SC Approp 12 November 2014

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

PO Box 15 Cape Town 8000 Republic of South Afi
Tel: 27 (21) 403 2911
www.parliament.gov.za

10 November 2014

Research Analysis: Summary of Adjustments Estimates of National Expenditure for the Department of economic Development

Introduction

This paper provides a brief summary and key issues identified in the adjustment process of the Department of Economic Development. This includes identifying areas of transgression of section 43 of the Public Finance Management Act No. 29 of 1999. Further, it provides the analysis of the preliminary expenditure patterns for the first six months of 2014/15 financial year. This will also highlight the mid - year performance information in relation to the targets achieved and those that are not yet achieved as planned for the first six months of the year under review.

- ***Outcome 4: Decent employment through inclusive economic growth.***

The Department of Economic Development is signed Outcome 4 of the Service Delivery Agreement which aims to ensure the creation of decent employment through the inclusive economic growth[1].

The Appropriation, additional allocations

The Department of Economic Development (henceforth referred to as the Department) received a main appropriation of R696.9 million. The budget was adjusted across programs and therefore there was no upward or downward adjustments. Despite the movement of funds in between programmes, the overall budget allocation remains at R696.9 million for the 2014/15 financial year[2].

This therefore, means that there has been no rollover amount or any additional budget allocated to the Department for the year under review.

Year on year budget comparisons

Of note, is that the budget allocation of the Department was revised downwards when compared to the last financial year, where an amount of R771.4 million was allocated in 2013/14, and only R696.9 million in 2014/15[3]. This means a reduction of R74.5 million from 2013/14 to 2014/15 allocations[4].

---

[1] Department of Economic Development (2014)
[2] National Treasury (2014)
[3] Ibid
[4] Ibid

Mid – Year Performance status[5]

Indicator	Programme	Projected target	Achieved targets
Number of reports to Cabinet on progress towards Outcome 4 per year	Economic Policy Development	4	1
Number of reports on the impact of the New Growth Path on women, youth and rural people evaluated and improved per year	Economic Policy Development	3	2
Number of strategic engagements with development finance institutions per year	Economic Planning Coordination	6	1
Number of economic development initiative coordinated and facilitated per year	Economic Planning and Coordination	20	13
Number of project reviews for strategic integrated construction projects per year	Economic Planning and Coordination	60	24
Number of infrastructure projects unblocked per year	Economic Planning and Coordination	8	5
Number of interventions to grow the green economy per year	Economic Planning and Coordination	6	1
Number of monitoring reports and strategies developed to improve implementation on accords per year	Economic Development and dialogue	4	3
Number of capacity building projects for social partners on the new growth path per year	Economic Development and dialogue	8	1

National Treasury (2014)

Whilst, most projects seems to be on track, but some are still lagging behind.

- For instance the number of interventions to grow the green economy was low in the first half of 2014/15 due to the outstanding information expected from other departments.
- Only 1 capacity building project or session was held, as the Department is strengthening its partnership with labour federations to promote coordination among stakeholders in relation to economic development, particularly in relation to labour issues.
- The number of strategic engagements with the development finance institution per year, has only reported 1 target achieved instead of at least 2 as this was at the end of the second quarter performance cycle.

[5] Of note is that the 2014/15 Annual Performance Plan was revised in the new administration, some key performance indicators were refined and this was reported in the second quarter of 2014/15.Some of the information is only available for the first quarter as there are no targets set for the second quarter, therefore no inferences were made around the targets on some of the indicators.

Preliminary Expenditure as at 30 September 2014

The Department reports an expenditure of R318.4 million or 45.7 per cent of the allocated R696.9 million. This is less than the R376.2 million or 48.8 per cent expenditure spent by the Department in the same period during 2013/14 financial year[6]. This shows a reduction of 3.1 per cent expenditure when compared to the last financial year. This is also far less than the 50 per cent expenditure benchmark which is the second expenditure mark. This shows a reduction of R57.8 million or 15.4 per cent. According to the Adjusted Estimate of National Expenditure (AENE) of 2014, the under expenditure was as a results of the slower transfer payments and lack of expenditure on goods and services[7].

Revenue Trends for the first six months 2014/15 financial year

The Department reports an amount of R572.3 million on revenue, or 63.6 per cent in 2014/15[8]. In comparison with the mid - year of the last financial year, the adjusted revenues estimate were reported to be R695.4 million or 35. 2 per cent in the 2013/14[9]. This shows a decrease of R123.1 million or 17.7 per cent from the last financial year. According to the AENE 2014, this was as a result of the decrease in the revenues from penalties instituted by the Competition Commission against non-compliant companies[10]. The payment of dividend by Industrial Development Corporation to government will be done at the end of the fourth quarter cycle.

