

# **COMMITTEE REPORT OF THE PORTFOLIO COMMITTEE ON PREMIERS' OFFICE; FINANCE; ECONOMIC DEVELOPMENT AND TOURISM IN RELATION TO THE 3<sup>rd</sup> QUARTER PERFORMANCE REPORT FOR 2015/16 FINANCIAL YEAR – MPUMALANGA ECONOMIC GROWTH AGENCY**

## **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 third (3<sup>rd</sup>) 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 18 March 2016 to deliberate on the entity's quarterly report and scrutinize in detail the aforementioned document, the Committee met on 22 April 2016 to consider the draft Committee report.

### **3. GENERAL OBSERVATIONS**

The Committee observed that the Entity has managed to achieve 29% of its targets for the third quarter of the 2015/16 financial year. It has spent 67% of its annual budget as at the end of the third quarter, 8% below the benchmark of 75% at the end of the third quarter.

The Entity is still facing challenges which affect the achievement of planned targets such as the implementation of the organisational re-alignment process, legacy issues which continue to plague the Entity as well as a number of vacancies still not filled

### **DELIBERATIONS ON THE 3<sup>rd</sup> 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.

### **PROGRAMME 1: CHIEF EXECUTIVE OFFICE**

The Committee noted that the Entity attained 8 of its 20 planned targets under programme 1 named "Office of the CEO". This translates to 40% achievement for planned targets in the third quarter.

The Committee also noted that on the Entity's quarterly report under the Risk Management sub-programme, the Entity continued to face capacity constraints matters for the third consecutive time, none of the two planned targets for the quarter were met. The sub-programme failed to submit the ERM Quarterly report to the Board and to submit the Quarterly Report on monitoring fraud Prevention Plan to the Audit Committee and the Board. The Strategy and Planning sub-programme also faced capacity challenges when they also failed to submit 3 performance Monitoring and Evaluation reports to EXCO. The Committee also noted that during the annual report deliberations, the Entity reported that as per the new approved structure,

Executive positions will be filled by the end of December 2015 while management positions will be prioritised to be filled by March 2016.

The Committee asked the Entity to provide an update on the re-alignment and placing of staff as well as the finalisation of the organogram. The Entity indicated that the high level structure, which consists of six (06) executive positions, was approved by the Board and its implementation is on-going. The process of filling these positions has been completed with one still pending acceptance by the successful candidate. The six positions consist of the Chief Executive Officer, Chief Financial Officer, GM: Corporate Services, GM: Strategy & Communications, GM: Funding and GM: Property and Infrastructure.

The second phase of the OD realignment process, which includes the organogram redesign and placement of officials below the Executives, has commenced on the 19<sup>th</sup> February 2016 and planned to be completed by August 2016.

On the Entity's quarterly report under the internal audit sub-programme, the Committee noted that the one planned target was not achieved for the third consecutive quarter. The Entity had planned to implement 15% of the internal audit plan; instead it was at 12%. As a challenge, the Entity stated that there was industrial action and the movement of the Chief Audit Executive to Corporate Services and under the Legal Services sub-programme, the Entity achieved 3 of its 4 targets. It failed to develop a training programme in line with assessment report due to delays in the finalisation of the legal framework. The position of the Manager is still vacant and the programme still faces challenges.

The Committee further noted that on the Entity's quarterly report under Marketing and Communication sub-programme and the Operations sub-programme, none of the targets were achieved. Three targets could not be achieved in the Marketing and Communication sub-programme and four targets could not be achieved in the Operations sub-programme. Reasons given were that there was a lack of internal capacity and that most activities were put on hold pending the finalisation of the re-alignment process.

## Programme 1 Expenditure Analysis

Budget 2015/16	As at 31 December 2015	% of Budget
24 533 000	14 156 000	57%

Programme 1 was allocated a budget of R24 633 000 for the 2015/16 financial year. The Entity has spent R14 156 000 as at the end of the third quarter which translates to 57% of its annual budget. This is an under expenditure of 18%.

