**5. REPORT OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE 2018 MEDIUM TERM BUDGET POLICY STATEMENT, DATED 27 NOVEMBER 2018**

Having considered and heard comments from identified stakeholders on the 2018 Medium Term Budget Policy Statement, the Standing Committee on Appropriations reports as follows:

1. **Introduction**

The Minister of Finance tabled the Medium Term Budget Policy Statement (MTBPS) on 24 October 2018 as required by section 6 (1) of the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009 (the Act), outlining the budget priorities and spending plans of government for the medium term. Part of the MTBPS was referred to the Standing and Select Committees on Appropriations for consideration and report. This was done in accordance with their respective mandates as outlined in the Act. Among its responsibilities, as per Section 6 (8), in respect of the MTBPS, the Committee is required to consider and report on the following issues:

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

In order to deepen democracy, good governance and promote public participation during the budget process, the Committee invited the following stakeholders for comments:

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

In addition, an advertisement was published in national and community newspapers from 28 October 2018 to 2 November 2018 inviting public comments and the following submissions were received:

* Budget Justice Coalition;
* Congress of South African Trade Unions
* Rural Health Advocacy Project;
* United Nations Children’s FundSouth Africa; and
* Fairplay Movement.

The Committee also engaged with the Parliamentary Budget Office on the matters raised in the 2018 MTBPS. Furthermore, the Portfolio Committee on Higher Education and Training submitted its 2018 Budget Review and Recommendation Report in line with the Money Bills Act for consideration.

1. **Overview of economy**

The 2018 MTBPS was tabled within a difficult environment globally and domestically. Global growth is expected to remain at 3.7 per cent in 2018 and 2019. World trade volume growth is expected to slow from 5.2 per cent in 2017 to 4.2 per cent in 2018 and
4 per cent in 2019. Over the medium term, concerns about sharpening global trade disputes, volatile commodity prices and tightening financial conditions will weigh on investor confidence. The 2018 MTBPS cautions that if these risks materialise, they could prompt renewed risk aversion and financial volatility, leading to a less favourable environment for investment in and exports from developing countries.

Domestically, the 2018 MTBPS was tabled against the backdrop of a technical recession, and a weaker economic outlook than projected in the February 2018 Budget. The National Treasury forecasts that GDP growth will slow to 0.7 per cent in 2018, down from
1.3 per cent last year, before rising to 1.7 per cent in 2019 and 2.1 per cent in 2020.

The 2018 MTBPS mentions that government remains committed to the core elements of the National Development Plan and Vision 2030. These include a commitment to strong, sustained and inclusive economic growth to reduce unemployment, poverty and inequality. The 2018 maintains that economic recovery requires a substantial improvement in business investment. Over the period ahead, government is focusing on reforms that support economic growth, reduce inflationary pressures and improve service delivery.

The 2018 MTBPS was tabled following the Jobs Summit and the introduction of the economic stimulus and recovery plan. The economic stimulus and recovery plan focus on the following five measures to stimulate the economy:

* Implementation of growth-enhancing economic reforms;
* Reprioritisation of public spending to support growth and job creation;
* Enhancing infrastructure investment and establishing an Infrastructure Fund;
* Addressing urgent and pressing matters in education and health;
* Investing in municipal social infrastructure improvement.

It is against this background that the Committee engaged with identified stakeholders on the 2018 MTBPS.

1. **Medium Term Expenditure Framework**

Over the 2019 MTEF period, government proposes to allocate 48.1 per cent of available non-interest expenditure to national departments, 42.9 per cent to provinces and 9 per cent to local governments. Over this period, national government resources grow by 7 per cent, provincial resources by 7.2 per cent and local government resources by 7.2 per cent.

**Table 1:** Division of Revenue Framework

*Source: National Treasury (2018)*

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

*****Source: National Treasury (2018)*

The 2018 MTBPS states that government’s spending priorities over the 2019 MTEF remain guided by the National Development Plan (NDP) and the 2014-2019 Medium Term Strategic Framework (MTSF). Against this background, government’s spending plans in the medium term aim to reduce poverty and inequality, and to increase employment and inclusive growth.

Table 2 above shows that government projects a total expenditure of R5.9 trillion over the 2019 MTEF period. Spending will grow by an average of 7.8 per cent a year, reaching R2.1 trillion in 2021/22. Over the medium term, learning and culture, health, social development and community development receive the largest allocation of more than 60 per cent of government expenditure.

On education and training, priorities include eradicating pit latrines, mathematics in basic education, focus on early grades and improving graduation rates. A total of R3.4 billion is allocated to the education infrastructure grant for constructing and maintaining schools, including sanitation projects. Over the medium term, an estimated R61.5 billion in revenue from the skills development levy will continue to expand participation in learnerships, internships and skills development programmes.

On human settlements, the 2018 MTBPS announces that the title deeds restoration grant will be phased back into the human settlements development grant after 2021/22. Over the medium term, the budget will prioritise support for integrated public transport networks in 13 cities.

On health, over the 2019 MTEF period, the budget plans to fund additional 2 200 critical medical posts in provinces and expand medical student internships. The budget also allocates funding for the Community Health Worker Programme to implement the minimum wage. The 2018 MTBPS further stated that the Construction of a 488-bed academic hospital in Limpopo is expected to begin in 2019/20.

On social development, the 2018 MTBPS states that government will hand over the National Food Relief Programme to provinces in order to reduce overlaps, and this will come into effect from 1 April 2020. The social worker employment grant and the substance abuse treatment grant will be incorporated into the provincial equitable share from 2019/20.

On land reform and agriculture, the 2018 MTBPS states that government will provide 30-year leases, enabling the Land Bank to extend loans to emerging farmers. Similarly, the Land Bank will use a combination of loans and grants to increase production through the Black Producers Commercialisation Programme.

The 2018 MTBPS states that over the 2019 MTEF public infrastructure expenditure is estimated to be R855.2 billion. Interventions to increase the efficiency of existing public infrastructure spending include the following:

* To address weaknesses in infrastructure planning, government, development finance institutions and private-sector partners have begun work on a project preparation facility.
* To strengthen accountability and transparency, government will publish online expenditure reports of current infrastructure projects.
* Over the medium term, the Development Bank of Southern Africa, the Government Technical Advisory Centre and the Presidential Infrastructure Coordinating Commission receive R625 million to prepare projects and support implementation.
* Government is negotiating access to infrastructure funding from development finance institutions, multilateral development banks and private banks. These institutions have committed technical resources to help plan, approve, manage and implement projects.
* Government is considering scaling up selected urban investment programmes by switching their financing from national government’s balance sheet to development finance institutions, which would facilitate additional technical support.

