

2020 Medium Term Budget Policy Statement and Second Adjustments Appropriation Bill: *Budget Cuts; threats to State Capacity*

**Submission to the Standing Committee on
Appropriations: NA and Select Committee on
Appropriations: NCOP**

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PSAM

Public Service
Accountability
Monitor

REALISING THE RIGHT TO SOCIAL ACCOUNTABILITY

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Presentation Outline

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The Public Service Accountability Monitor

- The Public Service Accountability Monitor (PSAM) was established in 1999 and works across six African countries; South Africa, Zimbabwe, Tanzania, Zambia, Malawi and Mozambique. Our aim is to contribute to addressing particular societal problems originating from systemic public resource management (PRM) failures.
- We acknowledge the complexity of societal problems and that they often interrelate and impact upon the realization of human rights. We also acknowledge the importance of broader institutional and systemic reforms.
- The PSAM forms part of the School of Journalism and Media Studies at Rhodes University, Grahamstown, South Africa. PSAM's activities include research, monitoring, advocacy and capacity building. PSAM generates and shares knowledge about social accountability and the monitoring and advocacy tools that can build more open, participatory and accountable government.

Fiscal Governance and Financial Integrity

“Financial integrity requires a whole ecosystem: economic and financial institutions, social norms, and governance arrangements supported by policy makers, public officials, businesses of all sizes, civil society, households and the public at large. All segments of society need to feel invested in equality, fairness and accountability. The issues are systemic, systemic solutions are needed.”

In relation to fiscal governance - we reiterate and support this statement made in a 2020 High-Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda [FACTI report](#).

Introduction

- Challenges associated with COVID-19 have:
 - exacerbated existing public service problems & placed pressure on public financial management (PFM) systems
 - curtailed the abilities of citizens to exert accountability and oversight in many ways
 - exposed previous and ongoing corruption as more questions are being asked as to why health systems and the public service are weak/underprepared for the pandemic.
 - presented opportunities for rampant corruption and the closing of civic space
- Transparency, accountability, and public participation are vital to combat misuse or wastage of limited public funds
- Need to involve those most affected by failures in public resource management
- An opportunity acknowledge the weaknesses in key planning, budgeting, and oversight systems and to utilize open government interventions to address them
- PSAM calls on Committees of Parliament to oblige members of the Executive not only to acknowledge to 'build back better' but to meet this commitment with clear policy and financing

Submission Summary



- Recommendations to the National Assembly's Standing Committee on Appropriations and National Council of Province's Select Committee on Appropriations:
 - influence the systemic deliberations linked to public resource management and public finance in South Africa
 - In relation to budget cuts effected to resource the South African Airways rescue plan: request National Treasury and Cabinet to review – and reverse - these decisions
 - In relation to **strengthening state capacity** to safeguard limited resources against corruptions and misuse: call for the effective resourcing of key public institutions and of **anti-corruption strategies**
 - In relation to the proposals for **Zero-based budgeting**; call for a cautionary approach and efforts to ensure adequately participatory and transparent processes to meet the demands of zero-based budgeting

