ANALYSIS OF BUDGET 2020

SUBMISSION BY ORGANISATION UNDOING TAX ABUSE (OUTA)

TO THE SELECT AND STANDING COMMITTEES ON FINANCE

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2 March 2020

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Executive summary

- We welcome the focus on promoting economic growth and the realisation that increasing taxes will not help this.
- We welcome the focus on policy certainty, transparency and reducing borrowing costs.
- The reduction in the wage bill will be difficult but this is necessary and overdue.
- The cuts to programmes may have adverse effects, particularly as these are crucial areas of spending.
- Increasing the capacity of SARS, law enforcement and prosecution is essential.
- Despite the cuts, debt is rising, which is a substantial concern and disables social spending. Borrowings at a responsible level as a countercyclical measure can bolster an economy, however, the worsening audit outcomes indicate that part of the borrowings are funding worsening corruption.
- The drop in revenue is a substantial concern. Part of this is the inexplicable loss year-on-year of nearly 7% of registered taxpayers who are liable to pay tax.
- The financial collapse of key state-owned entities (SOEs) continues to affect the Budget heavily, with bailouts a major contributor to the deficit and the need to cut social spending, and the enormous burden on the state's contingent liabilities (particularly Eskom). Considerably more oversight of SOEs is needed to improve governance and financial controls; this includes ensuring that wrongdoers are held to account.
- We call for transparency on oversight reforms in SOEs under the Department of Public Enterprises and a revival of the Government Shareholder Management Bill.
- We call for clearer and faster policy implementation in the electricity sector by the Department of Mineral Resources and Energy, much of which is years overdue.
- We are concerned about the diminishing of health services due to the need to prioritise the stabilisation of the SOEs. This will affect the implementation of the National Health Insurance.

The cuts here also point to lack of capacity to deliver. Medico-legal claims must be brought under control.

- Basic Education suffers cuts, particularly in education infrastructure, which is a substantial concern. It is unacceptable that we still have learners being educated in structurally unsound schools and with inadequate sanitation facilities.
- Government has failed to make the promised decision on the future of Gauteng's e-tolls, which leaves the budget relying on non-existent collections. A decision is needed urgently on this.
- The Passenger Rail Agency (Prasa) failure to spend raises questions, as this resulted in budget cuts. Prasa and Metrorail are essential services which require improved oversight in collaboration with the Standing Committee on Appropriations and the Portfolio Committee on Transport.
- While development indicator data from the Department of Performance Monitoring and Evaluation indicates that the number of road accidents and fatalities are declining, the Road Accident Fund's liabilities are increasing. This defies logic. We urge the Finance Committees to seek clarity about the drivers of the RAF's increasing liabilities.
- The Budget Review emphasises the need for numerous specified reforms, but these are not reflected in the key indicators in the departmental budgets in the Estimates of National Expenditure.
- Governance failures remain an endemic problem, with ongoing alarms raised by the Auditor-General. We welcome the Public Audit Amendment Act, the Public Procurement Bill and indications that the Treasury is dealing more decisively with municipal financial management.
- We would like to see improvements in public participation in the Budget, which requires assessment of time frames for comment and timing for such participation.

Overview

The 2020 Budget delivered some welcome news with income tax relief and the feared VAT increase not materialising. Success now depends on implementing the difficult cuts.

It aims to promote desperately needed economic growth, which is expected to be only 0.9% in 2020. This is seen in an easing of personal income tax, a plan to reduce company tax over the medium term and no hike in VAT. The realisation of the need to cut the burgeoning state salary bill by R160 billion over the next three years is hard for public servants but may help the strained fiscus. This is not a done deal and may mean a difficult battle between government and unions.

We are pleased that Minister Mboweni has recognised the concern that our growth forecasts are significantly lower than our global peers and well below the global economic growth average. However, the growing deficit – now at 6.8% of GDP – and the reduction in the number of taxpayers from 7.6 million last year to 7.2 million will impact negatively on public services.

The emphasis on policy certainty, transparency and reducing borrowing costs is welcome. The allocation of an additional R2.4 billion to the National Prosecuting Authority (NPA), Special Investigating Unit (SIU) and the Hawks is a significant contribution to the fight against corruption, particularly as it applies to cases arising from the State Capture Commission. Extra money must increase the capacity of these criminal justice agencies and we hope successes here will ultimately increase revenue collected and cut corrupt spending. In the same vein, enabling private sector players must also be held to account. SARS has an important role to play in this.

Along with capping the wage bill, programme spending will be cut by about R100 billion, with R60 billion of these savings going to fund Eskom and SAA bailouts. This is the cost of the collapse and looting of those state-owned entities (SOEs). We need clarity on exactly how extra allocations will improve the situation, since repeated bailouts and government guarantees have not yielded tangible results. We welcome the Minister's promise to merge and consolidate SOEs – we would like details and timelines – and the promise of a new law to stop excessive salaries in SOEs.

The victims of the SOE financial collapses are the poor and vulnerable. Human Settlements loses funding. Public transport is cut. Funds for school buildings and health services are diminished. These cuts underline the urgent need to identify and cut the waste, so funds can be directed to education, health and safety in line with the National Development Plan.

We are still waiting for the Cabinet's decision on the future of e-tolls, but the Budget indicates an acknowledgement that motorists aren't going to pay. Budget Review 2020 notes the need for clarity on the e-tolls and says that "declining e-toll revenue will have to be offset by other measures to repay South African National Roads Agency Limited debt". For the past few years, Treasury has allocated R1.8 billion to R1.9 billion to the Gauteng Freeway Improvement Project (GFIP) tariff shortfalls, which is equal to the GFIP bond repayment value. In effect, the government has come around to OUTA's position on funding the GFIP from Treasury and its appetite to enforce e-tolls is waning, suggesting a final decision to pull the plug is not far off. The question is why this is delayed.

OUTA believes that civil society organisations, that act on behalf of citizens, must be offered more substantive opportunities to make meaningful contributions to the budget process. From the outset, we recommend that the committee makes it a matter of public record that several civil society organisations have submitted that participatory opportunity in the budget process is inadequate and shallow. OUTA submits the same and intends to engage with the committee and National Treasury constructively to address this shortfall.

This submission is limited by time constraints which speak to a systemic limitation in the current Budget cycle. Without too much detail, it will focus on the overall Revised Fiscal Framework and the following themes within the Estimates of National Expenditure 2020:

- Public Enterprises (Vote 10)
- Mineral Resources & Energy (Vote 33)
- Health (Vote 18)
- Basic Education (Vote 16)
- Transport (Vote 40

Revenue proposals

South Africa's current reality is that tax revenue collections are consistently missing targets. There is a growing deficit (now at 6.8% of GDP), rising sovereign debt levels and debt servicing costs that are consequently the fastest growing area of expenditure. The reduction in the number of taxpayers from 7.6 million last year to 7.2 million will also impact negatively on public services by affecting tax revenue collections.

