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ANNOUNCEMENTS,
TABLINGS AND
COMMITTEE REPORTS

MONDAY, 15 JUNE 2020

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National Council of Provinces

1. The Chairperson

- (a) PROGRESS REPORT ON THE INTERVENTION ISSUED IN TERMS OF SECTION 139(1)(b)(i) and (5)(a) OF THE CONSTITUTION, 1996 TO EMFULENI LOCAL MUNICIPALITY, GAUTENG PROVINCE.

Referred to **Select Committee on Cooperative Governance and Traditional Affairs, Water and Sanitation and Human Settlements** for consideration and report.

2. The Minister of Finance

- (a) A letter has been received from the Minister of Finance, requesting Parliament to urgently consider the draft amendments to the Financial Sector Regulations, 2018 (Regulatory Instrument), made in terms of sections 61(4), 288(7)(8) and 304 of the Financial Sector Regulations Act, 2017 (Act No. 9 of 2017) (Act).

Referred to **Select Committee on Finance** for consideration and report.

COMMITTEE REPORTS

National Council of Provinces

1. REPORT OF THE SELECT COMMITTEE ON APPROPRIATIONS ON THE *APPROPRIATION BILL* [B4 – 2020] [NATIONAL ASSEMBLY (SECTION 77)], DATED 15 JUNE 2020

1. Introduction

The Minister of Finance, Mr T Mboweni, tabled the 2020 annual national Budget, including the *Appropriation Bill* [B4 – 2020] (the Bill) in the National Assembly on 26 February 2020.

At the time when the Bill was tabled, there were no confirmed COVID-19 cases in South Africa. Since then, a pandemic has been declared leading to global economic forecasts being revised downwards, causing negative economic growth and further deterioration, including for South Africa. On 15 March 2020, in accordance with the Disaster Management Act No. 57 of 2002 (as amended in 2015), the President declared a national state of disaster following the declaration of the global COVID-19 pandemic by the World Health Organisation (WHO). The intention was to provide for an integrated and co-ordinated disaster management policy framework that focused on preventing or reducing the risk, mitigating the severity of disasters, emergency preparedness, rapid and effective response and post disaster recovery. To this end, like many other states globally, the South African government chose to act swiftly by redirecting and reprioritising scarce resources to minimise the impact of the pandemic. However, the Minister of Finance has subsequently indicated that a special adjustment budget would be tabled, on 24 June 2020, to modify the current Budget to provide for the rapidly changing economic conditions and enable spending on the COVID-19 response. This Committee processed the Bill with the full knowledge that there would be an adjustment budget tabled almost immediately in order to meet the massively changed requirements of South Africa.

2. Legislative framework guiding processing of the Bill, public participation and stakeholder consultations

This section provides a perspective of the legislative framework that guides the processing of the Bill once the Minister has tabled the annual budget every year. Section 213(2)(a) and (b) of the Constitution of the Republic of South Africa provides that money may be withdrawn from the National Revenue Fund (NRF) only in terms of an appropriation by an Act of

Parliament, or as a direct charge against the NRF, when it is provided for in the Constitution or an Act of Parliament. Section 27(1) of the Public Finance Management Act No. 1 of 1999 (PFMA), provides guidance for the Minister of Finance to table the annual budget for a financial year in the National Assembly before the start of the financial year or, in exceptional circumstances, on date as soon as possible after the start of that year, as the Minister may determine. Therefore, the Bill was amongst the proposals tabled by the Minister as part of the national budget. This is supported by section 26 of the PFMA, which requires Parliament and provincial legislatures to appropriate money for each financial year for the requirements of the state and the province, respectively.

Therefore, the promulgation of the Bill is necessary to allow for monthly expenditures above the transitional provisions contained in the PFMA and ensure expenditure in accordance with the vote and programme purposes. Lastly, section 10(2) of the Money Bills Amendment and Related Matters Act No.09 of 2009 (as amended in 2018) (the Money Bills Act) requires that after the passing of the Bill by the National Assembly, it must be referred to the National Council of Provinces (NCOP) for consideration and reporting.

On 6 May 2020, the Chairperson of the Committee received correspondence from the Chairperson of the NCOP, including a letter from the Minister of Finance, requesting that the processing of the 2020 Budget be fast-tracked in order to enable the Minister to table a special adjustment budget to respond to the COVID-19 pandemic. While the Committee was not in a position to fast-track the consideration of the *Division of Revenue Bill* [B3 – 2020] due to the legal requirements for processing a section 76 Bill, the Committee agreed to assist in expediting the processing of the *Appropriation Bill* [B4 – 2020] through joint meetings with the Standing Committee on Appropriation. Subsequently, the Committee received a briefing on the Bill from National Treasury during a joint meeting with the Standing Committee on 3 June 2020. In accordance with section 72(1)(a) of the Constitution, the two Committees conducted a joint public hearing on 5 June 2020, during which the following stakeholders made oral submissions on the Bill:

- Budget Justice Coalition;
- Congress of South African Trade Unions (COSATU);
- Organisation Undoing Tax Abuse (OUTA); and
- African Farmers' Association of South Africa (AFASA).

