Budgetary Review and Recommendation Report of the Portfolio Committee on Mineral Resources and Energy Dated 19 November 2021

The Portfolio Committee on Mineral Resources and Energy, having considered the performance and submission to National Treasury for the Medium Term period of the Department of Mineral Resources and Energy, reports as follows:

1. INTRODUCTION

The Money Bills Procedures and Related Matters Amendment Act (Act 9 of 2009) sets out the process that allows Parliament to make recommendations to the Minister of Finance to amend the budget of a national department.

In October of each year, Portfolio Committees must compile Budgetary Review and Recommendation Reports (BRRR) that assess service delivery performance given available resources; evaluate the effective and efficient use and forward allocation of resources; and may make recommendations on forward use of resources. The BRRR are also source documents for the Standing/Select Committees on Appropriations/Finance when they make recommendations to the Houses of Parliament on the Medium-Term Budget Policy Statement (MTBPS). The comprehensive review and analysis of the previous financial year's performance, as well as performance to date, form part of this process.

1.1. Mandate of the Portfolio Committee on Mineral Resources and Energy

In terms of the Constitution of the Republic of South Africa, 1996 (the Constitution), Portfolio Committees have a mandate to legislate, conduct oversight over the Executive and facilitate public participation. The Portfolio Committee on Mineral Resources and Energy mandate is governed by Parliament's mission and vision statements, the rules of Parliament and its Constitutional obligations.

The mission of the Portfolio Committee is to contribute to the realisation of a developmental state and ensure effective service delivery through discharging its responsibility as a Portfolio Committee of Parliament. Its vision includes enhancing and developing the capacity of Committee Members in the exercise of effective oversight over the Executive Authority. One of the Committee's core objectives is to oversee, scrutinise and influence the action of the Executive and its agencies. This implies holding the Executive and related entities accountable through oversight of objectives of its programmes, scrutinising its budget and expenditure (annually), and recommending through Parliament actions it should take in order to attain its strategic goals and contribute to service delivery.

The committee, in undertaking the process of compiling this report, considered the following source documents and engagements:

- Annual Report briefings, in terms of Section 65 of the Public Finance Management Act, No. 1 of 1999, which requires that Ministers table the annual reports and financial statements for the Department and public entities to Parliament - briefings on 09 November 2021
- Briefing by the Auditor-General of South Africa (AGSA) on the audit outcomes of the Department of Mineral Resources and Energy and the entities reporting to it – briefing on 09 November 2021

1.2. The Mandate of the Department of Mineral Resources and Energy and its entities

This section provides a synopsis of the mandate of the Department and its eleven entities.

The overarching purpose of the Department of Mineral Resources and Energy (DMRE) is to ensure that diverse resources are available in sustainable quantities and at affordable prices for the growth of the South African economy. In line with the National Development Plan (NDP), the Department contributes to the fight against poverty, unemployment, and inequity while taking into account environmental concerns and obligations. The Department's vision is to be a leader in the transformation of South Africa through economic growth and sustainable development in the mining and energy sectors. Its mission to regulate, transform and promote the minerals and energy sectors, providing sustainable and affordable energy for growth and development, and ensuring that all South Africans derive sustainable benefit from the country's mineral wealth

The Department execute its mandate through the following entities:

1.2.1 Council for Mineral Technology Research (MINTEK)

Established in terms of the Mineral Technology Act, Act No. 30 of 1989, MINTEK, also a Science Council, is mandated to provide research, development and technology that foster the development of businesses in the mineral and mineral products industries.

1.2.2 Mine Health and Safety Council (MHSC)

Established in terms of section 42(1) of the Mine Health and Safety Act, Act No. 29 of 1996, MHSC provides a research and advisory function to the Minister in terms of mine health and safety, as well as promoting a culture of health and safety in the mining industry.

1.2.3 State Diamond Trader (SDT)

The mandate of the State Diamond Trader is to buy and sell rough diamonds and to promote equitable access to and beneficiation of the country's diamond resources. The entity aims to grow South Africa's diamond cutting and polishing industry by enabling and increasing participation of Historically Disadvantaged South Africans (HDSAs) in the diamond beneficiation industry. The entity is eligible to purchase up to 10% of the run-of-mine (ROM) production from all diamond producers in South Africa. It sells to registered customers through an application and approval process. The State Diamond Trader is a Schedule 3B entity in terms of the PFMA, as amended.

1.2.4 South African Diamond and Precious Metals Regulator (SADPMR)

Established in terms of the Diamond Act, 1986, as amended, and the Precious Metals Act, Act No. 37 of 2005, the SADPMR ensures competitiveness, sustainable development and job creation in the diamond and precious metals industry, transformation, equitable access to resources for local beneficiation and ensures industry compliance with legislation.

1.2.5 Council for Geoscience (CGS)

Established in terms of the Geoscience Act, Act No. 100 of 1993, CGS gathers, compiles, develops, and publishes world-class geoscience data, knowledge and products, and renders geo-science related services to the South African public and industry.

1.2.6 National Nuclear Regulator (NNR)

The purpose of the NNR, as outlined in section 5 of the National Nuclear Regulator Act 1999 is to essentially provide for the protection of persons, property and the environment against nuclear damage through the establishment of safety standards and regulatory practices.

1.2.7 National Radioactive Waste Disposal Institute (NRWDI)

The key strategic thrust of NRWDI is to execute its legislative mandate with regard to the long-term management and disposal of radioactive waste in a technically sound, socially acceptable, environmentally responsible and economically feasible manner, which is an apex priority for Government and the Department to ensure that no undue burden is placed on current and future generations due to the country's past, present and future involvement in nuclear science and technology applications.

1.2.8 South African National Energy Development Institute (SANEDI)

SANEDI's functions, as outlined in section 7(2) of the National Energy Act, are to: - direct, monitor and conduct applied energy research and development, demonstration and deployment as well as undertake specific measures to promote Energy Efficiency (EE) throughout the economy; and - establish a nationally focused energy research, development and innovation sector and undertake EE measures with a strong relevance for South Africa.

1.2.9 South African Nuclear Energy Corporation (Necsa)

NECSA's functions, as outlined in section 13 of the National Energy Act, are to: - undertake and promote research on nuclear energy, radiation sciences and technology; - process source, special nuclear and restricted material including uranium enrichment; and - collaborate with other entities.

1.2.10 The Central Energy Fund (CEF) Group of Companies (SOC) Ltd

CEF (SOC) Ltd is involved in the search for appropriate energy solutions to meet the future energy needs of South Africa, the Southern African Development Community and the sub-Saharan African region, including oil, gas, electrical power, solar energy, low smoke fuels, biomass, wind and renewable energy sources. CEF also manages the operation and development of the oil and gas assets of the South African Government.

1.2.11 National Energy Regulator of South Africa (NERSA)

The purpose of NERSA, as effectively outlined in section 4 of the National Energy Regulator Act, 2004 (Act No. 40 of 2004), is to regulate the electricity, piped-gas and petroleum pipeline industries within the Republic of South Africa in terms of the Electricity Regulation Act, 2006 (Act No. 4 of 2006), the Gas Act, 2001 (Act No. 48 of 2001) and the Petroleum Pipelines Act, 2003 (Act No. 60 of 2003).

1.3. Purpose of the BRR Report

Section 77(3) of the Constitution stipulates that an Act of Parliament must provide for a procedure to amend money bills before Parliament. This constitutional provision gave birth to the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009 (the Act), which sets out the process that allows Parliament to make recommendations to the Minister of Finance to amend the budget of a national department.

Section 5 of the Act, states that the National Assembly (NA), through its Committees, must annually assess the performance of each national department with reference to the following:

- The medium term estimates of expenditure of each national department, its strategic priorities and measurable objectives, as tabled in the NA with the national budget;
- Prevailing strategic plans;
- The expenditure report relating to such department published by the National Treasury in terms of section 32 reports of the Public Finance Management Act, No 1 of 1999 (PFMA), as amended in 2009;
- The financial statements and annual report of such department;
- The report of the Committee on Public Accounts relating to the department; and
- Any other information requested by or presented to a House or Parliament.

Committees must submit the BRRR annually to the NA. The BRRR assesses the effectiveness and efficiency of a department's use and forward allocation of available resources and may include recommendation on the use of resources in the medium term.

Committees must submit the BRRR after the adoption of the budget and before the adoption of the reports on the Medium Term Budget Policy Statement (MTBPS) by the respective Houses in November of each year.

The Act therefore makes it obligatory for Parliament to assess the Department's budgetary needs and shortfalls vis-à-vis the Department's operational efficiency and performance. This is done taking into consideration the fact that the Department has oversight responsibilities over eleven entities.

