1 Report of the Standing Committee on Appropriations on the appropriation Bill [B6-2019] (National Assembly – Section 77), dated 19 July 2019

Having considered the ***Appropriation Bill*** [***B6 – 2019***], referred to in terms of section 10(1)(a) of the Money Bills and Related Matters Act No. 9 of 2009 (as amended by the Money Bills Amendments Procedure and Related Matters Act, No 13 of 2018), the Standing Committee on Appropriations reports as follows:

1. Introduction

Section 27(1) of the Public Finance Management Act No. 29 of 1999 (PFMA) requires that the Minister of Finance (the Minister) tables the annual budget for a financial year in the National Assembly before the start of that financial year or, in exceptional circumstances, on a date as soon as possible after the start of the financial year, as the Minister may determine. Section 213(2) of the Constitution of the Republic of South Africa, provides that money may be withdrawn from the National Revenue Fund only in terms of an appropriation by an Act of Parliament. The Appropriation Bill proposes to appropriate money from the National Revenue Fund for the requirements of the State and to prescribe conditions for the spending of funds withdrawn. Section 26 of the PFMA requires that Parliament and each provincial legislature appropriate money for each financial year for the requirement of the State and the province, respectively.

In executing this mandate, the Standing Committee on Appropriations, hereinafter referred to as the Committee, was established in terms of section 4(3) of the Money Bills and Related Matters Act, 2009, and herein referred to as the Act. In line with section 10(1)(a) of the Act and after the adoption of the Fiscal Framework, the Standing Committee on Appropriations has a responsibility to consider the Appropriation Bill, hereinafter referred to as the Bill, and report thereon to the National Assembly. The national budget for the 2019/20 financial year was tabled on 20 February 2019 by the Minister of Finance together with the Bill and referred to the Committee on 28 March 2019. However, the Bill lapsed after the last sitting of the National Assembly prior to the 2019 general elections and was revived by the National Assembly on 27 June 2019. The Committee was briefed on the Bill by National Treasury on 3 July 2019.

In terms of sections 10(5) and 10(6) of the Act, Parliamentary Committees may advise the Appropriations Committee on appropriations. No formal submissions were received from Committees in terms of sections 10(5) and 10(6) of the Act. In the process of dealing with the Appropriations Bill, section 4(4)(c)of the

Act also requires the Committees on Appropriations of both Houses to consult with the Financial and Fiscal Commission (FFC). In addition to the FFC, the Committee also invited the Parliamentary Budget Office to comment on the Bill.

Section 10(8) (a) and (b) of the Act also requires the Committees on Appropriations to hold public hearings on the Appropriation Bill and proposed amendments and for the Committee on Appropriations to report to the House on the comments on and amendments to the Appropriation Bill. To this end, the Committee sent out invitations to interested parties which have made submissions to the Committee before, published an advertisement in national and community newspapers from 4 to 7 July 2019 inviting general public inputs. In response to the Committee's advertisements, 3 submissions were received from Mr G Harris CA (SA), the Congress of South African Trade Unions and Mr BJ Khanyile. The Committee held public hearings on the Bill on 16 July 2019 in Parliament.

On 2 April 2019, the Minister of Finance authorised the expenditure of R17.652 billion to Eskom in terms of section 16(1) of the PFMA. To this end the Minister of Finance in a letter dated 25 June 2019 to the Speaker proposed amendments to the Billto authorise the expenditure as required by section 16(6) of the PFMA. The said proposals were referred to the Committee on 3 July 2019. Radio announcements were made calling for submissions on the proposed amendments from 16 to 18 July 2019 and submissions were received. In line with the Act, the Committee requested the FFC and National Treasury to brief it on the proposed amendments.

2. Overview of the 2019 Appropriation Bill

The Appropriation Bill is the legislation that provides for the appropriation of money by Parliament from the National Revenue Fund (NRF) in terms of section 213 of the Constitution of 1996 and section 26 of the PFMA. Spending is subject to the PFMA and the provisions of the Appropriation Act. The 2019 Appropriation Bill deals with proposed national appropriations. Conditional allocations from national's equitable share to provincial and local government, the Division of Revenue Act 16 of 2019 sets out specific provisions on spending these conditions.

The 2019 Budget Review indicates that since 2012, despite spending pressures, the main budget expenditure ceiling has anchored fiscal policy. Relative to the 2018 Medium Term Budget Policy

Statement (MTBPS), the 2019 Budget proposed adjustment to spending plans, which will affect the expenditure ceiling as follows:

- Baseline expenditure reductions amount of R50.3 billion over the MTEF period – the largest portion of these reduction (54 per cent) fall under compensation of employees, goods and services for selected entities are also reduced by 1 per cent.
- Additional expenditures amounting to R75.3 billion over the MTEF period, of which R69 billion is a provisional allocation for reconfiguration of ESKOM, R5 billion is earmarked for infrastructure funding and R1.3 billion earmarked Census 2021.
- The 2018 MTBPS allocated R5 billion to South African Airways (SAA), R1.2 billion to South African Express Airways (SAX) and R2.9 billion to the South African Post Office (SAPO). Additional R1.5 billion is allocated to SAPO over the MTEF period. Moreover, other state owned entities including SAA, the South African Broadcasting Corporation and Denel, have requested fiscal support to continue operating. However, according to the 2019 Budget Review government agreed that any possible financial support will be raised from the sale of non-core assets and will not affect the expenditure ceiling.

Noting that the 2019 Appropriation Bill is passed in the last year of the 2014 – 2019 Medium Term Strategic Framework (MTSF), the departments' spending objectives must be aligned with the objectives of the National Development Plan (NDP) and government policy priorities. The NDP was adopted in 2012 and sets out a vision and framework for pursuing radical social and economic transformation. It sets out the key South African priorities that are to eradicate poverty by 2030 and to substantially reduce unemployment and inequality. The attainment of these outcomes is necessary to unlock the constraints to South Africa's economic growth and development using the MTSF as an NDP implementation plan. Table 1 below provides an overview of the MTSF outcomes and coordinating departments.

