**2. REPORT OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE 2019 MEDIUM TERM BUDGET POLICY STATEMENT, DATED 3 DECEMBER 2019**

Having heard and considered submissions and comments from identified stakeholders on the 2019 Medium Term Budget Policy Statement, the Standing Committee on Appropriations reports as follows:

1. **Introduction**

The Minister of Finance tabled the 2019 Medium Term Budget Policy Statement (MTBPS) on the 30th of October 2018 in terms of section 6 (1) of the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009 (the Act) as amended by Act No. 13 of 2018 (the act). The MTPBS is a government policy document that communicates to Parliament and to the Country the economic context in which next year’s national budget will be presented, along with government fiscal objectives and spending priorities over the medium term (three-year expenditure period). As required by section 4 (4) (b and c) of the Act, after the tabling of the MTPBS by the Minister of Finance, the Division of Revenue Amendment Bill (DoRAB) and the Adjustment Appropriation Bill (AAB) (the bills) were referred to the Committee for considerations and report to the National Assembly (NA). Amongst its responsibilities, as per section 6 (8) of the Act, the Committee is required to consider and report on the following:

* the spending priorities of national government for the next three years;
* the proposed division of revenue between the spheres of government and between arms of government within a sphere for the next three years; and
* the proposed substantial adjustments to conditional grants to provinces and local government, if any.

In an effort to deepen democracy, promote good governance, enhance public participation and involvement, the Committee invited the following stakeholders for submissions and comments on the tabled 2019 MTPBS;

* Financial and Fiscal Commission;
* Parliamentary Budget Office;
* Public Service Commission;
* Human Sciences Research Council; and
* South African Local Government Association;

In addition to the invited stakeholders, the Committee published an advert both on national and local newspapers from 3 to 8 November 2019 inviting the public to make submissions and comments on the 2019-tabled MTPBS and the following submissions were received:

* Pietermaritzburg Pensioners Forum;
* United Nations Children’s Emergency Fund South Africa;
* Rural Health Advocacy Project;
* WoMin African Alliance and International Rivers;
* Organisation Undoing Tax Abuse;
* Congress of South African Trade Unions;
* Fields of Green for All; and
* Mr P Moss.

1. **Economic Overview**

The tabling of the 2019 MTBPS was preceded by release of the Quarterly Labour Force Survey (QLFS) data by Statistics South Africa on 29 October 2019. The released data painted a worrying and bleak picture about the ability of the South African economy to create jobs as it was reported that South Africa’s unemployment rate increased by 0,1 of a percentage point to 29,1% in Q3 of 2019. According to the Quarterly Labour Force Survey (QLFS) released by Statistics South Africa, this is the highest unemployment rate since Stats SA started measuring unemployment using the QLFS in 2008.

On the economic front, current trade tensions has had a negative impact on the global economic outlook. The International Monetary Fund (IMF) estimates that global growth will contract by 0.8% in 2019, growing at an estimated 3% and reaching 3.4% and 3.6% in 2020 and 2021 respectively. Expected growth in the Euro Zone has been revised down by 0.4% and 0.3% in 2019 and 2020 respectively; mostly due to uncertainties’ around the direction of Italy’s finances and lower external demand in Germany. The Euro zone accounts for approximately 23% of all South African exports. Due to the trade wars, China’s economic growth forecast has also been reduced, growing at 6.1% in 2019, and declining to 5.8% in 2020. Growth in India and China is expected to stabilise at 6.1% in 2019, whilst India’s growth is expected to increase to 7% in 2020, China growth is expected to decline to 5.8% for the same period. Brazil and Mexico’s economic growth is forecasted to be at 0.9% and 0.4% in 2019, reaching 2% and 1.3% in 2020 respectively.

South African economic growth outlook has been revised down by 1% in 2019 by the National Treasury since the tabling of the 2019 national budget. South African growth forecast by the National Treasury stands at 0.5% in 2019, 1.2% and 1.6% in 2020 and 2021 respectively. The South African economy is expected to grow by 1.7% in 2022, supported by an increase in both household consumption spending and private sector investment. Furthermore, risks to growth remain skewed to the downside as a prolonged under-recovery in investment, disruptions in electricity supply, and labour unrest poses a big risk to the growth projections and economic activities. In a global perspective, the biggest risk is the slowdown in economic activities fuelled by the China-US trade tensions, the prolonged Brexit uncertainty, and the disorderly unwinding of monetary policy in advanced economies.

The 2019 MTBPS was tabled following a release of a discussion document by the National Treasury (titled: *Economic Transformation, Inclusive Growth, and Competitiveness Towards an Economic Strategy for South Africa sets out short and medium term growth reforms*), which presents an approach that the country must take in order to boost economic growth. The discussions document proposes some key ingredients that government must undertake in order to boost economic activities.

In the short-term period, the document proposes that the reforms that can be implemented immediately, without significant state resources are;

* Support tourism by reducing cost of traveling to South Africa, cutting red tape for small business in the tourism sector,
* Diversify power generation by granting licences for small scale power generation projects approved by the Minister of Energy,
* Expand telecommunications services by allowing the rapid expansion of fibre infrastructure, and
* Lowering the cost of doing business by automating registration and filing processes

In the medium term, the discussion document proposes that reforms that should be implemented are;

* Beginning immediately with transport, water, telecommunications, and industrial and trade policy in order to modernize and increase competitiveness, and
* Government must continue to work with private sector to strengthen investment;
* The Infrastructure Fund’s implementation unit has been established, housed within the DBSA
* Review of public private partnership regulation is under way to streamline approval processes and reduce implementation timeframes

It was against this background that the Committee decided to invite and have engagements with the identified stakeholders on the 2019 MTBPS.

1. **Medium Term Expenditure Framework (MTEF)**

Government proposes adjustments to the main budget spending plans over the medium term. Government’s total main budget non-interest expenditure increase by R23 billion in 2020/21, and decrease by R8.2 billion in 2021/22. Key to these changes are:

* Increase in non-interest spending of R45 billion and R22 billion over the next two years, mainly due to the financial support to Eskom, and
* Reductions of R21 billion and R28.5 billion in 2020/21 and 2021/22 mostly from cutting goods and services, and current and capital transfers budget whist government employee compensation will be marginally revised down to CPI.

In total, government budget non-interest spending grows at 1.2 per cent in 2020/21, and 0.1 per cent in 2021/22 and in 2022/23, government non-interest spending is projected to grow in line with CPI inflation. As a share of GDP, government non-interest expenditure moderates from 28.4 per cent in 2020/21 to 27.4 per cent in 2022/23 including the contingency reserve of R6 billion per year over the medium term.

Over the medium term, government proposes to allocate 48.1 per cent of available non-interest expenditure to national departments, 43 per cent to provinces and 8.9 per cent to local government (*see table 1 below*). Government’s non-interest expenditure over the medium term increases from R1.5 trillion to R1.7 trillion, at an annual average of 4.7 per cent. Over the same period, national government resources grow at an annual average of 2.3 per cent, provincial resources grow at an annual average of 6.1 per cent and local government resources grow by 6.2 per cent.

**Table 1:** Division of Revenue Framework



*Source: National Treasury (2019 MTBPS)*

Government allocates funds in order to cater for its central policy objective of reducing poverty and inequality. Over the next three years, government will spend a total of R6.3 trillion, with 48 per cent of this amount allocated to social grants, education and health. Consolidated government spending is expected to increase from R1.8 trillion in 2019/20 to R2.2 trillion in 2022/23, increasing at an annual average of 6.3 per cent (*see table 2 below*). Non-interest expenditure is expected to grow at the same as the inflation rate in 2022/23.

