ORGANISATION UNDOING TAX ABUSE

July 2020

Analysis of Special Supplementary Budget 2020: Adjustments Appropriation Bill

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

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ANALYSIS OF SPECIAL SUPPLEMENTARY BUDGET 2020

SUBMISSION BY ORGANISATION UNDOING TAX ABUSE (OUTA)

TO THE SELECT AND STANDING COMMITTEES ON APPROPRIATIONS

Standing and Select Committees on Appropriations

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17 July 2020

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1. Executive summary

The submission by the Organisation Undoing Tax Abuse (OUTA) to the Appropriations Committees on the Supplementary Budget 2020 focuses on the 2020 Adjustments Appropriation Bill. In particular, the submission offers an analysis of zero-based budgeting, reprioritisation of expenditure, compensation, state-owned entities and local government.

What stands out when analysing the Supplementary Budget and the debates surrounding it is a disturbing impression of how the Covid-19 pandemic has brought into stark focus the pre-existing issues which have persisted and continued to worsen for far too long. Systemic misspending is part of the landscape and has unfortunately come to be entrenched and an accepted way of operating. OUTA contends that it is absolutely overdue that this is rectified.

1.1 Zero-based budgeting

We welcome the zero-based budgeting approach but are concerned that it will be mainly targeted at large programmes which haven't been clearly defined. The whole of government should be taking this approach in order to act more efficiently and effectively with taxpayers' money. Zero-based budgeting will help us achieve more fiscal room to manoeuvre in order to secure core service delivery and preserve basic human rights. We recommend a series of publicly inclusive debates in Parliament on the implementation of zero-based budgeting. A clear and rational process with clarity about roles and responsibilities needs to be spelt out.

1.2 Transparency

Hand-in-hand with zero-based budgeting is the urgent need for increased transparency in budgeting and spending. This is not negotiable. Departments and entities *must* be required to account for spending, and far greater detail on this is needed. OUTA made a submission on the draft Public Procurement Bill and we are concerned to see that while the draft Bill addresses transparency, it actually provides for secrecy in that it fails to define confidential information. Procurement reform is key to ensure that spending is brought under control. The fact that the draft Public Procurement Bill contains provisions that will contribute to hiding procurement information is disturbing and must be rectified.

1.3 Outcomes

Budgets and spending must be more strongly linked to outcomes and performance. This is a key aspect of transparency and accountability.

The Selected Performance Indicators in each department's budget are frequently inadequate and simply omit the more difficult – and often crucial – indicators. This is an ongoing problem that needs attention. In this Supplementary Budget, the huge cuts, reprioritisations and additional funding must be accompanied by clear performance indicators with updates where necessary.

1.4 Reprioritisation of expenditure

OUTA is concerned about the ability of certain provincial health systems to cope. While all are strained at this time, there are worrying reports in the media with what is occurring in the Eastern Cape being particularly disturbing. We are concerned about the extent of contingent liabilities arising from medico-legal claims. In the Auditor-General's PFMA report of 2018/19, it is outlined that in Eastern Cape, the medical legal claims disclosed by the provincial health department have increased to R29 billion. We request that the committees debate whether placing the Eastern

Cape provincial health department under administration may be an appropriate action. We also request that the committees exercise oversight to ensure that there is urgent attention paid to managing medico-legal claims and the circumstances that give rise to negligence in the treatment of patients nationwide.

1.5 Focus areas

We have focused on these specific areas:

1.5.1 Energy

Of the Department of Mineral Resources and Energy (DMRE) reductions, the lions' share comes from Treasury and DMRE cutting a total of R1.5 billion from the Integrated National Electrification Programme (INEP) grants. Electrification is pro-poor service delivery of particular relevance during the Covid-19 pandemic, where vulnerable communities are feeling the brunt of the disease. OUTA is deeply disappointed that the DMRE has chosen to put the burden of Covid-19 onto those least able to bear it. OUTA understands that there is a necessity to reduce expenditure. However, the manner in which DMRE has proposed to reduce its budget deepens inequity, further impoverishing the poor. Should Parliament feel that further savings could be made in other programmes, OUTA would recommend that additional electrification be implemented on the condition that this programme is more transparent and that it is spent according to approved budgets and Annual Performance Plans.

1.5.2 Water

The right to access to water is provided for in section 27 of our Constitution. However, this right is being threatened by ongoing systemic corruption and mismanagement. Water is life sustaining – ensuring the delivery of clean, potable water is a mandate that should be discharged with the greatest care and by individuals with unblemished track records. OUTA again recommends that an independent water oversight body be constituted. We would like to see the prioritising of funds to restore human dignity to many under-resourced citizens, as opposed to the continued wasting of these funds with flagrant disregard.

1.5.3 Transport

It is proposed to reduce the Transport Department allocation by R4.6 billion. Within the road transport programme, we note that there have been reallocations in SANRAL's budget to cover the failed Gauteng e-tolls scheme, as the Gauteng Freeway Improvement Project receives R2.5 billion. It is time that government acknowledges that e-tolling has failed.

1.5.4 Compensation

Over the medium term, compensation and debt-service costs will be the largest expenditure items, outstripping the investments government makes in human capital, social and economic infrastructure, and service delivery. This is not acceptable. OUTA strongly support's National Treasury's decision to initiate a process of rationalising the cumulative cost of remuneration in the public service.

1.5.5 State-owned entities

State-owned entities (SOEs) have posed a significant fiscal risk for a number of years. The National Planning Commission recently published a position paper with comprehensive recommendations for reform in the largest SOEs and companies which need to be accelerated. OUTA suggests that there are four types of reforms that are urgently needed in SOEs: (1) governance, (2) financial, (3) structural and (4) policy and process.

The risk from SOEs is aptly illustrated by the Eskom annual bailout of R23 billion. It is a substantial offset against the change in non-interest expenditure contained in the Supplementary Budget off R36 billion. Besides the Eskom bailout, the Supplementary Budget adds two further bailouts:

R3 billion to the Land Bank, and R2.530 billion to SANRAL specifically for the failed Gauteng e-toll scheme. Were it not for bailouts to SOEs over the past decade, successive budget deficits and consequently, the debt trajectory of the country would have looked very different. It is time that SOEs are no longer mismanaged vehicles for looting and state capture.

1.5.6 Support to businesses

We welcome the extra support to businesses as essential, but we are dismayed to see how much of this is arranged by cutting other existing support to businesses.

1.5.7 Local government

Local government in aggregate is no longer financially viable in its current form. The financial crisis in municipalities is not new and has not been caused by Covid-19, merely exacerbated by it. The real reasons for the current financial crisis are structural. The assumptions about how the local government fiscal model would work are no longer valid. The result is that many municipalities will never be financially viable under the current macro-economic circumstances. We urgently recommend a review of the entire local government fiscal and operating framework.

The appalling local government audit outcomes outlined in the recent Auditor-General report on local government finances for 2018/19 emphasise the dangers of providing additional funding to almost all the municipalities. The need for increased transparency and accountability in spending is emphasised by the massive financial and management failures in local government. This budget adds R11 billion to the equitable share for local government. We want to know exactly what this is to be spent on, and we want to see a monthly accounting for such spending.

2. Introduction

The drastic impact of the Covid-19 pandemic and the sharp economic downturn that followed necessitates a radical economic and fiscal response. In its own account, the Supplementary Budget represents a macroeconomic consolidation of government's initial economic and fiscal response to the Covid-19 pandemic. In this submission, OUTA presents its analysis with a specific focus on the Adjustments Appropriation Bill and the reprioritisations that were made.

According to the National Treasury's Supplementary Budget Review:

> "In the current environment, government cannot not raise sufficient tax revenues to sustain current spending levels and service its debt obligations. In time, this will lead to an unravelling of the social gains of the past 26 years. If this spiral is not halted and reversed, it is likely that some state-owned companies and public entities will collapse, triggering a call on guaranteed debt obligations. Failure to substantially reduce costs, address longstanding governance failures, prosecute state-capture participants and undertake profound operational reforms has contributed to already unsustainable financial positions in many public-sector institutions."