In addition to the above oral submissions and as part of fulfilling its Constitutional obligation, the Committee also received and considered written submissions from the following stakeholders and individuals:

- Southern African Faith Communities' Environment Institute (SAFCEI);
- Black Sash;
- Ms T Armstrong; and
- Mr B Jacobs.

The Committee also consulted on the Bill with the Financial and Fiscal Commission (FFC) as required by section 4(c) of the Money Bills Act, and the Parliamentary Budget Office (PBO) in terms of section 15(2) (a) of the same Act, during a meeting on 10 June 2020. Thus, when the Bill was finalised by the National Assembly and transmitted to the NCOP and the Committee for concurrence on 12 June 2020, the Committee was in a position to meet on 15 June 2020 to formally consider the Bill and adopt this Report.

3. Overall appropriated funds and overview of the Bill

The Bill provides a total allocation of R963.1 billion to various budget votes (from Vote 1 to Vote 41), economic classifications and programmes. Of note is that this allocation excludes the direct charges, which are drawn from the National Revenue Fund (NRF) in terms of the Constitution or legislation passed by Parliament. The overall consolidated government spending is expected to be R6.14 trillion over the medium term period. Furthermore, the main budget non-interest expenditure will grow from R1.54 trillion in 2020/21 to R1.65 trillion in 2022/23, relative to the 2019 Budget. The 2020 Budget further makes net non-interest spending reductions totalling to R156.1 billion over the next three years, relative to the 2019 Budget projections. This is largely due to the proposed reduction of R160.2 billion to the public service wage bill. Baseline reductions mainly affect conditional grants and national and provincial programme spending. National Treasury indicated that, as far as possible, reductions were made in under-performing or under-spending programmes; with the largest reduction made to the human settlements and public transport sectors. The Budget further makes additions to baselines totalling R7.499 billion compared to 2019. In addition to the baseline reductions and additions, a total of R7.021 billion has been set aside as a provisional allocation not assigned to budget votes. This amount is made up of R6.502 billion, R500

million and R19 million provisionally allocated to South African Airways SOC Limited (SAA), provision for disaster recovery efforts and other provisional government allocations, respectively.

As indicated earlier, the Bill allocates funds in terms of economic classification, budget votes and according to specific programmes. The Bill further provides spending rules and guidance for funds that are exclusively and specifically earmarked for certain economic classifications as defined by section 3 of the Bill, together with section 43 of the PFMA. However, the Bill also empowers the Minister of Finance, through section 5, to approve for the purposes of expediting service delivery the movement of unspent funds, which were earmarked as defined in section 3 of the Bill and section 43 of the PFMA. While the Bill allocates resources horizontally across the national sphere of government, 67 percent of these allocations are transfers and subsidies to provinces, municipalities, public corporations and other non-profit making entities. Current payments, payments for capital assets and payments for financial assets make up 27 percent, 2 percent, and 4 percent of the total, respectively.

4. Stakeholder submissions on the Bill

4.1 Financial and Fiscal Commission (FFC)

The Financial and Fiscal Commission (FFC) submission focused on the macroeconomic and fiscal outlook; the revenue and expenditure proposals in the 2020 Budget; government's fiscal and monetary response to the COVID-10 pandemic; and reprioritisation for the pandemic.

The FFC submitted that the South African economy had slipped into a technical recession by the end of 2019. The impact of COVID-19 would push the country into a deep economic contraction in 2020, while the recent sovereign credit downgrade would exacerbate the outlook. All projections indicated that the country was likely to face deep economic contraction due to disruptions in household and businesses, disruptions of supply chains and depression of exports as a result of the pandemic. The fiscal deficit had widened, leaving no fiscal space. The FFC reported that massive differences in the budget deficit projections as tabled in the 2019 Budget and Medium Term Budget and the 2020 Budget, demonstrated a substantial deterioration in fiscal metrics. Government's debt trajectory had critically worsened as a result of sustained weakening in the growth outlook and the materialisation of contingent liabilities from state-owned entities (SOEs), and debt was expected to increase by

R869 billion over the medium term. The FFC submitted that the COVID-19 pandemic was a health crisis as much as an economic one, as the demands on the health sector were huge; and that in the context of the pandemic, government should continue to prioritise the establishment of the National Health Insurance (NHI) alongside other reforms.

With regard to revenue and expenditure proposals, the FFC welcomed the shift from a purely social sector focus between 2016/17 and 2019/20, to economic, community and social development over the next three years; balancing the provision of a safety net for the poor with interventions to grow the economy. However, the FFC noted that the rapid growth in debt service costs outstripped and crowded out spending on all aspects of government service delivery programmes, like health and community development. While government was attempting to rein in spending on personnel, the FFC was of the view that the debate on the public sector wage bill should be preceded by a determination of the size and shape of government that suits the South African context. The FFC noted that the amount of potential savings as proposed in the Budget related to a muted wage freeze, would not materialise, as it was being offset in the COVID-19 frontline personnel response.

The FFC commended government's immediate response to cushion businesses and households from the impact of the lockdown. However, only R95 billion of the total fiscal package could be considered a fiscal stimulus; falling far too short, given the expected shock to the economy. Fiscal and monetary support should be commensurate with the magnitude of the forecasted economic contraction. The FFC therefore recommended the following:

- A more aggressive bond purchase programme by the South African Reserve Bank (SARB) would substantially strengthen liquidity in the markets.
- Government should consider its total balance sheet, including assets from the Public Investment Corporation (PIC), Government Employees Pension Fund (GEPF), Unemployment Insurance Fund (UIF) and SARB foreign exchange reserves.
- Both the fiscal and monetary responses should embrace distributional equity principles outlined in section 214 (a) to (j) of the Constitution.

