

FINAL DRAFT: Report of the Joint Budget Committee Second Quarter National Expenditure 2006/07 Financial Year

This report provides a brief analysis of National Departments' expenditure for the first half of the 2006/07 financial year. The report is divided into four main sections. The first section provides an analysis of National Departments' total expenditure¹. The second section focuses on current expenditure by National Departments. The third section of the report provides an analysis of transfer expenditure. The final section provides an analysis of capital expenditure. Each section includes the five highest and lowest spenders.

1. Total Expenditure

By the end of the second quarter of the 2006/07 financial year, Departments spent an average of 46.24% of their total budgets. During the first quarter Departments spent 21.44% of its total budget and during the second quarter they spent 24.80%. This translates into a R8.8 billion increase in expenditure during the second quarter in comparison to the first quarter. Departments' spent on average 10.06% of their budget during July, 7.31% during August and 7.43% during September. To date Departments spent R120.2 billion.

The cash flow projections provided by the National Treasury indicate that departments had planned to spend R127.4 billion by the end of the second quarter of the financial year but were R7.2 billion below that target, which is indicative of a slow expenditure pattern resulting in significant under expenditure by certain departments.

Table 1 Highest expenditure departments at the end of the second quarter.

Table 1: Highest Total Expenditure to date

R'000	Total Budget	Total Expenditure to date	% Total Expenditure to date	Cash Flow Projections to date	Variance	Expenditure as % of Projected Expenditure
Public Enterprises	683457	623995	91.30%	518723	105272	120.29%
Education	14129233	10313965	73.00%	10667779	-353814	96.68%
Public Service and Administration	325610	201633	61.92%	144082	57551	139.94%
Environmental Affairs and Tourism	2018053	1242988	61.59%	1085652	157336	114.49%
Government Communications and Information Services	288037	162729	56.50%	151761	10968	107.23%

The Department of Public Enterprises was by far the highest spending Department. It spent 91.30% of its total budget by the end of the second quarter. The Department spent 42.02% of its current budget, 99.82% of its transfer budget and 243.35% of its capital budget during the first half of the

¹ Total Expenditure includes current expenditure, transfer expenditure and capital expenditure.

financial year. It's important to note that the department had spent 91.3% of its total budget of R683 million as at the second quarter. The main increase in the Departments' budget is in the Corporate Strategy and Structure programme, is linked to the once off payment to the Pebble Bed Modular Reactor R580 million spent by the Department thus far was transfer payments to public corporations and private enterprises.

The Department of Education at 73% spent the second highest portion of its budget. Even though the Department spent almost two thirds of its budget during the first half of the financial year it does not appear that they will overspend their budget based on the cash flow projections provided to National Treasury. Expenditure in the first six months of 2006/07 increased by 10,6% compared to the same period of the previous financial year. According to National Treasury the main reasons are because transfers to provinces grew by 63,3% due to inflation related increases to conditional grants, and due to the introduction of a new conditional grant, as well as FET college recapitalisation.

Transfers to foreign governments decreased by 99,2% because the major transfers to the UN Educational Scientific and Cultural Organisation and to the Commonwealth of Learning (accounting for 98 per cent of transfers to foreign governments), will only be made in January 2007. Payments for capital assets decreased by 58,1% compared to the first half of the previous financial year. This is due to delays on the new building and the resulting moratorium on purchasing machinery and equipment, the roll-over for machinery and equipment, and the packing and distribution machine which was delivered in 2005/06. Of the R10.3 billion spent by the Department of Education R8.5 billion was transfer expenditure going to universities and technikons.

The Department of Public Service and Administrations expenditure during the first half of the financial year was R202 million ie 61.92% of the main appropriation of R326 million. The Management of Compensation programme of the Department increased by R70 million. Expenditure in the Administration Programme, in the first six months of 2006/07, increased by 58,9% compared to the same period in the previous financial year. The main increases relate to additional capacity and relocating the Department to new premises.

The Department of Environmental Affairs and Tourisms expenditure during the first half of the financial year was R1.243 billion which is 61.59% of the main appropriation. Of the R1.243 billion spent by the Department R969 million was transfer payments to departmental agencies and households.

Government Communications and Information Services expenditure during the first half of the financial year was R163 million which is 56.50% of the main appropriation compared to 54.6% during the first six months of the 2005/06 financial year. The full transfer to the Media Development and Diversity Agency was made in April 2006, while the International Marketing Council's allocation is done quarterly.

