**4. REPORT OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE 2017 MEDIUM TERM BUDGET POLICY STATEMENT, DATED 29 NOVEMBER 2017**

Having considered and heard comments from identified stakeholders on the 2017 Medium Term Budget Policy Statement, the Standing Committee on Appropriations reports as follows:

**1 Introduction**

The Minister of Finance tabled the Medium Term Budget Policy Statement (MTBPS) on 25 October 2017 as required by section 6 (1) of the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009 (the Act), outlining the budget priorities and spending plans of government for the medium term. Part of the MTBPS was referred to the Standing and Select Committees on Appropriations for consideration and report. This was done in accordance with their respective mandates as outlined in the Act. Among its responsibilities, as per Section 6 (8), in respect of the MTBPS, the Committee was required to consider and report on the following issues:

* the spending priorities of national government for the next three years;
* the proposed division of revenue between the spheres of government and between arms of government within a sphere for the next three years; and
* the proposed substantial adjustments to conditional grants to provinces and local government, if any.

The MTBPS provides an overview of government’s key spending areas as the setting for detailed sectoral policies and departmental programmes that will accompany the 2018 budget. In order to deepen democracy, good governance and promote public participation during the budget process, the Committee invited the following stakeholders for comments:

* Financial and Fiscal Commission (FFC);
* Human Sciences Research Council (HSRC);
* Public Service Commission (PSC); and
* South African Local Government Association (SALGA).

In addition, an advertisement was published in national and community newspapers from 27 October 2017 to 03 November 2017 inviting public comments and the following submissions were received:

* Rural Health Advocacy Project (RHAP);
* United Nations Children’s Fund (UNICEF)South Africa;
* Civil Society Organisations;
* Studies in Poverty and Inequality Institute (SPII); and
* Mr Matlala.

The Committee also engaged with the Parliamentary Budget Office on the matters raised in the 2017 MTBPS and also received a submission from the Portfolio Committee on Higher Education on funding issues pertaining to the TVET Colleges for the 2018 MTEF. The Committee’s report will reflect on the submission under the section on Committee’s findings and observations on the 2017 MTBPS.

The 2017 MTBPS was tabled within the context of a strengthening global economy with global growth projected to reach 3.6 per cent in 2017 and 3.7 per cent in 2018, up from 3.2 per cent in 2016. Brazil and Russia have returned to growth after lengthy recessions. The outlook for Sub-Saharan Africa is projected to recover to 2.6 per cent in 2017, and climb to 3.4 per cent in 2018, which is however still below the average in the pre-crisis years. On the domestic front, South Africa’s economic performance continues to reflect low levels of business and consumer confidence. The 2017 MTBPS asserts that restoring South Africa’s potential growth rate requires additional policy measures. Rapid implementation of a range of microeconomic reforms, as outlined in the NDP, would boost confidence and provide support to the economy.

The 2017 MTBPS indicates that government focus is on inclusive growth, transformation and competitiveness. These three policy objectives form a virtuous circle. Inclusive growth reduces poverty and inequality, and provides the resources to support critical social spending. Broad-based economic transformation opens up the economy to those previously marginalised, generating new businesses and wealth. A competitive economy sells goods and services to the rest of the world and attracts investment to support its own development. The 2017 MTBPS states that the central challenge for economic policy remains effective implementation.

The 2017 MTBPS was tabled following the introduction of the Mandate Paper prepared by the Department of Planning, Monitoring and Evaluation which aims at strengthening alignment of the national budget, the medium-term strategic framework and the National Development Plan (NDP) during the remaining term of the current administration. The Mandate Paper indicates that there will be no additional funds available to increase baseline expenditure in the 2018 Budget. The Mandate Paper suggests that departments can realise savings by reducing spending on consultants; establishing strict limits on contingent liabilities and litigation costs; ensuring that the initiatives of the Office of the Chief Procurement Officer take effect; and improving returns and value for money on state infrastructure projects.

The National Treasury’s macroeconomic projections imply that per capita income will continue to stagnate in the years ahead. The 2017 MTBPS further states that unless decisive action is taken to chart a new course, the country could remain caught in a cycle of weak growth, mounting government debt, shrinking budgets and rising unemployment. Much depends on the policy choices made and the effectiveness of their implementation. Hard choices are required to return the public finances to a sustainable position. A failure to make such decisions, or to effectively implement them, will reinforce economic and fiscal deterioration.

It is against this background that the Committee engaged with identified stakeholders on the 2017 MTBPS.

**2 Medium Term Expenditure Framework**

The aim of the National Development Plan is to create a virtuous circle of growth and transformation to eliminate poverty and reduce inequality. In engaging with government’s proposed spending plans for the 2018 MTEF, the Committee notes the following main risks to the medium-term fiscal outlook as reported in the 2017 Risk Statement:

* The most serious risk to medium-term revenue collection is a further deterioration in the economic outlook and a related risk is uncertainty about tax buoyancy which can be affected by the composition of GDP, taxpayer compliance and tax administration.
* Policy risks include unplanned spending requirements that cannot be accommodated within the expenditure ceiling. Departments have proposed a range of policy interventions that are currently not funded. These include significant additional funding for the post-school education and training system, National Health Insurance (NHI), qualified teachers for Grade R, the implementation of the Defence Review, land restitution and large infrastructure projects.
* Total guarantees issued to public institutions, independent power producers and public-private partnerships stood at R688.8 billion in 2016/17. Total guarantee exposure was R445 billion, because several entities had not fully used their available guarantee facilities. The weak financial positions of several major public entities remains a significant risk to the fiscal outlook. The 2017 MTBPS reports that a growing portion of the SOC’s operating expenditure is funded through debt.

**Budget Execution Risks. These will have a direct impact on the Standing Committee on Appropriation’s objective of realising effectiveness, efficiency, economy and overall value for money in the utilisation of funding appropriated to various government agencies.**

* There needs to be spending limits on compensation budgets. More specifically, the Departments of Defence and International Relations and Cooperation need to take strong remedial measures to avoid exceeding their compensation ceilings.
* The shortfall in compensation budgets will deteriorate substantially if the public-service wage talks leads to an agreement that exceeds CPI inflation. For example, a CPI + 1 agreement would raise the national shortfall in 2018/19 to R8.2 billion, with the gap in provincial compensation budgets amounting to R4 billion.
* Medical negligence claims are legal claims for malpractice (e.g. leading to lifelong disability) in public health facilities. Estimated pay-outs for medical negligence claims have grown at an average rate of 45 per cent since 2012/13, and amounted to R1.2 billion in 2016/17.
* Weak financial management, high remuneration levels and poor maintenance of infrastructure threaten the sustainability of some municipalities. A number of municipalities have fallen into financial distress and face liquidity problems with some delaying payments to Eskom, water boards and other creditors, contributing to financial imbalances in other parts of the public sector.

The proposed division of revenue framework prioritises funding of services for poor communities. Allocations to provinces focus on education, health and other social services. Allocations to local government subsidise the delivery of free basic services to low-income households, and the infrastructure needed to deliver those services.

**Table 1:** Division of Revenue Framework

*Source: National Treasury (2017)*

Over the 2018 MTEF period, government proposes to allocate national departments 47.6 per cent of available non-interest expenditure, provinces 43.2 per cent and local governments 9.2 per cent. Over this period, national government resources grow by 6.5 per cent, provincial resources by 7.2 per cent and local government resources by 8.3 per cent.

**Table 2:** Consolidated Government Expenditure1, 2016/17 to 2020/21

*1Consisting of national, provincial, social security funds and public entities*

*Source*: *National Treasury (2017)*

The 2017 MTBPS states that government spending priorities align with the NDP, as expounded in the medium-term strategic framework and the Mandate Paper. Despite limited fiscal resources, government states that it is protecting expenditure that aims to deliver services to low-income households.

The NDP envisages a strong public health system that works for everyone, and a sharp reduction in the disease burden. Government is considering options to establish an interim NHI fund structure to support a limited set of priority interventions, and operate in line with current legislation. The *early* *childhood development conditional grant* will receive allocations of about R500 million per year over the medium term to improve health and learning outcomes.

The MTBPS states that the Department of Basic Education is working on a proposal to introduce a technical occupational stream in secondary schools. This would operate alongside the existing technical vocational and academic streams. The “three streams” model aims to provide additional pathways to work and complement existing training programmes.

