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OUTA submission to the Standing Committee on Appropriations (National Assembly)

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SUBMISSION TO THE STANDING COMMITTEE ON APPROPRIATIONS (NATIONAL ASSEMBLY)

Standing Committee on Appropriations

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1. Introduction

With this submission, OUTA is responding to the call to make written submissions to the Standing Committee on Appropriations on the 2020 Appropriation Bill, which was tabled with the 2020/2021 Budget by the Minister of Finance in February 2020. The context in which this submission is made is that events related to the Covid-19 pandemic have impacted upon the budget process, necessitating a upcoming Supplementary Budget to be tabled to provide for the unforeseen expenses demanded by ripple effects of the pandemic. OUTA's submission is informed by this context and therefore focuses on the Appropriations Bill and the potential implications of the pending Supplementary Budget for public spending.

The need for disruption and inclusive economic change is clear. However, political barriers must be overcome by open and constructive debate that builds consensus and solidarity between taxpayers, consumers, and public officials. Inclusive policy reforms must be the cornerstone of post Covid-19 budgets. Repeated promises to bring about radical and inclusive economic transformation are made, yet opportunities for public participation on spending trade-offs in the public sector are few and far between.

The state-centric monopoly in key industries like energy, water and transport has failed due to systemic contravention of the Public Finance Management Act and other legislation governing how tax revenue may be spent. Instead of diversifying inequality, we need to cultivate working- and middle-class growth through targeted public expenditure in a manner that does not constrain investment in the private sector but promotes it. South Africa's sovereign debt has grown from R450 billion in 2009/10 to almost R4 trillion today.

The near financial collapse of several State-Owned Entities (SOEs) has been compounded by the economic impact of a nationwide lockdown enforced to limit the spread of the Covid-19 virus. The need for economic stability and growth in this extremely unfavourable situation demands self-imposed "structural adjustments". South Africa's structural adjustments must be tailored to fit our unique challenges. If this is not implemented as a matter of urgency, we run the risk of a national debt spiral that will culminate in the loss of our economic sovereignty and the implementation of generic structural adjustment programmes that eliminate social spend.

This submission's secondary aim is to comment on the pending Supplementary Budget to be tabled in response to the unforeseen expenses demanded by the ripple effects of Covid-19. The themes here are aligned with the *Towards an Economic Strategy for South Africa* document published by National Treasury in 2019. OUTA supports suggestions for simple, competitive, and incentivising economic interventions such as lowering the cost of doing business and freeing up finance for SMMEs owned by new, historically disadvantaged entrepreneurs.

OUTA aims to make recommendations to improve the ease of doing business and foster an investor-friendly economic climate. This will address the need to preserve our access to affordable debt, but also opens up the market for small, medium and micro enterprises. Our already unfavourable economic climate, that has been making the lives of ordinary citizens difficult and frustrating, has now been multiplied by Covid-19 and the downgrade of our sovereign credit rating to junk status by the final ratings agency, Moody's, to rate South Africa below investment grade.

We promote renewable energy sector growth and more impactful public spending in other labour-intensive sectors that have real potential for growth if properly supported and secured as in the Agriculture, Manufacturing and (now temporarily constrained) Tourism sectors. In order to increase spending in crucial sectors like Education and Health with a contracting pool of tax revenue, major reductions to spending in lower priority sectors is non-negotiable. Redundant and failing SOEs are case in point. Inclusive planning and reforms are needed to avoid ever-increasing taxes by addressing structural and systemic challenges in the public sector that have allowed large scale corruption, financial mismanagement, and waste.

Following the Millennium Development Goals (MDGs), the Sustainable Development Goals (SDGs) were formalised in 2015. There are 17 goals which are cross-cutting, meaning that their interconnected nature cannot be ignored. Attempts to contribute to one call would have an impact on others as well, and therefore consideration should be paid to balance various factors, including political, economic, social, technological, and environmental dimensions. In Africa, the SDGs are closely linked with the African Union Agenda 2063 and the South African National Development Plan 2030 (NDP). The core aim of the NDP is to eliminate poverty and reduce inequality by 2030.

Aligning with the NDP will benefit the citizens of South Africa. The NDP is a long-standing action plan for the development of South Africa. Its content outlines practical solutions to the development problems we face as a country. Though the NDP has set goals and outputs, the document has been previously neglected as a developmental tool. OUTA strongly recommends that the revitalisation of the NDP is spearheaded by the Presidency in partnership with all societal stakeholders. We call for greater transparency and inclusivity in its implementation, as well as the monitoring and evaluation of the targets and indicators.

2. Macroeconomic policy

Low growth limits the ability of the economy to transform because it threatens the sustainability of critical social spending by government as well as the overall progressivity of tax and fiscal policy. A move away from centralised decision-making provides an opportunity to harness the capacity of civil society, businesses, and academia.

However, new spending priorities must be justified by ensuring that it is sensitive to serious structural challenges in the South African economy. For example, the domination of lucrative sectors by a handful of companies has led to a high level of concentration and dysfunctional patronage networks that repeatedly win municipal tenders while service delivery suffers. Besides those institutions funded by the fiscus that are necessary, there are many organs of state, policies and spending programmes that have become redundant or simply failed to achieve their intended objectives.

Under conditions of scarcity and low growth, the developmental state model followed by the South African government is not sustainable and does not effectively fulfil the Constitutional right afforded to all citizens to lead a dignified life with equal access to basic and higher needs. Access to water, electricity, food, education, and healthcare for all will not be realized if the production and delivery of such goods and services are left entirely to a government with decreasing resources and capacity to do so.

In the fifth Parliament, the Finance and Appropriations committees showed little determination to seriously influence and change all too familiar aberrant patterns of spending and collecting revenue. Now, we need to address the fact that South African public officials enjoy disproportionately favourable wage increases regardless of performance outcomes. We need to fundamentally reconsider whether business as usual is essential and whether sectors are sustainable or even desirable. Covid-19 is forcing us to rethink how the precious little resources we have in the public purse are used – and to what end it is used.

The economic policies adopted by government have failed to reduce inequality, unemployment, and poverty. Heavy criticism has come against the focus on international credit ratings agencies in domestic policy discourse, but the global economy is undergoing rapid change and new multilateral opportunities and developmental financing should be exploited for the benefit of South Africa.

Rationally regulated integration of regional, continental, and international labour markets can also boost economic growth by welcoming highly skilled professionals and well established, labour-intensive businesses.

To illustrate counterproductive policy, the rigidity of economic policies in South Africa has further disenfranchised informal entrepreneurs in the central business districts of primary and secondary cities as well as townships around the country. In general, the transformative potential of public spending has been massively under-utilised by overconcentrating expenditure (which is then inefficiently spent) in sectors such as Energy, Defence, Public Enterprises, Transport, and, to a lesser extent, Water & Sanitation. The extent of spending in these sectors is not delivering tangible value for money that can be realised; other countries that devote less money are seeing more efficient and impactful spend in progressive sectors.

3. Consolidated Expenditure

The 2020 Budget proposes total consolidated spending of R1.95 trillion in 2020/21. Relative to the 2019 Budget, main budget non-interest spending is reduced by R156.1 billion over the medium term. This is largely due to proposed measures, amounting to R160.2 billion, to reduce growth in the public-service Wage Bill. It is alarming that despite this fiscal measure, government debt continues to increase: "Debt-service costs remain the fastest-growing expenditure item at an annual average rate of 12.3% and will increase to R290.1 billion in 2022/23."

What this means for ordinary South Africans must be articulated in simple language that addresses basic needs and everyday life. While thousands of public sector employees face the risk of losing their jobs, or rather benefits and expected increases, the cost-cutting measures are intended to buffer millions of unemployed and chronically poor South Africans from the impact of normalised public financial mismanagement, low growth and state capture.

The savings that will be made by capping remuneration of public servants will largely be absorbed by Eskom to keep it afloat. In other words, capping the salaries of government employees is a last resort to pay for Eskom's debt. Besides governmental errors, the failure of countless electricity users to pay for service adds insult to injury. This issue must be addressed.

Municipal finances and governance structures must be dealt with immediately. The 2020 Budget does not deal with reform in local government finances in any detail. Yet, those municipalities that perform well financially will soon be allowed to purchase electricity directly from Independent Power Producers, for example. At the same time, the Competition Commission recently released a report on Prasa in which it strongly recommends that the entity's main functions be unbundled, such as managing the Metrorail system.

OUTA hopes to see expenditure plans soon that better reflect the reality of SOEs' and local government' challenges in South Africa. Contributing to Eskom's inability to meet its debt obligations, is the inability of many municipalities to pay the entity its due. Restructuring the energy sector should go hand in hand with restructuring local government systems.

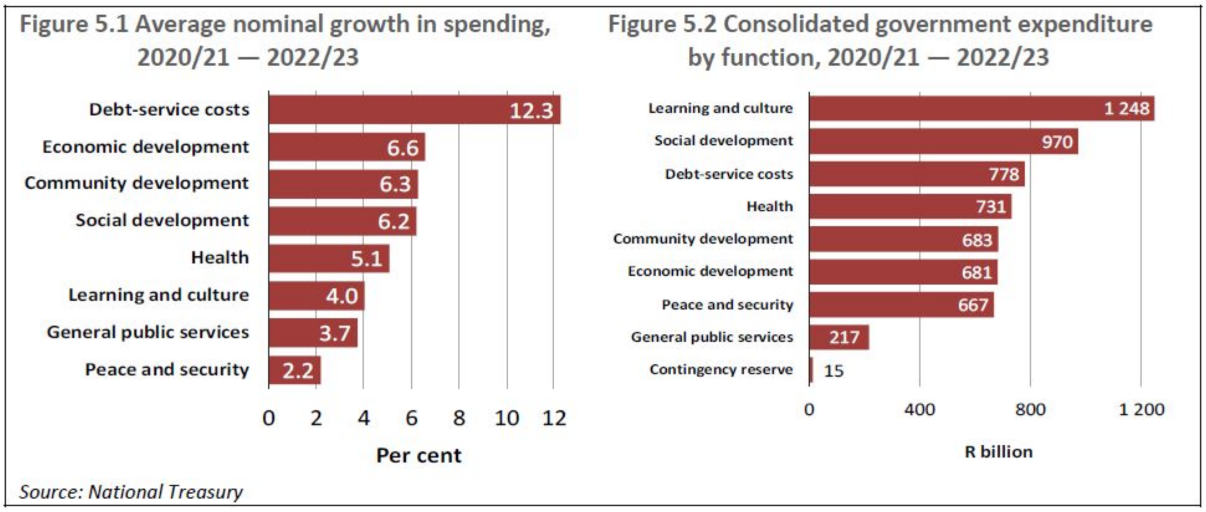


Figure 1: Average nominal growth in spending & consolidated government expenditure by funtion

In macroeconomic terms, the heart of the problem is shown in the graphic above. Debt servicing costs are increasing rapidly year-on-year, disabling the state from focusing on targeted expenditure on education, health, and other essential public service sectors on the ground.

The need to address the crises of poorly managed SOEs is also impacting on targeted expenditure in Basic and Higher Education, Health and other essential public service sectors on the ground. As the Minister of Finance outlined in his February 2020 speech, the total 'reduction' that is proposed to be achieved by lowering programme baselines and the Wage Bill by R261 billion will be partially offset by additions and reallocations of R111 billion. More than half of this (R60 billion) is for Eskom and South African Airways.

The fact that SOEs' failures are impacting on other areas of spending is evident in the following adjustments over the three-year Medium-Term Expenditure Framework period among the adjustments announced in the budget speech to achieve R261 billion reduction in baseline spending:

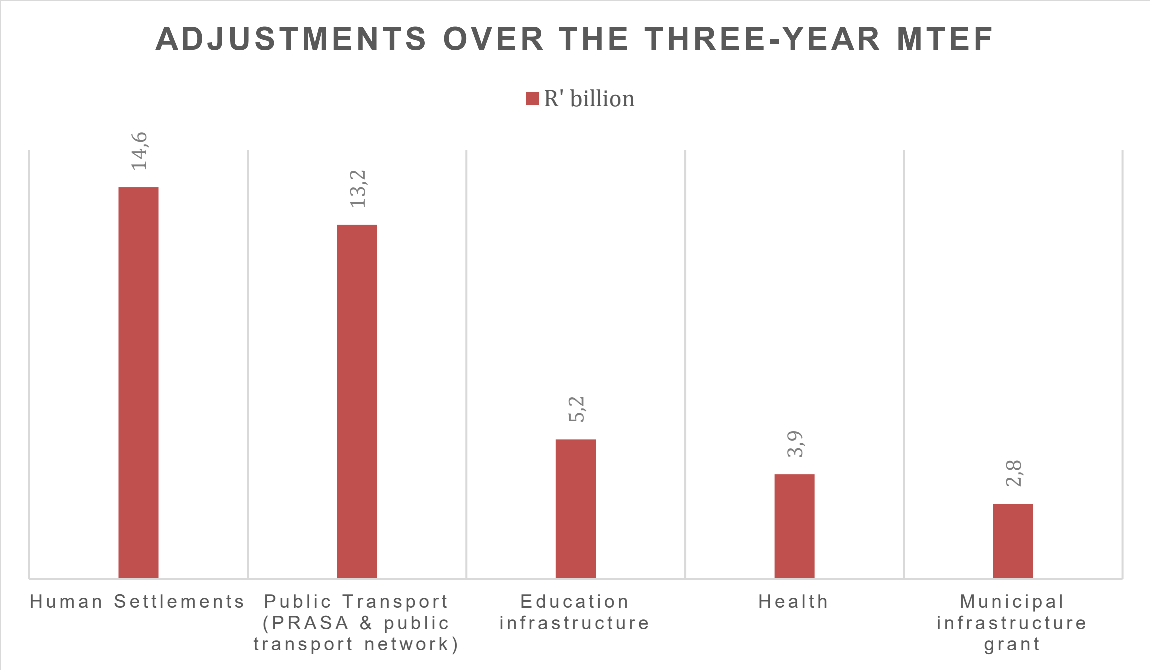


Figure 2: Adjustments over the three-year Medium-Term Expenditure Framework

In his speech, the Minister of Finance acknowledged that "while some of these savings are good for the fiscus, in many cases we are also making difficult and painful sacrifices. It is therefore important that we direct our constrained resources to areas that have a high social impact and have the largest economic multipliers."

