

080307 JC Budget



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THE SECOND QUARTER EXPENDITURE REPORT OF THE JOINT BUDGET COMMITTEE

1 INTRODUCTION

The Estimates of National Expenditure (ENE) of 2007 states that ... *"Medium-term budgeting is more than just numbers – it is about policy prioritisation, planning and reaching agreement on spending plans that support government's objectives"*.¹ The Joint Budget Committee (JBC) hereby conducts one of its in-year oversight mechanisms of assessing the executive authorities and accounting officers' actions of implementing the allocated budget to meet government objectives.

The in-year oversight is conducted through the interrogation of the second quarter expenditure of the national departments. The expenditure data is extracted from the Section 32 reports of the Public Finance Management Act (PFMA) that are published by the National Treasury on quarterly basis as *"Statement of the National Revenue, Expenditure and National Borrowing as at 30 September 2007"*. The scope of the review is actual expenditure from 01 April to 30 September 2007, published by the National Treasury as *"Table 2: Expenditure"* of the *Statement of the National Revenue, Expenditure and National Borrowings*. The JBC expenditure review is intended to draw attention to spending patterns of the national departments. It is important to note that the underlying expenditure review is brought together prior the adjustments allocation that were tabled by the Minister of Finance on 30 October 2007.

2 A REVIEW OF SPENDING ACCORDING TO GOVERNMENT CLUSTERS

The expenditure review below is arranged according to the functional groupings of government departments, namely the (1) Central Government Administration, (2) Financial and Administration Services, (3) Social Services, (4) Justice and Protection Services, and (5) Economic Services and Infrastructure Development.

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



2.1 CENTRAL GOVERNMENT ADMINISTRATION CLUSTER

In the second quarter of 2007/08 financial year, it is observed that all the departments that are grouped under the Central Government Administration cluster improved their total spending relative to the first quarter of the year under review. This is reflected in Figure 1 below:

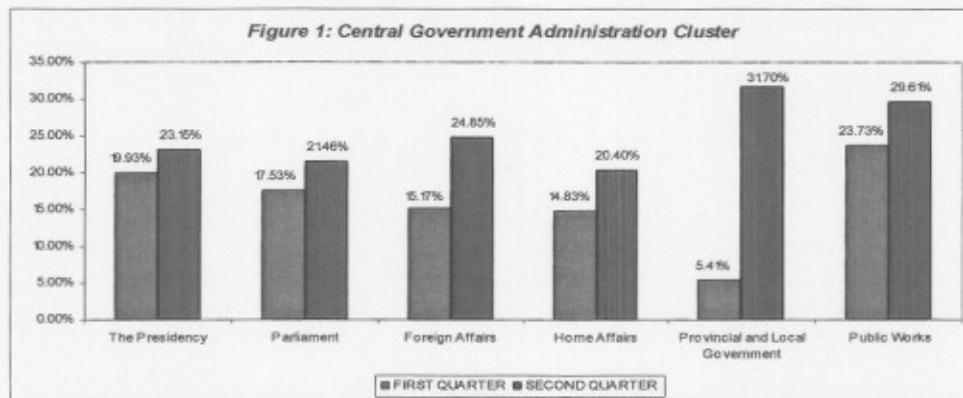
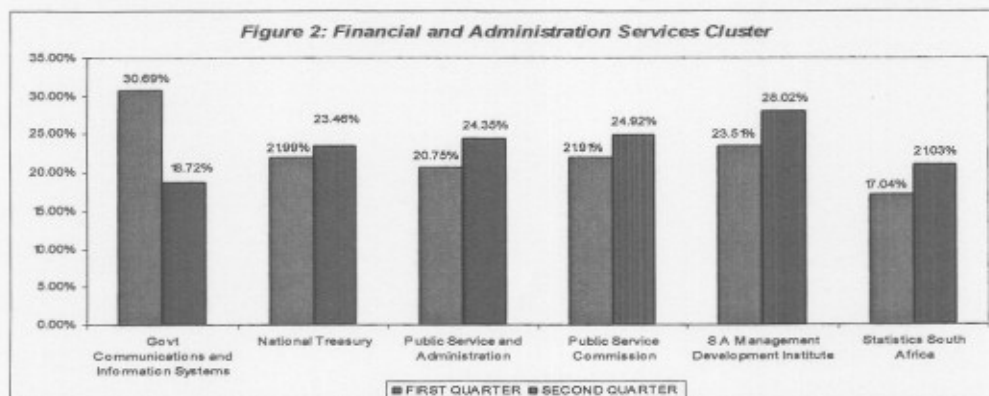


