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 - DEPARTMENT OF ECONOMIC DEVELOPMENT AND TOURISM

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1. INTRODUCTION

The Portfolio Committee on Premiers' Office, Finance; Economic Development and Tourism 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 218 and Rule 131 of the Rules and Orders of the Mpumalanga Provincial Legislature (the Rules) to oversee the performance of the Department of Economic Development and Tourism (the department) and hold it accountable through various measures.

2. METHOD OF WORK

The Speaker referred the Departmental 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 and scrutinize in detail; the aforementioned document. The Committee then met on 17 February 2016, to consider the draft Committee report.

3. GENERAL OBSERVATIONS

The Committee observed that the Department managed to achieve 38 of its 62 (61%) planned targets for the second quarter of the 2015/16 financial year.

4. DELIBERATIONS ON THE 2nd QUARTERLY REPORT

The HOD was requested to present the department's responses to the Committee's findings. Thereafter the Committee interacted with the department on the progress and implementation of each planned programme.

4.1. PROGRAMME 1: ADMINISTRATION

Administration, which is Programme 1, has been mandated to provide administrative support for the implementation of the departmental mandate. The programme consists of the Office of the MEC, Office of the HOD, Financial Management, Internal Audit, Strategic Planning Services and Corporate Services.

The Committee noted that the department has eleven (11) planned targets for this quarter and eight (8) of the total targets have been achieved. This translates to 73% achievement of planned targets.

The Committee further noted that the department failed to achieve the planned target under the Human Resource Management sub-programme. The department failed to move functions from MEGA as well as receiving of functions by the department from MTPA. The non-achievement of both targets is due to the prolonged process of intensive consultation regarding the organisational structure; legislation review proposals were not finalised following the reason that the consultation process with the entities took longer due to unavailability of stakeholders.

The Committee asked the department to provide a progress with regards to the transfer of functions to the Public Entities and review of legislation in response to the unachieved targets mentioned. The department indicated that the transfer of functions is dependent on the finalisation of organisational structures in the department as well as Public Entities. The departmental organisational structure has been approved by the Executive Council on 2 December 2015. The department will now submit the structure to the Office of the Premier for job evaluation before it is submitted to DPSA for concurrence.

MEGA

MEGA has developed the organisational structure which only focuses on the Executive Management and has since been approved by the MEGA Board. The entity was said to be in the process of implementing the approved structure. However, since the functions that are affected by the re-engineering process are not limited to Executive Management, the Organizational Development process is focusing on the finalisation of the Regional Economic Development Service Centres (REDSC); which will be where the employees to be transferred will be placed against. The draft REDSC blueprint has been finalised and will be presented to the MEGA Board for discussion and approval; thereafter; it will be sent through to the Executive Council for concurrence as the re-engineering process was initiated by the Executive Council. It was reported that the employees will be transferred from the department to the entity upon the finalisation of these processes.

MTPA

The impact on the MTPA is with regards to the functions that must be transferred to the department. A presentation was made to the Executive Management of MTPA for inputs and will subsequently be presented to the board for approval. Upon the adoption of the organisational structure of MTPA a Memorandum of Agreement will be entered into with the Board so that the functions can be performed in the department whilst awaiting the finalisation of the MTPA Act.

There are processes to discuss the migration framework, which are underway; to ensure that there is no employee who is negatively affected at the end of the process. The consultation session with organised labour with regards to the migration framework will be held in February 2016.

A legislation review team has been appointed to identify the areas that are affected by the turnaround plan and it is anticipated to be finalised by the end of the third (3^{rd}) quarter.

Programme expenditure

Budget 2015/16	As at 30 September 2015	% of Budget
86 689 000	41 651 000	48%

The main budget for Programme 1 was at **R86 689 000.00** for the second quarter of the 2015/16 financial year. The actual budget spent at the end of the second quarter was **R41 651 000.00** (48%) for Programme 1.

