



BUDGET

23 FEB 2022

ACCOUNTING FOR
IMPLEMENTATION

**Standing Committee on
Appropriations**

**Public Hearings on the
2022 Appropriations Bill
31 May 2022**

Dr Sharon Smulders
Pieter Faber

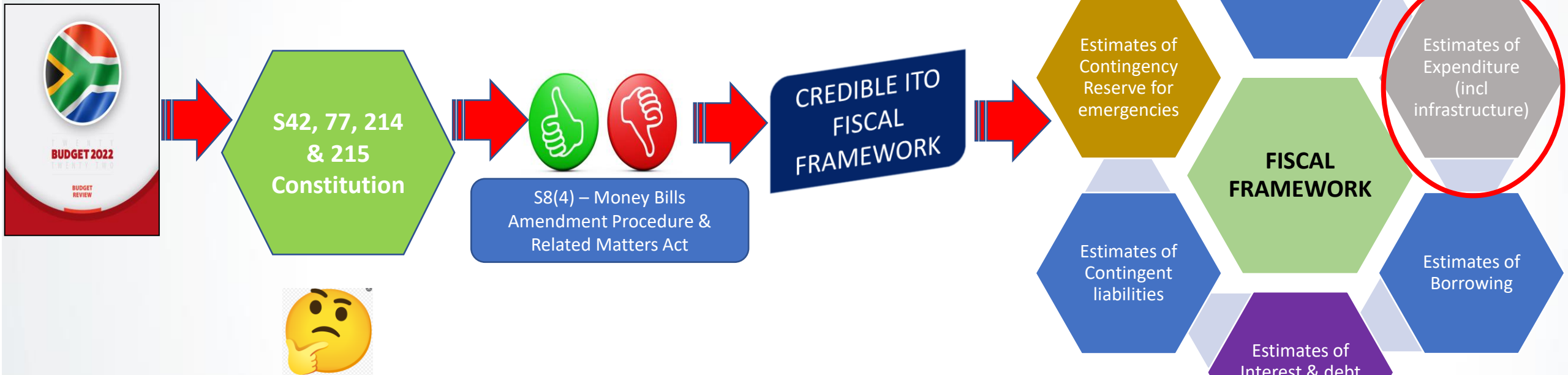
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COMMITTEE MANDATE & FISCAL FRAMEWORK

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Section 42.

(3) The National Assembly is elected to represent the people and to ensure government by the people under the Constitution. It does this by choosing the President, by providing a national forum for public consideration of issues, by passing legislation and by scrutinizing and overseeing executive action.

COMMITTEE MANDATE & FISCAL FRAMEWORK



(4) A committee on appropriations has the powers and functions conferred on it by the Constitution, legislation, the standing rules or a resolution of a House, including considering and reporting on—

- (a) spending issues;
- (b) the Division of Revenue Bill, the Appropriation Bill, Supplementary Appropriation Bills, the Adjustments Appropriation Bill, and amendments thereto;
- (c) recommendations of the Financial and Fiscal Commission, including those referred to in the Intergovernmental Fiscal Relations Act, 1997 (Act No. 97 of 1997);
- (d) reports or statements on actual expenditure published by the National Treasury; and
- (e) any other related matter set out in this Act.

The Act and Standing Rules don't seem to provide for different committees like SCoF & SCoA to consult each other?



Questions Parliament needs to ask itself:

1. The accountability and credibility of macro economic and fiscal policy framework is with Parliament as the Constitutional oversight body. Is it meeting that mandate?
2. Is Parliament comfortable that it is meeting its mandate of holding the Executive to account on behalf of the people?
3. Is Parliament comfortable that there are no possible gaps in oversight due to separation of SCoF, SCoA and SCOPA with no formal consultation structure?

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Parliament should be comfortable that (section 214 & 215 of the Constitution):

- budgetary processes promote transparency, accountability and the effective financial management of the economy, debt and the public sector.
- proposals for financing any anticipated deficit for the period to which they apply; and
- an indication of intentions regarding borrowing and other forms of public liability that will increase public debt during the ensuing year
- the national interest, the needs and interests of the national government, determined by objective criteria
- the need to ensure that the provinces and municipalities **are able to** provide basic services and perform the functions allocated to them
- the fiscal capacity and efficiency of the provinces and municipalities
- the need for flexibility in responding to emergencies or other temporary needs, and other factors based on similar objective criteria

“VIP UNIT” VS “NPA” BUDGET

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VIP Protection

4 National Prosecuting Authority

Provide a coordinated prosecuting service that ensures that justice is delivered to victims of crime through general and specialised prosecutions. Remove profit from crime. Protect certain witnesses.

