

REPORT OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE ADJUSTMENTS APPROPRIATION BILL [B35 – 2018] [NATIONAL ASSEMBLY (SECTION 77)], DATED 27 NOVEMBER 2018

The Standing Committee on Appropriations having received a briefing from the National Treasury on the **2018 Adjustments Appropriation Bill** and engaged with identified departments and entities, reports as follows:

1. Introduction

The Minister of Finance tabled the Medium Term Budget Policy Statement (MTBPS) on 24 October 2018, outlining the budget priorities of government for the medium term estimates. The 2018 MTBPS was tabled in Parliament with the Adjustments Appropriation Bill [B35 - 2018]. Section 12 (15) of the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009 (Money Bills Act) provides that in the event of a revised fiscal framework, an Adjustments Appropriation Bill must be referred to the Committee on Appropriations in the National Assembly only after the Division of Revenue Amendment Bill has been passed by Parliament. Accordingly, the 2018 Adjustments Appropriation Bill was referred to the Standing Committee on Appropriations (the Committee) by the National Assembly on 21 November 2018, for consideration and report.

To facilitate public participation, an advertisement was published in national and community newspapers from 28 October 2018 to 2 November 2018 inviting general public comments on the 2018 MTBPS and related budget instruments. No submissions were received specifically on the 2018 Adjustments Appropriation Bill. In addition to National Treasury's briefing the Committee on the Bill in its entirety and its adjustments, the Departments of Transport, Water and Sanitation and Basic Education were also invited to make oral presentations.

Furthermore, the Committee held a meeting on 23 November 2018 with the following stakeholders to discuss the recapitalisation and debt relief provided to the South African Express SOC Limited:

- National Treasury;
- Department of Public Enterprises, and
- South African Express SOC Limited.

Section 43 (1) of the Public Finance Management Act of 1999 (PFMA) allows Accounting Officers to utilise a saving in the amount appropriated under a main division (programme) within a vote to defray excess expenditure under another main division within the same vote. However, subsection 2 of the same provision suggests that the saving to be utilised may not exceed 8 per cent of the amount appropriated under that main division. Importantly, section 43(4)(b) does not allow the utilisation of funds from the amount which is specifically earmarked for transfer payments to another institution or entity, and (c) nor that funds earmarked for capital expenditure may defray current payments. All virements that exceed 8 per cent must be approved by Parliament. To this end, the Committee identified the departments which have exceeded the 8 per cent requirement of the PFMA and also considered mid-year expenditure performance and declared unspent funds and then requested the relevant departments to furnish the Committee with reasons for their budget adjustments as well as the service delivery implications for said adjustments. The Departments of Arts and Culture, Women in the Presidency, Trade and Industry, Telecommunications and Postal Services, and Communications provided written submissions. Sports and Recreation South Africa submitted the response after the report was drafted and was as such not included in the report. The Department of Planning, Monitoring and Evaluation failed to comply with the Committee's request for a written submission on the 2018 Adjustments Appropriation Bill.

The section below provides an overview of the 2018 budget adjustments.

2. Overview of 2018 budget adjustments

Table 1: 2018/19 Unforeseeable and Unavoidable Expenditure

Vote and description of expenditure	R thousand
4 Cooperative Governance and Traditional Affairs R159.639 million for post-disaster reconstruction and rehabilitation after floods	159 639
11 Public Works R30 million for state funerals	30 000
14 Basic Education R175.829 million for post-disaster rehabilitation of schools	175 829
16 Health R199.508 million for post-disaster reconstruction and rehabilitation of hospitals	199 508
17 Social Development R2.199 million for post-disaster reconstruction and rehabilitation of three South Africa Social Security Agency buildings in the eThekweni municipality	2 199
24 Agriculture, Forestry and Fisheries R1.305 million for post-disaster reconstruction and rehabilitation of farms	1 305
38 Human Settlements R100.127 million for post-disaster reconstruction and rehabilitation of housing and human settlements	100 127
Total	668 607

