

More Value for Money

OUTA comments on the 2020 adjusted budget

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Introduction

No more money to waste

- The 2020 MTBPS is arguably the most important moment in South Africa's fiscal history. We face a looming fiscal crisis.
- This is both because of the effects of the Covid-19 pandemic and the failure to curtail systematic looting of public resources over the past decade.
- We spend significant amounts on the public service but instead of improved productivity, we see:
 - the increased entrenchment of corruption and maladministration
 - knee-jerk solutions for failing state-owned entities
 - ever-increasing debt.
- The government is significantly failing to do more with less, and blaming the problems on the pandemic effects ignores the problems of more than a decade of systemic corruption. There is no more money to waste.
- To successfully navigate an economic recovery, there must be acknowledgement that there is a need to address not only where public finances are being allocated, but also the delivery against that spending.
- For too long, everything has been a priority, spending has been growing, as has public debt, but services delivered do not represent a good Value for Money. The current economic and fiscal circumstances require that allocative and productive efficiencies must be improved drastically.

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Improving the effectiveness and efficiency of public spending

- The South African Government has reached the limits of its ability to fund its expenditure via taxes, excise duties and user charges.
- Non-discretionary spending which includes the wage bill and debt servicing costs crowds out social and infrastructure investment.
- To fund the growing deficit and debt obligations, South Africa is forced to breach the limit which it can safely borrow. South Africa needs to undertake fiscal consolidation in order to restore its fiscal balance.
- Increasing tax rates is not only regressive, but it will hamper the economy from recovery.
- In order to restore fiscal balance, cost reduction strategies need to be utilised and applied in a manner that preserves social spending to support the most vulnerable and protects human rights realisation.
- Across the board cuts are injurious, which is why OUTA is in support of the Zero-Based Budgeting approach.
- We would like to see better efficiency being realised through 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).

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Improving the effectiveness and efficiency of public spending

- When reviewing the spending per budget vote we see indications that when 10 departments were merged into five in 2019, but it appears that their operations haven't necessarily been streamlined into one unified department.
- We would like to see the spending habits of South Africa's foreign missions put under a microscope. Persons who have disgraced themselves are rewarded with diplomatic posts at salaries that are higher than many respected INGOs pay. Is the number of countries in which South Africa has foreign missions justified?
- When it comes to the wage bill, we are calling for an investigation into the hiring practices at departments that were restructured as state capture manoeuvres. It cannot be that dedicated officials continue to be sabotaged by officials placed in key positions to enable state capture or look the other way when criminal acts occur.
- We'd like to see the Department of Public Service and Administration dealing with officials who are doing business with the state. These officials cannot be welcome in public service any longer. We want to see dedicated frontline personnel being valued and support greater levels of professionalisation within the public service.
- We would like to see the state considerably improving its spend on information technology. We are dubious about SITA's performance and want to see SITA improving its performance considerably or being closed if it cannot do so.
- We would like to see items being identified that are procured across many departments or municipalities. These items should be added to the list of items procured through transversal procurement processes. For example, smart meters.

- Eskom will be getting a R23 billion bailout for its restructuring.
- The South African Airways bailout of R10.5 billion for the implementation of the SAA rescue plan and repaying its debt is being achieved by shifting funds from 35 different budget votes.
- OUTA is concerned about the impacts of reduced allocations on the functioning of the criminal justice system in particular. There is a need to ensure that NPA, SARS, SIU, IPID and Statistics South Africa are funded sufficiently.
- There is a need to protect the fiscal framework against such crisis budgeting, whereas it is entirely predictable when bailouts due to SOE debt repayments are likely to arise.
- We call on the committees to seek input from the Fiscal and Financial Commission, Parliamentary Budget Office, CABRI and other experts on improved management of contingent liabilities.
- OUTA is concerned that Treasury has factored in less budget for the wage bill but the matter is being heard before the courts and the wage bargaining agreement must be settled still.
- We are concerned that the risk is that the impact is visited upon the Provincial sphere. Already, it is the case that half way through the year provinces and municipalities will be seeing R17 billion less.
- If the wage bill negotiations do not go as Treasury envisions, conditional grants and the goods and services budgets at the Provincial and local sphere will likely feel the brunt of it.

Performance Measurement Outcomes

Performance relative to spending

- OUTA highlights selected performance issues mid-way through the year:
- Police: Percentage of registered serious organised crime-related project investigations successfully closed per year – Indicator removed from the department’s 2020/21 annual performance plan after the 2020 ENE was published.
- IPID: Number of investigations of corruption (by police) that are decision ready per year: 16 out of a projected target of 85.
- IPID: Number of investigations of rape by a police officer that are decision ready per year: 21.
- Basic Education: Number of schools provided with water through the accelerated school infrastructure delivery initiative per year: 3 out of a target of 125 that was reduced to 100.
- Basic Education: Number of schools provided with sanitation facilities through the accelerated school infrastructure delivery initiative per year: 4 out of a target of 691 that has been reduced to 600.
- Mineral Resources and Energy: Number of mining industry workshops on compliance issues conducted per year: 0 out of 9 planned for 2020/21.
- Mineral Resources and Energy: Number of additional households electrified with grid electrification per year: 58 358 out of a target of 180 000 which has been lowered to 137 000.
- Mineral Resources and Energy: Number of additional households electrified with non-grid electrification per year: 0 out of 15 000.
- Health: Total clients remaining on antiretroviral treatment in the public sector at the end of the year: 4.9 million (at 31 August 2020) out of a target of 6.1 million which has been adjusted downwards to 5.7 million.
- Health: Number of ports of entry self-assessed for compliance with international health regulations: 0 out of a target of 25 which has been revised to 9.

