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

FIRST (1st) QUARTERLY PERFORMANCE REPORT FOR THE 2017/18 FINANCIAL YEAR – MPUMALANGA ECONOMIC GROWTH AGENCY (MEGA)

---

1. INTRODUCTION

The **Portfolio Committee on Premiers 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 Mpumalanga Economic Growth Agency (the entity) and hold it accountable through various measures.

The consideration and scrutiny of the First (1st) Quarterly Performance Report for 2017/2018 of the entity is the tool the Committee uses to determine whether the entity 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 entity for the 2017/2018 first quarter.

2. METHOD OF WORK

The Speaker referred the entity'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 entity has managed to achieve 45% of its targets for the first quarter of the 2017/18 financial year. It has spent 25% of its annual budget and 101% of its projected quarterly budget as at the end of the first quarter. This reflects an over expenditure of 1% on its projected quarterly budget for the entity, as at the end of the first quarter of the 2017/18 financial year.

The programme which has contributed the most in the performance of the entity is Programme 1 – Office of the CEO, which achieved 100% of its targets as at the end of the first quarter. The programme which has performed the least of all of them is Programme 5 – Funding which achieved 4 of its 30 targets at 13%.

4. PROGRAMME ANALYSIS

PROGRAMME 1: OFFICE OF THE CEO

The Office of the CEO is responsible for three main functions, namely, Company Secretariat, Legal and Internal Audit Services.

The Committee noted that the entity attained its entire thirteen (13) planned targets under Programme 1 named "Office of the CEO". This translates to 100% achievement for planned targets in the first quarter.

Programme 1: Expenditure Analysis

Main Budget	As at 1st Quarter	% Main Budget	% of Projected
24,715,000	5,048,000	20%	83%

Programme 1 was allocated a budget of R24 715 000.00 for the 2017/18 financial year. The entity has spent R5 048 000.00 as at the end of the first quarter which translates to 20% of its annual budget and 83% of its quarterly budget. This is an under-expenditure of 17% on the quarterly budget of R1 000 000.00. Part of the under-expenditure was due to vacancies as a result of the non-finalisation of the OD process.

PROGRAMME 2: CORPORATE SERVICES

The division is responsible for three main functions; namely, human resources, information technology and risk management.

The Committee noted that the entity attained seven (7) of its fourteen (14) planned targets under Programme 2 named "Corporate Services". This translates to 50% achievement for planned targets in the first quarter. Two (2) targets which were not planned for this quarter were successfully achieved.

On page 23 of the entity's quarterly report under Human Resources, the entity failed to review the performance management policy and develop the framework as well as conduct one (1) OHS inspection. This was attributed to the non-finalisation of the OD process.

Furthermore, the Committee noted that on page 23 of the entity's quarterly report under Information Technology, the entity failed to develop the ICT strategy as well as review the operational plan. The entity stated that there was a delay with the service provider which led to a termination of their contract. The cancellation of the contract may imply that MEGA may have incurred unnecessary costs.

i. The entity reported that the contract was terminated due to poor performance.

ii. In addition, MEGA indicated that no expenditure was incurred towards the service provider for the ICT strategy and operational plan before the termination of the contract.

Programme 2: Expenditure Analysis

Main Budget	As at 1st Quarter	% Main Budget	% of Projected
39,366,000	6,416,000	16%	46%

Programme 2 was allocated a budget of R39 366 000.00 for the 2017/18 financial year. The entity has spent R6 416 000.00 as at the end of the first quarter which translates to 16% of its annual budget and 46% of its quarterly budget. This is an under-expenditure of 54% on the quarterly budget of R7 453 000.00. Part of the under-expenditure was attributed to the non-implementation of Phase 2 of the OD process which was delayed.

This is an under-expenditure of 19% on the projected quarterly budget of R20 924 000.00. Part of the under-expenditure was attributed to a vacancy in the position of Manager IT, IT equipment not yet purchased and savings on telephone and mobile data due to an introduction of cost containment measures.

iii. The Committee needed clarity from the entity on whether or not there was a delay in Phase 2 of the rollout of the OD process. The entity reported that it is best practice that one on one Competency Assessments Results feedback session should be held with employees who participated in the assessments. MEGA stated that it took the entity at least a month to engage with the employees on a one on one basis. The Phase 2 Placement Process has now been concluded and the report was approved by the HR Board Committee on the 17 August 2017.

PROGRAMME 3: FINANCE

The division provides fiscal leadership, safeguarding of assets, ensuring compliance to laws and regulations and providing timely delivery of services to internal and external stakeholders and customers.

The Committee noted that the entity attained six (6) of its eleven (11) planned targets under Programme 3 named "Finance". This translates to 55% achievement for planned targets in the first quarter.

