**1. Report of the Portfolio Committee on Mineral Resources on the Strategic Plan, Annual Performance Plan and Budget of the Department of Mineral Resources for the 2016/2017 Financial Year, dated 13 April 2016**

The Portfolio Committee on Mineral Resources, having considered the Strategic Plan, Annual Performance Plan (2016/17) and Budget Vote 29: Mineral Resources, reports as follows:

1. **Introduction**

The purpose of Vote 29: Mineral Resources is to promote and regulate the minerals and mining sector for transformation, growth, and development; and to ensure that all South Africans derive sustainable benefits from the country’s mineral wealth.

The Budget was tabled on 24 February 2016 and the Annual Performance Plan (APP) of the Department of Mineral Resources (DMR), which provides specific performance goals for 2016/17 was tabled on 10 March 2016.

Budget Vote 29 and the Performance Plans of the Department of Mineral Resources (the Department) and its entities were referred to the Portfolio Committee on Mineral Resources (the Committee) for consideration and report. The Committee received briefings from the Financial and Fiscal Commission and Department of Performance, Monitoring and Evaluation on 16 March 2016. The office of the Auditor General declined an invitation to address the Committee, as it said that it was satisfied that the Department and its entities have fully addressed all issues raised in the 2014/15 annual reports. The Department of Mineral Resources and the five entities presented their APPs for 2016/17 and the Budget to the Committee on 05 and 06 April 2016.

The mining industry is in an extremely vulnerable position globally, facing what is described in the *Financial Times* as the *“*toughest conditions for years”. The Chamber of Mines of South Africa states that ‘in the 2014 calendar year, the most recent for which data are available, the South African mining sector posted an aggregate loss of more than R10 billion after taxes and dividends”. Eighty per cent of platinum operations are loss making at present. Severe production cutbacks have been announced in iron ore and export coal. These (iron ore and coal) were previously the key surplus generators for the sector. Problems in the mining sector have contributed greatly to the general problems of weak economic growth.

# **Overview of the 2015/16 financial year**

The DMR had an available budget of R1.6 billion in 2015/16. This represented a nominal increase of R163 million, or 11 per cent, compared with 2014/15.

The 2015/16 Annual Report of the Department, covering the full financial year ending 31 March 2016, will be available at the end of September 2016. The third quarter expenditure report shows that at the end of December 2015, the DMR had spent 79.5 per cent of its available budget. The DMR has consistently managed its budget very well over the years, spending exactly 100 per cent, or very close to it, by the end of each financial year.

Transfers and Subsidies accounted for R826.9 million of the available budget and, of this amount, the Department had transferred by December 2015, R687.4 million, or 83.1 per cent, mainly to public corporations, private enterprises, departmental agencies and accounts. This means that the Department had an available budget of R810.8 million for operations. By December 2015, the Department had spent R611.6 million, or 75.4 per cent, of this budget, the majority of which was used on compensation of employees and goods and services.

The APP for 2015/16 specifically identified three objectives for the year:

* Review the Mine Health and Safety Act, including its regulations.
* Conduct the regulatory impact assessment of identified legislation.
* Review the Broad-based Socio-economic Empowerment Charter and update the scorecard with a detailed explanatory memorandum.

Amendments to the Diamonds Act, No. 56 of 1986; the Mine Health and Safety Act, No. 29 of 1996 (MHSA) and the Precious Metals Act, No. 37 of 2005; were promised by the DMR as early as 2012/13, but have not yet been introduced to Parliament. It was expected that the bill to establish the State Owned Mining Company (SOMCO) would be tabled in the 2015/16 financial year. This has not occurred, but the draft African Exploration Mining and Finance Corporation Bill, 2015 was published, inviting public comment by 22 March 2016.

The Mineral and Petroleum Development Amendment Bill [B15B-2013] was passed by Parliament in March 2014, but the President referred the Bill back to Parliament in January 2015 because of his concern that several aspects of the Bill would not pass constitutional muster. The President’s concerns were referred to the Portfolio Committee on Mineral Resources (PCMR), which referred the issue to Parliament's Joint Tagging Mechanism (JTM), as required by the Rules of Parliament. A formal letter was duly sent on 23 April 2015. On 29 February 2016, Parliament referred the Bill to the National House of Traditional Leaders (NHTL), after it was reclassified, as a Bill falling within the ambit of section 18(1) of the Traditional Leadership and Governance Framework Act, 2003 (Act No 41 of 2003). The NHTL is due to express its views by 15 April 2016.

There remains an urgent need for policy certainty in the mining sector and such would be provided by the successful amendment of the Mineral and Petroleum Resources Development Act (MPRDA). In his State of the Nation Address (SONA) on 11 February 2016, President Zuma called on Parliament to conclude the MPRDA Bill “expeditiously”.

# **Policy Priorities for 2016/17**

At the highest level, the priority is to align the activities of the Department with the government’s 2014-2019 Medium Term Strategic Framework (MTSF), particularly outcome 4 (decent employment through inclusive growth), outcome 6 (an efficient, competitive and responsive economic infrastructure network) and outcome 10 (protect and enhance our environmental assets and natural resources).

DMR activities and those of its entities also make reference to the National Development Plan (NDP), the Industrial Policy Action Plan (IPAP) and the National Infrastructure Plan.

The DMR’s priorities for 2016/17 are directed by the 2014/19 Strategic Plan that was presented to Parliament in 2014 and, specifically, by the Annual Performance Plan 2016/17.

In the period to 2019, the Department’s planned policy initiatives are to:

* Review the MPRDA, including its regulations.
* Review and amend the Precious Metals Act.
* Review and amend the Diamonds Act.
* Review the Mine Health and Safety Act, including its regulations.
* Develop the Geoscience Amendment Act Regulations.
* Ensure compliance with the Broad-based Socio-economic Empowerment Charter, 2005, as amended.
* Conduct the regulatory impact assessment of identified legislation.
* Review the Broad-based Socio-economic Empowerment Charter and update the scorecard with a detailed explanatory memorandum.
* Review the Mineral Technology Act (Act No. 30 of 1989).

The following medium term objectives are to be given detailed attention in the 2016/17 financial year:

* Promoting investment in the minerals and upstream petroleum sectors (including shale gas, small mines and the more efficient processing of mining licence applications).
* Ensuring the best utilisation of mineral resources (including onshore and offshore oil and gas exploration and the funding of the Petroleum Agency of South Africa (PASA), from an increased DMR budget after 2017/18).
* Monitoring mining rights (including social and labour plans).
* Compliance with safety and environmental legislation (including the rehabilitation of derelict and ownerless mines and the implementation of regulations to mitigate the detrimental impacts of mining on the environment).
* Saving jobs (including the implementation of the August 2015 declaration by business, government and labour to save jobs in the sector.)

~~Only the three items marked with an asterisk (“ \* ”) above are listed in the Annual Performance Plan for 2016/17[[1]](#footnote-1) which implies that the intended revisions to the Precious Metals Act, the Diamond Act and the regulations to the Geoscience Amendment Act are not intended to be addressed in the coming year.~~ The Minister of Mineral Resources, Mr M. Zwane, MP, told the PCMR on 24 February 2016 that processes will be followed to separate the oil and gas part of the MPRDA from the part dealing with traditional minerals only after the MPRDA Bill has been processed by Parliament.

**2.2 Departmental Strategic and Annual Performance Plan 2016/17**

**2.2.1 Overview by the Minister**

The Minister, Mr M. Zwane, said the Department and its entities are presenting their performance plans at a time when the mining industry is faced with challenges which result in the unfortunate shedding of jobs. He further said the Department is tabling this APP less than a fortnight after the tragic incident in Xolobeni during which one of the community leaders of Amadiba tribe lost his life in a most brutal manner. The Department had conveyed condolences to his family and loved ones. It had further called for calm and urged that no stone be left unturned in a search for the perpetrators of this heinous crime. The Department has also noted media reports attributing these incidents to mining, and consider such statements unfounded. He said, the law should be allowed to take its course.

The lives and welfare of mineworkers remains critical to the sustainability of the mining industry. The Department believes that those who cannot ensure the health and safety of mineworkers should not be mining in the first place. During the coming year, the Department will continue to intensify the monitoring and enforcement drive to improve the compliance levels within the mining industry. These activities will cover a broader spectrum of the obligations of right holders, in line with the mandate of the Department.