Figure 1 indicates that the most improved total spending was achieved by the Provincial and Local Government, which managed to spend 31.7 per cent of its budget in the second quarter (relative to 5.5 per cent total spending in the first quarter) of 2007/08 financial year. The second quarter spending in this cluster is satisfactory in relations to the first quarter spending of 2007/08 financial year.

2.2 FINANCIAL AND ADMINISTRATION SERVICES CLUSTER

Most of the departments in the Financial and Administration Services cluster improved their total spending in the second quarter except for the Government Communications and Information Systems (GCIS) department which dropped its total spending from 30.69 per cent in the first quarter to 18.72 per cent in the second quarter of 2007/08. This is observed in Figure 2 below:

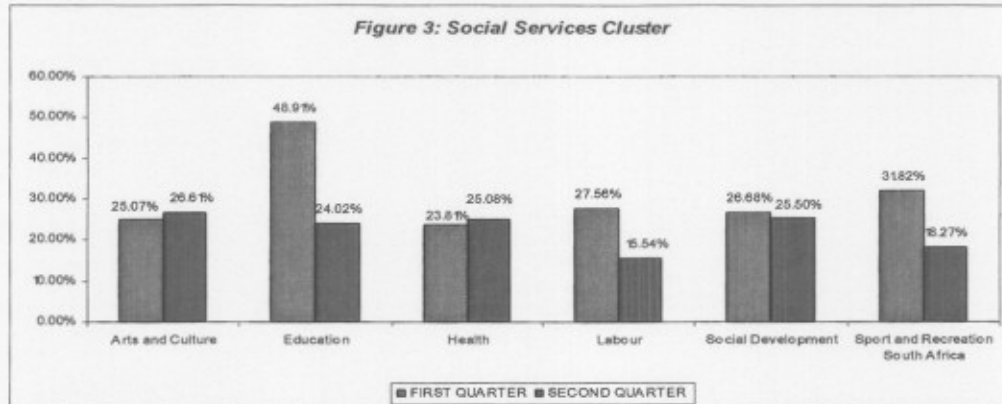




The GCIS is primarily responsible for setting up and consolidating a government communication system that ensures that the public is informed about government's policies, plans and programmes.² The GCIS also ensures that South Africa is marketed abroad through the International Marketing Council (IMC) and promotes the development of media diversity through support for the Media Development and Diversity Agency (MDDA). The failure of the GCIS to execute its allocated budget is undesirable due to the fact that the GCIS is required to develop a marketing brand for South Africa in order to attract tourism and promote 2010 FIFA World Cup. All other departments in the Financial and Administration Services cluster had a total spending of above 23 per cent at the end of the second quarter of 2007/08 financial year.

