

PUBLIC SERVICE ACCOUNTABILITY MONITOR SUBMISSION ON THE 2020 SECOND ADJUSTMENTS BILL

SUBMITTED TO THE STANDING COMMITTEE ON APPROPRIATION, NATIONAL ASSEMBLY AND SELECT COMMITTEE ON APPROPRIATIONS, NATIONAL COUNCIL OF PROVINCES

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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.

A. SUBMISSION SUMMARY

The COVID-19 pandemic has elicited much debate about how to ‘build back better’. This submission places emphasis on possible interventions to achieve this from a socio-economic and sectoral resourcing perspective. Recommendations are also made to the National Assembly’s Standing Committee on Appropriations and National Council of Province’s Select Committee on Appropriations to influence the systemic deliberations linked to public resource management and public finance in South Africa. In relation to budget cuts effected to resource the South African Airways rescue plan including those made to **health, education and human settlements budgets**: we call on the Committees to request that the National Treasury and Cabinet review – and reverse - these decisions with a view to avoiding worsening crisis in the public service in the years to come. In relation to **strengthening state capacity** to safeguard limited resources against corruptions and misuse: we urge all Committees of Parliament to call for the effective resourcing of key public institutions and of **anti-corruption strategies**. In relation to the proposals for **Zero-based budgeting**; this is a significant announcement and has the potential to improve the efficient execution of public funds. A cautionary approach is, however, necessary given key capacity limitations and possible adverse impacts. It is also important for the National Treasury to outline the efforts to be taken to ensure adequately participatory and transparent processes to meet the demands of zero-based budgeting.

B. INTRODUCTION

Challenges associated with COVID-19 have exacerbated existing public service problems, placing undue pressure on public financial management (PFM) systems as well as curtailing the abilities of citizens to exert accountability and oversight in many ways. COVID-19 has also exposed previous and ongoing corruption as more questions are being asked as to why health systems and the public service are weak/underprepared for the pandemic. At the same time, COVID-19 is presenting opportunities for rampant corruption and the closing of civic space.

Transparency, accountability, and public participation (TAP) are therefore vital tools in efforts to combat misuse or wastage of limited public fund. By involving those most affected by failures in public resource management, countries may be in a better position to adapt and strengthen their local TAP strategies particularly regarding the efficient allocation of limited resources. This, therefore, is an opportunity not only to acknowledge the weaknesses in key planning, budgeting, and oversight systems but to utilize open government interventions to address them. The importance of TAP strategies remains critical to solving a lot of these challenges and to the future of better health and broader fiscal governance systems. In addition to this – the PSAM calls on Committees of Parliament to oblige members of the Executive not only to acknowledge to ‘build back better’ but to meet this commitment with clear policy and financing responses.

C. KEY FINDINGS AND RECOMMENDATIONS

Budget cuts to departments to fund SAA business rescue plan

Finding

South African Airways is amongst the various state-owned entities that are technically insolvent; having insufficient funds to support operational costs. A total of R10.5 billion will be allocated to SAA to implement its business rescue plan. This allocation will be funded primarily through reductions to the baselines of national departments and their public entities, and provincial and local government conditional grants. This includes reductions to health, human settlements and education budgets by R 694,2 million, R 345,4 million and R 276 million respectively.

Recommendation

The consequences of poorly run, unaccountable SOEs continues to have dire impact on delivery of services. The Public Service Accountability Monitor is alarmed that despite years of evidence as a loss-making enterprise – Cabinet seeks approval for this form of a bailout. In addition to analysing the very real opportunity costs (impact on the public service) – we call on the Standing and Select Committees of Appropriation, Finance and Public Accounts to compel the National Treasury and Cabinet to interrogate the political and administrative that enable such short-sightedness and proffer tangible solutions.

Resourcing SARS, anti-corruption interventions and key institutions such as Statistics South Africa

Finding

The Adjusted Estimates of National Expenditure indicates a R 238 million decrease in the budget allocation to the South African Revenue Service (SARS).

Recommendation

Address illicit financial flows by reversing budget cuts to SARS and significantly increasing its resources. Allocating sufficient budget to strengthen the country's tax administration is an investment in the long-term financial stability of the country. It is a non-negotiable component of prudent fiscal policy.

The PSAM reiterates recent calls by the Office of the Auditor-General for government departments to *design and implementing controls that prevent fraud, errors and abuse as a means of avoiding dire costs in the long-term.*

Finding

The funding for Statistics South Africa is to be reduced by As with many other departments and entities – the budget allocation for Statistics South Africa was also – by R 45 million in order to fund the SAA business rescue plan. In addition – the entity is set to have its compensation of employees' budget reduced by R 100.4 million. The net reduction tabled in the second adjustments budget is R 120.6 million (Table 3). The most significant cuts are to be effected under the programme Statistical Operations and Provincial Coordination (R 41.6 million reduced from personnel budget and R 129.5 million in total).

