

SUBMISSION

2022 Adjustments Appropriation Bill and Medium Term Budget Policy Statement (MTBPS)

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PSAM

Public Service
Accountability
Monitor



Who We Are



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. Working throughout Southern Africa, PSAM generates and shares knowledge about social accountability and the monitoring and advocacy tools that can build more open, participatory and accountable government.

Introduction



**Notable background to the 2022
MTBPS**

Some Contextual Reflections

Since November 2021:

- Conclusion of Zondo Commission of Enquiry into State Capture
- Calls for public input on key bills and policies:
 - Beneficial Ownership Risk Assessment
 - The Draft Procurement Bill
 - Municipal Powers and Functions Amendment Bill
- If implemented effectively could have significant positive impacts on the state of public finances
- Without a dedicated approach to enhancing public finance integrity, limited progress with addressing poverty, inequality and unemployment
- Need urgent resolution of Financial Action Task Force (FATF) recommendations
- Submission:
 - Possible interventions to meaningfully address key accountability and resourcing problems
 - Recommendations to influence the systemic deliberations linked to public resource management and public finances
 - Recognises role of multiple state actors in safeguarding public resources, undertaking oversight and implementing policy
 - We have sought to be explicit wherever possible in our recommendations. At other times, however – our approach is to underscore critical issues for the relevant role-players to identify potential solutions and address.

Expenditure Trends: 2022 AENE

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DECLARED UNSPENT FUNDS

These funds are returned to the National Revenue Fund

VOTE	DECLARED UNSPENT FUNDS 2022/23	REASON
National Treasury	R101.6 million	The R101.6 million that was appropriated for the recapitalisation of the Land and Agricultural Development Bank of South Africa is suspended and included as part of a direct charge against the National Revenue Fund to cater for the government-guaranteed debt obligation on behalf of the bank.
Public Enterprises	R3.8 million	The R3.8 million unspent on compensation of employees due to vacant posts across all programmes. These funds will be used to defray the settlement of Denel's guaranteed debt and interest payments.
Public Works and Infrastructure	R21.5 million	This comprises: <ul style="list-style-type: none"> • R15.7 million unspent in the Expanded Public Works Programme (EPWP) due to delays in implementing the expanded public works non-state sector programme. • R5.8 million unspent on transfers and subsidies in the prestige policy programme due to projected underspending by the Parliamentary Villages Management Board as a result of fewer than anticipated activities taking place.
Social Development	R1.8 billion	R1.8 billion in unspent funds is declared on social assistance due to a lower than anticipated uptake of the social relief of distress grant following the implementation of the lower income threshold and the bank verification of applicants' income.
Police	R31.8 million	R31.8 million unspent on the Integrated Criminal Justice Strategy due to delays in finalising tender processes. The unavailability of forensic equipment locally also contributed to delays in spending.
Small Business Development	R35.0 million	A total of R35 million unspent on compensation of employees due to vacant positions in Administration, Sector and Market Development and Enterprise Development.

- Continued **underspending** by key national service delivery departments and local government entities
- Undermines service delivery at a time when it is needed the most

STATE OWNED ENTITIES (SOEs)

SOEs are important enablers of economic growth but continue to face challenges that require immediate injections of funds. These funds are often diverted from other sectors, including departments responsible for providing social services.

Eskom



According to National Treasury, Eskom is the largest long-term risk to the economy, given its high debt levels and unsustainable business model. In 2019, the government announced a R230 billion support package for Eskom to remain financially viable. To date, R140 billion of this package has been disbursed. In addition, Eskom had used R323.9 billion of its R350 billion government guarantee facility as at 30 June 2022. The current debt of about R400 billion is unsustainable and the government expects to shift between one-third and two-thirds of its loan obligations onto the state's balance sheet and attach strict conditions to the relief. Details of the arrangement have been deferred to Budget 2023.

Denel

Denel (state-owned military technology supplier) remains in financial distress and cannot meet its financial obligations. Government allocated R2.9 billion in 2021/22 to cover capital and interest payments on guaranteed debt. In 2022/23 an additional R204.7 million is allocated to reduce contingent liabilities arising from its weak financial position and R3.4 billion – if set conditions are met – to complete its turnaround plan.



Transnet



The state rail and ports operator suffered severe and widespread damage to assets, installations and operations from the heavy rains and flooding in April 2022, resulting in unexpected repair costs and loss of revenue. While the Port of Durban is now operating, major repairs are still required to fully restore Transnet Freight Rail operations in KwaZulu-Natal. A total of R5.8 billion will be allocated to Transnet – half of which is shifted to repair infrastructure damaged by the recent floods, and half to repair and maintain freight rail locomotives.

