

COMMITTEE REPORT OF THE PORTFOLIO COMMITTEE ON PREMIERS' OFFICE; FINANCE; ECONOMIC DEVELOPMENT AND TOURISM

FIRST (1st) QUARTERLY PERFORMANCE REPORT FOR THE 2017/18 FINANCIAL YEAR - DEPARTMENT OF ECONOMIC DEVELOPMENT AND TOURISM (DEDT)

1. INTRODUCTION

The **Portfolio Committee on Premier's Office, Finance; Economic Development and Tourism** (the Committee) has a Constitutional mandate, in terms of Section 114(2)(b) of the Constitution of the Republic of South Africa read with Rule 131(1)(b) of the Mpumalanga Provincial Legislature to oversee the performance of the Department of Economic Development and Tourism (the department) and hold it accountable through various measures.

The consideration and scrutiny of the First (1st) Quarterly Performance Report for 2017/2018 of the department is the tool the Committee uses to determine whether the department has proper plans and programmes to realise its strategic objectives and ultimately to deliver basic services to the citizens of Mpumalanga.

The Committee tables this report in accordance with the provisions of the Rules and Orders of the Mpumalanga Provincial Legislature, as an account of its oversight work done for consideration and adoption in order to monitor the performance of the department for the 2017/2018 first quarter.

2. METHOD OF WORK

The Speaker referred the department's First (1st) 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 on 15 August 2017 to deliberate on the department's research analysis on the first quarterly report and scrutinize in detail the aforementioned document; met the department on

22 August 2017 on the 2017/18 first (1st) quarter report and subsequently met on 30 August 2017 to consider the draft Committee report.

3. GENERAL OBSERVATIONS

The department was allocated R1 130 077 000.00 for the 2017/18 financial year. At the end of the first quarter of the 2017/18 financial year, the department had spent R378 336 000.00 of its annual budget. This translates to an expenditure of 33.5%. The department achieved 42 of its 60 (70%) planned targets for the first quarter of the 2017/18 financial year. The above analysis can be summed up in the table below:

| Targets Planned | Actual Achieved | Annual Budget | Expenditure to date |
|-----------------|-----------------|-------------------|-------------------------|
| 60 | 42 (70%) | R1 130 077 000.00 | R378 336 000.00 (33.5%) |

The programme that is the main contributor of the high rate of achievement is Programme 4 and 6 with 100% achievement rate each. The programme with the lowest rate of achievement is Programme 3 with 57% achievement rate.

4. PROGRAMME ANALYSIS

PROGRAMME 1: ADMINISTRATION

The department has achieved its entire nine (9) targets in the quarter under review for the 2017/18 financial year under programme 1 named "Administration". This translates to 100% achievement for planned targets.

Programme 1: Expenditure Analysis

| Main Budget 2017/18 | As at 1st Quarter | % of Main Budget |
|---------------------|-------------------|------------------|
| 89,639,000 | 21,337,000 | 24% |
| Targets Planned | Actual Achieved | |
| 09 | 09 (100%) | |

The main budget for Programme 1 is R89 639 000.00 as set out at the beginning of the 2017/18 financial year. The actual budget spent at the end of the first quarter was R21 337 000.00 which is at 24% of the annual budget. The expenditure trend of the programme indicates that the programme is still spending its budget consistently at 24%.

| | Budget 2017/18 | Actual expenditure | % of Budget |
|---------------------------|----------------|--------------------|-------------|
| Compensation of Employees | 59,245,000 | 13,759,000 | 23% |
| Goods and Services | 26,573,000 | 5,242,000 | 20% |
| Capital Assets | 3,371,000 | 2,336,000 | 69% |
| Transfers & Subsidies | 450,000 | 0 | 0% |

The Economic Classification of Programme 1 reflects that Compensation of Employees budget was allocated R59 245 000.00 at the beginning of the 2017/18 financial year. The department had spent R13 759 000.00 (23%) on Compensation of Employees for this programme. The Goods and Services budget was R26 573 000.00. Actual spent on Goods and Services at the end of the first quarter was R5 242 000.00, that is 20% of the annual Goods and Services budget. The Goods and Services expenditure is slightly below than the usual amount at 20%. The CoE expenditure of 23% may indicate that there are still bonuses yet to be paid or a certain vacancy. The Provincial Treasury has stated that performance incentives are yet to be paid.