The 2018 MTBPS prioritises three interlinked policy areas: implementing the President’s economic stimulus and recovery plan, particularly by encouraging private-sector investment; improving governance and financial management in national, provincial and local government departments to support service delivery; and reforming state-owned companies.

In engaging with government’s proposed spending plans for the 2019 MTEF, the Committee notes the following main risks to the medium-term fiscal outlook as reported in the 2018 Risk Statement:

* Macroeconomic risks: This includes effects of slower than expected nominal GDP and revenue growth, debt sustainability under different economic scenarios, and sensitivity of debt and debt-servicing costs to a change in macroeconomic assumptions.
* Subnational government: This relates to unpaid bills and accruals within provincial and local government; failure of municipalities to fully fund operational budgets, and contingency liability risks faced by provincial health departments.
* Contingent and accrued liability risks: This pertains to the risk posed by state-owned companies in terms of their quality and quantity of guarantee exposures, and their debt obligations.
* Long-term fiscal risks: The first aspect relates to low economic growth potential without reforms in the long-run. The second aspect relates to effects of demographic changes on expenditure planning.

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

The 2018 MTBPS mentions that during 2018, government has initiated reforms in several areas. These include creating policy certainty in the mining and energy sectors by finalising the Mining Charter and updating the Integrated Resource Plan. Growth-enhancing policy initiatives are also under way in the telecommunications, electricity and transport sectors. To support these reforms within a constrained fiscal framework, government is proposing reprioritisation of R32.4 billion over the next three years. Of this amount, R15.9 billion goes towards faster-spending infrastructure programmes, clothing and textile incentives, and the Expanded Public Works Programme.

Further, the 2018 MTBPS states that R16.5 billion will be allocated to various programmes, including recapitalising the South African Revenue Service (SARS), a minimum wage for community health workers, critical posts and goods and services in health, and streamlining the management of the justice system.

The MTBPS also announces changes to grant structures amounting to R14.7 billion, which will promote upgrading of informal settlements in partnership with communities. Housing subsidies amounting to R1 billion will be centralised to better support middle- and lower-income home buyers. In the current year, the budget adds R1.7 billion to infrastructure spending (including funding for fast-spending school building programmes), and R3.4 billion is allocated to drought relief, mostly to upgrade water infrastructure.

1. **Submissions on the 2018 MTBPS**

The section hereunder provides a summary of the submissions which were made in terms of the 2018 MTBPS.

* 1. **Financial and Fiscal Commission**

The Financial and Fiscal Commission (FFC) acknowledged that the 2018 MTBPS has been formulated in an economic environment characterised by extremely low growth, escalating public debt, and low levels of investment. The FFC was of the view that the ability of government to address the key socio-economic challenges of unemployment, poverty and inequality were severely compromised by weak governance, the failure of SOEs to deliver on their developmental mandate, and the rapid decline of the South African Revenue Service (SARS).

The FFC made the following recommendations and observations with regard to the 2018 MTBPS:

In terms of the economic challenges facing South Africa, the FFC recommended that structural bottlenecks needed to be addressed in order to increase growth. It reiterated the need to build a fiscal space through conservative debt levels and managing downward the expenditure to debt service costs; reducing the public sector wage bill through natural attrition coupled with a review of government’s functional organisation and abandoning the linking of the wage increases with the Consumer Price Index (CPI); deepening the fight against corruption; assessing the recent increases in the scope of service delivery priorities; addressing governance issues and rethinking the business models of SOEs.

The FFC advised that in order to ensure real productivity within the public sector, value for money needed to be sought more resolutely. This could be done by costing institutional outputs and assessing performance and then comparing these two elements as well as being mindful to innovate for constant improvement.

In terms of the provincial wage bill, the FFC submitted that half of the budgets were dedicated to personnel and that a key risk was the higher than anticipated wage agreements. The FFC submitted that provinces needed to carefully manage the wage bill pressure and practice financial prudence to ensure that wage pressures do not divert resources away from key health and education inputs.

The FFC submitted that a thorough and comprehensive rethink of the local government fiscal framework was necessary, including the governance and institutional regimes within the sector. This was important as municipalities were the face of government and should as such not compromise service delivery therefore the division of revenue needed to respond to this.

The FFC further submitted that in light of the fiscally constrained environment, the production and delivery of public services within government should be provided at the minimum opportunity cost. Cases of unproductive, wasteful, irregular or fruitless expenditure, duplication and wastage in procurement processes should be eradicated.

Whilst the various efforts to improve capacity in local government are welcomed, the return on such significant investments have been poor as many municipalities continue to perform poorly. There was therefore an urgent need for a thorough review of government capacity initiatives within the local government space.

FFC was of the view that government should reconsider the rate of growth of the Local Government Equitable Share (LGES) in the outer years so that poor households are cushioned against the rising cost of free basic services. However, the municipalities would have to utilise available resources efficiently and where possible, optimise their existing own revue bases.

The FFC further noted the proposed establishment of an infrastructure fund that would comprise of contributions from government, the private sector and development finance institutions (DFIs); but emphasised that government needed to consider the intergovernmental fiscal arrangements and ensure balance in the allocation of resources across the three spheres of government. The FFC also welcomed efforts to publish expenditure reports of existing infrastructure projects to enhance accountability and transparency, saying this would minimise cost overruns and ensure timely completion of the projects. However, the FFC was of the opinion that, in addition to publishing expenditure reports, government needed to invest in an infrastructure delivery inspectorate to ensure that projects were delivered in accordance with the required standards and quality. It was the FFC’s view that allocating funds and observing its spending trends alone would not yield the desired results of efficiency and impact. Government should take the approach of costing infrastructure in line with its functions and performance with empirical data, to ensure the real productivity of the public sector is realised.

With regard to State-owned Companies (SOCs), the FFC proposed that the restructuring agenda within entities should focus on addressing the mismanagement maladies and strengthen accountability structures. It therefore reiterated the need for government to set uniform rules and procedures for guarantees and bailouts, taking into account public value of services provided by the SOC, historical financial and non-financial performance and adherence to guarantee/bailout conditions.

The FFC recommended that, in order to ensure optimal utilisation of the additional resources allocated to higher education and training (HET), the government should develop a much clearer plan for implementing the comprehensive fee-free higher education policy both to address uncertainty in the institutions of higher learning and to ensure efficient and effective utilisation of these resources. In this regard the FFC indicated that funding must be consistently available across all the students’ years of study; and should be aligned for building skill sets to stimulate economic development. While the FFC welcomed the implementation of fee-free HET, it felt that the government needed to implement measures to improve the quality of outputs and outcomes at all levels of the education system. This was particularly urgent in the rural universities and the Technical Vocational Education and Training (TVET) colleges.

