OUTA

ORGANISATION UNDOING TAX ABUSE

July 2020

OUTA comment on Supplementary Budget 2020: Vote 34 Mineral Resources & Energy

Compiled by:

Liz McDaid
OUTA Parliamentary Advisor and Energy Advisor
087 170 0639
liz.mcdaid@outa.co.za

2020 Supplementary Budget

OUTA submission on amendments to Vote 34 Department of Mineral Resources & Energy

July 2020

Contents

1. Introduction

OUTA prepared a comprehensive submission[1] on Budget 2020 and this was submitted to Parliament to the Standing Committee on Appropriations.

Due to the complexity and detail of the energy analysis, the Energy Chapter[2] was then compiled as an expanded version of that and submitted with the broader submission. This was also distributed, including to the National Treasury, ahead of the tabling of the Special Adjustment Budget.

Subsequent to the tabling of the Special Adjustment Budget, OUTA has prepared an additional memorandum which examines the proposed amendments to Vote 34, the Department of Mineral Resources and Energy (DMRE).

2. Analysis of Vote 34 of the Supplementary Budget

In May 2020, in response to the Covid-19 pandemic, when it became necessary to redirect resources away from business as usual, Treasury published guidelines for how government departments might reduce government spending and change spending priorities.

The guidelines provide the following guide for departments:

> As announced by the President, the response package will be partly funded

---

[1] 29 May 2020. OUTA. OUTA submission to the Standing Committee on Appropriations (National Assembly). Available online at: https://outa.co.za/web/content/108820

[2] 4 June 2020. OUTA. *Submission to the Standing Committee on Appropriations on Appropriation Bill 2020 (Energy Chapter)*. Available online at: https://outa.co.za/web/content/117109

through a reprioritisation of R130 billion within existing baselines. This constitutes 12.1 per cent of the consolidated non-interest, non-compensation budget. In order to find resources to fund the response package, departments are required to identify programmes or activities that can be temporarily suspended without negatively impacting the longevity of such programmes. These would typically be programmes or activities that have already been put on hold during the lockdown period, projects where implementation dates could be moved out to the next financial year or projects and spending activities that are not critical to the core service delivery requirements of the department. Such changes in baselines will only be effected in the 2020/21 financial year and will not at this stage be carried forward into the MTEF period.[3]

2.1 Dept. of Mineral Resources and Energy: plans and programmes

On 7 May 2020, the DMRE presented its strategic plan[4] to the Portfolio Committee on Mineral Resources and Energy.

Programme 5 includes the reporting on funding and implementation of grid electrification of 180 000 additional households by Eskom and municipalities, and a further target of 15 000 households to receive non-grid electrification.

Programme 3 states that the implementation of the Integrated Resource Plan (IRP2019)[5] will support the medium-term strategic framework priority focused on promoting energy access, efficiency and diversified sources, and specifically states that: "Generation capacity with short lead times and self-generation options will be enabled through systematic regulation" and "For medium- and long-term

[3] 2020. National Treasury. *2020 Special Adjustment Budget Guidelines*. Available online at: http://www.treasury.gov.za/publications/guidelines/2020%20Special%20Adjustment%20Budget%20Guidelines%20May%202020.pdf
[4] No date. Department of Mineral Resources and Energy. *Strategic Plan 2020-2025.* Available online at: http://pmg-assets.s3-website-eu-west-1.amazonaws.com/DMRE_STRATEGIC_PLAN_2020-_2025__2.pdf
[5] 18 October 2019. Department of Energy. *Integrated Resource Plan (IRP2019).* Government Gazette 42784.

outcomes, the various IRP2019 technologies will be implemented, while the updating and processing of the DMRE's regulatory frameworks will be accelerated to enable these interventions".

Additionally the DMRE presentation w.r.t programme 6 was filled with references to new nuclear capacity, purportedly justified by the IRP2019, including the preparation of a nuclear build programme which if needed at all, is only for post-2030. The claim that this is a no-regret option in the long term is questionable and a clear direction has been given that nuclear energy will only be procured at the pace and scale that government can afford it. It is assumed that the IRP2019 will be updated within a reasonable timeframe, probably the next five years, at which point, it will be similarly based on a least-cost provision of energy security. The need for nuclear will once again be reassessed in comparison with other available technologies.

