1. **BUDGETARY REVIEW AND RECOMMENDATION REPORT OF THE PORTFOLIO COMMITTEE ON TOURISM, DATED 13 OCTOBER 2017.**

The Portfolio Committee on Tourism, having considered the performance of the National Department of Tourism and South African Tourism for the 2016/17 financial year, reports as follows:

**1. INTRODUCTION**

The United Nations World Tourism Organisation (UNWTO) designated 2017 as the International Year of Sustainable Tourism for Development. This presented a unique opportunity to raise awareness about the contribution of sustainable tourism development among public and private sector decision-makers and the public, while mobilising all stakeholders to work together in making tourism a catalyst for positive change. In the context of the universal 2030 Agenda for Sustainable Development and the Sustainable Development Goals (SDGs), the International Year aims to support a change in policies, business practices and consumer behavior towards a more sustainable tourism sector that can contribute to the SDGs.

This UNWTO approach augurs well with the tourism vision of the government of the Republic of South Africa, which has adopted an economic approach that considers tourism as a strategic economic sector with a potential for creating labour intensive, sustainable, and decent jobs, and immensely contributing to the Gross Domestic Product. This has been done through streamlining and entrenching the socio-economic value of the sector in the National Development Plan (NDP).

Tourism is becoming more powerful in boosting the economy of South Africa by making a genuine difference in the lives of millions of people. Tourism as one of the leading economic sectors in the country, is already contributing to the creation of sustainable job opportunities and provides significant livelihood prospects, helping to fight the triple challenge of poverty, inequality and unemployment.

The Committee is generally satisfied with the financial and non-financial performance of the Department of Tourism (referred to as the Department) and South African Tourism (referred to as the SAT or the Entity) in growing tourism. The progress made by the Department in both governance and service delivery in the 2016/17 financial year is also commended.

1.1 Mandate of the Committee

The Portfolio Committee on Tourism is established through the rules of the National Assembly as stipulated in Section 57(2) (a) of the Constitution of the Republic of South Africa, (Act 108 of 1996). The five core functions of the Committee are to pass legislation; scrutinise and oversee executive action; facilitate public participation and involvement in the legislative and other processes; participate in, promote and oversee co-operative government; and engage in, participate and oversee international relations. The Committee fulfils its mandate by conducting oversight over the National Department of Tourism and South African Tourism.

**1.2 Core functions of the Department.**

The National Department executes its mandate based on a number of legislative, policy, and strategic frameworks as follows:

1.2.1 Constitutional and Legislative Mandate

Part A of Schedule 4 of the Constitution of the Republic of South Africa (Act 108 of 1996) lists tourism as a functional area of concurrent national and provincial legislative competence. Part B of Schedule 4 lists local tourism as a local government competency. Tourism is thus a concurrent function with all spheres of government constitutionally bound to perform specific functions.

Parliament passed the Tourism Act of 2014 (Act 3 of 2014) that directs the Minister of Tourism to perform specific tasks. This is the core legislation governing tourism in South Africa. The Act seeks to promote practicing of responsible tourism for the benefit of the Republic and for the enjoyment of all its residents and foreign visitors; provide for the effective domestic and international marketing of South Africa as a tourist destination; promote quality tourism products and services; promote growth in and development of the tourism sector; and enhance cooperation and coordination between all spheres of government in developing and managing tourism.

1.2.2 Policy mandate

The work of the Department is driven by a number of policies and strategies in pursuance of its mandate. The Budget Review and Recommendations Report of the Committee is accordingly predisposed to a number of policies and legislative requirements with regard to the performance of the Department. Some of these policies are as follows:

1.2.2.1 The National Development Plan

The National Development Plan (NDP) envisions tourism as a major source of revenue and employment for the country through the investment in infrastructure, product and service development. It envisages rising employment, productivity and incomes as a way to ensure a long-term solution to achieve a reduction in inequality, an improvement in living standards ensuring a dignified existence for all South Africans. However, the National Development Plan (NDP) does not have specific targets or outcomes for the tourism sector. The role of tourism in the NDP and the broad overview of the sector are directly and indirectly implicit in a number of chapters.

1.2.2.2 The New Growth Path

The New Growth Path recognises tourism as one of the six economic pillars of South Africa. Tourism is seen as a labour-intensive sector, with a supply chain that links across sectors, and therefore a priority sector in the government’s planning and policy framework. The NGP is intended to address unemployment, inequality and poverty in a strategy that is principally reliant on creating a significant increase in the number of new jobs in the economy. For the tourism industry, which is largely untransformed, the NGP envisages tourism as a vehicle to expedite inclusive tourism growth that fosters participation in the mainstream economy by South Africans.

1.2.2.3 The White Paper on the Development and Promotion of Tourism in South Africa

The White Paper is a pioneering policy that has provided a strong base for other policies and the legislative framework in South Africa since 1996. The policy outlines the government's tourism strategy and prioritises for sustainable tourism mobilisation of the country's human and material resources in order to obtain a bigger share of the increasing world tourism industry.

1.2.2.4 The National Tourism Sector Strategy

The National Tourism Sector Strategy (NTSS) was initiated by the Department of Tourism in partnership with the Tourism Business Council of South Africa (TBCSA) and approved by Cabinet in 2011. This has guided the consolidation of the tourism sector and improved relations between the government and the private sector. The major long-term strategic goal of the NTSS is to provide South Africa with an opportunity to transform the sector into a globally competitive destination that spoils tourists for choice. In the 2015/16 financial year the Department had planned to review the NTSS but the process was not finalised by the end of the financial year.

1.2.2.5 The Medium Term Strategic Framework (2014 -2019)

The Medium Term Strategic Framework (MTSF) of government spanning 2014 - 2019 is premised on the National Development plan. There are fourteen core priorities of the MTSF and the Department was pursuing four of the fourteen government outcomes in the 2016/17 financial year. These government outcomes are outcome 4: Decent employment through inclusive economic growth; outcome 7: Comprehensive rural development; outcome 11: Creating a better South Africa, and contributing to a better and safer Africa in a better world; and outcome 12: An efficient effective and development-oriented public service and an empowered, fair and inclusive citizenship.

1.2.2.6 State of Nation Address

The implications of the articulations by the President in His State of the nation address in February 2017 had many connotations for the tourism sector. The latest Tourism Satellite Account released by Stats SA in December 2016 indicates that contribution to GDP - increased from R83.9 billion in 2011 to R118.9 billion in 2015; the industry created 32 186 new jobs in 2015; currently, one in 22 employed people in South Africa works in the tourism industry, representing 4.5 percent of the total workforce. The Expanded Public Worked Programme (Social Responsibility Programme) was used by the Department of tourism to create much needed jobs in poor communities.

Tourism is performing relatively better than other economic sectors. The marine and coastal tourism has tended to benefit coastal cities with well-developed infrastructure, such as Durban and Cape Town. Marine tourism has a huge potential given some 2 798 km coastline and all coastal provinces have a potential to develop marine/ coastal tourism. During the period under review, the Committee urged the Department to finalise its Tourism Marine Tourism Strategy (Tourism Oceans Phakisa) which has been completed and ready for implementation. With regard to possible interventions to harness benefits of the Investment Plan mentioned by the President, the Department should maximise impact of Meetings Africa and other investment platforms. It is necessary to develop tourism investment portfolios at a national and provincial level based on the Masterplan developed by the Department to lobby for investments; municipalities should be engaged to develop investment portfolios based on their local tourism strategies; the Department should determine the viability of including South African Tourism on investment missions abroad.

On radical economic transformation, the tourism sector is still untransformed. There is a necessity to conduct oversight on the implementation of the newly gazetted Tourism B-BBEE Sector Codes, for example, the Department to conduct a study on the state of transformation in the sector and provide opportunities for innovation between government and private sector in implementing the Enterprise and Supplier Development Programme is needed. The Department should consider developing large and impactful community projects to influence ownership trends and support to tourism SMMEs should be enhanced. Support to rural and community projects and township tourism (such as Vilakazi Street in Soweto, KwaMax and Eyadini in uMlazi, KwaMzoli in Gugulethu, etc.) should be enhanced. This should be coupled with activities that will keep tourism for longer period in townships.

**1.3 Strategic Outcome Oriented Goals of the Department and Delivery Agreements targets for 2016/17**

In the 2016/17 financial year the Department was pursuing the following strategic outcome-oriented goals:

1. Outcome 4: Decent employment through inclusive economic growth.
2. Outcome 7: Comprehensive rural development and food security for all, and
3. Outcome 11: Creating a better South Africa, and contributing to a better and safer Africa in a better world.

The Department pursues the selected Strategic Outcome Oriented Goals though the following Programmes:

1. Programme 1: Administration – the programme provides strategic leadership, management and support services to the department.
2. Programme 2: Policy and Knowledge Services – the programme provides strategic policy development, monitoring and evaluation, research, and knowledge management services.
3. Programme 3: International Tourism – the programme purpose is to develop and support South Africa’s worldwide tourism potential.
4. Programme 4: Domestic Tourism – the purpose of the programme is to promote the development and growth of sustainable domestic tourism.

**1.4 Purpose of the Budget Review and Recommendations Report**

The Money Bills Procedures and Related Matters Amendment Act (Act 9 of 2009) mandates Parliament to develop the Budget Review and Recommendations Report (BRRR). The Act sets out the process that allows Parliament to make recommendations to the Minister of Finance to amend the budget of a national department. The BRRR also acts as a source document for the Standing/Select Committees on Appropriations/Finance when they make recommendations to the Houses of Parliament in the Medium-Term Budget Policy Statement (MTBPS). The comprehensive review and analysis of the previous financial year’s performance, as well as performance to date, form part of this process. This report makes recommendations to the Minister of Finance to amend the budget for the Department of Tourism. Recommendations are also made to the Minister of Tourism for service delivery related activities.

**1.5 Method**

The Minister of Tourism tabled the Annual Reports for the Department of Tourism and South African Tourism to Parliament on the 30th August 2017. These documents were analysed and used to initiate the drafting process of the Budget Review and Recommendations Report for 2016/17 financial year. The Committee considered the oversight work done throughout the financial year. This included oversight visits to provinces conducted by the Committee, the quarterly reports, hearings with the office of the Auditor-General, private sector institutions, government entities and institutions of higher learning.

**1.6 Outline of the contents of the Report.**

This report is divided into five areas as follows. These are:

1. Constitutional, legislative and policy mandate of the Committee and the process that was followed in developing this Budget Review and Recommendations Report.
2. Previous financial performance of the Department on both financial and non-financial aspects.
3. Financial, non-financial and service delivery issues for the period under review.
4. Key findings from the oversight work of the Committee, public hearings and research by external stakeholders that inform the recommendations.
5. Recommendations to the Ministers of Finance and Tourism in terms of the budgetary requirements, performance, and service delivery improvement of the Department.

**2. OVERVIEW OF THE KEY RELEVANT POLICY FOCUS AREAS**

The Department of Tourism and South African Tourism conducted a number of organisational and policy reviews in during the 2016/17 financial year. Some of the reviews are as follows:

**2.1 Review of the National Tourism Sector Strategy**

The Department of Tourism is finalising the review of the National Tourism Sector Strategy (NTSS). This is a sector-wide strategy designed to enhance and harness the potential contribution of tourism to the national development objectives and aspirations of the country as espoused in the National Development Plan.

**2.2 Amendment of the Tourism Act**

In the 2016/17 financial year the Department initiated a process for amending the current Tourism Act (Act 3 of 2014). The process was halted to allow further consultations with the stakeholders and the Cabinet. The process will be finalised in the 2017/18 financial year.

**2.3 Overview of key developments in the organisational and service delivery environments of Department for 2015/16 and 2016/17 MTEF cycle.**

There were a number of developments in the organisational and service delivery environments in the period under review which had significant implication for performance by both the Department and South African tourism.

2.3.1 Appointment of the Tourism B-BBEE Charter Council

In order to accelerate the transformation of the tourism sector, the Tourism B-BBEE Charter Council was appointed. The Council provides guidance on sector specific matters affecting B-BBEE, compiles reports on the status of B-BBEE within the sector; share information with various stakeholders including the sector approved accreditation agencies. The Department has also developed a tourism B-BBEE portal to accelerate SMME empowerment in the tourism sector.

2.3.2 Organisational restructuring

The Department embarked on a process of alignment between the structure and strategy. The budget programme structure was approved by National Treasury on 17 July 2016 as follows:

1. Programme 1: Administration;
2. Programme 2: Tourism Policy and Planning;
3. Programme 3: Destination Development; and
4. Programme 4: Enterprise and Visitor Support Services.