2.3 SOCIAL SERVICES CLUSTER

Only two out of the six departments grouped under the Social Services cluster managed to improve their spending in the second quarter of 2007/08 financial year as reflected in Figure 3 below:



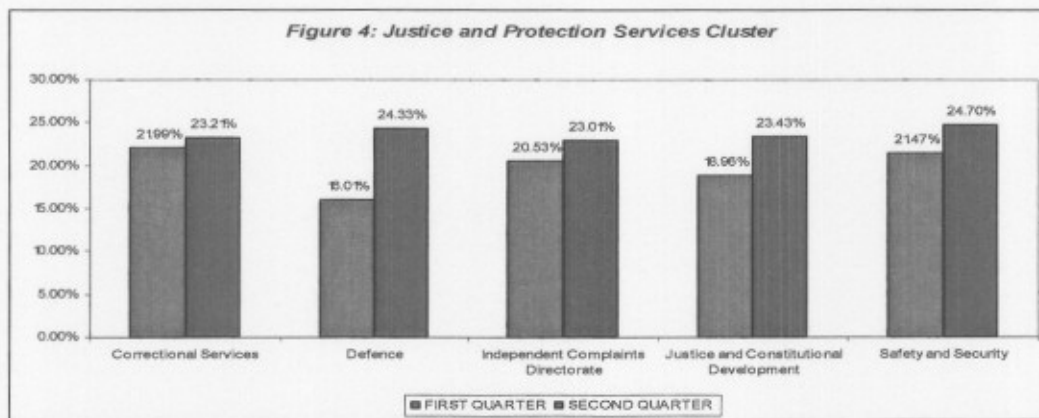
The two departments that managed to improve their spending include the Department of Arts and Culture (from 25 per cent in first quarter to 27 per cent in second quarter) and the Department of Health (from 24 per cent the first quarter to 25 per cent in the second quarter). The remaining four departments (Education, Labour, Social Development, and Sport and Recreation South Africa) unfavourable dropped their total spending. The worst department to drop its total spending was the Department of Education, which reduced its spending from 49 per cent in the first quarter to 24 per cent in the second quarter. Education contributes to the key government priority of improving the quality of life. The failure of the Department of Education to implement its budget jeopardises numerous policy priorities such as bridging the shortage of skills, the implementation of no fee school programmes, etc.

² National Treasury, Estimates of National Expenditure 2007, pg 104



2.4 JUSTICE AND PROTECTION SERVICES CLUSTER

The total spending of the departments grouped under the Justice and Protection Services cluster improved in the second quarter of 2007/08 financial year. The Department of Correctional Services, Independent Directorate, and Safety and Security have spent above the 20 per cent average in both the first and second quarter of 2007/08 financial year. The two departments that sequentially improved their total spending are the Department of Defence (from 16 per cent in first quarter to 24 per cent in the second quarter) and the Department of Justice and Constitutional Development (from 19 per cent in the first quarter to above 23 per cent in the second quarter). The total spending in this cluster averaged above 23 per cent as reflected in Figure 4 below:



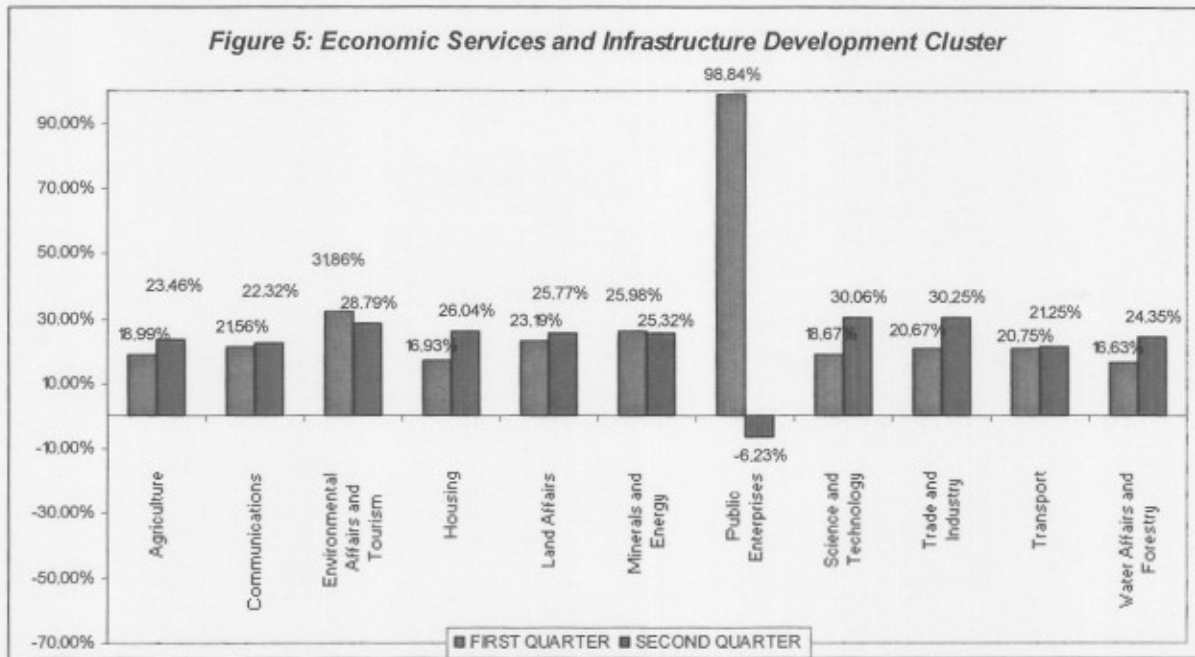
The total spending of the departments grouped under the Justice and Protection Services cluster is encouraging in the second quarter of 2007/08 financial year, particularly in considering government's objective of promoting public safety and security; defending and protecting South Africa: investigating complaints of misconduct and corruption; and upholding the Constitution and the rule of law. However, more needs to be done in reducing the levels of crime, reducing the backlog of criminal case, and providing more efficient court facilities.

2.5 ECONOMIC SERVICES AND INFRASTRUCTURE DEVELOPMENT CLUSTER

The total spending of the departments that are grouped under this cluster reflects inconsistency. Some of the departments under this cluster improved their total spending and others deteriorated the total spending in the second quarter as reflected in Figure 5 below:



Figure 5: Economic Services and Infrastructure Development Cluster



The only department that overspend its allocated budget in the second quarter is the Department of Public Enterprises to a negative 6.23 per cent total spending. The JBC highlighted its concerns about the excessive spending of the Department of Public Enterprises at the end of the first quarter of 2007/08. Subsequently to the JBC's concerns, the Department of Public Enterprises requested additional funding via a Special Adjustments Appropriation Bill, which was granted during the adjustment period. Among others, the JBC was concern with the continuous funding of inefficient State Owned Enterprises (SOEs) that are not reaching the stage of self-sustainability. The departments that deteriorated their total spending in the second quarter are the Department of Environmental Affairs and Tourism (from 32 per cent in the first quarter to 29 per cent in the second quarter); and the Department of Minerals and Energy (from 26 per cent in the first quarter to 25 per cent in the second quarter).

