21 May 2021

OUTA comment on Appropriations Bill 2021

Submission by the Oganisation Undoing Tax Abuse to the Select and Standing Committees on Appropriations

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ANALYSIS OF BUDGET 2021

SUBMISSION BY ORGANISATION UNDOING TAX ABUSE (OUTA)

TO THE SELECT AND STANDING COMMITTEES ON APPROPRIATIONS

ON APPROPRIATIONS BILL 2021

Standing and Select Committees on Appropriations

Attention: Mr D Arends and Mr L Nodada

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1. Introduction

The Organisation Undoing Tax Abuse (OUTA) is a proudly South African non-profit civil action organisation, comprised of and supported by people who are passionate about holding government accountable and improving the prosperity of South Africa.

This submission focuses on analysing aspects of the Appropriation Bill of 2021, using examples to illustrate the overall need to improve the effectiveness and efficiency of spending.

When OUTA's supporters look at the taxes that they pay as individuals, they want to know that the contribution that they make is being spent well. But in our interactions with supporters, they tell us they are largely disappointed about how their taxpayer contribution is being spent. The cost of living is increasing. Rates are going up, personal income tax is at a level that is high in comparison to other countries and there are a range of other taxes that make for a heavy burden, but South Africans are not getting that much back in the way of public services. In their daily existence, many South Africans experience disruptions to their livelihoods, load shedding, patchy cell signal, bad quality water for household use, a rising cost of living and mounting personal debt. Consolidated expenditure of R2.020 trillion is proposed for the 2021/22 financial year. While departments often complain about a lack of budget, this is not an insignificant amount of money. Government officials do not seem to recognise the extreme strain and sacrifices that citizens are having to make. This is not a business-as-usual scenario. At OUTA we believe that much more can be achieved with taxpayers' hard earned contributions. The effectiveness and efficiency of public spending must be improved.

2. Recommendations

- Eliminate unnecessary activities.
- Reduce the resources needed to achieve the essential outputs.
- Implement zero-based budgeting as soon as possible, with greater spending transparency to help with this.
- End the endless state-owned enterprise (SOE) bailouts. Ensure that SAA staff receive their full severance packages, and that no further state funds will be used to prop up this airline. Require that the value of every SOE is assessed with a clear plan presented for those to be

closed, sold or amalgamated, within six months. This assessment should include a Special Investigating Unit (SIU) list of those to face prosecution for corruption and maladministration.

- We support efforts to reduce the wage bill, and call for action against public servants implicated in wrongdoing such as fraudulent claiming of grants.
- Cut Cabinet by 20%. Address duplications in “merged” departments, and assess the form and functionality of departments and their agencies.
- End wasteful practices like photographs of political office bearers in all offices.
- Check line items such as office rental: GCIS (Government Communication and Information System) pays more in office rental than the operating budgets of some Eastern Cape hospitals.
- Ensure that the National Anti-Corruption Strategy (now six years in the making) is rolled out, with an emphasis on best practice methodologies to tackle corruption. Increase the budgets of the South African Revenue Service (SARS), the National Prosecuting Authority of South Africa (NPA) and the SIU to pursue the corrupt.
- The financial records of every single constituency office must be made public for the purposes of transparency and accountability.
- The operational management of Parliament should establish a platform for public commitments so that Members of Parliament can be held accountable to their constituencies.
- The Department of Cooperative Governance and Traditional Affairs (CoGTA) has spent R627 billion over the last nine years to improve municipalities but too many are still in a mess: where is the value? The collapse of local government should be regarded as a most serious threat to the future of South Africa, which requires urgent attention.
- Watch over the Covid-19 vaccine rollout, to ensure the funding is available and spent effectively, and that deadlines are met.
- Ensure that performance indicators match the essential outcomes required: for example, assess the indicators of the Department of Communications and Digital Technologies (DCDT).
- Ensure that departments are provided with clear, hard deadlines on key deliverables (such as digital migration).
- Stop the Department of Mineral Resources and Energy (DMRE) from sacrificing service delivery in favour of funding a badly regulated nuclear sector which has conflicting policy.
- Ensure clarity on capital spending in the Department of Water and Sanitation (DWS), and provide greater transparency in tracking the spending and progress of projects.

3. Effective and efficient spending

We have indicated in a previous submission and reiterate that better efficiency can be realised through two approaches: first, the elimination of activities that are unnecessary (better allocative efficiency); and, second, the reduction in the resources needed to achieve essential outputs (better technical or productive efficiency). Priority should be given to achieving improved allocative efficiency, because doing the wrong thing, even if done well, is always inferior to doing the right thing, even if done badly. Results can also be achieved quicker through the elimination of entire activities than they can through efficiency improvement initiatives that are often time consuming and slow exercises.

Improving allocative efficiency requires the political will to reprioritise policy objectives and to admit where particular programmes and ways of doing things are redundant or inadequate.

4. Zero-based budgeting

OUTA supports the zero-based budgeting approach as an important reform to improve allocative efficiency of public spending. This requires greater transparency in budgeting, with a more in-depth breakdown of spending to clarify where the money is going, and stronger links to outcome indicators to assess efficiency and effectiveness. While not a silver-bullet solution, we are of the view that implemented in an evidence-based manner, zero-based budgeting can help to identify and protect spending priorities. We would like to see zero-based budgeting (ZBB) implemented at all spheres of government, including local government.

OUTA conducted a qualitative study in South African metros, district municipalities and, with a recognised professional body (the Charted Institute of Government Financial Audit and Risk Officer), explored the practicalities of implementing ZBB at municipal level. The purpose of the research was to identify the key constraints faced by municipalities during and after the budgeting process; to explore the existing processes, practical and contextual realities that need to be considered when executing ZBB at municipal level, and identity the risks and risk mitigating factors that should be considered when rolling out ZBB.

OUTA's research findings indicate that in order for ZBB to be executed effectively, municipalities require professional, ethical leadership and skilled experts/personnel to be deployed in critical management positions in local government.

The lack of capacity, and probably a lack of willingness, within existing human resource structures are failing municipalities, especially in relation to public finance management. Furthermore, ZBB needs to be harmonized with the existing municipal policies such as the wage agreement, Service Delivery and Budget Implementation Plan (SDBIP), procurement plan, contract management and performance appraisals. Municipalities need to improve intergovernmental coordination as prioritized projects should align with the vision and objectives of the national framework toward public services and strengthen training and technical skills of personnel to produce credible ZBB.

Planning, prioritising, and engaging effectively with the community is an essential element of ensuring ZBB is adopted effectively at municipal level. The success of ZBB depends on having detailed insight into the operational drivers of costs, such as activity volumes, productivity ratios, and input costs of the municipality, in order to achieve better alignment of expenditure with income and enable municipalities to swiftly rank their decisions. Evidence suggests that ZBB can be time consuming and ranking of service decisions can be daunting and complex, especially for incapacitated personnel, particularly if there is no real time data on service delivery that can be used to inform the budget.

ZBB requires specialised training or personnel to accomplish and requires more resources in general. It requires well capacitated staff and consistent training for public officials, councillors/Mayors and the public. Mandatory training of personnel, politicians and stakeholders is required for the community members to understand the prioritised programmes and the rollout for ZBB. Sufficient training should be provided to politicians, stakeholders and community members. The South African Local Government Association (SALGA) could be a reliable structure and means to ensure the politicians and the public are sufficiently trained on ZBB.

OUTA investigated the type of technical assistance required by the municipality to effectively implement ZBB. The findings suggested that government should strengthen intergovernmental coordination to ensure local public services are aligned with the national strategy of providing public services. The stronger the alignment of the goals and objectives between national and local government, and the greater the harmonisation in delivering public services in particular, the higher the chances of the ZBB budgeting approach being more effective. This includes financial support, project alignment and coherence with the structures of government.

Municipal unfunded mandates need to be dealt with especially for informal settlements, libraries, and museums.

The National Treasury and COGTA should conduct a proper feasibility study in terms of the ZBB process before regulating that it should be applied in all spheres of government.

The National Treasury and COGTA should establish a regulatory framework that will regulate ZBB and ensure it is uniformed across all municipalities to yield the same results. The standardization of ZBB requires consistent cost clarification, clear definition, and standardised reports. Proper policies and procedures to deal with all practicalities in the municipal space are needed. A practice guideline should be developed.

An appropriate change management process will be required to implement ZBB at the municipal level.