OUTA strongly agrees with this and we suggest that the only way for the economy to survive is by drastically pruning state expenditure and significantly improving accounting of all funds. We are pleased that Minister Mboweni has emphasised a zero-based budgeting approach for the medium term, but are concerned that it will be mainly targeted at large programmes which haven't been clearly defined and which provide a limited public breakdown of spending. All levels of state institutions, including the municipal level, should be taking this approach in order to operate more efficiently and effectively with public money. Pruning the dead wood in programmes need not undermine people's rights, but is necessary to preserve the provision of basic human rights.

OUTA's submission to the Finance Committees focused on the economic outlook and revised fiscal framework and we therefore do not repeat that analysis in this submission. We focus in this submission on zero-based budgeting, reprioritisation of expenditure, compensation, state-owned entities and local government. We zone in on the energy, water and transport sectors specifically, given that these are sectors where OUTA has specific experience and can offer a value-adding analysis.

3. Zero-based budgeting

We are pleased that Minister Mboweni has introduced a zero-based budgeting approach for the medium-term but are concerned that it will be mainly targeted at large programmes which haven't been clearly defined. The whole of government should be taking this approach in order to act more efficiently and effectively with taxpayers' and public money. There is not enough tax revenue to cover the expenses from stale programmes that fail to deliver year after year.

High levels of indebtedness mean that interest repayments are burgeoning while tax revenue is under pressure. Therefore, OUTA supports zero-based budgeting, but calls on government to implement this principle across the spectrum in all organs of state to eliminate all tax-leaching programmes that can no longer be justified. We recommend a series of publicly inclusive debates in Parliament on the implementation of zero-based budgeting.

A zero-based approach entails that the previous year's budget is not taken as the starting point for the next year's budget. Rather, every programme must justify its spending as a worthy allocation from scratch. This will be a massive, but worthwhile exercise.

A critical mass of political will is pivotal to cut unnecessary, fruitless, wasteful, irregular and corrupt spending. Corruption must be dealt with openly and severely, and services must be delivered more efficiently and effectively. Each programme must be justified by demonstrating how it is advancing people's constitutional rights.

Lawfare has become a feature of our South African landscape with civil society organisations frequently resorting to the courts to seek relief where constitutional rights are not being realised due to poor service delivery or under-allocations. In order that the state can deliver on core services and ensure rights realisation rather than seeing this erode further, we regard zero-based budgeting to be a crucial intervention. We would like to highlight that how it is implemented will be important and caution against the inclination to identify programmes according to largest spend first and merely using historical underspending as a yardstick for cuts. Underspending does not imply necessarily that the programme is not a key programme. It may indicate rather that there is underperformance which in turn can point to deeper issues, such as poor capacity in a department to deliver or scale up services. It is important that realistic plans to address these underlying issues are simultaneously implemented by departments or the exercise may deliver short-term quick wins but in the long-term have consequences that will become the making of future crises, because the actual issue continued to be sidestepped.

Another crucial consideration when applying zero-based Budgeting is the effect on aggregate demand. The application of the state's procurement budget sees money circulating in the economy. OUTA would like to see better regulation by the Competition Commission to reduce collusion, price rigging and abuse of dominant positions. Many sectors are dominated by firms that occupy the position of being virtual monopolies. This makes it particularly difficult for new entrants to the market. We recommend that in its engagements with business, government appeals to companies to offer supplier development programmes in key sectors, which will support smaller firms to be better placed to grow and integrate into private sector value chains as well as to offer government improved services when winning government tenders.

OUTA recognizes that there is weak capacity within departments to review spending outcomes, but that the Auditor-General and National Treasury officials are trained in methods to assess their performance and expenditure. The Auditor-General's office has a particularly strong grasp of which programmes across government are underperforming and their reports must be the point of reference. While we acknowledge that the Treasury has some capacity, we are however concerned that in recent years, it lost many skilled officials and cannot be a universal solution.

Due to the additional work that zero-based budgeting requires to rigorously and critically re-evaluate programmes, we recommend that Treasury addresses these capacity gaps immediately. Therefore, OUTA recommends that the Committees request that the Treasury table a human resources report and strategic plan to fill posts with talent demonstrating the highest levels of integrity. Provincial Treasuries, which have failed on countless occasions to fulfill their oversight function in rural municipalities, should be instructed to do the same. These should also report to Parliament on their oversight shortcomings and needs for systemic improvement. Structural, governance and financial reforms are in order.

There is a need for clarity about the interface between the departments and entities, the Department of Performance Monitoring and Evaluation in the Presidency, the Provincial Treasuries and National Treasury in respect of how zero-based budgeting will be implemented. Decisions to reduce spending of programmes will require political buy-in and are likely to be highly contested. A clear and rational process with clarity about roles and responsibilities needs to be spelt out.

4. Transparency and performance indicators

Increased transparency in budgeting and spending is now non-negotiable. Linked to this is the urgent need for improved application of government's planning and performance management system. There needs to be greater rigour in how spending targets are set. Policy choices with massive budget implications need to be sequenced and delivered in a measured, manageable way, so that their implementation is sustained and does not lead to other key programmes being impacted. Performance assessment does not appear to be applied in a manner that results in changes to indicators or to spending. Departments and entities may no longer get away with spending that does not achieve required outcomes.

The introduction of a Standard Chart of Accounts and a Municipal Standard Chart of Accounts are budget reforms which are important reforms to have undertaken and in the case of MSCOA to follow through with, as they improve the consistency of reporting.

Crucial areas of increased transparency include:

- A more detailed breakdown of budgeting in every programme.
- Rigorous adherence to the transparency aspects of procurement, which are routinely ignored by so many departments and entities at all levels of government.
- The effective use of the National Treasury's procurement blacklist.
- Effective financial reporting which is on time, accurate and published.

Crucial areas of improvement on performance indicators include:

- Reassessing the indicators for every single programme in every department and entity.
- Focusing on crucial delivery requirements, rather than quietly dropping the difficult indicators from the list.
- Amending these indicators when the budget is adjusted or amended.

- Improved reporting, so the actual performance is recorded not just the target for previous years.
- Programmes which are not important enough to require published indicators are not essential.

The need for detail is essential in improving these aspects. For example, not only should the number of households electrified be reported on spending on the Integrated National Electrification Programme grants, but the number of households in each specific geographical area should be listed. These should be clearly linked to spending on bulk supply schemes. This way the public can track what the money has been spent on – and alert National Treasury when claimed spending has not in fact taken place.

OUTA made a submission on the draft Public Procurement Bill. We are concerned to see that while the draft Bill addresses transparency, it actually provides for secrecy in that it fails to define what confidential information is. Procurement reform is key to ensure that spending is brought under control. The fact that the draft Public Procurement Bill contains provisions that will contribute to hiding procurement information is disturbing and must be rectified.

5. Reprioritisation of expenditure

Consolidated spending for 2020/21 has been revised from R1.95 trillion in the 2020 Budget to R2.04 trillion, mainly due to additional funding of R145 billion allocated for government's Covid-19 response. This amount is made up of R122 billion for the fiscal relief package, R3 billion to recapitalise the Land Bank and the remaining R19.5 billion for provisional allocations for Covid-

19 fiscal relief. While the pandemic brought about additional spending of R145 billion, the total rise in expenditure is R36 billion due to reprioritisations of R109 billion.

What stands out when assessing the Supplementary Budget and the debates surrounding it is a disturbing impression of how the Covid-19 pandemic has brought into stark focus the pre-existing issues which have persisted and continued to worsen for far too long. Systemic misspending is part of the landscape and has unfortunately come to be entrenched and an accepted way of operating. OUTA contends that it is absolutely overdue that this is rectified.

In the 2020 Adjustments Appropriation Bill, an increased allocation to the Departments of Defence and Police are unacceptable, and OUTA recommends that this is rejected. Additional responsibilities of the police and military should be funded by ordinary allocations and internal reprioritisation alone. These departments are well known for systemic waste, non-reaction to poor audit outcomes, abuse of power and corruption at all scales. These absorb a massive portion of the fiscus, almost entirely going to salaries of staff, without adequate and efficient benefit felt by a public that is plagued by violent crime and human rights violations.

