OUTA

ORGANISATION UNDOING TAX ABUSE

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OUTA'S COMMENTS ON THE SECOND ADJUSTMENT APPROPRIATIONS BILL & MTBPS

Submission to the Select and Standing Committees on Appropriations

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Executive summary

The key message of OUTA's submission to the Appropriations Committees on the Second Adjusted Appropriations Act is that it is time to improve the effectiveness and efficiency of public spending. Services delivered do not represent a good bang for buck. There is an urgent need to improve the effectiveness and efficiency of public spending.

It is time that National Treasury stops making it look like there are crisis circumstances that require them to go delving into votes to do adjustments. Bail outs to state-owned entities do not arise out of the blue. It is quite clear in advance when SOE debt obligations will become due.

There is also an urgent need for improved oversight by parliamentary committees. Parliament relies on what departments report about spending without verifying it. We recommend improved oversight of this by parliamentary committees, and better use by those committees of the Department of Performance Monitoring and Evaluation reports. The lack of outcomes resulting from capital-intensive expenditure in several major programmes is not accidental and cannot be ascribed to purely economic causes. It is a consequence of poor planning and a lack of political will to abide by public finance management laws. Further, this follows from a lack of fiscal policy that is realistic and reflects the skills deficit in our public service. Often, the scope of expenditure of plans have been deliberately inflated, beyond what is necessary, to enable payment of large amounts to intermediaries that do not add any value or tangibly contribute to the fulfilment of the objectives of the expenditure programme.

We strongly support the proposal for zero-based budgeting and look forward to seeing how this will be implemented.

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Introduction

The 2020 MTBPS is arguably the most important moment in South Africa's fiscal history. The combined effects of restrictive measures taken to contain the Covid-19 pandemic, the failure to curtail systematic looting of public resources over the past decade (and beyond), and redirection of funding away from basic needs towards large bungled projects are now being felt.

Service delivery does not match spending. We spend significant amounts on the public service but instead of improved productivity, we see the increased entrenchment of corruption and maladministration, knee-jerk solutions for failing state-owned entities and ever-increasing debt.

The government is significantly failing to do more with less, and blaming the problems on the pandemic's effects ignores the problems of more than a decade of systemic corruption and maladministration. The current situation demands a robust fiscal policy that will eliminate any and all expenditure items that have not had a measurable and satisfactory impact on the lives of ordinary South Africans.

OUTA notes that the call for submissions highlights that the National Assembly's and the National Council of Provinces' Appropriations Committees are required, according to the Act, to consider and report on the following issues:

- The spending priorities of the national government for the next three years;
- The proposed division of revenue between the spheres of government and between arms of government within a sphere for the next three years; and
- The proposed substantial adjustments to conditional grants and local government, if any.

This submission focuses on analysing the Second Adjustments Appropriation Act of 2020. It focuses on: (1) recommendations for improving the effectiveness and efficiency of public spending; (2) proposed adjustments; (3) performance-measurement outcomes relative to spending, including core sectors that must undergo reprioritisation of expenditure in our view; (4) zero-based budgeting; (5) Parliamentary oversight; and (6) audit outcomes and public governance improvements.

To successfully navigate an economic recovery, there must be acknowledgement that there is a need to address not only where public finances are being allocated, but also the delivery against that spending. For too long, everything has been a priority, spending has been growing, as has public debt, but services delivered do not represent a good bang for buck. The current economic and fiscal circumstances require that allocative and productive efficiencies must be improved drastically.

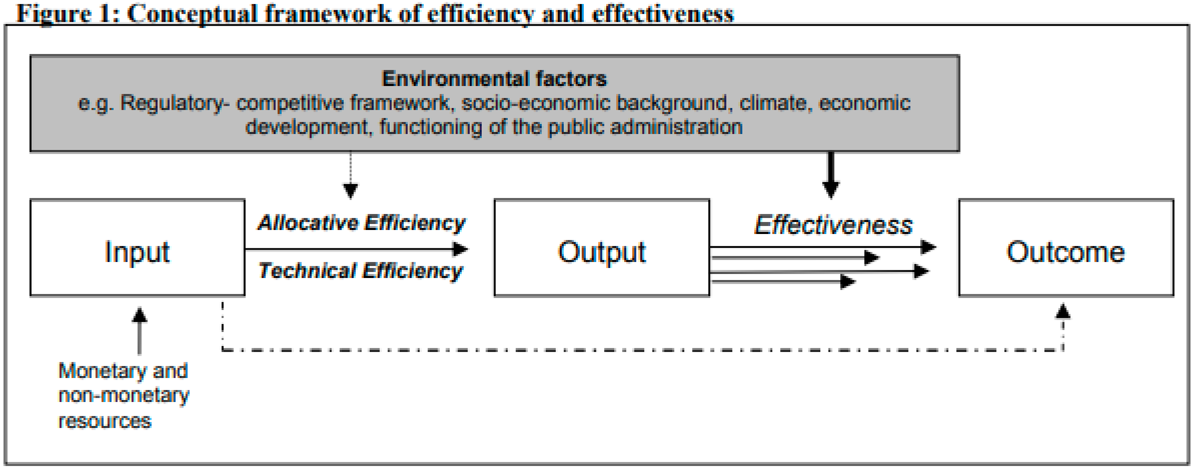
Improving the effectiveness and efficiency of public spending

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

When the 2008 downturn affected countries, the OECD developed a conceptual framework of efficiency and effectiveness which links inputs, outputs and outcomes[1]. This conceptual framework is broadly in alignment with the Results-based Management framework that South Africa has adopted. In the conceptual framework below, budget spent and non-monetary resources utilised represent the input. These are used to produce an output, in turn leading to an outcome. For example, the input of spending on education leads to an output of educational attainment rates.

[1] https://ec.europa.eu/economy_finance/publications/pages/publication11902_en.pdf

Figure 1: Conceptual framework of efficiency and effectiveness



The OECD explains that “the greater the output for a given input or the lower the input for a given output, the more efficient the activity is. Productivity, by comparison, is simply the ratio of outputs produced to input used”. How effective the outcome is depends on the quality of the output. OUTA is concerned about both the efficiency of spending and effectiveness of services.

We would like to see better efficiency being realised through the two approaches contained in the OECD’s conceptual framework: first, the elimination of activities that are unnecessary (better allocative efficiency); and, second, the reduction in the resources needed to achieve essential outputs (better technical or productive efficiency). Priority should be given to the first, achieving allocative efficiency, on the basis that doing the wrong thing, even if done well, is always inferior to doing the right thing, even if done badly. Also, substantive results can sooner and more easily be achieved through the elimination of entire activities than they can through efficiency improvement initiatives that are often slow and arduous exercises.

In terms of allocative efficiency, the main areas of focus include potential activities and/or entities that can be eliminated entirely or operationally restructured. We would like to see a spending review of advertising spend across departments. We want to see advertising spend being utilised in an ethical manner and are concerned that some departments may have been utilising their considerable ad spend as a tool to silence negative reporting.

When reviewing the spending per budget vote we see indications that when 10 departments were merged into five in 2019, it appears this was in name only as they continue to have separate programmes and their operations haven’t necessarily been streamlined into one unified department[2].

We would also like to see the spending habits of South Africa’s foreign missions put under a microscope. We are concerned that all too often persons who have disgraced themselves are rewarded with diplomatic posts and that the salaries for these posts are higher than many respected INGOs pay. In terms of allocative efficiency we think it is important to ask if the number of countries in which South Africa has foreign missions is justified. OUTA is utterly horrified to hear that South African deputy ambassador to Sudan, Zabantu Ngcobo, and her partner are suspects in a murder investigation where two Sudanese women called Nisreen and Marwa were allegedly murdered in December 2019 as a “training exercise” before hired hitmen were intended to kill the SA embassy's intelligence officer[3]. Embassies are meant to support good international relations, not bring the country into disrepute.

When it comes to the wage bill, we are calling for an investigation into the hiring practices at departments that were restructured as state capture manoeuvres. It cannot be that dedicated officials continue to be sabotaged by officials placed in key positions to enable state capture or look the other way when criminal acts occur. We’d like to see the Department of Public Service and Administration dealing with officials who are doing business with the state. These officials cannot be welcome in public service any longer. We want to see dedicated frontline personnel being valued and support greater levels of professionalisation within the public service. We would like to see the public service attracting excellent talent and people of the highest ethical standards. There are many public servants who do have these qualities and are working hard despite the challenges in their environments. For their sake and because talented people are not attracted to departments that have entrenched corruption and a toxic culture, this dilemma needs to be confronted and we need to professionalise our public service.

We would like to see the state considerably improving its spend on information technology. We are dubious about SITA’s performance and want to see SITA improving its performance considerably or being closed if it cannot do so.

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[2] https://www.news24.com/news24/SouthAfrica/News/here-are-the-10-departments-ramaphosa-has-merged-20190614

[3] https://www.thesouthafrican.com/news/who-is-zabantu-ngcobo-sudan-ambassador-assassination-plot/

We would like to see items being identified that are procured across many departments or municipalities. These items should be added to the list of items procured through transversal procurement processes in order to realise the savings associated with placing a larger order. For example, smart meters. In order to support smaller companies to be integrated not only into public sector supply chains, but also private sector supply chains, we would like to see government policy and support for supplier development programmes where medium-sized and larger firms ensure that smaller firms are enabled to supply to them and supported to improve the quality of their products and services. This will allow smaller firms to participate in making up big orders and also develop their own capacity to grow by supplying greater quantities at the required quality standards.

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

OUTA supports the following measures to restore fiscal balance:

1. Zero-based budgeting that achieves greater allocative efficiencies;
2. Sort out the wage bill;
3. Close or sell off state-owned entities (SOEs) that aren't needed;
4. Introduce a fiscal rule;
5. Stop bailing out municipalities, unless there are stringent oversight mechanisms. Provinces must be held more accountable for the broken state of local government.

In order to achieve the desired allocative and productive efficiency it is critical to prioritise building a capable state.

Adjustments

This section on OUTA’s submission focuses on 2020’s Second Adjustments Budget.

The table below shows the votes receiving the largest downwards revisions:

Top 15 downwards adjustments

Vote number and title		2020/21				
R thousand		Appropriation	Adjustments appropriation	Second adjustments appropriation	Adjusted appropriation	Percentage change
26	Military Veterans	683,073	(137,000)	(65,731)	480,342	-9.6
28	Police	101,711,033	3,700,000	(5,850,139)	99,560,894	-5.8
15	Traditional Affairs	173,399	(3,000)	(8,714)	161,685	-5.0
12	Public Service Commission	297,627	(10,000)	(13,847)	273,780	-4.7
21	Civilian Secretariat for the Police Service	156,312	(12,000)	(7,144)	137,168	-4.6
22	Correctional Services	26,799,962	–	(1,203,125)	25,596,837	-4.5
13	Public Works and Infrastructure	8,070,796	–	(346,417)	7,724,379	-4.3
24	Independent Police Investigative Directorate	355,667	–	(14,691)	340,976	-4.1

25	Justice and Constitutional Development	19,860,621	(416,000)	(778,337)	18,666,284	-3.9
2	Parliament	2,180,453	(80,001)	(84,607)	2,015,845	-3.9
4	Government Communication and Information System	720,548	30,000	(25,408)	725,140	-3.5
14	Statistics South Africa	3,452,173	(200,000)	(120,600)	3,131,573	-3.5
27	Office of the Chief Justice	1,259,841	(30,000)	(41,720)	1,188,121	-3.3
6	International Relations and Cooperation	6,850,179	(316,575)	(218,636)	6,314,968	-3.2
20	Women, Youth and Persons with Disabilities	778,490	(133,253)	(24,261)	620,976	-3.1

OUTA is concerned about the impacts on the functioning of the police, IPID and the courts in particular.

