**1. REPORT OF THE PORTFOLIO COMMITTEE ON TOURISM ON FOURTH QUARTER PERFORMANCE FOR 2017/18 FINANCIAL YEAR, DATED 11 SEPTEMBER 2018**

The Portfolio Committee on Tourism, having considered the Fourth Quarter Performance (Q4) Report of the National Department of Tourism on the 15th August 2018, reports as follows:

1. **Introduction**

The National Department of Tourism (Department) performed fairly well across all the four Programmes in the fourth quarter of 2017/18. However, there are areas where the Department underperformed, and this led to failure in achieving some quarterly targets, and consequently the Department incurred under expenditure. The underperformance was observed mainly in the same projects in which the Department was not doing well throughout the year. In the previous quarter reporting hearings, the Department had made undertakings to implement some corrective measures. The continued underperformance in the fourth quarter indicates that the Department was not able to implement the corrective measures as presented to the Committee. The failure to implement the corrective measures has led to completion timeframes of some projects, such as the development of the social tourism scheme, to be moved to the 2018/19 financial year

The fourth quarter performance of SA Tourism is presented against the backdrop of the 2017 industry performance. South Africa did not perform well in the international tourist arrivals in 2017, recording only 2.4 percent against the global average of 7 percent. However, the start of 2018 has provided a glimmer of optimism. There has been a strong start in tourist arrivals to South Africa, growing by 4.9 percent in the first two months of 2018 compared to the same period in 2017. The year started with stronger growth from Africa while the rest of the world experienced a slowdown in growth in the first two months of 2018 compared to the same period in 2017. However, the slowdown in tourist arrivals from the rest of the world is a cause for concern. The arrivals from Africa are welcome, however, the most tourists spend is from the rest of the world which has not been performing well thus far in 2018.

The forward bookings for the period March 2018 to June 2018 indicate a 1.5 percent increase in air travel to South Africa. This provides optimism for the recovery in international tourist arrivals in the coming months. This performance should be closely monitored over the quarterly reports to get a sense of how the country will fair at the end of the year.

In the domestic arena, there was a 12 percent increase of domestic holiday trips in 2017. It remains to be seen if the SA Tourism marketing campaigns contributed to this performance, given that the socio-economic situation of South Africans, including affordability, which had always been cited as the deterrent for domestic tourism remained more or less the same. The start of 2018 has diminished the optimism for domestic tourism growth, as the total domestic trips declined by 31 percent in the first two months of 2018 compared to the same period in 2017. The declining trend in Visiting Friends and Relatives (VFR) travel continues in 2018, while a decline has also been recorded in holidays trips in the first two months of 2018 compared to the same period in 2017.

1. **Department of Tourism Fourth Quarter Performance Overview for 2017/18**

In Quarter 4 of the 2017/18 financial year the Department was pursuing a total of 68 targets spread across its four delivery Programmes. The Department was able to achieve 61 of its targets, accounting for 88.1 percent. A total of 7 targets was not achieved, accounting for 11.9 percent under achievement. Table 1 depicts the departmental performance across all four Programmes.

Table 1: Quarter 4 Performance against pre-determined objectives

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Branch** | **No. of targets** | **Achieved** | **Not achieved** | **Percentage achieved** | **Percentage not achieved** |
| 1. Corporate  Management | 17 | 15 | 2 | 88.2% | 11.8 % |
| 2. Tourism Policy  and Planning | 15 | 15 | 0 | 100% | 0.0% |
| 3. Destination  Development | 8 | 6 | 2 | 75% | 25% |
| 4. Tourism Sector  Support Services | 28 | 25 | 3 | 89.3% | 10.7% |
| **Total** | **68** | **61** | **7** | **88.1%** | **11.9%** |

Source: Adapted from NDT 2017/18 Quarter 4 Report

The Department underperformed throughout the four quarters of the year, with 77.74 percent in the first quarter, 89.64 percent in the second quarter, and 79.4 percent in the third quarter. The underachievement has always been with regard to specific projects such as the implementation of the Tourism Incentive Programme, National Tourism Information Gateways, and the development of the Social Tourism Scheme. The departmental performance throughout the year will be reflected in the Annual Report.

