ANNEXURES

Two annexures are available on the National Treasury website (www.treasury.gov.za):

- Annexure W1: Explanatory Memorandum to the Division of Revenue
- Annexure W2: Structure of the Government Accounts

A

Report of the Minister of Finance to Parliament

Introduction

Section 7(4) of the Money Bills Amendment Procedure and Related Matters Act (2009) prescribes that the Minister of Finance submit an explanatory report to Parliament when tabling the annual budget. The report is to detail how the Division of Revenue Bill and the national budget give effect to (or why they have not taken into account) the recommendations contained in:

- Budgetary review and recommendation reports (BRRRs) submitted by committees of the National Assembly in terms of section 5 of the act.
- Reports on the fiscal framework proposed in the *Medium Term Budget Policy Statement* (MTBPS) submitted by the finance committees in terms of section 6 of the act.
- Reports on the proposed division of revenue and the conditional grant allocation to provinces and local government set out in the MTBPS submitted by the appropriations committees in terms of section 6 of the act.

Budgetary review and recommendation reports

Section 5 of the act sets out the procedure to be followed by the National Assembly committees for assessing the performance of each national department before the budget is introduced. Through this procedure, committees are required to prepare BRRRs that assess the department's service-delivery performance, given available resources, and the effectiveness and efficiency of the department's use and allocation of those resources. The reports may also include recommendations on the future use of resources.

The relevant portfolio committees tabled the BRRRs in October and November 2015. Given the large number of reports, a separate document will be tabled in Parliament with detailed responses to the portfolio committees' recommendations. In many instances, the different committees made similar recommendations. Below is a summary of the common issues raised.

General issues

- Additional funding is needed to improve the capacity of institutions to meet the goals of the National Development Plan.
- There should be intergovernmental engagements to deal with inter-state debt.
- Departments should review their annual performance plans to ensure that they are aligned with the budget, given budget reductions in some institutions.
- Budgets should be ring-fenced for specific initiatives.
- There needs to be greater compliance with the Public Finance Management Act (1999) (PFMA) and National Treasury regulations.
- Institutions should review their supply chain management processes and regulations.
- Departments should strengthen their oversight of public entities.
- Consideration should be given to producing the BRRRs earlier.
- Departments should be adequately capacitated to improve the spending of infrastructure-related grants.
- Funding arrangements for certain conditional grants and programmes need to be reviewed.
- Financial management must be improved to ensure unqualified audits.
- Issues raised in previous BRRRs should be addressed.

Some committees also recommended that additional budget allocations be made available for particular programmes, sub-programmes or other budget items. However, the scope to provide additional funding is limited, given the constrained fiscal outlook. Departments, public entities and constitutional institutions were required to reprioritise funds within their existing baselines to fund emerging priorities. Should the fiscal outlook improve, recommendations for additional funding may be considered in future budget processes.

The rest of this report details the Minister of Finance's response to matters contained in the other committee reports. Where different reports make the same recommendations, responses have not been repeated.

Recommendations of the Standing Committee on Appropriations on the 2015 MTBPS

The impact of public-sector wage agreements on fiscal sustainability

> *The National Treasury, in partnership with the Department of Public Service and Administration (DPSA) and the Department of Planning, Monitoring and Evaluation (DPME) should develop systems and mechanisms targeted at reforming public-sector wage agreement mechanisms so that they align with the principles of fiscal sustainability and countercyclicality. In addition, wage agreements should not deplete contingency reserves as these serve as a critical buffer against natural disasters such as droughts and global economic shocks.*

The National Treasury is working with the DPSA and the DPME to prepare an evaluation of the 2015 wage negotiations. Weaknesses in public-service wage-setting institutions are being identified and proposals for reforms considered. Issues identified thus far include:

- Excessive focus on short-term cost-of-living adjustments.
- Insufficient focus on longer-term reforms to public-sector employment practices and remuneration structures that could improve performance, service delivery and fiscal sustainability.
- Weaknesses in the sectoral collective bargaining chambers, and insufficient attention to sectoral issues in the central chamber.

- Gaps in the employers' mandate formulation and approval processes, such as the absence of direct participation of provincial governments.

The report will draw on lessons and experiences gained from other countries on public-sector collective bargaining institutions and remuneration reforms. Reform proposals will help government prepare for the next round of negotiations.