With regards to Higher Education, government proposes to allocate R11.1 billion over the medium term for infrastructure projects at higher education institutions. The budget documents indicate that expanding student accommodation is a priority and the Department of Higher Education and Training is refining a proposal to provide 300 000 new beds at public universities and TVET colleges by 2026.

The budget proposals include funding the normal operations of the departments within the justice, crime prevention and security cluster. Medium-term priorities include completing infrastructure projects under way, and maintaining and rehabilitating police stations, courts, correctional facilities, and military bases and health facilities. However, the MTBPS states that the cluster needs to manage pressures arising from employee compensation budgets and that this will require reconsideration of recruitment strategies, as well as the composition and suitability of existing staff complements.

The 2017 MTBPS states that creating an integrated public transport networks that expand access to economic activity and social services is a central objective of urban reform initiatives. In particular, to ensure that municipal public transport systems are sustainable, government aims to provide greater differentiation in the norms and standards of services and infrastructure.

On issues pertaining to land reform and supporting the agriculture sector, the 2017 MTBPS notes that successful land reform programmes link new farmers into agricultural value chains. Three agri-parks are nearing completion, and government intends to build one such facility in each of the 44 district municipalities.

**2.1 Budget reforms and emerging issues confronting public expenditure**

The 2017 MTBPS states that greater emphasis will be placed on improving spending quality and the implementation of government programmes. The 2017 MTBPS lists the following measures and reforms:

* A Presidential Task team will identify savings and programme closures to improve the efficiency and impact of expenditure. The Presidential Task team will develop proposals to stabilise the national debt over the medium term. These will include proposals to narrow the deficit, stimulate economic growth and build investor confidence. The 2017 MTBPS indicates that further details will be announced in the 2018 Budget.
* In the water sector, the budget proposals indicate the completion of a new water-pricing strategy in 2018/19. This strategy entails a framework for how water is charged and subsidised for industrial, commercial, agricultural and domestic use. The institutional review for water resources, which includes establishing a national water infrastructure agency and catchment management agencies, is expected to be completed over the medium term.
* There will be a full review of the human settlements development grant based on the outcomes of the human settlements policy review. There are proposals for two new human settlements grants. There will be a dedicated grant for the eradication of backlogs of title deeds and a grant to fund responses to emergencies in line with housing policy.
* The 2017 MTBPS indicates that several provinces are targeting increased procurement from disadvantaged areas. For example, Gauteng has increased the number of registered township suppliers from 1 072 in 2014 to 8 268 in 2017. A number of provinces have an integrated contractor development programme to promote construction-sector transformation
* The allocation mechanism of the public transport network grant, which funds the improvement of urban public transport systems, will be amended. Performance incentives will be introduced and stricter conditions applied.
* The 2017 MTBPS indicates that government will consider applications to waive co-funding requirements for infrastructure projects in municipalities with little or no ability to raise finance for such projects.
* The 2017 MTBPS indicates that several years of fiscal restraint have left funding gaps in a number of programmes, reflected in the build-up of unpaid accounts and financial imbalances. Many departments are delaying paying their bills – a trend that contributes to a rising hidden deficit. More specifically, provinces entered 2017/18 with R26.4 billion of unpaid bills from the previous year, and a number of municipalities are in financial distress.
* The budget documents state that since the introduction of expenditure ceilings and cost-containment measures in 2012/13, spending on consultants, travel, lodging, catering, advertising and conferences has decreased significantly. However, there is now little room for departments to further curb such spending on these items without negatively affecting service delivery.
* The budget proposals note that the payment of legitimate invoices to suppliers within the prescribed 30 days is critical for SMEs. Furthermore, failure to do so is devastating for small businesses, and is a financial misconduct in terms of the PFMA and MFMA. The 2017 MTBPS states that there must be consequence management in this regard. Moreover, performance agreements of accounting officers and accounting authorities must include timeous payment of suppliers as one of the key performance areas.

**2.2 Department of Planning, Monitoring and Evaluation**

The Department of Planning, Monitoring and Evaluation (DPME) outlined the principles and criteria for the priorities of the Mandate Paper as an instrument for funding NDP goals. The Mandate Paper’s objective is to establish the strategic framework for decision-making on budget priorities that are required to advance the goals of the National Development Plan (NDP).

The DPME indicated that priority setting is an essential planning task of the Mandate Paper / Budget Prioritisation Framework. Moreover, budget allocations are and remain the domain of the National Treasury as outlined in the PFMA. The Budget process is a broad and inclusive process and entails a number of structures such as the MTEC Functional Groups consisting of Departments organised in National Treasury clusters, MTEC - Medium Term Expenditure Committee of Directors General and the Ministers Committee on the Budget.

The DPME indicated that the primary challenge remains the economy wherein growth in GDP per capita continues to decline and economic growth has deteriorated. The 2018 budget priorities must be funded through an internal reprioritisation process.

The DPME states that key criteria guiding the reprioritisation process include the following:

* Cut non-core & non-performing programmes;
* Limit use of consultants by capping this expenditure item;
* Strict limits on contingency liabilities & litigation costs;
* Optimise state procurement;
* Improve returns & value for money on state infrastructure projects;
* Incentivise good governance and penalise lapses;
* Improve returns and value for money on state infrastructure projects;
* Insist on good governance in SOC and public entities and penalise governance lapses by withholding transfers and/or guarantees. Particular attention should be given to SOCs and public entities where such lapses are endemic.
* Explore alternative funding and revenue generation.

**The DPME submitted the following Mandate Paper priorities for the 2018 Budget**

* Job Creation and Small Business Development
* Youth Development
* Infrastructure expansion and maintenance
* Land reform, smallholder farmer and agriculture development
* Comprehensive social security, education and skills
* Integrated plan to fight crime
* Advancing the national interest in SADC, African Continent, BRICS and Indian Ocean Rim Association.

**3. Submissions on the 2017 MTBPS**

**3.1 Financial and Fiscal Commission**

The Financial and Fiscal Commission (FFC) acknowledged that the 2017 MTBPS has been formulated against the backdrop of an economy mired in low growth with endemic low confidence. However, it was of the view that the 2017 MTBPS does not contain a detailed action plan to address the negative situation or any confidence-building aspects, contrary to the previous five years.

The Commission commented on the reduction of the contingency reserve over the 2018/19 MTEF and were of the view that the amounts being set aside (R3 billion in 2018/19, increasing to R8 billion in 2020/21) are far from adequate for government to mitigate any unforeseen events. They indicated that a policy of reducing the contingency reserve in an environment of increased uncertainty and rising social demands limited the fiscal buffer necessary to protect public finances. The Commission further commented that the compensation budget outpaced inflation by 1.8 percent on average over the MTEF period which suggests that government could be budgeting for a wage agreement that is marginally above the Consumer Price Index (CPI). The FFC was of the opinion that should the wage agreement be in excess of the predicted range, government’s fiscal position would worsen leading to a higher debt to GDP ratio.

The FFC surmised that the key factors heightening the risk of a rising budget deficit and public debt relate to the raising of revenue, public sector remuneration, funding free higher education and training, expenditure on unaffordable infrastructure projects, drain on fiscus by SOEs, and corruption and fraud. The Commission commented that the public wage bill and the debt service costs amount to half of total expenditure and are therefore seriously constraining government’s ability to meet physical and social infrastructure investment needs which are essential to enhancing growth**.** The FFC further indicated that government guarantees and exposure to state-owned enterprises (SOEs) have been accelerating in recent years and that contingent liabilities in SOEs could derail the fiscal consolidation course and further crowd out other growth-enhancing expenditures.

With reference to the risks highlighted above, the FFC recommended that government should continue with a gradual programme of fiscal consolidation that entails reducing the budget deficit moderately but consistently. FFC also recommended that efforts to raise more tax revenue should focus on expanding the tax base through reduction of deductions, credits and allowances; and improving tax revenue efficiencies by lowering compliance costs for small businesses. On risks posed by SOEs, the FFC recommended that a set of uniform rules and procedures are needed to inform the granting of guarantees and bailouts to SOEs. This would entail procedures for monitoring performance under the guarantee/bailout as well as corrective measures and sanctions should the SOE not meet the conditions of the guarantee. Appropriate disincentives would also need to be applied to ensure that parent departments act proactively and timeously to ensure a turnaround in performance, thereby limiting the need for future guarantees. In addition, the public value of the services provided by the SOE and its historical performance would be taken into consideration.