* 1. **Programme performance information**

The purpose of the tourism vote is to promote and support the growth and development of an equitable, competitive and sustainable tourism sector, and enhancing its contribution to national priorities.

* + 1. **Programme Performance**

The performance of the Department across its four Programmes in the fourth quarter of the 2017/18 financial year was as follows:

2.1.1.1 Programme 1: Corporate Support

The Programme is meant to provide strategic leadership, management and support services to the department. In the fourth quarter, the Department was pursuing 17 targets in Programme 1, and was able to achieve 15, and only 2 were not achieved. The actual spending amounted to R241.9 million or 103.3 per cent of the total available budget of R234.1 million. An overspending of R7.8 million occurred due to excess spending on compensation of employees. The spending on compensation of employees (CoE) was R296.2 million or 104 per cent higher than the total available budget of R284.9 million. This was R11.4 million higher than the total available budget. The overspending on CoE was negated due to the virements approval granted by the National Treasury.

2.1.1.2 Programme 2: Tourism Research, Policy and International Relations

The Programme enhances the strategic policy environment, monitor the tourism sector’s performance and enable stakeholder relations. The Department was able to achieve all targets set for the fourth quarter in its Programme 2. The actual spending amounted to R1.197 billion or 99.5 per cent of the total available budget of R1.203 billion. This led to an underspending of R6.4 million. The variance was due to funds being reprioritised to cover payments relating to leave gratuities.

2.1.1.3 Programme 3: Destination Development

The Programme is meant to facilitate and coordinate tourism destination development. The Department had set 8 targets for the fourth quarter and was able to achieve 6, whilst underperformance was recorded on 2 of the targets. The actual spending amounted to R433.5 million or 100.4 per cent of the total available budget of R431.9 million. This led to an overspending of R 1.7 million on compensation of employees (CoE).

2.1.1.4 Programme 4: Tourism Sector Support Services

The Programme is meant to enhance transformation of the sector, increase skills levels and support development to ensure South Africa is a competitive destination. In Programme 4, the Department was pursuing 28 targets, of which 25 were achieved and only 3 were not attained. This was a marked improvement in performance given that in Quarter 3 the Department had only achieved 19 targets.

The actual spending amounted to R261.8 million or 96.6 per cent of the total available budget of R271.1 million. The underspending of R9.3 million was due to the energy efficiency project within the Tourism Incentive Programme, the final payment to the Kruger National Park could not be transferred as the project did not meet the final milestone for payment during the 2017/18 financial year. The Department reported that the project is expected to flow early in the 2018/19 financial year,

* 1. **Human Resources Information**

The Department conducted a restructuring process and has been finalising the process of placing personnel in the new positions in the organogram. This has led to the high vacancy rate in the previous quarters, but the challenge has since been addressed as performance has improved in this area. However, the Department was not able to achieve the 50 percent women representation at the SMS level in Quarter 4 of 2017/18 due to the departure of a female Minister of Tourism and her replacement by the appointment of the male Minister. The workforce representability as at the end of 31 March 2018 was as follows:

Table 2: Human resources

|  |  |  |
| --- | --- | --- |
| Total Establishment | | |
| **Race** | **Number** | **Percentage** |
| Africans | 420 | 86.1% |
| Coloureds | 25 | 5.1% |
| Indians | 20 | 4% |
| Whites | 23 | 4.7% |
| **TOTAL** | **488** | **100%** |
| Persons with Disabilities | 23 | 4.7% |

Source: NDT Fourth Quarter Report

* 1. **Budget information**

At the end of the fourth quarter, the Department had spent R2.13 billion or 99.7 per cent of the total available budget of R2.14 billion for the 2017/18 financial year. This indicates that the Department incurred an underspending of R6.2 million, which accounts for 0.3 per cent of the total available budget for the financial year.