* 1. **South African Local Government Association**

In its submission, the South African Local Government Association (SALGA) focused on what the 2018 MTBPS holds for local government. SALGA was of the view that local government receives an inadequate distribution of nationally raised revenue although it is at the cold face of service delivery. To support its view, SALGA highlighted a number of factors suggesting that the LGES determination needs to be revisited and also findings of its joint study with FFC on the costs of providing basic municipal services.

SALGA questioned the percentage of true equitable share after adjusting for revenue raised by local government and the revenue-raising assumptions which inform the current local government funding model as well as the determination of the equitable share. SALGA alluded to the role of bulk suppliers in undermining municipal revenue collection and also proposed for the development of a more realistic model of municipal revenue as well as addressing the impediments preventing municipalities from collecting revenue. In terms of the findings of the joint study with FFC, reference was made to actual cost of service delivery being higher than the estimates used for the calculation of the LGES. The study also highlighted the neglect of renewal and maintenance of existing infrastructure as well as a high administrative cost burden on municipalities.

SALGA welcomed the introduction of the Integrated Urban Development Grant and proposed that upon its success, roll-out of the grant should be accelerated to other participants and that an increased incentive be offered for positive performance of the grant. SALGA also welcomed the reprioritisation of funds which had been set aside for a grant for municipalities facing financial crisis towards other initiatives that will assist the turnaround of municipalities. SALGA emphasised that recovery interventions should be well considered, consulted, and capacitated to achieve the required results.

SALGA expressed concerns about high levels of municipal consumer debt and indicated that municipalities are failing to recover and write-off outstanding debt. SALGA was also concerned about the non-responsiveness of organs of state in settling debt owed to municipalities despite numerous directives from the Minister of Finance and National Treasury.

In terms of municipal audit outcomes, oversight and accountability, SALGA proposed for the development of a Consequence Management Framework that would focus on both individual and institutional performance. SALGA proposed that the framework could entail elements such as the grading of municipalities based on performance and awarding of pay increases and bonuses based on institutional performance. These elements would be based on indices emanating from Auditor-General’s Audit Outcomes, StatsSA municipal non-financial census reports and other municipal performance rating instruments. SALGA also advocated for Municipal Public Accounts Committees to be given more powers through a legislative review.

* 1. **Public Service Commission**

The submission by the Public Service Commission (PSC) highlighted areas where the public service could be strengthened in order to improve efficiency, effectiveness and value for money towards the achievement of government priorities as per the 2018 MTBPS. These include:

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

The Public Service Commission (PSC) highlighted the importance of detailed and integrated planning across all spheres of government for the successful implementation of the Economic Stimulus and Recovery Plan. These integrated plans need to be supported by sector specific service delivery models. The PSC also highlighted the need for better support systems for under-performing departments in sectors such as education, health and social development in order to ensure effective performance and service delivery.

In terms of Human Resources (HR) Management, the PSC emphasised the need for processes to focus on measuring performance against the outcome of getting the right people for jobs, employee conduct, and values and performance, instead of compliance only. In terms of the public sector wage bill, the PSC submitted that it was important to retain professionals in the public service and questioned whether it was not time to revisit the Occupation Specific Dispensation (OSD). It was of the view that it was critical for managers to manage and in particular to deal with poor performance. The PSC submitted the following in terms of reducing the structural deficit in the public sector wage bill:

* Right sizing of government through detailed work studies to make evidence based decisions;
* Ensuring a gainfully employed workforce;
* Re-skilling and re-training of officials to do more; and
* Building a workforce that is versatile, adaptive and flexible.

**(b) Governance issues across the public service**

The PSC analysed compliance with submission of performance agreements for Heads of Department (HODs), non-compliance with financial disclosure framework, national anti-corruption hotline, financial misconduct, payment of invoices, precautionary suspensions, performance vs expenditure, and the percentage of targets achieved vs Senior Management Service (SMS) performance rewards.

PSC highlighted that there has been an improvement with the filing of performance agreements for HODs and Directors-General (DGs) although 4 national departments (Agriculture, Forestry and Fisheries, Defence, Independent Police Investigative Directorate, and Public Works) submitted late. It was reported that in 2018/19, 14 out of the 51 departments had acting DGs.

The PSC reported that 93 per cent of the national departments complied with the submission of forms for the financial disclosure framework for SMS employees in 2017/18. This represents a decline from 99 per cent in 2016/17. The Executive Authorities who failed to submit the forms for financial disclosure framework to the PSC relate to the following departments or entities: Defence, National School of Government, Public Enterprises, Public Service and Administration, Sports and Recreation South Africa, and Women. The PSC reported that there has been a significant reduction in the number of completed cases for financial misconduct from 758 in 2016/17 to 387 in 2017/18. Furthermore, there has been a decline in the amounts not recovered in relation to financial misconduct from R5.7 million in 2016/17 to R4 million in 2017/18. The departments where amounts not recovered exceeded R500 000 were Public Works (R519 329), Defence (R1. 080 million), and Labour (R1.459 million).

The PSC reported on the payment of invoices by departments and indicated that the number and rand value of invoices not paid in the first five months of the 2018/19 financial year was of concern. The following departments were the main transgressors in terms of the above-mentioned unpaid invoices: Water and Sanitation (363 invoices – R142.5 million); Energy (10 invoices – R79.6 million); Public Works (1 224 invoices – R33.4 million); Cooperative Governance (110 invoices – R30.8 million); Police (20 invoices – R23.7 million); Agriculture, Forestry and Fisheries (1 invoice – R21.8 million); Women (1 invoice – R2.2 million); and Social Development (21 invoices – R1.8 million). The PSC submitted that most of the afore-mentioned departments were important role players in the economic sector and with the planned injection of additional funds, it was essential to ensure effective financial management.

The PSC gauged the efficiency of HR processes in departments by assessing the number of people suspended and the duration of the suspensions for the 2017/18 financial year. There was a decline in the number of people suspended (from 884 in 2016/17 to 693 in 2017/18) as well as the number of people whose suspensions exceeded 30 days (from 625 in 2016/17 to 545 in 2017/18).