The extension of South Africa's only nuclear power plant, Koeberg, is the only nuclear target within the IRP2019 and with a completion date of 2024.

The IRP2019, if implemented as per the published version, would prioritise renewable energy allocation with 513 MW storage, 2 000 MW solar and 3 200 MW wind needing to be on the grid by 2023.

2.2 Budget allocation in response to Special adjustment budget:

Please note that OUTA has analysed the main DMRE budget (Budget 2020, of February 2020) in detail in the energy chapter submission referred to above[6]

---

[6] 4 June 2020. OUTA. *Submission to the Standing Committee on Appropriations on Appropriation Bill 2020 (Energy Chapter)*. Available online at: https://outa.co.za/web/content/117109

The DMRE has reduced its budget from R9 337.028 million to R7 763.001 million, an amount of which R4.681 million has been moved from goods and services in the Administration programme towards the Mine Health and Safety Inspectorate, for Covid-19-related activities. A further R2.331 million has been vired from goods and services to other, but no explanation is available.[7]

Below, Table B.34.2 in the same document provides an explanation of the budget adjustments.[8]

The full DMRE reduction is R1 574.027 million.

[7] 24 June 2020. National Treasury. *Supplementary Budget Review 2020*. See Table B.34.1 Revised programme allocations. Available at: http://www.treasury.gov.za/documents/national%20budget/2020S/review/FullSBR.pdf
[8] Table B34.2 Explanations of budget adjustments.

Table B.34.2 Explanations of budget adjustments

R thousand	Downward revisions	Reallocations	2020/21 Total net change
Goods and services: Reduction in non-essential goods and services such as catering and travel	-48 721	7 012	-41 709
Integrated National Electrification Programme: Eskom: Reduction in bulk infrastructure and household connections in Eskom-licensed areas	-1 000 000	–	-1 000 000
Integrated National Electrification Programme: Municipalities: Reduction in bulk infrastructure and household connections in municipal-licensed areas	-500 000	–	-500 000
International partnership for energy efficiency: This is a voluntary contribution	-1 419	–	-1 419
Energy efficiency and demand-side management grant: Reduction in the number of planned energy savings projects	-21 799	–	-21 799
National Nuclear Regulator: Reduction in the international travel budget of the regulator	-5 000	–	-5 000
South African National Energy Development Institute: Reduction in non-essential goods and services such as travel and catering, and consulting fees for planned business development projects that will be delayed. Filling of vacancies suspended until later in the financial year	-4 100	–	-4 100
Total	**-1 581 039**	**7 012**	**-1 574 027**

Of the DMRE reductions, the lions' share comes from Treasury and DMRE cutting a total of R1.5 billion from the Integrated National Electrification Programme (INEP) grants. R1 billion less will be going to Eskom to electrify households (INEP Eskom) and half a billion less will be going to municipalities to electrify households (INEP municipalities).

Due to these reductions, the money that Eskom will spend on electrifying households goes down from R3 billion to R2 billion (a 33% reduction) and the money that municipalities will have to spend on electrifying households goes down from R1.859 billion to R1.359 billion (a 27% reduction). Such households are part of the poorest and most vulnerable in South African society, and it can be surmised are those who have been hardest hit by COVID19, both from compromised health and lack of ability to participate in informal livelihoods economy.

Access to electricity is a developmental priority for the country. The Auditor-General report on municipalities released on 1 July raises concerns about the ability of municipalities to deliver services including electrification. [9] Only 8% of 229 municipalities audited obtained clean audits and the AG referred to "serious weaknesses" in financial management which were not being addressed. OUTA would therefore support a strategy in which Treasury and DMRE direct the INEP (municipalities) budget only towards those municipalities that are competent to use it efficiently.

On 7 July 2020, the DMRE told the Portfolio Committee on Mineral Resources and Energy that the cuts would reduce the number of households being connected to the grid in 2020/21 by 43 000, from the planned 180 000 connections to 137 000.[10] However, the department's own numbers don't add up, indicating problems with planning this programme. Elsewhere in the same presentation, the department said this was a reduction of 20 316 households funded through the INEP municipal grant and 29 347 households funded through the INEP Eskom grant, which is a higher total of 49 663.