We are concerned that additional allocations for “peace and security” being allocated to the Police and Defence take for granted their ordinary appropriations that do not achieve their stated objectives. The costs of procuring personal and protective equipment, and operating roadblocks and air support should be drawn from original allocations. Further, we recommend that, as an introductory example, the cost of employees in the Department of Defence should be reduced significantly by whatever means necessary and reallocated to infrastructure expenditure in departments that are essential for recovering economic growth post-Covid19. National Treasury states clearly that over the medium term, compensation and debt-service costs will be the largest expenditure items, and outstrip the investments government makes in human capital, social and economic infrastructure, and service delivery. This is not acceptable.

We note that some of the increased Defence spending on Covid-19 related matters includes "disinfectant tunnels". We question this, as the use of disinfectant tunnels has been opposed by health experts as dangerous.

Rising public debt means that an ever-increasing share of tax revenue is transferred to government bondholders.

SOEs are often the drivers of the biggest adjustments. The National Planning Commission recently published a position paper with comprehensive recommendations for reform in the largest SOEs and companies which need to be accelerated. We offer further comment on this in the section on SOEs.

OUTA is aware that the business rescue plan for South African Airways has now been adopted and that the plan requires government or a strategic equity partner to provide additional funding. SAA has required repeated bailouts. It is imperative that the "new SAA" be managed very differently. OUTA is of the view that unless there is a majority stake private sector shareholder to stave off political meddling, SAA will never fly competitively. Unfortunately, given the pandemic, the reality is that it is not good timing for the airline industry to flourish.

We welcome the extra support to businesses as essential, but we are dismayed to see how much of this is arranged by cutting other existing support to business. For example, in the Small Business Development Department budget, R1.154 billion is set aside as a Covid-19 Emergency Fund to support small enterprises, but at the same time, R800 million is cut from the Township Entrepreneurship Fund which supports small businesses. In the Trade, Industry and Competition Department, R500 million comes out of the Industrial Financing programme to support to business related to Covid-19, but that programme loses another R1.199 billion to cuts, explained as "allocations for incentives will be suspended by postponing activities to the next financial year and reducing support to firms".

OUTA notes that the provincial equitable share amount remains as proposed in the February budget, with reprioritisations within provincial budgets to respond to the Covid-19 pandemic. We note that most of the funds to be reprioritised come from the Public Works, Roads and Transport sectors, and the postponement of planned Sports, Arts and Culture events. We think that these reprioritisations make sense at the level at which they are presented, however, the details of the provincial reprioritisations will be included in provincial adjustments budgets, which are not yet available for analysis. OUTA has been concerned that Treasury has not yet published the Estimates of Provincial Revenue and Expenditure (EPREs). Usually, Treasury publishes these around April each year and it is therefore an unexpected reversal in transparency that the EPREs are still not published. In terms of the reprioritisations for which provinces will table the details, the Supplementary Budget Review outlines that at least R15 billion is expected to be reprioritised to increase capacity in the public health system, and at least R5 billion will be used to augment the education catch-up plan, social welfare support for communities, provision of quarantine sites by public works departments and responses in other sectors.

Table 2.10 Provincial equitable shares: 2020/21

R thousand	Equitable share	Funds reprioritised to: Health	Other sectors	Total
Eastern Cape	13.3%	1 988 374	662 791	2 651 165
Free State	5.6%	835 589	278 530	1 114 119
Gauteng	20.8%	3 126 485	1 042 162	4 168 647
KwaZulu-Natal	20.7%	3 105 174	1 035 058	4 140 231
Limpopo	11.6%	1 735 434	578 478	2 313 913
Mpumalanga	8.2%	1 228 288	409 429	1 637 718
Northern Cape	2.6%	396 847	132 282	529 130
North West	7.0%	1 045 383	348 461	1 393 844
Western Cape	10.3%	1 538 426	512 809	2 051 234
Total	**100.0%**	**15 000 000**	**5 000 000**	**20 000 000**

Source: National Treasury

OUTA strongly recommends that there should be greater oversight of how these reprioritised funds are being utilised to ensure that they are not squandered. We are disturbed to note that in some provinces, the health system is on the verge of collapse. In particular, there have been numerous articles in the media about Eastern Cape hospitals not coping. We include a selection of three news articles for the Committees' attention – the selected news articles do not represent the most sensational headlines. We urge that in the interests of residents' wellbeing, urgent solutions be implemented where a province's health systems are overwhelmed.

EC govt to build field hospitals as infections among health workers spike:

https://citizen.co.za/news/covid-19/2307017/ec-govt-to-build-field-hospitals-as-infections-among-health-workers-spike/

Nelson Mandela Bay state maternity services near collapse as workers stay away: https://www.dailymaverick.co.za/article/2020-06-24-nelson-mandela-bay-state-maternity-services-near-collapse-as-workers-stay-away/

South Africa: Port Elizabeth Hospitals Flooded As Clinics Close: https://allafrica.com/stories/202007030242.html

We are concerned about the extent of contingent liabilities arising from medico-legal claims. In the Auditor-General's PFMA report of 2018/19, it is outlined that in Eastern Cape: "The medico-legal claims disclosed by Health increased to R29 billion from R24 billion in the previous year and exceeded the department's annual budget allocation by R5 billion. An amount of R797 million was paid in the current year relating to these claims, of which R460 million was funded by an overdraft facility. This funding model was not sustainable and placed further pressure on the provincial fiscus."

We recommend that the committees debate whether placing the Eastern Cape provincial health department under administration may be an appropriate action. We also suggest that the committees exercise focused and intensive oversight to ensure that urgent attention is paid to managing medical legal claims and the circumstances that give rise to negligence in the treatment of patients nationwide. Unless the situation is managed better, medico-legal claims have the potential to render the funding model of public health unsustainable. This is a particularly significant risk now that the influx of patients is straining hospital systems. An exponential downward spiral needs to be averted.

We note the net in-year suspension of R10.8 billion to grants and that this is temporary in order to provide emergency funds for the pandemic response.

Table 2.5 Suspension of conditional grants

R million	Total suspensions	Reprioritisation	Net suspensions
Municipal infrastructure	4 401	4 401	–
Urban settlements development	3 357	2 257	1 100
Public transport network	2 998	1 096	1 902
Water services infrastructure	689	689	–
Integrated national electrification programme (municipal)	500	–	500
Human settlements development	1 728	–	1 728
Provincial roads maintenance	1 756	–	1 756
Education infrastructure	6 621	4 400	2 221
Health facility revitalisation	1 066	1 066	–
Other grants	3 703	2 126	1 577
Total	**26 819**	**16 035**	**10 784**

Source: National Treasury

The largest of these proposed suspensions is to education infrastructure (R2.2 billion), the public transport network (R1.9 billion), provincial roads maintenance (R1.8 billion) and human settlements (R1.7 billion). While we note that the situation requires tough choices and that spending certain allocations is made more challenging by the pandemic, which gave rise to these reprioritisations, we highlight some of the complex implications. Where there are suspensions of infrastructure funds, this is likely to have an impact on the construction industry which was beleaguered prior to the pandemic. This in turn has an impact on construction sector jobs, especially when firms go insolvent. At the same time, there are various construction firms that have been found in recent years to be involved in collusion and massively inflating the cost of contracts. These trends need to be halted so that government's procurement budget is utilised more effectively.

There are no additional funds provided to provincial disaster relief via Cooperative Governance (Vote 3). However, we note that immediate relief was provided through the 2019 Division of

Revenue Act. In the Budget Review, it is outlined that this included the release of R466 million from the provincial disaster relief grant to fund the purchase of personal protective equipment by provincial health departments and R150.2 million from the municipal disaster relief grant, mainly for sanitisation in municipalities. The Budget Review goes on to explain that the relevant provisions were invoked on five grants, allowing the use for disaster alleviation of more than R5 billion in potential underspending. From this, the National Treasury has approved the reallocation of over R4 billion for the provision of emergency water and sanitation, sanitisation and other Covid-19-related activities. The Supplementary Budget Review says that, as announced in the 2020 Budget Review, the National Treasury still intends to review and improve the disaster funding system. We recommend that this needs to be among priorities for Treasury due to the extent of the funding and because disasters are becoming more frequent.