The table below shows the drop from 2019/20 to 2020/21 in the number of taxpayers, both the total registered taxpayers (a drop of 44 203) and in the number of registered taxpayers liable to pay tax (a drop of 496 723). This is a loss of 7% of the taxpayers. This is based on Table 4.5 of Budget Review 2020, Table 4.5 of Budget Review 2019 and Table 4.6 of Budget Review 2018.

Tax bracket in R'000	Registered individuals 2018/19	Registered individuals 2019/20	Registered individuals 2020/21	Difference 2019/20 to 2020/21
R0 - R70	6 557 245	6 369 806	6 822 326	
R70 - R150	2 502 678	2 385 046	2 084 683	
R150 - R250	1 790 280	1 949 150	1 771 582	
R250 - R350	1 178 901	1 169 590	1 071 402	
R350 - R500	934 615	984 790	1 029 509	
R500 - R750	576 469	610 331	615 177	
R750 - R1 000	233 652	261 631	266 169	
R1 000 - R1 500	161 014	161 868	182 883	
R1 500 +	109 783	120 751	125 029	
Total taxpayers required to pay tax	**7 487 392**	**7 643 157**	**7 146 434**	**-496 723**
Total registered taxpayers	**14 044 637**	**14 012 963**	**13 968 760**	**-44 203**

What has caused this loss of taxpayers? Is this trend expected to continue? This will have significant repercussions for the revenue collections.

South Africa's sluggish growth impacts on its ability to generate tax revenue. We are therefore pleased that Minister Mboweni has recognised the concern that our growth forecasts are significantly lower than that of our global peers and well below the global economic growth average. The 2020 Budget delivered some welcome news with income tax relief and the feared VAT increase not materialising. We support the recognition that further tax increases would stifle an already struggling economy.

OUTA notes that low growth led to a R63.3 billion downward revision to estimates of tax revenue in 2019/20 relative to the 2019 Budget. We note that there have been some shifts over the last five years in the composition in the tax mix. Company income tax is decreasing as a proportion of the tax mix and personal income tax has increased. This means that individuals are shouldering increasingly more of the tax burden than companies. Despite the one percentage point increase in the VAT rate, VAT has decreased slightly as a proportion of the tax mix since 2014/15. This could be attributed somewhat in the last two financial years to the backlog in VAT refunds that is being cleared.

From Table A1.2.1				
	PIT	CIT	VAT	ies & Other
2014/15	35.9%	18.9%	26.5%	18.7%
2015/16	36.4%	18.1%	26.3%	19.3%
2016/17	37.2%	18.1%	25.3%	19.4%
2017/18	38.1%	18.1%	24.5%	19.3%
2018/19	38.3%	16.6%	25.2%	19.8%

Source: South African Revenue Services, Tax statistics 2019

Businesses are being adversely affected by the current economic climate. Government should play an enabling role in supporting businesses and improving the conditions for doing business. Businesses must also do their part in contributing to the social compact. For this reason, OUTA welcomes the move to limit corporate interest deductions to combat base erosion and profit shifting as well as restricting the ability of companies to fully offset assessed losses from previous years against taxable income.

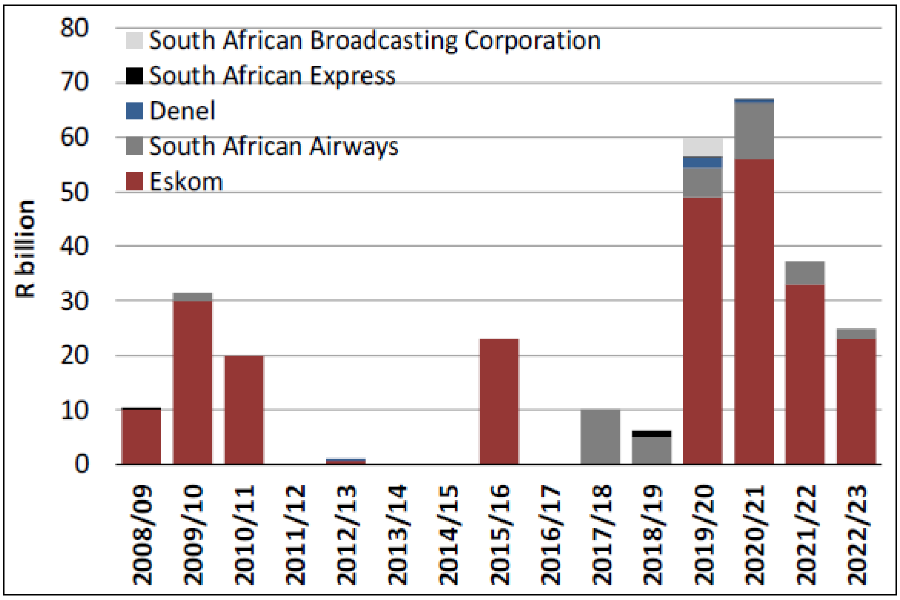
The emphasis on policy certainty, transparency and reducing borrowing costs is also welcome. OUTA notes that debt servicing costs are the fastest growing line item in the budget. It is imperative that South Africa brings its borrowings under control and that when it borrows it does so for the right reasons. Borrowings at a responsible level as a countercyclical measure can bolster an economy, however, the worsening audit outcomes indicate that part of the borrowings are funding worsening corruption.

We agree with Treasury's assessment that to solve the issue of rising debt levels, the issue of weak economic growth needs to be addressed. To do so, it is critical that the Eskom supply constraints are solved, as this is constraining businesses in their operations, preventing some businesses from expanding and influencing multinationals' decisions of whether to locate plants or offices in South Africa. Energy supply is an economic enabler, but when the supply is not consistently available it becomes a barrier. The energy supply constraints are creating foregone opportunities to maintain and create jobs in the private sector.

State-owned entities

State-owned entities (SOEs) are impacting the fiscal framework heavily. A major contributor to the budget deficit is emergency bailouts. The emergency bailouts that SOEs now regrettably need to repay their borrowings are impacting on other areas of spending. The figure below developed by National Treasury shows the financial support provided to SOEs over time.

Figure 1.4 Financial support provided for state-owned companies



- Between 2008/09 and 2019/20, major SOCs received R162bn in financial support
- Over the next three years, projected support amounts to a further R129 billion, mostly for Eskom

Source: National Treasury, 2020 Budget Review presentation

The public service wage bill is being capped and programme spending will be cut by about R100 billion, with R60 billion of these savings going to fund Eskom and SAA bailouts. This is the cost of looting and subsequent collapse of those SOEs. Unjustifiable misspending has become the order of the day in these entities and others. We need clarity on exactly how extra allocations will improve the situation, since repeated bailouts and government guarantees have not yielded tangible results. We welcome the Minister's promise to merge and consolidate SOEs, but we would like details and timelines on this and on the promise of a new law to limit excessive salaries in SOEs.

