where 61 devices were confiscated. The Board complied with all of its PFMA requirements and has received a clean audit for the financial year under review.

5.3 Findings

5.3.1 Patron dispute

A Patron dispute is defined in the Western Cape Gambling and Racing Act (Act 4 of 1996) (the Act) as an alleged non-payment of winnings by a licensed holder licensed by the Board. A dispute is lodged by either the license holder or the patron. The Compliance Department investigates the dispute once it has been referred. The case, if valid, is then escalated to the Board to make a ruling on the matter. A report is drafted on the findings and submitted to Legal Services. A written decision is drafted quoting the relevant legislation and sent to both parties.

For the year under review the Board received nine patron disputes. Two of the disputes investigated were decided in favour of the patron and the remainder of the disputes were found in favour of the institution. There was one dispute with a casino and the other with the bookmakers.

5.3.2 Research

The Board, on finalisation of its research into the socio-economic impact of regulated gambling, engaged with its stakeholders for comment. The Board is currently reviewing its strategies and will implement them in line with its approved Annual Performance Plan. All comments from various stakeholders on the research pertaining to the socio-economic impact of regulated gambling study will be taken into consideration.

5.3.3 Financial Intelligence Centre Act Audits

The Board is considered a supervisory body in terms of FICA and the licence holders are considered as accountable institutions. There are certain statutory duties that pertain to the Board and the licence holders. To ensure compliance the Board and the license holder must perform certain functions in terms of the FIC Act.

The Board conducts annual FICA Compliance Audits and holds regular meetings with the Financial Intelligence Centre. They also signed a Memorandum of Understanding with the Financial Intelligence Centre.

The license holder has to adopt certain processes to detect and deal with money laundering. They have to comply with certain statutory thresholds that is prescribed within which they have to report on payments they have received from members of the public. They have to appoint risk officers and must have certain policies in place. The Board would then conduct FICA audits on these establishments based on this criteria.

5.3.4 Illegal Gambling

The Board, for the year under review, received approximately 90 allegations of illegal gambling and reported that all 90 cases were investigated. The Board is currently engaging with agencies such as the South African Police Services Legal Services, the Flying Squad, the Dog Unit, Specialised Commercial Crime Unit, Directorate of Public Prosecution, the Hawks, Metro Police and the Western Cape Liquor Authority, to equip them in identifying illegal gambling sites and providing them with training on the Boards legislation relating to illegal gambling. The Board signed a Memorandum of Understanding (MOU) with the South African Police Service to receive training on the Western Cape Gambling and Racing Act (Act 4 of 1996). The MOU contains training dates, persons who will receive training and the content of the training information. The MOU was signed in the 2016/2017 financial year.

Devices that are confiscated during a raid are used as evidence in court cases. Once the matter is concluded and a guilty verdict is received, the devices are handed over to the Board for demolishing. Provincial Treasury provides written confirmation that the devices may be destroyed and the Boards Compliance unit supervises the process. The Board indicated that national government reported a R1.9 billion annual loss due to illegal gambling.

5.3.5 Community Police Forum (CPF)

The Board indicated that they conduct regular visits to the following CPF's Fisante Kraal, Wynberg, De Gamas Kop, Ceres and Paarl. They indicated that they interact with the Wynberg CPF on a regular basis.

5.3.6 Broad Based Black Economic Empowerment (B-BBEE)

The consultative process of engaging license holders on the amended B-BBEE codes and the B-BBEE Amendment Act (Act 46 of 2013) has been concluded. The Board has imposed revised B-BBEE conditions on all licence holders.

The Board looked at each operator's current progress and imposed justifiable conditions on the operators as prescribed in the Broad Based Black Economic Empowerment Act (Act 46 of 2013). The conditions are structured in such a manner that Bookmakers are able to give effect and subscribe to tangible conditions in practise.

The Broad Based Black Economic Empowerment Act does not impose levels to the codes but the Board has imposed levels that the gambling industry must subscribe to. The license conditions also outlines the reports that has to be submitted to the Board and operators attendance of Committee meetings. In addition hereto operators have to submit quarterly reports, as well as an annual B-BBEE Rating Certificate as part of every license holder's annual renewal process.

5.3.7 Board Accommodation

Accommodation constraints remain one of the Board's major challenges. It hampers the Board's ability to enhance its efficiency and effectiveness in that it does not adequately allow for resource expansion or optimal use of space.

The Board indicated that two possible sites for accommodation have been provided to them by the Department of Transport and Public Works namely:

- The vacant plot at Karl Bremmer located at Frans Conradie Drive, Bellville West; and
- The vacant plot at Two Rivers, located at Alexander Hospital, in Pinelands.

The Board was requested to indicate its preference. The preference was submitted and a response is being processed.

5.3.8 Revenue increase

During the year under review, the Board collected R4 203 994 more in revenue as follows:

Total revenue from exchange Transactions (page 9 and page 63 of the Boards Annual Report)	R4 203 994
<i>None exchange Transactions</i>	
Actuarial Valuation (page 32 of the Boards Annual Report)	(229 406)
Profit on disposal of assets (page 32 of the Boards Annual Report)	<u>75 533</u>
Total	<u>R4 050 121</u>

5.3.9 R18.6 million distribution to Kenilworth Race Course

The R18 679 118 represents the 3% contemplated in regulation 71 of the Western Cape Gambling and Racing Regulations as follows:

- Regulation 71 of the Regulations requires a bookmaker to pay a levy of 3% of winning bets;
- Regulation 72 of the Regulations requires that the Chief Executive Officer (CEO) of the Board pay the whole amount received to the Totalisator licence holder;
- Regulation 73 prescribes the use of such a levy by the Totalisator licence holder; and
- Regulation 74 provides for the CEO of the Board to cease payment to the Totalisator licence holder if they do not comply with the provisions of regulation 73.

5.3.10 Self-sufficiency of the Board

The Board concluded its Report on self-sufficiency and is currently in discussions with Provincial Treasury. Once the discussions are concluded the Board will revert back to the Committee on the findings and outcomes.

6. Information requested

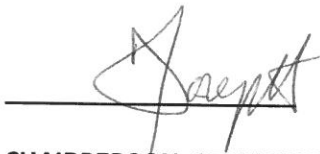
6.1 The Committee REQUESTED that the Board provide it with a report on the:

- 6.1.1 Revenue lost due to illegal gambling; and
- 6.1.2 Boards investigation into its self-sufficiency status.

7. Conclusion

The Chairperson thanked the Minister, the Head of Department and the Western Cape Gambling and Racing Board for the preparation and responses to the questions raised by the Committee members.

MR D JOSEPH (MPP)



CHAIRPERSON: STANDING COMMITTEE ON FINANCE

DATE: 22 NOV '2017