According to the Budget Review 2020: "Reductions in government programmes imply the need to review programmes, possibly resulting in closure or downscaling over the medium term, and to use allocated budgets more efficiently." OUTA strongly agrees with this sentiment and urges Parliament to support the National Treasury in its commitment to reduce and optimize state expenditure.

The principle of cutting wasteful subsistence and travel allowances for senior public officials rather than looking to increase revenue by hiking personal and corporate taxes aligns with OUTA's recommendations to the Finance committees delivered in 2018 and 2019. The Covid-19 Pandemic has shown us that it is possible to hold meetings online and save money on travel and accommodation.

We hold the view that the State of the Nation Address can very feasibly be handled in the manner that the various updates about the pandemic have been handled. SONA is accompanied with unnecessary fanfare where fashion accessories, lavish stays in hotels and rubbing shoulders with politicians at surrounding events appears more important than the substantive issues. Some MPs are so disinterested in the substantive issues that they fall asleep. This is money that could better be spent directly in communities. Similarly, there are events each year where it is known that with a VIP ticket, you can get into the section where politicians and decision-makers can be found in a relaxed mood and where their ears can be bent about all manner of items. The International Jazz Festival is unfortunately known to be such an event. This is not how government is meant to interface with the business community.

The hanging of official photos of members of the executive in every government office around the country adds up in costs – as do many other superfluous items. Every time there is a Cabinet reshuffle, these photos must be reprinted in full colour. If this practice were limited to offices involved in diplomatic relations, it would save on public funds which are in short supply.

4. Compensation analysis

We undertook a compensation analysis looking at the compensation data supplied in the Estimates of National Expenditure. In our analysis we focus on national departments. Why this is of interest is to determine whether the extent of the budget spent on salaries means that there is not enough left for goods and services or if too little is actually being spent on salaries and that is impacting the outputs of the department. The table below shows the top five departments that are spending the greatest proportion of their budget on compensation of employees. What stands out in this table is that it is largely in the criminal justice cluster in which this phenomenon is occurring.

Department	Compensation of employees (R million)	Total budgeted expenditure (R million)	Compensation as a % of total budgeted expenditure
Police	R81,112.20	R101,711.00	79.7%
Public Service Commission	R228.90	R297.60	76.9%
Office of the Chief Justice	R1,871.50	R2,450.80	76.4%
Civilian Secretariat for the Police Service	R112.00	R156.30	71.7%
Correctional Services	R18,732.10	R26,800.00	69.9%
Independent Police Investigative Directorate	R242.80	R355.70	68.3%

Table 1: Top five departments spending the greatest proportion of their budget on compensation

Source: *Estimates of National Expenditure 2020, National Treasury, own analysis*

In terms of the departments spending the smallest proportion of their budget on compensation, Treasury is showing the way with a frugal spend on compensation (save Transfers to entities).

Department	**Compensation of employees (R million)**	**Total budgeted expenditure (R million)**	**Compensation as a % of total budgeted expenditure**
National Treasury	R928.90	R815,109.50	0.1%
Social Development	R537.90	R197,718.30	0.3%
Cooperative Governance	R395.30	R96,234.00	0.4%
Public Enterprises	R197.10	R37,540.00	0.5%
Transport	R571.40	R62,047.20	0.9%

Table 2: Five departments spending the smallest proportion of their budget on compensation

Source: Estimates of National Expenditure 2020, National Treasury, own analysis

Departments with the lowest proportion of budget going to salaries may not be model examples. Although it may be the case that they have managed their human resources well and calibrated their compensation spending appropriately, it could also indicate challenges such as state capture has meant employees have left after finding the work environment intolerable or the departments with smaller staff complements may be under capacitated and overly reliant on consultants.

The table below shows the average salary of Senior Management per national department. It is sorted by department with the highest number of senior managers. This analysis can be used to assess whether some departments have too many senior managers relative to their actual needs. And whether those with smaller numbers may have key vacancies.

	Level 13 - 16		
Dept	**Employees**	**Compensation cost in R million**	**Average salary p/a in R million**
Justice and Constitutional Development	2,313	3,061.30	1.3
Police	871	1,107.80	1.3
Office of the Chief Justice	590	1,118.40	1.9

Agriculture, Land Reform and Rural Development	381	469.3	1.2
Defence	367	497.3	1.4
International Relations and Cooperation	266	522.4	2
Trade, Industry and Competition	263	371.5	1.4
National Treasury	262	356.2	1.4
Environment, Forestry and Fisheries	214	299.9	1.4
Mineral Resources and Energy	211	239	1.1
Statistics South Africa	203	285.1	1.4
Higher Education and Training	202	260.9	1.3
Correctional Services	175	283.1	1.6
Water and Sanitation	161	261.5	1.6
Transport	149	199.3	1.3
Science and Innovation	128	157.7	1.2
Communications and Digital Technologies	121	177.5	1.5
Public Service and Administration	117	147	1.3
Home Affairs	116	251.4	2.2
Cooperative Governance	115	164	1.4
Health	113	168.9	1.5
Employment and Labour	112	134.6	1.2
Planning, Monitoring and Evaluation	105	139.9	1.3
Public Works and Infrastructure	104	153	1.5
Human Settlements	94	129.4	1.4
Basic Education	91	123	1.4
The Presidency	90	127.8	1.4
Social Development	86	130.3	1.5
Sports, Arts and Culture	81	114.3	1.4

Public Enterprises	76	102.3	1.3
Tourism	66	90.9	1.4
Government Communication and Information System	50	61.9	1.2
Women, Youth and Persons with Disabilities	48	58.7	1.2
Small Business Development	43	57.2	1.3
Traditional Affairs	32	46.3	1.4
Civilian Secretariat for the Police Service	32	40.7	1.3
Military Veterans	25	40.7	1.6
National School of Government	18	23.8	1.3

Table 3: Average salary of Senior Management Service employees per National Department

Source: Estimates of National Expenditure 2020, National Treasury, own analysis

5. Local government

The mandate of the Department of Cooperative Governance and Traditional Affairs (COGTA) is to improve cooperative governance across all spheres of government, in partnership with institutions of traditional leadership. The aim is to ensure that provinces and municipalities deliver effective and efficient services as per their Constitutional obligation.

The vast majority of the R96.2 billion allocated to COGTA for 2020/21 goes to the Local Government Equitable Share (R74.9 billion). A very small portion of this money (R1 billion) goes to Regional and Urban Development and Legislative Support. This category of spend must 'provide policy analysis and development to transform local government and improve cooperative governance'. OUTA believes that a much larger proportion should be invested in analysis and development for local government reforms since the Auditor General of South Africa has repeatedly flagged systemic misspending in this sphere of government.

According to the 2020 Appropriations Bill, COGTA will allocate R69 billion to the Institutional Development Programme, which aims to build resilience in local government systems by supporting system development, governance, capacity building and revenue management in local government and Department of Traditional Affairs. It is a concern that municipalities are in an unhealthy financial state due to the lack of provincial oversight, revenue control and performance management skill and the political will to implement the recommendations of the AG. If this item has enjoyed appropriations year-on-year, its efficacy must be questioned.

We carried out a comprehensive review of key metros' financial positions between 2009 and 2019. The analysis aimed to illustrate comparative performance and provide a holistic understanding of the Metro's performance over the ten-year period. We aimed to identify the efficiencies and solvency position of the following Metro's: City of Johannesburg, Ekhurhuleni, Emfuleni, Tshwane, Buffalo City, Nelson Mandela Bay and Mangaung municipality.

A ten year period offers extended data trends as well as a protracted illustration of revenue and expenditure patterns measured against prevailing CPI% and more importantly performance benchmark comparisons on Repairs & Maintenance costs, Capital Expenditure spending, Personal Protective Equipment (PPE) and Liquidity/Cash position and Debtors management of these Metro's. The comparative review shows major inconsistencies in the financial positions and performances between the metros. The CPI is 79.79% over the 10 years, having applied the base date of July 2007.

The total remuneration for 4 of these municipalities (Ekurhuleni, Tshwane, Emfuleni and City of Johannesburg) over the 10-year period amounts to R200 billion. We used the applicable CPI as at July 2007 as the baseline and extrapolated the future CPI over the next 10 years to 2018 (future value). Compared to the 79.9% CPI over the 10 years, the remuneration aggregate increase for these metros is as follows:

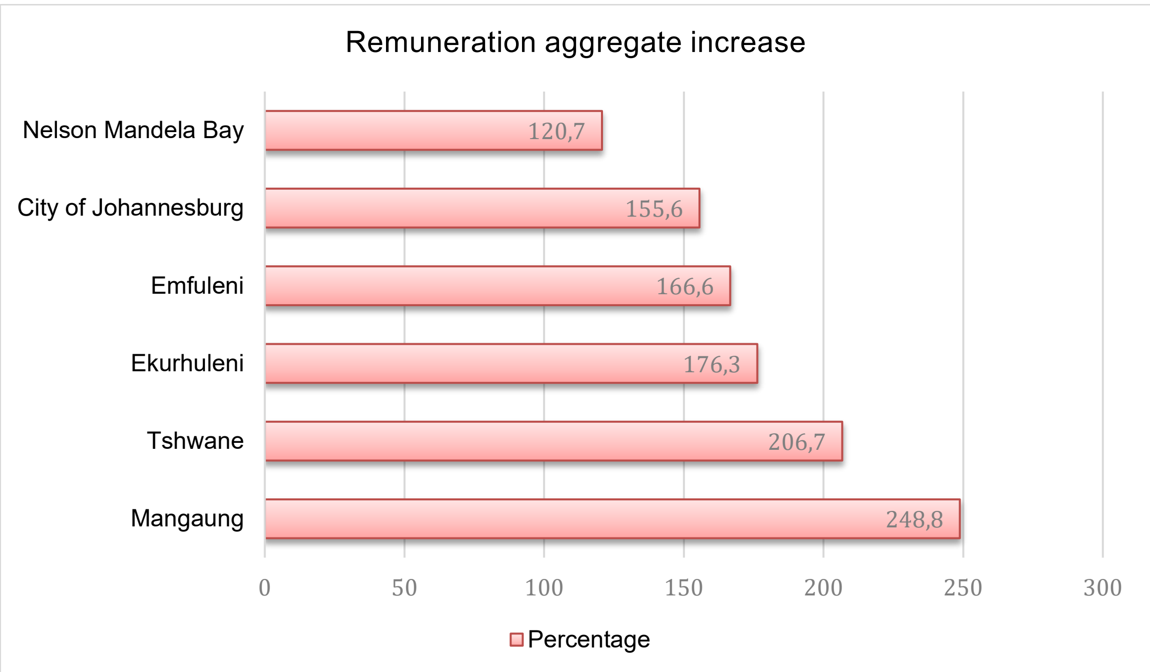
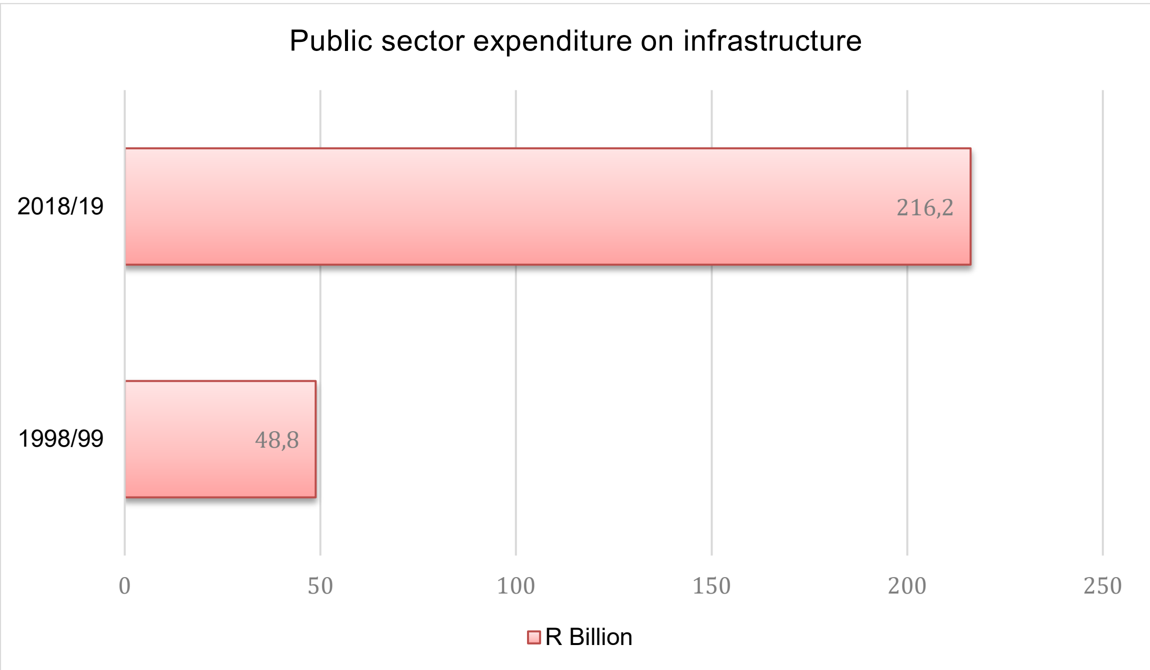


Figure 3: The remuneration aggregate increase for metros

The comparative study further explored that massive increases from Eskom and Water Boards are much higher than CPI, contributing significantly to unaffordable consumer tariffs.

In addition, healthy liquidity is the lifeblood of any institution and metros are no exception. The Liquidity or Current Ratios of all the municipalities are all below Treasury norms and standards of 1:1.5. This means that municipal liabilities exceed current assets and municipalities are unable to pay off their creditors within the current financial year. It was also found that the repairs and maintenance of all municipalities were well below treasury norms and standards of 8% on property plant & equipment and Investment properties book values. Over that period, the infrastructure was not properly maintained.

The 2020 Appropriations Bill stipulates that R15.2 billion of the COGTA 2020/21 budget is allocated to the Local Government Support and Intervention Management Programme of which a portion will be allocated for the Municipal Infrastructure Grant (MIG). In 2019/2020, MIG was allocated R10.2 billion to improve and maintain municipality infrastructure. OUTA scrutinised the trends in public infrastructure spending published on Annexure D of the 2020 National Budget. Between 1998/99 and 2018/19, the public sector spent R3.2 trillion on infrastructure, which increased from R48.8 billion in 1998/99 to R216.2 billion in 2018/19.