Source: National Treasury (2018)

Table 2: Expenditure earmarked in the 2018 Budget speech for future allocation

Vote and description of expenditure	R thousand
4 Cooperative Governance and Traditional Affairs R1.226 billion for drought relief	1 225 484
7 National Treasury R400 million to assist public sector institutions to plan and appraise projects or programmes that will be considered for funding in support of the budget facility for infrastructure	400 000
9 Public Enterprises R1.249 billion for the South African Express Airways	1 249 000
14 Basic Education R800 million for the school infrastructure backlogs grant for capital assets	800 000
15 Higher Education and Training R103.430 million for the student housing infrastructure programme	103 430
16 Health R166 million for the Limpopo Central Hospital infrastructure project	166 000
21 Justice and Constitutional Development R386.5 million for the work of the Judicial Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in the Public Sector, including Organs of State and R22.903 million for the Commission of Inquiry into Tax Administration and Governance by the South African Revenue Service	409 403
24 Agriculture, Forestry and Fisheries R566.5 million for drought relief	566 500
27 Environmental Affairs R318 million for drought relief	318 000
30 Science and Technology R167.9 million for maintaining and enhancing the research and training activities of the iThemba Laboratory	167 900
32 Telecommunications and Postal Services R2.947 billion for the South African Post Office to defray debt and fund operational requirements	2 947 000
35 Transport R33 million for the City of Cape Town for phase 2A of the MyCiti bus rapid transit system infrastructure project	33 000
36 Water and Sanitation R1.302 billion for drought relief	1 302 211
Total	9 687 928

Source: National Treasury (2018)

Table 3: Rollovers

Vote and description of expenditure	R thousand
14 Basic Education R1.317 million for learner and teacher support materials in Eastern Cape and for special care centres in Northern Cape	1 317
17 Social Development R18.447 million for the operationalisation of a substance abuse centre in the Northern Cape (R4.21 million), and to finalise the construction of a substance abuse centre in the Free State (R14.237 million)	18 447
26 Energy R118.515 million to purchase a motor vehicle for the Deputy Minister (R750 000), for the solar water heater project (R114.524 million), and for non-grid oversight, monitoring and evaluation (R3.241 million)	118 515
32 Telecommunications and Postal Services R110.279 million for upgrading and the provision of broadband connectivity to government facilities	110 279
37 Arts and Culture R9.473 million for the installation of network cabling, switches, Wi-Fi equipment, and server room infrastructure and telecommunications infrastructure	9 473
Total	258 031

Source: National Treasury (2018)

Table 4: Self-financing Expenditure

Vote and description of expenditure	R thousand
3 Communications Expenditure by the Government Communication and Information System to produce the Vukuzenzele newspaper, which is funded from revenue generated through advertising in the newspaper	3 100
5 Home Affairs Expenditure incurred issuing official documents, which is defrayed by revenue generated from issuing the documents	1 132 000
18 Correctional Services Expenditure for offender gratuities, which is funded from revenue generated from the hiring out of offender labour	463
19 Defence and Military Veterans Expenditure for defence activities, which is defrayed from reimbursements from the United Nations for South Africa's contribution towards peace support operations, and the sale of equipment and spares procured through the special defence account	546 492
32 Telecommunications and Postal Services Expenditure incurred in hosting the International Telecommunications Union Telecom World Conference 2018, which is offset by sponsorships received	26 250
34 Trade and Industry Unitary payment in respect of the public private partnership for shared campus accommodation, which is funded from unitary payments received from public entities	69 147
Total	1 777 452

Source: National Treasury (2018)

