

PUBLIC SERVICE ACCOUNTABILITY MONITOR SUBMISSION ON THE 2022 ADJUSTMENTS APPROPRIATION BILL AND MEDIUM TERM POLICY STATEMENT

SUBMITTED TO THE STANDING COMMITTEE ON APPROPRIATIONS, NATIONAL ASSEMBLY

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Submitted by:

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ABOUT THE PUBLIC SERVICE ACCOUNTABILITY MONITOR

The Public Service Accountability Monitor (PSAM) was established in 1999 and works across six African countries; South Africa, Zimbabwe, Tanzania, Zambia, Malawi and Mozambique. Our aim is to contribute to addressing particular societal problems originating from systemic public resource management (PRM) failures. We acknowledge the complexity of societal problems and that they often interrelate and impact upon the realization of human rights. We also acknowledge the importance of broader institutional and systemic reforms.

The PSAM forms part of the School of Journalism and Media Studies at Rhodes University, Grahamstown, South Africa. PSAM's activities include research, monitoring, advocacy and capacity building. Working throughout Southern Africa, PSAM generates and shares knowledge about social accountability and the monitoring and advocacy tools that can build more open, participatory and accountable government. Social accountability places an explicit duty on members of the executive arm of governments, public officials and private service providers to justify their decisions and performance regarding the manner in which their use of public resources has affected the progressive realisation of socio-economic rights.

SUBMISSION SUMMARY

In relation to expenditure and performance trends, we find continued **underspending** by key national service delivery departments and local government entities. This undermines service delivery at a time when it is needed the most. We therefore call for greater oversight, and consequence management for accounting officers who are unable to manage public resources effectively. We call on the National Treasury and the Department of Public Services and Administration to bolster capacity support and professionalisation in these areas in addition to reporting the outcomes of interventions to Parliament.

In relation to resourcing to build capacity and address urgent **governance and service delivery failures at the municipal level**, we note not only dismal service delivery performance but the concomitant underspending and poor financial management. Approximately R 2 billion was returned to the National Revenue Fund in unspent local government funds. We urge the speedy implementation of the Government Technical Advisory Centre's revised capacity support programme and that this be complemented by real political support by provincial executive authorities.

In relation to budget cuts effected to resource **state-owned enterprises**, we find continued bailouts and support for these entities and no sign of improvement in their financial standing or operations. These allocations are often at the expense of key departments that facilitate transfers to the poorest households such as Social Development. In the absence of a clear and credible plan to improve the sustainability of these entities, PSAM recommends that this Committee oblige the Minister of Public Enterprises to explain how his ministry intends to improve transparency of SOEs. In particular we urge the Committee to request updates on progress in implementing DPE Guidelines provided for quarterly reporting and institutional transactions as outlined the DPE's Annual Performance Plan.

Further – emphasis must be placed on the urgent implementation of the Department of Public Service and Administration Guidelines on the Appointment of Boards and Executive Management SOEs. Further - in order to enhance the accountable governance of SOEs; reporting on their financial and non-financial performance must be made public in order to foster greater civic participation.

In relation to **resourcing efforts to shore up democracy-supporting institutions**, we are encouraged by the stated commitment to reforms to rebuild state capability and improve governance, however we are concerned that the resourcing of these institutions is not sufficient to enable them to fulfil the duties required to arrest decline in public services and uphold the Constitution.

In relation to **public participation** mechanisms/opportunities, we are encouraged by the National Treasury's efforts to improve participation in the budget process through the [vulekamali](#) budget portal and the Fiscal Openness Accelerator. We recommend that these efforts are further bolstered to include more diverse inputs in the process and enable those who are most affected by budget decisions to participate meaningfully.

We further note the efforts of the Auditor-General of South Africa to involve citizens in oversight through the accountability ecosystem concept and recommend that this is deepened to enable citizens and community groups to hold the state accountable.

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1. INTRODUCTION

Since the tabling of the last Medium Term Budget Policy Statement in November 2021, there have been a number of important developments in the public finance sector in South Africa. Significantly - the Zondo Commission of Enquiry into State Capture has concluded its processes and delivered its recommendation to President Ramaphosa. The National Treasury, the Financial Intelligence Centre and the Department of Cooperative Governance and Traditional Affairs have all issued calls for public input on key bills and policies. This includes the Beneficial Ownership Risk Assessment¹. The Draft Procurement Bill - initially intended to be processed in Parliament in 2021 - is yet to be tabled in Parliament despite widespread calls for its further strengthening and finalisation. Each of these have potentially transformative implications for the governance and oversight of public resources in South Africa.

The PSAM is encouraged by the approval of the Municipal Powers and Functions Amendment Bill which has the potential to enhance municipal revenue; which may in turn improve the financing of important infrastructure projects within the local government sphere. These constitute important developments that if developed well and implemented effectively could have significant positive impacts on the state of public finances across the country. At present, however, the fundamental developmental and socio-economic objectives to be met by public finances are not being fulfilled. Inequality is at record levels, poverty and unemployment are insidiously elevated and service delivery performance is dismal.