**Table 2:** Consolidated government expenditure by function[[1]](#footnote-1)



*Source: National Treasury (2019 MTBPS)*

In the 2019 MTBPS, consolidated government expenditure is categorised by “expenditure by function group” namely;

* **Learning and culture:** Over the medium term, spending in the basic education sector continues to focus on eradicating pit latrines and unsafe school structures, providing learner and teacher materials, as well as improving early grade reading and mathematics. The Department of Higher Education and Training bursary programme for the poor and working class students will dominate spending in the post-school education and training sector. Student funding framework that will clarify food, transport and accommodation allowance will also be developed over the medium term. The construction of student housing at the University of Limpopo and North West, and the King Hintsa TVET College will be funded from 2019/20. Over a period of 10 years, the Department of Higher Education and Training, and Public Universities and TVET Colleges will provide 300 000 new beds.
* **Health:** the health function priority is to improve efficiency of service delivery, including improving the management of patient records by rolling out the Health Patient Registration System. Furthermore, the Department of Health has reprioritised funds within its 2019/20 budget to establish the NHI Office after the introduction of the National Health Insurance (NHI) Bill in Parliament earlier this year.
* **Social development:** over the medium term, priority is given to childhood development. Higher allocations to early childhood development grant in provinces will increase the per-child subsidy and broaden access. The increase will be financed through funds reprioritised from the transfer payment to the South African Social Security Agency (SASSA). Funds will also be reprioritised to the provincial equitable share to continue rolling out sanitary towels to learners from low –income households in the poorest schools (quantiles 1, 2 and 3).
* **Community development:** This function group funds access to water, sanitation, electricity, and shelter for households, and subsidies to the cost of public transport. Over the medium term, the local government equitable share, which is the largest component of this expenditure function, will increase to fund free basic services and some administrative costs in municipalities. Over the medium term, funds will be reprioritised from the human settlement development grant, the urban settlement development grant, the municipal infrastructure grant, the regional bulk infrastructure grant and the water services infrastructure grant in order to protect water quality by restoring and upgrading the wastewater infrastructure at Emfuleni municipality. Transfers to the Passenger Rail Agency of South Africa will continue to fund rail modernisation.
* **Economic development:** this expenditure function group aims to create jobs and increase inclusive and sustainable economic growth. Over the medium term, it focuses on agriculture, land reform, innovation and industrial development. Over the medium term, funding will be reprioritised including from the comprehensive agricultural support programme grant to increase compliance with biosecurity, animal and plant health, and phyto-sanitary and sanitary standards to improve trade in agriculture. Government will also strengthen the Industrial Park Revitalisation Programme with reprioritised funds to develop local economies through industrial parks. Over the medium term, funds will also be allocated to post settlement support on the Land Restitution Programme in collaboration with agricultural commodity organisations. The Department of Small Business Development will implement a new operational model to improve support to small and medium sized enterprises.
* **Peace and security:** this expenditure function group aims to fight crime and ensure territory integrity. Over the medium term, its priorities are to improve efficiency and integrate interventions across different departments and entities within the justice, crime prevention and security clusters. From the 2020 MTEF, funding will be reallocated from the South African Police Services to other department and entities within this function group to implement the Integrated Criminal Justice Strategy. Funds will be reallocated to the Directorate for Priority Crime Investigation to appoint additional investigations to address the backlog of corruption cases and to the department of defence and home affairs to enhance border security.
* **General public services:** this expenditure function group aims to build professional state to transform and develop South Africa. Over the medium term, additional funding is proposed for the South African Revenue Services (SARS) to rebuild capacity, improve operations, and implement critical projects and the recommendations of the Nugent Commission. Additional funding is also proposed for the Auditor General of South Africa (AGSA) to support audits in financially distressed municipalities and entities. Furthermore, support is recommended in 2020/21 for Statistics South Africa to conduct survey to update the CPI basket of goods and services in line with international standards.

1. **Managing and reforming state-owned enterprises**

Over the medium term, government will manage the huge risk to the economy and the fiscus associated with Eskom. In response to the risk posed by Eskom, National Treasury and the Department of Public Enterprises are closely working with Eskom to separate Eskom into three Entities (generations, transmission and distribution) as announced by the President in the 2019 State of the Nation Address (SONA). In order to stabilise Eskom, in the short-term government has made a provisional support of R49 billion to Eskom in 2019/20, R56 billion in 2020/21 and R33 billion in 2021/22. However, these figures are dependent on Eskom being able to issue debt and should the entity fail to issue debt, government might be called upon to provide further support to the entity.

Other state owned companies are also adding spending pressures on government as funding to the South African airways, the South African Broadcasting Corporations, Denel and South African Express amounts to R10.8 billion in 2019/20. The South African Airways is anticipated to generate less revenue to sustain its operations, and it is anticipated to fail to repay its R9.2 billion in government guaranteed debts. Consequently, government will pay this debt over the medium term in order to honour its contractual obligation and there is consensus in government that urgent operational changes are required in SAA.

1. **Fiscal risks**

In engaging with government’s proposed spending plans for the 2019 MTEF, the Committee notes the following main risks to the medium-term fiscal outlook as reported in the 2018 Risk Statement:

* **Macroeconomic risk:** this includes uncertainty of nominal GDP and revenue growth over the medium term, debt sustainability under different macroeconomic scenarios, and the impact of larger deficit and macroeconomic shocks on financial requirement;
* **Expenditure risk:** this include unpaid bills and accruals within provincial and local government, unfavourable wage bills significantly above CPI inflation, and worsening financial management in municipalities;
* **Contingent and accrued liabilities:** this include the quality and quantity of state owned companies guarantee exposure, state owned companies debt obligations falling due over the next decade; and
* **Long-term economic and financial risk:** this include reduction in economic growth potential, and the effects of demographic changes, lower potential growth and lower inflation on sustainability of expenditure.

1. **Submissions on the 2019 MTBPS**

This section provides an overview and summary of all the submissions from identified and interested stakeholders on the 2019 MTBPS;

* 1. **Financial and Fiscal Commission**

The Financial and Fiscal Commission (FFC) supported the thrust of the 2019 MTBPS, noting that, overall, it reflected the major sentiments of the recommendations that the FFC had been making in the past decade, that growth and employment in South Africa could only be achieved by combining fiscal reprioritisation and consolidation through restructuring and good governance. Regarding government expenditure, the FFC endorsed the implementation of measures announced to contain the wage bill, like freezing of salary increase, but felt that these initiatives should be extended to state-owned entities (SOEs) and local government. The FFC had previously advised that wage increases should be linked to productivity. The Commission reported that capital investment was not growing commensurately with government’s thrust of infrastructure-led growth and initiatives meant to grow the economy.

According to the FFC, the division of revenue amongst the three spheres over the MTEF would generally be characterised by a nominal increase, but negative real annual average growth, projected at minus 0.5 percent. The main driver of this negative growth was allocations to the national sphere (projected to grow by minus 2.9 percent). Allocations to the local and provincial spheres had been prioritised due to the importance attached to the provision of education, health and municipal basic services such as electricity, water and sanitation.

The Commission further noted the new district-based service delivery approach introduced by government, which was meant to improve coordination and planning among national, provincial and local government. This approach would have implications for the 2020 MTEF allocations, as there would be a need to align the government-funding model to the new delivery model. While welcoming the new approach, with the potential to ensure integrated service delivery, the Commission emphasised the need for government to consider and address the current weaknesses, particularly in district municipalities, of which more than 60 per cent were dysfunctional and poorly capacitated.

Local government was set to receive a total allocation of R427.7 billion over the 2020 MTEF, which was R20.5 billion less than the allocation announced in the 2019 Budget. This comprised a downward revision of the sphere’s percentage share from 9.0 to 8.6 percent and 9.2 to 8.9 percent in 2020/21 and 2021/22, respectively. The FFC cautioned about the implications of cuts on service delivery and was of the view that, considering the declining share of local government allocations from the nationally raised revenue, government must prioritise own-revenue raising capacity in local government. In its 2020/21 Annual Submission on the Division of Revenue, the FFC had isolated supplementary revenue sources for local government that municipalities could exploit.

The total local government equitable share (LGES) allocation was envisaged to increase from R127.2 billion in 2019/20 to R132.4 billion in 2020/21; and R152.2 in the 2022/23 financial year. The Commission welcomed the nominal increase in the allocations, but remained concerned about the projected decline in the real growth rate, as it may have an adverse effect on service delivery to communities.

The conditional future allocations to local government, totalling R139.4 billion over the 2020 MTEF, was reportedly R3.2 billion less than projected in the 2019 Budget. Following an increase in the real growth rate of local government conditional grants in 2020/21, a decline of 0.6 per cent was expected for the 2022/23 financial year. The Commission indicated that it would like to see a reprioritisation towards local government relative to the other spheres; and was of the view that the proposed reductions should be implemented with caution, to ensure that service delivery was not adversely affected. The FFC further emphasised the need to consider past performance of each grant and avoid cutting on infrastructure grants as they were key for future service delivery and economic growth.

