

080307 JC Budget



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**DRAFT 1: THE JOINT BUDGET COMMITTEE THIRD QUARTER EXPENDITURE REVIEW OF 2007/08
FINANCIAL YEAR**

1 INTRODUCTION

It is important to note that in the third quarter, the national departments were operating on the revised expenditure estimates that are inclusive of additional funding from the Special Adjustments Appropriation Act and the Adjustments Appropriation Bill. In terms of section 30(2) of the Public Finance Management Act, (Act No 1 of 1999) (PFMA), additional funding provided for in the Adjustments Appropriation Bill includes adjustments due to significant unforeseeable economic and financial events, any funds required for emergency situations in terms of section 16 of the PFMA, the shifting of funds between and within votes or to follow the transfer of functions in terms of the section 42 of the PFMA, the utilisation of savings under a main division of a vote for defraying excess expenditure under another main division of the same vote in terms of section 43 of the PFMA, and the roll-over of unspent funds from the preceding financial year.¹

In addition to the 2007/08 Main Appropriation that was tabled before Parliament on 20 February 2007, extra funds to the value of R5.2 billion were made available for spending through the tabling of the Special Adjustments Appropriation Bill on 5 September 2007. Furthermore, an additional R11.5 billion was made available for spending via the Adjustments Appropriation Bill on 30 September 2007. Emanating from the two additional funds, the 2007/08 Main Appropriation Budget of R533.9 billion increased to the Adjusted Appropriation Budget of R542.4 billion (representing an approximate increase of 1.6 per cent).

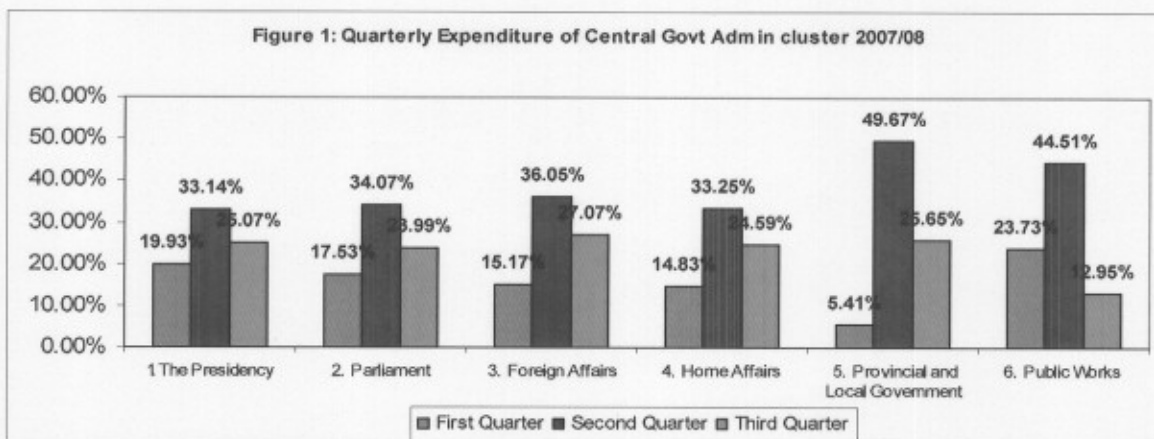
¹ National Treasury Adjusted Estimates of National Expenditure 2007, pg i



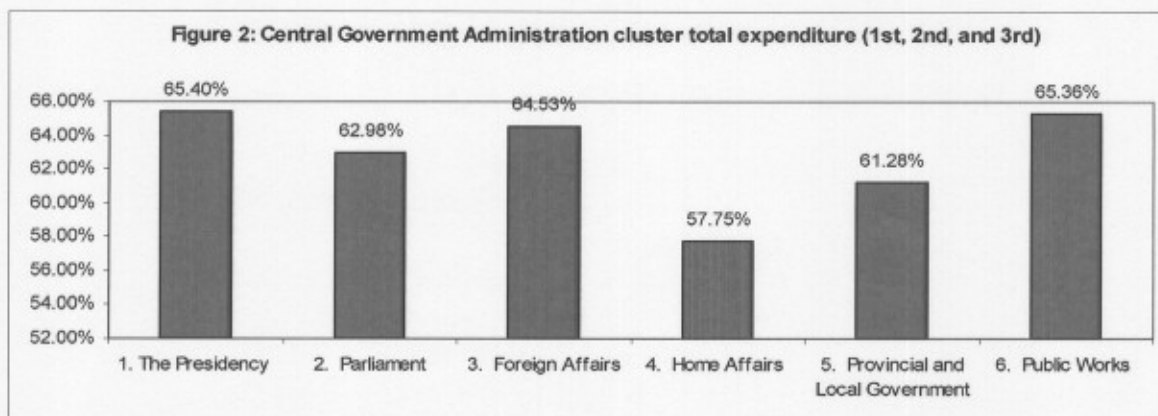
2 THE ANALYSIS OF 2007/08 QUARTER EXPENDITURE PER GOVERNMENT CLUSTER

2.1 The Central Government Administration cluster

In the 2007/08 financial year, the average departmental expenditure under the Central Government Administration cluster amounted to 24.54 per cent in the third quarter (relative to 46.11 per cent in the second quarter, and 9.09 per cent in the first quarter). The accumulated total expenditure of the three quarters amounted to 67.72 per cent spending of the allocated Budget. This will result in the departments having to spend the remaining 38.28 per cent only in the fourth quarter of 2007/08 financial year. Please refer to Figure 1 below to see the quarterly expenditure:



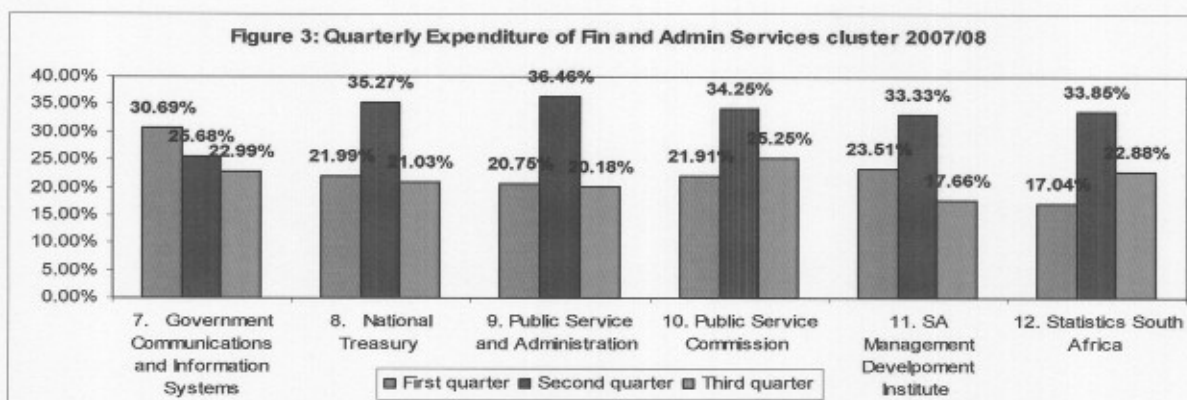
The only department that spent below the average total spending under this cluster is the Department of Home Affairs with 57.75 per cent spending. It is foreseen that the lagging-behind of spending by the Department of Home Affairs will result in 42.25 per cent March spike which could be interpreted as the fruitless and wasteful expenditure. This is reflected in Figure 2 below:



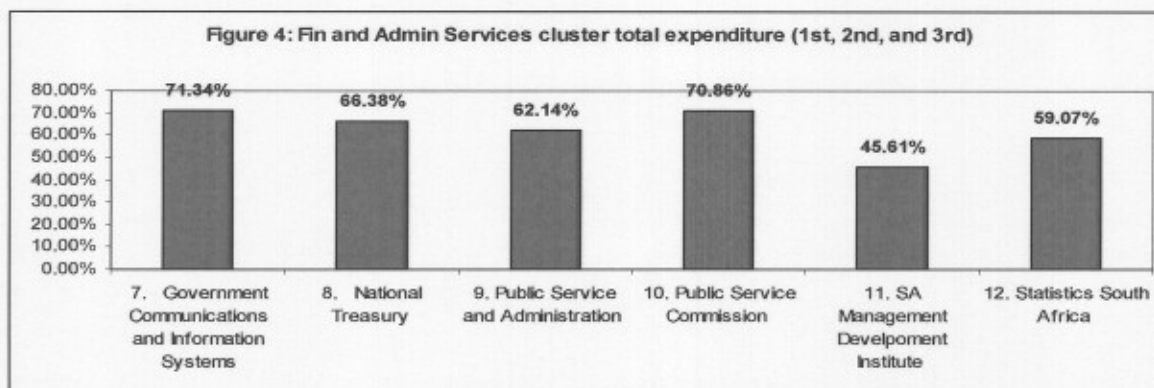


2.2 The Financial and Administrative Services cluster

In the 2007/08 financial year, the average departmental expenditure under the Financial and Administrative cluster amounted to 21.15 per cent in the third quarter (relative to 35.03 per cent in the second quarter, and 21.87 per cent in the first quarter). The total expenditure of the three quarters amounted to 65.91 per cent. It is anticipated that the departments will have to spend the remaining 34.09 per cent only in the fourth quarter of 2007/08 financial year. Figure 3 below reflects the quarterly expenditure:



The Government Communication and Information Systems (GCIS) is the only department that has deteriorated its spending over the three quarters (from 30.69 per cent spending in the first quarter, 25.68 per cent spending in the second quarter, and 22.99 in the third quarter). The accumulated spending from the 1 April to 31 December 2007 is reflected in Figure 4 below:



SAMD I only spent 45.61 per cent of its Budget over the first, second and third quarter of 2007/08 financial year. It is foreseen that SAMDI will have to utilise more than 50 per cent of its allocated Budget only in the last quarter (March spike). Stats SA has only spent 59.07 per cent of its allocated Budget over the three quarters of 2007/08 financial year. Thus, Stats SA will be required to spend 40.93 per cent of its Budget only in the fourth quarter. The uneven spending patterns will always be questionable as this may result in fruitless and wasteful expenditure.



2.3 The Social Services cluster

The average departmental expenditure under this cluster amounted to 24.89 per cent in the third quarter (relative to 30.91 per cent in the second quarter, and 29.94 per cent in the first quarter). The accumulated total expenditure of the three quarters amounted to 78.22 per cent. This is an evenly spread spending over the three quarters of 2007/08 financial year, but is in acceptable levels at the end of the third quarter as the departments will only be required to spend below 25 per cent of the remaining Budget in the fourth quarter. Figure 5 below reflects quarterly departmental expenditure:

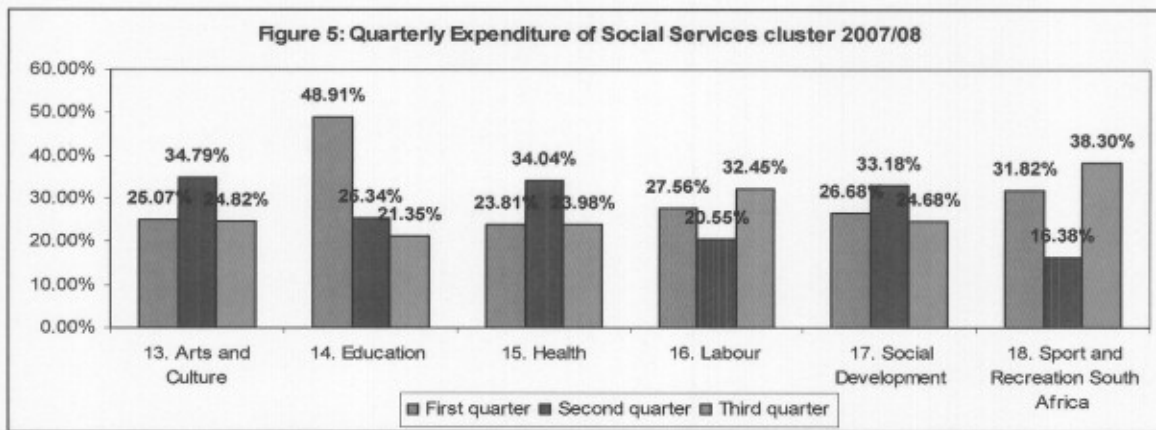
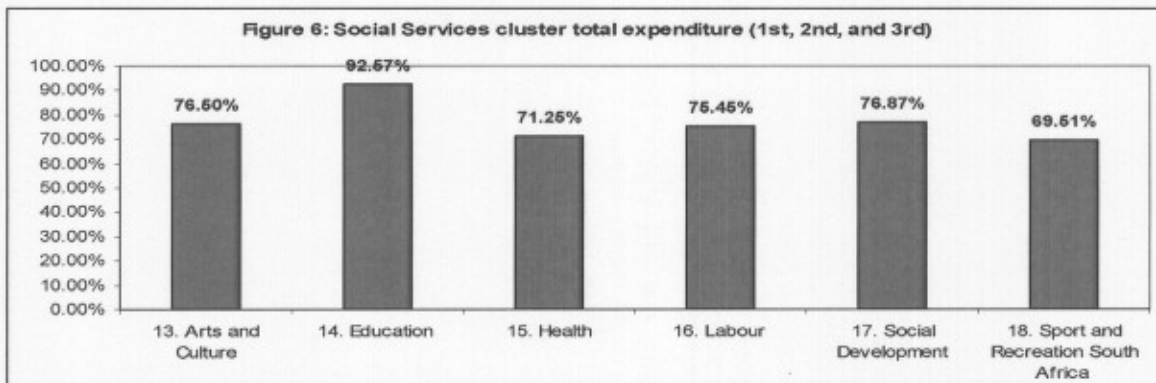


Figure 5 above indicates some uneven variation of spending over the three quarters by certain departments. The quarterly variation of spending might need some enquiry from the executive authorities and accounting officers. Figure 6 below reflects the accumulated quarterly spending:

