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

THIRD (3^{rd}) 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 Third (3^{rd}) 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 third quarter.

2. METHOD OF WORK

The Speaker referred the entity's Third (3^{rd}) 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 14 February 2018 to deliberate on the entity's research analysis on the third quarterly report and scrutinize in detail the aforementioned document; met the department on 20 February 2018 on the 2017/18 third (3^{rd}) quarter report and subsequently met on 06 March 2018 to consider the draft Committee report.

3. OVERVIEW BY THE MEC

The MEC of the department, Mr SE Kholwane gave an overview of the department's performance on the 2017/18 3rd Quarter Report to the Committee; and also covered the parastatals / public entities under the department, which included Mpumalanga Economic Growth Agency (MEGA). The MEC stated that admittedly the process of reconfiguring the organisation of the department and the public entities has taken longer than anticipated. He further noted the shortfalls in the performance of the entities and has engaged the accounting officers / authorities about the importance of implementing acceleration plans for all priority programmes and targets.

The MEC indicated that the Mpumalanga Economic Growth Agency (MEGA) is moving towards the finalization of the OD process; employees have been placed, and those who were not placed are undergoing appeals processes; the number of those not placed is not roughly 36. In respect of the Special Economic Zone (SEZ) MEGA has re-submitted all the required documentation and is now awaiting designation. Regarding the Mpumalanga International Fresh Produce Market (MIFPM) the MEC mentioned that the bulk infrastructure is sitting above 95% completion and is expected to be at 100% completion by the end of the 2017/18 financial year. According to the MEC, focus will be on the construction of the top structure as well as finalization of the ownership model in the new financial year. The MEC stated that the Government Nutrition Programme (GNP) is progressing well on the first phase of supplying fresh produce, and MEGA is expected to consolidate the first phase before embarking on the second phase of supplying dry goods.

4. GENERAL OBSERVATIONS

The entity has managed to achieve 51% of its targets for the third quarter of the 2017/18 financial year compared against the 54% in the second quarter. It has spent 77% of its annual budget and 94% of its projected quarterly budget as at the end of the third quarter. This reflects an under-expenditure of 6% on its projected quarterly budget for the entity as at the end of the third 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 third quarter. The programme which has performed the least of all of them is Programme 6 – Funding, just as in the previous quarter which achieved 10 of its 34 targets at 29%.

5. PROGRAMME ANALYSIS

PROGRAMME 1: OFFICE OF THE CEO

The Committee noted that the entity attained 7 of its 7 planned targets under Programme 1 named “Office of the CEO”. This translates to 100% achievement for planned targets in the third quarter.

The Programme remains on course to achieve its targets for the 2017/18 financial year and remains one of the shining lights for the entity in terms of its performance.

i. The Committee requested the entity to provide an update on the transfer of properties previously reported in the second quarter. During the deliberations, the entity failed to update the Committee accordingly and was therefore requested to withdraw the response and resubmit an accurate report with attachments on or before 01 March 2018. The entity has subsequently failed to meet this deadline; the resubmission has not reached the Committee to date.

Programme 1: Expenditure Analysis

Main Budget	As at 3rd Quarter	% Main Budget	% of Projected
24,715,000	14,428,000	58%	79%

Programme 1 was allocated a budget of R24 715 000.00 for the 2017/18 financial year. The entity has spent R14 428 000.00 as at the end of the third quarter which translates to 58% of its annual budget and 79% of its quarterly budget of R18 240 000.00. This is an under-expenditure of 21% on the quarterly budget. Part of the under-expenditure was due to vacancies once again as a result of the non-finalisation of the Organisational Design process.

PROGRAMME 2: CORPORATE SERVICES

The Committee noted that the entity attained 7 of its 8 planned targets under Programme 2 named “Corporate Services”. This translates to 88% achievement for planned targets in the third quarter.