The Department of Public Service and Administration approved the Department of Tourism’s establishment on 28 March 2017 as follows:

1. Branch: Corporate Management;
2. Branch: Tourism Research, Policy and International Relations;
3. Branch: Destination Development; and
4. Branch: Tourism Sector Support Services.

The organisational restructuring is in response to the recommendations made by the Portfolio Committee on Tourism to realign the Programmes within the Department to ensure efficiency and effectiveness in service delivery.

**3. SUMMARY OF PREVIOUS YEAR’S KEY FINANCIAL AND PERFORMANCE RECOMMENDATIONS OF COMMITTEE**

In the 2015/16 financial year the Committee made numerous financial and performance recommendations to the Ministers of Finance and Tourism. The summary of the responses as follows:

**3.1 2015/16 BRRR recommendations**

The Committee received responses from the Minister of Tourism for the recommendation in the 2015/16 Budget Review and Recommendations Report.

3.1.1 Summary of key financial and non-financial performance recommendations made by the Committee

The financial recommendations were divided into two, namely, financial recommendations to the Minister of Finance and service delivery recommendation to the Minister of Tourism. The recommendations included the increase in the budget appropriated to Vote 33; establishment of a Tourism Development Fund; organisational review of the Department; resolution of transport related tourism issues including airlift; improvement in the culture of travel and domestic tourism; improvement of leadership, management and internal controls; leveraging on concessions to uplift communities adjacent to protected areas; tourist safety and incidents of racism; sector employment study; and strengthening implantation measures for the SRI projects.

3.1.2 Evaluation of responses by the Minister of Finance and Minister of Tourism

There were no responses received from the Minister of Finance with regard to funding recommendations. The Minister of Tourism tabled the responses which were published on ATC No.139 dated 28th October 2016. There has been good progress with regard to some of the recommendations made by the Committee. Vote 33 has received additional resourcing to a tune of R494 million over the MTEF period starting 2017/18 financial year. The Department is also in negotiations with Development Finance Institutions with the view to establish development funding mechanisms that support both private and community based initiatives. To curb foreign currency exposure, the tourism baseline had increased increase by R174 million over the MTEF period to assist in mitigating against losses caused by foreign currency exposure. South African Tourism also applies tactical adaptation in light of resource constraints. With regard to the establishment of the Tourism Development Fund, the Minister of Tourism will be launching the Tourism Transformation Fund at the Tourism Transformation Summit to be held on the 30-31st October 2017. With regard to improving the implementation of Social Responsibility Implementation Projects the Department appointed the Government Technical Advisory Centre (GTAC) to conduct a technical analysis of the project which will result to better coordinated support to these projects. With Regard to organisational review, the Department finalised the process and the new structure is now in place which has aligned service delivery and restructured the Department for relevance and effectiveness. South African Tourism also collaborates with the trade to drive conversion through joint marketing initiatives that focus on packaging affordable travel deals. These are designed to address the issue of affordability frequently raised by the Committee as a barrier to travel by South Africans.

With regard to improving domestic tourism and improving the culture of travel, South African Tourism has launched a new domestic campaign dubbed “I/We Do Tourism”. This campaign rally together ordinary citizens to play a role in selling the country to international tourists while also being able to enjoy their own country. The contribution of citizens can range from the smallest acts of kindness to whatever they can afford to make visitors feel welcome. South African Tourism has also conducted research to fully understand the domestic tourism market. The insights from this research and the segmentation study has assisted the organisation in formulating strategies for growing domestic tourism through the building of a culture of travel and helping to drive conversion. The focus has also been increased on domestic tourism whereby South African Tourism has a dedicated staff dealing with South African portfolio. The Department has reviewed the Domestic Tourism Growth Strategy. One of the priority areas to be addressed is to strengthen the focus on institutional arrangements to ensure that resources are dedicated to the programme to inculcate the culture of travel.

To enhance the oversight over South African Tourism, the oversight support to the Minister is coordinated through a Chief Director, who reports to the Director-General on matters of oversight. This matter is considered serious by the Committee as South African Tourism receives 53 percent of the budget appropriated to Vote 33.

With regard to target setting, South African Tourism’s targets are based on the Oxford Econometrics model forecasting, taking into account the previous year’s tourism performance and emerging global trends. The Department and South African Tourism periodically reviews its target setting methodology to ensure that set targets are SMART (i.e. Specific, Measurable, Achievable, Relevant and Time-bound). The targets are also assessed by the Department of Planning, Monitoring and Evaluation. The Committee is of the view that South African Tourism should include job creation as one of its targets. This has not happened despite numerous recommendations by the Committee. The Department has also addressed leadership, management and internal controls and all the issues identified by the Auditor-General in this regard have been dealt with entirely. However, the Department still needs to improve on its target setting and planning for the implementation of pre-determined objectives as this has resulted in under-performance. There has been great improvement in this regard over the years, but in the 2016/17 financial year the Department still experienced challenges emanating from poor planning.

**3.2 2016/17 Committee Budget Report**

The Department was able to spend R1, 919, 790, 000 of its R2, 009 ,516, 000 appropriated budget for the 2016/17 financial year. This represents 95.5 percent expenditure of the appropriated budget. Only 4.5 of the appropriated budget was unspent in the year under review. Having considered the mandate of the Department and the funds appropriated to vote 33, the Committee considers the budget for tourism to be inadequate. This may seem irrational given that the Department was able to spend 95.5 percent of its appropriated budget but only achieved 85.8 percent of its pre-determined objectives, and that the Department incurred an under-expenditure of R89 890 000, and funds had to be returned to National Treasury. The Committee views these as induced by human capacity constraints in planning and implementing projects. Having undergone restructuring, the Department has renewed vigour and focus that will ensure proper spending in future, and the Committee will conduct rigorous in-year oversight over budget expenditure.

**4. OVERVIEW AND ASSESSMENT OF FINANCIAL PERFORMANCE**

The budget allocation and expenditure trends in the sector over the past three financial years (2014/15 - 2016/17) indicate a steady increase in budget allocation and prudent expenditure patterns by the Department.

**4.1 Overview of Vote allocation and spending (2014/15 - 2016/17)**

The Department has performed fairly well in spending the allocated budget over the past three financial years. The final appropriation for 2014/15 financial year was R1,583,260 and the Department was able to spend R1,557,594 which represented 98.4 percent of the allocated funds. In the 2015/16 financial year, the Department had R1, 792.4 million and spent 99 percent of its total budget. All four programmes spent 99 percent of their respective budgets.

**5. FINANCIAL PERFORMANCE FOR 2016/17**

In the year under review, the Department was able to spend R1,919,790, 000 of its R2, 009,516,000 appropriated budget for the 2016/17 financial year. This represents 95.5 percent expenditure of the appropriated budget. Only 4.5 of the appropriated budget was unspent in the year under review. The Department financial performance for the period under review is indicated in table 1.

In Programme 1: Administration, the Department spent R227,070,000 of R R236,264,000 appropriated for the financial year. This represents 96.1 percent of budget expenditure. Under-spending was mainly due to cost containment measures implemented by the department in compliance with instructions received from the National Treasury.

Table 1: Appropriation and expenditure for 2016/17

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Programme | 2016/17 | | | | | | | 2015/16 | |
| Adjusted appropriation | Shifting of funds | Virements | Final appropriation | Actual expenditure | Variance | Expenditure as of appropriation | Final appropriation | Actual expenditure |
| R’000 | R’000 | R’000 | R’000 | R’000 | R’000 | % | R’000 | R’000 |
| Administration | 237 456 |  | (1 192) | 236 264 | 227 070 | 9 185 | 96.1 | 227 378 | 224 811 |
| Policy and Knowledge Services | 1 269 753 | - | 406 | 1 270 159 | 1 214 938 | 55 221 | 95.7 | 1 205 699 | 1 195 525 |
| International Tourism | 55 624 | - | 562 | 56 186 | 54 785 | 1 401 | 97.5 | 50 500 | 49 928 |
| Domestic Tourism | 446 683 | - | 224 | 446 907 | 442 844 | 24 063 | 94.6 | 310 601 | 307 130 |
| **Total** | **2 009 516** | **-** | **-** | **2 009 516** | **1 919 646** | **89 970** | **95.5** | **1 794 178** | **1 777 394** |

**Source: NDT Annual Report - 2016/17**

These measures included procedures to reduce spending on Goods and Services as well as the Purchases of Capital Assets together with the abolishment of non-critical vacated posts to reduce spending on Compensation of Employees.

In Programme 2: Policy and Knowledge Services, the Department was able to spend R1, 214,938, 000 of R1,270, 159, 000 appropriated for the financial year. This represents 95.7 percent of budget expenditure in the year under review. The majority of underspending in the Programme were due to delays in the implementation of the Tourism Incentive Programme projects. Contractual negotiations together with the requirement for additional environmental impacts studies delayed the implementation of various projects scheduled to take place in the 2016/17 financial year. Consequently, a roll-over of R52.1 million has been submitted to the National Treasury in order to fund the delayed projects from the 2016/17 unspent funds with regard to Energy Efficiency retrofitting.

In Programme 3: International Tourism Management, the Department was able to spend R54,785 000 of its R56,186,000 appropriated budget. The underspending in this programme was mainly due to cost containment measures implemented by the department in compliance with instructions received from the National Treasury. These measures included procedures to reduce spending on Goods and Services as well as the Purchases of Capital Assets together with the abolishment of non-critical vacated posts to reduce spending on Compensation of Employees.

In Programme 4: Domestic Tourism management, the Department spent R442, 844, 000 of its R446, 907, 000 appropriated budget accounting for 94.6 percent expenditure. The bulk of the underspending totalling R22.6 million was due to funds allocated to the Expanded Public Works Programme Incentive which was not approved by the Department of Public Works for spending. These funds must therefore be relinquished back to the National Treasury as unspent funds.

**6 Quarterly spending trends**

The quarterly spending for the Department in the 2016/17 financial year was as follows:

**6.1 Quarter 1 performance**

The Department planned to achieve 91 targets in the first quarter of 2016/17 and 70 targets were achieved whilst 21 were not attained. This accounted for 76.44 percent of targets achieved and 23.56 percent not achieved. The Department had a trend of reporting on targets not achieved with a significant work done painting a picture that they were on the right track to achieve annual targets. In most cases, targets lagged behind for the entire year and were subsequently not achieved at the end of the financial year. The Committee closely conducted oversight on such reported performance to ensure most targets were achieved at the end of the period under review. At the end of Quarter 1, the Department had spent 37 percent of its allocated budget.

In Programme 1: Administration, the Department achieved 17 of the 20 targets set for the first quarter, accounting for 85 percent achieved and 15 percent not achieved. Only 19 percent of the appropriated budget had been spent.

For Programme 2: Policy and Knowledge Services, the Department did not achieve 16.22 percent of their targets, which was six out of thirty-seven planned for the quarter. However, 50 percent of the budget had been spent. Programme 2 had transferred large amounts of money to South African Tourism to hedge against foreign currency exposure.

In Programme 3: International Tourism Management, the Department did not achieve 15.38 percent of the targets for the quarter which was two out of the thirteen targets planned for the quarter. The Programme had spent 27 percent of its allocated budget.

In Programme 4: Domestic Tourism Management, the Department was only able to achieve 52.38 percent of the planned targets for quarter 1 which was ten out of eleven targets. The Department had spent 9 percent which was gross under expenditure. The Committee conducted stringent oversight over budget expenditure in the subsequent quarters, which led to marked improvement at the end of the financial year.