The victims of the SOE financial collapses are the poor and vulnerable. Human Settlements loses funding. Public transport is cut. Funds for school buildings and health services are diminished. These cuts underline the urgent need to identify and cut the waste, so funds can be directed to education, health and safety in line with the National Development Plan. New proposals to tap into the Government Employees Pension Fund to cut Eskom's debt by more than half would be symptomatic relief that does not address the operational and governance issues causing the financial distress.

In 2019, the Auditor-General announced the worst-ever audit outcomes for SOEs. In the 2018/19 financial year, not one of the 20 SOEs assessed managed to obtain a clean audit. Good examples are the extreme levels of irregular expenditure we see in Transnet and Eskom at the moment. These are capital-intensive entities, and their financial management must comply with relevant legislation before any relief is considered.

SOE	Irregular expenditure incurred in 2018-19
Transnet	R49 922 million
Eskom	R6 618 million
South African Broadcasting Corporation	R351 million
Airports Company of South Africa	R264 million
Denel	R217 million

Source: Auditor General, Consolidated General report 2018-19

It is critical that the crises at SOEs such as Eskom, SAA, Prasa, SABC and Denel are addressed and stricter governance and financial controls maintained, so that they stop placing strain on the fiscus.

If managed properly in alignment with the Public Finance Management Act (PFMA) and other key laws, these entities have the potential to augment revenue rather than draining it at taxpayers' expense.

Contingent liabilities

Contingent liabilities pose serious fiscal risk. In the Budget Review 2020, Treasury outlines that these are expected to increase from R979.9 billion in 2019/20 to R1.16 trillion by 2022/23. Contingent liabilities are obligations of the state that will result in spending only if a specific future event occurs. For example, one type of contingent liability arises out of loan guarantees.

If an SOE fails to repay a loan for which Treasury provided a loan guarantee, then the state must repay the loan. This is what's driving a lot of the emergency bailouts mentioned earlier – maturing loan debt that the SOE in question is not able to repay due to poor financial management, operational incompetence and/or corruption.

Treasury notes in the Budget Review that "the total amount for approved guarantees is expected to decrease by R3.3 billion to R484.4 billion by the end of March 2020, with associated exposure estimated to increase by R17.2 billion to R385.3 billion".

The table below contains the list of guarantees provided to major state-owned entities. The exposure amount means that the SOEs used the guarantees to get loans from lenders.

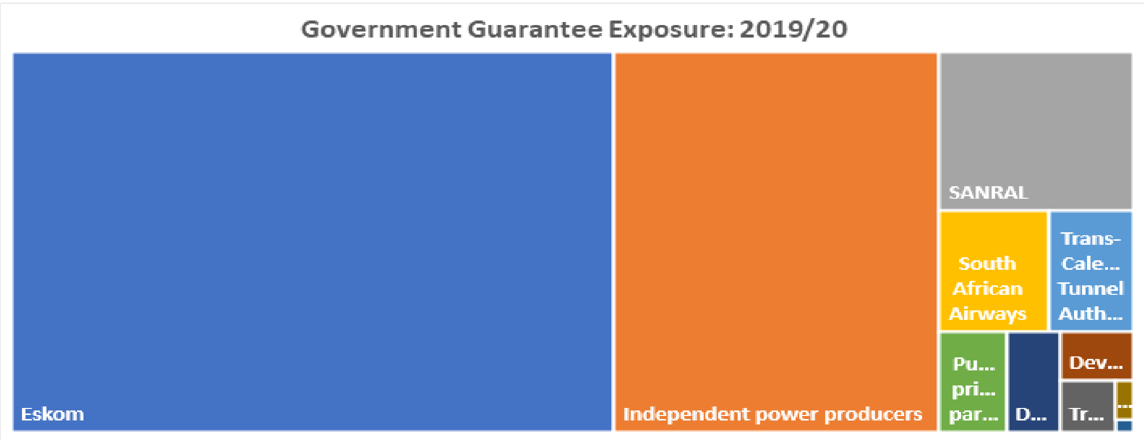
Table 7.9 Government guarantee exposure[1]

R billion	2017/18 Guarantee	2017/18 Exposure[2]	2018/19 Guarantee	2018/19 Exposure[2]	2019/20 Guarantee	2019/20 Exposure[2]
Public institutions	**469.8**	**327.3**	**487.7**	**368.1**	**484.4**	**385.3**
of which:						
Eskom	*350.0*	*250.6*	*350.0*	*285.6*	*350.0*	*297.4*
SANRAL[3]	*38.9*	*30.4*	*38.9*	*39.5*	*37.9*	*39.9*
Trans-Caledon Tunnel Authority	*25.7*	*18.9*	*43.0*	*14.3*	*43.0*	*13.5*
South African Airways	*19.1*	*11.1*	*19.1*	*15.3*	*19.1*	*17.3*
Land and Agricultural Bank of South Africa	*9.6*	*3.8*	*9.6*	*1.0*	*9.6*	*0.9*
Development Bank of Southern Africa	*12.2*	*4.1*	*11.4*	*4.3*	*10.0*	*4.6*
South African Post Office	*4.2*	*0.4*	*2.9*	–	–	–
Transnet	*3.5*	*3.8*	*3.5*	*3.8*	*3.5*	*3.8*
Denel	*2.4*	*2.4*	*3.4*	*3.4*	*6.9*	*6.9*
South African Express	*1.1*	*0.9*	*2.8*	*0.2*	*1.9*	*0.2*
Industrial Development Corporation	*0.4*	*0.1*	*0.5*	*0.1*	*0.5*	*0.1*
South African Reserve Bank	–	–	*0.3*	–	–	–
Independent power producers	**200.2**	**122.2**	**200.2**	**146.9**	**200.2**	**161.4**
Public-private partnerships[4]	**9.6**	**9.6**	**10.5**	**10.5**	**8.7**	**8.7**

1. A full list of guarantees is given in Table 11 of the statistical annexure in the Budget Review

Source: National Treasury, Budget Review 2020

Eskom represents the lion's share of exposure, at 77.2% of guarantees. After Eskom, Independent Power Producers represent the greatest exposure, followed by South African National Roads Agency Ltd (Sanral) and South African Airways (SAA). The tree map below represents this visually:



Source: National Treasury 2020. Budget review. Government guarantee exposure.

OUTA welcomes the commitment in the Budget Review to reduce guarantees. We also welcome Treasury's government-issued guarantee reporting guidelines for national departments and SOEs.

However, several SOEs continue to simply ignore Treasury and the Auditor-General. Parliament should play a more assertive oversight role, requiring report backs on whether SOEs are meeting the conditions attached to loan guarantees. And where they are not, there need to be consequences.

Those who have not resolved serious allegations of corruption and state capture against them, some of whom remain in positions of power, must allow the rule of law to take its course before being allowed to continue making decisions on behalf of the public.

Those who are found guilty must face the harshest consequences possible and be distanced from any governmental activity permanently.

We note with concern that, despite the huge bailouts, the total borrowing requirements for six SOEs (including Eskom) increase in 2020/21 to R88.6 billion, up from last year's estimate for 2020/21 of R82.9 billion. This is reflected in Table 8.3 of Budget Review 2020 and Table 8.2 of Budget Review 2019.