In terms of the downwards revisions, the Integrated National Electrification programme that provides bulk infrastructure and household connections has been revised downwards by R1.5 billion. This programme has been underspending in recent years, however we are concerned about this downwards revision and a downwards revision of R21.8 million to planned energy savings projects. It is difficult at a household level to do lockdown without electricity. News reports are highlighting that in Gauteng there has been a surge in illegal connections. If energy efficiency projects were being implemented and solar water geysers and panels were being installed, it would contribute to addressing some of the peak demand issues that lead to loadshedding and would also give households that do not have an ability to pay some relief.

5.1 Energy

OUTA has analysed the adjusted supplementary budget for the Department of Mineral Resources and Energy. We attach our full analysis, which has been sent to the Portfolio Committee on Mineral Resources and Energy, as an annexure and present an extract of it here. The DMRE has reduced its budget from R9.337 billion to R7.763 billion, an amount of which R4.681 million has been moved from goods and services in the Administration programme towards the Mine Health and Safety Inspectorate, for Covid-19-related activities. A further R2.331 million has been vired from goods and services to other, but no explanation is available. Table B.34.2[1] provides an explanation of the budget adjustments. The full DMRE reduction is R1 574.027 million.

Table B.34.2 Explanations of budget adjustments

R thousand	Downward revisions	Reallocations	2020/21 Total net change
Goods and services: Reduction in non-essential goods and services such as catering and travel	-48 721	7 012	-41 709

[1] Table B34.2 Explanations of budget adjustments.

Integrated National Electrification Programme: Eskom: Reduction in bulk infrastructure and household connections in Eskom-licensed areas	-1 000 000	–	-1 000 000
Integrated National Electrification Programme: Municipalities: Reduction in bulk infrastructure and household connections in municipal-licensed areas	-500 000	–	-500 000
International partnership for energy efficiency: This is a voluntary contribution	-1 419	–	-1 419
Energy efficiency and demand-side management grant: Reduction in the number of planned energy savings projects	-21 799	–	-21 799
National Nuclear Regulator: Reduction in the international travel budget of the regulator	-5 000	–	-5 000
South African National Energy Development Institute: Reduction in non-essential goods and services such as travel and catering, and consulting fees for planned business development projects that will be delayed. Filling of vacancies suspended until later in the financial year	-4 100	–	-4 100

Total	**-1 581 039**	**7 012**	**-1 574 027**

Source: National Treasury

Of the DMRE reductions, the lions' share comes from Treasury and DMRE cutting a total of R1.5 billion from the Integrated National Electrification Programme (INEP) grants. R1 billion less will be going to Eskom to electrify households (INEP Eskom) and half a billion less will be going to municipalities to electrify households (INEP municipalities).

Due to these reductions, the money that Eskom will spend on electrifying households goes down from R3 billion to R2 billion (a 33% reduction) and the money that municipalities will have to spend on electrifying households goes down from R1.859 billion to R1.359 billion (a 27% reduction). Such households are part of the poorest and most vulnerable in South African society, and it can be surmised are those who have been hardest hit by COVID19, both from compromised health and lack of ability to participate in informal livelihoods economy.

Access to electricity is a developmental priority for the country. The Auditor-General report on municipalities released on 1 July raises concerns about the ability of municipalities to deliver services including electrification.[9] Only 8% of 229 municipalities audited obtained clean audits and the AG referred to "serious weaknesses" in financial management which were not being addressed. OUTA would therefore support a strategy in which Treasury and DMRE direct the INEP (municipalities) budget only towards those municipalities that are competent to use it efficiently.

On 7 July 2020, the DMRE told the Portfolio Committee on Mineral Resources and Energy that the cuts would reduce the number of households being connected to the grid in 2020/21 by 43 000, from the planned 180 000 connections to 137 000[2]. However, the department's own numbers don't add up, indicating problems with planning this programme. Elsewhere in the same presentation, the department said this was a reduction of 20 316 households funded through the INEP municipal grant and 29 347 households funded through the INEP Eskom grant, which is a higher total of 49 663.

The reduction in the INEP grants is unlikely to be replaced. The DMRE told the Portfolio Committee: "National Treasury has emphasized that a guarantee cannot be provided that the reduced amounts will be reinstated in the next budget process as the allocation of resources is guided by the prevailing priorities of government."

The rationale for such reductions is not clear. It is difficult to understand how the reduction in spending on electrification and energy efficiency fall within the criteria of Treasury's instruction to cut "spending activities that are not critical to the core service delivery requirements of the department". Not only is such expenditure core to the purpose of the DMRE – the Department of Energy's annual report for 2018/19 refers to this as its "flagship programme"[3] – but it is also one action that the DMRE can take that would help poor and vulnerable South Africans cope with Covid-19. Energy efficiency, including participation in international partnerships, has been cut. Given the reduction in energy demand over the Covid-19 period, such a reduction does seem rational.

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[2] 7 July 2020. Department of Mineral Resources and Energy. Briefing to the Portfolio Committee on Mineral Resources and Energy. Available online at: https://outa.co.za/web/content/117048?unique=false&download=true

[3] Department of Energy. Annual Report 2018/19. Available online at: https://www.gov.za/sites/default/files/gcis_document/201911/doe-annual-report-2018-19.pdf

OUTA understands that the current economic situation means that there is no spare money in Treasury. There is a necessity to reduce expenditure. However, the manner in which DMRE has proposed to reduce its budget deepens inequity, further impoverishing the poor. Should Parliament feel that further savings could be made in other programmes, OUTA would recommend that additional electrification be implemented.

Electrification is pro-poor service delivery of particular relevance during the COVID19 pandemic, where vulnerable communities are feeling the brunt of the disease. OUTA is deeply disappointed that the DMRE has chosen to put the burden on Covid-19 onto those least able to bear it.

5.2 Water

We note that the Department of Water and Sanitation (DWS) budget proposes that the main allocation is reduced by R257 million. Of this net proposed change, goods and services will receive a R214 million reduction, compensation a R50 million reduction, and payments for capital assets increases by R7 million. The bulk of the reduction is due to suspension of funds for Covid-19 purposes and comes from Water Planning and Information Management, which receives an allocation that is reduced by R132 million. We are concerned that water infrastructure development will be getting R28 million less, as there are many water-stressed areas in the country and securing water provision should be treated with urgency. We are however aware of the R4 billion for the provision of emergency water and sanitation, sanitisation and other Covid-19-related activities under the Division of Revenue Bill.

Table B.41.1 Revised programme allocations

R thousand	2020/21 Main budget	Downward revisions: Suspension of funds (COVID-19 purposes)	Downward revisions: Virements from (COVID-19 purposes)	Downward revisions: Virements from (other)	Reallocations: Allocated to (COVID-19 purposes)	Reallocations: Virements to (COVID-19 purposes)	Reallocations: Virements to (other)	2020/21 Total net change proposed	2020/21 Total allocation proposed
Programmes									
Administration	1 976 548	-76 757	-4 171	-26 105	–	15 144	49 302	-42 587	1 933 961
Water Planning and Information Management	1 026 439	-105 518	-18 704	-23 197	–	15 265	–	-132 154	894 285
Water Infrastructure Development	13 795 765	-1 548 226	-4 181	–	1 498 962	–	–	-53 445	13 742 320
Water Sector Regulation	417 475	-25 461	-3 353	–	–	–	–	-28 814	388 661
Total	**17 216 227**	**-1 755 962**	**-30 409**	**-49 302**	**1 498 962**	**30 409**	**49 302**	**-257 000**	**16 959 227**
Economic classification									
Current payments	**3 635 726**	**-257 000**	**-22 144**	**-49 302**	**–**	**15 144**	**49 302**	**-264 000**	**3 371 726**
Compensation of employees	1 988 252	-50 000	–	–	–	–	–	-50 000	1 938 252
Goods and services	1 647 474	-207 000	-22 144	-49 302	–	15 144	49 302	-214 000	1 433 474
Transfers and subsidies	**8 974 139**	**-1 090 154**	**–**	**–**	**1 090 154**	**–**	**–**	**–**	**8 974 139**
Provinces and municipalities	5 451 434	-1 090 154	–	–	1 090 154	–	–	–	5 451 434
Departmental agencies and accounts	2 450 476	–	–	–	–	–	–	–	2 450 476
Foreign governments and international organisations	236 379	–	–	–	–	–	–	–	236 379
Public corporations and private enterprises	809 312	–	–	–	–	–	–	–	809 312
Non-profit institutions	1 630	–	–	–	–	–	–	–	1 630
Households	24 908	–	–	–	–	–	–	–	24 908
Payments for capital assets	**4 606 362**	**-408 808**	**-8 265**	**–**	**408 808**	**15 265**	**–**	**7 000**	**4 613 362**
Buildings and other fixed structures	4 467 639	-408 808	-8 265	–	408 808	7 000	–	-1 265	4 466 374
Machinery and equipment	99 308	–	–	–	–	8 265	–	8 265	107 573
Software and other intangible assets	39 415	–	–	–	–	–	–	–	39 415
Payments for financial assets	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**17 216 227**	**-1 755 962**	**-30 409**	**-49 302**	**1 498 962**	**30 409**	**49 302**	**-257 000**	**16 959 227**

We note that no change in the allocation to the Regional Bulk Infrastructure Grant and Water Services Infrastructure Grant is proposed. We think this decision makes sense, provided that the funds are spent effectively.