**6.2 Quarter 2 performance**

In the second quarter of 2016/17 the Department had 80 targets and was able to achieve 56 which is a 70 percent performance. This accounted for an overall drop of 4.44 percent when compared to the first quarter where 91 targets were planned and 70 were achieved totalling 76.44 percent. The Committee in quarter 1 had been concerned about Programme 4 performance where 21 targets were planned, but only 11 achieved with the overall underperformance of 47.62 percent. This trend of underperformance continued in Quarter 2 with 24 targets planned, but only 9 achieved, which was underperformance of 64.3 percent. The National Treasury in its Vote: 33 mid-term expenditure trends analysis in the MTBPS for the 2016/17 financial year indicated that expenditure by the Department of Tourism was R1 million, or 50.1 percent of the adjusted appropriation of R2 billion for the year. In comparison, mid-year expenditure in 2015/16 was R932.3 million or 52 per cent of the 2015/16 adjusted appropriation. Compared to the first six months of 2015/16, expenditure over the same period in 2016/17 increased by R74.7 million, or 8 percent. This was mainly due to the transfer payment made to South African Tourism for purchases paid for in foreign currency. The revenue in the first six months of 2016/17 was R4.7 million, or 88.5 percent of the adjusted revenue estimate of R5.3 million for the year. In comparison, mid-year revenue in 2015/16 was R938 000, or 50.3 per cent of the 2015/16 adjusted estimate. Compared to the first six months of 2015/16, revenue over the same period in 2016/17 increased by R3.7 million, or 397.5 per cent. This was mainly due to debt recovered in relation to expenditure from previous years

For Programme 1: Administration, the Department had a total of 21 targets planned and 19 were achieved with the overall achievement of 90.48 percent. Programme 1 recorded an improvement in the achievement of targets in Quarter 2 when compared to 85 percent achieved in Quarter 1. The appropriated budget for Programme was R237, 456, 000 and the Department had spent R100, 090, 000 which accounted for 42 percent expenditure. This was less than 50 percent expenditure due to delays in implementing the planned projects.

In Programme 2: Policy and Knowledge Services, the Department had 25 targets and was able to achieve 21 which was 84 percent achievement. This was consistent with the 83.78 percent achieved in Quarter 1. Programme 2 had a budget of R1, 269, 753, 000 and had spent R797, 689, 000 which accounted for 63 percent expenditure due to advance payments made to South African Tourism.

For Programme 3: International Tourism Management, 10 targets were set Programme 3 and 7 were achieved, which accounted for 70 percent aggregate performance. This was a decline from 84.64 percent performance achieved in Quarter 1 where 11 targets were achieved from the total of 13. The International Tourism Management Programme had a budget of R55 624 000 and had spent R29,308 000 which accounted for 53 percent expenditure.

In Programme 4: Domestic Tourism Management, 24 targets were planned, but only 9 were achieved, accounting for 64.3 percent underperformance. This was worse than the 52.38 percent achieved in Quarter 1 where 11 targets were achieved from the total of 21. Programme 4 had a budget of R444,683,000 and had spent R79,963,000 at the end of the quarter which accounted for only 18 percent expenditure at the time. This was a cause for concern as this Programme is responsible for the development of tourism facilities and Full-Time Equivalent jobs.

**6.3 Quarter 3 performance**

At the end of Quarter 3, the department had spent R1.41 billion or 70 percent of the total available budget of R2 billion for the 2016/17 financial year. The projection was that expenditure would be at R1.43 billion by this point in the year, indicating that the department was slow on spending by R24 million or 1.7 percent, which was an improvement from the previous quarter’s variance of R179.7 million. The improvement in spending was due to increases in spending under big budget items, such as the Expanded Public Works Programme.

In Programme 1: Administration, expenditure was R159.7 million, which was R15.5 million or 10.7 per cent higher than the approved projections for the period ending December 2016. This represented a significant change compare to the previous quarter’s underspending and is mainly due to payments made for office accommodation since invoices were received from the Department of Public Works. In Programme 2: Policy and Knowledge Services, expenditure was at R984.3 million, which was R61.9 million or 5.9 per cent, lower than the approved projections for the period ending December 2016. This continued the trend of underspending from previous quarters and was mainly due to lack of projected payments to the Tourism Incentive Programme due to delays in signing of contracts. For Programme 3: International Tourism, expenditure was R43.2 million, which is R9.1 million or 26.8 per cent higher than the approved projections in the period in question. This represented a change compared to the previous quarter’s underspending and was mainly due to payments made for travel and subsistence as well as training and development for officials within the programme. For Programme 4: Domestic Tourism, expenditure was R220.2 million, which was R13.3 million or 6.4 percent higher than the approved projections for the period in question. This was a significant change from the previous quarter’s underspending and was mainly due to increase in expenditure towards the Expanded Public Works Programme.

**6.4 Quarter 4 performance**

By the end of Quarter 4, the Department had spent a total of 95.6 per cent of its 2016/17 allocation, realising a total underspending of R88.4 million or 4.4 per cent of the available budget.

In Programme 1: Administration, there was under-spending, mainly due to cost containment measures implemented by the department in compliance with instructions received from the National Treasury. These measures included procedures to reduce spending on Goods and Services as well as the Purchases of Capital Assets together with the abolishment of non-critical vacated posts to reduce spending on Compensation of Employees.

For Programme 2: Policy and Knowledge Services, the majority of underspending was due to delays in the implementation of the Tourism Incentive Programme projects. Contractual negotiations together with the requirement for additional environmental impact studies delayed the implementation of various projects scheduled to take place in the 2016/17 financial year.

In Programme 3: International Tourism, the underspending in this was mainly due to cost containment measures implemented by the department in compliance with instructions received from the National Treasury. These measures included procedures to reduce spending on Goods and Services as well as the Purchases of Capital Assets together with the abolishment of non-critical vacated posts to reduce spending on Compensation of Employees.

For Programme 4: Domestic Tourism, the bulk of the underspending (R22.6 million) was due to funds allocated to the Expanded Public Works Programme Incentive which was not approved by the Department of Public Works for spending. These funds were therefore relinquished back to the National Treasury as unspent funds.

**6.5 Transfers and subsidies**

The Department made a number of transfers and subsidies in the 2016/17 financial year. Table 2 depicts transfers and subsidies in the year under review. With regard to departmental agency account, a total of R1,024, 84,7 000 was transferred to South African Tourism. This was an increase from the R977,712, 000 transferred in 2015/16 financial year for marketing purposes. A Further R10,588,000 was transferred to South African Tourism for Tourism Incentive Programme. Of this amount, a total of R9,102,000 was declared as unspent funds. This is a cause for concern as the unspent funds were meant for transformation purposes such as grading support. An amount of R4,392,000 was transferred to Free State Tourism for hosting the National Tourism Careers Expo in partnership with the Department. A total of R185 000 was transferred to Culture, Arts, Tourism, Hospitality, and Sports Sector Education and Training Authority.

Table 2: Transfers and subsidies for 2016/17

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Transfers and subsidies | 2016/17 | | | | | | | 2015/16 | |
| Adjusted appropriation | Shifting of funds | virements | Final appropriation | Actual expenditure | Variance | Expenditure as of appropriation | Final appropriation | Actual expenditure |
| R’000 | R’000 | R’000 | R’000 | R’000 | R’000 | % | R’000 | R’000 |
| Department agencies and accounts | 1 029 424 | 10 588 | - | 1 040 012 | 1 040 012 | - | 100 | 1 050 536 | 1 045b570 |
| Higher education institutions | 4 011 | - | - | 4 011 | 4 011 | - | 100 | 3 809 | 3 800 |
| Foreign governments and international organisations | 6 322 | - | 47 | 6 369 | 6 3 68 | 1 | 100 | 6 004 | 5 810 |
| Public corporations and private enterprises | 79 170 | (3 858) | - | 75 312 | 75 312 |  | 100 | 72 916 | 72 915 |
| Public corporations | - | - | - | - | - | - | - | 30 000 | 30 000 |
| Private enterprises | 79 170 | (3 858) | - | 75 312 | 75 312 | - | 100 | 42 916 | 42 915 |
| Non-profit institutions | 16 170 | - | (15 527) | 500 | 200 | 300 | 40 | 24 450 | 24 200 |
| Households | 32 355 | (50 932) | 84 953 | 66 376 | 43 769 | 22 607 | 65.9 | 78 488 | 78 489 |
| Social benefits | - | 433 | - | 433 | 433 | - | 100 | 2 141 | 2 141 |
| Other transfers to households | 32 355 | (51 365) | 84 953 | (51 365) | 65 943 | 43 336 | 22 607 | 76 347 | 76 348 |
| **Total** | **226 560** | **(17 666)** | **10 114** | **219 008** | **164 530** | **54 478** | **75.1** | **93 415** | **93 413** |

**Source: NDT Annual Report - 2016/17**

Transfers to the Higher education institutions relates to research studies commissioned by the Department on various aspects of the tourism sector. Amounts of R802 000 was transferred to Cape Peninsula University of Technology; R1, 605, 000 to the University of Pretoria; R802 000 to the University of Venda; and R802 000 to the University of KwaZulu-Natal. The Universities were able to spend 100 percent of the budget allocated to them in the period under review. For private enterprises, amounts of R600 000 was transferred to N12 Treasure route; R200 000 for grading support; R7 365 for market access support; R15,027,000 to Steve Biko Foundation Trust; R43,136,000 to South African National Parks; R4, 842, 000 to the Nahakwe Lodge (PTY) LTD; R8,000,000 to the National Heritage Project.; R500 000 to the Federated Hospitality Association of Southern Africa (Fedhasa); and R15, 527, 000 to Strategic Partners in Tourism.

For affiliation with international organisations, an amount of R R3,793,000 was transferred to the Regional Tourism Organisation of Southern Africa; and R2,529, 00 to the United Nations World Tourism Organisation (UNWTO). With regard to the transfers to the households included R8,021,000 to Expanded Public Works Programme; and R24,334,000 to Expanded Public Works Programme Incentive;

**6.6 Auditor-General Report**

For the year under review, the Department received an unqualified audit with no other findings (a clean audit) opinion. The Auditor- General’s opinion can be summarised as follows:

* + 1. An Audit opinion

The Department received an unqualified audit for the 2016/17 financial year.

* + 1. Pre-determined objectives

No material findings on the usefulness and reliability of the reported performance information for the selected Programmes: Programme 2 - Policy and Knowledge Services, and Programme 4 - Domestic Tourism Management. The reported performance information is useful and reliable in all material respects.

* + 1. Financial Statements

The financial statements present fairly, in all material respects, the financial position of the Department of Tourism as at 31 March 2017, and its financial performance and cash flows for the year then ended in accordance with the Modified Cash Standard (MCS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA).

* + 1. Compliance with Laws and Regulations

No identified instances of material non-compliance with selected specific requirements of applicable legislation.

* + 1. Internal Controls

No significant internal control deficiencies identified.

In recognition of this performance, the Department received a Clean Audit Award for the 2016/17 financial year. This is an honour awarded to departments and public entities that receive an unqualified audit with no other findings. Since the beginning of the tenure of the Fifth Parliament, the Portfolio Committee on Tourism’s oversight work over the Department resulted in the Clean Audit Awards for two consecutive years. This award confirms the sterling oversight work done by the Committee in ensuring that the Department conducts sound financial management practices as the audit opinion found no material misstatements and no findings on compliance with legislation and performance reporting.

**6.7 Summary of key issues contained in reports of Finance/Appropriation Committees**

In the period under review, the Standing Committee on Appropriations raised a concern about the underspending incurred by the Department. As reported, the Department of Tourism realised a total underspending of R88.4 million or 4.4 per cent of the available budget.

* 1. **Summary of key financial issues contained in any other relevant report(s)**

There were no other reports containing adverse financial findings against the Department. The Standing Committee on Public Accounts (SCOPA) also did not raise any issues with regard to spending by the Department. No financial issues were identified from other sources.

**6.9 2016/17 MTEF financial allocations**

The budget grew at a moderate rate over the MTEF period reaching R2.1 billion. The budget for SAT also increased by an additional R105 million allocation for 2016/17 for the improvement of domestic marketing programmes. The expected increase in domestic trips was 359 thousand from 2.7 million in 2015/16 to 3.05 million in 2016/17. The Tourism Incentive Programme (TIP) was created as a sub-programme under the Policy and Knowledge Services, the Programme received a budget allocation of R575.7 million over the MTEF, and this allocation was earmarked for the facilitation of market access for local tour operators and tourism businesses in recognised local and overseas exhibitions. Some of the projects for the TIP were to include assistance towards the grading of tourism establishments and retrofitting renewable energy initiatives for sustainable tourism. The Social Responsibility Implementation Programme (SRI) was expected to support the creation of 3 488 full time equivalent jobs in 2016/17, a mere 480 full time equivalent jobs increase when compared to 2015/16. This, however, was not adequate given that funding for this sub-programme had increased from R253 million in 2015/16 to R386 million in 2016/17.

**7. OVERVIEW AND ASSESSMENT OF SERVICE DELIVERY PERFORMANCE**

The Department had an acceptable performance on both financial and non-financial performance in the 2016/17 financial year. The Department was able to spend 95.5 percent of its appropriated budget; and achieved 85.8 percent of its pre-determined objectives. The concern was the disproportionate performance between expenditure and service delivery performance as 95.5 percent of the funds were spent to only achieve 85.8 percent of pre-determined objectives. The Department also had an under-expenditure of R89,890,000 which meant that some of the money that could have been used for service delivery had to be returned to the National Treasury.