Consolidated expenditure

The 2020 Budget proposes total consolidated spending of R1.95 trillion in 2020/21. Relative to the 2019 Budget, main budget non-interest spending is reduced by R156.1 billion over the medium term. This is largely due to proposed measures, amounting to R160.2 billion, to reduce growth in the public-service wage bill. It is alarming that despite this fiscal measure, government debt continues to increase.

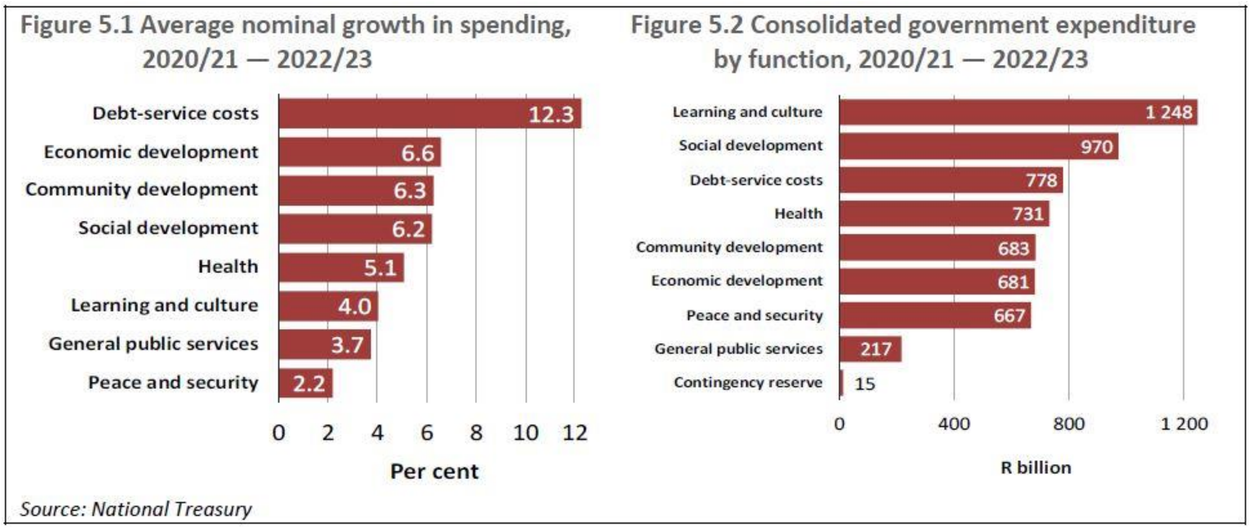
Debt-service costs remain the fastest-growing expenditure item at an annual average rate of 12.3% and will increase to R290.1 billion in 2022/23.

What this means for ordinary South Africans must be articulated in simple language that speaks to basic needs and everyday life. While thousands of public-sector employees face the risk of losing their jobs, or benefits and expected increases, the cost-cutting measures are intended to buffer millions of unemployed and chronically poor South Africans from the impact of normalised financial mismanagement and state capture.

The savings that will be made by capping remuneration of public servants will largely be absorbed by Eskom to keep it afloat. In other words, capping the salaries of government employees is a last resort to pay for Eskom's debt. Besides governmental errors, the failure of countless electricity users to pay for service adds insult to injury. This issue must be addressed.

Municipal finances and governance structures must be dealt with at the same time. The 2020 Budget does not deal with reform in local government finances at length. Yet, those municipalities that perform well financially will soon be allowed to purchase electricity directly from Independent Power Producers, for example. At the same time, the Competition Commission recently released a report on Prasa in which it strongly recommends that the entity's main functions be unbundled, such as managing the Metrorail system.

OUTA hopes to see expenditure plans in the near future that better reflects the fast-changing reality of SOEs and local government in South Africa. A big feature of Eskom's chronic debt is the inability of many municipalities to pay the entity, for example. Restructuring the energy sector should go hand in hand with restructuring local government systems.



In macroeconomic terms, the heart of the problem is shown in the graphic above. Debt servicing costs are increasing rapidly year-on-year, disabling the state from focusing on targeted expenditure on education, health and other essential public service sectors on the ground.

The need to address the crises of poorly managed SOCs is also impacting on targeted expenditure on education, health and other essential public service sectors on the ground. As the Minister of Finance outlined in his speech, the total reduction that is proposed to be achieved by lowering programme baselines and the wage bill by R261 billion will be partially offset by additions and reallocations of R111 billion. More than half of this (R60 billion) is for Eskom and South African Airways.

That SOEs failures are impacting on other areas of spending is evident in the following adjustments over the three-year Medium-Term Expenditure Framework period among the adjustments announced in the budget speech to achieve R261 billion reduction in baseline spending:

- Human settlements: R14.6 billion
- Public transport spending (mainly on allocations to the Passenger Rail Agency of South Africa and the public transport network grant): R13.2 billion
- Education infrastructure allocations: R5.2 billion
- Health: R3.9 billion
- Municipal infrastructure grant: R2.8 billion

In his speech, the Minister of Finance acknowledged that "while some of these savings are good for the fiscus, in many cases we are also making difficult and painful sacrifices. It is therefore important that we direct our constrained resources to areas that have a high social impact and have the largest economic multipliers."

According to the Budget Review 2020: "Reductions in government programmes imply the need to review programmes, possibly resulting in closure or downscaling over the medium term, and to use allocated budgets more efficiently." OUTA strongly agrees with this sentiment and urges Parliament to support the National Treasury in its commitment to optimise state expenditure.

The principle of cutting wasteful subsistence and travel allowances for senior public officials rather than looking to increase revenue by hiking personal and corporate taxes aligns with OUTA's recommendations to the Finance committees delivered in 2018 and 2019.

Public Enterprises

In the Estimates of National Expenditure 2020's introduction, it states that "The NMOG [national macro organisation of government] process strives to improve the clustering of homogeneous or related functions to ensure that functional areas of responsibility are clearly demarcated to avoid ambiguity, or the overlapping or duplication of functions." This effort must be intensified.

In 2018, OUTA presented a budgetary strategy to the Standing and Select Committees on Finance recommending that all government agencies (central, regional and local) that do not confer a direct and immediate benefit on the public at large should be wound up or consolidated. The Department of Public Enterprises' mandate is to fulfil oversight responsibilities at state-owned companies in its portfolio to "ensure that they contribute to the realisation of government's strategic objectives, as articulated in the National Development Plan [NDP], government's 2019-2024 medium-term strategic framework and the reimagined industrial strategy."

The Department has failed to perform its mandate to such an extent that the South African economy faces greater risk than ever before. Several developmental goals described in the NDP have been undermined as a result of politically connected individuals exploiting the extreme centralisation of public shareholding representation of major state-owned companies like Eskom, Transnet, South African Express, SAA and Denel.