I.Recommendation

The collection of regular, credible statistical data is an integral component of building state capacity. A functional statistical agency is core to developing the capacity to deliver well-targeted public services.

Committees are urged to carefully consider the calls by various role-players to identify alternative non-strategic programmes to effect cuts given high levels of poverty and inequality that such work aims to challenge. The South African Statistics Council, for instance issued a dire warning relating to ongoing cuts:

If Stats SA cannot produce accurate official statistics, ratings agencies will punish South Africa, international investors will turn elsewhere, domestic business will lack reliable planning data, and a downward spiral will be inevitable....If Treasury fails immediately to fund Statistics SA adequately, like Humpy-Dumpty, it may not be able to put it together again, and decades of building the institution post-1994 will have been wasted. “

Zero-based budgeting, public participation and inclusive budget processes

Finding

Zero-based budgeting will be piloted at the Department of Public Enterprises and National Treasury next year. It will be fully integrated into the budget system by the 2023 Budget

Recommendation

Zero-based budgeting has been shown to have some advantages and a multitude of potential disadvantages. It is important for the National Treasury to outline the efforts to be taken to ensure adequately participatory and transparent processes to meet the demands of zero-based budgeting in addition to identifying the best measures to meet institutional capacity gaps. Further - given the current adoption of policy amendments to the Public Service Regulations, the Public Administration Management Act and related regulations – this presents an opportunity not only to explore what kind of state capacity would be required – but also to give effect to key components of the National Development Plan. Regardless of the uptake of zero-based budgeting, there is a dire need to entrench effective financial management and eliminate wasteful expenditure particularly in provincial departments and state-owned entities.

D. ANALYSIS

Budget cuts to votes for South African Airways Rescue Plan

In recent years – South African Airways has been afforded bailouts and loan guarantees in excess of R 25 billion- in addition to R 9 billion in debt that the SOE was unable to pay in the last financial year. The second adjustments budget signalled significant reductions to the baselines of various departments, public entities as well as **provincial and local government conditional grants** in order to secure R 10.5 billion to fund the South African Airways (SAA) business rescue plan. This allocation will be funded primarily through reductions to the baselines of national departments and their public entities, and provincial and local government conditional grants. This includes reductions to health, human settlements and education budgets by R 694,2 million, R 345,4 million and R 276 million respectively.

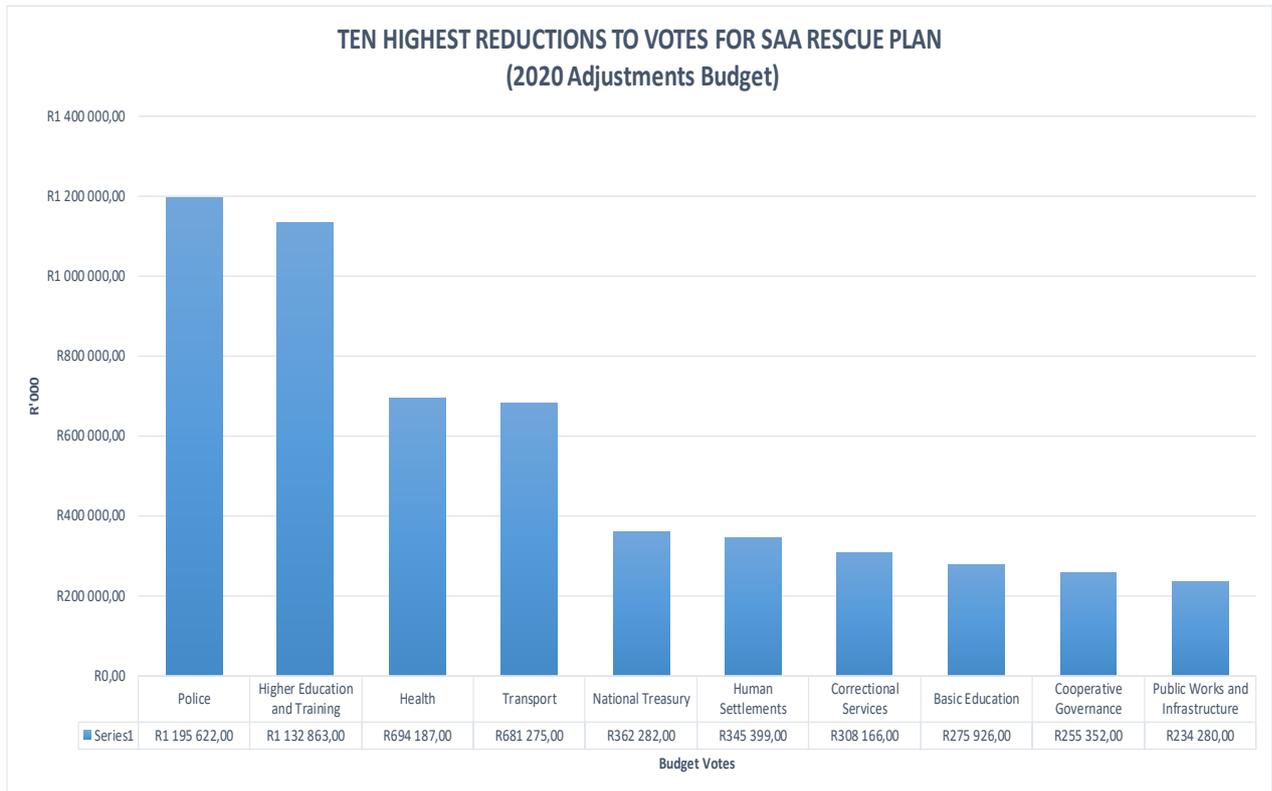
The consequences of poorly run, unaccountable SOEs continues to have dire impact on delivery of services. The cost-benefit and financial implications of these have been researched and analyses offered elsewhere and so we do not reiterate them here. The Public Service Accountability Monitor is alarmed, however, that despite years of evidence as a loss-making enterprise – Cabinet seeks approval for this form of a bailout.