3 A REVIEW OF SPENDING ACCORDING TO ECONOMIC CLASSIFICATION OF EXPENDITURE

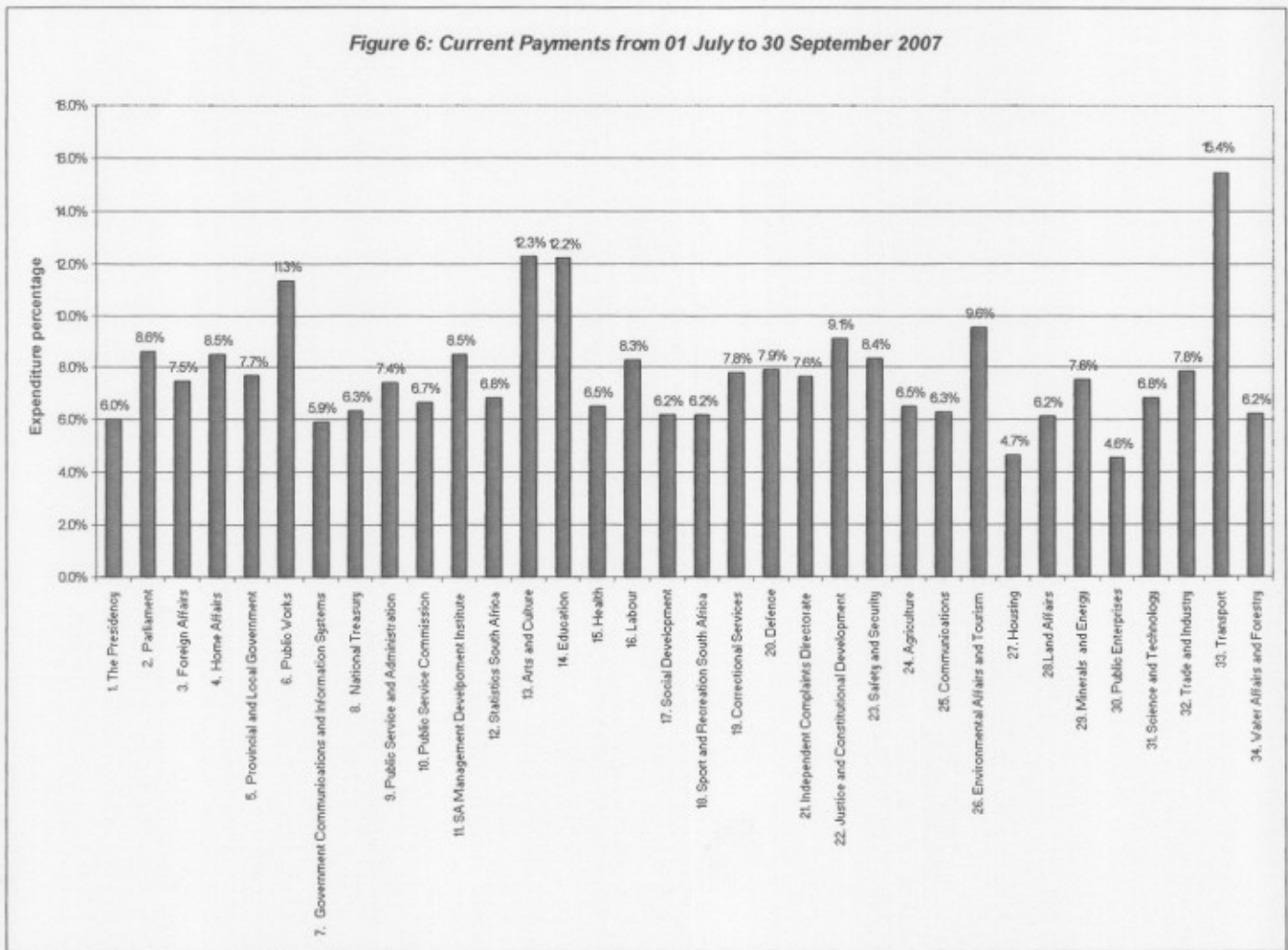
The ENE groups the economic classification of expenditure into three categories, namely the Current Payments, the Transfers and Subsidies, and the Payments of Capital Assets (CAPEX).³ A review of economic classification expenditure is conducted below:

³ National Treasury, Estimates of National Expenditure 2007, pg x



3.1 A REVIEW OF THE SECOND QUARTER CURRENT PAYMENT

The Current Payments is a fiscal provision for spending on Compensation of Employees; buying of Goods and Services of not more than R5 000 per unit; and Rent and Interest. Figure 6 below reflects the second quarter spending percentages of all national departments:



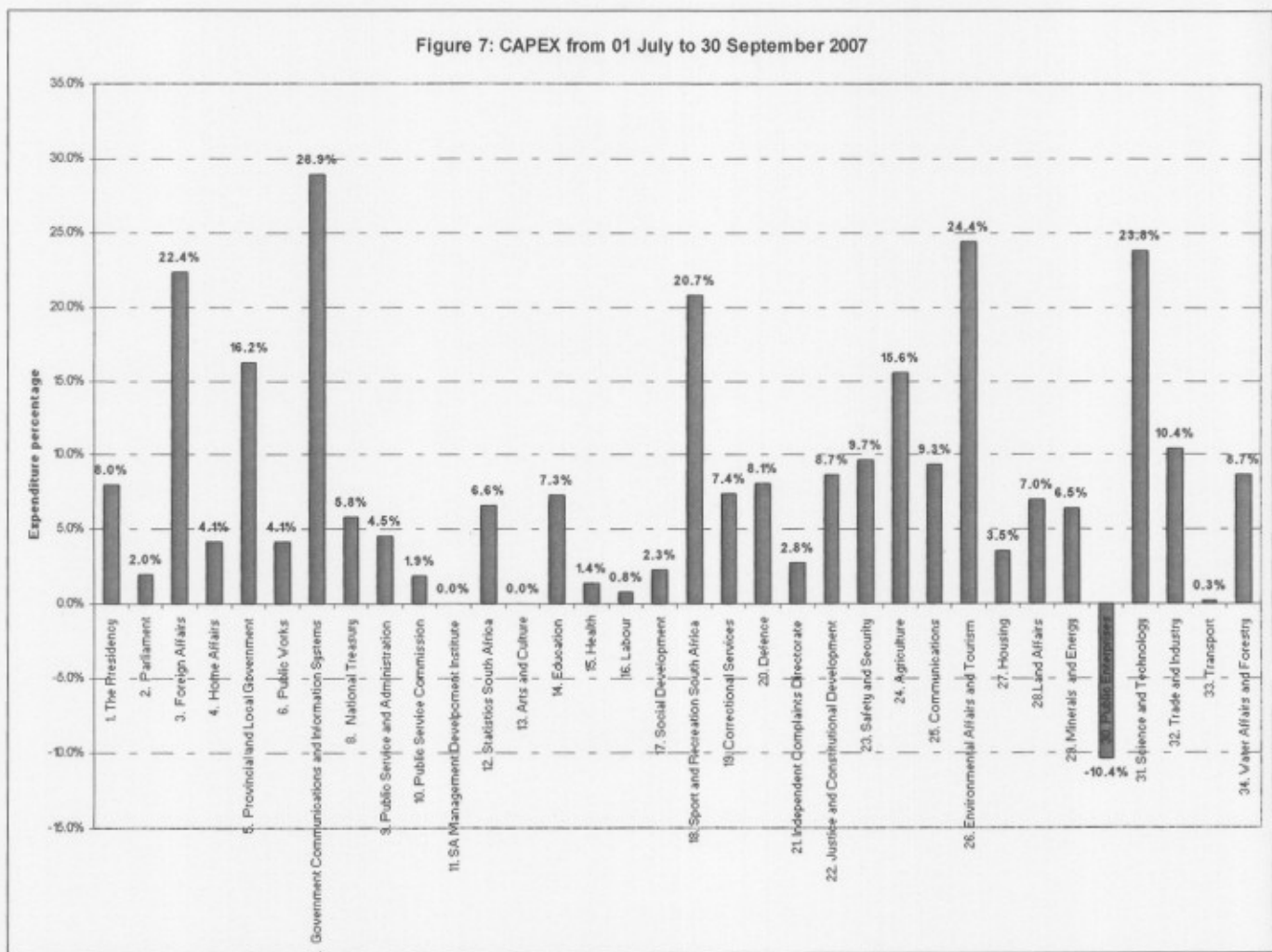
Only 4 out of 34 departments managed to spend above 10 per cent of their Current Payments budget, that is the Department of Transport (15.4 per cent spending); the Department of Arts and Culture (12.3 per cent spending); the Department of Education (12.2 per cent spending); and the Department of Public Works (11.3 per cent spending). The least spending departments on Current Payments were the Department of Public Enterprises (4.6 per cent spending); the Department of Housing (4.7 per cent spending); the Department of GCIS (5.9 per cent spending); and the



Presidency (6 per cent spending). The inefficient spending of the Current Payments budget could be an indication of high vacancy rate in the underspending departments.