For this reason, OUTA recommends that the proposed annual decrease in expenditure in the Department is accompanied by publicly visible and inclusive oversight reforms. While Cabinet has approved baseline reductions mainly from remuneration, we need more than realigned organisational structures to remedy the serious oversight failures that we've seen in the state capture saga.

One legislative mechanism that could achieve this at no cost to the taxpayer is the introduction of the Government Shareholder Management Bill. This Bill has been discussed for nearly a decade, but it has not seen the light of day in the public domain. The Dullah Omar Institute at the University of the Western Cape, for example, is responding to the silence by advocating for an overarching "SOE Act" that would streamline apparent contradictions and ambiguities in the law.

Mineral Resources and Energy

The urgency of the need to ensure a secure electricity supply and financial sustainability in this sector cannot be overstated. Levels of social upheaval and unrest are rising fast while the energy crisis is being politicised. Even though senior politicians finally acknowledge the seriousness of the situation, it must be put on record that this battle has been fought by civil society for more than a decade.

Instead of showing a true and authentic commitment to public concerns, the state ignored calls for increased transparency, sustainability, competitiveness and accountability in the energy sector and rampant state capture was the result. Today, Eskom expects the public to pay for this grave mistake – and it should be known that the public will not do so. There are many alternatives to coal-fired energy for households, businesses and macro industries alike.

In addition to off-grid solutions, the decision taken to finally acquiesce to the call for competition in the monopolistic energy market will probably further decrease demand for Eskom's services.

We strongly recommend here that the restructuring process of Eskom is not purely an Executive prerogative. The fragile industries, households and communities that have suffered the impacts of load shedding and unfair tariff increases must be intimately involved in the decision making.

Reform in this sector is welcome, but it begs the question: why was such reform rejected 10 years ago in Parliament (Independent System and Market Operator Bill)? The purpose then was the same as it is today – to promote efficiencies within the electricity value chain.

This time, OUTA urges the committees to take a stand on this issue in the public interest and prompt fellow Members of this House to do the same despite political differences. Parliament cannot be dominated and controlled by the Executive. This renders it toothless and irrelevant – and effectively contradicts the duty placed on Parliament in Section 42 of the Constitution.

Debt management is the primary question mark in Eskom's impending unbundling. Privatisation or any other controversial form of ownership should be discussed with due consideration of existing debt guaranteed by taxpayers (see above).

The perceived risk to Eskom employees and other workers' (as in the mining industry) livelihoods can be mitigated by innovative human resource development programmes that upskill and transfer people to local government and the renewable energy industry, for example.

In the Estimates of National Expenditure 2020, the explicit priorities of transforming the mining industry for social and environmental sustainability are welcome. However, OUTA was forced to resort to the courts to block the looting of R2 billion purposed for rehabilitation of Gupta family mines. This demonstrates the need to address corrupt state capitalism that is a root cause of environmental degradation and the violation of basic human rights around mines. Generous allocations will not solve such systemic problems.

The former Minister of Mineral Resources under whose tenure organised crime was committed in this sector has not yet accounted for what happened and what role he personally played. OUTA calls for harsh consequence management before Budget adjustments are made.

The ability of municipalities in good financial and ethical standing to procure electricity directly from Independent Power Producers was sought by the City of Cape Town in the Western Cape High Court since 2017. The state cannot expect applause for this long overdue relief.

Load shedding is not only an inconvenience to households around the country, the lack of electricity supply impacts on businesses and constrains their expansion, constraining the country's economy. In August 2019, it was reported that Eskom planned to spend up to R4.32 billion on diesel for gas turbines to keep the electricity supply on until December. And that this was because Eskom could not meet the demand in peak periods.

As members will be aware, peak periods are when everyone wants to use a lot of electricity at the same time. This is usually from 07:00 to 10:00 and 18:00 to 20:00 – the time when households typically want to use hot water and cook. Residential demand is part of what drives peak demand.

OUTA would like to recommend that National Treasury engage with the SARS Commissioner about offering tax breaks where the cost for individuals or businesses of putting a solar water heater on a roof, buy a heat pump and/or a gas stove will be 100% tax deductible if this is done before February 2021. We also recommend that the Department of Energy installs the solar water geysers on which it has incurred R110 million in fruitless and wasteful expenditure for storage costs during 2018/19.

Improving energy efficiency is cheaper than building more supply and much quicker to achieve. This option can reduce the peak load, and alleviate some of the load shedding, which will mean that all households and sectors will benefit.

OUTA notes that the South African Nuclear Energy Corporation (NECSA) is allocated R3 billion over the next three years. And that of this, R2.3 billion is for operational costs and R635 million is decontamination and decommissioning of old nuclear facilities. In October 2019, the NECSA board wrote a letter[1] to Parliament's Energy Oversight Committee. According to EE Publishers, the letter says that "Necsa has been technically bankrupt since about 2016, and has survived using ring-fenced funds, which has cumulatively had an impact on the going concern status on the entity – a challenge which the current board is now faced with". The Auditor-General has also highlighted maladministration and irregular expenditure under the former Necsa board. OUTA recommends that Parliament's Finance Committees follow up with the Standing Committee on Mineral Resources and Energy to ask whether they are satisfied that there is a turnaround strategy in place to remedy the situation that has led to Necsa's strained financial position and that the issues of maladministration and irregular expenditure are being addressed. R3 billion is a lot of money. It cannot be squandered.

We also note that the National Radioactive Waste Disposal Institute will be getting R155 million over the next three years for operationalisation and that it is finalising its application for a radioactive waste disposal licence from the National Nuclear Regulator. OUTA is concerned that the disposal of radioactive waste be handled without incidents. We therefore ask that the Finance Committees request the Energy committee to ensure that there is transparency about how the institute will handle the waste disposal and to ensure that the public is adequately prepared in the event of any radiation hazards in the vicinity of nuclear facilities and disposal sites including Pelindaba, Koeberg and Vaalputs.

Nuclear safety is defined by the International Atomic Energy Agency (IAEA) as "The achievement of proper operating conditions, prevention of accidents or mitigation of accident consequences, resulting in protection of workers, the public and the environment from undue radiation hazards". Proper financial management and good governance are key to ensuring that these funds that are meant to be used to create operating conditions that protect workers, the public and the

[1] https://www.ee.co.za/article/exposed-financial-mismanagement-at-sas-nuclear-energy-corporation.html

environment are not wasted. In many instances, the effects of corruption and state capture have adversely affected citizens. We call on Parliament to exercise its oversight role to ensure transparency of information and to impress upon officials the importance that no nuclear safety incident occurs.

Health

As mentioned in our overview, health services are being diminished due to a need to prioritise the stabilisation of SOEs. In this regard, OUTA notes that the in Estimates of National Expenditure it says that "cabinet-approved budget reductions to lower the national aggregate expenditure ceiling have resulted in decreases to the department's allocation of R1.2 billion in 2020/21, R1.3 billion in 2021/22 and R1.4 billion in 2022/23. These are effected in areas such as conditional grants to provinces, goods and services, transfers to public entities, and compensation of employees. They are not expected to lead to significant disturbances in service delivery as most of the affected areas were identified based on historical financial and non-financial performance, which was lower than anticipated".

