

**Joint Budget Committee
Parliament**

By e-mail: A Ganief: Parliamentary Research
P Hahndiek: Committee Secretary

aganief@parliament.gov.za
phahndiek@parliament.gov.za

First quarter expenditure of the Department of Transport for the period 1 April 2007 to 30 June 2007

The letter from the Joint Budget Committee requesting an expenditure breakdown and explanations for the low current expenditure of the Department of Transport for the first quarter of 2007/08 refers.

A high-level breakdown of current expenditure per Programme for the first quarter, compared to the budget, is detailed below. Further breakdowns are also provided to explain high-level variances for each Programme that under spent materially against its budget for the first quarter.

EXPENDITURE PER PROGRAMME

Compensation of Employees:

1. Administration
2. Transport Policy, Research and Economic Analysis
3. Transport Regulation and Accident & Incident Inv.
4. Integrated Planning and Inter-sphere Co-ordination
5. Freight Logistics and Corridor Development
6. Public Transport
7. Public Entity Oversight and Economic Regulation

1st Quarter Actual	Annual Budget	Variance	Phased Budget	Variance
R'000	R'000	R'000	R'000	R'000
11,927	80,864	68,937	20,216	8,289
2,973	15,486	12,513	3,872	899
6,179	29,876	23,697	7,469	1,290
3,960	24,074	20,114	6,019	2,059
1,090	9,455	8,365	2,364	1,274
2,323	14,712	12,389	3,678	1,355
682	6,359	5,677	1,590	908
29,134	180,826	151,692	45,208	16,074

Goods and Services:

1. Administration
2. Transport Policy, Research and Economic Analysis
3. Transport Regulation and Accident & Incident Inv.
4. Integrated Planning and Inter-sphere Co-ordination
5. Freight Logistics and Corridor Development
6. Public Transport
7. Public Entity Oversight and Economic Regulation

14,550	54,364	39,814	13,591	(959)
1,159	15,635	14,476	3,909	2,750
12,516	197,979	185,463	49,495	36,979
4,246	145,192	140,946	36,298	32,052
4,334	8,968	4,634	2,242	(2,092)
19,316	116,977	97,661	29,244	9,928
112	2,725	2,613	681	569
56,233	541,840	485,607	135,460	79,227

Total of current expenditure
Percentage of total budget spent
Percentage of phased budget spent

85,367 **722,666** **637,299** **180,668** **95,301**
11.81%
63.02%

Reasons for variances:

Compensation of Employees:

The reason for the under expenditure on Compensation of employees is because of the high level of vacant posts, partly due the restructuring of the Department, and partly due to the high number of resignations that were experienced during the past financial year.

The establishment was increased in May 2006 with an additional 99 posts, which brought the total establishment to 1022 posts, of which 414 were not funded on the budget.

During the MTEF budgeting process that culminated in the 2007 Estimates of National Expenditure, additional funding of R15 million per annum was allocated from 2007/08 onwards that enabled the Department to prioritise and fill posts that were previously unfunded in its new structure. On 16 April 2007, 66 posts were activated on the establishment, which leaves a total of 348 posts unfunded.

Although the reduction of the vacancy rate was identified as a critical area, and the Department continuously filled vacant posts, the number of filled posts only increased slightly between 1 April 2006 and 31 March 2007, because of 63 resignations during the year while 66 posts could be filled.

Between 1 April 2007 and 31 July 2007, 55 posts were filled while 14 staff members resigned.

Goods and Services

Programme 2: Transport Policy, Research and Economic Analysis

EXPENDITURE PER SUB PROGRAMME	1st Quarter	Annual	Variance	Phased	Variance
	Actual	Budget		Budget	
	R'000	R'000	R'000	R'000	R'000
Policy Analysis	526	3,546	3,020	887	361
Economic Analysis	348	4,066	3,718	1,017	669
Research	72	3,545	3,473	886	814
Legislation	91	1,650	1,559	413	322
Administration	122	2,828	2,706	706	584
	1,159	15,635	14,476	3,909	2,750

The Programme under spent on all of its activities, because of the longer-term nature of the projects and because certain posts could not be filled or funded. Projects are paid for on a milestone basis, or when policies have been developed or economic analysis have been concluded.

Some of the work is done internally rather than being outsourced, which resulted in savings. In some cases, delays were experienced in the approvals of projects that have to be outsourced.

The under expenditure for Administration is mainly because planned foreign trips did not yet take place, and claims for overseas trips need to be processed.

Programme 3: Transport Regulation and Accident & Incident Inv.