Annexure D of the National Budget 2020 provides that municipalities are forecasted to spend R196.8 billion over the MTEF period. Local government infrastructure projects expenditure is estimated to cost R62.3 billion in 2020/21 and R65.7 billion in 2021/22. In contrast, municipalities' deteriorating provision of services, poorly maintained infrastructure and incomplete infrastructure development projects raises serious concerns, as this threatens local economic development and policy measures implemented to rectify socio-economic injustices. To date, no norm and standard exists for infrastructure spending in some of the metros.

In addition, the bulk procurement of PPE to date is inconsistent which creates opportunities for corruption. According to the 2017/2018 Auditor General of South Africa Municipal Audit Outcome[1], R28 billion was lost due to fruitless and wasteful expenditure which increased to R32 billion for the 2018/19 financial year. The report further indicated that most municipalities are not financially viable, and that they are in vulnerable financial positions. The performance of municipalities is very concerning, as most of them are in disastrous financial positions. A lack of provincial oversight and accountability is the major cause of poor local government administration. This also brings into question the efficacy and purpose of SALGA as a creature of statute that costs municipalities millions in membership fees. This expenditure can be redirected to advance good service delivery.

After conducting a critical analysis on strategic and reformative measures that can be implemented to improve financial and performance management of local government, we conclude that it is important to ensure that municipalities cut unnecessary costs to ensure efficiency, therefore we suggest that the membership fees to SALGA should be reviewed. SALGA is partly responsible for local government oversight and to assist local governments to fulfil their developmental mandate. The membership of the association is voluntary by municipalities, which makes up 81% of SALGA's revenue[2] costing municipalities millions on their expenditure yearly. According to SALGA's 2019 Annual Report, revenue generated through membership levies comprised of approximately R564 million[3] for the year.

The consistent decline in the financial and performance management of most municipalities warrants immediate interventions. Municipalities continue to produce poor quality financial statements and performance reports. The AG report illustrates that municipalities have spent approximately R1.2 billion on consultation for financial reporting services because of unfilled vacancies in financial units of municipalities. Interestingly, the financial consultants are also

[1] Auditor General of South Africa 2018 Public Finance Management Act Media Report. https://www.agsa.co.za/Portals/0/Reports/PFMA/201718/MR/2018%20PFMA%20Media%20Release.pdf

[2] https://www.salga.org.za/About%20Us%20W.html.
[3]https://www.salga.org.za/Documents/Documents%20and%20Publications/Annual%20Reports/SALGA%20AR2019_final.pdf

unable to turn around the disastrous financial and governance of municipalities. Instead, municipalities continue to have poor project management, incomplete projects, lack of records and documentation, all of which result in poor audit outcomes. These issues are crippling local governments' ability to perform their constitutional mandate.

The local government model of doing business needs a complete rethink. OUTA recommends that:

1. municipalities fill key positions with verified financial and management expertise;
2. provincial governments perform real oversight by assisting municipalities in their work. They should provide training, technical support, capacity building workshops, revenue management and financial governance skills;
3. provincial governments enforce consequence measures to ensure that officials are held accountable for poor governance and irregular, fruitless and wasteful spending; and develop revenue recovery plans for municipalities.

6. Sector Specific Reforms

The scope of this submission is limited to six sectors for modernisation: Energy, Public Entities, Transport, Communications and Digital Technologies, Water & Sanitation, Health and Basic & Higher Education. OUTA agrees that these are crucial sectors for innovation and inclusive growth that can facilitate bottom-up economic transformation. Unfortunately, these were all sectors targeted by organised state-capture networks, due to their capital-intensive value chains. The effects of this structural challenge – and the entrenched criminal networks which may continue to exploit it – cannot be overlooked and must be addressed before Parliament approves the allocations of more money to these sectors.

6.1. Energy

6.1.1. Mineral Resources & Energy

The Department of Energy and the Department of Minerals Affairs were amalgamated since the elections in 2019. However, due to capacity constraints, the OUTA submission will focus mostly on the Energy portfolio.

In 2019, Parliamentary researchers prepared an analysis of both the Energy and the Mineral Affairs budgets, Vote 26 and Vote 29 respectively. The table below shows the Energy budget analysis (as presented at portfolio committee meeting on 2 July 2019[4]):

Programmes R Million	2018/19	2019/20	Nominal increase/decrease	Real increase/decrease
Administration	282,6	308,3	9,09%	3,70%
Energy Policy & Planning	53,1	54,7	3,01%	-2,08%
Petroleum & Petroleum Products Regulation	87,1	91,3	4,82%	-0,36%
Electrification & Energy Programme and Project Management	5 435,4	5 531,8	1,77%	-3,26%
Nuclear Energy	816,6	1045,9	28,08%	21,75%
Clean Energy	370,2	408,1	10,24%	4,79%
Total	**7 045**	**7 440**	**5,60%**	**0,39%**

Table 4: Energy budget analysis

It was noted that the bulk of the allocated budget, R6.7 billion is for transfers and subsidies to departmental implementing agencies i.e. entities reporting to it, Eskom and municipalities and that nuclear received a substantial increase.

For the 2019/20 financial year, the DMR budget allocation was a total of R2.005 billion, with 50% allocated to mineral policy and promotion (Transfers and Subsidies to the Council for Geoscience (CGS) and Mintek). 22% was allocated to Mineral Regulation (Programme 3) which included Transfers and Subsidies to South African Diamond and Precious Minerals Regulator (SADPMR) and the Petroleum Agency of South Africa (PASA).

For 2019/20 the total budget allocated to both departments was R2.005 billion (Mineral Resources) and R7.440 billion (Energy). For 2020/21, the budget allocation for the amalgamated department is R9.337 billion as per the 2020 Appropriations Bill.

The amalgamated department budget as tabled by the Treasury/Minister of finance has been allocated as follows.

[4] https://pmg.org.za/committee-meeting/28462/

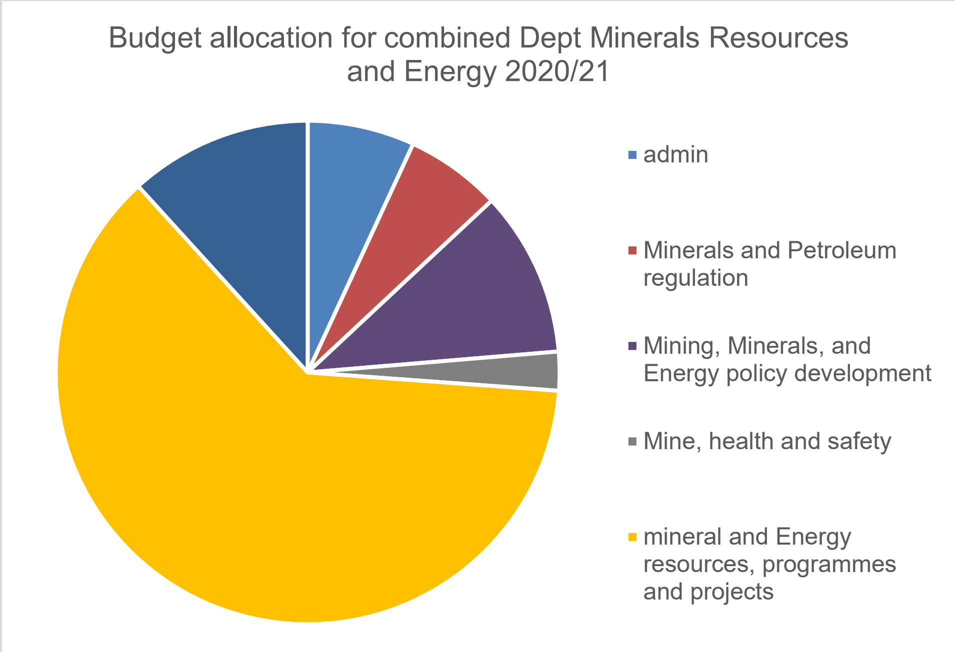
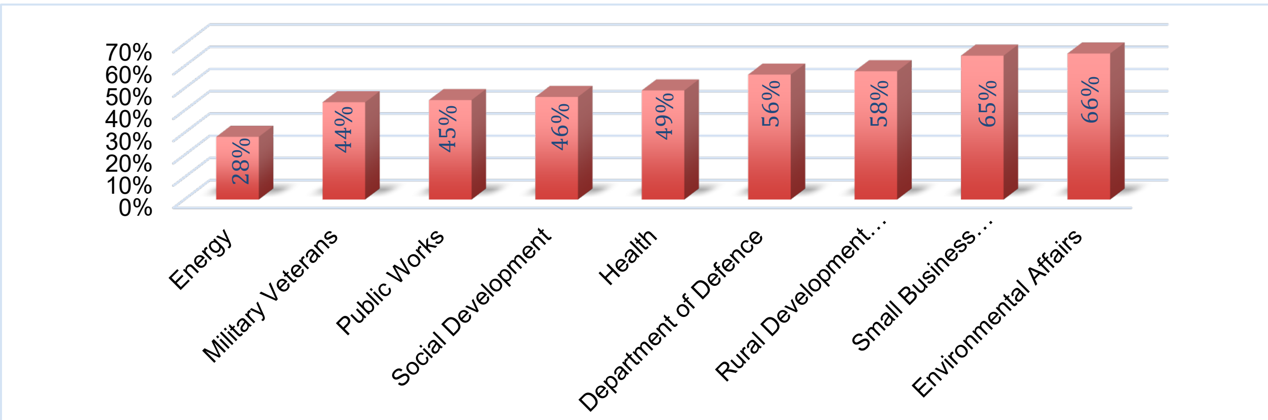


Figure 4: Budget allocation for combined Department Minerals Resources and Energy 2020/21

Source: The graph above drawn from the 2020 Appropriations Bill.

In the Public Service Commission's presentation to Standing Committee on Appropriations on 4 May 2020, it indicated that the Energy sector is one of the worst performers - achieving only 28% of its outcomes despite adequate funding for the 2018/19 financial year[5]. Some departments demonstrate misalignment between the expenditure against the allocated budget and the achievement of the planned targets:



[5] https://pmg.org.za/committee-meeting/30129/

Figure 5: Lowest performing departments for the 2018/19 financial year

Source: presented to Standing Committee on Appropriations, Parliament on 4 May 2020.

OUTA therefore submits that there needs to be increased scrutiny into the plans of the DMRE and how its budget is allocated.

Year	No. of targets set	No. of targets achieved	% Targets achieved	% Budget Spent
2014/15	39	17	44%	83.6%
2015/16	76	39	51%	98%
2016/17	77	32	42%	99.5%
2017/18	67	28	42%	97.54%
2018/19	41	13	32%	98.9%

Table 5: Summary of financial and performance information 2014/15 – 2018/19

Source: Department of Energy Annual Reports

As evident in the table above, the Department has performed well consistently on financial expenditure. On the contrary, service delivery performance has consistently been below required standards. In the past four financial years, the Department has never achieved more than 60% on its performance, let alone the required 80%. As indicated in the above table, in 2016/17 and 2017/18 financial years, the Department achieved 42% of its performance targets. In 2018/19, the Department regressed, as it achieved only 32% of the set targets.

In terms of its commitment to the NDP, and the departmental purpose is to "regulate the minerals, and mining sector for transformation, growth and development. Formulate energy policies, regulatory frameworks and legislation to ensure energy security, environmentally friendly carriers and access to affordable and reliable energy."

According to the Budget Review and Recommendations Report to Parliament (PMG minutes 8 October 2019), the post 2015 National Energy Efficiency Strategy was not yet promulgated, the procurement of a service provider under the partnership for Market readiness for carbon offsets registry, there were no achievements on the solar water heater programme implementation, and there was no achievement on the draft renewable energy technology roadmaps (RETRM) where the project has been put on hold. To date, the post 2015 NEES has not been promulgated, it is reported in the 2020/21 DMRE Annual Performance Plan (APP) as a key performance target. It is not acceptable that, five years later, the energy efficiency strategy is not yet promulgated.

Much of the DMRE budget is transferred to other entities. For 2020, 81% of the DMRE budget is transferred as follows:

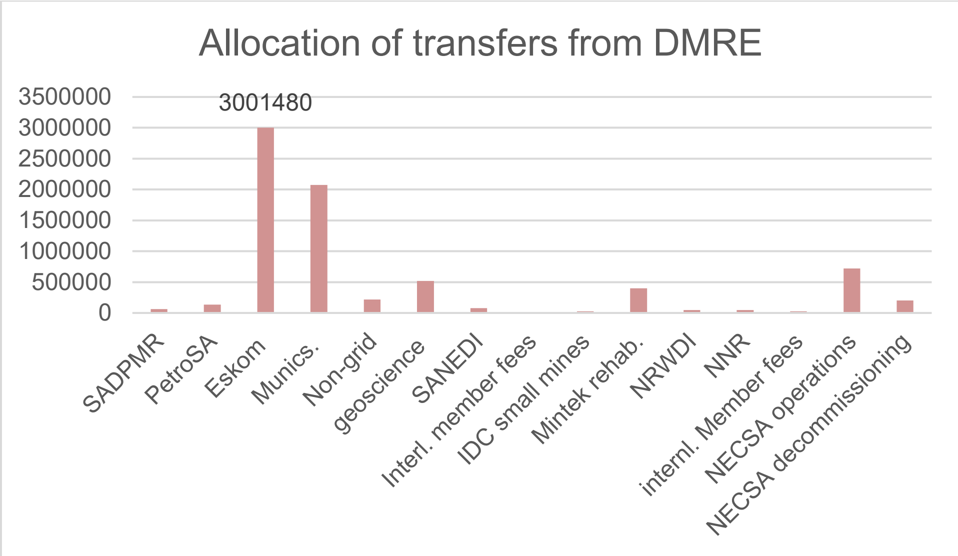


Figure 6: Allocation of transfers from DMRE

If we exclude the electrification transfers, we can see the transfers more clearly:

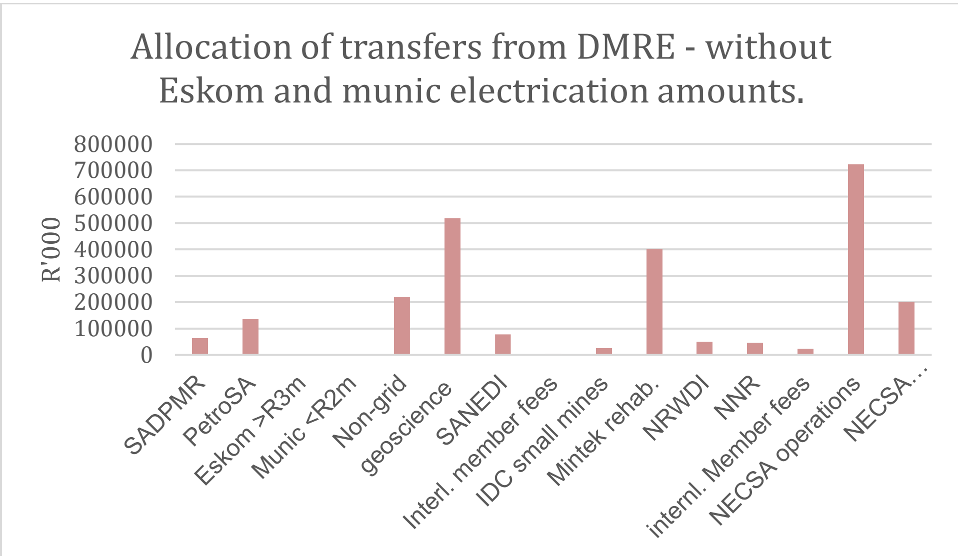


Figure 7: Allocation of transfers from DMRE without Eskom and municipality electrisation amounts

It is assumed that the DMRE must therefore hold these various entities accountable and budgets provided to these entities should be dependent on their performance. The department had indicated the projected electricity plan through its promulgation of the Integrated Resource Plan (IRP). The IRP provides a least cost plan to ensure affordable and reliable energy supply until 2030 and we would expect the Energy focus Departmental budget allocation and programmes to be geared towards the implementation of this plan. Of the 19% of the budget remaining within the DMRE control, the allocation to the various programmes is as follows:

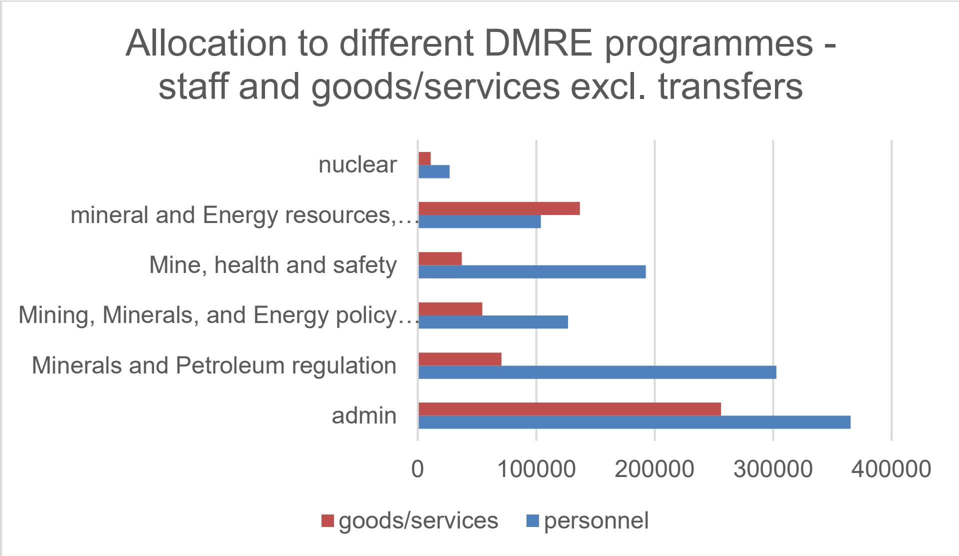


Figure 8: Allocation to different DMRE programmes - staff and good/service excluding transfers

Within the energy side of the DMRE, we would expect that resources be allocated to the implementation of the IRP, and to further research into the next reiteration of the IRP and towards the finalisation of the Integrated Energy Plan (IEP).

Electrification is the cornerstone of the DMRE's mandate and absorbs the lion's share of its appropriation. With the changing landscape towards a more decentralised energy system, and Eskom's acknowledgement that rolling out the Eskom grid to more isolated rural communities is unaffordable, there should be additional funds allocated to off grid electrification.

Electrification	**2019 (R'000)**	**Cost per installation (R'000)**	**2020 (R'000)**	**Change**	**OUTA comment**
Local government INEP*	R1863328	R36.30	R1858752	-1%	Appears to be least efficient form of electrification
Institutions for non-grid Electrification	R212941	R16.26	R220160	3.3%	Most cost-effective form of providing access to electricity – should increase allocation

Eskom INEP	R3374053	R17.6	R3001483	-12%	Lack of clarity about reduction but would expect this allocation to be moved to non-grid allocation.

Table 6: Variance in electrification allocations over past two years

Source: Integrated National Electrification Programme

Reporting on 2018/2019 year, DMRE claimed that R5.2 billion delivered 255 995 connections, both grid and off grid (PMG minutes 8 October 2019). This was broken down into 51320 municipal connections, 191585 Eskom connections and 13090 off grid solar systems.

Access to affordable electricity is a developmental priority and figures presented to Parliament indicate that it is more efficient to roll out non-grid electrifications than grid electrification. Given the cost of municipal electrification, OUTA recommends that additional resources be moved from grid to non-grid electrification to achieve greater numbers of electrified households in a more cost-effective way. We note reduced allocation to Eskom electrification this year. If this is related to the need to move resources to off grid installations, we need to see an increase in the non-grid allocation beyond the minimal 3%, but we do not see that.

Appropriations cannot be increased regardless of performance outcomes. In October 2019, Parliament's Mineral Resources and Energy Committee noted that the AGSA had determined that the Department has materially underspent on its 2018/19 budget by R63.574 million on Clean Energy, as well as Electrification and Energy Programme and Project Management programmes[6]. It appears that the Department wilfully ignores the needs of citizens while pushing large capital projects that may never materialise. These large energy projects will be vulnerable to corruption and can cripple the already beleaguered fiscus.

6.1.2. Nuclear Energy

The nuclear allocation in the IRP is only for the extension of life of Koeberg. There is no other nuclear capability needed before 2030 and there is a downward trend in the costs of renewable

[6] BRRR report of the Portfolio Committee on Mineral Resources and Energy (Vote 26) dated 22 October 2019. Available at: https://pmg.org.za/tabled-committee-report/3951/

energy and the potential of technologies such as storage. The next IRP which should emerge over the next year or two is likely to see an ever-increasing number of renewables. The budget allocation of the department provides no money explicitly for renewable energy research or development but allocates more than 10% towards nuclear development. It appears as if the Department's budget contradicts its own IRP.

At a time when the fiscus is even more drastically constrained than it has been previously, rather than acknowledging the fiscal and economic realities and the reduced demand for electricity that the pandemic is creating, the Department is pushing ahead with procuring 2500MW of new nuclear power. Given that the IRP is largely a least cost plan, such a 2500MW nuclear project cannot be at a pace and scale that the country can afford. We assert that beginning the procurement process is premature given the contents of the IRP. The work of the State Capture commission should be completed first and those who have been involved in state capture and corruption at Eskom and other entities held accountable for their actions before embarking on a capital project that will imply future obligations and indebt the country. Regardless of the assurances of officials that it will create no immediate obligations, such projects always must be paid for. We reject that they should be paid for by future bailouts which take from areas of spending such as education, health and human settlements, water and sanitation. When Eskom cannot meet its loan repayments - it seeks a bailout or guarantee, and the money must be found by cutting the spending of other departments or adding debt.

According to the 2020 special adjustment budget guidelines issued on 13 May 2020, departments need to find programmes and projects that are not critical to the core service delivery requirements. We suggest that some of NECSA operations is not critical and we question why it has enjoyed increasing budgetary allocations while not fulfilling its accountability obligations. In October 2019 the Parliamentary Committee on Mineral Resources and Energy noted with displeasure the failure of NECSA to submit its Annual Report to Parliament on time, for two consecutive years, which committee members said seems to be a normal practice for NECSA to avoid accountability[7]. This is an SOE which has failed to deliver its financial report to Parliament two years running with no apparent consequences and is instead being entrusted with an increased budget allocation. This is not acceptable, and the committee should refuse it.

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[7] BRRR report of the Portfolio Committee on Mineral Resources and Energy (Vote 26) dated 22 October 2019. Available at: https://pmg.org.za/tabled-committee-report/3951/

The Auditor General gave NECSA a disclaimed opinion as the audit outcome for the 2018/19 financial year. This means that "the accounting authority did not exercise adequate oversight responsibility regarding compliance with laws and regulations and related internal controls which resulted in instances of non-compliance with applicable laws and regulations". Due to the lack of reliable financial information, the AGSA could not assess the entity's sustainability. Of great concern is that the audit found that effective and appropriate steps were not taken to prevent irregular expenditure amounting to R50 752 000.

OUTA notes that the South African Nuclear Energy Corporation (NECSA) is allocated R3 billion over the next three years. And that of this, R2.3 billion is for operational costs and R635 million is decontamination and decommissioning of old nuclear facilities. In October 2019, the NECSA board wrote a letter[8] to Parliament's Energy Oversight Committee. According to EE Publishers, the letter says that "Necsa has been technically bankrupt since about 2016, and has survived using ring-fenced funds, which has cumulatively had an impact on the going concern status on the entity – a challenge which the current board is now faced with". The Auditor General has also highlighted maladministration and irregular expenditure under the former Necsa board. OUTA recommends that Parliament's Finance Committees follow up with the Energy Oversight Committee to ask whether they are satisfied that there is a turnaround strategy in place to remedy the situation that has led to Necsa's strained financial position and that the issues of maladministration and irregular expenditure are being addressed. R3 billion is a lot of money. It cannot be squandered.

We therefore suggest that transfers to NECSA operations be reduced to 2018 levels and that NECSA board be directed to look for cost savings and if necessary, to close most of the subsidiaries. NECSA's subsidiaries are Pelchem, NTP Radioisotopes and Pelindaba Enterprises. Pelchem is involved in fluoro-chemical production, NTP in producing radiation-based products and services for healthcare, life sciences, and industry and Pelindaba Enterprises in commercialising Nuclear Engineering and Manufacturing Services. Necsa also operates SAFARI-1 nuclear research which is used to produce radioisotopes[9]. The nuclear programme of DME enjoyed a disproportionately high 28% increase from its 2018 allocation. The reason for increasing NECSA's budget despite its poor record of accountability is not sound financial logic.

[8] https://www.ee.co.za/article/exposed-financial-mismanagement-at-sas-nuclear-energy-corporation.html
[9] National Treasury. 2020. Vote 34: Mineral Resources and Energy. Estimates of National Expenditure.

Nuclear	2019 (R'000s)	2020 (R'000s)	Change	OUTA comment
NRWDI	47 499	49397	4%	Acceptable
NNR	43096	45467	5.5%	Increase allocation to improve safety risk
NECSA	890 431	939419	5.5%	Reduce allocation

Table 7: Budget on Nuclear 2019/2020

NECSA	2019 (R'000s)	2020 (R'000s)	Change	OUTA comment
NECSA operations	599 246	722 285	20%	Reduce to 2019 level
NECSA capital	100 743	16 218	- 84%	Capital project completed?
Decommissioning and decontamination of old nuclear facilities – stage 1	170 207	179 568	5.4%	Needs to continue
Decommissioning and decontamination of old nuclear facilities – stage 2	20 235	21 348	5.5%	Needs to continue

Table 8: NECSA budget 2019/2020

The progression of any further nuclear energy is only at a pace and scale that the country can afford. We would argue that the IRP shows that it is not affordable or necessary and that it is certainly not efficient to allocate 12% of the budget to something that only supplies 5% of our electricity. We would also argue that reducing the inequitable budgetary allocation that nuclear enjoys would enable the DMRE to meet the Treasury requirement to address Covid-19.

6.1.3. Central Energy Fund

According to the AG report presented to Parliament in October 2019:

> PetroSA continued to make a loss in the current year. The entity has continued to make a loss in the current year. PetroSA at company level was technically insolvent as at 31 March 2019 with total liabilities exceeding total assets. This was mainly due to the devaluation of the rand which caused an increase in the rand value of the entity's decommissioning liability. The group was technically solvent as at 31

March 2019. The company does not have sufficient cash reserves to fund the decommissioning liability according to the regulations issued in terms of National Environmental Management Act (NEMA). There is no clear indication as to how the group's asset base would be sustainable to cover its liabilities in future.

(Parliamentary Monitoring Group, 2019)

Further, Net cash from operating activities has significantly decreased since the prior year, which impacts PetroSA's financial and economic viability. The current business model may hamper the entity's ability to continue to operate optimally at the current capacity as a going concern. In briefing Parliament on its plans 12 May 2020, CEF proposed to ask the government for money. OUTA does not support the CEF proposal made in Parliament on 12 May 2020, that it gets government resources to compensate it for previous mismanagement. OUTA strongly objects to the CEF request by its chairperson, Monde Mnyande, that a portion of the fuel levy as well as pipeline and carbon taxes / levies should be diverted to the CEF. From Mnyande's presentation to Parliament, it is clear that the CEF is motivating for this revenue to salvage PetroSA and other subsidiaries and build a new business case for this failed SOE. OUTA finds this request absurd and if indeed granted, it would be yet another waste of taxpayers' money. PetroSA is in trouble because its prior leadership allowed the entity to slip into a situation of excessive losses, along with other unnecessary political interference. More absurd is the CEF Chairperson statement that the CEF is not looking for a bailout, but instead wants a continuous stream of tax revenues to fund its restructuring. What Mr Mnyande is asking for is in fact a direct bailout, and not merely a once off bailout, but a continuous one of around R20 billion per annum, if it manages to hijack 25% of the fuel levy from the fiscus. Even if South Africa was in a healthy financial state, this request should be frowned upon. The CEF is a Schedule 2 SOE, which means it is a business enterprise that is required to generate revenue to fund its own operations. As such, it has less government intervention and oversight of its financial management. It therefore does not deserve the kind of state funding and bailouts that it now seeks.