On page 35 of the entity’s quarterly report under Human Resources, the entity failed to develop 20% of the employees due to a moratorium that had been in place but lifted again in December 2017. This is the third consecutive quarter that this target has not been achieved.

i. The Committee was concerned with the various challenges and delays experienced recently and enquired on whether the entity is still certain that he OD process will be finalised by the end of the 2017/18 financial year which is one quarter away. In response, the entity reported that the OD process is now at its final stages with the Appeals phase having been completed and the Record of Decision (appeals outcome and ruling) having been issued by the Independent Chairperson. Management is in the process of issuing letters to the appellants. The entity further indicated that the filling of vacant positions through the normal recruitment process is scheduled to commence immediately after the issuing of the letters and concurrent to this, processes aimed at managing the pool (unplaced employees) are going to be activated and will have no bearing on the recruitment process. The development of a strategy on how the excess staff will be managed is scheduled to commence shortly in consultation with labour representatives. Furthermore, the entity stated that Change Management interventions and support to affected employees are being intensified.

Programme 2: Expenditure Analysis

Main Budget	As at 3rd Quarter	% Main Budget	% of Projected
39,366,000	21,876,000	56%	72%

Programme 2 was allocated a budget of R39 366 000.00 for the 2017/18 financial year. The entity has spent R21 876 000.00 as at the end of the third quarter which translates to 56% of its annual budget and 72% of its quarterly budget of R30 454 000.00. This is an under-expenditure of 28% on the quarterly budget. Part of the under-expenditure was attributed to the non-implementation of the OD process which was delayed due to appeals. Part of the under-expenditure also included the non-purchase of a loans management system.

PROGRAMME 3: FINANCE

The Committee noted that the entity attained 3 of its 5 planned targets under Programme 3 named "Finance". This translates to 60% achievement for planned targets in the third quarter.

On page 48 of the entity's quarterly report, the programme failed to reduce debtor days once more to less than 150 and improve financial collection systems. 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.

The actual collections during the current period compared to the same period in the previous financial year is summarised in the table below:

Category	Collected YTD Dec 2017 R'000	Collected YTD Dec 2016 R'000	Increase/ (Decrease) R'000	% movement
Municipal debtors	74 237	74 476	(239)	0%
Rental debtors	22 183	21 357	826	4%
Total	**96 420**	**95 833**	**587**	**1%**

Programme 3: Expenditure Analysis

Main Budget	As at 3rd Quarter	% Main Budget	% of Projected
44,192,000	35,397,000	80%	107%

Programme 3 was allocated a budget of R44 192 000.00 for the 2017/18 financial year. The entity has spent R35 397 000.00 as at the end of the third quarter which translates to 80% of its annual budget and 107% of its quarterly budget of R33 144 000.00. This is an over-expenditure of 7% on the quarterly projected budget.

ii. The Committee enquired on whether the entity had started with the interim audit conducted by the Auditor General and how the progress has been. The entity reported that the Auditor-General (AG) is currently busy with the planning phase of the 2017/18 audit. The entity will agree with the AG on the sections that can be audited prior to the submission of the AFS on 31 May 2018, e.g. bulk infrastructure assets, biological assets, land and buildings, moveable assets, intangible assets and export lemon revenue.

The entity further indicated that AG is now also performing an Enhanced Key Control Review to assess the readiness of auditees for the 2017/18 audit. According to the entity, the AG already performed two reviews in this regard and a third review will be performed for the period ending 28 February 2018.

iii. The Committee sought an explanation from the entity on the R307 000 000.00 grant received as mentioned on page 49 of its quarter report under financial obligations (reasons for under or over-expenditure) and provide a breakdown on how this will be used.

In response, the entity indicated that the grant received of R307 000 000.00 is in respect of the Mpumalanga International Fresh Produce Market (MIFPM). The reason for over-expenditure on page 49 is explaining the impact of the timing difference between receiving the money and incurring the expense on the VAT obligation as reflected under the entity's financial obligations. The entity stated that it is expecting that the R307 000 000.00 will be fully committed by the current financial year-end.

PROGRAMME 4: STRATEGY AND COMMUNICATION

The Committee noted that the entity attained 12 of its 23 planned targets under Programme 4 named "Strategy and Communication". This translates to 52% achievement for planned targets in the third quarter.

