

**PORTFOLIO COMMITTEE
ON
ENERGY**

**BUDGET REVIEW
AND
RECOMMENDATIONS REPORT**

2010

**HON B.TINTO
ACTING CHAIRPERSON:**

Table of Contents

1. Introduction

1.1 The Committee

1.2 The Department

1.4 Methodology used in Compiling the BRR Report

2. Strategic Priorities and Measurable Objectives of the Department

2.1 Strategic Priorities of the Department

2.2 Measurable Objectives of the Department

3. Analysis of Strategic and Operational Plans of the Department

4. Analysis of Expenditure Reports

5. Analysis of the Annual Report and Financial Statements of the Department

6. Consideration of Reports of Committee on Public Accounts

7. Consideration of other Sources of Information

8. Committee's Observations

9. Recommendations

The Budgetary Review and Recommendation Report of the Portfolio Committee on Energy on the Performance of the Department of Energy for the 2009/10 Financial Year, dated 26 October 2010

The Portfolio Committee on Energy, having assessed the performance of the Department of Energy, reports as follows:

1. Introduction

During May 2009, the President of the Republic of South Africa announced the restructuring of Cabinet and national departments to align the structure and electoral mandate of government with developmental challenges. As a result, the former Department of Minerals and Energy (DME) was divided into two Departments, that of Mineral Resources and that of Energy. A government-wide task team was established under the auspices of the Department of Public Service and Administration (DPSA) to oversee the transition. The establishment of the Department of Energy as a stand alone department was finalised at the end of the 2009/2010 financial year. This report therefore seeks to analyse the performance and expenditure of the Department of Energy during the 2009/2010 financial year (and the first two quarters of the 2010/11 financial year).

1.1 The Role and Mandate of the Committee

In terms of the Constitution of the Republic of South Africa, Parliamentary committees have a mandate to legislate, conduct oversight over the Executive's actions and facilitate public participation.

The Portfolio Committee on Energy's mandate is governed by Parliament's mission and vision, the rules of Parliament and Constitutional obligation. The mission of the Portfolio Committee on Energy (the Committee) is to contribute to the realisation of a developmental state and ensure effective service-delivery through discharging its responsibility as a Portfolio Committee of Parliament. Its vision includes enhancing and developing the capacity of Committee Members in the exercise of effective oversight over the Executive Authority. The primary objective of the Committee is to oversee, scrutinise and influence the performance of the Executive and its agencies. This implies holding the Executive and related entities accountable through oversight on the objectives of its programmes, scrutinising its budget and expenditure (quarterly and annually), and recommending, through Parliament, actions the Executive should take in order to attain their strategic goals and contribute to service-delivery.

Furthermore, Section 5 of the Money Bills Amendment Procedures and Related Matters Act, No 9 of 2009 (the Act) provides that the National Assembly, through its committees, must annually assess the performance of each national department and annually submit Budgetary Review and Recommendation (BRR) Reports for tabling in the National Assembly. These BRR Reports should be considered by the Committee on Appropriations when it is considering and reporting on the Medium Term Budget Policy Statement (MTBPS) to the House.

1.2 The Department

The Department of Energy (the Department) is the primary Government institution that is responsible for formulating and implementing policies on energy. The Department reports to and advises the Minister who, in conjunction with the Cabinet, takes final responsibility for Government policies. The Department is headed by the Director-General, who is responsible for ensuring that South Africa has a secure and sustainable provision of energy for socio-economic development.

1.3 Methodology used in compiling the BRR Report

For the period under review, the Portfolio Committee on Energy, in exercising its oversight role, had interacted with the Department of Energy and analysed its 2009/10 to 2011/12 strategic plan, the 2009/10 annual report, the 2009/10 Estimates of the National Expenditure, budget vote for 2010/11 and the Constitution.

