PUBLIC SERVICE ACCOUNTABILITY MONITOR (PSAM) SUBMISSION ON THE SECOND ADJUSTMENTS APPROPRIATION BILL (2023/24)

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ATTENTION: PARLIAMENT'S STANDING AND SELECT COMMITTEES ON APPROPRIATIONS

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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

The PSAM welcomes the opportunity to make submissions on the Second Adjustments Appropriation Bill for 2023/24. This Bill was tabled with the 2024/25 budget and applies to spending in the 2023/24 financial year, and permits spending up until 31 May 2024. We intend to make inputs on the 2024/25 Appropriation Bill at the relevant sittings of the Finance and Appropriations Committees later this year.

We note some significant adjustments are proposed in the Second Adjustments Appropriation Bill. In general, the National Treasury routinely provides narrative explanations alongside financial information and money bills. In this case, however, the non-financial information is sparse. In particular - it is difficult to determine why these amendments are being proposed across the various votes. This information is key in order to effect oversight and for policy-makers to understand the potential implications of such shifts. The tenets of social accountability hold that the ability of civic actors, citizens and oversight actors to hold power to account is central to democratic practices. Unless public officials can be held to account, critical benefits associated with good governance such as social justice, poverty reduction, and development will remain elusive. Core to good governance and the effective management of public funds is ensuring transparency and openness not only in relation to reporting but also in relation to the rationale behind such decisions. The PSAM's approach to social accountability places emphasis on the public's right to seek and obtain justifications and explanations in the allocation and use of public goods and resources available.[1] Additionally, the standards used by the International Budget Partnership (IBP) to measure the degree of transparency and rigour of national budgets are worth noting. The IBP emphasises the importance of governments providing narrative explanations alongside budget information as this increases the credibility of their budgets.[2] For these reasons, the lack of information pertaining to the Second Adjustments Appropriation Bill is concerning as it could negatively impact the National Treasury's ability to facilitate a robust and transparent budget process.

We note that the second adjustment appropriations are becoming more frequent and have at times included substantial changes to budget allocations. The reasoning behind early examples of the adjustments were fairly obvious. For instance, the funds allocated to the South Africa Special Risk Insurance Association (SASRIA) following the riots in July 2021, or payments for COVID-19 Vaccines in 2022. However, recently these adjustments have included a number of votes, and propose changes to various programmes. We note with concern that the recommendations to the National Treasury to include explanatory information when additional adjustments are proposed have so far not been implemented.

Our submission is structured as follows:

- Frameworks for adjustments budget
- Increasing frequency of additional adjustments
- Insufficient information regarding additional adjustments
- Some significant (and concerning) adjustments
- Potential impacts and implications
- Recommendations

[1] See here for a report detailing our work in 3 country contexts: https://psam.org.za/research/1435484685.pdf
[2] See example here: https://internationalbudget.org/wp-content/uploads/Open-budget-survey-2021-1.pdf

FRAMEWORKS FOR ADJUSTMENTS APPROPRIATIONS

Public Finance Management Act

Section 30 of the Public Finance Management Act (PFMA) provides for adjustment of national budgets, stating the "*Minister may table an adjustments budget in the National Assembly as and when necessary." A national adjustments budget may only provide for—*

(a) adjustments required due to significant and unforeseeable economic and financial events affecting the fiscal targets set by the annual budget;
(b) unforeseeable and unavoidable expenditure recommended by the national executive or any committee of Cabinet members to whom this task has been assigned;
(c) any expenditure in terms of section 16;
(d) money to be appropriated for expenditure already announced by the Minister during the tabling of the annual budget;
(e) the shifting of funds between and within votes or to follow the transfer of functions in terms of section 42;
(f) the utilisation of savings under a main division of a vote for the defrayment of excess expenditure under another main division of the same vote in terms of section 43; and
(g) the roll-over of unspent funds from the preceding financial year.

Section 16 provides for the use of funds in emergency situations.—

(1) The Minister may authorise the use of funds from the National Revenue Fund to defray expenditure of an exceptional nature which is currently not provided for and which cannot, without serious prejudice to the public interest, be postponed to a future parliamentary appropriation of funds.

Treasury Regulations

Section 6.6 of the Treasury Regulations deals with adjustments budgets, stating,

Additional funds through an adjustments budget [Sections 30(2)(b) and 31(2)(b) of the PFMA]
6.6.1 For purposes of an adjustments budget, the following will not be considered unforeseeable and unavoidable expenditure –

> *(a) expenditure that, although known when finalising the estimates of expenditure, could not be accommodated within allocations;*
> *(b) tariff adjustments and price increases; and*
> *(c) extensions of existing services and the creation of new services that are not unforeseeable and unavoidable.*

6.6.2 The department requesting additional funds through an adjustments budget must submit a memorandum to the relevant treasury, the Cabinet/EXCO Secretariat and any treasury committee of the Cabinet/EXCO, on a date determined by the relevant treasury.