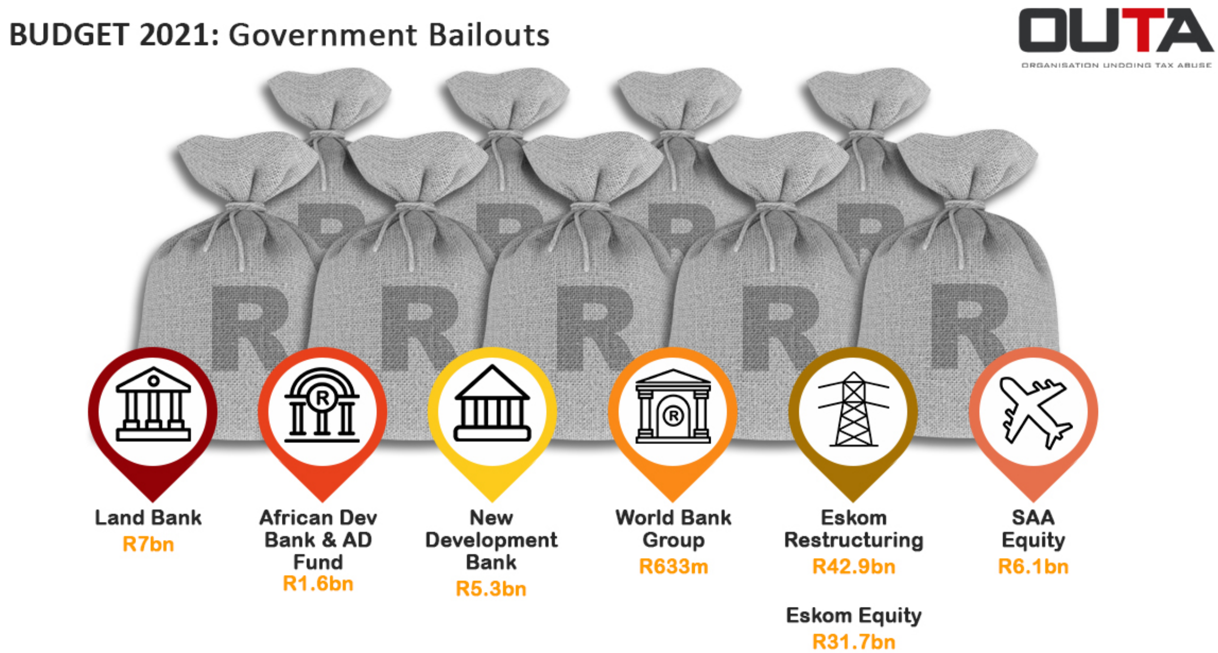
5. SOE bailouts

- Political decision-making processes lead to bail outs being agreed to very late in the budgeting process, which is having an impact on social spending.

We are concerned that Treasury is having to respond to the pressures of large spending requirements, such as the SOE bailouts that repeatedly emanate from political decision-making processes, very late in the budget cycle.

The approach of repeatedly making across-the-board cuts, particularly to fund SOE bailouts, is causing considerable harm. Cost-reduction strategies need to preserve social spending to support the most vulnerable and to protect the realisation of human rights.

Bailouts over the MTEF (Medium Term Expenditure Framework) are enormous. We include listings of “Purchase of equity” and “Recapitalisation” and “Restructuring” (for Eskom) in these and they amount to R95 billion over the MTEF. See the graphic below for such spending in the MTEF.

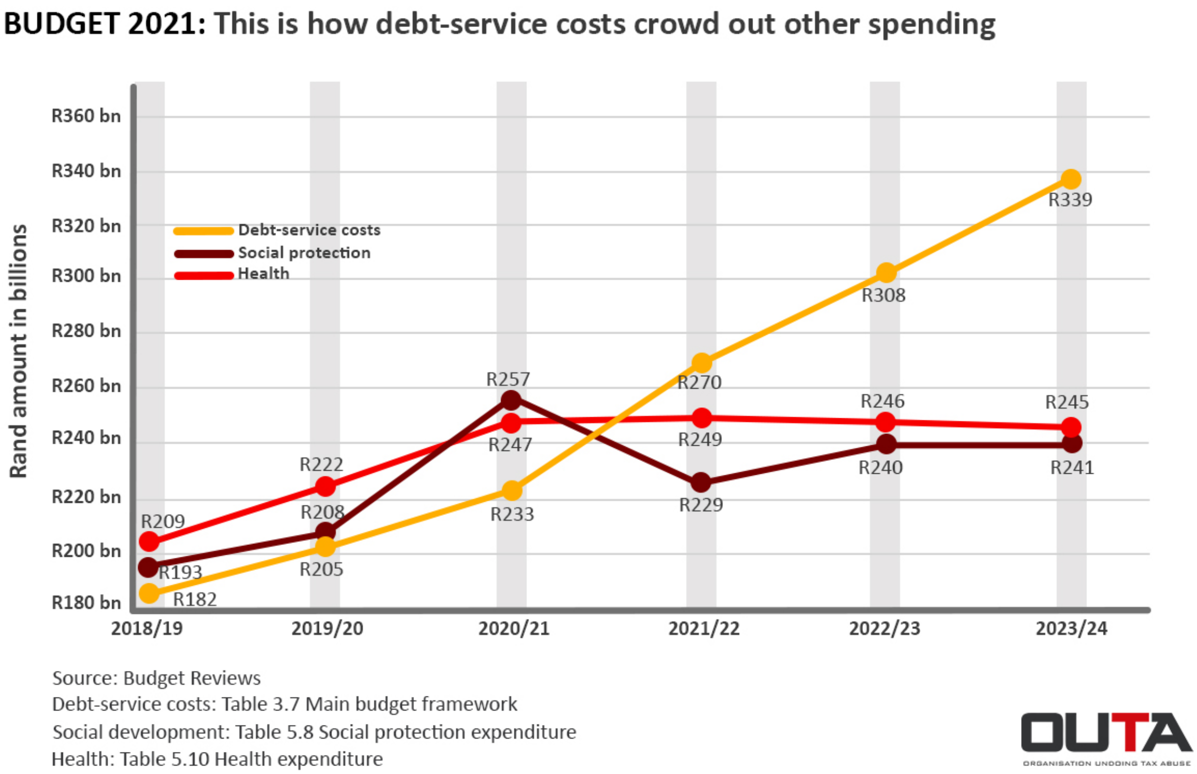


Refer to Annexure 1 for an indication of how these bailout figures were determined.

6. Social spending

- OUTA is concerned that the cost of increased debt is having a “crowding out” effect on social spending.

Debt-service costs are crowding out spending on essentials such as social protection and health. See graphic below. The bailouts for SOEs are a significant contributor to the debt.