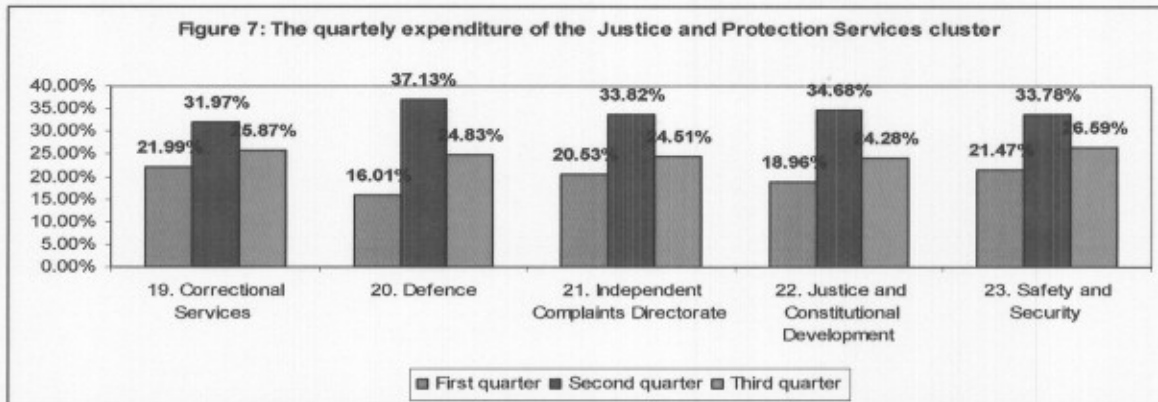


The only department that spent below the 70 per cent mark is the Department of Sport and Recreation South Africa (69.51 per cent). It is important to note that at the end of the third quarter, the Department of Education had consumed an above average 92.57 per cent of its Adjusted Budget.



2.4 The Justice and Protection Services cluster

The average departmental spending under the Justice and Protection Services amounted to 25.71 per cent in the third quarter (compared to 34.63 per cent in the second quarter, and 19.54 per cent in the first quarter). The accumulated quarterly expenditure under the Justice and Protection Services cluster amounted to 68.58 per cent of the allocated Budget. It is anticipated that the remaining 31.42 per cent will be spent only in the fourth quarter. Figure 7 below reflects the departmental quarterly expenditure:



All the departments under this cluster accelerated their spending in the second quarter and then diminished spending in the third quarter of 2007/08 financial year. The accumulated total spending from the 1 April to 31 December 2007 is reflected in Figure 8 below:

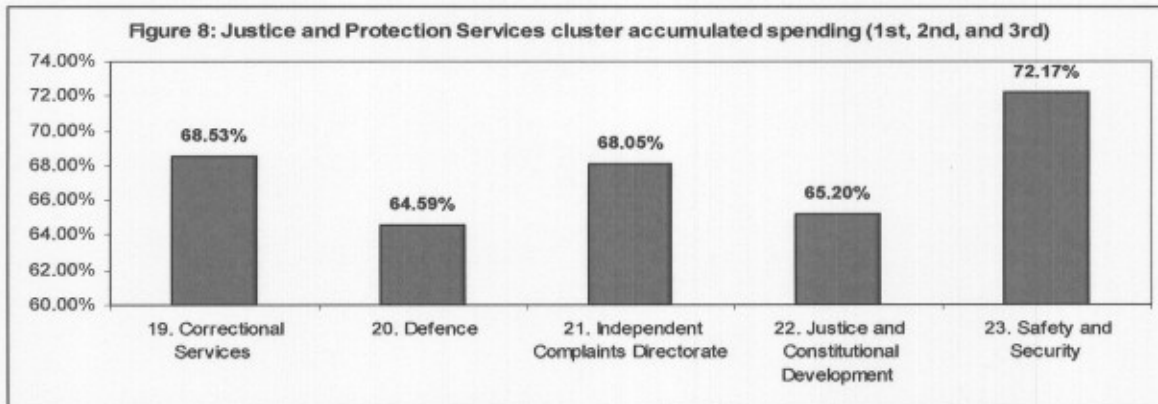
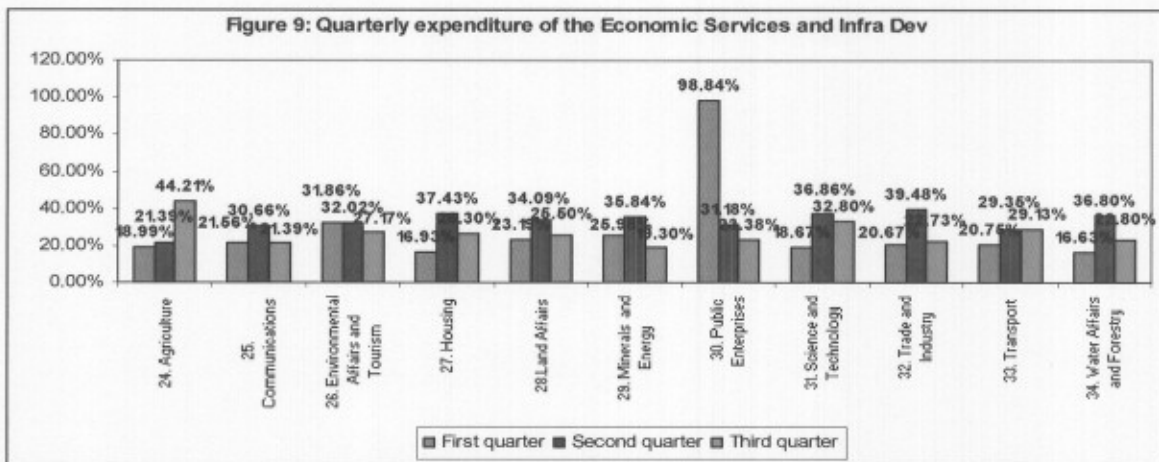


Figure 8 above indicates that the Department of Defence spent on 64.59 per cent of their Budget and is only left with 35.41 per cent for the fourth quarter. The Department of Justice and Constitutional Development spent 65.20 per cent and left with 34.8 per cent for the fourth quarter.

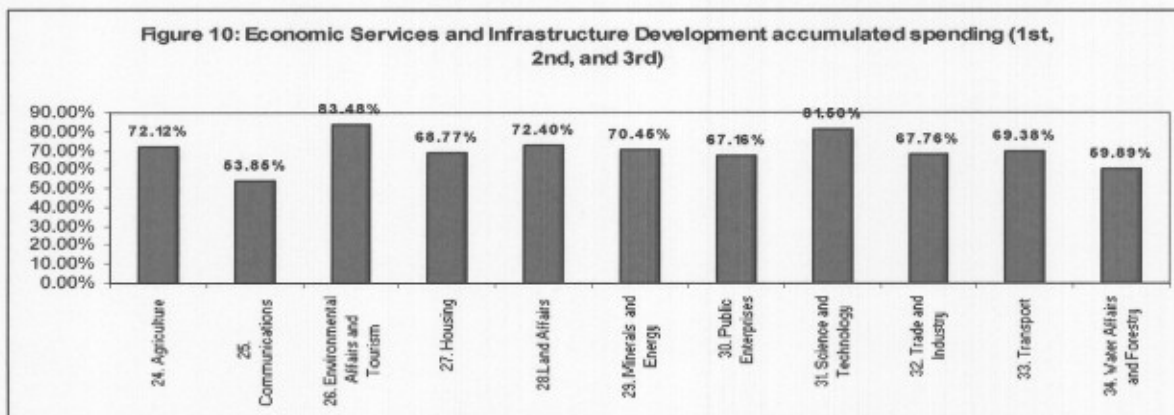


2.5 The Economic Services and Infrastructure Development cluster

The departmental average expenditure under this cluster amounted to 27 per cent in the third quarter (relative to 35.15 per cent in the second quarter, and 22.15 per cent in the first quarter). The accumulated total expenditure of the three quarters amounted to a total of 65.29 per cent spending. This is reflected in Figure 5 below:



The only department that has a negative skewed expenditure distribution (i.e. highest expenditure in the 1st quarter, reduced in 2nd quarter, and lowest in the 3rd quarter) over the three quarters is the Department of Public Enterprises. This department spent 98.84 per cent of its Budget in the first quarter and then received additional funds from the Special Adjustments Appropriation of R2 billion and a further R1.450 billion from the Adjustments Appropriation. The Main Budget of Public Enterprises was R1.063 billion and ended-up being the Adjusted Budget of R4.605 billion. The accumulated total spending that is inclusive of the first, second and third quarter is indicated in Figure 10 below:



The two departments that are of great concern under this cluster are the Department of Communications, and the Department of Water Affairs and Forestry with accumulated total spending of 53.85 and 59.89 per cent respectively over the three quarters.

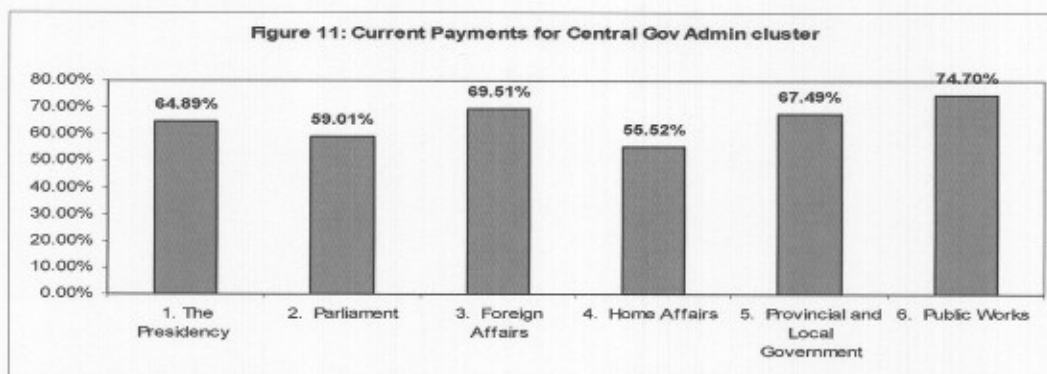


3 YEAR-TO-DATE EXPENDITURE REVIEW ACCORDING TO CURRENT PAYMENTS

The following expenditure review focuses on the Current Payments expenditure per government cluster on the basis of year-to-date (that is, the sum of expenditure of the 1st, 2nd, and 3rd quarter of 2007/08):

3.1 Departmental Current payments under the Central Government Administration cluster:

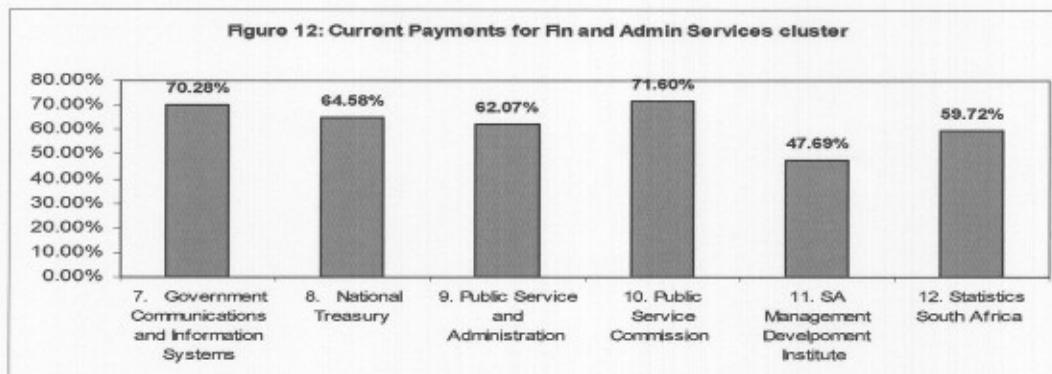
Figure 11 below reflects the Current payments for the three quarters of 2007/08 under the Central Government Administration cluster:



The lowest spending department on the Current Payments under was the Department of Home Affairs (55.52 per cent) followed by Parliament (59.01 per cent). The two departments are expected to utilise more than 50 per cent of their Budget only in the last quarter and this poses a strong possibility of March Spikes. The lagging behind of spending on Current Payments could be a possibility of unfilled vacant posts as the compensation of employees is provided for under this account. A follow up is necessary to enquire the cause of the negative situation from the two departments.

3.2 Departmental Current payments under the Financial and Administrative Services cluster:

The year-to-day (three quarters) Current payments under the Financial and Administrative Services cluster is reflected in Figure 12 below:

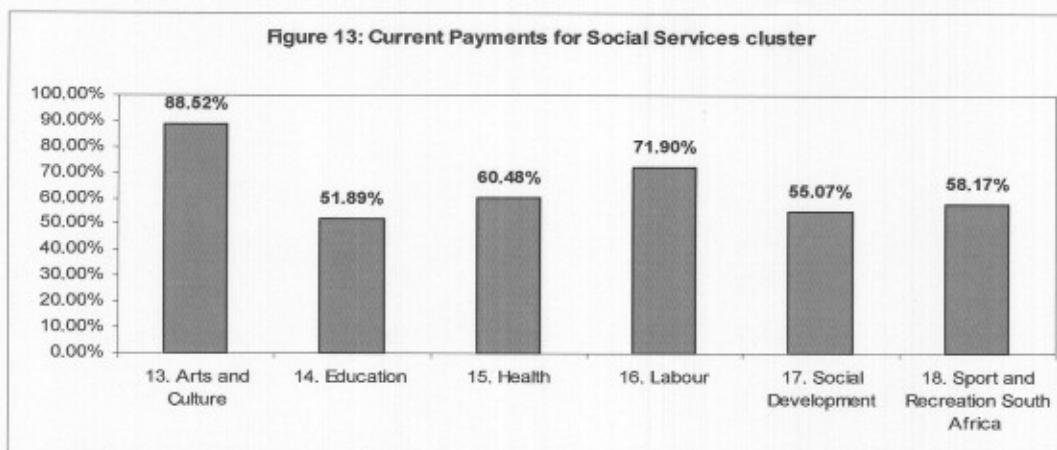




It is observed that SAMDI has spent a very low proportion of their Current payments to an equivalence of 47.69 per cent over the three quarters of 2007/08 financial year. It is unacceptable to dump a budget of more than 50 per cent only in one quarter / last quarter.