Of which

Departmental agencies and accounts

– Safety and Security Sector Education and Training Authority:
Operations

4 910 265

VS

5 Protection and Security Services

Provide protection and security services to all identified dignitaries and government interests.

3 496 325



Question Parliament needs to ask itself:

1. Should the VIP unit be allocated relatively more money than the NPA considering the number of individuals these units serve?
2. Considering the critical and urgent role of the NPA, do members believe that the NPA is appropriately funded?

What does this tell the people of Parliament's view on equality and service?

Short R1.7bn to prosecute state capture cases & to modernize department

POLICE BUDGET

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Unrealistic budget expectations

Police vs Police Services Budget?

R2,9bn wage increases

SONA & Budget 2022
Where will 12 000 new recruits salary come from?

TVM: R97bn after 3 years inflation @ 5%

FATF 'grey list' – Oct 2022 (SAPS needs more forensic investigators/accountants)

IMPACT of being on 'grey list' – Significant negative impact on capital inflows

Vote	Main Division	Current Payments				Transfers and Subsidies	Payments for Capital Assets	Payments for Financial Assets
		Compensation of Employees	Goods and Services	Interest and Rent on Land				
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
28 Police Purpose: Prevent, combat and investigate crime; maintain public order; protect and secure the inhabitants of South Africa and their property; and uphold and enforce the law.	100 695 315	79 137 378*	16 736 234		1 259 399	3 562 304		

Table 5.4 Consolidated government expenditure by function*

	2021/22 Revised estimate	2022/23 Medium-term estimates	2023/24	2024/25	Percentage of total MTEF allocation	Average annual MTEF growth
R million						
Police services	108 453	110 220	108 577	114 222	6.0%	1.7%

Question Parliament needs to ask itself:



1. How will the promised appointment of 12 000 additional police officers be funded if after adjusting for inflation the police will have a lower budget in 2025 than in 2022?
2. Do members know why there is a difference between the Budget allocating R110 billion to police services and the Appropriation Bill allocating R100 billion to the police?
3. Is Parliament willing to accept the accountability should FATF puts SA on “Grey List” due to Government failing to meet what it undertook to do to curb money laundering risks?

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CONTINGENCY RESERVE

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Used as a “suspense account” for **foreseen** expenditure rather than for **unforeseen** emergencies (natural disasters/pandemics etc.)



Since the budget in Feb 2022:
Floods in KZN



How will the flood damage be funded?

“The committee asked if another Appropriation Bill was in the pipeline to deal with the aftermath of the floods in KwaZulu-Natal and the Eastern Cape. National Treasury said for now, this was not expected as the response has been included in the existing budget.”

“Municipalities, whose financial year ends in June, can divert some of their remaining funds as needed for the disaster. Around R1 billion has been allocated to the Department of Human Settlements (DHS) and CoGTA. Considering that the financial year has only just started, departments have the opportunity to move some of the funding that was appropriated to deal with the disaster. Departments can also apply for unforeseeable and unavoidable expenditure, which will be considered around June or July. The contingency reserve will be used to deal with the requests.”

National Treasury

Question Parliament needs to ask itself:



1. Are members satisfied that the contingency reserve is used as a 'suspense account' to pay known liabilities e.g. the R5 billion to the Land Bank rather than an account providing for unforeseen emergencies?
2. Is the SCoA satisfied that if the municipalities/departments reallocate their money from their current budgets as suggested by National Treasury to fund the flood relief claims, that service delivery will not be negatively impacted?

CONTINGENCY RESERVE

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Used as a “suspense account” for **foreseen** expenditure rather than for **unforeseen** emergencies (natural disasters/pandemics etc.)