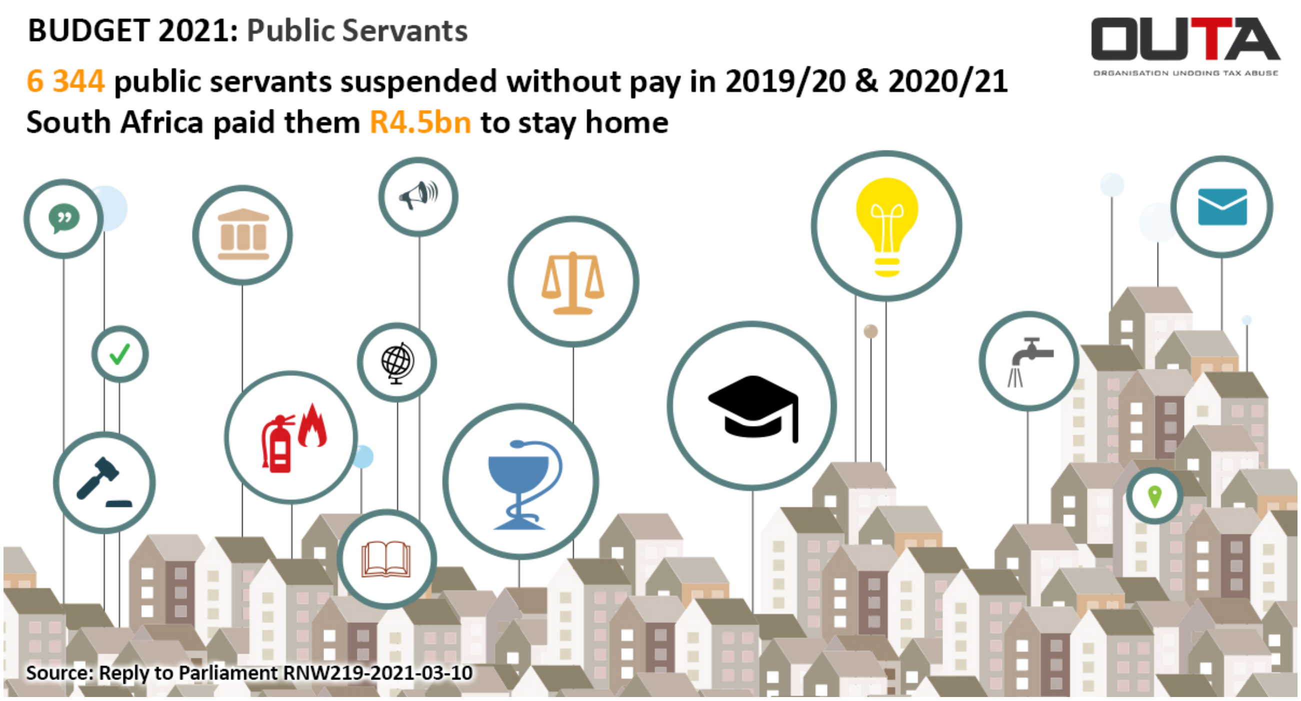
7. The wage bill

- We support the Treasury’s efforts to reduce the wage bill.
- We support efforts to professionalise the public service and improve delivery.
- We urge taking action against wrongdoers.

By government's own admission, labour productivity in government is low compared to the private sector and despite the decline in private sector wage growth, government employees’ salaries have grown by about 40% in real terms over the past 12 years, without equivalent increases in productivity. Growth in the wage bill has started crowding out spending on capital projects for future growth and items that are critical for service delivery. When the amount of current investment crowded out is extensive, future generations will inherit an economy with a smaller productive capacity and lower standard of living.

OUTA welcomes the development of the National Implementation Framework on the Professionalisation of the Public Service as a move towards improving the productivity and quality of the public service.

We call for dubious appointments that aided state capture to be investigated and remedied.
We urge that action should be taken against the blatantly corrupt public servants, such as those caught doing business with the state, and against the 36 972 public service employees who fraudulently applied for the Social Relief of Distress grant for Covid-19 relief[1]. We also call for resolution to the disciplinary actions taken against the 6 344 public servants who are suspended without pay. See graphic below.



[1] Reply RNW696 of March 2021 to Parliament by Minister of Social Development, available here: https://www.da.org.za/2021/03/39-672-public-service-employees-apply-for-the-r350-social-relief-of-distress-grant

8. Improving efficiency across departments

- Cut the bloated Cabinet by approximately 20%.
- Address the duplications in “merged” departments.
- Address the form and functionality of departments and agencies.
- Close unnecessary foreign missions.
- Our Cabinet is bloated and should be cut by approximately 20%.

The 2019 restructuring of ministries and departments[2] appears to have been in name only, as they continue to have separate programmes and their operations have not been streamlined. While we understand that this is to an extent because of legacy audit problems and how the programme structure of budget votes is configured, it needs to be addressed.

There are several government departments that may be more suitable as agencies rather than fully fledged departments. Departments such as Department of Public Service and Administration (DPSA) and Department of Public Works and Infrastructure (DPWI) should be agencies of the state instead of government departments. There is no need for a full government department with a deputy minister, director-general, and deputy director-general for public administration, for instance.

We would also like to see the spending habits of South Africa’s foreign missions put under a microscope. We are concerned that all too often persons who have disgraced themselves are rewarded with diplomatic posts and that the salaries for these posts are higher than those of many respected international non-governmental organisations (INGOs) pay. It is important to ask if the number of countries in which South Africa has foreign missions is justified. We have taken note of recent developments where a decision has been made to close foreign mission offices in countries where there are multiple offices. We believe that this decision is justified in the current context.

[2] News24, 14 June 2019. “Here are the 10 departments Ramaphosa has merged.” Available online here: https://www.news24.com/news24/SouthAfrica/News/here-are-the-10-departments-ramaphosa-has-merged-20190614

9. Watch the line items

- Address seemingly small but wasteful practices.
- Examine what departments are paying in office rental.

We have previously called for the practice of putting up photos of political office bearers in every government office to be reviewed. Each time there is a change in cabinet, more photos are printed again. Instead, the coat of arms can be displayed. We repeat our call, as while it may seem like a small matter, when citizens are facing intense hardship, making cost savings on non-essential practices is important as a matter of principle.

We urge that line items such as office rental be checked. GCIS, for example, spends an extraordinary amount on office accommodation, particularly in relation to the number of employees. In 2021/22, this is R63.7m for just 265 employees, the equivalent of R240 377 per employee for the year. How is this justified? Who is benefiting? (See the graphic below.) This spending is particularly unsavoury when compared with the Eastern Cape's allocations for hospitals: 43 of the province's 91 state hospitals each get less than that to run an entire hospital[3], in a province notorious for the collapse of its health system.

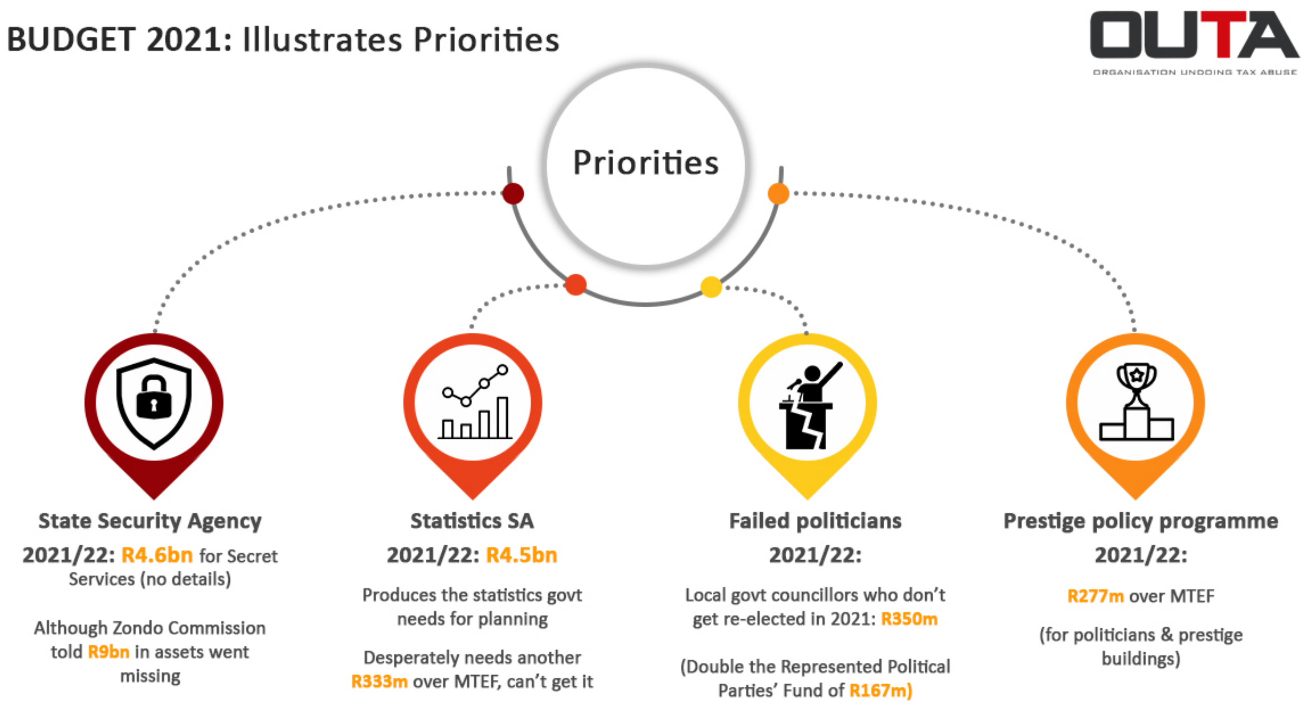
[3] Hospital allocations in Eastern Cape Provincial Gazette 4522 of 15 March 2021

10. What are the priorities?

Some of the priorities reflected in the Estimates of National Expenditure (ENE) and Appropriations Bill are inexplicable.

For example, the State Security Agency (SSA) continues to benefit from a secret budget of billions, with little accounting for this, and significant and worrying questions raised about this agency's honesty and relevance in the Zondo Commission of Inquiry (officially known as the Judicial Commission of Inquiry into Allegations of State Capture).