The economic classification of Programme 1 reflects that the Compensation of Employees budget was allocated **R53 070 000.00** as at the beginning of the 2015/16 financial year. The department had spent **R25 025 000.00** (47%) on Compensation of Employees for this programme. The Goods and Services budget was R26 619 000 as at the beginning of the financial year. Actual expenditure on goods and services at the end of the second quarter was **R14 872 000.00**. That is 56% of the annual Goods and Services budget. Capital Assets was budgeted **R2 000 000.00**, and spent **R1 674 000.00** which translates to 84%.

The Committee asked the reason the department spent **R80 000.00** on Households; which was not planned for the 2015/16 financial year. The department indicated that the **R80 000.00** over-spending on Households was caused by the payment of leave gratuity as a result of terminations. The terminations were due to resignations and retirements of employees. The department will identify budget that can be shifted to this allocation to fund the leave gratuities. Furthermore, the budget adjustments will be made during the budget adjustment period and it was promised that in the next financial year the department will budget appropriately for the retirements during 2016/17.

PROGRAMME 2: Integrated Economic Development

The objective of Programme 2: Integrated Economic Development Services is to stimulate economic growth in the province.

The Committee has noted that the department achieved eight (8) of its 13 planned targets for Programme 2 in the 2nd quarter of the 2015/16 financial year, translating to 62% achievement of planned targets.

Under the Enterprise Development sub-programme, none of the three (3) planned targets were achieved. The department failed to initiate the project where one (1) SMME Strategy was to be developed and approved and this is due to a service provider not being appointed. It also failed to initiate another project of developing one (1) Township and Informal Sector Strategy due to the same reason as above. With regard to the target on Youth SMMEs, the skills level were assessed but could not be linked with opportunities.

The Committee raised a concern on whether the department has appointed the service providers for the project initiation regarding the two (2) Strategies as planned in the 1st and 2nd quarter and required reasons thereof. The department indicated that the service providers have been appointed during the 2nd quarter and that the process of developing the strategies has commenced. It is envisaged that the 1st draft strategies will be presented to the department in the beginning of the 4th quarter.

The delay was caused by the fact that when the department called for proposals for the development of the strategies towards the end of the 1st quarter from various service providers, most of the proposals were received after the closing date and had to be assessed for suitability. It was then discovered that almost all the proposals did not meet the required standards and the whole process had to be restarted.

The department was asked to provide details on whether the retrofitting programme has commenced and how far along it is; and also state how far the recruitment process has progressed. The department indicated that the retrofitting programme has not yet commenced; however; the process for retrofitting has started in that

DPWR&T has appointed a Service Provider to do an assessment on all government building in the Ehlanzeni and Nkangala regions regarding the amount of work to be performed. The assessment includes focussing on energy saving devices in government owned buildings including water saving devices. According to DPWR&T, the service provider will finalise the assessment report by the end of the 3rd quarter.

With regard to the recruitment process, the department has concluded the process of identifying the SMME's and Cooperatives which are going to participate in the retrofitting programme. The identified SMME's and Cooperatives are from Ehlanzeni and Nkangala regions and their expertise is in the electrical field. The department is currently identifying SMME's and Cooperatives in the Gert Sibande region. The recruitment process will be finalised upon the completion and adoption of the assessment report.

Programme expenditure

Budget 2015/16	As at 30 September 2015	% of Budget
211 413 000	107 265 000	51%

The Committee also noted that the main budget for Programme 2 was at **R211 413 000.00** at the beginning of the 2015/16 financial year. The actual budget spent according to the department at the end of the first quarter was **R107 265 000.00** (51%) for Programme 2.

The main budget for the Compensation of Employees was at **R24 096 000.00** at the beginning of the 2015/16 financial year. The department has spent **R11 414 000.00** (47%) on Compensation of Employees. Goods and Services was at **R27 161 000.00** at the beginning of the financial year. The actual spent as at 2nd quarter was **R15 032 000.00** (55%). The programme had spent **R80 538 000.00** on Transfers as at the 2nd quarter, which translates to 51% expenditure. This also contains transfers made to MEGA.

