**2. REPORT OF THE SELECT COMMITTEE ON APPROPRIATIONS ON THE PROPOSED DIVISION OF REVENUE AND CONDITIONAL GRANT ALLOCATIONS TO PROVINCIAL AND LOCAL SPHERES OF GOVERNMENT AS CONTAINED IN THE 2017 MEDIUM TERM BUDGET POLICY STATEMENT, DATED 1 DECEMBER 2017**

In compliance with Section 6(10) of the Money Bills Amendment Procedure and Related Matters Act 9 of 2009, the Select Committee on Appropriations, having considered the 2017 Medium Term Budget Policy Statement and having heard comments from stakeholders, reports as follows:

**1. Introduction**

The Minister of Finance (the Minister) tabled the Medium Term Budget Policy Statement (MTBPS) on 25 October 2017, outlining the budget priorities of government for the medium term estimates. In terms of the Money Bills Amendment Procedure and Related Matters Act No 9 of 2009, committees on appropriations are required to consider and report on the proposed division of revenue and conditional grant allocations to provincial and local government as contained in the MTBPS. The report of the Select Committee on Appropriations as per Section 6(10) of the Act must contain the following; as referred to it in terms of Section 6(8):

* The spending priorities of national government for the next three years;
* The proposed division of revenue between the different 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.

Upon tabling of the 2017 MTBPS, the Committee received presentations from the Minister of Finance and National Treasury on the MTBPS and the Minister of Planning, Monitoring and Evaluation, on the Mandate Paper for the 2018 Medium Term Expenditure Framework. In order to facilitate public participation the Committee advertised in print media in all 11 official languages and broadcast radio advertisements, calling for submissions from stakeholders and interested parties. Written submissions were received from the Rural Health Advocacy Project (RHAP); the Studies in Poverty and Inequality Institute (SPII); the United Nations Children’s Fund (UNICEF); joint civil society organisations and Mr E Matlala. The RHAP, UNICEF and the joint civil society organisations also made oral submissions. In addition, the Committee invited the Financial and Fiscal Commission (FFC) and the South African Local Government Association (Salga) to comment on the MTBPS.

1. **Medium-term spending priorities and risks to expenditure outlook**

The Minister in the Presidency, Mr Jeff Radebe, tabled the Mandate Paper before the Commitees on Appropriations. The objective of the Mandate Paper is to establish the strategic framework for decision-making on budget priorities required to advance the goals of the National Development Plan (NDP). The Mandate Paper proposed the following seven expenditure priorities for the MTEF period:

* 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;
* An integrated plan to fight crime; and
* Advancing the national interest in the region, Africa and the world.

The key message from the 2017 MTBPS was that the sluggish economic growth projected over the medium term had some implications for spending priorities. National Treasury expected a revenue shortfall of R50.4 billion in 2016/17 and debt levels were set to reach 60 percent of Gross Domestic Product (GDP) in 2021/22.

To offset revenue shortfalls and reduce borrowing, the contingency reserve has been pared down to R16 billion over the next three years. This leaves government with little room to manoeuvre if risks to the expenditure ceiling materialised. The fastest-growing elements of spending are Community Development, Learning and Culture (including post-school education and training) and Health, with growth rates of 7.9 percent, 7.6 percent and 7.5 percent respectively. Government is protecting expenditure that delivers services to low-income households. However, additional resources to support spending priorities are severely limited.

The fastest-growing category of expenditure is debt-service costs, increasing at an annual average of 11 percent each year for the next three years. In 2017/18 debt service costs are projected to reach R163.3 billion, rising to R223.4 billion by 2020/21. National Treasury reported that debt service costs would soon absorb 15c for every R1 collected in revenue.

With regard to containing expenditure on non-essentials, National Treasury reported that, spending on consultants, travel, lodging, catering, advertising and conferences had fallen sharply since expenditure ceilings and cost-containment measures were introduced in 2012/13. Now there was reportedly little room for departments to further curb such spending without negatively affecting service delivery. Transversal contracts negotiated by government had begun to yield positive results. Under these agreements, a supplier procured goods and services for more than one department, provided that the contracts were cost-effective.