With regard to the Achievement of Predetermined-Objectives which provides evidence of service delivery, the Department had a total of 64 targets in the period under review. A total of 55 targets was achieved and 9 were not achieved. In total, the Department was able to achieve 85.8 percent of its annual targets and failed to achieve 14.2 percent. The performance of the Department is fairly acceptable given that the Department had a number of changes that occurred in the planned projects during the course of the financial year. The achievement of targets per programme is illustrated in Table 3.

Table 3: Achievement of targets per Programme

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Programme** | **Number of planned targets** | **Achievement** | | **Non achievement** | |
| **Total achieved** | **% achieved** | **Total not achieved** | **% not achieved** |
| Administration | 20 | 19 | 95 | 1 | 5 |
| Policy and Knowledge Services | 19 | 16 | 84.2 | 3 | 15.8 |
| International Tourism | 8 | 7 | 87.5 | 1 | 12.5 |
| Domestic Tourism | 17 | 13 | 76.5 | 4 | 23.5 |
| **Total** | **64** | **55** | **85.8** | **9** | **14.2** |

**Source: Adapted from NDT Annual Report 2016/17**

These changes include the appointment of the Government Technical Advisory Centre (GTAC) to conduct a technical assessment of Social Responsibility Initiative projects; waiver on Accredited Tour Companies; and findings of Environmental Impact Assessment which affected earmarked sites for projects.

* 1. **Programme performance**

The Departmental performance per programme provides a comprehensive picture of how the annual targets were pursed, and sheds light on the reasons for variance in underperformance. The Programme performance is as follows:

7.1.1 Programme 1: Administration

The Department pursued 20 targets under Programme 1. A total of 19 targets was met accounting for 95 percent. Only one target was not met accounting for 5 percent. This was a good performance and the Department was consistent in achieving its target under Programme 1 throughout the financial year.

In pursuing the strategic objective to ensure economic, efficient and effective use of departmental resources, a number of projects were implemented. These included the review of the Strategic Plan and Annual Performance Plan for 2017/18; Annual Performance Report for 2016/17 as well as four quarterly reports on the implementation of the Skills Plan and Annual Performance Plan which were loped; four quarterly risk mitigation reports which analysed and submitted to Risk Management Committee; four SAT oversight reports which were prepared; a target of 8 percent for vacancy rate which was kept at 6.6 percent; women representation in SMS was targeted not to fall below 50 percent and was maintained at 50.7 percent ; a target of people with disabilities representation was set not to fall below 3 and was maintained at 4.6 percent; Black representation target was not to fall below 91.5 percent and was maintained at 95.2 percent; 100 percent development and implementation of Workplace Skills Plan was achieved; 100 percent compliance in the management and handling of grievances, misconduct, disputes and collective bargaining was achieved; implementation of Phase 2 of the ICTSP was achieved; three quarterly interim financial statements were compiled and submitted to National Treasury; one annual financial statement was compiled and submitted to National Treasury and the office of the Auditor-General South Africa.

To enhance understanding and awareness of the value of tourism and its opportunities, 100 percent implementation of the annual internal audit plan; and Department’s Cabinet and cluster coordination protocol was reviewed and implemented at 100 percent, and 100 percent of the Department’s Communication Strategy was implemented.

To create an enabling legislative and regulatory environment for tourism development and growth, 100 percent of tourist complaints referred to appropriate authorities for resolution within the agreed timeframes. However, the Department failed to achieve a target on the Draft Tourism Amendment Bill that was supposed to have been submitted for approval. The reasons advanced by the Department is that the processing of the Draft Amendment Bill to Cabinet was halted to accommodate comprehensive review and/or amendments of the legislative framework planned for 2017/18. Non-achievement of this target has delayed the Parliamentary process of amending the Tourism Act to strengthen the Act and facilitate quality assurance and tourism development in the country. Procedure for the lodging of tourist complaints was developed, and 100 percent procurement from B-BBEE compliant businesses was also achieved.

7.1.2 Programme 2: Policy and Knowledge Services

Programme 2 had 19 targets in the period under review. A total of 16 targets was achieved, accounting for 84.2 percent, whereas 3 were not achieved accounting for 15.8 percent underachievement. In order to enhance the understanding and awareness of the value of tourism and its opportunities, the Department was able to host two National Tourism Stakeholder Forums, one more than planned. To create an enabling legislative and regulatory environment for tourism development and growth, the Regulations on National Tourism Information and Monitoring System (NTIMS) were developed.

To accelerate the transformation of the tourism sector, the secretarial support was provided to the Tourism B-BBEE Charter Council. However, the Department failed to finalise the study to establish a baseline for the amended tourism B-BBEE sector code due to delays to allow for more time to go through the research methodology and cleaning of the database and questionnaire design to ensure credibility of the research product. Additional functionalities were also developed for the tourism B-BBEE portal for Black owned enterprises to accelerate SMMEs’ empowerment in the tourism sector to facilitate matchmaking and monitor compliance with the Amended Tourism B-BBEE Sector code.

In order to facilitate tourism capacity building programmes, programmes to capacitate tourist guides at two WHSs, namely Isimangaliso Wetlands Park and Cradle of Humankind, were implemented; tourist-guide training programme for new entrants was implemented; and the CPD programme for tourist guides was developed.

In diversifying and enhancing tourism offerings, the Department failed to commence the construction at Shangoni Gate. However, flood line studies by the Department of Water and Sanitation (DWS) were completed. Final plans have been submitted and the service providers for construction have already been appointed. Environmental Impact Assessment (EIA) was completed and Basic Assessment Report (BAR) was submitted to the Department of Environmental Affairs (DEA). Public participation meeting on EIA/BAR was also held. Construction at Phalaborwa wild activity hub did not commence due to SANParks who was not able to commence with any construction on the project due to the fact that there was no Record of Decision (ROD) issued on the Environmental Impact Assessment. However, the construction of National Heritage Monument Park interpretation centre commenced, and the draft Product Development Master Plan was developed; three priority areas including market access, tourism grading, and energy-efficiency were incentivised during the pilot phase; and the Universal Access (UA) incentives guidelines were developed.

To provide knowledge services to inform policy, planning and decision-making, the mobile application (Mobile app) for tourist guides was developed; the mobile application for VICs was developed; and two NTIGs, namely KSIA and ORTIA were enhanced and maintained.

7.1.3 International Tourism management

In Programme 3, the Department had 8 targets. A total of seven targets was achieved accounting for 87.5 percent and one was not achieved accounting for 12.5 percent. In facilitating the tourism capacity-building programmes, the cross-border guiding module was finalised and consulted on with relevant stakeholders; the recruitment of tourist guides and frontline staff for language training was done for Russian and Mandarin languages; international placement of 20 learner chefs instead of 12 was facilitated with additional 8 due to further engagements with the Seychelles Tourism Academy which concluded that there was enough capacity to accommodate an additional 8 learner Chefs for placement in the Seychelles; benchmarking of tourism capacity-building programme for provinces and municipalities was done; and capacity-building for effective participation in market access programme was done.

To diversify and enhance tourism offerings, the draft Tourism Investment Master Plan was developed. In order to reduce barriers to tourism growth to enhance tourism competitiveness, the Department failed to finalise the Accreditation of Travel Companies (ATC) for visa facilitation due the Inter-Ministerial Committee recommendation endorsed by Cabinet to look at introducing an Accredited Tourism Company (ATC) programme for China, India and Russia, with possible extension to other visa requiring countries. The ATC programme was successfully implemented in China. The visa waiver announced for Russia and the situation on the ground with regard to the application process for visas in India overtook the need for an ATC programme in Russia and India. Further work was also done on the possible extension of the ATC programme into Africa. Lastly, to enhance regional tourism integration, Ministerial session at the 2016 Tourism Indaba was hosted.

7.1.4 Domestic Tourism Management

In Programme 4: Domestic Tourism Management, the Department had 17 targets and 13 were achieved accounting for 76.5 percent rate of achievement. Four targets were not achieved accounting for 23.5 percent under-achievement. In order to create an enabling legislative and regulatory environment for tourism development and growth, the Domestic Tourism Growth Strategy was reviewed as planned. To accelerate the transformation of the tourism sector, four social tourism initiatives were facilitated that promote open access to selected government owned attractions as planned. In facilitating the development and growth of tourism enterprises to contribute to inclusive economic growth and job creation, 100 rural enterprises were supported for development; and implementation of an enterprise development programme focusing on incubation and business support services (portal) was done as planned.

In facilitating tourism capacity-building programmes, the chefs training programme (CTP) targeting 577 trainees was implemented as planned. The Department, however, failed to conduct the induction and placement of the 300 youth learners who were recruited in the Sommelier training course. There was an over-achievement by 3 additional leaners on the youth enrolled in the hospitality service training programme whereby 2003 were achieved more than the 2000 that was planned. The Department also failed to reach the target in the learners recruited for the Food Safety Assurers programme where 450 were recruited instead of the 500 that was planned. The Department indicated that it was difficult to get host employers for 50 learners in Northern Cape Province. This is a challenge that should have been anticipated and well planned for, but the Department failed to plan accordingly thus underachieved on performance. However, the Department managed to implement the local government tourism induction programme, with a focus on rural areas with tourism potential which was conducted in eight municipalities. The Tourism Human Resources Development Strategy was developed. The National Tourism Careers Expo was convened. The Department was able to accommodate 19 Black women who were trained at institutions of higher learning through a customised executive development programme. A total of 20 trainees was targeted, but unfortunately one candidate passed away during the course. This training programme is important to facilitate transformation in the sector.

In order to diversify and enhance tourism offerings, the Department planned the implementation of service excellence integrated support programme (SANS 1197) for three tourism products (Manyane Game Reserve, Robben Island and Golden Gate Highlands National Park). The Golden Gate Highlands National Park was replaced by Skukuza Camp as requested by SANparks due to administrative issues which needed to clear off before the intervention could be done. This also points to poor planning. The Department did not do all the preparatory work before the project was implemented. The development of tourism interpretation signage in four iconic national heritage sites, namely, Victor Verster in Western Cape; Nelson Mandela capture site in KwaZulu-Natal; Freedom Park in Gauteng; and the Mandela statue at the Union Buildings in Gauteng was facilitated.

To diversify and enhance tourism offerings, one programme facilitating the implementation of the Blue Flag programme at 50 South African beaches was done; and the first draft of the tourism Infrastructure Master Plan was developed. This programme seems to focus on the outputs rather than the outcomes. In future, the Department should provide clear intentions and the outcomes of this programme with regard to empowerment of participants in the programme.

In order to create employment opportunities by implementing tourism projects, the Department planned to create 3 488 Full Time Equivalent (FTE) Jobs. Only 1 734 FTEs were achieved and a whopping 1 754 jobs were not attained. The Department indicated that the delay was induced by the appointment of the Government Technical Advisory Centre (GTAC) to assist in the evaluation of remaining SRI projects (planned and active) to ensure their viability. The Committee welcomed this explanation during quarterly reporting as this will bring closure and finality to the challenge created by poorly implemented projects inherited from the erstwhile Department of Environmental Affairs and Tourism. The Department should, however, expedite the process and report the findings of the GTAC process and the list of viable projects to the Committee.

* 1. **An analysis of the Department of Tourism for the first quarter expenditure 2017/18**

The performance of the Department in the first quarter of 2017/8 is a cause for concern. The Department had planned to achieve 69 pre-determined objectives, but only 59 were achieved. This indicates that the Department achieved only 81.16 percent of its predetermined objectives and incurred underperformance of 18.84 percent.