3.2 A REVIEW OF CAPEX AT THE END OF THE SECOND QUARTER

The CAPEX is spending on buildings and fixed structures, machinery and equipment, and software and other intangible assets. Figure 7 below highlights the second quarter spending on CAPEX:



The Department of Public Enterprises is the only department that shifted CAPEX funds of 10.4 per cent to other programmes in the second quarter of 2007/08 financial year. The Department of S.A. Management Development Institute (SAMDI) and the Department of Arts and Culture had no spending (0 per cent) on CAPEX. The second lowest spending

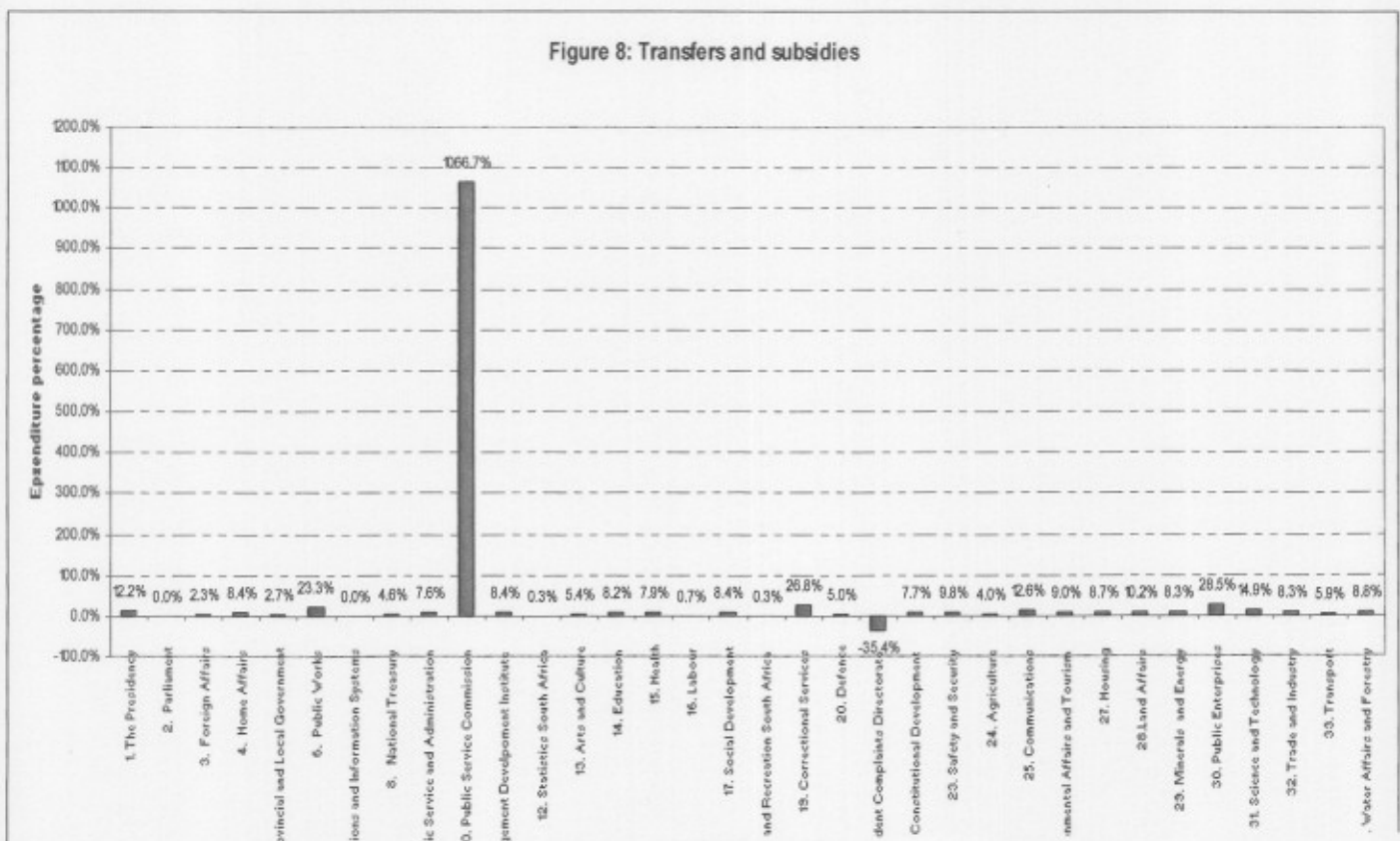


departments on CAPEX were the Department of Transport (0.3 per cent); the Department of Labour (0.8 per cent)

The highest spending departments of CAPEX in the second quarter were the Department of GCIS (28.9 per cent spending); the Department of Environmental Affairs and Tourism (24.4 per cent spending); the Department of Science and Technology (23.8 per cent spending); and the Department of Sport and Recreation (20.7 per cent spending).

3.3 A REVIEW OF THE SECOND QUARTER TRANSFERS AND SUBSIDIES

Transfers and subsidies are mainly funds transferred from the national departments to the provincial departments and municipalities, public corporations, private enterprises and foreign governments and international organisations. Figure 8 below reflects the second quarter spending of transfers and subsidies by national departments in the second quarter of 2007/08 financial year:





The Independent Complaints Directorate shifted funds from Transfers and Subsidies budget to other programmes resulting in a negative 35.4 per cent of its allocated budget in the second quarter of 2007/08 financial year. The Public Service Commission also shifted funds from other programmes to the Transfers and subsidies budget resulting in 1066.7 per cent overspending of the allocated budget. The shifting of funds from one programme to another is an unacceptable tendency which could forgo service delivery.