How is it justifiable to refuse Statistics SA the extra funds it desperately needs to provide statistics essential for government planning, but allow the SSA to simply continue unquestioned?

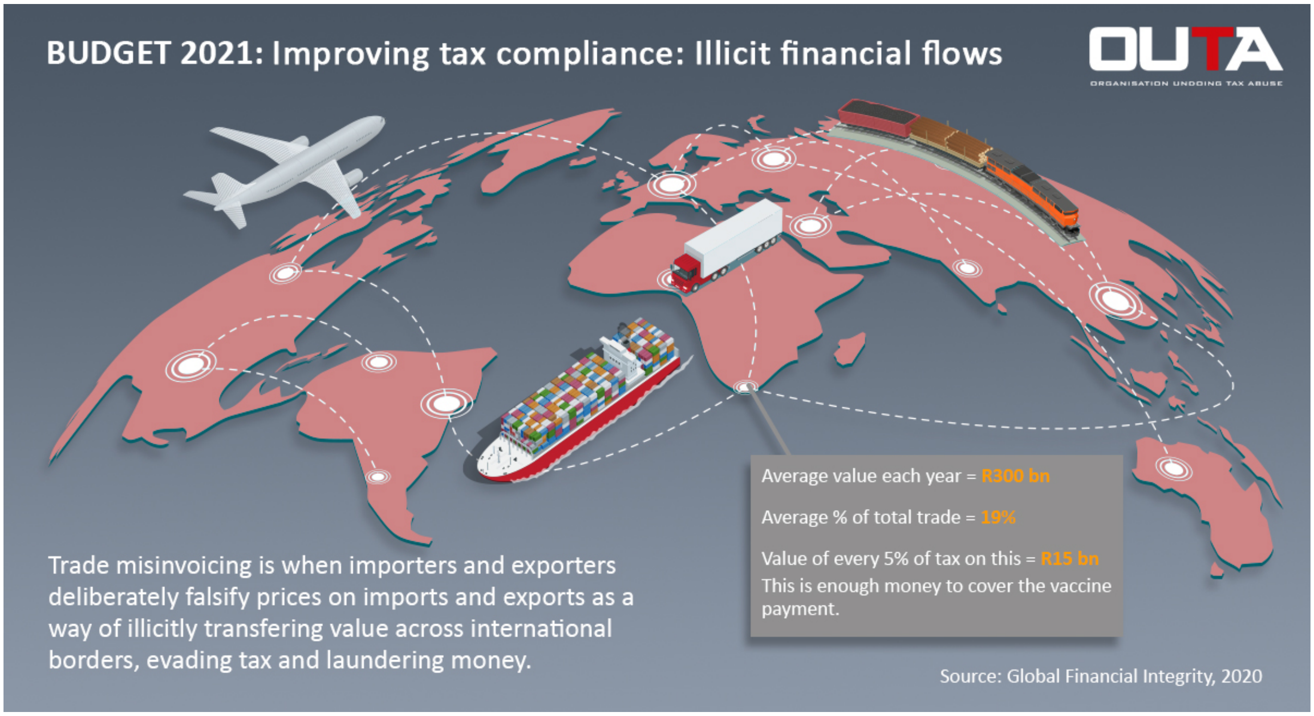


11. Opposing corruption

The justice sector needs strengthening. We would like to see significant increases to budgets for the NPA, SIU and SARS, linked to increased efforts towards the identification and prosecution of big-ticket tax evaders and the seizure of illicit gains looted from the state.

It has been estimated that illicit financial flows may be as much as R300 billion a year. This is worth pursuing. Please see graphic below.

We would also like to see the finalisation and implementation of the National Anti-Corruption Strategy; it is important that this is implemented successfully and is not just another plan.



12. Vote 2: Parliament

The Vote's purpose, in line with Parliament's mandate, is to enable the institution to represent the people, ensure good governance by the people under the Constitution, and represent the interest of the provinces in the national sphere of government. Measuring the spending outcomes of this programme is not possible. It only has two performance indicators, one which met target and one that did not meet target, resulting in an overall programme performance.

According to Parliament's 2020/21 Fourth Quarter Performance Report, Associated Services enjoys the second largest portion of Parliament's budget.

Financial Performance: Appropriation Statement byProgramme

	January – March 2021				Annual			
Main Division	**Budget R'000**	**Actuals R'000**	**Variance R'000**	**%**	**Annual Budget R'000**	**Actuals R'000**	**Variance R'000**	**%**
Strategic Leadership and Governance	40,880	23,742	17,138	42	109,582	92,444	17,138	16
Administration	73,737	31,082	42,655	58	174,636	131,981	42,655	24
Core Business	251,704	131,998	119,706	48	671,506	551,800	119,706	18
Support Services	168,846	100,228	68,618	41	457,744	389,126	68,618	15
Associated Services	216,913	169,739	47,174	22	700,302	653,128	47,174	7
Sub-Total	**752,080**	**456,789**	**295,291**	**39**	**2,113,770**	**1,818,479**	**295,291**	**14**
Direct Charges	112,422	121,735	(9,313)	(8)	476,474	485,787	(9,313)	(2)
TOTALS	**864,502**	**578,524**	**285,978**	**33**	**2,590,244**	**2,304,266**	**285,978**	**11**

8

The stated purpose of this programme is to provide travel, communication, and other facilities for Members of Parliament to fulfil their duties as elected public representatives. It also provides financial support to political parties represented in Parliament, their leaders and constituency offices. A report was issued by the Joint Committee on the Financial Management of Parliament, stipulating that many constituency offices funded by the public and for the public are dysfunctional.

Budget (Vote 2) reflects the choices that government must make and is the tool it uses to achieve its economic and development goals. The constituency office system serves as a direct link between elected officials and the public and should effectively function as a key organ of "an activist Parliament" for citizens to scrutinise public resource management. Therefore, we recommend the financial records of every single constituency office must be made public for the purposes of transparency and accountability. The translation of issues on the ground into Committee agendas is not clear. This needs to be clarified and coupled with spending priorities.

The problem is that Parliament is still battling to develop performance indicators linked to work performed in constituencies and recommendations are ultimately deferred from Home to Houses of Parliament. Civil society, business, and labour need to be taken into government's confidence. Participation mechanisms need to be enhanced to improve how the country's overall governance is being handled and whether the strategic outcome-oriented goals of Parliament are being met.

OUTA recommends that the Oversight and Accountability Model and the Public Participation Model are re-tabled for inclusive scrutiny. This will create a real forum for constructive, apolitical debates on the operational model of Parliament and its strategic objectives, and how these justify proposed expenditure year-on-year. It will also create an opportunity for experts and citizens to invest their experience and knowledge into the self-reorganisation of Parliamentary committees.

The operational management of Parliament should establish a platform for public commitments so that Members of Parliament can be held accountable to their constituencies. In addition, the financial records of every single constituency office must be made public for the purposes of transparency and accountability. This can be done in cooperation with the resources and capacity of organised civil society, academia and socially responsible businesses.

13. Vote 3: Cooperative Governance

The Auditor General report on the financial health of all 257 of the country's municipalities indicated that only 8% of municipalities received clean audits for the 2018/19 financial year, despite R1.26 billion being spent on financial reporting consultants. Furthermore, 80% of municipal debt is not being collected. The insolvent state that municipalities are in is a result of poor cash flow management and an increase in outstanding debtors and creditors, exacerbated by corruption, fraud, poor management of resources, nepotism, incompetency and general negligence of the basic principles of management and leadership.

Hundreds of billions of rand are spent through the Department of Cooperative Governance (DCoG) but there seems little improvement in local government. Is this spending justifiable? How is it assessed? See graphic below.

Solid financial management and good governance guarantee a municipality's financial viability. Financial viability is measured in terms of a municipality's capacity to meet its financial obligations in a sustainable manner. The area of concern that is related to financial mismanagement is the consistency of municipal non-compliance with the supply chain management regulations. The increase of maladministration and irregular spending is an indication that there is a need to enforce measures to ensure municipalities comply with the supply chain management regulations.

OUTA suggests that consequence measures should be enforced against those suspected of maladministration and irregular spending. Procurement is a particular area of concern. Consequence measures should be enforced against the municipal officials as well as the service providers who do not fulfil their contracts.

OUTA suggests that CoGTA and the National Treasury cap the cost of services or provide a threshold as to how much municipalities should pay for procuring goods such as PPE, stationary, repairs and maintenance to address the problem of hugely inflated contracts. This should be regulated and uniform across all municipalities.