Table 4: Appropriation and expenditure for 2016/17

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Programme | 2016/17 | | | | | | |
| Main appropriation | Available Budget | Q1 Expenditure | Expenditure as % of available budget | Q1 Projected expenditure | Variance from projected expenditure | % variance from projected expenditure |
| R’000 | R’000 | R’000 | R’000 | R’000 | R’000 | % |
| Administration | 219 094 | 219 094 | 44 236 | 20.2% | 51 861 | 7 625 | 14.7% |
| Policy and Knowledge Services | 1 208 708 | 1 208 708 | 687 345 | 56.9% | 686 895 | -450 | -0.1% |
| International Tourism | 443 953 | 443 953 | 56 076 | 12.6% | 92 255 | 36 179 | 39.2% |
| Domestic Tourism | 268 401 | 268 401 | 65 780 | 24.5% | 51 952 | -13 828 | -26.6% |
| **Total** | **2 140 156** | **2 140 156** | **853 437** | **39.9%** | **882 963** | **29 526** | **3.3%** |

**Source: NDT Annual Report - 2016/17**

The Department had R2,140,156, 000 as appropriated in the Estimates of National Expenditure for 2017/18 and was able to spend R853,437,000 accounting for 40 percent of the budget. The concern is that the Department was not able to spend on the projects that were challenging in the previous financial year, suggesting issues that caused delays had not been resolved. In Programme 3: Destination Development, expenditure was R56.1 million representing R36.2 million or 39.2 per cent lower than the projections for the period due to payments relating to the EPWP programme not made as there was a delay in receiving the proper documentation from project implementing agencies. In Programme 4: Enterprise and Visitor Support Services, expenditure was R65.8 million, representing R13.8 million or 26.6 per cent higher than the projections for the period due to the large payment for Tourism Incentive.

* 1. **Assessment of the 2016/17 Annual Report for South African Tourism**

South African Tourism operates under volatile conditions which include, amongst others, disposable income, available leisure time, culture of travel, prices of related goods and services, foreign currency exchange rate, destination preferences by tourists, and many others. Despite these externalities and unfavourable economic climate in the country, South African Tourism has been able to sustain their activities in executing their mandate in a manner that has yielded positive results for the country.

* + 1. An audit opinion

South African Tourism received an unqualified audit in the 2016/17 financial year. This was a 16th consecutive unqualified audit opinion by the Auditor-General. The 2015/16 unqualified audit had been an improvement from the unqualified audit with findings in 2013/14. A clean audit was achieved in 2014/15.

* + 1. Tourism performance in the year under review

The global tourism market reached a 1.235 billion tourists in 2016. With regard to international tourism, South Africa had a 12.8 percent increase in international tourist arrivals, from 8.9 million in 2015 to 10 million in 2016. This exceeded the global growth rate of 3.9 percent. South Africa’s revenue from international tourism grew by 10.8 percent, from R68.2 billion in 2015 to R75.5 billion in 2016. The tourists’ average length of stay was 9.2 nights in 2016, down from 9.5 nights in 2015.

The domestic tourism revenue increased by 12 percent to a total of R26.5 billion in 2016, compared to R23.6 billion in 2015. The domestic tourists who took a trip in this period spent more per trip and more per day than in previous years. Notwithstanding a 12.3 percent increase in the domestic spend in 2016, the total number of trips declined by 0.7 percent. On average, South Africans each took 2.1 trips in 2016, an increase compared to 2.0 trips in 2015. Amongst others, domestic trips can be divided into holiday trips with 11 percent of all trips taken, business trips which accounted for 8 percent, and Visiting Friends and Relatives (VFR) which accounted for 70 percent. In 2016, holiday trips taken within South Africa fell by 3.1 percent, from 2.7 million to 2.6 million. The domestic tourists’ length of stay grew from 4.2 nights in 2015 to 4.3 nights in 2016. The total number of bed nights increased by 0.9 percent.

7.3.3 Policy Developments and Legislative Changes

South African Tourism undertook a compliance review of applicable South African and international law that led to a complete policy review as well as employee handbooks for international offices. This was to mitigate any risk of non-compliance.

The Committee should get feedback on the policy considerations and proposals made by South African Tourism on the draft Tourism Bill currently being subjected to Cabinet process.

7.3.4 Organisational Environment

In the 2016/2017 financial year South African Tourism developed its 5-in-5 strategy, with a goal of delivering five million additional tourists in the next five years. This comprises four million international tourists and one million domestic holiday trips. This was followed by the development and partial implementation of a Marketing Investment Framework (MIF) to identify the markets to invest in. Subsequently, South African Tourism reconfigured its operating model in order to deliver on this strategy by undertaking an organisational review process dubbed Project Ignite. These two projects, 5-in-5 strategy and Project Ignite, due to their consultative nature, helped boost staff morale and encourage a common vision among employees. The appointment of the new Chief Executive Officer in October 2016 also added further impetus to the organisational environment, as it brought in fresh thinking and innovative leadership. In order to achieve a marketing and overheads budget ratio of 70:30, particularly in light of escalating operating costs abroad, South African Tourism closed its Italy office during the financial year.

7.3.5 Policy, legislative framework and compliance

South African Tourism is a statutory organisation established by an Act of Parliament. The South African Tourism Board is a public entity, which is listed under Schedule 3A of the Public Finance Management Act (PFMA) (Act No. 1 of 1999). The Entity is established by the Tourism Act (Act No. 3 of 2014) which establishes governance and accountability of South African Tourism to the SA Tourism Board appointed by the Minister. Other legislations impacting on the activities of South African Tourism include the Public Finance Management Act (PFMA) particularly to promote transparency, accountability, and sound management of the revenue, expenditure, assets and liabilities; National Treasury Regulations and related Practice Notes regulating financial, non-financial, as well as fiscal matters; Reserve Bank Regulations providing for the management of international payments, opening of foreign bank accounts and transfer of funds. During the year under review, South African Tourism reviewed its policies to ensure greater compliance with South African and international legislation and Regulations.

* + 1. Strategic Outcome-Orientated Goal

In the 2016/17 financial year South African Tourism was pursuing strategic objectives aimed to:

* Contribute to the South African economy by increasing the number of travellers to and within South Africa;
* Build positive awareness of the South African experience;
* Reposition South African Tourism to be recognised as a tourism and business events industry leader in market intelligence, insights and analytics;
* Collaborate with stakeholders and partners to deliver on South African Tourism’s mandate;
* Improve visitor experience in line with the brand promise; and
* Create an organisational culture of work satisfaction, excellence and innovation to improve effectiveness and operational efficiency.
  + 1. Service Delivery Performance

In the year under review South African Tourism had a total of fourteen (14) Key Performance Indicators (KPIs). There was a poor performance with regard to the achievement of the KPIs as only six (6) were achieved and eight (8) were not achieved. The Committee noted that in general, South African Tourism performed well as there was a marked improvement in tourist arrivals and revenue generated by the sector. This includes performance in business tourism and revenue generated from these activities. The revenue generated translates to economic impact and potential of the sector to create more employment opportunities. More employment opportunities created by the sector impact positively on the socio-economic life of many South

* + 1. Budget and expenditure analysis

In the 2016/17 financial year South African Tourism had a total budget of R1,316, 803, 000. A bulk of this budget amounting to R1,024, 847, 000 was a grant allocation from the National Department of Tourism. In addition to the grant allocation from the government, South African Tourism received R137.6 million of its budget from the Tourism Marketing South Africa (TOMSA) levy allocated through the Tourism Business Council of South Africa (TBCSA). Of this, an amount a R122.5 million was a direct transfer to SAT whereas an amount of R15.1 million was a collaborative fund. This collaborative fund is part of the partnership with the private sector and its implementation is stipulated in the Memorandum of Understanding (MOU) between South African Tourism and TOMSA. The funding from TOMSA accounted for 11 percent of the budget for South African Tourism. The partnership between South African Tourism and the private sector has been increasing over the years and it increases South African Tourism’s ability to market South Africa internationally. The funds from the government and private sector constituted 91 percent towards the total annual budget for South African Tourism.

South African Tourism also generated income from its mandated activities. A total amount of R28.3 million was generated from accrued interest. This constituted 9 percent of the total budget. An amount of R20.6 million was generated from grading fees and sundry income of R92.9 million was also generated. The sundry income comprises income from exhibitions such as INDABA and Meetings Africa. The core mandate for South African Tourism is marketing and expenditure was in line with the mandate. To this effect, South African Tourism’s marketing expenses were the entity’s highest cost. A total of R917.5 million was allocated to marketing, representing 74 percent of total expenses. Embedded in this amount was the R100 million received from the National Treasury during the financial year for domestic marketing. To facilitate the implementation of the mandate, South African Tourism incurred employee costs of 15 percent. Employee costs include salaries and cost of living allowances for locally recruited international staff members. The reduction from the previous year can be attributed to numerous vacant senior positions.

* + - 1. Irregular expenditure

Irregular expenditure is an expenditure that is contrary to the Public Finance Management Act (PFMA). South African Tourism had two transactions which resulted in irregular expenditure. The first balance of R 87 951 relates to irregular expenditure resulting from non-competitive bidding. This amount was condoned as investigation results proved that there was no loss for SA Tourism and appropriate disciplinary action was taken against the employee. The second instance is a result of non-compliance with Practice Note 6 of 2007/08 and instruction note 3 of 2016/17. Irregular expenditure to the value of R 1, 005, 709.77 has been included in the balance of Irregular expenditure incurred in the current year.

7.3.8.2 Going Concern

In the 2016/17 financial year South African Tourism made a profit. This means the entity is currently in good financial standing. As of March 2017, the entity had accumulated surplus of R238, 313, 861 and that the entity’s total assets exceed its liabilities by R308,903,077. This forms basis of a presumption that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

7.3.9 Governance

Currently, there are 14 Board members appointed by the Minister in terms of the Tourism Act (Act no. 3 of 2014) as the Act stipulates that the Board should consist of not fewer than nine, and not more than 15 members. The Board meets four times a year and all meetings were held as scheduled in the year under review. Where applicable and practical, the Board follows the King IV guidelines in dispensing its duties. The Board has established a number of Committees to assist with discharging its duties. These include the Chairpersons’ Committee; Marketing Committee; Human Capital and Remuneration Committee; Audit and Risk Committee; TGCSA Awards Committee; and National Convention Bureau Marketing Committee. In the past the Board of SAT was not remunerated but in the 2016/17 financial year, South African Tourism incurred R534,613,000 for Board activities. The Committee noted the good work and innovation brought by the current Board.

7.3.10 Human Resources Information

During the 2016/17 financial year, South African Tourism paid total remuneration of R31 million to senior management and middle management. With regard to the vacancy rate, the organogram approved by the Board had 202 positions with only 156 positions filled leaving a high vacancy rate. The entity was operating at 76.73 percent occupancy rate with vacancy rate at 30.32 percent. To cater for vacant positions at senior management positions, internal arrangements were made through the appointment of internal staff members on acting and secondment contracts. Toward the latter part of 2016, South African Tourism commenced with the Organisational Design process known as Project Ignite the purpose of which is to reconfigure the organisation to deliver on strategy and align internally. The view of the Committee is that the Entity has good human resources management systems as all necessary controls are in place.

**7.4 Key reported achievements.**

The Department reported numerous achievements, including that a total of 10 044 163 international tourist arrivals was recorded for 2016 reflecting an increase of 12.8 percent compared to 2015. Through the TIP, the Department implemented the Tourism Grading Support Programme and the International Market Access Support. During this period, the Department created 1 734 full-time equivalent (FTE) jobs through the Social Responsibility Implementation (SRI) Programme, as part of the Expanded Public Works Programme (EPWP). This Programme is a combination of infrastructure projects and youth training programmes like the Blue Flag Beaches, Chefs, Sommeliers, Food Safety Assurers and the Tourism Buddies Programme.

The Department was also able to appoint the tourism B-BBEE Charter Council; develop a tourism B-BBEE portal to accelerate SMME empowerment in the tourism sector; facilitate tourism capacity-building programmes for tourist guides, who are the faces and voices of tourism; finalise the Tourism Sector Human Resource Development (THRD) Strategy and Skills Audit; host the National Tourism Careers Expo (NTCE); facilitate the Executive Development Programme (EDP) for Women in Tourism, and Service Excellence and Universal Accessibility Training programmes; host the 3rd Women in Tourism networking event in Durban during the Tourism Indaba; implement the Service Excellence Integrated Product Support Programme to assist identified tourism products to develop a service excellence oriented culture; promote Universal accessibility (AU) in government owned provincial parks; held the African World Heritage Youth Forum at the Nelson Mandela Gateway in Cape Town; drafted a concept document proposing the establishment of a formal BRICS Tourism Working Stream, with the aim of aligning the tourism activities within the BRICS forum; and developed two mobile applications for Tourist Guides and Visitor Information Centres to enhance the visitor experience.

**7.5 Non-financial Audit outcomes and steps taken to address adverse audit findings.**

The Department did not have adverse findings on non-financial audit outcomes. However, the Department has developed a service delivery improvement plan to improve its operational efficiencies. This cuts across a number of the main services offered by the Department.