The following budget votes could be considered the “biggest winners” during the mid-year adjustments:

Vote number and title		2020/21				
R thousand		Appropriation	Adjustments appropriation	Second adjustments appropriation	Adjusted Appropria-tion	Percentage change
32	Environment, Forestry and Fisheries	8,954,669	(766,170)	1,749,302	9,937,801	19.5
10	Public Enterprises	37,849,355	(61,871)	6,819,422	77,606,906	18.0
7	National School of Government	206,593	(16,000)	36,814	227,407	17.8
37	Sports, Arts and Culture	5,720,164	(965,302)	555,876	5,310,738	9.7
29	Agriculture, Land Reform and Rural Development	16,810,056	(2,393,744)	831,301	15,247,613	4.9
19	Social Development	197,718,275	25,473,882	7,615,141	230,807,298	3.9
5	Home Affairs	9,029,629	(562,000)	319,779	8,787,408	3.5
1	The Presidency	611,612	(51,000)	12,308	572,920	2.0
16	Basic Education	25,328,232	(2,095,198)	161,938	23,394,972	0.6
41	Water and Sanitation	17,216,227	(257,000)	35,064	16,994,291	0.2

Eskom will be getting a R23 billion bailout for its restructuring. The South African Airways bailout for the implementation of the SAA rescue plan was achieved by shifting funds from 35 different budget votes. There is a need to protect the fiscal framework against such crisis budgeting, whereas it is entirely predictable when bailouts due to SOE debt repayments are likely to arise. We call on the committees to seek input from the Fiscal and Financial Commission, Parliamentary Budget Office, CABRI and other experts on improved management of contingent liabilities.

OUTA is concerned that Treasury has factored in less budget for the wage bill but the matter is being heard before the courts and the wage bargaining agreement must be settled still. We are concerned that like bailouts to SOEs, this may result in other programme spending being reduced. Given the overall economic and fiscal outlook, it is not a good time to be making bets like this. We are concerned that the risk is that the impact is visited upon the Provincial sphere. Already, it is the case that half way through the year provinces and municipalities will be seeing R17 billion less. If the wage bill negotiations do not go as Treasury envisions, conditional grants and the goods and services budgets at the Provincial and local sphere will likely feel the brunt of it.

Vote 24: Independent Police Investigative Directorate

The Second Adjustments Appropriation Bill proposes that Independent Police Investigative Directorate (IPID) receive R14.6 million less budget allocation this year. The bulk of this (R10.9 million) comes from administration. However, we are concerned that R3.4 million is coming from Investigation and Information Management and R730,000 from legal and investigation. Compliance monitoring and stakeholder management gets R388,000 more. It seems that if IPID is going to do more with less, it plans to manage perceptions by doing a little more on the stakeholder management side. Below are extracts of the 14 October 2020 Portfolio Committee on Police meeting that focused on IPID's quarterly reports[4].

In quarter four, IPID's case intake in the 2019/20 financial year was 1 459, and a backlog turnaround strategy was implemented leading to the finalisation of 1 610 cases. A total of 102 departmental convictions, and 26 criminal convictions were secured. ...

[4] https://pmg.org.za/committee-meeting/31193/

The Committee raised questions about under-performance at IPID; the lack of capacity; training of investigators; and proper inspection of dockets. The Committee also questioned why the National Prosecuting Authority declined to prosecute on many cases referred to it by IPID; and which steps were put in place to protect investigators who were killed. ...

A total establishment was reduced from 415 to 391 to accommodate the implementation of section 23, as section 23 employees needed to be paid. New posts which were created to address internal controls and deficiencies in key governance units could no longer be funded, as this money needed to be utilised to fund section 23 investigators. The implementation of section 23 of the IPID Act remains a priority.

These extracts do not indicate that IPID is sufficiently funded or that it is performing particularly effectively.

Vote 25: Justice and Constitutional Development

We note that half-way through this financial year it is proposed that Justice and Constitutional Development will be allocated R778.3million less for this year. This comprises of court services receiving R321.3 million less, state legal services R50.8 million less, the National Prosecuting Authority (NPA) R136.6 million less and Auxiliary and Associated Services R348.8 million less than initially allocated. The bulk of this is from compensation of employees, with goods and services also being allocated less. In auxiliary and associated services, what we are particularly concerned to note is that Legal Aid South Africa will receive R104 million less for its operations and the Special Investigating Unit, R21 million less for operations.

The NPA should not lose any of its budget, in fact, it needs more money in order to rebuild the institution and initiate corruption prosecutions.

It is already estimated that the NPA would not have enough money for staff by the 2021/22 financial year – even without any further cuts. The R330 million staff salary deficit would increase further to R401 million in the 2022/23 financial year.

Further cuts would undermine the gains made from restaffing the NPA, where 539 of some 900 advertised posts have now been filled. It is extremely important to fill these vacancies with honest and passionate staff in order to combat crime in the country.

Budget cuts would affect the aspirant prosecutor programme, just as 450 graduates are recruited as part of the NPA's contribution towards job creation. However, to stop this programme and realign the budget to fill vacancies in the NPA workforce may be more beneficial at this time.

The Special Investigating Unit (SIU) also should not be receiving less money. The SIU has a considerably long list of Covid-19 procurement-related allegations to investigate.

Investor and public confidence will be bolstered by seeing a strong justice system that fights corruption of taxes effectively and efficiently. When state capture culprits start going to jail, we will see a significant change in the country.

Vote 28: Police

It is proposed that SAPS receive R5.85 billion less this year. Of that the most significant portion comes from visible policing (R3.6 billion), followed by administration which will receive R1 billion less, detective services which will receive R802 million less, crime intelligence which will receive R203 million less and protection and security services which will receive R109.5 million less. These proposed reductions will undoubtedly impact on SAPS's performance.

Vote 34: Mineral Resources and Energy

It is proposed in the Second Adjustments Appropriation Bill that Mineral Resources and Energy receives R195.9 million less in budget allocation for this year. We are concerned to see that once again the Integrated National Electrification Programme is receiving a reduced allocation - by R18.5 million. This comes on top of a massive R1.5 billion reduction in the allocation during the supplementary budget. The reduced allocation impacts on households that do not have electrification, which are typically low income households. Zero out of a target of 15 000 households have received non-grid tied electrification. We also note that the Mine Health and Safety Inspectorate will get R19.3 million less and the South African Diamond and Precious Metals Regulator will get R1.6 million less. We note that the Nuclear Energy Corporation (NECSA) receives R6.3 million less – this is still less than what households must forfeit while NECSA's audit reports indicate that its financial affairs and governance are in a mess.

Vote 40: Transport

It is proposed in the Second Adjustments Appropriation Bill that Transport receives R41 million less this year. This overall figure should not distract MPs from observing the movement within the vote. Rail will receive R2.6 billion less in allocation, with the rolling stock fleet renewal programme getting R1.36 billion less, signalling getting R1.32 billion less and Metrorail refurbishment of coaches receiving R713 million less. Metrorail operations do receive R818 million more.

Road transport receives R204.9 million more, with provincial roads maintenance getting a boost of R630 million, but SANRAL receives R245 million less in capital for the non-toll network and R9.2 million less for operations.

Civil Aviation receives R2.3 billion more for the Airports Company South Africa for the purchase of preferential shares.

Public transport receives R121 million less.

As has previously been outlined, we believe that this is the wrong emphasis. We would like to see attention being paid to sorting out rail transport as this is how millions of South Africans commute on a daily basis and rail is in dire straits. The grand corruption that has occured in relation to rail is at the expense of these South Africans who must commute in unsafe conditions, in some cases have lost their jobs due to the long delays and have suffered physical harm due to the burning of carriages.

Vote 14: Statistics South Africa

It is proposed that Statistics South Africa receives R120.6 million less this year. The areas that receive less are:

- Economic statistics: R17 million less
- Population and social statistics: R6.9 million less

- Methodology and statistical infrastructure: R7.4 million less
- Statistical operations and provincial coordination: R129.3 million less
- South African National Statistics System: R14.2 million less.

Most of this (R100 million) comes from compensation followed by R26.4 million from goods and services.

Statistical support and infomatics get R17.7 million more and administration receives R36.8 million more.

OUTA would like to ensure that Members of Parliament are aware that the entire budget's calculations depend on official statistics. It is extremely shortsighted to cut Statistics South Africa's budget the year ahead of a census. The census is only conducted every ten years and so it is important that it is done properly as there's no do-over until 2031. That is a long time to potentially be budgeting with dodgy data. Economic statistics is also getting less allocation. We need credible and reliable official data on which to base decisions.

Mid-year performance against spending

Parliament relies on departments without verifying what departments say. If committees were actually robustly assessing what has been happening, they would find discrepancies with what departments are reporting as their performance against Annual Performance Plan targets. There need to be consequences for misalignment between Annual Performance Plan outcomes and spending. This is one of the areas in which we recommend that parliamentary portfolio committees improve their oversight. We would also like to see Members of Parliament making use of the monitoring and evaluation reports that the Department of Performance Monitoring and Evaluation is producing, particularly during the meetings that look at the Budget Review and Recommendations Reports.

OUTA has looked through the performance half way through the year and highlights a selection of performance issues:

- Mineral Resources and Energy: Number of mining industry workshops on compliance issues conducted per year: 0 out of 9 planned for 2020/21.

- Mineral Resources and Energy: Number of social and labour plan verification inspections per year: 65 out of 212 planned for 2020/21.
- Mineral Resources and Energy: Number of environmental verification inspections conducted: 332 out of 1275.
- Mineral Resources and Energy: Number of additional households electrified with grid electrification per year: 58 358 out of a target of 180 000 which has been lowered to 137 000.
- Mineral Resources and Energy: Number of additional households electrified with non-grid electrification per year: 0 out of 15 000.
- Basic Education: Number of schools provided with water through the accelerated school infrastructure delivery initiative per year: 3 out of a target of 125 that was reduced to 100.
- Basic Education: Number of schools provided with sanitation facilities through the accelerated school infrastructure delivery initiative per year: 4 out of a target of 691 that has been reduced to 600.
- Health: Total clients remaining on antiretroviral treatment in the public sector at the end of the year: 4.9 million (at 31 August 2020) out of a target of 6.1 million which has been adjusted downwards to 5.7 million.
- Health: Number of ports of entry self-assessed for compliance with international health regulations: 0 out of a target of 25 which has been revised to 9.
- IPID: Number of investigations of rape by a police officer that are decision ready per year: 21.
- IPID: Number of investigations of corruption that are decision ready per year: 16 out of a projected target of 85.
- Police: Detection rate for contact crimes per year: 48.6% (367 663/756 580).
- Police: Percentage of registered serious organised crime-related project investigations successfully closed per year – Indicator removed from the department's 2020/21 annual performance plan after the 2020 ENE was published.

As we highlighted earlier, there needs to be a greater appreciation of the connection between spending and performance against the money spent. While government is excellent at doing lots of monitoring and producing lots of reports, we would like to see more effort being paid to implementing recommendations, taking action for non-performance and changing the negative trajectories highlighted in so many reports.

