COMMITTEE REPORT OF THE PORTFOLIO COMMITTEE ON PREMIERS' OFFICE; FINANCE; ECONOMIC DEVELOPMENT AND TOURISM IN RELATION TO THE 2nd QUARTER PERFORMANCE REPORT FOR 2015/16 FINANCIAL YEAR – MPUMALANGA ECONOMIC GROWTH AGENCY

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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 (Act 108 of 1996) read with Rule 124(b) and Rule 131 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 Second Quarterly Performance Report for 2015/2016 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 2015/2016 second quarter.

2. METHOD OF WORK

The Speaker referred the department's Second (2nd) 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 03 December 2015 to deliberate on the entity's quarterly report and scrutinize in detail the aforementioned document, the Committee met on 17 February 2016 to consider the draft Committee report.

3. GENERAL OBSERVATIONS

The Committee observed that the entity had improved in its overall performance with a number of areas. The entity has managed to achieve 44% of its targets for the second quarter of the 2015/16 financial year. It has spent 47% of its annual budget as at the end of the second quarter, 3% below the benchmark of 50% at the end of the second quarter.

Programme 3 and 6 were the best performing programmes; both achieving 75% while programme 4 and 7 performed poorly at 25% and 22% respectively.

DELIBERATIONS ON THE 2nd QUARTERLY REPORT

The CEO was requested to brief the Committee on the progress made on the implementation of the APP's strategic objectives of the 2nd quarter. Thereafter the Committee interacted with the entity per programme.

3.1. PROGRAMME 1: CHIEF EXECUTIVE OFFICE

The entity attained 10 of its 25 planned targets under Programme 1 named "Office of the CEO". This translates to 40% achievement for planned targets in the second quarter.

The Committee noted on page 14 of the entity's quarterly report under the Risk Management sub-programme that the entity continued to face capacity constraints when none of the two planned targets for the quarter were not met. The sub-programme failed to submit the ERM Quarterly report to the Board and to submit the Quarterly Report on monitoring the Fraud Prevention Plan to the Audit Committee and the Board for the second consecutive quarter.

Furthermore; the Committee noted that on the Legal Services sub-programme, the entity achieved three (3) of its six (6) planned targets. It failed to develop a training programme in line with an assessment report due to delays in the finalisation of the legal framework; and also failed to get 80% of lodged cases successfully concluded due to the fact that MEGA is a defendant in most the cases and plaintiffs are not following up. Lastly, the entity failed to reduce unregistered assets based on the current asset register by 25% due to the process of appointing conveyances taking longer than anticipated.

The Committee enquired on whether the Legal framework has been finalised to allow the development of the training programme in line with the assessment report. It was indicated that the Legal framework has been finalised and that currently consultations are taking place with various divisions within MEGA. All inputs received from divisions shall be consolidated before the revised framework is submitted to EXCO for approval. It is anticipated that the approved Legal Framework shall be in place by the end of the third quarter.

The Committee also noted that under Marketing and Communication sub-programme, the entity has achieved none of its four (4) planned targets. It failed once again, as in the first quarter, to approve the Marketing Strategy and Branding Policy and obtain 100% content updates in the website from divisions. This was attributed to lack of capacity due to the vacant Manager position. The Committee raised a concern on what could be preventing the Board from approving the Marketing Strategy and Brand Policy that has been developed for the second consecutive quarter. The entity indicated that the Marketing Strategy and Branding Policy has not been submitted to the Board for approval. These documents are still being enhanced after which the final draft will be submitted to EXCO for consideration before being submitted to the Board for final approval. It is anticipated that the documents shall be submitted to the Board for approval by the end of January 2016

Programme 1 Expenditure Analysis

Budget 2015/16	As at 30 September 2015	% of Budget
24 533 000	8 450 000	43%

Programme 1 was allocated a budget of **R24 533 000.00** for the 2015/16 financial year. The entity has spent **R8 450 000.00** as at the end of the second quarter which translates to 34% of its annual budget. This is an under-expenditure of 16%. Under-expenditure was attributed, among others, to savings in catering and conferencing, since there were no extra-ordinary meetings.