CEF has a programme of cost cutting and has raised the idea of winding down those entities that are unable to perform. Given the scarcity of government funds, hard decisions need to be made. OUTA believes that the current economic situation calls for government to bring in key private equity partners into PetroSA and other CEF subsidiaries in order to reduce the state's hold over and meddling in these entities. A mix of equity partners, professional structures and funding mechanisms should enable this SOE to stand on its own feet and stop future requirements for state funding.

6.1.4. Eskom

The financial condition of Eskom and the harm it has inflicted on the energy sector – and the electricity price – is well documented. Refer to the Public Enterprises section in this document for further discussion of Eskom. One of the biggest challenges is the cost of electricity: this needs to be addressed urgently, as it affects every industry and sector.

Eskom's attempt to make sure current revenue covers its costs is welcome. However, Eskom's business model is not financially sustainable, and the current Regulatory Clearing Account (RCA) mechanism has enabled Eskom to limp along for years. The tariff increases due to year on year RCA related increases are a strong indicator of an unsustainable business model that must serve as the primary example of the need for public sector reforms.

OUTA supports the rapid consideration of the Independent System Management Operator bill, or the Independent Electricity Management Operator Bill by Parliament, as a first step in reforming this sector.

The urgency of secure electricity supply and financial sustainability in this sector cannot be overstated. Levels of social upheaval and unrest are rising fast while the energy crisis is being politicized. Even though senior politicians finally acknowledge the seriousness of the situation, it must be put on record that this battle has been fought by civil society for more than a decade.

Instead of showing a true and authentic commitment to public concerns, the state ignored calls for increased transparency, sustainability, competitiveness and accountability in the energy sector and rampant state capture was the result. Today, Eskom continues to expect the public to pay for this grave mistake - and that is an unfair expectation that has and should continue to meet resistance. The energy landscape has moved from a vertically integrated monopoly and further restructuring will accelerate affordable energy access for households, businesses and macro industries alike.

The recently announced new generation regulations to allow municipalities to generate their own electricity, together with the court case in the Western Cape High Court to allow the City of Cape Town to generate its own electricity, will have a profound impact on Eskom revenue predictions. The graph below represents sales of electricity per customer category, GWh[10] (2019)

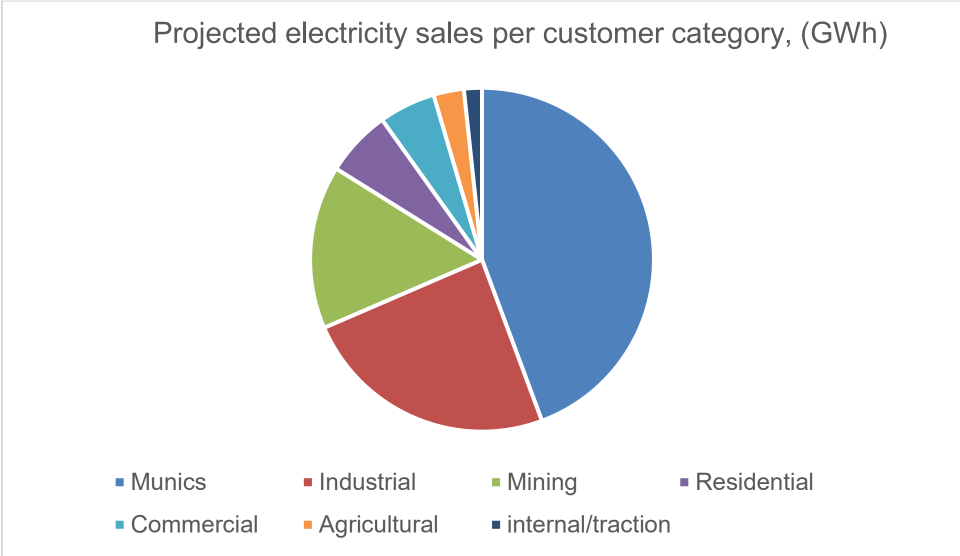

Figure 9: Projected Electricity sales per customer category (GWh)

With a large proportion of Eskom revenue drawn from municipalities, Eskom is likely to lose municipal customers. A proportion of the industrial demand might also switch to buy from own or municipal generation, particularly as new renewable power stations (in the form of IPPs currently) are cheaper than Eskom new coal generation. This is likely to further exacerbate the Eskom "death spiral" and indicates that Eskom's business model needs urgent and rigorous critique.

Parliament cannot be dominated and controlled by the Executive and it is possible that its portfolios need to be realigned to enable it to conduct effective oversight, to effectively carry out the duty placed on Parliament in Section 42 of the Constitution. For example, Eskom reports to DPE but its business is energy and yet, it does not report to the DMRE in Parliament for the funds that DMRE hands over to Eskom for electrification. OUTA urges Parliament to ensure that Eskom truly accounts not only for its financial obligations to DPE but for its energy policies to the Portfolio Committee on Mineral Resources and Energy.

Debt management is the primary question mark in Eskom's impending unbundling. Privatisation or any other controversial form of ownership should be discussed with due consideration of existing debt guaranteed by taxpayers.

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[10] Eskom RCA 2019 Application to NERSA - table 11.

The perceived risk to Eskom employees and workers in other energy related value chains can be mitigated by innovative human resource development programmes that upskill and transfer people to local government and the renewable energy industry, for example. However, such programmes must be driven proactively by government and not left to civil society and labour organisations. Failure to address legitimate livelihood fears have led to social unrest and unnecessary retardation of the Eskom restructuring. This has had a knock-on effect that Eskom has continued to return year on year to South Africa people for bailouts either from consumers or the state.

Runaway uncertain energy prices are not conducive to economic growth. Loadshedding is not only an inconvenience to households around the country, the lack of electricity supply impacts on businesses and constrains their expansion, constraining the country's economy. In August 2019, it was reported that Eskom planned to spend up to R4.32 billion on diesel for gas turbines to keep the electricity supply on until December. And that this was because Eskom could not meet the demand in peak periods.

OUTA would like to recommend that National Treasury engage with the SARS Commissioner about offering tax breaks where putting a solar water heater on your roof, buying a heat pump and/or gas stove will be tax deductible if you do it before February 2021. We also recommend that the Department of Energy installs the solar water geysers on which it has incurred R110 million in fruitless and wasteful expenditure for storage costs during 2018/19. Improving energy efficiency is cheaper than building more supply and much quicker to achieve. This option can reduce the peak load, and alleviate some of the load shedding, which will mean that all households and sectors will benefit.

6.1.5. Financial Accountability

The Auditor General, in his report of 2020, found that the DOE remains stagnant with a qualification due to non-disclosure of irregular expenditure amounting to R162m as at 31 March 2019. The AGSA found that the Department did not include the required information on irregular expenditure in the notes to the financial statements, as required by section 40(3) (b) (i) of the Public Finance Management Act (No.1 of 1999) (PFMA). The Department did not disclose payments of R64, 068,000 (2017-18: R98, 382,000) made in contravention of the supply chain management requirements, resulting in irregular expenditure being understated by R162,450,000 (2017-18: R98, 382,000).

Steps taken were not effective to prevent fruitless and wasteful expenditure amounting to R110,151,000, as disclosed in note 27 to the annual financial statements, as required by section 38(1)(c)(ii) of the PFMA and treasury regulations 9.1.1. The majority of the fruitless and wasteful expenditure was caused by additional storage cost for solar water heater geysers that were manufactured but not installed.

During AGSA's briefing to Portfolio Committee on Mineral Resources and Energy on 8th October 2019, the Auditor General's office indicated that it was unable to obtain sufficient appropriate audit evidence that disciplinary steps were taken against any official who had incurred irregular, fruitless and wasteful expenditure, as required by section 38(1)(h)(iii) of the PFMA. This was due to proper and complete records that had not been maintained as evidence to support the investigations into irregular, fruitless and wasteful expenditure.

6.2. Public Entities

The Department of Public Enterprises is government's shareholder representative for some of the most dysfunctional SOEs. Under DPE's oversight are seven SOEs; Alexkor, Denel, Eskom, South African Airways, South African Express Airways, the South African Forestry Company and Transnet. While the NDP ascribes to State Owned Companies the potential of building a capable and developmental state, in reality many SOEs have become the albatross around the country's neck.

We note that DPE's oversight activities are mainly funded in programmes 2 and 3, namely, (2) State-Owned Companies Governance, Assurance and Performance and (3) Business Enhancement, Transformation and Industrialisation. The budget for programme 3 grew by a massive 838.6% during the period of 2016/17 to 2019/20. It is now set to decrease at an annual average rate of 67.9%. This is because R56.7 billion was allocated in 2019/20 to settle state-owned companies' debts and provide working capital. In 2020/21 the budget allocation for programme 3 is R37.6 billion, in 2021/22 it is R4.4 billion and in 2022/23, R1.9 billion.

Spending on infrastructure can be utilised as a counter-cyclical measure to boost the economy and offer jobs in the construction sector, however according to Annexure D of the 2020 National Budget, expenditure on infrastructure has steadily declined since 2008/09. This is largely due to reduced spending on crucial infrastructure in municipalities and several state owned companies. Government has reduced infrastructure conditional grants to provinces and municipalities as the budget deficit and sovereign debt grows. Part of what is driving growing budget deficits is bailouts being given to inefficient public entities. The corporate governance and financial management failures at far too many public entities prevents them from performing a developmental mandate.

While state-owned companies have a developmental mandate, the Public Finance Management Act requires schedule 2 major public entities to be financially sustainable. When well-managed, it is realistic for these major public entities to be self-sustaining and financially viable, particularly as a number of them have monopolies. There are currently 21 major public entities. These include Alexkor, Armscor, Denel, ESKOM, South African Airways, South African Express, SABC, South African Forestry Company Limited, Transnet, Central Energy Fund and NECSA. Looking at the figure below, we can see that the financial support provided to SOEs is precisely to entities that are meant to be financially sustainable.

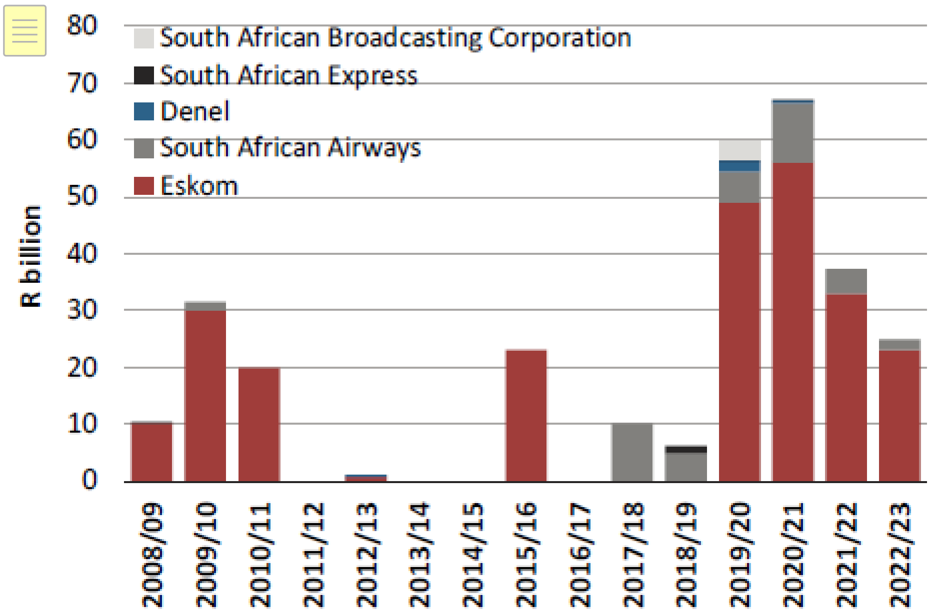

Figure 10: Financial support provided for state-owned companies

It is disturbing to read in the budget review that excluding provisional allocations to Eskom and South African Airways over the medium term, additional allocations will be made over the medium term including R33 billion for Eskom in 2020/21; R9.9 billion for South African Airways (R3.8 billion in 2020/21, R4.3 billion in 2020/21 and R1.8 billion in 2022/23); R576 million for Denel in 2020/21; and R164 million for South African Express Airways in 2020/21. Had these public entities been responsibly managed and clean governance implemented, it would not be necessary to continuously bail them out. There is no more fiscal space for wanton looting to continue in public entities.

Over the course of a number of years, oversight mechanisms have failed to ensure that a culture of good governance is the prevailing culture in government institutions with public entities being among the worst offenders. State capture and corruption with impunity has persisted despite some of the major players being exposed. The rot is far more widely spread, so that while the public is now more aware of what is happening than prior to the GuptaLeaks and the Commission of Enquiry into State Capture, it does not mean that state capture has simply stopped. Too many who have been involved in state capture and corruption continue to occupy seats of power and to speak into public discourse instead of serving prison sentences.

What mainstream discourse often misses is that political figures mostly capture the limelight, but there are also officials in departments who are not in the news headlines and who repeatedly rig tenders, sign off on massive extensions to contracts, award tenders to politically persons, create an intolerable environment for ethical officials and manufacture crises to push their agendas among a range of toxic practices. It is time that officials who are engaged in criminal activities be removed from positions which allow them to have control over the public purse and to blatantly engage in unchecked corruption. Day to day impunity continues while the urgency to protect the fiscus is far more immediate than what time it is taking to build the capacity to prosecute. It is massively frustrating that while the public now knows about a lot of the malfeasance, audit outcomes continue to show worsening financial management. No supply chain function, contract management role or Human Resources role in any department or entity should be occupied by anyone who has a history of engaging in corrupt activities.

OUTA notes additional allocations of R2.4 billion to support the NPA, Special Investigating Unit and Directorate for Priority Crime Investigation. It is critical that these allocations remain and are not reprioritised, so that the broader public spend through the state's procurement budget and through SOEs such as those major public entities which DPE has oversight of can be secured rather than wasted.

South Africa has many noble plans contained in planning documents such as the National Development Plan. These include plans for infrastructure projects that SOES must lead on, however the implementation lacks. There is a severe lack of project management and ability to see a project through successfully and then operationalise its continued maintenance by handing the completed project over to competent officials. There are no shortcuts to building a capable state. It takes many years to develop a highly skilled and competent workforce. A cornerstone on which a skilled public sector can be built is that it is able to hire expertise from a general population of residents who have a good quality education. At the pace at which the global economy evolves, it is critical for public servants to maintain their skill levels through continuous professional development.