i. According to the department, the 2% under-expenditure in respect of the Compensation of Employees is mainly due to unpaid performance incentive bonuses for levels 1-12 and SMS members. The department will finalise the performance assessment process in the second (2nd) quarter of the 2017/18 financial year. In March 2015, a moratorium was placed on the filling of vacancies within the Provincial Administration. Departments were also expected to abolish all vacant funded and unfunded posts on Persal in order to give effect to the resolution; therefore, budget is made only for posts that are occupied.

PROGRAMME 2: INTEGRATED ECONOMIC DEVELOPMENT

The Department attained six (6) of its ten (10) planned targets for Programme 2 in the first quarter of the 2017/18 financial year, translating to 60% targets achieved under the programme named "Integrated Economic Development".

On page 16 of the department's quarterly report under the Enterprise Development sub-programme, the programme achieved three (3) of its four (4) targets. It failed to produce a draft strategy report on the Township and Rural Economy Strategy. The department stated that the renewal of the existing strategy indicated that more work still has to be done; such a discovery has consequences of delaying the finalisation of the strategy by the end of the financial year as reflected and planned in the department's APP.

i. According to the department, it will be able to finalize the Township and Rural Economy Strategy by the end of the financial year. An acceleration plan has been developed to fast-track the process of strategy development and finalization.

On page 18 of the department's quarterly report under the Economic empowerment sub-programme, the department achieved one (1) of its three (3) targets. It failed to facilitate the appointment of the Provincial BBEE Advisory Council. Failure not to appoint the council may lead to the activities of the council being delayed; this has a negative impact on the council. The sub-programme also failed to finalise the programme of action relating to the roll-out of the Black Industrial Programme. The department stated that this would be finalised by the end of July 2017. The delay of the finalisation of the roll-out could elongate the start of the programme earmarked for the 3rd quarter.

ii. The department indicated that the first quarter was dedicated to the framework development wherein the Terms of Reference and Constitution for the BBEE Advisory Council, which are the founding documents for guiding the appointment of the BBEE Advisory Council, were developed. The same applied to the Black Industrialist Programme where dedicated engagements were held with the Department of Trade and Industry (the DTI) to develop a Framework on the rollout of the programme in the Province. The delay will not negatively affect the execution of the activities as the founding documents that have been developed are key in guiding the actual roll out of the programmes.

iii. To ensure that the activities and rollout is not delayed, the department has developed an acceleration plan to ensure that targets are met as per the plan. The developed framework guiding implementation is key in the actual rollout of the planned targets. Appointment of the BBEE Advisory Council is being finalised and the process of identifying companies to participate in the Black Industrialist Programme has commenced. The planned activities for the two targets, according to the department, will therefore be met.

On page 19 of the department's quarterly report under the Regional Local Development sub-programme, the department achieved two (2) of its three (3) targets. It failed to establish an LED Forum in Msukaligwa due to disruptions which resulted in the postponement of the meeting.

Programme 2: Expenditure Analysis

| Main Budget 2017/18 | As at 1st Quarter | % of Main Budget |
|----------------------------|--------------------------|-------------------------|
| 527,802,000 | 229,853,000 | 44% |

| Targets Planned | Actual Achieved |
|------------------------|------------------------|
| 10 | 06 (60%) |

The main budget for Programme 2 is R527 802 000.00 as set out at the beginning of the 2017/18 financial year. The actual budget spent at the end of the first quarter was R229 853 000.00 which is unusually higher at the end of the first quarter at 44% of the annual budget. The expenditure trend of the programme indicates that the programme has spent well over its norm at 44%, which is almost half of the programme's budget at the end of the first quarter.

| | Budget 2017/18 | Actual expenditure | % of Budget |
|---------------------------|-----------------------|---------------------------|--------------------|
| Compensation of Employees | 26,687,000 | 6,359,000 | 24% |
| Goods and Services | 38,135,000 | 6,394,000 | 17% |
| Transfers | 462,980,000 | 217,100,000 | 47% |