Table 5: Declared unspent funds and projected underspending

Vote and description of expenditure	R thousand
7 National Treasury R17.473 million from the Jobs Fund	17 473
10 Public Service and Administration R4 million from compensation of employees and R2 million from goods and services	6 000
17 Social Development R100 million from social grant payments due to the lower than anticipated take-up of the child support grant	100 000
23 Police R150 million from the implementation of the criminal justice system 7-point plan	150 000
28 Labour R12.373 million from compensation of employees	12 373
37 Arts and Culture R43 million from heritage assets (R40 million); goods and services (R1 million); the Mzansi golden economy strategy for the facilitation of public funds for arts projects (R1 million); and the building and upgrading of infrastructure for performing arts projects (R1 million)	43 000
Total declared unspent funds	328 846
Projected underspending	2 700 000
Local government repayment to the National Revenue Fund	500 000
Total	3 528 846

Source: National Treasury (2018)

3. Adjustments per Identified Departments

The section below will outline the adjustments of the departments which have been identified by the Committee for briefings on the Bill.

3.1 Department of Transport

The Department of Transport spent R22.1 billion or 37 per cent of the adjusted appropriated budget of R59.8 billion as at 30 September 2018. The Department underspent by R6.4 billion on its projected expenditure for the second quarter. This is mainly due to the withholding of capital transfers to the Passenger Rail Agency of South Africa (PRASA) as a result of slow spending on its capital programmes as well as vacant posts.

In terms of non-financial performance, the Department achieved 24 or 77 per cent of its 31 targets as at the end of September 2018. This resulted in the non-achievement of 7 targets. These targets relate to Programme 3: Rail Transport, Programme 4: Road Transport, Programme 5: Civil Aviation and Programme 6: Maritime Transport.

Virement and adjustments within the Department of Transport that require parliament approval

- R3.00 billion – *Virement requiring Parliament's approval*: An appropriation allocated for PRASA's capital programmes is shifted to the South African National Roads Agency Limited (SANRAL) for the non-toll network.
- R33 million- *Appropriation of expenditure earmarked in the 2018 budget speech for future allocation*: An additional amount has been allocated to the City of Cape Town for phase 2A of the MyCiti bus rapid transit system infrastructure project.

The Department reported that taking away R3.00 billion from PRASA has significant impact on service delivery in terms of provision of rail infrastructure. The funds would however have remained unspent due to serious delays in the implementation of PRASA's capital programmes as a result of procurement delays. The Department motivated that the R3.00 billion is allocated to SANRAL to assist with the eradication of maintenance backlogs on the National Road Network and that it would also assist SANRAL to improve its financial position and address the material uncertainty relating to SANRAL's going concern.

3.2 Department of Water and Sanitation

The Department of Water and Sanitation spent R7.1 billion or 42.3 per cent of the adjusted appropriated budget of R16.9 billion as at the end of the second quarter. The Department underspent by R825.2 million or 10.4 per cent on its projected spending for the second quarter. The slower than anticipated expenditure is attributed to:

- transfers not made to Amatola, Magalies and Sedibeng water boards due to slow spending;
- under spending of R864 million on the indirect portion of the Regional Bulk Infrastructure and the Water Services Infrastructure grants due to slow processing of invoices owing to construction performance verification; and
- non-transfer of the direct portion of the Regional Bulk Infrastructure and the Water Services Infrastructure grants due to non-compliance with the Division of Revenue Act.

The Department also overspent by R563.3 million or 64.8 per cent against its projected expenditure under Programme 1: Administration. This was mainly due to the payment of invoices of the 2017/18 financial year on the War on Leaks programme which was not originally budgeted. This may result in unauthorised expenditure.

In terms of non-financial performance as at end September 2018, the Department only achieved 36 per cent of its targets whilst 52 per cent were not achieved and 12 per cent were partially achieved. Most of the targets not achieved are under Programme 3: Infrastructure, Programme 2: Planning and Programme 4: Regulation.

Virement and adjustments within the Department of Water and Sanitation that require parliament approval

- R175.64 million –*Virement requiring Parliament's approval*: virement from Programme 2: Water Planning and Information Management relating to Business and advisory services, infrastructure and planning services, travel and subsistence, and venues and facilities, Office equipment etc. Most of this virement (R164.80 million) is shifted to Programme 3 for the War on Leaks programme.
- R181.37 million –*Virement requiring Parliament's approval*: virement from Programme 4: Water Sector Regulation relating to Computer services, office equipment, infrastructure and planning services and fixed structures. Most of this virement (R175.40 million) is shifted to Programme 3 for the War on Leaks programme.
- R1.30 billion- *Appropriation of expenditure earmarked in the 2018 budget speech for future allocation*: An amount has been allocated for immediate drought relief interventions in various provinces.