On page 52 of the entity's quarterly report under the Trade and Investment Promotion sub-programme, the entity achieved 6 of its 13 targets. The sub-programme failed to implement targets relating to attracting and facilitation of Investments in the province due to the shorter festive season as companies close early during December, as well as other missions which were planned and postponed by the DTI.

On page 57 of the entity's quarterly report under the Corporate Strategy sub-programme, the entity failed to reach at least 60% in the achievement of its quarterly targets. It instead according to its calculations achieved 55% of its targets.

On page 57 of the entity's quarterly report under the Marketing and Communications sub-programme, the entity achieved 2 of its 4 targets. The programme failed to arrange one (1) media relations day as well as conduct two (2) media briefings to increase media relations and coverage.

i. The entity reported that it will be conducting its executive media training on 6 March 2018 to prepare its executive team to engage media on all levels. The entity further indicated that the media plan (including Media policy & spokesperson policy) is in draft format and due for finalisation by the end of March 2018.

ii. According to the entity, the General Manager Strategy & Communications was appointed and commenced her work at the beginning of December 2017.

Programme 4: Expenditure Analysis

Main Budget	As at 3rd Quarter	% Main Budget	% of Projected
26,140,000	18,378,000	70%	88%

Programme 4 was allocated a budget of R26 140 000.00 for the 2017/18 financial year. The entity has spent R18 378 000.00 as at the end of the third quarter which translates to 70% of its annual budget and 88% of its quarterly budget of R20 861 000.00. This is an under-expenditure of 12% on the quarterly 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 to the last quarter of the financial year.

PROGRAMME 5: PROPERTIES AND INFRASTRUCTURE

The Committee noted that the programme has achieved 6 of its 11 targets (55%) it had planned for the third 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 R400 000 000.00 investment projects approvals 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 its industrial parks but stated that it is awaiting the DTI for source of funding.

i. The Committee requested the entity to provide an update on the follow-up session with the DTI pertaining to the source of funding for its industrial parks. The entity reported that in December 2016, an amount of approximately R50 000 000.00 was approved by the DTI for the first phase of the refurbishment of Ekandustria. The scope of work in this phase includes the replacement/repair of factory roofs, installation of the boundary fence and gates, and the refurbishment of the waste water treatment plant. In December 2017, an application for an additional amount of approximately R50 000 000.00 was lodged with the DTI to complete some of the scope of work commenced in the first phase of the revitalisation programme at Ekandustria. The DTI is in a process of assessing the application and the entity indicated that it is awaiting the response.

Programme 5: Expenditure Analysis

Main Budget	As at 3rd Quarter	% Main Budget	% of Projected
489,683,000	376,204,000	77%	89%

Programme 5 was allocated a budget of R489 683 000.00 for the 2017/18 financial year. The entity has spent R376 204 000.00 as at the end of the third quarter which translates to 77% of its annual budget and 89% of its quarterly budget of R423 620 000.00. This is an under-expenditure of 11% on the quarterly projected budget.

PROGRAMME 6: FUNDING

The Committee noted that the entity attained 10 of its 34 planned targets under Programme 6 named "Funding". This translates to 29% achievement for planned targets in the third 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 that at the time funding had not been received from the Department of Economic Development and Tourism 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. 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 the entity continues to use its own limited funds to disburse loans.

i. The Committee sought an explanation from the entity on why the Service Level Agreement with Standard Bank has not yet been finalised since the agreement was announced in September 2017. The entity mentioned that the Standard Bank approval processes have taken longer that initially envisaged, which may be attributable to the fact that this is the first ground breaking agreement between a commercial bank and the government and as such there was no similar framework in place.

ii. The Committee requested the entity to provide an update as at the third quarter on the Government Nutrition Programme and how all the identified distribution centres and service providers have been operating thus far. In response, the entity stated that it has commenced with Phase 1 of the GNP from 01 June 2017 which involved the procurement and supply of fresh produce to all schools within the non CRDP schools, supplying 320 000 learners, 37% of the schools and 9 hospitals in the Mpumalanga Province.