The Economic Classification of Programme 2 reflects that Compensation of Employees budget is allocated R26 687 000.00 at the beginning of the 2017/18 financial year. The department has spent R6 359 000.00 (24%) on Compensation of Employees for this programme. The Goods and Services budget is R38 135 000.00 at the beginning of the financial year. Actual spent on Goods and Services at the end of the first quarter was R6 394 000.00. That is disturbingly 17% of the Goods and Services budget. Transfers and Subsidies to MEGA were at 47% of the annual adjusted budget, which is higher than the expected levels at the end of the first (1st) quarter.

i. The Committee sought an explanation from the department as to why it has transferred almost half of its allocation to MEGA considering that it is only the first quarter. In response, the department reported that MEGA had put the Mpumalanga International Fresh Produce Market (MIFPM) under acceleration plan which was duly endorsed by the department and funds were transferred according to the plan and in line with their projected spending.

ii. Furthermore, the department reported that the programme is falling behind on Goods and Services budget due to the fact that many of the budgeted projects are still at the preparatory phase and some of the projects that were planned and budgeted for under Goods and Services were subsequently transferred to MEGA and MTPA for implementation in line with the Executive Council Resolution of 10 May 2017. The budget will be transferred to MEGA and MTPA during the

adjustment process. The following project allocation is currently reflected in the programme pending its transfer to MEGA:

| | |
|---|-------------------|
| • Ntirhisano Sanitary worker Cooperative | R1, 5 000 000. 00 |
| • SABS Certification Programme | R6, 7 000 000.00 |
| • SAB Kick-Start Programme | R2, 5 000 000.00 |
| • Tyre Initiative | R3 000 000.00 |
| • Funding Support for the Social Enterprise model | R20 000 000.00 |

This total amount of R33, 7 000 000.00 currently reflects as a budget under-spending under Programme 2.

PROGRAMME 3: TRADE AND SECTOR DEVELOPMENT

The department attained nine (9) of its eighteen (18) planned targets under Programme 3 named "Trade and Investment Development". This translates to 50% achieved targets in the first quarter of the 2017/18 financial year.

On page 23 of the department's quarterly report, under the Strategic Initiatives sub-programme, the programme achieved one (1) of its six (6) targets. It failed to make noticeable progress on the establishment of the three industrial technology parks. The appointment of a professional team for each park was not appointed due to the approval of terms of references taking longer than expected. The Mining and Metals Industrial Park preliminary report has indicated that the project is not feasible on the initial identified site.

i. According to the department, the draft terms of reference were developed and then forwarded to external stakeholders like the Govan Mbeki Local Municipality, the Department of Cooperative Governance and Traditional Affairs and the Department of Agriculture, Rural Development, Land and Environmental Affairs to solicit their inputs since they are the custodians of the legislation in terms of which the work will be performed. The draft terms of reference were approved by the department where after the Bid was duly advertised. The formal tender briefing sessions were conducted on 21 July 2017 and the bidding officially closed on 8 August 2017. Currently the department is evaluating the received Bids to finalise the appointment.

ii. The department stated that the Mining and Metals Industrial Technology Park study has been completed and found not to be feasible at the current site. It is recommended that an investigation of the Evraz Highveld Steel Complex should be conducted in respect of its suitability for the establishment of the Mining and Metals Technology Park. The required statutory compliance processes cannot commence until such time the site is confirmed to be suitable for this purpose.

The Committee further noted that the programme also failed to conclude the land availability agreement for the Fly Ash project, Mpumalanga Tooling Initiative, Mpumalanga stainless steel initiatives as well as the Furntech initiatives. Although the department did state that land has been made available for all the projects, the SEZ application has not yet been responded to.