Reprioritisation of Expenditure

The lack of outcomes resulting from capital-intensive expenditure in several major programmes is not accidental and cannot be ascribed to purely economic causes. It is a consequence of poor planning and a lack of political will to abide by public finance management laws. Further, this follows from a lack of fiscal policy that is realistic and reflects the skills deficit in our public service. Often, the scope of expenditure of plans have been deliberately inflated, beyond what is necessary, to enable payment of large amounts to intermediaries that do not add any value or tangibly contribute to the fulfilment of the objectives of the expenditure programme.

Political promises of spending programmes that were not planned are irrational in the context of an increasingly constrained fiscal climate and has put significant pressure on taxpayers.

The lack of effective implementation can only be addressed once government openly confronts the destructive impact of state capture and mismanagement of key national departments and their entities, as well as provincial and local government bodies. OUTA has been an aggressive agent in the fight for such a confrontation – and the consequences that all culprits must face. We recommend that parliamentary committees rise to the occasion and play their oversight role.

The Cabinet resolution to curb unnecessary, wasteful and unlawful spending is welcome. The past 10 years have been characterised by three core mistakes in how government has spent its money:

1. The increase of remuneration in the public service beyond what is necessary or justified in terms of labour productivity and performance outcomes.
2. The political promise of spending programmes that were not planned and irrational in the context of an increasingly constrained fiscal climate. E.g. fee-free higher education.
3. The consistent bailout and guarantees of state-owned entities that were operationally and financially unsustainable due to skills deficits and systemic corruption.

As a result of unconstrained spending on such unproductive items, South Africa's access to affordable debt has deteriorated significantly. Social expenditure loses out to rising debt costs. Government spending on public services in sub-Saharan Africa dropped by 15% between 2014 and 2018. We will see debt-service costs will grow faster than any other spending category over the next three years.

On the revenue side, very low rates of economic activity mean less indirect taxes received by the South African Revenue Service. The hard lockdown implemented in 2020 to curb the spread of Covid-19 has made matters worse in this regard, drastically reducing the amount of tax revenue at our disposal. In combination, these factors warrant deep reprioritization of state spending in strategic sectors of our economy. We highlight Mineral Resources and Energy, Transport, Water and Sanitation, Justice, and Local Government.

Mineral Resources and Energy

The key strategic priority, the buzzword of the moment, is the just energy transition (JET). JET would take the country forwards from a reliance on outdated and climate impacting fossil fuels towards achieving energy security through a diverse range of renewable energy sources. Such a transition must ensure that those who work in the coal mining sector and fossil fuel industry are accommodated in a fair way.

According to the South African Presidential Economic Advisory Council (PEAC)[5]:

“The electricity sector faces an almost perfect storm that has fundamentally disrupted its legacy technologies, strategies and business model. These forces include:

- The technical and financial failure of the centralised megaproject business model;
- A fundamental revolution in the sector’s technological paradigm driven by:
    - (a) the emergence of low cost renewable energy and storage technologies; and
    - (b) the fourth industrial revolution including digital information and artificial intelligence technologies;
- The extreme economic risk and vulnerability created by our excessive dependence on coal in the context of the climate crisis and growing global pressures for rapid decarbonisation; and
- The declining inclination of many municipalities to pay their Eskom bulk accounts.

[5] PEAC, briefing notes on key policy questions for SA’s economic recovery - October 2020

The impact of these challenges ultimately manifests as a failure by the sector to achieve its primary objectives: supplying citizens and the economy with energy security in the form of clean, reliable and affordable electricity, and to do so without placing a burden on the fiscus.

President Ramaphosa when briefing Parliament[6] on South Africa’s economic reconstruction and recovery plan (15 October 2020) emphasised the aim of achieving “sufficient, secure and reliable energy supply within two years”. The new energy vision would see a decentralised state-owned transmission system which buys from a variety of generation power producers, some Eskom, some independent. A core priority of the country is to address energy poverty and electrification has been identified as one of those means to reduce energy poverty. Electricity needs to become an economic enabler.

In the past, the economy has been held hostage by Eskom’s decisions including decisions to invest in mega-plants often associated with corruption. This has resulted in large amounts of money wasted in mega-plant construction. The costs of such mega projects cannot be recovered through tariff increases, as this would make electricity unaffordable.

OUTA notes the speed with which a Request for Information has been issued for Small Modular Reactors. We would like to highlight to the committees that so often Eskom’s bailouts have had an implication for the budget. The Integrated Resource Plan is there as the energy plan and minister going outside of that will have implications for the budget.

OUTA is deeply disappointed by the ongoing failure of government to hold certain state-owned entities to account. To continue to reward NECSA for its financial mismanagement and irregular expenditure is to send a signal to those corrupt and malleable officials that they can continue with business as usual. (NECSA received an audit disclaimer in 2017/2018 and 2018/2019 and yet retained its budgetary allocation during the Covid-19 supplementary budget adjustment).

However, it must be noted that Eskom, under competent leadership, appears to be transforming and the long awaited modernising and restructuring is underway. The DMRE needs to support this process through the focusing on supportive legislation and regulation appropriate to a

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[6] https://www.gov.za/speeches/president-cyril-ramaphosa-south-africa%E2%80%99s-economic-reconstruction-and-recovery-plan-15-oct

progressive modern society, where electricity provision is not a vertically integrated monopoly but moves to a distributed system of prosumers as well as consumers.

The reduction of the electrification budget (for example 27% reduction in municipal electrification budgets and 33% reduction in Eskom electrification budgets) during Covid-19 was yet another example of the poor bearing a disproportionate burden of the Covid-19 impact. Such households are part of the poorest and most vulnerable in South African society, and it can be surmised are those who have been hardest hit by Covid-19, both from compromised health and lack of ability to participate in informal livelihoods economy. As part of the economic recovery package, such inequities must be redressed.

Efficient and reliable generation and distribution will bring about affordable pricing and service delivery.

Key priorities for the DMRE in the energy space would then be:

- Legislative and regulatory reform to achieve the sustainable energy end state.
- Increased emphasis on electrification of poor households
- Increased research/development towards transition opportunities
- increasing industrial and economic growth in the renewable sector

Fossil and nuclear subsidisation must be halted. Large infrastructure plans for oil refineries should be halted and investment attracted into growing the renewable energy sector.

The budget should therefore be reprioritised as follows:

Programme		2020 Budget (R'000)	MTBS recommendations (R'000)	Comment
1	Admin	642 343	578 109	Reduce fat (10% reduction)
2	Minerals and Petroleum Regulation	574 713	121 352	Restructure and repurpose PetroSA towards Renewable Energy

3	Mining, Minerals, Energy Policy Development	993 104	681 206	Mintek - remove state subsidies / support Council for Geoscience
4	Mine, Health and Safety	232 694	232 694	Add environmental monitoring
5	Mineral and Energy Resources Programmes	5 798 115	5 694 168	Including rehabilitation of derelict mines / restructure
6	Nuclear Energy Regulation and Management	1 096 059	518 231	Restructure to focus on rehabilitation and long term waste management / NTP support
	TOTAL	9 337 028	7 929 706	

Using a zero-based budgeting approach, the energy budget should be overhauled to ensure it is fit for purpose, redirecting it towards building an inclusive society, taking into account modern technology, climate change and the emphasis for a just energy transition.

Certain aspects and institutions can be repurposed towards renewable and energy efficiency technologies, but the taxpayer is left with the burden of previous energy legacies. This includes derelict mines, nuclear waste and decommissioning and pollution (for example acid mine water).

While these are long-term costs that society must bear, long-term energy planning must strive to ensure that the burden on future generations is minimised through not investing in additional fossil and nuclear resources. A shift from extractives to recycling and recovery in the mining sector should also yield socio-ecological and economic efficiencies.

The emphasis on equity and inclusivity in the national discourse should find expression in the energy department through the increased roll out of energy efficiency technologies such as lighting and solar water heating as well as the accelerated electrification of all households, including making up the backlog lost to Covid-19.

How to deal with Eskom's debt is a challenge that needs to be resolved. Lenders who took up Eskom bonds should have known the revaluation of Eskom's ageing assets was unreasonable and unrealisable. The state must place pressure on all providers of those bonds to renegotiate terms (payback period and interest rates). This borrowing debt is the biggest issue behind Eskom tariff hikes and the state should do more to address this.

Water and Sanitation

Governance & Outcomes

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

Population movements should be factored into water and refuse planning and infrastructure and capital expenditure budgeting. Resolving the water and refuse crises should be institutionally reflected in a Presidential Task Team or an adequately funded independent water economic regulator. The conditions at schools in outlying areas certainly leave much to be desired. There is no reason why scholars in outlying areas should be deprived of basic facilities to support their learning.

South African large asset management firms are willing to fund infrastructure projects, provided these projects are bankable. Many want to fund water and sanitation projects and they will do it without government overlays (i.e. government putting financial skin in the game). Asset managers would, however, agree to some concessions which will not affect the government's balance sheet. They would like a clear regulatory framework, transparency and zero political interference.

Water supply from Lesotho Highland Water Phase II project is critical in the security of water provision for the Vaal River System and therefore in the financial and social development of not only Gauteng as the economic powerhouse of the nation but also for South Africa. Water experts are warning that water shortages are due long before 2024 as the flattening of the water demand curve is not happening. Excessive water losses and unaccounted for water can lead to water shortages within the next few years. Whereas the original intention at the signing of the Agreement on LHWP II was that water delivery from LHWP II will commence in 2019, the latest indicates it may be only in early 2027. This is almost eight years later than planned.

The current operational rule for operation of the Katse Dam is to release water continuously via the Muela-Ash transfer tunnel down to the Vaal Dam. This was agreed to allow Lesotho to generate maximum electricity but is not optimal from a water management perspective. The logical rule for the Vaal River System should be to keep water as long as possible in the high-level dams, that is Sterkfontein Dam (in the upper Wilge River catchment in South Africa) and then of course in Katse and Mohale Dams in Lesotho. The reason for this is obvious: these three dams are situated in deep mountain valleys with a very favourable volume-to-surface ratio.