The Annual Performance Plan is aligned to the National Development Plan (NDP), the nine point plan outlined by the President and the Medium Term Strategic Framework (MTSF). This Plan further responds to the recommendations made by the Auditor General (AG) on the SMART (Specific, Measurable, Attainable, Relevant and Timely) principles. Also, in the finalization of the Department’s Annual APP close account was taken of issues that were raised in the State of the Nation Address by the President. Understanding the need to continuously promote mining and South Africa as a preferred investment destination, the following elements are part of the plan:

The continuous rollout of promotional activities of the Department will include a narrative that showcases South Africa inapositive manner. South Africa remains the wealthiest mining jurisdiction globally, as it has an incomparable geological prospects. Roadshows to engage with the investment fraternity, sharing the prospects of investment and development of the industry will continue. The Mining Indaba, the Africa Down Under conference (Australia); PDAC in Canada and engagements with mining companies and investors, locally and abroad, will continue to be a priority for the Department.

Addressing regulatory certainty remains critical in the Department’s quest to improve the investment climate for mining. The Minister said, in this regard, the Department is encouraged by steps being taken by Parliament in facilitating the finalization of the Mineral and Petroleum Resources Development Amendment Bill. Equally important, the Department will be publishing, the amended Mining Charter during this quarter to ensure that rules of engagement are made very clear. The Department will continue to prioritize efforts to strengthen relations with stakeholders, because the future of mining requires collectivism.

The promotion of job creation as well as saving jobs will remain central in the Department’s drive to sustainably grow the mining industry. In this regard, the implementation of the Stakeholder Declaration and working with other stakeholders such as the CCMA, mines, and organized labour will remain a priority. The Department will continue to make a call for mines not to make the retrenchment of employees a first option when faced with economic difficulties. The Minister commended mining companies who have embraced the stakeholder declaration and are now providing progress reports in line with the above declaration.

The implementation of the Special Presidential package on the revitalization of mining and labour sending communities will not escape the Department’s attention. The collaborative work by all three spheres of government will continue to be key in the national drive to transform the landscape of our mining communities.

Transformation of the mining industry will be pursued in a quest to drive meaningful economic empowerment. The announcements on the restructuring of mining companies because of the economic crisis present an opportunity to allow new entrants and save jobs. Contributions towards skills development remain key in promoting the sustainability of the mining industry. The Department planned to issue an additional twenty bursaries. The APP includes a drive to ensure that the management of finances by the Department is continuously improved. The Minister concluded by saying that a restructuring initiative will make the organization even more sharply focused.

The Minister said that the compensation of the Department’s employees will continue to represent a significant expenditure item due to the labour intensive nature of inspections that are required by the Department’s mandate. Having said that, he took note of the Minister of Finance’s comments in the budget speech on the wage bill of government and stated that the Department will continue to engage with the National Treasury to ensure that the Department delivery mandate is not negatively affected by cost saving imperatives dictated by the poor economic climate.

**2.2.2 Financial Administration**

The Acting Director General, Mr D Msiza presented the overview of the 2016/19 strategic plan. He said the overall budget of the Department has been increased at an annual average rate of 3.7% over the medium term:

* Mine Health and Safety increases by an annual growth rate of 2.4% over the medium term which is partly due to transfer payments to the Mine Health and Safety Council which ceased in 2014/15 and will resume in 2017/18 and the outer year.
* The Mineral Regulation budget increases by an annual average of 19.7%, this is attributed to the PASA additional allocation of R305, 127 million.
* The Mineral Policy and Promotions programme decreases by 1.8% in 2018/19 as a result of the discontinuation of the Economic Support and Competitiveness Package (ESCP) allocation attributed to the Council for Geosciences and Mintek. ESCP was a 5 year project ending 2018/19.

He indicated that compensation of employees will represent 34.3% (R572.130 million) of the 2016/17 total budget of R1.669 billion and 32.9 % (R1.756 billion) of the R5.341 billion over the MTEF. The Mineral Regulation, Mine Health and Safety and Mineral Policy and Promotion programmes constituted 69.6% (R1.223 billion) of the total compensation of employees’ budget of R1.756 over the medium term. The higher contribution to compensation of employees is due to the labour intensive nature of inspections and technical expertise required.

Goods and Services represented 15.5% (R259.235 million) of the 2016/2017 total budget and 15.5% (825.661 million) of the R5.341 billion over the MTEF. The main cost driver is subsistence and travelling which is 24.8 % (R204.980 million) of the goods and services budget and this was mainly for monitoring compliance and inspections. This is followed by operating leases at 13, 3% (R110.083 million) of the total budget for goods and services. Included in the operating leases are office accommodation. Contracts represents 12% (99.209 million) of the total budget for good and services.

It was reported that transfers and subsidies would constitutes 49.4% (R824.090 million) of 2016/2017 total budget of R1.669 billion or 50.9% (R2.721 billion) of the R5.341 billion budget over the MTEF.

The Mine Health and Safety Council is funded under programme 2, there is no allocation for 2016/17 but the baseline of R1.268 million is still maintained over the MTEF. The South African Diamond and Precious Metals Regulator is funded under programme 3, R53.205 million is allocated in 2016/17 and R168.175 million over the MTEF. The Petroleum Agency of South African (PASA) was added in the MTEF under Programme 3. R305.127 million has been allocated over the MTEF commencing in 2017/18. Once new regulations are finalised, the responsibility to report on PASA financial matters will rest with the Department of Mineral Resources (PASA presently reports to the Department of Energy). The Council for Geoscience, Mintek and small scale mining transfers to IDC are funded under programme 4. R371.416 million is allocated in 2016/2017 and R1. 069 billion over the MTEF for Mintek, R378 598 million is allocated in 2016/2017 and R1.052 billion over the MTEF for Council of Geo-science, R27.434 million is allocated in 2016/2017 and R86.712 million over the MTEF for IDC programmes to assist small scale miners.

Capital expenditure represented a small percentage of the 2016/2017 budget at 0.8% (R13.622 million) or 0.7% (R37.853 million) of a R5.341 billion budget over the MTEF. The programme which mostly utilises the capital budget is programme 1. The majority of the items are machinery and equipment which represent 67.8% (R25. 679 million) of the total budget for capital assets; and that includes computer hardware and systems (laptops and desktops). Building and other fixed structures represents 32.2 % (R12.174 million) of the total budget. This related to tenants installation for building at regional offices.

The Acting DG indicated that the Department is providing regulatory certainty and predictability needed by mining companies. It will be sharpening the following legislative instruments in 2016/17 through new bills: MPRDA, MHSA, AEMFC, PASA and the Mining Charter. The Department will accelerate the implementation of the one environmental system as part of an intergraded mining permitting system. The Department will continuously monitor and enforce compliance and support SMMEs through the payment of suppliers within 30 days.

In his concluding remarks, Mr Msiza said the Department is committed to continue with the journey of ultimately achieving the vision of a globally competitive, sustainable and transformed mining and mineral sector through the implementation of the APP and maintaining good governance principles. He further said, the Department will continue to collaborate will all stakeholders in the implementation of the APP.

# **Budget Analysis**

Table 1: Vote 29: Mineral Resources

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Programme** | **Budget** | Nominal Rand change |  | Nominal % change | **Real % change** |
| R million | **2015/16** | **2016/17** | **2017/18** | **2018/19** | **2015/16-2016/17** |  | **2015/16-2016/17** |
| Administration |  308.9 |  310.9 |  322.1 |  338.7 |  2.0 |  | 0.65 % | -5.58 % |
| Promotion of Mine Safety and Health |  184.4 |  184.9 |  191.1 |  198.3 |  0.5 |  | 0.27 % | -5.94 % |
| Mineral Regulation |  263.7 |  270.8 |  426.6 |  452.0 |  7.1 |  | 2.68 % | -3.68 % |
| Mineral Policy and Promotion |  881.5 |  902.5 |  907.5 |  835.5 |  21.0 |  | 2.38 % | -3.96 % |
| **TOTAL** |  **1 638.5** |  **1 669.1** |  **1 847.2** |  **1 824.6** | **30.5** |  | **1.86 %** | **-4.44 %** |

*Source: National Treasury (2016a) Vote 29: Mineral Resources 2016[[2]](#footnote-2)*

It is the task of the DMR to help South Africa to harness its mineral wealth for development. The budget of the Department is comparatively small, barely 0.2 per cent of the total appropriation by vote in 2016/17, but its role in wisely applying laws and fostering the contributions of several state agencies is critical for the growth of the minerals and mining sector, which is experiencing the most adverse economic climate since the 1990’s.

The budget of the DMR for the 2016/17 financial year is R1.7-billion. This represents a nominal increase of R30.5-million over the previous year, but in real terms, when inflation is taken into account, the allocation represents a four percent cut in the value of the resources available to the Department, compared with the previous year. This is part of the implementation of the government plan, announced by the Minister of Finance in the Budget Speech to moderate government expenditure to compensate for the weak performance of the SA economy.