3.3 Departmental Current payments under the Social Services cluster:

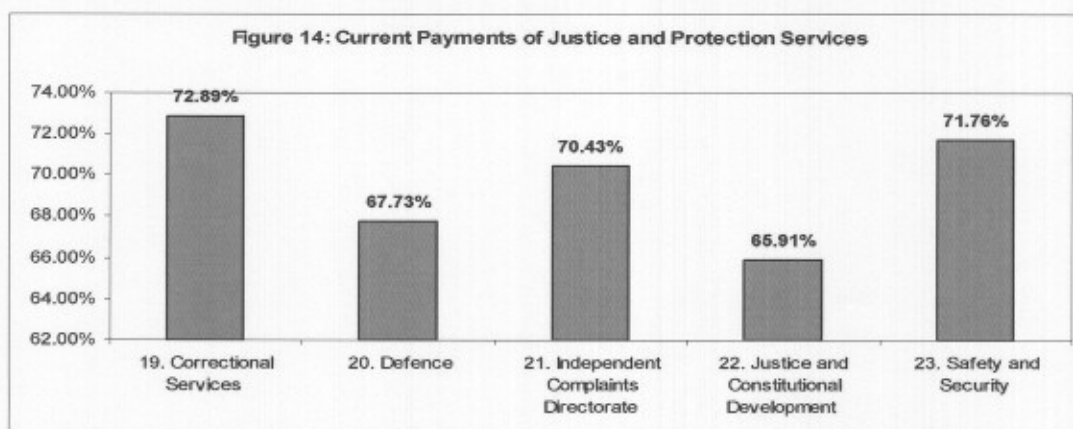
Figure 13 below reflects the year-to-date departmental spending under the Social Services cluster:



The Department of Education (51.89 per cent), Social Development (55.07 per cent) and Sport and Recreation S.A. (58.17 per cent) spending are undesirable given the past three quarters and only left with the fourth quarter to implement their remaining budget.

3.4 Departmental Current payments under the Justice and Protection Services cluster:

Please refer to Figure 14 below for the year-to-date Current payments under this cluster:

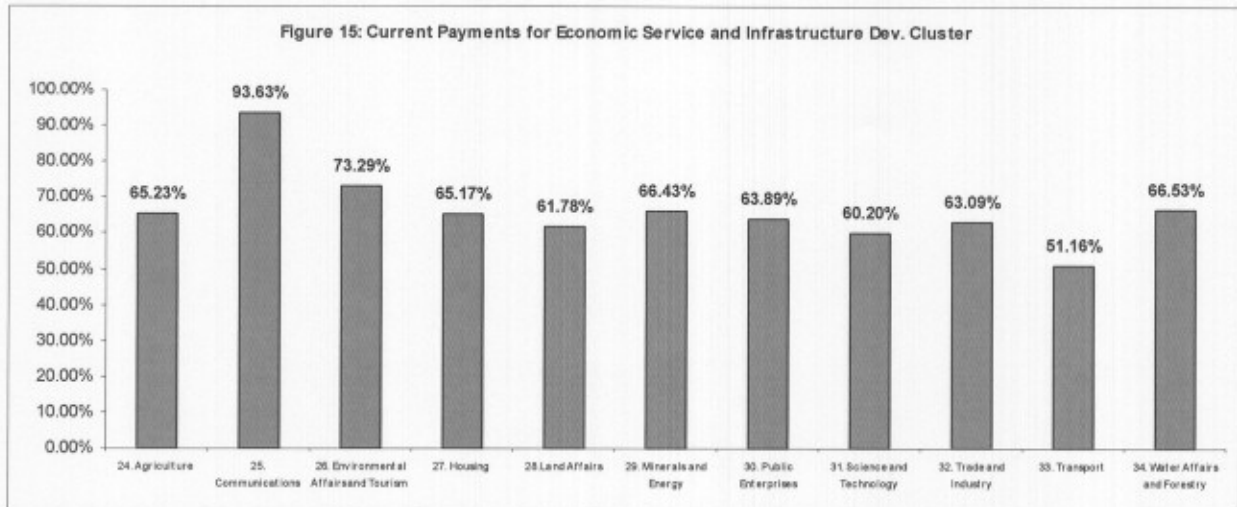


The departmental Current payments spending under the Justice and Protection Services cluster is in acceptable levels even though the Department of Justice and Constitutional Development (65.91 per cent) and Department of Defence (67.73 per cent) are required to accelerate their spending on Current payments.



3.5 Departmental Current payments under the Economic Services and Infrastructure Development cluster:

Figure 15 below reflects the year-to-date departmental Current Payments spending:



The Department of Transport (51.16 per cent Current Expenditure) is the lowest spending department over the first three quarters of 2007/08 financial year. The Department of Science and Technology (60.20 per cent), the Department of Land Affairs (61.78 per cent), the Department of Trade and Industry (63.09 per cent), and the Department of Public Works (63.89 per cent) spending on Current Payments are a great concern. These departments low spending on Current Payments could be indicating the high vacancy ratio.

4 YEAR-TO-DATE EXPENDITURE REVIEW ACCORDING TO TRANSFER PAYMENTS

The following expenditure review focuses on Transfer payments per government cluster on the basis of year-to-date (that is, the accumulated expenditure over the 1st, 2nd, and 3rd quarter of 2007/08):

4.1 Departmental Transfer payments under the Central Government Administration cluster:

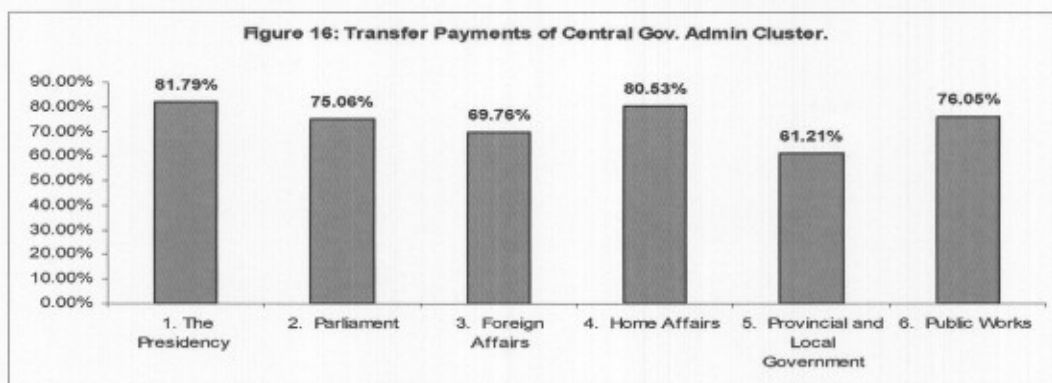
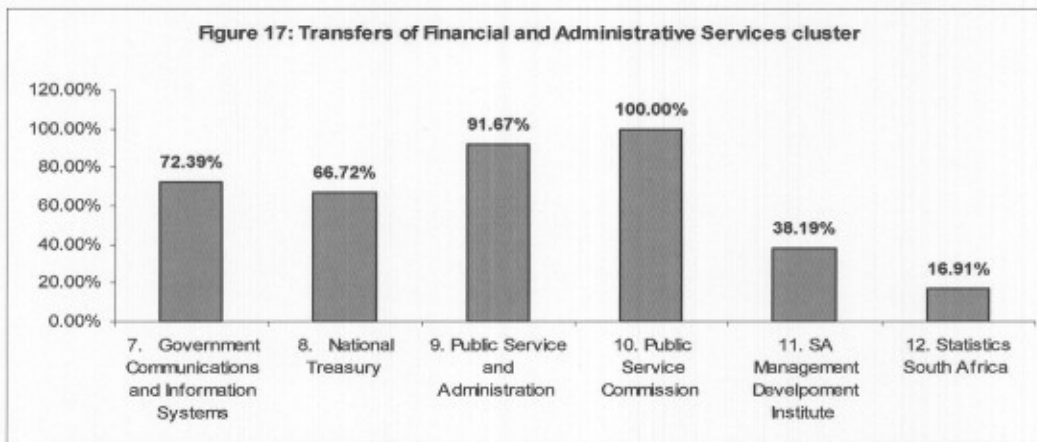