EXPENDITURE PER SUB PROGRAMME	1st Quarter	Annual	Variance	Phased	Variance
	Actual	Budget		Budget	
	R'000	R'000	R'000	R'000	R'000
Road Transport Regulation	1,587	102,516	100,929	25,629	24,042
Rail Transport Regulation	2	4,513	4,511	1,128	1,126
Aviation Regulation	672	3,960	3,288	990	318
Maritime Regulation	10,076	49,000	38,924	12,250	2,174
Accident and Incident Investigation	67	35,538	35,471	8,885	8,818
Administration Support	112	2,452	2,340	613	501
	12,516	197,979	185,463	49,495	36,979

Road Transport Regulation:

- The NaTIS system is being decommissioned and the final invoices for the maintenance of the system are being reviewed and were not yet paid. An amount of R 62,653 million was budgeted for the maintenance of NaTIS. The function will, in terms of a MINMEC decision (6 July 2007), be transferred to the Road Traffic Management Corporation.
- An amount of R17,625 million was budgeted for the Special Investigation Unit (SIU) which was not yet paid. The payment will, in terms of the agreement with the SIU only be done towards the middle of February 2008.
- An amount of R5 million was budgeted for the implementation of the Administrative Adjudication of Road Traffic Offences Act. The implementation did not yet start, as this function will be transferred to the Road Traffic Management Corporation.
- Economic Regulation, Standards Regulation and Enforcement Regulation projects, with a total budget of R18 million, are of a longer-term nature and major payments were not yet made on these projects.

Rail Transport Regulation:

A service provider has been appointed for the research and development of a Rail Economic Regulator. The consultant did not submit a claim yet.

Aviation Regulation:

Aviation infrastructure projects are of a longer-term nature and major payments were not yet made on these projects. Invoices for the foreign representative at the

International Civil Aviation Organisation were not yet received. Furthermore, the Membership Fees for both the African Civil Aviation Commission (AFCAC) and the International Civil Aviation Commission will be paid in the second financial quarter of 2007/08.

Maritime Regulation:

Invoices for the oil pollution prevention contract were not yet paid.

Accident and incident Investigation:

Invoices for watch keeping services were not yet received, no funds were yet spent on investigations and the subsidy to the International COSPAS-SARSAT has only been paid in the second quarter of 2007/08. The first quarter payment to the South African Maritime Shipping Authority for the maintenance of the Maritime Rescue Coordination Centre has only been done in the second financial quarter.

Administration Support:

The posts of Deputy Director General and the Personal Assistant were vacant for the first quarter that attribute in the under-expenditure in both the Compensation of Employees and other operational expenditure. Claims for overseas trips for officials of the Branch were not yet processed.

Programme 4: Integrated Planning and Inter-sphere Co-ordination

EXPENDITURE PER SUB PROGRAMME	1st Quarter	Annual	Variance	Phased	Variance
	Actual	Budget		Budget	
	R'000	R'000	R'000	R'000	R'000
Transport Planning	483	18,805	18,322	4,701	4,218
Integrated Delivery Programme	2,094	42,188	40,094	10,547	8,453
Integrated Infrastructure & Network Development	1,069	60,747	59,678	15,187	14,118
2010 SWC Coordination	405	20,000	19,595	5,000	4,595
Administration Support	195	3,452	3,257	863	668
	4,246	145,192	140,946	36,298	32,052

Transport Planning:

The development of a Transport Master Plan is underway, and invoices for milestones were received late from the contractors. Amounts totaling R3,2 million were paid after the first quarter. Phase 1 of the Transport Master Plan is being completed and expenditure will escalate. For the development of the National Land Transport Bill, R 2 million was committed. Expenditure is expected to escalate in the remainder of the year.

Integrated Delivery Programme:

The Shova Kalula Bicycle project with a budget of R4,183 million is planned for later in the year. The delay on spending was as a result of technical development of a national single-speed commuter bicycle, which conforms to varying South African rural terrain. The principle of the design was based on affordability, low-maintenance requirement, safety, sustainability of the bicycles and with a life-span of 10 years. The specifications are for the procurement of 1 million bicycles and provinces have to use the above-cited specifications for provincial procurement.

The Implementation of IRMA projects were mainly delayed by contracts being concluded late. Another technical challenge is on the technical designs of the rural access roads, which have to be upgraded, not to mention the requirement of obtaining approval from the provincial roads agency as the access roads fall under their jurisdictions.

The spending delays has also been compounded by the fact that Shova Kalula bicycle project requires additional funding to meet its targets and delays in prioritizing rural transport development programme' implementation in other areas was affected as the necessary approval was sought on these projects. The areas earmarked for implementation before the end of the financial year are: Chris Hani, Bophirima, Maluti-A-Phofung, Cacadu, Tubatse. The projects would include the development of a public transport interchange to the tune of R15 million which shall be executed over a period of 3 years. In Bophirima an access road shall be improved and another rural access road and non-motorised transport facilities would be provided in Bophirima. Cacadu would form part of the NSDP pilot project.

The Tubatse project would cover same projects as in Bophirima. It has however, been realized that some of the projects underway are being affected by in-fights of the service providers and in certain instances some of the service providers cannot execute the work even if they were appointed based on the technical competency of their companies.

Integrated Infrastructure & Network Development:

Contracts were signed for the National Airports Development Plan (R10 million) and for road classification (R1,5 million). The milestones are longer term and expenditure on these contracts will escalate.

An amount of R40 million will be shifted to Transfer Payments for the upgrading of the Sani Pass road and for the construction of Botswana River crossings.

A Geographical Information System with an initial estimated cost of R 2 million is in the planning stage and will be commissioned later in the year.