Since the budget in Feb 2022:
Floods in KZN



Table 3.7 Consolidated operating and capital accounts

	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Outcome			Revised estimate	Medium-term estimates		
R billion/percentage of GDP							
Contingency reserve	–	–	–	–	10.0	5.0	5.0
Unallocated reserve	–	–	–	–	–	25.0	30.0

Land Bank

(5)

Flood damage costs – available immediately

(1)

Flood damage costs - remaining

(17 to 25)

SUB-TOTAL

(13 to 21)

SAA

(3.5)

BALANCE - underfunded

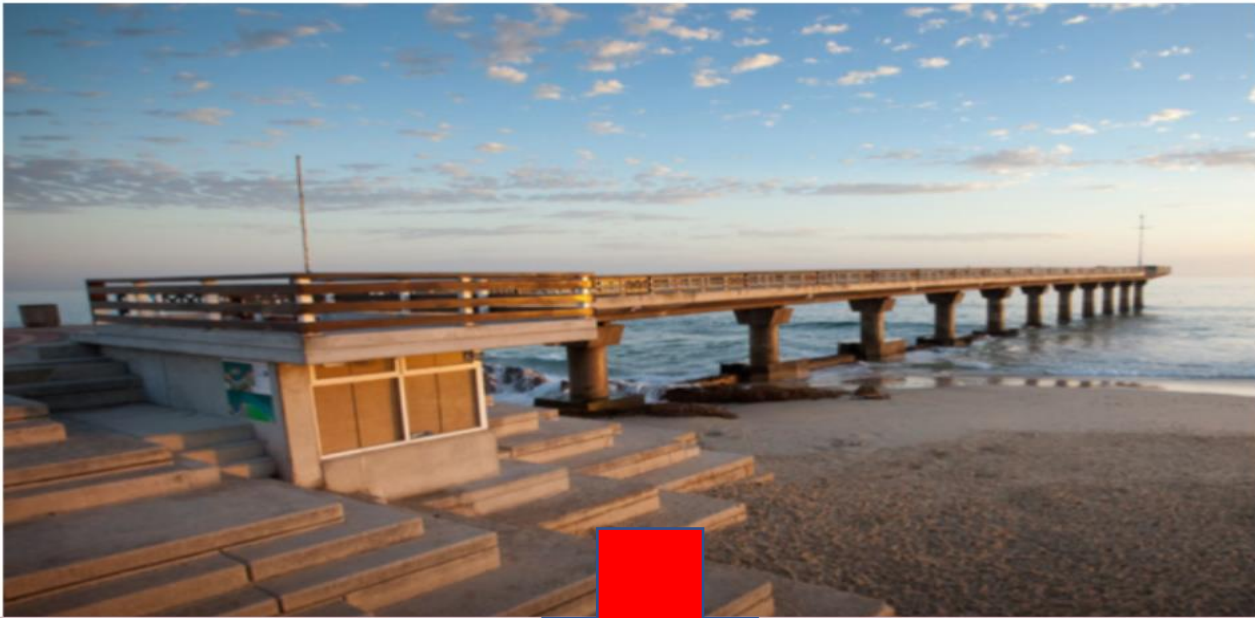
(16.5 to 24.5) ?

CONTINGENCY RESERVE

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One of South Africa's biggest cities faces a water 'day zero' this month

Staff Writer 3 May 2022



© 25 May

'It's a sin': Parliament slams Dept of Water and Sanitation for failing to spend R2bn of its budget

BUSINESSTECH

news24
Trusted News. First

Defence and Military Veterans minister, Thandi Modise 24 May 2022

"I must inform this house that the SANDEF will be hard-pressed to respond to critical events in other provinces should the need arise. I state this with a very heavy heart – we are willing, but we lack resources. Unless there is a significant intervention – the cupboard will remain bare," she said.

South Africa's army is on life support

Staff Writer 24 May 2022



BUSINESSTECH

Question Parliament needs to ask itself:



1. Do members know where the additional funds will come from to make up for the shortfall in the contingency reserve due to the floods – that is will further debt need to be taken out to fund this shortfall?
2. Will the additional funding (R3.5 billion) required for SAA also be funded from the contingency reserve, pushing it even more into the red?
3. If further real unforeseen emergencies occur, will the government have sufficient financial resources to address these emergencies considering the estimated balance of the contingency reserve over the next three years?

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SARS FUNDING

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FUNDING FOR MANDATE

Insufficient funds (**R9bn** over 3 years)

GRAP implementation? NT will continue to engage

STRIKES OVER WAGES

Employees demanding 7% increases

Funding from SARS savings

IMPACT ON SERVICE DELIVERY

Increasing taxpayer complaints & dissatisfaction

Compliance costs increase & Compliance behaviour affected

SARS electronic systems

Oversight over SARS?