Of the top five spending Departments, four spent more than the cash flow projections 2006/07 provided by National Treasury.

Table 2 illustrates Departments' with the lowest expenditure at the end of the second quarter.

Table 2: Lowest Total Expenditure to date

R'000	Total Budget	Total Expenditure to date	% Total Expenditure to date	Cash Flow Projections to date	Variance	Expenditure as % of Projected Expenditure
Land Affairs	4852196	1191927	24.56%	2418354	-1226427	49.29%
Transport	12870458	4229519	32.86%	6528310	-2298791	64.79%
Communications	1280194	434126	33.91%	614988	-180862	70.59%
Provincial and Local Government	24903440	8496062	34.12%	9462594	-966532	89.79%
Water Affairs and Forestry	4476545	1706900	38.13%	2142721	-435821	79.66%

The Department of Land Affairs at the end of the second quarter, spent only 24.56% of its budget, making it the lowest in the expenditure pattern. The department spent only half of what they had planned to spend by the end of the second quarter. At the end of the second quarter of the 2005/06 financial year the Department actually spent more 27.71% of its total budget. The current pattern of expenditure if not addressed may lead to the same problem of under expenditure reflected in the previous financial year when the department spent only 73.15% of its total budget. The slow spending in both years has been attributed mainly to the Restitution and Land Reform programmes.

Given that this is one of the core priorities of Government and linked to a timeframe the Committee believes that this gives rise to significant concern. The Department spent less than 40% on six of its seven programmes.

The Committee will be engaging the Department on its third quarter expenditure report to evaluate the degree of impact this under expenditure will have on the achievements of stated targets.

The Department of Transport spent R4.2 billion 32.86% during the first half of the financial year of its budget. The allocation for Gautrans is scheduled for expenditure in October 2006. According to the ENE the tender for the scrapping allowances related to the taxi recapitalisation project was scheduled to be finalised in the last month of the previous financial year. However, this has been delayed. Further under expenditure is due to the large number of vacant posts which remain unfilled. Therefore it is imperative that the department address this issue expeditiously so as to avoid its negative impact on the achievement of its stated targets.

The Department of Communication spent R434 million or 33.91% during the first half of the financial year, or 33.9% of the main appropriation. Expenditure is lagging behind the allocated budget due to the low level of expenditure related to transfers. Only R300 million of the R1 billion transfer budget has

been spent. According to the National Treasury this is due to fewer transfers to entities, following improved monitoring and control.

The Department of Provincial and Local Government spent R8.496 billion or 34.12% of its budget of R24.9 billion during the first half of the financial year. This slow down of expenditure is due to transfer schedule of the equitable share which is now paid every four months instead of every three months, and because of delayed expenditure following the completion of a contractual commitment for municipal profiling. Of the R8.496 billion spent thus far by the Department R8.341 billion was transfer expenditure going to provinces and municipalities.

The Department of Water Affairs and Forestry spent R1.707 billion or 38.13% of its budget during the first half of the financial year. There has been a shift of functions of the Water Services Programme, and appropriate water services institutions to Local Government. The Committee intends in the next quarter to clarify with the department whether the funds have followed the programme shift. Progress on the De Hoop Dam will also be pursued in relation to expenditure.

All five departments referred to above spent less than they had planned to spend by the end of the second quarter. The second quarter expenditure report alerts departments to the need to develop and to take measures to avoid significant under expenditure.

Table 3 represents Departments' total expenditure at the end of the second quarter.

Table 3: Departmental Expenditure to date

R'000	Total Budget	Total Expenditure to date	% Total Expenditure to date	Cash Flow Projections to date	Variance	Expenditure as % of Projected Expenditure
Voted Amounts	260025664	120230899	46.24%	127368242	-7137343	94.40%
Central Government Administration	34864231	12910430	37.03%	14547572	-1637142	88.75%
The Presidency	255923	99484	38.87%	131621	-32137	75.58%
Parliament	782133	300998	38.48%	319460	-18462	94.22%
Foreign Affairs	3042149	1230319	40.44%	1508906	-278587	81.54%
Home Affairs	2800405	1095530	39.12%	1354348	-258818	80.89%
Provincial and Local Government	24903440	8496062	34.12%	9462594	-966532	89.79%
Public Works	3080181	1688037	54.80%	1770643	-82606	95.33%
Financial and Administrative Services	18074778	8124093	44.95%	9022705	-898612	90.04%
Government Communications and Information Services	288037	162729	56.50%	151761	10968	107.23%
National Treasury	15547945	6653497	42.79%	7640415	-986918	87.08%
Public Enterprises	683457	623995	91.30%	518723	105272	120.29%
Public Service and Administration	325610	201633	61.92%	144082	57551	139.94%
Public Service Commission	96328	44424	46.12%	47905	-3481	92.73%