PROGRAMME 3: TRADE AND SECTOR DEVELOPMENT

Programme 3: Trade and Sector Development; has the mandate to support the development of industry within the key economic sectors of the province and create a conducive environment for trade and investment. The programme consists of sub-programmes - Trade and Investment Promotion, Strategic Initiatives and Sector Development as well as Office Support.

The Committee noted that the department attained seven (7) of its 14 planned targets under this programme during the 2nd quarter. This translates to 50% achievement of planned targets.

Under the Trade and Investment sub-programme, the programme achieved one (1) of the two (2) planned targets. The programme failed to develop draft the Export and Investment Strategies as well as to consult with stakeholders.

On the quarterly report, the Strategic Initiative sub-programme failed to finalise the feasibility study for the establishment of the Industrial/ Supplier Park in Govan Mbeki Municipality, as well as to support the implementation of the ICC in Mbombela Municipality through the project steering committee for the second consecutive quarter.

The Committee asked how the joint implementation plan agreement signed with the Govan Mbeki Municipality will assist in expediting the feasibility study process; which has been in the plans of the department for the past year and two (2) previous quarters. The department indicated that the joint implementation plan (project plan) spells out deliverables with clear timeframes for implementation of the projects. This project plan will be used to monitor the implementation of the projects and intervene where necessary. So far, the Govan Mbeki Local Municipality and the department have already advertised and evaluated the tender documents and the Municipality is currently finalising the appointment of the service provider to commence with the study. It is expected that the study would require 30 weeks to be completed and it is jointly funded by both the department and the municipality.

It should be noted that in the previous financial years, the funding of the feasibility study was dependent on the funding from the private sector. Seeing that the funding was not forth-coming, government decided to fund the project on its own.

The department was asked to provide an update on the establishment of the ICC; especially because this was one of the Premier's pronouncements in the previous year's State of the Province Address and is yet to be realised. The department reported that the ICC would be developed adjacent to the botanical gardens on land currently being utilised by the Agricultural Research Council. Currently, the Mbombela Local Municipality, which was tasked with the implementation of the ICC, is obtaining the required rights to utilise the land as well as the required Environmental Scoping Report in order to ensure that the development complies with all the required Statutory Compliance Requirements. The municipality has also formally registered the project as a PPP (Public Private Partnership) project with National Treasury to entice private investment.

The municipality will further provide the required infrastructure to the development in order to make the project more attractive to potential investors; which will be required to build and operate the proposed ICC. It is envisaged that the proposed ICC will consist of an exhibition, function and events area; supported by conference and meetings rooms that can host Local, Regional, National and International functions. In support of the above; a hotel and various restaurants and beverage shops would be established to cater for the needs of patrons and delegates. Further to this, the supporting IT, Telecommunication and Media Infrastructure will be installed.

The committee also noted that the Sector Development sub-programme achieved four (4) of its eight (8) planned targets. It failed to implement the project plan for the Bushbuckridge Agro-processing hub for the 2nd consecutive quarter. It also failed to recruit and select co-operatives on Fly Ash Beneficiation at Emalahleni Local Municipality. Furthermore, the two (2) targets of (i) development of a draft feasibility study on bio-mass energy plant was not achieved due to a change in the operational model, (ii) the operationalization of the stainless steel fabrication programme failed as a result of insufficient funding level for incubator programme.

Programme expenditure

Budget 2015/16	As at 30 September 2015	% of Budget
15 286 000	10 875 000	71%

The main budget for the Compensation of Employees was at **R10 593 000.00** at the beginning of the 2015/16 financial year. The department has spent **R4 978 000.00** (47%) on Compensation of Employees. Goods and Services was at **R4 793 000.00** at the beginning of the financial year. The actual spent as at 2nd quarter was **R1 097 000.00** (23%). This is an under expenditure of 27%. **R4 800 000.00** was spent on Provincial and Local Government which was not initially planned for.