The Commission commented on the progress towards achieving the targets set out in the 2014 Medium Term Strategic Framework (MTSF). They indicated that some targets, like health and education, were closer to attainment and that emphasis should now shift towards improving the quality of outcomes. With respect to those targets that were far from attainment, like economic growth, the FFC was of the view that various interventions were needed, including removing uncertainty in key sectors, improving governance, value addition and raising the job-intensity of exports.

The FFC noted that the division of revenue amongst the three spheres of government over the 2018 MTEF is characterised by low growth increases and that this constrained growth requires strong efforts by government departments to enhance the efficiency and effectiveness of their spending. The FFC welcomed the additional R1.9 billion to the baseline of local government allocations as this would significantly cushion the poor from the risks associated with low economic growth. However, the Commission remained concerned about the continued subdued growth rates of the local government equitable share (LGES) and were of the view that municipalities would need to use available resources more efficiently and also find alternative revenue sources in order to ensure the delivery of basic services. The FFC reported that municipalities needed to improve their revenue management, billing and debt management systems, impose cost-reflective tariffs and avoid under-spending and inefficient procurement processes. The Commission further welcomed the intention to introduce performance incentives within the Municipal Infrastructure Grant (MIG) for intermediate cities and within the Public Transport Network Grant, as this was in line with its previous recommendations. The FFC emphasised that incentives should be based on clearly defined, but differentiated, performance indicators.

With regard to spending priorities, the Commission was of the view that the more than 6 million jobs created through public employment programmes (PEPs) did not make a dent in the high levels of unemployment. The FFC’s view was that budget responses need to focus on reskilling and on monitoring of PEP programmes. They recommended that PEPs must continue to be strengthened by developing a monitoring framework and an effective coordination system; and by targeting unemployed people with no prior work experience or access to social grants.

The Commission noted that infrastructure investment remained a key spending priority to drive growth and employment, with a proposed allocation of R900 billion over the 2018 MTEF. However, the FFC was of the view that the effect of previous infrastructure spending on growth and jobs was muted due to the challenges of endemic corruption and project cost overruns at SOEs. The Commission further commented that provinces and municipalities lacked sustained focus on infrastructure spending and its efficiency, and that capital spending cuts were commonly used to address budget pressures.

The Commission welcomed the additional resources for the Community Health Workers programme, but emphasised that the programme needed to be properly standardised and targeted, with part of the funding directing towards training. The Commission also welcomed the additional funding that was allocated towards reducing the municipal services cost pressures on schools through the provincial equitable share (PES), but recommended that schools should be encouraged to explore alternatives, like boreholes and solar energy, to reduce operational costs in the long run. The Commission reiterated a previous recommendation that the funding and provision for human settlements needed to be implemented in a coordinated and sustainable way. The Commission also expressed concern over the slow pace in accrediting municipalities with the housing function.

The Commission welcomed the real annual average growth rate of 2.5 percent for post-school education and training in the 2018 MTEF but cautioned that deferring crucial decisions to the 2018 Budget created uncertainty for institutions and student or households to budget and plan for the academic year ahead. Regarding fee free higher education, the Commission was of the view that the Post-school Education and Training Grant, the loan system and post-training earning claw back mechanisms must be strengthened to remove financial barriers to accessing tertiary education.

The Commission was of the view that greater investment in information and communication technology could facilitate employment and inclusive growth as well as access to service delivery by enabling poor and rural communities to be reached. The Commission welcomed references in the 2017 MTBPS to work underway in this regard, but would have preferred to have seen clear delivery and progress timelines.

**3.2 Human Sciences Research Council**

The Human Sciences Research Council (HSRC) gave an overview of the current economic situation including the expenditure on research and development in the public and private sector. It further submitted that that the quality of government’s spending on infrastructure needed to be improved with particular reference being made to the Presidential Infrastructure Coordinating Commission (PICC) and the introduction of a new budget facility for infrastructure. It emphasised the need for the expeditious addressing of patterns of poor governance and associated risks especially in State-owned Companies.

In terms of basic education, the HSRC commented that the delivery of workbooks and textbooks was a success story, however, there were concerns with infrastructure development. The HSRC submitted the Trends in International Mathematics and Science Study (TIMMS) results which showed that grade 9 learners with workbooks/textbooks scored substantially higher than those who did not. It thus emphasised the need for a continuous investment in structured learning materials.

The HSRC further commented on the enrolments at public universities and Technical and Vocational Education and Training (TVET) colleges and expressed concerns at the low completion rates. It commented that there was a disjuncture between the investments made through the National Students Financial Aid Scheme (NSFAS) and the completion rate.

In terms of the health sector, the HSCR submitted that whilst substantial allocations have been made over the MTEF, the 2017 MTBPS was limited in terms of details in terms of structural and specific sector reforms. Specific reference was made to the establishment of an NHI fund which was mooted in the 2017 budget speech yet the MTBPS was silent on the matter. The HSRC submitted that this was a critical transformative programme which should not be dropped from the priority programme list of government. The HSRC also commented on the risks facing the economy and highlighted the following areas:

* Significant investments in all sectors which is subject to the improvements in economic growth;
* Competing demands for free higher education versus the NHI;
* Challenges within governance structures which inhibits SMART spending to ensure the limited funds are used efficiently and effectively;
* Wasteful expenditure at all spheres of government; and
* The burden of disease, in particular non-communicable diseases which threatens the lives of many people and could have potentially devastating effects on the workforce.

In terms of a responsive and development local government outcome, the HSRC emphasised the need for local government to be analysed and repositioned on issues such as political interference, capability deficits, weak financial management, lack of accountability, and an inadequate revenue base. To this end, the HSRC proposed that a local government repositioning project should be initiated and suggested the following project outcomes:

* Dynamic strategy to enhance capacity of responsive developmental local government;
* Blueprint for best practice, implementation guidelines and roadmap that responds to NDP Vision 2030 and the domestication of the Sustainable Development Goals;
* Effectively delivery on Integrated Development Plans and inclusive sustainable development; and
* Report to Cabinet to guide implementation towards responsive developmental local government in a phased roll-out.

The HSRC further outlined what it deemed the key risks facing South Africa’s fiscal trajectory as follows: SOEs, higher education and vocational education, Public Sector Wage Bill, NHI, rating agency downgrades, and Special Economic Zones and Strategic Infrastructure Projects.

* 1. **Public Service Commission**

The submission by the Public Service Commission (PSC) highlighted areas where the public service could be strengthened in order to improve efficiency, effectiveness and value for money towards the achievement of government priorities as per the 2017 MTBPS . These include:

1. **Strategies available to significantly improve management practices in the public service**

The Public Service Commission (PSC) highlighted the importance of integrated planning and emphasised the need for better coordination, collaboration and integration among departments. PSC also highlighted the need for adequate capacity in order to set proper targets which are aligned to the budget. PSC referred to analytical competencies such as financial modelling, policy analysis, evaluation, strategic planning, organisational development and process design which could assist departments to present spending options from a cost-benefit point of view.

PSC was of the view that organisational performance management systems should be improved by focusing on service delivery objectives and outcomes in annual reports and incorporating multi-year data for performance trend analysis. PSC indicated that there are challenges with compliance with the legislative framework and prescripts governing public administration. In particular, they highlighted shortcomings in the use of tools for improving human resource management practices such as the recruitment and selection system as well as the performance management and development system.

PSC supported the work of the Office of the Chief Procurement Officer (OCPO) in ensuring savings, curbing corruption and increasing value for money. However, the PSC was also of the view that emphasis should be placed on capacity building and professionalism in Supply Chain Management. PSC indicated that although the Public Service Conduct of Code provides the foundation for ethical conduct, unethical conduct in the public service still persists. PSC indicated that an intervention was needed in this regard and that this should be under-pinned by a value-driven approach as set out in the Constitution.

1. **Governance issues across the public service**

The PSC analysed compliance with submission of performance agreements for Heads of Departments, non-compliance with financial disclosure framework, potential cases of conflicts of interest in 2015/16, financial misconduct, payment of invoices, precautionary suspensions, and the vacancy rate.