SANRAL

The South African National Roads Agency Limited (SANRAL) remains in limbo given policy uncertainty over government's position on the user-pays principle. As a result, SANRAL cannot collect sufficient cash from its toll portfolio to settle maturing government-guaranteed debt. This balance sheet weakness is affecting SANRAL's ability to maintain the broader road network and as such also presents a medium term risk to economic growth. A further R819 million is allocated to the South African National Roads Agency for the repair of infrastructure damaged by floods in April 2022.



Land Bank



The Land Bank remains in financial distress and the process to finalise a solution is ongoing. An amount of R5 billion remains in the contingency reserve in 2022/23 as part of the funding provided for the Land Bank in the previous budget. Conditions for the release of these funds have not yet been met.

Examples of direct transfers from social spending etc:

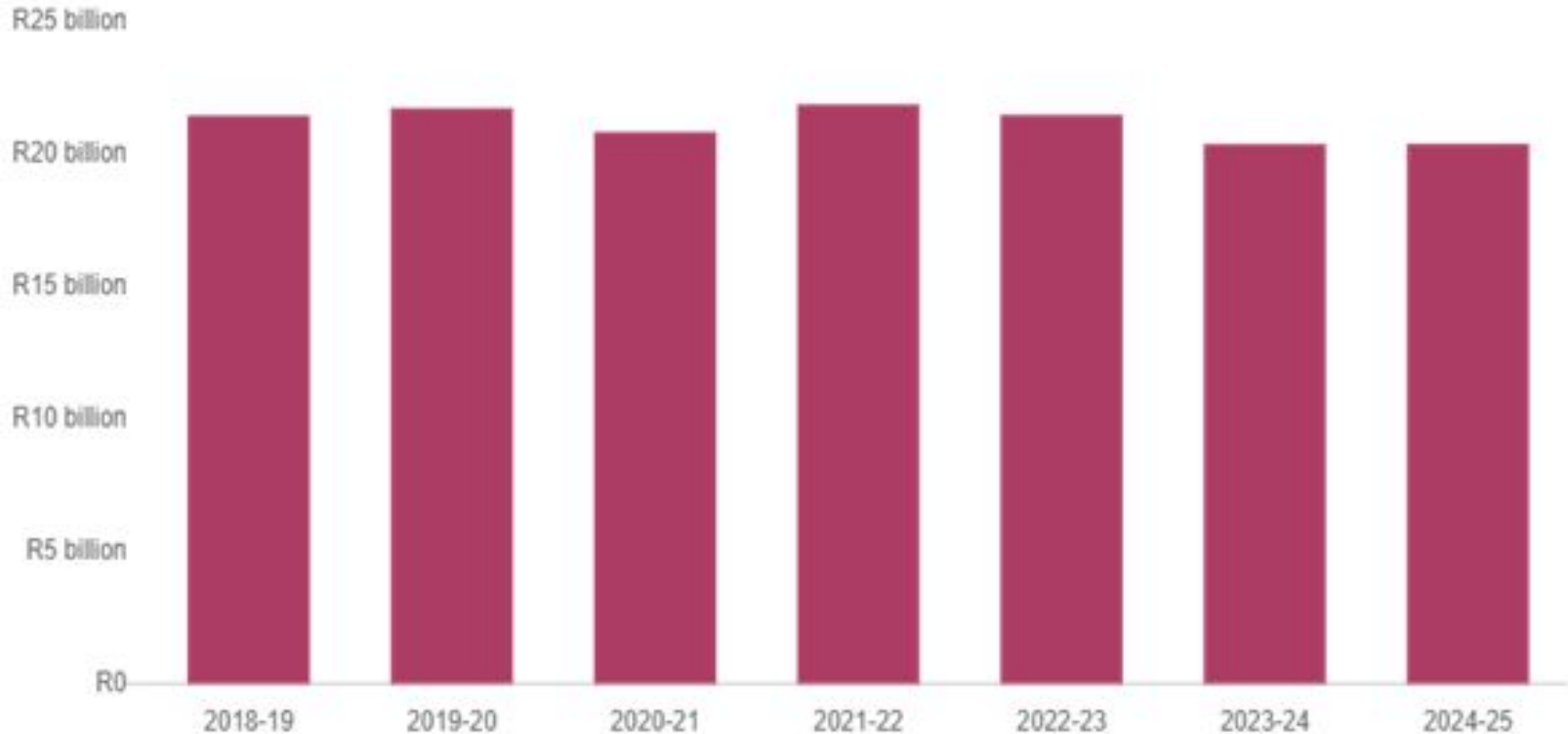
- R194.554 million for the implementation of the South African Airways business rescue plan in terms of section 30(2)(e) of the PFMA
- R755.303 million shifted from Social Development to the Department of Defence for extended deployment of troops to Mozambique
- R2.9 billion shifted from Social Development to Transnet.

