

COMMITTEE REPORT OF THE PORTFOLIO COMMITTEE ON PREMIERS' OFFICE; FINANCE; ECONOMIC DEVELOPMENT AND TOURISM IN RELATION TO THE 3rd QUARTER PERFORMANCE REPORT FOR 2015/16 FINANCIAL YEAR - DEPARTMENT OF ECONOMIC DEVELOPMENT AND TOURISM

1. INTRODUCTION

The Portfolio Committee on 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 department's third (3rd) 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 and scrutinize in detail the aforementioned document. The Committee then met on 20 April 2016, to consider the draft Committee report.

3. GENERAL OBSERVATIONS

The Committee observed that the department had 60 planned targets in the third quarter of the financial year. It managed to achieve 36 of its 60 (60%) planned targets for the third quarter of the 2015/16 financial year.

4. OVERVIEW BY THE MEMBER OF THE EXECUTIVE COUNCIL

The Member of the Executive Council, Hon SE Kholwane, gave an overview of the Department of Economic Development and Tourism; but also covered the parastatals or public entities under the department which include Mpumalanga Economic Growth Agency (MEGA), Mpumalanga Gambling Board (MGB), Mpumalanga Tourism and Parks Agency (MTPA) and Mpumalanga Liquor Authority (MLA).

The MEC indicated that the Monetary Policy Committee of the Reserve Bank decided yet again, to increase the Repo Rate by 25-basis-points or 0.25%, thus putting much pressure on the already strained consumers, therefore as government has a challenge to bring hope to the people during the difficult economic times like these. As the **Department of Economic Development and Tourism**, they will utilise the space and continue to occupy it in order to move the economy of Mpumalanga forward.

The MEC also indicated that with regards to vacancies within the department, the department was unable fill all vacancies due to the continuation of a moratorium which has been placed by the Executive Council, consequently, the department has complied, with the exception of the critical vacant post of the Head of Department; which will be filled in due course. The department will continue to provide support to small businesses, including co-operatives with extreme determination. The following information was also shared:

- The department is at work to operationalize the **Donkerhoek Water Bottling Plant** which has received additional funding during the Budget Adjustment Process for this purpose.
- The department is also resuscitating the Bushbuckridge Agro-processing project which will commence within the next month, hence additional funding has been allocated for this purpose.

With regard to the Public Entities, the following was reported:

- The **Mpumalanga Tourism and Parks Agency (MTPA)** has appointed a new non-executive Board. The eleven (11) Member Board which is chaired by former South African Tourism CEO, Mr Thulani Nzima, started its four (4) term of office on 1st March 2016. It will therefore be at the helm of the MTPA until 29 February 2020. The department has also started with the recruitment process to appoint the Chief Executive Officer (CEO) for the MTPA. It is the department's intention to fill the post as soon as possible, in order to completely stabilise the entity.
- The **Mpumalanga Liquor Authority (MLA)**, which is a new entity will de-link from the department and become a stand-alone Public Entity and the functional Board already in place. Accordingly, the department intend to advertise the position of the CEO for the entity.
- The **Mpumalanga Gambling Board (MGB)**: two (2) positions within the Board of the MGB still need to be filled. The recruitment process has started, and to this end, the department has published the names of the proposed candidates in the print media for public comments, as required by the MGB Act.
- With regards to **Mpumalanga Economic Growth Agency (MEGA)**, the positions of the Executives have also been duly filled, thus bringing about stability within the entity.

Furthermore, the MEC indicated that the Executive Council has resolved on transferring the Zithabiseni Resort and Conference Centre (ZRCC) from the department to the MTPA with effect from 01 April 2016. All relevant stakeholders who are affected by the transfer process are on board, including organised labour. The MEC also indicated that the department could not secure additional funding required to support the identified compliance and revenue enhancement issues, as well as the structuring activities in respect of the business of the Resort in its current form, however; the department will continue to support the MTPA during the transitional phase of transferring the ZRCC to the entity.

5. DELIBERATIONS ON THE 3rd QUARTERLY REPORT

The HOD was requested to present the responses to the findings made by the Committee, in respect of the 3rd quarter performance. Thereafter, the Committee interacted with the department per programme.

PROGRAMME 1: ADMINISTRATION

Administration 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 had eight (8) planned targets for this quarter in this programme. It has achieved seven (7) targets, translating to 88% achievement of planned targets.

On the quarterly report of the department, it was noted that the sub-programme for Human Resource Management failed to achieve the planned target. The department managed to produce a detailed design of the institutional and organisational model for Regional Economic Development Services Centres; however, failed to finalise the Departmental Business Model (BPM). Failure was attributed to delays in obtaining approval of the structure from EXCO. The department has prioritised this for the fourth quarter.