1.4. Method followed by the Committee in writing the BRR Report

The Committee has scrutinized and interrogated all available documents as outlined in Section 5 of the Money Bills Amendment Procedure and Related Matters Act. The Committee has assessed the performance of the Department in the 2020/21 financial year. The Portfolio Committee on Mineral Resources and Energy (PCMRE) held a meeting on the 2020/21 Annual Report of the Department and its entities on 09 November 2021, which was addressed by the Senior Leadership of the DMRE. The office of the Auditor General of South Africa (AGSA) gave input during the BRRR process.

2. OVERVIEW OF THE PERFORMANCE OF THE DMRE, 2020/21

For the 2020/21 financial year, the Department had an adjusted budget of R7.5 billion.[1] It is important to note that in June 2020, a Supplementary Budget process was undertaken to redirect existing baselines to identified departments to implement designated actions mitigating the impact of the COVID-19 pandemic. Through this process, R1.6 billion of the Department's baseline was reduced mainly from electrification projects, INEP Municipalities amounting to R500 million and Integrated National Electrification Programme (INEP)-Eskom funding amounting to R1.0 billion. Reduction on goods and services was R41.7 million and on Energy Efficiency and Demand Side Management (EEDSM - Municipalities) of R21.8 million.[2]

The above process was followed by the Annual Adjusted Estimates of National Expenditure (AENE) process in September 2020. During this process, Government prioritised funding for the South African Airways (SAA) Rescue Plan, as well as implementing budget reductions/freeze on compensation of employees as announced by the Minister of Finance. For these priorities, an additional budget of R195.951 million was deducted from the DMRE baseline resulting in a revised baseline of R7.567 billion for the 2020/21 financial year.[3] Prior to the budget adjustments, the Department had an allocated budget of R9.3 billion for the 2020/21 financial year.

During the year under review, the Department had virements totalling R64.7 million between programmes which experienced financial shortages and surpluses. According to the Department, the virement process was conducted during the 2020/21 financial year-end process in order to reprioritise funds from underspending programmes, surpluses, to programmes where financial shortages were experienced. The Department maintains that the process was done in compliance with section 43 of the Public Finance Management Act (PFMA - Act No. 1 of 1999).

In summary, the significant virements per programme were as follows:

- R9.1 million from Programme 3 to Programme 1 and 2
- R7.9 million from Programme 4 to Programme 1, 2 and 5
- R47.7 million to Programme 1, 2 and 6.

The reprioritisation of funds to Programme 1 mainly assisted with the shortfall on the operating leases item where commitments throughout the 2020/21 financial year had been significantly higher than the allocated budget. Funds reprioritised to Programme 2 and 6 supplemented transfers to SADPMR and NECSA, respectively, to assist with financial shortages. Funds to Programme 5 assisted with a shortfall on compensation of employees.[4]

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[1] Department of Mineral Resources and Energy, (2020)

[2] Ibid

[3] Ibid

[4] Ibid

Table 1 below provides a clear picture of the budget allocated to the DMRE or Vote 34 for the 2020/21 financial year. It further provides the proportion of the total budget of Vote 34 spent on specific line items according to economic classification as at 31 March 2021.

Table 1: Overall Budget for the Department for 2020/21 Financial Year

Programme	Final Appropriation	Actual Spending		Variance
	R'000	R'000	%	R'000
Administration	617 281	566 592	91.8%	50 689
Minerals & Petroleum Regulation	529 949	508 438	95.9%	21 511
Mining, Minerals & Energy Policy Development	919 289	899 358	97.8%	19 933
Mine Health & Safety Inspectorate	211 680	196 349	92.8%	15 331
Mineral & Energy Resources Programmes & Projects	4 180 694	3 912 610	93.6%	268 084
Nuclear Energy Regulation & Management	1 108 157	1 101 604	99.4%	6 553
Total	**7 567 050**	**7 184 949**	**95.0%**	**382 101**

Economic Classification

Economic Classification	Final Appropriation	Actual Spending		Variance
	R'000	R'000	%	R'000
Compensation of Employees	1 014 239	956 939	94.4%	57 300
Good & Services	429 796	571 897	133.1%	- 142 101
Transfers and subsidies	6 099 993	5 647 279	92.6%	452 714
Payments for Capital Assets	18 394	4 152	22.6%	14 242
Payments for Financial Assets	4 628	4 683	101.2%	- 55
Total	**7 567 050**	**7 184 949**	**95.0%**	**382 101**

Source: Department of Mineral Resources and Energy, (2020)

As evident in Table 1 above, of the total allocated budget for the 2020/21 financial year, the Department spent R7.1 billion, or 95 percent, the majority of which had been used on transfers and subsidies; compensation of employees; and goods and services.[5] Transfers and Subsidies account for R6 billion of the total allocated budget, and of this amount, the Department transferred R5.6 billion, or 92.6 percent, mainly to Eskom and Municipalities for the implementation of the INEP.

On compensation of employees, there was an underspending of 5.6 percent. The Department was allocated R1 billion; however, it spent R956.9 million. The reason cited for the underspending was the delayed filling of critical vacant posts. The approved organisational start-up structure comprises 1 647 posts. Although the Department could not advertise positions until the finalisation of matching and placing, the vacancy rate remained below 10 percent at 8.7 percent.

[5] Ibid

Expenditure per programme explained below:

Programme 1: Administration spent 91.8 percent of the allocated budget for the 2020/21 financial year. An underspending of R50.6 million or 8.2 percent was due to vacant posts not filled and lower spending in goods and services as a result of lockdown and movement restrictions in the country. Other delays were experienced in the procurement of office and computer equipment and in the refurbishment of some offices. Despite the overall underspending in goods and services, there was a relatively higher spending in Operating Leases amounting to R6.7 million. According to the Department, this was due to higher than budgeted for payments that had been made for office accommodation carried over from the 2019/20 financial year.

Programme 2: Minerals and Petroleum Regulation spent 95.9 percent of the allocated budget. An underspending of R21.6 million or 4.1 percent was due to vacant positions that had not been filled and lower spending in goods and services items (mainly Consultants: Business and Advisory Services and Travel and Subsistence) as a result of lockdown and movement restrictions in the country. Therefore, activities within the Department were slowed down.

Programme 3: Mining, Minerals & Energy Policy Development spent 97.8 percent of the budget allocated for the year under review. Preliminary underspending of 2.2 percent was mainly attributable to critical vacancies not filled. The national lockdown and movement restrictions in the country that resulted in less business trips undertaken by officials, resulting in lower than expected spending on items such as travel and subsistence, as well as venues and facilities.

Programme 4: Mine Health and Safety Inspectorate spent 92.7 percent of the allocated budget. An underspending of R15.4 million lower or 7.3 percent was realised, mainly due to lower spending on compensation of employees, travel and transfers not made to the Mining Qualification Authority because of a payment holiday announced by the Minister of Higher Education and Training.

Programme 5: Mineral and Energy Resources Programmes and Projects spent 93.6 percent of the allocated budget. An underspending of R268.1 million or 6.4 percent was mainly attributable to the INEP: Non-grid due to delays in the process to procure service providers. The service provider panel was only finalised by end of January 2021, and verification of work done could not be undertaken before the end of the financial year. Furthermore, R25.9 million was not transferred to the Industrial Development Corporation (IDC) due to delays in finalising agreements for the implementation of small scale mining projects. An amount of R6.5 million for the management of ingress of water at mines was not made due to the Department not receiving claims for pumping subsidies from marginal mines. The Department also did not spend approximately R20 million on the solar water heater (SWH) project for installation due to legal disputes with some suppliers that had refused to release the procured units. Warranty retention monies amounting to approximately R4 million could also not all be processed as a result of these legal disputes.

Programme 6: Nuclear Energy Regulation and Management spent 99.4 percent of its allocated budget. An underspending of R6.5 million or 0.6 percent was mainly attributable by favourable exchange rate and consequent lower payment made to the International Atomic Energy Agency (IAEA) and African Regional Cooperative Agreement for Research (AFRA) for international membership fees. There was also lower spending in Goods and Services items (mainly Consultants: Business and Advisory Services and Travel and Subsistence) as a result of lockdown and movement restrictions in the country.

2. NON-FINANCIAL PERFORMANCE OF THE DEPARTMENT

As indicated in the preceding section, the Department has six programme areas. Each programme has sub-programmes within it. The financial performance of the programmes has been discussed in the previous section, thus, this section contrasts what the Department had planned to achieve (non-financial outcomes) against what it has actually achieved.

Table 2: Overall Performance of the Department for 2020/21 Financial year

Programme	Total Targets	Achieved Targets	Partially Achieved Targets	Not Achieved Targets
Administration	12	11 (92%)	1	0
Minerals & Petroleum Regulation	14	4 (29%)	8	2
Mining, Mineral & Energy Policy Development	21	14 (67%)	5	2
Mine Health & Safety Inspectorate	6	4 (67%)	1	1
Programme & Projects Management	11	5 (45%)	0	6
Nuclear Energy	6	5 (83%)	1	0
Total	**70**	**43 (61%)**	**16 (23%)**	**11 (16%)**

Source: Department of Mineral Resources and Energy Annual Report, (2020/21)

As evident table 2 above, the Department had set itself 70 performance targets for the 2020/21 financial year. Of the 70 targets, the Department achieved 43 or 61 percent. This achievement is below the National Treasury benchmark of 80 percent for the National Departments. The performance is also in sharp contrast with the financial performance, wherein the Department spent 95 percent of the allocated budget.