On the other hand, SAT has devised a number of interventions to deal with areas of underperformance. To improve the Number of holiday trips, based on the recent Domestic Market segment research identifying new segments to focus on, South African Tourism will put more emphasis in those areas to build the culture of travel, convert and defend existing travellers, as well as increase the frequency of travel. These will result in the increase of holiday trips and total domestic trips. In improving brand positivity, South African Tourism will commence implementation of its 5-in-5 Framework from 2017/18. This Framework is supported by detailed plans for each strategic thrust as well as a well configured operating model to drive efficiencies within the organisation. Grading remains a challenge and in improving on the Number of graded rooms achieved, the grading criteria have been recently reviewed to make grading more accessible. Furthermore, the collaboration with the Department on the Tourism Incentive Programme subsidy implemented in the year under review will yield rewards by the improvement of ease of access for SMMEs.

**7.6 Other service delivery performance findings**

The Committee conducted its oversight work throughout the period under review and made a number of service delivery observations and findings as follows:

7.6.1 Oversight visit reports - summary of key service delivery issues.

The Committee conducted oversights visits to provinces where hearings and interactions were held with provincial leadership, provincial marketing agencies, the private sector and the stakeholders on the ground.

The Committee undertook an oversight visit to the North West Province from 14 - 16 and Mpumalanga Province from 19 - 23 September 2016. A number of observations were made including varied involvement, political leadership and governance by MEC for tourism in the provinces; practical hospital training programmes offered by the North West Tourism School; effects of Immigration Regulations to tourism arrivals in North West as the Committee learned that the North West province used to receive many visitors through the Ramatlabama Border gate between Botswana and Mmabatho/Mafikeng in South Africa but numbers had declined; the untapped potential for cultural tourism; neglect of universal accessibility in SRI projects; the concern about SRI projects implemented by the Department in Mpumalanga; unresolved issues with regard to ownership; non-involvement of Mpumalanga Tourism and Parks Authority (MTPA) in supporting SRI projects; Department and provinces not tapping into the wildlife economy and concessions; no value for money for SRI projects; institutional arrangements and governance of Pilgrim’s Rest; no feasibility studies and choice of project location; poor participation of public representatives in Bushbuck Ridge. With regard to Visitor Information Centres, the Committee was impressed with the implementation method used by the Steve Tshwete Local Municipality in funding and supporting the Middleburg Visitor Information Centre. With regard to funding new projects, the Committee noted the sentiments raised by the Bushbuck Ridge Tourism Association that the government must consider funding tourism entrepreneurs directly instead of funding community projects.

**7.7 Relevant external research assessing performance of the Department**

The Committee scrutinised a number research produced by the Department and other organisations.

7.7.1 The State of Tourism Report 2015/16

The Department of Tourism released the 2015/16 State of Tourism report. The report is a useful tool in informing government and private sector decision makers about the performance and health of the sector. This report gives a comprehensive view of the environment in which the sector operates and appreciates constraints and opportunities presented by the contemporary external factors in the country. The Report considered the supply and demand tourism factors to provide a complete picture. On the supply side, the focus was on key tourism related products, which include, amongst others, the performance of the hotel industry, air travel and meetings industry. On the demand side performance, the report looks at South Africa's international and domestic tourism markets with specific attention to travel volumes, tourist demographics, purpose of visit, seasonality and spending patterns.

The 2015/6 State of Tourism Report indicates that South Africa remains competitive at a global and domestic levels. South Africa received over 10 million international tourists in 2016, which was an increase of 12.8 percent compared to 2015. This was an improvement from a declining growth of 6.8 percent recorded in 2015 compared to 2014. The decline in growth recorded in 2015 could be attributed to amongst others, the impact of new visa regulations implemented in the country, the economic crisis in some of the source markets as well as the terror attacks in the continent. In 2016, all regions recovered from the 2015 decline, with Central and South America leading with a growth of 34.3 percent which was followed by Middle East (34.1 percent, Asia (30.3 percent), Europe (15.8 percent) and North America 14.9 percent, Total Africa Mainland (11.2 percent) and Australasia (10.9 percent). According to South African Tourism (SAT), statistics show that Millennials (18-34 age) travelling to South Africa are increasing with 45.8 percent of the international tourist market from the Tourism Departure Survey falling within this age bracket. In addition, the international tourist market, whether long-haul or regional, has shown an increased interest in business tourism and holiday purposes to visit South Africa.

The report indicated that the potential of international tourism in South Africa is growing. South African Tourism is unlocking different source markets to increase the market base for South Africa, with specific emphasis on growing the African regional markets and the emerging BRICS markets by promoting South Africa as a regional hub and investment channel. In addition, market access is created to European and American markets through trade and tourism product packaging, events and increased air routes to multiple destinations in the country. The significant effect on the international markets decision-making on any tourism destination is the safety and security aspect. It is thus encouraged that all the sector and related role players should collaborate to improve positive messaging, safety awareness and pro-active measures to encourage tourists to continue visiting the country.

According to the Tourism Satellite account (TSA) released by Statistics South Africa (Stats SA), domestic tourism plays a critical role in the tourism sector as it generates more than half the internal tourism revenue. Regardless of an increase of 3.2 percent in the number of adult domestic tourists travelling in 2015 compared to 2014, there was a decline of 12.5 percent in domestic tourism trips during the same period. Domestic tourism trips continued to decline in 2016 with a declining growth of 0.7 percent compared to 2015. The most visited provinces remain as Limpopo, Gauteng and KwaZulu-Natal during 2015 and 2016 for domestic tourism.

Total domestic spend went up by a double digit growth of 12.3 percent in 2016 compared to 2015 which was an improvement from a growth of 6.2 percent recorded in 2015 compared to 2014. Domestic tourism should continue to be encouraged as the potential impact of this market is far greater than that of the international market. One possible opportunity is to convert VFR tourists into an increased revenue stream, as more than 70 percent of domestic tourists are travelling for VFR purposes. Business tourism also holds great potential with 10 percent domestic tourists travelling for business purposes, alongside 11 percent holiday trips in 2015. Moreover, seasonality needs to be improved as the seasonality index for domestic trips worsened from 22.1 percent in 2015 to 24 percent in 2016 as South Africans tend to travel more during school holidays. The top three reasons for not travelling in 2015 were affordability, time constraints and no reason to travel. The tourism sector and key marketing channels are pushing to increase domestic market access to affordable tourism products through innovative marketing efforts such as the Sho’t Left, value for money packaging, social tourism, and family package promotion.

7.7.2 Global Competitiveness report 2017-2018

The World Economic Forum recently released its Global Competitiveness Report for the 2017-2018 period. The Report does not inspire confidence as South Africa’s ranking declined by 14 spaces from 47 to 61 in terms of global competitiveness. This Report is critical for tourism as it indicates the destination image outlook at a global level. The report presents a framework and a corresponding set of indicators in three principal categories and twelve policy domains for 137 economies. Many factors, both domestic and international can influence the results of global competitiveness for the countries involved at the time. The report is communicating a message that investor confidence in South Africa is declining, and this poses a concern with regard to new investments in the tourism sector. The Report identifies corruption, crime and political instability as the biggest barriers for businesses in South Africa. In a period of ten years of the global financial crisis, the prospects for a sustained economic recovery remain at risk due to a widespread failure on the part of leaders and policy-makers to put in place reforms necessary to underpin competitiveness and bring about much-needed increase in productivity. This also holds for South Africa as the country’s economy is almost at a standstill, with Gross Domestic Product growth forecast at just 1.0 percent in 2017 and 1.2 percent in 2018. The economy is hit by persistently low international demand for its commodities, while its unemployment rate is currently estimated above 25 percent and rising. This has huge implications for South African Tourism to ensure that they enhance positive messaging, and improve on the work that promotes South Africa’s brand awareness in international markets. South African Tourism should also ensure that investments in the sector increase through the Hotel Investment Conference Africa (HICA) platform. The Department used to coordinate a Global Competitiveness Programme (GCP) at a national level and this has since stopped. The Department should reconsider a forum that looks at the global competitiveness of destination South Africa.

7.7.3 OECD Tourism Trends and Policies 2016

The Organisation for Economic Co-operation and Development (OECD) has indicated that the new technologies and business models referred to collectively as the sharing economy (such as Uber and Airbnb) are changing the tourism landscape by giving people new options for where to stay, what to do and how to get around. These developments present opportunities to expand consumer options and grow the tourism economy, but also pose challenges for established operators and raise broader questions in areas such as consumer protection, taxation and regulation. In a complex, fast-moving environment, it is imperative that tourism policy makers in the country quickly grasp the key issues surrounding the sharing economy and position their jurisdictions for success. The growth of Uber and Airbnb in South Africa should be considered within a policy environment for both open market system and the tourism regulatory environment. The Department of Tourism has a duty to assess key policy implications for this sharing economy. These technologies provide new markets in areas as diverse as transportation, accommodation, travel and dining experiences.

7.7.4 The Travel & Tourism Competitiveness Report 2017

The World Economic Forum publishes the Travel & Tourism Competitiveness Report biennially and benchmarks the travel and tourism competitiveness of 136 economies. The Travel & Tourism Competitiveness Report 2017 entitled “Paving the way for a more sustainable and inclusive future” has indicated that South Africa still leads the regional ranking, taking the 53rd place globally, though the country has slipped 5 places since 2015. It continues to rely on cultural resources (19th), strong natural resources (23rd), and a conducive business environment (21st), characterized by minimal red tape and modest administrative burden. Although the labour market remains inefficient (118th), there has been some progress in this area: it ranked 135th two years ago. The country has also improved price competitiveness (43rd) by reducing ticket charges, taxes and hotel prices. Despite these improvements, South Africa’s tourism competitiveness has deteriorated on two elements, namely, safety and security (120th) and environmental sustainability (117th). Fears of terrorism and an increased sense of insecurity related to crime make tourists less light-hearted about travelling in the country. With 33 homicides per 100,000 people, South Africa has one of the worst homicide rates in the index, ranking 131st. With respect to environmental sustainability, deforestation and loss of habitat have proceeded at a rapid rate since 2000. The global interest and demand for South Africa’s natural resources is increasing, but insufficient habitat preservation could prevent the country from benefitting from this growing source of tourist attraction. Another aspect that has contributed to a lower performance for South Africa this year is the reduced efforts made by the government to support the sector (59th). Although spending has remained unchanged, marketing campaigns have been perceived as effective (40th). To foster its tourism sector, South Africa could also implement more open visa policies (71st) and service trade agreements (91st).

**7.8 Concluding comments on service delivery performance**

The service delivery performance of the Department in the year under review was acceptable given the global environment and economic constraints experienced in South Africa. The external conditions were dire for the sector and domestic tourism suffered tremendously. The technological advancements are also fast changing in the sector and the Department and South African Tourism had to catch up quickly with regard to the development of marketing applications (Apps). The Department is, however lagging behind at a policy level to address the sharing economy, which is disrupting the established tourism business models. Both the Department and South African Tourism have to improve on their performance to ensure transformation and stimulate sustained growth.

The persistent challenge in the tourism sector is transformation. The industry remains largely untransformed and this requires a rethink of funding mechanisms for the sector. The Department should also conceptualise innovative interventions to promote transformation and include previously marginalised communities in the mainstream tourism industry.

**8. FINANCE AND SERVICE DELIVERY PERFORMANCE ASSESSMENT**

The Department had higher expenditure than service delivery performance. Financial performance was therefore incommensurate with service delivery performance as more budget was used to achieve less. The National Treasury rejected the application for roll-over funds. This means the department has to reprioritise the existing budget to fund the projects that were already committed. This reduces the available budget for service delivery.

The Department also failed to meet the Full-Time Equivalent jobs, thus forfeited additional Expanded Works Programme funding from the Department of Public Works. The Department thus has to work hard to make up for the shortfall in Full-Time Equivalent jobs.

The Performance of South African Tourism against the appropriated budget was dismal and the Entity has to ensure improvement against set targets. However, the budget appropriated to the entity remains a challenge as their work exposes them to foreign exchange. The budget should be reviewed to enable the entity to fulfil its mandate.

**9. KEY FINDINGS - COMMITTEE OBSERVATIONS AND RESPONSES**

Having scrutinised the financial and service delivery performance for the period under review, the Committee made a number of observations. These include both matters internal to the Department of Tourism and South African Tourism.

**9.1 Technical issues**

The Committee made observations with regard to financial issues as technically defined in the Public Finance Management Act.

