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

FOURTH (4th) 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 Fourth (4th) 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 fourth quarter.

2. METHOD OF WORK

The Speaker referred the entity's Fourth (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 on 30 May 2018 to deliberate on the entity's research analysis on the fourth quarterly report and scrutinize in detail the aforementioned document; met the entity on 21 June 2018 on the 2017/18 fourth (4th) quarter report and subsequently met on 01 August 2018 to consider the draft Committee report.

3. GENERAL OBSERVATIONS

The entity has managed to achieve 53% of its targets for the fourth quarter of the 2017/18 financial year compared against the 51% in the third quarter. It has spent 95% of its annual adjusted budget as at the end of the fourth quarter. This reflects an under-expenditure of 5% on its annual adjusted budget for the entity as at the end of the fourth quarter of the 2017/18 financial year.

The programme which has contributed the most in the performance of the entity is Programme 2 – Corporate Services, which achieved 73% of its targets as at the end of the fourth quarter. The programme which has performed the least is Programme 6 – Funding just as in the previous three quarters, which achieved 12 of its 33 targets at 36%.

4. PROGRAMME ANALYSIS

PROGRAMME 1: OFFICE OF THE CEO

The Committee noted that the entity attained 9 of its 16 planned targets under Programme 1 named "Office of the CEO". This translates to 56% achievement for planned targets in the fourth quarter.

On page 24 of the entity's quarterly report, the programme failed to submit the Board Assessment Report to the shareholder by the target date. The entity has stated that the assessment would be completed in the first quarter of the 2018/19 financial year. No reason was provided as to why the Board assessment report has not been submitted.

i. The entity reported that the Board performance assessments were conducted in the middle of the fourth quarter and subsequently submitted to the shareholder in the first quarter of 2018/19. The report could not be submitted to the shareholder in the fourth quarter since it first needed to be presented to the Board before it could be submitted to the shareholder.

ii. The Committee requested the entity to provide an update on the replacement of the four Board members who have recently resigned. The entity stated that a submission has been formally made to the shareholder and MEGA awaits the shareholder's decision in that regard.

iii. The Committee enquired on whether or not the entity has considered the proposal of an appointment of a COO considering the bulk of work undertaken by it. The entity mentioned that the appointment of a COO has not yet been considered. Based on the outcome of the

OD process, a position of the Manager: Office of the CEO was recommended and has been prioritised for filling.

On page 26 of the entity's quarterly report, the entity achieved 2 of its 4 targets planned under the Legal Services sub-programme. The sub-programme failed to register 50% of MEGA's assets in their name; instead they managed to achieve 48%. The entity attributed this to delays in the negotiations with the City of Tshwane.

The programme also failed to achieve 5% in bad Debt book reduction. The entity however stated that Bad debt collections decreased from R549 000.00 in 2016/17 to R352 000.00 in 2017/18.

Programme 1: Expenditure Analysis

Adjusted Budget	As at 4th Quarter	% Adjusted Budget
21,704,000	21,453,000	99%

Programme 1 was allocated a budget of R24 715 000.00 for the 2017/18 financial year. This was further adjusted downwards to R21 704 000.00 after the adjustment appropriation process. The entity has spent R21 453 000.00 as at the end of the fourth quarter which translates to 99% of its annual adjusted budget. This is an under-expenditure of 1% on the adjusted budget.

PROGRAMME 2: CORPORATE SERVICES

The Committee noted that the entity attained 11 of its 15 planned targets under Programme 2 named "Corporate Services". This translates to 73% achievement for planned targets in the fourth quarter.