R'000	Total Budget	Total Expenditure to date	% Total Expenditure to date	Cash Flow Projections to date	Variance	Expenditure as % of Projected Expenditure
S A Management Development Institute	58918	28041	47.59%	28684	-643	97.76%
Statistics South Africa	1074483	409774	38.14%	491135	-81361	83.43%
Social Services	90588067	51200582	56.52%	48544378	2656204	105.47%
Arts and Culture	1318476	648041	49.15%	681300	-33259	95.12%
Education	14129233	10313965	73.00%	10667779	-353814	96.68%
Health	11269996	5491866	48.73%	5653768	-161902	97.14%
Labour	1512749	637497	42.14%	781214	-143717	81.60%
Social Development	62005460	33961939	54.77%	30564518	3397421	111.12%
Sport and Recreation South Africa	352153	147274	41.82%	195799	-48525	75.22%
Justice and Protection Services	73354334	31059169	42.34%	33024490	-1965321	94.05%
Correctional Services	10630712	4116451	38.72%	4883854	-767403	84.29%
Defence	23830105	9504239	39.88%	9797599	-293360	97.01%
Independent Complaints Directorate	65906	30111	45.69%	33011	-2900	91.22%
Justice and Constitutional Development	6269880	2581599	41.17%	3001049	-419450	86.02%
Safety and Security	32557731	14826769	45.54%	15308977	-482208	96.85%
Economic Services and Infrastructure Development	43144254	16936625	39.26%	22229097	-5292472	76.19%
Agriculture	1957648	948210	48.44%	1043072	-94862	90.91%
Communications	1280194	434126	33.91%	614988	-180862	70.59%
Environmental Affairs and Tourism	2018053	1242988	61.59%	1085652	157336	114.49%
Housing	6860883	3494759	50.94%	3430841	63918	101.86%
Land Affairs	4852196	1191927	24.56%	2418354	-1226427	49.29%
Minerals and Energy	2548272	1066116	41.84%	1323416	-257300	80.56%
Science and Technology	2614093	1181462	45.20%	1460018	-278556	80.92%
Trade and Industry	3665912	1440618	39.30%	2181725	-741107	66.03%
Transport	12870458	4229519	32.86%	6528310	-2298791	64.79%
Water Affairs and Forestry	4476545	1706900	38.13%	2142721	-435821	79.66%

Table 3 illustrates that 28 Departments spent less than they had projected and 6² spent more than what they had planned to spend by the end of the second quarter of the 2006/07 financial year. Three Departments spent less than 70% of their total budgets based on the cash flow projections provided by National Treasury. These are the Departments of Land Affairs, Transport and Trade and Industry. Trade Industry spent R1.4 billion but planned to spend R2.2 billion, which is 40% of its budget. Clearly this slow expenditure gives cause for concern.

The Joint Budget Committee will be engaging with these departments again at the end of the Third quarter to ascertain what measures have been adopted to arrest this pattern.

² The 6 departments that spent more than what they planned to spend are Government Communications and Information Services; Public Enterprises; Public Service and Administration, Social Development, Environmental Affairs and Tourism; and Housing

2. Current Expenditure

Table 4 represents departments' overall Current Expenditure for the second quarter of the 2006/07 financial year. Departments' spent on average 43.61% of their Current budgets by the end of the second quarter. They spent on average 7.78% of their Current budgets during July, 7.61% during August and 8.53% during September. At the end of the second quarter of the 2005/06 financial year departments spent on average 43.81% of their current budgets. This shows that there's been a slight decrease in the average percentage expenditure by departments.

In the Committee's opinion averages by their nature can be misleading and obscure issues of significant under and over expenditure.