The PSC also provided an analysis of expenditure outcomes versus the achievement of planned targets for all national departments for the 2017/18 financial year. The ten lowest performance departments in terms of planned targets were Military Veterans (22.2 per cent); Water and Sanitation (40.9 per cent); Public Works (55 per cent); The Presidency (55.2 per cent); Women (55.6 per cent); Rural Development and Land Reform (57.1 per cent); Human Settlements (57.4 per cent); Labour (60 per cent); Small Business Development (61 per cent); and Health (66.7 per cent). The PSC also provided a breakdown of the national departments which have spent their budget allocations at a rate below the norm of 98 per cent at the end of the 2017/18 financial year as follows:

* Public Service and Administration – 64.6 per cent;
* Transport – 91.4 per cent;
* Traditional Affairs – 91.5 per cent;
* Labour – 93.1 per cent;
* Water and Sanitation – 93.2 per cent;
* International Relations and Cooperation – 93.6 per cent;
* Public Enterprises – 93.9 per cent;
* Telecommunications and Postal Services – 94.5 per cent;
* Arts and Culture – 94.7 per cent;
* Civilian Secretariat for Police – 94.9 per cent;
* Rural Development and Land Reform – 95.5 per cent;
* The Presidency – 96.1 per cent;
* Planning. Monitoring and Evaluation – 96.5 per cent;
* Military Veterans – 96.7 per cent; and
* Office of the Chief Justice – 97.9 per cent.

The PSC also made an analysis in terms of the percentage achievement of departmental performance versus SMS performance rewards. The table below provides an overview of five departments whose overall performance was low and have given SMS members performance rewards during the 2017/18 financial year.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Departments** | **No of targets achieved vs planned targets** | **Percentage achieved** | **No of SMS members who received performance rewards vs No of SMS** | **Percentage of performance rewards received by SMS members** |
| Water and Sanitation | 18 /44 | 40.9% | 52 / 286 | 18.1% |
| The Presidency | 16 / 29 | 55.1% | 9 /63 | 14.2% |
| Public Works | 17 / 31 | 55% | 30 / 112 | 26.7% |
| Human Settlements | 39 / 68 | 57.1% | 29 /98 | 29.5% |
| Rural Development and land Reform | 16 / 28 | 57.1% | 64 / 286 | 22.3% |

*Source: Public Service Commission 2018*

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

With regard to opportunities for efficiency, effectiveness and value for money, the PSC assessed the costs incurred by departments for the use of consultants. The table below reflects departments with an increased number and costs in the use of consultants for the 2016/17 and 2017/18 financial years.

|  |  |  |
| --- | --- | --- |
| **Department** | **2016/17** | **2017/18** |
| **Number of consultants**  | **Consulting costs** | **Number of consultants** | **Consulting costs** |
| Higher Education and Training | 1 | R445 299.00 | 71 | R26 350 443.01 |
| Human Settlements | 32 | R57 993 171.00 | 68 | R83 364 624.94 |
| Labour | 24 | R3 509 253.48 | 31 | R72 735 000.00 |
| Rural Development and Land Reform | Not provided | R441 123 000.00 | Not provided | R736 500 000.00 |
| Social Development | 47 | R2 806 987.60 | 56 | R4 820 219.43 |
| The Presidency | 52 | R3 396 883.00 | 42 | R4 471 135.00 |
| Tourism | 44 | R123 894 801.04 | Not provided | R26 793 395.78 |
| Trade and Industry | 140 | R19 053 034.69 | 173 |  R40 059 236.16  |
| Water and Sanitation | 375 | R114 498 292.62 | 386 | R143 936 |

*Source: Public Service Commission 2018*

The PSC submitted that the departments as outlined in the above table have key roles to play with regard to the Economic Stimulus and Recovery Plan and based on the above information it seemed that they did not have the requisite competence to ensure effective governance. Most of the consultants as per the above table were used for governance issues such as project management and financial reviews.

In terms of the cost cutting measures introduced by government, the PSC cautioned against using a blanket approach in particular as it related to service delivery departments such as education, social development and health. The PSC submitted that decision making pertaining to budget cuts needed to be informed by well researched processes.

The PSC recommended that a full audit be conducted in order to inform the decision making in terms of the reconfiguration of SOEs and reorganisation of departments with the option to merging entities into departments. The PSC submitted that this would reduce operational costs and result in savings for government. The PSC further emphasised the need for effective oversight of SOEs by government.

In terms of the establishment of Commissions of Inquiry, the PSC suggested that government should review the decisions for establishing various commissions where the mandates of these overlap or duplicate the mandates of state institutions supporting democracy. The PSC also submitted that there should be a balance between the utilisation of Public Private Partnerships (PPPs) to deliver on the mandate of the state and building a capable state. These PPPs needed to be based on service delivery models to ensure that the outcomes of government programmes could be sustained and maintained by the state.

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

The PSC submitted that tough times required tougher decisions by the state and questioned whether it was not time for government to place underperforming national departments such as Water and Sanitation and Military Veterans under administration. It was of the view that this would result in the deployment of experts to ensure quick and effective resolution of matters.

The PSC also questioned whether bailouts of SOEs were a solution or an enabler and submitted that poor governance and corruption were a threat to the economic viability of the state and tarnished the image of government. To this end, the PSC recommended that the recruitment model and remuneration framework of SOEs be reviewed and that a hybrid approach similar to the one recommended in the NDP for HODs be followed.

* 1. **Human Sciences Research Council**

The Human Sciences Research Council (HSRC) gave an overview of the economic climate and cited the downward revision of growth forecasts, decline in tax revenue, and sectoral weaknesses in Agriculture, Mining and Manufacturing. The HSRC reported that 30.4 million people are living below the poverty line. HSRC assessed the spending priorities and alluded to the public sector wage bill crowding out other spending and that public investment on infrastructure is being squeezed. The HSRC also commended the introduction of infrastructure fund which aims to improve the quality of expenditure through better project planning and implementation.

The HSRC also gave an overview of school infrastructure backlogs with specific reference to the performance challenges in the Accelerated Schools Infrastructure Delivery Initiative (ASIDI) programme and questioned whether this should not be administered by the Department of Public Works. It further commented on school safety and how it impacted on achievements in mathematics and expressed concerns at the overcrowded policy environment in South Africa which could be impeding on skills delivery. It further submitted that the skills requirements of the Fourth Industrial Revolution were not yet extensively reached in South Africa. Education, skills development, and the Fourth Industrial Revolution innovation capabilities were intertwined. To this end, the HSRC submitted that optimising capacity development would require understanding the nature of changes to skills supply and demand as well as resources for skills development.

With regard to the health care services allocation over the 2018 MTEF, the HSRC submitted that whilst the increase is higher than the previous, it was more associated with infrastructure, National Health Insurance (NHI), health workers and posts for medical graduates. With HIV being mostly a chronic illness, the HSRC was of the view that there was a greater need to invest more resources in emerging non-communicable diseases that were among the top causes of death in the country, including diabetes. It also submitted that the transition to NHI was imperative in light of the NDPs aim to achieve a significant shift in equity, efficiency and quality of healthcare service provision. However, constraints in the fiscal space raised serious questions about how exactly South Africa needed to pursue the NHI in the short, medium and longer term. While many important programmes were being scaled up, there were instances of lack of funding for large scale prospective impact assessments for example the integrated school health programme, implementation of the sugar tax, and changes in tobacco control.