The failure to manage municipal services and debt contribute to the cost of increasingly unaffordable services. For example, *Business Insider* reported in 2020 that the electricity prices are up 177% over the past 10 years[4], yet municipal debt collection and control have decreased significantly over the past decade, resulting in increased impairments in local government.

OUTA is concerned that despite the municipal financial distress caused by the Covid-19 outbreak, municipal personnel received a 4% salary increase. OUTA suggests that remunerations, salary increases, and bonuses should be based on performance of the municipality.

14. Vote 18: Health

The ENE shows that the Health budget includes R6.450bn over the MTEF for the Covid-19 vaccination programme, including R4.350 billion for 2021/22. However, the Appropriation Bill doesn't clearly show this appropriation. We call for greater clarity in this spending, and monitoring of the vaccine rollout to ensure its success.
Overall, this vote loses funding, which is problematic as the health sector is not yet strong enough.

15. Vote 40: Transport

OUTA is particularly interested in this vote. In the Revised Fiscal Framework and Estimates of National Expenditure, we raised the following issue with the Standing and Select Committees on Finance: the increase of the fuel levy to fund the Road Accident Fund (RAF) requires qualification on the expenditure side. This entity is falling into a debt spiral, with legal professionals benefiting financially while many road accident victims are left in the lurch because of RAF's deteriorating financial position.

We pointed out that a portion of the fuel levy is specifically ring-fenced for the RAF, a virtually bankrupt entity with no clear plan for financial sustainability since the Road Accident Benefit

[4] Business Insider, 19 October 2020. "Electricity is now 177% more expensive than 10 years ago – but water is up far more than that." https://www.businessinsider.co.za/water-prices-have-increased-massively-in-south-africa-over-the-last-decade-the-reserve-bank-says-2020-10

Scheme Bill was abandoned. This begs the question as to why certain portions of the fuel levy cannot be ring-fenced for major road infrastructure projects such as the Gauteng Freeway Improvement Project, which has now accrued enormous debt due to non-payment of e-tolls.

The continued public dissatisfaction with additional charges on road users and vehicle owners reflects the distrust in government to provide value for this money. SANRAL is set to receive R7.2 billion for its operations alone. OUTA questions such generous allocations whilst the contractual terms of public-private partnerships between SANRAL and its tolling concessionaire partners in the private sector are kept secret and thus free from public oversight and accountability. We recommend that this issue be raised by the committee in collaboration with the Portfolio Committee on Transport.

The allocation of R11.9 billion to the Provincial Road Infrastructure Grant appears necessary given the poor condition of many roads, especially in the more rural provinces. But, where is the accountability for how this money is spent? Researchers are arguing that the annual increase to this appropriation does not correlate with the real increase in provincial and municipal spending on road infrastructure, suggesting that the money is being shifted to other expenditure items such as remuneration (virements). In collaboration with the Portfolio Committee on CoGTA, this allocation should be interrogated more intensively.

The rail sector is a good example of where money appears to be spent with no tangible benefit for passengers and users of the freight rail industry. The financial positions of Transnet and the PRASA (Passenger Rail Agency of South Africa) have deteriorated significantly due to a combination of poor management and maladministration over the past decade. R4.78 billion is allocated to Metrorail operations alone, but many routes are no longer operational and those that do operate are generally dysfunctional. The appropriation of R4.8 billion to the rolling stock renewal programme is much needed, as is the R1.3 billion going to refurbishment of Metrorail coaches.

However, these programmes have been well funded over time with little to no visible improvement of the rolling stock performance and the condition of Metrorail coaches. The effect of this is increased use of road transport infrastructure, causing congestion in metros and further lack of use of the rail infrastructure. The ultimate impact appears to be a permanent reliance of PRASA and Transnet on appropriations from the fiscus, rather than any approach toward financial self-sustainability (at least insofar as operations are concerned).

OUTA is eager to see the expedited implementation of the Economic Regulation of Transport Bill, but we emphasise the issue of transparency in public-private partnerships and the financial reporting of private companies that do business with the state. Further, we have concerns that this entity is not geared to look at and scrutinise road taxation. For example, the rates of tolling gantries operated by private concessionaires in Kwazulu-Natal, Mpumalanga, Gauteng, and Limpopo

16. Vote 30: Communications and Digital Technologies

- This department's key performance indicators are meaningless.
- Departments and their entities should be fit for purpose.
- The state's IT performance needs considerable improvement.

The Department of Communications and Digital Technologies is responsible for the implementation of crucial communication policies, which are years behind schedule. This is a significant failure, which raises questions about the value of the spending in this department. The department's key performance indicators do not talk to the results that the public wants to see. See graphic below.

It is important to note that the world's communications paradigm has seen a dramatic change over the past couple of years, yet South Africa is failing to keep up with the growing changes and is falling behind in the ICT space. The way that this department is arranged, and works should be assessed to determine whether it or its entities are wasting financial resources that could be used more tactically to position the country better.

At the current juncture it seems that a lot of financial resources are being allocated to this department but that the department and its entities are not performing as they should. An example of an entity that is not performing in terms of its mandate and is costing the country enormously is The Universal Services and Access Agency of South Africa (USASSA).

In terms of Vote 30 of the Estimates of National Expenditure 2021, the following refers:

i. Table 30.3. – Vote transfers and subsidies trends and estimates, reflect an adjusted appropriation for 2020/2021 of R500 421 000.00 in lieu of Universal Service and Access fund – broadcasting digital migration, whereas the medium-term expenditure estimate for 2021/22 reflects R1 073 366 000.00. The allocated budget is significant, and the digital migration ten years overdue;

ii. Table 30.3 – Distribution cost of R95 million has been allocated for SAPO pertaining to broadcasting digital migration roll-out. Currently SAPO is charging more than R72 million annually to house Set Top Boxes that should have been distributed to qualifying households by now. OUTA raised legitimate concerns on whether all the Set Top Boxes, which have already been expensed, can be accounted for and whether these Set Top Boxes are not obsolete;

iii. Table 30.3 – Sentech's allocated medium term expenditure estimate reflects R100 million for 2021/22, which is less than half of the last three-year actual average expenditure for dual illumination. Analogue Switch Off should have been completed by now, which would have substantially reduced the cost for dual illumination;

iv. Table 30.14 – ICT Infrastructure development and support expenditure trends and estimates by sub programme and economic classification, reflects a medium-term expenditure estimate of R1, 269 billion for Broadcasting Digital Migration, which is in excess of R400 million more than the adjusted appropriation for 2020/2021, and still not completed;

v. Table 30.14 – R1, 073 billion reflects as the medium-term expenditure estimate for 2021/22, compared to R500 million adjusted appropriation for 2020/21, in terms of USAF for Broadcasting digital migration;

vi. Table 30.33 – Sentech performance indicators by programme reflect no historical data. The reason being that USAASA has mandated Sentech to roll out the Broadcasting Digital Migration Process, which raises the question on whether the decision was taken due to non-performance by USAASA.

USAASA has incurred major expenditure to date on the Broadcasting Digital Migration (BDM) program, Set Top Box manufacturing and roll out (or lack thereof). Additional and unwanted expenditure is still being incurred on expense items like storage, logistics and legal costs. Further wasteful and fruitless expenditure is also being spent on dual illumination costs, as a result of South Africa still not being fully digital.

We would like to see the state considerably improving its use of information technology and how it manages its IT spend. Automation of excessively manual tasks can vastly improve productive efficiency. Important case studies of how IT reforms can improve services or hamper them are the experiences at SARS and the Department of Home Affairs. When IT systems work well and are integrated effectively, it frees officials up to do the work that requires human expertise. Employee morale also improves because staff are supported by good systems.

At the same time, failing to modernise and keep pace with the changing ICT paradigm can be disastrous. It is common cause that the State Information Technology Agency (SITA) was subjected to state capture, although the full extent of this is undoubtedly yet to emerge in the public domain. OUTA is dubious about SITA's performance and want to see SITA improving its performance considerably or be closed down.

17. Vote 34: Mineral Resources and Energy

This vote illustrates the conflict between government policy and budget. This is particularly the case regarding nuclear energy new build.