We are not convinced that removing R1.2 billion, R1.3 billion and R1.4 billion from the department's allocation won't lead to disturbances. Simultaneously, noting that the money was identified out of areas of non-financial performance, points to issues of capacity to deliver and spend allocated funds within the health system.

It is very concerning that medico-legal claim payments have reached R2 billion and medico-legal contingent liabilities, R99.2 billion. OUTA notes that interventions to address this include piloting a National Health Quality Improvement Plan, the Department of Health has contracted law firms to support claims management, provinces are strengthening medico-legal teams, the State Liability Amendment Bill is before Parliament and the Special Investigating Unit is probing fraud. OUTA welcomes the probing of fraud in this area by the SIU having resulted in several arrests. It is noted that the effect of these interventions on contingent liabilities still needs to be evaluated. It is imperative that the actions outlined are followed through on. And that contingent liabilities arising out of medico-legal claims are brought under control. The practices leading to claims should be analysed and the root causes systematically addressed.

Despite the reductions, average nominal growth in health spending for 2020/21 to 2022/23 is 5.1%. However, this increase must be considered in the context that the demand for health care is increasing and public health facilities are already struggling to meet that demand. Human resources for health (HRH) remains a critical issue. Many clinics and hospitals simply do not have enough health professionals; this under-resourcing of HRH is greatly and adversely affecting working conditions, staff morale and (ultimately) service delivery.

We note that Treasury explains that the overall nominal growth in health spending is "largely driven by an increase in the HIV and AIDS component and the community outreach services component of the HIV, TB, malaria and community outreach grant and allocations towards national health insurance".

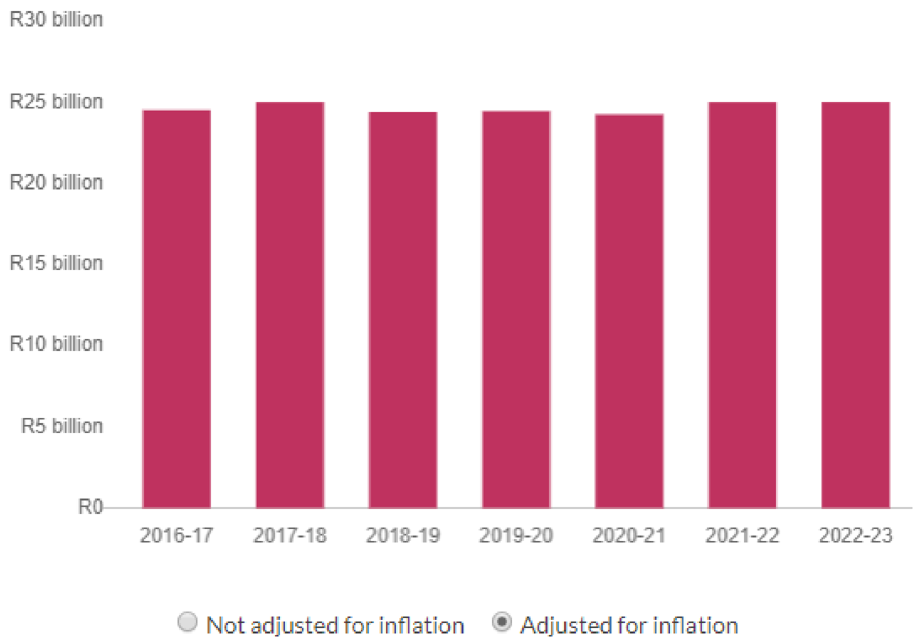
We also note that National Health Insurance (NHI) will need to be implemented more slowly due to what can be afforded. We fully support the principle of Universal Health Coverage, and think that it is important to strengthen the primary healthcare system as proposed. OUTA is, however, concerned about the governance arrangements proposed for the NHI Fund in the National Health Insurance Bill that has been tabled. The governance arrangement for the NHI fund will pool a massive amount of public finances for spending on health. The governance arrangements have to be strengthened to mitigate against corruption or we will not be looking at quality health care for all as the bill envisions, but at the paving of the way to more looting of public resources. OUTA made a written submission on the NHI Bill to the Portfolio Committee on Health (detailing these points and other areas of concern) in November 2019.

It is also a worrying sign that in November 2019, the Health Director-General, Malebona Precious Matsoso, resigned early after over 10 years of service. Her contract would have ended in May 2020. Previously she had given an interview to the media which appeared to indicate that was not consulted sufficiently during the revising of the draft NHI Bill.

Finally, and returning to the critical issue of HRH, implications of the implementation of the NHI should be considered through the eyes of health professionals and their concerns addressed. After all, they know the health care system intimately as they work in it every day.

Basic Education

Cabinet has approved reductions to the education infrastructure grant. These reductions total R1.9 billion over the MTEF period. When adjusted for inflation, the National Department of Education's budget allocation has not grown in real terms between 2019/20 and 2020/21.



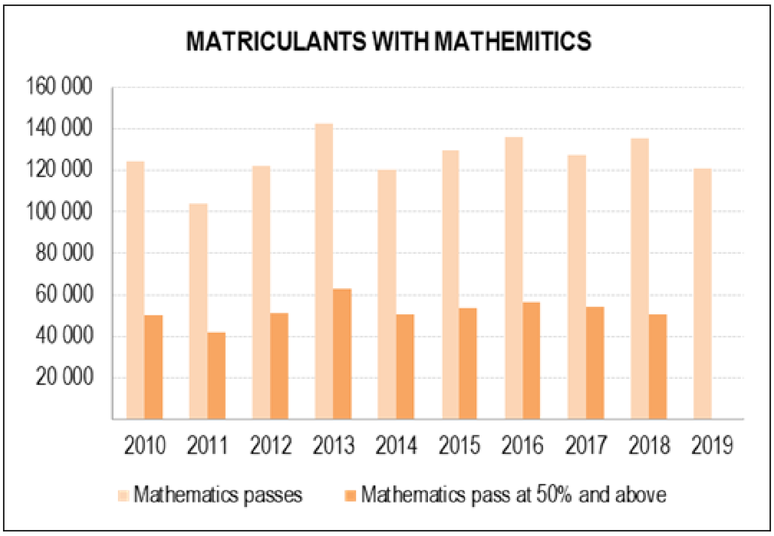
The Rand values in this chart are adjusted for CPI inflation and are the effective value in 2018 Rands. CPI is used as the deflator, with the 2018-19 financial year as the base.

Source: Vulekamali, National Treasury

While the National Treasury is having to make tough choices about spending levels, OUTA is concerned that it may be forgetting that the quality of South Africa's basic education is linked to the country's ability to be globally competitive on an economic level. Learners being educated in structurally unsound schools that have inadequate sanitation facilities and whose numeracy and literacy levels are not adequate must somehow enter the job market in today's global village. The education system is not giving the country's youth the springboard to success that they and South Africa need. Instead of cutting from education, National Treasury should look at the number of public entities that have proliferated and determine how many of these are funded off government department's budgets, have overlapping mandates and are wasting public funds.