PSC highlighted that there has been a significant improvement with the filing of performance agreements for Heads of Departments (HODs) although 3 national departments submitted late whilst 6 other national departments (namely Civilian Secretariat for Police Service, Correctional Services, Defence, Human Settlements, State Security Agency and Public Enterprises) had not submitted at all. It was reported that in 2017/18, 11 departments had acting HODs. PSC also analysed the extent of instability at the political administrative interface and indicated that the DPSA reported improvement in the average time spent by HODs in a post from 2.7 years to 3.08 years whilst the Institute of Race Relations reported an average of 22 months between May 2009 and March 2017. The PSC reported on their interventions in this regard which include a report to the Presidency on the role of Executive Authorities (EAs) in disciplining HODs as well as engagements with EAs after investigating grievance of HODs.

The PSC reported that 99 per cent of the national departments complied with the submission of forms for the financial disclosure framework for Senior Management Service (SMS) in 2016/17 although some of these departments did not submit for all SMS. The PSC scrutinised submitted forms for 2015/16 and reported that that the following departments had high potential conflict of interest in terms of Deputy Director Generals, Chief Directors and Directors: South African Police Services, Rural Development and Land Reform, Defence, Trade and Industry, National Treasury, and International Relations. Potential conflict of interest was identified for Director-Generals in the following departments: Agriculture, Forestry and Fisheries; Civilian Secretariat for Police; Economic Development; Independent Police Investigative Directorate; Justice and Constitutional Development; Military Veterans; Public Enterprises; Telecommunications and Postal Services, Planning, Monitoring and Evaluation, Transport and Water and Sanitation. The PSC reported that there has been a significant increase in the number of finalised cases for financial misconduct from 238 in 2015/16 to 758 in 2016/17. Furthermore, there has been a decline in the amounts recovered in relation to financial misconduct. The departments where amounts not recovered exceeded R500 000 were Public Works, Independent Police Investigative Directorate, and Basic Education.

The PSC reported on the payment of invoices by departments and indicated that the number and rand value of invoices not paid in the first 2 quarters of the 2017/18 financial year was of concern. As at the end of September 2017 a total of 8 925 invoices older than 30 days with a value of R35.8 million had not been paid. The following departments were the main transgressors in terms of the above-mentioned unpaid invoices: Public Works and the Property Management Trading Entity, Cooperative Governance and Traditional Affairs, Water and Sanitation, International Relations, Social Development and Rural Development and Land Reform.

The PSC gauged the efficiency of HR processes in departments by assessing the number of people suspended and the duration of the suspensions for the 2016/17 financial year. There was a reduction in the number of people suspended and a notable increase in the number of people whose suspensions exceeded 30 days. The Departments which contributed significantly to the number of people suspended are the South African Police Service, Justice and Constitutional Development, Correctional Services and Defence. The costs related to suspensions increased significantly from R37 million in 2015/16 to R98 million in 2016/17. The PSC reported that the vacancy rate across government departments was 5.5 per cent as at September 2017 and that this should be seen in the context of a reduction in the number of posts as a result of a clean-up of PERSAL and the abolishing of posts within departments to contain compensation in the public sector.

1. **An analysis of performance vs expenditure by national departments for the 2016/17 financial year**

The PSC provided an analysis of expenditure outcomes versus the achievement of planned targets for all national departments for the 2016/17 financial year. The ten lowest performing departments in terms of planned targets were as follows: Women, Children and People with Disabilities (31,4%), Independent Police Investigative Directorate (34,1%), Energy (41,6%), Water and Sanitation (51,3 %), Human Settlements (52,6%), Public Works (56,3%), Health (58,6%), Military Veterans (60,9%), Civilian Secretariat of Police (65,9 %), and Office of the Chief Justice (66,7%).

1. **Opportunities for efficiency, effectiveness and value for money**

With regard to opportunities for efficiency, effectiveness and value for money, the PSC assessed the costs incurred by departments for the use of consultants. The table below reflects departments with an increased number and costs in the use of consultants for the 2015/16 and 2016/17 financial year:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Name of Departments** | **Number of Consultants** | | **Consultants Costs** | |
| **2015/16** | **2016/17** | **2015/16** | **2016/17** |
| Energy | 8 | 120 | R 8 908 075 | R 277 002 386 |
| National School of Government | 21 | 158 | R 21 975 072 | R 29 412 111 |
| Public Service and Administration | 6 | 130 | R 6 512 615 | R 7 419 113 |
| Stats SA | 15 | 21 | R 15 414 000 | R 17 474 000 |
| Tourism | 8 | 44 | R 24 586 743 | R 123 894 801 |

*Source: Public Service Commission presentation 2017 MTBPS*

1. **Measures to ensure effective and efficient performance within the public service in the medium term**

The PSC proposed measures to ensure effective and efficient performance within the public service in the medium term. These measures include:

* Addressing duplications between departments i.e. focus on how departments can add value to a joint intervention instead of working in isolation;
* A secondment programme for underperforming departments or where there are capacity constraints;
* Effective utilization of the governance and coordination structures to deal with complicated issues and these structures be empowered to take decisions beyond the rigid prescripts of policy;
* Empowerment of officials at service delivery points with the necessary delegations to swiftly deal with obstacles;
* Improvement of departmental oversight function over SOEs through a revised legal framework to clarify the ownership relationship between the state and SOEs;
* Review of the reporting arrangements of public entities to make them more accountable;
* Appointment of suitably qualified individuals on Boards, based on merit.
* Introduction of amendments or effecting of changes to existing legislative frameworks in order to ensure that the excessive independence of SOEs is curbed and that the developmental mandate of SOEs becomes the dominant purpose for their activities and operations; and
* Enactment of a single overarching act (The State Owned Entities Act).
  1. **South African Local Government Association (SALGA)**

The South African Local Government Association (SALGA) acknowledged that economic growth between 2010 and 2016 compared very poorly with National Development Plan (NDP) targets, impacting negatively on government’s ability to deliver on the promise of a better life for all. SALGA highlighted two specific areas of concern, along with recommendations to address them, namely the sufficiency of the municipal funding model and the ballooning debt owed to municipalities.

SALGA bemoaned the fact that the MTEF proposed division of revenue allocated only 9.2 per cent of nationally raised revenue to municipalities to support the cost of delivering basic services to the poor. They questioned whether assumptions about own revenue sources were still realistic and whether it guaranteed sustainability and the viability of the sector. SALGA was of the opinion that local government allocations had never been reviewed holistically or put on par with other spheres of government in terms of the responsibilities allocated to municipalities; and that the situation was further complicated by unfunded mandates or unresolved allocation of powers. SALGA reported that the number of municipalities in a negative financial health condition was a matter of great concern. They reported that this was the result of a multiplicity of complex issues, and not only managerial practices in these municipalities. For example, even some of the municipalities that had been getting clean audits were financially distressed. In order to address the above concerns, SALGA proposed a review of the LGES vertical formula and its underlying assumptions. SALGA further recommended taking into consideration other variables and macroeconomic factors when phasing in the new formula.

SALGA reported that municipal debts had been escalating despite various measures undertaken by municipalities to collect due revenues and implement their credit control systems. Debts owed to municipalities as at 30 June 2017, was reportedly at R128. 4 billion, of which R24 billion was deemed realistically collectable. Rising unemployment and poverty have also led to an increase in the number of indigent households. National campaigns such as Masakhane and Project Viability had reportedly not been effective and had not yielded much in terms of improving debt collection rates. In order to address the challenge of the ballooning debt owed to municipalities, SALGA proposed investigating innovative solutions which may include the following:

* Amendment of supply chain management regulations and the Preferential Procurement Framework to prohibit any municipality, provincial and national government department, state entity and any other organ of state from transacting with any entity whose directors, or the entity itself, are not up to date with their municipal rates and tariffs. A tariffs/rates clearance certificate could be made a compulsory requirement in bid submission documents similar to a tax clearance certificate from SARS;
* All relevant legislation could be amended to require all employees of government, state-owned entities, Chapter nine institutions and municipal-owned entities to be no more than three months in arrears on their municipal bills, and giving municipalities the power and authority to deduct from such officials’ salaries;
* The procurement of a holistic and integrated revenue value chain and billing system that properly profiles municipal clients and ensures efficiency in the billing and revenue management system. This would include an investigation into setting up a multi-jurisdictional revenue collection agency/agencies; and
* A national campaign for writing off debt alongside measures that would ensure that it does not escalate again, such as the installation of prepaid metres and other interventions.