Table 3: Budget and expenditure summary

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Main Appropriation** | **Adjusted Appropriation** | **Available Budget** | **Actual Expenditure** | **Expenditure as % of available budget** | **Underspending** |
| 1.Administration | 219 094 | 234 081 | 234 081 | 241 878 | 103.3% | -7 797 |
| 2.Tourism Policy  and Planning | 1 208 708 | 1 203 108 | 1 203 108 | 1 196 743 | 99.5% | 6 365 |
| 3.Destination  Development | 443 953 | 431 853 | 431 853 | 433 530 | 100.4% | -1 677 |
| 4.Tourism Sector  Support Services | 268 401 | 271 114 | 271 114 | 261 825 | 96.6% | 9 289 |
| **TOTAL** | **2 140 156** | **2 140 156** | **2 140 156** | **2 133 976** | **99.7%** | **6 180** |

Source: National Treasury Quarter 4 Expenditure report for 2017/18 Financial year

The overall percentage expenditure by the Department was very good and the under expenditure against the total available budget was not material. The concern is with the under expenditure in Programme 4, which has always incurred under expenditure in the Tourism Incentive Programme.

1. **South African Tourism performance against key performance indicators**

South African Tourism was pursuing a total of 33 targets in the 2017/18 financial year, of these, 25 were due for reporting in Quarter 4. The Entity achieved 16 targets, which accounts for 68.3 percent, and underperformed in 9 targets, which accounts for 31.7 percent. The Fourth Quarter performance indicates that SA Tourism continued to underperform in their mandate. This signals poor annual performance by SA Tourism, and this will subsequently be negatively reflected in their annual report. The cause for concern is that performance was mainly poor in the critical and core key performance indicators, including the number of international arrivals and the number of domestic trips. This culminated in the targets on revenue generated being underachieved as well. Underperformance in these areas indicates that SA Tourism was unable to execute their core mandate of marketing South Africa domestically and internationally in the 2017/18 financial year. This also has negative consequences for socio-economic impact such as job creation and reducing poverty.

Table 4: Achievement of predetermined objectives

Source: adapted from SA Tourism 2017/8 Quarter 4 report

The entity also continued to underperform in targets meant to improve the tourist experience as the target for grading in both the number of graded establishments and graded rooms were far below target. SA Tourism failed to achieve this target throughout the 2017/18 financial year. This raises questions about the innovation and capability of the Entity assurance for destination South Africa. The achievement of quarterly targets is depicted in table 4 as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Programme** | **Number of Annual Targets** | **Number of Quarterly Targets** | **Number of Targets Achieved** | **Number of Targets Not Achieved** | **Percentage of Targets Achieved** | **Percentage of Targets Not Achieved** |
| Programme 1: Corporate Support | 8 | 2 | 2 | 0 | 100% | 0 |
| Programme 2: Business Enablement | 5 | 5 | 5 | 0 | 100% | 0% |
| Programme 3: Leisure Tourism Marketing | 12 | 12 | 5 | 7 | 41.7% | 58.3% |
| Programme 4: Business Events | 6 | 4 | 4 | 0 | 100% | 0% |
| Programme 5: Visitor Experience | 2 | 2 | 0 | 2 | 0% | 100% |
| **Total** | **33** | **25** | **16** | **9** | **68.3%** | **31.7%** |

* 1. **Programme performance**

The performance of SA Tourism across its five programmes is depicted below as follows:

3.1.1 Programme 1: Corporate Support

In the quarter under review, SA Tourism had set 2 quarterly targets in Programme 1, and both were achieved and this accounts for 100 percent achievement in the Programme. The Entity indicated that 154 out of the 155 employees were placed, accounting for 99 percent of permanent employees who were directly or alternately placed in the new organisational structure as an outcome of restructuring.

Only one (1) employee was still in the talent pool during the period under review. The employee placement process had begun and was likely to be completed by the end of May 2018. The organisation employed 29 new staff members following the outcome of organisational restructuring. SA Tourism had indicated to the Committee that all staff would be placed in the new structure by the end of the financial year, and one employee not placed yet should have been placed as well.

3.1.2 Programme 2: Business Enablement

SA Tourism had set 5 targets for Programme 2 in the quarter under review. All the five targets were achieved, accounting for 100 percent achievement.

These included the achievement of the stakeholder satisfaction score; trade webinars conducted; approved the Tourism Growth Strategy; the number of strategic reports approved; and the number of market intelligence reports produced. The Entity reported that the trade engagements continued to receive priority in this quarter.