2. Strategic Priorities and Programmes of the Department

2.1 Strategic Priorities of the Department

The Department's strategic plan seeks to deliver results along eight strategic objectives that include promoting energy security through reliable, clean and affordable sources; universal access to energy sources; transformation of the energy sector and strengthening the operations and management of the Department. A brief description of these strategic objectives is as follows:

- **Ensure energy security** – creating and maintaining a balance between energy supply and energy demand, develop strategic partnerships, improve co-ordination in the sector and ensure reliable delivery and logistics.
- **Achieve universal access and transform the energy sector** – diversify energy mix, improve access and connectivity, provision of quality and affordable energy, promote safe use of energy and transform the energy sector.
- **Regulate the energy sector** – develop effective legislation, policies and guidelines, encourage investment in the energy sector, ensure compliance with legislation.
- **Effective and efficient service delivery** – understands stakeholder needs and improves turn-around times.
- **Optimal utilisation of energy resources** – develop enabling policies, encourage energy efficient technologies.
- **Ensure sustainable development** – promote clean energy alternatives, encourage economic development, promote job creation.
- **Enhance DoE culture systems and people** – attract, develop and retain appropriate skills, promote good organizational culture, make the Department an employer of choice.
- **Promote good corporate governance** – optimal utilisation of resources, manage budget effectively, implement fraud and risk management, and ensure compliance with relevant prescripts.

2. Programmes of the Department

The activities of the Department were organized in the following programmes:

2.1 Programme 1: Administration

The purpose of the Administration programme is to enable the Department to deliver on its mandate by providing strategic management and administrative support to the Department of Energy and its Ministry. Programme 1 provides strategic support and management services to the Ministry, Director-General's Office, Audit Services Chief Directorate, Strategy, Risk and Monitoring Chief Directorate, Special Programmes and Projects Directorate; Corporate Services Branch (Human Resources, Communication and International Relations, Legal Services and Auxiliary Support Services); Chief Financial Officer's Office-Branch (Finance, Information Technology and Supply Chain Management).

2.2 Programme 2: Hydrocarbons and Energy Planning

This programme comprises of two sub-programmes, namely Hydrocarbons and Energy Planning. Hydrocarbons sub-programme develops policy and regulations to manage petroleum, coal and natural gas. The Petroleum Controller is included in this sub-programme and is responsible for the implementation of the Petroleum Product Amendments Act (Act no. 58 of 2003). Energy planning sub-programme, in particular, focuses on promoting the sustainable use of energy resources through integrated energy planning.

2.3 Programme 3: Electricity, Nuclear and Clean Energy

Electricity and Nuclear management provides the platform for the overall management of the programme. The Electricity sub-programme develops, implements and monitors electricity policy and programmes. The Integrated National Electrification Programme (INEP) Business Planning Unit manages the electrification planning, funding and implementation process, including addressing electrification backlogs with the aim of achieving universal access to electricity. The Nuclear sub-programme aims to improve the governance of the nuclear sector, specifically in relation to nuclear safety, non-proliferation as well as nuclear technology. The Clean Energy sub-programme facilitates the implementation of renewable energy and Energy Efficiency Technologies. This sub-programme also promotes and regulates the Clean Development Mechanism (CDM) activities.

2.4 Programme 4: Associated Services

The Associated Services programme is made up of five State-Owned Entities reporting to the Minister of Energy, namely the National Nuclear Regulator (NNR), the National Energy Regulator (NERSA), the Central Energy Fund (CEF), South African Nuclear Energy Corporation (NECSA) and the Electricity Distribution Industry Holdings (EDIH).

3. Analysis of the Department's Prevailing Strategic and Operational Plans

3.1 Programme 1: Administration

Due to the split from the former Department of Mineral Resources, the Department had to grapple with the issue of ensuring that it had manpower. The process of filling vacancies is key to the Department in its drive to implement its plans and achieve its strategic objectives. The composition of the interim structure had 325 personnel. At the moment, the Department is operating at a rate of 531 funded posts. This creates a shortfall of 349 unfunded posts, when one takes into account the desired total figure of 925 for the Department to be fully

staffed. At present, the Department has 73 vacant posts. The recruitment and selection process to fill these 73 posts is at an advanced stage.

The following are key projects for the Department as contained in the strategic plan:

- Filing of vacancies,
- Payment turn around time,
- Procurement spent on HDSA,
- Internship programme,
- Bursaries,
- Training,
- Presidential Hotline, and
- Employment Equity.

3.2 Programme 2: Hydrocarbons and Energy Planning

The purpose of the Hydrocarbons and Energy Planning programme is to undertake energy planning in order to promote the sustainable use of energy resources by developing appropriate policies and regulations that, in turn, are expected to promote efficient use of petroleum products, coal, gas and renewable energy sources. The Hydrocarbons and Energy Planning programme comprises of two sub-programmes, namely the Energy Planning and Hydrocarbons sub-programmes.