The Committee requested the Entity to explain on which goods and services has the Entity under spent by 18% on programme 1. The Entity indicated the entity had savings of 18% in catering, conferencing and Board fees, since there were no extraordinary meetings and the fact that Board meetings are being held at MEGA properties

### PROGRAMME 2: FINANCE

The Committee noted that the entity had planned 4 targets in the third quarter of the 2015/16 financial year. The Entity attained 2 of its 4 planned targets under programme 2 named "Finance". This translates to 50% achievement for planned targets in the third quarter.

On the Entity's quarterly report, the programme failed to reduce irregular expenditure by 4%. This was attributed to reoccurring irregular expenditure carried forward from the financial previous years. It also failed to decrease revenue spending on OPEX by 10% instead it reduced by 9%. The Committee asked the Entity provide an update on the process that has been taken to condone the incurred irregular expenditure. The Entity indicated that the Management analysed irregular expenditure incurred in prior years and made a submission to the MEGA Board during March 2015. This analysis was based on the Guideline on Irregular Expenditure issued by National Treasury during May 2014. The Board requested management to perform additional tasks relating to the submission made and to take into account the results of previous investigations conducted by management during November 2014, where management was requested to identify the root courses of irregular expenditure

incurred, determine accountability and identify corrective and preventive measures to minimise the occurrence of irregular expenditure.

The submission made by management was approved by the Board during March 2015. However, National Treasury issued an Updated Guideline on Irregular Expenditure in April 2015 to provide further clarity on how irregular expenditure can be categorised and attended to. This resulted in the AG not accepting the submission approved by the Board. One of the main concerns raised by the AG was the lack of consequence management.

However the Management is collating the necessary supporting documents to clarify the actual status of all irregular expenditure incurred, and to determine the options available in this regard to management and the Board.

### **Expenditure Analysis**

<b>Budget 2015/16</b>	<b>As at 31 December 2015</b>	<b>% of Budget</b>
69 860 000	51 031 000	73%

Programme 2 was allocated a budget of R69 860 000 for the 2015/16 financial year. The Entity has spent R51 031 000 as at the end of the third quarter which translates to 75% of its annual budget. This is in line with the Treasury guideline for the end of the third quarter.



### **PROGRAMME 3: CORPORATE SERVICE**

The Entity had planned 4 targets in the third quarter of the 2015/16 financial year. The Entity attained 1 of its 4 planned targets under programme 3 named "Corporate Services". This translates to 25% achievement of planned targets in the third quarter.

On Entity's quarterly report under the Human Resources sub-programme the Committee noted that 1 of the 2 targets were achieved. The Entity failed to achieve 50% of the organisational performance. This was attributed to delays due to the re-alignment process necessitated by the new corporate strategy.

On the quarterly report, the Information Communication Technology sub-programme failed to achieve both its targets owing to the vacant manager position.

#### **Expenditure Analysis**

<b>Budget 2015/16</b>	<b>As at 31 December 2015</b>	<b>% of Budget</b>
36 815 000	24 223 000	66%

Programme 3 was allocated a budget of R36 815 000 for the 2015/16 financial year. The Entity has spent R24 223 000 as at the end of the third quarter which translates to 66% of its annual budget. This shows an under expenditure of 9%. The Committee asked the Entity to elaborate further on the under expenditure of 9% for the programme for the quarter. the Entity indicated that the Under expenditure of 9% resulted from MEGA relocating offices in the second quarter of the financial year from three different premises to ABSA Square.

### **PROGRAMME 4: INFRASTRUCTURE DEVELOPMENT AND PROGRAMME MANAGEMENT**

The Entity attained 1 of its 11 targets under programme 4 named "Infrastructure Development and Programme Management". This translates to 9% achievement for planned targets in the third quarter.