Table 1: Medium Term Strategic Framework Outcomes 2014 - 2019

Outcome Number	Medium Term Strategic Framework	Coordinating Department/s
1	Quality basic education	Basic Education
2	A long and healthy life for all South Africans	Health
3	All people in South Africa are and feel safe	Defence
4	Decent employment through inclusive growth	Trade and Industry
5.	A skilled and capable workforce to support an inclusive growth path	Higher Education and Training
6	An efficient, competitive and responsive economic infrastructure network	Transport, and Public Enterprises
7	Comprehensive rural development and land reform	Rural development and land reform
8	Sustainable human settlements and improved quality of household life	Human Settlements
9	Responsive, accountable, effective and efficient developmental local government	Cooperative Governance and Traditional Affairs
10	Protect and enhance our environmental assets and natural resources	Environmental Affairs
11	Create a better South Africa, a better Africa and a better world	International Relations and Cooperation, and Trade and Industry
12	An efficient, effective and development oriented public service	Public Service and Administration
13	An inclusive and responsive social protection system	Social Development
14	National building and social cohesion	Arts and Culture

Source: Department of Performance, Monitoring and Evaluation (2019)

The above table provides an illustration of the 2014 - 2019 Medium Term Strategic Framework Outcomes (MTSF) whose objectives should be aligned to the allocated funds as an implementation plan for the National Development Plan (NDP). Table 2 below provides an overview of the voted funds for each national department during the 2019/20 financial year.

Table 2: Voted Funds for each department – 2019

Vote Number	Amount '000
1. The Presidency	691 354

2. Parliament	1 993 460
3. Communications	1 576 091
4. Cooperative Governance & Traditional Affairs	90 717 787
5. Home Affairs	8 339 704
6. International Relations and Cooperation	6 508 515
7. National Treasury	30 771 079
8. Planning, monitoring and Evaluation	956 939
9. Public Enterprise	293 030
10. Public Service and Administration	1 002 143
11. Public Works	7 808 988
12. Statistics South Africa	2 514 368
13. Woman	244 398
14. Basic Education	24 504 531
15. High Education and Training	89 498 183
16. Health	51 460 690
17. Social Development	184 791 972
18. Correctional Services	25 407 638
19. Defence and Military Veterans	50 512 992
20. Independent Police Investigation	336 653
21. Justice and Constitutional Development	18 717 077
22. Office of the Chief Justice and Judicial Administration	1 197 692
23. Police	97 595 308
24. Agriculture, Forestry and Fisheries	7 664 889
25. Economic Development	1 045 393
26. Energy	7 440 021
27. Environment Affairs	7 529 671
28. Labour	3 435 133
29. Mineral Resources	2 005 220
30. Science and Technology	8 150 969
31. Small Business Development	2 568 552
32. Telecommunications and Postal Service	1 684 574
33. Tourism	2 392 670
34. Trade and Industry	10 059 027
35. Transport	64 194 177

36. Water and Sanitation	16 440 372
37. Art and Culture	4 617 485
38. Human Settlement	33 879 166
39. Rural Development and Land Reform	10 946 208
40. Sport and Recreation South Africa	1 153 658
Total Appropriation Excluding Direct Charges	**882 647 777**

Source: National Treasury (2019)

The 2019 Appropriation Bill allocates funds according to economic classifications. Of note is that even though the Appropriation Bill allocates resources across the national sphere of government, 69.7 per cent of such allocations goes into transfers and subsidies. These are transfers to provinces, municipalities, public corporations and other non-profit making entities. Table 3 provides below an overview of the allocations in terms of economic classification.

Table 3: Allocations per economic classification – 2019 Appropriation Bill

Main Division R'000	**Compensation of Employees**	**Goods and Services**	**Interest and Rent**	**Transfers and Subsidies**	**Payment for Capital Assets**	**Payment for financial assets**
882 647 777	170 933 268	74 216 897	146 518	615 237 216	15 412 518	4 707 900

Source: National Treasury (2019)

3. Comments on the 2019 Appropriation Bill and Hearings with Identified Stakeholders

3.1 National Treasury

National Treasury in its briefing outlined the legislative process relating to the passing of the Appropriation Bill and highlighted the provisions in the PFMA which include section 29 that allows for expenditure before the Appropriation Bill is passed. The Bill provides for the appropriation of money from the National Revenue Fund with spending subject to provisions contained in the PFMA (as amended).

National Treasury indicated that the following items represent the largest positive reallocations and funding additions to budget baselines in 2019/20.

Table 4: The Largest Baseline Reductions and Additions in the 2019 Appropriation Bill

Largest Reduction amounts	**R' million**	**Largest Additional amounts**	**R' million**
Transport – Passenger Rail Agency of South Africa – capital programmes	**-2 404**	Public Enterprises - Eskom: Debt obligations and recapitalization	**17 700**
Transport – Passenger Rail Agency of South Africa – Rolling Stock fleet renewal programme	**-1 800**	Transport - South African National Roads Agency Limited: Non-toll network infrastructure	**2 000**
Cooperative Governance and Traditional Affairs – Municipal Infrastructure Grant	**-918**	Basic Education - Education infrastructure Grant: Construction of schools, repairs and maintenance and school refurbishment	**1 000**
Health – National Health Insurance Indirect Grant – Personnel Service component	**- 686**	Cooperative Governance and Traditional Affairs - Integrated Urban Development grant	**857**
Social Development - South African Social Security Agency - Funding providing for one free ATM withdrawal per month for social grant beneficiaries shifted to provincial government	**- 574**	Basic Education - School infrastructure backlogs indirect grant: Eradication of pit latrines	**700**
Social Development - Social assistance grants: Reduced estimates of grant requirements.	**-500**	Health - Human Resources Capacitation Grant:	**606**
Police: Goods and services	**-312**	Transport - Passenger Rail Agency of South Africa: Rail maintenance operations and inventories	**404**
Trade and Industry - Special Economic Zones: Infrastructure investment support	**-300**	National Treasury - South African Revenue Service: Goods and services	**399**
Human Settlements - Human Settlements Development Grant.	**-300**	Transport - Public Transport Network Grant: City of Cape Town for phase 2A of the integrated public transport network	**354**
Energy - Integrated national electrification programme grant.	**-265**	Trade and Industry - Industrial Development Corporation (customised sector	**300**

		programmes): Increased uptake of the clothing and textile incentive support	
Social Development - Social worker employment grant: Function shifted to provincial government.	**-213**	Agriculture, Forestry and Fisheries - Land and Agricultural Development Bank: Blended finance programme.	**272**

