

COMMITTEE REPORT OF THE PORTFOLIO COMMITTEE ON PREMIERS' OFFICE; FINANCE; ECONOMIC DEVELOPMENT AND TOURISM IN RELATION TO THE 4TH QUARTER PERFORMANCE REPORT FOR 2014/15 FINANCIAL YEAR – MPUMALANGA ECONOMIC GROWTH AGENCY

1. INTRODUCTION

The Portfolio Committee on Premiers Office; Finance; Economic Development and Tourism 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 218 and Rule 131 of the Rules and Orders of the Mpumalanga Provincial Legislature (the Rules) to oversee the performance of the Mpumalanga Economic Growth Agency (the entity) and hold it accountable through various measures.

2. METHOD OF WORK

The Speaker referred the department's forth (4th) quarterly report to the Portfolio Committee on Premier's Office; Finance; Economic Development and Tourism for consideration and report back to the Legislature, as contemplated in rule 218 (4) of the Rules and Orders of Mpumalanga Provincial Legislature (the Rules).

The Committee met with the Department on 11 August 2015 to deliberate on the entity's quarterly report and scrutinize in detail the aforementioned document. The Committee then met on 18 August 2015, to consider the draft Committee report.

3. GENERAL OBSERVATIONS

The Committee observed that the entity had improved its overall performance on a number of areas.

4. BROAD OVERVIEW BY THE MEC

The Chairperson of the Board, Mr D Mculu, presented the overview of the entity, where he indicated that the Board was appointed as at 1 July 2015. Also, MEGA had obtained a qualified Audit opinion for the 2014/15 financial year; most of the findings

are the legacy problems of the entity. MEGA's Organisational Structure has been approved by the Board and the refined structure will be presented to the Human Resource Committee of the Board. The entity is currently implementing the SOPA priorities as stated on the State of the Province Address.

5. DELIBERATIONS ON THE 4th QUARTERLY REPORT

The CEO briefed the Committee on the progress made on the implementation of the APP's strategic objectives of the 4th quarter. Thereafter, the Committee interacted with the entity on each programme.

PROGRAMME 1: CHIEF EXECUTIVE OFFICE

Programme 1 has achieved 14 targets out of 35 planned as outlined in the APP and this indicates that the Office of the CEO programme has achieved 40% of its targets.

Programme 1 Expenditure Analysis

| Budget 2014/15 | As at 4th Quarter | % of Budget |
|----------------|-------------------|-------------|
| R14 175 000 | R12 003 000 | 85% |

Programme 1 was allocated a budget of R14 175 000 for the 2014/15 financial year. As at the end of the 4th quarter, the entity spent an amount of R12 003 000; which translates to 85% of its annual budget and a 15% under expenditure. The entity has only achieved 40% of its targets for programme 1.

The Committee noted that in Risk Management sub-programme, none of the three (3) targets set were met. The sub-programme failed to get the ERM strategy reviewed and approved as well as the submission of the ERM quarterly report to the Board and lastly to submit the Quarterly fraud Prevention Plan to the Board for the 4th quarter running. Lack of capacity was cited as a reason for variation as the vacant position Enterprise Risk Manager had not yet been filled. The entity reported that filling of positions was deferred; pending the finalisation of the new Organogram, necessitated by the new MEGA Corporate Strategy as well as the Organisational re-

design which is currently being implemented within DEDT. In the interim, an internal resource was seconded to oversee this function until a permanent appointment has been made.

The Committee noted that the Strategy and Planning sub-programme achieved three (3) of its four (4) set targets. It failed to submit one (1) report on the implementation of the Performance Information Management Policy to EXCO for the 4th quarter in a row. This was attributed to the failure to convene the Performance Management Committee for the whole year. The entity reported that; due to limited capacity within the Strategy and Planning Unit, the monitoring and evaluation function was not performed and as a result there were no reports for submission to the Committee.

The main purpose of the above mentioned Committee is to consider progress on the organisational performance through monitoring and evaluation reports and providing guidance to management on how organisational performance can be improved.

In order to address this challenge; management has taken the following actions:

- Utilization of the DEDT M&E function; since the last quarter of 2014. The first M&E report was compiled and submitted to management in the 1st quarter of 2015.
- The Internal Audit Unit is assisting with audits on performance information on quarterly basis.