Two programmes of the Department performed dismally, achieving a performance of below 50 percent. These are Programme 2: Minerals and Petroleum Regulation (29 percent), and Programme 5: Programme and Projects Management (45 percent). Targets not achieved per programme are detailed below.

The ***Administration Programme*** achieved 92 percent of its set targets and partially achieved one (1). The partially achieved target related to the payment of invoice to services providers within 30 days. The Department achieved 99 percent and deviated by 1 percent to reach the desired 100 percent. The reason provided for the deviance was the co-dependency on branches/programmes to verify and sign off the invoices speedily for payment.

As stated above, ***Programme 2: Minerals and Petroleum Regulation Programme*** was the worst performer, having achieved 29 percent of the set targets, achieving 4 of the 14 set performance targets. The following are the targets that were not achieved or partially achieved:

- The Department had planned to complete 120 SLP development projects. However, 70 SLP projects were completed. The Department cited the economic situation following the national lockdown due to COVID-19 as the main reason for the deviance.
- The Department had planned to create 10 black industrialists through procurement. However, 9 black industrialists were created. The reason cited for the deviance as same as the above.
- The Department had planned for a 100 percent participation in District Planning Forums. The Forums could not be held due to the lockdown.
- The Department had committed to completing a feasibility study on new oil refinery in order for a final investment decision to be made. This target was not achieved because, at the time of tabling its Annual Report, the Department was awaiting a final decision from the investor on whether they intended to proceed with investment or not.
- The Department had planned to conduct 212 SLP inspections. Instead, it partially achieved 204 SLP inspections. According to Department, this was due to lockdown during the previous quarters.
- Similarly, the Department aimed to conduct 1 500 petroleum retail site compliance inspections. However, the Department partially conducted 300 petroleum retail site compliance inspections.
- The Department planned to test 1 080 fuel samples. Due to COVID-19, about 965 fuel samples were tested.

- The Department had planned to conduct 150 legal compliance inspections (mineral laws-MLA). As above, due to COVID-19, 134 legal compliance inspections (MLA) were conducted.
- The Department had planned to conduct 1 275 environmental inspections. Due to COVID-19, 968 environmental inspections were conducted.
- The Department had planned for a 100 percent compliance monitoring audit of Broad-Based Black Economic Empowerment (B-BBEE) Act in the petroleum sector to be conducted bi-annually (charter sector code). The target was not achieved due to delays in requisite considerations and approvals due to intermittent reporting to work due to COVID-19.
- Of the planned 500 mining economics inspections, 401 inspections were conducted.

It is clear from the above that the national lockdown as a result of the COVID-19 pandemic had a significant impact on this programme, as most of its targets required physical inspections.

Programme 3: Mining, Mineral and Energy Policy Development Programme achieved 14 or 67 percent of its planned 21 targets. The targets **not** achieved or partially achieved are as follows:

- The Department had committed to developing a greenhouse gas (GHG) reporting and assessment framework, and have it approved and its implementation monitored. This was not achieved and the Department maintained that the framework was being developed at the time of reporting.
- The Department had planned to produce 25 publications and economic reports supporting investment and sustainable resource use. This target was partially achieved and the Department contended that the reason for this was that there had been challenges in relation to the South African Revenue Services (SARS) data system that delayed the completion of the energy statistics report.
- The Department had planned to submit the Radioactive Waste Management Bill to Cabinet for public consultation. According to the Department, it was recommended that changes to the Bill design be made. The Bill design change led to (1) the redrafting of the Bill - completed and (2) re-tabling before Cabinet - pending. The Bill was earmarked to be tabled before Cabinet in 2nd Quarter of 2021/22 financial year.
- The Department had committed to reviewing and submitting to Cabinet the Electricity Pricing Policy. According to the Department, the policy was reviewed and found to be relevant and therefore not taken to Parliament.
- The target of having the Draft Gas Master Infrastructure Plan submitted to Cabinet for public comments was deferred to the 2021/22 APP. The Department cited challenges posed by COVID-19 as the main reason for the deferral.
- Similarly, the target of having the Integrated Energy Plan (IEP) submitted to Cabinet for public comments was deferred to 2022/23 APP. The Department cited challenges posed by COVID-19 as the main reason for the deferral.
- The Department had planned to submit the Approach to Distribution and Asset Management (ADAM) framework to Cabinet for approval. This was not achieved and the Department maintained that there had been delays by the Development Bank of Southern Africa (DBSA) to start the development of the paper on ADAM Framework. Thus the aim was to start in the 2021/22 financial year.
- The Department had planned to finalise the National Nuclear Regulator Amendment Bill and table it to Cabinet for public consultation. This was not achieved. However, the Bill was successfully tabled at Economic Sectors, Employment and Infrastructure Development (EISEID) Ministerial Cluster on 25 March 2021. The Department further stated that the Bill had been on Cabinet's agenda for 31 March 2021, but the meeting was cancelled.
- The Department had planned to table the National Energy Regulator Amendment Bill for enactment by the Cabinet. The Bill was with State Law Advisors en-route to Cabinet.

Programme 4: Mine Health and Safety Inspectorate Programme achieved 4 or 67 percent of the six (6) planned targets. The two targets that were not achieved or partially achieved were as follows:

- The Department had planned for a 10 percent reduction in occupational fatalities. The Department regressed by 2 percent. The Department reported that there were more "multiple" fatalities reported by mines during the financial year. Fall of ground, general and equipment type of accidents remain major contributors to fatal accidents.
- The Department had planned to conduct 8 800 mine health and safety inspections. Instead, a total of 8030 inspections (including individual audits) were conducted, resulting in 91 percent achievement.

Programme 5: Mineral and Energy Resources Programmes and Projects achieved five (5) or 45 percent of its eleven (11) performance targets. Key targets not achieved are follows:

- The Department had planned to have the emergency power contracting (Power Purchase Agreements) for additional power in place. The power purchase agreement was not in place by the year of the financial year. However, preferred bidders have been appointed for supply of 1 995 MW with signing of Power Purchase Agreements subject to preferred bidders reaching financial close within the agreed timeline.
- The Department had planned to review the post-2015 National Energy Efficiency Strategy. According to the Department, the deviation was due to time that had lapsed since the development of revised strategy, and there was a need for further internal and external consultations.
- The Department had committed to finalising the Renewable Energy (RE) Sector Masterplan. The reason cited for the non-achievement of the target was that the process of constituting the project team had taken longer due to a need for alignment with other stakeholders (social partners).
- The Department had planned to electrify 15 000 households through non-grid connection. This target was not achieved as zero additional households had been electrified with non-grid during the year under review. The Department argued that the non-achievement of the target was due to the delays in the finalisation of the appointment of service providers.
- The Department had planned to install of 50 000 procured solar water heater baseline systems in 18 municipalities. Instead, it installed a total of 3 106 solar water heaters in seven (7) municipalities. The main reason for the delays was because of a need to procure additional installation materials that had not been included as part of manufactured solar water heaters. The additional material is required because beneficiary houses are built to different standards, whilst solar water heaters are designed for current building standard.

Programme 6: Nuclear Energy Programme achieved five (5) or 83 percent of its six (6) set targets. One (1) target was partially achieved.

- The Department had planned to conduct a pre-feasibility study for the procurement of the new Multi-Purpose Reactor and have it submitted to approval authority. This was partially achieved and the Department stated that submission of the pre-feasibility study had been prepared and sent to the Minister.

3. AUDITOR-GENERAL'S REPORT ON THE DMRE

During the year under review, the Department obtained an Unqualified Audit Opinion with findings from the Auditor-General of South Africa (AGSA). Key findings of the AGSA on the Department were as follows:

- As disclosed in note 24 to the financial statements, the Department incurred irregular expenditure of R7.5 million in the current year, as it did not follow a procurement process. In addition, the Department's internal control processes identified irregular expenditure of R4 million in the current year relating to the prior year. According to the Department, both these amounts were as a result of the non-compliance with the Supply Chain Management (SCM) legislation.
- Effective steps were not taken to prevent fruitless and wasteful expenditure amounting to R20.7 million, as required by section 38(1)(c)(ii) of the PFMA and treasury regulation 9.1.1.