**3.5 Rural Health Advocacy Project**

The Rural Health Advocacy Project’s (RHAP’s) submission focused on protecting the right to health in times of austerity. RHAP reported that spending on health has been on a downward trajectory since 2012 and that there has also been a slow decline in the public sector service delivery platform. They cited evidence for this by highlighting critical vacancies not being filled, essential equipment not being maintained or procured, centralisation of authority to political heads, poor financial management and the rising burden of non-communicable diseases. RHAP expressed concern that for 2016/17 the national Department of Health had spent 99 per cent of its budget while achieving only 55 percent of its objectives. The largest programme within the Department (Hospitals, Tertiary Services and Workforce Development) had an allocated budget of R19.5 billion, of which 99 percent had been spent despite only 25 percent of its set targets being achieved. A key driver was the under-performance of the health facilities revitalisation which missed a number of key targets.

With regard to the MTBPS allocations to health, RHAP indicated that the 7.5 per cent increase in nominal terms translated to only 1.5 percent in real terms. RHAP indicated that conditional grants may no longer be fit for purpose and consideration should be given on how best funds could be deployed. RHAP noted that the National Health Insurance (NHI) transitional fund had stalled due to contestation on the removal of medical aid credits. Implementation of the NHI transitional fund could mitigate any losses occurred from the loss of the credits. RHAP reported that the Community Health Worker programme could improve health outcomes, create jobs and be a cost-saving intervention. However, an additional investment of R4 billion was needed, as the current budget allocation of R1.4 billion was grossly insufficient. RHAP was of the opinion that the additional amount could be raised by strengthening financial management practises to prevent wasteful and irregular spending across government.

RHAP further reported that, because the provincial equitable share (PES) allocation was unconditional, provinces had significant discretion in allocating resources, which often led to significant under-funding of core services - specifically rural health. This under-funding created significant challenges and often resulted in the growth of unfunded commitments or accruals. Accruals across provincial departments reportedly exceeded 13 billion. RHAP indicated that there was a personnel crisis within the health sector and that the shortage of critical health posts could be as much as 75 000. In order to address this and the other challenges mentioned above, RHAP made the following proposals:

* Review of the current conditional grant architecture to prioritise funding to immediate needs;
* Prioritisation of the creation of a grant to directly fund district health services as this would support the implementation of a decentralised district health system as envisaged by the NHI policy document;
* Reprogramming of unspent funds and roll-overs to support the funding of accruals and the strengthening of district health management;
* Prioritisation of the protection of critical health posts; and
* A health system-wide organisational capacity assessment that includes personnel and the suitability of health infrastructure and a development of a costed prioritisation plan.

**3.6 United Nations Children’s Fund (UNICEF) South Africa**

The United Nations Children’s Fund (UNICEF) welcomed the fact that despite revenue challenges government planned to grow the three key social sector (basic education, health and social protection) budgets by an average of almost 2 per cent in real terms over the 2018 MTEF. They also welcomed the predicted growth of post-school education and training by 2.6 percent over the same period. UNICEF, however, bemoaned reductions to the provinces’ equitable share allocation in 2017/18 as they were of the view that this could have financed new public school educators, additional learners in the poorest schooling quintile, purchased approximately 3 000 new RDP homes and extended the Early Childhood Development programme per learner subsidy to 126 000 learners. UNICEF added that the same financial resources could be used to provide 1.3 million children with the Child Support Grant, or just over 540 000 with the Foster Child Grant. UNICEF also commented on baseline changes to conditional grant allocations.

* 1. **Civil Society Organisations**

The submission by the Civil Society Organisations (CSOs) was an outcome of collaboration by a variety of organisations that include Studies in Poverty and Inequality Institute (SPII), Section 27, Equal Education (EE), the Heinrich Bell Foundation (HBF), the National Shelter Movement and the Public Service Accountability Monitor (PSAM). Dr. Seán Muller, in his individual capacity also contributed to the CSOs’ submission. The CSOs submitted that they are working for the promotion of social justice and equality in South Africa. The CSOs’ submission focused on selected programmes which in their view needed concerted interventions in relation to budgeting and planning following the tabling of the 2017 Medium Term Budget and Policy Statement (MTBPS).

|  |  |
| --- | --- |
| **Programme** | **CSOs Comment** |
| Basic Education | The CSOs welcomed that Basic Education was projected to be the fourth fastest growing line tem in the medium term. However, they were concerned that projected spending on Basic Education is consistently revised downwards and reference was made to the 2015 MTBPS proposed allocation of R270 billion to Basic Education in 2018/19 versus the 2017 MTBPS downward revised proposed allocation of R248.8 billion. The CSOs argued that this downward revision occurred despite population estimates reflecting a higher than anticipated primary school enrolments which would thus affect high school enrolment rates from 2018. The CSOs further submitted concerns about the failure of the Department of Basic Education to spend R415 million allocated for the School Infrastructure Backlogs Grant (SIBG) even though school infrastructure remained a serious hindrance to the provision of quality education for all children. |
| Health | The CSOs encouraged the National Treasury and the Department of Health to provide comprehensive financial plan to support the implementation of the National Health Insurance Scheme. The CSOs argued that the NHI would improve the overall quality of health services provided in clinics and hospitals, even though according to the White Paper the NHI would increase public spending on health from 3.9 per cent in 2017/18 to 6.2 per cent of GDP by 2025/26 financial years respectively. The CSOs added that the MTBPS indicate that health spending through a fully implemented NHI would require 6.8 per cent of GDP by 2025/26 financial year. |
| Human Settlements | The CSOs welcomed the MTBPS announcement regarding the creation of new grants in human development sector in the 2018 Budget (two new grants from the Human Settlements Development Grant for clearing backlog of title deeds for state-subsidised houses, and for addressing the provision of emergency housing). Moreover, the CSOs argued that since the introduction of the Urban Settlements Development Grant (USDG) in 2010/11 financial year the grant has been plagued by poor spending. They therefore welcomed the proposed reviewing of the urban settlement grant. |
| Post-school education and training (PSET), | The CSOs commented that while PSET remains the second fastest growing expenditure item as outlined in the 2017 MTBPS, the average growth has been revised downwards from the 2016/17 - 2019/20 MTEF. |
| Social Development | The CSOs welcomed the additional allocation of R1.2 billion to Victim Empowerment and Violence against Women and Children (VAWC), via the equitable share. The funds would come handy in prevention programmes as well as provision of statutory welfare services in relation to violence against women and children. The CSOs further argued that the allocation of Shelter Services was inadequate even though Shelters are an absolutely critical point of crisis intervention providing imperative care and support services to abused women and their children. |
| Expanded Public Works Programme (EPWP) | The CSOs argued that the EPWP is acknowledged as one of the government’s most successful intervention to reduce unemployment and poverty but has been revised downwards by 2.4 percent for the 2017/18 financial year. They indicated that the cut was done despite the EPWP reducing its expenditure on compensation of employees by 3.7 percent in 2017/18 financial year budget. |

The Civil Society Organisations (CSOs) also submitted a statement on the integrity of the budget process. The CSO emphasised the importance of National Treasury to the budgetary process and was of the view that it should remain ultimately responsible for a thorough budget process that avoids rushed budget adjustments. The CSOs submitted that emphasis should remain on ensuring that budgets and plans are well crafted, that they promote accountability and are respectful of services that rightly prioritise communities in greatest need of support by the State. Specific reference was made to the reported attempt to dramatically adjust the budget to finance free higher education as well as the mooted nuclear build programme. The CSOs stated that while they were in support of making higher education accessible to all, it was important to carefully consider the implications of this move, if it was driven forward by short-term political expediency rather than sustainable economic planning and budgeting. To this end, the CSOs made a call to The Presidency to:

* Reaffirm the central, legislated role that National Treasury plays in the budget process, balancing the wide range of demands on the public purse, especially at this time of economic and fiscal risk;
* Release the ‘Mandate Paper’ that purportedly envisions a different budget process in which the Department of Planning, Monitoring and Evaluation is central;
* Undertake to subject all major policy proposals, such as for funding higher education, to the rigours and consultation required of South Africa’s budget process;
* Provide full details of the President’s proposals for higher education funding and the process that is envisaged for putting those proposals into action, including opportunities for the public and the student movements to provide input into that process; and
* Commit to working constructively with National Treasury, and other important economic Ministries, to restore confidence in the State’s capacity to reverse the current dire economic and fiscal situation.