With regard to government and the public service, the HSRC gave an overview of the satisfaction surveys in terms of the different areas of government performance, public perception of service delivery, trust in the political system, and corruption as a societal problem. The HSRC emphasised the need to address the capacity constraints and weaknesses in municipalities. It submitted that the R2.5 billion allocated every year towards capacity building at a municipal level was welcomed however there was an urgent need to monitor skills capacity and its impact in all municipalities during the 25 years review of local government. The HSRC also emphasised the need to conduct a skills and capacity audit in order to understand the capacity realities and support requirements of entry-level, mid-level and senior-level municipal officials to inform training and capacity building interventions. It also submitted that the growing scope of government functions and the declining institutional capacity of municipalities provided an opportunity to review sections 84 and 85 of the Municipal Structures Act of 1998. The afore-mentioned review could facilitate a differentiated approach to the structure and functions of two-tier local government to enable the creation of a single-tier local government in order to optimise service delivery.

In terms of green research and development, the HSRC submitted that the potential for employment creation in agriculture, biogas, water treatment, power generation and bio-composites offered great opportunities for social and economic development.

* 1. **Budget Justice Coalition**

BJC is a coalition of about 20 progressive civil society whose focus is on active engagement and transformation of the budget to ensure substantive equality in society. The BJC submissionfocused on selected votes which in their view needed concerted interventions in relation to budgeting and planning following the tabling of the 2018 MTBPS.

The table below reflects the findings and the recommendations tabled by BJC to the Committee:

|  |  |  |
| --- | --- | --- |
| **Vote** | **BJC Findings** | **BJC Recommendations** |
| Basic Education  | * Concern that although DBE allocations are increasing, the annual percentage growth is slowing down.
* Concern regarding DBE’s underspending especially continuous trends of underspending on the ASIDI programme.
* Concern that DBE hasn’t met any targets regarding ASIDI especially since the project was to be concluded after 3 years and yet 7 years later there is no completion.
 | * That SCOA, National treasury and DBE work together to determine which programmes contribute to underspending and mitigate this in the current and the next financial year.
* That financial management support be provided to DBE and provincial education departments to encourage output driven expenditure, particularly on infrastructure grants.
* Increased oversight on the ASIDI programme to ensure efficient budget expenditure and achievement of delivery targets before the 2020 Norms and Standards second deadline.
 |
| Post-School Education & Training  | * Noted the additional amount of R103 million allocated to Programme 3: university Education increasing allocation to R59.25 billion.
* Concerned about the consequence of these increases on other social spending budgets e.g. baseline reductions across a number of sectors, including budget cuts to municipal, housing and education infrastructure in 2018/19 budget
* How does the state intend to address these competing priorities in order to sustain the funding of fee free higher education and ensure that other social needs are met through appropriate budget allocations.
* Concerned that there’s no policy or guidelines related to fee free higher education and of view that the absence of a guiding document raises doubts about the sustainability of this proposal.
 | * That the Department of Higher Education and Training, in consultation with the relevant stakeholders and National Treasury, develop a policy or guidelines that speak to the roll-out of fee-free higher education.
* Government to ensure that the realisation of fee-free higher education does not compromise the provision of other social services, such as basic education – particularly in relation to budget allocations.
* That DHET supports NSFAS in addressing governance challenges as a matter of urgency. The consequences of the disarray within the funding scheme impacts those in need of financial assistance most of all.
 |
| Health | * View that current allocations are insufficient to transform health care delivery as per NHI Bill proposals for addressing immediate priorities and challenges.
* Concern that in-year additional allocation of R300 million is inadequate in addressing health workers staffing crises.
* Concerned about growing accruals estimated at R14 billion per annum (and thus growth in wasteful and irregular expenditure) due to poor leadership and governance in the management of health resources.
* View that investments in Community Health Workers (CHW) need to be accelerated to fully integrate them into the health workforce.
* Concerned about medico legal claim in excess of R56 billion attributed to continued underinvestment in service delivery.
* Concerned about significant underperformance in health infrastructure grants e.g. R820 million reprioritised in NHI Facility Revitalisation grant in 2018.
 | * That NDOH compile a comprehensive distribution analysis of the health workforce at facility, district and provincial level according to Human Resource for Health (HRH) guidelines.
* That NDOH along with National Treasury develop a funding plan for the filling of critical frontline health posts.
* That leadership and governance challenges in provincial departments be addressed to ensure that health allocations are spent.
* That NDOH develop a plan to address challenges in NHI indirect grant in relation to underspending.
* That NDOH implement the National Community Health Worker policy and the recommendations of the CHW investment case.
 |
| Social Development | * Concern that potential beneficiaries of Child Support Grant are being excluded given the declared unspent funds of R630 million in 2018/19 FY.
* Concern that although SA is a signatory to the International Covenant on Socio Economic Rights, there is no commitment to social assistance to vulnerable poor people between 18-59.
* Concern about impact of VAT increases on food security of poor people: Food Relief Programme allocation is for supporting 413000 vulnerable people but only 122806 vulnerable individuals accessed support.
 | * That National Treasury fully integrate pro-poor social assistance into economic recovery plans.
* That the administrative exclusion of potential beneficiaries of child support grant be investigated i.e. DSOD provide insights into reported efficiencies in assessment as well as lower than expected demand despite anecdotal evidence to the contrary.
* That National Treasury along with DSOD investigate the progressive implementation of a Basic income Grant and prioritise the review of comprehensive social security.
* That Parliament prioritises the passing of the Social Assistance Amendment Bill to create a Child Support Grant top up for orphans in line with the High Court Order.
 |
| Environmental Governance | * Welcomed 4.5 increase in Department of Environmental Affairs allocation but analyses of budget mix indicate that 54 per cent of department’s budget is allocated to the Expanded Public Works Programme.
* Note with concern that less than 30% of departments budget allocated on department’s core work of overseeing and fulfilling legal responsibilities emanating from South Africa Environmental Statutes due to green projects and EPWP focus. This poses a risk to department fulfilling its constitutional obligation.
* Concern that a mere 9 per cent allocation of total budget to Department is alarming in light of significant environmental risks.
 | * There is a need to reorganise the current budget mix to support the departments core work.
* That consideration should be given to moving current EPW programs housed within the department to the expanded public works programs which promote more efficient implementation
* Request the department of planning monitoring and evaluation to investigate current mandate of the department and report on the extent to which the department budget is sufficient to deliver its mandate.
 |
| Human Settlements | * Notes that the right to housing is central to fulfilment of a number of fundamental rights including the right to health and the right to dignity
* Concern that housing delivery will take the City of Cape Town about 60 years to get through its waiting list.
* Concern that over 3.1 million people live in informal settlements
* Of view that continued failure in this program is longer acceptable as we move towards our 25th year as a democracy .
 | * Request an analysis of the extent to which current intergovernmental fiscal arrangements are impacting on the delivery of this right
* Investigate the extent constraints on the delivery of subsidy units with mere 33% of targeted units reached
* Request the department to submit plans to address weaknesses in informal settlement upgrading plans
* Investigate the withholding of the Human Settlements Development Grant to Limpopo
* Request treasury to investigate the introduction of new funding conditions to improve the performance of Urban Settlements Grants
 |
| Rural Development & Land Reform  | * Concern that despite the dominance of the land issue in political discourse the MTBPS offers little guidance on the extent to which the deficiencies in the current program will addressed over the medium term.
* Concern that instead an ready miniscule land reform budget is reduced by 35 %
* Concern that no new measures or programs are introduced to address serious problems in the program highlighted in our written submission
 |  |