The Committee noted that on the quarterly report under the Fresh Produce Market sub-programme, the Entity achieved none of its planned targets for the quarter. It failed to complete two designs on water and sewer due to a delay pending approval from the Surveyor General. The sub-programme also failed to get 1 operating model approved due to a delay in the procurement process in appointing a service provider.

The Committee raised a concern on whether was proper planning and research done to ensure that the designs for water and sewer were done on time. The Entity indicated that proper planning was done but the assumptions made on certain activities, that MEGA is not directly in control of, affected the actual implementation of the plans. For example, the designs of internal services depended on the approval of the general plan by the surveyor general and furthermore the General Conditions of establishment needed approval from Mbombela Municipality.

The Committee further asked the why Entity failed to ensure that the service provider was appointed on time to ensure that work commences as planned. The Entity indicated that the appointment of a new service provider for the feasibility study could not be made until the legal dispute between DARDLEA and the previous service provider (Fresh Harvest Consulting) was resolved. Furthermore, approval of the new Terms of Reference by DARDLEA took longer than anticipated.

The Committee also noted that on the quarterly report under the Agri-Hubs sub-programme, 5 targets were planned and all were not achieved. These included the 1 hub with completed bulk services designs, 1 pack house Top-structure design, 2 Agri-Hub sites with bulk services as well as 5 jobs to be created. This was attributed to inadequate budget and delays in the appointment of a service provider. The Committee asked why the Entity failed to plan appropriately to ensure that all the targets pertaining to Agri-Hubs were catered for in the budget and was this a result of poor planning on the side of the Entity. The Entity indicated that the budget for Agri-hubs is from DARDLEA and usually MEGA's Annual Performance Plans are done before confirmation of budget by DARDLEA thus there was a misalignment between the budget and annual plan. On planning there have been coordination challenges between MEGA and DARDLEA. These have received the attention of the CEO of MEGA and the HoD of DARDLEA. It is expected that the identified challenges will be addressed adequately going forward.

The Committee noted that on the quarterly report under the Special Economic Zones sub-programme, 4 targets were planned for the quarter and only 1 was achieved and that was to approve an ownership operational model. The sub-programme failed to complete 3 designs on water, sewer and reservoirs for bulk and internal services as well as create at least 5 jobs. This was attributed to delays in the finalisation of the SEZ application for designation.

The also raised a concern when does the Entity envisage the application for the designation of the SEZ will go through, And why did the Entity take such a long time to submit the application. The Entity indicated that an application for SEZ designation will be submitted by the end of March 2016. The entity did not take a long time to submit an application. There was an investigation report process (Geo-tech, Environmental Impact Assessment, Engineering Services, and Securing of letter of intent from potential investors and Traffic Impact Assessment etc.) which the entity had to undertake before an application can be submitted.

#### **Programme expenditure**

<b>Budget 2015/16</b>	<b>As at 31 December 2015</b>	<b>% of Budget</b>
3 173 000	3 857 000	117%

Programme 4 was allocated a budget of R3 287 000 for the 2015/16 financial year. The Entity has spent R3 857 000 as at the end of the third quarter which translates to 117% of its annual budget. This is an over expenditure of 42%. The Committee asked why the Entity over spent on its budget by 42% as at the third quarter of the 2015/16 financial year. The Entity indicated that the overspent expenditure was on employee costs for the three engineers originally appointed to oversee the Bulk Water Infrastructure Project. Since the Bulk Water Infrastructure Project was withdrawn from MEGA, the appointed engineers continued to assist MEGA with the operations and management of the Fresh Produce Market and Agri-Hubs, the housing portfolio and the property portfolio.



## **PROGRAMME 5: TRADE AND INVESTMENT**

The programme has achieved 3 of its 13 targets (23%) it had planned for the third quarter of the 2015/16 financial year. The Trade Promotion sub-programme managed to attain 3 of its 6 planned targets. It failed to facilitate exports to the value of R20 million due to facilitated exports lower than expected. It further failed to facilitate 6 EMIA/SSAS applications, instead only 4. It also failed to conduct 1 NEDP export training workshop in Mpumalanga due to that the workshop coincided with other activities.