The CSOs further made a call to Parliament to:

* Investigate the circumstances behind the growing number of senior officials that have resigned from National Treasury and closely monitor the filling of existing vacancies;
* Show its support for credible and sustainable budget processes, including by using its powers under the Money Bills Procedure and Related Matters Act to reject any new proposals that emanate from the undermining of that process; and
* Support National Treasury, and other relevant agencies, in their investigation into the mismanagement of failures at the South African Revenue Service which have led to the largest revenue shortfalls in decades.
  1. **Studies in Poverty and Inequality Institute**

The Studies in Poverty and Inequality Institute’s (SPII’s) submission highlighted the sectors that it believed were in need of budget-related interventions as per their recently published research. These are health care, human settlements and social assistance. The SPII reported that, according to the Auditor-General’s 2017 report, four of the ten most reckless provincial departments were departments of health. Of the R3.5 billion spent irregularly by the Free State Department of Health, some was related to money not spent in terms of conditional grants. The KwaZulu-Natal and Mpumalanga Health departments had irregularly spent R3 billion and R1.6 billion, respectively; while the Gauteng Department of Health had spent R2 billion irregularly. SPII encouraged the Committee to engage with the Department of Health and National Treasury in order to address the misuse of funds and to re-examine allocations to key conditional grants such as the National Health Insurance Grant and the Health Professional Training and Development Grant.

SPII reported that, despite the slight increase in the human settlements budget in the 2017/18 financial year, the 2017 MTBPS revealed that the Department of Human Settlements was struggling to achieve its delivery targets six months to the end of the financial year. The MTBPS further showed that of the approximately 113 000 subsided housing units planned for the year, only 13 850 were completed in the first quarter of the 2017/18 financial year. The number of informal settlements with settlement upgrading plans had been pegged at 446, yet only 87 had been completed by September. SPII further expressed concern that, of the 13 920 planned affordable housing units, only 451 were delivered in the first quarter of the 2017/18 financial year. SPII recommended that the Committee engage with the Department of Human Settlements and National Treasury to resolve some of the challenges in delivery and expenditure. SPII was also of the view that Treasury’s “use it or lose it” stance with regard to allocations and the consequences meted out for under-expenditure was unfair in that it affected people on the ground and not the Department. Under-expenditure could be an indicator of lack of departmental planning or lack of capacity to deliver services, which would then require National Treasury to provide the relevant support rather than withhold funds. In this regard, SPII referred specifically to the Urban Settlements Development Grant, which a number of municipalities have struggled to spend in full.

SPII expressed great concern over the R350 million that had been declared in unspent social assistance funds. Despite Treasury’s assertion that this had been due to lower than anticipated spending on child support and disability grants as a result of efficiency in eligibility, SPII was of the view that under-spending these funds could only have resulted in the exclusion of a number of households that desperately needed the disability and child support grants. SPII recommended that the long-awaited phasing out of the means test for the child support grant and old age pensions should be implemented as soon as possible. They further recommended the introduction of a time-bound and costed policy plan for the full realisation of the Constitutional right to social assistance for working age people unable to provide for themselves and their dependants.

* 1. **Mr Matlala**

Mr E. Matlala’s comment on 2017 MTBPS highlighted that the spending priorities of government should include spending on projects that will help create permanent and sustainable jobs. He further submitted that state-owned mining corporations must open factories or processing plants in areas where minerals are mined to be processed locally in order to create more sustainable jobs for the locals. Furthermore, he emphasised that mining companies in South Africa must stop exporting raw materials.

In terms of the division of revenue, Mr Matlala proposed that local rural municipalities must be empowered to sell prepaid electricity and to charge businesses for refuse removal in order to ease the burden on the national fiscus.

* 1. **Committee Risk Statement**

The Committee herewith publishes its first risk statement. Overall, the Committee’s risk statement serves to identify and focus attention to programmes that display planning and implementation weaknesses. These programmes provide critical services to the public. Programmes identified will be considered for making their allocations conditional or their allocations amended in the following year’s Appropriation Bill. The Committee reiterates the DPME’s submission which states that oversight should insist on good governance in state programmes and penalise governance lapses by withholding transfers and/or guarantees. More specifically, attention should be given to those programmes where such lapses are endemic. The Committee will consult with all Parliamentary Committees in ensuring that allocations to programmes adhere to the principles of efficiency, effectiveness and value for money. The Committee views irregular, unauthorised, fruitless and wasteful expenditure as unacceptable. This undermines government’s objectives of growth and transformation.

|  |  |
| --- | --- |
| **Risk Classification** | **Major Issues** |
| Policy and Budget Execution | Costs of poorly planned infrastructure projects. Key programmes that present significant implementation risk include the following:  *Water infrastructure development • Expanded public works programme • School infrastructure*  The following Departments poses risk emanating from low performance against planned targets:  *Human Settlement, Water and Sanitation, and Women, Children and People with Disabilities; Energy, Health, Public Works, Basic Education.*  The following public entities showing poor audit outcomes:  *Independent Development Trust (IDT)*  *South African Broadcasting Corporation (SABC)*  *Passenger Rail Agency South Africa (PRASA)* |
| Contingent and accrual liabilities | Quality of guarantee exposure, particular in State Owned Entities. The Committee can be placed in a difficult position by urgent, last-minute requests from SOEs to approve bailouts and other funding packages. It is difficult for the Committee to refuse such requests because of the serious consequences of doing so.  Governance, Profitability and Debt obligations of Public Sector Institutions |

**4. Committee observations and findings on the 2017 MTBPS**

The Standing Committee on Appropriations, having considered the 2017 Medium Term Budget Policy Statement, and having engaged with the various stakeholders makes the following findings and observations:

**In terms of the overall thrust of the 2017 MTBPS:**

**4.1** The Committee welcomes the MTBPS indication that government is focused on inclusive growth, transformation and competitiveness. While the 2017 MTBPS was frank about the current tough economic situation, the Committee welcomes the fact that the budget remains progressive and redistributive. The Committee is also of the view that government should adequately provide incentives for growing the economy as well as take decisive action to leverage alternative revenue funding and boost investor confidence.

**4.2** The Committee notes the introduction of the Mandate Paper prepared by the Department of Planning, Monitoring and Evaluation which aims at strengthening alignment of the national budget, the medium-term strategic framework and the National Development Plan (NDP) during the remaining term of the current administration. DPME also submitted that budget allocations are and remain the domain of the National Treasury as outlined in the PFMA. The Committee is of the view that the budget process should remain anchored in the principles of transparency and openness with emphasis placed on the effectiveness of implementation.

**4.3** The Committee notes that the fastest growing category of expenditure is debt-service costs, which reach nearly 15 per cent of revenue in the outer year and increasingly crowd out spending on services. The fastest-growing elements of spending are Learning and Culture (which includes post-school education and training), Health and Community Development, with growth rates of 7.6 per cent, 7.5 per cent and 7.9 per cent respectively.

**4.4** The Committee notes that the most significant fiscal risks over the next three years are lower-than-expected economic growth, higher-than-expected increases in compensation budgets, a number of policy risks which include unplanned spending requirements that cannot be accommodated within the expenditure ceiling such as Higher Education and NHI, medical negligence claims, the weak financial positions of some state-owned companies and public entities; and overall management systems in Departments. The Committee supports all efforts aimed at revitalising growth and restoring healthy public finances.

**4.5** The Committee notes that total guarantee exposure was R445 billion. The weak financial positions of several major public entities remains a significant risk to the fiscal outlook. The Committees welcomes the interventions highlighted in the MTBPS for ensuring improvement in the financial health and governance of State-Owned Entities. The Committee agrees with the FFC’s view that contingent liabilities in SOEs could derail the fiscal consolidation course and increase the cost of public debt thus further crowding out other growth-enhancing expenditures. The Committee urges National Treasury to publish the stringent conditions on government guarantees and bailouts to SOEs in the public domain as soon as possible.