3.2. PROGRAMME 2: FINANCE

The Committee noted that the entity had seven (7) targets for each quarter in Programme 2 for the financial year under review. The entity attained two (2) of its six (6) planned targets under programme 2 named "Finance". This translates to 33% achievement for planned targets in the second quarter.

On the entity's quarterly report, the programme failed to obtain an unqualified audit opinion from the Auditor General of South Africa (AGSA), instead they received a qualified audit opinion. It failed to reduce irregular expenditure by 3%, decrease revenue spending on OPEX by 10% as well as achieve own revenue collection versus grant allocation ratio of 55:45. These were attributed to legacy issues, decrease in collections as well as dependability on the government grant.

The Committee requested the entity to provide progress and the update on the process that has been taken to condone the incurred irregular expenditure. The entity indicated that management previously investigated the irregular expenditure in the previous financial years with reference to the guidelines issued by National Treasury in this regard. The Board approved the submission (condonement and write-off) made by management, however; the AG did not want to accept the approval processes followed. Some of the factors contributing to this viewpoint by the AG are:

- The new guidelines issued by National Treasury further clarifying specific processes to be followed in the condonement of irregular expenditure; and
- The lack of consequence management.

Management will adopt the following approach to progress the issue of irregular expenditure incurred in prior periods:

- The work already executed as part of the submission to the Board will be reviewed.
- A new submission/ summary will be prepared listing:
    - The actions taken per individual transgression;
    - Where applicable, the reasons will be documented as to why management is of the view that instituting disciplinary action is unlikely to be successful.
- During the review process, cognisance will be taken of the "Updated Guideline on Irregular Expenditure" issued by National Treasury during April 2015 to determine how best each case can be finalised.
- To the extent necessary, reference will also be made to the "Legacy Issue" guidelines issued by National Treasury a number of years ago to see the relevance thereof to the irregular expenditure review process.
- The suggested approach will be discussed with Provincial Treasury and MEGA's Internal Audit division with reference to the "value for money" concept. Thereafter; the suggested approach will be discussed with the AG prior to the implementation thereof.

Once a principle agreement has been reached with the AG, management will draft the submissions for consideration by the relevant authorities, e.g. National Treasury and the MEGA Board.

In addition to the aforesaid, Provincial Treasury and Internal Audit will be asked to assist with the review of MEGA's document retention policy and processes.

Guidance will also be requested as to how consequence management practices can best be implemented going forward.

Expenditure Analysis

Budget 2015/16	As at 30 September 2015	% of Budget
69 860 000	35 300 000	51%

Programme 2 was allocated a budget of **R69 860 000.00** for the 2015/16 financial year. The entity has spent **R35 300 000.00** as at the end of the second quarter which translates to 51% of its annual budget.

3.3. PROGRAMME 3: CORPORATE SERVICE

The entity has five (5) targets for each quarter in Programme 3 for the financial year under review. It has planned three (3) targets in the second quarter of the 2015/16 financial year. The entity attained two (2) of its three (3) planned targets under programme 3 named "Corporate Services". This translates to 75% achievement for planned targets in the second quarter.

The Committee noted that under the Human Resources sub-programme, two (2) of the three (3) planned targets were achieved. The entity failed to achieve 30% of the organisational performance. The failure was attributed to the new strategy and approved new structure, since this could not be done, unless the organisational re-design process has been complete.

Expenditure Analysis

Budget 2015/16	As at 30 September 2015	% of Budget
36 815 000	16 107 000	44%

Programme 3 was allocated a budget of **R36 815 000.00** for the 2015/16 financial year. The entity has spent **R16 107 000.00** as at the end of the second quarter which translates to 44% of its annual budget. This shows an under-expenditure of 6%. The entity was asked to elaborate on the under-expenditure of 6% on the programme for the quarter. It was indicated that the division has spent less than expected on employment equity and employee wellness due to the fact that the HR Strategy was only approved in the current quarter and, as a result, its implementation commenced later than originally anticipated.