Another critical crisis is the impact of corruption on public resources. Without a dedicated approach to enhancing public finance integrity, progress towards tackling the triple challenges of poverty, inequality and unemployment will be limited. It is therefore vital that deficiencies in the anti-money laundering framework identified by the Financial Action Task Force (FATF) are urgently addressed. This is key not only to tackling the enabling environment for corruption and fraud but to avoiding South Africa's grey listing. Further to this – the long-term, adequate resourcing of key entities such as the Financial Intelligence Centre (FIC) is required.

This submission, therefore, places emphasis on possible interventions to meaningfully address key accountability and resourcing problems. Recommendations are made to the National Assembly's Standing Committee on Appropriations to influence the systemic deliberations linked to public resource management and public finances in South Africa. Recognising the role of multiple state actors in safeguarding public resources effecting oversight and implementing policy, we have sought to be explicit wherever possible in our recommendations. At other times, however – our approach is to underscore critical issues for the relevant role-players to identify potential solutions and address.

¹ <http://psam.org.za/presentations/psam-submission-to-the-fic-iro-bot/>

2. ANALYSIS OF KEY TRENDS IN 2022 ADJUSTED ESTIMATES OF NATIONAL EXPENDITURE

2.1 Key expenditure and performance trends

The budget is the key policy tool used by governments to implement strategies, policies, and programs. Adherence to planned budgets is an important indicator of the overall capacity of the government to deliver on the programs to which they have committed. The continued underspending by key service delivery departments and local government needs to be addressed, as a matter of urgency.

Table 1: Declared unspent funds in MTBPS 2022 (Source: Source: [People's guide to the adjusted budget, MTBPS 2022](#))

VOTE	DECLARED UNSPENT FUNDS	REASON
National Treasury	R 101.6 million	The R101.6 million that was appropriated for the recapitalisation of the Land and Agricultural Development Bank of South Africa is suspended and included as part of a direct charge against the National Revenue Fund to cater for the government-guaranteed debt obligation on behalf of the bank.
Public Enterprises	R3.8 million	The R3.8 million unspent on compensation of employees due to vacant posts across all programmes. These funds will be used to defray the settlement of Denel's guaranteed debt and interest payments.
Public Works and Infrastructure	R21.5 million	This comprises: R15.71 million unspent in the Expanded Public Works Programme (EPWP) due to delays in implementing the expanded public works non-state sector programme. R5.838 million unspent on transfers and subsidies in the prestige policy programme due to projected underspending by the Parliamentary Villages Management Board as a result of fewer than anticipated activities taking place.
Social Development	R1.8 billion	Billion in unspent funds is declared on social assistance due to a lower than anticipated uptake of the social relief of distress grant following the implementation of the lower income threshold and the bank verification of applicants' income.

ADVANCING YOUR RIGHT TO SOCIAL ACCOUNTABILITY

Police	R31.8 million	R31.8 million unspent on the integrated criminal justice strategy due to delays in finalising tender processes. The unavailability of forensic equipment locally also contributed to delays in spending.
Small Business Development	R35 million	R1.5 million in unspent funds is declared on compensation of employees in the administration programme as a result of vacant posts R12.9 million in unspent funds is declared on compensation of employees in the Sector and Market Development programme

Underspending has implications for service delivery. Underspending in the department of Social Development is not justifiable in the current context. Similarly, underspending on Police, given the high levels of crime being experienced in the country cannot be condoned.

The reasons most frequently cited for shifts/virements and underspending by public entities include vacant positions, often due to slow recruitment processes, or issues with the organogram (compensation of employees) and procurement plans and processes (goods and services). Various departments continue to struggle with recruitment and the adoption of suitable organograms. These are not satisfactory explanations for underspending in the current context. PSAM recommends that the Committee request further information from these departments to determine the cause of these challenges, what is being done to resolve them and to insist on corrective measures to prevent persistence of these trends.

Fruitless and wasteful expenditure has also continued to feature in public audit reports, further undermining service delivery. The Auditor-General recently reported to this Committee² on national departments that consistently incurred fruitless and wasteful expenditure over the past five financial years, noting that fruitless and wasteful expenditure to the value of R1.5 billion had been incurred by 41 national departments. Furthermore, 21 of the 41 departments have been labelled as consistent delinquents. Amongst the highest contributors to this are the Departments of Defence (R460 million), National Treasury (R339 million) and Basic Education (R106 million). The expenses mainly occurred in the IT area for payment of software licences without the software being used, e.g. at National Treasury and paying for unoccupied properties by the Defence department. Other expenses include leakage due to poor project management skills, cancellation of travel costs and damages to state buildings.³

The amended Audit Act which gives new powers to the AG makes provision of issuing notices for Material irregularities (MIs). This came into effect in October 2021. The AGSA reported to this committee that as at 15 April 2022, 60 notices of irregularities valued at R8.6 billion had been issued to the national government. *“The bulk of the MIs related to non-compliance in procurement processes, payment for goods and services not received, or payment to incorrect beneficiaries.”* This is concerning and the PSAM would like to appeal to the Committee to

² <https://pmg.org.za/committee-meeting/35392/>

³ <https://pmg.org.za/committee-meeting/35392/>

ensure that these notices are acted upon, and that those who continue to mismanage funds are held accountable.