The PSAM recommends that the Committee insist that the conditions applied to these transfers are made available to the public, and a clear plan for weaning SOEs off of state interventions is shared in Budget 2023.

NOTABLE CHANGES IN THE ADJUSTED BUDGET



Resourcing the NPA and SIU



Decreases in real term allocations (NPA): 201819 - 2024/25

Source: www.vulekamali.gov.za

(2) Resourcing the NPA and SIU

- MTBPS 2022 promises additional funds in Budget 2023: NPA, SIU, FIC, SARS
- However Peace and Security function declining by 2% on average over the MTEF (in real terms);
- General Public Services function (which includes executive and legislative organs, public administration and fiscal affairs and external affairs) is declining by 1% on average over the MTEF (in real terms).
- PSAM recommends that this committee insist that these institutions receive adequate funding;
- The PSAM reiterates recent calls by the Office of the Auditor-General for government departments to *design and implement controls that prevent fraud, errors and abuse as a means of avoiding dire costs in the long-term.*
- Address illicit financial flows by reversing budget cuts to SARS and significantly increasing its resources
- Assessing and addressing the technical risks associated with money laundering and illicit financial flows requires sustained and responsive state expertise
- Allocating sufficient budget to strengthen the country's tax administration is an investment in the long-term financial stability of the country.

Recommendations

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Public Participation Key in Budget Oversight

- Improved public participation has been [proven](#) to enable governments to respond more effectively to people's needs. In addition, civic participation in the budget process can [improve efficacy](#) in the allocation and use of public resources.
- [Open Budget Survey](#) (OBS) lauds South Africa as a global leader in fiscal transparency
- Simultaneously underscored weak public participation
- Introduction of Pre-budget hearings important
- Potential for forming more direct links between public inputs and critical decision-making structures such as the Ministers' Committee on the Budget Technical Committee
- NB to provide public a lever in decision-making;
- Critical tool in democratic participation for keeping and holding the government accountable
- Therefore encourage NT to continue Pre-Budget Consultations;
 - Increasing opportunities for public participation in the budget is not only necessary, it has the interest and support of a cross-section of government and non-government actors
 - This level of public consultation can serve as an opportunity for people-centred budgeting and policy-making
- This moment is an important opportunity for improving engagement and building trust between government and citizens.

Recommendations

- In relation to expenditure and performance trends, we find continued **underspending** by key national service delivery;
 - We call on the National Treasury and the Department of Public Services and Administration to bolster capacity support and professionalisation in these areas in addition to reporting the outcomes of interventions to Parliament

- In relation to resourcing to build capacity and address urgent **governance and service delivery failures at the municipal level**;
 - We urge the speedy implementation of the Government Technical Advisory Centre's revised capacity support programme and that this be complemented by real political support by provincial executive authorities

- In relation to budget cuts effected to resource **state-owned enterprises**;
 - We recommend that the Committee oblige the Minister of Public Enterprises to explain how his ministry intends to improve transparency of SOEs;
 - We urge the Committee to request updates on progress in implementing DPE Guidelines provided for quarterly reporting and institutional transactions as outlined in the DPE's Annual Performance Plan.
 - Emphasis must be placed on the urgent implementation of the DPSA Guidelines on the Appointment of Boards and Executive Management SOEs; reporting on their financial and non-financial performance must be made public in order to foster greater civic.

(2) Recommendations

- In relation to **resourcing efforts to shore up democracy-supporting institutions**;
 - We are concerned that the resourcing of these institutions is not sufficient to enable them to fulfil the duties required to arrest decline in public services and uphold the Constitution.

- In relation to **public participation** mechanisms/opportunities;
 - We recommend that these efforts are further bolstered to include more diverse inputs in the process and enable those who are most affected by budget decisions to participate meaningfully
 - We further note the efforts of the Auditor–General of South Africa to involve citizens in oversight through the accountability ecosystem concept and recommend that this is deepened to enable citizens and community groups to hold the state accountable.

Conclusion

- We've sought to outline key concerns relating to the appropriations and expenditure of public funds
- Focus on opportunities to prevent misuse, safeguard social spending and promote efficiency
- Important to identify opportunities for reform that have the potential to not only improve the management of public finances in South Africa but also to meaningfully address the triple threats of poverty, unemployment and inequality
- The work of parliamentary committees is central to achieving these goals given their mandate to engage with the relevant duty-bearers and decision-makers including the Nation Treasury and line departments
- Encourage parliament to continue to create spaces for public deliberation, civic engagement and education

Thank you - Enkosi