The Commission further reflected on allocative efficiency, challenges and opportunities within the key priority areas of infrastructure, health and higher education. According to the FFC, the effect of infrastructure spending on South African growth was moderate and public infrastructure delivery management was relatively weak, holding back potential investment returns to the economy. The FFC pointed to the need to build the required government capacity to manage infrastructure projects effectively in order to ensure that economic benefits associated with capital investment were realised. While the newly introduced Budget Facility for Infrastructure Planning and Infrastructure Fund supported developments, the Commission was of the view that national infrastructure delivery improvement interventions should not disincentives capacity development within provincial and local government. The FFC further reported that the Department of Health was allocated an adjusted budget of R222 billion in the 2019 MTBPS – an 8 percent increase from 2018. However, the Department had declared unspent funds of R346 million, of which R240 million, or 69.4 percent was in respect of the NHI Indirect Grant. The Commission also expressed concerns over the statement in the MTBPS that the estimates to roll out the NHI as planned, were no longer affordable. The FFC further reported that post-school education and training remained one of the major fiscal pressures for government due to growing demand for university and college education. The Commission was of the view that funding for higher education should be underpinned by a comprehensive fee-free higher education policy.

Regarding contingent liabilities and state-owned entities (SOEs), the FFC reported that contingent liabilities would reach an estimated R1.015 trillion in 2021/22, constituting almost a third of government’s net loan debt. Guarantees to SOEs would reach an estimated R552 billion in 2019/20, accounting for more than a third of the total government contingent liabilities, and constituting a major risk to the fiscus. Guarantees to Eskom were estimated to account for 56 percent of the total government guarantees to SOEs. The 2019 MTBPS revised in-year expenditure upwards by R44.5 billion. The largest component of this revision (R36.8 billion) was allocated to financial support for SOEs: R26 billion for Eskom; R5.5 billion for SAA; R3.2 billion for the SABC; R1.8 billion for Denel; and R300 million for SA Express Airways. These bailouts were substantially accelerating government debt. The high level of contingent liabilities and the high probability of a significant number of these contingent liabilities materialising represented a risk to South Africa’s sovereign credit rating. Several SOEs were not able to sustain themselves financially, with Eskom, Denel, SAA, SAPO and SABC all posting losses for at least two successive years. The biggest of these being Eskom who had posted a cumulative loss of R23.1 billion between 2017/18 and 2018/19.

Following government’s announcement that Eskom would be separated into three entities to facilitate cost efficiencies; a special paper now set a two-phase timeline for restructuring Eskom – first the separation of the generation, transmission and distribution functions into separate, wholly owned subsidiaries with independent boards by 31 March 2020. Secondly, the completion of the legal separation of distribution and generation functions by 31 December 2021. The Commission was of the view that the Eskom plan was the first step in the right direction in restructuring Eskom as it articulated how Eskom would relinquish its monopoly of the electricity industry and pave the way for private generators to supply the national grid. The FFC supported this reform because it was likely to enhance efficiency and cut costs. However, the plan did not contain certain crucial details. The Commission felt that there should have been an analysis and comparison of the options, including the costs and benefits of Eskom unbundling, in order to evaluate the true financial and economic value; particularly regarding the transition from the existing dependence on fossil fuels to the mix of energy sources. In addition, an analysis of cost pressures relating to the transitioning of the staff contingent and the procurement of goods and services, which the Commission deemed critical, has not been incorporated in the plan. The FFC reported that the MTBPS did not provide details on Eskom’s R441 billion debt management measures, but did set several preconditions before debt relief would be considered. The Commission emphasised the need for such preconditions to any debt relief to ensure that the structural reforms undertaken by SOEs were implemented.

* 1. **Parliamentary Budget Office**

The Parliamentary Budget Office (PBO) commented on the strategic direction for the MTBPS and highlighted that there was no mention of the Mandate Paper since its introduction in 2017. Furthermore, the PBO submitted that the 2019-2024 Medium Term Strategic Framework (MTSF) for the second phase of implementation of the NDP has not yet been published. The 2019 MTBPS is based on the 2019 SONA which identified the following strategic priorities:

* Economic transformation and job creation;
* Education, skills and health;
* Consolidating the social wage through reliable and quality basic services;
* Spatial integration, human settlements and local government;
* Social cohesion and safe communities;
* A capable, ethical and developmental state; and
* A better Africa and world.

The PBO further submitted that the 2019 MTBPS did not offer a lot in terms of macroeconomic analysis and solutions to the current economic downturn. The PBO felt that government overlooked its potential role in driving economic growth through the budget instruments and fiscal and monetary policy. The successful implementation of programmes for the ambitious sectoral goals would only have a small impact on investment, employment, economic growth, revenue collection, and the debt-to-GDP ratio over the 2019 MTEF. The PBO further cited business and society as being potential constraints to the achievement of National Treasury’s sectoral goals. It submitted that the public sector through budget spending can contribute directly to the GDP and also spur more private sector consumption and investment as well as support multiplier effects.

The PBO further gave an overview of the Public Sector Wage Bill. The PBO questioned whether government was willing to reduce the public sector headcount only for the sake of reducing expenditure without assessing the possible impact this may have on service delivery, the attraction of highly-skilled professionals and unemployment. The PBO submitted that public sector workers accounted for a relatively larger segment of the income tax base as they comprise a larger share of the workforce the earnings tend to be higher than in the private sector. Furthermore, the South African tax base is potentially more sensitive to public sector pay policy decisions.

* 1. **Public Service Commission**

The submission by the Public Service Commission (PSC) highlighted areas where the public service could be strengthened in order to improve efficiency, effectiveness and attainment of value for money towards the achievement of government priorities as per the 2018 MTBPS. These include:

1. **Strategies available to significantly improve management practices in the public service**

The Public Service Commission (PSC) proposed the following strategies to improve management practices:

* Political and administrative interface: there is a need for stability at the political and administrative interface for consistency and sustainable service delivery.
* Delegations: the delegation of powers and duties should be made to appropriate performance levels within the public service to fast track service delivery and decision making.
* Planning, coordination and costing: government should have detailed and integrated planning across all spheres of government for effective implementation of programmes supported by proper costing over the Medium Term Strategic Framework (MTSF) cycle.
* Reconfiguration of government: the finalisation of this process should streamline functions (avoid duplications) and ensure that more is done with less.
* Organisational performance: there should be better support systems for under-performing departments to ensure effective and consistent delivery of services to all citizens (value chain and interdependencies).
* Human Resources Management: there is a need to ensure improved productivity of the public service workforce and balanced with a reskilling and re-training approach.

1. **Governance issues across the public service**

The PSC analysed compliance with financial disclosure framework, financial misconduct, payment of invoices, precautionary suspensions, performance vs expenditure, and the percentage of targets achieved vs Senior Management Service (SMS) performance rewards. The PSC reported that 97 per cent of the national departments complied with the submission of forms for the financial disclosure framework for SMS employees in 2018/19. This represents an increase from 93 per cent in 2017/18. The Executive Authorities who failed to submit the forms for financial disclosure framework, after submission by the Heads of Department, to the PSC relate to the following departments or entities: Agriculture, Forestry and Fisheries, Communications, Defence, Energy, Health, National School of Government, Public Service and Administration, Military Veterans and the State Security Agency.

The PSC reported that there has been a reduction in the number of completed cases for financial misconduct from 387 in 2017/18 to 351 in 2018/19. Furthermore, there has been a significant increase in the amounts not recovered in relation to financial misconduct from R4 million in 2017/18 to R184.9 million in 2018/19. Furthermore, the PSC submitted that there seemed to be no correlation between the number of financial misconduct cases and related costs with the latest information from the Auditor General South Africa (R61.4 billion) in terms of irregular and wasteful expenditure.

The PSC reported on the payment of invoices by departments and indicated that the number and rand value of invoices not paid in the first six months of the 2019/20 financial year was a cause of concern. The following departments were the main transgressors in terms of unpaid invoices: Water and Sanitation (488 invoices – R851.4 million); Public Works (266 invoices – R235.8 million); Agriculture Forestry and Fisheries (77 invoices – R19 million); Social Development (17 invoices – R4.5 million; and Women (1 invoice – R1.7 million).