The Committee also noted with concern that; the Legal Services sub-programme, has once again; as in the 2nd and 3rd quarter; failed to meet the target of transferring immovable assets into the name of MEGA. The entity also failed to conduct one (1) compliance audit as well as compile one (1) Universal compliance report and get it approved by EXCO for the second consecutive quarter. It also failed to produce and submit three (3) litigation reports to EXCO due to the vacant position of Manager: Legal Services.

The Committee requested the entity to provide a progress on registering the entity's property at the Deeds Office. It was reported that the process of appointing the

conveyances for the registration of MEGA properties at the Deeds Office have been completed. All properties are expected to have been registered within the current financial year.

PROGRAMME 2: FINANCE

The Programme has failed on one (1) of its five (5) targets and this indicates that the Finance sub-programme has achieved 80% of its targets for the 4th quarter.

Expenditure Analysis

| Budget 2014/15 | As at 4th Quarter | % of Budget |
|-----------------------|--------------------------|--------------------|
| R84 087 000 | R110 028 000 | 131% |

The Committee noted that the entity failed to increase the baseline debt collection ratio to 5% for the third consecutive quarter. This was attributed to insufficient capacity of debt collectors and ineffective loan book.

The Committee asked whether the entity had any plans or strategies in place for the 2015/16 financial year; to increase its baseline debt collection ratio. The entity reported that it plans to maximise its own revenue sources and collection by:

- Implementing credit control measures, e.g. disconnection of electricity of rental and municipal debtors.
- Review and revitalization of the property portfolio including reduction in the vacancy rate and possible disposal of "surplus" assets.
- Continue with the implementation of the call centre.
- Site visitations by Head of Collection department on a monthly basis to maximise a clear point of contact between MEGA and clients.

The Committee further noted that programme 2 was allocated an amount of R84 087 000 for the 2014/15 financial year. The expenditure analysis of the 4th quarter report indicates that an amount of R110 028 000 has been spent to date; this translates to

131% (over-expenditure of 31%) of the programme's budget spent which is R25 941 000.

The entity reported that the over-expenditure impacted negatively on its ability to deliver on its developmental mandate including:

- Funding of new loans and projects.
- Maintaining their property portfolio.

The funds that were accessed from the savings on the bulk electricity services since the City of Tshwane electricity rates were lower than budgeted for and from other savings made on other budget items.

PROGRAMME 3: CORPORATE SERVICE

The programme has achieved 47% of its targets; which constitutes nine (9) out of its 19 targets for the 4th quarter of the 2014/15 financial year. The Human Resource sub-programme achieved three (3) of its nine (9) targets. It failed to implement 80% of the PMDS strategy; instead only 34% was achieved.

The Committee noted that the entity failed to review and implement the Talent Management Strategy and HR Strategy, develop and implement EE plan; to review the organogram by 31 March as well as to ensure that 90% of funded positions were filled.

The entity reported that the planned output to review the organogram was based on the old Organogram for the previous Strategy; however, a new MEGA Corporate Strategy was developed and adopted in the 4th quarter; resulting in a need to develop a new Organogram.

Expenditure Analysis

| Budget 2014/15 | As at 4th Quarter | % of Budget |
|-----------------------|--------------------------|--------------------|
| R131 143 000 | R130 328 000 | 99% |

PROGRAMME 4: INFRASTRUCTURE DEVELOPMENT AND PROGRAMME MANAGEMENT

The Committee noted that the entity in programme 4 failed to achieve its two (2) targets it had planned for the 4th quarter of the 2014/15 financial year.

With regard to the Fresh Produce Market; the entity failed to complete phase 2 of the project plan. The following progress was reported:

- ✓ Planning, EIA and legislated processes about 99% complete.
- ✓ Bulk electricity has been installed and 100% complete.
- ✓ Bulk sewer is under construction and about 95% complete.
- ✓ Bulk water pipeline is under construction and about 45% complete.

The Committee asked the entity to clarify the cause of the slow implementation of the Fresh Produce Market and when is the Market set for completion. It was reported that the slow implementation of the project was caused by the insufficient budget to fully implement the project activities; since the work activities programme are based on available budgets. Additional capital funding for the construction of buildings in the main market requires sourcing. Such funds amounting to R300 000 000 may not be provided by government alone as the average MTEF provision is in the region of R50 000 000 per annum.