In addition to analysing the very real opportunity costs and impacts on the public service – we call on the Standing and Select Committees of Appropriation, Finance and Public Accounts to compel the National Treasury and Cabinet to interrogate the political and administrative contexts that enable such short-sightedness and to proffer tangible solutions. It is also the role of Committees to ensure that systemic weaknesses in public resource management, leadership failures and perennial governance ineptitude are addressed.

The challenges facing SAA are in no way novel. The costs are at the expensive of learners in public schools, communities with sub-optimal access to water, sanitation and health services. The erosion of public trust and state legitimacy are also severe costs to South Africa's democracy.

The need to bolster state capacity is at the centre of effecting value for money across all business of the state. We note that the details on the reductions to provincial appropriations will be tabled before the end of the financial year. It is, however, concerning that there are plans in place that will likely have adverse impacts on provinces' ability to deliver key services in the medium to long term.

Table 1: Budget Cut to fund the South African Airways Rescue Plan



Resourcing anti-corruption interventions and progressive revenue collection

On 28 October, the Minister of Finance announced reductions to the budget deficit as a means of achieving higher economic growth. The 2020 MTBPS outlines a fiscal consolidation plan to limit the growth in government operational spending. South Africa's real economic growth is expected to plummet in 2020 primarily due to restrictions on economic activity to contain the spread of the COVID-19 virus. As noted by the National Treasury and South African Revenue Services (SARS) - the economy was already underperforming prior to the emergence of the COVID-19 pandemic having seen three consecutive quarterly contractions before the lockdown.¹

In the 2019/20 financial year, SARS collected a net amount of R1 358.8 billion, against the Revised Estimate of R1 358.9 billion, resulting in a shortfall of R3.1 billion. As at 30 September

¹ Statement by the South African Revenue Services (SARS), 28 October 2020:

<https://www.sars.gov.za/Media/MediaReleases/Pages/28-October-2020-SARS-welcomes-revenue-announcement.aspx>

2020, SARS had collected R518.8 billion, with a surplus of R9.3 billion against the June 2020 Special Estimate, and a year-on-year shortfall of R117 billion in nominal terms.

Lower than planned tax revenue was among the acute challenges outlined in the MTBPS. As indicated in Table 2 below, gross tax revenue amounted R 312.8 billion less than anticipated in February 2020. In addition to tax revenues falling sharply during the period of lockdown are reported monthly collections that remain well below 2019/20 levels in many tax categories. According to the National Treasury, for instance domestic value-added tax (VAT) collected in the first six months of 2020/21 was 6.7% lower than the same period in 2019/20.

We acknowledge that the Minister has indicated that the specific tax announcements will be made in the February 2021 Budget, the expected tax increases are worth underscoring now. While we are yet to be informed about the tax instrument to be targeted in order to obtain the additional funds needed in 2021/22 - further impacts on poor households must be avoided. Households are already indebted from consequences of the COVID-19 lockdown.

The PSAM calls on Committees to engage the Executive to identify alternative measures to increasing VAT which has already been shown to have significant - and disproportionate impacts on lower income consumers.