The PSC gauged the efficiency of HR processes in departments by assessing the number of people suspended and the duration of the suspensions for the 2018/19 financial year. There was a decline in the number of people suspended (from 693 in 2017/18 to 665 in 2018/19) as well as the number of people whose suspensions exceeded 30 days (from 545 in 2017/18 to 473 in 2018/19). There was also a decline in the related costs to the precautionary suspensions from R73.364 million in 2017/18 to R50.725 million in 2018/19.

The PSC also provided an analysis of expenditure outcomes versus the achievement of planned targets for all national departments for the 2018/19 financial year. The ten lowest performing departments in terms of planned targets were Energy (28 per cent); Military Veterans (44 per cent); Public Works (45 per cent); Social Development (46 per cent); Health (49 per cent); Defence (56 per cent); Rural Development and Land Reform (58 per cent); Small Business Development (65 per cent); Environmental Affairs (66 per cent) and The Presidency (67 per cent). The PSC also provided a breakdown of the national departments which have spent their budget allocations at a rate below the norm of 98 per cent at the end of the 2018/19 financial year as follows:

* Military Veterans – 86.4 per cent
* Environmental Affairs – 90.7 per cent
* The Presidency – 90.8 per cent
* National Treasury – 93.4 per cent
* Labour – 94.0 per cent
* Civilian Secretariat for Police – 94.4 per cent
* Social Development – 94.6 per cent
* Traditional Affairs – 95.1 per cent
* Small Business Development – 95.4 per cent
* Women – 96.4 per cent
* Planning, Monitoring and Evaluation – 96.5 per cent
* International Relations and Cooperation – 97.0 per cent
* Government Communications and Information Systems – 97.1 per cent
* Economic Development – 97.3 per cent
* Public Service and Administration – 97.4 per cent

The PSC also made an analysis in terms of the percentage achievement of departmental performance versus SMS performance rewards. The table below provides an overview of the top four departments whose overall performance was low and have given SMS members performance rewards during the 2018/19 financial year.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Departments** | **No of targets achieved vs planned targets** | **Percentage achieved** | **No of SMS members who received performance rewards vs No of SMS** | **Percentage of performance rewards received by SMS members** |
| Energy | 11 /39 | 28% | 3/60 | 5% |
| Defence | 59/105 | 56% | 72/279 | 26% |
| Environmental Affairs | 88/134 | 66% | 146/176 | 83% |
| The Presidency | 20/30 | 67% | 17/54 | 31% |

*Source: Public Service Commission 2019*

1. **Opportunities for efficiency, effectiveness and value for money**

Regarding opportunities for efficiency, effectiveness and value for money, the PSC assessed the costs incurred by departments for the use of consultants’ services. The table below reflects the top ten departments with the highest costs for the use of consultants in the 2017/18 and 2018/19 financial years.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Department** | **2017/18** | | **2018/19** | |
| **Number of consultants** | **Consulting costs** | **Number of consultants** | **Consulting costs** |
| Rural Development and Land Reform | Not provided | R736 500 000.00 | 43 | R404 687 000.00 |
| Telecommunications and Postal Services | 16 | R3 018 913.00 | 25 | R138 208 412.00 |
| International Relations and Co-operative Government | 11 | R210 936 756.96 | 11 | R121 889 632.96 |
| Transport | 28 | R20 813 629.62 | 34 | R82 081 158.79 |
| Environmental Affairs | 130 | R40 511 234.90 | 122 | R81 024 855.25 |
| Defence | Not provided | R80 404 464.03 | 15 | R76 806 307.29 |
| Office of the Chief Justice | 93 | R82 615 595.89 | 6 | R48 302 993.29 |
| Trade and Industry | 173 | R40 057 236.16 | 167 | R29 495 656.18 |
| Home Affairs | 17 | R54 750 128.00 | 33 | R26 080 914.60 |
| Tourism | Not provided | R26 793 395.78 | Not provided | R15 590 297.50 |

*Source: Public Service Commission 2019*

* 1. **Human Sciences Research Council**

The Human Sciences Research Council (HSRC/Council) in its submission gave an overview of the findings on its attitudinal survey on issues of democracy, corruption, xenophobia, Fourth Industrial Revolution, and South Africa’s energy mix. It identified the Public Sector Wage Bill, State-Owned Entities, and low economic growth as pressure points to the 2019 MTBPS. It further gave an assessment of National Treasury’s New Economic Plan and commented on the changing dynamics in the South African economy with specific reference to urban-rural dynamics and understanding city-economics. In terms of health, the HSRC made the following recommendations in order to improve efficiency of the Antiretroviral Treatment (ARV) service delivery:

* Investment in interventions directed at school age children to be aware of their HIV status;
* Improve health services to enable school age children to access chronic medication;
* Investments in research and development of interventions targeting Non-communicable diseases more comprehensively;
* Investments on research on youth risks including tobacco, alcohol and other drugs, sedentary behaviour, overweight including obesity and under nutrition;
* Investments in interventions on girls vulnerable to violence and poor mental health conditions;
* High demand of HIV self-testing and ART outside the clinic allows you to reach hard to reach people living with HIV; and
* Community based approaches in partnership with government are convenient, personalised, responsive and acceptable and reduce access barriers to comprehensive health care.

In terms of the NHI, the HSRC recommended that there be significant investments in public sector capacity building and implementation research that focus on recalibration of NHI costs and sustainability assessments, service delivery platforms, quality of service improvements, strategic purchasing, and impact on access, financial protection and outcomes.

In terms of education, the Council submitted that it was important for government to get the basics right, i.e. reading, writing, numeracy, and reasoning as the core skills as a foundation. South Africa needs to continue improving the scores in maths and literacy, alongside improved teacher skills and schools infrastructure. The Council submitted that investing in infrastructure was a priority for instance the eradication of pit latrines. It was further of the view that graded reading resources in indigenous languages was planned but critical for improving children’s performance.

With regard to the Public Sector Wage Bill, the HSRC submitted that the public service sector was the cornerstone of a country’s economic and social development and that random across the board job freezes and salary caps were unhelpful. To this end, it suggested that government should rather implement needs audits/reviews of departmental/entity spending according to national priorities. The HSRC alluded to the Public Service Sector Education and Training Authority 2018/19 study on the skills needs of the public service which revealed the following:

* A number of posts had been frozen and perks cut as a way of containing the wage bill however this resulted in under delivery; and
* Non-performing incumbents in positions act with impunity due to their perceived job security based on political connections.

In terms of youth employment/livelihoods, the HSRC suggested there was a need for a systematic analysis of the impact of technology on the future of work for young people, and to prepare for this new reality. Furthermore, there was a need to think about new sectors in which young people are likely to find employment, work and make livelihoods. It further submitted that TVETs need to be reimagined in order to make it more appealing and innovating and that coherent strategy was needed to support young people’s microenterprises.

* 1. **South African Local Government Association**

The South African Local Government Association (SALGA) was of the opinion that the 2019 MTBPS reinforced the principles of open and accountable fiscal and budget processes, but indicated that the financial resources allocated to municipalities were insufficient. This was complicated by the current state of the economy, especially limited tax revenues, retracted economic growth and rising debt levels. SALGA noted the key concerns listed, and the turnaround initiatives proposed, in 2019 MTBPS; but cautioned that future tax increases could overburden the people who were currently paying their taxes, and that a public sector salary freeze could lead to a severe skills drainage.

SALGA reported that the local government equitable share (LGES) would be cut by approximately R3 billion over the MTEF, mainly due to the poor performance on national revenue collection. Conditional grants would be cut by approximately R14 billion over the MTEF, or on average 11 percent over the three year period. The Urban Settlements Development Grant and the Public Transport Network Grant were receiving the largest cuts on scale, with capacity building grants receiving the lowest projected cuts. Poor performance had contributed to reductions in other grants, like the Regional Bulk Infrastructure Indirect Grant and Water and Sanitation.