The Committee asked reasons for the 27% over-expenditure on Goods and Services and it was indicated that the programme did not overspend, but in fact, has underspent by 27%. The following was highlighted:

Goods and Services spent 22.9% due to slow progress on the following projects:

- Delayed transfer of funds for incubator programmes since elapsed contract had to be resuscitated (National Tooling Initiative, Furniture Technology Centre and Mpumalanga Stainless Steel initiative) budget **R2 085 000.00**, spent **R636 000.00**. The contract has been resuscitated and funds will be transferred in the third quarter.

- Feasibility study for the establishment of biomass plant (budget R700, 000); finalising Memorandum of Agreement (MOU) with SAFCOL is currently in progress and funds will be utilised once MOU is finalised.

- Review of draft export and investment strategy (budget **R500 000.00**), could not find a suitable service provider hence an open bidding process is now being followed to secure an appointment.

The Committee further asked the department to clarify why **R4 800 000.00** was spent on Provincial and Local Government without prior allocation. The department indicated that the **R4 800 000.00** expenditure was due to the urgent need to kick-start the project for the establishment of an Industrial Park and Fly Ash Incubator Programme at the Govan Mbeki Municipality. This project is core funded by the department and the municipality and it is anticipated to create economic opportunities within that municipality.

The department has earmarked the allocation for financial assets, a budget which was meant for clearing the Unauthorised Expenditure coming from previous years. The unauthorised expenditure was cleared at the end of 2014/15, making the **R5 000 000.00** budgets available to fund this priority which was under- funded in the previous financial years. The budget has been shifted to the Provincial and Local Government allocation during the 2015/16 adjustment appropriation.

PROGRAMME 4: BUSINESS REGULATION AND GOVERNANCE

The purpose of Programme 4 is to regulate the liquor and gambling industry and to create an enabling legislative environment for business to operate; as well as the facilitation of fair trade and effective consumer protection. Apart from Office Support, the programme consists of Business Regulation and Consumer Protection sub-programmes.

The Committee noted that the department attained six (6) of its eight (8) planned targets under programme 4 in the 2nd quarter of the 2015/16 financial year. This translates to 75% achievement of targets. However; one (1) target has been replaced under the Consumer Services sub-programme.

The department's APP states the target as 'Monitor and evaluate the implementation of the Mpumalanga Consumer Protection Act'. On the quarterly report, the department has replaced this target in its quarterly report with 'Table the Final Draft Consumer Protection Bill to the Legislature', as was done in the 1st quarter and the very same target was not achieved. The target to adjudicate ten (10) hearings by the Consumer Court according to the legislation was also not achieved.

The department was asked to provide feedback on the consultations it reported on in the Annual Report regarding the National Liquor Policy. The department indicated that on 18 and 20 August 2015 and again on 22 September 2015; Public Hearings on the proposed National Liquor Policy were held in Vezubuhle (Thembisile Hani

Local Municipality), Maviljan (Bushbuckridge Local Municipality) and Block "B" (Nkomazi Local Municipality) by the National Liquor Authority (NLA). In all the hearings, the Mpumalanga Liquor Authority was in attendance in order to participate and support the National Liquor Authority.

The proposed changes in the current legislations are necessitated by loopholes identified in the legislative frameworks and major amendments to the National Liquor Policy are proposed. The Provincial Liquor Act will be aligned to this Policy once it is approved.