There has been no structural change from the pattern of past DMR budgets. Half (49.8 per cent) goes to current payments, half (49.4 per cent) to transfers (mainly to the Council for Geoscience and MINTEK), with a negligible proportion going to capital expenditure.

The compensation of employees makes up 34 per cent of the total budget, with goods and services at 16 per cent and travel and subsistence at 4 per cent. These proportions are not significantly different from 2015/16.

The weighting of the programmes as a percentage of the total Vote allocation is indicated in Figure 1, below, for 2015/16 and 2016/17, with the very small percentage changes in the size of the ‘slices’ indicated next to each programme name:

[This shows that there are no significant changes in the share which each of four programmes has in the total budget for the Department]

Figure 1: Vote 29: Comparison of the split of the Mineral Resources budget between Programmes



## Programme Analysis

### **Programme 1: Administration**

The purpose of the Administration Programme is to “provide strategic leadership, management and support services to the Department”.

Table 2: Programme 1 - Administration

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sub-Programme** | **Budget** | **Nominal Increase / Decrease in 2016/17** | **Nominal Percent change in 2016/17** | **Real Percent change in 2016/17** |
| **R million** | **2015/16** | **2016/17** |
| Ministry |  28.8 |  23.4 | - 5.4 | -18.82 % | -23.84 % |
| Corporate Services |  120.6 |  123.7 |  3.2 | 2.64 % | -3.72 % |
| Department Management |  21.3 |  20.2 | - 1.2 | -5.47 % | -11.33 % |
| Financial Administration |  93.8 |  97.7 |  4.0 | 4.22 % | -2.24 % |
| Internal Audit |  14.6 |  14.5 | - 0.1 | -0.79 % | -6.93 % |
| Office Accommodation |  29.7 |  31.3 |  1.6 | 5.30 % | -1.22 % |
| **TOTAL** |  **308.9** |  **310.9** |  **2.0** | **0.6 %** | **-5.58 %** |

Source: National Treasury Vote 29: Mineral Resources 2016

Overall, there is a 6 per cent real decrease in the budget allocation for Administration. The small net R2-million increase will not compensate for the eroding effects of inflation. The differences in the percentage changes between sub-programmes are minor, with the exception of the cut in the budget for the Ministry, which falls by a quarter in real terms.

Administration: Over the medium term, to 2018/19, compensation of employees will grow by 4.8 per cent on average each year, despite the budgeted cut of R35-m in salary costs approved by Cabinet. This needs to be compared against the lower, 0.8 per cent, provision for the growth in goods and services. The number of employees stays constant at 399.

**1.2 Programme 2: Mine Health and Safety**

The purpose of the Promotion of Mine Health and Safety programme is “to ensure the safe mining of minerals under healthy working conditions”.

Table 3: Programme 2 - Mine Health and Safety

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sub-programme** | **Budget** | **Nominal Increase / Decrease in 2016/17** | **Nominal Percent change in 2016/17** | **Real Percent change in 2016/17** |
| **R million** | **2015/16** | **2016/17** |
| Governance Policy and Oversight |  52.9 |  52.6 | - 0.2 | -0.42 % | -6.58 % |
| Mine Health and Safety Regions |  131.6 |  132.3 |  0.7 | 0.55 % | -5.68 % |
| Mine Health and Safety Council |  0.0 |  0.0 |  0.0 | #N/A | #N/A |
| **TOTAL** |  **184.4** |  **184.9** |  **0.5** | **0.3 %** | **-5.94 %** |

Source: National Treasury Vote 29: Mineral Resources 2016

Overall, there is a 6 per cent real decrease in the budget allocation for Mine Health and Safety.

Mine Health and Safety: Over the medium term, to 2018/19, compensation of employees will grow by 1.2 per cent on average each year, despite the budgeted cut of R30.5-m in salary costs approved by Cabinet. This needs to be compared against the marginally higher, 1.8 per cent, provision for the growth in goods and services. The number of employees stays constant at 283.

Eight thousand health and safety inspections and 396 audits are to be commissioned in 2016/17, the same number as in the previous year. The Mine Health and Safety Council (MHSC) will not be supported by the customary transfer of R5-million in 2016/17 from the Department. The MHSC has performed poorly in failing to spend its research budget for several years. The Council has accumulated a substantial surplus from DMR transfers and the approximately R80-million a year it generates from levies that are imposed on the mines according to their health and safety record. The MHSC has plans in place to reduce substantially the surplus over the Medium Term Expenditure Framework (MTEF). Transfers will resume in 2017/18 and total R12.7million over the medium term. **3.1.3 Programme 3: Mineral Regulation**

The purpose of the Mineral Regulation Programme is to “regulate the minerals and mining sector to promote economic development, employment and ensure transformation and environmental compliance”.

Table 4: Programme 3 - Mineral Regulation

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sub-programme** | **Budget** | **Nominal Increase / Decrease in 2016/17** | **Nominal Percent change in 2016/17** | **Real Percent change in 2016/17** |
| **R million** | **2015/16** | **2016/17** |
| Mineral Regulation and Administration |  174.9 |  190.4 |  15.5 | 8.87 % | 2.13 % |
| Management Mineral Regulation |  38.3 |  27.2 | - 11.1 | -29.02 % | -33.41 % |
| SA Diamond & Precious Metals Regulator |  50.5 |  53.2 |  2.7 | 5.30 % | -1.22 % |
| **TOTAL** |  **263.7** |  **270.8** |  **7.1** | **2.7 %** | **-3.68 %** |

Source: National Treasury Vote 29: Mineral Resources 2016

Overall, there is a 4 per cent real decrease in the budget allocation for Mineral Regulation in 2016/17, compared with the previous year. Significant budget increases over the medium term in 2017/18 and 2018/19 are explained by the need for government to fund the operations of the PASA, the regulator of the oil and gas sector, after its reserves of funding have been exhausted. PASA will receive transfers from the budget of the DMR of about R150million per year. The DMR budget allocation will be increased to cover this.

Mineral Regulation: Over the medium term, to 2018/19, compensation of employees will grow by 3.5 per cent on average each year, despite the budgeted cut of R36.9-m in salary costs approved by Cabinet. This needs to be compared against the lower, 2.5 per cent, provision for the growth in goods and services. The number of employees is set to increase from 409 to 415.

The significant cut in the budget for the Management Mineral Regulation sub-programme is not explained. This sub-programme provides overall management of the programme. Expenditure was increased significantly in 2015/16 because of the new responsibilities transferred from the Department of Environmental Affairs. These responsibilities still remain in place.

Despite the declared intention of the DMR to “protect and enhance our environmental assets” and to ensure compliance with environmental legislation, the Department has significantly reduced the number of environmental verification inspections in its performance targets. The annual number has been reduced by a quarter, to 1 275 from 1 700 in 2015/16. This target was itself reduced from 1 856 in 2014/15. This reduction in the environmental enforcement performance standard, comes in tandem with an increase in staff numbers in the Environmental Mineral Resource Inspectorate (EMRI). The reduction in the performance measure is said to be due to the “budgetary constraints”. No similar reduction is planned in the targets of the Mine Health and Safety Inspectorate, which is surely subject to the same constraints. The DMR became fully responsible to implement national environmental standards in the mining sector from December 2014.

### **3.1.4 Programme 4: Mineral Policy and Promotion**

The purpose of the Mineral Policy and Promotion programme is to “develop relevant mineral policies that promote South Africa’s mining and minerals industries to attract investment”.

Table 5: Programme 4 - Mineral Policy and Promotion

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Sub-programme** | **Budget** | **Nominal Increase / Decrease in 2016/17** | **Nominal Percent change in 2016/17** | **Real Percent change in 2016/17** |
| **R million** | **2015/16** | **2016/17** |
| Management |  26.6 |  27.0 |  0.4 | 1.59 % | -4.70 % |
| Mineral Policy |  19.4 |  18.5 | - 0.9 | -4.84 % | -10.73 % |
| Mineral Promotion and International Coordination |  64.8 |  76.5 |  11.6 | 17.96 % | 10.66 % |
| Assistance to Mines |  0.0 |  5.3 |  5.3 | #N/A | #N/A |
| Council for Geoscience |  342.9 |  378.6 |  35.7 | 10.41 % | 3.57 % |
| Council for Mineral Technology |  414.7 |  356.4 | - 58.3 | -14.06 % | -19.38 % |
| Economic Advisory Services |  3.6 |  4.9 |  1.3 | 36.38 % | 27.94 % |
| Mine Environmental Management |  9.5 |  35.4 |  25.9 | 273.6 % | 250.4 % |
| **TOTAL** |  **881.5** |  **902.5** |  **21.0** | **2.4 %** | **-3.96 %** |

Source: National Treasury Vote 29: Mineral Resources 2016

Overall, there is a 4 per cent real decrease in the budget allocation for Mineral Policy and Promotion in 2016/17, compared with the previous year.