The Investment Promotion sub-programme attained none of the 7 planned targets. This translates to 0% attained targets. Targets pertained to the facilitation of investment, job opportunities, Investment missions and investors assisted. Failure to achieve these targets was attributed to local and international economic slowdown, rescheduling of planned investment missions and turbulence in the world and local economy affecting the investment section of the Entity. The Committee asked what measures is the Entity putting in place to deal with the local and international economic slowdown especially on the role it has to play in assisting prospective exporters and investors. The Entity indicated that entity has put the following measures in place to assist prospective exporters in dealing with the local and international economic slowdown:

- Increased promotion of the Export Marketing and Investment Assistance Scheme (EMIA) which partially compensates prospective exporters for expenses incurred in the foreign marketing of their products.
- Continued implementation of the National Exporter Development Programme (NEDP) within Mpumalanga
- Increasing awareness among the business community of Mpumalanga on export promotion programmes available as well as the benefits to their businesses.
- Participate and provide meaningful contribution during the process of reviewing of the Mpumalanga Trade and Investment Promotion Strategy

conducted by the Department of Economic Development and Tourism (DEDT).

- MEGA is engaged with the Department of Trade and Industry (the dti) in the development of the Integrated National Export Strategy (INES) or "Export 2030". This national export strategy will pave the way to grow exports by 6% a year to 2030 as targeted in the National Development Plan (NDP)

#### **Programme expenditure**

Budget 2015/16	As at 31 December 2015	% of Budget
10 843 000	6 739 000	62%

The Committee noted that the Programme 5 was allocated a budget of R10 843 000 for the 2015/16 financial year. The Entity has spent R6 739 000 as at the end of the third quarter which translates to 62% of its annual budget. This is an under expenditure of 13%. The Committee asked the entity to explain the under expenditure of 13% for programme 5. The Entity indicated that the under expenditure was on the Five (5) missions that were planned for the year (R2 million) and only two (2) took place (R882k) due to rescheduling of events by the organisers resulting in some planned missions taking place concurrently. A 3rd mission is planned for the last quarter of the current financial year.

#### **PROGRAMME 6: PROPERTY DEVELOPMENT AND MANAGEMENT**

The Entity attained 1 of its 2 planned target under programme 6 named "Property Development and Management". This translates to 50% achievement for planned targets in the third quarter. It failed to conduct 2 formal partnership arrangements with strategic investment partners due to the lengthy time taken to set up the Property Fund

The Committee requested the Entity provide an update on the allocation provided during the Adjustment Appropriation Act to settle the Tshwane Municipality debt. The

Entity indicated that the allocation of R43 million, after deducting Output VAT of R5.28 million, received during the Budget Adjustment Appropriation process was paid over to the City of Tshwane. MEGA's accounts with the City of Tshwane are current with the exception of back billing of R6.6 million for the period July 2014 to June 2015. This matter is currently under discussion between the two parties. Taking the aforesaid into account, it is estimated that the balance with the City of Tshwane at 31 March 2016 will be R14.9 million consisting of the following items:

- March 2016 consumption of R8.3 million. MEGA will only receive this invoice during April 2016 and will accrue this expense for financial statement purposes; and
- The back billing amount of R6.6 million referred to above.

The Committee requested the Entity to provide an update on the proposed renovation of its Industrial Parks. The Entity indicated that while MEGA's Property Portfolio represents a strategic asset for the Province to attract investors, support SMMEs and ensure the long term financial sustainability of MEGA, historically there has been severe under-investment in the Property Portfolio

MEGA has recently developed a Property Portfolio Turnaround Strategy which is currently being implemented. The key pillar of the strategy is to establish a Property Fund to invest in the revitalisation of the portfolio.

The priority for the next financial year is to package strategic development projects (industrial, commercial, residential) and attract private sector partners.

