**1. REPORT OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE APPROPRIATION BILL [B3-2018] (NATIONAL ASSEMBLY – SECTION 77), DATED 22 MAY 2018**

Having considered the Appropriation Bill [B3 – 2018], referred to in terms of Section 10(a) of the Money Bills Amendment Procedure and Related Matters, Act No. 9 of 2009, the Standing Committee on Appropriations reports as follows:

1. **Introduction**

Section 27(1) of the Public Finance Management Act No. 29 of 1999 (PFMA) requires that the Minister of Finance (the Minister) tables the annual budget for a financial year in the National Assembly before the start of that financial year or, in exceptional circumstances, on a date as soon as possible after the start of the financial year, as the Minister may determine. Section 213(2) of the Constitution of the Republic of South Africa, provides that money may be withdrawn from the National Revenue Fund only in terms of an appropriation by an Act of Parliament. The Appropriation Act sets out to appropriate money from the National Revenue Fund for the requirements of the State and to prescribe conditions for the spending of funds withdrawn. Section 26 of the PFMA requires that Parliament and each provincial legislature appropriate money for each financial year for the requirement of the State and the province, respectively.

In executing this mandate, the Standing Committee on Appropriations, hereinafter referred to as the Committee, was established in terms of section 4(3) of the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009, and herein referred to as the Act. In line with section 10(1)(a) of the Act and after the adoption of the Fiscal Framework, the Standing Committee on Appropriations has a responsibility to consider the Appropriation Bill, hereinafter referred to as the Bill, and report thereon to the National Assembly. The national budget for the 2018/19 financial year was tabled on 21 February 2018 by the Minister of Finance together with the Appropriation Bill (the Bill). The Bill was then referred to the Committee on 3 May 2018 and the Committee was briefed thereon by National Treasury on 4 May 2018.

In terms of sub-sections 10 (5) and 10 (6) of the Act, Parliamentary Committees may advise the Appropriations Committee on the appropriated funding. No formal submissions were received from Committees in terms of Sub-sections 10 (5) and 10 (6) of the Act. In the process of dealing with the Appropriations Bill, section 9(7) (a) of the Act also requires the Committees on Appropriations of both Houses to consult with the Financial and Fiscal Commission (FFC). In addition to the FFC, the Committee also invited the Public Service Commission, Human Science Research Council, and Department of Planning, Monitoring and Evaluation to comment on the Bill.

Section 10(8) (a) and (b) of the Act also requires the Committees on Appropriations to hold public hearings on the Appropriation Bill and proposed amendments and for the Committee on Appropriations to report to the House on the comments on and amendments to the Appropriation Bill. To this end, the Committee sent out invitations to interested parties which have made submissions to the Committee before, published an advertisement in national and community newspapers from 27 April to 4 May 2018 inviting general public inputs. In response to the Committee’s advertisements and invitations, 4 submissions were received from Mr G Harris CA (SA), the Congress of South African Trade Unions, Consultancy Engineers South Africa, and the South African Religious Forum. The Committee held a public hearing on the Bill on 18 May 2018 in Parliament.

In addition to the above public hearing, the Committee held a 2018 National Budget Dialogue in Cape Town on 16 May 2018. Inputs were received from the following stakeholders at the afore-mentioned budget dialogue:

* COSATU;
* Abahlali baseMjondolo Movement SA;
* Social Justice Coalition;
* Business Unity South Africa;
* South African Women in Dialogue;
* National Youth Development Agency;
* Ms I Frye - Studies in Poverty and Inequality Institute;
* Prof N Viegi - University of Pretoria; and
* Parliamentary Budget Office.

The Committee requested the Departments of Basic Education; Transport; Cooperative Governance; Labour; Telecommunications and Postal Services; Public Works; Rural Development and Land Reform; and Water and Sanitation to provide written comments on the Bill. In addition to this, the Passenger Rail Agency South Africa (PRASA), South African Broadcasting Corporation (SABC), and Denel were requested to comment on the reasons for their non-submission of procurement plans for the 2018/19 financial year by the end of March 2018.

1. **Overview of the 2018 Appropriation Bill**

National departments’ objectives and spending items must be aligned with the objectives of the NDP, as set out in the 2014-2019 Medium Term Strategic Framework (MTSF). The policy priorities of government are set out in the medium-term strategic framework (MTSF) and the National Development Plan (NDP). The NDP was adopted in 2012 and sets out a vision and framework for pursuing radical social and economic transformation. It sets the key South African priorities intended to eradicate poverty by 2030 and to substantially reduce unemployment and inequality. The attainment of these outcomes is necessary to unlock the constraints to South Africa’s growth and development. The below table provides an overview of the MTSF outcomes.

**Table 1:** MTSF Outcomes

|  |  |  |
| --- | --- | --- |
| **Outcome Number** | **Medium Term Strategic Framework** | **Coordinating Department/s** |
| 1 | Quality basic education | Basic education |
| 2 | A long and healthy life for all South Africans | Health |
| 3 | All people in South Africa are and feel safe | Defence |
| 4 | Decent employment through inclusive growth | Trade and Industry |
| 5 | A skilled and capable workforce to support an inclusive growth path | Higher Education and Training |
| 6 | An efficient, competitive and responsive economic infrastructure network | Transport, and Public Enterprises |
| 7 | Comprehensive rural development and land reform | Rural development and land reform |
| 8 | Sustainable human settlements and improved quality of household life | Human Settlements |
| 9 | Responsive, accountable, effective and efficient developmental local government | Cooperative Governance and Traditional Affairs |
| 10 | Protect and enhance our environmental assets and natural resources | Environmental Affairs |
| 11 | Create a better South Africa, a better Africa and a better world | International Relations and Cooperation, and Trade and Industry |
| 12 | An efficient, effective and development oriented public service | Public Service and Administration |
| 13 | An inclusive and responsive social protection system | Social Development |
| 14 | National building and social cohesion | Arts and Culture |

*Source: Department of Performance, Monitoring and Evaluation*

The Constitution requires that budgets must promote the efficient and effective use of resources, based on evidence and rational deliberation. The budget plays a central role in transformation by promoting redistribution and directing scarce resources towards catalytic investments in human and physical capital.

**Main Budget Appropriation**



*Source: National Treasury 2018*

The Budget Review indicates that government has reduced departmental baselines by R26.4 billion in 2018/19, R28.8 billion in 2019/20 and R30.5 billion in 2020/21. The cuts fall on large programmes and transfers to government entities. In addition, all national and provincial departments have been required to reduce their spending on administration. Employee compensation, which is already subject to an expenditure ceiling, was not reduced.

The Budget proposals state that allocations were reduced in large programmes and these include the Special Defence Account; Incarceration; Air Defence; and Trade and Industry: Incentive Development and Administration. In addition, there were reductions in transfers to South African National Roads Agency Limited, the South African Revenue Service, the Passenger Rail Agency of South Africa and four water boards.

The Budget proposals state that reductions have been applied largely to programmes that underspent in previous financial years. Even after the baseline reductions, allocations to these programmes continue to grow in real terms over the medium term. Nevertheless, the reductions result in a shift in the composition of spending away from capital and towards consumption expenditure. These reductions in baselines require that departments and public entities improve spending efficiency.

The Budget proposals highlight the need to allocate money for infrastructure more efficiently. Key issues identified in government’s infrastructure investment programme include weaknesses in project preparation, execution and delivery and these often result in costly project delays and cost overruns. In response to this, the government has launched the Budget Facility for Infrastructure which aims to build a pipeline of projects that have undergone rigorous technical analysis, and ensure that fiscal resources are committed in a transparent manner. The facility has completed its review of 38 large infrastructure proposals. Additional work is being done to ensure that proposals can be considered for funding in the October Adjustments Budget.

1. **Comments on the 2018 Appropriation Bill and Hearings with Identified Departments**
   1. **National Treasury**

National Treasury in its briefing outlined the legislative process relating to the passing of the Appropriation Bill and highlighted the provisions in the PFMA which include Section 29 that allows for expenditure before the Appropriation Bill is passed. The Bill provides for the appropriation of money from the National Revenue Fund with spending subject to provisions contained in the PFMA (as amended).

National Treasury indicated that the following items represent the largest positive reallocations and funding additions to budget baselines in 2018/19.

|  |  |
| --- | --- |
| Higher Education and Training | * R7.2 billion for NSFAS for the phasing in of fee free higher education and training, for poor and working class students * R2.7 billion for TVET college subsidies for the phasing in of fee free higher education, refurbishing TVET infrastructure and starting operations at 3 new TVET college campuses * R2.4 billion for university subsidies |
| Health | * R700 million for development of an interim National Health Insurance (NHI) structure and the NHI indirect grant to cater for a package of prioritised NHI services |
| Basic Education | * R1.5 billion for the school *infrastructure backlogs indirect grant* for the completion of current projects – reallocated from Education Infrastructure Grant |
| Social Development | * R327.5 million for social assistance grants to offset the likely inflationary impact of new tax measures |
| Home Affairs | * R180 million to the Independent Electoral Commission for the 2019 national government elections |
| Human Settlements | * R518.7 million to the title deeds restoration grant for the title deeds backlog |
| Statistics South Africa | * R37.1 million for the full scale testing and pilot for the 2020/21 Census |
| Economic Development | * R240 million in 2018/19 for the operationalisation of the Tirisano Construction Fund Trust |

* 1. **Financial and Fiscal Commission (FFC)**

The FFC in its submission gave an overview of the Bill as well as an assessment of the baseline changes that show that government has reduced the overall baseline to national votes by 0.5 per cent in the 2018 Appropriation Bill, which is below the annual growth rate of 1.5 per cent forecast for 2018. The FFC indicated that government’s strategy of reducing appropriations in real terms implies that service delivery is likely to be affected unless national departments take active steps to improve operational efficiencies and service delivery innovations.