The right to access to water is contained in section 27 of our Constitution. However, this right is being threatened by ongoing systemic corruption and mismanagement. Water is life sustaining - ensuring the delivery of clean, potable water is a mandate that should be discharged with the greatest care and by individuals with unblemished track records.

While many communities in South Africa are buffeted by the effects of drought, the DWS and various water boards have for many years had extremely poor audit outcomes and extensive wasteful expenditure. In 2018, OUTA made a submission to the water portfolio inquiry run jointly by the Portfolio Committee on Water and Sanitation, the Standing Committee on Public Accounts (SCOPA) and the Portfolio Committee on Public Service and Administration. OUTA's submission identified problems in the department's Bucket Eradication Programme and in both the governance and finances of the water boards. Many of the issues that were prevalent in 2018 continue today. OUTA is aware that 139 cases of fraud and corruption have been found at the Departments of Human Settlements, Water and Sanitation. On 26 May, a committee meeting of the Standing Committee on Public Accounts was held in which the focus was on the investigations into DWS & Water Boards. Potential recoveries are estimated at R18.2 million. The Committee expressed disappointment at the state of the War on Leaks programme, which members felt was necessary but not well structured and that implementation is poor. OUTA will continue to monitor budget allocations to the War on Leaks programme and would like to see it undergoing a performance expenditure review. The DWS reported that the area of highest risk for irregular expenditure was at the level of implementing agencies. Amatola Water Board and Sedibeng Water Board were flagged due to their high incidence of irregular expenditure. Intergovernmental relations are such that the poor financial management of municipalities has an impact of a knock-on effect on water boards. The Auditor-General's recently released municipal audit report shows that R9.7 billion was owed to water boards by municipalities as at June 2019, with by far the greatest proportion of this outstanding debt being debt that was owed for more than 120 days. The municipalities contributing the most to this are Mopani, Vhembe and Msukaligwa.

Water boards outstanding debt – R billion

Total amounts owed (as at June 2019)	31 - 120 days	Over 120 days	Total amount in arrears (i.e. 31 days and over)
R9,74	R0,86	R5,38	R6,24

Highest contributors – R billion

Municipality	Total amounts in arrears (as at June 2019)	31 - 120 days	Over 120 days
Mopani (LP)	R0,93	R0,09	R0,84
Vhembe (LP)	R0,83	R0,02	R0,81
Msukaligwa (MP)	R0,68	R0,14	R0,54

OUTA recommends that an independent water oversight body be constituted. We would like to see the prioritising of funds to restore human dignity to many under-resourced citizens, as opposed to the continued wasting of these funds with flagrant disregard.

5.3 Transport

The Department of Transport allocation is reduced by R4.6 billion. Rail transport gets a reduction of R1 billion. Road transport will get a reduction of R2.6 billion. Public transport also gets a reduction of R1 billion.

Within the road transport programme, we note that there have been reallocations within SANRAL's budget to cover the reduction in revenue due to "restrictions on economic activity" and "additional support to pay debt that was due": the Gauteng Freeway Improvement Project (GFIP) receives R2.5 billion. OUTA has always believed the GFIP – the e-toll project – should have been funded through tax allocations. The continuous bailouts of the e-toll debacle have in fact driven the financing of the scheme through Treasury. OUTA believes that it is time that government acknowledges that this scheme has failed and we call for a final decision by Cabinet to pull the plug on it. Had this project had been managed transparently, cost-effectively and in the public interest in the first place, this bailout would not have been necessary as the costs would not have been as high.

There is a substantial cut in the capital allocation for non-toll roads (Supplementary Budget Review refers to a cut of R1 billion due to delaying non-toll road construction projects, while the Adjustments Appropriation Bill refers to a reduction of R3.935 billion on non-toll network capital projects), presumably to help fund the GFIP bailout.

Notably, R1.9 billion less will go to the Public Transport Network Grant and a one-off taxi gratuity of R1.1 billion is included for taxi operators. The taxi recapitalisation programme is allocated R250 million less. This can be seen in table B.40.2 below.

Table B.40.2 Explanations of budget adjustments

R thousand	Downward revisions	Reallocations	2020/21 Total net change
Goods and services: Reduction in non-essential goods and services such as travel and reprioritisation towards protective equipment and sanitiser for taxi industry and project management fees to implementing agent	-99 580	29 780	-69 800
Taxi recapitalisation: Reduction in the number of taxis to be scrapped this year	-250 000	–	-250 000
Provincial roads maintenance grant: Delay in planned construction projects	-1 755 840	–	-1 755 840
Public transport network grant: Delay in planned construction projects	-2 998 069	1 095 794	-1 902 275
Passenger Rail Agency of South Africa: Rolling stock fleet renewal programme: Underspending in capital projects means that the agency has sufficient cash balances to minimise the impact on planned projects	-1 021 348	–	-1 021 348
South African National Roads Agency: Capital – non-toll roads: Delay in planned construction projects	-1 095 961	–	-1 095 961
Taxi relief fund: Once-off payment to taxi operators	–	1 135 000	1 135 000
Revenue support to the Railway Safety Regulator: To cover the reduction in revenue due to restrictions on economic activity	–	15 800	15 800
Revenue support to the Passenger Rail Agency of South Africa: To cover the reduction in revenue due to restrictions on economic activity	-1 260 577	1 260 577	–
Revenue support to the South African National Roads Agency: To cover the reduction in revenue due to restrictions on economic activity. Additional support to pay debt that was due	-2 839 336	2 839 336	–
Revenue support to the Road Traffic Infringement Agency: To cover the reduction in revenue due to restrictions on economic activity	–	200 000	200 000
Revenue support to the Cross-Border Road Transport Agency: To cover the reduction in revenue due to restrictions on economic activity	–	104 000	104 000
Total	**-11 320 711**	**6 680 287**	**-4 640 424**

Funds from the public transport operations grant will be used to sanitise buses and provide protective equipment for public transport workers. OUTA welcomes the sanitisation and PPE to protect public transport workers as we think that public transport could be a key risk for the transmission of coronavirus. We are concerned for the safety of passengers and drivers, and that the occupancy rates for taxis has been returned to 100% while the virus infection rates are peaking.

The Passenger Rail Agency (Prasa) loses R2.2 billion from the rolling stock renewal programme (this is the programme targeted for looting in state capture), moving half of that into support for Metrorail operations.

6. Compensation

The Minister of Finance's speech highlighted that nearly half of all consolidated revenue will go towards the compensation of public servants and that Minister Senzo Mchunu is negotiating with the labour movement to find a balanced solution which sets compensation at an appropriate, affordable and fair level.

The table below highlights adjustments by economic classification.