National Treasury (2019)

3.1.1 Technical Corrections for new votes of government departments

On 29 May 2019, the President announced a revised Cabinet portfolios and this necessitated a reorganization of departments, including establishment of new departments. Table 5 below provides for technical corrections of various budget votes and allocations in the Bill, which were in accordance with the departments and their functions and programmes as they existed at that time. If these new changes of names and reorganisation of departments is not captured in the Bill, difficulties are likely to arise during the 2019/20 financial year in respect of the allocation of funds to departments, and accounting for expenditure by departments. Therefore, the Committee welcomes the technical corrections in terms of section 14 of the Act to provide for the following new votes for new departments:

Table 5: Technical Amendments for New Votes in the Appropriation Bill 2019

New Vote No.	Title of a Vote
41	Agriculture, Land Reform and Rural Development
42	Communications and Digital Technologies
43	Employment and Labour
44	Environment, Forestry and Fisheries
45	Government Communication and Information System
46	Mineral Resources and Energy
47	Public Works and Infrastructure
48	Science and Innovation
49	Sports, Arts and Culture
50	Trade, Industry and Competition
51	Woman, Youth and Persons with Disabilities

Source: National Treasury (2019)

The above-mentioned new votes only constitute technical corrections to the 2019 Appropriation Bill and does not alter the overall funding proposal made in the Bill. Therefore, votes are proposed to be created to allow for the transfer of funds to the new departments from the existing votes.

3.1.2 The use of section 16 of the Public Finance Management Act, 1999 by the Minister of Finance

The Committee noted the use of section 16 (1) of the PFMA by the Minister of Finance on 2 April 2019 to authorise the use of funds from the National Revenue Fund. This was to cater for the R17.652 billion expenditure for ESKOM. This expenditure was of an exceptional nature which is not provided for and which cannot, without serious prejudice to the public interest, be postponed to a future Parliamentary appropriation funds for ESKOM. In terms of Section 16(4)(a) such amount must be reported to Parliament and the Auditor General within 14 days, or if the funds are authorised for the deployment of security services, within the period determined by the President. The authorisation of R17.652 billion for ESKOM through section 16(1) of the PFMA was as a results of a delay in accessing the planned drawdown cash injection from the China Development Bank (CDB), which resulted into ESKOM not being able to meet its financial obligations, which were due at the end of March 2019, and was necessary to prevent a call on government guarantees. The Committee noted this as an unavoidable situation, however, it cautioned that government should only use section 16 of the PFMA as a last resort – hence a proper financial and correct cash flow projection is critical.

To give effect to the above-mentioned expenditure, the following proposed amendments to the Bill were submitted by the Minister of Finance in his letter of 25 June 2019 to the Speaker of the National Assembly:

1. On page 11, in Schedule 1, amend Vote 9 (Public Enterprises)-
   (a) in the 1st line, in the 3rd column (Main division), by replacing "**293 030**" with "**17 945 030**";
   (b) in the 1st line, in the 7th column (Payment for Financial Assets), by inserting "**17 652 000**";
   (c) in main division 2, in the 3rd column, by replacing "**43 913**" with "**17 695 913**";
   (d) in main division 2, in the 7th column, in the same line as paragraph (c) above, by inserting "**17 652 000**";
   (e) in main division 2, in the 2nd column, after the words "government priorities", by inserting:

   "*Of which*

   - *** Eskom: Debt obligations and recapitalisation";

(f) in main division 2, in the 7th column (Payment for Financial Assets), in the same line as paragraph (e) above, by inserting "**17 652 000**"; and

(g) by inserting outside the table at the bottom:

"*** **Expenditure authorised in terms of section 16(1) of the Public Finance Management Act**".

2. On page 40, amend Schedule 1, by replacing-

(a) in the 3rd column, "**882 647 777**" by "**900 299 777**"; and

(b) in the 7th column, "**4 707 900**" by "**22 359 900**".

In terms of section 10(10) of the Act, in respect of the proposed amendments to authorise the expenditure for Eskom in terms of section 16 of the PFMA and the technical corrections to create new votes for reconfigured departments, it is reported as follows:

Reasons for proposed amendments

The proposed amendments to vote 9 for Public Enterprises in Schedule 1 to the Bill, and the consequential increase of the total amounts at the end of Schedule 1, are proposed to authorise the expenditure of R17.652 billion approved by the Minister of Finance for Eskom in terms of section 16(1) of the PFMA, as required by section 16(6) of the PFMA. The proposed amendments to Schedule to add new votes for reconfigured departments are to align it with the departments proclaimed on 26 June 2019 in terms of the Public Service Act, 1994 following the 2019 national and provincial elections. These votes are proposed to be created so as to enable funds to be transferred from the affected current departments, as functions and staff are transferred to reconfigured departments.

How the amendments take into account the broad strategic priorities and allocations of the relevant budget

The authorisation of the R17.652 billion for Eskom accords with the R23 billion allocation which will run for the next three years as announced for Eskom in the 2019 Budget Speech in February. The creation of new votes does not change the broad strategic priorities of the budget and also not the allocation, since no allocation are proposed to be made to these new votes.

The implications for each proposed amendment and the main divisions within the vote

The total amount for vote 9 (Public Enterprises) will be increased by R17.652 billion. Similarly, also main division 2 (State-Owned Companies Governance Assurance and Performance). For the proposed new votes, there is no implication since no funds are proposed to be allocated.

The impact of each proposed amendment on the balance between transfer payments, capital and recurrent spending in the affected vote

The R17.652 billion in Vote 9 is proposed to be classified as Payment for Financial Assets and therefore does not affect the mentioned balance. For the proposed new votes, there is no implication since no funds are proposed to be allocated.