The reduction in the INEP grants is unlikely to be replaced. The DMRE told the Portfolio Committee: "National Treasury has emphasized that a guarantee cannot be provided that the reduced amounts will be reinstated in the next budget process as the allocation of resources is guided by the prevailing priorities of government."

---

[9] 1 July 2020. Auditor-General South Africa. *Not much to go around, yet not the right hands at the till. Consolidated General Report on the local government audit outcomes. MFMA 2018-19*. Available online at: https://www.agsa.co.za/Reporting/MFMAReports/MFMA2018-2019.aspx

[10] 7 July 2020. Department of Mineral Resources and Energy. *Briefing to the Portfolio Committee on Mineral Resources and Energy*. Available online at: https://outa.co.za/web/content/117048?unique=false&download=true

The rationale for such reductions is not clear. It is difficult to understand how the reduction in spending on electrification and energy efficiency fall within the criteria of Treasury's instruction to cut "spending activities that are not critical to the core service delivery requirements of the department".

Not only is such expenditure core to the purpose of the DMRE – the Department of Energy's annual report for 2018/19 refers to this as its "flagship programme"[11] – but it is also one action that the DMRE can take that would help poor and vulnerable South Africans cope with Covid-19.

Energy efficiency, including participation in international partnerships, has been cut. Given the reduction in energy demand over the Covid-19 period, such a reduction does seem rational.

Nuclear Energy Regulation and Management has had a reduction in its budget of R10.8 million. That is comprised of a R5.8 million reduction in spending on goods and services and the National Nuclear Regulator (NNR) receiving a reduction of R5 million in its budget, this is associated with international travel. It is to be hoped that should there be an emergency, that travel budget would be made available to enable Koeberg and the NNR to fly in the necessary international capacity to respond to such an emergency.

The transfers to the Nuclear Energy Corporation (NECSA) remain untouched. NECSA is a nuclear industry SOE, its financial record is appalling, and the pursuit of nuclear power which is not within the IRP2019 is definitely something that fits within the Treasury guideline for cuts – "where implementation dates could be moved out to the next financial year or projects and spending activities that are not critical to the core service delivery requirements of the department". In addition, additional support to

[11] Department of Energy. *Annual Report 2018/19*. Available online at: https://www.gov.za/sites/default/files/gcis_document/201911/doe-annual-report-2018-19.pdf

the nuclear industry should certainly be something that “can be temporarily suspended without negatively impacting the longevity of such programmes”. [12]

The transfers to NECSA take place in the context that NECSA has a dismal financial accountability record. Table 1 provides the last five years showing the Auditor General comments, indicating irregular expenditure and raising doubts about the public entity’s ability to operate.

Table 1: History of NECSA financial management

Year of audit	AG comment
2014/15	NECSA had net operating loss of R83m, indicating “the existence of an uncertainty that may cast doubt on the public entity’s ability to operate as a going concern”.
2015/16	Operating loss of R86m, indicating “the existence of an uncertainty that may cast doubt on the public entity’s ability to operate as a going concern”.
2016/17	“Material misstatements of current assets and revenue identified by the auditors in the submitted financial statements of the group and company were corrected, resulting in the financial statements receiving an unqualified audit opinion.”
2017/18	Audit disclaimer. AGSA was “unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion”. (Disclaimer includes that financial statements do not reflect full extent of irregular expenditure).
2018/19	Audit disclaimer. AGSA was “unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion”.

[12] 2020. National Treasury. *2020 Special Adjustment Budget Guidelines*. Available online at: http://www.treasury.gov.za/publications/guidelines/2020%20Special%20Adjustment%20Budget%20Guidelines%20May%202020.pdf

3. Conclusion and recommendations

The DMRE, assumedly under Treasury direction, has cut its budget by, 17%, a reduction of R1.574 billion.

For DMRE to reduce nothing from the mineral resources division, and to take only from the energy division is inexplicable as we believe that a 17% reduction applied across the mineral resources programmes, including applicable to the transfers to Mintek for example would be fair. Given the effects of Covid-19, additional monies allocated to mine health and safety make sense but a reduction across the mineral resources-related entities would provide an additional savings.