In terms of individual departments, the FFC submitted that the fastest growth on average per annum in real terms over the period 2015/16 to 2017/18 is in Higher Education, Economic Development and Health. The FFC indicated that that Agriculture, Forestry and Fisheries, Rural Development and Land Reform and Human Settlements recorded negative growth rates over this period. The FFC submitted that while it understands the rationale for reducing vote baselines given the constrained fiscal outlook, it was concerned with budget reductions in key service delivery areas such Energy, Human Settlements and Basic Education. The FFC indicated that government could instead have aimed to improve efficiencies through identifying overlaps and duplications in the intergovernmental system and then targeted those areas for budget reductions.

In terms of spending outcomes, the FFC indicated that whilst most votes spent on par with or above the national average (98.2 per cent), there remain noticeable uneven spending patterns amongst the various votes. Votes that spent below the national average for the period 2014/15 to 2016/17 are Energy and Basic Education while the Police spent 100 per cent of its budget. The underspending by the Department of Energy is linked to poor performance of the Integrated National Electricity Programme (INEP). The underspending by the Department of Basic Education (DBE) is in relation to delays in the implementing school infrastructure projects.

The FFC submitted that fiscal factors affecting the 2018 Appropriation Bill and the broader fiscal framework include water scarcity, public-service wage negotiations, the financial position of state-owned companies such as Eskom and South African Airways (SAA) and a possible sovereign credit-rating downgrade. The FFC indicated that it welcomes the various measures taken by government (i.e. allocations towards water infrastructure, reducing the compensation ceiling, government commitment to reduce government guarantees) to mitigate against the fiscal risks to the fiscus.

The FFC also commented on the progress in achieving the MTSF goals through the Bill through assessing the four overarching priorities of government which are promoting economic growth, job creation, education and health. Key observations from their assessment includes the following:

* With respect to the Basic Education sector, the FFC was unable to determine progress made on the performance of a number of indicators set out in the MTSF targets. The FFC submitted that despite the budget reductions, allocations to basic education are still growing above inflation.
* The FFC indicated that the Department of Basic Education needs to take into account spatial demographic patterns and forecasts before deciding to build or expand schools. This is so that it responds adequately to changing settlement patterns due to the high mobility of learners inter-and intra-regional.
* With respect to fee-free education, the FFC indicated that it is important to retain fees as part of the financing mix to take advantage of price-mechanisms, private funding sources and expenditure side management, as well as equity.
* With respect to job creation, the FFC submitted that given the fiscal constraints that are likely to persist, the private-sector becomes the most crucial conduit towards reducing unemployment. Employment outcomes are therefore dependent on a prolonged rise in confidence and investment.

The FFC submitted a range of proposals and measures to stimulate government cost efficiencies, these entailed the following:

* Strengthen and build on the consolidated procurement processes initiated by the Chief Procurement Office;
* Enhance efforts to link public sector wages and productivity;
* Strengthen oversight and accountability institutions at subnational levels;
* Inculcate the values of incorruptibility among civil servants and citizens more broadly;
* Leverage information technology to improve internal efficiencies and public service delivery in areas such as billing and tariff setting systems; and
* Minimise unnecessary outsourcing of services and tasks that can be performed by civil servants.

With regard to infrastructure investment, the FFC noted that State-owned Companies (SOCs) are responsible for the

largest share of infrastructure spending and that real growth in SOC infrastructure spending is significant at 12.3 percent, whilst infrastructure spending by national provincial and local government is set to decline between 2017/18 and 2018/19. The FFC submitted that SOCs need to improve the efficiency and effectiveness of their spending. Furthermore, government should design a plan to reprioritise infrastructure funding and its execution in the coming years.

* 1. **Human Sciences Research Council (HSCR)**

The HSRC was invited by the Committee to comment on the Bill. The HSRC articulated on issues pertaining to the economy, Cooperative Governance and Traditional Affairs (COGTA), Basic Education and Higher Education and Training. Some of the issues raised include measures to deal with the question of “solid education foundations or playing catch up later’, HIV/AIDS, Tuberculosis, non-communicable disease and other public health ailments in South Africa, realising the full potential of science and technology, and rural development funding provision and policy context.

The HSRC held that there is a need for balance between investment in economic infrastructure, spending on social services and consumption, as well as spending on public administration (government employees wage bill). This includes finding an appropriate balance between spending on the maintenance and repair of existing infrastructure and investment in new infrastructure. Economic considerations should influence the detailed pattern of spending in areas such as education, training, transport, water and electricity.

With regard to COGTA, the HSRC held that there is a need to prioritise, through adequate appropriation, service delivery and development in communities. These include the improving the relationship between local municipalities, traditional leaders, traditional councils, and communities. Rural local municipalities’ capacity constraints to deliver services to distant communities due to spatial transformation is a challenge. There were low levels of cooperation between traditional leaders and local councils. Traditional leaders decried their lack of recognition, legitimacy of their leadership and lack of resources. Communities often had split loyalties between local municipalities, traditional leaders, traditional councils as they concerned with their own livelihoods. The HSRC indicated that there is no consequence and accountability framework to hold local municipalities and Traditional leaders accountable.

With regard to basic education budget cuts, the HSRC held that key challenges facing the sector include the provision of ECD and its supporting infrastructure. The HSRC highlighted the need to include programming for the first 1000 days, which is family centered and addresses the needs of high-risk families, the need to address the issue of maternal mental health and its effect on child development, and the need to focus on child growth and development (food security; overweight and obesity and stunting). To this end, HSRC indicated that possible solutions include the requirement that infants and children aged less than 5 years presented to primary health-care facilities should have both weight and height measured in order to determine their weight-for-height. This should include their nutritional status according to child growth standards, as well as to provide counselling to parents and caregivers on nutrition and physical activity including promotion and support for exclusive breastfeeding in the first 6 months and continued breastfeeding until 24 months or beyond.

With regard to higher education, the HSRC felt that budget should prioritise support for university bound school learners (student learner dialogues), have mentoring programmes, upgraded orientation programmes and make psychosocial and writing/computing services accessible. Additional options to consider include establishing a race and gender ombudsman on all campuses, placing a full time commissioner of oaths on campuses, as well as to train lecturers and admin staff to offer help where needed in supporting students.

The HSRC held that there are socio-economic gradients that exist across the different dimensions of healthcare access that provide evidence of the continued inequitable state of South Africa’s healthcare system. The transition therefore to NHI is imperative in light of the NDPs aim to achieve a significant shift in equity, efficiency and quality of healthcare service provision by 2030. Constraints in the fiscal space asks serious questions as to how exactly the country needs to pursue the quest for universal health care (UHC) in the short-, medium- and longer-term. While many important healthcare programmes are being implemented and scaled up, there are in some instances a lack of funding for large-scale prospective impact assessments, examples being the integrated school health programme (ISHP), the implementation of the sugar tax, and proposed changes in tobacco control. Achieving the goal of universal health care (UHC) requires statistical systems and data sources to track access, inequalities, and the performance of the health system over time.

In using science and technology for social and economic development, the HSRC indicated the need for funding for technology innovation, international cooperation and resources, research development and support, socio-economic development and partnerships. Socio-economic development requires research on how to think more systematically across the national system of innovation, align programmes across Department of Science and Technology, Department of Higher Education and Training, and Department of Trade and Industry, strategies on how to grow universities. This also include expanding science councils, employing more researchers, as well as building partnerships with the private sector.

The HSRC submitted that land reform remains a highly contested domain of policy. Political pressure to fast-track land transfers have been mounting over the last 24 months. Striking a balance between demands for equitable land reform as entrenched in the 1996 Constitution and macroeconomic stability has been difficult. Land Reform policy has evidently prioritised reducing the ‘costs of land reform through ‘supply side’ interventions. The HSCR highlighted examples wherein policy revisions on this issue stalled, examples being that the Expropriation Act which stalled in the parliamentary processes including the introduction of land ceilings. Any policy revisions must be coupled with a clear strategy of satisfying rural land needs that will sharply reduce asset (wealth) inequalities, and well-planned asset redistribution is critical to boost rural prosperity and standards of living.

* 1. **Public Service Commission (PSC)**

The PSC in its submission articulated on its mandate, key indicators monitored by the PSC and on its assessment of strategies available to significantly improve administration practices in the public services. The PSC reported that its priorities are based on its Constitutional imperative of oversight, which is focused on performance and transformation of the Public Service.

The PSC indicated that to create a conducive environment for public governance, it is essential that the political and administrative interface challenges be addressed, as they create instability within departments. Implications include policy and strategy direction, which impacts negatively on performance, service delivery, and has huge costs implications. This disjuncture creates a breeding ground for maladministration and the mismanagement of funds. Corruption undermines good governance, legitimacy and credibility of the state, sound and functional institutions, development efforts, economic growth and has far-reaching financial implications on the available budget. The pledge to confront allegations of state capture through the Judicial Commission of Inquiry were clear, yet the Bill is silent on the financial considerations for the investigating agencies such as the Hawks and the Asset Forfeiture Unit (AFU). With the expenditure cuts, it is vital that the duplication of functions between departments is addressed, with the focus on how departments can minimise the inevitable negative impact of these cuts on performance and service delivery.