Table B.3 Summary of adjustments by economic classification

		Downward revisions		Reallocations			
R million	2020/21 Main budget	Suspension of funds (COVID-19 purposes)	Virements from	Allocated to (COVID-19 purposes)	Virements to	2020/21 Total net change proposed	2020/21 Total allocation proposed
Economic classification							
Current payments	**494 990**	**-8 785**	**-1 446**	**15 711**	**2 801**	**8 281**	**503 271**
Compensation of employees	187 668	-1 426	-17	812	127	-503	187 165
Goods and services	77 891	-7 359	-1 429	7 724	2 673	1 610	79 501
Interest and rent on land	229 430	–	–	7 174	–	7 174	236 605
Transfers and subsidies	**1 215 936**	**-88 066**	**-8 894**	**100 146**	**8 943**	**12 129**	**1 228 065**
Provinces and municipalities	781 934	-44 491	-1 991	47 901	2 020	3 439	785 373
Departmental agencies and accounts	143 296	-16 256	-3 947	5 429	4 242	-10 533	132 763
Higher education institutions	44 803	-3 210	–	2 327	–	-883	43 920
Foreign governments and international organisations	2 829	-112	–	–	1	-112	2 717
Public corporations and private enterprises	32 525	-5 164	-2 474	581	2 418	-4 638	27 886
Non-profit institutions	9 073	-1 751	-30	1 117	60	-603	8 469
Households	201 477	-17 082	-453	42 790	203	25 458	226 935
Payments for capital assets	**15 303**	**-908**	**-1 730**	**2 494**	**326**	**182**	**15 485**
Buildings and other fixed structures	10 681	-793	-1 282	1 079	207	-789	9 892
Machinery and equipment	4 262	-46	-440	1 315	117	946	5 208
Heritage assets	203	-68	-5	–	–	-73	130
Biological assets	9	–	-3	–	–	-3	6
Land and sub-soil assets	–	–	–	–	–	–	–
Software and other intangible assets	146	-1	–	100	2	101	247
Specialised military assets	2	–	–	–	–	–	2
Payments for financial assets	**42 552**	**–**	**–**	**3 013**	**–**	**3 013**	**45 565**
Total	**1 768 781**	**-97 759**	**-12 069**	**121 364**	**12 069**	**23 605**	**1 792 386**
Provisional allocation not assigned to votes	7 021	–	–	–	–	–	7 021
Provisional allocation for Eskom restructuring	23 000	–	–	–	–	–	23 000
Compensation of employees adjustment	-37 807	–	–	–	–	–	-37 807
Total	**1 760 994**	**-97 759**	**-12 069**	**121 364**	**12 069**	**23 605**	**1 784 600**
Contingency reserve	5 000	–	–	–	–	–	5 000
Total	**1 765 994**	**-97 759**	**-12 069**	**121 364**	**12 069**	**23 605**	**1 789 600**

Source: National Treasury

As the Committees will be aware, in the post-Supplementary Budget parliamentary joint meeting of the Finance and Appropriations Committees the Minister revealed that wage negotiations had deadlocked at the bargaining council and the matter will now proceed to the Labour Court. OUTA recommends that these Committees add their weight to this issue by supporting National Treasury in its intention to rationalise the cumulative cost of remuneration in the public sector.

OUTA strongly supports National Treasury's decision to initiate a process of rationalising the cumulative cost of remuneration in the public service. According to the Supplementary Budget Review, compensation of employees will see the most significant change in share of expenditure by economic classification for 2020/21, with virtually all savings being allocated to transfer payments that aim to provide for public health interventions related to Covid-19, as well as scaling up and maintaining social assistance interventions for distressed and vulnerable households.

However, much of these transfers will be channeled through organs of state that have proven to be incapable of, or unwilling to, efficiently and transparently manage public finances. The increased allocation to local government in the Division of Revenue Amendment Bill is case in point. OUTA urges the Committee to facilitate engagements with the Auditor-General, departments, civil society organisations and strategic oversight entities such as the Financial Intelligence Centre to promote experimental monitoring and evaluation of Covid-19 related spending. Virements and other forms of budget manipulation are commonplace in municipalities across the country.

7. State-owned entities

This section aligns itself with the National Planning Commission (NPC) position paper titled “The Contribution of SOEs to Vision 2030: Case Studies of Eskom, Transnet and PRASA”.

The NPC recently conducted research on the alignment of key infrastructure SOEs with the National Development Plan and concluded that these are misaligned due to:

- Years of uncertain policy expectations;
- Precarious funding strategies;
- Poor institutional accountability and poor governance; and
- Political interference.

The NPC pointed out that these factors have led to the chronic underperformance of some SOEs, and, in some cases, near-collapse. OUTA strongly agrees with this statement. Significant shortfalls in delivery have an impact on economic growth and have led to extremely worrying increases in government debt.

The NPC continues to state that this has spilled over into increased national credit risk. Most problematic is the adverse impact non-performing SOEs have on the lives of the poorest and vulnerable members of society and in constraining economic development. The only noteworthy area of success among major SOEs is black economic empowerment.

We contend that even this gain of empowering historically disenfranchised groups will no longer be viable in the future if serious and urgent reforms are not implemented. Further, the discretion associated with black economic empowerment procurement policies have been manipulated by politically connected individuals and families – and we trust that the Public Procurement Bill will go a long way in addressing this issue.

OUTA suggests that there are four types of reforms that are urgently needed in SOEs:

1. Governance reforms
2. Financial reforms
3. Structural reforms
4. Policy and process reforms

7.1 SOEs: Governance reforms

Appointment and management processes in major SOEs must not only adhere to private corporate governance norms such as those contained in the King Codes, they must also include a clear and simple mechanism that holds senior managers, executives and board members accountable to the public. For example, the selection and oversight of these key public officials must be transparent and systematically participative. The Report of the High-Level Panel on the Assessment of Key Legislation and Acceleration of Fundamental Change recommends the same.

OUTA concurs with the Panel's recommendations that Parliament can and should provide effective oversight and evaluation of current assets, and public inspection of custodian and user immovable asset management plans as a mechanism to facilitate and promote transparency and accountability. However, the Government Immovable Asset Management Act does not govern land owned by SOEs, and much well-situated, vacant urban land is owned by SOEs rather than by government departments.

Such enterprises are regulated by specific laws, which often stipulate how assets may be disposed of. OUTA agrees with the proposal that each such law should be reviewed and amended to ensure that where well-situated vacant urban land is owned by SOEs, the land should be released to address the legacy of spatial inequality, in particular for the provision of low-cost housing. The amendment should provide that well-situated SOE land cannot be left unused. Further, OUTA recommends that non-core assets of SOEs must be sold urgently to reduce exposure and risk to the taxpayer.

An overarching law-making intervention that applies to the governance and management of all SOEs will be recommended under the Policy and Process Reforms subsection below.

OUTA echoes this NPC recommendation: “Internal accountability must be improved. This can be achieved by narrowing performance management indicators, stronger linking of executive remuneration to outcomes achieved rather than measurement of activities, inputs or outputs, and finally by requiring more systematic public disclosure of the main objectives from SOE Shareholder Compacts as well as of an assessment of the achievement of these annual objectives in public reporting and to Parliament, to facilitate public scrutiny.”

7.2 SOEs: Financial reforms

OUTA recommends strong reinforcement of commercial transparency in major SOEs. While developmental objectives are essential in the South African developmental state, the financial share and implications of preferential procurement should be explicit and systematic.

On allocations from the National Revenue Fund and general state coffers, allocations to SOEs must be strictly conditional – not only in emergency or special circumstances. Whilst the operational restructuring of Eskom, PRASA, SAA and other financially crippled entities is welcome, taxpayers need clarity on the debt restructuring plans being contemplated by National Treasury and the Department of Public Enterprises.

7.3 SOEs: Structural reforms

The NPC's position paper comments on the contribution of SOEs to vision 2030 are worth noting here:

> Where there are repeated failures in operational performance, or where fiscal and credit risk starts to outweigh benefits, government has a duty to implement organisational reforms. These include corporate governance, funding, and policy and process reforms.
>
> Where chronic operational, governance and financial underperformance continues, and organisational reforms are inadequate, structural reforms should be introduced. This means opening the provision of the service or infrastructure to other economic actors besides the state and/or changing the structure of state ownership. The debate about structural reforms must move away from the unhelpful binary and ideological privatise/nationalise discourse.
>
> It is the underlying nature of the market conditions that must guide the decision to create or retain an SOE or components thereof. It is hard to see on either constitutional or efficiency grounds why the state should use public resources to intervene with an SOE in private commercial activities where the market is competitive and produces outcomes that are acceptable to both sellers and buyers, or where light failings can be regulated. Scarce resources would be better directed to where markets do not operate efficiently.