* 1. **Rural Health Advocacy Project**

The Rural Health Advocacy Project (RHAP) in its submission focused on the provision of health services in rural areas of South Africa. It submitted that while a substantial portion of the national budget was allocated to health, this amount was unlikely to meet the immediate needs of the health sector. It was of the view that available resources are prioritised to both protect the health system from further decline while also ensuring access to quality health services for particularly vulnerable and underserved groups. With regard to the Human Resources for Health, the RHAP recommended the following:

* The Department of Health should consider compiling a report highlighting the current distribution of health care workers across provinces, districts and level of care;
* The Department of Health should consider developing a transparent prioritisation tool that will inform which posts are filled; and
* Prioritise the filling of vacant rural posts where more than 95 per cent of communities rely on the state as the sole provider of health care services.

In terms of the improvement of health management and information systems, the RHAP recommended that an assessment be conducted into the current information technology programmes in health to gauge the functionality and cost effectiveness of current systems. The stakeholder also commented on the state of rural infrastructure and submitted that a new approach was needed. To this end, it recommended that Parliament requests National Treasury to compile a detailed overview on the performance of health infrastructure grants over the last nine years highlighting the extent to which projects aligned to project costs. Furthermore, the RHAP recommended that the Department of Health should provide a comprehensive list of projects and engage in a process that prioritise the fixing of existing infrastructure. Given the transition into the National Health Insurance, the RHAP submitted that rural projects needed to be prioritised as these communities were completely reliant on public sector facilities.

The RHAP further commented on the challenges relating to oversight and governance in provincial health departments and made the following recommendations:

* a review of the current intergovernmental fiscal arrangements with view to ensuring that funding allocated for health was used for its intended purpose.
* Investigate the management of current supply chain management policies within provincial department of health.
* Request provinces to assess the capability of hospital and health committees to conduct facility based oversight and ensure that the necessary funding is available to support the same.
* Insist on the prioritisation of the rural health system with the establishment of a rural health task team to investigate the state of delivery specifically in rural districts.
	1. **United Nations Children’s Emergency Fund (UNICEF) South Africa**

The United Nations International Children’s Emergency Fund (UNICEF) began their 2018 MTBPS submission by indicating that the downward revision to spending ceilings over the last six years produced mixed results for priority expenditure for children. However, despite the general fiscal austerity climate the South African government was at, UNICEF noted that the fiscal space for priority expenditures for children has increased and encouraged that should continue its upward trend over the 2019 MTEF, even though at a much slower rate. UNICEF further submitted that the fiscal space of South African government had grown, in part, because of demonstrated efficiencies in some departments, and the government’s own commitment to the country’s social wage. UNICEF attributed this to a growing record of innovation and efficiencies in the government departments. This, according to UNICEF, needed to be expanded in order to justify the allocation of additional financial resources for social sector departments.

With respect to the 2018 MTBPS, UNICEF made the following recommendations for the 2019 MTEF period:

* Provincial governments (Education, Health and Social Development), in concurrence with Provincial Treasuries, should develop medium-term sector plans for the gradual elimination of spending arrears (accruals).
* Priority programmes, such as Violence Against Women and Children, that are funded through provinces’ equitable shares should be reported in annual budgets.
* Health sector efficiencies were achieved at the expense of further investments in infrastructure. Government should re-engage the health sector to increase infrastructure spending, especially in rural areas.
* Urgently improve the take-up of the Child Support Grant among infants and very young children. This should be enhanced by reporting to the National Assembly on how the identification and registration of potential beneficiaries’ progress against set targets.
* The financing of the school sanitation programme should be fully implemented and education planners should carefully balance spending on school sanitation and other parts of the school infrastructure budget. To enhance transparency, the detailed unit costs models for school sanitation should be published.
* Budget transfers to Non-Profit Organisations have suffered in both national and provincial governments. This led to recurring under-spending. The government should expedite the new NPO financing framework and report on progress in implementing provincial equitable share funding set aside for this purpose.
* Provincial Basic Education can and should capitalise on the surge in funding for the post-schooling sector by sharply increasing the number of university trained teachers in Mathematics, Science and English.

UNICEF also submitted that innovation and efficiency are needed at both departmental level and in service delivery institutions to expand access and improve the quality of service for children. In conclusion, UNICEF commented that the Zero-Rating of sanitary pads and the provision of free sanitary towels were important interventions and they should be implemented uniformly across provinces. Furthermore, UNICEF commented that the 2018 Budget and MTBPS did not provide sufficient information on progress in implementing the National Health Insurance or anticipating financial implications of roll-out over the MTEF.

* 1. **FairPlay Movement**

FairPlay commended government’s initiative to add sanitary towels and flour to the zero-rated bucket list. The revenue loss associated with the addition of these items was estimated to be R1.2 billion. However, FairPlay was of the view that the needs and demands of the poor and poorer household were not sufficiently addressed by the 2018 MTBPS. FairPlay highlighted that the zero-rated list did not adequately address nutritional concerns such as stunting, malnutrition and the dietary and consumption needs of the poor. According to FairPlay, chicken remained a popular source of meat for poorer households and its exclusion from zero-rating continued to be the detriment of the poor. In addition, FairPlay stated that if chicken was to be added to the zero-rating list, 11 000 new jobs would be created; R1 billion in tax revenue would be collected and R3.7 billion would be added to the Gross Domestic Product (GDP). FairPlay strongly recommended that chicken should be added to the zero-rated bucket list.