- The lack of outcomes resulting from capital-intensive expenditure in several major programmes is not accidental and cannot be ascribed to purely economic causes. It is a consequence of poor planning and a lack of political will to abide by public finance management laws.
- Further, this follows from a lack of fiscal policy that is realistic and reflects the skills deficit in our public service.
- Often, the scope of expenditure of plans have been deliberately inflated, beyond what is necessary, to enable payment of large amounts to intermediaries that do not add any value or tangibly contribute to the fulfilment of the objectives of the expenditure programme.
- Political promises of spending programmes that were not planned are irrational in the context of an increasingly constrained fiscal climate and has put significant pressure on taxpayers.
- We would like to see the spending choices within programmes that can be considered economic enablers being reprioritized. There are many ways in which the spending and quality of implementation when it comes to **energy, transport, water & sanitation and local government** is inefficient. This is having an effect on the economy and in turn on the revenue needed to deliver public programmes.

Energy

- The key strategic priority, the buzzword of the moment, is the just energy transition (JET). JET would take the country forwards from a reliance on outdated and climate impacting fossil fuels towards achieving energy security through a diverse range of renewable energy sources.
- Such a transition must ensure that those who work in the coal mining sector and fossil fuel industry are accommodated in a fair way.
- A core priority of the country is to address energy poverty and electrification has been identified as one of those means to reduce energy poverty. But this has been deprioritized by massive reductions via the two adjustments budgets this year.
- Electricity needs to become an economic enabler.
- In the past, the economy has been held hostage by Eskom's decisions including decisions to invest in mega-plants often associated with corruption. This has resulted in large amounts of money wasted in mega-plant construction. The costs of such mega projects cannot be recovered through tariff increases, as this would make electricity unaffordable.
- OUTA notes the speed with which a Request for Information has been issued for Small Modular Reactors. We would like to highlight to the committees that so often Eskom's bailouts have had an implication for the budget. The Integrated Resource Plan is there as the energy plan and the Minister going outside of that will have implications for the budget.

Transport - Rail

- Passenger rail transport is in serious trouble. Western Cape central line has not been running for long periods with no clear indication when the line will be fully operational. Only three out of 17 rail lines in Gauteng are operational.
- There is widespread looting of the rail network, infrastructure vandalism and theft ranging from overhead electrical lines, electrical substations as well as vandalism of station and depot buildings. Vandalism and theft includes critical infrastructure components and illicit trading of copper and steel.
- PRASA is in serious financial distress and funding for rail is diverted towards projects like SAA, which provides a product to higher income groups at a loss in competition to private sector airlines, whilst rail transport is neglected. Rail is used by many more citizens, who cannot really afford the use of private transportation for their daily commuting needs.
- It would appear that the solutions and especially the funding, would not be forthcoming from PRASA. As a result, alternatives have to be considered like granting franchises for the operation of sub-regional elements of the total system in which such smaller focused units can be funded and operated by regional entities.

Transport - Road

- OUTA remains steadfast in the position that it is time that government scrap e-tolls once and for all.
- The R2bn per annum requirement for the Gauteng Freeway Improvement Project bonds was double what it should have been due to corruption.
- We call for Treasury to call out the PIC for taking up the GFIP bond at lucrative interest rates knowing that this requirement was well over what SANRAL should have borrowed.
- If a bank finances a R2 million house for R4 million and the client can't pay it back, the bank was remiss in the first place. PIC funded the overpriced GFIP and if they did their due diligence, they ought not to have given these bonds. But the state guaranteed them (at a time of peak state capture).
- OUTA calls for the Finance Minister to renegotiate the terms and payback period of the PIC's SANRAL bonds.
- The latest regulations to the Administrative Adjudication of Road Traffic Offences (AARTO) Amendment Act will not withstand legal scrutiny. The administrative burden will also make enforcement virtually impossible, making the Act's purpose of road safety unattainable.
- It is OUTA's informed view that the intention of the legislation and the regulations is to make money and not to protect road users.

Water and Sanitation

- There seems to be an inability to resolve the perpetual lack of water supply to many communities in South Africa.
- This demonstrates a lack of planning, coordination and implementation at different levels of government.
- This is a matter that needs separate and annual review by Parliament.
- The needs and their funding (at all levels) must be documented and debated by all houses of Parliament to ensure efficiency in both the short and long term.
- OUTA is proposing the creation of an Independent Water Regulator to serve this purpose under the oversight of Parliament.