Questions Parliament needs to ask itself:

1. Does SARS have sufficient resources to meet the optimistic revenue forecasts so it can target non-compliant taxpayers & ensure acceptable service delivery to compliant taxpayers, so as not to affect their tax compliance behaviour?
2. Are members aware of why there is a 10 year delay in the implementation of GRAP at SARS?

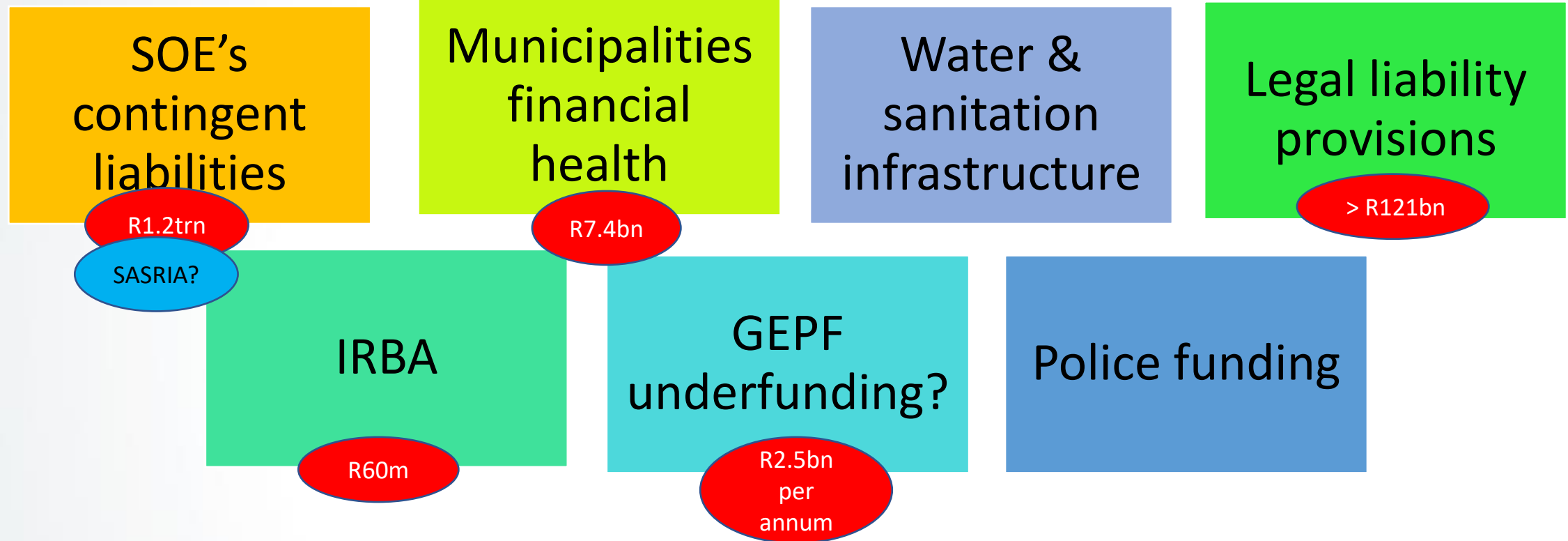
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UNBUDGETED EXPENDITURE

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Questions Parliament needs to ask itself:

1. Is the budget credible without considering these expenses?
2. From where is government going to obtain the additional R2.5 billion per annum needed to fund the shortfall in the GEPF?



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PRE-SPENDING ON NEXT YEAR'S BUDGET

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Auditor General Report

Key financial health indicators at departments – sustainability

Indicators	2020-21
Sustainability	
Deficit (expenditure exceeded revenue)	R41,74 billion
Number of departments with deficit	32% (50)
Cash shortfall (bank overdraft less prepaid expenses/advances plus money to be surrendered to treasury)	R33,29 billion
Number of departments with cash shortfall	61% (89)
>10% of following year's budget (excluding employee cost and transfers) will fund current year's shortfall	18% (27)
Bank in overdraft	19% (30)
Estimated settlement value of claims against the state at year-end	R166,07 billion
Number of departments with unsettled claims	94% (138)
Claims settlement value >10% of following year's budget (excluding employee cost and transfers)	37% (55)



Departments/Municipalities will start their 2021/22 financial year with a part of their budgets effectively pre-spent





Question Parliament needs to ask itself:

1. Are members satisfied that allocating more resources to departments/municipalities that are unable to operate within their budgets is acceptable?
2. Are members satisfied that service delivery budget for will not be impacted by the pre-spending of budgets?