The majority of the fruitless and wasteful expenditure was caused by additional storage costs for solar water heater geysers that were manufactured but were not installed.
- Payments were not made within 30 days or an agreed period after receipt of an invoice, as required by treasury regulation 8.2.3.
- The AGSA was unable to obtain sufficient appropriate audit evidence that disciplinary steps had been taken against officials who had incurred unauthorised, irregular, and fruitless and wasteful expenditure, as required by section 38(1)(h)(iii) of the PFMA.

A follow-up performance audit was conducted during the year under review on the Department's rehabilitation of derelict and ownerless mines. The audit covered the period 2017-18 to 2020-21, and the report is expected to be tabled by January 2022.

4. ENTITIES REPORTING TO THE DEPARTMENT

As stated above, eleven (11) State-Owned Entities (SOEs) contribute to and implement the objectives of the Department, namely, the National Energy Regulator of South Africa (NERSA); National Nuclear Regulator (NNR); National Radioactive Waste Disposal Institute (NRWDI); Nuclear Energy Corporation of South Africa (NECSA); Central Energy Fund (CEF); South African National Energy Development Institute (SANEDI), Council for Mineral Technology Research (MINTEK), Mine Health and Safety Council (MHSC), State Diamond Trader (SDT), South African Diamond and Precious Metals Regulator (SADPMR), and Council for Geoscience (CGS).

Three SOEs requested extensions on submission of their Annual Reports, namely the SADPMR, the NECSA Group and the CEF Group. The reasons provided for requesting an extension were as follows:

- **SADPMR:** The AGSA has encountered delays in the finalisation of 2020/21 audits. Thus, additional time is required by the AGSA to finalise its quality assurance processes before the audit can be signed. The AGSA endeavoured to finalise the SADPMR audit reports by 15 August 2021, however, there have been further delays encountered by the AGSA. Therefore, the SADPMR will table the Annual Report, as soon as the audit process is finalised.[6]
- **The NECSA Group** cited AGSA's state of readiness to commence with the audit soon after the 2019/20 Annual Financial Statements were submitted on 31 May 2021. Furthermore, the AGSA wrote to the Chairperson of the NECSA Board citing the tremendous impact of COVID-19 second wave and a number of other matters which resulted in delays in the completion of 2020/21 audit.[7]
- **The CEF Group** failed to submit the Annual Report resulting in non-compliance with the PMFA timelines. PetroSA required extension to submit Annual Financial Statements due to delays in the finalisation of the Ghana Reserve audit which impacted the consolidation of Annual Financial Statements at the CEF Group. Consequently, the Group Annual Financial Statements were not audited.[8]

Therefore, this section provides a synopsis of the performance of the entities that have submitted their Annual Reports for the 2020/21 financial year.

4.1 National Energy Regulator of South Africa[9]

4.1.1 Non-Financial Performance

To gain a perspective on NERSA's progress, one has to bear in mind its annual performance targets with regard to the three energy industries, namely electricity, piped-gas and petroleum pipelines. Furthermore, these targets apply to cross-cutting regulatory and organisational functions as well. All of these, in turn, are measured against six programmes, namely setting and/or approval of tariffs and prices; licensing and registration; compliance monitoring and enforcement; dispute resolution, including mediation, arbitration and handling of complaints; setting of rules, guidelines and codes for the regulation of the three energy industries; and finally, establishing NERSA as an efficient and effective regulator.

[6] Mantashe, (2021)
[7] Ibid
[8] Ibid
[9] Section extracted from the NERSA Annual Report, (2020/21)

During the review period, NERSA achieved 88 percent of its annual performance targets. This signifies an overall increase of 9 percent in the performance when compared to the overall performance in 2019/20. In terms of the six programmes mentioned above, the percentage of achieved targets was 86 percent for the electricity industry due to four targets not being met (2019/20: 81%), 92 percent for piped-gas due to two targets not being met (2019/20: 90%), 88 percent for petroleum pipelines due to two targets not being met (2019/20: 100%), 75 percent for transversal regulatory (2019/20: 67%) and 86 percent for organisational (2019/20: 53%), see Table 3 below.

Table 3: NERSA – Overall Performance

Programmes	Planned Annual Targets		Annual Targets Met	
	2019/20	2020/21	2019/20	2020/21
Electricity Industry Regulation	27	29	22 (81%)	25 (86%)
Piped-Gas Industry Regulation	20	24	18 (90%)	22 (92%)
Petroleum Pipelines Industry Regulation	11	17	11 (100%)	15 (88%)
Transversal Regulatory	9	4	6 (67%)	3 (75%)
Organisational	17	15	9 (53%)	13 (86%)
Total	**84**	**89**	**66 (79%)**	**78 (88%)**

Source: NERSA Annual Report, 2020/21

4.1.2 Financial Performance

During the year under review, NERSA upheld its record of unqualified audit reports for the fifteenth time – a reflection of the strength and integrity of its corporate governance structure.

NERSA's main source of funding is the levies/licence fees from licensees in the three regulated industries. The levies/licence fees are proposed by the Energy Regulator and approved annually by the Minister of Mineral Resources and Energy for the Electricity Industry and in the case of the Piped-Gas and Petroleum Pipelines Industries it is also done in consultation with the Minister of Finance.

During the 2020/21 financial year, the impact of COVID-19 on the country had a direct impact on the actual reported volumes. These volumes came in short of estimates by 27 percent in the Petroleum Pipelines industry, 11 percent in the Electricity industry and 4.7 percent in the Piped-Gas industry. This also led to a reduction in NERSA's expected revenue by 13 percent. This trend is expected to continue in the 2021/22 financial year, albeit with a less severe impact compared to the previous year. Despite these challenges, NERSA managed to collect sufficient revenue to perform its regulatory functions for the year under review. Expenditure was also contained in light of the economic circumstances, as cost savings against the budget for the year amounted to 36 percent due to travel restrictions, as well as restrictions of face-to-face engagements.

Furthermore, NERSA reported a deficit of R5.3 million against a budgeted deficit of R11.2 million for the year. This was as a result of planned refunds of levies to the regulated industries from NERSA's accumulated surpluses. NERSA was in a stable financial position as at 31 March 2021, with a positive net asset value of R293 million. This was mainly due to cash reserves of R217 million, mostly from deposits placed with the Corporation for Public Deposits at the South African Reserve Bank.

4.2 National Nuclear Regulator[10]

4.2.1 Non-Financial Performance

In the 2020/21 financial year, the NNR APP contained seven (7) outcomes and 13 output indicators. The performance level for the organisation was registered at 99.6 percent based on the PoE provided. The entity only partially achieved 1 (one) target and this related to a commitment made to achieve 100 percent implementation of all the approved Information Communication Technology (ICT)

[10] Section extracted from the NNR Annual Report, (2020/21)

strategic deliverables. The entity implemented 95.89 percent of approved ICT strategic deliverables. The reason cited for the partial achievement was that there had been delays in procurement of laptops.

4.2.2 Financial Performance

The entity is wholly dependent on the authorisation fees and Government grant for continued funding of its operations. For the 2020/21 financial year, the entity received a Government grant to the tune of R40.4 million. Revenue from authorisation fees, for the period under review, amounted to R212.7 million against a budget of R235.7 million. The variance of ten percent was attributed to the decline in the number of regulated licences, caused by the number of licence surrenders and reclassification of licences from higher to lower categories. Application fees for the New Installation Site Licence (NISL) accounts for a larger portion of this revenue stream. A total of R22.4 million was realised, compared to a budget of R17 million, for the period under review. The thirty percent variance between projected and actual revenue was attributed to the unpredictable number of applications received on ongoing projects.

Total revenue realised for the 2020/21 financial year amounted to R281 million, against a budget of R301 million. This is an increase of 3.9 percent in comparison to the previous financial year. Authorisation Fees account for 76 percent of total revenue. Application fees remain unpredictable, and fluctuate year-on-year based on applications received and additional work agreed upon with applicants on ongoing projects. State grant decreased by 6.5 percent from R43 million in 2019/20 to R40.4 million in 2020/21. This decrease was partly attributed to the contribution by the NNR to the Government's COVID-19 funds reprioritisation programme. Other revenue includes interest income and other recoveries from services rendered by the NNR on behalf of partner institutions, such as the International Atomic Energy Agency (IAEA), European Nuclear Safety Training and Tutoring Institute (ENSTTI), and others. Table 4 below shows the NNR sources of revenue for the 2020/21 financial year.

Table 4: NNR Revenue

	2020/21 Financial Year		
Sources of Revenue	**Budget**	**Actual**	**Variance (Under/over Recovery)**
	R'000	R'000	R'000
Authorisation Fees	235 745	212 715	23 030
Application Fees	17 200	22 435	(5 235)
State Grant	40 467	40 467	-
Other Revenue	7 941	5 738	2 203
Total	**301 353**	**281 354**	**19 999**

Source: NNR Annual Report, (2020/21)

During the year under review, the entity received an unqualified audit opinion, with the following findings:[11]

- Material losses of R8 715 404 were incurred as a result of impairment of irrecoverable trade debtors.
- Management did not prepare accurate supporting schedules to support the information reported on the annual financial statements. There had been a material misstatements identified in the financial statements submitted, which was subsequently adjusted for, resulting in material non-compliance with section 55(1) (b) of the PFMA. The AGSA emphasised that management should ensure that adequate reviews are performed to have accurate and complete financial statements.