3.4. PROGRAMME 4: INFRASTRUCTURE DEVELOPMENT AND PROGRAMME MANAGEMENT

The Committee noted that the entity attained one (1) of its four (4) planned targets under programme 4 named "Infrastructure Development and Programme Management". This translates to 25% achievement for planned targets in the second quarter.

The following progress was reported:

- ✓ Installation of the bulk water supply pipeline is complete except to connect Silulumazi Water Supply and Electrical connections by Eskom
- ✓ Cadastral Pegging of the Fresh Produce Market complete
- ✓ Appointment of reservoir; tower and pump station contractor complete
- ✓ Appointment of MIFPM building, civil and structural engineering consultant complete
- ✓ Appointment of MIFPM internal services (roads, sewer) consultant
- ✓ Bulk sewer project is 100% complete

The entity stated that the main challenge experienced was that the budget allocated in the current financial year was sufficient to cater for the construction of internal services. The Fresh Produce sub-programme had one (1) planned target for the quarter and it failed to achieve it. It also failed to complete one (1) road design. This was attributed to delays in appointment of a consultant to do the designs. No targets were planned for the Agri-Hubs and SEZs in the second quarter of the financial year.

The entity had to clarify whether the entity has managed to complete the one (1) road design since the third quarter has commenced. It was indicated that there were delays in the appointment of a consultant to do the designs. A consultant has since been appointed and is busy with the inception report. The completion of the road design is dependent of the approval of the township layout plan by the Surveyor General. It is anticipated that the process will be finalised by the end of the current financial year.

Programme expenditure

Budget 2015/16	As at 30 September 2015	% of Budget
3 173 000	2 851 000	90%

Programme 4 was allocated a budget of **R3 173 000.00** for the 2015/16 financial year. The entity has spent **R2 851 000.00** as at the end of the second quarter which translates to 90% of its annual budget. This is an over expenditure of 40%.

In explaining why there was an over-expenditure of 40% during the second quarter of the 2015/16 financial year; the entity indicated that there was a cost on employees where Engineers' salaries was expected to be funded from the Special Grant allocated for the Bulk Water and Sanitation project, which was later surrendered back to DEDT. The employee cost is had to be carried by MEGA.

3.5. PROGRAMME 5: TRADE AND INVESTMENT

The programme has achieved nine (9) of its 13 targets (69%) it had planned for the second quarter of the 2015/16 financial year. The Trade Promotion sub-programme managed to attain five (5) of its six (6) planned targets. Exports to the value of **R50 000 000.00** were not facilitated, instead **R2 017 000.00** was spent due to resultant exports being lower than expected.

The Investment Promotion sub-programme attained four (4) of the seven (7) planned targets. This translates to 57% attained targets. The entity failed to assist 75 investors, implement investments to the value of **R55 000 000.00** as well as create 60 job opportunities for the second consecutive quarter. This was attributed to projects not yet started and some still being at initial stages.

Programme expenditure

Budget 2015/16	As at 30 September 2015	% of Budget
10 843 000	4 871 000	45%

The Committee noted that the Programme 5 was allocated a budget of **R10 843 000.00** for the 2015/16 financial year. The entity has spent **R4 871 000.00** as at the end of the second quarter which translates to 45% of its annual budget.

3.6. PROGRAMME 6: PROPERTY DEVELOPMENT AND MANAGEMENT

The entity attained three (3) of its four (4) planned target under programme 6 named "Property Development and Management". This translates to 75% achievement for planned targets in the second quarter. It failed to raise capital to the value of **R40 000 000.00** from financers for refurbishment of Industrial Parks. The entity had further reported that it had applied for **R21 000 000.00** from the DTI which was still in the process of negotiations with DTI.