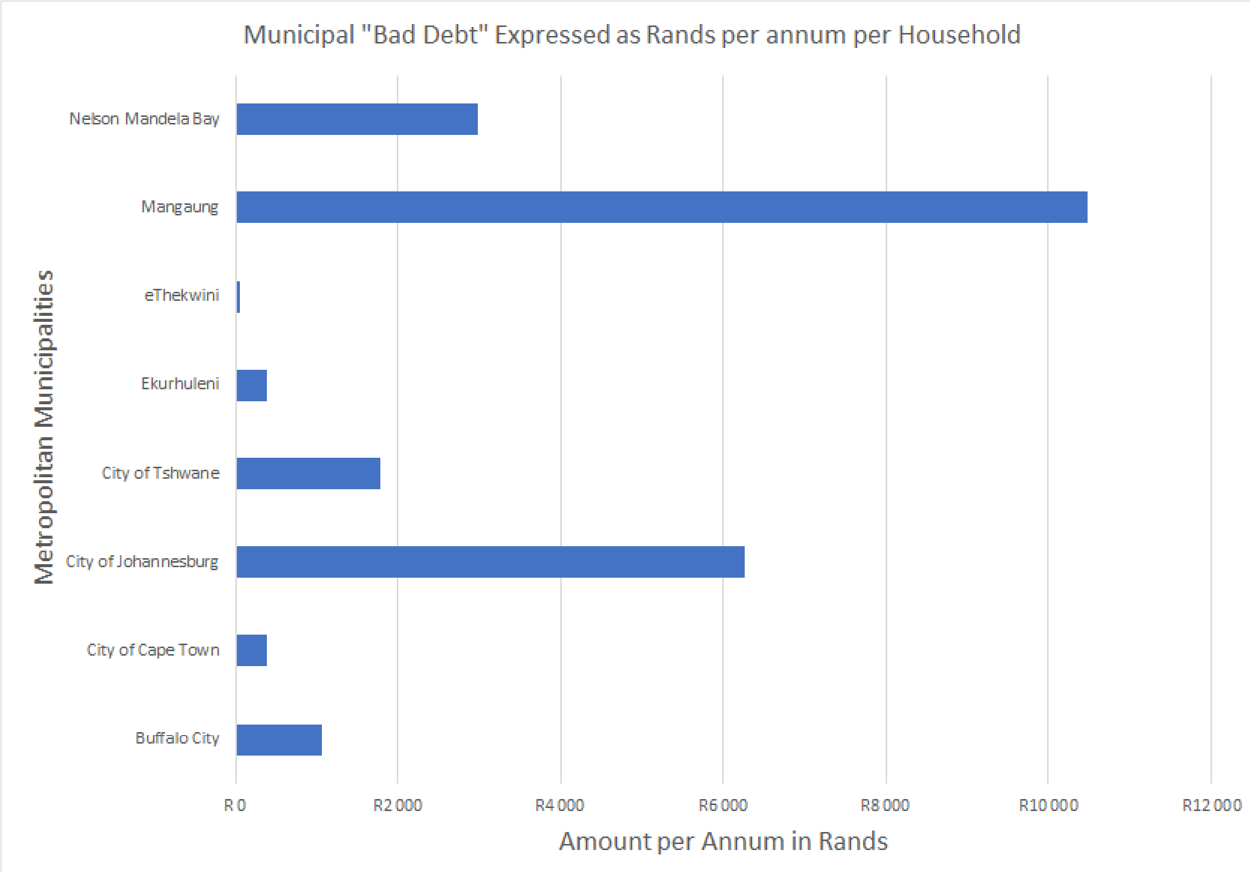
For example, Vaal Dam has an average depth of eight metres compared to the 54 metres of the deep Katse Dam. As the total water surface area in Vaal Dam is almost nine times larger than Katse's water surface it is common sense that at least nine times more water will be lost through evaporation from Vaal Dam than from Katse Dam, without even taking account of the cooler climate in the highlands of Lesotho. Thus, the operating rules favour generating of Lesotho's hydropower to the detriment of water security for the economic heartland of South Africa – the cost of which greatly outweighs its benefit. Lesotho's electricity needs should rather be addressed through the Eskom grid.

The Lesotho-Botswana Water Transfer (LBWT) Project that intends to convey about 36 million m3 of water through a pipeline of about 712km from a new dam to be constructed on Makhaleng River in Lesotho to Lobatse in Botswana should be scrapped to secure SA's water. OUTA is in favour of catchment management forums as being a better way of managing scarce water resources than water user forums. That way rivers are managed in natural entities, in an integrated way. However, management issues, and sufficient resources to enable meaningful participation by civil society and small water users needs attention.

Metropolitan municipalities and water

Based on the 2018/2019 financial audit reports of the metropolitan municipalities, a number of concerning trends have been identified. By quantifying bad debt and unaccounted water per annum, it becomes clear that not only are funds mismanaged, but an excess of water wastage occurs which could have been avoided. The following table and graph provides an overview of municipal bad debt expressed as rand per annum per household:

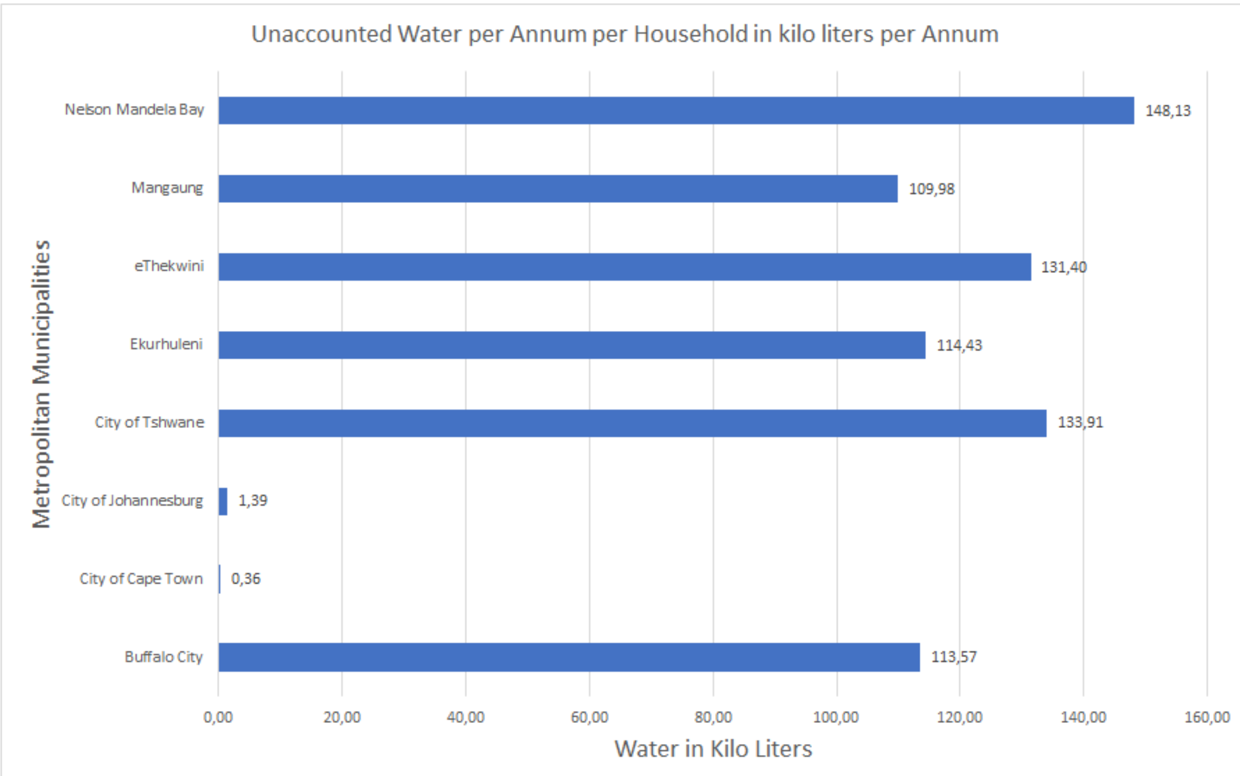
Metropolitan Municipality	Number Households provided	Municipal "Bad Debt" Expressed as Rands per annum per Household
Buffalo City	260 333	R1 060
City of Cape Town	843 891	R387
City of Johannesburg	1 000 382	R6 269
City of Tshwane	839 622	R1 790
Ekurhuleni	929 537	R393
eThekwini	960 304	R62
Mangaung	187 839	R10 477
Nelson Mandela Bay	378 501	R2 988



The table and graph shows unaccounted water per annum per household in kiloliters:

Metropolitan Municipality	Number Households provided	Unaccounted Water per Annum per Household in kilo liters per Annum
Buffalo City	260 333	113,57
City of Cape Town	843 891	0,36
City of Johannesburg	1 000 382	1,39
City of Tshwane	839 622	133,91
Ekurhuleni	929 537	114,43

eThekwini	960 304	131,40
Mangaung	187 839	109,98
Nelson Mandela Bay	378 501	148,13



These tables and graphs effectively indicate that the impairment older than 365 days, or debt written off, amounts to R11,900,391,460 for the period of 2018/2019. And the total unaccounted water per kilolitre is 452,962,750 kl. That is a wastage of R26,27 per kilolitre unaccounted for.

Looking at the effectiveness of operational compliance and the quality of drinking water, there certainly is room for improvement:

- Mangaung Metropolitan Municipality, 76.90% compliant
- Nelson Mandela Bay Metropolitan Municipality, 87.10% compliant
- Buffalo City Metropolitan Municipality, 92.4% compliant
- City of Tshwane Metropolitan Municipality, 94.30% compliant
- City of Cape Town Metropolitan Municipality, 98.10% complaint

- eThekwini Metropolitan Municipality, 98.80% compliant
- City of Johannesburg Metropolitan Municipality, 99.20% compliant
- Ekurhuleni Metropolitan Municipality, 99.40% compliant

Compliance can be improved by better follow-through on regulation and monitoring of service delivery, as well an actual improvement in service delivery. Filling vacant positions with trained and qualified staff is one such way. The metropolitan municipalities listed above are not maintaining their staff complement at its most effective level:

- Mangaung: 308 vacant water-related positions, out of an available 567 positions
- Cape Town: 603 vacant water-related positions, out of an available 4047 positions
- Buffalo City : 71 vacant water-related positions, out of an available 369 positions
- Ekurhuleni: 277 vacant water-related positions, out of an available 1187 positions
- eThekwini: 252 vacant water-related positions, out of an available 2573 positions
- Johannesburg: 141 vacant water-related positions, out of an available 2141 positions
- Nelson Mandela Bay: 0 vacant water-related positions, of an available 1360 positions
- Tshwane: employment statistics are not available

Most disconcerting is the fact that Mangaung and Nelson Mandela Bay metropolitan municipalities have the lowest water quality, but with the highest discrepancy in staff. Mangung has a vacancy rate of 54% whilst Nelson Mandela Bay apparently has all the positions filled but is facing the greatest issues in terms of water service delivery. According to Infrastructure News, on 30 September 2020, government would have had to spend about R6 million on water tanks and trucks for emergency relief of the current water challenges in Nelson Mandela Bay Municipality[7]. This is already compounded by the potential of a Day Zero which was declared in early September. Officials stated that the current water consumption at that time was 290 million litres per day, whereas it should have been 268 million litres[8]. In consideration of the unaccounted water per kilo litre in the region, of 56 million kilolitres wasted, and a supposed full staff complement, it clearly begs the question of who is managing, or mismanaging, water service delivery in Nelson Mandela Bay Metropolitan Municipality?

Water supply

The development of the Mzimvubu River is part of the government's Strategic Integrated Projects to provide access to basic water and stimulate growth in the O.R Tambo, Alfred Nzo and Joe Gqabi district municipalities. These municipalities in the Eastern Cape are amongst the weakest

[7] https://infrastructurenews.co.za/2020/09/30/nelson-mandela-bay-needs-r6-million-for-water-crisis/
[8] https://www.capetownetc.com/news/nelson-mandela-bay-municipalitys-water-crisis-worsens/

and least developed in the country. There are huge backlogs in services; for example only 31% of the 1.5 million residents in the O.R Tambo District Municipality (ORTDM) currently have access to a basic water supply. These backlogs must be addressed to stimulate growth in the rural districts of the Eastern Cape. However, the Mzimvubu project as it stands is not the solution. To build two dams, funded and constructed by China, will waste scarce tax revenue without substantially improving the situation on the ground. A closer examination of how the needs of these users will be addressed revealed a poor selection of the available options.