Mineral Policy and Promotion: Over the medium term, to 2018/19, compensation of employees will grow by 3.8 per cent on average each year, despite the budgeted cut of R13.5million in salary costs approved by Cabinet. This needs to be compared against the much larger, 18.9 per cent, provision for the growth in goods and services. The number of employees is set to stay constant at 112.

The two largest operational budget changes for Mineral Policy and Promotion relate first to an increase in advertising, from R1.6 million in 2015/16 to R10.3 million in 2016/17, and totaling R36 million over the next three years. Second, the budgeted expenditure on Mine Environmental Management will increase from less than R10 million at present to over R35 million for each of the next three years. This sub-programme “provides strategic guidance on mine environmental management and mine closure. This entails managing the rehabilitation of derelict and ownerless mines; and research on the impact of mining on water, air quality, and the environment in general.” It is noteworthy that this budgetary increase is accompanied by a reduction from 50 to 45 in the number of derelict and ownerless mines that will be rehabilitated every year.

Mineral Policy and Promotion is the largest programme of the DMR, absorbing 54 per cent of its budget. Over 85 per cent of the programme budget consists of transfers to Mintek and the CGS, two national science councils that are funded through Vote 29. A significant shift over the next three years will see this proportion decline to 78 per cent. The allocation to both entities will fall in absolute terms over the next three years. Mintek and the CGS will suffer average transfer cuts of -5.5% and -4.1 per cent per year, respectively.

## Entity Analysis

* **The CGS** was established in terms of the Geoscience Act, No. 100 of 1993. Its principal mandate is to develop and publish world class geoscience knowledge products and to provide geoscience related services to the South African public and to industry. The CGS also earns income from commercial activities, with the private sector and international and foreign state entities. This will account for 11 per cent of revenue in 2016/17, compared with an estimated 9 per cent of revenue in 2015/16.The CGS has budgeted R75.6 million over the medium term to assist with research and advocacy in preparation for compliance monitoring for shale gas exploration. “The research will aim to restrict the geo-environmental impact linked to the potential exploitation of shale gas in South Africa, with special reference to the Karoo.” The CGS total transfer to be received from DMR for 2016/17 is R378.6 million, a 16 per cent nominal decline compared with transfers estimated for 2015/16. The DMR transfer to the CGS is scheduled to decline every year in the medium term, at an average rate of -12.5 per cent a year. It is concerning that over this period Compensation of employees will increase at 7.7 per cent a year, while expenditure on goods and services, which was R278-m in 2015/16 will be slashed to R93-million by 2018/19. The staff will be paid, but will they have the equipment, transport and supplies of paper, chemicals and software needed to perform their work?
* **Mintek** was established in terms of the Mineral Technology Act, No. 30 of 1989. It develops appropriate and innovative technology for transfer to the minerals industry, and provides the industry with test work; and consultancy, analytical and mineralogical services. Almost half of MINTEK’s revenue comes from the sale of products, services and contracted research to the private sector. This pattern is changing, with recent higher levels of state funding, so that sales in 2015/16 will account for an estimated 46 per cent of revenue (compared with 54 per cent in 2014/15 and 71 per cent in 2011/12). MINTEK activities include research in water treatment, the rehabilitation of derelict and ownerless mines, the establishment of a precious gemstone facility in Northern Cape, waste and scrap reprocessing, and the building of a pilot plant for rare earth elements. The MINTEK total transfer to be received from DMR for 2016/17 is R356.4 million.
* **The Mine Health and Safety Council (MHSC)** was established in terms of the MHSA and is mandated to advise the Minister of Mineral Resources on occupational health and safety at mines, develop legislation, conduct research and liaise with other statutory bodies on matters relating to occupational health and safety at mines. The MHSC will not receive any transfer from the DMR budget in 2016/17, but the traditional, small allocation, will then be restored: of R6.2 million in 2017/18, and of R6.5 million is 2018/19. (It should be noted that the tasks of the MHSC are entirely distinct from the Mine Health and Safety *Inspectorate*, a branch of the Department itself that enforces the Act through the inspectors it employs.)
* **The South African Diamond and Precious Metals Regulator** operates in terms of Precious Metals Act, No. 37 of 2005 and the Diamonds Act, No. 56 of 1986, as amended. It is mandated to regulate control over the possession, purchase, sale, processing and export of diamonds; and the regulation of precious metals. The total transfer to be received by the Regulator from DMR for 2016/17 is R53.2 million, making up about 56 per cent of its total budget.
* **The State Diamond Trader (SDT)** was established in terms of the Diamonds Act, No. 56 of 1986, as amended. The SDT is mandated to buy and sell rough diamonds to promote equitable access to diamonds and the local beneficiation of diamond resources. Its revenue is generated by means of selling rough diamonds to clients, who comprise mainly diamond polishers and cutters. The entity’s total revenue for 2016/17 is estimated at R631.3 million.

The SDT, which had 17 funded posts in 2015, intends to maintain its employment level at 16 in the medium term, thus abandoning the current plan, as set out in the 2015 ENE, to increase employment to 26 by 2017/18.

**5. Briefing by the Financial and Fiscal Commission**

Mr B Khumalo, Chairperson of the Financial and Fiscal Commission noted that the Mineral Sector is facing global headwinds. The rebalancing of China’s economy has placed substantial downward pressure on global commodity prices. This is particularly key for the mining sector which relies on China’s market to buy over 80% of its export output.

He outlined the trends in mining sector output specifically referring on percentage changes in gold and non-gold production. He said despite a substantial decline in gold output, growth in non-gold exports ensured average growth in overall mining/mineral production remained positive between 1994 and 2008. On average, between 2010 and 2015, gold output declined by 5%, non-gold output increased by 2.4% and mining sector production increased by 1.04%.

In terms of economic importance of the minerals sector, Mr Khumalo said South African economy’s profile continues to show the declining role of primary sector, especially mining and its contribution to gross value added (GVA). Notable declines in the growth and share of mining sector gross value added are evident. This fell from almost 14% average share of total GVA between 1994 and 2004 to 9% since 2005. He alluded to the commodity super cycle which contributed to significant growth in the mining sector investments. Mining’s share of investment has fallen and is now at levels last seen pre 1994. It is notable that the performance of mining investment in South Africa has mirrored global dynamics around demand for minerals/ mining commodities.

He outlined the role of mining sector in facilitating employment and indicated that the production process in minerals extraction is becoming increasingly capital-intensive. The contribution to formal sector employment has declined to less than 6% and the rising costs and declining demand have resulted in restructuring programs with significant risks for existing jobs in mines.

The cornerstone gold sector upon which the modern South African economy was built continues to experience difficulties, with average annual production declines of 5% between 2010 and 2015. While growth in non-gold output has ensured a relative recovery in the growth of total mining production, concerns remain that between 2010 and 2015, the mining share of total value added has remained negative (-1.2%). Slowdown in global demand for commodities has seen investment levels decline from the peaks recorded during the commodity super cycle (an average of 27% from 2006-2009 compared to an average of 0.87% between 2010 and 2015).

Mr Khumalo outlined the key challenges as follows:

* Global economic outlook,
* Public expenditure growth cutback,
* Implementing change/transformation and gaining consensus on right economic and ownership strategy for mining i.e. ownership,
* Beneficiation and State Mining Company and other pressing issues like impact of the mining related labour unrests on growth, inflation and investment, lingering uncertainly around nationalization and issues about confusion between municipalities and traditional leaders and impact on mining investment,

Dr H A Amusa, Programme Manager: Macroeconomics and Public Finance presented the Departmental analysis with reference to NDP and NGP policy objectives for the Mining Sector and Departmental Strategic Outcomes Oriented Goals 2014-2019. He said the Departmental budget has increased from R1.4 billion in 2014/15 to R1.6 billion in 2015/16. In the medium term it will increase to R1.8 billion. The average growth rate has decelerated from 24.98% between 2013/14 -2015/16 to 5.85% in the medium term 2016/17-2018/19, suggesting a significant slowdown in the growth of the departmental budget in the medium term.

Dr Amusa indicated that the Department has demonstrated a very good record in minimizing budget and spending variation. In 2013/14 and 2014/15 almost all the programmes achieved a 100% record when actual expenditure is compared with the final appropriation.