SAA Rescue Plan Budget Cuts

Finding

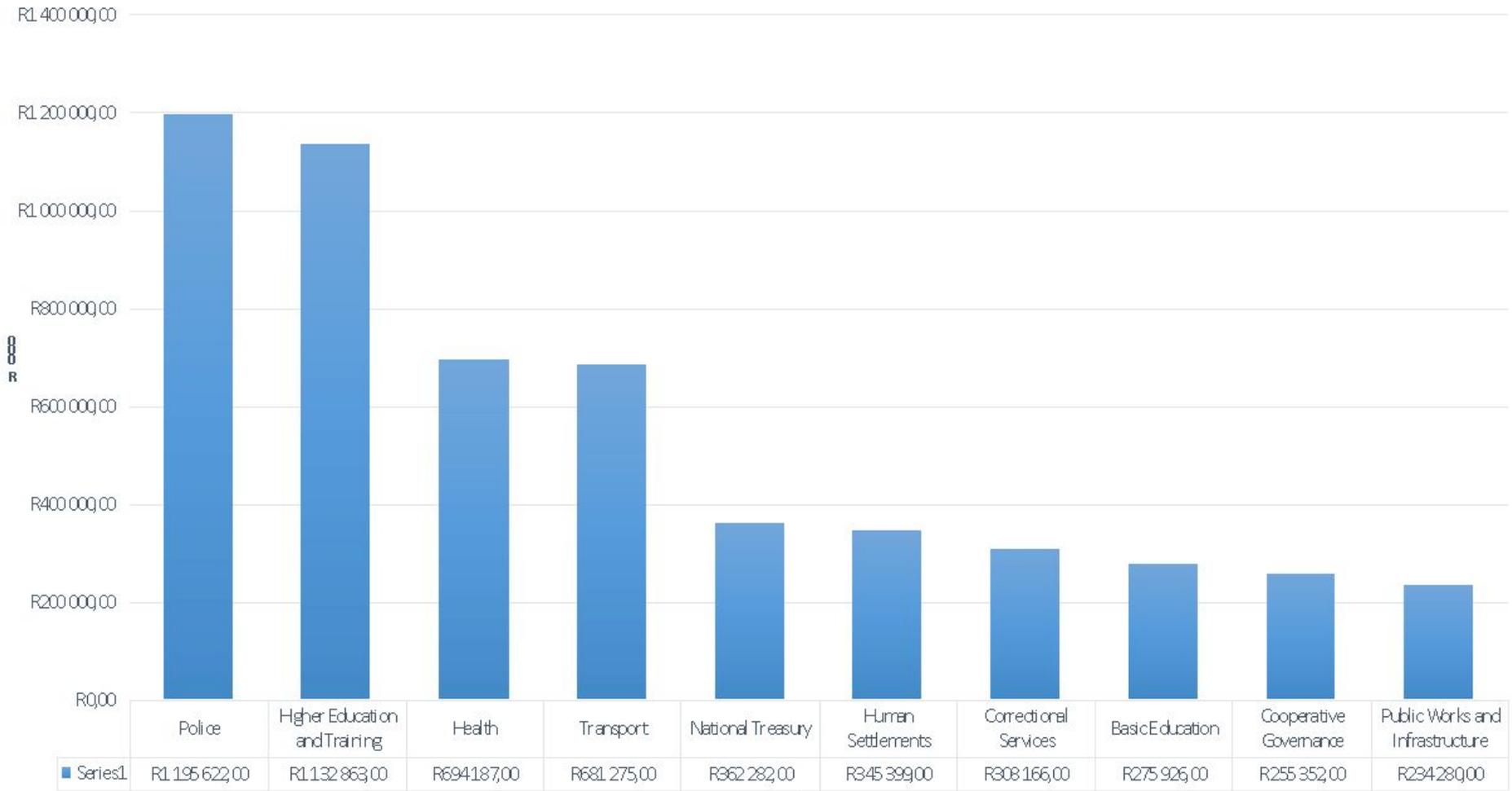
- A total of R10.5 billion will be allocated to SAA to implement its business rescue plan.
- Allocation will be funded primarily through reductions to the baselines of national departments and their public entities, and provincial and local government conditional grants
- Includes reductions to health, human settlements and education budgets by R 694,2 million, R 345,4 million and R 276 million respectively.

Recommendation

- The consequences of poorly run, unaccountable SOEs continues to have dire impact on delivery of services.
- PSAM is alarmed that despite years of evidence as a loss-making enterprise – Cabinet seeks approval for this form of a bailout
- In addition to analysing the very real opportunity costs (impact on the public service) – we call on the Standing and Select Committees of Appropriation, Finance and Public Accounts to compel the National Treasury and Cabinet to interrogate the political and administrative that enable such short-sightedness and proffer tangible solutions.



TEN HIGHEST REDUCTIONS TO VOTES FOR SAA RESCUE PLAN (2020 Adjustments Budget)



Budget Votes

Budget Cuts to SARS and Anti-Corruption Interventions

Finding

- The Adjusted Estimates of National Expenditure indicates a R 238 million decrease in the budget allocation to the South African Revenue Service (SARS)

Recommendation

- Address illicit financial flows by reversing budget cuts to SARS and significantly increasing its resources.
- Allocating sufficient budget to strengthen the country's tax administration is an investment in the long-term financial stability of the country. It is a non-negotiable component of prudent fiscal policy
- The PSAM reiterates recent calls by the Office of the Auditor-General for government departments to *design and implementing controls that prevent fraud, errors and abuse as a means of avoiding dire costs in the long-term.*



Budget Cuts to SARS

2020/21					
Second Adjustments Budget					
Sub programme	Adjustments	Other	Total second	Adjusted	
R thousand	Appropriation	appropriation	adjustments	appropriation	appropriation
South African Revenue Service	10 510 017	–	(238 144)	(238 144)	10 271 873
Total	10 510 017	–	(238 144)	(238 144)	10 271 873
Economic classification					
Transfers and subsidies	10 510 017	–	(238 144)	(238 144)	10 271 873
Departmental agencies and accounts	10 510 017	–	(238 144)	(238 144)	10 271 873
Total	10 510 017	–	(238 144)	(238 144)	10 271 873