4.3 National Radioactive Waste Disposal Institute[12]

[11] National Nuclear Regulator (2021).

[12] Section extracted from the NRWDI Annual Report, (2020/21)

4.3.1 Non-Financial Performance

The NRWDI executes its mandate through four programme areas, namely Programme 1: Administration, Programme 2: Radioactive Waste Disposal Operations, Programme 3: Science, Engineering and Technology, and Programme 4: Radioactive Waste Compliance Management. Programmes 1, 3 and 4 achieved 100 percent of the set performance targets, whilst Programme 2 achieved 2 or 66.7 percent of the 3 planned targets. The target not achieved relates to the 80 percent compliance rate for annual Safety, Health, Environment and Quality (SHEQ) audit for disposal facilities on Vaalputs site. The entity maintained that SHEQ audit could not be conducted due to COVID-19 pandemic.

4.3.2 Financial Performance

The main source of revenue for the NRWDI is the Government grant of R49.3 million, a slight increase from R47.4 million in the 2019/20 financial year. Other revenue streams are compensation for rendering of services and investment income. Investment income collected during the current financial year was lower due to decreasing interest yields derived from the investment, see Table 5 below.

Table 5: NRWDI Revenue

2020/21 Financial Year			
Sources of Revenue	**Estimate/Budget**	**Actual**	**Variance(Under/over Recovery)**
	R'000	R'000	R'000
Government Grant	49,397	49,397	-
Other Income	2,094	1,184	910
Total	**51,491**	**50,581**	**910**

Source: NRWDI Annual Report, (2020/21)

For the 2020/21 financial year, NRWDI obtained an unqualified audit opinion from the AGSA, with no findings (Clean Audit).

4.4 South African National Energy Development Institute

4.4.1 Non-Financial Performance

SANEDI execute its mandate through three (3) programme areas, namely Programme 1: Administration, Programme 2: Applied Energy Research, Development and Innovation, and Programme 3: Energy Efficiency. Programme 1 and 3 achieved 100 percent of the set targets, whereas Programme 2 achieved 91 percent of the targets. The targets not achieved are as follows:[13]

- SANEDI had planned to facilitate energy related training that would attract 50 recipients. However, the number of recorded recipients was thirty-two (32). Eighty (80) individuals were invited to the online training, with 72 accepting to attend the event. Thirty-two (32) logged into the training session and were active, and others kept logging in and out throughout the session. It then became difficult to account for the 50 for the purpose of evidence and SANEDI obtained a record of 32.
- SANEDI had planned to assess 7 energy solutions (Advisory notes, feasibility reports, complete study reports, case studies, technology roadmaps and operational demonstration facilities). This target was not achieved and SANEDI cited the following as a reason for the non-achievement of the target "There are changes in the Cleaner Fossil Fuels (CFF), as from 1 September 2020 the sub-programmes under CFF were transferred to the Council for Geoscience (CGS) as per the Minister's approval. To this end, Pilot CO_2 Storage Project (PCSP), the Carbon Capture, Utilisation and Storage (CCUS) project, and the team have been transferred to the CGS for further implementation and custodianship".[14] Therefore, the rolling out of the annual targets was discontinued.

[13] South African National Energy Development Institute (2021).
[14] Ibid.

4.4.2 Financial Performance

SANEDI derives its revenue from the services it renders, as well as from Government through a grant transfer from the DMRE. For the 2020/21 financial year, the entity received a grant allocation of R80.4 million. When one includes revenue from the services the entity renders, interest and other income, the entity had a total revenue of R89 million for the 2020/21 financial year.

The entity obtained an unqualified audit opinion from the AGSA, with the following findings:[15]

- The AGSA drew attention to the fact that the entity entered into the process of renewing its operating lease. The lease at year end was still being finalised at the time of reporting. It was of a material nature as it related to the renewal of the lease office block from CEF (SOC) Limited for an estimated amount of R5 million over four years, and this was a non-adjusting event.
- The AGSA found that the bid documentation for procurement of commodities designated for local content and production had not stipulated the minimum threshold for local production and content, as required by the 2017 Procurement Regulation 8(2).

4.5 Council for Mineral Technology Research[16]

4.5.1 Non-Financial Performance

Mintek enters into a Shareholder's Compact agreement with the DMRE on an annual basis. The Shareholder's Compact contains Key Performance Indicators (KPIs), a long-term Strategic Plan and a detailed Operational Plan. Quarterly reports to the DMRE are the main forms by which the performance against KPIs is monitored. Progress against the five strategic objectives (SO) for the 2020/21 financial year, name **SO1:** Conduct relevant, applied research and technological innovation, **SO2:** Foster industry establishment and expansion, **SO3:** Developing a capable workforce**, SO4:** Develop and maintain a world-class Research Development and Innovation (RDI) infrastructure, **SO5:** Ensure Financial Sustainability.

<u>Performance on SO1</u>

With respect to the annual performance, the organisation exceeded the target for journal papers (36/30), books (1/0), book chapters (12/4) and patents (5/4). However, the organisation fell short in delivery of targets with respect to conference papers (24/70), invention disclosures (13/18) and trademarks (5/8). Conference papers fell short (24/70) due to lockdown measures imposed to combat the COVID-19 pandemic resulting in the cancellation of a number of expected events. These papers were diverted to journals or presented as oral presentations or webinars. Over and above the 24 conference papers published, Mintek participated in a total of 80 virtual events as a substitute for not attending conferences due to COVID-19 restrictions. The target achieved (13) for invention disclosures was lower than projected (18) owing to delays in Science Vote projects due to the national lockdown and associated COVID-19 restrictions. Mintek anticipates that new discoveries intended for 2020 will be filed in 2021. In addition, some multi-year projects undertaken by divisions have previously had discoveries filed within them and no new IP is anticipated. Trademarks fell short (5/8) because some applications filed towards the end of the financial year had not yet been finalised by the end of March due to a lag in applications at the Companies and Intellectual Property Commission (CIPC).

<u>Performance on SO2</u>

Although Mintek exceeded its annual target for income from the sale of products and services, royalties and licences (R103.04/R74.7), it did not achieve its target for the number of prototypes, processes and/or models demonstrated/validated in a relevant environment (12/16) and number of IP Licences (0/2). This was due to the slow start to the year owing to COVID-19 where most of these outputs could not be ready to be published by the 31st of March 2021, but will, instead, count in the

[15] Ibid.

[16] Mintek Annual Report, (2020/21)

2021/22 financial year. That also includes the Historically Disadvantaged South Africans (HDSA) Demonstration units that were supposed to have been delivered to Mintek on the 1st of March 2021. These will only be brought to Mintek in Quarter 1 of the 2021/22 financial year. The pilot plant for treatment of mine effluent was started up later than anticipated due to COVID-19 restrictions. The integrated plant has been commissioned and current efforts are focused on reaching design parameters. The measure will therefore only be met in the 2021/22 financial year.

Performance on SO3

The total headcount at Mintek as at the end of the financial year was 505 permanent staff. Seventeen (17) out of 507 employees were on fixed term contracts of between 1 to 5 years. The number of Science, Engineering and Technology (SET) staff was 243, exceeding the annual target of 215. The percentage of black SET staff was 80 percent exceeded the target of 79 percent, while the percentage of female SET staff was 53 percent also exceeded the target of 50 percent. The achievement was due to targeted recruitment and a focus on transformation.

Mintek employed 46 SET staff with doctoral degrees, exceeding the target of 33. Nineteen percent (19%) of the SET staff had doctoral degrees exceeding the target of 15 percent. The number of SET staff with master's degrees was on target (54), while the percentage of SET staff with master's degrees is below the target (22%/25%) due to an increase in the overall number of SET employees and more PhDs. An impressive number of staff is acquiring advanced degrees with eighteen staff members registered with various South African universities. Research funding was received as part of the 2020 Science Vote Open Call process to undertake test work in support of their Master's/Doctoral degrees in 2020/21 FY.

Mintek absorbed five final year graduates (funded by Mintek). These graduates, together with five Mining Qualification authority (MQA) interns, were provided with bursaries to pursue post-graduate science or engineering degrees. Research topics are aligned with divisional research priorities. Mintek employed 98 SET staff at middle and senior levels (SP, MP, and SE) which is significantly lower that the target of 111. Sixty-three percent (63%) of the SET staff at middle and senior levels were black, lower than the target of 68 percent. Staff exits adversely affected this key performance indicator (KPI). There is a need to implement rigorous retention strategies, and this will receive focus in the next financial year as the current recruitment practice is focused on senior staff most of whom come with experience.