Programme 3: Expenditure Analysis

| Main Budget 2017/18 | As at 1st Quarter | % of Main Budget |
|----------------------------|--------------------------|-------------------------|
| 29,568,000 | 2,886,000 | 10% |
| Targets Planned | | Actual Achieved |
| 18 | | 09 (50%) |

The main budget for Programme 3 is R29 568 000.00 as set out at the beginning of the 2017/18 financial year. The actual budget spent at the end of the first quarter was R2 886 000.00, which is unusually very lower at the end of the first quarter at 10% of the annual budget. The expenditure trend of the programme indicates that the programme has not spent well at 10%.

| | Budget 2017/18 | Actual expenditure | % of Budget |
|---------------------------|-----------------------|---------------------------|--------------------|
| Compensation of Employees | 11,232,000 | 2,624,000 | 23% |
| Goods and Services | 16,057,000 | 262,000 | 2% |
| Transfers & Subsidies | 2,279,000 | 0 | 0% |

The Economic Classification of Programme 3 reflects that Compensation of Employees budget is allocated R11 232 000.00 at the beginning of the 2017/18 financial year. The department had spent R2 624 000.00 (23%) on Compensation of Employees for this programme. The Goods and Services budget is R16 057 000.00 at the beginning of the financial year. Actual spent on Goods and Services at the end of the first quarter was R262 000.00; that is 2% of the annual Goods and Services budget. Transfers and Subsidies were at less than 1% of the annual budget. The lack of spending from the department could be attributed to the lack of appointing service providers as planned in the APP.

i. The Committee requested the department to explain what has led to the slow spending trend throughout the first quarter of the 2017/18 financial year. In response, the department indicated that the programme did not plan to have expenditure on projects within the first quarter of the financial year since the appointment process of the required service providers is usually still in process within this quarter. It is expected that the expenditure would increase as the work commences within the second quarter.

PROGRAMME 4: BUSINESS REGULATION & GOVERNANCE

The department attained six (6) of its six (6) (100%) planned targets under Programme 4 named "Business Regulations and Governance" for the first quarter of the 2017/18 financial year.

Programme 4: Expenditure Analysis

| Main Budget 2017/18 | As at 1st Quarter | % of Main Budget |
|----------------------------|--------------------------|-------------------------|
| 104,938,000 | 27,223,000 | 26% |
| Targets Planned | | Actual Achieved |
| 06 | | 06 (100%) |

The main budget for Programme 4 is R104 938 000.00 as set out at the beginning of the 2017/18 financial year. The actual budget spent at the end of the first quarter was R27 223 000.00 which is at 26% of the annual budget. The expenditure trend of the programme indicates that the programme is still spending its budget consistently at 26%.

| | Budget 2017/18 | Actual expenditure | % of Budget |
|---------------------------|-----------------------|---------------------------|--------------------|
| Compensation of Employees | 16,576,000 | 3,689,000 | 22% |
| Goods and Services | 2,176,000 | 237,000 | 11% |
| Transfers | 86,186,000 | 23,297,000 | 27% |

The Economic Classification of Programme 4 reflects that Compensation of Employees budget is allocated R16 576 000.00 at the beginning of the 2017/18 financial year. The department had spent R3 689 000.00 (22%) on Compensation of Employees for this programme; slightly lower than the 25% norm at the end of the first quarter. The Goods and Services budget was R2 176 000.00 at the beginning of the financial year. Actual spent on Goods and Services is of concern, quite low at the end of the first quarter on R237 000.00; that is 11% of the annual Goods and Services budget. Transfers and Subsidies were at 27% of the annual budget. This could imply that key service delivery affected items might have been held back.

i. The Committee raised a concern on the considerable low spending on Goods and Services at the end of the first quarter, at only 11% of the budget. According to the department, the Programme was supposed to have procured consumer protection promotional material (booklets), which was delayed as a result of the responsible Manager for the Directorate being transferred to the MLA. The Programme has now appointed a caretaker Director for the Consumer Directorate and this has alleviated the challenge, as the procurement of the promotional material (booklets) will be finalised in the second quarter.

ii. According to the department, there were no service delivery programmes that were affected since the first quarter targets were met. The promotional material was to be utilised during the July Savings Month and other ongoing consumer protection education and awareness campaigns. In as much as the promotional material was meant for July Savings Month, the department utilised the material which was left in the 2016/17 financial year.

iii. Concerning the 3% under-expenditure on the Compensation of Employees, the department indicated that this was not because of certain critical vacancies to be filled, instead it was because of the unpaid performance incentive bonuses for those who qualified. The department will finalise the performance assessment process in the second quarter.