There is indeed a huge demand for access to basic water to households, but these are located in a very scattered pattern in thousands of small villages and settlements. Two large dams will not bring water to their homes. Smaller rivers and streams close to most of these villages can readily be utilised with lesser schemes to bring water at a fraction of the cost of a centralised distribution project. Rainwater harvesting is another far more appropriate technology that can provide most needs at much lower cost. The essence of irrigation is to supplement rainfall. This area has rainfall figures amongst the highest in the country. There will be little need for irrigation in such a high rainfall area and if irrigation projects are planned with water from the dams, it will need excessive pumping costs from the deep valleys on to the irrigable lands. It was also reported that the Eastern Cape Department of Rural Development has said that the money would be much better spent on a series of smaller dams near high-potential irrigation land.

Expenditure

The spending by the Department of Water and Sanitation illustrates the need for zero-based budgeting and significantly improved oversight. The DWS budget raises a number of concerns:

1. Inadequate indicators;
2. Inadequate transparency on infrastructure spending: there is no information on which institution is responsible for each project; and there is a possibility of double-dipping on project funds with about 20% of infrastructure spending double-listed in 2014/15 and 2015/16.
3. Hidden spending: About R20bn over seven years is bundled into vague listings of unspecified projects, raising questions of misappropriation;
4. Incoherent budgeting;

5. Delivery is slow, with many projects seemingly started but never finished;
6. The Strategic Integrated Projects (SIPs) are not clearly tagged, and some do not even appear to be on the DWS list, raising questions about how such huge projects make it onto the SIPs list without feasibility studies completed.
7. Bucket toilets remain on the lists, both for replacement and, astonishingly, for construction.
8. Hugely increased spending for 2014/15 and 2015/16 may have been aimed at influencing people to vote for the ruling party in the August 2016 local government election.

Recommendation

No further infrastructure spending is approved for DWS, for either the department's direct infrastructure spending or the indirect spending through grants to other entities, until zero-based budgeting is applied and ALL projects and their responsible entities are clearly identified. The list of infrastructure projects must be included in the Budget and should include this information:

- Project name
- Project number (to confirm project exists)
- Service delivery outputs
- Province & municipality in which project is situated
- GPS coordinates of project
- Entity responsible for implementation
- Entity to which transfers go
- Year construction started
- Current project stage
- Percentage of project completed
- Original planned date of completion & updated date (keep BOTH in annual update)
- Original planned project cost & updated cost (keep BOTH in annual update)
- Total project cost
- (Spending per year, 7 years incl MTEF)

1. Inadequate indicators

The indicators in the DWS budget are inadequate, particularly considering the scarcity of water, the department's failure to extend basic services to all, and the enormous amount it spends on infrastructure. Indicators for infrastructure are simply a count of the number of phases of mega, large or small infrastructure projects completed, or number of small projects completed each year. This is meaningless. What is a "phase" and what does this mean for each project?

Two indicators for water sector regulation count the number of Green Drop reports (assessing wastewater systems) and the number of Blue Drop reports (assessing water supply systems). However, the DWS hasn't produced these reports since 2014, despite calls from OUTA and other entities, so these indicators are unhelpful. The DWS also doesn't produce a No Drop report (on water leaks), and doesn't have an indicator on reducing leaks and wastage, although the equivalent of nearly half the water sold by the water boards (which report to the DWS) was lost in 2016/17.

2. Inadequate transparency on infrastructure build

Infrastructure spending is insufficiently transparent. The DWS budget vote used to include a list of the infrastructure projects, with estimated total project costs and spending over the years. However, this has inexplicably been dropped from Budget 2020, so the DWS spends billions without providing public records. The project list provided this information: project name; service delivery outputs (a brief line on each project); current project stage; total project cost; spending for the previous three years, the current year and projected spending for the following three years. This is insufficient. The lack of information such as project numbers and the entities responsible for each project makes it difficult – even impossible – to track spending.

Looking at the infrastructure lists in Budgets 2016 to 2019, we found these problems:

- Duplicates: The 2018 list has 313 projects. This includes 50 duplicate projects.
- Double-dipping: The duplicate projects appear twice in the list, once as "Departmental infrastructure" and again as "Infrastructure transfers to other spheres, agencies and departments" (these entities aren't named). Some of these projects list funding for the same year in both lists, particularly during 2014/15 and 2015/16. The department's total for each year's spending on the infrastructure list includes this duplicate spending; we confirmed this by calculating the totals in the spreadsheet attached to Budget 2018 (the last year for which a spreadsheet was provided). Furthermore, these totals appear to largely tally with the DWS capital spending on infrastructure plus capital spending it

transferred to other entities. Thus, this gives rise to questions of double-dipping: what happened to the extra payments?

- Some projects are listed three times.
- The duplicate spending amounts to R1.811bn in 2014/15 (21% of total infrastructure spending listed) and R2.339bn in 2015/16 (19%).
- The double listing of some projects seems to indicate that responsibility for these may have been moved from the DWS to entities (and any double-dipping happened during those transfers). It's not clear why they were moved.
- The lack of project numbers encourages this confusion.
- The DWS is the only entity named in this list. It should include the names of the entities responsible for each project. This omission obscures funding and responsibility.
- The Mzimvubu water project in the Eastern Cape, with an estimated total cost of R20bn (the second most expensive project), was hidden for four years. Mzimvubu appears under that name for the first time in Budget 2017, although it has historical spending in 2013/14 and 2014/15 totalling R879.5 million. This matches the spending on a project called only "Water services", which was in previous budgets then dropped from Budget 2017, apparently replaced with the real name. Both projects are classified as "small" projects, although the R20 billion cost is the second biggest on the list. Why the secrecy? Mzimvubu is listed as being at the design stage, so what was that R879.5 million spent on?

3. Hidden spending: small projects

The infrastructure list has a number of entries which are so vague as to raise suspicion of fraudulent transactions. Most are hidden under "small projects" (those with a total project value of less than R250 million). Here are some examples:

- R20 billion in unspecified spending: There are entries for six provinces in the DWS direct spending on "small projects", listed as unspecified "construction of water supply and sanitation backlog" which have between them used R3.514 billion from 2014/15 to 2019/20, without providing details (this spending started in 2014/15). There are another set of entries, for all nine provinces, in the DWS transfers to entities for unspecified "small projects" on "water supply and sanitation backlog", which have between them cost R16.320 billion from 2013/14 to 2019/20, without providing details (this spending started in 2013/14). This is about R20 billion in hidden spending, on "small projects" each valued at less than R250 million, which is the equivalent of at least 80 small projects. This seems a very unlikely rate of delivery, even over six to seven years. Why are these projects not identified? What was built? Which entities were responsible for them? Why should we not regard this spending with suspicion?

- In the projects listed in Budgets 2016 to 2019, there are 73 projects listed with budgets of less than R50m each. If these are listed, why are projects with a total value of R20bn not listed?

4. Incoherent budgeting

Infrastructure projects, particularly large and mega projects, require careful planning, but this is not apparent in the budgets. Spending fluctuates wildly year-on-year, giving the impression that projects start, then are suspended, then start again. Projected spending is sometimes significantly different to actual spending. Over four years (Budgets 2016 to 2019), the total estimated project costs change significantly for many projects. Here are some examples:

- Sedibeng bulk regional sewerage total project cost more than doubled from R1.2bn to R3bn.
- The OR Tambo Mthatha King Sabata Dalindyebo district municipality bulk water supply and sanitation scheme cost went from R2.157bn to R22.157bn (which would make it the most expensive project on the list). Presumably one of these numbers is an error. This scheme is among those double listed. The second version gives a project cost of R3.001bn.
- Potchefstroom water treatment works upgrade doubles from R200m to R400m.
- The Kalahari East to Mier water pipeline jumps from R169m to R468m.
- The upgrading of Deneysville wastewater treatment works jumps from R142m to R276m.
- The Umshwati bulk water supply scheme quadruples from R532m to R2.308bn.
- The raising of the Hazelmere Dam on the Mdloti River more than doubles from R360m to R789m.
- The Vaal Gamagara scheme budget starts at R2bn then drops to R200m (the DWS direct spending version), and grows to R18bn (the transfers to unspecified entities). There is duplicate spending in 2014/15 and 2015/16, then the spending moves to the entity.

5. Slow delivery

Delivery is slow. Of the 313 projects listed (including duplicates) over four years, only 18 were listed as having been handed over (no duplicates). The rest were at feasibility (71), design (35) and construction (176, including 33 duplicates). There is no record of delivery of the unidentified projects bundled together into bulk spending.

6. Strategic Integrated Projects

The Strategic Integrated Projects (SIPs), or their components, are not clearly identified on the DWS list. Six of the 11 SIPs do not appear to be on the DWS list, raising questions about how such huge projects make it onto the SIPs list without feasibility studies being completed.
These are the water and sanitation projects on the SIPs list :

Strategic Integrated Project	DWS infrastructure list	Total project cost listed by DWS
Vaal River System including Phase 2 of the Lesotho Highlands Water Project: Gauteng	Not listed	
Phase 2A of the Mokolo Crocodile River (West) Augmentation Project: Limpopo	On DWS list	R2bn
uMkhomazi Water Project: KwaZulu	Not listed	
Olifants River Water Resource Development Project - Phase 2: Limpopo	Various phases listed	R23.5bn
Vaal-Gamagara: Northern Cape	Listed twice	R18bn + R200m
Mzimvubu Water Project: Eastern Cape	Listed (hidden in early years)	R20bn

Rehabilitation of the Vaalharts-Taung Irrigation Scheme: Northern Cape & North West	Not listed	
Groot Letaba River Water Development Project - Nwamitwa Dam: Limpopo	On DWS list	R3.7bn
Berg River Voëlvlei Augmentation Scheme: Western Cape	Not listed	
Rustfontein Water Treatment Works: Free State	Not listed	
Orange-Riet Canal Increase of Bulk Raw Water Supply: Free State	Not listed	

7. Bucket toilets: a lucrative failure

One of the DWS indicators is the number of bucket toilet systems replaced. OUTA has previously pointed out in a submission to a parliamentary inquiry that the DWS substantially abuses the funding for this programme. The bucket replacement programme ran twice, starting in 2005 with 252 254 buckets to replace and ending in 2009 with less than 8 000, then starting again in 2014 with an inexplicable backlog of 273 297 buckets to replace. Spending on replacing the buckets was extraordinary, ranging from R13 691 per toilet in 2014/15 to R530 685 per toilet in 2015/16. The apparent abuse and looting of this programme underlines the inadequacy of this indicator.

In the DWS infrastructure list, there are 13 entries for "Construction of bulk bucket", with R74 million budgeted in 2019/20. Is the DWS installing bucket toilets? And then asking for funds to replace them? This is extraordinary. The infrastructure list includes R1.048 billion in spending for 2018/19 (adjusted appropriation) to replace bucket toilets. For the 8 313 buckets listed in the indicators as replaced that year, that's about R149 000 per toilet. These costs exclude the bulk infrastructure, which is budgeted elsewhere in the infrastructure list.

According to the Water and Sanitation performance indicator for 2020/21 and the programme for Water Infrastructure Development, the number of existing bucket sanitation backlog systems in formal settlements, replaced with adequate sanitation services, should have been a total of 10 798 systems. Thus far, none have been replaced within the first two quarters of 2020. Though this could be attributed to Covid-19, some could have taken place during January and February. There are at least five Water Infrastructure Development programmes under Water & Sanitation, with an adjusted appropriation of R14 million. If DWS thus far failed to deliver basic sanitation services by replacing buckets, what are the possibilities of these being delivered now with four other programmes vying for attention?