The FFC welcomed the reforms advocated in the National Treasury paper: "Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa", as they were broadly pro-growth and support competitiveness and higher productivity. However, implementing these reforms would compete with other initiatives such as land expropriation without compensation, the establishment of the national health

insurance (NHI) and extension of tax incentives to selected industries. The FFC was of the opinion that the cycle of low growth and high inequality should be broken through other bold actions aimed at giving poor South Africans better access to good jobs so that they could fully participate in the economy. In this regard, the FFC recommended the following interventions:

- There is an urgent need to rebuild institutional frameworks and capacity weakened by state capture.
- There is a need for more competition to allow small and medium enterprises to enter the mainstream economy.
- Land reform should focus on enhancing agricultural productivity, improving land administration to strengthen security of tenure, and reduce poverty; while mitigating any potential negative effects on the agricultural base and the financial spill-over effects from changes in the value of land as collateral.
- There is a need to expedite the allocation of broadband spectrum through auctions and leveraging private sector capabilities.
- The capacity of the state needs to be strengthened by reorganisation to minimise duplication, new technologies to increase efficiencies, investment in frontline staff and research and innovation for evidence-based decision making.
- There needs to be a comprehensive and consultative review of the means tests for financial eligibility for various forms of grants or relief, student support and even basic services.

The FFC gave an overview of potential areas of reprioritisation for the COVID-19 response as well as a summary of conditional grants it recommended for reprioritisation; but also indicated that there was much room for more efficient and effective spending.

4.2 Parliamentary Budget Office (PBO)

The Parliamentary Budget Office (PBO) reported that the 2020 Budget proposed a significant reduction in growth of expenditure to reduce the budget deficit and level of debt, requiring targeted spending cuts of specific programmes. These included the reduction of the public wage bill; reform of state-owned entities (SOEs) and the Road Accident Fund (RAF); and across-the-board cuts affecting core government programmes. According to the PBO, these steps would moderate spending as a share of GDP and adjust the composition of expenditure, but it would not reduce the debt level. The PBO submitted that further expenditure cuts could severely harm service delivery. It emphasised the importance of efficiency and effectiveness, together with monitoring and evaluation, as well as discussions on increased taxes. The PBO

further provided an overview of public expenditure during the period of fiscal consolidation; departmental expenditure outcomes between 2017/18 and 2019/20; adjustments to main budget non-interest expenditure since the 2019 Budget; and the 2020 appropriations per vote compared to the preliminary outcome for 2019/20.

The PBO reported that the COVID-19 pandemic had put additional pressures on government, not only to respond to the needs of the crisis, but also to ensure economic and fiscal sustainability. The national lockdown and efforts to contain the spread of COVID-19 had impacted on economic activity by a forced reduction in production and other restrictions on non-essential business operations; a large, but indeterminate reduction in household demands for goods, especially services; the disruption in global production and supply chains which could greatly affect South African exports; the effect of uncertainty on business investment; and as businesses open, employers and workers feared growing infections and further disruptions. The PBO further reported that data for April showed a 9.1 percent fall in gross revenue collected compared with the previous year, and that this trend was likely to worsen over the rest of the year. Revisions to the budget were necessary to take account of the changed outlook, and finance measures to respond to the crisis and stimulate the economy.

According to the PBO, the pandemic had exposed long-standing deep underlying problems such as inequality, failure to deliver key services and a failing health system. The situation now required government to act immediately with funds provided for disasters and to reprioritise plans and budgets to provide fiscal support; preventative measures; policing; new programmes with new objectives and recovery plans for fiscal sustainability and economic growth. The PBO provided a breakdown of the R982 million available in the 2020/21 Budget for immediate response, as well as programmes available in the Budget to respond to disasters. The PBO further gave an overview of the changes to conditional grant frameworks that National Treasury had proposed to provide for spending on the COVID-19 response; the R500 billion fiscal support and relief package; and the measures in place for authorisation of expenditure before the promulgation of an adjustment budget. The PBO also indicated that National Treasury had granted approvals for certain funds transferred to municipalities to be reallocated to respond to the pandemic.

4.3 Congress of South African Trade Unions (COSATU)

The submission from the Congress of South African Trade Unions (COSATU) addressed the 2020 Budget as a whole.

The aspects that COSATU welcomed and supported, included the following:

- The commitment to increase infrastructure expenditure;
- The efforts of the Department of Trade, Industry and Competition to revitalise industries;
- The commitment to table various legislation to grow the petroleum, gas, minerals and transport sectors and the state-owned entities (SOEs);
- The release of the Public Procurement Bill;
- That Value added Tax (VAT) and income tax upon working and middle class families had not been increased;
- That government provided inflation-linked tax relief for working and middle class families;
- The initial steps taken by the new CEO of Eskom to begin cleaning up the mess and the initial green shoots in Denel;
- The steps made by the South African Revenue Service (SARS) to rebuild its capacity and to tackle tax evasion;
- The progressive pronouncements on the Sovereign Wealth Fund in the Budget;
- The allocations to ensure all schools have sanitation, however the rising teacher learner ratios are not addressed;
- The planned water infrastructure investments are welcomed, but the lack of attention to investing in water recycling and conservation is reckless; and
- Whilst appreciating the President's freeze of salaries for the Executive, COSATU believes this is too little.