Performance on SO4

Mintek invested R46.3 million in property, plant and equipment (PPE) which is below the target of R50.3 million. Mintek is putting tight measures (e.g. improvement in planning projects, prior planning of procurement, tighter project management and more stringent monitoring and evaluation), in place to improve delivery of infrastructure and expenditure of budget allocated.

Mintek invested R9.1 million towards human capital development which is slightly lower than the entity's target of R13.8 million. This amount is expected to increase, as part of the 2020 Science Vote Open Call awarded staff to acquire Master's/Doctoral degrees at various South African universities.

Performance on SO5

Although Mintek fell short of its target for total income, the overall achievement in contract Research and Development (R&D) income was positive amidst the tough financial and economic climate. The late start in the activity due to the national lockdown resulted in work shifting over into the 2021/22 financial year. Significant progress was made, specifically on the rehabilitation and holings projects which resulted in revenue collection amounting to R96.7 million for the financial year. Mintek also achieved positive performance on Black Economic Empowerment (BEE) spend as percentage of procurement spend and expect to maintain this in the new financial year.

4.5.2 Financial Information

Mintek derives its revenue from various sources such as the State grant, MTEF programmes, contract research, products and services, interest income, etc. The funding received from DMRE amounted to

R372.5 million of which R244.9 million related to science vote. This was 2.5 percent higher than the state grant allocation received in the previous year. The balance of R127.6 million was spent on the MTEF programmes which included the Titaniferous Magnetite project and the Rehabilitation of Derelict and Ownerless Asbestos Mines (D and O). Contract revenue generated from the D and O projects were R96.7 million. This is
R20.3 million higher than the previous year and a contribution of 17 percent to total revenue. Because the majority of the cost on these projects are paid out to service providers the project costs attributed 15 percent to total cost.

For the reporting year, Mintek achieved total revenue amounting to R554.3 million, which is a decline of less than 1 percent from R557.5 million during the 2019/20 financial year. Although this reduction seems insignificant, it is concerning that commercial revenue has declined significantly from R271.7 million in 2019/20 to R256.2 million in 2020/21 which represents a 6 percent decline that can be attributed to the global economic environment which was further exacerbated by the COVID-19 pandemic. Overall expenditure decreased by 13 percent from R628.6 million during the 2019/20 financial year to R545.7 million during the 2020/21 financial year. Employee costs remains the principal cost driver for Mintek where 52 percent (48%: 2019/20) of total cost related to salaries. As the result of natural attrition, as well as freezing of non-critical positions, this cost was reduced by R16.1 million to R284 million. Mintek's BEE spend as a percentage of total discretionary spend exceeded target and ended the year at 94 percent.

The entity achieved a net surplus of R4.8 million despite the trying economic conditions and this was against a deficit of R63.7 million during the 2019/20 financial year where the main contributor to the net deficit had been an increase in expenditure due to assets related to exceptional items that were recognised during that year.

The entity obtained an unqualified audit opinion from the AGSA, with the following findings:[17]

- Effective and appropriate steps had not been taken to prevent irregular expenditure amounting to R2 379 408 as reported in the annual financial statements, as required by section 51 (1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by some deviations.
- The AGSA was unable to obtain sufficient appropriate audit evidence that disciplinary steps had been taken against officials who had incurred irregular expenditure, as required by section 51 (1)(e)(iii) of the PFMA. This was because investigations into irregular expenditure had not been performed.

4.6 Mine Health and Safety Council[18]

4.6.1 Non-Financial Performance

The MHSC has adopted a Balanced Scorecard (BSC) approach to its performance measurement. The Balanced Scorecard System, which measures the performance of the MHSC at corporate, business unit, and individual level, was approved by the Council. Table 6 shows overall performance of the entity. The MHSC has regressed for this financial year, as compared to 2019/2020 financial year. The MHSC succeeded in implementing the strategic objective to 'ensure financial sustainability of the MHSC' (FP01). According to the MHSC, some of the challenges that have led to the underperformance include vacancies at executive level, loss of key management staff within the Research Unit, the impact of the COVID-19 pandemic on procurement processes, and key MHSC events.

The MHSC considers performance above 80 percent as achieved, between 51 percent and 70 percent partially achieved, 50 and below not achieved. As evident in table 6 below, of the ten (10) targets the entity had set, only one (1) was achieved, did not achieve five (5) and partially achieved four (4) targets.

Table 6: Performance overview of the MHSC for 2020/21 financial year

[17] Mintek (2021).
[18] MHSC Annual Report, (2020/21)

Strategic Objective	Weight	Target	Actual	Status
1. CP01 - Provide advice to the Minister on health and safety matters in the South African Mining Industry and communities affected by mining.	15%	80%	61%	Partially achieved
2. CP02 – Promote a culture of health and safety in the SAMI through engagement, communication, participation, and dissemination of Occupational Health and Safety (OHS) best practices	15%	100%	77%	Partially achieved
3. CP03 - Liaise with statutory bodies, strategic partners, and stakeholders on matters relating to OHS	10%	100%	75%	Partially achieved
4. LG01 - Ensure best Human Capital management practices that will support the achievement of a highly skilled, motivated, and capable MHSC employees, Council Advisory Committees, and Council	10%	100%	43%	Not achieved
5. IP01 - To improve MHSC compliance and implementation of good corporate governance structures.	5%	100%	53%	Partially achieved
6. IP02 - Ensure MHSC information is adequately managed and secured.	10%	100%	0%	Not achieved.
7. IP03 - To ensure ICT infrastructure is available to facilitate implementation MHSC core systems Integration and automation	5%	100%	0%	Not achieved.
8. IP04 - Leverage on the fourth industrial revolution (4IR) for improvement of OHS in the SAMI and internal effectiveness	5%	100%	0%	Not Achieved
9. FP 01 - Ensure financial sustainability of MHSC.	15%	70%	83%	Achieved
10. FP 02 - Ensure efficient and effective financial management	10%	100%	50%	Not achieved

Source: MHSC Annual Report, (2020/21)

4.6.2 Financial Performance

The MHSC derives its revenue from the levies, the state, interest and other sources of income, see table 7 below.

Table 7: MHSC Revenue

Sources of Revenue	2021 (R)	2020 (R)
Mine Levy Income	85,989,626	78,864,348
Interest received	3,777,285	8,891,982
Transfer Revenue	344,000	4,386,000
State Funding	344,000	4,386,000
Other Income	474,139	491,517
Total	**90,585,050**	**92,633,847**

Source: MHSC Annual Report, (2020/21)

The MHSC obtained an unqualified audit opinion from the AGSA, with the following findings:[19]

- Some goods and services with a transaction value below R500 000 were not procured by means of obtaining the required price quotations, as required by Treasury Regulation 16A6.1 and paragraph 3.3.1 of Practice Note 8 of 2007/08.
- In some instances, the prices of COVID-19 Personal Protective Equipment items were higher than prescribed prices on Annexure A of National Treasury instruction note 5 of 2020/21 in contravention of paragraph 4.3 of same instruction note.

[19] MHSC (2021).

- In some instances, the suppliers of COVID-19 Personal Protective Equipment items were not registered with the Department of Small Business Development, as required by paragraph 4.6 (d) of the National Treasury instruction note 5 of 2020/21.
- Some of the contracts were extended or modified without the approval of a properly delegated official, as required by section 44 of the PFMA and Treasury Regulations 8.2.1 and 8.2.2.
- Effective and appropriate steps had not been not taken to prevent irregular expenditure amounting to R5 879 937 as disclosed in note 24 to the annual financial statements, as required by section 51(1)(b)(ii) of the PFMA. The majority of the irregular expenditure was caused by non-compliance with procurement processes.
- Controls over debt collection had not been effective as the MHSC debt collection policy was not always implemented to follow up or recover outstanding debt.

4.7 State Diamond Trader[20]

4.7.1 Non-Financial Performance

During the year under review, the SDT achieved 68 percent in performance by having achieved 21 of its 31 planned annual targets. The rest of the targets were either partially (1) achieved or not achieved (9). The nine targets not achieved relate to the following:[21]

- ***Review of the existing selling methods:*** According to the SDT, the review was conducted with a view to revising the selling methods. However, due to the COVID-19 pandemic, a conclusion that the entity will maintain the status quo was reached.
- ***100% implementation of management of all risks identified on the annual internal management plan:*** The annual risk assessment and implementation plan was done before financial year end. Only 77 percent of identified risks were implemented and the remaining 23 percent relate to the outstanding Business Plan.
- ***Implement 100% of the approved external audit Management Action Plan by 31 March 2021:*** 92 percent of the action plan was implemented from external audit.
- ***To develop the SDT Revenue Enhancement Strategy:*** The SDT Revenue Enhancement Strategy was not tabled to the Board. The draft work of Resource Mobilisation was submitted and a full Revenue Strategy is to be incorporated with the revised Business Plan upon its finalisation.
- ***Submit State Diamond Trader business case to DMRE:*** The draft document was not presented to the Board due to changes in the business environment. A further feasibility study has to be conducted on the impact of the COVID-19 pandemic imposed lockdown for future trading.
- ***To participate in one international show with 6 clients:*** The Hong Kong show was cancelled due to the international COVID-19 pandemic lockdown.
- ***Sign MOU with 1 African diamond producing country:*** The target to undertake international trips in order to meet the targeted diamond producing countries was not achieved due to international COVID-19 pandemic travel restrictions.
- ***To participate in the 3 African shows and activities in Botswana Diamond Conference:*** The Botswana Diamond Conference was cancelled in the 2020/21 financial year.
- ***To host South African Diamond Show***: The target was not achieved due to the COVID-19 pandemic induced lockdown prohibition on public gatherings.