National Treasury Guidelines

At present, Treasury Guidelines require the following for any virements made alongside the Medium Term Budget Policy Statement (MTBPS):

> *"For virements requiring parliamentary approval, National Treasury consensus must be obtained through a written letter before such virements are included in the AENE[3] data workbook and chapter. Such virement applications will be tabled in the Adjustments Appropriation Bill and detailed in the AENE publication with accompanying motivations."*

Appropriation Act

The Appropriations Act, in this case using 2023, (although noting that the preamble and conditions remain relatively unchanged year to year), provides some further guidance that could be of relevance here.

Section 5 of the Act specifies conditions for unspent funds, which allow for unspent funds to be spent in the same main division, or vote. It is less clear on conditions for unspent funds to be shifted to different votes, as implied here, where funds unspent in Votes 3 and 13 were shifted to other votes for compensation of employees, amongst others.

Money Bills Amendment Procedure and Related Matters Act

The amendment of money bills such as national appropriations present key opportunities for policy makers and oversight actors to monitor progress on the use of public funds. Money bills are amended in order to implement decisions made by the National Assembly (NA) and National Council of Provinces (NCOP) relating to public finances. The Money Bills Amendment Procedure and Related Matters Act (Money Bills Act) places a duty on the Finance and Appropriations committees to hold public hearings regarding the fiscal framework and revenue proposals. It is notable this is the only instance in legislation in which a duty is placed on specific committees to undertake public participation, signalling the intention to ensure that public opinion is embedded in processes relating to public money. Here too - it is worth emphasising the impact, therefore, on the such process of tabled amendments are lacking in detail.

The Money Bills Amendment Procedure and Related Matters Act provides little guidance that is specific to an additional or second adjustment. It may be assumed, however, that the provisions for adjustments appropriations apply to the main adjustment and any additional adjustments.

Section 12 deals with the national adjustments budget.(1) *The Minister may table a national adjustments budget as envisaged in section 30 of the Public Finance Management Act.*

Section 12(2) states*, An adjustments appropriation Bill must be tabled with the national adjustments budget.*

[3] AENE: Adjusted Estimates of National Expenditure

In this instance, where the adjustment appropriations bill is tabled with the adjustment budget, there tends to be detailed explanations of the adjustments. This does not seem to be the case for the second adjustments tabled in recent years with the National Budget.

The Intergovernmental Fiscal Relations Act

Intergovernmental Fiscal Relations Act (1997) outlines the process for the division of nationally raised revenues between the three spheres of government. Amongst others, the Act establishes the Budget Forum, in which local government issues are discussed as part of the national budget process. Given the complexity of the intergovernmental structure - it is especially important to understand the possible impacts of budget shifts and reprioritization across the spheres. Underpinning the intergovernmental system is the principle of vertical division which requires coherent, systematic decisions relating to funds. The risks associated with ad hoc, unexplained amendments is characterised in a National Treasury report below;

> *"Determining allocations to each sphere of government inevitably involves trade-offs that are made in the course of a comprehensive budget process driven by political priorities, and which covers all aspects of governance and service delivery.* ***Separate and ad hoc requests for funds fragment the coherence of the budget and undermine the political process of prioritisation****"*[4]

While this may not be the case in recent adjustments - oversight actors must be aware of the potential future risks of continued amendments that either occur within short timeframes for approval or involve large, unexplained amendments.

INCREASING FREQUENCY OF ADDITIONAL ADJUSTMENTS

The PSAM has considered previously tabled appropriations to determine the frequency of additional adjustments and found that these are being tabled with increasing frequency. The additional adjustments are tabled with the Budget in February but relate to spending in the previous financial year.

Financial Year	**Explanation**	**Number of votes affected**	**Net value of adjustments**
2023/24	No explanation but mostly for wage agreement	9	Additions: R470 million Reductions : R470 million Net change: 0
2022/23	No explanation but mostly for wage agreement and SOE bailouts, R3.7 billion reduction to Social Development	40	Additions: Reductions : R3.7 billion Net change: R9.5 billion
2021/22	These were for SASRIA - July riots, and for purchase of	2	Additions: R500 million + R18.1 billion

[4] See 2011 Local Government Budget and Expenditure Review, 2011, National Treasury (emphasis added)

	Covid-19 vaccines		Reductions: 0 Net: R18.6 billion
2020/21	No second adjustment, however there was a “Special appropriation”	NA	NA
2019/20	No second adjustment however there was a Supplementary budget tabled	NA	NA
2013/14-2018/19	No second adjustment	NA	NA
2012/13	No second adjustment	NA	NA
2011/12	Additional adjustment appropriation bill (2011/2012) tabled for Gauteng freeway improvement	1	Addition: R5.75 billion Reduction:0 Net: R5.75 billion

There is a notable pattern here. Whereas in the past, the additional or second appropriation was for specific adjustments, with the purpose clearly discernible from the Bill itself, we now see much more extensive adjustments taking place, with limited or no explanations provided with the information tabled with the budget or the Bill. While budget adaptability is important in responding to dynamic socio-economic contexts, there is also the risk of an increasingly fragmented budget process.