The National Treasury agrees that wage agreements should not deplete contingency reserves. Nevertheless, fiscal choices must also take account of the need to sustain core programmes with limited resources.

Measuring productivity in the public sector

> *The National Treasury, in partnership with the DPSA and the DPME, should develop and implement a framework for measuring productivity aimed at benchmarking improvements in the public sector in the medium to long term.*

The DPSA is leading the development of a framework to measure productivity in the public service. A draft framework was finalised in 2015 and is being piloted and tested in key sectors. The framework will be refined and finalised in 2017/18. The National Treasury will provide input to help finalise the framework. It is also working on a strategy for remuneration reform that should ensure there is a strong link between wage settlements and performance at both an individual and institutional level.

Outreach programmes on the medium-term expenditure framework (MTEF) trade-offs and the importance of faster economic growth

> *The National Treasury, in partnership with the DPME, should embark on budget outreach programmes that seek to educate all stakeholders and the general public on the formulation of budgeting outcomes and the trade-offs involved in the development of the final medium-term budget framework.*

Each year, the National Treasury publishes a *People's Guide to the Budget*. The guide aims to make the main messages contained in the national Budget Speech, and in accompanying legislation and documentation, accessible to the general public. This includes the formulation of budgeting outcomes and the trade-offs made, given limited resources, against National Development Plan priorities as expressed through the medium-term strategic framework (MTSF).

Following the tabling of the budget in Parliament, National Treasury officials engage in an extensive programme of outreach, including running workshops at 10 universities across the country, and holding a national workshop with civil society organisations. In partnership with other government departments, the National Treasury aims to strengthen its outreach activities on budget choices.

> *The National Treasury and all relevant stakeholders should embark on education outreach programmes and social dialogue strategies highlighting the importance of faster economic growth as a necessary condition to raise the resources needed to support social and economic transformation. This should include efforts aimed at reconstructing social consensus behind a path of accelerated economic growth.*

The National Treasury has consistently communicated the importance of faster economic growth as a necessary condition for transforming society. This message has been contained in speeches, statements and publications. It has also communicated this message in engagements in domestic and global forums. Budget discussions are regularly held in the National Economic Development and Labour Council to strengthen social consensus on national budget priorities and choices.

Partnerships in planning and budgeting frameworks

> *The National Treasury, in partnership with the DPME, should consider the inclusion of partnerships in planning and budgeting frameworks so as to ensure enhanced emphasis of partnerships in the implementation of government programmes.*

The National Treasury agrees that continuing to promote partnerships in the form of broad public engagement on the budget process is of the utmost importance. The National Treasury conducts a wide range of such engagements, and encourages South Africans from all walks of life to express their views on the allocation of public funds. The Constitution mandates the National Treasury to manage the public finances, and the PFMA makes the National Treasury responsible for managing the budget preparation process. These processes are subject to a lengthy period of consultation and modification throughout government, including the Ministers' Committee on the Budget, before they are tabled in Cabinet. Ultimate responsibility for the national budget rests with Parliament which, acting as the elected representatives of the South African nation, debates and votes on the budget in a range of forums that are accessible to the public. The Money Bills Amendment Procedure and Related Matters Act also gives Parliament the opportunity to amend the budget.

Creating a knowledge databank on budgeting best practice

> *The National Treasury should ensure that a knowledge databank is created that contains best practice in budget reprioritisation, strategies for realising value for money, spending efficiencies and spending effectiveness. The knowledge bank should be accessible by all state agencies including oversight bodies such as legislatures and municipal councils.*

The National Treasury provides publicly accessible guidance to government departments on reprioritising expenditure, realising value for money, and achieving spending efficiencies and effectiveness. This guidance is provided in various forms, including cost-containment and yearly budget preparation guidelines, and procurement strategy and policy reviews. In addition, dedicated budget analysts provide specialised, sector-specific guidance.

Strengthening the capital budgeting framework

> *The National Treasury, in partnership with the Department of Public Works, the Presidential Infrastructure Coordinating Commission (PICC) and all relevant stakeholders in the built environment, should further strengthen its capital budgeting frameworks.*

The National Treasury is developing proposals for reforms to the capital budgeting framework. The aim will be to strengthen government's approach to evaluating large infrastructure projects, and consider means to improve alignment between spending on approved projects and medium-term budget allocations. The strengthening of capital project planning and the appraisal system will also enable government to adjust expenditure plans where financially viable projects with clear social or economic benefits are identified. The framework will aim to clarify institutional roles and responsibilities across government.