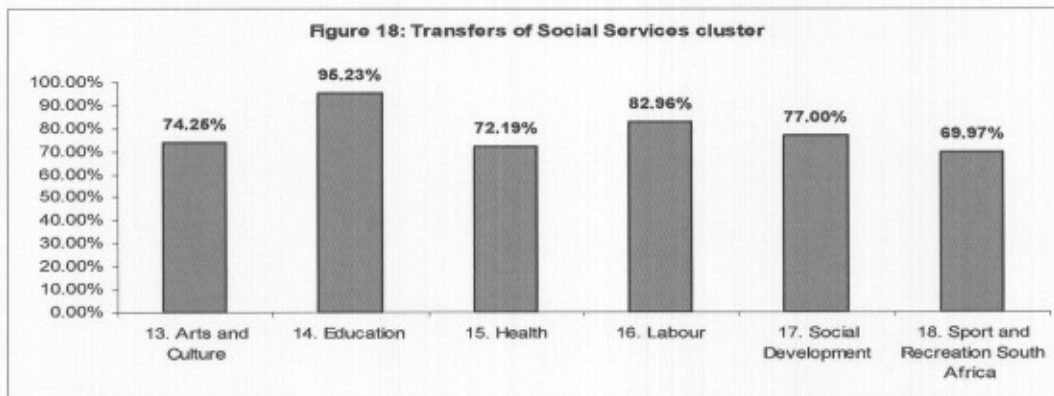
Figure 16 above indicates that the lowest spending department on Transfer payments in the three quarters of 2007/08 is the Department of Provincial and Local Government (DPLG) with only 61.21 per cent. The low spending of DPLG on Transfers raises questions as it's key strategic objective is to establish a sustainable system of local government where service delivery of poverty alleviation and reduction unemployment are based.

4.2 Departmental Transfer payments under the Financial and Administrative Services cluster:



In as much as Stats SA and SAMDI are the lowest spending on Transfers, this is due to the fact that they do not have entities or provinces where they have to transfer funds other than cyclical projects. Other departments under the Financial and Administrative Services cluster have an acceptable level of Transfers over the three quarters of 2007/08 financial year.

4.3 Departmental Transfer payments under the Social Services cluster:



The Transfer payments in the Social Services cluster are satisfactory. All of the departments under this cluster spent above the 70 per cent mark of their allocated budget over the three quarters of 2007/08 financial year.



4.4 Departmental Transfer payments under the Justice and Protection Services cluster:

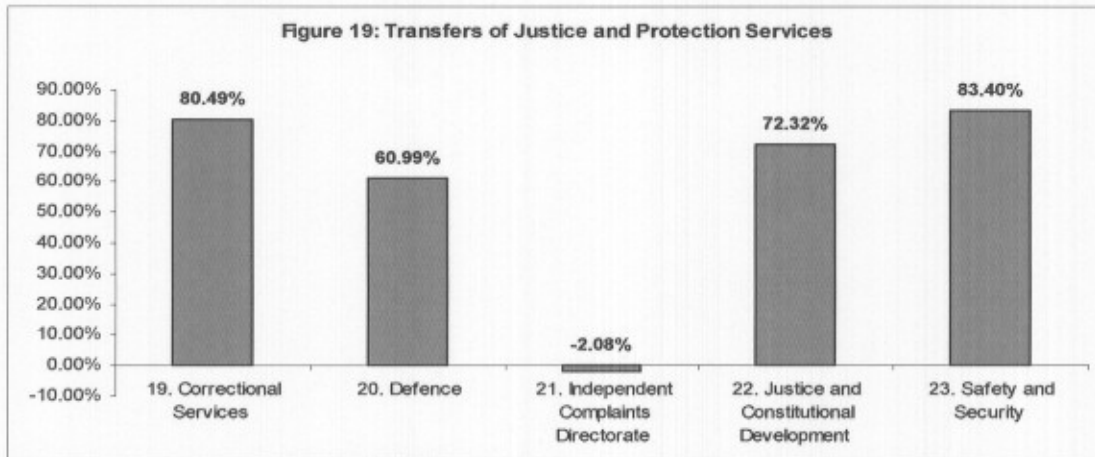


Figure 19 indicates that the Independent Complaints Directorate has either overspent by 2.08 per cent or shifted funds 2.08 per cent from the Transfers budget to other programmes over the three quarters of 2007/08. The Department of Defence is also questionable in its spending of Transfers over the three quarters (60.99 per cent).