The concerns raised by COSATU, included the following:

- The lack of a detailed economic stimulus package to reduce unemployment;
- The lack of urgency in implementing various legislative interventions to grow sectors;
- The lack of concrete plans to stabilise SOEs;
- The lack of commitment in the Budget to progressively reform taxes;
- The need for massive interventions to improve customs enforcement;
- The government's seeming continuous attack on public servants;

- The failure to deal with corruption and wasteful expenditure;
- There is no indication of how government will intervene to halt the collapse of two dozen municipalities;
- The land restitution allocations and targets are inadequate; and
- The commitments made by the President in the 2020 State of the Nation Address are not reflected in the Budget. Specifically, the building of universities and colleges; implementation of the National Health Insurance (NHI); and the reduction of South African Police Service members.

4.4 Organisation Undoing Tax Abuse (OUTA)

The Organisation Undoing Tax Abuse (OUTA) specified that its submission was informed by the events related to the COVID-19 pandemic. The pandemic had impacted upon the National Budget, and therefore the submission focused on the Bill and the potential implications of the pending supplementary budget. OUTA submitted that there was a clear need for disruption and inclusive change, but these required political barriers to be overcome through open and constructive debate that should be built on consensus and solidarity between taxpayers, consumers, and public officials. OUTA added that there was a need for inclusive reforms which should be the cornerstone of post COVID-19 budgets.

OUTA submitted that the state-centric monopoly in key industries like energy, water and transport had failed due to systemic contravention of the Public Finance Management Act (PFMA) and other legislation governing the spending of tax revenue. OUTA put to the Committee that, instead of diversifying inequality, the national government needed to cultivate working and middle-class growth through targeted public expenditure in a manner that did not constrain investment in the private sector, but promoted it. OUTA further highlighted that South Africa's sovereign debt had grown from R450 billion in 2009/10 to almost R4 trillion in 2020/21, and this should be arrested as a matter of urgency.

Furthermore, OUTA submitted that state-owned entities (SOEs) were near financial collapse and this had been compounded by the economic impact of a nationwide lockdown enforced to limit the spread of the COVID-19 virus. OUTA argued that the need for economic stability and growth in this extremely unfavourable situation demanded self-imposed "structural adjustments", tailored to fit South Africa's unique challenges. OUTA warned that If this was

not implemented as a matter of urgency, the country ran the risk of a national debt spiral that would culminate in the loss of our economic sovereignty and the implementation of generic structural adjustment programmes that eliminated social spend. OUTA also said they hoped to, soon, see expenditure plans that better reflect the reality of SOEs' and local government's challenges. OUTA put it to the Committee that the inability of many municipalities to pay Eskom, contributed to the entity's inability to meet its debt obligations. OUTA also added that the current restructuring of the energy sector should go hand in hand with restructuring local government systems.

OUTA also commented on the pending supplementary budget to be tabled by the Minister of Finance, in response to the unforeseen expenses demanded by the ripple effects of COVID-19. OUTA's submission was also aligned with the National Treasury economic growth paper published in 2019, titled *Towards an Economic Strategy for South Africa*. OUTA supported suggestions for simple, competitive, and incentivising economic interventions such as lowering the cost of doing business and freeing up finance for small, medium and micro enterprises (SMMEs) owned by historically disadvantaged entrepreneurs.

Moreover, OUTA submitted that modernisation was needed at national level in Energy; Public Enterprises; Transport; Communication and Digital Technologies; Water and Sanitation; Health and Education. These sectors, OUTA argued, were crucial for innovation and inclusive growth and could facilitate bottom-up economic transformation. According to OUTA, these were unfortunately the key sectors targeted by organised state capture networks, due to their capital-intensive value chains. OUTA stated that the effects of the structural challenges and the entrenched criminal networks which may continue to exploit government resources, could not be overlooked and should be addressed before Parliament approved the allocation of more money to these sectors.

With respect to the Energy sector, OUTA recommended that a post Covid-19 Renewable Energy Investment Strategy, which could aid post-lockdown recovery, should be proposed to the Executive. OUTA further recommended the following:

- An increase in electrification allocations towards off-grid electrification.
- A reduction in nuclear spending to the 2018 levels, specifically NECSA operations.

- A rejection of the Central Energy Fund's attempt to use fuel levy and carbon tax funds to bail out Petrosa.
- An acceleration of legislative reform to restructure Eskom so that the costs of generation, transmission and distribution can be transparently reviewed in order to assess and adapt the Eskom business model for the future.