#### **Programme expenditure**

<b>Budget 2015/16</b>	<b>As at 31 December 2015</b>	<b>% of Budget</b>
158 927 000	113 190 000	71%

Programme 6 was allocated a budget of R158 927 000 for the 2015/16 financial year. The Entity has spent R113 190 000 as at the end of the third quarter which translates to 71% of its annual budget. This is an under expenditure of 4%

## PROGRAMME 7. HOUSING

The Entity had planned 9 targets in the third quarter of the 2015/16 financial year. The Entity attained 3 of its 9 planned targets under programme 7 named "Housing". This translates to 33% achievement for planned targets in the third quarter.

The Committee noted on the Entity's quarterly report under the programme Housing, the Entity failed to approve loans of the value of R3 million. Instead 3 loans at the value of R1.7 million were approved. The challenge stated was that the number of applications received was low. The programme also failed to disburse housing loans of the value of R2 million, instead 3 loans of the value of R1.1 million were disbursed. This was also attributed to the number of applications received being low. The Committee raised a concern whether does the Entity conduct outreach programmes or marketing initiatives to educate people about the opportunities MEGA offer through housing finance? If not, then why not. The Entity indicated that Outreach programmes have already been conducted in Gert Sibande District (Elukwatini, Ermelo, Carolina and Empuluzi). Outreach programmes in the other Districts are continuing.

### Programme expenditure

Budget 2015/16	As at 31 December 2015	% of Budget
36 401 000	17 016 000	47%

Programme 7 was allocated a budget of R36 401 000 for the 2015/16 financial year. The programme has spent R17 016 000 as at the end of the third quarter which translates to 47% of its annual budget. This is an under expenditure of 28%.

The Entity reported that due to capital constraints, MEGA did not disburse any loans in 2013 and as a result demand for housing loans declined. However, a steady increase in demand is being realised as 4 loans were disbursed in 2014, 10 in 2015, and 12 loans have been granted in the current financial year. The effect on service



delivery was that the community of Mpumalanga have not fully benefitted from the housing finance that MEGA is offering

## **PROGRAMME 8. BUSINESS DEVELOPMENT**

The Entity attained 3 of its 12 planned targets under programme 8 named "Business Development". This translates to 25% achievement for planned targets in the third quarter.

On the Entity's quarterly report under the Business Development programme, In the SMMEs sub-programme, the entity achieved 1 of its 7 targets. It fell short on the disbursements of loans to the value of R2 million (R286 878), finance 4 SMMEs (1 was financed), support 30 SMMEs (16 were supported), create 20 jobs (4 were created) and achieve a 33% and 60% proportion of loans provided to women and youth respectively. Reasons stated were fewer applications received and inadequate budget to visit all SMMEs.

The Committee enquired whether does the Entity conduct outreach programmes or marketing initiatives to educate people about the opportunities MEGA offer through SMME funding. If not, then why not. The Entity indicated that the Entity MEGA did conduct outreach programmes, and recently participated in two youth outreach programmes. In February 2016, MEGA sponsored the Mbombela Blazing Entrepreneur Seminar at Mbombela stadium. In March 2016, MEGA partnered with the Youth Chamber of Commerce in Mpumalanga, in the hosting of the Vision 2030 Youth Biz Seminar in the Steve Tshwete Local Municipality. In both these seminars the CEO of MEGA was the key note speaker.

Over and above the foregoing events, MEGA leverages and supports outreach programmes and platforms facilitated by other public and private entities. In Ehlanzeni district, MEGA took part in the Thaba Chweu LED Outreach Programme, organised by Ehlanzeni District Municipality (EDM) LED Office held in Mashishing in November 2015. A presentation on the full service offerings of MEGA was made during that event.

The Entity also added that the EDM is currently preparing for a similar outreach programme for the Nkomazi Local Municipality. MEGA is a full participant and have attended plenary session meetings in preparation of the main event.

In Gert Sibande, MEGA, SASOL and SEDA have an on-going partnership supporting the SASOL Siyakha Youth Programme, in Secunda.