1. **Committee observations and findings on the 2018 MTBPS**

The Standing Committee on Appropriations, having considered the 2018 Medium Term Budget Policy Statement, and having engaged with the various stakeholders makes the following findings and observations:

**In terms of the overall thrust of the 2018 MTBPS:**

* 1. The Committee notes the introduction of the Economic Stimulus and Recovery Plan by the President of the Republic of South Africa in September 2018. The initiative focuses on five interventions, namely: implementation growth-enhancing economic reforms, reprioritising public spending to support economic growth and job creation, establishing an infrastructure fund, addressing urgent matters in education and health, and investing in municipal social infrastructure development. The Committee welcomes these short to medium term interventions and views them as critical in strengthening the economy towards the attainment of the goals of the NDP.
	2. The Committee notes that the fastest growing category of expenditure is debt-service costs, at an average annual growth rate of 10.9 per cent over the MTEF. The fastest-growing elements of spending are Learning and Culture (which includes post-school education and training), Health, Community Development and Social Development, with growth rates of 8.2 per cent, 7.5 per cent and 7.9 per cent respectively.
	3. The Committee notes that spending on Social Development grows by 7.9 per cent over the MTEF and that the number of people covered by the various social grants grows by about 2 per cent a year. The Committee also notes with concern a trend by the Department of Social Development to declare unspent funds due to a lower than anticipated take-up of the child support grant. The rationale for these unspent funds is questionable given the number of people and specifically children who live below the poverty line. The Committee also notes concerns raised by the Budget Justice Coalition and the United Nations International Children Emergency Fund in this regard.
	4. The Committee notes that significant fiscal risks over the next three years include: slower than expected nominal GDP and revenue growth, debt sustainability under different economic scenarios, unpaid bills and accruals within provincial and local government, failure of municipalities to fully fund operational budgets, contingency liability risks faced by provincial health departments, and the quality and quantity of guarantee exposures and SOCs debt obligations.
	5. The Committee notes that total government guarantee exposure is R670 billion. The weak financial positions of several major public entities remains a significant risk to the fiscal outlook. The Committee welcomes the reforms initiated by government to restore good governance and financial stability at public institutions and state-owned companies. The Committee notes FFC’s view of rethinking the business models of SOEs. The Committee welcomes the announcement regarding the reconfiguration of SOEs and is of the view that this should not duplicate efforts of the Presidential Review Committee of state-owned entities but focus on the implementation of their recommendations.
	6. The Committee notes that over the 2019 MTEF the higher than anticipated wage agreements will put pressure on provincial budgets because over 60 per cent of these budgets are spent on wages. The Committee is concerned that this might divert resources away from key service delivery inputs such as health and education. The Committee notes National Treasury’s report that no reductions are proposed to the provincial equitable share in order to allow provinces fiscal space to manage the pressures.

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

* 1. The Committee is seriously concerned about trends in service delivery performance versus expenditure that show that while departments regularly exhaust their allocated budgets, the attainment of stated performance targets continues to be a challenge and is uneven across sectors.
	2. The Committee notes with concern the number of departments that have transgressed in respect of the payment of invoices within 30 days. Of concern is the high quantity and high value of unpaid invoices as at August 2018. The Committee also notes with concern the PSC’s submission that most of the departments who transgressed were important role players in the economic sector and with the planned injection of additional funds, it was essential to ensure effective financial management. The transgressing departments are as follows: Water and Sanitation; Energy; Public Works; Cooperative Governance; Police; Agriculture, Forestry and Fisheries; Women; and Social Development. The Committee is of the view that the payment of invoices to suppliers within the prescribed 30 days is critical for SMMEs and cooperatives.
	3. The Committee views compliance with governance as important in closing the gaps of misconduct and financial leakages in the public sector. The Committee therefore welcomes the improvement reported by PSC in terms of submission of performance agreements by Heads of Departments and the improvement in number and duration of employees suspended with pay. However, the Committee notes with concern that compliance with the submission of forms for the financial disclosure framework for SMS employees declined in 2017/18. The Committee also notes that although HODs submitted the forms to their respective Executive Authorities (EAs), some EAs failed to submit to the Public Service Commission. The Committee is also concerned at the report regarding reduction in the number of completed disciplinary proceedings related to financial misconduct.
	4. The Committee also notes that there are financial leakages in departments resulting from the increases in the number and costs in the use of consultants. The Committee views non-compliance with laws and regulations and the resulting financial leakages in a serious light. This impacts negatively on the efficiency and effectiveness of the public sector thus compromising prudent budget implementation and the attainment of government objectives. The Committee is of the view that there needs to be visible consequence management applied in government for the flouting of regulations.
	5. The Committee is also concerned about the ballooning debt owed to municipalities by all categories of debtors and most especially government departments. The Committee views the non-adherence of government departments and entities to payment directives by the Minister of Finance and National Treasury in this regard as seriously concerning given the dire financial state of most municipalities.
	6. The Committee also notes that the non-payment of debts owed to municipalities by government departments relates to disputes around ownerships of buildings. The Committee therefore welcomes the allocation of R100 million to the Department of Public Works for resolving the ownership of buildings and correction of the deeds registry.
	7. The Committee notes with serious concern that in the 2018/19 financial year 113 municipalities adopted unfunded budgets, whilst, debt owed to ESKOM and water boards by municipalities exceeds R23 billion. Municipal audit outcomes also regressed in the 2017/18 financial year. The Committee welcomes the reallocation of resources to enable national and provincial treasuries to better manage interventions such as financial recovery plans, and the augmentation of capacity for the implementation of these plans.
	8. The Committee also notes that R2.5 billion per year has been allocated for building municipal capacity. However, the Committee is concerned that capacity building allocations to municipalities have not yielded any value for money given the number of municipalities in distress. The Committee emphasises efficient and effective use of these funds in order to see a turnaround in municipalities. The Committee therefore supports the FFC and HSRC’s recommendations for an urgent review of government capacity initiatives within the local government space.
	9. The Committee also welcomes SALGA’s proposal for the development of a Consequence Management Framework that would focus on both individual and institutional performance. SALGA proposed that the framework could entail elements such as the grading of municipalities based on performance and awarding of pay increases and bonuses based on institutional performance.

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

* 1. The Committee notes the HSRC submission that the skills requirements of the Fourth Industrial Revolution were not yet extensively reached in South Africa. To this end, the HSRC submitted that optimising capacity development would require understanding the nature of changes to skills supply and demand as well as resources for skills development.
	2. The Committee notes submission by FFC and the BJC about the need for a clearer plan and guidelines for implementing the comprehensive fee-free higher education policy. This is in order to address uncertainty in the institutions of higher learning and to ensure efficient and effective utilisation of the allocated resources.

**On improving health care services:**

* 1. The Committee is concerned about the reported failure of provincial health departments to implement sound financial management resulting in an increase in unpaid bills and unfunded commitments or accruals as well as significant irregular expenditure in a number of provinces.
	2. The Committee also notes with concern that provincial health departments face contingency liability risks due medico-legal claims. The Committee welcomes undertakings by the Department of Health to establish expert teams to assist provinces in mediation and litigation processes.