Regarding the current state of local government finances, SALGA reported that an increasing number of municipalities were in financial distress, had negative cash positions and adopted unfunded budgets. Some municipalities had inherited major debt obligations from newly incorporated municipalities. The amalgamation of municipalities had not resolved the challenges of unviability of some municipalities, but rather created larger and even more unviable structures. The cost base of local government had been significantly increased over the past ten years, without a concomitant increase in the revenue to finance these additional costs. Additional costs came from additional responsibilities, reporting and compliance. In some instances, the cost of providing basic services exceeded the LGES, due to factors like, topography; location; and distance from economic centres, among others. In addition, consumption of indigents sometimes exceeded free basic services, particularly in instances of yard connections.

SALGA was of the view that the under-funding of local government over the MTEF, coupled with the current state of local government finances, would have a detrimental effect on the local economies, job creation and social well-being of communities; which would in turn result in municipalities’ own revenue sources declining. SALGA proposed that the funding gap be filled by a combination of the following:

* A higher allocation of nationally raised revenue to local government;
* Restructuring conditional grants;
* A review of municipal demarcation to focus on financial viability;
* A concerted campaign to reduce distribution losses;
* National incentives to enforce commercial customers to settle their debt;
* The reduction of the reporting/compliance burden;
* Removing Eskom from the municipal electricity distribution market;
* Addressing confusion over the respective powers and functions of local government and other spheres; and
* Requiring other parts of government to settle their outstanding accounts with local government, and to pay their accounts timeously.

SALGA further reported that both potential and actual own revenue collected, fell far short of the assumptions of the 1998 White Paper. The relative share and value of service charges income also differed from the assumptions made in the White Paper. The most outstanding feature being the contribution of electricity, given that Eskom supplied electricity directly to 50 percent of households despite this being regarded by SALGA as a constitutionally municipal function. A rising debtors’ book reflected the challenges of revenue collection, with organs of state owing municipalities R10.2 billion at 30 June 2019.

SALGA further indicated that it found the current structure of conditional grants counterproductive as it failed to address the actual needs in municipalities and forced them to prioritise programmes that did not reflect local priorities, resulting in further service delivery backlogs. Regarding infrastructure, SALGA indicated that poor maintenance was creating a huge contingent liability and in turn undermining current service delivery efforts. Other conditional grant challenges mentioned were fiscal dumping and capacity building failures by national and provincial government.

SALGA further reported that it was in the process of developing proposals on the district-based delivery model. There was a need for a long-term sustainable funding model for district municipalities, based on the outcomes of the review of their functions being undertaken by the Department of Cooperative Governance. Further investigation into the possibility of implementing a shared service model approach, including a multi-jurisdictional municipal service district revenue collection agency could also be beneficial to the sector.

SALGA further indicated that, as part of the technical team supporting the Inter-Ministerial Task Team; it has been tasked with finding sustainable solutions to the debt problem for both electricity and water. The recommendations in this regard included the installation of prepaid metres; independent revenue collectors for municipalities; a government-wide campaign to encourage a culture of payment for municipal services; strict management of payment default; fixing municipalities to ensure the sustainability of services and finances; and the restructuring of debts. SALGA also formed part of the National Intergovernmental Debt Task Team, but reported that there was very little commitment from national and provincial government to settle escalating debts.

Regarding initiatives to address poor municipal audit outcomes, SALGA reported that it had been analysing and unpacking the reports of municipalities with disclaimer audit outcomes and assessing whether municipal audit improvement plans were appropriate and suitable. SALGA has also been developing customised support plans for these municipalities and identified certain transversal areas of concern requiring support. These included record, supply chain, and asset management; and Councillor Oversight on financial management. SALGA acknowledged that a lack of accountability and consequence management were key drivers of the poor audit outcomes. In this regard, it has developed a Consequence and Accountability Framework to reinforce and bolster the message of the Auditor-General for improved accountability and consequence management.

In conclusion, SALGA listed issues to be considered in preparation for the tabling of the 2020 Budget. These included amongst others; reconsidering the White Paper assumptions and reviewing the current funding model for local government; reconsidering the LGES to reflect the actual cost of providing services; reviewing the conditional grant framework to make it more flexible, cost-effective and efficient. Furthermore, SALGA proposes that a serious consideration be made in addressing the debt owed to municipalities, especially by other organs of state; consider the impact of amalgamations on financial viability; consider the impact of the current Eskom distribution model on municipal financial viability; and conducting a detailed investigation of the costs, benefits and efficacy of the existing municipal regulation, reporting and compliance framework.

* 1. **Pietermaritzburg Pensioners Forum**

The Pietermaritzburg Pensioner’s Forum (PPF) recommended a substantial increase on their monthly state old-grant (Currently valued at R1 780.00) and further require a bonus in December that is equal to a double to their monthly pension (13th Cheque). They further expressed disappointment at the R80 per month increase to the old age grant and they view that as not being taken serious by the Government. The PPF submitted that it has made numerous written and oral submission on the budget to Parliament Committees in the past two years and the further wrote letters to National Treasury, President and the ANC caucus regarding their plight but in vain. This was despite actions from previous Committee Chairperson’s recommendations to the National Treasury to increase their grants with a substantial amount through the reprioritisation expenditure, but the Government chose to increase it with only R80 which is lesser than the previous year increment of R100 and still could not meet their request of 13th Cheque. The PPF submitted that the R80 increment does not seek to address challenges faced by pensioners i.e. increased VAT, increase on fuel prices, unemployment which affects their children and higher food inflation.

* 1. **United Nations Children’s Emergency Fund South Africa**

The United Nations Children’s Emergency Fund (UNICEF) submitted that expenditure will continue to be reduced for programmes and services that benefit children directly and South Africa is fast approaching the end of its demographic dividend window. It further posited that underspending by social sector departments remains a major problem and this required independent and urgent examination and action. UNICEF beliefs that innovation in service delivery models in social protection, basic education and health must be actively supported in spite of its medium to long terms benefits. It further submitted that in an environment of dwindling resources for children, there is a need for collaborative work across government departments. UNICEF recommended the following in terms of the 2020 MTEF:

* Increase expenditure on cash transfers to households and children by a rate which is higher than inflations;
* National Treasury should public a report of the initiatives undertaken by national government to arrest growing spending arrears in social sector departments;
* Reading pilots in basic education should be completed and costing framework should be developed in order to scale up the pilot;
* Developmental social welfare should be strengthened especially in a depressed fiscal climate;
* The implementation of the Early Childhood Development policy should be expedited through the removal of resource constraints, improvements in intergovernmental co-ordination, and effective stakeholder engagements.
* A concrete breakdown of the next steps for the implementation of the NHI programme should be provided.
  1. **Rural Health Advocacy Project**

The Rural Health Advocacy Project (RHAP) made the following recommendations on the 2019 MTBPS:

* In order to mitigate the effects of austerity on people living in rural settings, particularly women, we recommend a rural adjuster is included in budgeting guidelines that National Treasury issues to Provinces;
* Regarding spending performance against budgeted allocations, the Appropriations Committees gives considerations on newer policy reforms and where these is evidence of underspending, such as with the NHI, these spending may be improved by systematic Human Resourcing approach worked out between the relevant sector department and DPSA, that could include seconding experienced officials with proven track records, and which would also support succession of promising upcoming officials within departments;
* The Appropriations Committees engage National Treasury to request that the strategy to reform health grants prior to implementing NHI, entails assessing spending performance against key priorities for the department and includes understanding the driving factors that led to underspending on the current grants;
* That employing new community health workers in rural areas should be prioritised and that the Appropriations Committees should request both the National Department of Health and Provincial Departments of Health to develop and publish a plan to support their integration into the Primary Healthcare System;
* That the Appropriations and Finance Committees consider reigniting the Women’s Budget Initiative that prepared women and children’s budgets;
* The antiretroviral treatment programme is progressing somewhat slower than anticipated, with 4.8 million recipients against a target of 5.8 million. The uptake is particularly slow among children and men, compared to women. RHAP recommends that the Appropriations Committees ask the Department of Health what it intends to do to meet the target after declaring underspending in that programme.
* That the Appropriations Committees engage National Treasury to request that all health infrastructure projects being considered are published and the Budget Facility for Infrastructure develop a mechanism to prioritise rural infrastructure in order to address infrastructure inequality gap.
  1. **WoMin African Alliance and International Rivers**