The impact of the proposed amendment on service delivery

The R17.652 billion for Eskom was authorised to avoid a default on its debt which would have affected its ability to provide electricity. Enabling funding to be transferred to reconfigured departments as functions and staff are transferred, will enhance service delivery.

The manner in which the proposed amendments relate to prevailing departmental strategic plan, reports of the Auditor-General, Committee reports adopted by the House, reports in terms of section 32 of the PFMA, annual reports and any other information submitted to the House or Committee in terms of the standing rules or on request

The amendments do not affect prevailing departmental strategic plans, Auditor-General's reports, committee reports adopted by Houses of Parliament, reports in terms of section 32 of the Public Finance Management Act, annual reports and any other information submitted to a House or a committee.

Responses of the affected Minister to the proposed amendments

The expenditure in terms of section 16(1) of the PFMA was preceded by a request from the Minister of Public Enterprises for urgent financial assistance to Eskom. The Minister of Finance requested Parliament to consider an amendment to authorise the Eskom funding to comply with section 16(6) of the PFMA. The proposed creation of votes for reconfigured departments accords with a Presidential proclamation and is aligned to the portfolios of Minister as announced by the President after the 2019 national and provincial elections.

3.2 Financial and Fiscal Commission (FFC)

The Financial and Fiscal Commission (FFC) noted that, although there was an overall increase of 3 percent in the total baseline for national departments, there were reductions in key sectors such as Energy, which were of concern, as it could have adverse effects on future service delivery.

The FFC further reported that the national average spending had increased to 99.4 percent for the 2018/19 financial year, while there was a decline in the performance of some departments, such as Health and Water and Sanitation. The under-spending in allocations for water infrastructure development was of particular concern to the FFC, given the significant backlogs in water services and the deteriorating state of the existing water infrastructure. The baseline reductions in the departments of Women and Rural Development were also reportedly a cause for concern, as the former needed sufficient resources to effectively catalyse the mainstreaming of gender in other line department and the latter was responsible for the land reform imperatives, which had the potential to create many jobs in the country.

The FFC reported various fiscal risks that could have a negative effect on the Bill. These included the poor performance of the economy; poor infrastructure delivery; poor project planning including inadequate maintenance plans; the precarious financial position of state-owned entities (SOEs); and the huge public sector wage bill. The FFC was of the view that failure to address these, would undermine core service delivery functions. With regard to SOEs, the FFC emphasised the importance of government having specific timelines for initiatives like the Eskom unbundling, and a clear plan for recapitalisation of SOEs, given that most of them were struggling financially. The FFC further noted the request by the Minister of Finance to amend the Bill to include the allocation of R17.7 billion to Eskom, and advised the Committee to amend the Bill accordingly as this aligned processes with legislative requirements. However, the FFC cautioned that amendments in respect of authorising such expenditures should not become the norm. On the wage bill, the FFC noted the efforts to rationalise the civil service, and recommended additional measures such as stricter management of headcounts, discouraging the filling of non-critical vacant posts, and limiting the hiring of personnel in administrative and managerial positions.

Regarding economic growth, the FFC applauded government for adopting the recommendation to identify, explore and invest in industries with clear competitive advantage for an export-oriented growth strategy; and was further of the view that South Africa must strengthen its cybersecurity and cybercrime

investigation capabilities by enhancing its ICT skills-specific education and training in order to advance labour supply to take up their positions with qualified ICT skills in the Fourth Industrial Revolution. The FFC agreed with the President that local densification, greater investment in public transport and housing programmes development must be accompanied by a functioning local government base with complementary basic services.

The FFC reported that job creation had remained stagnant between 2008 and 2019 and estimated that 32.4 percent of the young cohort were completely disengaged from the labour force without any sign of joining the economic mainstream in the immediate future. The FFC also noted that the state's human resource capacity had become top-heavy through the occupation specific dispensation (OSD) at the cost of expanding entry- and junior-level positions; resulting in a costly public sector wage bill, discontinuity of legacy for skills and knowledge and inefficiencies of the public sector, culminating in muted employment creation.

The FFC reported further that Health remained a priority, accounting for 13.9 percent of the total MTEF consolidated expenditure. While it welcomed government's commitment towards universal access to healthcare, the FFC was concerned about the slow pace at which the National Health Insurance (NHI) was being rolled out. Challenges of the NHI implementation included poor performance of the NHI conditional grants; continuous changing the purpose of the NHI from a direct to indirect grant; and ongoing policy uncertainties with respect to the role of various players, the flow of funding and applicable health package. An amount of R2.8 billion had been reprioritised within the NHI indirect grant to fund critical health professional and community services posts. While the FFC supported this initiative, it recommended that there must a clear and direct link between filling posts and the implementation of the NHI.

The FFC reported that 16 percent and 7 percent of the total consolidated budget were allocated to basic and higher education, respectively. While the FFC welcomed the fact that Education remained a priority, it was concerned over the continuous lack of improvements in education outcomes despite increasing financial resources. The FFC further reported that Agriculture and Rural Development received 1.8 percent of the total consolidated budget; and it was of the view that government agricultural support programmess needed to prioritise small scale commercial agriculture production. The FFC noted the emphasis in the June 2019 SoNA on delivering quality public service, and was of the view that this required political

commitment to legislated performance management guidelines and consequence management, as the responsibility for improving public services could not be institutionalised within the budget framework.

The FFC further reported that public sector expenditure on infrastructure would increase to R864.9 billion over the 2019 MTEF period, and that road infrastructure was one of the key priority sectors. Major investments in roads included upgrading, strengthening and maintaining of non-toll roads; the construction of two bridges in the N2 Wild Coast project; and a R36.5 billion allocation for the Provincial Roads Maintenance Grant, including R526 million for the maintenance of coal haulage roads in Mpumalanga. The FFC noted that, despite these investments, the road infrastructure network in South Africa remained in a very poor state.