National Treasury reported the following risks to the expenditure outlook:

* Several state-owned companies persistently demonstrated operational inefficiencies, poor procurement practices, weak corporate governance and failures to abide by fiduciary obligations.
* A new civil service wage agreement in which salary increases exceed CPI inflation. Without headcount reductions, it would render the current expenditure limits difficult to achieve.
* Additional spending commitments may emerge from policy processes under way, such as the implications of providing fee-free higher education and training; the National Health Insurance (NHI) funding needs; proposals in the Defence Review; improved EarlyCchildhood Developmen (ECD); accelerated land reform and several large infrastructure project proposals.
* To anchor a sustainable budget, structural increases in expenditure must be matched by structural increases in revenue.

The expenditure ceiling can be adjusted to accommodate new spending priorities when a permanent source of revenue is found to offset increased spending, as stated in the 2015 MTBPS. For example, government is considering proposals to finance the NHI through adjustments to the medical tax credit.

1. **The proposed division of revenue**

As can be seen from Table 1 below, government proposes to allocate national departments 47.6 percent of available non-interest expenditure, provinces 43.2 percent and local governments 9.2 percent over the MTEF. Over this period, national government resources grow by 6.5 percent, provincial resources by 7.2 percent and local government resources by 8.3 percent.

**Table 1:** Division of Revenue Framework

*Source: National Treasury (2017)*

According to National Treasury, the proposed division of revenue continued to prioritise funding of services for poor communities. Allocations to provinces focused on education, health and other social services, while the allocations to local government subsidised the delivery of free basic services to low-income households and the infrastructure needed to deliver those services.

1. **Changes to provincial allocations**

The following changes were effected to provincial conditional grant allocations:

* 1. **Comprehensive HIV, Aids and TB Grant**

R19.8 million will be added to the Comprehensive HIV, Aids and TB Grant for Limpopo and Mpumalanga, in order to support the national response programme and arrest the recent malaria outbreak. Monthly malaria cases have substantially increased and the intervention will see an intensification of support for provincial prevention efforts.

* 1. **Health Facility Revitalisation Grant**

R30 million of the Health Facility Revitalisation Grant will be converted from an indirect to a direct grant for North West. Health infrastructure projects that were previously funded through the indirect grant, are now being implemented by the North West provincial Department of Health.

* 1. **School Infrastructure Backlogs Grant**

R415 million in unspent funds has been declared as savings on the indirect School Infrastructure Backlogs Grant in the Eastern Cape. This poor spending performance was reportedly a result of delays in appointing contractors, finalising the merger and rationalisation of schools, and in reappointing contractors where the services of non-performing contractors had been terminated.

1. **Changes to local government allocations**

Changes were effected to the following local government conditional grants:

* 1. **Municipal Demarcation Transition Grant**

R27.9 million will be rolled over for the Municipal Demarcation Transition Grant for funds originally allocated to municipalities in KwaZulu-Natal in the 2015/16 financial year. The funds were rolled over in 2016/17 as an indirect grant, but went unspent and they will now be rolled over as a direct grant.

**5.2 Municipal Disaster Recovery Grant**

R26.1 million has been allocated through the Municipal Disaster Recovery Grant for the repair of sinkholes and the damage to infrastructure resulting from sinkholes in the area of Merafong City Local Municipality. This Grant is reactivated in the Bill.

* 1. **Indirect Regional Bulk Infrastructure Grant**

R200 million has been added to the Indirect Regional Bulk Infrastructure Grant for Butterworth’s emergency water supply scheme to respond to drought pressures.

**5.4 Indirect Water Services Infrastructure Grant**

R265 million will be added to the bucket eradication programme to allow the Department of Water and Sanitation to continue bucket eradication projects that the Department had already identified and committed to implementing.