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

* 1. The Committees welcomes the proposed spending of R855.2 billion on infrastructure investment over the 2019 MTEF. The Committee views infrastructure development as critical to stimulate economic growth and yet notes with concern that infrastructure spending and delivery has consistently been hampered by poor performance at all levels of government. The Committee is of the view that continuous underspending on infrastructure and the resultant reprioritisation of funds will be counterproductive to the intended goal of stimulating economic growth.
	2. The Committee therefore supports the reform regarding the publishing of expenditure reports of existing infrastructure projects to enhance accountability and transparency. This will minimise cost overruns and ensure timely completion of the projects. The Committee also supports the FFC proposal for government to invest in an infrastructure delivery inspectorate to ensure that projects are delivered in accordance with the required standards and quality.
	3. The Committee emphasises the need for balancing new infrastructure development with proper maintenance of existing assets. The Committee views infrastructure build programmes as integral in promoting economic growth and job creation, specifically, the utilisation of local content on projects as well as the transferring of skills to local communities for the maintenance of infrastructure. In relation to this, the Committee welcomes the report that the Department of Trade Industry will improve capacity of the South African Bureau of Standards to certify local content and simplify the verification process.

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

* 1. The Committee notes with concern the submission from the PSC that increases in the number and costs related to the use of consultants are especially within departments that have a key role to play in the Economic Stimulus and Recover Plan. Furthermore, the consultants were mostly used for governance related work such as project management and financial reviews. The Committee views this as counter-productive in building a capable developmental state.
	2. The Committee notes that the escalating public sector wage bill is attributed to growth in earnings due to above–inflation cost of living adjustments as well as pay progression or notch increases. The HSRC analysis of growth in salaries in the public sector indicated that increases have pushed lower and middle management to top management salary levels. The Committee also notes that although the public sector wage bill is substantial, there is still a need for more people in frontline service delivery departments such as health, education and social development. In this regard, the Committee welcomes PSC proposals for reducing the structural deficit in the public sector wage bill. These are:
* Right sizing of government through detailed work studies to make evidence based decisions;
* Ensuring a gainfully employed workforce;
* Re-skilling and re-training of officials to do more; and
* Building a workforce that is versatile, adaptive and flexible.
	1. In relation to 5.24 above, the Committee views the strategic work underway to reconfigure and consolidate government departments as presenting an opportunity for addressing the structural deficit in the public wage bill especially by implementing the proposals of the PSC reflected above.
	2. The Committee notes with concern that although the cost drivers of the escalating public sector wage bill include notch increases and performance bonuses, there are no gains in terms of public sector productivity and efficiency. Evidence for this relates to non-attainment of Annual Performance Plan targets, continued under spending on infrastructure programmes, and poor service delivery. The Committee supports the call by stakeholders for clear links between institutional outputs and the performance management system as well as linking the public sector wage bill to public sector productivity.
1. **Recommendations**

The Standing Committee on Appropriations having engaged with the above mentioned invited stakeholders and considered the written submissions on the 2018 Medium Term Budget Policy Statement, recommends the following:

* 1. That the Minister of Finance should ensure the following:
		1. That National Treasury in consultation with Provincial Treasuries and the relevant national departments assists provincial departments of health, education and social development with the development of funding plans for filling of critical frontline posts to mitigate the diversion of resources from frontline services due to the pressure of the wage bill.
		2. That National Treasury in consultation with Provincial Treasuries and the National Department of Health assists provincial departments of health with the development of medium-term plans for the gradual elimination of unpaid bills and accruals.
		3. That National Treasury in consultation with relevant stakeholders investigates the possibility for government to invest in an infrastructure delivery inspectorate to ensure that infrastructure projects are delivered in accordance with the required standards and quality.
	2. That the Minister of Cooperative and Governance should ensure the following:
		1. That Department of Cooperative and Governance in consultation with National Treasury and the South African Association of Local Government conduct a skills and capacity audit in order to understand the capacity realities and support requirements of entry-level, mid-level and senior-level municipal officials to inform training and capacity building interventions.
		2. That the Department of Cooperative and Governance in consultation with the South African Association of Local Government consider the development of a Consequence Management Framework focusing on individual and institutional performance for local government.
	3. That the Minister of Higher Education and Training ensures that the Department of Higher Education and Training in consultation with the relevant stakeholders develops a plan including guidelines for implementing the comprehensive fee-free higher education policy both to address uncertainty in the institutions of higher learning, the National Student Financial Aid Scheme and to ensure efficient and effective utilisation of the allocated resources.
	4. That the Minister of Social Development should ensure the following:
		1. That the Department of Social Development submits a detailed report to the Committee on its assessments regarding administrative efficiencies which have resulted in lower than expected demand for the Child Support Grant.
		2. That the report referred to in 6.4.1 above should detail how the identification and registration of potential beneficiaries’ progress against set targets.
	5. That the Minister of Public Service and Administration as part of the reconfiguration and consolidation of government departments provides guidelines to government departments related to the following proposals for reducing the structural deficit in the public sector wage bill:
* Right sizing of government through detailed work studies to make evidence based decisions;
* Ensuring a gainfully employed workforce;
* Re-skilling and re-training of officials to do more; and
* Building a workforce that is versatile, adaptive and flexible.
	1. That the Minister of Public Service and Administration considers mechanisms for enhancing productivity in the public sector by ensuring the following:
		1. That the Department of Public Service and Administration consults the Financial and Fiscal Commission with regard to their studies and recommendations on Public Sector productivity as per the 2016/17 Division of Revenue submission.
		2. That the Department of Public Service and Administration reports back to the Committee on the extent to which recommendations of the FFC have been considered and implemented.
	2. That the Minister of Defence and the Minister of Energy should ensure that their respective departments comply with the submission of forms for the financial disclosure framework for all senior management services.
	3. That the following Ministers should ensure compliance with the submission of forms for the financial disclosure framework for their relevant Heads of Department:
* Minister of Defence;
* Minister of Public Service and Administration (National School of Government and the Public Service and Administration);
* Minister of Public Enterprises;
* Minister of Sports and Recreation SA; and
* Minister in the Presidency: Women.
	1. That the following Ministers should ensure that their relevant departments comply with payment of invoices within 30 days and submit reports to the Committee regarding the extent to which performance agreements of Accounting Officers include the timeous payment of suppliers as one of their key performance areas as well the consequences applied for failure to comply with the payment of invoices:
* Water and Sanitation;
* Energy;
* Public Works;
* Cooperative Governance;
* Police;
* Agriculture, Forestry and Fisheries;
* Women; and
* Social Development.
1. **Conclusion**

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

Report to be considered.