The Committee raised a concern on the target in the previous quarter, regarding the "transfer of functions to the Public Entities and review of legislation" not being achieved, the Committee further asked the department to provide an update on how far the process has gone. The department indicated that the transfer of functions to the Public Entities was largely dependent on the approval of the organisational structure by the Executive Council in December 2015. After the approval was granted by the Executive Council, the organisational structure was submitted to the Office of the Premier for Job Evaluation. The results have since been received and the department is currently finalising the packaging of the documents in line with the Department of Public Service and Administration standards for concurrence by the Minister.

The department also indicated that the MTPA Board has also approved the functions transfer in during a meeting in December 2015. DEDT and the Department of Agriculture, Rural Development, Land and Environment Affairs (DARDLEA) are currently in the process of finalising the transitional arrangements in terms of the transfer of the functions, pending the finalisation of the legislation review. The State Law advisors have been requested to assist the department in the legislation review.

With regards to MEGA, the blue-print for the Regional Economic Development Service Centre (REDSC) has been developed and the entity is in a process of obtaining approval from the Board. As soon as the approval is granted by the Board as well as concurrence from the Minister is obtained, the affected staff will be transferred to the entity.

Programme expenditure

Budget 2015/16	Adjusted Budget	As at 31December 2015	% of Budget
86 689 000	81 689 000	60 073 000	74%

The main budget for programme 1 was at R86 689 000.00 at the beginning of the 2015/16 financial year. The adjusted budget as per the third quarter was R81 689 000.00. This is a decrease of R5 000 000.00. The actual budget spent at the end of the third quarter was R60 073 000.00 (74%) for programme 1. This is an under expenditure of 1%.

The economic classification of programme 1 reflects that the Compensation of Employees budget was allocated R53 070 000.00 at the beginning of the 2015/16 financial year. There was a downward adjustment of R1 600 000.00 which took the final adjusted budget to R 51 470 000. The Department had spent R37 025 000.00 (73%) on Compensation of Employees for this programme. The Goods and Services adjusted budget was R28 419 000.00. Actual spent on Goods and Services at the end of the third quarter was R20 924 000.00. That is 74% of the adjusted Goods and

Services budget. Capital Assets was budgeted R2 000 000.00, and spent R1 800 000.00, which translates to 91%.

The Committee further asked the department to explain the over expenditure of 16% on Capital Assets for Programme 1. The department indicated that the spending on capital assets of 91% is as a result of acquisition of office furniture and computer equipment. The procurement of this equipment was in accordance with the procurement plan of the department, to allow final assets verification and adjustment of assets register to be conducted in the last quarter. No significant capex will be incurred in the 4th quarter

PROGRAMME 2: INTEGRATED ECONOMIC DEVELOPMENT

Integrated Economic Development Service's objective is to stimulate economic growth in the province.

The Committee has noted that the department achieved seven (7) of its 13 planned targets for programme 2 in the third quarter of the 2015/16 financial year, translating to 54% achievement of planned targets.

On the quarterly report, under the Enterprise Development sub-programme, the programme achieved none of its three (3) targets for the second consecutive quarter. In one (1) target, it managed to produce a draft strategy on the support for SMME development but could not as yet hold consultations with stakeholders due to delays in appointment of the service provider. The Committee asked the department what caused the delays in appointing the service provider which resulted in the delayed consultation process.

The department indicated that the first submission of proposals was not meeting the required standards and the department had to open it up again for resubmission, and it was only then that the department was able to appoint a service provider. The delay in the appointment of the service provider further delayed the consultation process, which has since been completed. The Committee further asked when the department plans to commence with the Retrofitting programme since it was meant to have commenced during the third quarter. The department indicated that the retrofitting programme does not fall within the scope of the department and is the

responsibility of the Department of Public Works Roads and Transport. The role of DEDT was to identify young entrepreneurs who were needed to participate in the programme when it commenced.

The Committee also noted that on the quarterly report, under the Economic Empowerment sub-programme, six (6) of eight (8) targets were achieved; the "potential partners identified engaged to enter into Service Level Agreement" was not achieved. The Department reported that potential partners were identified; however; they were reluctant to sign the SLAs.