Some countries have opted to professionalise their public sector where public sector jobs are occupied by the brightest and best and are highly sought after. The barriers to entry for public sector jobs in countries that have professionalized their public sector can be high, as anyone in such a role must take exams to obtain specific kinds of certification before being allowed to apply and must continue to pass exams to proceed up the ranks in the public sector. However, we do not see the National School of Government playing even a proxy of the kind of role that some of the prestigious schools of government in other parts of the world play. It is critical that there is a sustained drive to build a capable state. Skilled public managers with excellent leadership and technical competencies are needed to restore public entities and government departments. There is a need to champion the development of both hard and soft skills accompanied with ethical leadership.

We now examine selected public entities.

6.2.1. South African Airways

Several testimonies about state capture at South African Airways has been given at the Zondo Commission. After years of being plundered and poorly managed, South African Airways is currently in a business rescue process. We note that in the budget review it says that DPE plans to work closely with the business rescue practitioners for South African Airways to monitor the implementations of their recommendations. However, we also observe the extreme tensions[11] that have arisen in Parliament between the Business Rescue Practitioners and the Minister of Public Enterprises over the handling of payments of salaries to staff, retrenchments, finalisation of the business rescue plan and over a wind-down. A wind-down will entail selling off assets of SAA, which leaves it unlikely to be able to commence operations once more as a restructured SAA or in the form of a new company. The business rescue practitioners have already been paid R30-million in fees only four months into the process. According to Sunday Times, Minister Gordhan and unions have accused the Business Rescue Practitioners of poor management of the R5.5 billion government provided for post-commencement funding of the business rescue, where large amounts have been spent on consultants and accountants, with little return for the airline or the taxpayer, according to Gordhan[12].

SAA's losses have been astounding. In 2018/19 it recorded a provisional loss of R4.9 billion and an R5.4 billion loss in 2017/18. It has received extensive recapitalisation in the form of

[11] Daily Maverick. May 2020. SAA: No salaries from 1 May, R15.8bn losses over three years & still no final business rescue plan. Available at: https://www.dailymaverick.co.za/article/2020-05-15-saa-no-salaries-from-1-may-r15-8-billion-losses-over-three-years-still-no-final-business-rescue-plan/

[12] Sunday Times. May 2020. SAA rescue team win permission to appeal retrenchment. Available at: decisionhttps://www.timeslive.co.za/news/south-africa/2020-05-25-saa-rescue-team-win-permission-to-appeal-retrenchment-decision/

bail outs in recent years. In 2017/18, SAA got a bail out of R10 billion and in 2018/19, a bail out of R5 billion. And the bail outs continue. The Budget review highlights that in 2019/20, R5.5 billion was allocated to South African Airways for repayment of debt and working capital. Over the next three years, R9.9 billion is allocated. This is in the form of R3.8 billion in 2020/21, R4.3 billion in 2021/22 and R1.8 billion in 2022/23. SAA is also expected to continue to rely on government support even under business rescue. Mail & Guardian[13] has reported that the draft business rescue plan tabled at SCOPA reveals that

> SAA's government-guaranteed debt, which stood at R9.2-billion before business rescue and will be repaid between July 2020 and the end of the 2023 financial year, is owed to Nedbank (R2.7-billion), Investec (R1.2-billion), Firstrand (R835-million), Absa (R2.28-billion), Standard Bank (R1.2-billion), IAM (R253-million), Ashburton (R113-million), Momentum (R105-million) and Sanlam (R168-million). Nedbank, Investec, Firstrand, Absa, and Standard Bank were owed another R2-billion in business-rescue post-commencement funding, while the Development Bank of Southern Africa is owed R3.5-billion.

The political directive that Minister Gordhan has received is to ensure a restructured, viable, streamlined, and competitive national carrier. His second political directive was to try to save as many jobs as possible, and the third is to cut the dependence on the fiscus. These directives are likely at odds with each other. Aviation has been heavily impacted by the COVID-19 pandemic, with airlines that were in a far better financial position than SAA and SA Express prior to the pandemic feeling the effects keenly and also beleaguered. With the uncertainties on the public health side, the medium-term future of aviation is very uncertain. SAA is bankrupt - its liabilities are greater than its assets, so even when they are sold off, they will not cover what SAA owes. OUTA believes that pandemic renders it impossible to resurrect a viable airline currently.

[13] Mail & Guardian. May 2020. Sell assets or create a new airline? Tussle over SAA future intensifies. Available at: https://mg.co.za/business/2020-05-21-saa-public-enterprises-sale-brp-south-africa/

6.2.2. Transnet

OUTA notes that the viability of Transnet's National Ports Authority is being assessed over the MTEF. Transnet's new CEO, Portia Derby, has a tough task on her hands to ensure that clean governance becomes the order of the day at Transnet.

In 2018, Transnet Group CEO Siyabonga Gama, chief procurement officer Thamsanqa Jiyane and supply chain manager Lindiwe Mdletshe were served with letters of suspension by the Transnet board on Wednesday. OUTA believes strongly that these three executives have a case to answer. They have been implicated by three separate independent investigations for their part in the flawed acquisition of locomotives for Transnet. Other players in the capturing of Transnet – like former CEO Brain Molefe, former CFOs Gary Pita and Anoj Singh, former board members like Iqbal Sharma, Linda Mabaso, Stanley Shane and Richard Seleke – have already jumped ship.

The three executives were intimately involved not only with decision-making on the infamous 1064 locomotive acquisition, but also with two other tenders for 100 and 95 locomotives that were awarded to China South Rail (CSR) which has close business ties with Salim Essa and the Gupta family.

To date, none of the companies that won the tenders delivered locomotives to Transnet on time and in accordance with the delivery schedule, even though Transnet paid in advance. OUTA has seen evidence that for every payment made to CSR, Essa's company Tequesta received a kickback of about 20% of the payment. These kickbacks are billions of rand and must be recovered by the authorities.

Gama, who took over as GCEO of Transnet after Molefe moved to Eskom in 2015, should have done more to stop the payments to CSR and investigate the maladministration that were taking place. Gama's Gupta-sponsored trip to Dubai on 22 January 2016 could have been the reason he turned a blind eye to the looting at Transnet under his watch. OUTA has submitted a comprehensive report with evidence to the Commission of Inquiry into State Capture and the Hawks to assist them with their investigations into the long and destructive looting of taxpayers' money.

This committee should also leverage its authority in passing budgets to ensure that consequences follow the breach of fiduciary duties in major SOEs like Transnet before approving additional or ordinary allocations.

6.2.3. Skills Education Training Authorities (SETAs)

In the 2020 Appropriation Bill, R13.8 billion is allocated to Technical and Vocational Education and Training. This is a sizable chunk of the total appropriation to the Department and should serve the many young South Africans who hope to become gainfully employed.

In November 2009 it was announced that the Department of Higher Education and Training would assume responsibility for skills development that had previously been controlled by the Department of Labour. In a statement around that time, it was acknowledged that:

- there were negative perceptions about the performance, management and governance of the SETAs,
- there was an inadequate alignment of industry needs relating to the provision of training and skills development, particularly in relating to artisans and technicians.

Despite departmental relocation of the SETAs, governance and financial performance in these public entities has not improved. OUTA's investigations indicate that there has been serious financial mismanagement in the Services SETA, for example. This brings into question the quality of services and education delivered to students through these institutions.

Our preliminary findings suggest that proper procurement procedures have not been adhered to and that hollow service agreements have been entered into at the expense of taxpayers with virtually no benefit for students.

We recommend that the committee flags appropriations to the Department of Higher Education in cooperation with the Portfolio Committee on Higher Education and Training.

6.2.4. Water Boards and the Water Trading Entity

Vote 36: Water and Sanitation gets its mandate from Chapter 4 of the NDP. Despite consistent and substantial appropriations year-on-year, the former Department of Water and sanitation has failed to reliably and efficiently fulfil the human right to clean drinking water for all enshrined in the Constitution.

The Water Infrastructure Development programme is the largest spending area in the budget. Transfers and subsidies increase at an average annual rate of 4.8%, from R8.9 billion in 2018/19 to R10.3 billion in 2021/22. These transfers are mainly to water boards for the provision of regional bulk infrastructure, the Water Trading Entity, the regional bulk infrastructure grant and the water services infrastructure grant.

This issue is dealt with in more detail in the Water & Sanitation section below. For now, it is crucial that this committee applies its mind to practical challenges between Water Boards, municipalities and payment collection agents that are bordering on inter-governmental litigation.

Over the medium term, transfers to the Water Trading Entity are expected to fund short-term and long-term interventions in: the acid mine drainage project, which purifies mine water and uses it to augment the yield of the Vaal River system to ensure water security and environmental sustainability; among others. According to National Treasury, the entity will also subsidise the capital requirements, operations and maintenance of infrastructure for water resources. As a result, transfers to the entity are expected to increase at an average annual rate of 4%, from R2.1 billion in 2018/19 to R2.3 billion in 2021/22.

This demands better regulation and oversight of capital expenditure in the water sector than we have seen thus far. A Parliamentary inquiry into fraud and corruption in the former DWS has been left undone, while the new Minister of Human Settlement, Water & Sanitation has appointed a legal team to pick up the pieces. We recommend that this committee pays close attention to developments in this space because many municipalities and water boards have proven to be financially unsustainable. More broadly, OUTA is recommending an Independent Water Regulator that would be better positioned to perform financial oversight.

6.2.5. Public Investment Corporation & the Government Employees Pension Fund

We note with concern calls for the utilisation of the Government Employees Pension Fund (GEPF) to pay off mounting Eskom debt. During its presentation on the Division of Revenue to this committee in early 2020, OUTA was asked by some members of the committee to provide comments on this issue. After extensive internal and external consultation, it is our view that this symptomatic relief should not be granted.

As has been suggested numerous times in this submission, Eskom must be fundamentally overhauled as it is not financially sustainable in its current form. The PIC, despite its own shortcomings, has thus far managed to nurture the GEPF with prudent investment choices. This cannot and should not be undermined by bolstering a financially flawed Eskom.

Market reforms in the energy sector being driven by the Minister of Finance should be accompanied by reducing bailouts and guarantees to Eskom and reducing South Africa's dependence on this entity for its electricity needs.

Eskom debt weighing heavy on our sovereign debt should be offset by reducing superfluous expenses in the public sector, for example, further capping the growth of the Wage Bill by rationalising the size and structure of organs of state in the sectors dealt with in this submission.

6.2.6. Conclusion

According to the 2020 special adjustment budget guidelines issued on the 13th May 2020, departments need to find programmes and projects that are not critical to the core service delivery requirements. OUTA proposes that the following areas of the appropriation be amended to reduce the allocation. OUTA believes that the South African people should not have to pay for wasted and irregular expenditure and that this should be recovered from the officials concerned.

OUTA believes that safeguarding our existing nuclear legacy is a necessary expenditure and that our NNR should be strengthened. Expanding our nuclear facilities is not urgent, not in the Electricity plan for the future, and should be rejected and that funding reallocated to other areas of the Energy portfolio and some funds could be redirected to national health infrastructure improvement to invest in Covid-19 response and post Covid-19 state preparedness. Funding should be shifted away from fossil and nuclear and towards renewable research and policy advancement, with additional allocations from grid to off grid connections. A post Covid-19 renewable energy investment strategy would aid post lockdown recovery.

Specific recommendations include:

- Increase electrification allocation towards off grid electrification;
- Reduce nuclear spending – specifically NECSA operations to 2018 levels;
- Reject CEF attempt to use fuel levy and carbon tax to bail out petrosal; and
- Accelerate legislative reform to restructure Eskom so that the costs of generation, transmission and distribution can be transparently reviewed in order to assess and adapt the Eskom business model for the future.

OUTA calls on the committee to follow up with National Treasury to determine whether the SOEs that have debt repayments that are requiring bailouts may be able to get a debt repayment holiday due to the Covid-19 situation. In advocating for a debt repayment holiday for SOEs, we are firm that if Treasury or the Presidency would be able to engage the multilateral lending institutions successfully for a debt holiday, it should not be seen as an opportunity for further prolificacy, but rather as breathing room during Covid-19 to repair the damage at SOEs and allow other areas of spending not to be cut.

Measures that OUTA supports to deal with the malaise at Public Entities are:

- Parliament to call for a report back on the progress against implementation of the recommendations of the SOE Entity review;
- Legislative changes such as amendments to the Companies Act, a State-Owned Companies Act and the introduction of a Procurement Bill to be tabled in Parliament, put through a public engagement process and passed;
- Government should assess which entities are unnecessary and can be shut down, amalgamated into others or the function assumed by a government department;
- Auditor General to audit public entities which are currently not audited by the AGSA;
- Public entities should sell off non-core assets;
- Equity partners to be sought for certain public entities;
- Prosecution to tackle corruption and state capture;
- Board members who have been involved in financial misconduct should be declared delinquent and should not serve in positions of power where there are fiduciary duties;
- All board appointments must be transparent and preceded by a rigorous due diligence process including probity checks; and
- Institutions and persons mandated with oversight roles and who have failed to perform these oversight roles should face consequences. It is unacceptable that the checks and balances constantly fail.

6.3. Transport

In general, OUTA recommends more impactful spending (by local and provincial government) on public transport alternatives such as bicycle lanes, subsidised and well-regulated midi- and mini-bus networks, as well as properly maintained and managed passenger rail networks as these could alleviate the costs of commuting to work for those who live far removed from both informal and formal productive activities.

In the 2020 Appropriations Bill, R14 billion is allocated to public transport. This is largely transferred to provinces as the Public Transport Network Grant (R6.4 billion) and households as the Public Transport Operations Grant (R6.7 billion). The complete lack of reliable public transport systems in rural provinces beg the question of how provincial transfers for this purpose are used and why the money is reallocated year-on-year despite evidence that it is not being utilized effectively. Provincial treasuries must play their part.

In August 2019, Minister Mbalula met with OUTA, the Automobile Association (AA) and others about concerns and solutions to the e-toll impasse and committed to give feedback. At this meeting we reiterated our position that the e-tolls system has failed to achieve its objective as a road funding mechanism and will be virtually impossible to resurrect. Accordingly, the scheme should be scrapped.

When the South African National Roads Agency Ltd (SANRAL) released its Annual Financial Report for 2019, it was clear that e-tolls are not working with only one in five motorists paying. SANRAL has been able to collect only R4.5 billion to date; well below its R16 billion target. Regardless, piecemeal allocations still flow to cap the growing debt burden of the Gauteng Freeway Improvement Project. More than R600 million is allocated for this purpose in the 2020 Appropriations Bill.