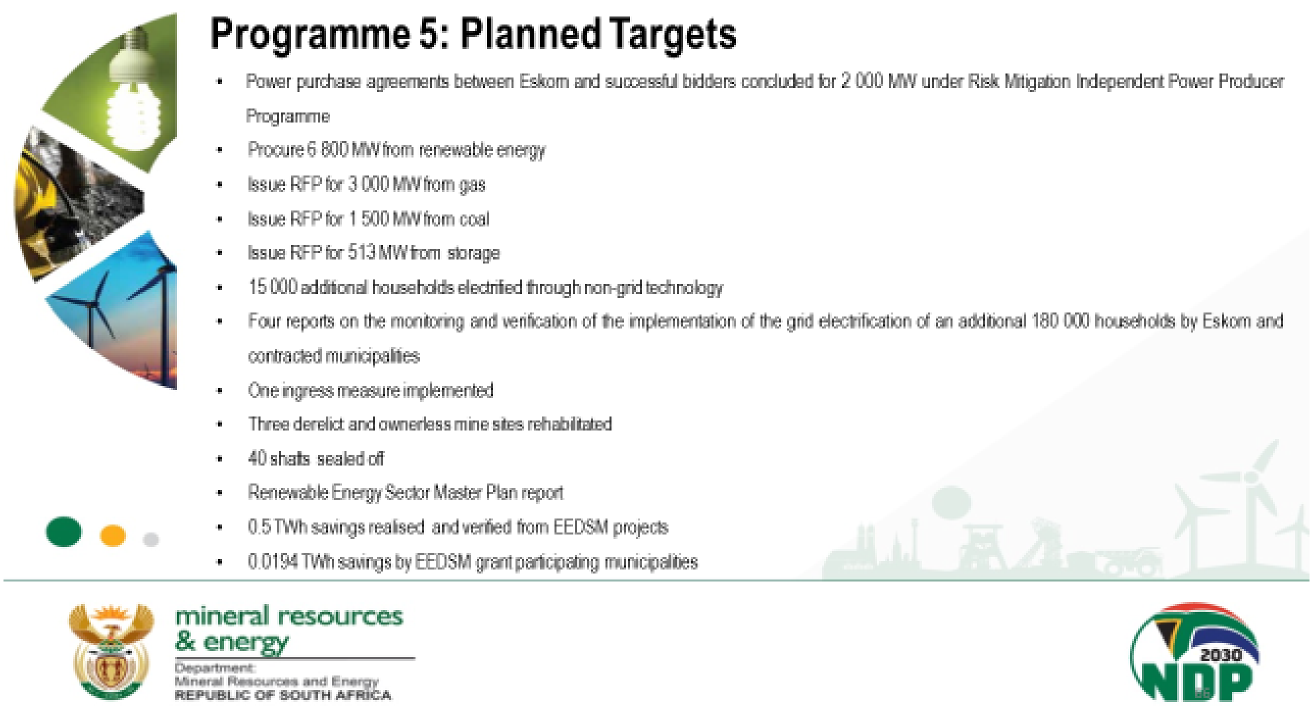
Minister Gwede Mantashe has opted to force a nuclear energy new build into the South African energy mix, despite the Integrated Resource Plan 2019 recognising that nuclear energy is not the most affordable way forward. The performance plan which the Minister signed with the President (see here) requires that the Minister "Implement the Nuclear New Build Programme at a scale and pace that the country can afford", with a target of "2 500 MW nuclear energy procured by 2024". The performance plan also states that the Minister must ensure that 1 million additional grid connections and 75 000 additional non grid connections take place by 2024.

The National Energy Regulator of SA (NERSA) is currently considering the Minister's determination that 2 500 MW of new nuclear build is required. OUTA has submitted a written objection to this determination, listing various reasons, chief among them that South Africa cannot afford such a build and does not need it as renewables would be more appropriate.

Such a new nuclear build is not obviously in the budget for this vote. However, we question whether some of the preparatory work is hidden in aspects of this vote, such as in the DMRE's SOE the Nuclear Energy Corporation of SA (NECSA) or in its programme 6 (Nuclear Energy Regulation and Management).

In the IRP 2019[5], nuclear energy is only shown as the potential extension of the Koeberg Power Station (2.2% of electricity supply by 2030) while renewable energy makes up 34% of the electricity supply capacity by 2030.

Nuclear Energy has its own programme, and the budget allocation to nuclear is 14% of the budget, but there is no explicit budgetary allocation to renewable energy nor is there any specific allocation to energy planning for a just energy transition. The APP includes the procurement of renewable energy and a renewable energy report under its deliverables but there appears to be once again a direct bias against renewables. The DMRE annual performance plan (APP)[6], see below, refers to planned targets of procurement of 6 800 MW of renewables and 3 000 MW of gas. However, the IRP2019 shows that by 2024, there is a need to procure only 1 000 MW gas.



[5] Gazetted on 17/10/2019.
[6] As presented to parliament on 4th May 2021 by DMRE

If all resources were to be treated fairly, and the procurement processes for all energy supply up until 2027 should be initiated now (as seems to be the case for gas), then as well as 3 000 MW gas and 1 500 MW coal, the renewable procurement should be for 12 600 MW. However, as the emergency procurement has already resulted in 1 220 MW of gas (potentially), there should be less gas procured going forward.

Table 5: IRP 2019

	Coal	Coal (Decommissioning)	Nuclear	Hydro	Storage	PV	Wind	CSP	Gas & Diesel	Other (Distributed Generation, CoGen, Biomass, Landfill)
Current Base	37 149		1 860	2 100	2 912	1 474	1 980	300	3 830	499
2019	2 155	-2373					244	300		Allocation to the extent of the short term capacity and energy gap.
2020	1 433	-557				114	300			
2021	1 433	-1403				300	818			
2022	711	-844			513	400 1000	1600			
2023	750	-555				1000	1600			500
2024			1860				1600		1000	500
2025						1000	1600			500
2026		-1219					1600			500
2027	750	-847					1 600		2000	500
2028		-475				1000	1 600			500
2029		-1694			1575	1000	1 600			500
2030		-1050		2 500		1 000	1 600			500
TOTAL INSTALLED CAPACITY by 2030 (MW)	33364		1860	4600	5000	8288	17742	600	6380	
% Total Installed Capacity (% of MW)	43		2.36	5.84	6.35	10.52	22.53	0.76	8.1	
% Annual Energy Contribution (% of MWh)	58.8		4.5	8.4	1.2*	6.3	17.8	0.6	1.3	

Installed Capacity
Committed / Already Contracted Capacity
Capacity Decommissioned
New Additional Capacity
Extension of Koeberg Plant Design Life
Includes Distributed Generation Capacity for own use

In addition, the IRP 2019 needs to be reviewed regularly (if section 6 of the National Energy Act were in force, the IRP would need annual review). Given that future reviews are more likely to result in additional renewable energy, and less fossil fuels (given the importance and significance of the need to respond to climate change crisis), OUTA questions why DMRE is rushing ahead with fossil supply and nuclear procurement but lagging in renewables.

In the 2020 adjusted appropriation bill, due to Covid-19, DMRE chose to reduce the electrification budget by 30%, a total of R1.5bn, while maintaining the R1bn to the nuclear corporation of SA. In 2021, NECSA continues to receive its funding. While electrification budget is back to 2020 levels, there is no additional allocation to enable South Africa to make up the 2020 shortfall in household electrification.

In 2020, OUTA expressed its disquiet at the blatant unfairness of failing to provide for the poorest of the poor while continuing to fund nuclear vanity projects. This has not been corrected in 2021.

In a report by PARI[7], entitled 'Broken promises: electricity access for low-income households: good policy intentions, bad trade-offs and unintended consequences' (April 2021), PARI showed how R8 billion of funds allocated by Treasury fails to reach the intended purpose. PARI has shown that while 2.5 million households (almost certainly the poorest households) are not connected to the grid and could not receive the benefit, that leaves 5.5 million indigent households are not receiving their fair allocation of electricity. The question is then where is that money going?

Table 2: Households receiving FBE versus households funded for FBE[8]

Year	Households funded for FBE	Households receiving FBE	Difference – number of households	Funding difference (R billions)
2014/15	8,702,989	2,747,490	(5,955,499)	R4.304
2015/16	8,965,790	2,454,903	(6,510,887)	R5.172
2016/17	9,193,130	2,563,493	(6,629,637)	R5.647
2017/18	9,550,380	2,179,521	(7,233,236)	R6.608
2018/19	9,805,644	2,047,218	(7,758,426)	R7.599
2019/20	10,109,607	*2,108,634**	(8,000,973)	R8.992

Source: LGES Summary Data and Formula, P9115, own calculations.