PSC held that better accountability of State Owned Enterprises (SoEs) is crucial for service delivery and the broader transformation of the state. The PSC agree that the bailouts are not a solution but rather an enabler, which causes operational inefficiencies and a financial burden on the state. It is essential that Government reviews and assesses the impact of the establishment of the agencies (agencification) and Public and Private Partnerships (PPPs).

The PSC reported on compliance with the Financial Disclosure Framework (FDF). This FDF facilitates public scrutiny. For 2017/18 reporting year, the compliance rate for the 2016/17 financial year was 99%. The need for the identification of potential conflicts of interest is based on the likelihood that SMS members could use state resources to further private interests. With regard to procurement, the PSC held that it is central to government’s service delivery system and can be used to achieve socio-economic objectives such as stimulating economic activity and alleviating national disparities. The PSC indicated that there are existing institutional arrangements established to ensure the payment suppliers within 30 days. However, the non-payment of suppliers remains a challenge, stifling economic growth and job creation in the SMMEs sector. The main transgressors contributing significantly to the 11 081 invoices not paid as the end of December 2017 were the Department of Public Works, the Property Management Trading Entity (PMTE) and the Department of Water and Sanitation. The non-payment of invoices is indicative of poor financial management, poor contract management, lack of internal controls, and non-adherence to supply chain management processes. The PSC is in the process of summonsing the top five (5) HOD/DGs of defaulting departments that have not paid invoices timeously. The culture of non-payment is further demonstrated at inter-governmental level, where departments are in debt to the Office of the State Attorney to the amount of R1.1 billion in respect of legal fees. Similarly, the amount owed to municipalities by departments as at the end of September 2017 was R 7.4billion.

The PSC commented that there is a gap in the legislative framework which provides reporting requirements and guidelines for departments, with particular reference to the management and use of consultants. The Public Service Regulations (PSR) of 2001 defined the requirements for annual reporting for the utilisation of consultants. However, the amended 2016 PSR does not make any provision for reporting on the utilisation of consultants. The limitation is that the PFMA does not explicitly state the reporting requirements regarding the utilisation of consultants. This creates a loophole in terms of the enforceability with regard to how departments are expected to effectively and transparently report on this matter. This loophole creates a gap in the overall financial management reporting of departments to ensure that budgets are appropriately spent, which in turn can lead to mismanagement of funds.

The PSC proposed a number of strategies towards significantly improving administration practice in the public service, and these include improving planning and reporting, human management, financial sector transformation, and ring fencing and detailing costing of the fee-free education budget.

* 1. **Department of Planning, Monitoring and Evaluation (DPME)**

The DPME submitted its findings on the alignment of Annual Performance Plans (APPs) with vote allocation as per the 2018 Appropriation Bill, analysis of vote performance on selected Departments and linkages between the 2018 Appropriation Bill and the Mandate Paper.

The Department indicated that its assessment of 2018/19 APPs showed that national departments’ APPs were aligned to the MTSF priorities though there were few instances where there was misalignment. In cases of misalignment, affected departments were informed and advised to ensure that all MTSF indicators are reflected in the APPs; and to ensure alignment to the budget. The DPME noted misalignments between some of the 2018 ENE performance indicators and/or MTSF indicators; and the performance indicators reflected in the tabled 2018/19 APP for the following votes, namely, Vote 3 – Communications, Vote 4 – Cooperative Governance and Traditional Affairs, Vote 9 – Public Enterprises, Vote 14 – Basic Education, Vote 15 – Higher Education and Training, Vote 16 – Health, Vote 17 – Social Development, Vote 20 – Independent Police Investigative Directorate, Vote 23 – Police, Vote 27 – Environmental Affairs, Vote 33 – Tourism, and Vote 36 – Water and Sanitation.

With respect to the analysis of vote performance, the following votes had performance targets that were not met, namely, the Departments of Agriculture, Forestry and Fisheries, Basic Education, Human Settlements, Energy, Health, Social Development, Water and Sanitation, Transport, and Police.

The DPME indicated that, since the inception of cost containment measures in 2014, there has been some success with the implementation in areas such as spending on travel and subsistence, catering, entertainment and venue rental, and spending on consultants. The Department reported that other areas that required focus include ensuring value for money in procurement, reducing the costs of litigation, ensuring efficient infrastructure delivery, redundant assets and exploring shared services and systems. The Department indicated that there is need to eliminate duplication and waste in government systems and to improve operational, information and management systems. Key service delivery policy areas that require enhanced monitoring are localisation, 30% set-asides, 30-day payments, employment creation and programmes on community workers.

The DPME reported that key social services programmes such as school sanitation, learner-teacher ratios, learning environments, and various health care programmes face access and quality pressures in the face of constrained budgets. There were also large risks emanating from climate change and technology that exacerbates existing fiscal pressures. Some of these risks include the roll-out of infrastructure for water, sanitation, energy, transport; and government-wide ICT infrastructure.

* 1. **Department of Transport**

The Department of Transport (Budget Vote 35) has been allocated a total budget of R59.798 billion for the 2018/19 financial year. The budget vote comprises of seven programmes, i.e. Administration (R430.077 million), Integrated Transport Planning (R89.982 million), Rail Transport (R18.887 billion), Road Transport (R27.098 billion), Civil Aviation (R182.253 million), Maritime Transport (R119.925 million), and Public Transport (R12.990 billion).

The Department’s strategic priorities over the medium term are as follows:

* Improving mobility and access to social and economic activities by facilitating and creating an enabling environment for maintaining provincial and national road networks;
* Modernising passenger rail infrastructure and improving services; and
* Integrating public transport.

In terms of readiness and strategy to effectively spend the 2018/19 budget and deliver on the MTSF and NDP objectives, the Department reported that its expenditure over the MTEF was mainly driven by transfers to the South African National Roads Agency Limited (SANRAL), PRASA, and provinces and municipalities for the construction, operations and maintenance of transport infrastructure and services. The Department’s spending on Goods and Services and Compensation of Employees accounted for 2 per cent of its MTEF allocation and is largely driven by activities related to project management and support functions, monitoring and evaluation, grant management and oversight, and policy and legislative development and implementation.

The Department also reported on its plans to deal with the budget consolidation and reprioritisation in 2018/19 and to ensure that service delivery was not compromised by highlighting the budget and adjustments budget processes in terms of the PFMA. The Department also reported on its challenges and mitigating measures in terms of the oversight of its key public entities (Airports Company South Africa, Air Traffic Navigation Services, SANRAL, Road Traffic Management Corporation, Road Accident Fund, South African Maritime Safety Authority, PRASA, Railway Safety Regulator) so as to ensure clean audits for 2018/19 and processes to eliminate irregular, fruitless and wasteful expenditure.

In terms of measures in place to ensure a clean audit for the Department in 2018/19 and to eliminate irregular, fruitless and wasteful expenditure, it was reported that financial management policies and procedures were developed in line with the PFMA and Treasury Regulations of 20015 to ensure compliance by officials. An Internal Control and Compliance Directorate has been established to monitor the implementation of action plans to address the findings raised by AGSA and the Internal Audit Unit. This Directorate reported on a quarterly basis to the Executive Authority and the Audit Committee. Furthermore, a Loss Control Committee has been established to deal with losses to ensure that officials are held accountable for any losses suffered by the Department through no-shows and other fruitless and wasteful expenditure and that these are recovered. The Department also established an Irregular Expenditure Committee, which was responsible for assessing the cases of expenditure and whether these have met the definition in terms of the PFMA requirements. The said Committee would recommend to the Accounting Officer on the appropriate actions to be taken where there have been transgressions.

In terms of the submission of the Departmental 2018/19 Procurement Plan to National Treasury and its alignment to the Annual Performance Plan (APP), it was submitted that there was compliance in that regard and that there was alignment of the two plans. However, a number of projects on the 2018/19 APP were not on the Procurement Plan due to some projects already being committed, some projects being undertaken without the invitation of bids, and some projects being performed in-house by various departmental components.

* 1. **Department of Basic Education**

The Department of Basic Education (Budget Vote 14) has been allocated a total budget of   
R22.722 billion for the 2018/19 financial year. The budget vote comprises of five programmes, i.e. Administration (R450.476 million), Curriculum Policy, Support and Monitoring (R1.905 billion), Teachers, Education Human Resources and Institutional Development (R1.290 billion), Planning, Information and Assessment (R11.971 billion); and Educational Enrichment Services (R7.105 billion).

The Department’s strategic priorities over the medium term are as follows:

* Accelerating delivery and improving school infrastructure;
* Enhancing teaching and learning by ensuring access to high quality learner and teacher support materials;
* Improving grade 12 completion rates;
* Providing educational opportunities to learners with severe to profound intellectual disabilities;
* Increasing the supply of quality teachers;
* Monitoring performance; and
* Providing nutritious meals to learners in schools through the national school nutrition programme.

In terms of readiness and strategy to effectively spend the 2018/19 budget and deliver on the MTSF and NDP objectives, the Department reported that performance agreements and work plans for senior management staff were aligned to the Operational Plans of the Department. The said Operational Plans would be a major contributing factor to the attainment of the indicators in the MTSF and NDP and the Department further outlined the projects in that regard. The Department, in response to the sanitation challenges being experienced, reported that the following are being implemented to address the matter:

* Reorganisation of funding to address sanitation challenges, especially for the Education Infrastructure Grant;
* Provincial Education Departments to reprioritize infrastructure plans to address sanitation challenges;
* Comprehensive plan to address all sanitation challenges was in the process of being finalised;
* The above-mentioned plan would also address the issue of maintenance of sanitation in schools; and
* Involvement of the private sector to assist in addressing the sanitation challenges.