With regard to SOEs, OUTA recommended that the Committee should follow up with National Treasury to determine whether those requiring bail-outs could get a debt repayment holiday due to the COVID-19 situation. OUTA was firm, however, that if National Treasury or the Presidency were to successfully engage the multilateral lending institutions for a debt holiday, it should not be seen as an opportunity for further profligacy, but rather as breathing room to repair the damaged SOEs and allow for other areas of spending not to be reduced. OUTA further recommended the following:

- Parliament should call for a report-back on the progress with implementation of the recommendations of the SOE Review;
- Legislative changes such as amendments to the Companies Act, a State-Owned Companies Act and the introduction of a Procurement Bill to be tabled in Parliament, should be put through a public engagement process and passed.
- Government should assess which entities are unnecessary and can be shut down, amalgamated into others or the function assumed by a government department.
- The Auditor-General should audit all public entities not currently audited by it.
- Public entities should sell off non-core assets.
- Equity partners should be sought for certain public entities.
- Prosecution should tackle corruption and state capture.
- Board members who have been involved in financial misconduct should be declared delinquent and should not serve in positions of power where there are fiduciary duties.
- All board appointments should be transparent and preceded by a rigorous due diligence process including probity checks.
- Institutions and persons mandated with oversight roles and who have failed to perform these oversight roles should face consequences.

With regard to the Transport sector, OUTA recommended more impactful spending by local and provincial government on public transport alternatives; such as bicycle lanes, subsidised

and well-regulated mini-bus networks; as well as properly maintained and managed passenger rail networks. OUTA concluded by submitting that more investment in these public transport alternatives could alleviate the costs of commuting to work for those who live in far-removed areas from both informal and formal productive activities.

4.5 Budget Justice Coalition

The Budget Justice Coalition (BJC) gave an overview of the economic stimulus relief package; made suggestions on where to appropriate funding; commented on possible legislative areas to be changed and gave inputs on the oversight of emergency procurement during the COVID-19 pandemic. In addition, the BJC indicated that the Open Budget Index had found that there was a need for increased transparency and public participation in fiscal decision-making in the South African budget process.

The BJC further made the following recommendations:

- There should be transparency in the conditions attached to taking money from multilateral lending institutions. Finance that comes with conditions which impact our sovereign policy discretion and are anti-poor, should be rejected in favour of domestic resource mobilisation.
- The budget for the social grant component of the relief package should be increased in recognition of the size of the population in need.
- The Child Support Grant (CSG) increase of R500 should be attached to each child per grant paid.
- Unemployed caregivers, who are in receipt of a CSG for their children's basic needs, should not be excluded from the COVID-19 unemployment grant.
- The assumptions, projections, and eligibility criteria for the COVID-19 unemployment grant (including the income threshold being applied) should be made public so that there can be informed engagement, prior to the regulations being finalised.
- Cabinet should urgently consider a universal income grant instead of a very narrowly targeted COVID-19 unemployment grant, which is likely to create inequality, confusion and conflict and cost more. SARS should be used to recoup the grant from the upper deciles.
- Informal food traders must have greater freedom to trade, with or without a permit.

- Food parcel distribution must be ramped up, requirements for beneficiaries to produce South African IDs abandoned, and community-based organisations allowed to distribute food relief without a permit.
- The Gender-Based Violence response and prevention should be adequately funded.
- Budget allocations should be made to temporarily support additional provision of free basic services such as water and electricity.
- The Auditor-General's offer to send experts from his office to safeguard the emergency COVID-19 budget, should be supported.
- Spending and procurement data on public platforms, such as VulekaMali, should be published in real-time and in accessible formats.
- There should be transparency regarding all donated personal protective equipment (PPE) in order to avoid double spending.
- The Financial and Fiscal Commission should be requested to undertake a study to investigate revenue sources for local government.
- National Treasury should be engaged to work on a special health budget, including provision to fill key vacancies in the health sector.
- Efforts should be made to enhance public participation in all stages of the budget process, including during declared disasters.
- The national procurement system should be reformed to entrench transparency, citizen participation and monitoring throughout the contracting cycle.

4.6 African Farmers' Association of South Africa (AFASA)

The African Farmers' Association of South Africa (AFASA) provided a problem statement and highlighted the following challenges within the agricultural sector in South Africa:

- Low inclusivity caused by high entry barriers for new black players;
- Food availability, but not accessible due to price;
- Drought and diseases;
- Climatic changes and the technological development of 4IR;
- Unemployment, specifically for educated youth and women; and
- Widening dualistic agricultural economy in the country.

AFASA further gave an overview of government spending on agriculture, land reform, and agricultural research over the past financial years and provided the following strategic objectives for an increased budget:

- To create an inclusive, united and sustainable agricultural sector in the country;
- To improve agricultural competencies for South Africa to participate and compete meaningfully in local and international market platforms;
- To mobilise resources for food security and economic growth; and
- To improve employment, specifically for youth and women.

AFASA finally made the following recommendations for the development of the sector:

- There should be a gradual increase in the agricultural budget, of at least 25 percent per annum.
- The Land Bank should be repositioned and funded mainly to focus on agricultural development.
- Poverty and unemployment should be reduced through unutilised and undistributed state land.