PROGRAMME 5: ECONOMIC PLANNING

The department attained ten (10) of its twelve (12) planned targets under Programme 5 named "Economic Planning". This translates to 83% achievement for planned targets.

On page 36 of the department's quarterly report under the Research and Development sub-programme, the department failed to appoint a service provider for the report on the formal economy research study/project. The delays were attributed to the consultative process taking longer than anticipated.

Furthermore, the Committee noted that on page 37 of the department's quarterly report under the sub-programme Knowledge Management, the department failed to also appoint a service provider for the database for skilled workforce (with specific reference to retrenched mining workers). The same reason as above was given.

i. The Committee requested the department to explain whether or not the delay in the appointment of service providers for the report on the informal economy and the database for skilled workforce will affect the completion time of the research study/projects earmarked for the end of the financial year. In response, the department stated the following:

- The informal economy research project/study was advertised in July 2017 in the Provincial Tender Bulletin with closing date 8 August 2017. It is expected that the appointment of the Service Provider will be concluded before the end of the second quarter and to have an inception meeting and report before the end of September 2017. The service provider is expected to start work in October 2017, and complete the research project/study in the third and the fourth quarter of 2017/18 before the end of March 2018.

- Prior to appointing service providers for the database for retrenched skilled workforce project, consultations were held with key state stakeholders including the Department of Labour (DoL), the CCMA and Eskom. What emerged is that government through the DoL already has a comprehensive national database for work seekers. Information captured on the database includes the skills of work seekers and those who have lost their jobs through mine retrenchments or the closing down of mines. It captures information on places of residence that is already linked to the Home Affairs database for identification. This database is supported by the DoL's infrastructure of labour centres across the country. It will therefore be possible to obtain the required information through an arrangement with the Department of Labour and engagements are underway to structure a mechanism for extracting the required information thus avoiding duplications and effecting savings. This would then significantly shorten the process of compiling the required information for the project to be completed before the financial year-end.

Programme 5: Expenditure Analysis

| Main Budget 2017/18 | As at 1st Quarter | % of Main Budget |
|---------------------|-------------------|------------------|
| 18,758,000 | 3,348,000 | 18% |

| Targets Planned | Actual Achieved |
|-----------------|-----------------|
| 12 | 10 (83%) |

The main budget for Programme 5 is R18 758 000.00 as set out at the beginning of the 2017/18 financial year. The actual budget spent at the end of the first quarter was R3 348 000.00 which is at 18% of the annual budget. The expenditure trend of the programme indicates that the programme is not spending its budget consistently at 18%.

| | Budget 2017/18 | Actual expenditure | % of Budget |
|---------------------------|----------------|--------------------|-------------|
| Compensation of Employees | 13,528,000 | 3,004,000 | 22% |
| Goods and Services | 5,230,000 | 344,000 | 7% |

The Economic Classification of Programme 5 reflects that Compensation of Employees budget is allocated R13 528 000.00 at the beginning of the 2017/18 financial year. The department had spent R3 004 000.00 (22%) on Compensation of Employees for this programme. The Goods and Services budget is R5 230 000.00 at the beginning of the financial year. Actual spent on Goods and Services at the end of the first quarter was R2 259 000.00. That is disturbingly 7% of the annual Goods and Services budget. This is a reflection of the service providers not being appointed yet as planned in the APP.

PROGRAMME 6: TOURISM

The department attained two (2) of its five (5) planned targets under Programme 6 named "Tourism". This translates to 40% achieved targets in the first quarter of the 2017/18 financial year.

The Committee noted that on page 42 of the department's quarterly report, the programme failed to appoint service providers for the Tourism Policy Frameworks as well as the State of Tourism Report due to the approval of both terms of references taking longer than expected. As seen previously in other programmes, the department has failed to appoint service providers on time as stipulated in the APP. This has a tendency of elongating the completion time of the projects therefore the department fails to implement the targets on time as stipulated on its APP.

i. According to the department, the delay in the appointment of the service provider will not affect the completion of the work as planned within the 2017/2018 financial year. The appointment of the service provider will be finalised and the inception report will be produced within quarter two of the 2017/2018 financial year.