Excellence in science, technology, engineering, and mathematics (STEM subjects) is considered important for a country to improve its prospects for economic development, job creation and competitiveness. South Africa's National Development Plan makes this link between the performance of the education system and the country's economic prospects. It acknowledges the need to improve its prowess in the numbers of doctoral graduates emerging from universities, saying that "if South Africa is to be a leading innovator, most of these doctorates should be in science, engineering, technology and mathematics".

It has been 8 years since the release of the NDP, in which National Planning Commissioners included a concern that "the downward trend in the number of learners who pass matric with mathematics must be reversed".



Source: Department of Performance Monitoring and Evaluation, updated for 2018 and 2019

When the Department of Basic Education is battling to ensure improved maths results at a matric level and overall literacy and numeracy levels, how does it plan to teach coding to learners? Too many teachers don't pass the maths exams that they are meant to prepare learners to take. While coding is an important skill for the digital economy, we are concerned that the DBE and Provincial Departments of Education must do a lot more if they are to prepare learners to compete in a globally competitive and increasingly digital world. According to the National Education Infrastructure Management System (NEIMS) Standard Report August 2019, a shocking 80% of South African schools (18 563 of 23 258 schools) do not even have access to the internet for teaching and learning purposes.

Transport

Improving the effectiveness and affordability of urban mobility is extremely important to address the spatial legacy of apartheid town- and regional planning. Major economic hubs and secondary cities must enjoy superior infrastructure without demanding more from users' pockets.

The cost of living is growing faster than household income and therefore the cost of infrastructure spending cannot be squeezed from commuters across the board.

In August 2019, Minister Mbalula met with OUTA, the Automobile Association (AA) and others about concerns and solutions to the e-toll impasse and committed to give feedback. At this meeting we reiterated our position that the e-tolls system has failed to achieve its objective as a road funding mechanism and will be virtually impossible to resurrect. Accordingly, the scheme should be scrapped.

When the South African National Roads Agency Ltd (SANRAL) released its Annual Financial Report for 2019, it was clear that e-tolls are not working with only one in five motorists paying. SANRAL has been able to collect only R4.5 billion to date; well below its R16 billion target.

OUTA's contention remains that it is unfair to triple tax motorists in Gauteng who make daily use of the GFIP, in the form of fuel levies, Personal Income Tax and other taxes which contribute to the finance government transfers to SANRAL, and e-tolls. While a more lasting solution to SANRAL's revenue challenge is being sought, the failed e-tolls scheme should be abolished and the 187km of Gauteng's tolled freeway network should be declared as non-tolled roads.

Transfers to the Passenger Rail Agency of South Africa for the rolling stock fleet renewal programme are expected to increase from R5.8 billion in 2019/20 to R8.3 billion in 2022/23 at an average annual rate of 12.5 per cent "as the agency intensifies its implementation of the modernisation programme".

Total transfers to the agency, mainly for capital expenditure, are set to increase from R16.5 billion in 2019/20 to R21.6 billion in 2022/23 at an average annual rate of 9.4 per cent. In the 2018 Adjustment Appropriations Bill, roughly R5 billion was shifted from Prasa's capital budget to compensate for the failed e-tolls scheme at SANRAL. This ad hoc approach to funding the growing debt incurred by the Gauteng Freeway Improvement Project is not sustainable and shows that alternative funding arrangements are long overdue.

Government plans to "refurbish a targeted 1 314 train coaches; upgrade and improve 150 stations; upgrade signalling infrastructure; improve depots; acquire 166 new train sets; and secure the agency's assets, including all stations". Ongoing investigations in Prasa have yet to be finalised to hold individuals accountable for misspending large allocations for similar purposes to the entity's capital budget over the past decade. How will new allocations be spent differently?

Underspending over past financial years have resulted in a huge cash surplus - which begs the question as to why an expensive law firm doing an internal investigation at Prasa was not paid and walked away without concluding the work. More importantly, it begs the question as to why the Metrorail system is not being improved although countless protests demand a reliable and safe passenger rail service in major cities.

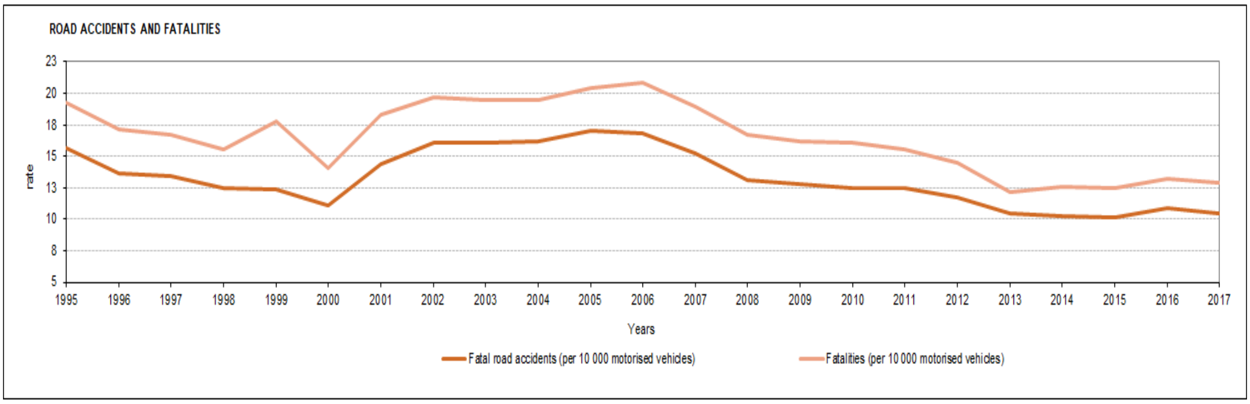
Last week, the Competition Commission recommended that the Metrorail system be unbundled from Prasa, citing "pathetic" management and a need for more integrated operations in metropolitan municipalities. The City of Cape Town has been suggesting precisely this model and, if it were to materialise, Prasa would effectively cease to exist. This would require substantive revision of current intergovernmental fiscal relations.

We urge the committee to watch this sector closely in collaboration with the Standing Committee on Appropriations and the Portfolio Committee on Transport. Advice should be sought on these matters from the Financial and Fiscal Commission.

OUTA looks forward to participating in the Economic Regulation of Transport Bill, the National Road Traffic Amendment Bill and the National Rail Bill in the National Assembly and National Council of Provinces in due course.

OUTA notes that the fuel levy is going up by 25 cents per litre. Of this increase, 16 cents is for the general fuel levy and 9 cents is for the Road Accident Fund levy. It is alarming that the Road Accident Fund's liabilities are expected to increase to R605 billion by 2022/23.