Trust is an essential element of democratic legitimacy, and the declining levels of trust in leaders and institutions impact negatively on nation-building. One reason for this is that in some instances the wrong people are appointed to senior positions, which eventually results in a loss of public trust in them and the institutions they lead. The Constitution empowers the President and Premiers to appoint members of the National and Provincial Executives. Without abrogating from these constitutional powers, measures should be introduced that allow for more transparent and participatory appointment processes.

Such processes will empower the public with more information and knowledge about the new members of the executive and their relative skills, experience and merits, and would provide a forum where appointees can publicly commit themselves to applicable standards and to certain objectives, against which their subsequent conduct and performance can be measured. An empowered public will, in turn, be able to assist the legislatures to ensure that executives are more accountable to electorates.

7.4 SOEs: Policy and process reforms

OUTA welcomes publication of the long-awaited draft Public Procurement Bill by National Treasury. This legislative reform, as a start, can have a major positive effect on the quality and real impact of state expenditure.

We strongly recommend that the Committees call for urgent publication of the long-awaited Government Shareholder Management Bill from the Department of Public Enterprises, which has the potential to transform the way SOEs and other public entities are governed. This type of reform must be demanded by Parliament before pending debt restructuring plans for major SOEs such as Eskom, Transnet, PRASA and Denel are approved.

Shareholder compacts and other ad hoc, case specific policies that govern state ownership and custodianship of public assets have proven to be ineffective and difficult to account for. Overarching legislation is therefore imperative. Such legislation can and should provide for compulsory, public consultation with financially and politically disinterested stakeholders on all mega-transactions that directly or indirectly draw resources from the National Revenue Fund.

8. Local Government (Public Affairs Research Institute)

Local government in aggregate is no longer financially viable in its current form. It has been relatively less impacted by the declining fiscal resource envelope relative to the other spheres of government: their allocation of the equitable share has been increased (by R11 billion), and the suspension of conditional grants is lowest in local government (R12.6 billion).

However, the Minister emphasised that municipalities “face significant financial stresses. Metropolitan municipalities reported that their revenue collected in April fell by about 30 per cent on average. This decline is due to a combination of lower demand for services such as electricity and water, and significantly higher non-payment rates for municipal bills.” Even before the impact of the coronavirus pandemic, many local municipalities were struggling to stay afloat. The Auditor-General’s 2018/19 local government report indicates that just over one third of municipalities ended the financial year in deficit – they had spent more than they had received in revenue.

In-year (S71) reporting by local government indicates that at the end of March 2020 (or just before the lockdown started to impact the economy) monies owed to municipalities totaled just over R180 billion. More than three-quarters of this debt had been outstanding for more than 90 days, and most of this debt (around 70%) is owed by households.

As the economic impact of coronavirus increases, we should anticipate that this debt will rise rapidly, particularly if we bear in mind that the prices of all municipal services will increase from 1 July. It would be prudent to assume that a significant part of this debt will never be recovered. We should thus anticipate that considerably more municipalities will move into an operating deficit in the 2020/21 financial year. There are insufficient national fiscal resources to fill this deficit. The most likely (almost inevitable) outcome is a further deterioration in municipal service provision and critical infrastructure maintenance, and effective deprivation of access to basic services for low-income households who will no longer be able to afford them. There are also insufficient funds in the current fiscal framework to extend the volume and reach of the free basic services provision to provide relief to these households.

The important point to make is that this financial crisis in municipalities is neither new, nor easily addressed. It has not been caused by Covid-19, merely exacerbated by it. Nor is it a reflection only of operational inefficiencies and poor financial management, although these factors certainly contribute to making things worse than they might have been. The real reasons for the current financial crisis are structural (and thus require a structural solution), and can be traced back to the original local government design contained in the 1998 White Paper. That White Paper – reflecting the conditions at that time (including the very low cost of electricity) – had to make enormous assumptions about how the local government fiscal model would work in their design of the local government framework. Twenty-two years later it has become clear that many of those assumptions are no longer valid. The result is that many municipalities will never be financially viable under the current macro-economic circumstances. The longer that we maintain the fiction that they will be, the greater the long-term damage to poor households and basic infrastructure.

We urgently require a review of the entire local government fiscal and operating framework: a critical assessment of the actual (not assumed) revenue generating potential of local government, and the real (not assumed) cost of providing comprehensive services. We need to answer the following critical questions:

- Does our current municipal demarcation system reflect the reality of local government financial viability? If not, what demarcation structure will result in a better alignment with fiscal reality?

- Does the allocation of powers and responsibilities to local government reflect their ability to fund those mandates?

This exercise should be undertaken as a matter of urgency.

Constitutional remedies for dysfunctional municipalities are not being used. Section 139 of the Constitution offers a wide range of remedies for dysfunctional and financially distressed municipalities. However, these remedies are not being implemented as envisaged. Both provincial and national government (including National Treasury) carry the responsibilities for this regulatory failure.

The implementation of zero-based budgeting offers significant opportunities. Although it presents numerous operational challenges, we believe that the principle of zero-based budgeting in local government offers significant potential benefits, not least the following:

1. An opportunity to accurately determine the actual cost of providing municipal goods and services.

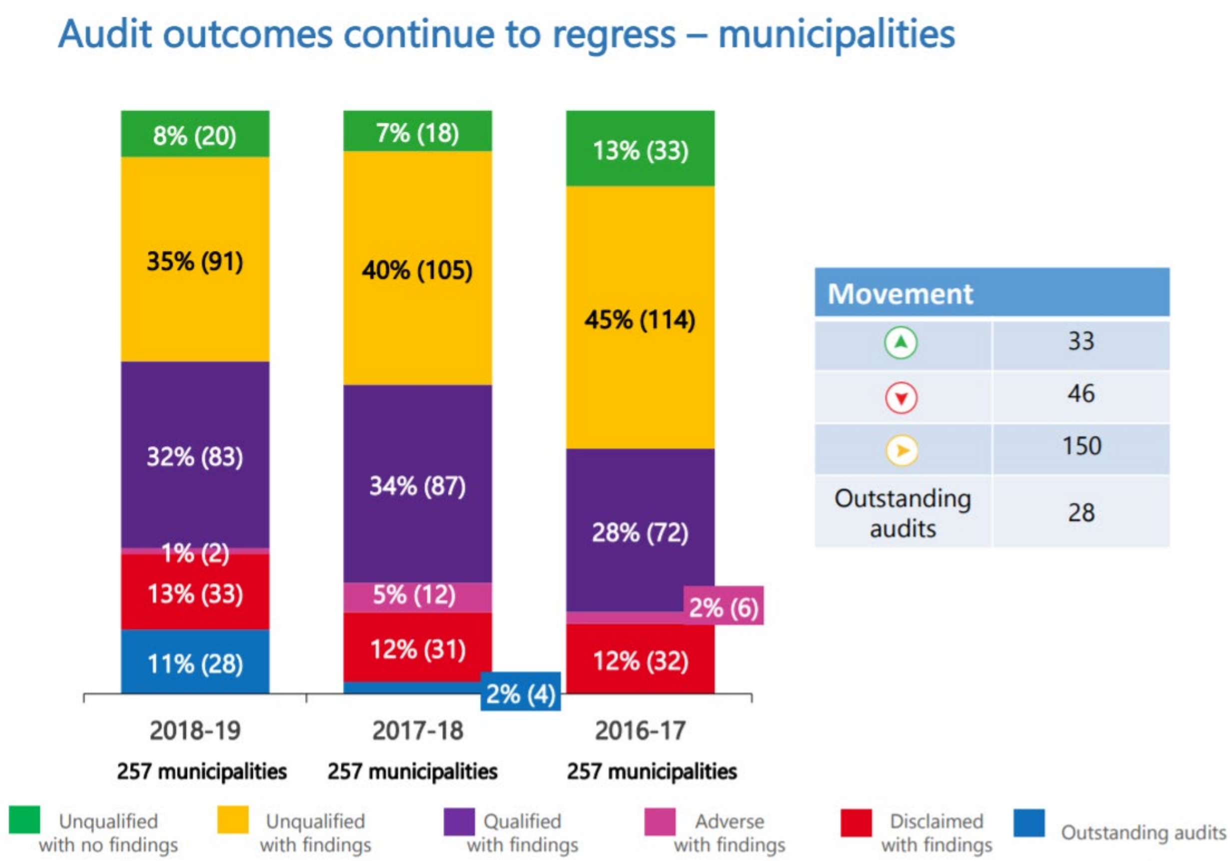
2. An opportunity to increase citizen participation in budgeting, since each expenditure item and the associated prioritisation criteria must be clearly explained. This will, we believe, facilitate robust public discussion on the most appropriate use of scarce public resources, and deepen democracy.