4.7.2 Financial Performance

The SDT generates its revenue from the sale of rough diamonds and it operates in one geographic area, that is, Johannesburg. Hence its revenue and expenses are not divided into segments; as a result, no segmental reporting is done in the financial statements. The SDT does not receive funding from the State and as such depends on margins derived from the sale of rough diamonds.

According to the SDT, the 2020/21 financial year was quite challenging for the entity in the First Quarter, but despite these tough trading conditions the organisation remained financially sustainable.

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[20] SDT Annual Report, (2020/21)

[21] Ibid.

The diamond mining industry was challenged by the impact of the pandemic, however, conditions improved in the latter part of the financial period due to a strong demand for polished diamonds and improved retail activities.

The entity generated a profit of R1.2 million in the 2020/21 financial year compared to a net loss of R16.5 million during the 2019/20 financial year. Revenue increased by R452 million to R683 million, compared the R231 million achieved in 2019/20. The increase was mainly attributable to favourable market conditions experienced by the diamond mining industry.

Total expenditure decreased to R21 million from R25 million during the 2020/21 financial year. The decrease was mainly attributable to cost containment measures that management embarked on and also due to lockdown restrictions. No international travel occurred during the reporting period.

The SDT received an unqualified audit opinion from the AGSA, with the following findings:[22]

- Material losses of R945 314 was incurred, as a result of a write-down of inventory to net realisable value.
- The targets for two indicators were changed without the necessary approval. In addition, the method of calculation for achieving the planned indicators were not clearly defined. The targets referred to are as follows:

    - ✓ "Purchase 3% of suitable inspected rough diamonds", ***Revised*** to "Purchase 2% of inspected rough diamonds".
    - ✓ Meet 14% of client's requirements by supplying 50,628 carats", ***Revised*** to "Meet 4% of client's requirements by supplying 10,125 carats to clients".

- The planned indicator "***Establish businesses from the EDP***" and target of "***To establish 2 business from EDP***", as per the approved initial shareholders compact and the performance against the planned target were not reported in the annual performance report.
- The reported indicator of "increase of diamonds sold to HDSA" and related target of "R15 millions of diamonds sold to HDSA" did not agree with the planned indicator "Percentage increase of diamonds sold to HDSA and related target of "5% increase of diamonds sold to HDSA". Consequently, the reported achievement of "The entity sold diamonds valued at R81 million to HDSA clients" was not consistent with the planned indicator and target or its predetermined measurement processes.[23] As a result, the AGSA was unable to audit the reliability of the reported achievements.

4.8 Council for Geoscience

4.8.1 Non-Financial Performance

For the 2020/21 financial year, CGS achieved 86 percent of its set performance targets for the 2020/21 financial year. In the previous financial year, the Council had achieved 82 percent, therefore it has improved during the year under review. The three targets not achieved are as follows:

- Raising a R30 million revenue from collaborative activities/partnerships: The entity raised R23.2 million.
- Grant revenue of R520.9 million. The entity received a grant revenue of 486.2 million.
- Offshore geoscience map coverage of 0.1 percent. Actual achievement was offshore geoscience map coverage of 0.05 percent.

As part of the Karoo Deep Drilling Programme, the CGS has now started drilling a 3 500m ultra-deep vertical stratigraphic research borehole. In the year under review, 2 412.06m were drilled, with methane gas (CH4) detected at depths of 1 734m and at 2 325m.

4.8.2 Financial Performance

[22] SDT (2021).
[23] Ibid.

Tables 8 and 9 below provide detailed financial performance of the CGS for the year under review and projections for the two outer years, 2021/22 and 2022/23.

Table 8: Audited Actuals FY2020/21 and Budget FY2021/22– FY2022/23

Income/Funding Model				
Income (Rands)	**2020/21 Budget x 1000**	**2020/21 Actuals x 1000**	**2021/22 Budget x 1000**	**2022/23 Budget x 1000**
Government grant-Baseline	202 388	202 388	212 800	228 209
Government grant –Baseline Increase Geological Mapping	70 000	51 305	128 000	147 815
National Treasury 2020 AENE and 2021 MTEF Budget Reductions	(18695)		(16696)	(22 930)
Government grant-MTEF	354 515	224 346	52 958	54 984
****CCUS Project**	90 000	8 182	—	—
Sales and contracts	29 282	23 215	32210	35 431
Sundry income	4 072	16 443	4276	4490
TOTAL INCOME	**731562**	**525 879**	**413 548**	**447 999**
Budget fluctuations are resulting from conditional grant allocation (MTEF projects)				

Source: Presentation document on 09 November 2021

Table 9: Audited Actuals FY2020/21 and Budget FY2021/22– FY2022/23 - Expenditure

Expenditure (Rands)	**2020/21 Budget x 1000**	**2020/21 Actuals x 1000**	**2021/22 Budget x 1000**	**2022/23 Budget x 1000**
Personnel costs	336594	333 691	316946	342 117
Bursaries and Training	4 074	3 610	4 481	4 930
Commercial project costs	13 177	5 710	14495	15944
Overheads and operating costs	305 921	183 641	62126	69 508
SUBTOTAL –B	**659 766**	**526 652**	**398 048**	**432 499**
SURPLUS(LOSS) A-B	-	**(773)**	-	-
Budgeted Capital Expenditure (vehicles; equipments;etc)	71 796	*49 343	15 500	15 500
TOTAL EXPENDITURE	**731 562**	**526 652**	**413 548**	**447 999**
*Balance Sheet				

Source: Presentation document on 09 November 2021

The CGS has achieved an unqualified audit for the financial year 2020/2021 and has never had an audit qualification over the past 19 years. The CGS obtained the following findings from the AGSA:

- Effective steps were not taken to prevent fruitless and wasteful expenditure amounting
- to R18 496 000,
- Management did not implement adequate controls to ensure that the annual financial statements are prepared in accordance with the applicable framework and supported by accurate, complete and reconciled supporting schedules. There were material misstatements identified on property, plant and equipment and related parties' disclosure note, which were subsequently adjusted, resulting in material non-compliance with the PFMA. Management did not ensure that adequate contract management is implemented to avoid fruitless and wasteful expenditure, resulting in material non-compliance with the PFMA.

5. OBSERVATIONS

5.1. Auditor-General of SA

1. The Committee noted that the NRWDI achieved an unqualified audit opinion with no findings (clean), similar to the previous financial year.
2. The Committee observed from the AGSA that they have not audited the Annual Financial Statements of CEF and NECSA for two consecutive years.
3. The Committee observed that the DMRE and the rest of the remaining entities' audit outcomes has remained the same.
4. The Committee observed that the prevalent instances of non-compliance are in the areas of expenditure management, supply chain management, consequence management and material misstatements identified in the financial statements submitted for auditing.
5. A matter of concern for the committee is that according to the AGSA, in most instances, findings raised are reoccurring, indicating that audit action plans and a culture of accountability are not exercised effectively.
6. The Committee observed minimal action is undertaken by governance structures and leadership in the department and its entities to address internal control deficiencies
7. Members observed the late submission of the PetroSA's Annual Financial Statements (AFS) to the AGSA (30 July 2021). Members raised a concern and noted that all entities are aware of the submission date of the AFS to the AGSA.
8. The Committee observed the reasons given by the AGSA with regard to the finalisation of the CEF audits. The reasons were as follows:
    a. Instead of submitting their AFS on 31 May 2021, PetroSA submitted on 31 July 2021. The PetroSA AFS had to be consolidated into the CEF Group in order for the CEF to submit their final AFS to AGSA.
    b. There were delays in the submission of information from the main subsidiary of the PetroSA.
    c. PetroSA's going concern assessment is pending.
9. The Committee observed the compliance inconsistencies on interest charged to the state on outstanding debts. In the DMRE for example, some were charged interest and others not. According to the AGSA, the merger between the two departments might have impacted on this, and the DMRE need to ensure that going forward there is uniformity.
10. The Committee noted with concern that the IT infrastructure of the DMRE was still split between the former Department of Mineral Resources (DMR) and the Department of Energy (DoE). The assumption was that after the merger, there should have been a single integrated IT infrastructure. After the audit on 30 July 2021, the AGSA's findings and recommendations were highlighted to the DMRE, which included the IT infrastructure shortcomings.