In terms of service delivery achievements, this programme has, since the implementation of the Petroleum Products Amendment Act (PPAA) Act No. 58 of 2003, issued approximately 5 581 licences compared to the pre-determined target of 1 200. But, the PPAA awareness campaign to concertise people about rules and regulations was not held due to financial constraints.

The Programme's key projects for 2010/11 are as follows:

- Fuel strategic stock policy,
- LPG price regulations,
- Fuel specifications and standards,
- 25 year Fuel Liquid Infrastructure Plan,
- Petroleum pricing framework,
- Transnet Multi Product Pipeline,
- 20 Year Integrated Energy Plan,
- National Integrated Energy Modeling System, and
- SANERI/SANEDI

3.3 Programme 3: Electricity, Nuclear and Clean Energy

The purpose of the Electricity, Nuclear and Clean Energy programme is to govern the electricity, Nuclear and Clean Energy sectors with special emphasis on secure supply, universal access to electricity, development of the nuclear sector, diversification of energy sources and the promotion of the clean energy technologies.

This programme also transfers conditional grants to municipalities and Eskom for Integrated National Electrification Programme (INEP). The INEP connects electricity to rural households

and schools. Other plans of this programme for the 2010/11 financial year include, among others, the following:

- IRP 2010,
- ISMO,
- Electricity Regulation Act, Second Amendment Bill
- Independent Power Producers,
- REDs,
- Standard offer policy,
- INEP,
- Solar Water Heaters, and
- Nuclear.

3.4 Programme 4: Associated Services

The purpose of the Associated Services programme is to provide services in support of the Department's mandate through funded and non-funded statutory bodies and organisations.

The measurable objectives were to enhance the Department's objectives through policies and directives, promoting its legislative mandate and leading to the creation of an environment conducive to sustainable development, investment and the improvement of the quality of life of all South Africans.

The greater percentage of the Departmental budget (approximately 80 per cent) was allocated to this programme for transfers to entities such as NECSA, EDI and NNR.

4. Analysis of Expenditure Reports

4.1 The Overall Departmental Allocations and Expenditure

Departmental Budget per Programme

Programme	2010/11 Initial R'000	Roll- Overs R'000	Adjusted Allocation R'000	Expenditure YTD R'000	Exp as % of Budget
Administration	104,205		104,205	60,257	57.83
Hydrocarbons and Energy Planning	1,558,608		1,558,608	402,196	25.80
Electricity, Nuclear and Clean Energy	408,817		408,817	29,132	7.13
Associated Services	3,463,760		3,463,760	1,618,750	46.78
Total	5,535,390		5,535,390	2,110,335	38.12

The Department's overall expenditure is 38 percent of the R5,3 billion allocated budget for the 2010/11 financial year as at 30 September 2010. The Department has already spent 48

percent of the allocated Compensation of Employees budget, 69 percent of Goods and Services, 64 percent of Capital Assets allocation and 37 percent of Transfers and Subsidies budget.

The Department's budget is 97 percent Transfers and Subsidies and 3 percent operational expenses. As a result, although the expenditures on other spending areas is well above the norm of 50 percent as at mid year (30 September 2010), the lower expenditure on Transfers brings down the overall average below the norm (38 percent) especially because, as stated above, Transfers and Subsidies accounts for 97 per cent of the total budget. This is a significant weighting which greatly influence the total expenditure as at 30 September 2010.

The observed under-spending by the Department on Transfers and Subsidies is a matter of concern particularly taking into account that the core operations of the Department are funded through Transfers. Taking cognizance of the fact that the Department is on its first year of operation as a stand-alone entity, factors -such as capacity constraints, appropriateness of the supporting infrastructure and so forth -are of significant importance in assessing the performance of the Department, both qualitatively and quantitatively.

The Goods and Services expenditure of the Department is approximately 19 percent above the 50 percent norm or expectation. The costs, in that regard, seem to be escalating amid the austerity measures that the Department has put into place. The Department however is allocated additional R48 million through the adjustment budget process which will be spent on operational activities and therefore easing the prevailing trend.

4.2 Administration

The spending on this programme is 58 percent which is above the 50 percent expectation at the middle of the financial year. The spending on this programme is satisfactory. However, the Department should monitor closely the expenses and contain them within the allocated budget to avoid over spending. It is encouraging that the Department adopted some cost containment measures in the beginning of the financial year in response to the limited resources at their disposal.