9.1.1 Under-expenditure

The Committee observed that the Department incurred a total under-expenditure of R89,890,000 in the year under review. An amount of R9,185,000 was incurred in Programme 1; an amount of R55,221,000 was incurred in Programme 2; an amount of R1,401,000 was incurred in Programme 3; and R24,063,000 was incurred in Programme 4. The bulk of the underspending relates to the capital projects of the Tourism Incentive Programme (Programme 2: Policy and Knowledge Services) for which a rollover of R52.1 million has been requested. R22.6 million earmarked for Expanded Public Works Incentive Programme (Programme 3: Domestic Tourism) had to be returned to the National Revenue Fund as it can only be spent once approval has been received from the Department of Public Works. Approval is linked to the achievement of Expanded Public Works Programme targets. This caused the Department to forfeit further Expanded Public Works Programme budget through failure to achieve the planned Full-Time Equivalent jobs.

9.1.2 Fruitless and wasteful expenditure

The Committee observed that the Department continues to incur fruitless and wasteful expenditure. In the year under review an amount of R60 000 was incurred in that regard. This relates to late cancellations, no-show or amendment of flights with regard to travel bookings. The Department does not plan its travelling arrangements well, hence the continued fruitless and wasteful expenditure.

9.1.3 Roll-overs

The Committee noted that the Department requested an approval to roll-over funds in accordance with Treasury Regulation 6.4.1 (a) towards the payment for capital assets to the value of R52.1 million. The Committee observed that this was necessitated by poor planning whereby the Department did not get all approvals before implementation of infrastructure projects was initiated. The National Treasury, however, did not approve the application for roll-over funds.

**9.2 Governance and operational issues**

The Committee did not observe any challenges with regard to governance and operational issues in both the Department and South African Tourism in the year under review. The Committee did not make any negative observations with regard to internal controls, risk management and leadership; asset management; physical security; ICT logical and access control; SRI Planning; forensic review on SRI; performance audit; tenders, quotations and payments; Information and Communications technology governance; pre-determined objectives; and compliance with Tourist Guiding legislation.

**9.3 Service delivery performance**

In the year under review, the Committee made a number of service delivery observations for both the Department and other related external matters that have a direct bearing on the performance of the sector. These include, but are not limited to:

9.3.1 Poorly implemented projects

The Committee noted with concern that there are poorly implemented infrastructure projects throughout the country. These projects are “white elephants” that have either been poorly constructed, unfinished, or vandalized for a number of years. The Committee identified the same challenge of poorly implemented projects in the previous financial years. The response of the Department to this challenge was the appointment of the Government Technical Advisory Centre (GTAC) to conduct a technical audit of all the Working for Tourism projects. The Committee is awaiting the full GTAC report to assess the state of all non-operational Working for Tourism projects countrywide.

9.3.2 Operational support for community tourism businesses

The Committee observed that the Department is implementing an unequal and unfair practice in providing operational support to community-based tourism businesses. On the one hand, some projects are viable as they are provided with funds for operational support, whilst on the other hand, some community projects are failing as they are not given funds for operations. This is an unfair and unequal practice as operational support is given from the Tourism Incentive Programme and there is nothing stopping the Department in providing the same support to all promising projects.

9.3.4 Grading of tourism establishments

The Committee is concerned that grading of tourism establishments is declining throughout the country. Some establishments are not renewing their grading status, but continue displaying star grading plaques. Other establishments are cancelling and leaving the grading system. The concern is that this is happening despite the grading incentives provided by the Department through South African Tourism using the Tourism Incentive Programme. There is also a lack of uptake for the grading assistance offered by South African Tourism through the Tourism Incentive Programme.

9.3.5 Lack of a Provincial Tourism Masterplan

The Committee observed that some provinces still do not have Provincial Tourism Masterplans. This has led to uncoordinated tourism planning in those provinces and silo mentality amongst tourism stakeholders in developing and marketing tourism products in the province. Consequently, there is a poor working relationship between the National Department of Tourism, provinces and municipalities. These provinces also have poor destination marketing activities and product development is not aligned to the marketing strategy endeavours. Routes are not based on any themes, experiences or products and the unique selling propositions of those provinces is not realised.

9.3.6 Poor planning and coordination at a municipal level

The Committee observed that some municipalities have poor planning and coordination of tourism activities at a district and local levels. This was attributed to the absence of Local Tourism Associations and lack of political will to prioritise tourism. In these municipalities there is no coordination and collaborations between the private sector and local councils. These are also municipalities which still consider tourism as an unfunded mandate.

9.3.7 Poor signage

Poor signage continues to be a challenge throughout the country. The lack of signage is apparent from national roads to provincial and district roads. The challenge is worse in areas where iconic and national heritage sites are not indicated on any signage along national roads. The Committee, for example, continued to raise issues about the Mandela Capture Site which has no signage from the N3. The challenge is that the provincial and municipal officials have no strategy to communicate with the road agencies and assist the tourism stakeholders in resolving signage issues. Provinces such as Limpopo have found a mechanism of collaborating with the National Roads Agency (SANRAL) and this may be used as a best practice in unlocking signage in other provinces.

9.3.8 Neglect of Universal Access

The Committee observed that Universal Accessibility is neglected in most sub-destinations in South Africa. This is happening despite national and international initiatives aimed at improving Universal Accessibility. The Committee acknowledges the National Minimum Standards for Responsible Tourism contained in SANS 1162 of 2011. The Committee also acknowledges that the United Nations Convention on Rights of Persons with Disabilities broadly outlines and emphasizes the importance of Universal Accessibility. Article 9 states that persons with disabilities have a right to live independently and participate fully in all aspects of life and that State parties should take appropriate measures to ensure that persons with disabilities have equal access on an equal basis with others. The UN Convention Article 2 defines Universal Access as the design of products, environments, programmes and services to be usable by all persons to the greatest extent possible without the need for adaptation or specialised design, including assistive devices and technologies for particular groups of persons with disabilities where these are needed. Universal access means the removal of cultural, physical, social and other barriers that prevent people with disabilities from entering, using or benefiting from the various systems of society that are available to other citizens.

What was most disturbing is that the Working for Tourism Projects (former Social Responsibility Initiative, SRI) implemented by the Department also do not comply with Universal Accessibility standards. This is a glaring shortcoming as the Chairperson of the Committee, being a disabled Member of Parliament confined to a wheelchair, could not easily access most tourism products and attractions in most provinces visited during the period under review.

9.3.9 Poor Airlift Strategy

The Committee observed that most provinces do not have well-coordinated airlift strategies to boost international arrivals and address geographical spread. These provinces are losing possible tourists and remain behind on international arrivals. The significance of destination air access and its relationship to the viability of the provincial tourism Industry is important to unlock many forms of tourism. Tourism could grow in many provinces if airlift could be improved. This could enhance business and leisure tourism and improve tourism spend which will culminate in more socio-economic spin offs. Given the challenges of seasonality, domestic airlift could also assist in bringing more domestic tourists from all over the country.

9.3.10 Unavailability of business and events strategies

The Committee observed that some provinces and major cities do not have International Convention Centres. This stifles the growth of business tourism and capacity of the cities to bid for major events. This perpetuates the dominance of the three large cities on business tourism, namely, Johannesburg, Durban and Cape Town. Some provinces and towns do not have events calendars which show schedules of all events taking place in their jurisdictions. The Committee, also noted that in other areas there are events organised and hosted at the same time within the destination. This has the potential of creating a dilemma for tour operators who are spoilt for choice and struggle to spread tourists amongst all events. This causes congestion of events and sometimes loss of potential revenue as the events are not properly advertised and marketed.

9.3.11 Underdeveloped township tourism and Homestays

The Committee observed that township tourism remains underdeveloped throughout the country, except for a few good case studies in Soweto, Umlazi, and Gugulethu. The Committee has noted that the contemporary and emerging trends in the tourism industry point to tourists who want to immerse themselves in the lifestyle of the communities they visit. This includes a growing trend of tourists who stay in communities as volunteers and those who want to be involved in Homestays. This presents an opportunity for township tourism development and Homestays to offer products that depict the daily lived experiences of communities.

9.3.12 Poor maintenance and access to tourist attractions

The challenge of poor maintenance of the attractions was observed throughout the country. This includes all levels of attractions be it national, provincial and municipal attractions. In other instances, there is poor road infrastructure which limits access to the attractions. The challenge is heightened in cases such as the road leading to the Mapungubwe World Heritage Site where an international attraction is neglected. In the case of Robben Island there is a continued challenge of safety with the boats that take tourists to the Island recently threatening the life of patrons.

9.3.13 Niche tourism development

Some provinces are endowed with unique natural and cultural attributes. The tourism planning and development authorities at all levels of government, including the private sector, have not taken a full advantage of these bequests. These present opportunities that may be developed and commercialised into niche tourism products. Some provinces, such as Limpopo, have unique opportunities of developing religious tourism as they have a thriving church community and are centres of religious pilgrimage. These provinces could plan accommodation and other related tourism services for the religious pilgrims. This can assist in commercialising the religious events to boost domestic tourism.

9.3.14 Transformation

The Committee observed that transformation continues to be a challenge in the tourism sector. There are perceptions of continued marginalisation of previously disadvantaged communities in the mainstream tourism. The common thread in all the provinces is that the tourism industry is still dominated by previously privileged sectors of the community. The Committee, however, noted that there are vast opportunities to involve communities through the development of new products and experiences. These include opportunities in cultural and heritage tourism; development of local routes; sports tourism; mountain biking; oceans economy; township tourism; and arts and craft products. This also extends to the opportunity of establishing Homestays to offer authentic African tourism experiences.

The Committee also observed in its interaction with the B-BBEE Charter Council that there is no credible implementation Plan to drive the implementation of the new Tourism Sector Codes. The plan presented to the committee lacked substance and innovation and cannot drive transformation in the sector. More should be done by the Council to ensure sector transformation.

9.3.15 National Tourism Disaster Management Strategy

The Committee has noted an increasing number of natural disasters and crime against tourists. Evidence of this is found in the recent fires that ravaged the tourism town of Knysna and the robbery of 36 Dutch tourists travelling from OR Tambo International Airport. The Committee observed and commends the Ministers of Tourism and Police for their swift response. However, the Committee is of the view that this should not be ad hoc and sporadic responses, but should be governed by well-crafted strategy. There is a need for a cohesive and synchronised Disaster Response Strategy and a one-stop-shop for information during natural disasters, crime incidents, and other calamities. To provide a coordinated response during natural disasters and incidents of crime, the Committee strongly advocates for the development of a National Tourism Disaster Management Strategy/ Tourism Safety and Security Strategy that will coordinate all the stakeholders at a national, provincial and local level.

9.3.16 Destination branding

The Committee noted that some provinces and municipalities do not have proper branding. This includes sub destinations which are marketed using the names of municipalities instead of well-planned and marketed routes. These sub-destinations miss out on developing indelible and recognised brands and entrenched brand equity.

9.3.17 Conversions for domestic tourism

The Committee noted that most of domestic tourism occurring throughout the country is based on Visiting Friends and Relatives (VFR). The Limpopo province, for example, has been leading other provinces and occupying a number one spot in domestic tourism arrivals since 2014 and this is dominated by VFR. The Committee is concerned that the numbers for domestic tourism therefore do not derive the needed tourism revenue. This calls for provinces to devise strategies to induce conversion from VFR to leisure tourists. This conversion must be coupled with the relevant supply side changes where affordable packages are availed to domestic tourists.

9.3.18 Disruptive technologies

The Committee has observed a negative impacts of the recent disruptive technologies such as Uber and Airbnb on the tourism industry. These are unregulated tourism operations that do not comply and conform to the national legislation and regulations. The most affected sectors of the industry are travel agents, tour operators, meter taxis, and the accommodation sector. The Committee acknowledges that South Africa is an open economy that promotes innovation and small business enterprises. The challenge with these new technologies is that they are unregulated and unfairly compete with law abiding business operators. This creates a policy and regulatory challenge for the Departments of Tourism and Transport in the country.

**9.4 Financial performance including funding proposals**

The Department was not able to spend all its appropriated budget in the 2016/17 financial year. Notwithstanding, the Committee is of the view that the funding for Vote 33: Tourism is inadequate and the following funding proposals are advanced:

9.4.1 Marketing Investment Framework (MIF)

Over the years the Portfolio Committee on Tourism has been making recommendations to the National Treasury to increase budget appropriation for the tourism vote. These efforts did not bear positive results as there was no hard evidence to back the call for more budget. The Committee subsequently recommended that South African Tourism should conduct an Econometric Study to determine how much budget is needed for tourism marketing in South Africa. Ordinarily, South African Tourism has to conduct an econometric study based on demand modelling to derive market segmentation. This market segmentation determines the Market Investment Framework, which informs the marketing spend on each of the market segments. South African Tourism has been conducting this exercise over the years with marketing portfolios reviewable at least every five years. The challenge has been the lack of budget to service all the market segments.