In terms of the additional allocation of R1.03 billion, the Department reported that this is for drought relief interventions in the following provinces: Eastern Cape (35 projects), KwaZulu-Natal (7 projects), Limpopo (6 projects), Mpumalanga (4 projects), Northern Cape (1 project), North West (16 projects), and Western Cape (2 projects). The Department indicated that all the business and implementation plans related to these projects were submitted and that the appointment of implementing agents was currently under way and would be finalised in 2 weeks.

3.3 Department of Basic Education

The Department of Basic Education spent R13.6 billion or 57.3 per cent of the adjusted appropriated budget of R23.7 billion as at 30 September 2018. Whilst, the Department underspent by R27.2 million or 0.2 per cent on its projected spending for the second quarter, the Department's spending has improved significantly when compared to previous years. The improvement is attributed to timeous printing and delivery of workbooks and improved spending on the Schools Infrastructure Backlogs Grant.

In terms of non-financial performance, the Department achieved 79 per cent of its targets as at end of September 2018 whilst 14 per cent were not achieved and 7 per cent were partially achieved. The targets not achieved are under Programme 2: Curriculum Policy, Support and Monitoring and they relate to the number of training sessions of Curriculum Assessment Policy Statements for technical subjects monitored.

Virement and adjustments within the Department of Water and Sanitation that require parliament approval

- There were no virements needing parliament approval.
- R800 million: *Appropriation of expenditure earmarked in the 2018 budget speech for future allocation*: An additional amount has been allocated to the Schools Infrastructure Backlogs Grant. The Department reported that the additional allocation will be spent on projects that are currently under construction.

3.4 Departments requested to motivate in writing for approval of virements exceeding 8 %

Department	Amount	%	Motivation
Communication	R 8. Million	15.1%	Programme 1 for: Offices of the Minister and Deputy Minister for fulfilment of their mandates, Accounting Officer and CFO travels to parliament to support public entities, funding of newly established internal audit component, office accommodation, security, municipal services, cleaning spaces, and training. Programme 2: promotion of media transformation in government. Programme 4: creation and filling of additional positions at the Oversight unit to increase effectiveness in the monitoring of ICASA, SABC, Brand SA, MDDA, and FPB.

Women	R 5.4 million	12%	Relocation of gender responsive budgeting and planning to Policy Stakeholder Coordination Knowledge Management Branch in accordance with adjustments of the 2018 APP. Relocation of Incentive Scheme Research from Economic Empowerment and Participation to Research Policy Analysis in accordance with adjustments of the 2018 APP. Accounting for foreign travel funding in Programme within which the expenditure was incurred as per National Treasury requirements. No effect on 2018 APP targets.
Telecommunications & Postal Service	R 17. 9 million R 7. 3 million R 26. Million	8.2% 8.5% 8.2%	For payment of the International Telecommunications Union Telecom World Conference 2018 hosted by South Africa which was not catered for in 2018/19 budget. The Department raised funds through sponsorships but had to do virements to defray costs because the sponsorships first had to be tabled with the Adjustments Budget. Sponsorships tabled amount to R26.25 million from MTN, Microsoft and the Industrial Development Corporation, and will be used to reimburse costs incurred in hosting Conference 2018. The sponsorship reflects under self-financing expenditure. R500 000 for Ministerial Imbizo in Sekhukhune District Municipality to explain government programmes and listen to people's concerns. The Department also attained savings which were then used to defray costs related to bursaries, training and development and some excess travel and accommodation expenses. R18. 94 million was earmarked for set-top-boxes but as per announcement by Cabinet government will no longer be involved in the procurement of set top boxes, warehousing, transportation and installation of devices. This will now be used for settlement of arbitration award. R7.1 million relates to vacant posts is shifted for the alignment of the budget with organisational structure following a review by Human Resources unit of the costing of the current establishment.
Trade and Industry	R 19. 5 million	11.8%	Funds shifted from the Broad-Based Black Economic Empowerment Commission under the Special Economic Zones and Economic Transformation programme. Department had a saving on this because there is a still a process of listing the BBBEE Commission as a public entity and whilst still in progress the Department is providing corporate and support services to enable the Commission to fulfil its mandate. The funds will be used as a Transfer payment to the National Consumer Commission for the establishment of the Opt Out registry, and to the National Consumer Tribunal for the online adjudication system
Arts & Culture	R 88. 2 million	21.2%	Security and upgrading of Old St Anne's Hospital (KwaZulu-Natal Museum). Delville Wood site (France); construction of new storage space at Iziko Museum; repairs and maintenance at National Library of South Africa (Cape Town campus); Upgrading of Bhunga building (Nelson Mandela Museum); and Space optimisation project (Artscape