With regards to Budget composition across programme for 2015/16, Dr Amusa indicated that the largest programme is Mineral Policy and Promotion Programme. Its initiative over the medium term is to promote investment in the mineral and upstream petroleum sectors, research on shale gas and channel assistance to small, medium and micro enterprises (SMMEs). He said the Administration programme will focus on attracting and retaining skilled workers over MTEF. The smallest programme is Promotion of Mine Health and Safety. He said it is a concern that the average growth rate of the programme is only 2.4% while the safety track record in the mining industry remains a challenge as evidenced by incidents in Lonmin Marikana and Lily Mines.

The Department realize much of its mandate through the entities in its portfolio. More than 50% of the Departmental budget is allocated to transfers and services in 2016/17. Capital Assets receives only 1% of the departmental financial resources. The compensation of employees recorded the highest average growth rate (10,9%) between 2012/13 to 2015/16 but decelerates to 3.3% in the medium term. Goods and services records the highest growth in the medium term (4.9%), followed by transfers and services. Capital assets records the least growth (2.6%) in the medium term.

Dr Amusa outlined the Departmental budget for Entities. He said the State Diamond Trader has a higher budget than all other entities, followed by Mintek, while the South African Diamond and Precious Metals Regulator has the smallest budget. Almost all the budgets for the entities will decline in the medium term (2016/17-2018/19). Only the South African Diamond and Precious Metals Regulator has a positive average growth rate.

In his concluding remarks, Dr. Amusa said the DMR has oversight over a sector that is critical to South Africa’s economy. An innovative approach is called for, to deal with current global headwinds that impact on the functioning of the sector. Innovation could include a renewed focus on enhancing viability, productivity and value chains embodied with small scale mining. In an era of fiscal constraints, DMR will need to ensure more prudent management of existing capacity especially in relation to inspectors and mineral economists or specialists. Influencing capacity development through the Mining Qualifications Authority (the mining SETA) would be critical to dealing with capacity constraints.

**6. Briefing by DPME**

Mr R Dicks, DDG, presented the Performance Assessment for the Department of Mineral Resources for 2015/16. He gave an MTSF context and indicated that the MTSF is government’s five year implementation plan of the NDP, covering the financial years 2014/15 to 2018/19. It reflects the commitments made in the election manifesto of the governing party, including the commitment to implement the NDP through a program of radical economic transformation. He said this is the first MTSF to follow the adoption of the NDP in September 2012. The introduction of a long-term plan to bring greater coherence and continuity to the planning system means that the MTSF becomes a five year building block towards the achievement of the vision and goal of the country’s long term plan. The aim of the MTSF is to ensure policy coherence, alignment and coordination across government plan as well as alignment with budget processes.

He said the report reviews overall progress against the targets in the MTSF for the Department of Mineral Resources identified in Outcome 4, 6 and 10.

The action and the Progress for 1st -3rd Quarter 2015/16 on the performance assessment of Outcome 4 (1) was reported as follows:

Review of the mining sector strategy with the objective to increase mining exploration, investment, production and ensure sustainability and transformation of the industry**:**

* With the completion of the Mining Phakisa in November 2015, further post lab consultations took place in January and February 2016 to finalise the lab initiatives.
* However the mining industry continues to face significant challenges, this became more acute towards the end of 2015:
* More than 80% of the SA platinum mining industry and 31% of the gold mining industry was loss making.
* The bulk sectors such as coal, iron ore and manganese ore have on average 50% of their operations in a break-even to loss making position.
* Between 1 April and December 2015, the downturn has led to over twenty thousand retrenchment applications by mining companies.
* Numerous large scale downstream mineral processing facilities have been closed or are in a state a crisis as a result of under-investment and the sharp increase in energy prices.
* The DPME has promoted immediate interventions to ensure that they fast track measures to avoid or reduce job losses, significantly scale up the Training Lay-off Schemes and introduce company-specific distress support interventions through the IDC.

The action and the Progress for 1st to 3rd Quarter 2015/16 on the performance assessment of Outcome 4 (2) was reported as follows:

* Finalisation of the MPRDA is critical step towards creating a stable and policy certainly environment in the mining sector.
* The DMR should leverage the State’s right to set conditions on granting 21,4% of Kumba’s iron ore mining right:
* Progress towards this has been very slow, but the report indicates that the process of granting the right with conditions is underway.
* There is an alarming threat of around 4 000 job cuts at the Sishen Iron Ore Company.

The action and the Progress for 1st to -3rd Quarter 2015/16 on the performance assessment of Outcome 4 (3) was reported as follows:

* While there is a plan to undertake a nationwide assessment of uranium and thorium resources in South Africa and the desktop studies on mineral occurrence have been completed, there is again no detailed report provided in the third quarter
* In determining the viability of shale gas, three steps were intended:
* (a) Ensure development of and implementation of explanatory drilling plan;
* (b) Appropriate legislation developed and
* (c) Ensure implementation of shale exploration programmes:
* In the first quarter the Department reported that regulations on Petroleum Exploration and Production had been developed and published, a Strategic Environment Assessment is in progress, the processing of applications is in progress and an awareness campaign is on-going, through community road shows.
* Progress continues to be made through the work of the Shale Gas Strategic Environmental Assessment process.

The action and the Progress for 1st to 3rd Quarter on the performance assessment of Outcome 6 (1) was reported as follows:

* A formal structure to foster collaboration between government, Eskom, Transnet, Sasol, IPP and the coal industry was intended. The aim was to optimise domestic coal use while maximising coal exports; to address fragmentation in the coal industry, and to plan optimal utilisation for specific coal fields (drawing on the Coal Road Map):
* The December 2015 deadline was not met as committed to; however some progress has been noted during the 3rd quarter, with the formation of a multi-stakeholder structure.
* It was intended to develop a National Coal Policy with regulations that will include a strategy to secure coal supply:
* The development of draft coal policy is still lagging behind, however a task team has been established during the 3rd quarter reporting period. Mr Dicks reported that it was unlikely that the target of July 2016 would be met.

The action and the progress for 1st to 3rd Quarter on the performance assessment of Outcome 10(1) reported that:

* Number of derelict and ownerless mine sites rehabilitated:
* DMR has made good progress in terms of the rehabilitating of derelict and ownerless mine sites in terms of MTSF target. Site specific information has also been made available to Outcome 10 Coordinators.
* Despite progress with 43 rehabilitated sites for 2015/16 financial year against the MTSF target of 50, South Africa has an estimated 6,000 derelict and ownerless mine sites.
* Number of mines monitored for non-compliance in accordance with water license conditions:
* Significant progress has been made by DWS in monitoring of mines for non- compliance with their respective water license conditions however coordination and cooperation at operational level between DMR and DWS official needs to be improved.
* Despite progress slow implementation results in non-compliance; however DWS is in the process on fast tracking backlogs and existing applications.

The action and the progress for 1st to -3rd Quarter on the performance assessment of Outcome 10(2) reported that:

* The integration of ecological infrastructure considerations into land-use planning and decision making about new developments is intended. However:
* As the Competent Authority, the DMR has not yet commenced reporting on the percentage of Environmental Impact Assessment Applications (EIAs) they are able to finalise within the legislated timeframes against the target of 98% in the MTSF, in the National Environmental Assessment System (NEAS).
* As a result the sector is unable to determine the efficiency of the Department in carrying out this legislated mandate.

In conclusion Mr Dicks recommended the following:

* Finalisation of the MPRDA must be prioritised to ensure policy certainty and a stable environment in the mining sector is created.
* Given the current crisis in the mining sector, the DPME immediate interventions must be to fast-track job saving and distressed company interventions.
* Coal plays a vital role in South African’s energy economy as it accounts to 93% of electricity generation, DMR should therefore fast track the development of the National Coal Policy for approval by Cabinet in order to improve coal investment. It has not yet met its commitments in this regard.
* Despite excellent progress on meeting the required targets for the rehabilitation of ownerless and derelict mine sites, a review of the adequacy of the MTSF target should be considered under the current MTSF review process. Rehabilitating 6 000 mines at a rate of 50 per year will take 120 years!
* Immediate corrective action should be taken to ensure the DMR reports on the percentage of Environmental Impact Assessment Applications (EIAs) they are able to finalise with the legislated timeframes in the MTSF in the National Environmental Assessment System (NEAS) and
* Better cooperation at operational level between DWS and DMR should be established to deal with issues of noncompliance by mines.