The Chief Executive Officer (CEO) embarked on a #Waterwise global roadshow that replaced the previous webinars in partnership with Travel Update. The CEO also participated in the Joint Association Members Meeting Sessions (JAMMS), where numerous initiatives on how tourism stakeholders can manage the water crisis were discussed. These were innovative initiatives given the severe drought that has scourged the province of the Western Cape, which is not only threatening tourism growth in this province alone, but has potential to affect the entire country.

3.1.3 Programme 3: Leisure Tourism Marketing

Programme 3 had 12 targets due for reporting in quarter 4. Only 5 targets were achieved, accounting for 41.7 percent achievement. A total of 7 targets was not achieved, accounting for 58.3 percent underachievement. On one hand, the Entity was unable to achieve key performance indicators relating to the number of international tourist arrivals; percentage brand positivity; percentage brand awareness; number of total domestic trips; number of domestic holiday trips; total domestic direct spend (R-billion); and the domestic holiday revenue (R-billion). On the other hand, the Entity was able to achieve targets relating to the total tourist foreign direct spend (R-billion); percentage geographic spread of international tourist arrivals; percentage seasonality of international tourist arrivals; percentage geographic spread of domestic tourist arrivals; and percentage seasonality of domestic tourist arrivals.

The Entity reported that despite the international tourist arrivals target not being met, there was a 3.6 percent growth in tourist arrivals in this quarter compared to the same quarter in the previous year. The recovery of the Africa land market in this quarter, at 4 percent, was not sufficient to offset the losses recorded from the region earlier in the year. The regulatory barrier of visas in key source markets of China, India, Nigeria and New Zealand has negatively impacted tourist arrivals from the relevant regions.

The brand awareness and brand positivity were negatively impacted by a number of incidents of crime against tourists in 2017. South Africa scored significantly below average on safety and security among our target audience in 2017. India, Kenya and Nigeria saw notable declines in brand positivity in 2017. Consequently, these markets do not rate South Africa highly as a welcoming destination, and this is another factor contributing to the poor brand performance.

3.1.4 Programme 4: Business Events

In the quarter under review SA Tourism had set 6 targets in Programme 4. A total of 4 key performance indicators were due for reporting in the quarter, and all were achieved, accounting for 100 percent performance. The National Conventions Bureau is commended for achieving all of its targets for the period under review. The Entity was able to achieve all the targets relating to the number of bids supported for international and regional business events; the number of market access platforms that SA Tourism manages; the number of international tourism market access platforms where South Africa participates; and the number of provincial signature events supported. It is notable that the Entity had already achieved their annual targets by Quarter 3 on the number of business events hosted in South Africa, and the number of international delegates hosted in South Africa.

3.1.5 Programme 5: Visitor Experience

In the Quarter 4, SA Tourism had planned to achieve two key performance indicators, and did not manage to achieve both targets. This accounts for 100 percent under performance. The two key performance indicators not achieved are the number of graded accommodation establishments, and the number of graded rooms. As noted by the Committee in the previous reporting periods, the continued poor performance in this area undermines the quality assurance in the destination and may lead to the country losing its market share. The Committee has also mooted the need for policy review meant to overhaul the grading system in the country through making grading free but compulsory.

The Entity reported that the targets were not achieved, as nationally, there was a strain on membership based organisations. In trying to improve performance, a marketing campaign to educate consumers on the benefit and value of grading was launched in this quarter. Similarly, a recruitment campaign for establishments was also launched. The Entity reported that whilst targets were met, a recovery trend was detected.  This was evidenced by a net increase in graded establishments achieved in February, March and April 2018.

* 1. **Budget**

The budget for SA Tourism is presented in terms of the adjusted revenue from various sources of funding and expenditure. The analysis provides a picture of annual expenditure as at 31 March 2018, which is the end of both the 4th quarter and 2017/18 financial year.