Further to the above, PSAM recommends that the Committee on Appropriations further play a role in ensuring the strengthening of internal controls and accountability mechanisms to improve performance of departments. This the Committee can do by requesting that departments and the National Treasury present clear remedial action plans and progress against those when presenting their budgets.

PSAM further recommends greater transparency of spending data and information to enable the public to monitor performance and demand justifications from departments on their spending and planning decisions. In this regard we're encouraged by the National Treasury's efforts to improve oversight of and participation in the budget process through the [vulekamali](#) budget portal and the Fiscal Openness Accelerator project respectively. We recommend that these efforts are further bolstered to include more diverse inputs in the process and enable those who are most affected by budget decisions to participate meaningfully.

We would also urge this Committee to use its powers to call on the executive authorities of departments who are custodians of other performance, procurement and financial data to support the National Treasury's efforts to enhance fiscal transparency and participation through the development of Vulekamali. This includes the DPME, DPSA and the Office of the Chief Procurement Officer.

2.2 Resourcing trends (and trade-offs): State-Owned Enterprises

In MTBPS 2022, additional funds were allocated to Denel, SANRAL and Transnet, through a Special appropriation Bill. Further funds were transferred to these entities for repairs to infrastructure damaged in the floods amongst others. These bailouts continue despite there being very little evidence to suggest that these entities will become self-sufficient, or that the "stringent conditions" being applied to these bailouts have had any impact. A telling account is made by the Accounting Officer of the Department of Public Enterprises:

"To understand the extent of the rot that had set in, forensic reports on various contracts, including those that had been flagged by whistleblowers (were undertaken). The magnitude of the task at hand is reflected in the amount of irregular expenditure reported by our entities. In the 2020/21 financial year, R15 billion in irregular expenditure was reported by DPE SOEs." (DPE Annual Performance Plan 2022/23, p7)

These entities continue to pose a threat to public finances, and continued bailouts do not seem to have improved financial standing.

Examples of direct transfers from social spending, democracy supporting institutions or crime fighting entities from MTBPS 2022:

- R194.554 million is transferred to the Department of Public Enterprises for the implementation of the South African Airways business rescue plan in terms of section 30(2)(e) of the Public Finance Management Act (1999) R755.303 million shifted from Social Development to the Department of Defence for extended deployment of troops to Mozambique
- R2.9 billion shifted from Social Development to the Department of Public Enterprises for Transnet to repair infrastructure

The public needs to be reassured that these transfers are necessary, and that they will cease in the near future, once these entities are rebuilt into credible state institutions, capable of delivering on their mandate.

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

In the 2022 Annual Performance Plan, the Deputy Executive Authority, MP Masualle committee the DPE to further strengthening the oversight role of the Department through a review of the National Treasury's Guidelines for Management practices of SOEs in order to "ensure effective and prudent cash management to improve SOEs liquidity and eventual financial sustainability".⁴ This is an important undertaking; we call on the Committee to request an update on the outcomes of this review and its impact.

William Gumede from Democracy Works Foundation highlights the following on remuneration against dismal performance of these entities:

In the 2010 financial year, Eskom executive directors received a 25% increase in remuneration, to merely maintain adequate coal stockpiles and uninterrupted electricity supply.

In 2016, executives of state oil company PetroSA received R17.3-million in bonuses, despite the organisation making a R14-billion loss that year. The former CEO of the Road Accident Fund (RAF) was paid nearly R4-million in the 2017/2018 financial year for working for three months of that year. He received a R2-million performance bonus. In that year, the RAF's bank account had been attached by the Sheriff of the Court over R8-billion in unpaid debts.

He further notes, "[f]ailing SOEs are unlikely to become efficient, productive and have any developmental impact unless they are held accountable to the public, as listed companies are to their shareholders"⁵

PSAM reiterates this call that SOE AGMs should be open to the public, in addition to information on remuneration and incentives of board members and executives. The PSAM

⁴ Page 6

⁵ <https://www.dailymaverick.co.za/article/2022-08-21-civil-society-activism-is-needed-to-ensure-accountability-efficiency-and-delivery-by-state-owned-enterprises/>

recommends that this Committee insist that this should be encouraged and facilitated by national departments responsible for these entities.

Furthermore, we recommend that the Committee urge that the National Treasury, Department of Public Enterprises and the Department of Public Service and Administration (DPSA) and other departments ensure on transparency and timely reporting in the operations of these entities.

3 MEDIUM TERM EXPENDITURE FRAMEWORK

3.1 Resourcing to build capacity in municipalities and address urgent governance and service delivery failure

The PSAM has - over several years - interrogated the systemic deficiencies that contribute to weak governance and poor service delivery at the provincial and municipal levels of government. We contend that amongst the many factors - adequate and effectively executed resources (financial and non-financial) are central. The ability of municipal leaders not only to diagnose the problems but to address them is informed by their own capability and will to take corrective action. This is reiterated by the National Treasury in various circulars and interventions such as in MFMA Circular No 121 Municipal Finance Management Act No. 56 of 2003 quoted below:

“Over the years, there have been many incidences of non-compliance with the MFMA, which have contributed to the high levels of unauthorised, irregular, fruitless and wasteful expenditure in local government. The lack of consequence management, whether perceived of (sic) otherwise, has contributed to the erosion of public trust.