Table 2: Gross Tax Revenue (Source: National Treasury 2020 [Medium Term Budget Policy Statement](#))

R billion	2019/20			2020/21				
	Budget Review	Outcome	Deviations	Budget Review	Special Adjustments Budget	Revised	Deviation from Budget Review	Deviation from Special Adjustments Budget
Persons and individuals	527,6	527,6	0,0	546,8	455,5	454,2	-92,6	-1,3
Companies	216,7	211,5	-5,2	230,2	154,6	159,6	-70,7	5,0
Value-added tax	344,2	346,7	2,5	360,6	301,3	287,7	-72,9	-13,6
Dividends tax	29,1	27,9	-1,2	31,2	16,7	20,7	-10,5	4,0
Specific excise duties	46,8	46,8	0,1	48,8	36,3	33,8	-15,1	-2,5
Fuel levy	79,3	80,2	0,9	83,4	63,2	68,4	-15,1	5,2
Customs duties	56,3	55,4	-0,9	59,5	45,8	40,3	-19,2	-5,5
Ad valorem excise duties	4,1	4,1	0,0	4,3	3,9	3,2	-1,1	-0,7
Other	54,8	55,4	0,6	60,6	44,1	44,8	-15,8	0,7
Gross tax	1 358,9	1 355,7	-3,2	1 425,4	1 121,3	1 112,6	-312,8	-8,7

Just over a year ago (October 2019), remarks by the Minister of Finance in which he signalled Treasury’s recognition of the need to bolster state capacity are worth re-iterating;

“The state can use its budget better...Where possible, given budgetary constraints, government is shifting resources to areas that urgently need to strengthen capacity. ...the National Prosecuting Authority receives an additional R1.3 billion, and the South African Revenue Service receives an additional R1 billion for the next two years. These funding shifts will bolster efforts to combat corruption and improve revenue collection.... National Treasury has reviewed the procurement regulatory framework and developed a Public Procurement Bill”

The capacity of these institutions to fulfil their mandate and adapt to changing economic, political and social contexts in meaningful ways is vital. Strong public institutions are needed to steer South Africa out of this period of crisis. This is also central to reviving public trust that continues to be eroded by weaknesses in state accountability, oversight and financial management.

The role of Committees such as those of Finance, Appropriations and Public Accounts is required to bolster active engagement by the executive of vulnerable and underrepresented communities, directly or through civil society groupings. The Open Budget Survey, for instance, recommends that this should include providing feedback on how public inputs collected during pre-budget consultations and budget implementation are implemented by the government.

The PSAM is encouraged by the signs of strengthened leadership at SARS. The rebuilding of SARS’ tax collection and administration capacity is an important component of shoring up efforts to eliminate syndicated fraud and tax crimes. Improved capacity will also ensure the collection of PAYE (pay-as-you-earn) and VAT debt, and outstanding taxpayer returns are filed and liabilities paid. It is therefore of concern that the Adjusted Estimates of National Expenditure indicate a decrease in the budget allocation to SARS of R238 million (Table 2.1). Reductions to the SARS’ budget will likely have an adverse impact on the services ability to fill its capacity gaps. This increases the risk of illicit financial flows drawing from state revenue and deepening weaknesses in tax administration.

Here too – state capacity is key. South Africa must develop and maintain managerial and regulatory authority that is capable of ensuring accountability and transparency in tax-related matters. The PSAM calls for sufficient budget allocating in order to enable this. to strengthen the country’s tax administration is an investment in the long-term financial stability of the country. Assessing and addressing the technical risks associated with money laundering and illicit financial flows requires sustained and responsive state expertise.

Table 2.1: Reduction to SARS budget (Source: National Treasury 2020 Medium Term Budget Policy Statement)

	2020/21				
	Second Adjustments Budget				
				Total second	
Sub programme		Adjustments	Other	adjustments	Adjusted
R thousand	Appropriation	appropriation	adjustments	appropriation	appropriation
South African Revenue Service	10 510 017	–	(238 144)	(238 144)	10 271 873
Total	10 510 017	–	(238 144)	(238 144)	10 271 873
Economic classification					
Transfers and subsidies	10 510 017	–	(238 144)	(238 144)	10 271 873
Departmental agencies and accounts	10 510 017	–	(238 144)	(238 144)	10 271 873
Total	10 510 017	–	(238 144)	(238 144)	10 271 873

Broader recommendations to address corruption by introducing open data and transparency mechanisms in public procurement

The onset of the COVID-19 pandemic obliged provincial departments to channel significant funds towards curbing the impact of the virus. The historical trends at the provincial levels in particular of slow and/or non-disclosure of key fiscal information, weak accountability, poor expenditure management and limited public engagement served to heighten barriers for monitoring by civic actors and oversight entities alike. Many provincial departments do not proactively publish key data such as in-year expenditure reports which hinders effective monitoring and oversight. Provincial legislatures and health portfolio committees must fulfil their obligations by ensuring that the health officials and/or provincial treasuries remedy these deficiencies in a sustained manner.