Programme 6: Expenditure Analysis

| Main Budget 2017/18 | As at 1st Quarter | % of Main Budget |
|----------------------------|--------------------------|-------------------------|
| 359,372,000 | 93,689,000 | 26% |
| Targets Planned | | Actual Achieved |
| 05 | | 02 (40%) |

The main budget for Programme 6 is R359 372 000.00 as set out at the beginning of the 2017/18 financial year. The actual budget spent at the end of the first quarter was R93 689 000.00 which is at 26% of the annual budget. The expenditure trend of the programme indicates that the programme is spending its budget consistently at 26%.

| | Budget 2017/18 | Actual expenditure | % of Budget |
|---------------------------|-----------------------|---------------------------|--------------------|
| Compensation of Employees | 3,202,000 | 810,000 | 25% |
| Goods and Services | 18,120,000 | 18,000 | 0% |
| Transfers & Subsidies | 338,050,000 | 92,861,000 | 27% |

The Economic Classification of Programme 6 reflects that Compensation of Employees budget is allocated R3 202 000.00 at the beginning of the 2017/18 financial year. The department had spent R810 000.00 (25%) on Compensation of Employees for this programme. The Goods and Services budget is R18 120 000.00 at the beginning of the financial year. Actual spent on Goods and Services at the end of the first quarter was R18 000.00. That is worryingly less than 1% of the

annual Goods and Services budget. Transfers and Subsidies were at 27% of the annual budget of the programme.

i. According to the department, the multi-year projects (the rejuvenation of Pilgrims Rest and Waterval Boven heritage and tourism sites) were transferred from DEDT to MTPA for implementation as per the EXCO resolution of 10 May 2017. MTPA has already appointed the service provider to conceptualise the two projects. An inception report will be produced within the next three months, which is the end of November 2017.

5. FINDINGS

After the deliberations, the Committee made the following findings:

- 5.1. The department has spent less than 25% on most of the programmes in the first quarter under review.
- 5.2 The department has transferred a huge percentage of its allocation to MEGA within the first quarter of the 2017/18 financial year.
- 5.3 As seen previously in other programmes, the department has failed to appoint service providers on time. This has a tendency of elongating the completion time of the projects therefore the department fails to implement the targets on time as stipulated on its APP.
- 5.4 According to the department, it will be able to finalize the Township and Rural Economy Strategy by the end of the current financial year; in addition, it failed to facilitate the appointment of the Provincial BBBEE Advisory Council

6. RECOMMENDATIONS

The Committee made the following recommendations:

- 6.1. The department must develop and implement mechanisms, systems and measures that will ensure that it conforms to the 25% spending throughout the rest of the 2017/18 financial year.
- 6.2 The department must ensure that MEGA reports on a monthly basis, categorically specifying what it must report on.

- 6.3. The department must ensure that projects are implemented within the specified time-frames as well as to ensure proper planning with regards to the appointment of service providers.
- 6.4. The department must submit a progress report to the Committee on the development of the Township and Rural Economy Strategy, as well as the facilitation of the appointment of the Provincial BBBEE Advisory Council.

7. CONCLUSION

The Chairperson wishes to express his gratitude to the HOD, Mr MW Mkhize standing in on behalf of the MEC Mr SE Kholwane and the senior officials of the department for their active involvement during the deliberations with the entity.

The Chairperson further wishes to thank the Hon. Members of the Committee for their sterling participation and input during the deliberations on the first (1st) Quarter Report of the Department of Economic Development and Tourism also thanked the Legislature staff for their support and contribution towards the production of this report.

Unless otherwise stated a report detailing progress in the implementation of all recommendations in this report should be forwarded to the Committee by 20 September 2017 and thereafter on a quarterly basis.



**HON FV MLOMBO (MPL),
CHAIRPERSON:
PORTFOLIO COMMITTEE ON
PREMIER'S OFFICE; FINANCE;
ECONOMIC DEVELOPMENT AND TOURISM**

05-09-2017

DATE