In dealing with the challenges of water services, learning-conducive physical infrastructure and other supporting facilities for the 2018/19 financial year, the department reported that the sector planned to complete 48 new schools, replace 37 schools, and complete 4 boarding and 2 special schools. The upgrading and provision of basic services would be completed in 704 schools for sanitation, 496 schools for water and 184 for electricity. The Department further reported that 665 projects were earmarked for maintenance during 2018/19. In terms of the Accelerated Schools Infrastructure Development Initiative (ASIDI) for 2018/19, the Department reported that 50 inappropriate structure would be addressed along with 286 sanitation and 325 water projects. It was also reported that the agreements with Implementing Agents have been amended to include consequence management clauses to address instances of underperformance.

The reported measures in place to ensure a clean audit for the 2018/19 financial year and to completely eliminate irregular, fruitless and wasteful expenditure included the following:

* Improved monitoring by management to ensure strict compliance to financial protocols and where transgressions were identified, that action would be taken against identified officials.
* Follow up audits would be conducted by Internal Audit on Supply Chain Management (SCM) processes for all Implementing Agents for compliance with legislation.
* Bids would be reviewed at Technical Committee stage before the awarding of tenders along with verification of compliance.
* Risk Registers would be followed up for management action plans on areas of high risk and non-compliance with legislation.
* Departmental internal control measures as well as the findings and recommendations of the Internal Audit and the Auditor General South Africa Committee would be implemented.
* The Department ensure that the annual budget and monthly cash-flow projections are carried out in line with policies and procedures.
* Documents would be kept safe and secure in a confidential manner.
* The Department would ensure that Senior Managers serving on the Bid Committees were orientated on SCM processes and consequence management would be applied on those procuring outside procurement processes.

In terms of the submission of the Departmental 2018/19 Procurement Plan to National Treasury and its alignment to the Annual Performance Plan (APP), it was submitted that the Department complied. The Department further submitted that it has developed a Framework Agreement (database) on infrastructure projects which would run over a three-year period. The appointment of contractors would be done through quotations to ensure service delivery and effective spending. It was also submitted that this Framework Agreement would minimise the tendering process when contractors are appointed for water and sanitation projects.

**3.8 Department of Public Works**

The Department of Public Works (Budget Vote 11) has been allocated a total budget of   
R7.453 billion for the 2018/19 financial year. The budget vote comprises of 5 programmes, i.e. Administration (R480.349 million); Intergovernmental Coordination (R58.101 million); Expanded Public Works Programme (R2.566 billion); Property and Construction Industry and Research (R4.250 billion); and Prestige Policy (R97.891 million).

The Department’s strategic priorities over the medium term are as follows:

* Job creation;
* Supporting the development of skills related to the built environment;
* Strengthening its governance, risk and compliance functions, and fight against corruption;
* Improving its oversight of the public works sector; and
* Enhancing its research and policy development capacity.

In terms of readiness and strategy to effectively spend the 2018/19 budget and deliver on the MTSF and NDP objectives, the Department reported on the outcomes and targets which affected it including the budget allocations. The Department also reported that it has submitted its Consolidated Procurement Plan which included Property Management Trading Entity to National Treasury on 29 March 2018 which was within the prescribed timelines.

In terms of measures to achieve a clean audit in 2018/19 and to eliminate irregular, fruitless and wasteful expenditure, the Department reported that audit intervention plans have been developed to address the outstanding matters raised by AGSA. The said plans have been presented to the Audit Committee and the Portfolio Committee on Public Works and the implementation is monitored on a monthly basis. It was however also reported that it would be particularly challenging for the PMTE to achieve a clean audit, especially in respect of the finalisation of a fully compliant Generally Recognised Accounting Practice (GRAP) financial system. In respect of the Department’s main account, it was submitted that performance information remained a high risk and concern for management with regard to the achievement of a clean audit. This was due to findings being raised with the Department for the transgressions at public bodies for which it had little or no control over. It was reported that the role of the Department was emphatically to coordinate for the job creation initiatives.

In respect of challenges regarding intergovernmental debt, the Department reported the following mitigating measures:

* Letters to accounting officers followed by meetings;
* National Treasury has also intervened;
* Enforcement of issuing occupation and vacation certificates coupled with inspections;
* Resolving of all disputed invoices/claims by user departments or ant institution within reasonable time; and
* A review of the billing model in underway with National Treasury to consider claiming quarterly in advance for private leases.

With regard to the payment of invoices to suppliers within 30 days, it was reported that the web based tracking system (Rea Patala) which was introduced in February 2016, has improved the tracking and monitoring of invoices received. It was also reported that this was an interim solution for the PMTE while the implementation of an integrated Enterprise Resource Planning (ERP) system with procurement module was being finalised.

1. **Inputs from the Public in response to the advertisement calling for submissions**
   1. **Mr Guy Harris CA (SA)**

Mr G Harris focussed on the state of the South African economy in his submission and stated that it was unstable and top heavy with industries being dominated by a few big companies which were supported by government. He stated that there was a need to transform the economy by making it more competitive through state procurement measures and improving the inclusion of Small and Medium Enterprises (SMEs). He further stated that the majority of the population which survived on less than R6 thousand per month needed to be capacitated and have pathways out of poverty through formal jobs and entrepreneurship rather than poverty alleviation initiatives. He submitted that government policies and expenditure should focus on medium sized businesses that accelerate from 10 to 50 and scale from 50 to 500 employees. In respect of a supportive environment for job creating medium sized business development, he proposed the following:

* National Treasury should validate department, SOE and municipal debts and recoup the funding from the defaulters who did not pay invoices within 30 days;
* Big businesses with over 500 employees and a turnover rate beyond R500 million should also commit to the payment of invoices within 30 days to SMMEs and that the nominated bank should validate unpaid debts at big business’ cost; and
* Large scale deregulation to make it easier to start a business.

He further submitted that effective Early Childhood Development (ECD) was the foundation for future skills in South Africa however, it could not be afforded as substantial amounts of funding is wasted tertiary education drop-outs, high school repeat learners, prisons filled with criminals who missed a positive grounding, social ills, and correcting learning difficulties. He submitted that ECD needs more support from government.

* 1. **Congress of South African Trade Unions (COSATU)**

COSATU submitted that it was disappointed by the government’s underwhelming 2018/19 budget and was of the view that it should have provided set targets and clear time frames in support of progressive job creation and corruption fighting as articulated in the 2018 State of the Nation Address.

COSATU also provided proposals on allocations for different clusters/sectors as follows:

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| **Cluster/ Sector** | **COSATU proposals** |
| 1. **Job Creation** | * Urgent convening of Presidential Jobs and Investment Summits to develop macro and sectoral jobs and investment plans and investment plans with business and labour based upon: * government and industry investment, * incentives, * reskilling and absorbing workers, * targeting key growth areas, * raising import tariffs, * compulsory buy local campaigns, and * export boosting measures * Boost Department of Trade and Industry funding to fuel industrialisation. |
| 1. **Corruption** | * Prohibit public representatives and senior public service and parastatal executives and their immediate families from doing business with the State. * Require public representatives and senior public service and parastatal executives to undergo lifestyle audits conducted by the Auditor General South Africa. * Require public representatives or at least members of the national, provincial and municipal executives and senior public service and parastatal executives to publicly declare their taxes. * Parliament to expedite the passing of the Auditor General Amendment Bill. * Fast track the passing of the Public Investment Corporation Amendment Bill in 2018. |
| 1. **Expenditure** | * The Chief Procurement Officer (CPO) investigates and sets specifications for construction costs for departmental, municipal and embassy buildings. Construction budgets should be reduced. * The CPO deploys officials to all departments, municipalities and SOEs to oversee their supply chain processes. * All municipality and SOE procurement be brought in line with government’s transversal procurement system and adhere to its requirements. * Catering, travel and advertising budgets should be overhauled with tighter regulations and reduced. * Government garage should take over all cars for office bearers. * Engage with unions on public service vacancies at the public service bargaining councils. * Consolidate fragmented departments, agencies, municipalities and SOEs. * Reduce the number of public representatives at the next elections. * Hold national, provincial and local elections on the same date. * Review the role of district versus local municipalities. * Government should provide a clear plan to salvage our SOEs and place them on a sound governance, economic and financial footing. * SOE management posts are placed on fixed levels set by government. * All procurement by the state should be required to be solely for locally made products unless such products cannot be made locally. |
| 1. **Public Sector Wage Bill** | * Government should investigate alleged ghost posts. * Engage with unions at the Public Service Co-ordinating Bargaining Council where expenditure can be reduced and what posts are critical and which can be frozen. * Reduce the public service wage gap. * Place state owned entities under the PSCBC to ensure uniformity and stability of wages. * Reduce executive wages amongst the public service and parastatals. * Reduce public representative’s salaries and benefits. * Unfreeze critical service delivery posts. |
| 1. **State- owned Entities** | * Comprehensive forensic audits of SOEs. * Change of boards and executives. * Clear funding and operational plans to place SOEs on sustainable paths. * Engage with unions and business for ways to stabilises SOEs. * Commit not to retrench workers or privatise SOEs. |
| 1. **Departments of Trade and Industry, Economic Development, Small Business Development, Science and Technology** | * Urgent development of macro and sectoral jobs and investment plans with industry and unions in preparation for the Presidential Summits. |
| 1. **Department of Mineral Resources** | * Clear plan to save mining sector, including boosting beneficiation. * Health and safety plans to protect mine workers. * Reskilling and absorption plans for mine workers. |
| 1. **Department of Labour** | * Increase number of Departmental labour inspectors and work place inspections. |
| 1. **Department of Health** | * NHI fast tracking plan. * Clear indication on where NHI funding will go. * Clear plans to refurbish clinics and hospitals. * Filling of nurse and doctor vacancies and unfreezing of posts. * Reduction in shifts at hospitals. |
| 1. **Education Sector** | * Clear funding model, short and long term, for free and affordable tertiary education for working and middle class students. * Clear plan and time frames to address basic and tertiary infrastructure backlogs. * Provision of free sanitary pads for learners and students. |
| 1. **Department of Social Development** | * Interventions by the Presidency and Treasury to ensure fast tracking of social grants payments by the Post Office. * Clear road map for this social grants transfer to the Post Office. |
| 1. **Departments of Agriculture Forestry and Fisheries, and Rural Development and land Reform** | * Sufficient resourcing of the departments. * Sufficient funding and support for emerging farmers. * Protective measures for farmers, e.g. raising import tariffs, buy local campaigns, export boosting measures. * Land tenure and distribution programme targeting farm workers. * Parliament’s passing of the long overdue Extension of Security of Tenure Amendment Bill. |
| 1. **Departments of Water and Sanitation, and Environmental Affairs** | * A comprehensive national, provincial and local water conservation, recycling and desalination programme. * An inclusive national water war room. |
| 1. **Department of Energy** | * Eskom’s entry into the renewable energy sector. * A plan to reskill and absorb coal workers as the energy sector evolves. |
| 1. **Departments of Justice; Correctional Services; Police; and Intelligence** | * Cancel plans to reduce South African Police Service staff by 3000. * Fast track plans to speed up court back logs, especially in the Labour Court. * Locate the Border Management Agency within the public service. * Leave customs as a function of the South African Revenue Service (SARS) * Greater Parliamentary scrutiny of state security budget. |
| 1. **Departments of Public Works and Human Settlements; and Provincial and Local Government** | * Integrate EPWP and CWP workers into the public service departments and municipalities. * End the outsourcing of permanent departmental and municipal functions to the EPWP and CWP. |
| 1. **Department of Transport** | * End PRASA’s planned retrenchment of 800 workers this year. * National intervention in the Metro Rail crises. * End E Tolling and come with a sustainable funding model for roads. * A public transport plan. |

**4.2 Consultancy Engineers South Africa**

The Consultancy Engineers South Africa (CESA) commented on the key objectives of the presidential theme for 2018 which include: effective ethical leadership; transforming the hearts and minds of South Africans; embracing the world of digitization; industry integration and working collaboratively; and working with clients in addressing corruption. CESA further commented on the key infrastructure challenges and highlighted the following:

* Lack of Technical skills and capacity in Public Sector (Role of the Client);
* Generic Approach to Procurement;
* Feast or Famine phenomenon in Construction industry - inconsistency of workload;
* Lack of planning in advance of need; and
* Inadequate regulation in respect of Professional Registration with Engineering Council of South

Africa (ECSA).

CESA emphasised the importance of competency in technical skills in respect of the Independent Infrastructure Advisory in the Presidency; Infrastructure Departments in National Treasury and Office of the Auditor General South Africa; and Service Delivery Departments. It also proposed that all SOEs, national and provincial departments have a full understanding and capacity to implement the Standard for Infrastructure Procurement and Development Management (SIPDM). Finally, the stakeholder was of the view that the procurement of professional services should be changed in order to consider value-for-money instead of focussing on the lowest cost and to move to a system of framework contracts with more quality-based selections.

**4.3 South African Religious Forum**

The South African Religious Forum submitted that the religious sector has been generally under resourced and that it is not properly housed to improve interaction between it and government. The stakeholder further submitted that religious organisations could support government programmes related to nutrition, health, nation building, social cohesion, moral regeneration, and moral voice to the nation. It further submitted that it could be a good resource which should complement the work of government.

**4.4 Summary of inputs by stakeholders at the 2018 National Budget Dialogue**

The Standing Committee on Appropriations held its first 2018 National Budget Dialogue in the processing and consideration of the 2018 Appropriation Bill. The Committee is of the firm view that public participation is a two-way communication and collaborative problem solving mechanism to achieve better and acceptable decisions. This is line with the Committee’s Operational Plan and Parliament's strategic vision for an activist and responsive people’s Parliament that improves the quality of life of South Africans and ensures enduring equality in our society.

The purpose of the 2018 Public Dialogue on Budget Appropriation (dialogue) was to serve as a first step in a process to improve public engagement and involvement in the budget appropriation process, through developing a stronger partnership with stakeholders. The Committee resolved on this approach as it realised that many stakeholders and citizens were still not fully participating and engaging in the budget process. Hence, the dialogue gave stakeholders the opportunity to make representations and participate in the dialogue; and engage freely with their elected representatives. Institutionalising public participation as an integral part of Parliament’s oversight function. The comments and inputs made at the dialogue by the stakeholders as well as the key findings are as follows:

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| **Stakeholder** | **Input/Comments** |
| **Abahlali baseMjondolo Movement in South Africa** | * Improve lives of the poor and marginalised people living in rural and urban areas, focussing on giving human dignity to all human beings. * Root causes of countrywide protests is due to improper spending of budgets by government departments/entities, exclusion of people on the grassroots level in budget processes, more especially exclusion at local government level, exclusion from Independent Development Planning (IDP), and exclusion from Extended Public Works Programme (EPWP), and corruption by government. * Budgets should include provision for land tenures to rule out evictions; provide for serviced sites; rollout interim services for electricity, road access, refuse collection, water and sanitation, whilst the poor await decent housing, disaster management more especially for shack fires and floods, invest in human capacity and public participation at all three spheres of government. * Notwithstanding the service delivery challenges, the organisation recognises the importance of cost savings. |
| **Congress of South African Trade Unions (COSATU)** | * Key issues identified in relation to the 2018 Budget include the 35% unemployment and 1% jobless Gross Domestic Product (GDP) growth, declining revenue collection, the need to balance revenue, expenditure, economic stimulus, service delivery and debt, as well as avoiding the debt trap of Africa and an International Monetary Fund (IMF)/World Bank intervention. * Revenues include tax increases on the poor, which may result in overtaxing the poor, lack effort to increase taxes on the rich, and government should focus on resolving leadership and collection crisis at the South African Reserve Bank (SARB). * Corruption and wasteful expenditure include R64 billion in wasteful expenditure, R50 billion in stolen assets, calling for the need to overhaul law enforcement agencies, need to overhaul SOEs, lack of consequence management for perpetrators and lack recovery of stolen assets. * Austerity and public service wage bill include negative impact of expenditure cuts namely service delivery and infrastructure backlogs, freeze critical public service posts and reduction of government expenditure in the economy, public servants deserve a living wage and support on average, seven (7) dependents, also includes excessive growth in management posts. * Critical departments include (i) Health: acute staffing and medicine shortages; (ii) Education: infrastructure crises and freezing of posts; (iii) SAPS: excessive concentration of staff in administrative posts; and (iv) Transport: Metrorail & public transport crises; (v) SASSA: social grants distribution crisis; (vi) Agriculture and Land Reform: insufficient funding; and (vii) Water Affairs: collapse of department. * Way forward is to arrest rampant corruption, overhaul state and SOEs leadership, Fix SOEs, Presidential Jobs and Investment Summits - Government, business, labour and community jobs and investment pact. |
| **Social Justice Coalition (SJC)** | * R10 billion budget slash for human settlements. * Government’s spend on land reform equates government’s spend on VIP protection and security, * Democratic Alliance (DA) metros fail to spend R540 million meant to help the poor, and Tafelberg R135 million sale proceeds. * Constitutional imperatives of Public participation, and those contained in the Municipal Systems Act, especially at local government, is lacking.[[1]](#footnote-1) * These prescripts are supported by case law.[[2]](#footnote-2) |
| **South African Women in Dialogue (SAWID)** | * Priorities of the NDP, by South African women include poverty eradication, early childhood development, reduction of violence against women, civil society coordination and income generation in all the areas wherein women experience the greatest challenges. * Support development efforts towards establishing the family as a unit of development, which allows one to allocate and measure budgets directly to family self-diagnosis and family well-being (international best practice). * The SAWID Development Caravan model (psychosocial, family-based poverty eradication approach) includes three phases, namely Household Development (family profiling), Community Development, and lastly, Community Socio-Economic Development. * Support budgeting for the implementation of Mandela’s Elusive RDP of the Soul, which is akin to SAWID aspirations including six (6) basic principles of the RDP being “integrated and sustainable programme; a people-driven process; peace and security for all; nation-building; linking reconstruction and development; and the democratisation of South Africa.” * The collective wisdom of South Africa’s people, as summarised in the Preamble to the Constitution of South Africa, clearly indicated the content of Mandela’s suggested RDP of the Soul. |
| **Business Unity South Africa (BUSA)** | * Represent business in South Africa, views of its members in national structures and bodies (statutory and non-statutory). * It also represents the interest of business’ in the National Economic Development and Labour Council (NEDLAC). * Welcomes Treasury’s achievement in the Budget of maintaining real average growth of 1.8% in non-interest spending over the next three years. * Higher education and training, health, social development and community and economic development being the fastest growing categories of spending, serves as a catalyst for building the foundation for suitable, inclusive economic growth. * Supportive of the tax proposals outlined in the 2018 Budget. * Additional Corporate Income Tax (CIT) and Personal Income Tax (PIT) tax hikes would have been counter-productive. * There is a need to maintain an efficient, diversified and sustainable tax system that should be aligned with Government’s economic growth objectives and job creation in line with the NDP. |
| **National Youth Development Agency (NYDA)** | * Support the need for skills development focused on youth. * Support skills revolution in the country to guide young people into the skills needed for the economy and for the fourth industrial revolution. * Suggest a skills development fund of R500 million done as a Public Private Partnership which can garner the skills needed by young people to allow them to be employable and meaningful contributors to the economy. * South Africa requires social cohesion, patriotism and nation building especially amongst young people. * These elements should be included in the conversation of economic growth. * Skills development training should be enhanced through National Youth Service, which would see young people volunteer their skills in communities, the public service and civil society. * This will build a culture and cohort of a future generation of young leaders. * Budget allocations must be linked to performance and financial prudence to enhance government’s role in spending allocations properly. |
| **SUBJECT MATTER INPUT** | |
| **Ms I Frye: Studies in Poverty and Inequality Institute (SPII)** | * Consultative construction of a Decent Standard of Living Index. * Promoting socio-economic rights through Constitutional imperatives. * Three (3) step monitoring of Socio-Economic Rights (SER) entail assessment of the policy effort, assessment of the resource allocation and expenditure, and monitor and evaluate attainment of the right. * Public participation goal is to achieve representative and more acceptable decisions, including a focus on those confronted with poverty and lack access to resources, including children, women, people with disabilities and the youth, towards the strengthening and maturing of democracies. * Amendment to the Appropriations Bill must be consistent with the Fiscal Framework and Division of Revenue Act (DoRA).[[3]](#footnote-3) * Sections 9, 10 and 11 of the Constitution of South Africa, 1996 (the Constitution) guarantee the rights to full and equal enjoyment of all rights and freedoms, the right to inherent dignity and the right to life, respectively. * Programmes that benefit these vulnerable people most are clearly key to a responsive, Constitutional decision-making process by the Committees. * In line with NDP Targets: Reduce people living below the Lower Bound Poverty Line from 39% in 2009 to 0% in 2030; Reduce people living in hunger (below the Food Poverty Line) from 21,4% in 2011 to 0% in 2030. * Despite the general decline in poverty between 2006 and 2011, poverty levels in South Africa rose in 2015 – 2017, of which the highest poverty levels found with black African women, and Limpopo Province found with highest poverty levels. * Allocations to overcome poverty include social grants (section 27 of the Constitution). * Unemployment rate remains at 27.6%, with highest budget expenditure on specific socio-economic rights from 2010 – 2018 being those of basic education and social protection. * Budget for Human Settlements, Human Settlements Development Grant (Gauteng) and Urban Settlements Development Grant have been underspent (2012 – 2016). * The number of houses/units completed per year (2002 – 2015), across all government housing programmes, indicate a decline, hence less people are enjoying the right to housing.[[4]](#footnote-4) |
| **Prof N Viegi:**  **University of Pretoria** | * Budget background include international uncertainty, national economic stagnation, and vulnerable fiscal position. * Main budget decisions include fiscal consolidation, and prioritising higher education. * The long term view of fiscal policy include evaluating fiscal policy, and Budget 2018 and NDP growth objectives. * Global uncertainty (great uncertainty) result in financial market turbulence, policy uncertainties, trade disruptions, as well as geopolitical tensions. * 2018 Budget (an emergency budget): * Major spending adjustments include R85 billion reduction over the medium term and R26 billion on this budget, R57 billion for fee-free higher education and R12.4 billion on this budget. * Increase in taxes include VAT increase (R23 billion), and other taxes (R13 billion). * There is a need to get State Owned Entities (SOEs) under control * Growth and transformation cannot be built on debt and uncertainty. * Gross debt to GDP outlook shows increased debt (2012 -2026) from 41.1% to 63.3%. * Principles of economics under uncertainty include fiscal prudence, fiscal credibility, and building a resilient economy. * Policies for growth include bias for openness, bias for change, and future generation bias by favouring the interests of the young. * South African negative feedback loop entail long-run macro stagnation, short run macro volatility, present orientation in allocation of resources, and poor socio-economic transformation. * Fee free education represent a transfer to the middle class. If all matriculants were to pass, the university will not be able to absorb the numbers. * The transformation project of the country remains unfinished |
| **Prof M Jahed: Parliamentary Budget Office (PBO)** | * Challenges facing the fiscus include slow economic growth, rising expenditure needs (additional allocation of R57 billion over the medium term for education), significant revenue shortfalls, and the financial condition of several state-owned companies. * Requirements for implementation of NDP goals include building on the broad support and trust in the NDP, focused leadership, institutional reform, mobilisation of resources, requires trade-offs, willingness to make trade-offs and to prioritise. * Priorities for 2018 Budget include 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. * The NDP provides the strategic direction for planning and the directing of funds. * The budget process allows for planning, participation, negotiation, monitoring, evaluation and review. * Structures are in place for the implementation of policy, plans and budgets. * Structures are in place to oversee the budget process. |
| **Key Findings** | |
| **Issues raised by stakeholders** | * Stakeholders were in broad agreement that public engagement on the budget process in all spheres of government needs to improve. * The budget public participation strategy must entail more than public meetings and the publication of information. All spheres of government should put in place mechanisms that create conditions for public participation and that build the capacity of communities to participate. * Stakeholders submitted that there is a need for additional resources, enhanced capacity and additional training for state organs and other structures established by the legislation that are employed to meet the objectives of effective public participation. * Community involvement at is often ineffectual and characterized by the absence of feedback form local authorities. * Many stakeholders felt excluded in local government planning processes. The linkages between IDP priorities and budget processes must be clearly outlined for the benefit of the community and stakeholders. Local governments must establish appropriate mechanisms, processes and procedures to enable the local community to participate in the affairs of the municipality. * Information on the budget must be simplified and be accessible. * There was a need for mutual respect between government officials and citizens. * Civil society and citizens should be prepared to engage vigorously on the budget and this often requires relevant information, factual research, resources and continuous engagement. * Access to land in urban areas was raised as a significant challenge. Stakeholder called for the provision of basic services such as electricity, road access, refuse collection, water and sanitation while people wait for decent housing. This includes resources for disaster management to respond speedily to shack fires, floods. * Transport was raised as a significant challenge. Many citizens live far from their workplaces and government institutions; and travel to work is costly in terms of time and money. This problem is as a result of the apartheid policies that separated different racial groups to different settlements with black settlements often located far from business districts. * Despite the general decline in poverty between 2006 and 2011, poverty levels in South Africa rose in 2015 – 2017, of which the highest poverty levels found with black African women, and Limpopo Province found with highest poverty levels. * Stakeholders highlighted challenges in the implementation of the Urban Settlements Development Grant which underspent in recent years. The number of houses/units completed per year across all government-housing programmes, indicate a decline. * Skills development should be prioritized. Stakeholders called for a skills revolution in the country to guide young people into the skills needed for the economy and for the fourth industrial revolution. * Stakeholders highlighted the need to support development efforts towards establishing the family as a unit of development, which allows one to allocate and measure budgets directly to family self-diagnosis and family well-being (international best practice). * Stakeholders were concerned at public reports detailing instances of corruption and maladministration. This served to undermine public confidence in the state. There were calls for the overhaul of law enforcement agencies, the recovery of stolen public funds and the application of consequence management and sanctions, together with action by law enforcement agencies, in cases of fraud and corruption |

1. **Committee Findings and Observations**

Having considered all the submissions made by the above stakeholders on 2018 Appropriation Bill, the Standing Committee on Appropriations makes the following findings and observations:

**Overall thrust of the 2018 Appropriation Bill**

* 1. The Committee notes that the 2018 Appropriation Bill reflects major expenditure commitments, and corresponding expenditure reductions and reprioritisation in line with new policy initiatives. The Committee notes that an additional R12.355 billion for 2018/19 is allocated to the National Student Financial Aid Scheme (NSFAS) will cover the full cost of study for undergraduate university and technical vocational education and training (TVET) college students from families with annual household incomes below R350 000.
  2. The Committee notes submissions by DPME, FFC and the HSRC that indicate that the main risks affecting the 2018 Appropriation Bill and the broader fiscal framework include water scarcity, public-service wage negotiations, the financial position of state-owned companies, SEZs and strategic projects; and a possible sovereign credit-rating downgrade. The Committee supports all efforts aimed at revitalising growth and restoring healthy public finances and welcomes the various measures taken by government (i.e. allocations towards water infrastructure, social compact between business and labour, reducing the compensation ceiling, government’s commitment to reduce government guarantees) to mitigate against the fiscal risks to the fiscus.
  3. Accruals within national and provincial departments is of serious concern to the Committee as these would impact on the effective expenditure of the budget allocations and Annual Performance Plan performance during the 2018/19 financial year, thus impacting on service delivery. Furthermore, this issue distorts the budget process as these accruals are not reflected on the budget allocations for 2018/19. The Committee emphasised that the delayed payment of bills contributes to the build-up of a hidden deficit that poses significant budget execution risks.
  4. The Committee is concerned with the effect of the increase in VAT on general government spending. The FFC submitted that government spending reductions focused on consumption expenditure and increases in VAT are best suited to consolidate the budget without damaging economic growth. The Committee was of the view that productive expenditure (such as infrastructure and skills development) should be expanded and enhanced. In addition, government should improve efficiencies and ensure that any increase in prices does not affect the smooth delivery of basic services.

