

## SECTION27 STATEMENT ON THE 2012/13 BUDGET SPEECH

SECTION27 welcomes increases in the health care budget, but concerns remain

Finance Minister Pravin Gordhan delivered the 2012/13 Budget Speech to Parliament yesterday. Considering the difficult fiscal environment in which the 2012/13-2014/15 was formulated, SECTION27 welcomes the proposed increase to the health budget of R12.3 billion over the next three years. In particular, SECTION27 welcomes the Minister of Finance's announcements that:

- More than R1 billion has been allocated through a conditional grant for the National Health Insurance pilot projects and increases in primary health care visits over the next three years;
- An additional R968 million has been allocated to fund antiretroviral treatment.
   This funding is to accommodate the increase in the CD4 count threshold at which ones becomes eligible for treatment (from 250 to 350 for all users), as well as the general increase in the number of patients requiring treatment in 2012/13;
- More than R426 million, over the medium term, has been allocated for major hospital revitalization
- An additional R450 million has been allocated for the upgrading of nursing colleges; and
- Procurement processes and systems will be reviewed and strengthened.

SECTION27 does, however, remain concerned that government's commitment to continue increasing funding for health may be undone by mismanagement, corruption, wasteful expenditure and a lack of capacity for implementation. In particular, SECTION27 is concerned that:

- The Minister did not provide any concrete details on the national government's long-term strategy to resolve the budget crises in provinces such as Limpopo and Gauteng;
- Increases in health infrastructure allocations will go to waste if the Department of Health's chronic inability to ensure that provinces spend what has been allocated to them is not resolved;
- Increases in allocations for various health priorities will be wasted if weakness in procurement, financial management and oversight are not resolved;
- Increases in allocations for HIV and AIDS programmes will not result in the expected expansion of these programmes unless problems relating to staffing, infrastructure and the payment of service providers are resolved; and

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• The Minister did not indicate whether progress has been made in implementing the Money Bills Amendment Procedure and Related Matters Act, 9 of 2009.

## National Health Insurance (NHI)

We are cautiously optimistic about the announcement that more than than R1 billion has been allocated for NHI pilot projects and increases in primary health care visits over the next three years.

According to the Division of Revenue Bill these funds will be allocated through a new National Health Insurance Grant. Initially this conditional grant will be used to:

- Test innovations necessary for implementing NHI;
- Undertake health system strengthening initiatives and support selected pilot districts in implementing identified service delivery interventions; and
- Strengthen the resource management of selected central hospitals.<sup>1</sup>

Recipients of the grant, such as the pilot districts and central hospitals involved in the first phase of implementation, will be required to develop detailed business plans which outline precisely how these funds will be used. The development of these plans is critical in ensuring that the piloting of NHI starts on a solid foundation. We urge Treasury and the Department of Health to take an active role in this process and to ensure that the pilot districts and central hospitals are closely involved.

### On funding the NHI through a VAT

We are concerned about the Minister's statement that an increase in the VAT rate is still being considered as an option for funding NHI. This would be a regressive measure that would disproportionately burden the poor. We therefore reject this proposal and call for progressive funding mechanisms that tax South Africans in proportion to their resources.

## **Provincial Interventions**

The National Government's recent decision to intervene in the administration of the provincial departments of health in Limpopo and Gauteng, in terms of Section 100 of the Constitution, is undoubtedly necessary and long overdue. For a number of years, these provinces have failed to account for expenditure, misused available resources, and generally failed to adhere to the requirements of the Public Finance Management Act.

The Minister acknowledged the importance of these interventions saying, "it has been necessary to take steps to address financial management weaknesses that have undermined service delivery and put financial sustainability at risk in several provinces".

While we agree with the Minister that current interventions have, to some degree, averted total collapse of services in the provinces, it remains unclear how these strategies

<sup>&</sup>lt;sup>1</sup> Division of Revenue Bill 4 of 2012, p. 137, available at http://www.treasury.gov.za/legislation/bills/2012/bills2012 bill04-2012.pdf

will resolve the resource crises over the long term. In the speech, as well as other budget documentation provided by Treasury on 22 February 2012, there was no discussion of what was being done to develop long term and sustainable solutions to overspending and financial mismanagement in these provinces. In our opinion, this was one of the major failings of the 2012 budget speech.

#### Infrastructure

Health infrastructure remains one of the most significant challenges in the delivery of health care services. It is therefore essential that the government's decision to continue to prioritize this area be supported.

That said, we are concerned that the additional funding will not be used. Our concern arises from poor performance in spending for health infrastructure in the past. An additional R426 million over the medium term has now been allocated for major hospital revitalization. An additional R450 million has been allocated for the upgrading of nursing colleges. These funds must be spent properly.

The Auditor General released an audit of Health and Education spending at the provincial level in August 2011.<sup>2</sup> The audit contained a number of troubling findings, including:

- Planning and prioritization of infrastructure projects is seldom completed on time;
- Communication and coordination between departments, agencies, communities and service providers was ineffective;
- Laws and regulations relating to supply chain and procurement were often not adhered to; and
- In many instances, service providers contracted to undertake projects did not have the necessary capacity or skill to complete projects. This resulted in projects being delayed and contracts being cancelled.