3.2.1 Revenue

The original appropriated budget per the Annual Estimates of National Expenditure was R1, 363,609,000. The planned income as at 31 March 2018 was R1 468,190,000, the total revenue at the end of the fourth quarter was R1, 462,234,000, and the total revenue for the same period was R1, 462,234,000. With regard to the grant received from the National Department of Tourism, SA Tourism returned R5 million to the Department of Tourism for domestic tourism. With regard to the TOMSA levy, SA Tourism under budgeted as R124.6 million was projected, and R142.7 was received according to the Memorandum of Understanding signed with the Tourism Business Council of South Africa. The revenue from Indaba and Meetings Africa was over budgeted as R63.4 was projected and only R43.4 was received. The sundry revenue was also projected low at R20 million and the revenue generated was R126,1 million, and the surplus retention was approved by the National Treasury.

3.2.2 Expenditure

The average expenditure of SA Tourism was at 96 percent by the end of the fourth quarter, with all the five programmes having spent more than 90 percent of their budget. Programmes 1, 2, and 3 spent 95 percent of their budget; whilst Programmes 4 and 5 spent 99 percent and 94 percent respectively. The cause for concern is that the 95 percent expenditure of the budget is not commensurate with the organisational performance, particularly with regard to the core mandate of increasing international arrivals and domestic trips.

1. **Committee observations**

The Committee observations for the fourth quarter of 2017/ are as follows:

4.1.1 Slowdown in international arrivals and domestic trips

The Committee observed with concern the slowdown in the growth of international arrivals from the rest of the world, except Africa, has been recorded in the first few months of the beginning of 2018. At the same time, the start of 2018 has dampened the hope for domestic tourism growth as the total domestic trips declined by 31 percent in the first two months of 2018 compared to the same period in 2017. The Committee is concerned that the total international arrivals and domestic trips for 2018 will be worse that those observed in 2017.

4.1.2 performance against the 5-in-5 strategy

SA Tourism is already behind with regard to the achievement of its 5-year 5-in-5 strategy. The Committee is concerned that SA Tourism is falling behind in its 5-year strategy targets as tabled in parliament. There seem to be no appropriate measures in place to drive recovery in the lost ground as the Entity continues to fall behind on its core key performance indicators of international arrivals and domestic by the interventions initiated byte Minister to coordinate stakeholders to deal with crime against tourists. The Committee calls upon all stakeholders to work in unison to combat the scourge of crime against tourists.

4.1.3 Safety and security for tourists

The Committee is concerned about the increase in the crime incidents against tourists. This was cited as one of the causes of poor performance in international arrivals in 2017. The Committee is hover enthused country cannot afford the

4.1.4 Quality assurance in the destination

The Committee is alarmed by the ostensible failure of SA Tourism to get the grading system right in South Africa as they have struggled over the years, including the whole of the 2017/18 financial year, to improve on this. The Committee has always raised concerns about the negative consequences of the grading system failures in the overall destination quality assurance. The poor destination quality assurance has never been more of a threat to destination performance as in the current era of technological advancement and social media, where tourists share their destination experiences with the rest of the world. The poor grading system is therefore a threat to destination South Africa and should to be addressed accordingly.

4.1.5 Brand performance

The Committee noted with concern that markets such as India, Kenya and Nigeria do not rate South Africa highly as a welcoming destination. Amongst the causes for this poor brand rating is the visa regime and ease of access to the destination. The Committee views this as a serious threat to increased arrivals in future as South Africa might lose tourists from these destinations and be excluded from itineraries due to a poor brand image.

4.1.6 Transformation

The Committee observed that transformation remains a challenge in the tourism sector. The Committee also noted that although the Tourism B-BBEE Charter Council was in place, its work had not yielded any concrete results yet. The Department has also conceded that the transformation of the tourism sector in the country is the huge challenge that needs to be attended in different ways to tackle it holistically. The Committee remains resolute that transformation needs a multi-pronged approach and the Department should not solely rely on the work of the B-BBEE Charter Council to achieve this important task.