The FFC indicated that state-owned entities (SOEs) accounted for 38.3 percent of the total public sector infrastructure investment in 2019/20, and that this allocation would grow significantly, in nominal terms, over the 2019 MTEF. The FFC also reported that a number of SOEs had large government guarantees while their long-term viability was uncertain, and advised that oversight mechanisms of guarantees should be strengthened as they increased government's contingent liabilities and constituted a risk to the sustainability of the fiscus. Eskom, accounting for 72.4 percent of the total government guarantees, posed the greatest risk and the FFC was of the view that a clear process, along with timelines, needed to be devised to guide the unbundling of Eskom.

In light of the Auditor-General's report painting a grim picture of inefficiencies in government operations across the three spheres, the FFC commended the recent developments and government proposals to promote public sector efficiency, including the reconfiguration of a number of government departments; efforts to link public sector wages with productivity; proposals to redefine and align the mandates of SOEs; efforts to professionalise and rationalise the public service; and reforms at the South African Revenue Service. In addition, the FFC underscored the importance of modernising the public sector and leveraging on new technologies as well as minimising unnecessary outsourcing of services and tasks that could be performed by civil servants. The FFC also recommended increased support for oversight bodies to effectively hold the executive to account and carrying out benchmarking exercises within the public sector.

In conclusion, the FFC was is in agreement with the general thrust of the Bill, and understood that government was treading a fine balancing act of diminishing revenues available for sharing on one hand, and maintaining the social wage on the other.

3.3 Parliamentary Budget Office

The Parliamentary Budget Office (PBO) in its submission comments on the Bill gave an overview of the structure of Bill, the role of the Committee, 2019 fiscal framework and Division of Revenue as well as the allocations per function group. The PBO also gave a breakdown of the 2019/20 overall budget in terms of economic classifications and underscored that 69.8 per cent was appropriated towards transfers and subsidies. The PBO further highlighted the following key points which the Committee needed to consider during the processing of the Bill:

- Fourth Quarter preliminary expenditure outcomes on the 2018 Adjustments Appropriation Act;
- The effect of the baseline budget reductions to service delivery;
- The complexity associated with planning, budgeting and the implementation of services;
- The current challenges facing SOEs like Eskom, South Africa Airways, South Africa n Express, PRASA, Denel, the SABC; and
- The progress made by affected departments in terms of the Committee's recommendations on the 2018 Adjustments Appropriation Bill.

The PBO submitted that the proposed baseline reductions were R8.3 billion during the 2019/20 financial year and R50.3 billion over the 2019 Medium Term Expenditure Framework (MTEF). The allocation to PRASA, through the Department of Transport, was expected to see the largest reduction amounting to R4.2 billion or 51 per cent of the total baseline reductions. The PBO submitted that the South African passenger rail system serviced low-income households therefore the proposed reduction was likely to affect service delivery to the poor. The collective proposed baseline reduction for Health, Social Development (South African Social Security Agency) and Human Settlements amounted to R2.1 billion or 25 per cent. The PBO emphasised that the aforementioned budget votes fell within the social expenditure which was meant to support low income households and submitted that government should provide Parliament with measures to protect service delivery to the poor.

The PBO further submitted that the proposed baseline reduction in the economic cluster targeted Compensation of Employees and amounted to R1.8 billion or 22 per cent of the total reductions. To this end, the PBO submitted that government should ensure that the baseline reductions in the economic cluster are in support of the plans to improve economic growth through infrastructure expenditure. Furthermore, the PBO submitted that government should submit a detailed plan to reduce Compensation of Employees over the MTEF without affecting service delivery, more so to low-income households.

4. Inputs from the Public in response to the advertisement calling for submissions

4.1 Mr Guy Harris CA (SA)

Mr G Harris focussed on the state of the South African economy in his submission and stated that it was unstable and top heavy with industries being dominated by a few big companies which were supported by government. He stated that there was a need to transform the economy by making it more competitive through state procurement measures and improving the inclusion of Small and Medium Enterprises (SMEs). He also submitted that supply chain processes needed to be more inclusive and that SMEs needed to be expanded. Furthermore, Mr Harris submitted that there was a need for capacitation that created pathways out of poverty through the formal business sector rather than through micro enterprises. He also submitted that job creation should be focussed on entry level upskillable jobs within the medium sector and that tertiary entrepreneurship should be extended to Technical Vocational and Education Training (TVET).

He further submitted that education was the key driver for reducing inequality however it needs a much stronger and effective Early Childhood Development (ECD) base that was well funded and has clarity where the responsibility resides i.e. provinces, municipalities or national. He further submitted that fee free tertiary education was populous and too late due to insufficient early and basic educational development. Mr Harris submitted that ECD could currently not be afforded as substantial amounts of funding as it is wasted through tertiary education drop-outs and high school repeats, prisons filled with criminals who missed a positive grounding, social ills, and correcting learning difficulties.

4.2 Congress of South African Trade Unions (COSATU)

COSATU submitted that it was disappointed by the government's underwhelming 2019/20 budget considering the fiscal, revenue, corruption and expenditure crises facing the nation. It was of the view that a solution to the economic problems facing South Africa lies in bold measures of transformation, not in marginal programmes and projects as contained in the budget.

COSATU also provided proposals on allocations for different clusters/sectors as follows:

Cluster/ Sector	COSATU proposals
1. Growing the economy, protecting and creating jobs	• A clear plan (inclusive of targets, time frames and resource allocation) by all departments, provinces, municipalities and SOEs to ensure that government meets its jobs and investment summit commitments. • A commitment to engage the SARB on measures they can undertake to support economic growth and job creation whilst managing inflation levels.
2. Expenditure	• The need for a clear plan from government to reduce wasteful and irregular expenditure. • Expansion of Chief Procurement Officer's role to ensure more cost effective centralised public procurement. • Plans to end expensive and corrupt outsourcing in government and SOEs. • Clear plans and action by government to freeze assets and recover stolen billions.
3. Public Sector Wage Bill	• Engagement by government with unions on the wage bill at the PSCBC. • Reduce national and provincial cabinet and mayoral committee posts. • Reduce bloated management structures. • Consolidate and reintegrate fragmented departments and SOEs in a humane manner that does not throw workers into unemployment. • Redeploy staff from bloated departments and SOEs to departments and municipalities where there are personnel shortages. • Reduce the public service wage gap. • Place SOEs and public entities under the PSCBC and its negotiating processes.