			Theatre).
Sport & Recreation SA	R 17 million R 10 million R 2 million	11.9% 12.5% 14.5%	Submitted written responses late.
Planning, Monitoring and Evaluation	R 10.4 million R 15.8 million	18.2% 8.5%	Did not submit written responses as requested by the Committee.

4. Engagements on Recapitalisation and Debt Relief to South African Express Airline

4.1 National Treasury

National Treasury gave a background to the proposed recapitalisation to South African Express SOC Limited (hereinafter referred to SA Express). It indicated that the South African Civil Aviation Authority (SACAA) grounded SA Express on 24 May 2018 following a safety audit after which the Department of Public Enterprises submitted a request for a recapitalisation amount of R1.740 billion. The recapitalisation funding was requested for repayment of debt, working capital requirements, payment of fixed monthly costs, capital expenditure, and SACAA costs. The request was considered under section 30(2) of the PFMA.

National Treasury further gave an overview of the historical financial performance of SA Express and reported that the airline was technically insolvent as its liabilities exceeded its assets. National Treasury further submitted that government's guarantee exposure for SA Express was R1.249 billion and that government was legally obliged to settle the guaranteed obligations in the case where the airline fails to do so. To this end, funding amounting to R1.249 billion has been allocated for SA Express with the following conditions:

- Funds will not be utilised to repay a portion of debt owed by SA Express to Transnet. An unguaranteed loan of R222 million has been provided to SA Express by Transnet.
- Funds should be utilised only to repay SA Express' government guaranteed debt.
- Upon recapitalisation, SA Express guarantees will be reduced in line with the quantum of the recapitalisation.
- SA Express to submit monthly progress reports on the utilisation of funds to the Department of Public Enterprises and National Treasury.
- By 31 December 2018, the Department of Public Enterprises should present a plan for approval by Cabinet of the optimal corporate structure for state owned airlines which should include options that will be pursued for strategic equity partnerships and the disposal of non-core assets.
- By 31 December 2018, SA Express and the Department of Public Enterprises should submit a comprehensive plan that outlines the airlines strategy to reduce its reliance on government financial support in the form of guarantees or recapitalisation.

4.2 Department of Public Enterprises

The Department of Public Enterprises (the Department) submitted that a new SA Express Board was appointed by the Minister of Public Enterprises in May 2018 which has been instrumental in getting the airline back into operation. SACAA grounded the airline between May and August 2018. Furthermore, an intervention team was appointed by the Department to assist the Board and to look at the technical, commercial, operational and financial aspects of SA Express.

The Department further reported that the intervention team has since been withdrawn with the exception of the Interim CEO. The Board is at an advanced stage of appointing a

permanent CEO and CFO as well as executive positions which would bring the required stability into the airline. The airline has conducted forensic investigations which are at an advanced stage and would be referred to the Board for further processing. Furthermore, SA Express is in process of finalising its 2017/18 Annual Financial Statements and there were visible improvements regarding performance.