**Budget principles of efficiency, effectiveness, economy and fairness**

* 1. The Committee welcomes inputs by COSATU, HSRC, FFC and PSC on measures to stimulate government cost efficiencies. Some of the proposed measures to reduce costs include minimising unnecessary outsourcing of services, improving procurement processes across government, reducing costs in the construction of all government office infrastructure, minimising spending on VIP services, linking public sector wages to productivity, eliminating wasteful expenditure and non-essential expenditure, cleaning the government personnel systems and eliminating ‘ghost posts’, publishing information on cost efficiencies, identifying overlaps and duplications in the intergovernmental system.
  2. The Committee remains concerned with reported incidences of outsourcing and use of consultants in government for jobs that could be performed by civil servants. The FFC submitted that municipalities spent R3.5 billion on consultancy services and of this amount, R838 million procured consultants in financial reporting. In many cases where consultants are appointed, there is no capacity to monitor, report on activities, outputs and deliverables. The Committee is of the view that service delivery models within Departments should avoid duplication of skills and efforts. Financial reporting is a core function of all state agencies and use of consultants in this area should be discouraged.
  3. The Committee is seriously concerned about trends in service delivery performance versus expenditure, which show that while departments regularly exhaust their allocated budgets, the attainment of performance targets continues to be a challenge and is uneven across sectors. This undermines work towards the achievement of MTSF targets and the NDP goals. The departments must ensure parity between budget expenditure and performance targets.
  4. The Committee notes with concern that trends indicate that compensation (salaries) has crowded out other areas of spending, particularly in labour-intensive departments. At the same time, cost-of-living adjustments have exceeded consumer price index inflation by an average of two percentage points. The Committee placed emphasis on the need to increase productivity in all spheres of government especially within the constrained fiscal environment.
  5. The Committee is of the view that departments need to ensure that suppliers that do business with government are paid within 30 days from receipt of an invoice. The PSC submitted that despite the extensive institutional measures established (i.e. OAG, DPME, OCPO and SEDA) to ensure the timeous payment of suppliers, the non-payment of suppliers remains a significant challenge. The Committee views the non-payment of suppliers by government departments as having a negative impact on the economy and most especially on the operations of Small, Micro and Medium enterprises.

**Health, education, training and skills development**

* 1. The Committee notes COSATUs submission that there is a need for long-term funding model for fee-free education. The FFC submitted that in the implementation of fee-free education it is important to retain fees as part of the financing mix to take advantage of price-mechanisms, private funding sources and expenditure side management, as well as equity. The HSRC submitted that the unintended consequence of fee-free tertiary education may be a reduction of the schooling budget and other priorities.
  2. The Committee notes and welcomes government’s submission that it will replace 82 inappropriate and unsafe schools, and provide water and sanitation to 325 and 286 schools respectively in the medium term. The Committee reiterates its view that the Department of Basic Education needs to significantly improve its planning mechanisms and systems such as the need to take into account spatial demographic patterns and forecasts before deciding to build or expand schools; and the effective and timeous rollout of schools infrastructure.
  3. The Committee notes HSRC’s submission that significant progress has been made in the number of ECD centers registered and the number of children receiving preschool. The HSRC indicated that Grade R is currently not compulsory and resources and conditions for Grade R teachers are not consistent with others in the schooling sector. Submissions by various stakeholders also raised the need for more funding to be directed towards Early Childhood Development. National Treasury also acknowledged that funding levels for ECD are significantly smaller relative to funding allocations directed towards Basic Education schooling and higher education.
  4. The Committee notes submissions by HSRC that show that while fee free education will address inequity in enrolments rates (black youth were at 15% and white youths at 54% as at 2014), it will not address the low completion rates (completion rates for white students were 50% higher compared to black students) in higher education. The Committee also notes that many students face a variety of challenges such as sexual violence, racism, finance, accommodation and many other challenges. The Committee supports the development of student support programmes aimed at creating a safe and healthy learning environment for students. The Committee called for conditions to be attached to NSFAS funding for each beneficiary.
  5. The Committee notes that the government is providing the bulk of the funding of up to 80% of the cost of the national HIV response in 2018 amounting to R66.4 billion. The Committee further notes HSRCs submission that funding provision for the HIV/AIDS programme is one of the highest levels of national contribution among the high priority countries for HIV/AIDS. The Committee pointed out the need for comprehensive, detailed and fully costed plans for initiates such as the Joint Health Action Plan. This should also include comprehensive and systematic data on the country’s health system.

**Accelerating economic growth, infrastructure investment, and job creation**

* 1. The Committee notes that there is no simple formula for government to stimulate growth. Economic growth is the outcome of many different factors and decisions by both state and private actors. The FFC submitted that the biggest risk facing the fiscus is low economic growth and that the prevailing fiscal constraints are likely to persist with the result that the private sector becomes the most crucial conduit towards reducing unemployment. COSATU submitted that it appreciates the massive amount of funding government has availed since 2008 to stimulate economic growth and the work done by various sector departments in protecting and supporting key economic sectors such as textiles, car manufacturing and agriculture. The Committee calls on all sector partners to support all efforts aimed at accelerating labour-intensive economic growth. This should include balancing state funded growth initiatives between rural economies and urban economies.
  2. The Committee notes DPME’s submission that key risk areas for budget effectiveness in transforming the economy include important policy initiatives such as localisation, 30% set-asides, 30-day payments and employment creation. The Committee views the enhanced monitoring of these government initiatives and regulations as critical and that Small, Medium, Micro Enterprises (SMMEs) are supported and prioritised and benefit from government’s procurement budget.
  3. The Committee views infrastructure investment as critical for catalysing growth, reducing backlogs, building skills and ensuring the smooth provision of quality basic services. The Committee notes that budget reductions may lead to delays in the rollout of some infrastructure programmes and calls for sector to prioritise finding efficiencies. This should include finding the appropriate balance between maintenance and repair of existing infrastructure and investment in new infrastructure.
  4. The Committee notes the submission by stakeholders that South Africa’s economy is highly concentrated and that there is a need for a substantially expanded and stronger SMME sector. The Committee received a range of proposals aimed at supporting SMMEs and these include establishing angel investor networks, simplify compliance requirements and regulations for SMMEs, strictly enforcing the payment of suppliers within 30 days and integrating government’s economic departments.
  5. The Committee is of the view that accelerating the land reform programme, improving land administration and spatial planning for integrated urban and rural development is critical to reducing poverty and income inequality. Various stakeholders submitted a number of concerns to the Committee including the need to balance between the demands for equitable land reform and macroeconomic stability, freeing underutilised state owned land to advance land reform, increasing funding allocations towards land reform and supporting emerging farmers.
  6. The Committee notes that SOCs are responsible for the largest share of infrastructure spending and that real growth in SOC infrastructure spending is significant at 12.3 percent, whilst infrastructure spending by national provincial and local government is set to decline between 2017/18 and 2018/19. The Committee is most concerned that procurement plans of major entities were not submitted on time as per the budget process regulated timelines. PRASA submitted that their planning cycle was undermined by the constant changes in its management including its Board of Directors. The Committee reiterates its view that good corporate governance is all state owned entities is non-negotiable and calls for stability in the management and Boards of all state owned entities.
  7. The Committee is of the view that reliable and safe public transport is central to urban reform and rural development. The Committee notes that the transport and logistics sector is the largest spender in respect of public infrastructure and is projected to grow by a real annual average of 2.7 per cent over the 2018 MTEF period. The HSRC cited transport as one of the main struggles of students in higher education. COSATU in its submission highlighted the need for a public transport plan, state intervention at PRASA and the need for government to address challenges confronting Metro Rail.
  8. The Committee notes that South Africa is amongst the most water scarce countries in the world and notes FFC’s submission that already three Cape Provinces are already facing a water crisis, as are parts of the Free State, KZN, Gauteng and Mpumalanga. The Committee emphasised that infrastructure investment and maintenance underpinned by principles of efficiency, value for money and good governance is critical for transformative growth and development.