**7. Briefing by Mine Health and Safety Council (MHSC)**

Mr T Dube, the CEO spoke to the history of MHSC and the Journey to Zero Harm, the MHSC Mandate, its Vision, Mission and Goals, the MHSC Structure, the MHSC Strategic Objectives the progress made on the implementation of 2014 Mine Health and Safety Summit Milestones and Agreement and the MHSC Project Portfolio**.**

Mr Dube reported that the milestones were developed collaboratively between the stakeholders agreed upon by MHSC principals. The spirit of collaboration should continue to prevail in implementing all initiatives of the summit milestones. Each milestone has clear initiatives action plans and implementation of critical activities such as adoption of leading practices and implementation of research outcomes. Clear timeframes, roles and responsibilities for implementation of summit action plans were outlined. It was indicated that every mining company must have a target of ZERO fatalities and target to eliminate fatalities by December 2020. Targets are for 2016, a 20% reduction in serious injuries per year and from January 2017 a 20% reduction in lost time Injuries per year.

With regards to elimination of noise induced hearing loss, it was indicated that by December 2024, the total operational or process noise emitted by any equipment must not exceed a milestone sound pressure level of 107 dB (A). With regards to individuals, it was indicated that by December 2016, no employee’s Standard Threshold Shift (STS) will exceed 25dB from the baseline when averaged at 2000, 3000 and 4000 Hz in one or both ears. With regards to elimination of lung diseases, by 2024, 95% of exposure measurement results will be below milestones level of coal dust crystalline silica and platinum respiratory particulate dust. Using presents diagnostic techniques, no new cases of occupational diseases: silicosis and pneumoconiosis. Mr Dube reported that MHSC is facilitating the Indaba on the rehabilitation of mine workers injured on duty and integration and simplifying of compensation systems.

With regards to reduction and prevention of TB, HIV and AIDS infections, it was reported that by December 2024, the TB incidence rate should be below the National TB incidence rate and 100% of employees should be offered HIV Counselling and Testing (HCT) annually with all eligible employees linked to an Antiretroviral Therapy treatment (ART) programme as per the National Strategic Plan (NSP).

With regards to culture transformation framework (CTF), it was indicated that by December 2020 there will be 100% implementation of six pillars. After December 2020 the remaining five pillars will be implemented.

The MHSC implemented the Centre of Excellence (CoE) which are Quick win Projects and Technology and Knowledge transfer projects. Mr Dube indicated that MHSC project Portfolio are CoE Quick-win Projects, Continuation Projects (Multi-year projects), New Simrac Projects, Summit Milestone Action Plan Projects, Completed Projects Initiative (Knowledge and Technology Transfer Projects and Communication and Promotion Project: workshops forum, conferences and Special Projects.

**Mr Dube outlined the special MHSC projects as follows:**

* Women in Mining: Following the conference resolutions in 2015, a WIM subcommittee has been established to develop a comprehensive plan for implementation on pertinent OHS issues impacting on WIM.
* Commemoration of Mine Disasters – focusing in Coalbrook disaster and ensuring that ex-mineworkers who passed away on are honoured.
* Development of a comprehensive compensation system for the mining industry – MHSC will provide evidence based research to inform policy direction at a planned meeting in May 2016 that will include the Departments of Health and Labour.
* Host the OHS Tripartite Summit in November 2016 and other events.

With regards to adherence to turnaround times for the procurement of services to ensure delivery by MHSC, Mr Dube reported that the Council has capacitated the SCM with new SCM Practitioners. Training of SCM (Supply Chain Management) and Bid Committees members has been completed. The implementation of SCM sourcing strategies has been completed. The advertising of Annual Supplier Database updating and Migration to National Treasury Database is in progress. Provision of regular SCM reporting to ensure monitoring and necessary interventions.

Mr Dube reported that the MOU’s for the Centre of Excellence has been agreed upon with PSP’s (Private Service Providers) including use of HDI’s (Wits, UP, CSIR and NIOH). The MHSC has sourced a service provider to develop a business plan that will outline the requirements to operationalize it in the 1st week of May 2016. Audit for PSP’s to check the status of readiness will be conducted. The business plan will also outline governance framework for CoE in line with the approved model. The implementation date is the 1st of April 2017.

Mr Dube presented the approved budget for period ended 31 March 2017-2020. The income received amounted to R83,843,241.75. The approved roll over on research expenditure from Treasury was R8,115,378.77. The surplus for the year was R971,817.46. Mr Dube outlined the initiative to improve expenditure as follows:

* Critical monthly project milestones variances monitoring
* Centre of Excellence(CoE) Project contracted
* Research Projects Budget including New Projects all contracted
* Approved surplus funds expenditure, influence mostly implementation of CoE
* Tight monthly budgets vs expenditure analysis and interventions.

The Council concluded that it is important that all stakeholders live the theme “every mine worker returns from work unharmed every day, striving for Zero Harm”. Increased participation of tripartite forums, professional mining associations, mining companies and other stakeholders is paramount. Commitment of all stakeholders is critical to ensure that MHSC strategic objectives including 2014 milestones are achieved.

Members were concerned about the serious challenges that face the compensation fund and how the MHSC intends to contribute to reforming the system to compensate workers who contract occupational diseases

The CEO responded that the compensation indaba to be held in May 2016 will come up withideas of how to deal with these issues. The board members added that there are challenges with compensation and suggested that steps to harmonize COIDA and ODIMWA be looked at as both deals with compensation of workers with occupational diseases.

Members questioned the MHSC on what measures are in place for further reducing fatalities under the zero harm concept. Members asked on the issue of commemoration of mine workers, how MHSC is intends to honour this commitment and who is the Council working with. .

On the issue of Commemoration, the CEO responded that the Council is engaged with Police, Department of Home Affairs and Department of Arts and Culture and he reported that there is continuous progress.

**8. Briefing by Council for Geoscience (CGS)**

The Chairperson of CGS, Prof Ngoepe led the delegation. Mr S Skhosana, Acting CEO gave a presentation which focused on the mandate of the CGS, Focus areas, Operations, Human Resources and Finances. The CGS reported the Key National Priority Projects as Stimulating Investment on Mineral Resources of South Africa, Shale Gas, Mine Rehabilitation, Derelict and Ownerless Mines, Mine Water Management and Microzonation of Johannesburg.

Dr Makgae, the COO alluded to the importance of conducting research studies on shale gas exploration. She said shale gas is crucial for South African because it can provide cleaner energy, the country can be less reliable to coal usage and it will boost the economy of South Africa. She said the CGS shale gas project will serve as a baseline study for future shale gas research work and play a vital role in review of Petroleum Exploration and Exploitation Regulations. NEMA regulation will be utilised as a framework in identifying shortfalls of the environmental impacts of the shale gas exploration.

The management of Derelict and Ownerless mines is a task the CGS performs for the DMR. Field investigations are continuously improving the quality of information on the database, to help to prioritise which old mine sites need rehabilitation. The CGS will close mine holings in Limpopo and Gauteng, design rehabilitation measures for highly prioritised sites and assist with the annual review of DMR’s liability. Through the work of the CGS, Department officials have been made aware of the mega-shafts that are still open in Gauteng and the risk they are posing to communities.

The COO indicated that mine water projects are undertaken in the gold mines of the Witwatersrand and the coal mines in Mpumalanga. CGS report the following Commercial Projects that are in progress: Geological mapping in Namibia, Hydrogeological mapping of Malawi, Geological mapping of Malawi, Supervisory role in mapping of Cameroon, City of Johannesburg – ground water study, ENVIREE (EU), Feasibility of extraction of REE from mine wastes and SANEDI, Carbon Capture Storage.

The CGS reported that it has a 351 staff complement as of 31 March 2016. The top Management consists of 3 African Male 1 African Female.

The CFO, Mr MMatsepe presented the budget for 2015/16 - 2018/19. He indicated that CGS received total income of R492.501-million for 2015/16 and projected to receive R359.796-m for 2018/19. The income was as a result of Government grants, deferred income, sale and contracts and sundry income. With regards to expenditure, CGS has a total expenditure of R492.501-m for 2015/16 and projected to have R421, 965-m for 2018/19. Surplus before Capital Expenditure of R85.981million has been recorded. The CFO reported that the baseline allocation for 2015/16 for the mine rehabilitation programme, mine water ingress project, shale gas, economic competitiveness support package (ECSP), stimulation of Investment in the mineral section and Laboratory and infrastructure (AC) amounted to R165.3 million. The total government grant is R342.9 million.

With regards to personnel and operational costs, R196.148 million was budgeted for 2015/16 on personnel costs and R29.643 million on operational costs and there was a total shortfall of R60.490 million. For 2016/17, there is a baseline allocation of R184.592 against personnel cost of R211.840 million and operational cost of R33.104 million and there is a total shortfall of R60.352-m.

**9. Briefing by Mintek**

Mr Mngomezulu, CEO and President of Mintek outlined the shareholder Performance Agreement for 2016/17. Mintek’s core business is research and development of efficient mineral processing technologies and value added products and services, promotion of mineral based economies through upholding good governance practices, to build world class R&D excellence and enhance Mintek’s visibility and credibility to all stakeholders.

