

SECTION27's analysis of the MTBPS and 2011/12 adjustments budget

On 25 October 2011 the Minister of Finance, Pravin Gordhan, tabled the Medium Term Budget Policy Statement (MTBPS) at a sitting of the National Assembly. The MTBPS broadly outlines Government's proposed spending plans for the next three years. It also provides an opportunity for Government to make adjustments to this year's budget to cater for changes in expenditure and provide for unanticipated expenses.

SECTION27 believes that on the whole the MTBPS, within the constraints set by an economy still struggling to recover from the global financial crisis, provides a good balance between the need to sustain economic growth and create jobs on the one hand, and continue to expand social services on the other. We do, however, have a number of concerns. In summary, these are as follows:

- The shift in expenditure from consumption to infrastructure investment, while important in creating jobs and sustaining economic growth, has the potential to put a great deal of strain on allocations for critical goods and services such as medicines, school supplies and social assistance.
- Increases in infrastructure spending will only have their intended effect if the government overcomes existing problems with infrastructure projects and spending such as poor planning, ineffectual oversight and rampant fraud and corruption.
- There was no clear commitment to the allocation of resources for National Health Insurance (NHI) and its piloting in ten districts in the next financial year. While it is not feasible to establish an NHI-specific budget at this stage, the Minister must show a clear commitment to this process in all budget documentation going forward.
- The National Strategic Plan for HIV & AIDS, STIs and TB, 2012-2016 ("the NSP 2012-2016") will be launched on 1 December 2011; it will require substantial financial resources for its full implementation. We are concerned in the MTBPS documentation

there has been no commitment to ensuring that sufficient resources will be made available for the first year of implementation starting on 1 April 2012.

- Clear and sustainable plans must be developed to ensure that the rapidly increasing public sector wage bill does not compromise expenditure in other areas such as the purchase of goods and services.
- No provision has been made for overcoming the growing health budget crisis in Gauteng and other provinces potentially, The Gauteng Department of Health and Social Development currently has accruals totalling more than R1.4 billion and is unable to pay many of its suppliers and service providers for goods and services delivered.

Increases in spending vs. growing budget deficit and government debt

SECTION27 welcomes the Government's commitment to sustaining growth in expenditure over the medium term. Within the context of lower-than-expected economic growth in 2011 and tax revenue only totalling R729 billion (R13 billion less than expected at the beginning of the year), the Minister has managed to sustain real increases in spending of 2.3% per year over the upcoming Medium Term Expenditure Framework (MTEF).

Even though this will require the government to borrow money, which will see the Government's debt increase from 23% of total economic output (Gross Domestic Product) in 2009 to 40% in 2015, we believe this is a necessary trade-off in ensuring jobs are created and spending in key service delivery is sustained. In particular we welcome increases in spending in the following areas:

- Increases in spending on education of 6.7% per year which will total R223 billion by 2014/15;
- Increases in health expenditure of 7.4% per year that will see this budget increase from R113 billion in 2011/12 to R140 billion by 2014/15; and
- Increases in spending on local government, housing and community amenities that will rise from R122 billion in 2011/12 to R146 billion by 2014/15

Infrastructure spending

We do, however, note that in order to balance service delivery expenditure with job creation and economic growth the Government intends to shift expenditure from consumption to infrastructure investment. The government sees investment in infrastructure development and maintenance as a key driver in job creation over the long term. Over the MTEF (2012/13-2014/15) this will total more than R800 billion. Of this:

- R 292 billion investment in the energy sector;
- R226 in transport;
- R39 billion in public health facilities;
- R32 billion in education infrastructure;
- The remainder will go to municipalities and provinces for housing and economic development.

While we are not in principle opposed to structuring spending in this way, there are two issues that we believe must be taken into consideration. The first is that increases in infrastructure spending should not compromise the delivery of goods and services such as medicines, medical supplies, school supplies and any other consumables necessary to sustain service delivery.

Analyses of the Gauteng and Eastern Cape Health budgets completed by SECTION27 earlier this year¹ show that goods and services budgets are already under severe strain and have the potential to hamper service delivery in these provinces. According to recent media reports, the Gauteng Department of Health and Social Development is already failing to pay for goods already delivered and services already provided; this is starting to compromise the quality of and access to services at health care facilities.