Table 4: Current Expenditure to date

R'000	Total Current Budget	First Quarter Current Exp	% Current Exp for 1 st Quarter	Second Quarter Current Exp	% Current Exp for 2 nd Quarter	Current Exp to date	% Current Exp to date
Voted Amounts	81424542	16036692	19.70%	19473113	23.91%	35509805	43.61%
Central Government Admin	6401952	1271229	19.86%	1689221	26.38%	2960450	46.24%
The Presidency	223239	38247	17.13%	47008	21.06%	85255	38.19%
Parliament	601352	107989	17.96%	189368	31.49%	297357	49.45%
Foreign Affairs	2158818	426813	19.77%	565208	26.18%	992021	45.95%
Home Affairs	1844348	366758	19.89%	471596	25.57%	838354	45.46%
Provincial and Local Government	322600	60475	18.75%	70042	21.71%	130517	40.46%
Public Works	1251595	270947	21.65%	345999	27.64%	616946	49.29%
Financial and Admin Services	4205417	731172	17.39%	862220	20.50%	1593392	37.89%
Government Communications and Information Services	192937	41084	21.29%	46546	24.13%	87630	45.42%
National Treasury	2427774	413499	17.03%	467523	19.26%	881022	36.29%
Public Enterprises	101905	19873	19.50%	22951	22.52%	42824	42.02%
Public Service and Administration	323027	62213	19.26%	61326	18.98%	123539	38.24%
Public Service Commission	94654	20235	21.38%	23830	25.17%	44065	46.55%
S A Management Development Institute	33466	6913	20.66%	8283	24.75%	15196	45.41%
Statistics South Africa	1031654	167355	16.22%	231761	22.47%	399116	38.69%
Social Services	3189475	555031	17.40%	701628	22.00%	1256659	39.40%
Arts and Culture	232999	105578	45.31%	72331	31.05%	177909	76.36%
Education	575864	70024	12.16%	113651	19.74%	183675	31.90%
Health	808864	107793	13.33%	155739	19.25%	263532	32.58%
Labour	1117202	202077	18.09%	259613	23.24%	461690	41.33%

	Total Current Budget	First Quarter Current Exp	% Current Exp for 1 st Quarter	Second Quarter Current Exp	% Current Exp for 2 nd Quarter	Current Exp to date	% Current Exp to date
R'000							
Social Development	277304	52856	19.06%	78139	28.18%	130995	47.24%
Sport and Recreation South Africa	177242	16703	9.42%	22155	12.50%	38858	21.92%
Justice and Protection Services	59801679	12143545	20.31%	14421959	24.11%	26565504	44.42%
Correctional Services	9234476	1776857	19.24%	2044134	22.14%	3820991	41.38%
Defence	14896326	2845356	19.10%	3705361	24.88%	6550717	43.98%
Independent Complaints Directorate	64034	13838	21.61%	15436	24.11%	29274	45.72%
Justice and Constitutional Dev	5007839	833783	16.65%	1099312	21.95%	1933095	38.60%
Safety and Security	30599004	6673711	21.81%	7557716	24.70%	14231427	46.51%
Economic Services & Infrastructure Dev	7826019	1335715	17.07%	1798085	22.97%	3133800	40.04%
Agriculture	882202	127615	14.47%	175630	19.90%	303245	34.37%
Communications	304320	62031	20.38%	69831	22.95%	131862	43.33%
Environmental Affairs and Tourism	615129	117131	19.04%	142948	23.24%	260079	42.28%
Housing	373512	33535	8.98%	45482	12.18%	79017	21.16%
Land Affairs	990648	149290	15.07%	223584	22.57%	372874	37.64%
Minerals and Energy	534923	88601	16.56%	110433	20.65%	199034	37.21%
Science and Technology	180770	46010	25.45%	44886	24.83%	90896	50.28%
Trade and Industry	769869	113610	14.76%	147309	19.13%	260919	33.89%
Transport	538852	105194	19.52%	184614	34.26%	289808	53.78%
Water Affairs and Forestry	2635794	492698	18.69%	653368	24.79%	1146066	43.48%

Table 5 illustrates Departments' with the highest current expenditure at the end of the second quarter.