Mechanisms to prevent poor performance by human settlement departments

> *Departments of human settlements and the National Treasury, in partnership with the Financial and Fiscal Commission and other stakeholders, should develop mechanisms for appropriate disincentives so as to discourage poor performance, especially in ensuring that the attainment of targets in the annual performance plans is aligned to budget planning and spending performance.*

The National Treasury is working with the national and provincial departments of human settlements to align the basic accounting system (BAS) across provinces directly with the sub-programmes in the National Housing Code. This will make it easier to benchmark and compare provinces, and analyse lower-level accounting detail. Provinces previously had their own lower-level budget structures on BAS, making it impossible to evaluate different spending and service-delivery performance.

During 2015/16, programmes and sub-programmes on the housing subsidy system – maintained by departments of human settlements – have been aligned with BAS. This will improve the link between reporting on financial and non-financial performance. In 2016/17, the housing subsidy system will be aligned with the infrastructure reporting model, which reports on project status in real time. These measures will improve government's ability to monitor the attainment of targets and align these with budget planning and spending performance.

Monitoring public employment programmes and their effect on job creation

> *The National Treasury, in partnership with relevant stakeholders, should look at ways in which public employment programmes can be sufficiently customised so that they respond to the varying economic conditions across the country. There should be enhanced monitoring mechanisms of public employment programmes and their overall effects on job creation, wages and productivity.*

The National Treasury agrees with these proposals.

There are already several ways in which the Expanded Public Works Programme and the Community Work Programme adapt to local economic conditions – both directly as employment programmes and as part of broader infrastructure development, environmental and social programmes. For example, the programmes target youth, women and other disadvantaged groups, and support environmental programmes and municipal infrastructure investment that is based on needs and development.

In addition, the Jobs Fund invests in projects that are customised to local circumstances. The fund's project management unit at the National Treasury evaluates projects in detail and occasionally publishes its findings.

The National Treasury also forms part of the programme management team providing oversight to the environment and culture sectors of the Expanded Public Works Programme. The environment and culture sector programme management team endorses the methodology to be applied to determine the budget, incentive amounts and data to be used as the basis of performance and incentive calculations. The Department of Public Works manages the reporting on job-creation outputs.

Incorporating values of trust and social consensus in the budget process

> *The National Treasury and the DPME should develop systems and mechanisms aimed at incorporating values of trust and building social consensus in the budget process, and its contribution to growth and development.*

The National Treasury agrees that these are important values that should be fostered through the budget process. It looks forward to further debate and proposals concerning how these values can be realised through specific systems and mechanisms.

Improving effectiveness of spending through expenditure reviews

> *The National Treasury and the DPME should provide regular feedback to the committee on significant issues pertaining to the budget framework such as the introduction of the national health insurance (NHI), expenditure reviews and evaluations, review of business support incentives, and reviews on conditional grant performance and other critical budgetary and spending issues.*

The *Budget Review* and the MTBPS regularly address many of these issues. The quarterly reporting framework guiding regular feedback to the Standing Committee on Appropriations will be enhanced from 2016/17 to include the expenditure and detailed performance information requested. The National

Treasury is always willing to assist Parliament and its committees with additional feedback as and when requested.

Alignment of spending with the purpose of the municipal demarcation transition grant

> *The National Treasury is to put in place measures to ensure that funds earmarked for the municipal demarcation transition grant are used only for the specific purpose of defraying costs related to the demarcation.*

The *municipal demarcation transition grant* was established to defray the costs in newly amalgamated municipalities of the significant boundary changes planned for 2016. With a three-year lifespan starting in 2015/16, the grant conditions stipulate that it subsidises only the additional administrative costs related to the mergers, such as incorporating administrative systems and transferring staff.

To ensure funds are spent appropriately, the Department of Cooperative Governance and Traditional Affairs and the provincial departments responsible for cooperative governance are overseeing the implementation of boundary re-determinations in their respective provinces. A change management committee has also been established for each re-demarcation, and includes representatives from the affected municipalities, the district municipality and the province. Through the municipal finance improvement programme, advisors are available to help municipalities with asset management during the transition. Support is being provided to municipalities in the Eastern Cape, Limpopo and the Northern Cape.