On page 34 of the entity's quarterly report under Human Resources, the entity failed to asses 80 staff members for competency as well as place them in the organisational structure. The entity however stated that these targets were achieved in earlier quarters. The programme further failed to have 84 performance contracts signed by the target date. The entity stated delays in the development of divisional performance scorecards and related processes. The entity stated that these would be fast tracked for the first quarter of the 2018/19 financial year.

i. According to the entity, the process of signing new employment contracts will be completed in the first quarter of 2018/19. The signing of performance agreements by employees will take place in the second quarter after the process of signing new employment contracts is finalised.

ii. The entity indicated that the employment contracts for placed employees were developed by a service provider as it was part of the overall scope of work they were contracted for in the organisational realignment project and not necessarily due to a lack of capacity within the entity.

Programme 2: Expenditure Analysis

Adjusted Budget	As at 4th Quarter	% Adjusted Budget
31,648,000	27,653,000	87%

Programme 2 was allocated a budget of R39 366 000.00 for the 2017/18 financial year. This was further adjusted downwards to R31 648 000.00 after the adjustment appropriation process. The entity has spent R27 653 000.00 as at the end of the fourth quarter which translates to 87% of its annual adjusted budget. This is an under-expenditure of 13% on the adjusted budget. Part of the under-expenditure was attributed to expenditure relating to the organisational realignment costs including professional fees and salaries.

PROGRAMME 3: FINANCE

The Committee noted that the entity attained 5 of its 10 planned targets under Programme 3 named "Finance". This translates to 50% achievement for planned targets in the fourth quarter.

On page 50 of the entity's quarterly report the programme failed to reduce debtor days once more to less than 150. This was attributed to legacy book debtors still included in the current book and lack of proper systems.

i. The Committee enquired on why the entity failed to improve its financial collection systems as planned and set out in its APP. The entity reported that the reduction in debtor days will be calculated once the necessary clean-up of the debtors' book has been undertaken.

Programme 3: Expenditure Analysis

Adjusted Budget	As at 4th Quarter	% Adjusted Budget
36,961,000	35,704,000	97%

Programme 3 was allocated a budget of R44 192 000.00 for the 2017/18 financial year. This was further adjusted downwards to R36 961 000.00 after the adjustment appropriation process. The entity has spent R35 704 000.00 as at the end of the fourth quarter which translates to 97% of its annual adjusted budget. This is an under-expenditure of 3% on the adjusted budget.

PROGRAMME 4: STRATEGY AND COMMUNICATION

The Committee noted that the entity attained 17 of its 30 planned targets under Programme 4 named "Strategy and Communication". This translates to 57% achievement for planned targets in the fourth quarter.

On page 54 of the entity's quarterly report under the Trade and Investment Promotion sub-programme, the entity achieved 4 of its 13 targets. The sub-programme failed to implement targets relating to attracting and facilitation of Investments in the province due to the first three months of the year being slow as well as negative investor sentiments.

On page 58 of the entity's quarterly report under the Corporate Strategy sub-programme, the entity failed to reach at least 70% in the achievement of its quarterly targets. It instead according to its calculations, achieved 52% of its targets.

Furthermore, on page 62 of the entity's quarterly report under the Marketing and Communications sub-programme, the entity achieved 6 of its 7 targets. The programme failed to conduct two (2) media briefings due to a lack of a media plan; the entity has stated that a media plan is being developed for the 2018/19 financial year.

Programme 4: Expenditure Analysis

Adjusted Budget	As at 4th Quarter	% Adjusted Budget
25,971,000	22,434,000	86%

Programme 4 was allocated a budget of R26 140 000.00 for the 2017/18 financial year. This was further adjusted to R25 971 000.00 after the adjustment appropriation process. The entity has spent R22 434 000.00 as at the end of the fourth quarter which translates to 86% of its annual adjusted budget. This is an under-expenditure of 14% on the adjusted budget. Part of the under-expenditure was also attributed to vacancies due to the non-finalisation of the OD process and some investment missions which have been postponed.

PROGRAMME 5: PROPERTIES AND INFRASTRUCTURE

The Committee noted that the programme has achieved 6 of its 9 targets (67%) it had planned for the fourth quarter of the 2017/18 financial year.