The CEO indicated that Mintek’s R & D strategy is aligned to the NDP with the following points identified: Improved extraction efficiency to extend ore resources, improved energy and water efficiency and beneficiation to downstream, value added products. In addition to points identified to NDP, Mintek included the two additional points which are mining, industrial and consumer waste treatment and small scale and artisanal mining.

The CEO indicated that there are six specific Mining Phakisa interventions that are closely aligned with existing Mintek projects which are:

* Effective management of water resources
* Acid Mine Drainage (AMD) impact mitigation
* Fuel Cells as PGM beneficiation opportunity
* Local Battery manufacture
* Local silicon wafer manufacture
* Next generation Mining skill development

He said there is a need to coordinate these activities to derive maximum synergy. Building on existing Mintek achievements in these areas could facilitate certain “Quick Hits”

Mr P Craven, General Manager in Business Development reported that because of a sharp fall in exploration and project development, major mining companies have cut back on capital expenditure and juniors cannot raise money. This means that for Mintek, there is far less work from new capital projects and junior companies, and more requests for operational efficiency improvements. Fortunately, increased state funding was available to use the available Mintek capacity to do valuable R & D. Mintek expects the slowdown to bottom out in late 2016 and investment, exploration and project development to recover from 2017.

To respond to the commercial environment, Mintek is modifying its structure and putting more emphasis in supporting existing mine operational improvements rather than technologies aimed at new projects. It is maintaining and developing capacity to handle an expected upturn in 2017. It is developing technology for new strategic resource opportunities (Bushveld titaniferious magnetite and Springbok Flats coal/uranium) and will focus on strategic areas of energy and water efficiency, environmental impact and waste treatment.

With regards to Derelict and Ownerless Mine Rehabilitation, the contract between Mintek and DMR has come to an end and new contract is expected to be signed off soon. These are mainly old asbestos mines in Limpopo, Northern Cape and KwaZulu Natal and Mpumalanga. Rehabilitation design for Osizweni clay and coal pit was reported to be on hold until the illegal miners have been moved. Mintek is currently busy with the design of an additional 4 sites, which commenced in 2015/16 to be completed in 2016/17 (Buisvlei North, Buisvlei South, Masaneng and Sithilo).

Mr S Simelane, General Manager: Finance presented the 2016 financial outlook for Mintek.Mintek maintains a strong balance sheet position with assets of more than R600m.The liquidity ratio is 2:1 with a strong cash flow**.** Income and expenditure trends will continue with income expected to remain around R500m mark, 2015/16 was the final year of a 3 year rehabilitation project with DMR, but a new contract is expected to be signed soon. Mintek expects the trend to continue on smaller projects and a few larger ones. The MTEF work for research and capital is expected to continue. Mintek is a stable and well-resourced institution. It is not for profit but for development. It is a partner with other institutions on innovation.

Ms G Nyanda, General Manager: Corporate Services presented the Human Capital plans. With regards to human capital, Mintek has a staff complement of 673 employees who are permanent. The gender balance is 60.9% male and 39.1% female. In terms of Employment Equity (EE), the target for females for 2016/17 is 46%.The number of undergraduate bursars for 2016 is projected to 20 bursars on full time and 60 on part time. For postgraduate bursars the projection is 10 on full time and 80 on part time.

Ms Nyanda indicated the targets for absenteeism rate for 2014/15 was at 2.6%, 2015/15 was at 3.1%, 2016/17 was at 3.5% and for 2017/18 and 2018/19 is projected to be on 3, 5%. The priorities for the 2016/17 financial year is women empowerment and increasing representation of women in Mintek, employee cost management and training and development. The representation of women has already recorded gains and increased proportion to 39.1% by end of March 2016. With regards to employee cost management, the strategy is to control base line increase and slightly higher once-off performance bonus and basket of benefits that matter instead of competing on salaries. With regards to training and development, skills development audit outcomes will inform training intervention and continued investment is training of staff and increasing Master’s and PhDs.

Dr M Makhafola, General Manager Research and Development reported that Mintek has a programme of developing energy options for rural communities. The research and development programme is in collaboration with Virginia Tech (USA), North West University 9NWU) – Mafikeng Campus and University of Limpopo (UL), Wits University enabled by the Department of Science and Technology (DST) and Air Force Office of Scientific Research (AFOSR) to develop rare-earth modified high performance alloys for multiple applications such as electric motors for wind turbines.

Dr Makhafola indicated that the rapid test kits development is for accurate, low-cost, simple to operate and interpret and rapid. The kit is used for remote areas where there is lack of infrastructure and resources. He indicated that the benefits of the low cost cynoprobe cyanide measurement are 70% reduction in cost, more accessible to small gold producers, better environmental compliance and potential for use in environmental water quality monitoring.

With regards to Technology, Mr A McKenzie reported a current MTEF funded project is to end this year with an onsite demonstration plant for Sensor sorting. The project is aimed at upgrading low grade coal to Eskom specifications. The Demonstration plant is being installed and contains 2 by 130 tph x-ray transmission sorters. He indicated that the plant will be operated in the first half of the year. The Savmin is a Mintek technology to treat Acid Mine Drainage (AMD). The programme continues, further laboratory and demonstration plant activities are planned. The project was completed and the plant is being operated in collaboration with Veolia, the world’s largest water treatment company, to further reduce costs.But the costs of the Savmin technology are too great at present to make any commercial uptake viable.

The water treatment activities is theexpansion of current Savmin site are to incorporate additional treatment technologies. It is aimed to demonstrate a suite of technologies for total remediation of Robinson Late, a highly toxic site 1.5 km from the Savmin site. It is a multiyear programme starting this year.

The underground processing is the significant research programme looking at underground processing of ores. It is fundamentally different approach to processing on the surface. It was reported that it was a 2nd year of a long term programme. Mr Mckenzie reported that Mintek is working with a number of technology vendors and partners.

With regards to commercialisation technologies, he reported that the SACREF rare earth refinery concept for the SADC region continues in spite of poor market conditions. He said Mintek partner Jubilee Platinum is struggling to raise capital for Conroast PGM smelting technology. For Low Grade ferrochrome process, Mintek’s partner, Siyanda Resources has raised a substantial portion of the capital required and the project is on track. For the PGM atomisation process, he reported that Anglo American Platinum is not committing capital at the present time, due to the economic climate, but Mintek is exploring other avenues. The Sensor sorting plant at Anglo American Platinum is being commissioned.

Mr Mckenzie gave a background on the NAM (Non Aligned Movement) training programme. He said South African currently holds the Presidency of the NAM Science and Technology Centre. DST has asked Mintek to host training course as part of the programme. The first was held in 2015 and the second will be held from May to July 2016. 20 fellows from third world countries will spend 3 months at Mintek as part of the programme.

**10. Briefing by State Diamond Trader (SDT)**

TheCEO, Ms F Zikalala Mvelase presented the Annual Performance Plan 2016/17 against the backdrop of severely affected market performance. The CEO indicated that since the middle of 2014, the global diamond industry performed negatively and the local industry and SDT were not immune to the negative environment. She said if the slight improvement in the global market recorded since January 2016 carries on, the SDT is confident that its budgeted purchases and sales as well as the loss for the year 2016/17 will be positively impacted during the course of the year.

The CEO presented the strategic objectives as follows:

* To contribute to the growth of the local diamond beneficiation industry
* To increase sale of rough diamonds to HDSA beneficiators
* To contribute towards youth skills development.

She said the strategic objectives are aimed at the following outcomes:

* A sustainable growing and transformed diamond beneficiation industry
* Diamond industry enterprise development
* Large scale SA (HDSA) owned sustainable diamond cutting and polishing companies established
* Be an efficient, innovative and development orientated organising (continuous learning environment).

The CEO outlined the key activities for 2016/17. She reported that the inaugural SA Diamond Indaba 2015 achieved its objective of getting all stakeholders of the Diamond Indaba conversing about the status quo and the future of the SA Diamond Industry. The SDT is building on this success and importantly providing a platform for diamond industry discussions on industry growth, sustainability and transformation. She indicated that Government and Industry stakeholders are being consulted on a second Indaba. Issues of industry and transformation in a competitive environment will be high on the agenda. Youth participation has been identified as core to the growth of the industry and their participation will be key.