Table 5: Highest Current Expenditure to date

	Total Current Budget	First Quarter Current Exp	% Current Exp for 1 st Quarter	Second Quarter Current Exp	% Current Exp for 2 nd Quarter	Current Exp to date	% Current Exp to date
R'000							
Arts and Culture	232999	105578	45.31%	72331	31.05%	177909	76.36%
Transport	538852	105194	19.52%	184614	34.26%	289808	53.78%
Science and Technology	180770	46010	25.45%	44886	24.83%	90896	50.28%
Parliament	601352	107989	17.96%	189368	31.49%	297357	49.45%
Public Works	1251595	270947	21.65%	345999	27.64%	616946	49.29%

The Department of Arts and Culture spent 76.36% of its Current budget which in comparison is by far the highest spending department. Current expenditure

during the first half of the financial year was R178 million. As at the end of the second quarter the department spent R62 million of its R95 million budget for compensation of employees (65.2%). This is 52.6% higher than expenditure at the end of the second quarter of the 2005/06 financial year. At the end of the previous financial year the Current budget expenditure stood at 109.24% .

There is a significant risk of over expenditure by the Department on its current budget given this expenditure pattern in this financial year. The Committee noted that this is a repetition of the previous financial years pattern and believes measures should, if they have not already, be taken to address this pattern.

The second highest spending department is Transport (53.78%). Current expenditure during the first half of the financial year was R290 million. Thus far the Department spent R52 million of its R144 million budget on compensation of employees and R236 million of its R581 million budget on goods and services. Given the current expenditure patter there is a risk of under expenditure by the Department on its current budget which could lead to a similar pattern as noted in the previous financial year when only 70.4% of the budget was spent.

The Department of Science and Technology current expenditure during the first half of the financial year was R91 million which is 50.28% of its current budget. This indicates that expenditure is on track with planned line budget.

Parliament's current expenditure during the first half of the financial year was R297 million (49.45%). A risk of under expenditure is statistically insignificant at this point of the expenditure cycle however given the previous financial years expenditure of only 94%, this second quarterly pattern should alert Parliament to track its expenditure pattern more closely.

The Department of Public Works current expenditure during the first half of the financial year was R617 million (49.29%). This expenditure pattern would appear to give no cause for concern however given the previous financial years expenditure of 103% the Department should track all line expenditure more closely.

Table 6 illustrates Departments' with the lowest current expenditure at the end of the second quarter.

Table 6: Lowest Current Expenditure to date

	Total Current Budget	First Quarter Current Exp	% Current Exp for 1 st Quarter	Second Quarter Current Exp	% Current Exp for 2 nd Quarter	Current Exp to date	% Current Exp to date
R'000							
Housing	373512	33535	8.98%	45482	12.18%	79017	21.16%
Sport and Recreation South Africa	177242	16703	9.42%	22155	12.50%	38858	21.92%
Education	575864	70024	12.16%	113651	19.74%	183675	31.90%
Health	808864	107793	13.33%	155739	19.25%	263532	32.58%
Trade and Industry	769869	113610	14.76%	147309	19.13%	260919	33.89%

The Department of Housing is the lowest spending department with expenditure at 21.16% of the Current budget. Current expenditure during the first half of the financial year was R79 million. Of the R176 million allocated to the line item on goods and services the Department spent only R42 million. This expenditure pattern is similar to the previous financial year at the end of the second quarter. This under expenditure in the previous financial year resulted in only 89.9% of expenditure.

It is this recurring pattern that gives cause for concern in the current financial year. The Committee is of the opinion that stronger measures should be implemented by the Department to arrest this pattern.

The Department of Sport and Recreation current expenditure during the first half of the financial year was R29 million or 21.92 of its current budget. The reason for the slow expenditure is because the Department spent only R24 million of its R136 million budget available for goods and services. In addition the Department spent only 37.5% of its budget for compensation of employees. There is a risk of under expenditure by the Department on compensation of employees as well as goods and services. During the 2005/06 financial year the Department spent only 79.5% of its current budget.

In the Committee's opinion the current pattern of expenditure reflects the under expenditure pattern of the previous financial year and therefore gives cause for concern. Measures should be developed and implemented to arrest this under expenditure pattern.

The Department of Education's current expenditure during the first half of the financial year was R184 million, or 31.9% of the current budget. The reason for the slow expenditure is because the Department spent only R85 million of its R365 million budget available for goods and services. During the 2005/06 financial year the Department spent 91.5% of its current budget. The line item on goods and services includes consultants, contractors, maintenance repairs and running costs, operating leases, travel and subsistence, and printing and publications. However the major portion of the line allocation goes to consultants and contractors.

JBC DRAFT SIX

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