Currently three (3) distribution centres are fully operational. The entity envisaged that this number will increase to four (4) in order to cater for the scaling up of the programme which entails supply of dry goods/groceries to schools and hospitals.

The entity further indicated that since the inception of the Programme, fresh produce valued at R6 700 000.00 was procured from about 305 farmers (cumulatively).

An additional 25 SMMEs also benefitted from the Programme through the provision of transport services where they transported the produce from the distribution centres to various schools and hospitals.

The entity also mentioned that it has commenced with the preparations for scaling up into Phase II of the Programme which is planned to commence in April 2018. The Phase involves the procurement and supply of both the dry products and fresh produce to 37% of schools and 32 hospitals.

iii. In addition, the entity reported that it has been interacting with DEDT on a continuous basis regarding the transfer of the funds for projects. According to the entity, DEDT issued a confirmation that the funds will be transferred to the entity by February 2018.

iv. The Committee sought an explanation from the entity on why it has delayed to purchase the loans management system which could critically assist it to conduct its work effectively. The entity stated that loan management systems available in the market which caters for the different loan products offered by it comes at exorbitant costs. As a result, the entity mentioned that it has resolved to revive the loan management system which was previously used for Housing and SMME loans for costs considerations.

Furthermore, the entity stated that the project is also intended for the modernization of the loan management processes including loans application automation. The proposed migration to SBPlus has been identified as a solution for addressing the reporting limitations of Pastel Accounting.

Programme 6: Expenditure Analysis

Main Budget	As at 3rd Quarter	% Main Budget	% of Projected
150,910,000	130,166,000	86%	117%

Programme 6 was allocated a budget of R150 910 000.00 for the 2017/18 financial year. The entity has spent R130 166 000.00 as at the end of the third quarter which translates to 86% of its annual budget and 117% of its quarterly budget of R111 489 000.00. This is an over-expenditure of 17% on the quarterly projected budget.

6. FINDINGS

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

6.1 The entity attained ten (10) of its thirty-four (34) planned targets pertaining to the Funding division.

Furthermore, the entity had an under-expenditure of 8% on its projected quarterly budget at the end of the second quarter of the 2017/18 financial year and an under-expenditure of 29% at the end of the third quarter.

6.2 The entity subsequently failed to submit a revised response with attachments to the Committee concerning the update on the transfer of properties previously reported in the second quarter.

6.3 The entity had an under-expenditure of 12% on its quarterly budget under Programme 4, due to vacancies as a result of the non-finalisation of the OD process and some investment missions which have been postponed to the last quarter of the financial year. Furthermore, the entity confirmed that the OD process will be finalized in the fourth quarter of the 2017/18 financial year.

6.4 The entity continues to use its own limited funds to disburse loans since the Standard Bank – MEGA partnership agreement is not yet in full effect.

7. RECOMMENDATIONS

The Committee made the following recommendations:

7.1 The entity must develop systems, mechanisms and implementation plans to ensure that planned targets are met in the fourth quarter of the 2017/18 financial year, as well as implementation plans to mitigate under-spending of the approved budget.

7.2 The entity must submit a progress report to the Committee on the transfer of properties not later than 09 March 2018.

7.3 The entity must submit a progress report to the Committee on the finalization of the OD process on or before 06 April 2018.

7.4 The entity must submit an updated progress report to the Committee on the process of the partnership agreement between Standard Bank and MEGA, as well as the monitoring system used concerning the loan applications.

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

8. CONCLUSION

The Chairperson wishes to express his gratitude to the MEC, Mr SE Kholwane, the Acting HOD, Ms SP Xulu, the CEO Mr X 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 third (3rd) 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 06 April 2018 and thereafter on a quarterly basis.

06.03.2018

HON BD DUBE (MPL), **DATE**

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

Appointed in terms of Rule 114 of the Rules and Orders of the Mpumalanga Provincial Legislature.