3. An opportunity to root out wasteful and non-priority expenditure at the start of the budgetary process, since these programmes can no longer be “hidden” in incremental budgetary processes.

In terms of addressing the operational challenges, there are numerous opportunities to increase technical capacity in this regard through partnerships with the private sector and civil society.

9. Local government audit outcomes

On the same day as the Supplementary Budget was tabled, the Auditor-General announced the release of the report on 2018/19 local government audit outcomes. There is an overall regression in the audit outcomes of municipalities. Out of 257 municipalities only 20 (8%) received clean audits.



Source: Auditor General of South Africa, MFMA Audit report 2018-19

The appalling local government audit outcomes emphasises the dangers of providing additional funding to almost all the municipalities.

The need for increased transparency and accountability in spending is emphasised by the massive financial and management failures in local government. This budget adds R11 billion to the equitable share for local government. We want to know exactly what this is to be spent on, and a monthly accounting for such spending.

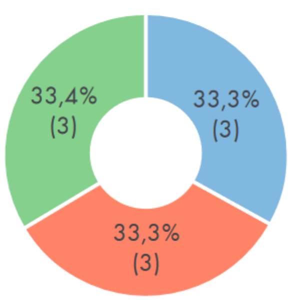
During the MFMA audits, the new material irregularity audit outcome category was implemented in nine municipalities that were identified for implementation of the material irregularity process in 2018-19. The overall outcomes from that process were as follows:

6 material irregularities reported

R24 499 866 financial loss

(**R2 421 897** known and **R22 077 969** estimated)

3 (100%) municipal managers are taking appropriate action to resolve material irregularities



Municipalities identified in phase 1	Status	Material irregularities reported
Ngaka Modiri Molema District (NW)		3
City of Tshwane Metro (GP)		2
Ga-Segonyana (NC)		1
Nelson Mandela Bay Metro (EC)		0*
eThekwini Metro (KZN)		0
City of Cape Town Metro (WC)		0
Matjhabeng (FS)		
Mogalakwena (LP)		
Dr JS Moroka (MP)		

* Material irregularities were identified but reported as an 'other' material irregularity in the audit report, as all processes had not been finalised by the time of the audit report

Completed audits – no material irregularities identified

Completed audits – material irregularities identified

Audits outstanding at 31 March 2020

Source: Auditor General of South Africa, MFMA Audit report 2018-19

OUTA hopes to see the financial loss being recouped and the material irregularity category being rolled out to all municipalities.

10. Accounting for additional funds for municipalities

We are concerned that the additional transfers to municipalities will be wasted, mismanaged, misspent or stolen, due to the lack of financial controls.

The R11 billion additional funding for the local government equitable share is “to provide emergency water supply, increase sanitisation of public transport and facilities, and provide food and shelter for the homeless” (Supplementary Budget Review, p43). These funds need to be clearly accounted for in municipal budgets. As an example of this problem, the City of Johannesburg budget, tabled before the Supplementary Budget but amended before it was passed in July, does not indicate even in broad terms how its share of this will be spent. On food security, the only difference between the draft budget from March and the final budget is the removal of R1.5 million (the entire year’s allocation) from the capital expenditure project “to provide equipment and machinery for agricultural and food resilience”; there is no specific line item for food security spending. There is no mention of support for homelessness. The final budget has R496 million for “addressing the historical legacy of housing backlogs and landlessness”, but this doesn’t compare well to the more than R832 million for this item in the draft budget. The City’s budget hints that Covid-19 funding is likely to be spent on covering customer debts, or has incoherent promises like “Accelerated and visible service delivery and re-introduction of coproduction in the delivery of the basic service” (R241m). There is also concern that such funds may be swallowed into salary increases and routine spending.

11. Cutting the essentials

The fallout from state capture and failed SOEs runs through all budgets now, with funds used for bailouts and wasted as programmes have failed to deliver over years.

Here are examples of the items cut in the Supplementary Budget which are a real loss, and are a direct result of the funding inadequacies brought on by years of looting and mismanagement:

- The Department of Cooperative Governance and Traditional Affairs (CoGTA) Community Work Programme moves R1.376 billion within this programme, to provide Covid-19 interventions “such as screening and sanitising public facilities and schools”. While this presumably supplies a similar number of work opportunities, these are unlikely to be the same people so, effectively, a large number of people will lose their income from this programme.
- The Department of Public Works is similarly shifting R771 million within its Expanded Public Works Programme, “to recruit 45 445 participants across the country for 10 months to help clean and sanitise schools”. Again, what happens to the others who should have got work opportunities in this programme? And is this a duplication of the CoGTA reallocation?
- The suspension by Statistics SA of the Income and Expenditure Survey and Poverty Survey.

- In the Department of Basic Education, the School Infrastructure Backlogs Grant delays new projects, shifting R600 million to "the provision of water and water tanks to 3 433 schools without access to potable water". But the department's vote in Budget 2020 just months ago says in the performance indicators that 125 schools are due to get water in 2020/21 and that the project is then concluded. What does this mean? Had the department planned to abandon the remaining 3 308 schools without water? Or has the department only recently noticed how many schools don't have water?
- Basic Education's HIV and Aids (life skills education) grant is cut, cancelling "all planned training sessions for over 20 000 educators". This does the schoolchildren affected a grave disservice.
- The Department of Basic Education failed to ensure that the National School Nutrition Programme ran during the lockdown, a disaster for the beneficiaries who rely on such crucial support. The funds "saved" on not buying food will now be used for PPE in this programme.
- The Department of Social Development's Early Childhood Development Grant takes R64.5 million from upgrades to centres, which takes from the most vulnerable.
- In the Department of Justice and Constitutional Development, spending on the National Prosecuting Authority and Special Investigating Unit takes a cut. Although this is small, these are essential entities in need of support in the battle against state capture.
- The Department of Agriculture, Land Reform and Rural Development cuts R3.307 billion from various programmes, including support for farmers (R75 million), support for subsistence farmers and food security (R121 million), food security (R354 million plus R258 million), and land redistribution (R444 million) and restitution (R1.1 billion). It is difficult to understand these cuts, particularly on farmer support and food security.

- The Department of Human Settlements cuts R1.728 billion from the Human Settlements Development Grant and R1.1 billion from the Urban Settlements Development Grant.
- The Department of Sports, Arts and Culture loses R323 million for library materials and libraries.

12. Conclusion

In conclusion, the massive contraction in the economy that is expected this year due to the impact of the Covid-19 pandemic has had a drastic impact on tax revenue, increasing the budget deficit. The Covid-19 pandemic has brought into stark focus the pre-existing issues which have persisted and continued to worsen for far too long. Systemic misspending is part of the landscape and has unfortunately come to be entrenched and an accepted way of operating.

OUTA contends that it is absolutely overdue that this is rectified. OUTA is therefore in support of measures to bring spiralling debt under control and avert a debt crisis. A sovereign debt crisis will undermine the livelihood of each and every South African. Public finances are dangerously overstretched and a passive plan will not succeed.

We therefore welcome the introduction of zero-based budgeting to achieve more fiscal room-to-manoeuvre in order to secure core service delivery and to preserve the provision of basic human rights.

OUTA strongly support's National Treasury's decision to initiate a process of rationalising the cumulative cost of remuneration in the public service.

While we welcome these pronouncements, we observe that government's track record of implementing previously announced measures has fallen short and therefore we are concerned about its ability to ameliorate the risk associated with spiralling sovereign debt and the rising cost of borrowing from multilateral institutions for capital investment in the domestic economy. By October 2020, many of the immediate measures announced will have been exhausted.

In October, we hope that the Minister of Finance and National Treasury will present the first of the interventions that fundamentally change the current composition of expenditure at the national level and provide direction on economic recovery plans. Structural, governance and financial reforms are in order.