By cross-checking with the Basic Education performance indicators, only 4 of the 691 targets were achieved in the 2020/21 year towards the number of schools provided with sanitation facilities. These fall under the accelerated school infrastructure delivery initiative, under the programme for Planning, Information and Assessment. Both DWS and BE fail to adequately achieve their targets whilst millions are being allocated for this specific purpose. A roll-over of R474.901 million has been allocated to BE's Programme on Planning, Information and Assessment, to the school infrastructure grants to provide safe sanitation facilities at schools, but which monitoring and evaluation mechanisms are in place to ensure these are attended to within scope and budget?

8. The election effect

Local government elections were held in August 2016. Spending on projects increased significantly in 2014/15 and 2015/16, with the 2015/16 spending higher than that of the next four years. The number of projects with spending similarly increased. This raises the question of whether the spending over those two years was politically motivated to encourage votes for the ruling party in the August 2016 election.

DWS infrastructure projects (direct projects & transfers to other spheres, agencies & departments)								
	12/13	**13/14**	**14/15**	**15/16**	**16/17**	**17/18**	**2018/19 adjusted**	**2019/20 projected**
Spend in R million	R5 686	R5401	R8 700	R12 519	R11 898	R11310	R12 438	R12 373
Change year-on-year		-5,0%	61,1%	43,9%	-5,0%	-4,9%	10,0%	-0,5%
No of projects with spending	132	179	210	192	145	145	159	140
Change year-on-year		36%	17%	-9%	-25%	0,0%	10%	-12%

Transport

Roads

The South African National Roads Agency is a schedule 3A public entity[9]. Whereas Schedule 2 entities are the major public entities that are meant to generate profits, Schedule 3A entities are

[9] Public Institutions listed in PFMA Schedule 1, 2, 3A, 3B, 3C AND 3D as at 29 March 2018. Available at: http://www.treasury.gov.za/legislation/pfma/public%20entities/2018-03-29%20Schedules%201%20to%203D.pdf

entities that have a mandate which entails a specific economic or social responsibility of government. As is outlined in Treasury's Annual Report Guide for Schedule 3A and 3C Public Entities[10], Schedule 3A entities rely on government funding and public money, either by means of a transfer from the Revenue Fund or through statutory money.

In respect of SANRAL's revenue generation, its Annual Performance Plan notes that "in line with Horizon 2030 SANRAL has started to pursue an integrated funding strategy that includes fiscal allocations from National Treasury, own revenue generation and capital raised from domestic and international bond markets namely private finance. Own revenue generation will be driven through the Business Development Strategy and SANRAL is in discussion with certain African countries to provide engineering advisory services". Amongst its funding sources, SANRAL also lists the application of the 'user-pay' principle for toll roads.

SANRAL's mandate includes responsibility for both toll and non-toll roads. During 2018/19, the road network under SANRAL's jurisdiction is 22 214 km of roads throughout South Africa. SANRAL builds and maintains national (and some provincial) roads. To enable economic activity, there is a need for well maintained roads. SANRAL receives transfers from the fiscus for this. The allocations over the past 13 years have gone up three fold. The state receives around R80bn from road users through the fuel levy. Treasury only gives Sanral around R15bn of this fuel levy, however they also allocate some of these funds to provincial and local government for road building and maintenance. OUTA remains steadfast in the position that it is time that government scrap e-tolls once and for all.

The R2bn per annum requirement for the Gauteng Freeway Improvement Project bonds was double what it should have been due to corruption. We call for Treasury to call out the PIC for taking up the GFIP bond at lucrative interest rates knowing that this requirement was well over what SANRAL should have borrowed. If a bank finances a R2 million house for R4 million and the client can't pay it back, the bank was remiss in the first place. PIC funded the overpriced GFIP and if they did their due diligence, they ought not to have given these bonds. But the state guaranteed them (at a time of peak state capture). OUTA calls for the Finance Minister to renegotiate the terms and payback period of the PIC's SANRAL bonds.

[10] National Treasury Annual Report Guide for Schedule 3A and 3C Public Entities. Available at: https://www.westerncape.gov.za/sites/www.westerncape.gov.za/files/public_entity_ar_guide.pdf

The latest regulations to the Administrative Adjudication of Road Traffic Offences (AARTO) Amendment Act will not withstand legal scrutiny. The administrative burden will also make enforcement virtually impossible, making the Act's purpose of road safety unattainable.

OUTA submitted its comments on the proposed regulations and is ready to challenge the matter in court if the Minister of Transport does not go back to the drawing board. Our legal team studied the proposed regulations, and it is clear that this Act will change very little when it comes to road safety. It is OUTA's informed view that the intention of the legislation and the regulations is to make money and not to protect road users. It may even open the door for more corruption in the form of bribes.

Driver's Licence Renewal

Outa is calling on the transport minister to consider changing the driver's license renewal process from five to 10 years. OUTA is making this call because of the backlog of vehicle licence disc renewals that arose during the lockdown. OUTA is receiving an increasing volume of whistle-blower reports of petty corruption in how licence renewals are being handled. The backlog has resulted in officials seeking bribes to book appointments and for the issuing of drivers licences.

Outa proposed the following to the minister of transport:

- That an extension for driver's license renewal be applied from 5 to 10 years;
- The extension from 5 to 10 years applies between the ages of 18 to 65 years;
- That more efficient online application processes for DL renewals precedes the actual renewal, to allow for more effective service delivery and flow between appointment, eye test and licence delivery;
- Multiple methods for DL renewal are made available through test centres and reputable service providers, i.e. stronger collaboration with neutral, third party organisations such as the Automobile Association of South Africa (AA);
- That current restrictions applicable to Professional Driver's Permits either remain the same, or are possibly extended as well, but that this decision be based on more extensive research and the inclusion of input from bussing and tourism role players.

Rail

Passenger rail transport is in serious trouble. Western Cape central line has not been running for long periods with no clear indication when the line will be fully operational. Only three out of 17 rail lines in Gauteng are operational.

There is widespread looting of the rail network, infrastructure vandalism and theft ranging from overhead electrical lines, electrical substations as well as vandalism of station and depot buildings. Vandalism and theft includes critical infrastructure components and illicit trading of copper and steel.

Prasa is overstretched in its scope of operations and has busted some illicit trading rings. Overhead cables are missing on several train routes, underground cables have been dug up and train stations hacked. Rolling stock, coaches and locomotives have also been targeted, distribution boxes at many stations have been torn and copper cables have been removed. This is specially relevant during lockdown, when security personnel were not active.

Prasa had to resort to diesel locomotives as a result of the extent of theft and vandalism of infrastructure.

PRASA is in serious financial distress and funding for rail is diverted towards projects like SAA, which provides a product to higher income groups at a loss in competition to private sector airlines, whilst rail transport is neglected. Rail is used by many more citizens, who cannot really afford the use of private transportation for their daily commuting needs.

It would appear that the solutions and especially the funding, would not be forthcoming from PRASA. As a result, alternatives have to be considered like granting franchises for the operation of sub-regional elements of the total system in which such smaller focussed units can be funded and operated by regional entities.

The current institutional structure whereby the ownership of rail assets vest in the largest freight operator needs to be reconsidered in order to assure competitive rail services. Recent rail accidents demonstrate that more preventative measures are required.

A Presidential Task Team to sort out the whole rail system would provide the impetus to resolve the fundamental structural problems within this important sector.

Aviation

The conflict of interest between Government's role as enabler and regulator of the industry and its shareholding in a market participant has been problematic, especially since 2012 when the Government decided to increase its operational role in the economy. The State financial aid provided to SAA was wasted in losses and distorted competitive conditions for private sector airlines. Such funds could have been better used to support other critical needs instead of wasting it to provide services to customers who are able to afford it.

Funding of the entire aviation industry is more important than concentrating all such financial resources on SAA. From a restructuring perspective, SAA does not represent a going concern, it does not have resources available to continue operations (e.g. suppliers that would support it with normal credit terms), it does not have the management and broad base of skills to operate on a commercial basis and there is just not enough funding available to see a restart through.

OUTA raised concerns regarding the unjustified need for the state to waste more funds on SAA, and says the latest R10,5bn injection will not be the last. We believe the current aviation industry climate and economic environment is the ideal time for the state to walk away and close down this once successful airline that was ruined through mismanagement and corruption.

The Minister of Public Enterprises, Pravin Gordhan, has explained the R10.5bn bailout as follows:

a) R2bn for operating start up costs for an airline with a staff of 1 000.

b) R2.2bn retrenchment packages.

c) R800mil for post commencement creditors

d) R3bn for unflown ticket liabilities

e) R1,7bn for aircraft lessors (6 month rental fees)

f) R600mil for concurrent creditors payment.

OUTA calculated that, aside from the above, approximately R16.4 billion is to be repaid over three years (mentioned in the 2020 Annual Budget to settle guaranteed debt over the next three years: R10.3bn in 2020/21, R4.3bn in 2021/22 and R1.8 bn in 2022/23). However, a further estimated R2.15 billion that is required for SAA's subsidiaries (Mango, SAA Technical and Air Chefs) and an estimated R6.4 billion to cover the projected losses of the resurrected SAA over the first three years of operation (2021/22 to 2023/25), is not mentioned at all by government.

This means that the cost to rescue SAA will require another R8.5bn, taking the number to over R19bn (excluding the R16.4bn bond repayment figure). However, OUTA estimates the real cost of the rescue plan is somewhat higher and closer to R22bn, compared to government's idea of R19bn, as our calculations show the airline will not be profitable in the first five years of operation. IATA has revised aviation industry projections downwards, and new competitive forces have come into play which will undermine SAA's local and regional growth plans. In our calculated opinion, more taxes will be wasted on future bailouts.

OUTA believes that keeping unjustifiable SOE's afloat is a waste of the state's scarce resources and SAA is now nothing more than a vanity project. We want to emphasise the need to be mindful and cognizant of the employees who have been hard done-by through the state's meddling and poor management of the airline. Accordingly, their severance packages should be catered for more generously. Even if the liquidation costs increase to R20bn, this will still be cheaper than trying to get SAA flying again and brings certainty to taxpayers about a future that will require no more bailouts for the airline.

We call on government to reverse their decision on the Business Rescue Plan (BRP) before too much money is wasted on its relaunch, and to liquidate SAA, settle the debt and ensure that SAA staff get reasonable retrenchment packages.

Local government

At a local government level, OUTA has consistently highlighted that municipalities are not delivering good value for money - services are not being delivered to the requisite standard despite consistent budget allocations. The challenges at the local government level are myriad and repeatedly highlighted in the Auditor-General's MFMA reports and in too many negative reports in the media. We are concerned that while many municipalities lurch from bad to worse, residents in these municipalities are the net losers.

Conditional grants for local government were reduced by R3.7 billion in the supplementary budget and now will be reduced by a further R569 million because of the adjustments to fund the SAA business rescue plan. We note that under COGTA's programme 5 'Local Government Support and Intervention Management, the Municipal Infrastructure Grant is receiving R180 million less allocation this year and the local government improvement programme receives R2 million less. Litigation and interventions receives R6.7 million less. We also see that in terms of unforeseeable and unavoidable expenditure an additional R50 million is allocated to the programme 5 vote "for the transfer to the Municipal Infrastructure Support Agent as part of the presidential employment intervention. These funds will be used towards improving labour intensity in the implementation of municipal infrastructure projects".