**On the budget principles of efficiency, effectiveness and economy:**

**4.6** The Committee notes and welcomes DPME’s proposed criteria for guiding the reprioritisation process. The Committee also notes the establishment of a Presidential Task Team that will identify savings and programme closures to improve the efficiency and impact of expenditure. The Presidential Task team will develop proposals to stabilise the national debt over the medium term. The Committee welcomes proposals that aimed at narrowing the deficit, stimulating economic growth and building investor confidence. Moreover, the Committee calls on the Presidential task Team to also focus on improving the correlation between expenditure and outcomes.

**4.7** The Committee notes the MTBPS assertion that while cost-containment measures have resulted in a decrease in spending on non-essential items, there is now little room for departments to further curb such spending on these items without negatively affecting service delivery. The Committee will closely monitor the implementation of cost containment measures.

**4.8** The Committee is seriously concerned about trends in service delivery performance versus expenditure that show that while departments regularly exhaust their allocated budgets, the attainment of stated performance targets continues to be a challenge and is uneven across sectors.

**4.9** The Committee is of the view that the payment of invoices to suppliers within the prescribed 30 days is critical for SMMEs and cooperatives. The Committee supports the Minister of Finance’s call that there must be consequence management in this regard. This includes ensuring that performance agreements of accounting officers and accounting authorities include the timeous payment of suppliers as one of their key performance areas.

**4.10** The Committee is concerned about on-going trends of poor performance and non-compliance by national departments. This is evidenced by the levels of declared unspent funds, late submission of annual reports, non-adherence to turnaround times for recruitment and non-submission of performance agreements by Head of Departments. The Committee also notes that there are financial leakages in departments resulting from extended precautionary suspensions with full pay and the extensive use of consultants. The Committee views this poor performance, non-compliance with laws and regulations; and resulting financial leakages in a serious light as it impacts negatively on the efficiency and effectiveness of the public sector thus compromising prudent budget implementation and the attainment of government objectives. The Committee is of the view that we need to see visible consequence management applied in government for the flouting of regulations.

**4.11** The Committee in engagements with the National Treasury raised concerns on the efficacy of internal audit and audit committees within Departments and SOEs. The Committee re-iterates that there is a requirement that audit committees of departments and constitutional institutions should report on the quality of management and the adequacy of the monthly/quarterly reports submitted in terms of the PFMA, MFMA and the Division of Revenue Act (DoRA). The Committee is concerned that the culture of no consequences for non-performance exists.

**4.12** The Committee is concerned that despite SALGA’s assertion that the allocations to local government are not sufficient, year after year large unspent amounts on municipal conditional grants are returned to the National Revenue Fund. The Committee is of the view that the fiscal context demands that all spheres of government adhere to principles of efficiency, effectiveness and economy.

**4.13** The Committee is also concerned about the ballooning debt owed to municipalities by all categories of debtors and most especially government departments. Municipalities are also plagued by negative audit outcomes including escalating fruitless, irregular and wasteful expenditure. The Committee notes the level of support provided by SALGA, the Department of Cooperative Governance and other stakeholders in this regard. However, the Committee is of the view that there should be definite timelines for the implementation of action plans to address the root causes of liquidity challenges at municipalities and that this should be accompanied by a focus on the effectiveness of the intergovernmental coordination and collaboration.

**4.14** The Committee is seriously concerned that many departments are delaying paying their bills and that this is contributing to a rising hidden deficit. More specifically, provinces entered 2017/18 with R26.4 billion of unpaid bills from the previous year, and a number of municipalities are in financial distress. The Committee views this as a significant risk to the sustainability of the intergovernmental fiscal system.

**On the focus area of education, job creation and skills development:**

**4.15** The Committee welcomes the proposal that government plans to allocate R11.1 billion over the medium term for infrastructure projects at higher education institutions. The Committee also welcomes the indication that R51 billion in revenue from the skills development levy will support programmes expected to produce qualified artisans, and create work-based learning opportunities through learnerships, internships and apprenticeships. The Committee views partnerships as critical for ensuring that the skills base of the economy improves.

**4.16** The Committee notes with concern the HSRC research findings which show a number of challenges facing higher education and these include 55% failure rates among students, low completion rates on time (only 1 in 4), inequity in enrolment rates (15% Black versus 54% White in 2014) and white completion rates which are 50% higher than Black students. Some of the measures proposed to address these challenges include the need for a comprehensive national student support framework.

**4.17** The Committee welcomes and appreciates the submission of the Portfolio Committee on Higher Education on issues pertaining to funding and programme performance in the 2018 MTEF and especially underfunding of the TVET sector. The Committee supports the call for increased investment in TVET colleges. However, the Committee notes with concern the HSRC submission indicating a low pass rate for students in Technical and Vocational Education and Training (TVET) colleges. The HSRC pointed out that there were systemic challenges within TVET colleges that were compounded by the poor teacher quality thus requiring an all-inclusive renewal process to be undertaken. The Commission further stated that the vast gaps within the quintile schooling system has led to weaker students enrolling with TVET colleges. The Committee is of the view that investments in the TVET sector should be part of a holistic package aimed at addressing systemic challenges within the sector as well as changing public perception about the value of TVET education towards the realisation of skill development.

**4.18** The Committee notes the FFC’s submission that the policy priorities outlined in the Presidency’s Mandate Paper and the 2017 MTBPS are geared towards promoting growth. Key among these interventions is a focus on job creation and small business development, infrastructure expansion and maintenance as well as education and skills improvement. The Committee also welcomes MTBPS policy proposals that relate to supporting SMMEs, women and youth development.

**4.19** The Committee notes FFCs submission that the budget provides limited support for people who have been laid-off as a result of the downturn, apart from existing, regular social relief programmes, insurance benefits and indirect job creation initiatives such as small business development. The Committee welcomes FFC’s indication that budget responses to the nature of unemployment affecting South Africa should emphasise the design of policy or programmes which offer industry appropriate skills or reskilling to the unemployed and laid-off.

**On improving health care services:**

**4.20** The Committee is concerned about the reported failure of provincial health departments to implement sound financial management resulting in an increase in unfunded commitments or accruals as well as significant irregular expenditure in a number of provinces. Some of the examples cited by SPII were amounts of R3, 5 billion, R3 billion and R2 billion spent irregularly by the Free State, Kwazulu-Natal and Gauteng Departments of Health respectively.

**4.21** The Committee also notes with concern that provincial health departments are often faced with administrative hurdles resulting in posts taking three to six months to be filled, and the effect this had on health services in rural areas.

**On accelerating economic growth and development, investment and infrastructure delivery:**

**4.22** The Committees welcomes the proposed spending of R900 billion on infrastructure investment over the 2018 MTEF. The Committee views infrastructure development as critical to stimulate economic growth and yet notes with concern that infrastructure spending and delivery has consistently been hampered by poor performance at all levels of government. The Committee is of the view that continuous underspending on infrastructure and the resultant reprioritisation of funds will be counterproductive to the intended goal of stimulating economic growth.

**4.23** The Committee notes FFC’s submission that the economy has not responded to key drivers of growth that were identified in previous budget statements. The FFC indicated that possible reasons for this include the fact that funding allocated to growth interventions may be too small to make a meaningful impact. Furthermore, the outcome associated with interventions are either poor or negligible because of inefficiencies or poor programme design. Lastly, the severity of structural impediments outweigh the spending effect on the economy so that any expansionary measure is suppressed by underlying weaknesses.

**4.24** The Committee emphasises the need for the balancing new infrastructure development with proper maintenance for existing assets. The Committee views infrastructure build programmes as integral in promoting economic growth and job creation, specifically, the utilisation of local content on projects as well as the transferring of skills to local communities for the maintenance of infrastructure.

**4.25** The Committee notes with serious concern that a growing portion of the SOC’s operating expenditure is funded through debt. The MTBPS indicates that interest payments by state-owned companies are projected to increase to R69.3 billion by 2019/20 and that some entities may have insufficient cash to settle their obligations unless immediate reforms are implemented to improve governance and boost profitability.

**4.26** The Committee notes that delays in allocating telecommunications spectrum constrains growth across the economy. Lack of radio frequency limits the ability of businesses to deploy new technologies and contributes to the high cost of broadband. The Committee welcomes the fact that work is under way to license broadband spectrum.

**On developing a capable and effective public service:**

**4.27** The Committee notes that in addressing the rising public wage bill there is a need to balance the filling of critical posts and the freezing of posts. The Committee acknowledges that maintaining qualified and skilled personnel in frontline service delivery posts is important for the attainment of the objective of a capable developmental state. The Committee welcomes strategies for building the capacity of the public service as mentioned by the PSC. These strategies include proper training, job role clarification and a proper performance management system.