4.5 Departmental Transfer payments under the Economic Services and Infrastructure Development cluster:

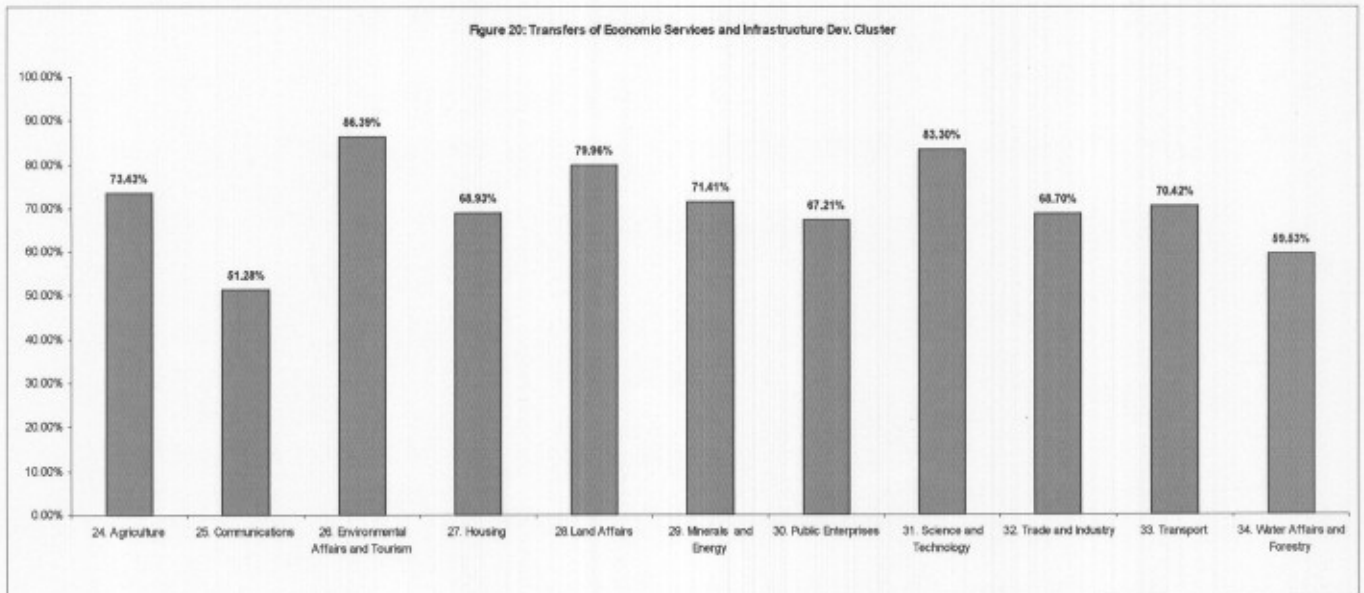


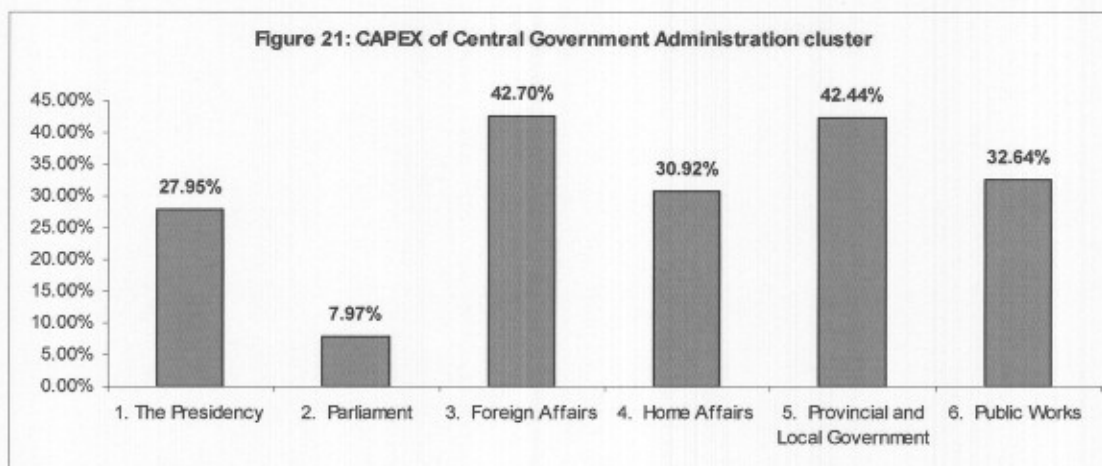
Figure 20 indicates that only the Department of Water Affairs and Forestry (59.53 per cent), as well as the Department of Communications (51.28 per cent) have spent below the 60 per cent mark of their allocated Transfer budget.



5 YEAR-TO-DATE EXPENDITURE REVIEW ACCORDING TO CAPITAL EXPENDITURE (CAPEX)

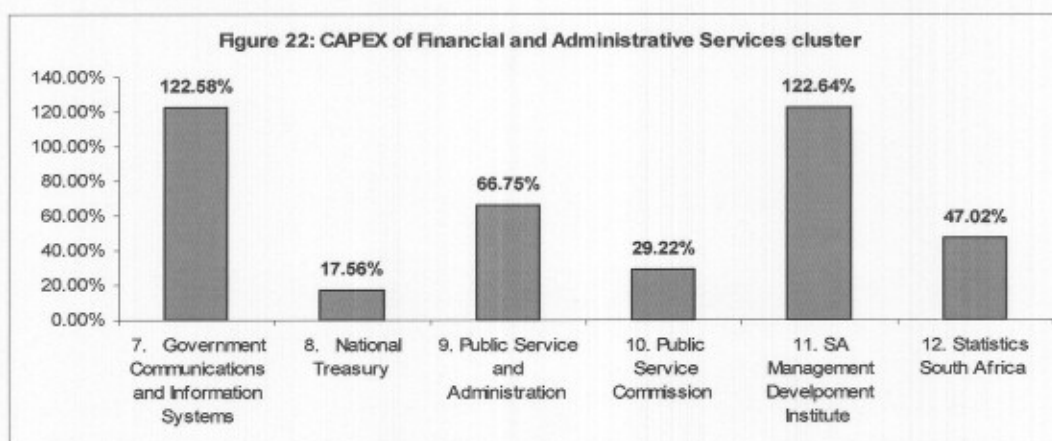
The following expenditure review focuses on CAPEX payments per government cluster on the basis of year-to-date (that is, the accumulated expenditure over the 1st, 2nd, and 3rd quarter of 2007/08):

5.1 Departmental CAPEX payments under the Central Government Administration cluster:



All of the departments under the Central Government cluster spent below the 50 per cent mark of their allocated CAPEX Budget over the three quarters of 2007/08. Furthermore, Parliament (7.97 per cent), the Presidency (27.95 per cent), the Department of Home Affairs (30.92 per cent), and the Department of Public Works (32.64 per cent) CAPEX spending over the first three quarter of 2007/08 raises question on whether in the third quarter a CAPEX Budget of more than 50 per cent will have to be spent only in the fourth quarter.

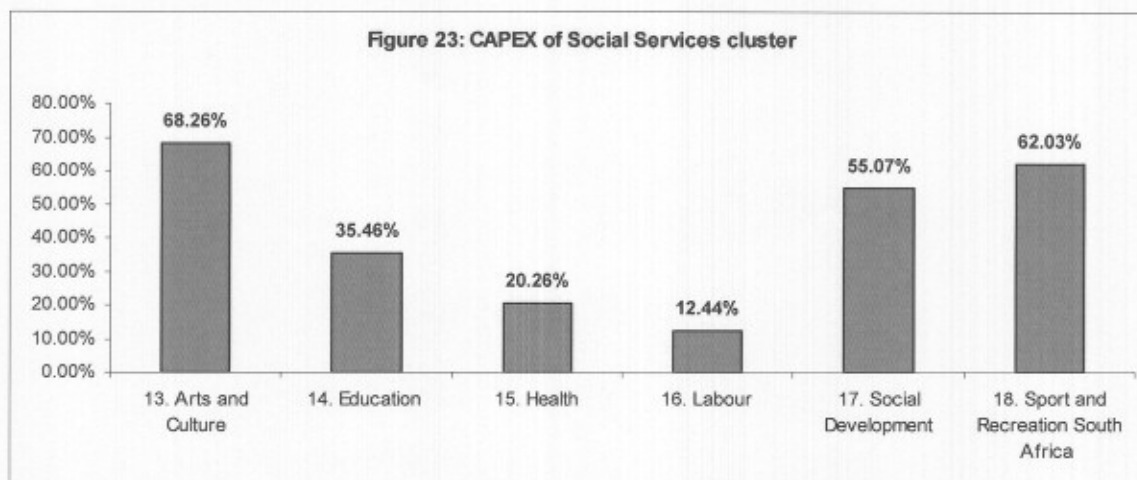
5.2 Departmental CAPEX payments under the Financial and Administrative Services cluster:



The departments that spent the lowest CAPEX Budget are the National Treasury (17.56 per cent), the Public Service and Administration (29.22 per cent), and the Stats SA (47.02 per cent) over the three quarters of 2007/08 financial year.