On page 65 of the entity's quarterly report under the Properties and Infrastructure programme, the entity failed to have a value of R250 000 000.00 investment projects disbursements due to delays in the approval of the first group of three strategic development partner projects. Instead a value of R300 000 000.00 was achieved. The entity could not attract investment to the SEZ in the current quarter having planned to have attracted R500 000 000.00 for the quarter.

i. The Committee requested the entity to indicate how it will roll out its programme to revitalise and refurbish its industrial Parks within the coming year as well as stipulate the budget that has been put aside for this exercise. The entity reported that under the current fiscal constraints, it has approached the DTI to access funding for the revitalisation of some of the large industrial parks. In December 2017, the DTI approved approximately R 50 000 000.00 for the refurbishment of Ekandustria Industrial Park. The scope currently being implemented during this revitalisation phase includes the refurbishment of the waste water treatment plant, repair of the roofs and installation of the security fence. An additional request for implementing the second phase of the revitalisation of Ekandustria has been submitted.

Moreover, the entity indicated that in the next financial year, an application for the revitalisation of Siyabuswa and Kabokweni Industrial Parks will be submitted to the DTI.

In addition to the DTI revitalisation funding, the entity mentioned that it has also commenced with implementing a Strategic Development Partner (SDP) programme. This programme is aimed at utilising the entity's existing property assets to raise the required capital from private sector developers to refurbish the identified assets. Three (3) assets, namely the Siyabuswa Shopping Centre, Kabokweni Shopping Centre and 66 Anderson Street building have been identified for refurbishment using the SDP programme. This programme will be implemented further in the next financial year.

Programme 5: Expenditure Analysis

Adjusted Budget	As at 4th Quarter	% Adjusted Budget
498,657,000	485,121,000	97%

Programme 5 was allocated a budget of R489 683 000.00 for the 2017/18 financial year. This was further adjusted upwards to R498 657 000.00 after the adjustment appropriation process. The entity has spent R485 121 000.00 as at the end of the fourth quarter which translates to 97% of its annual adjusted budget. This is an under-expenditure of 3% on the adjusted budget.

PROGRAMME 6: FUNDING

The Committee noted that the entity attained 12 of its 33 planned targets under Programme 6 named "Funding". This translates to 36% achievement for planned targets in the fourth 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 the support to the local tyre initiative, Creative Industries Initiatives as well as the Sanitary towel programme. The entity stated at time that funding had been received in March 2018 from the Department of Economic Development and Tourism (DEDT) for some of the projects mentioned above.

Other reasons given by the entity included accreditation of MEGA by Standard Bank as a service provider to the bank taking longer than anticipated for the second consecutive quarter. This has delayed the process of the Standard Bank – MEGA partnership agreement being in full effect. This is clearly affecting service delivery since applicants cannot as yet access the funds to be provided by Standard Bank and MEGA continues to use its own limited funds to disburse loans.

i. The Committee sought an explanation from the entity on whether disbursed loans in the 2017/18 financial year, made an impact in alleviating poverty and creating jobs for the people of Mpumalanga. In response, the entity stated that through funding approvals and the implementation of the GNP programme for 2017/18 financial year, MEGA was able to assist 371 SMMEs (19 loan beneficiaries, 319 GNP farmers, 2 GNP bakeries and 31 GNP Transporters).

The jobs created through these interventions were 885 (31 from loan origination, 666 from GNP farm production, 119 from GNP transporters and 69 GNP direct employment).

ii. The Committee sought clarification from the entity on whether it has appointed a service provider to administer the Government Nutrition Programme (GNP), if so, were the appropriate steps taken in appointing the service provider as per the Public Finance Management Act. The entity reported that the service provider appointed to assist in the management of the GNP programme was appointed through tender processes and in accordance with the Public Finance Management Act.

iii. The Committee requested the entity to provide a record on how much has been spent and on which items thus far for the Government Nutrition Programme.