1. **Inputs by stakeholders**
	1. **Financial and Fiscal Commission**

The Financial and Fiscal Commission (FFC), while acknowledging that the 2017 MTBPS had been formulated against the backdrop of an economy mired in low growth with endemic low confidence, reported that it contained no detailed action plan to address the negative situation or any confidence-building aspects, contrary to the previous five years. Following negative market reactions to public finance developments, a fiscal slippage had ensued.After five years of fiscal consolidation, the main budget deficit was reduced from 2.3 percent of GDP in 2012/13 to 0.5 percent in 2016/17. However, the primary deficit would now be 4.7 percent of GDP in 2017/18.

The Commission alluded to the fact that the public wage bill and the debt service costs amounted to half of total expenditure, seriously constraining government’s ability to meet physical and social infrastructure investment needs essential to enhancing growth**.** The FFC further reported that government guarantees and exposure to SOEs had been accelerating in recent years and that contingent liabilities in SOEs could derail the fiscal consolidation course, resulting in further downgrades and increasing the cost of public debt – further crowding 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.The 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 indicated that a set of uniform rules and procedures were 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 should be taken into consideration.

The Commission commented on the progress towards achieving the targets set out in the 2014 Medium Term Strategic Framework (MTSF), indicating 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 was characterised by low growth increases and that this constrained growth required 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 needed to focus on reskilling and on monitoring of PEPs. 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 directed 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 students 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.

**6.2 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 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 percent 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:

* 1. National Treasury could amend 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.
	2. 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. National Treasury and the Department of Cooperative Governance (CoGTA), working with Salga, Parliament and the Commission for the Remuneration of Office Bearers could institute similar requirements.
	3. Salga and CoGTA could investigate and recommend for 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 should include an investigation into setting up a multi-jurisdictional revenue collection agency/agencies.
	4. CoGTA, Treasury and Salga could champion a national campaign that would ensure that the writing off of debts is executed alongside measures that would ensure that it does not escalate again, such as the installation of prepaid metres and other interventions.

**6.3 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 had been on a downward trajectory since 2012; and between 2012 and 2016 there had been a slow decline in the public sector service delivery platform. This could be evidenced by 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 over the 2016 performance of the national Department of Health. They reported that the Department had spent 99 percent 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 revitalization which missed a number of key targets.

With regard to the MTBPS allocations to health, RHAP reported that the 7.5 percent 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. 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 opininion 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 R13 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 recommendations:

1. The current conditional grant architecture should be reviewed to prioritise funding to immediate needs.
2. The creation of a grant to directly fund district health services should be priortised, as this would support the implementation of a decentralised district health system as envisaged by the NHI policy document.
3. There should be immediate reprogramming of unspent funds and roll-overs to support the funding of accruals and the strengthening of district health management.
4. The protection of critical health posts should be prioritized.
5. A health system-wide organisational capacity assessment was needed, which included personnel and the suitability of health infrastructure.
6. A costed prioritisation plan should be developed.

The Committee requested National Treasury to respond to issues raised by RHAP, and subsequently received a document from Treasury addressing, amongst other issues, the Community Health Worker programme and provincial accruals.

**6.4 United Nations Children’s Fund**

The United Nations Children’s Fund (UNICEF) welcomed the fact that, despite revenue challenges, government planned to grow the three key social sector budgets (basic education, health and social protection) by an average of almost 2 percent 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 the reduction in provinces’ equitable share allocation of R500 million, or 0.1 percent of the total provincial equitable share, in the 2017/18 financial year. This amount could reportedly have financed 1 481 new public school educators, funded an additional 402 000 learners in the poorest schooling quintile, purchased approximately 3 000 new RDP homes or 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.

With respect to changes in conditional grant allocations, UNICEF submitted that some grants were treated favourably and those included: The National School Nutrition Programme Grant, the Education Infrastructure Grant, the HIV/AIDS and Life Skills Education Grant, the Substance Abuse and Treatment Grant, and the Mass Participation and Sport Development Grant. Those whose baseline spending had been reduced, included: The Mathematics, Science and Technology Education Grant by R63 million; the Community Library Services Grant by R20 million; the Comprehensive HIV/AIDS and TB Grant by R327.3 million and the Human Settlements Development Grant by R871 million.

