national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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REPORT BY THE NATIONAL TREASURY TO THE SELECT COMMITTEE ON PUBLIC ACCOUNTS: UNAUTHORISED EXPENDITURE INCURRED BY THE DEPARTMENT OF TRANSPORT ON BUS SUBSIDIES DURING THE 2008/09 FINANCIAL YEAR

PURPOSE

1. To recommend the approval and funding of unauthorised expenditure in the Department of Transport.

BACKGROUND

2. Over-expenditure of national government expenditure on bus subsidies evolved over several years, mainly as a result of long delays in the implementation of remedial policy decisions taken, inter alia, to replace ticket-based contracts with negotiated and tendered contracts.

3. After legal action against the state by bus operators in 2009, the Department was ordered by the court to pay outstanding invoices:
    a. In 2008/09 the Department of Transport overspent on bus subsidies and incurred unauthorized expenditure of R844.98 million in programme 6: *Public Transport*.
    b. During 2009/10 the Department overspent on bus subsidies and incurred unauthorized expenditure amounting to R362.394 million, also in the *Public Transport* programme.

4. The PFMA requires that Accounting Officers ensure that any contractual liabilities are budgeted for and that appropriate steps are taken to prevent unauthorised expenditure. In recognition of this, the strategic plans of the Department of Transport repeatedly called for the redesign and rationalisation of bus contracts. However, these plans were not implemented and provinces were allowed to expand their bus subsidy commitments.

UNAUTHORISED EXPENDITURE AND PFMA COMPLIANCE

5. In a letter to the Minister of Transport in April 2009, the Minister of Finance highlighted the following concerns relating to the overspending on bus subsidies:

    a. Contrary to claims to the effect that there had been no increase in bus subsidy allocations, these grew by R1.5 billion over the period 2003/4 to 2005/6;

b. Overspending arises mainly from the failure to implement the policy decision on the introduction of competitive tendering, as provided for in the Transport White Paper 1997. After tender prices were found to be unaffordable in 2002, the National Treasury and the Department agreed that services/routes would be rationalised, subsidies would be reviewed to ensure greater targeting and the function would be devolved to local government. The Transport 2003 Estimates of National Expenditure states the objective to improve the efficiency of bus subsidies and to convert all interim contracts to more efficient competitive tenders, yet this was not achieved. In the Department's 2005 Strategic Plan the target to convert all contracts was again set and again not met. In the 2007 Strategic Plan the commitment was restated and the deadline set for July 2007 was not met. The result of the failure to improve the efficiency of the bus subsidy system was that interim contacts ran for almost a decade on a month-to-month basis with very little monitoring of expenditure;

c. Since 2004 the Transport Vote included funds to a) restructure the subsidy system; b) develop a model tender contract; c) rationalize the provision of services and d) ensure effective management and monitoring of bus subsidies;

d. In failing to rationalize the bus subsidy services, despite a three year MTEF allocation available to it, the Department failed to implement its strategic plan and as a result failed to comply with Section 38 of the PFMA;

e. Consolidated transport expenditure increased by 33.2% annually between 2005/06 and 2008/09, providing ample scope for reprioritisation. However, the Department failed to comply with Section 39 of the PFMA and no funds were prioritised towards bus subsidies, in fact, the opposite happened as the Department reduced the baseline growth of bus subsides in favour of other priorities, including administration. The provision in the PFMA to shift funds within and between programmes was significantly utilised between 2005/06 and 2008/09, during which time R311 million was shifted. No funding was shifted towards programme 6: *Public Transport* and, in fact, R4.6 million was shifted away from this programme. In addition, the baseline of the subsidy transfer was reduced. In 2007/08 the departmental budget for the bus subsidies was increased by only 4.6% whereas the total budget increased by 5.5% indicating that funds were prioritised away from these subsidies; and

f. Finally, the Department failed to distinguish contractual obligations, which should be budgeted for in the baseline, from policy options that can be considered for additional allocations by the Minister's Committee on the Budget. New commitments were added to spending plans without providing for existing commitments.

6. National Treasury is therefore of the view that the Department of Transport failed to comply with Section 38 and 39 of the PFMA. In April 2009 the Minister of Finance therefore recommended that the Minister of Transport undertake an investigation into the apparent failure of the accounting officer to exercise effective financial management of the bus subsidy contracts.

REMEDIAL STEPS TAKEN AND OUTCOMES

7. The short term interventions undertaken to address budget and monitoring concerns were:
   a. Additional funding of R1.827 billion was added to the Transport Vote towards bus subsidies to allow for an annual growth of 12%;

   b. The bus subsidy transfer programme on the National Department of Transport Vote was converted into a conditional grant to provinces, thereby resolving the accountability uncertainty of the previous agency agreements. Provinces have phased out ticket based subsidies and financial control of the bus subsidies has improved dramatically. In 2009/10 only one province (Kwa-Zulu Natal) overspent the amount allocated and in total the grant showed an under-expenditure of R5.7 million or 1.6% of total funds transferred.

8. In the medium term, it is the National Treasury's view that funds for commuter transport need to be distributed through an objective and fair distribution formula, which should contribute to financing rail and road transport, with metropolitan or regional transport authorities exercising control of the planning, budgeting and subsidization of all services. In this way an appropriate balance between infrastructure and operations can be financed for all modes of transport – recognizing that the outcome will differ considerably from one city or region to another depending on relevant considerations. Efficient and effective use of these funds and the optimization of infrastructure and operational spending cannot be achieved if there is not a) a clear and transparent assignment of responsibility for policy and coordination at the national level supported by b) key performance indictors which measures the efficiency of transport modes and services and c) planning, management and regulation of services at the appropriate local/provincial transport authority level as required by the National Land Transport Act, 2009.

REPORTING

9. In accordance with the Departmental Financial Reporting Framework Guideline for the year ending 31 March 2010, the over expenditure on programme 6 amounts to unauthorised expenditure. The National Department reported this unauthorised expenditure to the National Treasury on 5 November 2010. Over-expenditure was also reported in 2008/9 and 2009/10 in accordance with Section 40(4)(b) of the PFMA.

10. As required the unauthorised expenditure is reported under current assets in the 2009/10 annual financial statements, amounting to R1 207.374 million.

RECOMMENDATION

11. The National Treasury recognises that a) the unauthorised expenditure relates to expenditure exceeding the vote and does not reflect expenditure that was not in accordance with the purpose of the main division of the vote and b) the expenditure is irreversible. It is therefore recommended that the Select Committee on Public Accounts approve the unauthorised expenditure.

12. In terms of Section 34(1)(a) of the PFMA, the National Treasury further recommends that the Select Committee on Public Accounts approves as a direct charge against the National Revenue Fund the amount of R1 207.374 million. The over-expenditure cannot realistically be recovered from the current budget allocations of the Department or from provinces or services providers.

13. To effect the direct charge referred to in section 34(1)(a) of the PFMA, the Minister of Finance will, subject to Parliamentary approval, table a Finance Bill.

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