4.3 South Africa Express (SOC) Limited

SA Express provided the Committee with an overview of its mandate as well as a problem statement prior to it being grounded by SACAA. The reported financial challenges included a weak balance sheet, long outstanding debts, frozen credit lines, liquidity challenges, monthly cash-burn problems, and a high cost employment structure. The reported corporate challenges included low staff morale, high staff turnover rate, high rate of management vacancies, onerous agreements or contracts, zero accountability, and a shortage of skills.

SA Express further gave an overview of its 2018-2020 corporate turnaround strategy which was based on the principles of Governance, Profitability, Operational Efficiency, Customer Value and Human Capital (G-POCH). In terms of revenue performance for the past three months, the airline reported that it had generated R4.724 million in August; R40.465 million in September; and R51.893 million in October. SA Express further submitted that it projected to incur a loss of R669 million in 2018/19 thereafter improving to profits of R144 million in 2019/20 and R185 million in 2020/21.

5. Proposed Amendments to the Bill by Mr A McLoughlin

Mr A McLoughlin who is a member of the Committee tabled the following proposed amendments to the Bill on behalf of the Democratic Alliance:

- **Department of Social Development [Vote #17]:** We propose an amendment to the Adjustments Appropriation Bill [B35-2018] to increase the appropriation of *Vote 17: Social Development* by R1.249 billion, to give the 3.5 million “old age grant” beneficiaries an end of year “top up” amounting to 20% of the “old age grant”, or R355 per beneficiary, on top of the “old age grant”.
- **Department of Transport [Vote #35]:** We propose an amendment to the Adjustments Appropriation Bill [B35-2018] to increase the appropriation of *Vote 35: Transport (Programme 4)* by R2.75 billion for maintenance of roads.
- **Department of Transport [Vote #35]:** We propose an amendment to the Adjustments Appropriation Bill [B35-2018] to increase the appropriation of *Vote 35: Transport, (Programme 3)* by R3 billion for the improvement of rail transport.

The above proposed amendments should be funded from the following savings:

- **Department of Public Enterprises [Vote #9]:** We propose an amendment to the Adjustments Appropriation Bill [B35-2018] to decrease the appropriation of *Vote 9: Public Enterprises* by R1.249 billion, which was appropriated to bailout South African Express Airways SOC Ltd.
- **Department of Transport [Vote #35]:** We propose an amendment to the Adjustments Appropriation Bill [B35-2018] to decrease the appropriation of *Vote 35: Transport* by R5.75 billion, which was appropriated to bailout the Gauteng Freeway Improvement Project.

Mr McLoughlin further proposed that the Special Appropriations Bill [B36-2018], which appropriates R5 billion for yet another bailout of South African Airways, in order to ensure that the budget deficit remains under 4% of GDP in South Africa.

The above proposals were discussed at length by the Committee on 22 November 2018. The Committee, by majority vote, agreed that the said amendments be rejected.

6. Committee Observation and Findings

The Standing Committee on Appropriations, having considered the 2018 Adjustments Appropriation Bill and heard inputs from the above stakeholders made the following findings:

- 6.1** The Committee notes that the following departments submitted virements and shifts exceeding R100 million, namely, the Departments of Cooperative Governance and Traditional Affairs, National Treasury, Defence, Trade and Industry, Transport, Water and Sanitation, and Rural Development and Land Reform. The Committee views enhanced planning as critical to ensure effective programme allocations.
- 6.2** The Committee is of the view that the use of shifts and virements should be closely monitored and measures taken to ensure these do not compromise service delivery and the integrity of tabled annual performance plans. The Committee is of the view that implementing punitive measures as prescribed for by the PFMA will curb trends in non-compliance that results in irregular expenditure, fruitless and wasteful expenditure and the non-payment of suppliers within 30 days.
- 6.3** The Committee notes with concern the declared unspent funds of R328.8 million and projected under-spending of R2.7 billion in the 2018 budget adjustments. The Committee is of the view that the declaration of unspent funds and projected under-spending should not compromise service delivery performance and thus undermine the aims of the 2014-2019 Medium Term Strategic Framework.
- 6.4** The Committee is extremely concerned about the trend of underspending on the Employment Creation Facilitation Fund (Jobs Fund). The Committee has observed that every financial year there are declared unspent funds on the Jobs Fund. The Committee views this underspending as undermining the government's objective of facilitating job creation in order to address the high unemployment levels in the country. National Treasury reported that underspending relates to the inability of programme participants to meet certain project milestones in terms of their own investment due to the slow-down in the economy. This results in the non-transfer of funds to programme participants.
- 6.5** The Committee also notes that the Department of Social Development has declared unspent funds of R100 million due to a lower than anticipated take-up of the child support grant. The Committee notes with concern that this happens year-on-year and the rationale for these unspent funds is questionable given the number of people and specifically children who live below the poverty line. The Committee in its public hearings on the 2018 Medium Term Budget Policy Statement received a submission from the Budget Justice Coalition recommending that the possible administrative exclusion of potential beneficiaries of child support grant be investigated i.e. the Department of Social Development provides insights into reported efficiencies in assessment as well as lower than expected demand despite anecdotal evidence to the contrary.
- 6.6** The Committee is concerned about the serious delays in the implementation of capital projects of PRASA which has led to the virement of funds to SANRAL for maintenance of roads. These capital projects relate to signalling, station upgrades, rolling stock overhauls and upgrades as well as the depot modernisation projects. The Committee deems the shifting of funds away from underspending programmes as justifiable given other competing priorities that require resources, however, the Committee is of the view that service delivery implications must be foremost and as

such urgent efforts are critical in resolving challenges in PRASA in order to implement its capital programmes.

- 6.7** The Committee notes with concern that the Department of Transport only spent 37 per cent of its budget as at the end of the second quarter. The Department also has a high level of vacancies in critical posts and this was cited as one of the reasons for the under expenditure. The Committee views the filling of all vacant posts as critical so as to attain government's policy objective of building a capable state.
- 6.8** The Committee is concerned that the Department of Water and Sanitation had to shift funds between programmes within the main account in order to defray costs for the War on Leaks programme which initially resided under the account of the Water Trading Entity. The Committee also notes with concern that at the end of the second quarter the Department overspent significantly against its projections for Programme 1 as a result of paying invoices of the 2017/18 financial year for the War on Leaks programme.
- 6.9** The Committee notes with concern that the Department of Water and Sanitation persistently spends most of its budget allocation but this does not translate into attainment of service delivery targets as per its Annual Performance Plan (APP). In 2015/16, The Department spent 96.6 per cent of its budget and yet achieved only 41.8 per cent of its targets. In 2016/17 the Department spent 100.7 per cent against its budget but only achieved 51.3 per cent of its targets and in 2017/18 the Department spent 93.2 per cent of its budget whilst attaining only 40.9 per cent of its targets. This raises serious concerns regarding the Department's capacity to fulfil its mandate as well as the credibility of its targets as per the APP.
- 6.10** The Committee also learnt from the Public Service Commission, that although the Department of Water and Sanitation has significantly underperformed on its targets as per the 2018 APP, 52 out of 286 senior managers were awarded performance bonuses. The performance bonuses amounted to a total of R3 million. The Committee views this as concerning.
- 6.11** The Committee welcomes reports by the Department of Basic Education that the additional allocation of R800 million for the Schools Infrastructure Backlogs Grant is for projects currently under implementation. The Department reported that this will address non-payment of contractors due to shortages in funds as a result of the R415 million which was reprioritised away from this programme in the previous financial year due to underspending. The Department indicated that they are addressing the issue of non-payment of contractors in Eastern Cape and the Free State.
- 6.12** The Committee notes with serious concern that the Department of Planning, Monitoring and Evaluation has not complied with the Committee's request for further information for the process of considering the 2018 Adjustments Appropriation Bill. The Committee views this as unacceptable as it limits the ability of the legislature to effectively scrutinise reasons underlying the budget adjustments as contained in the 2018 Adjustments Appropriation Bill.
- 6.13** In terms of the recapitalisation of SA Express, the Committee notes that whilst SA Express requested funding of R1.74 billion for repayment of debt, working capital requirements, payment of fixed monthly costs, and capital expenditure; National Treasury is proposing an allocation of R1.249 billion with the condition that funding should be utilised only to repay government guaranteed debt. The conditions also include a reduction of SA express guarantees by the quantum of the recapitalisation. The Committee supports the conditions imposed by National Treasury.
- 6.14** The Committee welcomes the turnaround efforts currently underway at SA Express. The Committee is of the view that the root causes for challenges experienced should also be identified and addressed. The Committee therefore welcomes the forensic investigations being undertaken within the airline into corruption and