The sub-programme also failed to monitor the participation of SMMEs within three (3) mines because procurement reports on the participation of SMMEs from the mines could not be obtained. It was reported that the department will secure a meeting with **Department of Mineral Resources (DMR)** to address the challenges faced with regards to mines. The Committee requested the department to provide feedback regarding the meeting with DMR regarding challenges faced with mines. The department indicated that, at the operational level, the departmental officials have been liaising with the officials from DMR regarding the social labour plans and procurement opportunities and that has not yielded results thus far. The department has decided to escalate the matter to the Director-General and ultimately with the Minister if the responses are not forth-coming.

Programme expenditure

Budget 2015/16	Adjusted Budget	As at 31 December 2015	% of Budget
211 413 000	261 406 000	186 729 000	71%

The main budget for programme 2 was at R211 413 000.00 at the beginning of the 2015/16 financial year. The adjusted budget as per the third quarter was R261 406 000.00. This is an increase of R49 993 000.00. The actual budget spent at the end of the third quarter was R186 729 000.00 (71%) for programme 2. This is an under-expenditure of 4%.

The Committee noted that 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 R17 030 000.00 (71%) on Compensation of Employees. The adjusted budget for Goods and Services was at R30 154 000.00 as at the third quarter. The actual spent as at third quarter was R24 580 000.00 (82%). The programme had spent R144 676 000.00 on Transfers as at the third quarter, which translates to 70% expenditure. This contains transfers made to MEGA.

PROGRAMME 3: TRADE AND SECTOR DEVELOPMENT

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 11 of its 14 planned targets under this programme in the third quarter. This translates to 79% achievement of planned targets.

On the quarterly report, under the Trade and Investment sub-programme, the programme achieved one (1) of the two (2) planned targets. The programme failed to finalise drafts Export and Investment Strategies due to delays in finalising of the appointment of a service provider. This target was also not achieved in the second quarter.

The Committee also noted that on the quarterly report, the Strategic Initiatives sub-programme failed to analyse and evaluate the results of the feasibility study for the establishment of the industrial/ Supplier Park in Govan Mbeki Municipality due to the service provider not yet appointed. The Committee requested the Department to clarify why it has struggled to appoint service providers in time to ensure that projects commence on time for the two above mentioned instances. The Department indicated that In terms of the Supply Chain Procurement systems, Departments are expected to follow certain prescribed processes when acquiring services of Consultants or Service Providers. As a first step, the system requires that Service Providers be sourced from the database of the Department, which the Programme did without success. The

Programme then opted for the process of 'Request for Proposal' – a process which yielded no positive results either. What must be pointed out is that both these processes consumed the first and the second quarters time period. It was only achieved after the Department utilised the Government Bulletin for it to acquire the Service Providers with requisite capabilities, and this happened in the third quarter. In a nutshell, the database of the Department fell-short of the Service Providers with the relevant capabilities needed by the Department hence the delay in the appointment of the Service Providers.

On the quarterly report, the Committee noted that the Sector Development sub-programme failed to commence with the Incubation programme at the plant due to the site not yet being secured. The Department has stated that it is in talks with Sasol and the Municipality to finalise the site. The Committee asked when does the department plan to have the site for the Incubation programme finalised. The Department indicated that the site for the brickmaking project for young people, as stated before, the Department is continuing to talk with SASOL and Govan Mbeki with a view of speeding up the conclusion of this issue so that the project could commence without any further delay. To date, all the information needed by SASOL has been submitted for their decision. The Department is now awaiting for SASOL to conclude its internal decision making process.

Programme expenditure

Budget 2015/16	Adjusted Budget	As at 31 December 2015	% of Budget
15 286 000	19 936 000	15 136 000	76%

The Committee noted that the main budget for programme 3 was at R15 386 000.00 at the beginning of the 2015/16 financial year. The adjusted budget as per the third quarter was R19 936 000. This is an increase of R4 550 000.00 The actual budget spent at the end of the third quarter was R15 136 000.00 (76%) for programme 3. This is an over expenditure of 1%.

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 R7 486 000.00

(71%) on compensation of employees. Goods and Services adjusted budget was at R4 543 000.00 The actual spent as at third quarter was R2 850 000.00 (63%). This is an under expenditure of 12%. This was mainly due to service providers not being appointed.

PROGRAMME 4: BUSINESS REGULATION AND GOVERNANCE

Programme 4's purpose 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 4 of its 8 planned targets under programme 4 in the third quarter of the 2015/16 financial year. This translates to 50% achievement of targets.