*It should also be noted that the Medium-Term Strategic Framework addresses objectives relating to a **Capable, Ethical and Developmental State**, that prioritises public value and trust. It requires the development of a programme to strengthen awareness, internal controls, reporting and consequence management with regard to wasteful and fruitless expenditure in the public sector.”*

Further to this - it is important to underscore the implications of weak or unwilling political motivation to ensure the compliance with legislated public finance management prescripts. On this - the PSAM urges the Committees of Appropriations, Finance, SCOPA and the Cooperative Governance and Traditional Affairs to exercise their powers to call for political support for technical interventions aimed at bolstering capacity and compliance. We note, for instance the intention of the Government Technical Advisory Centre (GTAC) to finalise the design of a revised capacity-building system aimed at local government entities. According to the MTBPS 2022 - the South African government spent R9.1 billion across 40 state agencies to support the proper functioning of municipalities.

“Chapter 15 of the MFMA enables accountability for both political office bearers and municipal officials and provides the framework through which municipalities must implement consequence management for failure to adhere to the prescripts of the MFMA as well as its regulations. This Chapter is supported by the Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings (Financial Misconduct Regulations). The regulations apply to all officials and political office bearers within municipalities and municipal entities. These regulations were promulgated in 2014. One of the key measures introduced by the Financial Misconduct Regulations is the timelines within which investigations of allegations of financial misconduct must be concluded and matters resolved.

The National Treasury and provincial treasuries have supported municipalities in implementing the MFMA including Chapter 15 and the Financial Misconduct Regulations. The mechanisms used to provide this support range from, guidelines, circulars, responses to enquiries through the MFMA Helpdesk, workshops, seminars, training, internship programme and hands-on support to municipalities. It was during these workshops, training and seminars, that it became apparent that there are gaps in understanding of what is required and the alignment with other pieces of legislation to deal effectively with financial misconduct and criminal proceedings in municipalities and municipal entities.”

Reiterated above are important recurring problems that continue to act as barriers to improvement of municipal functioning. Importantly – ‘capacity’ and ‘capability’ are universally highlighted as prevalent problems to be solved using technical support and resourcing. However – an important question is whether or not these are yielding the expected benefits. The Committee should consider requesting a comprehensive report from the National Treasury detailing all of these interventions over the past decade and their impact.

In addition to its service delivery mandate - the Department of Cooperative Governance and Traditional Affairs (COGTA) has a role in anti-corruption efforts. Despite this, the local government sphere is often cited not only for its service delivery failings but for alarming levels of maladministration. The consolidated general report of local government audit outcomes for the 2019/20 financial year indicated that only 27 municipalities (9.7 %) achieved clean audits while only 28% of municipalities submitted quality financial statements for auditing.⁶

In 2022, local government received an adjustment of R3.3 billion to rehabilitate and reconstruct infrastructure damaged by the April floods. The Informal Settlements Upgrading Partnership Grant, which is allocated to municipalities, was adjusted from R4.18 billion to R4.3 billion. The integrated National Electrification Program also received an additional R1 million for the electrification of existing and planned dwellings, including informal settlements. The allocation for the Neighbourhood Development Partnership Grant was adjusted down by R100 million.

However, the PSAM notes with concern that R2 billion has been returned to the National Revenue Fund owing to local government underspending. As reported in the 2022 AENE -

⁶ AGSA MFMA Report 2020/21 and <https://www.dailymaverick.co.za/article/2021-06-22-local-government-failures-another-year-another-inspection-another-bad-outcome-with-a-few-exceptions/>

this happens in the context of slow service delivery achievement. Some key indicators include that only 1 of 13 and 3 of 8 planned large regional and small bulk infrastructure project phases respectively have thus far been completed. Despite national concerns about the quality of water services none of the planned 1035 water supply systems were assessed for compliance with blue drop regulatory requirements.

Given this bleak picture, financial support to key COGTA programmes becomes even more crucial as this department fosters the practice of sound financial management in municipalities. In addition, the department is tasked with ensuring that municipalities perform their basic functions including by putting people and their concerns first; supporting the quality delivery of municipal services and promoting transparency and accountability. Despite this - the budgets for COGTA's Institutional Development programme and Anti-corruption sub-programme have been reduced by R3.56 million and R500 000 respectively.

Chapter 7 of the Constitution describes the objects of local government in South Africa:

to provide democratic and accountable government for local communities; to ensure the provision of services to communities in a sustainable manner; to promote social and economic development; to promote a safe and healthy environment; and to encourage the involvement of communities and community organisations in the matters of local government.