4. State- owned Entities	• Government to engage with labour on plans to stabilise, save and grow key SOEs e.g. Eskom, SABC, SAA, SA Express, Prasa and Metro Rail, RAF and Denel. • The above-mentioned plans should find alternatives to retrenchments e.g. redeploying staff from Eskom to work in municipality electricity departments or to departments experiencing staff shortages e.g. Home Affairs. • Comprehensive forensic audits of all SOEs and the recovery of stolen funds and charging and prosecution of accused.
5. Law Enforcement	• Redeploy two thirds of SAPS members deployed to head offices and desk jobs to specialised units, station level and community policing. • End all outsourcing in security cluster e.g. Bosasa catering in prisons. • Plans to deal with labour and other courts backlogs. • Comprehensive forensic audit of State Security Agency expenditure.
6. Health Care and Social Development	• Urgent interventions to arrest the collapse of public hospitals. • Fast tracking of plans to build the NHI. • Filling of public health care posts.
7. Transport	• Engagement by government with civil society and other key stakeholders on an alternative to e-tolls. • Intervention plan to save Metro Rail. • Plans to expand reliable, accessible and affordable public transport in communities.
8. Water, Sanitation and Housing	• Intervention plan to turn Department of Water Affairs around. • Plan to hold the guilty accountable for the Giyani water debacle. • National, provincial and local plans to turn South Africa from a water scarce to a water wise nation.
9. Education and Public Works	• The budget allocated for free tertiary education must be increased to provide for inflationary adjustments to the income levels of families who qualify for free education. • Clear targets and dates to eradicate mud schools, sanitation and school infrastructure crises. • Clear plans by the Department of Public Works to ensure all public buildings are safe.

10. Labour	• Employment of labour inspectors to enforce labour laws. • Overhaul the limp wristed enforcement of labour laws.
11. Local Government	• Ending of outsourcing of municipal jobs to EPWP and CWP. • Insourcing of all EPWP and CWP workers into permanent municipal posts. • Plans to stabilise distressed municipalities. • Integration of municipalities that are too small or lack a significant rates base.

4.3 Mr BJ Khanyile

Mr BJ Khanyile commented that government has distributed farms to some of the residents of Melmoth in KwaZulu-Natal through the Land Restitution Programme as administered by the Department of Rural Development and Land Reform. Mr Khanyile expressed concerns that the said farms did not receive any assistance from government even though these were bought at a high cost to the State. He further questioned why the farmers were not offered relevant training by government as the community believes these farms were government assets. He stated that the then Department of Rural Development and Land Reform indicated to them that it did not receive sufficient budget allocations to assist emerging farmers. To this end, he requested that the Department of Rural Development and Land Reform be assisted through the budget process in order for it to train the farmers.

5. Committee Findings and Observations

Having considered all the submissions made by the above stakeholders on 2019 Appropriation Bill, the Standing Committee on Appropriations makes the following findings and observations:

Overall thrust of the 2019 Appropriation Bill

5.1 The Committee notes that the 2019 Appropriation Bill reflects major expenditure commitments, and corresponding expenditure reductions and reprioritisation in line with new policy initiatives.

5.2 The Committee noted that while the Passenger Railway of South Africa rolling stock was ageing and experiencing higher maintenance cost challenges, earmarked funds are being taken away from its capital projects and the New Locomotives programme to fund the South African Road Agency.

5.3 The Committee was seriously concerned about the movements of funds from non-toll roads to fund e-toll roads and view this as part of the practices that perpetuate inequalities, particularly the movement of funds to cater for the Gauteng Freeway Improvement Programme (GFIP).

5.4 The Committee noted the proposed technical changes for the new departmental votes as per the Presidential announcement on 29 May 2019 in the following manner: Agriculture, Land Reform and Rural Development (vote 41), Communications and Digital Technology (vote 42), Employment and Labour (vote 43), Environment, Forestry and Fisheries (44), Government Communication an Information System (vote 45), Mineral Resources and Energy (vote 46), Public Works and Infrastructure (vote 47), Science and Innovation (vote 48), Sport, Arts and Culture (vote 49), Trade, Industry and Competition (vote 50) and Woman, Youth and Persons with Disabilities (vote 51).

5.5 The Committee noted the use of section 16 (1) of the PFMA to authorise the expenditure amounting to R17.652 billion for ESKOM due to the unanticipated delays in the drawdown cash injection from the Development Bank of China and to avoid a call on government guarantees.

Budget principles of efficiency, effectiveness, economy and fairness

5.6 The Committee is seriously concerned about trends in service delivery performance versus expenditure, which show that while departments regularly exhaust their allocated budgets, the attainment of performance targets continues to be a challenge and is uneven across sectors. This undermines the work towards the achievement of MTSF targets and the NDP goals. The departments must ensure that there is a correlation between budget expenditure and performance targets. This trend of misalignment was also noted during the past financial years.

5.7 The Committee is of the view that departments need to ensure that suppliers that do business with government are paid within 30 days from receipt of an invoice. The Committee views the non-payment of suppliers by government departments within 30 days as non-compliance with section 38(1)(f) of the PFMA and that this is having a negative impact on the economy and most especially on the operations of Small, Micro and Medium enterprises.

Education, training and skills development

5.8 The Committee notes and welcomes government's submission that it will allocate R1.87 billion towards Basic Education for the improvement of sanitation in schools through the eradication of pit latrines.

5.9 The Committee notes with concern the submissions from stakeholders regarding the low Grade 12 completion rate of scholars. Furthermore, submissions by stakeholders also raised the need for more funding to be directed towards the Early Childhood Development Programme. National Treasury also acknowledged that funding levels for ECD are significantly smaller relative to funding allocations directed towards Basic Education schooling and higher education.

