

2 November 2023

**Media Statement
Weakened Public Finances? At What Cost?**

Public Service Accountability Monitor Reaction to the 2023 Medium Term Budget Statement

The Public Service Accountability Monitor (PSAM) notes the tabling of the Medium Term Budget Policy Statement (MTBPS) and Adjusted Estimates of National Expenditure (AENE) by the Minister of Finance, Enoch Godongwana on 1 November 2023.

The MTBPS is tabled in a context of both accountability and socio-economic crises. Minister Godongwana focused largely on the latter and indicated at the outset that the MTBPS *“sets out our strategy for avoiding a fiscal crisis and preventing the build-up of systemic risks to the economy. The Minister’s indication that the resulting decisions include “spending reductions and reprioritisation, while also taking concrete steps to support growth” is disappointing and concerning given current socio-economic conditions. We join partners in the [Budget Justice Coalition](#) and others who stand in opposition to continued cuts to social service budgets. Budget cuts to social services are disproportionately felt and carried by vulnerable households, women and children. Proposals for alternatives to such reductions have been proposed over the last few years but Cabinet and National Treasury has largely preferred not to entertain them. This trend calls into question the Cabinet and National Treasury’s commitment to public participation in budget decisions. We would welcome substantive responses and justifications from Cabinet for policy choices and especially budget adjustments that detract from social services and constitutional obligations to progressively realise a range of human rights.*

We note that the MTBPS is tabled in the context of weakened public finances. The deteriorating socio-economic climate is exacerbated by the South African government’s failure to curb the intentional erosion of public finances through fraud, corruption and dismal financial management over preceding decades, particularly at the provincial and municipal levels and also within a number of seriously compromised state owned entities. Extensive evidence for this state of affairs is contained in [Auditor-General Reports](#), [State Capture Commission reports](#), and [National Anti-Corruption Strategy](#), amongst others.

Our statement focuses not on the fiscal framework and macroeconomic outlook but rather on the implications of the resulting microeconomic and budgetary decisions.

Tackling corruption and fraud

In a [submission](#) to Parliament in May this year the PSAM lamented the modest targets and plans to tackle corruption despite the scale of the problem. In February 2023 Minister Godongwana announced an allocation of R14 billion to key entities tasked with fighting crime and corruption. This, along with increased allocations in October 2022 to institutions tasked with implementation of recommendations of the Zondo Commission of Inquiry into State Capture was encouraging.

We are further concerned to note reductions to the overall budget of the Department of Justice and Correctional Services under which sit key institutions and programmes responsible for crime investigations, curbing illicit financial flows and implementing anti-corruption interventions. Cabinet’s approval of reductions of R285.6 million to the Department's baseline includes reductions of R85.561 million from the Court Services programme, R10.79 million from the State Legal Services programme and R35.83 million from the National Prosecuting Authority.

Emphasis was also placed on efforts to reform public procurement and prevent the country's greylisting. The latter was unsuccessful and in the absence of detail of key outcomes of the National Prosecuting Authority, the Special Investigations Unit, the State Security Agency amongst others to rectify deficiencies in the fight against organised crime - there is little to be encouraged by in the Minister's speech.

Fixing Municipalities: Inadequate progress

We agree with the Minister that financially stable municipalities are the foundation of South Africa's economic prosperity. In particular, the areas of water provisioning and management of wastewater systems require urgent attention. Observations from the [Action for Accountability](#) project working in Makana Municipality and the City of Johannesburg indicate that poor infrastructure management, expenditure management and planning in these localities is worsening.¹ This has been evidenced in continued deficiencies in reliable, quality water supply.

The 2022 MTBPS highlighted 43 municipalities in crisis and plans by the National Treasury to address matters. These included: Strengthening the department's early warning system and implementing effective remedial actions to assist these and other municipalities to return to financial sustainability. The National Treasury committed to addressing municipal performance failures by prioritising six essential components, namely: funded budgets, revenue management, asset management, audit outcomes, supply chain management and the Municipal Standard Chart of Accounts and strengthening monitoring and enforcement of financial recovery plans. It is not clear what progress has been made since then in this regard as the Finance Minister did not provide an update in the 2023 MTBPS speech. Instead - further interventions were announced with a focus on water infrastructure. While welcome - we are concerned with what appears to be a plethora of municipal intervention plans with limited clear outcomes. In Makana Municipality, for instance, multiple interventions including those instituted by provincial authorities in terms of Section 139 of Constitution have yielded little by way of tangible change as indicated in this [PSAM submission](#) to the Department of Cooperative Governance and Traditional Affairs (COGTA). We are also concerned by the unspent funds in the region of R 1.36 billion in the COGTA budget which is attributed to "*lower than projected bulk electricity costs*" and accounts for a significant proportion of the total projected underspending.² On another note - commitment to improve municipal infrastructure is contradicted by the reduction to the Municipal Infrastructure Grant from R 17.54 billion to R16.37 billion.

Procurement Reform

The Public Procurement Bill was finally introduced into Parliament in March 2023, promising to "*enhance transparency, integrity and promote use of technology for efficiency and effectiveness in public procurement.*" Ongoing and widespread abuse of procurement systems continues to frustrate efforts to improve accountability, good governance and policy choices centred on building South Africa's economy. While significant legislative reform of procurement systems is overdue in South Africa, we caution against processing the current Bill without making revisions informed by public submissions, especially those concerned with improving accountability of contracted service providers and state duty-bearers.

¹ The Action for Accountability project is a collaboration between the PSAM, Ahmed Kathrada Foundation and Accountability Lab and seeks to promote public participation in local government affairs. The project is co-funded by the European Union and the Social Justice Initiative. See more about the project [here](#).

² This underspending is possibly a result of higher than anticipated levels of electricity 'load shedding'. However, given the introduction of a national energy strategy over the past financial year - the state's inability to undertake improved energy generation projections and to plan accordingly is of concern.

Our Call

According to the [National Treasury](#) - R40 billion was spent in the 5 years preceding 2022 on efforts to build local government capacity alone. While crucial - financial resources on their own cannot resolve accountability failures of government, including inadequate oversight by far too many municipal councillors and mayors. If the criminal justice system and state at large - which have been eroded by widespread instances of capture - are to recover - meaningful action is needed alongside the rebuilding of checks and balances to prevent re-occurrences. The multiple credible diagnostic reports, assessments and plans must now result in actual change.

To this end, we call for:

1. Substantive responses and justifications from Cabinet for policy choices, especially budget adjustments that detract from social service budgets and constitutional obligations to progressively realise a range of human rights.
2. The adoption of a Public Procurement Bill with due regard for public inputs which have sought to address key weaknesses in the Bill. This will support enhanced procurement, national development and various socio-economic objectives.
3. The institutionalisation of public fiscal participation mechanisms that the National Treasury has thus far piloted.³ The opportunities for public input in pre-budget processes saw positive engagement from a range of non-government and government stakeholders and represents an important budget reform.
4. The implementation of deeper, systemic reform for the prevention, and detection of maladministration.
5. Decisive action to address municipal governance and financial management failures. Where provincial intervention in certain municipalities in terms of Section 139 of the Constitution are undertaken these must yield the intended legislative outcomes. Additionally, intergovernmental corrective action in alignment with what the Auditor-General refers to as the [Accountability Ecosystem](#) must be strengthened. The National Treasury, Minister of COGTA and all local authorities are key players within this ecosystem for reform.

ENDS

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³ Encouraging progress has been made over the 2 years in which the pre-budget participation mechanism was piloted by the National Treasury under the auspices of the Fiscal Openness Accelerator (FOA) project supported by local and international stakeholders.