INSUFFICIENT INFORMATION REGARDING ADDITIONAL ADJUSTMENTS

While we found little guidance from the legal frameworks regarding the specific information that must be provided when adjustments are proposed, common sense and experience suggests that all adjustments to budget allocations, including the main adjustment that takes place at the time of the Medium Budget Policy Statement, or any additional adjustments must be accompanied by clear explanations and justifications.

We are disappointed to see that the recommendation from this Committee, *[t]hat the Minister of Finance ensure that National Treasury, in future, provide more explanatory information on the rationales and justifications of these adjustments appropriation bills in the spirit of greater transparency and accountability on the utilisation of public resources,* following the Second Adjustments Appropriation Bill for 2022/23 has not been acted upon.

The Parliamentary Budget Office (PBO) was able to source explanations for the adjustments from departmental Annual Performance Plans and other documents, which were included in their presentation to the Committee on 5 March 2024. We commend the PBO for providing this information which we believe is critical in order for this Committee to consider the Bill.

However, we do not believe that the Committee, or the public should have to go to such lengths to find the information. Those who drafted the Bill will have knowledge of the reasons for the adjustments, and these should be made available.

SOME SIGNIFICANT (AND CONCERNING) ADJUSTMENTS)

The 2023/24 Second Adjustments Appropriation Bill contains some significant and concerning adjustments. Based on the explanations provided by the PBO, the majority were to accommodate wage increases emanating from the 2023/24 wage agreement as well as R200 million allocated to the Represented Political Party Fund.

There were some further adjustments as follows:

The Department of Cooperative Governance (Vote 3) saw a reduction of R400 million for the Community Works programme, which provides a job safety net for unemployed people of working age. According to the PBO, this was due to delays in appointing implementing agents. Although the reduction represents a relatively small share of the funds allocated to the CWP (approximately R4 billion in FY 2023/24) we are concerned about the potential impact of the reduction given the critical livelihood support role this plays in a time when so many rely on these programmes to sustain their livelihoods, and progress into the labour force. Efforts should be made to ensure that every rand allocated is used to maximise the positive impact of the programme.

Reductions to the Department of Public Works and Infrastructure (Vote 13) of R70 million included an R8 million reduction to the Extended Public Works Programme (EPWP) and R50 million to Property and Construction Industry Policy and Research which included R15 million to the Presidential infrastructure Coordinating Commission: Operations. Our concerns about reductions to the EPWP are the same as the CWP. Given what we have seen in the delivery of infrastructure projects we are concerned about the second reductions. The PBO presentation indicated that the adjustment was due to delays in appointing consultants by Infrastructure South Africa. This echoes the reasons for delays given by departments implementing infrastructure projects. The entities whose specific function is to support infrastructure development must be closely monitored and capacity support or corrective action taken as necessary.

POTENTIAL IMPACTS AND IMPLICATIONS

While we are concerned about the implications of the adjustments themselves, in particular the reduction to funds for the Community Works Programme and infrastructure planning, a primary concern is related to the transparency and credibility of the budget process. Over and above the concerns raised above, it is important to indicate that safeguarding of public funds involves ensuring frameworks that enable effective oversight and public participation exist and are adhered to. Further to this, where there is a need to amend or strengthen such frameworks, the role of parliamentary committees and policy-makers is invaluable in supporting the executive in that regard.

RECOMMENDATIONS

It is not the intention of this submission to create mechanisms that make the budget process overly restrictive and inflexible as this itself could have counterproductive impacts. However, the emphasis is on a transparent, accountable process. We therefore recommend that the

Committee compels National Treasury to provide a detailed explanation of the Second Adjustments Appropriation Bill for 2023/24. Where additional adjustments are required, outside of the Medium Term Budget and Policy Statement (MTBPS) which has a well established process and includes detailed information on proposed adjustments, we argue that these should be accompanied by an explanatory note that explains the reasons for the adjustments to enable proper oversight.

We recommend that the Committee requests that the National Treasury consider including a short statement to accompany any additional adjustments that take place outside of the MTBPS. The guidelines for these may be developed and set out in a similar fashion to those outlined for departmental reporting in the Treasury Guidelines.

The Accounting Officers of the relevant entities must also report on these changes in-year before the associated parliamentary portfolio committee.

Furthermore, we argue that additional adjustments should not become the norm for the budget process. Steps must be taken to improve forecasts and planning, such that additional adjustments are only required when truly significant and unforeseen events occur.

Ultimately all decisions - whether on an emergency basis or in response to legitimate unforeseen circumstances - must be clearly explained, justified and reported on.

We urge this committee to consider the merits of recommending that existing reporting regulations include explicit provisions pertaining to additional adjustments to appropriations.