Other outreach activities include teaming up with the Department of Agriculture, Rural Development, Land and Environmental Affairs during farmers' days' events. Presentations to the LED offices of Balfour and Dr Pixley Ka Isaka Seme Local Municipality were also made to market the services offered by MEGA.

The Committee further noted that Under the Revenue Generation sub-programme on the quarterly report. The Entity has achieved none of its 3 targets. Among others, it failed to reach the revenue target of R11 444 000 (instead it was at R2 619 127) it failed to achieve value of export sales to R10 667 000 (instead R2 619 127) and to have the value of local sales at R1 000 000 (instead it was R777 000). This was attributed to the seasonality of lemon sales and that the target had been reached in the second quarter already.

#### Programme expenditure

Budget 2015/16	As at 31 December 2015	% of Budget
50 174 000	32 656 000	65%

Programme 8 was allocated a budget of R50 174 000 for the 2015/16 financial year. The programme has spent R32 656 000 as at the end of the third quarter which translates to 65% of its annual budget. This is an under expenditure of 10%.

#### 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 is still faced with capacity challenges, noting that the Strategy and Planning sub-programme failed to submit 3 performance Monitoring and Evaluation reports to EXCO.
- 4.2. In programme 2 the entity failed to reduce irregular expenditure by 4%. This was attributed to reoccurring irregular expenditure carried forward from the financial previous years. Auditor General raised a concern that the Entity is lacking on consequence management as a result they are failing in reducing the irregular expenditure.
- 4.3. Entity over spent on its budget by 42% as at the third quarter of the 2015/16 financial year. The overspent expenditure was a result of employee costs for the three engineers originally appointed to oversee the Bulk Water Infrastructure Project.
- 4.4. In programme 5 the Investment Promotion sub-programme attained none of the 7 planned targets pertained to the facilitation of investment, job opportunities, Investment missions and investors assisted. Failure to achieve these targets was attributed to local and international economic slowdown, rescheduling of planned investment missions and turbulence in the world and local economy affecting the investment section of the Entity
- 4.5. In programme 6 the Entity failed to approve loans of the value of **R3 million**. Instead 3 loans at the value of **R1.7 million** were approved. The programme also failed to disburse housing loans of the value of **R2 million**, instead 3 loans of the value of **R1.1 million** were disbursed.
- 4.6. The Entity conducted outreach programmes, and recently participated in two youth outreach programmes to support the SMME. The Entity also sponsored the Mbombela Blazing Entrepreneur Seminar at Mbombela stadium and partnered with the Youth Chamber of Commerce in Mpumalanga, in the

hosting of the Vision 2030 Youth Biz Seminar in the Steve Tshwete Local Municipality.

## **5. RECOMMENDATIONS IN RESPECT OF THE FINDINGS**

**The Committee recommends the following:**

- 5.1. The Entity must ensure that the Monitoring and Evaluation Reports are submitted in time
- 5.2. The entity must engage the Provincial Treasury, Auditor General and the Department for guidance on how the Entity can reduce its Irregular Expenditure.
- 5.3. The Entity must properly plan its target and align with the Budget allocated to eliminate over expenditures.
- 5.4. The Entity must develop systems and mechanism to ensure that planned targets are met.
- 5.5. The entity must develop a implementation plan to ensure the planned targets are in programme 6 are met and as planned
- 5.6. The Entity must plan, execute and facilitate more outreach programmes to educate people about the opportunities MEGA offer through SMME funding on a quarterly basis

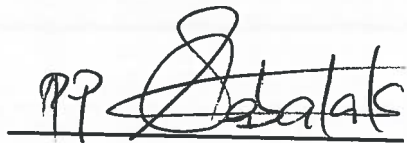
## **6. CONCLUSION**

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 3<sup>rd</sup> 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 **20 May 2016**.



**HON. PS NGOMANA**

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

22/04/2016  
**DATE**