Currently, the budget is targeting a potential global market of 2.9 million air arrivals with a budget of R1 billion a year with the additional budget by the National Treasury, allowing South Africa to invest in strategic markets such as the Nordics, the Middle East and South-East Asia. An extra allocation will go to a Bidding Fund to help South Africa bid more aggressively to host international association conferences, meetings, incentives and exhibitions (with the benefit to be seen outside of the 5-in-5 period, as there is a long lead time between bidding for, securing and hosting large-scale business events). Considering the current resource allocation from the National Treasury, the MIF has helped to streamline marketing budget to be invested in carefully selected priority markets. The MIF is also helping to minimise inefficiencies and capitalise on synergies, to optimise the current budget. It shows where to invest to convert potential tourists to visit South Africa, for maximum return on marketing investment. The Econometric Study yielded three scenarios as follows:

Scenario 1: Through a budget increase of R240 million on air markets within the core focus areas, maximum additional arrivals of 355 000 tourists will be realised. Given, for example, an additional budget of R240 million, the MIF would suggest where to spend the additional budget to convert the optimum number of potential tourists to visit South Africa. This would extend South Africa’s Tourism reach considerably into the core markets currently focused on. The MIF calculates that, based on a projected cost of acquisition of R405 per tourist from air markets, and an average spend of R17 700 per tourist, achieving the maximum figure of 355 000 more air arrivals would generate additional tourism revenue of R6.3 billion. This illustrates the capacity of the MIF to use any additional budget for optimal returns on investment. It also takes into account barriers to generate realistic projections. In this scenario, it would be vital to engage with players and stakeholders in the tourism industry to ensure that there is enough quantity and variety of tourism products available to cater for the potential upswing in demand, both in terms of geographic spread and seasonality. It is important to note that all scenarios are exchange-rate dependent, and assume that the Rand value remains unchanged against major currencies

Scenario 2: Supply side air capacity – A budget increase of R2.6 billion to bring in 11 million extra passenger movements. Current South African International Airports can accommodate an additional 11 million passenger movements per year, and this translates to a maximum of 6.5 million additional tourists that can be accommodated. Through the cost of acquisition calculated by the MIF, this suggests SA Tourism would require incremental investment of R2.6 billion to achieve the 6.5 million extra international tourist arrivals. Again, this scenario is dependent on a number of variables, such as Rand value, the removal of barriers to travel to South Africa, and South Africa’s competitiveness as a destination. The MIF shows this would be a stress target to achieve over one year and thus would need to be broken down over a more realistic period. Clearly this number is unsustainable at the industry’s present capacity, and would be dependent on the availability of the product and the removal of other barriers over a period.

Scenario 3: Accommodation capacity – A budget increase of R850 million to fill 19.7 million graded rooms. This would be the optimal scenario of the three, to unlock the highest potential. An analysis of just the 5 389 graded establishment shows 19.7 million rooms are available per year. The current occupancy rate is 54.3 percent. The SA Tourism departure survey shows that on average, an international air tourist spends 9.2 nights. To fill the 19.7million rooms, an additional 2.1 million tourists are required per year, at an increase in budget of R850million using an average cost of acquisition. This would generate a projected R37 billion in additional tourism revenue per year. However, the MIF model shows that this increase in incremental investment will require market share growth of 200 percent, a stretch in each market, with dependency around issues including geographic spread and seasonality. Again, this scenario assumes a constant exchange rate. It also does not take into account the millions of non-graded rooms available per year.

In summary, the MIF extrapolates three budget scenarios that should be considered by the National Treasury. The First scenario depicts that through a budget increase of R240 million to be spent on air markets within the core focus areas, the country will get maximum additional arrivals of 355 000 which would generate and additional tourism revenue of R6.3 billion. The second scenario depicts that a budget increase to R2.6 billion will bring in 11 million extra passenger movements. The third scenario illustrates that a budget increase of R850 million to fill 19.7 million graded rooms will generate a projected R37 billion in additional tourism revenue per year.

The Committee submits to the National Treasury that the Market Investment Framework as indicated in the scenarios above provides a technically calculated budgetary determination for funding tourism in the country. The National Treasury should scrutinise these scenarios and select a suitable one given the fiscal imperatives in the country. Albeit tough fiscal constraints, the National Treasury should consider the contribution of tourism in the Gross Domestic Product and mainly the creation of suitable jobs when determining whether or not to increase the tourism budget.

9.4.2 Capitalisation of the government owned tourism products

The Committee also submits to the National Treasury that the Department of Tourism requires more budget for tourism development and driving transformation. The Committee posits that whilst marketing of destination South Africa continues to bring the much needed tourists to the country, equal if not more important, attention must be given to the development of the destination products and experiences. In trying to promote tourism development, the Department in partnership with the Industrial Development Corporation (IDC), conducted research which revealed that there are about 700 state products owned by different organs of the state, including various spheres of government. The Committee is of the view that strategic partnerships and capitalisation of these assets would greatly enhance the country’s tourism product base and also unlock a significant market in the domestic environment. This will also provide an opportunity for black entrepreneurs to get on board through management contracts, concessions, and as equity partners. The Committee submits to the National Treasury that for this programme to get off the ground, the Department requires additional funding to ensure that these government properties are ready for uptake as businesses.

9.4.3 Capitalisation of the Transformation Fund

On the other hand, the Committee recommended in the previous financial year that there is a need to establish a Tourism Development Fund to expedite transformation. The Department responded by establishing a Transformation Fund in partnership with the National Empowerment Fund (NEF). The Transformation Fund is currently at R120 million, which is a grant funding over 3 years. The Committee submits that this fund is inadequate to redress the imbalances of the past in the tourism sector. There is a need to capitalise the Transformation Fund, particularly given that there are many entrepreneurs with viable business plans already in place who simply want some support to get their businesses off the ground. The Committee urges the National Treasury to consider capitalising the Transformation Fund as this provides a platform for accelerated inclusive tourism economic growth.

**10. RECOMMENDATIONS**

After making a number of observations the Committee makes recommendations to both the Minister of Finance and Minister of Tourism.

**Recommendation to the Minister of Finance**

The National Treasury should consider the economic contribution made by the tourism sector into the Gross Domestic Product of the country and appropriates additional budget to Vote 33 to enable more work to be done in further facilitating the growth of the tourism industry in the country. Recommendations to the Minister of Finance with regard to additional budget are as follows:

10.1 It is recommended that the Minister of Finance considers the Tourism Marketing Investment Framework developed by South African Tourism to appropriate additional budget for both international and domestic marketing activities.

10.2 It is recommended that the Minister of Finance appropriates additional budget to Vote 33 in order to capitalise the government owned tourism products to be ready for market and operations by emerging tourism entrepreneurs.

10.3 It is recommended that the Minister of Finance capitalise the Transformation Fund to avail financial resources to expedite inclusive tourism economic growth.

**Recommendations to the Minister of Tourism**

In observing economic, efficient and effective principles of expenditure and improving service delivery, it is recommended that the Minister of Tourism:

10.4 Ensures that the expenditure of the appropriated budget is properly managed throughout the financial year to avoid under-expenditure and unnecessary unguaranteed requests for roll-over funds.

10.5 Ensures that the Department improves on planning for travelling arrangements to avoid fruitless and wasteful expenditure emanating from late cancellations, no-shows, and amendment of flights.

10.6 Ensures that the Department expedites the finalisation of the Government Technical Advisory Centre (GTAC) audit process for tourism infrastructure projects to avoid further loss of full-time equivalent jobs and facilitate the compilation of a list of projects that the Department will continue supporting in future.

10.7 Provides funding for operational support through the Tourism Incentive Programme to all potential community projects that have been constructed through the Expanded Public Works funding until they can break even and operate on their own.

10.8 Engages the Members of Executive Councils (MECs) for all the provinces that do not have Provincial Tourism Masterplans or strategies to formulate such plans to ensure coordinated tourism planning, development and marketing countrywide.

10.9 Engages all the Members of Executive Councils (MECs) through MinMec to facilitate prioritisation of tourism at local government level through adequate budgeting and appointment of dedicated tourism personnel, and lobby for the establishment of tourism coordinating structures at all levels of government incorporating the private sector.

10.10 Engages the Minister of Transport to find a solution to tourism signage for iconic tourism attractions and other sites, and improvement of road infrastructure to tourism attractions throughout the country.

10.11 Engages the Tourism Business Council of South Africa to improve Universal Access to tourism facilities and ensures that all the projects implemented by the Department are universally accessible.

10.12 Engages the Members of Executive Councils (MECs) for all the provinces to develop airlift strategies for their provinces and/or cities to improve air arrivals for both international and domestic tourists.

10.13 Ensures that South African Tourism develops an interactive events calendar for the country and engages the Members of Executive Councils (MECs) for all provinces to develop such calendars at a provincial and local level to maximise socio-economic benefits of events and festivals.

10.14 Ensures the implementation of the domestic tourism strategy with regard to township and rural tourism, and engage the Members of Executive Councils (MECs) for all provinces to develop dedicated strategies that seek to develop and unleash the potential of township tourism and Homestays in order to expedite transformation in local communities.

10.15 Implements the recommendations of the National Tourism Sector Strategy with regard to the development and enhancement of niche tourism products to diversify product offerings and bring new players into the mainstream tourism economy.

10.16 Ensures that the B-BBEE Charter council develops a credible implementation plan to drive the implementation of the Tourism Sector Codes and expedite transformation of the sector.

10.17 Commissions the development of the National Tourism Disaster Management Plan to provide coordinated and expeditious responses in dealing with natural disasters and crimes committed against tourists.

10.18 Urges South African Tourism to ensure that all sub-destinations in the country have proper branding that resonate with the national brand but serve local marketing needs.

10.19 Ensures that South African Tourism devise its own strategies and assists provincial tourism authorities in developing strategies that drive conversion of Visiting Friends and Relatives (VFR) into leisure tourists to drive revenue generation from this massive segment of tourism in the country.

10.20 Considers developing a policy and regulatory framework for disruptive technologies such as Uber and Airbnb to ensure quality assurance and safety of tourists in the country.

10.21 Ensures that South African Tourism maximises the uptake of the Tourism Incentive Programme for grading assistance to advance transformation.

10.22 The Department considers a policy review of the national tourism grading system from being voluntary to compulsory to address all quality assurance matters within destination South Africa.

10.23 Ensures that the Department maximises the participation of local communities in the tourism oceans economy.

10.24 Facilitates the establishment of private-public-partnerships (PPPs) arrangements for the operation of government owned tourism facilities.

10.25 Explores a dual pricing system for South Africa in relation to entrance fees to government owned attractions such as museums, parks, and accommodation facilities.

**11. APPRECIATION**

The Committee appreciates the support of the internal and external stakeholders who enhanced the oversight work of the Committee during the 2016/17 financial year. Special thanks goes to the office of the Auditor-General, the Minister of Tourism, the Deputy Minister of Tourism; the Board for South African Tourism; and the offices of the Speaker and the House Chairperson.

**12. CONCLUSION**

The Committee is generally satisfied with the financial and non-financial performance of both the National Department of Tourism and South African Tourism. The tourism sector continues to play an important role in the economy of South Africa. The current Satellite Account indicates that tourism’s direct contribution to the Gross Domestic Product (GDP) was R103.billion in 2013, about 2.9 percent of the total GDP. The sector’s direct contribution to employment was 655 609, about 4.4 percent of total employment. This indicates the socio-economic significance of the sector in the country. The sector is also a foreign currency earner which carried South African economy during the technical recession. Tourist arrivals during that period ensured that South Africa continues to have a positive trade balance.

It is against this background that the Committee submits to the National Treasury that the appropriation of budget for Vote 33: Tourism in the Estimated National Expenditure should be increased over the Medium-Term Expenditure Framework (MTEF). This Budget Review and Recommendations Report makes specific budgetary proposals to the National Treasury based on technically derived Market Investment Framework, and a need to capitalise specific transformation interventions as espoused in the recommendations. The National Treasury is therefore urged to carefully study the recommendations of this report and effect considered and favourable adjustments in the tourism budget.

**Report to be considered**