**6.5 Civil** **Society Organisations**

This submission by the Civil Society Organisations (CSOs) was an outcome of collaboration by a variety of organisations that included the (i) Studies in Poverty and Inequality Institute (SPII), (ii) Section 27, (iii) Equal Education (EE), (iv) the Heinrich Boell Foundation (HBF), (v) the National Shelter Movement of South Africa and (vi) the Public Service Accountability Monitor (PSAM). Dr S Muller, in his individual capacity, had also contributed to the CSOs submission. The CSOs indicated that they were working for the promotion of social justice and equality in South Africa. Their submission focused on selected programmes which in their view needed concerted interventions in relation to budgeting and planning following the tabling of the 2017 MTBPS.

With regard to basic education, the CSOs welcomed the fact that it was projected to be the fourth fastest growing line tem in the medium term. However, they were concerned that projected spending on basic education was 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 higher than anticipated primary school enrolments which would thus affect high school enrolment rates from 2018. The CSOs further expressed concern over the failure of the Department of Basic Education to spend R415 million allocated for the School Infrastructure Backlogs Grant, even though school infrastructure remained a serious hindrance to the provision of quality education for all children.

With regard to health, the CSOs encouraged National Treasury and the Department of Health to provide a comprehensive financial plan to support the implementation of the National Health Insurance (NHI) 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 percent of GDP in 2017/18 to 6.2 percent by the 2025/26 financial year, the CSOs indicated that, according to the MTBPS, health spending through a fully implemented NHI would require 6.8 percent of GDP by the 2025/26 financial year.

With respect to human settlements, the CSOs welcomed the MTBPS announcement regarding the creation of two new grants in the human settlements development sector in the 2018 Budget (for clearing the backlog of title deeds for state-subsidised houses and for addressing the provision of emergency housing, respectively). Moreover, the CSOs argued that since the introduction of the Urban Settlements Development Grant in the 2010/11 financial year, it had been plagued by poor spending, and they therefore welcomed the proposed review of this grant.

With regard to post-school education and training, the CSOs commented that while it remained the second fastest growing expenditure item as outlined in the 2017 MTBPS, the average growth had been revised downwards from the 2016/17 - 2019/20 MTEF.

Regarding 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 benefit prevention programmes as well as the provision of statutory welfare services in relation to violence against women and children. The CSOs further argued that the allocation for shelter services was inadequate even though shelters were a critical part of crisis intervention providing imperative care and support services to abused women and their children.

With regard to the Expanded Public Works Programme (EPWP), the CSOs argued that it was acknowledged as one of government’s most successful interventions to reduce unemployment and poverty but had 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 the 2017/18 financial year budget.

The CSOs also submitted a statement on the integrity of the budget process, emphasising the importance of National Treasury in the budgetary process, and arguing that Treasury should remain ultimately responsible for a thorough budget process that avoided rushed adjustments. The CSOs submitted that emphasis should remain on ensuring that budgets and plans were well crafted, that they promoted accountability and were respectful of services that rightly prioritised 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 called on the Presidency to –

1. 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;
2. Release the Mandate Paper that purportedly envisions a different budget process in which the Department of Planning, Monitoring and Evaluation is central;
3. 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;
4. 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
5. 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.

In addition, the CSOs further called on Parliament to –

1. Investigate the circumstances behind the growing number of senior officials that have resigned from National Treasury and closely monitor the filling of existing vacancies;
2. 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
3. Support National Treasury, and other relevant agencies, in their investigation into the mismanagement and failures at the South African Revenue Service which have led to the largest revenue shortfall in decades.