The [OECD](#), [UNODC](#) and [EU](#) have cited public procurement as a government’s number one corruption risk. Some [57% of foreign bribery cases](#) prosecuted under the OECD Anti-Bribery Convention involved bribes to obtain public contracts. Various academic research papers and related analyses of the typologies of corruption in reports such as the [World Bank’s Puppet Masters report](#) clearly illustrate that public procurement and spending are a major source of illicit funds. The risks are further illustrated in a recent [OLAF study](#) which found that direct public loss in public contracts amounted to 18% of the overall project budgets concerned, of which 13% can be attributed to corruption.

The PSAM recognises that weak public procurement continues to pose a serious threat to public finances at levels of government in South Africa. We bring to the attention of the Committees The High-Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda (FACTI) report released on 24 September 2020 analysing the gaps, vulnerabilities and impediments present in the current international systems related to financial accountability, transparency and integrity issues. Our key recommendations to prepared in consultation with the Open Contracting Partnership are worth

reiterating in this submission in as far as the responsibilities of the National Treasury and other line ministries are concerned.

Ensure transparency in public procurement and the availability of open data about procurement plans, tenders, contracts, bidders and their beneficial owners in order to enable better prevention and detection of corruption risks, improving opportunities to spot abuses.

Allegations of COVID-19-related procurement graft by various governments, elected representatives and for-profit companies have highlighted the risks of opacity in procurement - both in emergencies and otherwise. In the wake of the COVID-19 pandemic, former Minister of Finance in Nigeria and AU Special Envoy to Mobilise International Economic Support for the Continental Fight Against COVID-19, Ngozi Okonjo-Iweala recently [highlighted](#) a range of initiatives to promote transparency in the use of public resources around the world. We emphasise that budget transparency alone is simply not enough to combat fraud and maladministration. Openness must extend to procurement and spending data and be embedded in mechanisms allowing for rigorous public participation and oversight. Both Iweala and the Open Contracting Partnership contend that the best way to ensure that (emergency) procurement meets its core objectives is to publish all tenders and contracts.

In relation to fiscal governance - we reiterate and support the following statement made in the [FACTI report](#):

“Financial integrity requires a whole ecosystem: economic and financial institutions, social norms, and governance arrangements supported by policy makers, public officials, businesses of all sizes, civil society, households and the public at large. All segments of society need to feel invested in equality, fairness and accountability. The issues are systemic, systemic solutions are needed.”

In addition to this - the World Bank, OECD and UNODC’s [new guide to preventing and managing conflicts of interest](#) in the public sector states that *“Transparency, or the lack of it, in the bidding process plays an important role in properly preventing/managing COI [Conflicts of Interest]. Publicizing the selection and evaluation criteria, as well as the justification for awarding the contract is a good practice that allows competitors a better opportunity to properly participate in a procurement procedure and civil society and the media to engage in public oversight of procurement decisions.”*

Ensure access to high-quality, standardized information about the full cycle of money flows, especially in line with the globally recognized open data standards, such as Open Contracting Data Standard (OCDS) or Beneficial Ownership data Standard (BODS) in order to allow for better analysis and detection of corruption risks.

Using complete high-quality, high definition open data about public spending and companies, financial institutions can conduct a more efficient oversight of money flows, can perform better due diligence checks, conduct external audits, identify systemic loopholes and sanction bad behavior. For example, the Ukrainian State Audit System transitioned to open data-driven monitoring in 2018 and immediately tripled the amount of monitored cases in just over a year (from 3,000 in 2018 to 9,000 in 2019). Access to open data on contracting in a standardised format through the OCDS meant that [state auditors from the Kyrgyz Chamber of Accounts](#) in the Kyrgyz Republic can now conduct 60% of their audit planning off site.

Incorporate - and use - high-quality open data in order to empower civil society, journalists, academics and businesses to effectively follow the trail of public resources.

The recent COVID-19-related [investigations](#) by the Organized Crime and Corruption Reporting Project (OCCRP) showed that access to good data makes or breaks opportunities to investigate whether public funds have been spent well. It concluded that in many places we simply can't tell how money is spent, because many countries did not publish the relevant information, with the exception of Lithuania, Portugal and a few others.