Accelerating economic growth, infrastructure investment, and job creation

5.10 The Committee views infrastructure investment as critical for catalysing growth, reducing backlogs, building skills and ensuring the smooth provision of quality basic services. The Committee notes that budget reductions may lead to delays in the rollout of some infrastructure programmes. This should include finding the appropriate balance between maintenance and repair of existing infrastructure and investment in new infrastructure.

5.11 The Committee noted the 1.8 per cent allocation of the budget towards Agriculture, Land Reform and Rural Development and viewed this as insufficient given the important role this sector plays in providing food security and creating jobs. The Committee is of the view that accelerating the land reform programme and rural development is critical to reducing poverty and income inequality.

5.12 The Committee notes that South Africa is amongst the most water scarce countries in the world. The Committee emphasised that infrastructure investment and maintenance underpinned by principles of efficiency, value for money and good governance is critical for transformative growth and development.

5.13 The Committee noted with concern the 12 per cent allocation for the Economic Development Functional Group of departments and viewed this allocation as insufficient to ignite the much needed inclusive economic growth, transformation and employment creation.

An improved public service

5.14 The Committee remains concerned about the lack of consequence management for public officials who did not comply with legislation and regulations.

6. Recommendations

The Standing Committee on Appropriations, having considered the briefings and comments by stakeholders on the 2019 Appropriation Bill, recommends that:

6.1 That the Minister of Finance together with the Minister of Planning, Monitoring and Evaluation take critical steps to monitor and address the mismatch between the budget expenditure and performance targets achieved in national government departments and this has been a persistent challenge for the past years. Parliament will continue to monitor progress in this regard on a quarterly basis.

6.2 That the Minister of Finance and Economic Development Function Ministers take steps to improve the 12 per cent allocation earmarked for economic development over the upcoming MTEF period in order to bolster the much needed inclusive economic growth, job creation and transformation.

6.3 That the Minister of Finance and the Minister of Transport take steps to make sure that the Passenger Railway of South Africa develops adequate capacity to spend its allocated budget on

capital programmes such as railway maintenance and renewal of its Rolling Stock/ Locomotives in order to make sure that commuters are not disadvantaged. Parliament will monitor progress in this regard on a quarterly basis.

6.4 That the Minister of Finance and the Minister of Transport should come up with alternative funding mechanism for the Gauteng Freeway Improvement Programme instead of disadvantaging other provinces who are now subsidising Gauteng commuters through the movement of funds from non-toll roads to e-tolls.

6.5 That the Minister of Finance and the Minister of Agriculture, Land Reform and Rural Development take steps to improve the 1.8 per cent allocation earmarked for this Sector given the role of agriculture in providing food security, job creation, sector transformation and the much needed development in rural communities over the upcoming MTEF period.

7. Democratic Alliance's Proposed Amendments to Bill

The Democratic Alliance presented proposed amendments to the Bill in the amount of R8.5 billion to provide for the following:

Additional R2 billion towards combating crime:

- To combat police corruption and foster a professional, honest police force, an additional R200-million is proposed to *Investigations* in the IPID vote (vote 20).
- To ensure effective rural policing, an additional allocation of R500 million to the *Visible Policing* budget for rural reservists under the police vote (vote 23).
- To further foster the creation and training of specialised units within SAPS, a further allocation of R1.3 billion to the *Visible Policing* budget under the police vote (vote 23).

Additional R3 billion towards job creation and skills development:

- To create centres of excellence in the public education sector an additional R1.5 billion allocation is proposed to create a conditional grant under the allocation in kind to provinces for the creation of schools of specialization to teach STEM (science, technology engineering

and mathematics). This is an allocation to vote 14 – Basic Education, under the Planning, Information and Assessment programme.

- To reskill workers who lose jobs in the mining sector with the development of the green economy an additional R1.5 billion allocation is proposed for a Green Economy Skills Development Fund. This is an allocation to vote 28 – Labour, under the Labour Policy and Industrial Relations Programme.

Additional R3.4 billion towards Healthcare:

- To dedicate funds towards a mental health programme a R450 million allocation is proposed in the form of a Life Esidimeni Memorial Grant to provinces for the explicit use of ensuring that mental health patients that dependent on the public sector have adequate access to care. This is an allocation to vote 16 – Health.
- To improve Neonatal care equipment and Cancer screening, prevention and treatment equipment an additional R3 billion allocation is proposed for the Health Facility Revitilization Grant under Programme 5: Hospital Systems of Budget Vote 16 – Health.

Summary:

Allocations	
R'000	
IPID	200,000.00
RURAL RESIRVIST	500,000.00
SAPS-specialised units	1,358,346.80
STEM Grant	1,500,000.00
Green Economy Skills Development Fund	1,500,000.00
Life Esidimeni Memorial Grant	450,000.00
Health Facility Revitalization Grant	3,000,000.00
	8,508,346.80

The above-mentioned proposed amendments were budget neutral and would be funded through reprioritising within the existing budget through the following:

- A 4 per cent reduction in all Administration programmes, excluding Vote 12: Statistics South Africa (R2.146 billion);
- Scrapping programme 2: National Health Insurance under Vote 16: Health (R2.111 billion);
- Reducing the allocation towards VIP Security and Protection to dignitaries (R2 billion); and
- Reducing the allocation towards share acquisition from the New Development Bank (R2.250 billion)

Summary:

Reductions	
R'000	
4% reduction in Administration programmes	2,146,683.80
NHI	2,111,663.00
VIP Security	2,000,000.00
New Development Bank	2,250,000.00
	8,508,346.80

The Democratic Alliance also proposed that the following be inserted under clause 4 of the Bill:

3) Notwithstanding the Minister's right to impose conditions for appropriations, the following conditions are imposed onto all main divisions, current payments, transfers and subsidies, payment of capital assets and payments for financial assets that are allocated to Eskom Holdings SOC Limited—

(a) All procurement contracts entered into by the entity in terms of subsection (3) must be reviewed and all contracts which are considered to be wasteful or irregular must be terminated;

(b) The entity in terms of subsection (3), must within three months of the promulgation of this Act, fill vacant positions of critical posts relating to the management of its build projects, generating and distribution capacity;

(c) The entity in terms of subsection (3), must within 12 months of the promulgation of this Act, formalize a plan to separate its distribution and transmission operations, and its generating capacity operations, into separate business units;

(d) Municipalities must immediately be allowed to purchase energy directly from independent power producers, regulations for which may be made by the relevant Minister; and

(e) That all staff at the entity in terms of subsection (3), be declared an essential service, pending further recommendations to Parliament by the Essential Services Committee as established in terms of the Labour Relations Act, 1995 (Act No. 66 of 1995).