We point out these adjustments to illustrate a broader concern that these decisions are associated with an attitude that municipalities are beyond repair so it doesn’t help putting money there that in many municipalities will be utilised irregularly or will not be spent in any case. At the same time in too many municipalities infrastructure has not been adequately maintained and residents desperately want to see that rectified. It is a recipe for disaster to throw inexperienced job seekers into this dysfunctional morass.

In September 2019, National Treasury presented to the National Council of Provinces on the Strategy to Address Municipal Performance Failures. The presentation sketched out the nature of the problem and key challenges in a fairly forthright manner. OUTA wishes to bring to the committee's attention the slide that relates to what has been done to date to address the challenges in Local Government.

What have we done to date to address the challenges in Local Government …..

- Developed a strategy to address municipal performance failures and obtained Budget Council endorsement during 2009,reaffirmed in 2014 and updated in 2019
- Introduced province specific strategies in 2014 to address LG performance failures and at the 2015 TCF and BC Lekgotlas, it was resolved that:
  - The key "game changers" required to address municipal performance failures in the next period are funded budgets, revenue management, *m*SCOA, asset management, SCM and audit outcomes
  - Aligned our capacity support programme with the game changers
- Quarterly Joint MFMA Meetings
- The institutionalisation of annual municipal budget and benchmark engagements:
  - Conduct budget and benchmark assessment engagements for the 17 non-delegated municipalities by NT and all delegated municipalities by PTs
  - Verification of annual MTREF budget and audit outcome figures
- Municipal financial management monitoring and oversight:
  - Conduct Mid-year Budget and Performance assessments for the 17 non-delegated municipalities by NT and all delegated municipalities by PTs and report on findings
  - Quarterly verification of Section 71 submissions before publication
- Extensive support programmes – MFIP I, MFIP II and MFIP III

Despite all these efforts and 16 years of MFMA implementation, why do we still have a growing number of dysfunctional municipalities?

We implore National Treasury and COGTA that if the only tool you have is a hammer and the hammer is not fixing the problem, then it is clearly the wrong tool or wrong problematization of the challenges. We think that an even more frank assessment of the challenges is required. OUTA will not stand by while Treasury and COGTA delineate their roles in order to cover themselves for when it comes to questions of who is failing to do what mandate while essentially throwing up their hands in frustration. It is time to confront the actual challenges.

Stimulating local economic development

One of the areas of the Economic Recovery Plan that OUTA would have liked to see addressed more vigorously is how to stimulate Local Economic Development. The pandemic has put South Africa's economy in a very precarious position. The country was already in a recession having posted two consecutive quarters of negative growth in the third and fourth quarters of 2019. The South African economy is likely to contract by -9.2% in 2020. The pandemic compelled countries to allocate funds to support their economies from plunging even further. Government allocated about R500 billion to help support the economy, the details of which were provided with the tabling of a special supplementary budget in June this year. R145 billion of that amount comes from the reprioritisation of the expenditure. Provincial reprioritisation was given an extra R7 billion in conditional grants and an amount of R20 billion has been made available for municipalities to provide services such as water and sanitation. An additional R11 billion is also allocated through the local government equitable share, allowing for local governments to respond to local needs.

However, what is the importance of local government and why was it not operating optimally to ensure that there is service delivery prior to the pandemic? Had there been sufficient investment in the local economy, the impact of the pandemic would have been less severe on the poor and vulnerable in South Africa.

Provinces and municipalities account for most of the public spending. Over the medium-term expenditure framework (MTEF) period, after budgeting for debt-service costs, the contingency reserve and provisional allocations, 48% of nationally raised funds are allocated to national government, 43% to provinces and 8.8% to local government. Building a capable state that can deliver on its developmental mandate requires provinces and municipalities to have the capacity to spend efficiently. Government investment can stimulate demand in the economy and create a foundation for future growth, provided it is well spent. There are many instances in South Africa where wasteful spending and corruption have been shown to undermine the ability of government to translate budgeted resources into delivery of services. One only needs to look at the findings of the Auditor-General's (AG) Report, which reveals gross mismanagement of state resources. This is a yearly phenomenon. In the latest AG Report, only 21 municipalities achieved a clean audit and there was over R32 billion irregular expenditure. The resulting collapse of water reticulation, sewage treatment and safe roads in parts of the country imposes hardship on communities and increases the cost of doing business. For public spending to achieve value for money, the fundamentals of governance need to be fixed at all levels.

More accountability is required at provincial and municipal level to ensure that service is delivered to the local economy. We recommend a rules-based model of accountability where officials are removed if the audits are not 80% satisfactory. This will ensure accountability and prevent leakages of resources. Officials that have been corrupt should face the might of the law. By allowing the same officials to continue in their positions year after year is essentially allowing them to continue mismanaging the municipality.

National and local treasuries are not doing enough monitoring of local governments and often residents are left with the difficult task of holding municipalities accountable. Frustration with the decline in services has led to communities approaching the courts so that municipalities are placed under intervention by the provincial government and for the municipal councils to be dissolved, but this does not happen often as there are cost implications, intimidations and killings. Communities often resort to civil protests in the hope of being heard. Monitoring and intervention should be done by national government instead of the responsibility resting on communities.

Local economic development is one of the most important ways of reducing poverty. Local government development has to create jobs to enable economic growth. This requires more business activity and investment. Whilst national policy is tasked to make policy and provide funds, research and other support for local development, municipalities decide on the local economic development strategies. In the context of South Africa, these strategies must prioritise job creation and poverty alleviation. They must also target previously disadvantaged people, marginalised communities and enable SMMEs to participate fully in a conducive environment. Nobody wants to be poor and we believe that this is the area where one can dignify the poor by creating real jobs and opportunities for them to participate in the economy, lift themselves out of poverty and hopefully become independent, tax contributing citizens.

Municipalities should focus on:

- Developing infrastructure that will make it easier for businesses to operate. These include housing, transport, roads, water, electricity etc.
- Promote tourism, which is one of the biggest growth industries in South Africa. Local tourism sites and facilities need to be developed.
- Municipal tenders and procurement policies must favour competent small contractors and emerging businesses, not politically connected companies and individuals.

Short-term strategies geared to alleviate poverty by creating immediate jobs in the near future are most often not sustainable. What is required is vision to promote long-term processes that emphasize the gradual elimination of poverty through sustained growth in employment, productivity and income. This process often relies heavily on the role of local government in stimulating and sustaining the rural SMME economy, especially through policy interventions that enhance a community's capacity for initiating local economic development.

Although tourism, specifically eco-tourism, is often heralded as the epitome of sustainable development, there is often a vast difference between the needs of the tourist industry and those of the local people – especially in third world countries. Keeping this in mind, it is possible to design tourist initiatives that enhance the development of rural areas such that the local people experience the benefits.

Problems associated with tourism-led local economic development are:

- Huge disparities in employment levels during the on-season compared with the off-season. Many employees cannot rely on a constant income;
- Employment growth in menial and/or poorly paid jobs. This is especially evident when external people are brought in to occupy the higher paid managerial and administrative positions;
- Economic leakages to larger, external tourism markets; and
- Mobilisation of the private sector investment which has the potential to exclude or reduce local participation and decision-making processes.

The stark reality faced by most small towns and rural areas in South Africa is one of economic decline and stagnancy, absent private sector support and investment, a declining local tax base, population fluctuations due to migrant labour and a critical shortage of professional and accountable staff members.

Accountability should be the very essence of democracy. Essential to accountability is transparency. Democratic local governance needs to be open to scrutiny and criticism, accessible, and informative. For this to be genuine and effective, local governments require a participatory system – an integrated system that facilitates ongoing participation between government and communities. The democratisation of local government is only genuine when community participation in municipal decision-making and implementation is a reality.

Local governments need to use their access to rates, their control of the use and development of land and their ability to set the agenda for local politics to influence local economies. It is therefore essential that local governments have a clear vision for their local economy and work in partnership with local business to maximise job creation and investment.

We recommend that FFC and Parliamentary Budget Office undertake research on options for local government revenue model and that this research should be presented in Parliament, followed by a Parliamentary debate about the revenue model of municipalities and the state of their finances.

We recommend that the Appropriations Committee conduct oversight visits to Provincial Treasuries to find out from them what they are doing to remedy the issues of worsening audit outcomes emanating from municipalities.

Zero-Based Budgeting

In our post supplementary budget analysis, OUTA welcomed the implementation of zero-based budgeting. We reiterate that zero-based budgeting is an approach that we welcome and that we would like to see this implemented at the local government level too.

The concept of zero-based budgeting which supports building a budget up from ground zero is not new in the budgeting literature. The first record of the zero-based budgeting application in the public sector occurred in 1964 at the Department of the Agriculture in America, mainly because of Secretary Orville Freeman's interest in budgeting. This budgeting process requires each manager to justify his/her entire budget request in detail from scratch each year and thoroughly analyse existing project objectives.

With the zero-based budgeting approach, every line item in the budget must be approved with no preferences to previous expenses but based on the priorities of this budget year. This budgeting approach encourages management to focus more attention on the analysis and justification of budget requests, and to relate costs and benefits with discrete activities. With zero-based budgeting, each programme, product or service is looked at each year to determine its benefit. If an activity or programme cannot be supported as having value, it is not funded.

OUTA acknowledges that zero-based budgeting is not a panacea for curing management ills, but it is a useful tool to increase the efficacy of the budgeting processes. The benefits of adopting this budgeting approach include:

1. Expanding lower level management participation in the budget process,
2. Providing better coordination between planning, programming and budgeting,

3. Causing managers at all levels to evaluate in greater detail the effectiveness and efficiency of their operations - both old and new,

4. Identifying tradeoffs between and within programs and departments, and

5. Providing managers with better information of the relative priority associated with budget requests and decisions.

With the tabling of the MTBPS, Treasury has indicated more of the details of how zero-based budgeting will be implemented, with Treasury and Department of Public Enterprises taking the lead by agreeing to implement this first. OUTA has been anticipating these details.

While OUTA is a proponent of zero-based budgeting being implemented at a local government level, we do not believe that the spending reviews required to create a budget from the ground up can be entrusted to dysfunctional municipalities where the municipality does not even have a CFO and financial management capacity.

The AGSA 2018/2019 audit outcomes concluded that the local government's poor performance and fiscal problems are as a result of poor financial management, such as, excessive spending on inflated salaries, luxury vehicles, vanity infrastructure projects and widespread corruption and irregular expenditure. The report also indicated that 79 percent of all municipalities' financial health status was either concerning or requiring urgent intervention, and 31 percent of municipalities were considered to be in a vulnerable financial position with just over a third of municipalities ending the year with a deficit. Furthermore, the remuneration, bulk water and electricity supply expenditure have increased above inflation over the past five years and the cost of rendering public basic services have also increased at an average rate that exceeds inflation over the past five year.

As the title of the Auditor General's most recent MFMA report highlights, what would likely happen is that the work would be contracted out to consultants, whose recommendations under the direction of officials may well end up being to retain wasteful spending programmes, so OUTA supports Treasury's phased zero-based budgeting spending review approach, where the spending reviews are being done by officials with longstanding experience.