Broader Transparency and Openness

- Pandemic obliged provincial departments to channel significant funds towards curbing the impact of the virus
- The historical trends at the provincial levels in particular of slow and/or non-disclosure of key fiscal information
- heightened barriers for monitoring by civic actors and oversight entities
- Provincial departments do not proactively publish key data such as in-year expenditure reports
- Provincial, legislatures and portfolio committees must fulfil their obligations by ensuring that the health officials and/or provincial treasuries remedy these deficiencies in a sustained manner

Broader Transparency and Openness

- Weak public procurement continues to pose a serious threat to public finances at levels of government in South Africa
- We bring to the attention of the Committees The High-Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda (FACTI)
- Key recommendations to in as far as the responsibilities of the National Treasury and other line ministries are concerned:
 - Ensure transparency in public procurement and the availability of open data about procurement plans, tenders, contracts, bidders and their beneficial owners
 - Ensure access to high-quality, standardized information about the *full cycle* of money flows, especially in line with the globally recognized open data standards
 - Incorporate - and use - high-quality open data in order to empower civil society, journalists, academics and businesses to effectively follow the trail of public resources
 - public contracting should be prioritised to support governance reforms and improve anti- corruption mechanisms

Budget Cuts to Statistics South Africa

Finding

- The funding for Statistics South Africa is to be reduced by As with many other departments and entities – the budget allocation for Statistics South Africa was also – by R 45 million in order to fund the SAA business rescue plan. In addition – the entity is set to have its compensation of employees' budget reduced by R 100.4 million. The net reduction tabled in the second adjustments budget is R 120.6 million. The most significant cuts are to be effected under the programme Statistical Operations and Provincial Coordination (R 41.6 million reduced from personnel budget and R 129.5 million in total).

Recommendation

- The collection of regular, credible statistical data is an integral component of building state capacity. A functional statistical agency is core to developing the capacity to deliver well-targeted public services.
- Committees are urged to carefully consider the calls by various role-players to identify alternative non-strategic programmes to effect cuts given high levels of poverty and inequality that such work aims to challenge. The South African Statistics Council, for instance issued a dire warning relating to ongoing cuts:
- *If Stats SA cannot produce accurate official statistics, ratings agencies will punish South Africa, international investors will turn elsewhere, domestic business will lack reliable planning data, and a downward spiral will be inevitable....If Treasury fails immediately to fund Statistics SA adequately, like Humpty-Dumpty, it may not be able to put it together again, and decades of building the institution post-1994 will have been wasted. “*



PROGRAMME	2020/21					
	Appropriation	Adjustments Appropriation	Virements and shifts	Other Adjustments	Total second adjustments appropriation	Adjusted Appropriation
R thousand Administration	675 552	(12 273)	39 063	(2 274)	36 789	700 068
Economic Statistics	282 145	–	(5 064)	(12 149)	(17 213)	264 932
Population and Social Statistics	275 974	(151 808)	3 436	(10 314)	(6 878)	117 288
Methodology and Statistical Infrastructure	161 977	(18 204)	(2 180)	(5 245)	(7 425)	136 348
Statistical Support and Informatics	283 547	(2 000)	41 675	(24 000)	17 675	299 222
Statistical Operations and Provincial Coordination	1 729 529	(15 585)	(73 643)	(55 747)	(129 390)	1 584 554
South African National Statistics System	43 449	(130)	(3 287)	(10 871)	(14 158)	29 161
Total	3 452 173	(200 000)	–	(120 600)	(120 600)	3 131 573

Zero-Based Budgeting

Finding

- Zero-based budgeting will be piloted at the Department of Public Enterprises and National Treasury next year. It will be fully integrated into the budget system by the 2023 Budget

Recommendation

- Zero-based budgeting has been shown to have some advantages and a multitude of potential disadvantages
- National Treasury must outline the efforts to be taken to ensure adequately participatory and transparent processes to meet the demands of zero-based budgeting in addition to identifying the best measures to meet institutional capacity gaps
- Factor in proposed of policy amendments to the Public Service Regulations, the Public Administration Management Act and related regulations
- There is a dire need to entrench effective financial management and eliminate wasteful expenditure particularly in provincial departments and state-owned entities.



Conclusion and Thanks



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