WoMin and International Rivers made a joint submission on the 2019 MTBPS and expressed concerns about the spending priorities of national government over the 2019 MTEF. The submission focussed specifically on the allocations towards the Department of Mineral Resources and Energy (the Department) for the Grand Inga Dam project. The stakeholders reported that the Department’s budget made no mention of the Grand Inga Dam Project. However, the Department will incur expenditure on this due to the Treaty entered into between RSA and the Democratic Republic of Congo, the 2011 Memorandum of Understanding, the 2019 Integrated Resource Plan (IRP), and the Vote 26 allocation towards Foreign Governments and International Organisations (Clean Energy programme). The stakeholders further submitted that government has committed to this project without there being any independent South African project appraisal and risk assessment into the project. Furthermore, it was submitted that this was not a least cost electricity generation option, according to IRP 2019. The following recommendations were made in this regard:

* That the Committee recommends to the National Assembly that the Department of Mineral Resources and Energy disclose what part of its budget is to be spent on the development of the Grand Inga Dam project, before the said funds are approved.
* That the Committee recommends to National Treasury’s Budget Infrastructure Facility conduct a comprehensive project appraisal and rigorously assess the feasibility, risks, and proposed financing arrangements.
* That the Department of Mineral Resources and Energy act in a more transparent manner, providing adequate information to the public and Parliament as to its intentions and decisions being taken regarding the proposed infrastructure investments.
* That no funds or loan guarantees be approved for expenditure on the Grand Inga Dam project until Eskom has demonstrated that it is a financially stable State Owned Enterprise.
  1. **Organisation Undoing Tax Abuse**

The Organisation Undoing Tax Abuse (OUTA) generally supported the 2019 MTBPS, in that it prioritised the need to lower our sovereign debt, narrow the budget deficit and increase the impact of targeted expenditure. However, OUTA was of the opinion that the ongoing financial collapse of State-Owned Entities (SOEs), as a result of poor leadership, mismanagement, and corruption, meant that the cost of servicing Government’s net loan debt was increasing at a rate that threatened to push aside targeted social expenditure, such as fee-free higher education and the proposed National Health Insurance. OUTA reported that bailouts to SOEs absorbed 80 percent of the unexpected upward revision of expenditure announced in the 2019 MTBPS. Adding this year’s initial Eskom bailout of R23 billion, bailouts for 2019/20 alone amounted to R59.8 billion. This was more than the entire budget for the Department of Health; more than double that of the Department of Basic Education budget; and more than the combined Human Settlements and Water and Sanitation budgets. OUTA welcomed the stated intention to “merge and consolidate entities and regulatory agencies, as well as consider salary controls at a wider range of public entities”. However, it was of the view that there was no indication that the underlying causes of the dismal state of SOEs were being effectively addressed. OUTA submitted that, where bailouts were unavoidable, it was essential to attach harshly regulated conditions and that these were to be made public.

OUTA was of the view that strict, effective oversight was needed in order to improve government finances and cause taxpayers to feel less aggrieved over the wastage and having to fund bailouts. OUTA submitted that the Auditor-General’s (AG’s) report on national and provincial government finances and on some of the big SOEs, provided documentary evidence of widespread and entrenched financial mismanagement and dishonesty; as well as the failure

of National and Provincial Executives, Parliament and Provincial Legislatures to carry out effective oversight. OUTA highlighted the huge amounts of irregular, unauthorised, fruitless, and wasteful expenditure by SOEs in 2017/18, reported by the AG, and requested Parliament to leverage its power to ensure that consequences were enforced with immediate effect to initiate a culture of discipline and compliance with public finance management legislation at all levels of government. OUTA proposed that the relevant parliamentary committees demand in-year financial reporting for those SOEs considered essential for the public interest; and that those entities that were not essential, or could not be turned around, be strategically foreclosed or wound down. These strategic cost-cutting avenues, might increase our prospect of fiscal sustainability and economic sovereignty. OUTA further asked which non-core assets government was considering selling to raise R7 billion towards the SOE bailouts. With regard to SANRAL’s financial problems mentioned in the MTBPS, OUTA indicated that it intended to make a substantive submission to the Standing and Select Committees on Appropriations and the committees on transport on the subject of SANRAL’s financial model.

Regarding local government, OUTA questioned the research on which the Municipal Fiscal Powers and Functions Amendment Bill, announced in the MTBPS, had been based. OUTA was of the view that consumers were already overburdened with municipal service charges, and that this was unlikely to improve the financial stability of municipalities. OUTA further mentioned the reference in the MTBPS to 126 municipalities that had passed unfunded budgets for 2019/20, and welcomed National Treasury’s instruction to these municipalities to remedy the situation by 15 November or face withholding of future transfers of the equitable share. OUTA requested an update on the results of Treasury’s instruction to the 126 municipalities; and also expressed concerns that some of these municipalities had passed updated budgets which failed to make adequately provision for Eskom and water board arrears, or even for current payments.

* 1. **Congress of South African Trade Unions**

The Congress of South African Trade Unions (COSATU) expressed disappointment with the MTBPS; saying it failed to present any serious or clear plans to address the worst economic crisis since 2008 and the serious threats faced by government and the SOEs. In light of the high unemployment, COSATU felt that a clear plan (inclusive of targets, time frames and resource allocation) by all departments, provinces, municipalities and SOEs was needed to ensure that government met its Presidential Jobs and Investment Summit commitments. COSATU further asked for a commitment to engage the South African Reserve Bank on measures to support economic growth and job creation whilst managing inflation levels. COSATU further submitted that much of workers’ expectations for the MTBPS had rested upon government having clear plans to save and turn around struggling SOEs. COSATU indicated that, whilst it supported the additional financial support provided for these SOEs that provided critical services and jobs, bailouts were not a plan.

Regarding Eskom, COSATU proposed that several measures be taken that included a comprehensive public audit of all expenditure and contracts; arresting those implicated in corruption and seizing their assets and dismiss all those implicated in mismanagement; cutting tariffs of coal suppliers and Independent Power Producers; amending Eskom’s mandate to allow it to produce and own cheaper renewable energy. Furthermore, COSATU proposes that plans should be put in place to increase free electricity for indigent households; reduction of debt level; clamping down on non-paying municipalities and departments. COSATU also felt that campaign to ensure that Soweto residents pay for electricity was needed, and a Just Transition Plan for workers when mines and plants come to the end of their life span in the near future.

According to COSATU, many of the wage bill statistics in the 2019 MTBPS were distortions of facts and that it did not disclose the massive strain that the freezing of critical service delivery posts had on the functions of public hospitals, clinics, schools, prisons, the SAPS and Home Affairs. COSATU appreciated the recognition by government that any engagement on wages belonged in the respective collective bargaining forums as stipulated by law. COSATU made several recommendations on the reduction of the public wage bill, including:

* Engaging unions at the Public Service Commission Bargaining Council (PSCBC);
* Reducing National and Provincial cabinets and Mayoral Committees;
* Reducing bloated government management structures;
* Consolidating and reintegrating fragmented departments and SOEs and redeploying staff from bloated departments and SOEs to departments and municipalities with personnel shortages;
* Reducing the public service sector and SOE wage gap and placing all public sector entities and SOEs under the PSCBC so that there was one collective bargaining process;
* Scrapping the perks afforded to the executive under the Ministerial Hand Book; and
* Filling critical service delivery posts.

COSATU submitted that it had expected the 2019 MTBPS to confront the crises of corruption and wasteful expenditure; and that the revelations at the various commissions of inquiry were just the tip of the iceberg. COSATU was of the view that Eskom’s current high debt levels were in partly due to rampant looting and mismanagement at Kusile and Medupi power stations. COSATU found it unacceptable that R13 billion could be spent on four departmental head offices, Tshwane council head office and the South African Consulate in New York, while nurses and teachers had to fight for a living wage. While COSATU welcomes the proposed reduction in travel expenses, COSATU felt that more should be done and recommended that government develop a clear plan to reduce wasteful and irregular expenditure. Furthermore, COSATU proposes that the Chief Procurement Officer’s role be expanded to ensure more cost effective centralised procurement; and plans and actions be developed to end expensive and corrupt outsourcing in government and SOEs and to freeze assets and recover stolen funds.