On the quarterly report, the Consumer Services sub-programme achieved two (2) of its four (4) targets. It failed to hold Public Hearings to roll-out the new MP Consumer legislation since the Bill has not yet been tabled at the Legislature. The Committee raised a concern on the matter and enquired on when the Mpumalanga Consumer Bill be tabled to the Legislature. The department indicated that, on receipt of the final draft from the State Law Advisers, the Executive Council (EXCO) must approve publication of the Bill for public comments. After factoring all meritorious inputs received from the public, the Bill will be resubmitted to EXCO for final approval and tabling to the Legislature. It is anticipated that EXCO approval will be obtained before end of the first quarter of the 2016/2017 financial year and the Bill will be tabled in the Legislature at the earliest available opportunity within the second quarter.

The Committee also noted that the sub-programme also failed to adjudicate ten (10) Consumer Court hearings, the challenge stated was that more cases were resolved without being referred to the Court. On the quarterly report, under the Business Regulation sub-programme, the department achieved two (2) of its four (4) targets. The department failed to implement five (5) Awareness and Education programme

on applicable legislation with no reason provided. Instead, it conducted three (3) programmes in Secunda, Nelspruit and on Ligwalagwala FM. The Committee asked why the department conducted fewer Awareness and Education programmes for the third quarter. The department indicated that fewer Awareness and Education programmes were conducted in the third quarter due to focus on Compliance and Enforcement during the busy festive season. The remaining workshops will be conducted in the fourth quarter.

The further noted that the Department also failed to conduct two (2) capacity building workshops to capacitate Local Municipalities to review and implement business regulatory legislation; instead only one (1) workshop was conducted. This was attributed to a postponement of the workshop that was scheduled on 10 December to 27 January due to the unavailability of stakeholders in the month of December.

Programme expenditure

Budget 2015/16	Adjusted Budget	As at 31 December 2015	% of Budget
81 801 000	83 401 000	64 947 000	78%

The main budget for programme 4 was at R81 801 000.00 at the beginning of the 2015/16 financial year. The adjusted budget as per the third quarter was R83 401 000.00. This is an increase of R1 600 000.00. The actual budget spent at the end of the third quarter was R64 947 000.00 (78%) for programme 4. This is an over-expenditure of 3%.

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 five (5) of its eleven (11) planned targets under this programme for the third quarter, which translates to 45% achievement of planned targets. On 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 in the second quarter and to develop the plan in the third quarter, once again due to delays in securing a service provider. The department has since stated that the service provider was appointed in December 2015. The Committee enquired on whether the Service provider has commenced with the study on the green energy sector. The department indicated that the service provider has commenced with the study on the green economy. The strategic report which will prioritise green economy sector will be completed in the fourth quarter of 2015/16 financial year.

The Committee further noted that on the quarterly report under the Research and Development sub-programme, the programme failed to develop a final research report on green economy. The sub-programme had failed to develop a draft report in the previous quarter. Once again it was stated that the service provider was appointed in December 2015. It further failed to produce a final report on updated research agenda and areas of further research due to human capacity constraints.

On the Knowledge management sub-programme, the department failed to produce a spatial analysis report on MEGDP priority integrated development initiatives. The challenge stated was that the map creation was still in progress and that the report would be available in the fourth quarter. On the quarterly report under the Monitoring and Evaluation sub-programme, the department failed to produce a 1st Draft of the 2016/17 shareholders compacts due to inputs outstanding from MEGA and MTPA.

Programme expenditure

Budget 2015/16	Adjusted Budget	As at 31 December 2015	% of Budget
13 007 000	17 314 000	12 155 000	70%

The main budget for programme 5 was at R13 007 000.00 at the beginning of the 2015/16 financial year. The adjusted budget as per the third quarter was R17 155 000.00 This is an increase of R4 307 000.00. The actual budget spent at the end of the third quarter was R12 155 000.00 (70%) for programme 5. This is an under-expenditure of 5%.

The Committee also noted that on the department's quarterly report, the main budget for the Compensation of Employees was at R7 681 000.00 at the beginning of the 2015/16 financial year. The adjusted budget is at R10 949 000.00 The department has spent R8 019 000.00 (73%) on compensation of employees. The adjusted budget for Goods and Services was at R6 365 000.00. The actual spent as at third quarter was R4 136 000.00 (65%). That is an under-expenditure of 10% on Goods and Services.

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 3 sub-programme - Tourism Planning, Tourism Regulations and Compliance and Tourism Sector Transformation.

The Committee noted that The Department attained one (1) of its six (6) planned targets under this programme for the third quarter. This translates to 17% achievement of planned targets.