Further, *[a] municipality must strive, within its financial and administrative capacity, to achieve the objects set out in [above].*

Multiple reports and articles show that this is far from the reality, rather *"[l]ocal government is characterised by accountability and service delivery failures, poor governance, weak institutional capacity, and instability."*⁷

The 2020/21 AGSA MFMA report lays out, in painful detail, the various ways in which local government is failing South Africans and how, despite these findings being shared year after year, many challenges persist:

The audit outcomes were in a bad state when the previous administration took over in 2016-17 and this state has not improved since then. Some municipalities improved their audit outcomes, just to regress again in later years. Overall, only 61 municipalities now have a better audit outcome than in 2016-17, with 56 now having a worse audit outcome.

Only 16% of municipalities received an unqualified audit with no findings, and 9 municipalities failed to submit financial reports and documentation needed to complete an audit, and thus remain outstanding. We note the National Treasury's acknowledgement that several municipalities continue to adopt unfunded budgets, demonstrating "weak political oversight and non-adherence to sound budgeting principles." In the 2019/20 financial year, 123

⁷ MFMA 2020/21 report, foreword by Tsakani Maluleke

municipalities had unfunded budgets.⁸ Additionally - in April 2022⁹, the Auditor-General reported 185 material irregularities at various stages in the process, resulting in an estimated financial loss of R3,9 billion; R1,6 billion of which was money lost by municipalities that had been invested in VBS Mutual Bank. The report further states: *The financial position of 28% of South Africa's municipalities is so dire that there is significant doubt whether they will be able to continue operating as a going concern in the near future*"

The report also details accountability and consequence management failures in municipalities, finding that 60% of municipalities did not comply with legislation on effecting consequences. At 54% of municipalities, the non-compliance was material. These most often relate to the failure to investigate irregular, unauthorised, and fruitless and wasteful expenditure. In total, 51% of municipalities did not investigate the previous year's irregular expenditure, 42% did not do so for unauthorised expenditure, and 41% failed to do so for fruitless and wasteful expenditure.

3.2 Infrastructure projects

Earlier this year, the AG reported to this committee that *"project management issues were causing delays in the completion of projects resulting in buildings with quality defects and the escalation of costs in excess of the budget in some cases"*. The backlog occurred mainly in the departments of Health, Education and Human Settlements which impact access to health care, schooling and housing for citizens. Procurement management, contract management and expenditure management needs to be improved to ensure that departments are getting value for money, and that transparency and accountability requirements are adhered to. The PSAM is encouraged by the stated commitment to "scaling up efforts to improve the project pipeline" and the provision of additional resources for project preparation, but remain concerned about measures to safeguard funds and manage contracts and expenditure throughout the project duration. The PSAM recommends that the committee insist on open and transparent contracting process to enable public oversight for all major infrastructure projects. This will ensure that these projects have the intended developmental impacts.

3.3 Resourcing efforts to shore up crime and corruption fighting institutions

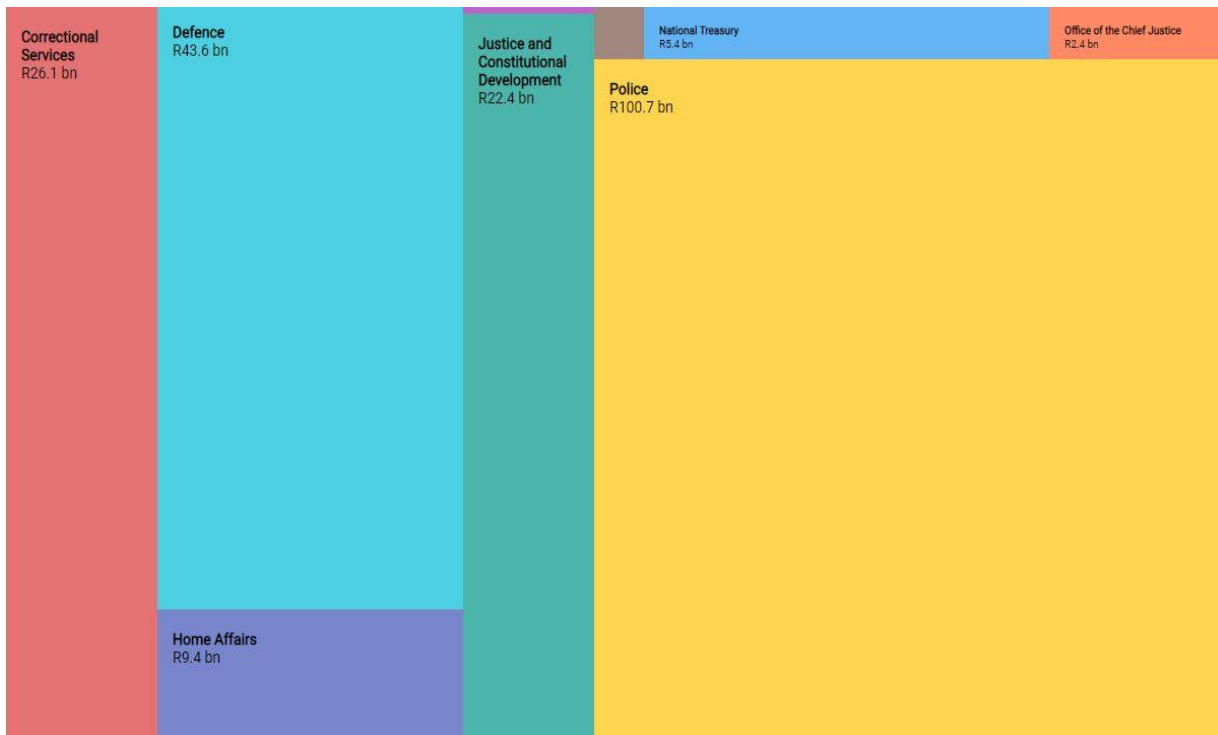
In order to improve governance, democracy-supporting and anti-corruption institutions must be strengthened. Several entities and institutions work closely together in this regard, and the effectiveness of the crime and corruption fighting pipeline depends on the effective functioning of all of them. This includes internal accountability measures, as well as the work of various oversight bodies and enforcement agencies. This section focuses only on a handful of these but recognises the importance of all entities in the system.