2010 Soccer World Cup Co-ordination:

Contracts for the monitoring of the various projects have been concluded in June 2007, totaling R9,6 million. An amount of R 5 million will be shifted to Compensation of Employees to create internal monitoring capacity. These posts were advertised.

Further monitoring contracts will be concluded later in the year.

Administration Support:

Planned foreign trips did not yet take place.

Programme 6: Public Transport

EXPENDITURE PER SUB PROGRAMME	1st Quarter	Annual	Variance	Phased	Variance
	Actual	Budget		Budget	
	R'000	R'000	R'000	R'000	R'000
Public Transport Management	542	26,294	25,752	6,574	6,032
Taxi Recapitalisation Project Office	18,351	85,662	67,311	21,416	3,065
Public Transport Business Development	0	700	700	175	175
Public Transport Strategy and Monitoring	128	1,100	972	275	147
Administration Support	295	3,221	2,926	804	509
	19,316	116,977	97,661	29,244	9,928

Public Transport Management:

A feasibility study for which R20 million was earmarked did not yet get underway. The appointment of a Project Manager was finalised and the appointment of Transaction Advisers will be completed in the 2nd quarter.

Taxi Recapitalisation Project Office:

Funds budgeted for Provinces to assist with the recapitalisation project were not yet spent, as the needs at various Provinces are being re-assessed. Furthermore, payment of service providers will only be made in the next quarter as quarterly progress reports must be submitted before payment may be effected.

Administration Support:

Claims for overseas trips were not yet processed.

Programme expenditure trends and 1st quarter report

The total budget of the Department for the 2007/08 financial year amounts to R 35 917 470 000. The total amount allocated per programme, amount spent up to 30 June 2007 (1st quarter) and percentages spent per programme are indicated in the table below. (The linear benchmark for total expenditure as at the end of June 2007, accounts for 25% of the allocation for the 1st quarter i.e. 3 months of the financial year, not taking into account salary adjustments, specific projects, etc.)

Programme	Allocation R'000	Actual Expenditure	% Spent up to
		30 June 2007 R'000	30 June 2007
1. Administration	11 825 922	2 495 412	21.10
2. Visible Policing	15 464 950	3 278 628	21.20
3. Detective Services	5 710 468	1 314 586	23.02
4. Crime Intelligence	1 261 729	289 557	22.94
5. Protection and Security Services	1 654 401	334 257	20.20
TOTAL	35 917 470	7 712 440	21.47

Spending trends per programme, with the exception of Protection and Security Services, are in accordance with the planned spending performance. The reason for the slower spending of Protection and Security Services, is merely due as a result of student intakes staggered during the year.

The following information is provided regarding spending per economic classification for the Vote, as at 30 June 2007:

Economic classification	Allocation R'000	Actual Expenditure	% Spent up to
		30 June 2007 R'000	30 June 2007
Current payments	33 589 016	7 415 829	22.07
Transfers and subsidies	320 076	79 502	24.83
Payments for capital assets	2 008 378	217 109	10.81
TOTAL	35 917 740	7 712 440	21.47

Viewed against the framework of an absolute linear benchmark for total spending in the 1st quarter of the financial year, expenditure is less to a certain extent. (It should be noted that the Department annually has somewhat of a S-curve expenditure trend, in close proximity of percentage ranges.) Compared to the previous financial year, actual expenditure for payments for capital assets at the end of the 1st quarter, accounted for 10.5% of the allocated amount. The eventual actual realisation of expenditures at the end of the previous financial year, exceeded the initial planned amount, which is

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positive. The expenditure performance for payments for capital assets at this point in time, is in accordance with the planned realisation. From the table above it is thus clear that the quarterly variance emanates from within the current payments and payments for capital assets. The following factors contribute to the lower than linear benchmark:

* Compensation expenditure spending patterns are influenced by the annual cost-of-living salary adjustments, the latter that take place during July 2007.

* Goods and services - expenditure in this category is impacted upon due to the new arrangements by Public Works relating to the devolved budgets, especially pertaining to the payments for planned maintenance, property rates and taxes and leasehold expenditures, the latter that is claimed quarterly and not monthly. This environment is however being monitored closely and interventions will be embarked upon when necessary.

* Transfers and subsidies - expenditure trends are in accordance with the planned figures and require no interventions at this stage.

* **Payments for capital assets** - The spending performance in the capital works environment is also behind a linear interval target at this point in time, a level that is expected to increase during the next quarters as is usually the trend. In addition, orders have been placed for other capital related purchases i.e vehicles, firearms, helicopters etc, the latter in respect of which delivery time frames are forthcoming. This tendency is recurring of nature, especially if one considers the fact that more than 50% of the total provision for payments for capital assets, is in respect of the purchasing of vehicles. Orders are placed at the beginning of the financial year, with specific delivery schedules commencing from the second quarter in the financial year.

It should be noted that realization of the aspects above are quite certain and expected, especially if a 12 month time horizon (total business cycle) is taken into account. Similar to previous financial years e.g 2006/07, 2005/06, 2004/05 etc, full utilization of funds in accordance with priorities and the legally adopted budget is envisaged. Close monitoring and appropriate action where necessary, prevail.