Local Government

- At a local government level, OUTA has consistently highlighted that municipalities are not delivering good value for money - services are not being delivered to the requisite standard despite consistent budget allocations.
- The challenges at the local government level are myriad and repeatedly highlighted in the Auditor-General's MFMA reports and in too many negative reports in the media.
- We are concerned that while many municipalities lurch from bad to worse, residents in these municipalities are the net losers.
- More accountability is required at the municipal level to ensure that service is delivered to the local economy. We recommend a rules-based model of accountability where officials are removed if the audits are not 80% satisfactory. This will ensure accountability and prevent leakages of resources.
- Officials that have been corrupt should face the might of the law. By allowing the same officials to continue in their positions year after year is essentially allowing them to continue mismanaging the municipality.
- We recommend that FFC and Parliamentary Budget Office undertake research on options for local government revenue model and that this research should be presented in Parliament, followed by a Parliamentary debate about the revenue model of municipalities and the state of their finances.

Zero-Based Budgeting

- We support the zero-based budgeting approach, with the promise of looking at each programme to assess its benefit.
- This is not a panacea for curing management ills, but it is a useful tool to increase the efficacy of the budgeting processes.
- We would like to see this implemented at all levels of government, and hope it will enforce efficient allocation of resources and detect inflated budgets.

- OUTA has produced two documents on Parliament: an affidavit on how a captured Parliament effectively condoned state capture by failing to address it as it happened, and a report assessing the current modus operandi in Parliament which finds serious underperformance.
- The reports show that Parliament's own rules allow it to take no action on state capture and maladministration in general, and that Members of Parliament (MPs) used this impunity to do nothing. Parliament receives a budget of over R2bn per year. OUTA is not convinced that Parliament is providing the people, who MPs represent, with good value for money.
- The Budget Review and Recommendations Reports process this year is undermined by the fact that a two month extension has been given to departments for the completion of their Annual Reports. This means that Parliament will be conducting the BRRRs meetings in some cases with no reports to base their work on. We urge that Parliament find alternative methods to ensure that its oversight is robust during the BRRRs process.
- OUTA is concerned that currently Parliament's public participation system is not satisfactory, and, to our knowledge, there are no effective indicators of constituency office performance. We would like to see Parliament improving its performance in this regard.
- We call on the committee to review and improve the quality, inclusiveness and impact of budgetary public participation mechanisms in Parliament. We would like to see mandatory public hearings in September each year as part of MP preparation for the BRRR process.

- Neither the auditor general's reports nor existing institutional and management structures have been sufficient to assure good record keeping and financial management.
- This is apparent in the AG's observations in the first Covid-19 Special Report, in which it says: "*We are concerned about the indicators of high risk of fraud and abuse we observed –not only in the areas that we were able to audit, but also where information for auditing was not forthcoming, which could be a deliberate tactic to frustrate our audit efforts*".
- Based on the 2018/2019 financial audit reports, there is severe under-performance across the board at State-Owned Enterprises, national and provincial departments and municipalities (metro-, district and local). A total of 86 departments and public entities received financially qualified (bad) audits in 2018-19.
- Additional measures are necessary to prevent future misappropriation of funds. The Auditor-General's reports repeatedly address 'root causes' that hinder auditees' progress towards clean administration. In other words, the problems are well understood and in many instances get worse each year and that is also reported, understood and lamented about in the media each year.
- OUTA wants to see tangible actions which address these root causes.
- Coupled with Zero-Based Budgeting, efficient and effective monitoring and reporting mechanisms should be activated and prioritised.

- It is critical that competent and suitable staff are appointed into key positions across the public sector.
- A clean governance culture needs to be inculcated. This includes appropriate division of duties, suitable internal controls and corporate governance measures being complied with.
- We recommend that the Appropriations Committee conduct oversight visits to Provincial Treasuries to find out from them what they are doing to remedy the issues of worsening audit outcomes emanating from municipalities.

OUTA's key recommendations are as follows:

1. The wage bill needs to be addressed - remuneration in the public service is beyond what is necessary or justified in terms of labour productivity and performance outcomes.
2. We call for an investigation into the hiring practices at departments that were restructured as state capture maneuvers. We'd like to see the DPSA dealing with officials who are doing business with the state.
3. Professionalize the public service.
4. Improve allocative and productive efficiency.
5. Zero-Based Budgeting is an approach that we welcome. It must be implemented at ALL levels of government.
6. Ensure that NPA, SARS, SIU, IPID and Statistics South Africa are funded sufficiently.
7. Parliamentary Committees to improve the quality of their oversight role.
8. Protect the fiscal framework against such crisis budgeting. We call on the committees to seek input on improved management of contingent liabilities.
9. We recommend that FFC and Parliamentary Budget Office undertake research on options for local government revenue model and that this research should be presented in Parliament, followed by a Parliamentary debate about the revenue model of municipalities and the state of their finances.
10. We recommend that the Appropriations Committee conduct oversight visits to Provincial Treasuries to find out from them what they are doing to remedy the issues of worsening audit outcomes emanating from municipalities.

Thank You!