The entity indicated that as at 31 March 2018, R103 000 000.00 was spent towards the GNP programme as per the table below:

GNP spending by category

CATEGORY	VAT EXCL AMOUNT
Bread procurement	769,237.60
Fresh produce_Commercial markets	13,328,153.59
Fresh produce_Farmers	7,704,281.57
Transport Fresh Produce	20,473,451.01
Truck hire	100,699.46
Contract workers	1,410,336.15
Management fee	12,315,911.53
Service fee	15,408,333.30
Assessment cost	392,500.00
Assets	31,136,516.78
TOTAL	**103,039,420.99**

iv. The Committee requested the entity to provide the way forward for the Ntirhisano Sanitary Working Cooperative considering the recent challenges it has been facing and state what will be its intervention. In response, the entity reported that it has been allocated R 20 000 000.00 to assist the Cooperative with the implementation and operationalization of the project to ensure sustainability of the enterprise. The entity is also supported with business development and access to markets.

The manufacturing machine has been ordered from China and is being dismantled prior to shipping to South Africa. The entity stated that the challenge currently being addressed is the storage of raw materials and production stock once production begins, since the raw materials are not accessible in South Africa.

In addition, the entity indicated that on 9 May 2018, its management requested DEDT to establish through the DTI, the possibility of partnering with NAMPACK. After the engagement with the DTI, it was learnt that NAMPACK also imports their raw material from China.

Programme 6: Expenditure Analysis

Adjusted Budget	As at 4th Quarter	% Adjusted Budget
185,801,000	168,294,000	91%

Programme 6 was allocated a budget of R150 910 000.00 for the 2017/18 financial year. This was further adjusted upwards to R185 801 000.00 after the adjustment appropriation process. The entity has spent R168 294 000.00 as at the end of the fourth quarter which translates to 91% of its annual adjusted budget. This is an under-expenditure of 9% on the adjusted budget.

5. FINDINGS

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

5.1 The entity submitted a request to the DTI for implementing the second phase of the revitalisation and refurbishment of Ekandustria.

5.2 The entity has been allocated an amount of R 20 000 000.00 to assist all sanitary projects in the province, with the implementation and operationalization of the projects and to ensure sustainability thereof.

5.3 Through funding approvals and the implementation of the Government Nutrition Programme (GNP) for the 2017/18 financial year, the entity was able to assist 371 SMMEs (19 loan beneficiaries, 319 GNP farmers, 2 GNP bakeries and 31 GNP Transporters).

5.4 The entity has poor achievement of targets for the quarter under review.

5.5 There has been poor revenue collection by the entity during the quarter under review.

5.6 The Standard Bank and MEGA partnership is not yet completed.

6. RECOMMENDATIONS

The Committee made the following recommendations:

6.1 The entity must update the Committee on the implementation of the second phase of the revitalisation and refurbishment of Ekandustria.

6.2 The entity must submit a detailed report to the Committee breaking-down the allocated amount of R20 000 000.00 for all sanitary projects / cooperatives in the province.

6.3 The entity must report to the Committee on whether or not Fortune 40 projects are beneficiaries of the Government Nutrition Programme (GNP).

6.4 The entity must strictly adhere to its planned targets and perform positively in the current 2018/19 financial year.

6.5 The entity must be self-sustainable and will need to improve drastically on its revenue collection prospects.

6.6 The entity must submit an updated progress report to the Committee on the process of the partnership agreement between Standard Bank and MEGA not later than 15 August 2018.

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

7. CONCLUSION

The Chairperson wishes to express his gratitude to the MEC, Mr SE Kholwane, the Acting HOD, Mr NM Sebitso, the CEO Mr XGS Sithole, 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 fourth (4th) quarter report of the Mpumalanga Economic Growth Agency (MEGA) 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 31 August 2018 and thereafter on a quarterly basis.

07/08/2018

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

DATE