On the quarterly report, the programme has only one sub-programme, namely, Tourism Planning. The sub-programme failed to draft the Integrated Tourism Policy (Business Case), submit the Draft Tourism Bill to state law advisors, to review one (1) Tourism Research and Information Management Strategy as well as produce one (1) quarterly Stakeholder Engagement report. Reasons for deviation included delays in appointment of service providers and submissions not yet being made to relevant parties.

The Committee also noted that the department has achieved three (3) out of 12 targets for this programme in the last two quarters. This is a concern for the

department more especially because they have to drive Tourism Initiatives in the Province.

The Committee requested the department to explain why the programme is experiencing challenges in achieving its targets as per the APP of the department.

The department indicated that they could not achieve the following targets:

- Development of Tourism Business Case
- Review of Mpumalanga Tourism Growth Strategy

With regard to the progress made, the department managed to conduct stakeholder consultations in all three (3) District Municipalities as part of the appraisal of the implementation of the strategies mentioned above. This process was also meant to inform the Terms of Reference for the appointment of independent service providers to draft the reviewed strategy and business case. Terms of References were sent to various potential service providers for this purpose, however, the responses were not enough to can continue with the process.

Programme expenditure

Budget 2015/16	Adjusted Budget	As at 31 December 2015	% of Budget
334 735 000	335 735 000	258 998 000	77%

The Committee noted that the main budget for programme 6 was at R334 735 000.00 at the beginning of the 2015/16 financial year. The adjusted budget as per the third quarter was R335 735 000.00. This is an increase of R1 000 000.00. The actual budget spent at the end of the third quarter was R258 998 000.00 (77%) for programme 6. This is an over expenditure of 2%.

The Committee also noted that main budget for the Compensation of Employees was at R2 780 000.00 at the beginning of the 2015/16 financial year. The department has spent R2 039 000.00 (73%) on Compensation of Employees. The adjusted budget for Goods and Services was at R1 519 000.00. The actual expenditure as at

third quarter was R595 000.00 (39%). This is an under expenditure of 36%. Transfers to MTPA and Zithabiseni Resort were at 77%. The Committee enquired on why there was under-expenditure of 36% for Goods and Services on Programme 6. It was indicated that the under-expenditure was due to the delay in the appointment of the service providers to complete the processes with regard to the above mentioned projects.

6. COMMITTEE FINDINGS FROM THE INTERACTION WITH THE DEPARTMENT

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

- 6.1. The Human Resource sub-programme failed to finalise the Departmental Business Model (BPM). Failure was attributed to delays in the obtaining approval by EXCO on the structure.
- 6.2. The department failed to monitor the participation of SMMEs within three (3) mines due to non-obtaining of procurement reports on the participation of SMMEs from the mines.
- 6.3. On Programme 3, the department failed to finalise draft Export and Investment Strategies and to analyse and evaluate the results of the feasibility study for the establishment of the Industrial/ Supplier Park in Govan Mbeki Municipality, due to delays in finalising of the appointment of a service provider.
- 6.4. The Mpumalanga Consumer Legislation will be tabled to the Legislature by the department before end of first quarter of the 2016/2017 financial year after EXCO approval on the publication of the Bill for public comments has been obtained.
- 6.5. On programme 5, a final research report on green economy was not developed. This was also noted in the previous quarter.

7. RECOMMENDATIONS IN RESPECT OF THE FINDINGS

The Committee recommends the following:

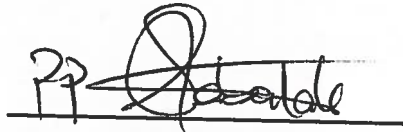
- 7.1. The department must ensure that the Departmental Business Model is finalised as a matter of urgency. A progress reports must be submitted to the Committee on the 06 May 2016.
- 7.2. The department must secure a meeting with the Minister of Mineral Resource and the Director General from the Office of the Premier to address the challenges faced by SMME's from the Mines in the Province.
- 7.3. The department must finalise the appointment of the service provider and analyse and evaluate the results of the feasibility study for the establishment of the Industrial/ Supplier Park in Govan Mbeki Municipality as well as ensure the finalisation of the draft of Export and Investment Strategies by 06 May 2016. A progress report must be submitted to the Committee.
- 7.4. The department must ensure that the Mpumalanga Consumer Bill is tabled to the Legislature before end of first quarter of the 2016/2017 financial year.
- 7.5. The department must submit a progress made on the study on the green economy made by the service provider to the Committee.

8. CONCLUSION

The Chairperson wishes to express his gratitude to the 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 Hon. Members of the Committee for their sterling participation and input during the deliberations on the 3rd 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 **20 May 2016**



HON. PS NGOMANA

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

22/04/2016
DATE