4.3 Hydro-Carbons and Energy Planning

The operational budget performance of this programme is at 52 per cent. The transfer and subsidies expenditure is however 25 percent of the total allocation of R1.5 billion and the Committee is not satisfied with this low level of spending. This money hinges significantly on the ability of the Department to discharge its mandate of security of petroleum supply through the construction of the Transnet Multi-Purpose pipeline.

There are concerns around the running costs of the projects with the delays. But, the Department indicated that the blockages that were experienced on the project are resolved and the work is continuing smoothly and the second payment, which will increase total spending on this programme by 25 per cent to 50 per cent, will be made in the near future.

Furthermore, there was an indication that the project is behind schedule by 9 months. It was reported that Transnet is assessing the impact of the delay and will report to the Department in the middle of November 2010.

It is therefore recommended that the Department engages Transnet to ensure that the impact of the delay is managed properly and costs to the taxpayers are contained. The Committee requested that the Department should forward the progress report to the Committee before the end of November 2010.

4.4 Electricity, Nuclear and Clean Energy

The compensation of employee's expenditure of this programme is 58 percent as at the end of September 2010. The Goods and Services expenditure is 78 percent, which is way above the 50 percent benchmark. The Transfer and Subsidies, on the other hand, is at zero per cent expenditure and this is a serious cause for concern.

This programme is the driving force behind renewable energy and has a lot of projects that can make a lot of difference to poor South Africans through access to renewable energy. It is therefore disappointing to observe that not much seems to be happening at the halfway mark of the year. The Committee is not satisfied with this.

The Department reported that procurement processes were complete and the roll out is gaining momentum, particularly in the Province of KwaZulu-Natal.

4.5 Associated Services – Transfers and Subsidies

The average expenditure of 48 percent for this programme approximates the norm of 50 percent. The transfer to the State-Owned Entities, in particular, is at a very comfortable level of more than 50 percent.

The Intergraded National Electrification Programme transfers to Eskom are at a reasonable level of 45 percent but transfers to municipalities are lagging behind with 26 percent. The Department reported a challenge of misalignment of National Departments and Municipalities' reporting cycles as the cause of disparity in this regard.

The Department further elaborated on the trends over the years on this project on expenditure performance. The analysis indicated that the expenditure on this project picked up in July 2010, which is the beginning of the municipalities financial period.

There is a clear indication that the capacity to implement these projects at the Local Government level is still a challenge. The Department indicated that it used to intervene by deploying engineers to municipalities through an internship programme which was discontinued in the 2010/11 financial year due to lack of funding.

Over the past few years, the Department has spent around 98 percent of the budget on these projects and it is suggested that the Committee is fairly comfortable with the expenditure level on this programme.

Furthermore, the Department raised a number of critical projects to the value of R203 million that are unfunded. These projects are crucial for stability of this Department and its capacity development and therefore it is recommended that the amount be granted to the Department for execution of these projects. The additional funding is critical considering that Government has already committed the funding of these activities.

5. Statement of Financial Performance

The total revenue of the Department amounted to R4.9 billion--comprising R4.7 annual appropriation and R217.1 million from Departmental revenue.

The total expenditure amounted to R4.5 billion--comprising of R673 million for current expenditure; R3.8 billion total transfers and subsidies; and R48.7 million total expenditure for capital assets. The under expenditure for the 2009/10 financial year amounted to R348.6 million.

6. Analysis of Auditor General

For the 2009/10 financial year under review, the Department received a qualified audit report. The reasons cited for such a qualified audit report were that the Accounting Officer of the Department did not ensure that full and proper records of the receivables for Departmental revenue of the Department was kept as per prescribed norms and standards. The Department could not provide sufficient appropriate audit evidence to support the Departmental receivables for revenue balance amounting to R25.6 million. The Audit Report also pointed to some irregular expenditure which was incurred without adhering to the internal delegation of authority, e.g. services rendered prior to approval by the relevant authority. Those were picked up by the internal controls established by the Department and all cases were evaluated and condoned by the Accounting Officer during the year. Although under-spending was reported, the percentage was very low (2.9 percent of the total budget) and this was mainly due to delays in finalising contracts for non-grid service.

7. Report from the Committee on Public Accounts

The Department received a qualified audit and it is yet to meet with the Committee on Public Accounts, wherein, recommendations by the Committee will be made.