** Estimate*

PARI concludes that "The transformative role of clean, safe and affordable energy in reducing poverty and inequality, and in improving the quality of life of poor South African households as

[7] BROKEN PROMISES
Electricity access for low-income households: good policy intentions, bad trade-offs and unintended consequences, April 2021, Tracy Ledger.
[8] PARI April 2021. Pg 32

envisaged in the 1998 Energy White Paper, has failed to materialise to any significant degree. The overwhelming reason for this is the failure of energy policy and governance, and the absence of effective oversight of how local municipalities have actually delivered energy services to households".

A large proportion of the DMRE budget is allocated to institutions such as local municipalities and Eskom who are responsible for electrification. However, an electrification connection without electricity is meaningless. Although, DMRE is responsible for ensuring an adequate and secure energy supply, the oversight role to ensure this through local government energy services delivery is lacking. PARI recommends that "the provision of all of the free basic services (against the amount funded in the budget each year) be included in the annual audit undertaken by the office of the AGSA for each municipality. This would ensure that the gap between funded households and beneficiary households is made much more visible, and increase pressure on local municipalities to disclose the reasons for this gap".

DMRE allocates R31 510 000 towards South Africa's participation in relevant international organisations. In 2020, DMRE chose to suspend South Africa's payment to the international energy efficiency agency but continued to pay its fees to the nuclear genIV group and to the International Atomic Energy Agency (IAEA). The fees to the international atomic agency make up 80% of the total fees to international – again showing a bias towards nuclear energy.

The DMRE's entities NECSA and the National Radioactive Waste Disposal Institute (NRWDI) are both cause for concern.

Koeberg power station requires decommissioning and South African taxpayers current and future will have to continue to pay towards these costs. These costs should be borne by Eskom as the owner of the Koeberg Power station and these would then be passed on to electricity consumers through the tariff regulation. However, these costs now appear in the DMRE budget. When comparing electricity generation costs, and excluding decommissioning and waste disposal, this creates the false impression that nuclear generated electricity is cheaper and "affordable".

There has been no information forthcoming from the Department of Mineral Resources and Energy (DMRE), the National Energy Regulator (NERSA) or any other branch of government on what an "affordable" nuclear programme means, or even an indication of the costs. We argue that a nuclear new build is not affordable, whether it is owned by the state or contracted as an Independent Power Producer and added to the electricity price. Planning a nuclear new build takes no account of the fiscal crisis. Nuclear energy is not cheap and for a country which is so heavily in debt and where Eskom holds the majority of that debt, how would it be rational to burden Eskom with additional debt, or to allow the state in any way to stand as guarantor for any nuclear-related new build debt?

The Auditor-General gave NECSA a disclaimed opinion as the audit outcome for the 2018/19 financial year. The 2020/21 nuclear programme of DMRE (programme 6) enjoys a 28% increase from its 2017/18 allocation (see ENE Table 34.2), whereas other programmes within the department managed only single digit increases in most cases. The reason for increasing NECSA's budget despite its poor record of accountability has no sound financial logic.

In 2020, during the height of the Covid-19 pandemic when departments had to find cuts, the DMRE chose to retain full funding for NECSA at the expense of rural electrification, cutting the electrification budget by R1.5bn. How is it rational to approve building a nuclear reactor, when government cannot afford to link households to the grid or provide them with solar geysers?

The NRWDI is of concern. This is a body which has been on the budget since 2016/17, tasked with the disposal of radioactive waste. However, there is no Radioactive Waste Management Fund set up as legally required and the institute does not yet have a radioactive waste disposal licence from the National Nuclear Regulator. (See graphic below.)

In addition, it recently emerged that Eskom does not have a fund (only a book entry for an estimated liability cost) for the decommissioning of Koeberg nuclear power station (see here). This adds to concerns over the failed governance of the sector, despite significant sums pumped into the DMRE vote every year.

18. Vote 41: Water and Sanitation

- OUTA is concerned that there is massive spending on water and sanitation projects but insufficient transparency on that spending and its outcomes.

The Department of Water and Sanitation (DWS) has changed the programmes, which makes it a little more difficult to track spending. Until Budget 2020 there were four programmes, but in Budget 2021 there are three; the spending on the programmes for 2020/21 is significantly different between Budget 2020 and Budget 2021 with no explanations.

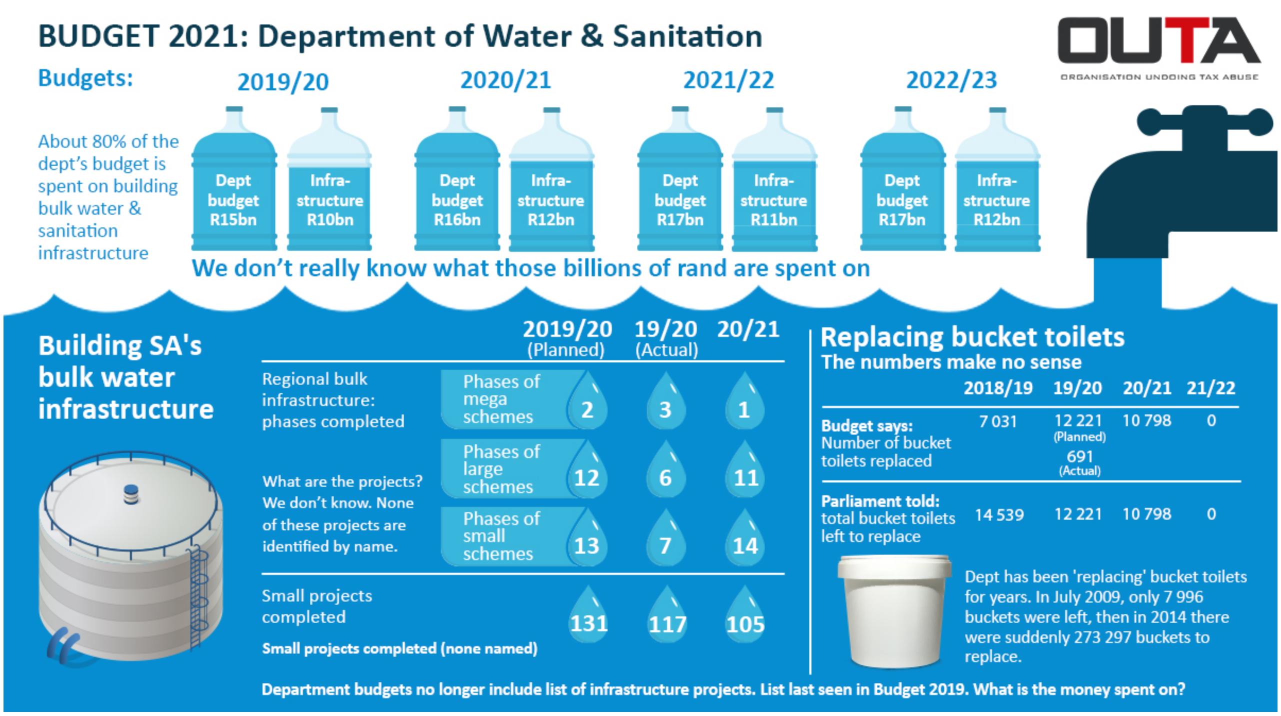
Overall for DWS, the spending on water and sanitation projects is enormous but the reporting on this spending and the outcomes of the spending are inadequate.

The DWS budget no longer includes a list of projects, estimated total costs and spending (the last such list was in ENE, 2019). The Division of Revenue Bill (DoR Bill) includes lists of project allocations for the DWS Regional Bulk Infrastructure Grant (RBIG) and Water Services Infrastructure Grant (WSIG), which are distributed as Schedule 5 Part B and Schedule 6 part B grants. The DWS budget indicates that for 2021/22, the RBIG gets a total of R5.431 billion and the WSIG gets R4.350 billion. The RBIG spending lists the project names and municipalities, while the WSIG spending lists the municipality names but not the projects.

However, the DoR Bill does not track historical spending on these grants, so there is apparently no public record of what was actually spent. The DoR Bill also does not provide an indication of the total cost of each project, the number of phases in each project, the number of phases completed each year, nor the total number of phases completed.

This makes it difficult for the public to track spending. For example, how does a community establish which projects in its area are to be funded, what was actually spent, how far the project is and when it will be finished? This is also the detail essential for implementing zero-based budgeting, for coherent tracking of project spending and progress.