financial irregularities. The Committee maintains that consequence management is key as part of the turnaround.

- 6.15** The Committee welcomes the report from National Treasury regarding the review of all government guarantees and their structures. The Committee supports the view that government guaranteed debt should only be for capital investment and not operational expenses.
- 6.16** The Committee further notes and welcomes the review of the Shareholder Compact for SA Express which will embed key performance requirements and turnaround issues. The Committee views this as vital for accountability on the use of public funds.

7. Committee Recommendations

The Standing Committee on Appropriations having engaged with the above stakeholders on the 2018 Adjustments Appropriation Bill recommends as follows:

- 7.1** That the Minister of Finance should ensure that National Treasury investigates and implements mechanisms aimed at supporting the programme participants of the Employment Creation Facilitation Fund to ensure that the fund is utilised optimally for its intended objectives.
- 7.2** That the Minister of Transport should ensure the following:
- 7.2.1** That the Department of Transport fills all critical vacant posts as a matter of urgency.
 - 7.2.2** That the Department of Transport supports the Passenger Rail Agency of South Africa in resolving procurement challenges for the implementation of its capital programmes.
 - 7.2.3** That learner transport challenges being experienced throughout the country be addressed.
- 7.3** That the Minister of Water and Sanitation should ensure the following:
- 7.3.1** That the Department of Water and Sanitation resolves budget issues pertaining to the War on Leaks programme as a matter of urgency.
 - 7.3.2** That the Department of Water and Sanitation in consultation with the Department of Planning, Monitoring and Evaluation assesses and improves planning mechanisms to ensure credibility in its Annual Performance Plan targets, alignment to the budget and achievement of its core function.
 - 7.3.3** That the Department of Water and Sanitation aligns its plans with the performance management system to ensure that there is a balance between organisational performance and performance rewards.
- 7.4** That the Ministers in the Presidency: Planning, Monitoring and Evaluation; and Sports and Recreation, should ensure timely submission of responses to invitations and requests from Parliamentary Committees. The Ministers should apply appropriate consequence management in cases of non-compliance.
- 7.5** That the Minister of Public Enterprises should ensure the following:
- 7.5.1** That the appointment of permanent executives at SA Express is finalised timely in order to ensure stability and certainty as the entity implements its turnaround strategy.
 - 7.5.2** That adequate monitoring mechanisms are in place in order to ensure the effective implementation of SA Express 2018-2020 corporate turnaround strategy.
 - 7.5.3** That the conditions identified in paragraph 4.1 for the allocation to SA Express be strictly complied to with a pass through of consequence management.

8. Committee's Recommendation on the Bill

The Standing Committee on Appropriations, having considered the **Adjustments Appropriation Bill** [B35 – 2018] (National Assembly: Section 77) referred to it and classified by the Joint Tagging Mechanism; reports that it has agreed to the Bill, without amendments.

Conclusion

The responses and implementation plans to the recommendations as set out in section 7 above by the relevant Executive Authorities must be sent to Parliament within 60 days of the adoption of this report by the National Assembly.

Report to be considered.