On page 36 of the entity's quarterly report, the programme failed to develop one (1) standard operating procedure and update contact register to 100% (95%). The entity has stated that it will prioritise this for the second quarter. The entity also failed to reduce debtor days to less than 180, improve accurate billing by 80% as well as approve the collection strategy.

Programme 3: Expenditure Analysis

Main Budget	As at 1st Quarter	% Main Budget	% of Projected
44,192,000	9,095,000	21%	82%

Programme 3 was allocated a budget of R44 192 000.00 for the 2017/18 financial year. The entity has spent R9 095 000.00 as at the end of the first quarter which translates to 21% of its annual budget and 82% of its quarterly budget. This is an under-expenditure of 18% on the quarterly budget by R1 952 000.00.

PROGRAMME 4: STRATEGY AND COMMUNICATION

The division is responsible for four main functions, namely strategy and planning, marketing and communication, knowledge management and trade and investment promotion.

The Committee noted that the entity attained thirteen (13) of its twenty-seven (27) planned targets under Programme 4 named "Strategy and Communication". This translates to 48% achievement for planned targets in the first quarter.

On page 41 of the entity's quarterly report under the Trade and Investment Promotion sub-programme, the entity achieved six (6) of its thirteen (13) targets. The sub-programme failed to implement targets relating to attracting and facilitation of Investments in the province due to prolonged negotiations with potential investors resulting in delays.

i. According to MEGA, the entity will be able to catch up to the annual target of facilitating and attracting investment to the province by the end of the financial year. The strategy is to aggressively follow up on leads generated by the recently hosted Investor Conference and through the remaining Outward and Inward Investment Missions. An investment booklet detailing some of the province's investment projects has been developed and distributed at key strategic investment events, including the Investor Conference and the recently held dinner hosted by the Premier to the Ambassadors of about 20 Countries.

The Committee noted that on page 49 of the entity's quarterly report under the Marketing and Communications sub-programme, the entity achieved two (2) of its six (6) targets. The programme failed to develop and review various strategies due to limited staff and referral back to management of MEGA for them to fill in the necessary gaps. This shows a sense of poor planning because the entity should have planned for consultative sessions with the Board.

Programme 4: Expenditure Analysis

Main Budget	As at 1st Quarter	% Main Budget	% of Projected
26,140,000	5,194,000	20%	50%

Programme 4 was allocated a budget of R26 140 000.00 for the 2017/18 financial year. The entity has spent R5 194 000.00 as at the end of the first quarter which translates to 20% of its annual budget and 50% of its quarterly budget. This is an under-expenditure of 50% on the quarterly budget of R5 140 000.00. Part of the under-expenditure was attributed to vacancies due to the non-finalisation of the OD process.

PROGRAMME 5: PROPERTIES AND INFRASTRUCTURE

The division is responsible for three main functions, namely property development and management, infrastructure development as well as project finance.

The Committee noted that the programme has achieved five (5) of its eleven (11) targets (45%) it had planned for the first quarter of the 2017/18 financial year.

On page 53 of the entity's quarterly report under the Properties and Infrastructure programme, the entity failed to have 15 investment projects on the pipeline as well as complete 15 feasibility studies. This was attributed to lack of internal capacity and the fact that no budget was set aside to conduct these studies.

i. According to the entity, there was no budget for the above exercise since at the time of developing the Annual Performance Plan (APP), it was anticipated that the internal resources would be used to conduct the project feasibility studies. As a result of the ongoing Organisational Realignment, the division was unable to timeously recruit the required internal resources that would have conducted the project feasibility studies. Substantial progress has been made to finalise the Organisational Realignment process, and this will ensure that the internal resources are recruited by December 2017.

The Committee noted that the entity further failed to attract R500 000 000.00 in investments to the SEZ and R50 000 000.00 to the Industrial Parks. The entity stated that focus was on finalising the designation application based on a number of inputs and interactions with the DTI.

ii. The entity reported that the application for the designation of the Nkomazi SEZ was first submitted to the Department of Trade and Industry (the DTI) on 24 June 2016. After the submission, the DTI and MEGA engaged several times to ensure that the application complied with the legislative and technical requirements. On 29 November 2016, MEGA presented the application to the DTI Technical Committee which made several inputs to enhance the application.

The entity further indicated that the final draft application was resubmitted on 19 April 2017. The DTI provided its final comments on 8 June 2017, after which a number of engagements continued to ensure that the final application is submitted to the SEZ Advisory Committee by the end of September 2017.

Programme 5: Expenditure Analysis

Main Budget	As at 1st Quarter	% Main Budget	% of Projected
489,684,000	134,423,000	27%	107%

Programme 5 was allocated a budget of R489 684 000.00 for the 2017/18 financial year. The entity has spent R134 423 000.00 as at the end of the first quarter which translates to

27% of its annual budget and 107% of its quarterly budget. This is an over-expenditure of 7% on the quarterly budget of R8 383 000.00.