4.7 Black Sash

The submission from Black Sash focused both on the appropriations put forward in the Bill at the time of the tabling of the Budget in February, and on the implications the COVID-19 pandemic had for public spending and specifically, Vote 19, Social Development. Black Sash reported the following under-spending by the Department of Social Development on its allocated budget in prior years: R1.31 billion in 2017/18; R1.59 billion in 2016/17 and R1.76 billion in 2015/16. Black Sash further reported that, while the Social Development allocation grew by 4.7 percent in nominal terms and 3.6 percent in real terms over the Medium Term Expenditure Framework (MTEF) period, it was not growing at the pace of the need. While the long term impact of the COVID-19 pandemic on poverty and unemployment would continue to emerge, it had already resulted in a humanitarian crisis with many losing their livelihoods. While Black Sash noted the roll-out of the temporary COVID-19 Social Relief of Distress Grant as a significant intervention; it indicated that the amount of R350 was not enough to cover even basic food needs.

Black Sash summarised its recommendations as follows:

- The COVID-19 Social Relief of Distress Grant should be converted into a permanent Social Assistance Grant for people between the ages of 18 and 59 years with no or little income; coming into effect in November 2020.
- The COVID-19 Social Relief of Distress Grant should be increased from R350 to at least R 1 227.
- A single COVID-19 Social Relief of Distress Grant should be created, where all unemployed adults with no access to the Unemployment Insurance Fund (UIF) are eligible for the same amount, irrespective of whether or not they care for children.
- Those who are eligible for the COVID-19 Social Relief of Distress Grant, without access to the necessary technology, should be assisted with access and applicants should receive the grant for a full six months from May to October 2020, irrespective of date of application.
- Contractual agreements should be put in place to ensure the protection of personal and confidential information.
- SASSA and government departments delivering social security services should urgently open their offices with a full staff complement to give effect to the social and economic relief measures announced by the President; and SASSA should pay the banking fees to ensure that recipients receive the full cash value of the COVID-19 Social Relief of Distress Grant.
- The package of R50 billion for social grants should be increased by an additional R180 billion and the entire amount should be spent on the social assistance net for the poor and unemployed.

4.8 Southern African Faith Communities' Environment Institute (SAFCEI)

The submission of Southern African Faith Communities' Environment Institute (SAFCEI) focused on the analysis of energy sector appropriations and of the impact of COVID-19 on the energy sector and economy.

SAFCEI submitted that Eskom had become a major drain on the fiscus, requiring frequent bail-outs. SAFCEI stated that, as a major public entity, Eskom was meant to be financially independent, but state capture, corruption, inflated contracts and poor infrastructure maintenance had led Eskom to a financial crisis; with unresolved issues, including poor supply chain management and contracting practices, persisting. SAFCEI submitted that funds

spent on repeated bail-outs to Eskom, could be reprioritised to education, health or other areas in need. SAFCEI further submitted that increasing tariffs was raising the cost of living and the cost of doing business. SAFCEI said it was therefore important that the corporate governance and financial management at Eskom and in other departments and entities in the energy sector were managed effectively.

SAFCEI further submitted that economic activities had reduced due to the COVID-19 pandemic resulting in implications for the demand for electricity, and the demand modelling that had existed before the pandemic no longer held true. SAFCEI added that even in the aftermath of the pandemic, it was anticipated that the demand for electricity was unlikely to return to previous levels, due to some business activities being lost. SAFCEI also said there was decreased fiscal space for large capital projects, despite the Integrated Resource Plan (IRP) not envisioning new nuclear before 2030. Furthermore, SAFCEI called for public interests to be put first and constitutional provisions for public participation and transparency to be upheld. Prior to any procurement, there would need to be a Section 34 Electricity Regulation Act determination in place with public participation.

SAFCEI summarised its recommendations as follows:

- Parliament should exercise its constitutional oversight mandate rigorously in respect of proposed capital projects in the energy sector.
- Parliament should ensure that the Department of Minerals and Energy and Eskom make transparent which financing mechanisms they intend to use for the proposed 2500MW new nuclear build.
- Parliament should ensure that Eskom is more transparent, making loan agreements and contracts publicly available.
- Compliance with conditions set by Treasury for public entities receiving bail-outs or loan guarantees, should be monitored as part of Parliament's oversight role; and officials in public entities not meeting the requirements should be called before committees to account.
- The shareholder compacts for all public entities should be made available in the public domain for scrutiny.
- Appropriations and Finance Committees should request full costings for infrastructure projects; including provisions for decommissioning of plants and management of radioactive waste.

- Government should abandon nuclear energy entirely. South Africa does not need nuclear in its energy mix, as it is a costly and unsafe power generation option.

4.9 Individual submissions

Ms T Armstrong voiced concern over the fact that money had to be appropriated from the National Revenue Fund for the requirements of the State; as she did not trust the State in light of all the fraud and corruption that had occurred. Mr B Jacobs made his submission as Chief of the Griqua-Khoisan Tribal House and requested that immediate provision be made to recognise the Khoisan as the first indigenous people of South Africa.