The Department of Public Enterprises, the Department of Correctional Services, and the Department of Public Works managed to spend above 20 per cent of their Transfers and subsidies budget. All other departments spend below 15 per cent of their Transfers and subsidies budget in the second quarter of 2007/08 financial year.

4 FINDINGS AND RECOMMENDATIONS

4.1 FINDINGS

- 4.1.1 The Public Service Commission (PSC) reflected a disproportion spending patterns between the economic classification of expenditure. The PSC reflected 1066.7 per cent spending on Transfers and subsidies, 1.9 per cent spending on CAPEX and 6.7 per cent spending on Current payments.
- 4.1.2 Parliament reflected low spending patterns in all categories of economic classification of expending that is 8.6 per cent spending on Current Payments, 2 per cent on CAPEX and 0 per cent on Transfers and subsidies.
- 4.1.3 The Independent Complaints Directorate had virements from Transfers and subsidies budget to other programmes, which resulted in a negative 35.4 per cent of Transfers and subsidies budget.
- 4.1.4 The Department of Public Enterprises had virements from CAPEX to other programmes, which resulted in a negative 10.4 per cent of CAPEX budget.
- 4.1.5 The Department of Housing and the Department of Public Enterprises spent less than 5 per cent of their Current Payments budget.



4.2 RECOMMENDATIONS

To be supplied in the meeting of the Joint Budget Committee

Sources

- NATIONAL TREASURY, SECTION 32 REPORTS, STATEMENT OF THE NATIONAL REVENUE, EXPENDITURE AND NATIONAL BORROWING AS AT 30 SEPTEMBER 2007
- ESTIMATES OF NATIONAL EXPENDITURE 2007