The following proposed changes were presented and supported by the communities during the consultation processes:

- The restriction of advertisements of alcoholic beverages, prohibitions of sponsorship and promotions associated with alcoholic beverages.
- The establishment of a government managed fund wherein the liquor industry will contribute a prescribed amount. The fund is to be held in trust by the NLA to fund activities to combat alcohol abuse and associated social ills.
- Introduction of liability for manufacturers and suppliers which will ensure that they are held liable should they supply their product to unlicensed traders. Liability is also imposed on Liquor Traders who serve liquor products to already intoxicated persons. The Liquor Traders will be liable for any civil or criminal conduct subsequently committed by the intoxicated person that is related to liquor abuse in and around the liquor premises concerned.
- Restricting trading hours in zoned areas. The purpose is to reduce availability of alcohol. This should be done by setting norms and standards around trading hours. The set uniform trading hours within norms and standards should be integrated in national, provincial and municipal legislations.
- Raising the national minimum legal age at which alcohol can be purchased and consumed from 18 to 21 years.
- The location of liquor premises at a radius of 500 metres away from learning institutions, religious institutions, recreational facilities, rehabilitation centres,

residential and public institutions. This proposal goes as far as recommending the termination of all existing licenses located near the above institutions within a period of two years;.

- The inclusion of Education and awareness in the Act as part of functions of the NLA and DTI.
- The introduction of an internal review mechanism to deal with aggrieved applicants, (e.g. those whose applications have been refused, etc.). This will reduce the costs of litigation for applicants and the DTI's costs of defending such legal actions.
- Empowering NLA to ensure that licensing conditions as articulated in the BBBEE are strictly monitored, and no-compliance thereto to result in licence revocation.

Programme expenditure

Budget 2015/16	As at 30 September 2015	% of Budget
81 801 000	44 451 000	54%

The main budget for the Compensation of Employees was at **R19 553 000.00** at the beginning of the 2015/16 financial year. The department has spent **R10 542 000.00** (54%) on Compensation of Employees. Goods and Services was at **R10 043 000.00** at the beginning of the financial year. The actual spent as at second quarter was **R4 661 000.00** (46%), with transfers to MGB which were at **R29 115 000.00** (56%).

PROGRAMME 5: Economic Planning

Programme 5 is responsible for the provision of economic policy direction and strategies in addition to conducting research on the provincial economy to inform strategy development. The programme has the sub-programmes – Office Support, Economic Policy, Research and Development, Knowledge Management and Monitoring and Evaluation.

The Committee noted that the department has attained seven (7) of its ten (10) planned targets under this programme for the 2nd quarter, which translates to 70% achievement of planned targets.

On page 34 of the quarterly report under the Policy and Planning sub-programme, the department achieved one (1) of the two (2) planned targets. The programme failed to develop the first draft of the green-energy sector due the lack of a suitable service provider hence, leading to delays in appointment.

On page 35 of the quarterly report under the Research and Development sub-programme, the programme failed to develop a draft research report on green economy due the lack of a suitable service provider. The Knowledge Management sub-programme managed to develop the Mpumalanga Youth Portal, however, failed to launch the youth portal due to the non-availability of stakeholders.

The department reported that the MEC for Finance, Economic Development and Tourism, launched the Mpumalanga Youth Business Portal at the Mbombela Stadium on Tuesday, 24 November 2015. About 300 youth from across the Province attended the Youth Portal launch, including the stakeholders from provincial and government leadership, youth leadership formations, big business, business chambers and youth SMMEs. Mpumalanga Youth Biz Portal can be accessed on: www.mpyouthbiz.co.za.

Programme expenditure

Budget 2015/16	As at 30 September 2015	% of Budget
13 007 000	4 127 000	32%

The main budget for the Compensation of Employees was at **R7 681 000.00** at the beginning of the 2015/16 financial year. The department has spent **R3 644 000.00** (47%) on Compensation of Employees. Goods and Services was at **R5 326 000.00** at the beginning of the financial year. The actual spent as at 2nd quarter was **R483 000.00** (9%).

PROGRAMME 6: TOURISM

Programme 6 is responsible for tourism sector policy development, regulation and compliance and promotion of sector transformation in the province. The programme consists of three (3) sub-programme - Tourism Planning, Tourism Regulations and Compliance and Tourism Sector Transformation.

The Committee noted that the department attained two (2) of its six (6) planned targets under this programme for the 2nd quarter. This translates to 33% achievement of planned targets.