**6.6 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 were 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.

**6.7 Mr E Matlala**

Mr E Matlala’s comment on 2017 the MTBPS highlighted that the spending priorities of government should include spending on projects that would 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 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. **Observations and findings**

While considering and deliberating on the 2017 MTBPS and submissions by stakeholders, the Select Committee on Appropriations observed the following:

* 1. The Committee expressed concern over the fact that almost two thirds of children in rural provinces were considered poor.
	2. The Committee noted that scholar transport and school nutrition programmes needed urgent attention, especially in rural areas.
	3. The Committee noted the overlap in responsibilities between government departments, for example in the provision of school toilets.
	4. The Committee expressed concern over the ballooning debt owed to municipalities by all categories of debtors, including government departments. This is further complicated by slow economic growth leading to rising unemployment and poverty and an increase in the number of indigent households.
	5. The Committee noted with concern that, year after year large unspent amounts have to be returned to the National Revenue Fund, due to underspending on grants and the community works programmes. Of specific concern was the R415 million in unspent funds that has been declared as savings on the indirect School Infrastructure Backlogs Grant in the Eastern Cape. The Committee is of the view that this has the potential to compromise attempts to eradicate school infrastructure backlogs within the province.
	6. The Committee expressed serious concern over the increasing negative audit outcomes of municipalities, including escalating fruitless, irregular and wasteful expenditure.

7.7 The Committee noted the following risks to the expenditure outlook – certain challenges faced by state-owned companies; a possible civil service wage agreement that is above CPI; additional spending commitments that might emerge from certain policy processes under way and structural increases in expenditure that are not matched by structural increases in revenue.

7.8 Over the 2018 MTEF allocations are likely to increase in real terms if the CPI remains within target, whereby national government resources grow by 6.5 percent, provincial resources by 7.2 percent and local government resources by 8.3 percent.

7.9 The Committee noted with concern the perceived personnel crisis within the health sector where it was alleged that the shortage of critical health posts could be as much as 75 000.

1. **Recommendations**

After considering and deliberating on the 2017 Medium Term Budget Policy Statement and submissions by stakeholders, the Select Committee on Appropriations recommends as follows:

8.1 National Treasury should accelerate the Provincial Equitable Share and Local Government Equitable Share review processes to compensate for conditional grant and transfer losses incurred by provinces and municipalities so that they can continue to provide much needed services.

* 1. With regards to social infrastructure spending, National Treasury should implement consequence management with departments that deviate from approved and funded infrastructure plans. Government departments must hold contractors accountable, blacklist them where necessary and closely monitor their implementing agents.
	2. National Treasury should closely monitor that government departments align their respective infrastructure implementation programmes to avoid duplication.
	3. The National Treasury, Salga and other relevant stakleholders should support the municipalities to effectively implement their debt collection policies to enable them to deliver basic services. National Treasury and Salga must report progress made to the Committee in the first quarter of 2018.
	4. National Treasury, provincial treasuries, Salga and the Department of Cooperative Governance and Traditional Affairs should increase support to municipalities to improve their audit outcomes in 2018 and report the plans to achieve this within three months of the adoption of this Report by the House. In case of transgressions, consequence management should be implemented.
	5. Salga must support the municipalities in ensuring that appropriately capacitated staff are employed.

8.7 The National Treasury should provide the cost implications of any additional spending commitments that might emerge from policy processes under way, such as the funding of fee-free higher education and training; the National Health Insurance (NHI); proposals in the Defence Review; improved early childhood development; accelerated land reform and several large infrastructure project proposals.

8.8 The National Treasury should indicate if there are any prospects that the structural increases in expenditure, especially at the local sphere, are likely to be matched by structural increases in revenue given the current debt levels and poor revenue collection by municipalities.

8.9 The National Treasury together with the National Department of Health should look into the perceived personnel crisis within the health sector where it is alleged that the shortage of critical health posts could be as much as 75 000. The two departments should provide a detailed action plan as well as the cost implications thereof.

8.10 The three spheres of government and their entities have to decisively root out irregular, fruitless and wasteful expenditure. The Committee will closely monitor this spending on a quarterly basis.

8.11 National Treasury should consider all the recommendations made by the stakeholders, which are captured in this Report.

The Democratic Alliance objected to this Report.

Report to be considered.