⁸ National Treasury; *The State Of Local Government Finances And Financial Management As At 30 June 2020*

⁹ Any non-compliance with, or contravention of, legislation, fraud, theft or a breach of a fiduciary duty identified during an audit performed under the Public Audit Act that resulted in or is likely to result in a material financial loss, the misuse or loss of a material public resource or substantial harm to a public sector institution or the general public

The National Prosecuting Authority (NPA) and the Special Investigating Unit (SIU) are overseen by the Department of Justice and Constitutional Development whose purpose is to uphold and protect the Constitution and the rule of law, and render accessible, fair, speedy and cost-effective administration of justice in South Africa. We note a range of important efforts to strengthen flailing leadership and governance in these institutions as well as the Anti-Corruption Task Team. Amongst these are key resourcing interventions. For a start; in 2018 Shamila Batohi and Godfrey Lebeya were appointed as the new National Director of Public Prosecutions and head of the Department of Priority Crime Investigations (the Hawks) respectively.

Below: Consolidated allocations for the Peace and Security Cluster with Justice and Constitutional Development allocated R22.4 billion in Budget 2022 (Source: vulekamali)



The NPA's mandate is fundamental to safeguarding public resources. It conducts criminal proceedings on behalf of the state; in the 2021/22 AENE, the NPA's budget was increased by R89.5 million bringing its budget to R4.53 billion. While this may be perceived as a substantial increase, the real term value, factoring inflation, actually amounted to R72.4 million¹⁰. The NPA had also requested R363 million to update internal IT systems. This was intended to assist with the digitisation of court and prosecution records to allow prosecutors and police to share dockets electronically and to track and monitor corruption cases.¹¹ At the time, it was

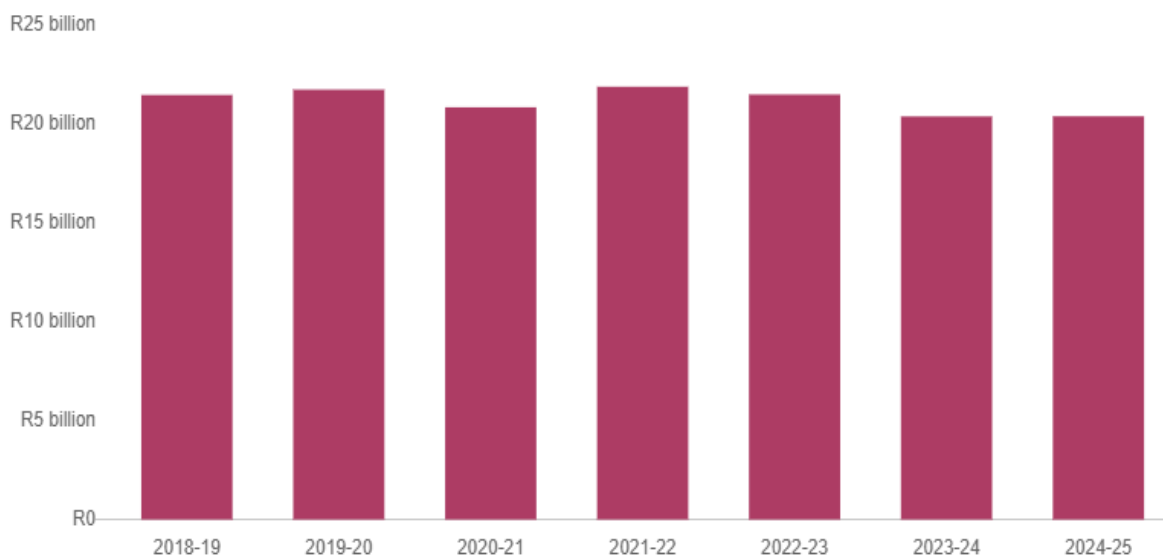
¹⁰ Calculation based on October 2021 Consumer Price Index (122.9)
<http://www.statssa.gov.za/publications/P0141/P0141October2021.pdf>