The second issue we wish to highlight is that the benefits associated with increased infrastructure spending will only be seen if these resources are used appropriately and not lost through fruitless and wasteful expenditure or fraud and corruption. For example, the Auditor General's recent report on a performance audit of the infrastructure delivery process in provincial departments of health and education contained some damning findings.² The

¹ Copies of the analyses are available at <http://www.section27.org.za/2011/04/13/5th-bemf-meeting-analysis-of-the-eastern-cape-and-gauteng-health-budgets/>

² A copy of this report is available at <http://www.section27.org.za/wp-content/uploads/2011/09/performance-audit-of-the-infrastructure-delivery-process.pdf>

report highlighted a failure of all departments to plan, implement and manage infrastructure projects appropriately. This has resulted in chronic under-spending on infrastructure budgets in many of these departments and unchecked fraud and corruption that has been allowed to run rampant.

Funding for the piloting of the NHI

Noting that the Minister of Finance recognised the importance of NHI, we are troubled that this has not been matched by any clear financial commitment to implementation within the MTBPS.

While we are aware that the Minister stated that he is “looking at a figure of R500 million” (in a statement issued subsequent to the tabling of the MTBPS), it is important that these commitments are reflected in budget and policy documents.

Even though it may not be feasible to provide for an NHI-specific budget at this stage, it is important that funds being made available for the ten NHI pilot districts to be launched in the next financial year must be clearly demarcated.

It is also important that in the formulation of budgets and allocation of resources for health going forward, there is a more careful consideration of the needs of and planning for NHI.

Resources for the implementation of the NSP 2012-2016

On 1 December 2011 the NSP 2012-2016 will be launched as part of World AIDS Day celebrations. The plan, which will outline South Africa’s response to the three identified health priorities for the next five years, is one of government’s most important policy documents. It will outline how a range of identified interventions will be introduced, scaled-up and/or improved. If the strategic objectives in the NSP 2012-2016 are to be achieved, adequate resources will have to be allocated in respect of all identified interventions.

There is no mention of the NSP 2012-2016 in the MTBPS, or if provision is being made to ensure that sufficient resources will be made available for its implementation (starting in April 2012). It is important that from the first year of its implementation, budget shortages do not hamper service delivery.

It is essential that the Minister articulates clearly what provision is being made for the NSP 2012-2016 well before the beginning of the next financial year.

Adjustments to the 2011/12 budget

In addition to the MTBPS, the Minister tabled also tabled the 2011/12 adjustments budget. In this budget provision has been made for additional allocations totaling R10.3 billion.

Almost half (R4.5 billion) of this will be used to fund higher-than-expected wage bills for public sector employees. We believe that this is an important allocation. SECTION27's analyses of provincial health budgets and expenditure have revealed that substantial increases to this budget item, without the requisite increase in total allocations to departmental budgets, has resulted in declines in expenditure in other areas, particularly goods and services. This allocation should alleviate some of this pressure.

We do nevertheless remain concerned that not enough is being done to ensure adequate provision is made in allocations for the compensation of employees for necessary wage increases and the hiring of additional personnel in critical positions. It has become a growing trend that higher than budgeted for payments for salaries and benefits to government employees has forced many departments to divert funds from other areas such as goods and services budgets.

We do not, however, believe that the minister's statement that "more moderate cost-of-living adjustments for public sector employees than in recent years", on its own, is an adequate solution to the problem. There is a need to ensure that public sector employees are paid a fair wage and that every effort is made to ensure that funds are available to fill critical vacancies.

No provision for growing Gauteng Health budget crisis

It is with some concern that we note the adjustments budget makes no provision for dealing with the growing health budget crisis in Gauteng. According to recent media reports, accruals within the Gauteng Department of Health and Social Development total more than R1.4 billion and are steadily growing as the department fails to pay providers of goods and services.³

It has been reported that this failure to pay suppliers and service providers has severely constrained their ability to deliver; there are even reports that many suppliers and service providers are facing bankruptcy. This has forced many to ration, and in some instances stop delivering goods and services altogether.

³ See S Stone, "Health Minister urged to help secure health payments", *Business Day* (25 October 2011), available at [insert URL]

SECTION27 has written to the Head of Department in the Gauteng Department of Health and Social Development to raise these concerns and find out what is being done to rectify the situation. We are awaiting her response.

It is becoming increasingly clear that the department is unable to manage this crisis on its own; an urgent intervention by the Minister of Health is needed. This will undoubtedly also require some form of financial assistance from the National Treasury to ensure that services are not compromised any longer.

For further information or comments on this document please direct all correspondence to:

Daygan Eagar

eagar@section27.org.za

(011) 356-4108

072 249 3873