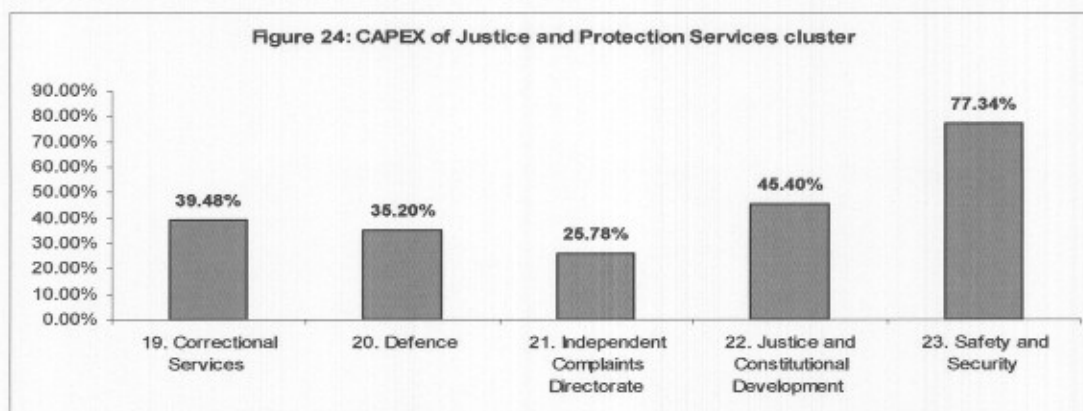


5.3 Departmental CAPEX payments under the Social Services cluster:



The Department of Labour is by far the lowest spending department of CAPEX Budget with 12.44 per cent over the three quarters and only left with the fourth quarter of 2007/08 financial year to utilise 87.56 per cent of the remaining CAPEX Budget. The Department of Health is not far from the tangent with a very low CAPEX spending of 20.26 per cent and the Department of Education with 35.46 per cent.

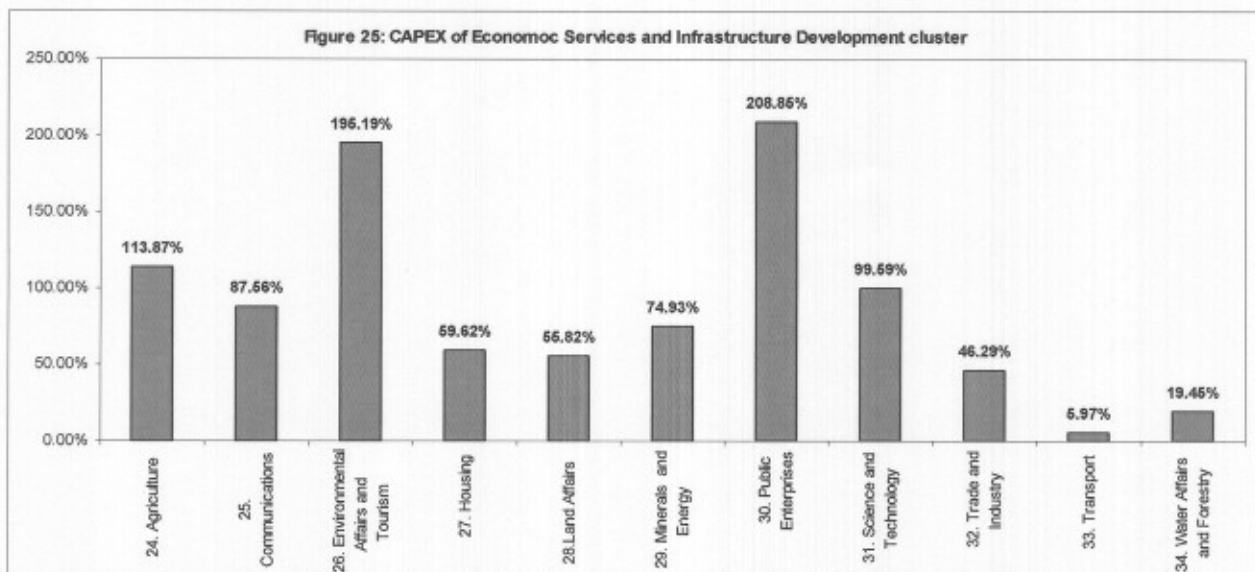
5.4 Departmental CAPEX payments under the Justice and Protection Services cluster:



Under the Justice and Protection Services cluster, the Independent Complaints Directive (25.78 per cent), the Department of Defence (35.20 per cent), the Department of Correctional Services (39.48 per cent), and the Department of Justice and Constitutional Development (45.40) are very low spending of CAPEX budget over three quarters of 2007/08 financial year.



5.5 Departmental CAPEX payments under the Economic Services and Infrastructure Development cluster:



Out of all the clusters, the lowest spending department on CAPEX is the Department of Transport with only 5.97 per cent spending over the first three quarters of 2007/08 financial year. This is by far the most unacceptable level of expenditure by a department. It is envisaged that the Department Transport will have to spend 94.03 per cent of its CAPEX Budget only in the fourth quarter. If this occurs, then it will be pure fiscal dumping. The Department of Water Affairs and Forestry (19.45 per cent) and the Department of Trade and Industry (46.29 per cent) are also grey areas that need some enquiry.



6 FINDINGS AND RECOMMENDATIONS

6.1 Findings

- 6.1.1 Out of all the clusters, the lowest spending department on CAPEX is the Department of Transport with only 5.97 per cent spending over the first three quarters of 2007/08 financial year having to spend 94.03 per cent CAPEX Budget only in the fourth quarter;
- 6.1.2 The Department of Labour is the second lowest spending department of CAPEX Budget with 12.44 per cent over the first three quarters and only left with the fourth quarter of 2007/08 financial year to utilise 87.56 per cent of the remaining CAPEX Budget;
- 6.1.3 Enquires are also need with the Department of Water Affairs and Forestry that has only spent 19.45 per cent, the National Treasury (17.56 per cent), and the Public Service and Administration (29.22 per cent) CAPEX Budget spending over the first three quarters of 2007/08;
- 6.1.4 The Department of Home Affairs only spent 57.75 per cent of its Budget over the three quarters of 2007/08. It is foreseen that the lagging-behind of spending by the Department of Home Affairs will result in 42.25 per cent March spike which could be interpreted as the fruitless and wasteful expenditure;
- 6.1.5 SAMDI only spent 45.61 per cent of its Budget over the first, second and third quarter of 2007/08 financial year. It is foreseen that SAMDI will have to utilise more than 50 per cent of its allocated Budget only in the last quarter (March spike). Stats SA has only spent 59.07 per cent of its allocated Budget over the three quarters of 2007/08 financial year; and
- 6.1.6 The two departments that are of great concern under Economic Services and Infrastructure Development cluster are the Department of Communications, and the Department of Water Affairs and Forestry with accumulated total spending of 53.85 and 59.89 per cent respectively over the three quarters.



7 RECOMMENDATIONS

To be supplied in the meeting of the Joint Budget Committee

8 SOURCES

- National Treasury, Estimates of National Expenditure 2007
- National Treasury, Adjusted Estimates of National Expenditure 2007
- The Public Finance Management Act (Act 1 of 1999) (as amended by Act 29 of 1999)