We are however concerned that the Treasury itself has lost capacity due to state capture purges that affected their staffing and which has taken some time to rebuild. However, OUTA believes that the capacity that exists within Treasury remains stronger than at a local government level. Whilst we acknowledge differentiation across municipalities with some municipalities that have good governance, broadly we are of the view that it is better for the spending reviews to be done by National Treasury. We do also note that there are ways in which Treasury stands by while things regress and does not always exercise the requisite oversight and particularly not in a real time enough manner.

It is not Treasury alone that is tasked with oversight – this role also resides in COGTA, in Parliament and in a range of other institutions tasked with a watch-keeping role. Our watch keeping institutions have been subject to the ravages of state capture and many have quite simply been sleeping on the job. It needs political will to confront the challenges that have undermined the governance and service delivery capacity at local government level, but also at all spheres of government. We emphasize that the dire fiscal circumstances necessitate that these challenges need to be addressed urgently.

OUTA supports the zero-based budgeting approach because it enforces better planning, objective-setting, programming and budgeting in local government. For instance, if municipal personnel did their jobs right (planning and budgeting) in the first place, there would be no need for zero-based budgeting or any other similar system. As a starting point zero-based budgeting will assist to determine the real limits of local government's financial resources and improve prioritisation of projects against its objectives. Therefore, zero-based budgeting requires effective "planning" by identifying the output desired; and effective "budgeting" by identifying the input required. This budgeting approach reinforces planning, programming and budgeting efforts because it provides a solid foundation of information about functions and operations which needs to be added on the budget.

In contrast, the zero-based budgeting system has been criticised by many stating that it is time consuming and requires additional training for staff and managers to execute this budgeting system. It is also stated that it may result in the loss of continuity of action and short-term planning. However, OUTA believes that this budgeting approach will enforce efficient allocation of resources and detect inflated budgets. Furthermore, it will encourage managers in local government to reduce operational costs and find cost effective ways to improve operations in local government.

Parliamentary Oversight

The Organisation Undoing Tax Abuse (OUTA) has produced two documents on Parliament: an affidavit on how a captured Parliament effectively condoned state capture by failing to address it as it happened, and a report assessing the current modus operandi in Parliament which finds serious underperformance.

The reports show that Parliament's own rules allow it to take no action on state capture and maladministration in general, and that Members of Parliament (MPs) used this impunity to do nothing.

Budgetary Review and Recommendation Reports (BRRRs) are submitted by portfolio committees of the National Assembly. The Budget Review and Recommendations Reports process this year is undermined by the fact that a two-month extension has been given to departments for the completion of their annual reports. This means that Parliament will be conducting the BRRRs meetings with no reports to base their work on.

The annual reports include the Auditor General's opinion. Parliamentary portfolio committees will not have the AG's opinion and use no other verification methods besides departments presenting to the committees when called to do so. And yet Parliament will be proceeding to undertake the BRRRs meetings despite this serious implication for the quality of oversight possible. This is a travesty of Parliament's oversight role. Parliament receives a budget of over R2bn per year. OUTA is not convinced that Parliament is providing the people, who MPs represent, with good value for money. We urge that Parliament find alternative methods to ensure that its oversight is robust during the BRRRs process.

OUTA would like to bring to this committee's attention that Section 5 of the Money Bills Amendment Procedure and Related Matters Act (2009, the Act) sets out a procedure to be followed prior to the introduction of the national budget by the National Assembly, through its committees, for assessing the performance of each national department. This procedure provides for committees to prepare budgetary review and recommendation reports which:

- Must provide an assessment of the department's service delivery performance given available resources.
- Must provide an assessment of the effectiveness and efficiency of the department's use and forward allocation of available resources.

- May include recommendations on the forward use of resources.

At the very least, OUTA would like to see Parliamentary portfolio committees using the AG's PFMA, MFMA and special Covid-19 procurement monitoring reports during the BRRRs process to insist that the hemorrhaging of billions must come to an end. Portfolio Committees need to be taking a hard line with these departments and entities.

In terms of public governance improvements, OUTA is concerned that currently Parliament's public participation system is not satisfactory, and, to our knowledge, there are no effective indicators of constituency office performance. We would like to see Parliament improving its performance in this regard. We have previously called for structured public participation in the financial oversight of selected Portfolio and Select Committees. We reiterate that call. We would like to see mandatory public hearings in September each year as part of MP preparation for the BRRR process.

We call on the committee to review and improve the quality, inclusiveness and impact of budgetary public participation mechanisms in Parliament. This may, for example, include the design and establishment of a facility for questions of a highly political nature to be answered by the relevant political authority during or soon after public hearings. It may, as another example, change existing timeframes. Further, the deliberations of the Appropriations and Finance Committees may be enriched by inclusive Budget Review and Recommendations Reports from Portfolio and Select Committees. Parliament is the People's only opportunity to genuinely influence the methods and structure of public sector revenue and spending. A more integrated and streamlined approach to budgetary public participation will serve to advance our democracy and foster the new social compact we all need now. Over and above the requisite Executive accountability that we now need more than ever to ensure that the shrinking pool of tax revenue is generated and spent lawfully, your swift motion in this regard will ensure increased Parliamentary accountability.

Audit outcomes and public governance improvements

Neither the auditor general's reports nor existing institutional and management structures have been sufficient to assure good record keeping and financial management. This is apparent in the AG's observations in the first Covid-19 Special Report, in which it says: "We are concerned about the indicators of high risk of fraud and abuse we observed –not only in the areas that we were able to audit, but also where information for auditing was not forthcoming, which could be a deliberate tactic to frustrate our audit efforts".

Additional measures are necessary to prevent future misappropriation of funds. The Auditor-General's reports repeatedly address 'root causes' that hinder auditees' progress towards clean administration. In other words, the problems are well understood and in many instances get worse each year and that is also reported, understood and lamented about in the media each year. OUTA wants to see tangible actions which address these root causes.

Coupled with Zero-Based Budgeting, efficient and effective monitoring and reporting mechanisms should be activated and prioritised. Based on the 2018/2019 financial audit reports, there is severe under-performance across the board at State-Owned Enterprises, national and provincial departments and municipalities (metro-, district and local). A total of 86 departments and public entities received financially qualified (bad) audits in 2018-19. The following SoE's 2018/2019 audits were particularly bad:

- Denel – disclaimed with findings (the worst audit outcome) for the past two years.
- South African Airways (SAA) – no audit outcome for the past two years as SAA did not submit its financial statements for auditing.
- South African Express Airways (SAX) – disclaimed with findings for three years in a row.
- South African Nuclear Energy Corporation (Necsa) – no audit outcome for 2018-19 as Necsa did not submit financial statements on time; the previous year, it received the worst audit outcome, a disclaimer.
- South African Post Office (Sapo) – slipped back into a qualified with findings audit opinion, after the previous year's outcome of unqualified with findings.
- Trans-Caledon Tunnel Authority (TCTA) – no audit outcome as it submitted its financial statements late.

During the 2018/19 financial year, the Auditor General piloted the new material irregularities audit category and reported the following:

- Twelve of the 16 material irregularity audits were completed according to schedule.
- In the course of these audits, the AGSA identified a total of 28 material irregularities at eight of the auditees.
- The most material irregularities (10) were identified at the Free State department of human settlements.

- This was followed by the nine material irregularities at the passenger Rail Agency of South Africa (prasa).
- Two irregularities each were identified at the Department of Water and Sanitation, the Gauteng health department and the Northern Cape health department.
- One material irregularity was found at the KwaZulu-Natal health department, one at the Department of Basic Education and one at the Limpopo education department.
- The 28 material irregularities identified had resulted in a total combined loss of R2,81 billion.
- R2,2 billion was the amount expected to be lost as a result of irregularities in the purchase of locomotives by prasa.

The SIU should be granted a Presidential Proclamation to investigate material irregularities, working with the fusion centre. Appropriate action needs to be taken against perpetrators.

It is critical that competent and suitable staff are appointed into key positions across the public sector. A clean governance culture needs to be inculcated. This includes appropriate division of duties, suitable internal controls and corporate governance measures being complied with.

Auditor-General Kimi Makwetu's death a big loss for South Africa. A man committed to serving his country with integrity, right up to the last few days of his life. That is how the Organisation Undoing Tax Abuse (OUTA) will remember the outgoing auditor-general, who died less than three weeks before the end of his term. His legacy should inspire us to keep fighting against corruption and tax waste.

OUTA welcomes the unanimous recommendation of Deputy Auditor-General Tsakani Maluleke by Parliament for the position of Auditor-General. Maluleke was also OUTA’s top pick in its recommendation to the committee in August. We developed an eligibility matrix to determine the best candidates for the position which indicated the three most eligible candidates. Amongst the criteria were qualifications, auditing experience, leadership, finance and risk management. Through our research, Tsakani Maluleke appeared to be the best candidate. Maluleke has a good track record as she has the experience of being the Deputy AG since 2014. We need an AG who holds transgressors to account without fear or favour, someone who will exercise the new powers of the AG and honour Kimi Makwetu’s work by taking it to a whole new level.

Key recommendations

OUTA's key recommendations are as follows:

- The increase of remuneration in the public service beyond what is necessary or justified in terms of labour productivity and performance outcomes is a fundamental flaw that must be fixed.
- We call for an investigation into the hiring practices at departments that were restructured as state capture manoeuvres. We'd like to see the DPSA dealing with officials who are doing business with the state.
- Professionalise the public service.
- Improve allocative and productive efficiency.
- Implement zero-based budgeting at the local government level too.
- Ensure that NPA, SARS, SIU, IPID and Statistics South Africa are properly funded.
- Parliamentary committees should improve the quality of their oversight role.
- We call on the committee to review and improve the quality, inclusiveness and impact of budgetary public participation mechanisms in Parliament. We would like to see mandatory public hearings in September each year as part of MP preparation for the BRRR process.
- OUTA is concerned that currently Parliament's public participation system is not satisfactory, and, to our knowledge, there are no effective indicators of constituency office performance. We would like to see Parliament improving its performance in this regard.
- We call on the committees to seek input from the Fiscal and Financial Commission, Parliamentary Budget Office, CABRI and other experts on improved management of contingent liabilities.
- We recommend that FFC and Parliamentary Budget Office undertake research on options for local government revenue model and that this research should be presented in Parliament, followed by a parliamentary debate about the revenue model of municipalities and the state of their finances.
- We recommend that the Appropriations Committees conduct oversight visits to Provincial Treasuries to find out from them what they are doing to remedy the issues of worsening audit outcomes emanating from municipalities.

Conclusion

OUTA's submission has focused on how to achieve more bang for buck given the economic and fiscal constraints. OUTA's recommendations are orientated to supporting the restoring of fiscal balance. The state needs to redouble its efforts to improve allocative efficiency and eliminate wasteful practices and corruption. We welcome zero-based budgeting as a mechanism for systematically improving allocative efficiency and would like to see zero-based budgeting implemented at a local government level.

Local government is the sphere of government which we regard as being particularly unyielding to measures to improve the efficiency of spending and to address corruption and we therefore believe that centralising of certain tender types is the only way to address the unchecked financial mismanagement.

We are concerned about risks to the fiscal framework emanating from government guarantees to state-owned entities and from potential wage bill requirements which Treasury has not included into the budget estimates, but may realise. Each time these risks which are quite predictable materialise, it has a negative impact on various budget votes such as Basic Education, Health and Police.