Strengthening public-private partnerships in social infrastructure financing

> *The National Treasury, in partnership with the Financial and Fiscal Commission and relevant stakeholders in the financial sector, should develop concrete mechanisms for speedily expanding the role of private finance as a complement to public funds in the provision of social infrastructure such as in health sectors.*

In collaboration with the Department of Cooperative Governance and Traditional Affairs, the National Treasury is working to strengthen partnerships between government, municipalities and the financial sector. The aim is to find practical solutions to finance infrastructure investments that accelerate inclusive growth. A working group has been established to ensure regular engagements take place between metropolitan municipalities, commercial banks, institutional investors, the National Treasury, the Development Bank of Southern Africa, development finance institutions and the South African Local Government Association. The working group's tasks include finding innovative infrastructure-financing instruments and mechanisms, and updating the municipal borrowing policy framework to expand responsible and prudent borrowing for strategic infrastructure in metropolitan municipalities. The National Treasury is also working closely with sector departments, the Financial and Fiscal Commission, and the private sector to finalise the draft policy on development charges, which municipalities can use to finance infrastructure development.

Funding for post-school education and training

> *The Minister of Finance and the Minister of Higher Education and Training (DHET) should ensure that the National Treasury and the DHET consider various options for the funding of higher education and training.*

The National Treasury and the DHET are working together closely to consider options for funding higher education and training. An interdepartmental task team led by the National Treasury is investigating options to finance the White Paper for Post-School Education and Training. Other task team members include the DHET, the Financial and Fiscal Commission, and the DPME. Options considered to date include reprioritising funds from existing government programmes, instituting efficiency measures in post-school education and training institutions, reforming the National Student Financial Aid Scheme (NSFAS), and mobilising new sources of funding through the tax system. The task team will submit a report to the Medium-Term Expenditure Committee and Cabinet at the beginning of 2016/17.

The National Treasury is also providing support to the DHET's initiative to help historically disadvantaged higher education institutions reprioritise funds and contain costs. It will work with the DHET to support the review of the NSFAS's operational capacity to ensure it is ready to manage the additional resources to be mobilised.

Recommendations of the Standing Committee on Appropriations on the Adjustments Appropriation Bill

Mechanisms to deal with inter-state debt

> *The National Treasury should develop relevant provisions in the annual appropriations act that compels national departments and public entities to pay for services rendered by municipalities and other state agencies so as to eradicate inter-state debt.*

The question of inter-state debt is complex and attempts to resolve the issue centrally should be approached with circumspection. A critical issue will be to maintain the system's integrity and ensure that accounting officers retain the primary responsibility for managing the obligations of public institutions in line with the requirements of the PFMA.

The PFMA and Treasury Regulations have provisions to deal with inter-state debt. Section 38(1)(f) of the PFMA requires that accounting officers pay all required amounts in the prescribed period. Treasury Regulation 8.2.3 stipulates that, unless determined otherwise in a contract or other agreement, all amounts owing to creditors are to be settled within 30 days from receipt of invoice (or from the date of settlement or court judgment, in the case of civil claims). This requirement also applies to payments owed to municipalities by departments and entities. Accounting officers and accounting authorities and delegated officials of institutions subject to the PFMA must comply with its provisions and contractual obligations. Similarly, section 37(1)(c) of the Municipal Finance Management Act (2003) (MFMA) requires that municipalities must promptly meet all financial commitments to other municipalities or national and provincial organs of state.

To the extent that these obligations are not adhered to, measures to improve public accountability may be required. To clear historical debts and ensure compliance with the PFMA and the MFMA, a task team has been established in the Department of Public Works to review all outstanding debt owed to municipalities by national and provincial departments. Engagements are also taking place in each province with municipalities to resolve disputes on a case-by-case basis. Provincial treasuries have committed to ensuring that measures are put in place to resolve disputes and settle municipal debts promptly.

Eliminating long-standing vacant posts

> *The National Treasury together with the DPSA should submit a progress report on the work undertaken in freezing or eliminating long-standing vacant posts, and removing redundant public service posts.*

The National Treasury and the DPSA are working together on this matter, which has become more pressing in the context of tighter fiscal constraints. A progress report will be prepared during 2016.