5.2 The Department of Mineral Resources and Energy (DMRE)

1. Even though the overall audit outcomes within the DMRE portfolio remained unchanged when compared to the previous financial year (2019/20), where most of the auditees received unqualified audit opinions with findings on compliance with key legislation, the Committee encouraged the DMRE to improve on its audit outcomes and also to assist its entities in improving their audit outcomes going forward.
2. The Committee observed with concern the performance of the AGSA, as two of the entities (SADPMR and NECSA) that did not table their Annual Reports on time cited delays caused

by the AGSA. Thus, this would make it impossible for the Committee to make an opinion on reports not tabled in Parliament.

3. The Committee also observed with concern that the AGSA presented audit outcomes of the Annual Reports of the entities which had not tabled in Parliament, such as NECSA and SADPMR.
4. The Committee noted the assurance by the Deputy Minister that a number of findings had been addressed by the DMRE and others are work in progress and will continue to be addressed in the current financial year.
5. The Deputy Minister further committed to regular monitoring of action plans by the Minister and the Accounting Officer in relation to the implementation of the AGS's findings and recommendations. She further stated that consequence management will be implemented against officials who transgress compliance of legislation.
6. The Committee noted the DMRE's approach to the Black Industrialist Programme. The Black Industrialist Programme is informed by what was published by the Department of Trade, Industry and Competition (DTIC). The DMRE's approach is that a Black Industrialist is any black individual involved in the creation of industrial enterprises, such as in manufacturing of goods and the provision of original services e.g. conveyor belts for mining houses, engineering, pumps etc.
7. The Committee observed with concern that the potential investor for building a new refinery in Richards Bay was no longer interested in the project.
8. The Committee observed the poor performance of the Minerals and Petroleum Regulation branch. The DMRE stated that the 1st quarter of 2020 financial year was "written off', due to the COVID-19 hard lockdown, where no inspections could be undertaken. The DMRE stated that they endeavored to catch-up during the subsequent quarters, but it remained a challenge, because of the various lockdown restrictions which followed.
9. The Committee observed the consistent poor performance of the National Solar Water Programme. The Department incurred fruitless and wasteful expenditure amounting to R20.7 million, the majority of which was caused by additional storage costs for solar water heater geysers that had been manufactured, but were not installed.
10. The Committee welcomed progress made on the Artisanal Small Scale Mining Policy. The DMRE indicated that written comments on the policy closed on 17 June 2021, and they are now in the process of consulting stakeholders.
11. The Committee noted the following policy related developments: Roadmap for Implementation of the 2 500 MW Nuclear Programme; Electricity Pricing Policy Review and the Framework for a Just Transition to a low carbon economy.
12. The Committee noted with concern the poor IT system controls found by the AGSA in the DMRE. The AGSA found that the IT infrastructure of the DMRE had still been split between the erstwhile Department of Mineral Resources (DMR) and the Department of Energy (DoE). The assumption was that after the merger, there should have been a single integrated IT infrastructure.

5.3 Entities reporting to the Department

1. The committee welcomed the permanent appointments of the NERSA Chairperson, Mr. Smunda Mokoena and CEO, Adv. Nomalanga Sithole, and the CEO of NRWDI, Dr. Margaret Mkhosi.
2. The Committee observed the failure of the CEF Group to table its Annual Report, as the reason for the failure to submit on time is not delays by the AGSA, as is the case with NECSA and the SADPMR. The CEF Group failed to submit, and therefore acted in breach of the law. The CEF Group's last Annual Report (2018/19) was tabled on 27 September 2019. There is no record of the 2019/20 and 2020/21 Annual Reports.
3. Similarly, NECSA tabled its last Annual Report for 2016/17 on 28 September 2017. There is no record of any further reports tabled by NECSA in Parliament.
4. Moreover, the Committee notes with concern that the CEF Group and the NECSA group did not present to the Committee their Performance Plans for the 2021//22 financial years.
5. The Committee commended NRWDI for obtaining a clean audit from the AGSA for three consecutive years. Moreover, the Committee encouraged other entities to emulate NRWDI.
6. The Committee noted CGS's commitment to finalize the Karoo Geo-Environmental Baseline Study in the course of the 2021/22 financial year. The CGS had indicated that deep drilling had been completed at a depth of 2 978m, with methane and other types of gas confirmed.

7. The Committee noted CGS's difficult to secure a long-term sustainable funding. To do a nation-wide mapping, CGS need about R20 billion over a period of 10 years.
8. The Committee noted with concern that the NNR aims to use its surpluses to refurbish its Cape Town Offices. The building has been in existence since 1984 (when the Koeberg Power Plant was commissioned), and it has now been found that the building is derelict and inadequate for habitation.
9. The Committee was concerned about the compliance and safety inspections at Koeberg Nuclear Power Plant, citing recent incidents of radiation leaks and contamination in the plant control room.
10. Moreover, the Committee is concerned by the loss of skills at Koeberg Nuclear Power Plant. The NNR indicated that it has the same concerns and is engaging with the United Arab Emirates (UAE) regarding its concerns on brain-drain. The loss of skills at Koeberg Power Plant has been a concern since 2015/16, when the nuclear programme in the UAE was ramping up. The NNR stated that they had flagged this as a risk to Eskom. However, the NNR confirmed that the current staff at the plant are sufficient to operate the plant safely.
11. The Committee noted NERSA's plea for the review of the Electricity Pricing Policy. NERSA maintains that due to new developments in the electricity industry, such as the unbundling of Eskom and increased interest in embedded generation, there is a need to relook at both electricity pricing policy and legislation.

6. RECOMMENDATIONS

It is recommended that the Minister of Mineral Resources and Energy should:

1. Ensure that the three outstanding entities, i.e. SA National Nuclear Energy Corporation (NECSA), Central Energy Fund (CEF) and the SA Diamond and Precious Metals Regulator (SADPMR) table their outstanding Annual Reports for the 2020/21 financial year before the end of the 1st Term of 2022.
2. Ensure that the findings and recommendations of the Auditor-General of SA (AGSA) are implemented.
3. Develop an Implementation Action Plan including of its entities to address the findings and recommendations of the Auditor-General of SA (AGSA), and brief the Committee on these plans during the 1st Term of the 2022/23 financial year, and thereafter on a regular basis.
4. Ensure that Department and its entities consistently submit their Annual Reports, as per the deadline prescribed by the PFMA. Ensure uniformity in the Department of Mineral Resources and Energy (DMRE), regarding interest charged on outstanding debt.
5. Ensure that the IT infrastructure shortcomings at the Department of Mineral Resources and Energy (DMRE) are addressed as highlighted by the findings and recommendations of the Auditor-General of SA (AGSA).
6. Update the Committee on the Roadmap for implementation of the 2 500 MW nuclear programme during the 1st Term of the 2022/23 financial year.
7. Update the Committee on the Review of the Electricity Pricing Policy during the 1st Term of the 2022/23 financial year.
8. Present to the Committee the Framework for a Just Transition to a low carbon economy, during the 1st Term of the 2022/23 financial year.
9. Expedite implementation of the National Solar Water Heater Programme in order to avoid the recurrence of the fruitful and wasteful expenditure relating to the storage costs.
10. Brief the Committee on the outcomes of the Council for Geo-Science's (CGS) Geo-Environmental Baseline study pertaining to shale gas in the Karoo.
11. Update the Committee on the Artisanal Small Scale Mining Policy once finalized.
12. Brief the committee on the outstanding Annual Reports of the Central Energy Fund (CEF) Group, SA Nuclear Energy Corporation Group (NECSA) and the SA Diamond and Precious Metals Regulator (SADPMR).

Note:

- The Committee will engage with the Standing Committee on Auditor-General regarding the performance of the Auditor-General of SA (AGSA), including the outstanding audits.

7. APPRECIATION

The Committee would like to thank the Minister of Mineral Resources and Energy, Mr S.G Mantashe, and the staff of the Department as well as the Board Members and Management of all the entities, for their cooperation and transparency during this process.

The Chairperson wishes to thank all Members of the Committee for their active participation during the process of engagement and deliberations and their constructive recommendations reflected in this report.

The Committee also wishes to thank its support staff, in particular the Committee Secretaries, Ms A Boss, Mr A Kotze, the Researcher/Acting Content Advisor for Energy, Mr S Maboda, the Committee Assistant, Ms V Makubalo and the Executive Secretary to the Chairperson, Ms N Baleni, for their professional support and conscientious commitment and dedication to their work.

Report to be considered.