5. Observations and Findings

The Select Committee on Appropriations, having considered the inputs from the above stakeholders on the *Appropriation Bill* [B4-2020], made the following observations and findings:

- 5.1 The Committee welcomed the Bill, which allocates an overall amount of R963.1 billion horizontally across all national budget votes in terms of economic classifications and specific departmental programmes, and notes that such allocations exclude direct charges against the National Revenue Fund (NRF) and that 67 percent of the allocation goes to transfer budgets and only 27 percent is earmarked for current payments combined with payments for capital assets and payments for financial assets.
- 5.2 The Committee further welcomed the increase in the non-interest expenditure of the main budget, which will grow from R1.54 trillion in 2020/21 to R1.65 trillion in 2022/23, relative to the 2019 Budget. While on the other hand noting net non-interest spending reductions totalling to R156.1 billion over the next three years, which is largely due to the proposed reduction of R160.2 billion to the public service wage bill. The Committee is also concerned about the consultation process between the government and labour in this regard.
- 5.3 While the Committee supports the budget reprioritisation process, it has noted with concern the service delivery implications emanating from the baseline reductions of conditional grants and national and provincial programme spending. The Committee further notes that reductions were mostly made in under-performing or

under-spending programmes such as in the human settlements and public transport sectors. However, the Committee is also concerned about reductions made to infrastructure programmes which are vital for the COVID-19 emergency response.

- 5.4 The Committee observed that there is an urgent need to prioritise land reform in order to enhance agricultural productivity through incentives to reduce food prices, improve land administration to strengthen security of tenure, and reduce poverty through job creation in the agricultural sector, expand food security as well as providing the necessary support to both emerging and well established farmers.
- 5.5 The COVID-19 pandemic has had dire negative implications for many small, medium, and micro enterprises and many skilled and unskilled workers have lost their jobs. This will contribute to high unemployment, poverty, inequality and negative growth of the economy.
- 5.6 The Committee observed that the pandemic has also necessitated a need to review some conditional grants and other line item expenditures in order to find funds to create a safety cushion for the poor and also contribute to stimulating economic growth.
- 5.7 The Committee is concerned that the government's debt trajectory has critically worsened as a result of sustained weakening in the growth outlook and the materialisation of contingent liabilities from state-owned entities (SOEs) as it is expected to increase by a further R869 billion over the medium term period.
- 5.8 The Committee notes the increase in the demands for health resources due to the need to expand and improve health facilities, infrastructure and other important measures as a result of the pandemic; and the need for government to expedite the implementation of the National Health Insurance (NHI). However, the Committee is concerned that the rapid growth in debt service costs currently outstrips and crowds out spending on most aspects of government service delivery programmes, like health and community development.
- 5.9 The Committee notes the R44 billion set aside for recapitalisation of state-owned entities (SOEs); however, it remains concerned about the amount of resources shifted away from service delivery programmes addressing unemployment, poverty and inequalities in the poor and vulnerable communities, to continuously bail out the ailing public entities without yielding any tangible turnaround and value for money.

- 5.10 The Committee notes with concern the slow progress by the communications sector in implementing and releasing the broadband spectrum in order to leverage private sector capabilities for lower data costs and ensure higher internet speed.
- 5.11 The Committee notes with concern the fact that some government entities are currently not audited by the Auditor-General of South Africa (AGSA) and the level of corruption, maladministration, malfeasance and collapse is an indication of an urgent need to address weak governance and internal structures.
- 5.12 The Committee notes the need for the Land Bank and its intermediaries to improve support for the previously disadvantaged and emerging farmers who need guidance and training on how to access financial support from the Bank in order to enhance agricultural development in the country. The Committee further observed the need for government to improve the funding model of the Agricultural Research Council (ARC) and to encourage Agriculture as a subject from primary and high school level.
- 5.13 The Committee notes the need to retain the COVID-19 Social Relief of Distress Grant even beyond the pandemic to assist unemployed people, providing a safety net for the poorest of the poor, given the increasing levels of the triple challenges of unemployment, poverty and inequality in South Africa.
- 5.14 The Committee notes the urgent need to ensure proper budget management for provincial health departments and other departments to avoid financial irregularities during the COVID-19 procurement process. Moreover, the Committee notes that a balancing act or hybrid intervention is needed for government to ensure that it also ignites the economy while fighting COVID-19, since the two are not mutually exclusive.

6. Recommendations

The Select Committee on Appropriations, having been briefed and engaged with the above stakeholders on the *Appropriation Bill* [B4-2020], recommends as follows:

- 6.1 After gazetting the Bill, which allocates R963.1 billion across national budget votes for the requirements of the state as provided for in section 213(2) of the Constitution, the Minister of Finance should ensure that government departments

spend such allocations according to approved plans and within the ambits of the clauses of the Bill and other financial management prescripts.

- 6.2 The Minister of Finance, together with other ministers, should ensure that proper governance systems, fraud prevention mechanisms and internal controls are put in place to ensure full compliance and clear consequence management to prevent irregular, unauthorised and wasteful and fruitless expenditures. Furthermore, they should ensure that 2020 Audit Improvement Plans are implemented and monitored to address audit queries emanating from the 2019/20 financial year to enforce the proper usage of state resources.
- 6.3 In light of the current reforms being implemented in various state-owned entities (SOEs), such as Eskom and South African Airways, and government having continuously injected liquidity and/or financial support and provided guarantees to others, the Minister of Public Enterprises should submit an updated report to Parliament on the progress made with respect to implementation of the recommendations of the Presidential Review Report on State-Owned Entities. The review was commissioned in 2011 with the intention to make recommendations to reshape and make SOEs relevant to the developmental needs of South Africa. This updated report should be tabled in Parliament before 30 September 2020 or within three months after the passing of this Bill by Parliament.
- 6.4 Whilst the Committee is mindful of the capacity and resource challenges which may be facing the Auditor-General of South Africa (AGSA), to avoid repeating the financial crisis and corruption that has occurred at Eskom, and subject to section 181(5) of the Constitution, the AGSA should incrementally start auditing most of the state-owned entities (SOEs). The Committee believes that this could assist in identifying problematic areas and make recommendations to strengthen and enhance governance structures to improve the daily operations of SOEs; and further assist in stabilising some SOEs and reduce financial dependency on government funding.
- 6.5 The Minister of Agriculture, Land Reform and Rural Development should consider gradually increasing support to previously disadvantaged farmers and other well-established farmers in general. This may assist in reducing high levels of poverty, inequality and unemployment through job creation in the agricultural sector. Moreover, the support to farmers will benefit the country through accumulation of volumes of food reserves and provide food security. The Department should strive to make available the unutilised and undistributed state land to previously disadvantaged South Africans.