COSATU welcomed initial government interventions to fix the South African Revenue Service (SARS), and stated that revenue could be significantly increased by massively investing in SARS customs capacity building and improving customs technology. In addition, holding companies must be held accountable for the tax breaks and incentives they received in exchange for job protection and creation. Other issues that COSATU felt needed attention were tax evasion; existing tax loopholes; and making the tax regime more progressive through increases in personal income tax for high earners; company taxes; inheritance, estate, land and dividends taxes; and VAT on luxury goods and custom duties for imports. COSATU further expressed deep concern over the lack of urgency to deal with the ballooning deficit of the Road Accident Fund (RAF) and argued that increasing the fuel levy to deal with this would only make transport and consumer goods more expensive and further shrink the economy. COSATU concluded that the solution was for Parliament to pass the Road Accident Fund and Road Accident Benefit Scheme Bills, which would ensure that RAF funds were received by road accident victims rather than lawyers, as well as a more equitable distribution of benefits.

* 1. **Mr P Moss**

The Committee received a submission from Mr P Moss who complained that the African National Congress (ANC) worked to take property and destroy the financial credibility of South Africa. He also bemoaned the fact that the ANC wanted to access the pension funds of workers.

* 1. **Budget Justice Coalition**

BJC is a coalition of progressive civil society organisations whose focus is on building active engagement and transformation of the budget to ensure substantive equality in society. The BJC submissionfocused on an intersectional feminist analysis of the 2019 MTBPS as well issues specific to the recent Gender-Based Violence and Femicide (GBF) Emergency Plan. The BJC submitted that more information was required on how the GBVF Emergency Plan would be funded. It further submitted that, from an intersectional feminist perspective, that substantial cuts to provincial transfers and to local government will disproportionately affect groups that experience higher levels of discrimination and exclusion through the negative impact on service delivery.

The table below reflects the selected sectors and the recommendations tabled by BJC to the Committee:

|  |  |
| --- | --- |
| **Sector** | **BJC Recommendations** |
| Intersectional feminist approach to economy | * All departments and especially the Treasury and Stats SA must start to consider the costs to women and the benefits to the economy of women’s unpaid labour. * National budget documents must demonstrate how sectoral investments to stimulate the economy and create jobs also answer the question of gendered inequality in employment in those sectors. * Government must take a stronger stance with the private sector regarding employment equity, in particular regarding strategies to address the under employment of black women. |
| Health | * That all Community Health Workers be fully employed and earning decent wages by the end of the financial year. * The Department of Health must explain why there continues to be such high levels of under-expenditure on the NHI indirect grant each year and what its plan is to tackle this. * Why we are 1 million people short of our HIV/AIDS treatment targets this year and what measures are being taken to address this. * What steps are being taken to address under-expenditure and missed targets on health infrastructure, such as the fact that only 7 out of 45 health facilities identified at the start of the financial year for maintenance, repairs or refurbishments have been completed. |
| Education | * That drastic steps be taken to ensure that bailouts for state-owned entities cease to divert funds from critical social spending priorities such as basic education. * The Committee evaluate National Treasury’s MTEF projections for basic education funding and insist that the basic education sectoral budget be considered for an annual real increase greater than 0.8% in the 2020/21 financial year. * The Committee request the DBE and PEDs to report on interventions to improve spending and delivery. * The Committee establishes clear plans to ensure that cuts to education do not exacerbate barriers of access to girls, gender non-conforming students and learners with disabilities. * The Committees ensure stakeholders such as National Treasury provide support to the Department of Basic Education (DBE) and Provincial Education Departments (PEDs) to strengthen their ability to efficiently spend allocated funds. |
| Social Development | * That South Africa investigate the feasibility of a Basic Income Grant (BIG) for all; A BIG paid to all (but clawed back from those who do not need it through the tax system) would address the necessity of extending social security coverage to those between 18 and 59 years old. * South Africa urgently increases the Child Support Grant (CSG) amount to at least the food poverty line. * The BJC implores Government and Treasury to reframe social grants as necessary economic stimulus and recommends more fully integrating the welfare system into South Africa’s economic recovery plans. * Increasing the funding to NPOs who provide services on behalf of the Department would enable these NPOs to employ the unemployed social work graduates, thereby increasing the workforce for improved services, and providing much needed employment for women and youth. * Strongly recommend that the newly created ‘Department of Women, Youth and Persons with Disabilities’ include clear indicators and budgeting to address the problems faced by transgender, gender diverse, gender non-conforming and intersex people in South Africa. |
| Home Affairs | * That a clear plan is put in place to mitigate the negative effects of large reductions in planned expenditure for the Department of Home Affairs. |
| Energy | * Arrangements for future decommissioning and decontamination at both Koeberg and Pelindaba should be made transparent to the public and that the entities concerned should report on the funding that is ring fenced for these purposes. * Parliament should request that National Treasury present on the project applications that have been made to the Budget Facility for Infrastructure and specifically request clarity on whether the Grand Inga Project has been properly appraised. |
| Environment | * It should be ascertained whether the Department of Environmental Affairs, the Development Bank of Southern Africa or a combination thereof is responsible for the spending failure on the Green Fund and in a transparent manner, * Allocations to the Department’s core functions should be increased and a viable source for this increase would be an appropriation from the disproportionate amount- 54% of the Department’s budget- allocated to Programme 6 (dedicated to implementing Expanded Public Works and green economy projects in the environmental sector). * Budgeting be re-orientated so that going forward, it reflects alignment with non-negotiable Departmental mandates (such as; ensuring everyone’s Constitutional right to have the environment protected) as a primary point of departure. |
| Land Reform | * Increasebudgetary allocations to land reform and assert that 1% of the national budget is completely insufficient to address this important area or to ensure that land reform creates successful redistribution with the wasted opportunity to create a more equitable society and egalitarian economy. * BJC recommends the prioritisation of increased post-settlement support in order to ensure more successful land reform projects. * In order to address inequitable access, BJC support the proposals of the Presidential Advisory Panel Report on Land Reform and Agriculture, that 30% of the budget be allocated to landless and land-poor households, 30% to the smallholder farmers, 30% to medium-scale commercial farmers and the remaining 10% to large-scale commercial farmers. * It is essential that budgetary processes in Land Reform urgently prioritise gender equity. |
| Human Settlements | * There needs to be clear directive, particularly at the municipal level, about how to successfully transition to the Upgrading of Informal Settlements Programme, with processes outlined on how to properly mitigate the continuing problems of underspending, and a lack of regard for the principles of community participation and relocation as a last resort. * Underspending, as well as poor performance on the issuing of title deeds need to both urgently be addressed, especially as these problems have a detrimental impact on access to social delivery and disproportionately so for the poor and oppressed. |
| GBVF Emergency Plan | * Clarification is required on how the GBVF Emergency Plan will be funded, specifically, where funds are being cut to fund the plan. * Treasury should provide a breakdown of the funds, as per the structure of the documents currently provided by the GBVF Interim Steering Committee, with additional information on how the figures provided per intervention area are further divided between different spheres of government, the different departments responsible and under which line items for those departments the allocations can be found. * To address access to justice in GBVF cases, it is critical that the SAPS provide a clear budgeted plan to increase the reporting and detection rates for GBVF, so that a higher proportion of cases are referred to the NPA for prosecution. * The Committees should find the reason for the underspending from the Department of Police and also gain information on how certain spending is being managed to support the GBVF plan in the face of cuts. * To affect change in the quality of prosecutions in GBVF related matters, funding increases should be linked to an increase of experienced prosecutors. |

1. **Committee observations and findings on the 2019 MTBPS**

The Standing Committee on Appropriations, having considered the 2019 Medium Term Budget Policy Statement, and having engaged with the various stakeholders makes the following findings and observations:

**The overall thrust of the 2018 MTBPS:**

* 1. The Committee welcomes the fiscal consolidation drive by the Finance Ministry as these will ensure that current government debt payments is not deferred to future generations.
  2. The Committee is concerned that economic growth and revenue collection had consistently failed to reach targets projected by National Treasury. To this end, the Committee is of the view that it might be time for Government to consider the introduction of debt level management bill to improve discipline in managing public finances.
  3. The Committee notes with concern that fiscal reprioritisation during the 2019 MTBPS was often from services delivering on the developmental and social mandate, and towards increasing debt repayments. The Committee feels strongly that service delivery should not in any way be compromised during the reprioritisation of funds during the adjustments budgets.