In energy, the two largest transfers from DMRE are to electrification and to nuclear. In an earlier submission on the energy appropriation this year, OUTA recommended that NECSA budget be reduced to 2018 levels, given that it received an inexplicable 20% increase from 2018 to 2019, despite its lacklustre performance, while most other entities received single digit increases.

OUTA analysed the budget in total and has put forward some recommendations believing that this would align the DMRE's programmes towards the current priorities.

Table 2 below provides an alternative scenario of budget reductions that OUTA believes are more equitable and in line with the DMRE's purpose and the current context.

	Programme	2020 Budget Rm	Salaries in Rm	Goods, services/ transfers/ subsidies in Rm	Supplement-ary budget proposed budget with reductions in Rm	DMRE suppl. budget variance compared to 2020 Budget	OUTA alternative budget reductions (keeping salaries at 100%) in Rm	variance
1	Admin	R642.343	R365.472	R276.871	R617.482	96%	R570.268	89%
2	Minerals and petroleum regulation	R574.713	R302.679	R272.034	R571.029	99%	R517.706	90%
3	Mining, minerals, energy policy development	R993.104	R126.815	R866.289	R986.682	99%	R776.145	78%
4	Mine health and safety	R232.694	R192.426	R40.268	R238.906	103%	R246.713	106%
5	Mineral and energy resources programmes and projects	R5 798.115	R103.947	R5 694.168	R4 263.681	74%	R4 872.743	84%
6	Nuclear energy regulation and management	R1 096.059	R26.765	R1 069.294	R1 085.221	99%	R770.593	70%
	Total	R9 337.028	R1 118.104	R8 218.924	R7 763.001	83%	R7 754.169	83%

The recovery of the irregular expenditure identified in the AG report – including R162 million of irregular expenditure from DMRE, R50 million of irregular expenditure from NECSA and R110 million due to solar water heater storage – would enable additional households to be electrified.

In reprioritising the budget, OUTA held to the following principles:

- The overall budget reduction was to be 17%. The overall budget would be 83% of the original allocation but the budget cuts should be distributed equitably throughout all departmental programmes.
- Salaries were retained.
- All other expenditure was reduced by 17-20%.
- International membership fees to be suspended (removed for 2020).

- National Nuclear Regulator spending was retained and the Mine Health and Safety budget was increased to retain the Covid-19 funds.
- In the Nuclear programme, the decommissioning budget was retained but the NECSA operating budget was substantially reduced.
- The Electrification programme was reduced by only 10% in order to ensure household electrification is maintained as far as possible, and with some reductions within other parts of programme 5. This cut should be taken from municipalities with an inability to spend responsibly.

OUTA understands that the current economic situation means that there is no spare money in Treasury. There is a necessity to reduce expenditure. However, the manner in which DMRE has proposed to reduce its budget deepens inequity, further impoverishing the poor. Should Parliament feel that further savings could be made in other programmes, OUTA would recommend that additional electrification be implemented.

3.1 Recommendations

OUTA finds this adjustment not to be in the public interest and calls on the Government and Parliament to reject this amendment budget for vote 34, and to direct funding as per the following priorities.

- OUTA would support the virement of monies from administration to mine health and safety during this Covid-19 period, explicitly linked to this health crisis.

- OUTA would support the continuation of the electrification programmes.

- OUTA recommends that a substantial amount of the R1.5 billion reduction presumably required by Treasury should be removed from the nuclear programme, both within the DMRE's programme 6 and from NECSA's allocation.

- International membership for various energy related organisations should be temporarily suspended.

- OUTA would then recommend that the balance be drawn from the rest of the DMRE programmes.

OUTA is deeply disappointed by the ongoing failure of government to hold the state-owned entities to account. To continue to reward NECSA for its financial mismanagement and irregular expenditure is to send a signal to those corrupt and malleable officials that they can continue with business as usual.

Electrification is pro-poor service delivery of particular relevance during the COVID19 pandemic, where vulnerable communities are feeling the brunt of the disease. OUTA is deeply disappointed that the DMRE has chosen to put the burden on Covid-19 onto those least able to bear it.