Further recommendations on open contracting, beneficial ownership and curbing the use of public contracts as a source of illicit funds²

Opacity and secrecy relating to the ownership of companies contracting with the state is a major enabler of corruption. The ability to match public contracts with beneficial owners allows curbing on the sources of illicit funds, ensuring the maximum transparency in how public funds are distributed and where they end up. The Open Contracting Partnership [illustrates the link](#) between beneficial ownership and open contracting and argue for their complementarity in order to achieve optimal oversight of financial transactions. We recommend that public contracting should be prioritised to support governance reforms and improve anti- corruption mechanisms

Reduction to Statistics South Africa budget

Vote 14, Statistics South Africa, has an important mandate in that is in intended to provide critical socioeconomic data in order to inform evidence-based decisions by policy and decision-makers. A functional statistical agency is core to developing the capacity to deliver well-targeted public services. As with many other departments and entities – the budget allocation for Statistics South Africa was also – by R 45 million in order to fund the SAA business rescue plan. In addition – the entity is set to have its compensation of employees budget reduced by R 100.4 million. The net reduction tabled in the second adjustments budget is R 120.6 million (Table 3). The most significant cuts are to be effected under the programme Statistical Operations and Provincial Coordination (R 41.6 million reduced from personnel budget and R 129.5 million in total).

Table 3: Adjustments to Statistics South Africa (Vote 14) Budget (Source: National Treasury [2020 Adjusted Estimates of National Expenditure](#))

PROGRAMME	2020/21					
	Appropriation	Adjustments Appropriation	Virements and shifts	Other Adjustments	Total second adjustments appropriation	Adjusted Appropriation
R thousand						
Administration	675 552	(12 273)	39 063	(2 274)	36 789	700 068

² The OCP have prepared a more detailed submission with related recommendations and research

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Economic Statistics	282 145	–	(5 064)	(12 149)	(17 213)	264 932
Population and Social Statistics	275 974	(151 808)	3 436	(10 314)	(6 878)	117 288
Methodology and Statistical Infrastructure	161 977	(18 204)	(2 180)	(5 245)	(7 425)	136 348
Statistical Support and Informatics	283 547	(2 000)	41 675	(24 000)	17 675	299 222
Statistical Operations and Provincial Coordination	1 729 529	(15 585)	(73 643)	(55 747)	(129 390)	1 584 554
South African National Statistics System	43 449	(130)	(3 287)	(10 871)	(14 158)	29 161
Total	3 452 173	(200 000)	–	(120 600)	(120 600)	3 131 573

Committees are urged to carefully consider the calls by various role-players to identify alternative non-strategic programmes to cut given high levels of poverty and inequality that such work aims to challenge. The significant risks are best outlined in a media statement released by the South African Council on Stats SA funding released in February 2020³:

“Stats SA is a globally recognised centre of excellence for producing official statistics. Stats SA is the only source of official statistics in South Africa. It has both kept in touch with or led best practice, notably in developing countries, across a wide range of areas, from the use of technology to data visualisation and beyond. It has made major efficiencies by moving to digital collection. It consistently produces key statistics that allow the private sector, government, international agencies and others to understand the society and economy, plan their work, and monitor progress. Stats SA data are critical in ensuring that national fiscal flows are appropriately directed, in line with the National Development Plan. In the midst of a national debate about land, Stats SA completed a census of commercial agriculture, within budget and with a very low 9% refusal to respond rate. After the 2019 election, Stats SA resolved the allegations of double voting, without argument. In 2021, Stats SA will be expected to run Census 2021. This is a classy entity in anyone’s books.

However, in 2015 StatsSA had R160 million stripped from its budget and a freeze on all posts was imposed by government. Both have remained in place since that point. By early 2020, the situation has reached crisis point. The vacancy rate has climbed to almost 20% – that is, every 5th position is vacant, and many staff are thus taking on their own job and work that should be done by others; working a 6 or even 7 day week is common. The freeze on posts means that no promotions are possible, and no vacancies can be filled. As a result, ambitious staff look outside Stats SA, and exciting young graduates no longer see StatsSA as employer of choice for their post-graduate training. Stats SA is being asset- stripped because it cannot offer any type of career prospects for any member of staff – because government refuses to change its approach to the budget and freeze on posts.

Stats SA is not a ‘state capture’ bail-out candidate: the entity receives regular clean audits, and enjoys widespread public trust. It is very difficult to understand why a respected, reliable

³ Available Online: <http://www.statssa.gov.za/?p=12992>

and important institution, that plays by the rules and is praised by the Auditor-General, is in effect punished by government while those deeply implicated in state capture receive bail-outs of massive proportions. Stats SA has received once-off emergency funds – in 2020 Stats SA have been promised R46 million – but these once-off band-aids do not stop the inevitable decline in the institution, and thus in the quality of official statistics.

The organisation is being forced to consider cost-saving cuts – efficiencies have been exhausted – because of the hole in its budget. Sample sizes are being cut, which over time will lead to wider error ranges. Activities are having to be ranked, and some simply dropped, such as the self-reported poverty survey, apparently “too expensive” in this climate. Government is now in danger of damaging the core business of the organisation, even when its financial needs – some R200 million – are tiny compared to the massive bail-outs being offered elsewhere, and with Census 2021 very close.