The entity indicated that the refurbishment programme submitted to the DTI was accepted in principle, subject to a formal binding agreement. MEGA is still awaiting formal communication by the DTI on the amount approved as well as the envisaged commencement date for implementation.

Programme expenditure

Budget 2015/16	As at 30 September2015	% of Budget
158 927 000	86 953 000	55%

Programme 6 was allocated a budget of **R158 927 000.00** for the 2015/16 financial year. The entity has spent **R86 953 000.00** as at the end of the second quarter which translates to 55% of its annual budget.

3.7. PROGRAMME 7. HOUSING

The entity had nine (9) targets for each quarter in Programme 7 for the financial year under review. Only two (2) of the planned targets were attained. This translates to 22% achievement for planned targets in the second quarter. The entity failed to approve loans of the value of **R3 000 000.00**; instead five (5) loans, to the value of **R1 500 000.00** were approved. The challenge stated was that the average loan amount applied for was less than **R300 000.00** per loan. The programme also failed to disburse housing loans of the value of **R2 000 000.00**, instead three (3) loans of the value of **R1 100 000.00** were disbursed. This was attributed to delays in the finalisation of bonds registration.

Furthermore, the Housing programme alarmingly failed to have 100% rental agreements in place for the second consecutive quarter; instead; 25% of lease agreements were signed. The entity reported that tenants are refusing to sign lease agreements. This is a concern to the Committee, considering that the entity relies on these agreements to sustain its revenue.

Programme 7 further failed to implement housing projects valued at **R20 000 000.00** concerning the Lydenburg Project. It was stated that the SLA with the service provider for the project has not been signed due to incomplete negotiations. The entity reported that it plans to be in discussions with the Department of Human Settlements in the Province to finalise policy issues. The Committee asked whether the entity has concluded its policy talks with the Department of Human Settlements concerning the stance on the housing projects to be implemented in Lydenburg among other places. It was indicated that engagements with key stakeholders on policy issues affecting the project have commenced with two (2) meetings held recently between the Department of Human Settlements, Thaba Chweu Local Municipality and MEGA. Furthermore; the developer has been appointed and has already commenced with the implementation of the project in Lydenburg.

Programme expenditure

Budget 2015/16	As at 30 September 2015	% of Budget
36 401 000	13 114 000	36%

Programme 7 was allocated a budget of **R36 401 000.00** for the 2015/16 financial year. The programme has spent **R13 114 000.00** as at the end of the second quarter which translates to 36% of its annual budget. This is an under expenditure of 14%.

The entity indicated that the entity planned to disburse loans valued at **R2 000 000.00** but only managed to disburse loans valued at **R1 100 000.00**, resulting in under spending. This can partly be attributed to funds being redirected to pay the City of Tshwane debt.

3.8. PROGRAMME 8. BUSINESS DEVELOPMENT

The entity attained six (6) of its 15 planned targets under Programme 8 named "Business Development". This translates to 40% achievement for planned targets in the second quarter. In the SMMEs sub-programme; the entity achieved two (2) of its seven (7) targets. It fell short on the disbursements of loans to the value of **R2 000 000.00**, financing of four (4) SMMEs (2 were financed), support 30 SMMEs (19 were supported), create 70 jobs (20 were created) and achieve a 2% proportion of loans provided to people with disabilities.

The Committee enquired on the reasons the entity is lagging behind in providing finance and support to SMMEs in time in order to meet the planned targets. It was indicated that MEGA has been experiencing cash flow constraints which affected the provision of finance and support to SMMEs. Only 15% was spent on loan disbursements for the period under review due to the fact that cash had to be redirected to pay the City of Tshwane debt.

With the approval of the Special Grant Allocation to cater for the City of Tshwane debt, MEGA shall be able to redirect its resources towards its core programmes and ensure that more support is provided to SMMEs

Furthermore, the Committee noted that on page 69 of the quarterly report; two (2) targets were planned by the entity under the Agriculture sub-programme. One (1) of the two (2) targets was achieved for the second quarter of the 2015/16 financial year. The entity failed to disburse agricultural co-operative loans to the value of **R276 000.00**. This was attributed to that the client was still disposing the current stock and would re-stock once current stock was sold.