OUTA's contention remains that it is unfair to triple tax motorists in Gauteng who make daily use of the GFIP, in the form of fuel levies, Personal Income Tax and other taxes which contribute to the finance government transfers to SANRAL, and e-tolls. While a more lasting solution to SANRAL's revenue challenge is being sought, the failed e-tolls scheme should be abolished and the 187km of Gauteng's tolled freeway network should be declared as non-tolled roads.

Transfers to the Passenger Rail Agency of South Africa for the rolling stock fleet renewal programme are expected to increase from R5.8 billion in 2019/20 to R8.3 billion in 2022/23 at an average annual rate of 12.5% "as the agency intensifies its implementation of the modernisation programme". Total transfers to the agency, mainly for capital expenditure, are set to increase from R16.5 billion in 2019/20 to R21.6 billion in 2022/23 at an average annual rate of 9.4%.

In the 2018 Adjustment Appropriations Bill, roughly R5 billion was shifted from Prasa's capital budget to compensate for the failed e-tolls scheme at SANRAL. This ad hoc approach to funding the growing debt incurred by the Gauteng Freeway Improvement Project is not sustainable and shows that alternative funding arrangements are long overdue.

Metrorail receives more than R5 billion through the 2020 Appropriations Bill under the stewardship of Prasa. R3.6 billion is earmarked for the 'Rolling stock fleet renewal programme' under the same entity. Recently, the Competition Commission recommended that the Metrorail system be unbundled from Prasa, citing "pathetic" management and a need for more integrated operations in metropolitan municipalities. The City of Cape Town has been precisely suggesting this model and, if it were to materialise, Prasa would effectively cease to exist. This would require substantive revision of current intergovernmental fiscal relations.

It is alarming that the Road Accident Fund's liabilities are expected to increase to R605 billion by 2022/23. This fund is financed by the fuel levy, but much more effective uses come to mind. The poor financial performance of this fund is similar to entities in the energy sector that are now asking for a portion of the fuel levy year-on-year. This should be refused.

While development indicator data from the Department of Performance Monitoring and Evaluation indicates that the number of road accidents and fatalities are declining, the Road Accident Fund's liabilities are increasing. We need clarity about the drivers of the RAF's increasing liabilities.

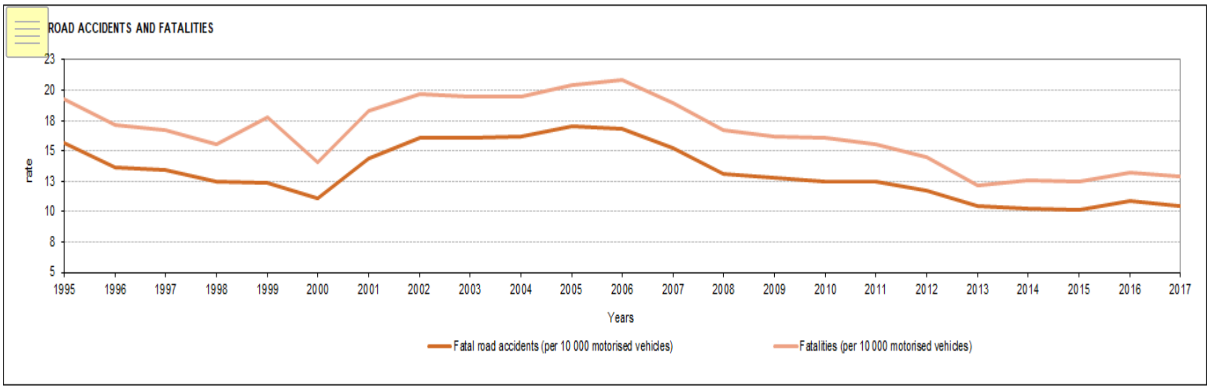

Figure 11: Road accidents and fatalities

Source: Development Indicators, Department of Performance Monitoring and Evaluation

OUTA notes the Minister of Finance's speech advanced that one option to manage the growing levels of liability is to introduce compulsory third-party insurance.

6.4. Communications and Digital Technologies

The erstwhile Department of Communications out of which Telecommunications and Postal Services was split from, was similarly subject to constant political interference due to its shareholder role in the SABC, ICASA, Broadband Infraco, Post Office and other state entities. For years the Department of Communications failed to adequately regulate the fast-changing Information and Communications Technology policy environment and deliver on key strategic objectives of the communications sector.

There have been long delays in making additional spectrum available, rolling out of universal broadband has been painfully slow and undertaking the Digital Terrestrial Television migration. The cost of data has soared under the department's watch. The Department of Communications and Digital Technologies must rapidly adapt to a booming sector with an array of technological innovations in the private sector that makes many of its functions redundant. Expenditure in this sector must be fundamentally adjusted by funding innovative and transformative public-private partnerships that, for example, support small, medium and micro start-ups and accommodate enterprises in informal settlements as opposed to suppressing exponential growth in the private sector. One policy mechanism that can make a big difference here is significantly reducing the cost of data and ensuring that marginalised groups can access the internet affordably or freely.

Of the R3.4 billion allocated to the department in the 2020 Appropriations Bill, R1.75 billion goes to ICT Enterprise and Public Entity Oversight. R1.27 billion goes to ICT Infrastructure Development and Support. OUTA contends that the latter should be much more. In light of Covid-19 and the emergence of a digital economy, more funds should be allocated to infrastructure development as well as the underfunded ICT Information Society and Capacity Development. Allocations to the South African Post Office should also be rationalized since its function is moving toward the dispensation of social assistance.

Overall, this underdeveloped sector requires a much larger proportion of total revenue at government's disposal. To provide an example of where massive amounts of taxpayers' money is spent without any tangible benefit to the public, we may consider the R31 billion allocated specifically to the compensation of employees under the Department of Defence alone. The immediate importance of a bloated national defence force at the moment in South Africa cannot be compared to that of communications and digital technologies.

If recommended increases to appropriations in this sector are implemented, retrospective and immediate accountability is necessary. Several cases of fraud, corruption and financial mismanagement between the SABC and the former Department of Communications remain unresolved.

We note the broadband rollout (SA Connect) infrastructure development initiative to be implemented by the Department of Telecommunications and Postal Services that will cost R80 billion according to Annexure D of the 2020 National Budget. The detailed combination of government, private sector and development finance institution money to be used to pay for this important programme over the medium term must be made public to ensure participation and effective implementation.

In addition to this, the Financial and Fiscal Commission's briefing to the Standing Committee on Appropriations on 26 May 2020, clearly indicate that the DCDT is one of the new priority areas. In consideration of this department's role in economic development, monitoring and evaluation mechanisms must be implemented to ensure transparency and effectiveness in project delivery. The previous internal mismanagement and misappropriation of funds in the DoC and DTPS caused service delivery backlogs and gaps. All allocations of the R3.4 billion must be traceable from reception to successful delivery with DCDT staff held accountable should delivery fail project requirements.

6.5. Water & Sanitation

The Department of Water and Sanitation (now Department of Human Settlements, Water and Sanitation) has been riddled with allegations of systemic corruption. Again, the department receives R17 billion through the 2020 Appropriations Bill and governs many infrastructure projects around the country – yet the provision of this essential resource is poor. Project or contract management has failed and continues to fail in its current form, with too many of these projects starting but not finishing. Nonetheless, R13.8 billion of the total appropriation is earmarked for Water Infrastructure Development.

The Department's budget for such projects seems erratic, with numbers for spending changing each year and no clarity on why projects have stalled. An example is the Sedibeng Bulk Regional Sewerage Scheme and the Sebokeng Waste Water Treatment Works, where upgraded infrastructure should have been completed years ago but is still unfinished; this is one of the reasons the Vaal River is polluted. For 2020, R750 million is allocated to the Vaal River System Remediation Intervention Project.

In the Western Cape, the impact of climate change and concomitant long-term decreases in fresh surface water availability have not been considered in the appropriation and application of money for improved infrastructure and water resource diversification.

In the former DWS, spending was so uncontrolled that it got away with replacing bucket toilets at up to R530 685 per toilet (2015/16) and managed to run the entire bucket toilet replacement programme twice. We agree that failing water infrastructure is a problem. However, this also points to a significant failure of oversight, particularly by the national and provincial Departments of Cooperative Governance and Traditional Affairs and the Provincial and National Treasuries. Municipalities are supposed to maintain municipal water networks but do not budget for this or, where it is budgeted, do not spend properly, despite charging for the service.

As is applicable to all other tentative sectoral policy shifts – OUTA calls for a simultaneous reform of accountability mechanisms that will see a greater connection between beneficiaries of public sector expenditure and those responsible for its execution. Recent increases in direct oversight by Parliamentary committees such as the Standing Committee on Public Accounts summoning accounting authorities of various municipalities is a good example of more direct oversight. However, a stronger component of civil society participation (perhaps through more regularised and enfranchising Parliamentary constituency engagements) can go a long way in effecting greater accountability.

OUTA has been campaigning for an Independent Water Regulator (IWR) to improve the universal provision and use of this precious resource and therefore supports the call for such a regulator and for a comprehensive management strategy for investment in water resource development, bulk water supply, and wastewater management. However, there are serious concerns around increasing water tariffs and feeding a virtually bankrupt Department of Water and Sanitation.

The National Department of Water and Sanitation’s legislative mandate is to “ensure that the country’s water resources are protected, managed, used, developed, conserved and controlled by regulating and supporting the delivery of effective water supply and sanitation”.

The right to water and sanitation is a fundamental human right. Chapter 2 of the Constitution of South Africa provides that: “Everyone has the right to have access to sufficient food and water.” It is a travesty that there are towns where the taps have run dry and citizens are relying on non-profit organisations to supply water, while Auditor General findings reveal that the National Department of Water and Sanitation has been paying little attention to addressing audit recommendations over time. In the Auditor General of South Africa's Citizens Report - PFMA 2018/19, the AG found that:

- The department engaged in projects that had no budgets or were not aligned with budgets, leading to budget overruns, and underspending alike.
- There were high levels of irregular expenditure because money was spent on other projects such as the war on leaks and the bucket eradication programme
- Significant levels of fruitless and wasteful expenditure were incurred mainly because of project delays

In the same report, we note that R3.13 billion was spent irregularly (primarily during the 2018/19 financial year) due to non-compliance relating to contract management and other procurement processes. We welcome the recent appointment of a legal team to probe irregular expenditure, fraud and corruption at the department and at Water Boards.

In August 2018, OUTA made a joint submission to the Standing Committee on Public Accounts (SCOPA) and the then Portfolio Committee on Water & Sanitation in this House to support the promised inquiry into the Department's financial performance, functions and governance. No such inquiry has been hosted to date. We strongly recommend that the Committees on Appropriations nudges the Portfolio Committee on Human Settlements, Water & Sanitation to fine comb the persistent adverse findings reported by the Auditor General in this Department.

In May 2018, Parliament's Portfolio Committee on Water and Sanitation was briefed that the Department of Water and Sanitation had a budget hole of over R1 billion and an unsustainable overdraft facility. A major cause of the overspending was the continuing funding of the "War On Leaks" programme, using unbudgeted funds generated by the Water Trading Entity (WTE)[14]. In November 2019, the Department committed to fund the "War on Leaks" programme until October 2020[15]. It does not appear that performance on the programme has gone as planned[16]. OUTA therefore recommends that National Treasury and the Department of Performance Monitoring and Evaluation conduct an Expenditure Review on the "War on Leaks" programme and depending on the outcome thereof, to cancel or take steps to significantly improve the performance of the "War on Leaks" programme.

[14] https://pmg.org.za/committee-meeting/26328/
[15] https://www.gov.za/speeches/dws-commits-fund-war-leaks-programme-5-nov-2019-0000
[16] https://africacheck.org/reports/south-africas-state-of-the-nation-address-2016-to-2019-in-review/

From the 2020 Appropriations Bill, the Water Trading Entity receives almost R2.5 billion for 2020/21 - with 80% of that amount going to “Acid Mine Drainage and other capital projects”. This must be questioned by the committee as it lacks detail in light of the above.

Water is a basic human right and many communities have been bearing scarcity of potable water for decades. On 11 March 2020, SCOPA heard from this department on the non-tabling of its annual report and financial statements. How can division of revenue continue with business as usual regarding these issues? We recommend that the Appropriations committees clamp down and allocate grants conditionally.

OUTA notes that there is a government guarantee exposure of R13.5 billion from the Trans-Caledon Tunnel Authority. After Eskom, the Independent Power Producers, SANRAL and South African Airways, this is the fifth largest guarantee exposure arising from a public entity. Treasury outlines that the TCTA’s overall debt is expected to increase at an average annual rate of 11.4%, from R28.1 billion in 2019/20 to R38.9 billion in 2023/23. And that the main cost driver is the Mokolo-Crocodile river water augmentation project, spending on which is expected to increase at an average annual rate of 102.7%, from R396.3 million in 2019/20 to R3.3 billion in 2022/23, due to the escalation of construction activities.

The project entails the construction of a 160km pipeline and pump station transferring water from the existing Mokolo Dam to supply water to the Lephalale municipality, Exxaro’s Grootegeluk coal mine, and Eskom’s Matimba and Medupi power stations, all in Limpopo. OUTA would like to highlight that these are additional costs on top of the massive cost overruns and procurement irregularities associated with Medupi. Trans-Caledon Tunnel Authority received a qualified audit in 2018/19. This does not bode well. We urge the committees to impress upon the National Treasury that contingent liabilities must be managed better as a fiscal risk. Ideally only entities receiving clean audits should be provided with a loan guarantee.