- 6.6 The National Treasury needs to address the financial challenges of the Land Bank urgently and work closely with the Land Bank and continuously monitor the support the Bank and its intermediaries provide to previously disadvantaged and emerging farmers who might need guidance and training on how to access financial support from the Bank, in order to enhance agricultural development in the country.
- 6.7 The Minister of Social Development, together with the Minister of Finance, should explore how the current COVID-19 Social Relief of Distress Grant could be retained after the pandemic and be converted into a permanent social assistance grant for unemployed people between the ages of 18 and 59 years. This may provide a safety net for the poorest of the poor, even though it would never be enough to cater for all, considering the current economic situation in our country.
- 6.8 The Committee is of the view that, as much as governments around the world are expected to play an important role in the management of COVID-19 and economic recovery, the national government should take advantage of the current crisis and implement fiscal policy measures that would seek to address socio-economic challenges faced by low income households.
- 6.9 At provincial level, all healthcare budgets should be protected and provincial treasuries should put in place clear monitoring mechanisms for expenditure and performance and corrupt practices should be prevented at all times. Government should expedite the implementation of the National Health Insurance (NHI) in order to ensure that there is equal access to healthcare services for all South Africans, more resources and savings need to be found in other inefficient and less effective programmes. Parliament, together with provincial legislatures, should monitor progress through effective oversight and in-year monitoring.
- 6.10 At local government level, the reprioritisation should not affect budgets meant for provision of basic services like water and sanitation, and infrastructure development and maintenance. On the other hand, when national government implements reprioritisation, local government should receive priority in areas such as human resources and institutional support in order to enable this sphere to spend its infrastructure budget, particularly because local government is at the coalface of service delivery.
- 6.11 The reprioritisation of the education sector budget should ensure that rural schools receive much needed support for the management of COVID-19, given that schools are expected to open gradually across all provinces.

- 6.12 Due to the harsh realities of COVID-19, the local government sphere should receive a budget or conditional grants to provide social relief to small, medium and micro enterprises and informal traders affected by COVID-19 as part of the local economic development stimulus.
- 6.13 Increased budget allocations at local government level and provincial departments of social development should guarantee that they are able to provide social relief for poor or low income households affected by COVID-19 across provinces, especially rural provinces. This is also important to support consumption expenditure to boost the economy.
- 6.14 Reprioritised budgets should be deliberate in addressing the needs of vulnerable communities, including women, children, youth and people living with disabilities; and also protect care givers and single parents.
- 6.15 Budget reprioritisations should protect economic infrastructure budgets, as the spending is important to support economic recovery.
- 6.16 Government should follow a systematic approach to reprioritise the budget. This should include use of data for previous years' spending patterns and performance information to identify slow spending and non-performing programmes and votes. However, in the process of reprioritising the budget, measures should be put in place to protect conditional grants such as the Education Infrastructure Backlogs Grant, the National School Nutrition Programme Grant, the Early Childhood Development Grant, all health conditional grants, and the Public Transport Grant.
- 6.17 For the purposes of monitoring expenditure, government should ensure that information provided on planning, implementation and reporting on conditional grants, is useful for oversight purposes and information should be provided timeously in a simple and understandable format.
- 6.18 Given the need for economic growth, investment attraction and in order to successfully compete with other emerging economies, government should expedite the implementation and release of the broadband spectrum in order to improve internet speed and leverage private sector capabilities and ensure lower data costs.
- 6.19 Whilst the Committee fully supports the need to reduce unproductive spending, even more now with the implications of the COVID-19 pandemic, every effort should be made in the supplementary budget to ensure that budget reductions do not affect core service delivery, including frontline services.

6.20 Having noted COSATU's indication that it was willing to engage with government in good faith, the Committee urges government to take further steps to engage appropriately with the public sector unions on the wage bill and other conditions of service issues such as personal protective equipment (PPEs) in the health sector.

7. Conclusion

After having complied with section 12 of the Money Bills and Related Matters Act No 9 of 2009 (as amended), the Select Committee on Appropriations, having considered the *Appropriation Bill* [B4 – 2020], referred to it, and classified by the Joint Tagging Mechanism as a section 77 Bill, reports that it has agreed to the Bill, without amendments.

The Economic Freedom Fighters and the Freedom Front Plus did not support the Bill, and the Democratic Alliance reserved its position on the Bill.

Report to be considered.