The programme has only one (1) sub-programme, namely, Tourism Planning. The sub-programme failed to consult stakeholders with regard to the annual target of the development and approval of Business Case for tourism by EXCO, as well as consultation regarding the development of the Draft Provincial Tourism Bill.

On the quarterly report, the target 'appraisal report of the MTGS (private sector stakeholders) produced' was not achieved due to a service provider not being appointed. The programme also failed to review one (1) Tourism Investment Promotion Strategy.

Programme expenditure

Budget 2015/16	As at 30 September 2015	% of Budget
334 735 000	177 263 000	53%

The Committee noted that the main budget for the Compensation of Employees was at **R2 780 000.00** at the beginning of the 2015/16 financial year and the expenditure was at **R1 373 000.00** (49%). Goods and Services was at **R1 419 000.00** in the beginning of the financial year. The actual expenditure as at second quarter was **R339 000.00** (24%). This is an under-expenditure of 26%. Transfers to MTPA and Zithabiseni Resort are at 53%.

The department was asked why Goods and Services under-spent by 26% on programme 6. It was indicated that the programme had not appointed the service provider yet to facilitate the review of the Mpumalanga Tourism Growth Strategy and the other four subsidiary strategies, hence, the under-expenditure on Goods and

Services during the period under review. An Acceleration Plan has been developed in this regard which indicates that the expenditure will improve in the 4th quarter as the consultant shall have been appointed and work done.

5. COMMITTEE FINDINGS FROM THE INTERACTION WITH THE DEPARTMENT

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

5.1. The department failed to move functions from MEGA as well as Receiving of functions by the department from MTPA. The non-achievement of both targets was due to the prolonged process of intensive consultation regarding the organisational structure, legislation review proposal that were not finalised

5.2. The department spend **R80 000.00** on Households which was not planned for the 2015/16 financial year was a payment of leave gratuity as a result of terminations that were due to resignations and retirements of employees.

5.3. In Programme 3 the department **R4 800 000.00** was spent on Provincial and Local Government which was not initially planned for, the over- expenditure was due to the urgent need to kick-start the project for the establishment of an Industrial Park and Fly Ash Incubator Programme at the Govan Mbeki Municipality.

5.4. The department's Strategic Initiative sub-programme failed to finalise feasibility study for the establishment of the Industrial/ Supplier Park in the Govan Mbeki Local Municipality, as well as to support the implementation of the ICC in the Mbombela Local Municipality through the project steering committee for the 2nd consecutive quarter.

6. RECOMMENDATIONS IN RESPECT OF THE FINDINGS

The Committee recommends the following:

6.1. The department must finalise the organisational structure in the departments and ensure that the functions that are supposed to be moved to relevant entities are moved before the 2016/17 financial year

6.2. The department must properly utilise its budget aligned with the planned targets and must take action against the official/s who failed to ensure that leave gratuity is budget for in the previous financial years.

6.3. The department must monitor the spending of the budget and ensure that the budget is utilised in terms of the planned targets as per the APP.

6.4. The department must prioritise and finalise the establishment of the feasibility study of the Industrial Parks/Supplier Park in Govan Mbeki Municipality and support the implementation of the ICC in Mbombela Municipality before the end of 2016/17 financial year. A progress report must be submitted to the Committee

7. CONCLUSION

The Chairperson wishes to express his gratitude to MEC SE Kholwane in absentia, the HOD and the senior officials of the Department of Economic Development and Tourism for their active involvement during the deliberations with the department.

The Chairperson further wishes to thank the Honourable Members of the Committee for their sterling participation and input during the deliberations on the 2nd quarter report of the Department of Economic Development and Tourism; 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.**

23/02/2016

HON. PS NGOMANA
CHAIRPERSON: PORTFOLIO COMMITTEE ON PREMIER'S OFFICE; FINANCE AND ECONOMIC DEVELOPMENT AND TOURISM

DATE