In the Estimates of National Expenditure, selected key performance indicators are included for each Department. The indicators included for the Department of Water and Sanitation are indicative of misplaced priorities and underperformance in relation to their actual mandate:

Selected performance indicators

Table 41.1 Vote performance indicators by programme and related priority

Indicator	Programme	MTSF priority	Past			Current	Projections		
			2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Number of reports on progress analysed against the approved annual international relations implementation plan per year	Administration	Departmental mandate	4	4	1	1	1	1	1
Number of river systems with water resources classes and determined resource quality objectives per year	Water Planning and Information Management	Priority 4: Spatial integration, human settlements and local government	2	1	4	3	0	0	1

Figure 12: Performance indicators by programme and related priority

Source: National Treasury, Estimates of National Expenditure 2020: vote 41

6.6. Health

Health services are being diminished due to a need to prioritise the stabilisation of SOEs as well as emergency funding for Covid-19 - the latter being beyond the scope of this submission. The Estimates of National Expenditure reads as follows:

> Cabinet-approved budget reductions to lower the national aggregate expenditure ceiling have resulted in decreases to the department's allocation of R1.2 billion in 2020/21, R1.3 billion in 2021/22 and R1.4 billion in 2022/23. These are affected in areas such as conditional grants to provinces, goods and services, transfers to public entities, and compensation of employees. They are not expected to lead to significant disturbances in service delivery as most of the affected areas were identified based on historical financial and non-financial performance, which was lower than anticipated.

We are not convinced that removing R1.2 billion, R1.3 billion and R1.4 billion from the department's allocation over the MTEF will not lead to disturbances. Simultaneously, noting that the money was identified out of areas of non-financial performance, points to issues of capacity to deliver and spend allocated funds within the health system. These cuts were announced at a time when other countries were already impacted by Covid-19. While OUTA notes that an additional R20 billion has now been allocated to the Department of Health through the stimulus package, we are concerned that even this may not be sufficient to bolster the public health system to deal with the onslaught that the modelling on Covid-19 infection rates warn to expect. We are also concerned that people with other medical conditions that cause morbidities are being neglected during this time.

It is very disturbing that medico-legal claim payments have reached R2 billion and medico-legal contingent liabilities, R99.2 billion. OUTA notes that interventions to address this include piloting a National Quality Health improvement plan, the Department of Health has contracted law firms to support claims management, provinces are strengthening medico-legal teams, the State Liability Amendment Bill is before Parliament and the Special Investigating Unit is probing fraud. OUTA welcomes the probing of fraud in this area by the SIU having resulted in several arrests. It is noted that the effect of these interventions on contingent liabilities still needs to be evaluated. It is imperative that the actions outlined are followed through on. And that contingent liabilities arising out of medico-legal claims are brought under control. The practices leading to claims should be analysed and the root causes systematically addressed.

Despite the reductions, average nominal growth in health spending for 2020/21 to 2022/23 is 5.1%. However, this increase must be considered in the context that the demand for health care is increasing and public health facilities are already struggling to meet that demand. Human resources for health (HRH) remains a critical issue. Many clinics and hospitals simply do not have enough health professionals; this under-resourcing of HRH is greatly and adversely affecting working conditions, staff morale and (ultimately) service delivery. We urge the committees to impress upon the National Treasury that key vacancies and staff shortages in the public health system need to be filled and an appropriate gearing between the compensation budget and goods and services budget of the department established. The filling of vacancies cannot come from the goods and services budget, as a high proportion of funds are already spent on compensation.

We note that Treasury explains that the overall nominal growth in health spending is "largely driven by an increase in the HIV and AIDS component and the community outreach services component of the HIV, TB, malaria and community outreach grant and allocations towards national health insurance".

We also note that National Health Insurance (NHI) will need to be implemented more slowly due to affordability. We fully support the principle of Universal Health Coverage and think that it is important to strengthen the primary healthcare system as proposed. OUTA is, however, concerned about the governance arrangements proposed for the NHI Fund in the National Health Insurance Bill that has been tabled. The governance arrangement for the NHI fund will pool a massive amount of public finances for spending on health. The governance arrangements have to be strengthened to mitigate against corruption or we will not be looking at quality health care for all as the Bill envisions, but at the paving of the way to more looting of public resources. OUTA made a written submission on the NHI Bill to the Portfolio Committee on Health (detailing these points and other areas of concern) in November 2019.

It is also a worrying sign that in November 2019, the Health Director-General, Malebona Precious Matsoso, resigned early after over ten years of service. Her contract would have ended in May 2020. Previously she had given an interview to the media which appeared to indicate that she was not consulted sufficiently during the revising of the draft NHI Bill. We are cognisant that a new DG has recently been appointed. The new DG has been the South African National Aids Council CEO. During this pandemic and in the past months, we have become aware that SANAC enjoys the regard of senior officials in the Presidency and has been positioned to play a central role in the health response to Covid-19. We are also cognisant of previous concerns that civil society has held over SANAC's governance and performance and pre-emptively urge the committee that proper oversight should be exercised over how decisions relating to SANAC and money that flows to SANAC are made.

Finally, and returning to the critical issue of HRH, implications of the implementation of the NHI should be considered through the eyes of healthcare practitioners.

6.7. Basic & Higher Education

Despite the alignment between SDG 4 and NDP Chapter 9, both addressing education, the South African primary and secondary education systems are rated among the worst in the world. In general, a progressive and depoliticised curriculum is essential for innovative thinking and more equal access to economic opportunities in one of the most unequal societies in the world. Whereas the SDGs seek to propose a comprehensive response to the persistent educational challenges being faced, the realities fail to adequately address the targets as set out in the foregoing as well as the MSTF Priority Area 2 looking at quality basic education and skills. Not only is there currently a severe lack in quality education and skills empowerment, but school infrastructure is below par.

As articulated by the President, we are doing the youth an unforgivable disfavour if the practical skills necessary for competence in a highly competitive global economy are not offered as part of basic, primary and secondary education. The strategy states that:

since the highest return to human capital investments are associated with the earliest interventions, an educational life-cycle approach must include a strong emphasis on early childhood development, which has demonstrated the ability to: (i) improve long-term health outcomes; (ii) boost earnings by as much as 25%; and (iii) generate a rate of return on investment of 7 to 10% through better outcomes in education, health, and productivity.

OUTA agrees with this approach to public education since it faces the reality of our current school system's dismal failure to educate every South African child and give them a real chance at independence and prosperity. Extremely ambitious spending programmes that may benefit a fraction of the population cannot reconcile this issue whilst publicly available statistics clearly show the inadequacy of educational quality at the most basic pedagogic levels.

We also support the idea of greater collaboration between the private sector and higher education institutions to decrease youth unemployment. However, the public schooling system criticised above requires well-trained and well-paid teachers, more of them to reduce the *teacher to learner* ratios, ensuring that teachers are better equipped to determine and deliver primary and secondary school curricula for the sole benefit of the children and their prospects of gainful employment.

Regarding higher education reforms, OUTA has noted with great concern the abuse of finances by Sector Education and Training Authorities (SETAs) that are controlled and operated by the government. The Services SETA is a case in point here, where payments intended for interns and learners were apparently siphoned off. These institutions are funded by taxpayers and their effectiveness must be consistently monitored and institutional structures and budgets must be adjusted according to observed performance outcomes. According to the 2019 Annual Report of the Department of Basic Education, Irregular, Fruitless and Wasteful expenditure amounted to R1.8 billion. Although the Auditor-General qualified the DBE financial report, it was stated that the DBE failed to include all the irregular expenditure incurred from not following the requisite supply chain requirements.

Accordingly, due to poor records management, the Auditor-General was not able to ascertain whether disciplinary action was taken against those who incurred the fruitless and wasteful expenditure. The financially unqualified 2019 Annual Report, of the Department of Higher and Education and Training, reported the Irregular, Fruitless and Wasteful expenditure to be R34.7million. The Fruitless and Wasteful Expenditure is in respect of fraudulent salary overpayments discovered in 2018/19 in respect of payments made in the latter part of 2017/18 and beginning of 2018/19. According to the report, the matter is currently under investigation and steps have commenced with recovery of debt. These UIFW expenditure together with maladministration of funds compound to a much greater concern, impacting basic infrastructure, service delivery and quality of education.

When planning for large scale reforms in the water and energy sectors, it is important for the government to fund and manage meaningful skills development programmes that are practically oriented and consider the social and environmental justifications of an emerging renewable energy sector. More generally, redundancies can be capitalised by implementing training and professional development programmes in public administration, technical skills, and other scarce skills that can enable constructive re-deployment in the public service and public-private partnerships.

Cabinet has approved reductions to the education infrastructure grant. These reductions total R1.9 billion over the MTEF period. In Basic Education, the budgeted and actual expenditure by programmes occur over five categories:

1. Administration
2. Curriculum Policy, Support and Monitoring
3. Teachers, Education Human Resources, and Institutional Development
4. Planning, Information and Assessment
5. Educational Enrichment Services

In Higher Education and Training, they occur over six:

1. Administration
2. Planning, Policy and Strategy
3. University Education
4. Technical and Vocational Education and Training
5. Skills Development
6. Communication Education and training

However, when adjusted for inflation, the National Department of Education's budget allocation has not grown in real terms between 2019/20 and 2020/21. The capability to enact on these budgeted items will be impacted by 1) historic UIFW expenses, 2) shortfall in service delivery and funding allocation 3) backlogs in attending to programmes. These realities will impact the quality of education.

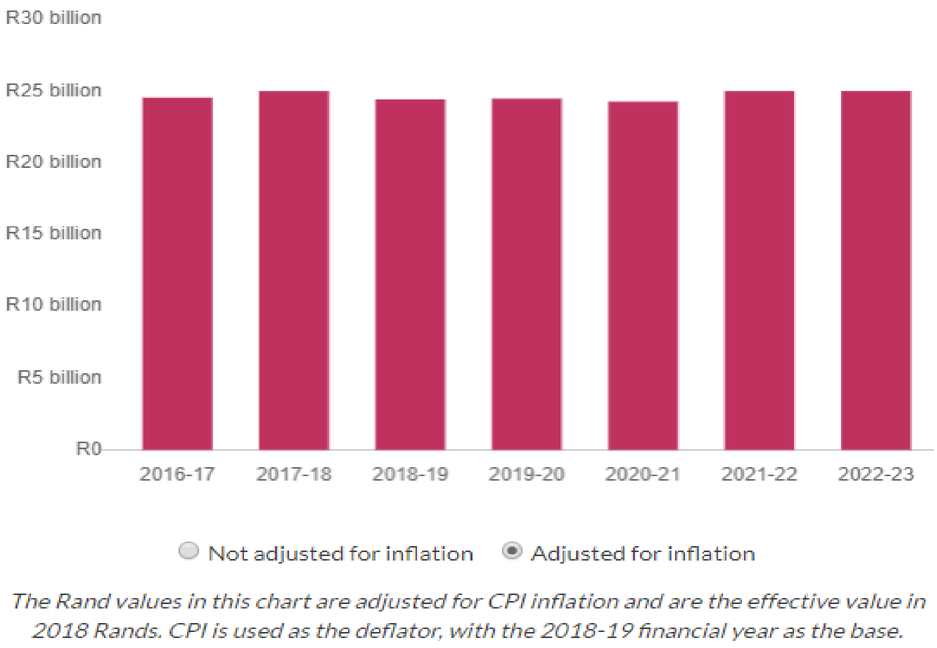

Figure 13: DBE planned expenses compared to historical expenditure

Source: Vulekamali, National Treasury

While the National Treasury is having to make tough choices about spending levels, OUTA is concerned that it may be forgetting that the quality of South Africa's basic education is linked to the country's ability to be globally competitive on an economic level. Learners being educated in structurally unsound schools that have inadequate sanitation facilities and whose numeracy and literacy levels are not adequate must somehow enter the job market in today's global village. The education system is not giving the country's youth the springboard to success that they and South Africa need. Instead of cutting education spending, National Treasury should look at the number of public entities that have proliferated and determine how many of these are funded off government departments' budgets, have overlapping mandates and are wasting public funds and repurpose money accordingly.

Excellence in science, technology, engineering, and mathematics (STEM subjects) is considered important for a country to improve its prospects for economic development, job creation and competitiveness. South Africa's National Development Plan makes this link between the performance of the education system and the country's economic prospects. It acknowledges the need to improve its prowess in the numbers of doctoral graduates emerging from universities, saying that "if South Africa is to be a leading innovator, most of these doctorates should be in science, engineering, technology and mathematics".

It has been 8 years since the release of the NDP, in which National Planning Commissioners included a concern that “the downward trend in the number of learners who pass matric with mathematics must be reversed”.

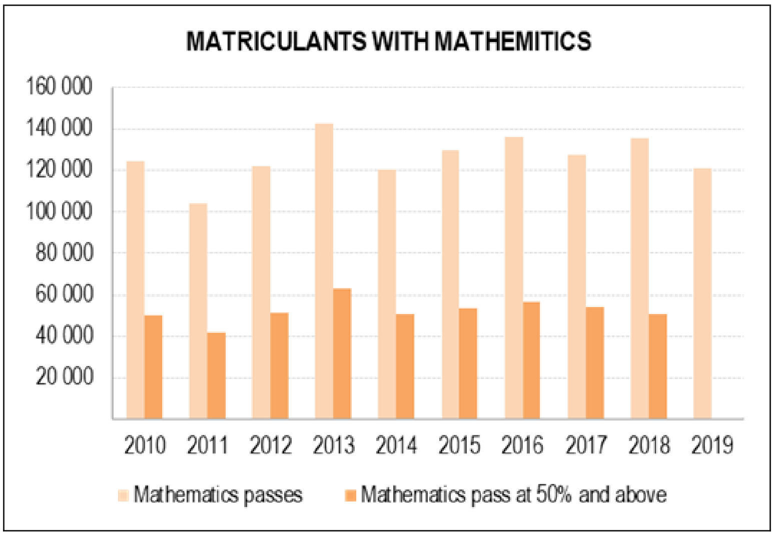

Figure 14: Matriculants with mathematics 2010-2019

Source: Department of Performance Monitoring and Evaluation, updated for 2018 and 2019

When the Department of Basic Education is battling to ensure improved maths results at a matric level and overall literacy and numeracy levels, how does it plan to teach coding to learners? Too many teachers don’t pass the maths exams that they are meant to prepare learners to take. While coding is an important skill for the digital economy, we are concerned that the DBE and Provincial Departments of Education must do a lot more if they are to prepare learners to compete in a globally competitive and increasingly digital world. According to the National Education Infrastructure Management System (NEIMS) Standard Report August 2019[17], a shocking 80% of South African schools (18 563 of 23 258 schools) do not even have access to the internet for teaching and learning purposes.

[17]https://www.education.gov.za/Portals/0/Documents/Reports/NEIMS%20standard%20reports%202019.pdf?ver=2019-09-27-150623-250