If Stats SA cannot produce accurate official statistics, ratings agencies will punish South Africa, international investors will turn elsewhere, domestic business will lack reliable planning data, and a downward spiral will be inevitable. Re-creating the 80%+ trust in the institution may be impossible; sustaining it requires a significant financial injection. If Treasury fails immediately to fund Statistics SA adequately, like Humpty-Dumpty, it may not be able to put it together again, and decades of building the institution post-1994 will have been wasted.

Stats SA right now is at a tipping point. The warning lights are flashing red, and government needs to act swiftly if South Africa are to retain a robust and innovative Stats SA. If Stats SA is not able to fill posts with skilled people, keep sample sizes up, and innovate, the Council will be forced to withdraw support for official statistics. This is the very worst option for everyone in South Africa – but Council either endorses the release of data everyone can trust, or Council stops because we cannot endorse data we mistrust.

The South African Statistics Council unanimously call on government to heed our call and inject funds into Stats SA. If not, Council will withdraw our support for official statistics, and resign”

Zero-based budgeting, public participation and inclusive budget processes

In his Medium Term Budget Policy Statement Speech, Minister Mboweni stipulated the following in relation to zero-based budgeting:

“Zero-based budgeting will be piloted at the Department of Public Enterprises and National Treasury next year. It will be fully integrated into the budget system by the 2023 Budget. In practice, it will mean programme-by programme and project-by-project analysis. We must discard those things that we no longer need to do and scale up those that are essential for progress.”⁴

The intention to embark on zero-based budgeting has previously been signalled by the Minister, efforts in earlier years made and notably also signalled by the Eastern Cape recently. It is a significant announcement as zero-based budgeting has the potential to improve the efficient execution of public funds. It is a form of budgeting that allocates funding based on programme efficiency and necessity. Incremental budgeting, on the other hand, means that

⁴ Medium Term Policy Statement Speech by Minister of Finance, Tito Titus Mboweni, 28 October 2020: <http://www.treasury.gov.za/documents/mtbps/2020/speech/speech.pdf>, page 15

historical line items are automatically/continuously included in future budget. Zero-based budgeting obliges budget holders to regularly review and justify all programme expenditure. There are other advantages such as the possibility of increasing inter-government collaboration, effecting cost-savings and improving operational efficiency. The PBO also contends that ZBB has the potential to “improve public support through perceived increases in transparency and accountability, both internally within an organisation and externally with the public.”⁵

Several researchers including the Financial and Fiscal Commission (FFC) and the Parliamentary Budget Office (PBO)⁶ have raised concerns relating to the risks and challenges of this approach including the following:

- Implementing ZBB could be costly, complex and time-consuming
- Implementing ZBB may be risky when potential savings are uncertain, more so beyond the first year of implementation
- The approach typically requires specialised training or personnel to accomplish, requiring more resources in general; place some government departments under extreme constraints relating to their ability to complete ZBB within a budget cycle
- Implementing ZBB prioritization process may be problematic for departments with intangible outputs to which it is difficult to assign a monetary value

To this – it is prudent to add the potential risk of zero-based budgeting to transparency and participation mechanisms. Where there is inadequate institutional capacity, time, and/or expertise to effectively implement this approach – it is not impossible that compliance could occur at the expense of timely, open and participatory processes that would otherwise enable duty-bearers to engage with those they serve about decisions relating to public funds. A cautionary approach is, therefore, necessary given key capacity limitations and possible adverse impacts.

It is also important for the National Treasury to outline the efforts to be taken to ensure adequately participatory and transparent processes to meet the demands of zero-based budgeting in addition to identifying the best measures to meet institutional capacity gaps.

Lastly – given the current adoption of policy amendments to the Public Service Regulations, the Public Administration Management Act and related regulations – this presents an opportunity not only to explore what kind of state capacity would be required – but also to give effect to key components of the National Development Plan. These include a public service characterised by efficient and effective management and operational systems as well as procurement systems that “deliver value for money”.⁷ Regardless of the uptake of zero-based budgeting, there is a dire need to entrench effective financial management and the eliminate wasteful expenditure particularly in provincial departments and state-owned entities.