30 DAY PAYMENT RULE FOR SMEs

PFMA Act

Section 38(1)(f) of the Public Finance Management Act (PFMA), 1999 (Act No. 1 of 1999) requires the accounting officer for a department to settle all contractual obligations and pay all money owing, including intergovernmental claims, within the prescribed or agreed period.

Treasury Regulation 8.2.3 states that: *"Unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, the date of settlement or court judgement"*.



Table 8: National Departments

Departments that recorded the highest Rand Value of Invoices paid after 30 Days

Name of Department	2020/2021 Rand Value of invoices	%
Water and Sanitation (including trading account)	R2,9 bn	70%
Defence	R1,1 bn	27%
Public Works (including PMTE)	R909 m	2%
Total	R4,1 bn	99%

Eastern Cape

Gauteng

North West

Table 9: National Departments

Departments that recorded the highest Rand Value of Invoices Older than 30 Days and Not Paid

Name of Department	2020/2021 Number of invoices	%
Water and Sanitation (including trading account)	R397 m	95%
Public Works (including PMTE)	R17 m	4%
Total	R415 m	99%

Gauteng

Eastern Cape

North West



2021	National	Provincial
# of invoices paid after 30 days (National Departments)	77 708	227 190
Rand value of invoices paid after 30 days for 2021	R4.1bn	R25.9bn
# of invoices older than 30 days & not paid at end of 2021	323	37 506
Rand value of invoices not paid after 30 days for 2021	R0.415bn	R5.3bn

30 DAY PAYMENT RULE FOR SMEs

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Recommendations by NT:

Include 30-day rule in performance agreements

Disciplinary action if fail to comply

Accounting officers (AO) to ensure timely sign off & submissions

AO & CFO to address root cause of delays/non-submissions

Develop systems to monitor the above

This is an agenda item at each EXCO meeting

AO to implement recommendations to improve compliance



Question Parliament needs to ask itself:

1. Is all being done to ensure reasonable levels of compliance by national and provincial departments with the requirements to pay invoices within 30 days?
2. Are members aware if the payment of invoices within 30 days are included in the performance agreements of accounting officers, CFOs and other officials working in this area and if so, have the necessary disciplinary actions been taken against those who fail to comply with the requirements?

APPROPRIATION VS PERFORMANCE

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Proper oversight

Appropriate intervention

Future revenue/costs

Historic revenue/costs

Historic service
delivery & spending
trends

?

?

Pre-spending of
following year's
budgets

Budget
increases for
Departments
not meeting all
their targets



Questions Parliament needs to ask itself:

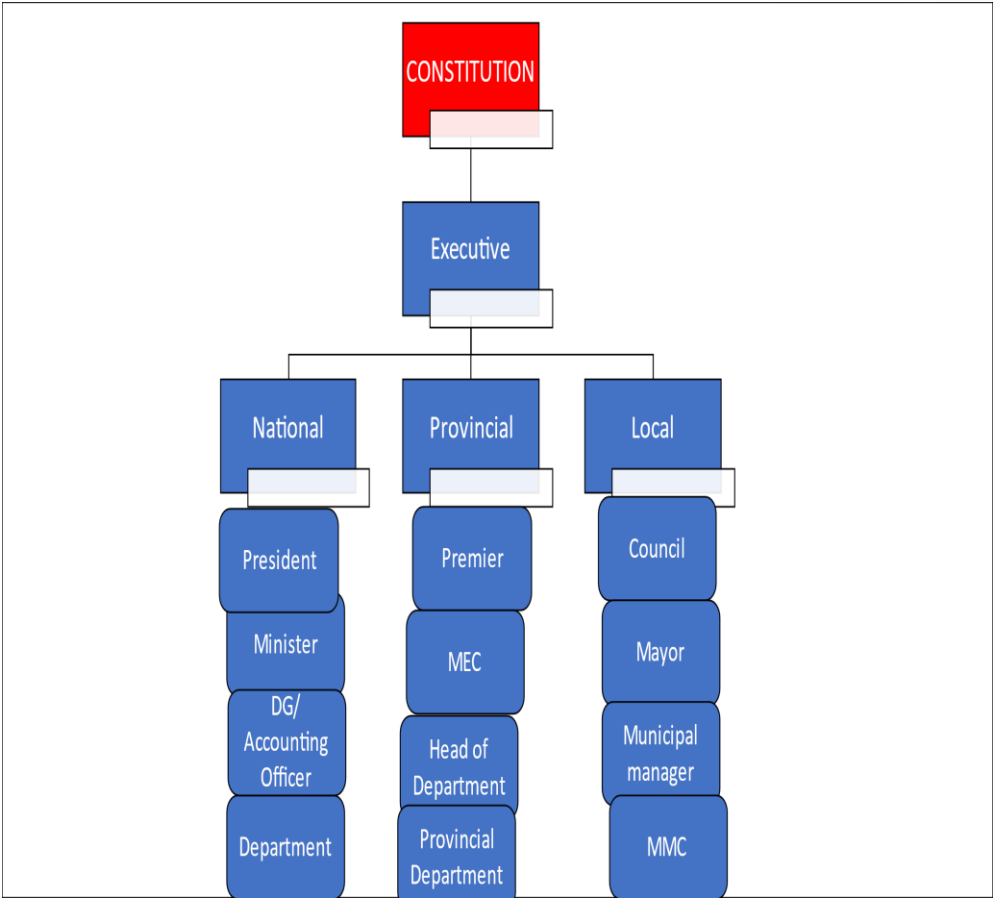
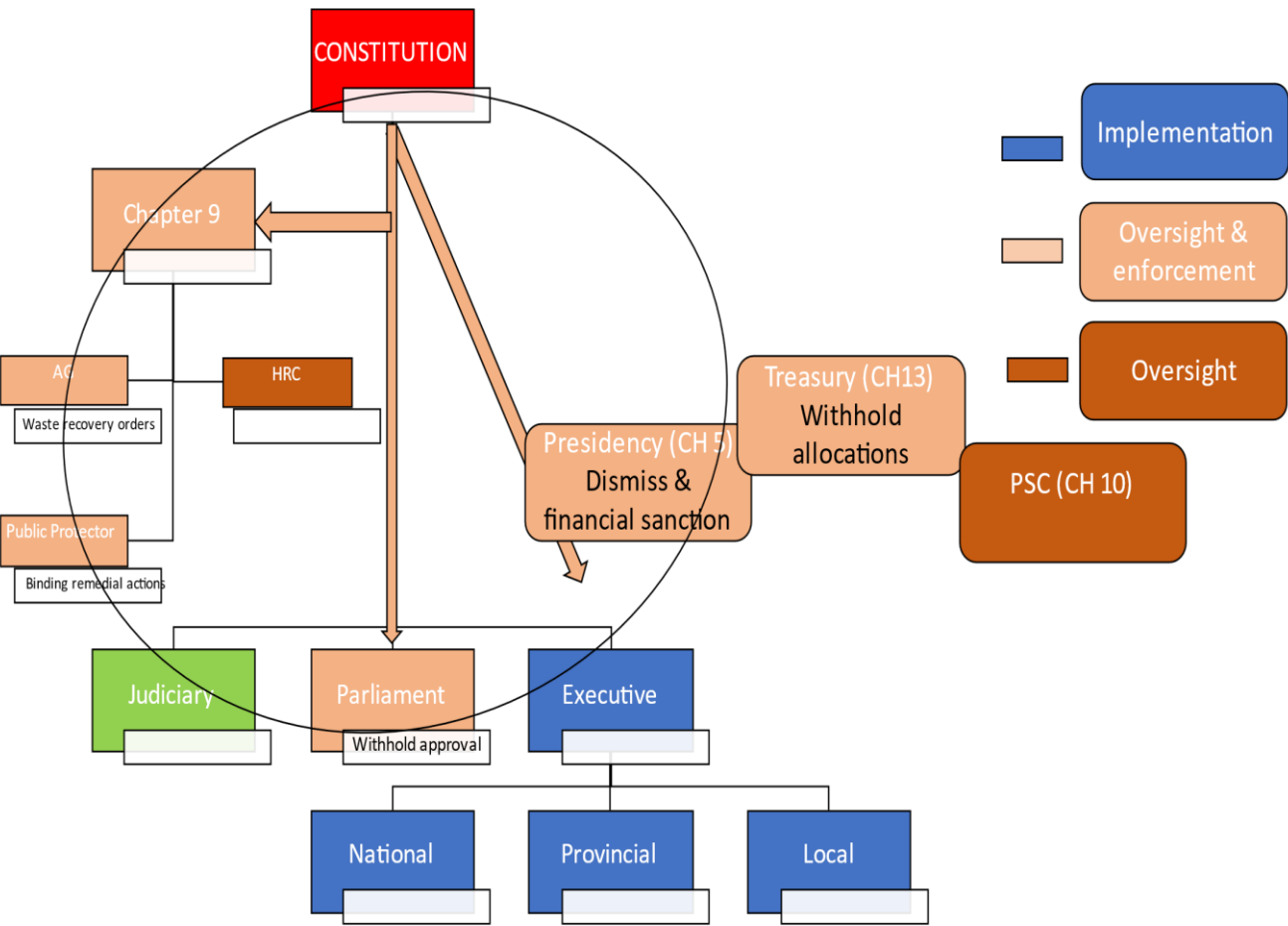
1. Can proper allocations be made without reviewing prior actual spending & performance?
2. Parliament (not just SCoF or SCoA) are responsible for the credibility of the budget. Should SCoA, SCoPA and the relevant portfolio committees not join the SCoF during their public hearings to ensure there are not gaps in the budgets?