The performance indicators in the DWS budget do not clearly link to the RBIG and WSIG spending in the DoR Bill. For example, the performance indicators claim that 117 small projects were completed in 2019/20, another 105 in 2020/21 and that 46 are planned for 2021/22, but there is no indication what these projects are, or even if they are anything more than a single rainwater barrel.



Below is an example of the difficulty of tracking spending on specific projects. This is the spending for RBIG Schedule 6 Part B projects in Emfuleni Local Municipality, according to the Division of Revenue Act 2020 and the Division of Revenue Bill 2021. Note the huge differences in the budgeting for the same years in each document. There is no explanation for this, or any indication of whether the funds allocated for the previous years (2019/20 and 2020/21) were actually spent (there is no audited outcome). We note that in November 2019, Parliament was told that the Rand Water had spent R781 million so far on the Sebokeng Waste Water Treatment Works (WWTW), Module 6, and that the civil and mechanical work was 98% complete, bulk electrical work was 100% complete, electrical and instrumentation work was 90% complete, and the perimeter fence 8% complete[9]. But the DORA documents show that another R263 million was spent in 2020/21 and that at least R100 million is planned for 2021/22 and more ahead. What is this being spent on? Given the state of the water and sewerage problems in Emfuleni, and the ongoing complaints that there has been no funding to address the problem, it seems doubtful that these budgeted amounts were spent, or spent responsibly. See the table below.

Emfuleni Local Municipality: Regional Bulk Infrastructure Grants

	DoRA 2019: 2019/20	DoRA 2019: 2020/21	DoRA 2019: 2021/22	DoRA 2020: 2020/21	DoRA 2020: 2021/22	DoRA 2020: 2022/23	DoR Bill 2021: 2021/22	DoR Bill 2021: 2022/23
Sedibeng Regional WWTW	R77m	R152m	R220m	R100m	R209m	R284m	R60m	R108m
Sebokeng WWTW	R129m	R263m	R150m	R263m	R143m	R100m	R100m	R100m
Vaal River System Intervention	--	--	--	R750m	--	R117m	R500m	R500m

9 Reply to Parliament by Minister of Human Settlements, Water and Sanitation, RCW180 published 21 November 2019

Annexure 1

Bailouts
("Purchase of equity" or "recapitalisation" or "restructuring" or "allocation")
2021/22-2023/24

Land and Agricultural Development Bank:
- **R7bn over MTEF** (Listed variously as "recapitalisation", "restructuring", "allocation" and "purchase of equity")
- R5bn in 2021/22 for "purchase of equity" (Appropriation Bill, National Treasury vote)
- R5bn in 2021/22 for "recapitalisation" or "restructuring" or "equity support" or "allocation" plus R1bn in 2022/23 and R1bn in 2023/24 (Budget Review)
- "The R19.4 billion net increase to the function, which excludes adjustments to debt-service costs, is mainly due to the financial support provided to Eskom, the Land and Agricultural Development Bank of South Africa (Land Bank) and the New Development Bank for the purchase of equity." (ENE, Introduction)

African Development Bank & African Development Fund:
- **R1.6bn over MTEF**
- "Transfers for the recapitalisation of the African Development Bank and the African Development Fund are projected to amount to R1.6 billion over the same period [MTEF]." (ENE, National Treasury vote).
- (R425.486m in 2021/22 for "purchase of equity", Appropriation Bill, National Treasury vote)

New Development Bank:
- R5.3bn (R5.296bn in 2021/22 for "purchase of equity", Appropriation Bill, National Treasury vote)
- "The R19.4 billion net increase to the function, which excludes adjustments to debt-service costs, is mainly due to the financial support provided to Eskom, the Land and Agricultural Development Bank of South Africa (Land Bank) and the New Development Bank for the purchase of equity." (ENE, Introduction)
- "Capital transfers for the New Development Bank, in line with South Africa's agreed shareholding, will also be facilitated through this subprogramme [International Development Funding Institutions subprogramme, National Treasury vote, ENE)
- "As at December 2020, South Africa's capital contributions to the bank amounted to US$1.65 billion, with the final capital contribution amounting to US$350 million in 2021/22. This expenditure is allocated in the *International Development Funding Institutions* subprogramme in the *International Financial Relations* programme." (ENE, National Treasury vote)

World Bank Group:
R633m
- R28.517m in 2021/22 for "purchase of equity" (Appropriation Bill, National Treasury vote)
- "As part of the department's commitment to the regional development agenda, transfers for the recapitalisation of the International Bank for Reconstruction and Development and the

international development agenda, both member institutions of the World Bank Group, are projected to amount to R633.3 million over the MTEF period." (ENE, National Treasury vote).

Eskom:

R42.9bn: "restructuring" + R31.7bn "purchase of equity – settlement of government guaranteed debt" (Appropriation Bill, DPE vote). Thus a total of R74.6bn for the MTEF. One set of funds runs through the Department of Public Enterprises and the other through National Treasury.

- These amounts are R31.7bn in 2021/22 for Eskom as an "additional", listed with "payments for financial assets" (ENE, Public Enterprises vote). This appears to be to repay debt. The amount of R42.9bn is for "restructuring" and is SEPARATE from this (it is for different years and is a provisional allocation under the National Treasury vote).
- "The company's financial position remains weak and it is not able to generate sufficient cash from operations to cover debt obligations when they become due. As a result, government has committed to provide financial support to assist with the company's debt-service obligations. Thus far, R49 billion in 2019/20 and R56 billion in 2020/21 have been provided, with a further R31.7 billion allocated in 2021/22." (ENE, Public Enterprises vote)
- "The R19.4 billion net increase to the function, which excludes adjustments to debt-service costs, is mainly due to the financial support provided to Eskom, the Land and Agricultural Development Bank of South Africa (Land Bank) and the New Development Bank for the purchase of equity." (ENE, Introduction)
- Eskom R31.693bn: "Public Enterprises: Payment for financial assets: Eskom: Purchase of equity" – R31 629.9m MTEF total. (ENE, Table 1.9, Introduction)
- Eskom R31.7bn: "Expenditure is expected to decrease at an average annual rate of 84.4 per cent, from R78 billion in 2020/21 to R297.6 million in 2023/24. This is due to substantial allocations made to Eskom and South African Airways in 2020/21 for the settlement of government guaranteed debt and the latter's implementation of its business rescue plan. Payments for financial assets constitute the department's main cost driver over the period ahead. These payments include an additional R31.7 billion for Eskom in 2021/22, and R6.1 billion (R4.3 billion in 2021/22 and R1.8 billion in 2022/23) for South African Airways to settle government-guaranteed debt and interest. By the end of 2020/21, South African Airways is expected to exit business rescue and South African Express Airways is expected to be fully liquidated." (ENE, Public Enterprises vote)
- R42.9bn: "Provisional allocation for Eskom": R21.857bn in 2022/23 and R21.015bn in 2023/24 (total R42.872bn MTEF). (ENE, Introduction). Also listed as "Provisional allocation for Eskom restructuring", with the same allocations (ENE, Table 1, Introduction).

SAA:

R6.1bn (equity)

- "An amount of R6.1 billion (R4.3 billion in 2021/22 and R1.8 billion in 2022/23) is allocated to the airline for the repayment of government guaranteed debt." (ENE, Public Enterprises vote)
- "Expenditure is expected to decrease at an average annual rate of 84.4 per cent, from R78 billion in 2020/21 to R297.6 million in 2023/24. This is due to substantial allocations made to Eskom and South African Airways in 2020/21 for the settlement of government guaranteed debt and the latter's implementation of its business rescue plan. Payments for financial assets constitute the department's main cost driver over the period ahead. These payments include an additional R31.7 billion for Eskom in 2021/22, and R6.1 billion (R4.3 billion in 2021/22 and R1.8 billion in 2022/23) for South African Airways to settle government-guaranteed debt and

interest. By the end of 2020/21, South African Airways is expected to exit business rescue and South African Express Airways is expected to be fully liquidated." (ENE, Public Enterprises vote)

SAA: Restructuring of **2020/21** SAA bailout of R10.5bn.
This is in the Special Appropriation Bill 2021, but refers to the 2020/21 bailout to SAA.
Takes **R2.7bn** of SAA's 2020/21 bailout ("purchase of equity"), to reassign it as follows:

- R1.663bn to SAA Technical
- R819m to Mango Airlines
- R218m to Air Chefs

(Special Appropriation Bill 2021)