The Minister outlined a number of interventions aimed to improve infrastructure spending and delivery. However, these interventions have been implemented in the past, and have largely failed to generate the intended results. More urgent action to deal with financial mismanagement and corruption must be taken and departments must be held to account for under spending on infrastructure. Withholding infrastructure allocations due to under spending is clearly insufficient.

## Dealing with corruption in procurement

The Minister's announcement that steps will be taken to strengthen oversight of government procurement processes should be welcomed. The Minister announced a number of important interventions including: the development of a national price reference system, re-engineering the procurement system, and the appointment of a Chief Procurement Officer at the national level to oversee the entire system.

<sup>&</sup>lt;sup>2</sup> This report is available here: http://www.agsa.co.za/audit-reports/SAR.aspx

However, the devil is in the detail, and we urge Treasury to make all proposals and planning documentation relating to these reforms open for public comment. We also maintain that Treasury must make public details of all instances of corruption and what is being done to ensure that officials involved in these acts are held to account.

## HIV/AIDS, STIs and TB: Increases in allocations do not automatically mean more people on treatment

The importance of the announcement that the comprehensive HIV and AIDS treatment and prevention programme will receive an additional R968 million in 2012/13, R1.7 billion in 2013/14 and R1.6 billion in 2014/15 cannot go unstated. The government's decision to appropriately fund the increase in the CD4 threshold for accessing ARV treatment to 350 should be celebrated. These increases demonstrate that government is committed to meeting the financial resource needs of the National Strategic Plan for HIV and AIDS, STIs and TB 2012-2016 (NSP).

This commitment is only meaningful, however, if these resources are spent appropriately and if broader systemic issues within the health system are resolved. Rampant financial mismanagement, shortages of critical health care workers, inadequate infrastructure and provinces' inability to ensure key service providers are paid on time (the National Health Laboratory Services for example) all threaten the full implementation of the NSP.

# Implementation of the Money Bills Amendment Act to strengthen Parliament's capacity in the budget process

Once again, we must raise concerns about delays in proper implementation of the Money Bills Amendment Procedure and Related Matters Act 9 of 2009 ("the Money Bills Act"). This is a concern we raised in 2010 in our submission – as the AIDS Law Project – to the Select Committee on Appropriations on the Division of Revenue Bill, where we pointed out as follows:

"The Constitution vests Parliament with the responsibility for establishing budgeting procedures and passing the annual national budget. More fundamentally, Parliament has the responsibility to ensure that the manner in which resources are raised, appropriated and ultimately spent advances the constitutional project, the cornerstone of which is the Bill of Rights and the obligation it imposes on the state to respect, protect, promote and fulfill those rights, including the progressive realisation of the right to have access to health care services."

The Money Bills Act, as required by section 77(3) of the Constitution, provides Parliament for the first time with the statutory powers necessary to fulfil its constitutional mandate in respect of the budget. However, implementation of the Money Bills Act must be prioritised urgently by Parliament. Given the limited timeframes in the Money Bills Act and the complexity of the budget, there is insufficient time to engage substantively with the [Division of Revenue Bill] as tabled. However, for Parliament to implement fully this constitutional mandate for

the 2011/12 financial year it is essential that the [Parliamentary Budget Office] be established urgently."<sup>3</sup>

Three years after the Act was passed, the Parliamentary Budget Office (PBO) has still not been established, severely handicapping the ability of MPs to fulfil their constitutional duty in the budgetary process.

The government's lack of commitment to this vital institution of accountability is highlighted in the Estimates of National Expenditure 2012/13 that states that:

"As there is no certainty that the budget office will be set up and the...no allocation has been made over the MTEF period [for this office]". 4

This is unacceptable and in our view, Parliament has the constitutional duty and power to ensure that dedicated funds are allocated from its equitable share for this process. We call on Parliament to ensure that the PBO is established and fully functional by the time of the tabling of the Adjustments Budget in October this year.

### Conclusion

We urge parliament, the National Treasury and the Department of Health to fulfill their Constitutional obligations and provide the necessary oversight and assistance to provinces ensure the end of poorly formulated budgets and the inability to track expenditure adequately. If this is not done, the budget for 2012/13 will not fulfill its promise.

For additional comment or more information on this statement, please contact Daygan Eagar at eagar@section27.org.za, 011 356 4108 or 072 2493873

<sup>&</sup>lt;sup>3</sup> This submission is available at <a href="http://www.section27.org.za/2010/03/04/submission-on-the-division-of-revenue-bill-2010/">http://www.section27.org.za/2010/03/04/submission-on-the-division-of-revenue-bill-2010/</a>

<sup>&</sup>lt;sup>4</sup> Estimates of National Expenditure 2011/12 p. 17, Available at http://www.treasury.gov.za/documents/national%20budget/2012/ene/FullENE.pdf