8. Observations

- The overall expenditure of Programme 1: Administration is 58 percent which is above 50 percent expectation at half year.
- The local and national spheres reporting cycles are not aligned and this is causing Integrated National Electrification Programme (INEP) grants and Solar Water Heaters (SWHs) programme at municipality level seem to be spending less than they are supposed. National Department commenced transferring grants to municipalities during its second quarter (July – September) which is the first quarter for municipalities.
- The Department continuously transfers INEP grants to municipalities well aware and conscious of the fact that most of the municipalities do not have technical capacity to implement this programme.
- The Department of Energy is still sitting with key unfunded activities such as National Electricity Response Team, Federation of International Football Association (FIFA) tournament, Clean Energy Operations, International affiliations, accommodation,

establishment of SANEDI and electrification internship programme amounting to R203 million.

- Transnet Multi Product Pipeline project expenditure is at 25 percent to date and this very is worrying considering the need to ensure security of petroleum supply for the Country. The delays were caused by the Environmental Impact Assessment processes and land disputes that occurred in areas where the pipeline is being constructed. The project is understood to be running behind schedule by nine months. There is also possibility that the delay may result in costs escalation of the project if it is not managed well.
- The Committee is concerned with REFSO and Working for Energy that have spent 2.3 percent and 0 percent, respectively. This is attributed to lack of Human Resources within the Clean Energy Division of the Department.
- Roll out of Solar Water Heaters (SWHs) by municipalities is marginally low. However, tendering and procurement processes are at advanced stage and roll out may commence at any time from now.

9. Recommendations

The Portfolio Committee on Energy recommends the following:

- That the Department of Energy should closely monitor its expenses and carefully implement cost containment measures to avoid over spending on the allocated budget for Programme 1.
- That Committee on Appropriations should look at ways to align reporting cycles and engage with Department of Cooperative Governance and Traditional Affairs to align and synchronise national, provincial and local spheres of government planning, budgeting and implementation of programmes. This systemic governance issue is impeding planning and implementation of programmes and should be seriously looked at and joint committee meeting between Portfolio Committee on Cooperative Government and Traditional Affairs and Portfolio Committee on Energy need to be convened to examine this matter.
- That the business model of implementing INEP and Solar Water Heaters by municipalities should be revisited and redesigned in order to transfers of funds to implement such programmes should be based on the assessment of municipalities' technical capacity. Furthermore, the Department should report to the Portfolio Committee on Energy on a business model to improve the current situation with clearly defined timeframes.
- That unfunded Departmental activities to the amount of R203 million should be funded by National Treasury because commitments have already been made by Government i.e. World Cup Guarantees, Clean Energy Operations, International affiliations, accommodation, establishment of SANEDI and electrification internship programme and the Department has also made commitments. However, the Department must take cognisance and address under-spending that was experienced in the 2009/10 financial year.

- That Transnet should undertake the impact assessment of the delay on the Multi Purpose Pipeline project and report this to the Department within 30 days after the adoption of this report by the House. The Department should, in turn, report on this issue to the Portfolio Committee on Energy 15 days after the receipt of the said report from Transnet.
- That National Treasury should consider allocating additional resources to the Department of Energy for the Clean Energy Programme of the Department in order to implement renewable energy projects. Furthermore, the Department of Energy should report to the Portfolio Committee on Energy on the recruitment processes for the Clean Energy Programme. The latter report should be submitted to the Portfolio Committee on Energy every quarter for three coming years.
- That the Department of Energy should report to the Committee on the progress made on SWHs roll out on a monthly basis for a period of three months after the adoption of this report by the House.
- That the Department of Energy should consider the establishment of a designated Monitoring and Evaluation Unit that will oversee the State-Owned Enterprises reporting to the department.
- That the Department of Energy should strengthen its oversight mechanisms over its State-Owned Enterprises in order to determine if they are fulfilling their strategic mandates and identify operational inefficiencies. The department should also consider establishing a special directorate that would oversee the SoEs.
- That the Department of Energy should focus more on hydrocarbons and clean energy sources in the Country.
- That the campaign around changing consumer behaviour on usage of energy (energy saving lifestyle), one of the objectives of the Department of Energy, should be reflected on the Department's revised strategic plans since the Portfolio Committee on Energy supports the Department's intentions to educate the public on the need to save energy.

Report to be considered.