PROGRAMME 6: FUNDING

The division is responsible for five main functions, namely SMME's and Co-operatives finance, Housing finance, Agricultural finance, Equity Investments and Regional networks.

The Committee noted that the entity attained four (4) of its thirty (30) planned targets under Programme 6 named "Funding". This translates to 13% achievement for planned targets in the first quarter.

The entity failed to meet various targets relating to the disbursing of loans to SMMEs, Agricultural loans as well as Housing loans. It also failed to make inroads in support to the local tyre initiative, Creative Industries Initiatives as well as the Sanitary towel programme. The entity stated it was focusing on putting in place arrangements for the transfer of projects from DEDT. Other reasons given by the entity included partnership agreements taking longer than anticipated and loan assessment and due diligence investigations taking longer than planned, as a result of capacity and skills inadequacy.

MEGA had been heavily reliant on the partnership agreement in the pipeline with Standard Bank which has a potential of boosting its cash flow, but the delay in the finalisation of that agreement has led to MEGA's targets being compromised for the quarter due to possible lack of funds. If the agreement is not concluded by the end of the second quarter, this may imply that MEGA will not be able to disburse the number of loans they had expected to disburse at the end of the second quarter; thus implying that it would've failed to achieve its targets for the second consecutive quarter.

i. According to the entity, the partnership engagement process with Standard Bank of South Africa (a principal partnership stakeholder), is at conclusion stage, i.e. approvals have been obtained from principals of both parties. Presently, refining and closure of operational activities, including training of MEGA staff is underway. The final draft partnership agreement document is being subjected to legal review process prior to ratification.

ii. MEGA further reported that it has forged strong relations with other Development Finance Institutions, namely, Landbank, Sefa, NEF, National Housing Finance Corporation, DBSA and the IDC. As a contingency measure, applications for loans will be referred to these institutions for funding. Also these institutions will be approached to raise capital for on-lending purposes

Programme 6: Expenditure Analysis

Main Budget	As at 1st Quarter	% Main Budget	% of Projected
150,910,000	30,099,000	20%	137%

Programme 6 was allocated a budget of R150 910 000.00 for the 2017/18 financial year. The entity has spent R30 099 000.00 as at the end of the first quarter which translates to 20% of its annual budget and 137% of its quarterly budget. This is an over-expenditure of 37% on the quarterly budget. Part of the over-expenditure could be as a result of the delayed agreement between MEGA and its partners (Standard Bank) which has the potential of unleashing funds to be loaned out to perspective clients.

5. FINDINGS

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

5.1. In Programme 6 the entity attained four (4) of its thirty (30) planned targets pertaining to the finance division.

5.2. The non-finalization of the OD process causes delays in other projects and as a result, non-implementation of targets.

5.3. The entity failed to meet various targets relating to the disbursing of loans to SMMEs, Agricultural loans as well as Housing loans.

5.4. The entity indicated that it will be able to catch up to the annual target of facilitating and attracting investment to the province by the end of the financial year. The entity's strategy is to aggressively follow up on leads generated by the recently hosted Investor Conference.

5.5. The entity failed to attract R500 000 000.00 in investments to the SEZ and R50 000 000.00 to the Industrial Parks.

6. RECOMMENDATIONS

The Committee made the following recommendations:

6.1. The entity must develop systems, mechanisms and implementation plans to ensure that planned targets are met throughout the 2017/18 financial year.

6.2. The entity must fast-track the implementation of the next phase of the OD process, ensure the internal advertisement for placements is prioritized before the end of the second quarter; and moreover, the entity must submit a progress report on the finalization of the OD process.

6.3. The entity, upon the finalization of the contract, must ensure that all loans are timeously disbursed.

6.4. The entity must develop and submit a comprehensive report with clear commitments concerning the outcome and decisions taken at the recently held Investor Conference.

6.5. The entity must submit a comprehensive report to the Committee that outlines the maintenance plans of all the Industrial Parks with commitments, by 08 September 2017, as most Infrastructures are in a dire condition and some tenants complain that they are not receiving assistance from MEGA in this regard.

The Committee moves that the House adopts the report with the above recommendations.

7. CONCLUSION

The Chairperson wishes to express his gratitude to the HOD, Mr MW Mkhize, the CEO Mr X Sithole; the Chairperson of the Board, the CFO and the senior officials of the Mpumalanga Economic Growth Agency 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 Mpumalanga Economic Growth Agency and 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.

05 · 09 · 2017

HON FV MLOMBO (MPL), **DATE**

CHAIRPERSON: PORTFOLIO COMMITTEE ON

PREMIER'S OFFICE; FINANCE; ECONOMIC DEVELOPMENT AND TOURISM