The Committee did not support the proposed amendments by the Democratic Alliance due to it not being in line with section 10(10) of the Money Bills and Related Matters Act No. 9 of 2009.

8. Committee Recommendation on the Bill

The Standing Committee on Appropriations recommends that the National Assembly adopts the Appropriation Bill [B6-2019], with the following amendments:

On page 11, in Schedule 1, amend Vote 9 (Public Enterprises)-

(h) in the 1st line, in the 3rd column (Main division), by replacing "**293 030**" with "**17 945 030**";

(i) in the 1st line, in the 7th column (Payment for Financial Assets), by inserting "**17 652 000**";

(j) in main division 2, in the 3rd column, by replacing "**43 913**" with "**17 695 913**";

(k) in main division 2, in the 7th column, in the same line as paragraph (c) above, by inserting "**17 652 000**";

(l) in main division 2, in the 2nd column, after the words "government priorities", by inserting:

"*Of which*

- *** Eskom: Debt obligations and recapitalisation";

(m) in main division 2, in the 7th column (Payment for Financial Assets), in the same line as paragraph (e) above, by inserting "**17 652 000**"; and

(n) by inserting outside the table at the bottom:

"*** **Expenditure authorised in terms of section 16(1) of the Public Finance Management Act**".

On page 40, amend Schedule 1, by replacing-

(c) in the 3rd column, "**882 647 777**" by "**900 299 777**"; and

(d) in the 7th column, "**4 707 900**" by "**22 359 900**".

On page 40, amend Schedule 1, after the end of vote 40 (Sport and Recreation South Africa), by inserting the following:

Vote		Main Division	Current Payments			Transfers and Subsidies	Payments for Capital Assets	Payment for Financial Assets
			Compensation of Employees	Goods and Services	Interest and Rent on Land			
		R'000	R'000	R'000	R'000	R'000	R'000	R'000
41	**Agriculture, Land Reform and Rural Development** Purpose: *Lead, support and promote agriculture and land reform, through policies, strategies and programmes to enhance the sustainable use of land, and achieve economic growth, job creation, food security, rural development and transformation.* 1 Administration *Provide strategic leadership, management and support services to the department.*							
42	**Communications and Digital Technologies** Purpose: *Create an enabling environment for inclusive growth in the information and communication technology (ICT) sector by developing policies and legislation that promote infrastructure investment and socioeconomic development.* 1 Administration *Provide strategic leadership, management and support services to the department.*							
43	**Employment and Labour** Purpose: *Play a significant role in reducing unemployment, poverty and inequality by pursuing the objectives of decent work for all through: employment creation and enterprise development; the setting of standards and the protection of rights at work, including the facilitation of equal opportunities and social dialogue; and the provision of social protection.* 1 Administration *Provide strategic leadership, management and support services to the department.*							
44	**Environment, Forestry and Fisheries** Purpose: *Lead South Africa's environmental, forestry and fisheries sectors to achieve sustainable development towards a better quality life for all.* 1 Administration *Provide strategic leadership, management and support services to the department.*							
45	**Government Communication and Information System** Purpose: *Provide a comprehensive communication service on behalf of government to facilitate the involvement of the majority of South Africans in governance, reconstruction and development, nation building, and reconciliation.* 1 Administration *Provide strategic leadership, management and support services to the department.*							
46	**Mineral Resources and Energy** Purpose: *Regulate the minerals and mining sector for transformation, growth and development. Formulate energy policies, regulatory frameworks and legislation to ensure energy security, environmentally friendly carriers, and access to affordable and reliable energy.* 1 Administration *Provide strategic leadership, management and support services to the department.*							
47	**Public Works and Infrastructure** Purpose: *Provide policy formulation for, as well as coordination, regulation and oversight of, the public works sector in relation to the accommodation, housing, land and infrastructure needs of national departments. Enhance intergovernmental relations by coordinating concurrent public works functions. Lead and direct the implementation of the national expanded public works programme. Promote growth, job creation and transformation in the construction and property industries.* 1 Administration *Provide strategic leadership, management and support services to the department.*							
48	**Science and Innovation** Purpose: *Realise the full potential of science and technology in social and economic development by developing human resources, research and innovation.* 1 Administration *Provide strategic leadership, management and support services to the department.*							
49	**Sports, Arts and Culture** Purpose: *Promote, develop and transform sport, arts, culture and recreation in order to contribute to sustainable economic growth and opportunities, nation building, good governance, and social and human capital development.* 1 Administration *Provide strategic leadership, management and support services to the department.*							
50	**Trade, Industry and Competition** Purpose: *Lead economic development policy formulation and planning. Facilitate access to sustainable economic activity and employment for all South Africans through an understanding of the economy, knowledge of economic opportunities and potential, and anticipation of future economic trends. Catalyse economic transformation and*							

	development, and provide a predictable, competitive, equitable and socially responsible environment for investment, enterprise and trade for economic citizens. Contribute to achieving government's vision of an adaptive and restructured economy, characterised by accelerated economic growth, employment creation and greater equity. 1 Administration *Provide strategic leadership, management and support services to the department.*					
51	**Women, Youth and Persons with Disabilities** Purpose: *Advocate for and oversee the empowerment agenda of women, youth and persons with disabilities.* 1 Administration *Provide strategic leadership, management and support services to the department.*					

9. Conclusion

The responses to the recommendations as set out in paragraph 6 above by the relevant Executive Authorities must be sent to Parliament as well as the Committee within 60 days of the adoption of this report by the National Assembly.

Report to be considered.