Participation and inclusion

⁵ https://static.pmg.org.za/200825_PBO_Brief_on_Zero_Based_Budgeting_Report.pdf at Page 10

⁶ See, for instance a presentation on 25 August 2020 a presentation of the PBO to Standing Committee on Appropriations: <https://pmg.org.za/committee-meeting/30912/>

⁷ <http://online.fliphtml5.com/slsf/ungm/#p=3> at Page 2

The PSAM asserts that Committee the importance of entrenching the views and needs of those most affected by fiscal and budgetary decisions taken by the state. We therefore reiterate the call made below – originally published in the Budget Justice Coalition’s Human Rights Budget.⁸

The Constitution provides for public participation in many ways. Section 118 (1) states that a provincial legislature must *facilitate public involvement in the legislative and other processes of the legislature and its committees*. The Constitution also obliges the legislature to *conduct its business in an open manner and hold its sittings and, those of its committees, in public*. At the local government level - the Integrated Development Planning Process (IDP) also provides for direct public engagement. Public administration principles, read alongside section 195 of the Constitution, provide for the role of an accountable public service that must respond to people’s needs and provide opportunities for their participation in policy-making. The current pandemic has illustrated the importance of a people-centred approach to response and recovery.

Social accountability obliges the state to prioritise the effective use of public resources to fulfil commitments to addressing poverty and inequality. The allocation of public funds is but one element of the public finance management web. Social accountability principles also emphasise public resource management processes that are inclusive of and accountable to the public. In a functional social accountability context – systematically marginalised groups are prioritised not just in budget prioritisation but in the actual decision-making process. People’s right to engage and question elected representatives, public officials and private actors on budgetary and policy decisions is central. While this is by no means a new paradigm – it is one that the South African government must substantively shift towards to re-energise its participatory democracy ideals. Bassett (2016), for instance, asserts that participatory policy-making was the basis for policy negotiation forums which explored strategies to transform municipal governance to enable ordinary local residents to have more policy influence. It is also useful to remember that the design of South Africa’s municipal government framework is aligned with decentralised, transparent and participatory governance.

In addition to deepening public participation in existing legislative and policy processes - people-centred fiscal policy must account for key principles including timeliness, reciprocity, inclusivity, accessibility and respect for self-expression as defined by the Global initiative for Fiscal Transparency (GIFT). The BJC calls for the piloting of participatory mechanisms in fiscal policy taking South Africa’s social and demographic characteristics into account while addressing fundamental deficiencies in budgeting at the provincial and local levels. Examples of meaningful, cost effective and impactful processes include participatory budgeting as introduced in Cascais, Portugal in 2011 - resulting in the introduction of citizen-informed municipal projects.

The Role of Parliament and the Office of the Auditor-General

National budgets are tabled in Parliament - not as sealed deals but as policy commitments for approval by the legislative arm of the state. Budget priorities must also be open to public input given that they are intended to serve the developmental needs of the people. Enabling

⁸ Access the full document online: <https://budgetjusticesa.org/media/budget-justice-coalition-imali-yesizwe-our-nations-money/>

thorough scrutiny and debate of priorities set in the budget processes is therefore crucial and cannot continue in its current form.

Openness in government decision-making, the availability of budget and outcomes data and the effective management of government constituencies in budget debates are inseparable. The release of better information by the executive branch will not mean much unless coupled with efforts in the legislature and civil society to use that information. Similarly, it is difficult for the executive to establish accurately what information and institutional provisions are most urgently needed in the absence of a dialogue with legislatures and civil society. Only through a vibrant budget debate will the potential benefits of transparency be realized

Section 188 of the Constitution outlines the functions of the Auditor General of South Africa while the Public Audit Act, 2004 provides for the auditing of institutions in the public sector. Reports of the Auditor-General are therefore critical for evaluating the performance of the executive - and of accounting officers in particular. Various parliamentary committees such as public accounts committees rely on these reports as a means to verify financial information presented to them by departments and entities. The rigour and reliability of AGSA audit reports are arguably a hallmark of South Africa's public finance management environment. However, a key missing link is the lack of more direct connections to community experiences of the impacts of weak fiscal governance on the delivery of services. The emergence of COVID-19 necessitated real-time auditing and reporting of departments' procurement and spending of pandemic funds by the Auditor-General. The AG's office has also established ongoing partnerships with civil society and community groups to contribute to real-time COVID-19 monitoring. This constitute commendable efforts for which the PSAM support calls for deepening of partnerships of this nature and more direct engagement of communities in a sustained manner.

Finally – we mark the words of former Auditor-General Kimi Makwetu who recently urged all role players within the state to heed AGSA's call towards:

*“a shift in thinking towards prevention. Designing and implementing controls that prevent fraud, errors and abuse are an investment that pays off when an institution is called upon to deal with a crisis as we are now experiencing. It is by far a better approach than having to deal with lengthy and costly investigations and a loss of resources and public confidence. **Even in the midst of a crisis, transparency and accountability for government spending to the benefit of citizens cannot take a backseat.**”⁹*

⁹ Media Statement, Office of the Auditor General, Special COVID-19 Audit Report, 2 September 2020
<https://www.agsa.co.za/Portals/0/Reports/Special%20Reports/Covid-19%20Special%20report/2020%20Covid-19%20Media%20Release%20FINALISED.pdf>

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