**An improved public service**

* 1. The Committee noted with concern the report from the PSC that there was a gap in terms of the required reporting by departments and entities on the usage of consultants. The PSC indicated that it has reported to the Department of Public Service and Administration (DPSA) as well as National Treasury that the Public Service Regulations of 2016 omitted a clause which required departments and public entities to report on the utilisation of consultants.
  2. The Committee notes HSRC’s submission highlighting challenges in the relationship between municipalities, traditional leaders (TL), traditional councils (TC) and communities. Some of the challenges relate to the capacity constraints in municipalities, disputes on the legitimacy of TLs, lack of cooperation between ward councillors, ward committees and TLs and the absence of accountability frameworks for local municipalities and traditional leaders. The Committee views cooperation between these critical institutions, coupled with the necessary support of national government, as critical for the creation of sustainable and vibrant rural communities.
  3. The Committee notes the reasons submitted from the PRASA and Denel in terms of it having submitted their 2018/19 procurement plans to National Treasury by the end of March 2018. However, the Committee is of the view that better planning was required from these entities to ensure that they comply with the budget planning processes. Of serious concern to the Committee is the fact that the South African Broadcasting Corporation failed to adhere to the request of the Committee for written reasons on its failure to submit its 2018/19 procurement plan to National Treasury.
  4. The Committee welcomes proposals aimed at improving state capacity especially in the area of financial management. The PSC submitted that a skills audit be conducted in the departments to inform the development of a training programme to be led by the National School of Government (NSG). The FFC reported to the Committee that other areas to be considered for targeted skills development and are critical for improved productivity are leadership and governance, organizational management, and political interface. This undertaking will have costs implications and should be jointly led by the Department of Public Service and Administration (DPSA) and the NSG.
  5. The Committee noted with concern that some departments filled vacancies which were outside of the approved organisational structure. The PSC submitted that all departmental organisational structures should be reviewed with focus placed on dealing with duplication of functions within and across departments. The Committee is of the view that Executive Authorities should speedily finalise and approve all organograms so as to prevent the irregular appointments that are outside of the approved structure.
  6. The Committee remains concerned about the lack of consequences for public officials who did not comply with legislation and regulations. The Committee welcomes the 99% compliance rate to the Financial Disclosure Framework (FDF) wherein SMS member of the public service disclosed their particulars of all their registrable interests. The FDF aims to safeguard public confidence and manage public servants conflict of interest.
  7. The Committee is concerned at the fact that the Departments of Cooperative Governance; Telecommunications and Postal Services; Rural Development and Land Reform; Water and Sanitation; and Labour have not complied with the Committee’s request for further information for the process of considering the 2018 Appropriation Bill. The Committee views this as unacceptable as it limited the ability of the national legislature to effectively process the Appropriation Bill. Of more concern to the Committee is the fact that from the afore-mentioned list of departments, Water and Sanitation, Rural Development and Land Reform as well as Cooperative Governance also failed to submit the requested information during the 2017 adjustments budget process.

1. **Recommendations**

The Standing Committee on Appropriations, having considered the briefings and comments by stakeholders on the 2018 Appropriation Bill, recommends that:

* 1. The Minister of Finance should ensure that:
     1. National Treasury improves the implementation of cost containment measures including developing relevant cost control instruction notes and provide progress reports.
     2. National Treasury ensures that budgeting and costing become an integral part of the departmental planning and reporting, for both the Medium Term Strategic Framework (MTSF) and annual performance plans (APPs) cycles. All government policies and integrated plans should be fully costed, not just focused on annual implementation costs but the projected costs for the MTEF period.
     3. National Treasury and the Department of Social Development, considers various options for the funding of the Early Childhood Development (ECD) programme. This should include development and implementing of an ECD infrastructure sector plan, indicating areas that requires urgent intervention, to inform the allocations and investment in ECD infrastructure by the different government spheres and departments.
     4. National Treasury accelerates the work of the Budget Facility for Infrastructure so that the pipeline of projects and proposals can be considered for funding in the October Adjustments Budget. The work of the Budget Facility for Infrastructure should reach across all spheres of government.
     5. National Treasury reports on the directive announced in the 2018 Budget Speech instructing all government departments and public institutions to pay suppliers on time, or be charged with financial misconduct. This should include progress on work undertaken in strengthening oversight mechanisms in relation the timeous payment of suppliers.
     6. National Treasury puts in place measures to ensure that payments for personnel in critical positions such as teachers, nurses and all other frontline service delivery personnel are made. This should include the complete elimination ‘ghost workers’ in all spheres of government.
     7. That the Minister of Finance should ensure that accruals are minimised and to consider clearly outlining the total accruals of national and provincial departments in the budget documentation in future as to ensure that the process is more transparent.
     8. National Treasury considers enhancing and reforming budget frameworks to include the following:
* Improve guidelines and formats that allow Departments to effectively monitor and report on budget execution against reliable performance information;
* Instil the use of reported performance information towards performance improvements and enhanced budget planning;
* Strengthen the alignment of budgets and Annual Performance Plans to improve service delivery and enhance the accurate costing of implementation plans; and
* To develop systems for all spheres of government for the full implementation of a public participation budget strategy aligned to the annual budget process. This should include guidelines for budget public participation. Furthermore, the use of findings in decision making should be strengthened. The training of officials on how to plan for and manage citizen participation in the budget process should also be strengthened.
  1. The Minister of Planning, Monitoring and Evaluation should ensure that:
     1. The Department of Planning, Monitoring and Evaluation (DPME) strengthens the implementation of government’s National Infrastructure Plan so that the plan is fully funded to ensure that projects are delivered on time and in accordance with the plan. This should include a plan to reprioritise infrastructure funding and its execution in the coming years. This has to be done in a sustainable and affordable way, and ensure that such expenditures required for the future operations and maintenance of these assets are catered for and any trade-offs are understood.
     2. The Department of Planning, Monitoring and Evaluation (DPME) develops and implement dedicated programmes aimed at monitoring the following key service delivery policy areas, namely, localisation, 30% set-asides, 30-day and government’s comprehensive jobs plan. The Department to report quarterly to Parliament on progress in these key programmes.
     3. The Department of Planning, Monitoring and Evaluation (DPME) ensures that performance agreements of accounting officers explicitly include the establishment of adequate controls that ensure the clearance and prevention of accruals. This includes strict adherence to regulations that require the accounting officers of departments to pay invoices within 30 days of receipt under the Public Finance Management Act (1999).
     4. The Department of Planning, Monitoring and Evaluation (DPME) develops and implements cost containment guidelines for support structures and offices of public office bearers across all spheres of government.
     5. The Department of Planning, Monitoring and Evaluation (DPME) develops and implements public participation structures within the government’s budget planning process. This may entail strengthening existing platforms and processes, through providing tools and methodologies in the budget planning process. The process of citizens working jointly with government to formulate and monitor budgets fosters an active citizenry and contributes to building a capable and developmental state.
     6. The Department of Planning, Monitoring and Evaluation (DPME) to conduct a comprehensive implementation evaluation of the public participation process in relation to the budget process in all Departments and spheres of government. Target focus areas may be Metropolitan municipalities and large service delivery departments.
  2. The Minister of Public Service and Administration should ensure that the Department develops systems and mechanisms that will compel skills transfer in the appointment and use of consultants in the areas of financial reporting services, preparation of performance information, procurement and Information and technology services; inclusive of guidelines on appropriate outsourcing.
  3. The Minister of Basic Education should ensure the following:
     1. The Department aligns and enhances its budget planning and strategic planning function and capacity in order to ensure improvement in the attainment of performance targets.
     2. The Department ensures that it improves its planning mechanisms and systems and takes into account spatial demographic patterns and forecasts before deciding to build or expand schools. This should be entrenched in the schools infrastructure programme.
     3. The Department ensure the effective and efficient provision and maintenance of schools’ infrastructure. This should include the implementation of measures to accelerate the provision of water and sanitation in all schools. No school should be without basic access to water and sanitation.

**6.5** The Minister of Cooperative Governance and Traditional Affairs should ensure that:

**6.5.1** The Department strengthens the capacity of municipalities and traditional leaders so as to build durable partnership between municipalities and a traditional councils guided by principles of mutual respect and co-operative government.

**6.5.2** The Department ensures that local governments prioritise and strengthen public participation enable the local community to participate in the affairs of the municipality. This should include mandatory reporting on their public participation process and outcomes.

* 1. The Minister of Higher Education and Training should ensure that the Department of Higher Education and Training consider the following to ensure improved outcomes in higher education:
     1. Reviewing and enhance support programmes for higher education students to improve throughput rates.
     2. Ensure the efficient implementation of fee free higher education.
     3. Strengthen NSFAS administrative systems to ensure the timeous payment of funding to

students and to address the challenges relating to the withholding of funds by tertiary

institutions.

* + 1. To significantly enhance the monitoring capacity over the DHET bursary funding so as to ensure full adherence by students to conditions entailed in the bursary agreement which include meeting progression requirements of the institutions as well as service requirements for the duration of the study period, as well as a commitment to the country over the longer term.
  1. The Minister of Agriculture, Forestry and Fisheries ensures that the Department coordinate Development Finance Institutions to explore possible funding models, so that the available funding framework can reach more land reform beneficiaries including comprehensive post-settlement support for emerging farmers.

1. **Committee Recommendation on the Bill**

Mr D Maynier, MP, presented 170 adjustment proposals to the Bill in the amount of R5.36 billion to provide for an increase in the Child Support Grant under Vote 17, Social Development, to a level that is in line with the “food poverty line” in South Africa. After deliberations on the submission which affected 31 Budget Votes, the Committee did not support the proposed amendments.

The Standing Committee on Appropriations recommends that the National Assembly adopts the Appropriation Bill [B3-2018], without amendments.

1. **Conclusion**

The responses to the recommendations as set out in section 6 above by the relevant Executive Authorities must be sent to Parliament as well as the Committee within 60 days of the adoption of this report by the National Assembly.

Report to be considered.

1. Section 152 and section 153 of the Constitution of South Africa, 1996. [↑](#footnote-ref-1)
2. Borbet South Africa (Pty) Ltd and Others v Nelson Mandela Bay Municipality (3571/2011) [2014] [↑](#footnote-ref-2)
3. Section 10 of the Money Bills Amendment Procedure and Related Matters Act 9 of 2009 (the Money Bills Act). [↑](#footnote-ref-3)
4. Section 26 of the Constitution of the Republic of South Africa, 1996. [↑](#footnote-ref-4)