None Compliance with the PFMA during the process of Virements and Shifting

It is important to indicate from the onset that the Department has made the highest virement when compared to other departments. Of note is that some of these virement were made in contravention of the section 43 (2) of the Public Finance Management which provides that an amount of a savings under a main division of a vote that may be utilised in terms of subsection (1), may not exceed eight per cent of the amount appropriated under that main division[11].

In programme 2: (Economic Policy Development) an amount of R23 million was allocated, however an amount R11.2 million or 48.8 per cent has been moved from this programme (funded vacancies) to other various programmes namely programme 3 to fund the small enterprise finance agency; programme 1 to fund the reprioritisation of funds; and programme 4 to compensate for the short fall in salaries. Of note, is that this virement constitute 48.8 per cent of the allocation on the programme 2. It is therefore, not incompliance with the above section 43 (2) as articulated in the Public Finance Management Act.

---

[6] National Treasury (2013)
[7] National Treasury (2014)
[8] Ibid
[9] Ibid
[10] Ibid
[11] Public Finance Management Act No. 29 (1999)

In programme 4: (Economic Development and Dialogue) an amount of R15.2 million was allocated, however, an amount of R8.3 million or 54.2 per cent was moved from this programme (funded vacancies) to other various programmes namely programme 3 for funding the small enterprise finance agency; programme 1 for a new transfer to the Public Service Sector Education and Training Authority (PSSETA) and reallocation for finance lease; programme 2 for the relocation of finance lease costs; programme 3 for funding small finance enterprise agency reallocation of finance lease costs.

Despite the above two programmes which reflect a gross transgression of the PFMA, the overall Virements and shifts which took place in the Department, amount to R45.1 million including those that were in line with section 43 (2) of the PFMA. These movements of funds were done within and outside the programmes of the Department and therefore, there was no additional allocation or reduction of allocation in the main Appropriation of 2014/15 for the Department.

Issues for consideration:

The Department has made a virement of R11.2 million or 48.8 per cent of R23 million in programme 2 which is beyond 8 per cent required by the Public Finance Management Act, the Committee ought to get a clear explanation with regard to this before any Parliamentary approval, as this constitutes a gross transgression of the PFMA.

The Department has made a virement of R8.3 million or 54.5 per cent of R15.2 million in programme 4 which is beyond 8 per cent required by the Public Finance Management Act, the Committee ought to get a clear explanation with regard to this before any Parliamentary approval, as this constitute a gross transgression of the PFMA.

Despite the fact that the Department has signed Outcome 4 of the Service Delivery Agreement which ensures the decent job creation through inclusive economic growth, it has mainly made movement of funds from funded vacancies of various programmes.

The Committee should ascertain why the funds were moved away from vacancies, especially when the President had urged all departments to fill funded vacancies in His 2011 State of the Nation Address (SONA)?

Does the Department need these vacant positions at all or are they being used as a saving mechanism in case of poor planning for the first six month?

The overall budget allocation of the Department has decreased while other departments have received increased allocations when compared to the two financial years. The Committee should look at possible reasons for this and whether the reduction does not have impact on performance targets for the year under review.

In terms of the performance status, the Department has only achieved 1 target on the interventions to grow the green economy. The Committee should ascertain the reasons and whether there are plans to improve this trend, as it might affect their annual performance and expenditure in the near future.

Only 1 capacity building project or session was held in the first six months. The Committee should ascertain the reasons for poor performance and whether there are any plans to improve the situation, as it might affect their annual performance and expenditure going forward.

On strategic engagement with development finance institutions, only 1 target was reported to have been achieved instead of at least 2 as this takes place per quarter. The Committee should ascertain the reasons for poor performance in this area as it might affect their annual performance and expenditure for the following year.

The revenues have declined by R123 million or 17.7 per cent when compared to the last financial year. The Committee should ascertain the main reasons for such decrease and whether the Department does have a turnaround strategy to improve its revenue collections.

In the second quarter, the Department only spent 45.7 per cent of the main allocation which is below the 50 per cent benchmark for the second quarter expenditure benchmark. This is even less than the last year second quarter expenditure of 48.8 per cent. The Committee should ascertain whether this was a projected expenditure for the second quarter.

References

Department of Economic Development (2014) Annual Performance Plan-2014/15, Government Printers: Pretoria

National Treasury (2014a), Adjusted Estimates of National Expenditure 2014, Government Printers: Pretoria

National Treasury (2013a), Adjusted Estimates of National Expenditure 2013, Government Printers: Pretoria

National Treasury (2014b), Estimates of National Expenditure 2014, Government Printers: Pretoria

South Africa. National Treasury. Public Finance Management Act No. 29 of 1999. Government Printers: Pretoria