Under the Revenue Generation sub-programme on page 71 of the quarterly report; the entity achieved three (3) of its six (6) targets. Among others, it failed to achieve Lemon Sales to the value of **R133 333.00** due to the trees being in bad state. It further failed to achieve volume of local sales amounting to 1 333 instead, only 310 was attained due to heavy pruning of trees which reduced the quantity produced. It lastly failed to draft a Due Diligence Report due to the process being put on hold to allow for the implementation of the new corporate strategy as well as the organisational redesign.

Programme expenditure

Budget 2015/16	As at 30 September 2015	% of Budget
50 174 000	17 490 000	35%

Programme 8 was allocated a budget of **R50 174 000.00** for the 2015/16 financial year. The programme has spent **R17 490 000.00** as at the end of the second quarter which translates to 35% of its annual budget. This is an under-expenditure of 15%.

The Committee asked why the entity under-spent on its budget for this programme by 15% if targets regarding disbursements of loans to SMMEs were not undertaken. The entity indicated that only 15% was spent on loan disbursements for the period under review due to the fact that cash had to be redirected to pay the City of Tshwane debt.

4. COMMITTEE FINDINGS FROM THE INTERACTION WITH THE DEPARTMENT

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

4.1. The entity continued to face capacity constraints resulting to the entity being unable to meet two (2) of its planned targets for the two (2) consecutive quarters in Programme 1; relating to Risk Management (submission of reports on ERM to the Board and on monitoring of the Fraud Prevention Plan to the Audit Committee).

4.2. The entity failed to reduce irregular expenditure by 3%, decrease revenue spending on OPEX by 10% as well as to achieve own revenue collection versus grant allocation ratio of 55:45.

4.3. The entity failed to raise capital to the value of **R40 000 000.00** from financers for refurbishment of Industrial Parks.

4.4. The entity failed to approve loans of the value of **R3 000 000.00**. Instead five (5) loans at the value of **R1 500 000.00** were approved.

4.5. The entity is lagging behind in providing finance and support to SMMEs in time, in order to meet the planned targets.

4.6. The entity in programme 4 had an over-expenditure of 40% during the second quarter of the 2015/16 financial year due a cost on employees for Engineers' salaries which was expected to be funded from the Special Grant allocated for the Bulk Water and Sanitation project. The Committee noted that the entity had incurred and irregular expenditure.

5. RECOMMENDATIONS IN RESPECT OF THE FINDINGS

The Committee recommends the following:

5.1. The entity must plan and re-structure the section with existing capacity to ensure that planned targets within the programme are achieved. Furthermore; the entity must finalise its organisational structure in order to ensure that there is sufficient capacity to assist the Programmes to meet all planned targets.

5.2. The entity must develop a plan and systems that will to assist in reduction of irregular expenditure, the decrease of revenue spending on OPEX as well as achieve on own revenue collection versus grant allocation. The plan must be summited to the Committee.

5.3. The entity must develop a plan to assist the entity to raise the capital value to for refurbishment of Industrial Parks.

5.4. The entity must develop mechanisms to ensure that loans are issued out as planned on the APP and as per the allocated budget.

5.5. The entity must investigate and take action against the official/s who failed to ensure that financial assistance and support to SMMEs is provided as planned.

5.6. (i) The entity must take necessary action against the official/s for failure to prevent the irregular expenditure in terms of section38 (c)(iii) of the PFMA,

(ii) The entity and the department (DEDT) must make plans and develop mechanisms to address the irregular expenditure incurred. The funds on Compensation of Employees must be recouped back to the entity as it was surrendered to the department and be utilised for the planned target of the quarter.

6. 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 **31 March 2016**.

HON. PS NGOMANA

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

23/02/2016

DATE