The conclusion of the Feasibility Study report is important in sourcing alternative funds; hence the process of appointing a new service provider; since the Fresh Harvard Consulting Firm dispute has been finalised.

Programme expenditure

| Budget 2014/15 | As at 4th Quarter | % of Budget |
|-----------------------|--------------------------|--------------------|
| R7 017 000 | R1 182 000 | 17% |

The programme was allocated a budget of R7 017 000 for the 2014/15 financial year. The expenditure analysis of the 4th quarter report indicates that an amount of

R1 182 000 (translating to 17%) was spent as at the end of the 4th quarter. This indicates that the entity has under spent on its budget by 83% for the programme.

The Committee enquired on the failure to achieve targets for programme 4 when there are funds still available. It was indicated that the funds reflected on the budget is operational budget for the administration of the Programme Management Unit within MEGA. Funds for the implementation of the project are located within DARDLEA and MEGA only invoice for the work done.

The R7 000 000 budget included operational budget for the implementation of the Bulk Water project; which was later surrendered back to Treasury after the project was handed over to the municipalities.

PROGRAMME 5: TRADE AND INVESTMENT

The programme has achieved seven (7) of its 12 targets (58%) planned for the 4th quarter of the 2014/15 financial year. The Trade Promotion sub-programme managed to attain five (5) of its six (6) planned targets. The entity notably failed to secure supplier agreements with international partners as well as agree on export targets with farmers in line with export demand. No reason was provided in this regard.

The Investment Promotion sub-programme maintained its 2nd and 3rd quarter performance, the sub-programme attained two (2) of the six (6) planned targets once again. This translates to 33% attained targets.

Programme expenditure

| Budget 2014/15 | As at 4th Quarter | % of Budget |
|-----------------------|--------------------------|--------------------|
| R2 995 000 | R2 764 000 | 92% |

PROGRAMME 6: PROPERTY DEVELOPMENT AND MANAGEMENT

Programme 6 has achieved six (6) of its nine (9) targets (67%) for the 4th quarter of the 2014/15 financial year. Notably, the programme fell slightly short on collecting

rental income at R8 100 000; whereas the target was R9 800 000. The entity escalated 85% of its leases instead of 100%. The Committee noted that the entity and the tenants did not comply on the OHS, Fire, and COC for the third consecutive quarter. Variation stated by the entity included issues of fire equipment not serviced by tenants, insufficient debt management capacity and manual systems in use. Furthermore the Committee also noted that there are properties with dual ownership.

Programme expenditure

| Budget 2014/15 | As at 4th Quarter | % of Budget |
|----------------|-------------------|-------------|
| R104 085 000 | R91 237 000 | 88% |

The programme was allocated a budget of R104 085 000 for the 2014/15 financial year. The expenditure analysis of the 4th quarter report indicates that an amount of R91 237 000 (88%: under-expenditure of 12%) was spent as at the end of the 4th quarter.

PROGRAMME 7. HOUSING

The Committee noted that Programme 7 maintained its 2nd and 3rd quarter performance; it has achieved none of its six (6) targets for the 4th quarter which is another non-performance for the 2014/15 financial year. The targets not achieved include the approval of new bonded loans to qualifying applicants (only 3 out of 4 were approved), construction of 85 houses, and installation of bulk infrastructure for Lydenburg Ext 6. This is for the fourth consecutive quarter that the entity has failed to initiate this project. The entity attributed this to discussions with Human Settlements which have not been finalised.

Programme expenditure

| Budget 2014/15 | As at 4th Quarter | % of Budget |
|----------------|-------------------|-------------|
| R8 486 000 | R2 747 000 | 32% |

The programme was allocated with a budget of R8 486 000 for the 2014/15 financial year. The expenditure analysis of the 4th quarter report indicates that an amount of R2 747 000 (32%) was spent as at the end of the 4th quarter.

The entity reported that the budget for loans was R 8 300 000 while loans disbursed amounted to R 2 300 000. The ability to issue loans as planned was affected by cash flow constraints that it encountered during the course of the year, as a result of poor repayment rate by clients, statutory obligations that had to be met such as the VAT, City Of Tshwane debt.