¹¹ <https://www.dailymaverick.co.za/article/2021-11-12-mpa-pushes-for-full-independence-and-for-conducting-prosecutions-differently-even-on-a-shoestring-budget/>

indicated that the institution was pursuing new plans and an overall different approach to have greater impact. However, budget and other resource constraints continue to undermine the institution's capacity.¹² And while the recent increases to the NPA's budget are positive - limited year-on-year growth was underscored as a risk to the ability to continue to compensate recently recruited staff in a July 2021 presentation to Parliament's Public Accounts Committee (SCOPA) by Batohi.¹³ The NPA's present approach has been criticised for slow progress in fulfilling its mandate. For instance, in the 2021/22 financial year, the NPA has convicted only 29 government officials for corruption and/or related offences against an annual target of 232. Moreover, 43 people were convicted of corruption in the private sector against an annual target of 158.

In both the 2021 and 2022 MTBPS, the SIU received no additional funding. This entity's role is important in that it provides forensic investigation and civil litigation services to combat corruption, serious malpractices and maladministration. We note, too, that the budget for the function under which the SIU budget is allocated is set to decrease by 0.5% in the 2023/24 financial year. The commitment made in the 2022 MTBPS is that the Peace and Security function will be allocated additional funding in order to, inter alia, support increased numbers of student constables and to provide support to the SIU in its role in the implementation of recommendations of the State Capture Commission.

Below: Real allocations to Justice and Constitutional Development have been varied since 2018/19 and are set to fluctuate over the MTEF (Source: vulekamali; inflation using 2018/19 as base year)



¹² <https://www.sabcnews.com/sabcnews/a-new-approach-is-needed-in-the-way-crimes-are-prioritised-batohi/>

¹³ <https://pmg.org.za/committee-meeting/33278/>

Below: expenditure trends for 2018/19- 2020/21 and the MTEF projections from the 2022 Estimates of National Expenditure for a selection of crime and corruption fighting institutions (Source: ENE, 2022; inflation using 2018/19 as base year)

	Audited outcome		Adjusted 2021/22	Medium-term expenditure estimate (ENE 2022)			Avg (2018- 2021)	Avg (MTEF)
	2019/20	2020/21		2022/23	2023/24	2024/25		
FFC	0.7%	14.1%	-5.9%	-5.4%	-4.1%	-0.1%	3.0%	-3.2%
SARS	-3.3%	-0.9%	21.0%	5.9%	-3.4%	-8.7%	5.6%	-2.1%
FIC	1.4%	-2.3%	-4.9%	-2.0%	-2.5%	1.3%	-1.9%	-1.1%
SIU	-2.4%	12.8%	-1.3%	-3.3%	-3.9%	-0.1%	3.0%	-2.4%
NPA	1.3%	1.7%	2.7%	1.4%	-5.3%	-0.1%	1.9%	-1.3%

These figures remain largely unchanged in MTBPS 2022, with the following exceptions:

- The FIC received an additional R24.56 million from initial allocation of R292.26 million to R316.83 million
- SARS received R550 million less than was initially allocated in ENE 2022

PSAM notes the variation in growth rates for these institutions and questions whether there is enough stability, and predictability for credible planning and implementation of strategies. The declining allocations are of concern. Given the current situation and the known constraints experienced in many of these institutions, it is concerning to note that the MTEF allocation (based on ENE 2022) is declining, often at a much faster rate than over the preceding period (2018/19- 2021/22). How will this impact these institutions going forward given poor performance and/or low impact of interventions in the past?

The MTBPS 2022 promises additional funds in Budget 2023 for the National Prosecuting Authority (NPA), Special Investigating Unit (SIU), Financial Intelligence Centre (FIC) and SARS to enable the investigation and prosecution of sophisticated financial crimes. This is certainly encouraging, however, PSAM notes with concern that overall, the Peace and Security function (which includes defence and state security, police services, law courts and prison, and home affairs) is declining by 2% on average over the MTEF (in real terms), and the General Public Services function (which includes executive and legislative organs, public administration and fiscal affairs and external affairs) is declining by 1% on average over the MTEF (in real terms).

According to the policy statement, additional resources for the NPA, the SIU and the Financial Intelligence Centre will be outlined in the 2023 budget. PSAM recommends that this committee insist that these institutions receive adequate funding. Further we encourage the committee to examine in particular the human resource requirements (given the nature of this work and the highly skilled professionals required to do it) and the “tools of the trade” including ICT and other technical equipment. Many of these entities work closely together and rely on the outputs of one another to deliver on their mandate (for example the SIU and NPA work closely together and failure in either has implications for the other). We therefore suggest that budget allocation decisions take this into consideration.

3.4 Resourcing efforts to shore up democracy-supporting institutions

In order to improve governance, democracy-supporting institutions must be strengthened. The public protector plays an important role in the accountability ecosystem. The SA Human Rights Commission also plays an important role in the justice and constitutional development cluster, as the national institution established *“to support constitutional democracy, committed to promote respect for, observance of and protection of human rights for everyone without fear or favour.”*

The table below illustrates the real growth rates in actual expenditure (2018/19- 2020/21), and estimates based on the 2021/22 adjusted appropriation and the MTEF forecast. For both the Public Protector and SAHRC, the allocations are declining in real terms, both in the past and over the MTEF. These entities tend to spend most of their funds on compensation of highly skilled employees, and “tools of the trade” such as IT as per the nature of their activities. There is likely to be further pressure on salaries in future in response to rising inflationary pressure. This is a cause for concern and the PSAM questions whether these entities will be able to perform their duties under these circumstances.