4.1.7 Cost benefit analysis for departmental programmes

The Committee observed that the Department is implementing a number of training programmes and infrastructure projects. The observation was made particularly in relation to the Working for Tourism Programme. The Committee holds a view that there is a need for a benchmarking exercise to ascertain the cost-benefit analysis of the creation of one full time equivalent job. The Committee that the cost per job is higher on the infrastructure projects compared to soft projects such as skills development. The Committee acknowledges that the Department benchmarks with the information provided by the Department of Public Works on the costs and rates of creating a job in similar projects. However, the Committee needs more clarity on the matter to establish if the Department cannot work smarter to create more jobs with the allocated Expanded Works Programme budget.

4.1.8 Staff competency

The Committee is concerned about the competency level of some staff at the Department, which has led to failure in executing some planned programmes. The Committee expected that the restructuring process would have addressed all the competency issues and training programmes identified to capacitate staff accordingly. The lack of requisite skills will continue to compel the Department to outsource work which could otherwise be executed in-house.

4.1.9 Tabling the Amendment Tourism Bill

The Committee noted with concern that the Tourism Bill will not be tabled in the 5th Parliament session. The Committee is concerned that the Department has always proffered the same argument that they are working tirelessly on the Bill to be introduced in Parliament. The Department has always cited the challenge of the consultation process, in that, every time consultations are undertaken there are new issues coming up from the stakeholders. The issues relating to the sharing economy and the changing of Ministers in the portfolio have also exacerbated the challenge. The major concern is that the Committee had called for the Tourism Amendment Bill since it took office at the beginning of the 5th Parliament but in vain.

4.1.10 Inter-Ministerial cooperation

In its oversight work, the Committee has observed that tourism is compromised by poor coordination of mandated functions amongst various sector departments. There is a need for enhanced inter-ministerial cooperation amongst various government departments. In particular, there is a dire need for improved cooperation between the National Department of Tourism and the Department of Cooperative Governance and Traditional Affairs to safeguard destination image through the provision of appropriate support services at local government level. This will ensure that the country prevents negative publicity based on poor tourism services experienced by tourists at a local level.

1. **Recommendations**

Having assessed the performance of both the National Department of Tourism and South African Tourism for the fourth quarter of the 2017/18 financial year, the Committee recommends that the Minister of Tourism:

* 1. Ensures that South African Tourism put measures in place as a turnaround strategy to catch on the targets set out in the 5-in-5 strategy to ensure an increase in international arrivals and domestic trips.
  2. Intensifies collaboration efforts among various role-players in combating the crime committed against tourists to safeguard the destination brand image.
  3. Urgently engages South African Tourism on the continued poor performance on the grading of the establishments, and considers changing the grading system from voluntary to free but compulsory, to safeguard quality assurance in destination South Africa.
  4. Scales up the engagement with Minister of Home Affairs on removing the detrimental visa requirements to improve ease of travel and improve the image of destination South Africa.
  5. Ensures that the Department augments the work done by the B-BBEE Charter Council on transformation through continually conceptualising strategies and projects that enhance the transformation of the tourism sector.
  6. Continuously undertakes the impact analysis and cost-benefit analysis of all departmental programmes and projects to ensure value for money and do more with less budget.
  7. Ensures that the staff is fully capacitated to deliver on the departmental mandate through continuous staff training and development programmes to eliminate utilisation of consultants in implementing departmental programmes.
  8. Briefs the Committee on the proposed revisions of the Tourism Amendment Bill.
  9. Engages Cabinet, and in particular the Minister of Cooperative Governance and Traditional Affairs, on strengthening inter-Ministerial cooperation on all support services provided by the government departments to the tourism sector.

1. **Conclusion**

The tourism industry continues to play a pivotal role in the economy of South Africa with regard to the contribution to the gross domestic product and job creation. The oversight work of the Committee takes the contribution of the sector to the South African seriously and thus ensures that the National department of Tourism and South African Tourism deliver on their mandate accordingly. The key performance indicators of the sector are mainly tourist arrivals, domestic trips, contribution to the gross domestic product and job creation. The Committee is concerned that the performance of the two organisations have not been optimally delivering on these key performance indicators against the global average. The performance of the tourism sector in the period under review indicates the country may see further decline in international tourist arrivals in 2018 if trends do not change drastically. The Department and South African Tourism are urged to monitor the performance trends regularly in order to avoid a further slip in the contribution of the sector to the South African economy when measured against the global trends.

**Report to be considered.**