PROGRAMME 8. BUSINESS DEVELOPMENT

Programme 8 has achieved none of its six (6) planned targets as outlined in the APP and this indicates that the Business Development programme has achieved none of its targets for the 4th quarter of the 2014/15 financial year

The Committee noted that the sub-programme for agricultural development has achieved none of its three (3) set targets for the 4th quarter of the 2014/15 financial year. The targets include the issuing of seven (7) loans to agricultural enterprises and coops (only 1 granted), 100% of funded businesses complying with the Business Support Manual (BSM). The Committee asked the entity to provide further details on the agricultural loan granted at R450 000. It was reported that the loan was granted to Shining Future Trading & Project for livestock payable in six (6) annual instalments starting in 1 September 2016. The business is located in Gert Sibande District at Herpsfontein, Greylingstad.

The Committee raised a concern on whether the challenges of 2014/15 financial year can be combated in the 2015/16 financial year. The entity reported that more loans are to be provided in the 2015/16 financial year. MEGA is planning to disburse agricultural loans valued at R7 000 000.

Programme expenditure

| Budget 2014/15 | As at 4th Quarter | % of Budget |
|----------------|-------------------|-------------|
| R18 306 000 | R7 395 000 | 40% |

The programme was allocated a budget of R18 306 000 for the 2014/15 financial year; including the revenue generated by the programme. The expenditure analysis of the 4th quarter report indicates that an amount of R7 395 000 (40%) was spent as at the end of the quarter.

The Committee questioned whether the cash flow of the entity has any implication on service delivery. The entity reported that the cash flow had impacted negatively on its ability to deliver on its development mandate of funding new loans and projects.

6. COMMITTEE FINDINGS FROM THE INTERACTION WITH THE DEPARTMENT

After the interaction with the department, the Committee made the following findings:

- 6.1. The entity did not hold Performance Information Management Policy meeting for four (4) consecutive quarters.
- 6.2. The entity and the conveyance attorneys are anticipating completing the process of registering all properties at the Title Deeds Office in this current financial year.
- 6.3. All critical vacant funded positions of the entity are not filled due to the Organisation re-design being implemented by DEDT and the Organogram to be finalised by the new MEGA Corporate Strategy.
- 6.4. The budget for the Fresh Produce Market is not sufficient to fully implement the projects activities.
- 6.5. The entity; in all its programmes; did not achieve most of its planned targets in the 4th quarter.
- 6.6. The entity is planning to disburse more agricultural loans at the value of R7 000 000.

7. RECOMMENDATIONS IN RESPECT OF THE FINDINGS

The Committee recommends the following:


- 7.1. The Accounting Officer for DEDT must ensure that the Strategic and Planning Unit is fully capacitated and funded vacant positions are filled in the 2015/16 financial year.
- 7.2. The Executive Authority must ensure that the Chief Executive Officer of MEGA; together with the conveyance attorneys; develop mechanism and systems to fast-track the process of registering properties of MEGA with the Title Deeds Office in the current financial year.
- 7.3. The Executive Authority of DEDT must ensure that the Accounting Officer of DEDT finalises and approves the Organisational Re-design, implemented by the Department and submit to the Portfolio Committee by 30 September 2015.
- 7.4. The Accounting Authority must ensure that the new Organogram of MEGA is finalised and implemented in the 2015/16 financial year.
- 7.5. The Accounting Officer must ensure that the Programme 4 for Fresh Produce Market has a sufficient and adequate budget to fully implement the activities of the project.
- 7.6. The entity must develop a reporting template to monitor the implementation of planned targets by the Chief Executive Officer.
- 7.7. The Accounting Authority must ensure that the budgeted amount to disburse agricultural Loan is utilised accordingly. A progress report must be submitted to the Committee in this regard.

8. CONCLUSION

The Chairperson wishes to express her gratitude to the MEC SE Kholwane in absentia; the Chairperson of the Board, the CEO and the senior officials of the Mpumalanga Economic Growth Agency for their active involvement during the deliberations with the department.

The Chairperson further wishes to thank the Hon. Members of the Committee for their sterling participation and input during the deliberations on the 4th quarter report of the Mpumalanga Economic Growth Agency and also thanked the Legislature staff for their support and contribution towards the production of this report.

Lastly, the Chairperson requests the august House to adopt the report with its recommendations and provide a progress report by **30 September 2015**.



HON. PS NGOMANA

19-8-15

DATE

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