Below: Real growth in expenditure and allocations for democracy supporting institutions (Source: ENE, 2022, ; inflation using 2018/19 as base year)

	Audited outcome		Adjusted	Medium-term expenditure estimate (ENE, 2022)			Avg (2018-2021)	Avg (MTEF)
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25		
Public Protector	0.5%	0.4%	-3.3%	-6.9%	-4.7%	0.1%	-0.8%	-3.8%
SAHRC	2.0%	-2.0%	-3.3%	0.1%	-4.5%	0.3%	-1.1%	-1.4%

PSAM notes with concern the declining allocations to these important entities and encourages the committee to ensure that they receive adequate resources.

The table below shows expenditure and projections for Statistics South Africa. Statistics South Africa is included in the analysis here, due to the critical importance of statistics in the planning and resource allocation process. The state relies on these statistics to make critical planning and budgetary decisions. It is of paramount importance that these are reliable and up to date.

Below: Real growth in expenditure and allocations Statistics South Africa (Source: ENE, 2022,; inflation using 2018/19 as base year)

	Audited outcome		Adjusted	Medium-term expenditure estimate			Avg (2018-2021)	Avg (MTEF)
	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25		
Stats SA	6.0%	2.4%	74.1%	-47.6%	-8.5%	0.3%	27.5%	-18.6%

We recognise that there are some challenges in assessing the budget of an entity like Stats SA, whose budget varies significantly over the years, due to additional funds released in years where large scale surveys are taking place (for example the recent census), however note that there does not appear to be a sufficient increase to enable new surveys to be undertaken, such as the updated Income and Expenditure survey that is scheduled to take place later this year. This survey will help to update critical statistics on poverty, inequality and the impact of fiscal policy on vulnerable households.

4 PUBLIC PARTICIPATION MECHANISMS AND OPPORTUNITIES

The PSAM is committed to supporting the improvement of public resource management and promoting accountable governance. The introduction of a pilot mechanism to garner public input on fiscal policy; the Fiscal Openness Accelerator (FOA) project has the potential to deepen meaningful public participation and increase the transparency and efficacy of fiscal policy decisions. Public budgets constitute important tools at governments' disposal to meet socio-economic and developmental objectives such as those encapsulated in the Sustainable Development Goals (SDGs).

South Africa is well-placed to leverage its advanced public finance environment, progressive policy and high-ranking budget transparency scores in the Open Budget Index (OBI) to inform more participatory, democratic budget processes. In order to inform systemic, sustained reform - the Treasury is encouraged to consider ways to continue to partner with civil society beyond the conclusion of the FOA pilot in September 2022. The outcomes are thus positive. Pre-budget consultations should be progressively deepened and institutionalised within the national budget reform agenda. The potential of forming more direct links between public inputs and critical decision-making structures such as the Ministers' Committee on the Budget Technical Committee (MTEC) is significant as these deliberations inform key executive structure such as the Ministers' Committee on the Budget (MINCOMBUD) and ultimately have an impact on policy and planning priorities.

A number of recommendations emerged from the 2021 Open Budget survey, including the following, which are worth reiterating and PSAM would like to encourage the Committee to consider how these can be implemented:

- Pilot mechanisms to monitor budget implementation.

- Active engagement with vulnerable and underrepresented communities, directly or through civil society organisations

The International Budget Partnership (IBP) suggested that these activities are led by the National Treasury. PSAM would like to emphasise the pilot mechanisms in particular and urges the Committee to consider a pilot of social audits in areas where local government is failing to deliver services to citizens. In addition to improving participation in the budget process, social audits can also improve spending outcomes and provide opportunities for skills development, and income support for communities facing high levels of poverty and unemployment. In this way, the project could seek to align with other programmes such that the presidential Youth Employment Initiative, for example.

The IBP recommendations for parliament include allowing any member of the public or any civil society organization to testify during its hearings on the budget proposal prior to its approval. Additionally, allowing members of the public or civil society organizations to testify during hearings on the Audit Report would contribute to improving budget efficacy and citizen trust. PSAM would also urge the Committee to consider the role of the parliamentary constituency offices in this regard.

5 CONCLUSION

We have sought in this submission to outline key concerns relating to the appropriations and expenditure of public funds with a particular focus on opportunities to prevent misuse, safeguard social spending and promote efficiency. It is also important to identify opportunities for reform that have the potential to not only improve the management of public finances in South Africa but also to meaningfully address the triple threats of poverty, unemployment and inequality. The work of parliamentary committees such as the Committees of Finance and Appropriations is central to achieving these goals given their mandate to engage with the relevant duty-bearers and decision-makers including the Nation Treasury and line departments.