We recommend that Parliament review its committee mandate separating these committees to ensure that oversight obligations don't fall in-between the cracks and that Parliament is effective as a single collective arm of government.



OVERSIGHT & ACCOUNTABILITY

Who is responsible for implementation of fiscal sustainability?

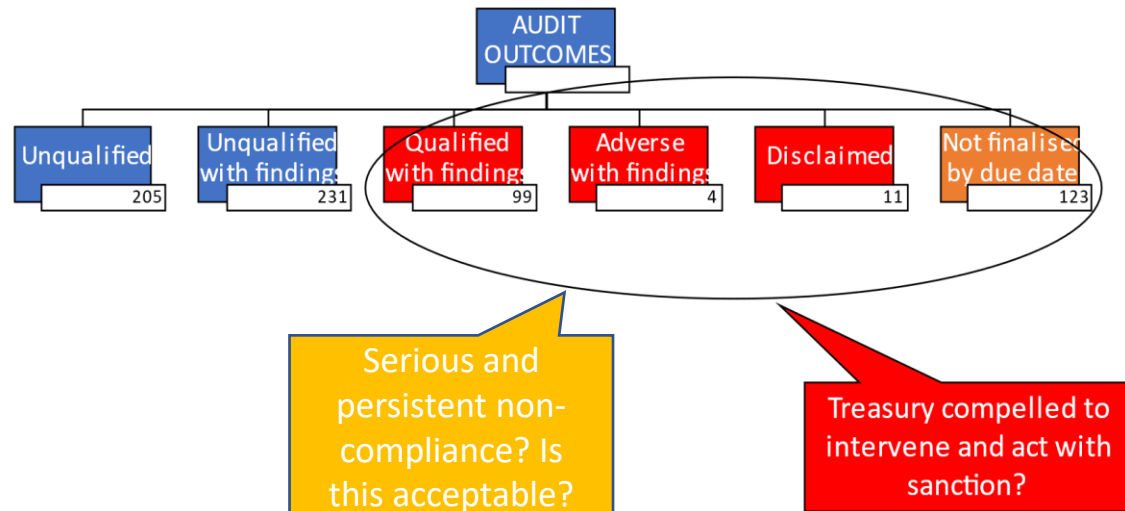


OVERSIGHT AND ACCOUNTABILITY

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Is the Budget credible? Is it accurate and implementable?

Audit findings and serious/persistent non-compliance (s216(2) Constitution) 2021



Questions Parliament needs to ask itself:

1. Were those in charge of these entities held accountable? Does Parliament know the answers to this?
2. Is Parliament satisfied that the National Treasury has been sufficiently implementing its s216 obligation on Treasury Controls to prevent pre-spending of budgets and pure disregard for financial management in many government entities?





Questions Parliament needs to ask itself:

1. Is Parliament using its enforcement rights by amending budgets to ensure that the Executive is held accountable for fiscal discipline failures and maintain economic unity?
2. Has Parliament adequately interrogated the Budget and its assumptions to ensure that its outcomes will realise?
3. Is Parliament's credibility at risk if the above has not been done?

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THANK YOU