**Economic growth forecast, investment and trade**

* 1. The Committee notes with concern that the South Africa’s GDP forecast has been revised down from 1.5 per cent forecasted by the National Treasury during the tabling of the 2019 budget to 0.5 per cent during the tabling of the 2019 MTBPS. This is a concern to the Committee due to its potential effect on job creation and the ability of government to collect the required revenue through taxes.
  2. The Committee notes with concern that the debt service cost is the fastest growing expenditure item for government, reaching an estimated R204 billion in 2019/20 financial year.
  3. The Committee notes with concern that gross tax revenue is projected to fall short by R52.5 billion in 2019/20 and R84 billion in 2020/21. This is a serious concern from the Committee’s view because economic growth is also shrinking and government will have to borrow to finance these shortfalls hence more interest payments on borrowed funds.
  4. The Committee cited the lack of private sector investment is a cause of concern to the economy as this has a negative effect on economic growth. The Committee is of the view that Government has a responsibility to create a conducive enabling environment for business to invest

**Budget principles of efficiency, effectiveness and economy:**

* 1. The Committee reiterates its concern about trends in service delivery performance versus expenditure that show that while departments regularly exhaust their allocated budgets, the attainment of stated performance targets continues to be a challenge and is uneven across sectors.
  2. The Committees notes with concern that there has been a significant increase in the amounts not recovered in relation to financial misconduct from R4 million in 2017/18 to R184.9 million in 2018/19. Furthermore, there seemed to be no correlation between the number of financial misconduct cases and related costs with the latest information from the Auditor General South Africa (R61.4 billion) in terms of irregular and wasteful expenditure. The Committee asserts that the lack of consequence management especially in financial misconduct related matters within the public service must be addressed as a matter of urgency.
  3. Regarding efficiency, effectiveness and value-for-money, the Committee remains concerned about the high costs associated with the use of consultants. The Committee notes the PSCs submission that the four departments which incurred the highest costs on consultants during 2018/19 were Rural Development and Land Reform (R404.6 million), Telecommunications and Postal Services (R138.2 million), International Relations and Co-operation (R121.8 million), and Transport (R82.0 million).
  4. The Committee notes with concern the prevailing challenges relating to the payment of invoices within 30 days. The PSC submitted that the number of invoices not paid decreased from 2 955 in April 2019 to 934 as at the end of September 2019, however in Rand value these amounted to R1.1 billion. In the first 6 months of the 2019/20 financial year, the main contributing departments to the high Rand value of invoices not paid included the Department of Water and Sanitation (R851.4 million) and the Department of Public Works (R235.8 million).
  5. The Committee notes with concern the submission from WoMin and International Rivers regarding the mooted Inga Dam Project in the Democratic Republic of Congo without conducting its due diligence, i.e. comprehensive feasibility study. Of particular concern is the fact that there is a lack of transparency around the mooted project as well as the fact that Eskom, with all its financial and sustainability challenges, would be the off-taker of the project.
  6. The Committees notes with concern the under-spending in the first six months of the 2019/20 financial year by departments especially Water and Sanitation, Human Settlements, Rural Development and Land Reform, and Health. This is especially worrying given their respective mandates to deliver basic services, the full implementation of the NHI, facilitation of land reform and support to emerging farmers. The Committee views this an indicative of a lack of proper planning as well as poor project and contract management challenges and capacity related issues across government.
  7. The Committee is concerned about the lack of transparency as well as the absence adequate stringent conditions in respect of government guarantees to State-owned Entities.

**Education, job creation and skills development focus area:**

* 1. Regarding the basic education sector, the Committee is concerned at the reduced quality standards since the Committee is of the view that education is one of the driving force that can significantly reduce poverty and inequality rate in South Africa.
  2. Whilst the Committee emphasises the importance of Early Childhood Development, it is also of the view that there needs to be a multi-pronged approach to dealing with numeracy and literacy issues along with the technological advances accompanying the Fourth Industrial Revolution (4IR)
  3. The Committee welcomes the funds which have been earmarked for building student accommodation in Public Universities and TVET colleges.

**Improving health care services:**

* 1. The Committee is also seriously concerned about the unspent funds declared by the Department of Health in respect of the National Health Insurance (NHI) Indirect Grant; as this raised serious questions about government’s readiness to implement the NHI programme which will ensure universal access to Health services in South Africa. The Committee is also concerned about the statement made in the MTBPS that the rollout of the NHI was no longer affordable. This is concerning for the Committee as the NHI Bill is before Parliament for public inputs and consultations.
  2. The Committee notes the submission from the HSRC that an estimated 359 thousand people between the ages of 10 to 19 are currently living with HIV in South Africa from which only 50.7 are currently on ARV treatment. Regarding the HIV/AIDS pandemic, especially among young people, the Committee feels strongly about the need for stronger collaborative efforts between government, faith-based organisations, traditional leaders and civil society particularly on prevention initiatives and education.

**On developing a capable and effective public service:**

* 1. Whilst the Committee notes the reasons from Government about the need to reduce to Public Sector Wage Bill, it is of the view that jobs should not just be cut without considering the unintended consequences. Strategic discussions are needed in this regard, especially in light of the high unemployment rate and the fact that reducing public service salaries would also reduce tax revenue. The Committee asserts that reducing public sector salaries may be counter-productive as it could lead to a skills leakage and that other mechanism should be considered to deal with the fiscal constraints. The Committee is of the view that proper empirical research should be conducted on savings that could result from SOEs operating more efficiently, instead of only focusing on the public sector wage bill.
  2. Even though the new district-based service delivery model had the potential to improve coordination and planning in local government, the Committee is of the view that its implementation might be challenging in light of the fact that 60 percent of district municipalities were reported to be dysfunctional. The Committee is of the view that even if plans can be good, the operating environment is still characterised by structural inefficiencies. Focus should be more on making both district and local municipalities to work better through strategic capacitation and effective oversight.
  3. The Committee notes with concern the reported under-spending in the first six months of the 2019/20 financial year by the departments of Water and Sanitation, Human Settlements and Rural Development and Land Reform. This was especially worrying given their respective mandates to deliver basic services and facilitate land reform and support emerging farmers.
  4. The Committee is concerned on the reported non-compliance by Senior Management Service (SMS) members of the public service who consistently fail to sign and submit financial disclosure forms because this lack of transparency ultimately compromises the trust between government and the society.

**On State Owned Entities and the overall fiscal risks**

* 1. The Committee is concerned about serious fiscal risks posed by the State Owned Companies, particularly Eskom, SAA, SA Express, SABC and Denel.
  2. The Committee takes note of all the macroeconomic, expenditure, contingent, and accrued liabilities as well as the long-term economic and fiscal risks.

1. **Recommendations**

The Standing Committee on Appropriations having considered the 2019 Medium Term Budget Policy Statement, recommends as follows:

* 1. That Parliament should consider developing a government guarantee oversight model in order to ensure the efficient use of government guarantees to State-owned Entities. To this end, the Committee recommends that Parliament should commence and complete this exercise during the 2020/21 financial year.
  2. That National Treasury and Labour and Employment should conduct a comprehensive study on the public sector wage bill at all levels of government including State-owned companies and municipalities in order to determine the exact impact of aggregate wages in government. This assessment should also consider the wider implication of reducing the public service on tax revenue, unemployment, service delivery and skills leakages within the public sector. National Treasury should report to the Committee before the tabling of the 2020 MTBPS.
  3. The Executive Authority of the Department of Agriculture, Forestry and Fisheries, Communications, Defence, Energy, Health, National School of Government, Public Service and Administration, Military Veterans and the State Security Agency urgently submit the financial disclosure form to the Public Service Commission and report to the Committee within 30 days after the adoption of this report.
  4. That National Treasury, in consultation with relevant stakeholders, should develop more effective mechanisms are in place to ensure value for money is obtained especially regarding the overpricing for goods and service.
  5. In addition to the focus on reducing the public sector wage bill, National Treasury should also focus on other measures that will boost the performance of the South African economy.

1. **Conclusion**

The responses and implementation plans by the relevant Executive Authorities to the recommendations, as set out in section 8above, must be sent to Parliament within 60 days of the adoption of this report by the National Assembly.

Report to be considered.

1. Consisting of national and provincial departments, social security funds and public entities [↑](#footnote-ref-1)