**4.28** The Committee notes the PSC’s submission that the meaningfulness of the performance information in annual reports needs to be significantly improved. The Committee views the inclusion of service delivery objectives and outcomes as critical and useful for improved oversight and accountability.

**4.29** The Committee remains concerned with the levels of compliance in the signing and filing of Performance Agreements by Heads of Departments, the use of the Performance Management Development System that does not emphasise service delivery, poor organisational performance and high vacancy rates in some departments.

**4.30** The Committee is of the view that some senior government officials are not adhering to the Public Sector Code of conduct by still doing business with the state although a new legislative framework prohibiting this has been put in place. There were 893 contracts in place as at February 2017 involving public service employees conducting business with an organ of state. The Committee is the view that the role of ethics and professionalism needs to be re-emphasised in the work of government.

**5. Recommendations**

The Standing Committee on Appropriations having engaged with the above mentioned invited stakeholders and considered the written submissions, recommends the following:

* 1. The Minister of Finance should ensure that:
     1. National Treasury develops and implements mechanisms to prevent the build-up of unpaid accounts which contribute to the build-up of a hidden deficit. This should include the following:
* The arrears/accruals clearance strategy should apply to all outstanding payments incurred by all of government.
* The clearance of arrears should proceed according to a public timetable, and criteria for prioritizing clearance should be transparently stated and adhered to.
* To demonstrate commitment to addressing the root causes of the problem, the strategy should include measures to avoid the accumulation of new arrears, and appropriate consequences be applied to those that fail to implement these measures.
* The annual budget and medium-term budget projections of all departments and state entities should make adequate provision for the cash cost of arrears clearance.
* To consider using innovative ICT measures to control expenditures that have historically contributed to the accumulation of arrears.
* Strengthen capacity and systems for commitment controls and monitoring.
  + 1. National Treasury, in partnership with the DPME, embarks on budget outreach programmes that seek to educate all stakeholders and the general public on the policy interventions that are currently not funded and mitigating measures underway going forward. These include significant additional funding for the post-school education and training system, national health insurance (NHI), qualified teachers for Grade R, the implementation of the Defence Review, land restitution and large infrastructure projects. This is to ensure the public is informed on the trade-offs and policy choices that will need to be made by government so as to build trust and transparency.
    2. National Treasury, in partnership with the DPME, embarks on budget outreach programmes that seek to educate all stakeholders and the general public on the work of the Presidential Task Team as indicated in the 2017 MTBPS which is working on developing proposals to stabilise the national debt over the medium, proposals to narrow the deficit, stimulate economic growth and building investor confidence. The aim is to re-enforce the country’s already well-regarded and transparent budget process.
    3. National Treasury considers formulating and developing cost-control instruction notes for infrastructure projects at higher education institutions, similar to the cost-control instruction notes governing school construction.
    4. National Treasury expands the scope of the fiscal risk statement to include long-term fiscal projections that span the timeframes outlined in the NDP. The fiscal risk statement should include government’s overall risk appetite and its assessment of the benefits that it perceives from the activity that creates a particular risk; the potential cost should that risk crystallise; and the potential cost of any policy response. This will assist the country in aligning resource planning towards long-term fiscal sustainability.
    5. National Treasury and all relevant stakeholders develop and roll out a detailed programme on microeconomic reforms and other business confidence boosting measures needed for the attainment of accelerated and inclusive growth and incorporate these into dialogues with legislatures, departments and other role players and implement these urgently.
    6. National Treasury and all relevant stakeholders develop and roll out a detailed programme ensuring that internal audit units and audit committees, as part of the governance system within Departments and SOEs, are held to account for executing their functions competently. Internal audit units and Audit Committees must be prepared to recognize and report corruption, abuse of authority, or failure to provide equity, quality and relevant information or due process in the implementation of governmental policy or regulatory activity.
    7. National Treasury ensures strict adherence by Departments and SOEs to the reporting requirements of the PFMA and MFMA. This should include the application of consequence management for the late submission of annual reports and annual financial statements.
    8. National Treasury, in partnership with the DPME, embarks on educational outreach programmes to all departments and state entities on the importance of reliable, regular data collection and management which is essential to good governance and sustainability of infrastructure. This should entail entrenching a data-driven culture which is central to enabling evidence-based, accountable decision- making from infrastructure providers and operators. This should also contribute to creating a sense of civic responsibility and awareness about infrastructure.
    9. National Treasury support SAA in the implementation of its long term turn-around strategy. This entails funding support with due regard to the fiscal objectives of the state.
  1. The Minister of Finance, Minister of Public Enterprises, Minister of Transport and the Minister of Water Affairs and relevant stakeholders should develop and implement a comprehensive framework for managing contingent liabilities and minimise the risk on the state through the following:
* Maintain a central registry of guarantees and assess risks of at time of issue and over their life.
* Immediately introduce explicit no-bail out clauses to reduce exposure.
* Develop and implement guidelines and regulations that define the primary data sources and specific indicators to be used for monitoring contingent liabilities originating from SOEs.
* Coordination mechanisms and information flows need to be transparent and streamlined to ensure efficiency and ensure maximum transparency.
* Consider a incorporating a separate budget process on all contingent liabilities including packaging the information in budget documents and APPs and Annual Reports of Departments and SOEs.
* To ensure there is fiscal space to absorb retained risks through mechanisms such as general contingency reserve to cover any calls on government guarantees to SOEs or to cover unforeseen costs in case of their restructuring or liquidation.
* Government to report each year on the SOE sector as a whole and how it fulfilled its role as shareholder/owner.
* For all agreements on guarantees, to explicitly signal what actions the SOEs should expect of government in the case of various failures. These may include issues that lead to financial losses as a result of:
  + - Governance failures;
    - Violations of the Constitution, PFMA, Treasury Regulations and other governance regulations; and
    - Non-adherence to procurement regulations.
* To develop a comprehensive annual report on the use of guarantees such as the execution of the obligation and identify lessons for future policy choices. Reports outlining lessons from bailouts must be submitted to Parliament within three months.
* To manage moral hazard, the government should ensure that those able to influence the likelihood of an event occurring, or its impact, bear some of the risk. This is to ensure the board and executives in SOEs take decisions with due regard to the state of the country’s public finances and take responsible management decisions.
* To make all shareholder compacts public so as to build and strengthen public confidence in SOEs given their critical role in the economy
  1. The Minister of Finance, Minister of Cooperative Governance and Minister of Public Works Transport strengthen public employment programmes by:
* Developing a monitoring framework for public employment programmes in order to evaluate their performance against their objectives;
* Developing an effective coordination system for public employment programmes based on integrated information systems to design, monitor and evaluate these programmes; and
* Targeting unemployed people with no prior work experience or access to social grants.
  1. The Minister of Planning, Monitoring and Evaluation should ensure that:
     1. The Department of Planning, Monitoring and Evaluation develops appropriate frameworks that will ensure that information in Annual Performance Plans contains a sufficient basis for the formulation and execution of real strategic trade-off decisions. This entails spending options from a cost-benefit point of view.
     2. The Department of Planning, Monitoring and Evaluation develops appropriate frameworks that will ensure that information in Annual Reports contains performance information tracking performance for the past five years. This should place emphasis on service delivery objectives and outcomes.
     3. The Department of Planning, Monitoring and Evaluation includes quarterly risk assessment reports in quarterly performance reports submitted to Parliament. This should include programmes at risks and mitigating measures.
  2. The Minister of Health should ensure that the Department of Health together with the Department of Planning, Monitoring and Evaluation develops mechanisms for appropriate sanctions to discourage poor performance, especially in ensuring that the attainment of targets in the annual performance plans are aligned to budget planning and spending performance. This should be cascaded down to all provincial health departments.
  3. That the Minister of Public Service and Administration should ensure that the Department Public Service and Administration together with the Department of Planning, Monitoring and Evaluation urgently ensure that those doing business with an organ of state immediately resign either from their business, or from government.

**6. Conclusion**

The responses and implementation plans by the relevant Executive Authorities to the recommendations, as set out in section 5 above, must be sent to Parliament within 60 days of the adoption of this report by the National Assembly.

Report to be considered.