The SDT, in collaboration with the DTI, will continue to facilitate participation of its clients, especially HDSA clients, at exhibitions related to diamonds, for example; the Hong Kong Gem and Jewellery Show, Jewellex South African and Africa Jewellery Show. The participating client business growth target for 2016/17 was set at 5%. She said the consultations and surveys will be conducted on participating clients and results will determine further engagements. The SDT has commenced with its three year Enterprise Development Programme for the youth in 2015. This is set to continue in 2016/17. Industry partners have expressed an interest and excitement in further partnering with the SDT. The SDT is looking at a success rate of 75% which will be participants establishing their own beneficiation enterprises starting in 2018/19.

The SDT began visiting provinces in 2014/15 and continued with this task in 2015/16, thereby marketing both diamond beneficiation and the SDT. The CEO indicated that the SDT plans to conduct five Provincial Promotional Activities throughout the country. The SDT will continue with work done in 2015/16 preparing for the employment of youth with disabilities. She reported that training is scheduled to start in quarter two for a period of 3 years. The trainee will be employed by the SDT once completed.

The CEO presented the budget of SDT for 2016/17. The projected sales for the year are recorded at R425,256, 000 The Cost of Goods sold were recorded at R408,900,000. The Gross Profit was recorded at R16, 356,000. The Earnings Before Interest and Tax (EBIT) are projected at (R4, 809,478) this is after covering the overheads of approximately (R21,165,478).

Members congratulated the SDT on the empowerment of women and wanted to know how the decisions of the previous Indaba will be implemented.

The CEO explained that the objective of the Diamond Indaba is to engage on transformation and to discuss where the diamond industry is going. She indicated that the Indaba would be done on an annual basis, but not as a stand-alone event. It will happen during the Jewellex.

**11. South African Diamond and Precious Metals Regulator (SADPMR)**

The CEO, Mr Levy Rapoo introduced the GM Ms L Nkumishe who indicated that SADPMR has a total staff complement of 125 employees as at the 31 March 2016. In terms of gender and race, the regulator has 52 male and 73 females. In terms of race the Africans are 115, Coloured are 4, Indians are 4 and whites are 2.

The CEO indicated that the Annual Performance plan was informed by and aligned to the National Development Plan, the 9 Point Plan of Government and all applicable legislation. He reported that the basis for the transformation agenda was set in the Mining Charter. The board approved the transformation plan which was implemented by a transformation team to monitor progress on ownership, human resources development, procurement and employment equity. The Transformation Team is ensuring compliance to the commitments and undertaking companies made while applying for their respective licences/permits. A lot of companies have been forced to adhere to these undertaking and correct their infringements, as a result a lot of HDSA’s are being included in the management, operations and decision making processes of the companies.

The Company Secretary, Ms K Sibanyoni gave a progress report on the establishment of the planned Diamond Bourse. Research and benchmark studies were completed last year on four of the 27 bourses registered with the World Federation of Diamond Bourses: i.e. Antwerp in Belgium, Shanghai in China, Dubai Diamond Exchange in Dubai and the Russian Federation. A draft concept document on the establishment of a State Bourse has been completed and submitted to the Board of Directors for their consideration. The Concept document on the establishment of the Bourse was approved for submission to the DMR by the Board at its sitting of the 28th July 2015. The Concept Document has been submitted to the DMR and the Department has since submitted its inputs to the document. The process is still at the consultation phase. The SADPMR is in the meantime, engaging with the Gauteng Industrial Development Zone (GIDZ), which is currently in the roll-out phase of the approved Industrial Development Zone (IDX) at the OR Tambo International airport, Johannesburg. The IDZ will contain a Jewellery Manufacturing precinct, which will be an ideal environment for the location of the State Bourse once it is approved.

The CFO, Ms I Tshifura presented the budget allocation. She indicated that the grant allocation for 2016/201 is R53.205 million. The projected revenue generated in-house is R41.398 million and the projected total budget was R94.603 million. The projected expenditure was R90.508 million with a surplus of R4, 095, 000.

The regulator is faced with challenges of the global economic downturn which has up to now continued to have an adverse impact on the industry, which has yet to recover. It is however anticipated that the State Bourse, once established, will address some of the challenges faced in the industry and stimulate the sector. The SADPMR is also engaging with certain international companies to invest in South African and settle in the country to impact their knowledge and skill, specifically in cutting and polishing diamonds could reverse the current situation.

The SADPMR continues to implement principles and provisions of the DMR’s Women in Mining and National Youth Strategies, both internally and externally within the industry.

**12. Observations**

**The Committee following its deliberations noted the following concerns:**

* When mineral reserves are depleted, mining can only continue sustainably if new resources are identified. This requires investment in exploration and in research and development to make the mining of new deposits economical.
* The Committee is concerned that, despite many applications by the DMR, the National Treasury has not provided the funds needed for the Council for Geoscience to fulfil its mandate to assist junior miners as well as established companies to identify new mineral prospects. This applies particularly to the need for the full implementation of the amendments to the Geoscience Act, now delayed for over six years, and for dedicated funding to allow the geological mapping of South Africa to be completed.

In addition, the Committee is concerned that research and development, particularly around new technologies for mining, does not receive adequate state attention.

* Dedicated science councils are in place to deal with exploration (CGS) and the technologies for the processing of ore (Mintek). Technologies for the extraction of ore – particularly from deep, narrow reefs in hard rock – are needed for the future development of South Africa’s mineral wealth. This is a particular characteristic of mining in South Africa, and state involvement is needed to bolster private sector efforts in this regard.
* The Committee is concerned that, despite the declared intention of the DMR to “protect and enhance our environmental assets” and to ensure compliance with environmental legislation, the Department has significantly reduced the number of environmental verification inspections in its performance targets.
* Ex-mineworkers are seriously affected by the inferior compensation payments due to them under the present law as well as by the administrative chaos that still surrounds the Compensation Fund managed by the Department of Health. An indaba on compensation is welcome, but strong action is needed. The harmonization of the compensation laws has been part of the government policy for the last five years, however neither the Department of Health nor the Department of Labour have taken the appropriate steps to address the above issue.
* The State Diamond Trader has the highest budget of all the entities managed by the Department. It has, however, largely failed to make productive use of both its revenues and its legal entitlement to sell up to 10 per cent of South Africa’s diamonds, to the targeted group (HDI). It buys less than 3 per cent of its 10 percent quota of diamond production and under its watch diamond beneficiation in the country has decreased, resulting in the loss of hundreds of jobs.
* Whilst appreciate the extreme work done to address issues of demographics and gender by the South African Diamond and Precious Metals Regulator (SADPMR) , clarity has to be given on the role of the additional “transformation officer” as to whether there are new task or responsibilities attached.
* Despite its concerns, the Committee notes that the DMR and its entities has performed well its handling of public funds and resources as confirmed by the audit outs and Auditor General.

**13. Recommendations**

Having considered the Strategic Plan, Annual Performance Plans and Budget for the Department of Mineral Resources and its entities, the Committee recommends as follows:

* The Minister of Mineral Resources should appoint a representative of the national treasury to the Board of the CGS immediately, as is required by the Geoscience Act.

The national treasury should account to the Committee for its failure to respond to the financial needs of the CGS to carry out the functions given to it by Parliament, despite five years of approaches from the DMR on this issue.

* The funding and co-ordination of state-funded research and innovation for the mining sector, including mineral extraction R&D, should be adopted as a government priority going forward. This is required to support the efforts of DMR to encourage new investors in the SA mining sector and to provide a basis for the mining sector to develop sustainably into the future and to generate benefits from the country’s rich mineral endowment.
* DMR should address all concerns around adequate environmental compliance.
* DMR should fast track all necessary and appropriate legislation and regulations (e.g. MPRDA, Mine Health and Safety, State Diamond Trader, etc.) that will assist in achieving certainty in the mining industry.
* DMR and entities should improve on their turnaround time as prescribed by the applicable legislation.
* DMR needs to address the issue of tax avoidance. It should work in collaboration with the Department of Finance, Trade and Industry and other relevant Departments to deal with aggressive tax avoidance.
* MHSC should come and present the expenditure and how it intends to spend allocated grant.
* Compensation Indaba that will be convened in 2016 should consider and finalize all issues relating to Ex mine workers, especially the integration of compensation systems.

**14. Conclusion**

The Chairperson thanked the Department and the entities for the in-depth discussions on their Annual Performance Plans and Strategic Plans. He extended the word of appreciation to members for their meaningful contribution and praised the support staff who worked under difficult circumstances but do their best to make sure that the work of the Committee is done effectively.

**Report to be considered.**

1. DMR (2016c). [↑](#footnote-ref-1)
2. An inflation rate based on the Consumer Price Index is used to calculate the ‘real’ change in the buying power of Budget allocations in 2016/17 compared with 2015/16. This is 6.6 per cent (National Treasury, 2016b:30) *Budget Review.* [↑](#footnote-ref-2)