While development indicator data from the Department of Performance Monitoring and Evaluation indicates that the number of road accidents and fatalities are declining, the Road Accident Fund's liabilities are increasing. This defies logic. We urge the Finance Committees to seek clarity about the drivers of the RAF's increasing liabilities.



Source: Development Indicators, Department of Performance Monitoring and Evaluation

OUTA notes the Minister of Finance's speech advanced that one option to manage the growing levels of liability is to introduce compulsory third-party insurance.

Ensuring performance

Budget 2020 emphasises the need to improve economic growth, which in turn will improve government revenues. Budget Review 2020 points out that: "Achieving this requires decisive steps to build confidence, promote investment and employment, reduce anti-competitive practices and eliminate regulatory blockages" (page 11). It also notes that: "The macroeconomic framework needs to be complemented by a range of reforms that are within government's control, many of which do not require significant funding" (page 12).

The Budget Review emphasises the need for numerous specified reforms. The President's State of the Nation Addresses have similarly emphasised these requirements. However, the non-financial performance indicators and targets listed in each department's budget in the Estimates of National Expenditure - referred to as "key indicators linked to strategic and annual performance plans" (ENE page xxxix) - do not reflect this urgency.

The essential changes needed to improve the economy - and service delivery - should be built into the departmental budgets. This also improves transparency.

Some examples:

Vote 3: Cooperative Governance and Traditional Affairs: The indicators do not include any mention of interventions in delinquent municipalities although this is an endemic problem, and do not include any requirement to ensure the implementation of financial intervention plans.

Vote 10: Public Enterprises: This lists only three indicators, on the number of shareholder compacts signed, the number of corporate plans reviewed, and the number of quarterly financial reviews conducted. Considering the enormous importance of the SOEs under this department, and their disastrous need for bailouts, it would be reassuring if there were some more stringent indicators, as merely signing or reviewing plans could mean anything.

Vote 11: Public Service: This is the department which is responsible for negotiating the public service wage bill. This year includes a new indicator - “Development of a unigrade job-grading system as part of managing the public service wage bill” - but this seems hopelessly inadequate in the face of the required R160 billion wage bill cut. Another indicator refers to the “development of a framework on conducting lifestyle audits”, which only gets to pilot projects in 2021/22 and says nothing about the implementation of these audits.

Vote 30: Communications and Digital Technologies: This is the department which has failed to ensure digital migration and transform the digital landscape. It’s indicators require it merely to “approve” three position papers and “sustain” 970 connections to government facilities. No wonder digital migration has been a failure.

Vote 34: Mineral Resources and Energy: This department is essential for reforming the energy sector, for procuring additional emergency power, opening Bid Window 5 for new IPPs and making it possible for municipalities in good financial standing to buy electricity from IPPs. None of this is reflected in the indicators.

The departmental indicators need an urgent overhaul, to hold departments to account for strategic objectives promised in Budget 2020 and the SONA. Many of these indicators do not appear to be properly updated, with previous year’s totals looking more like the previous targets than the actual results. How can spending be targeted and tracked under such circumstances?

Governance

When the Commission of Inquiry into State Capture started in August 2018, National Treasury officials were the first to testify. They testified how deviations from procurement rules have become a norm and how fragmented the legislative system regulating public procurement was. The procurement practices of SOEs also came under the spotlight.

In 2019, the Auditor-General, Kimi Makwetu, sounded the alarm over worsening public finance audit outcomes. He highlighted that there have been deteriorating audit outcomes for municipalities, which have been slow in implementing the AG's recommendations and even actively disregarding them. OUTA is therefore pleased to note the following:

- Enactment of the Public Audit Amendment Bill;
- Call for comment on the Public Procurement Bill;
- Treasury is dealing more decisively with the municipal financial management.

Qualitative governance issues lie at the heart of poor financial management. The roles and responsibilities of executive- and accounting authorities in all organs of state are laid out unambiguously in the Municipal Finance Management and Public Finance Management Acts. The problem is that the provisions of these crucial laws do not determine the conduct of key financial decision makers in government. Often the reason for this is undue political influence. It is worth noting that the Local Government: Municipal Systems Amendment Bill is now being processed by the Portfolio Committee on Cooperative Governance and Traditional Affairs in the National Assembly and we urge the Finance committees here to pay close attention to this development.

During the Inquiry into Corporate Governance at Eskom held by the Portfolio Committee on Public Enterprises in Parliament, now Minister Gordhan explicitly highlighted several instances where individuals transgress the provisions of the PFMA. Why have we not seen any consequences for non-compliance? OUTA calls on this committee to address this systemic problem by any means necessary. The Auditor-General is now empowered to demand remedial action if and when material irregularities are identified in any state entity. This power must be used and supported by all oversight committees in Parliament.

Public participation

In our introduction, we noted that this submission is limited by time constraints which speak to a systemic limitation in the current budget cycle. The limited timeframe within which submissions must be made to the Finance Committees speaks to deeper issues with public participation in the budget process.

The timing for public participation, which occurs after the budget decisions have been announced, also speaks to this. Currently, public participation seems to be little more than a tick box exercise. Recent legislative changes made the time in which civil society needs to turn around submissions even shorter, adding further to the sense of a tick box exercise.

Treasury's responses subsequent to civil society inputs at the public hearings are often generic slides that are most likely prepared in advance and simply reassert Treasury's views without appearing to engage in substantive consideration of the submissions. To some extent this is understandable, as there is even less time for Treasury to read the submissions than there is for civil society to prepare them. And after the budget speech, Treasury officials are no doubt fatigued from working to deadline to deliver the budget on time.

Adding to the difficulty of participating in the budget process is the extent to which it is a challenge to find information about when Parliament's Committees will be having public hearings. Even for civil society organisations who know to look out for these calls for public participation, finding the information online is challenging. In May or June when the actual Budget choices are being made, there is very little scope for public participation. This lack of opportunity for real and transparent public participation opens Treasury and the Minister of Finance to opportunistic lobbying by powerful interest groups.

For this reason, OUTA welcomes the Participatory Mechanisms in Fiscal Policies Pilot Project in principle. While OUTA is disappointed not to have been included in the list of representatives selected to participate in the pilot project, we offer the selected civil society representatives our support and will observe with interest what will emerge from the process. OUTA is also keen to attend workshops in relation to the pilot.

Still, there are issues with the conceptualisation of the process, for example, only extending the invitation to coalitions/groups and not membership-based organisations. The expectation that civil society representatives participate without providing clarity about the level of effort required and without National Treasury covering any costs such as for travel, means that certain groups would have been excluded before even considering putting a representative forward.

The public is largely sidelined from any participation in the budget. Many communities have concerns about the way in which funds allocated are not being spent effectively, however without ways to raise these concerns in a manner that results in them being decisively dealt with, communities are often left extremely frustrated.

OUTA recognises that the accessibility of budget data has improved due to Treasury and civil society's work on the Vulekamali and Municipal Money websites. This makes budget data more transparent which is to be welcomed. Enhancing participatory mechanisms is an important next area of budget reform to address.

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