Support to historically disadvantaged higher education institutions

> *The National Treasury together with the DHET and relevant stakeholders, including the leveraging of expertise from the Auditor-General of South Africa and other stakeholders, should support higher education institutions most affected by the reprioritisation exercise, especially historically disadvantaged institutions.*

When determining government's contribution to funding the shortfall in the budgets of higher education institutions, created by the agreement to scrap the fee increases proposed for 2016, the National Treasury and the DHET considered the capacity each institution had to reprioritise budgets and effect cost-containment measures. The National Treasury will continue to work with the DHET to support higher education institutions most affected by the reprioritisation exercise.

Recommendations of the Standing Committee on Appropriations on the New Development Bank Special Appropriations Bill

Reporting framework for the New Development Bank

The National Treasury should submit quarterly reports on the New Development Bank's financial and non-financial performance to Parliament.

The National Treasury will submit this information once the bank becomes operational and begins reporting on its financial and non-financial performance.

Funding allocations to the New Development Bank and fiscal sustainability

The funding allocations to the New Development Bank should strictly adhere to the fiscal principles of long-term debt sustainability, countercyclicality and inter-generational equity.

The National Treasury will ensure that all allocations to the New Development Bank are aligned with government's commitment to reducing the budget deficit and stabilising debt.

Development of projects to be funded from the New Development Bank

The National Treasury in partnership with relevant stakeholders should develop a pipeline of domestic and continent-wide projects that will be ready to benefit from funding by the New Development Bank.

The BRICS inter-ministerial committee, chaired by the Minister of International Relations and Cooperation, has established a process of compiling a priority list of projects that need funding to address domestic and continental priorities in the water, energy and transport sector. The Department of Economic Development, as the custodians of the PICC, was tasked with the process of consultatively compiling the list of infrastructure projects to be undertaken by government and its state-owned entities. The projects have now been submitted to the New Development Bank board of directors for consideration.

Public awareness campaign for the New Development Bank programmes

The National Treasury, in partnership with relevant stakeholders, should develop and implement a public awareness campaign across all sectors on the work of the New Development Bank and how it will assist domestic enterprises.

The National Treasury will take the recommendation into consideration once the bank has become fully operational.

Recommendations of the Standing Committee on Appropriations on the 2015 Division of Revenue Amendment Bill

Revising the conditional framework for the health facility revitalisation grant

The Minister of Finance should ensure that the National Treasury effects the following corrections to the conditional framework of the national health grant: health facility revitalisation component: the addition of conditions that allow a portion of the grant to be used to expand the new information system to primary healthcare (PHC) facilities outside the NHI pilot districts, the conditions of the grant reflect that no more than R50 million of *the grant may be used for the patient information system rollout, the outcome statements and outputs of the grant are also corrected to include the rollout of integrated patient-based primary healthcare information systems to other PHC facilities.*

A new component has been added to the information component of the indirect *national health insurance grant* in the 2015 Division of Revenue Amendment Bill. All allocations under this component will be used to roll out the new patient-based primary care information system beyond pilot districts. Cabinet has approved additional allocations of R76 million in 2017/18 and R190 million in 2018/19 as part of the *national health insurance grant*'s new information component, for which a new grant framework will be prepared.

Recommendations of the Select Committee on Appropriations on the 2015 Division of Revenue Amendment Bill

Strengthening monitoring and oversight to provinces

The National Treasury should strengthen its monitoring mechanisms over provinces and municipalities to ensure compliance with any of its directives and also to avoid any repeat of outstanding debt accumulation.

The National Treasury has been strengthening the mechanism to benchmark provincial and municipal budgets. All draft provincial budgets are benchmarked and analysed for quality, extent of funding for government priorities and compliance with the legislative framework. Two rounds of benchmarking for provincial budgets have been introduced, and the National Treasury reviews and comments on the tabled budgets of all non-delegated municipalities prior to their adoption by municipal councils. The tabled budgets of these municipalities are assessed for quality, extent of funding, and compliance with the prescripts of the MFMA and the municipal budget and reporting regulations.

The National Treasury is supporting provincial treasuries to improve their capacity to fulfil their oversight responsibilities for the budgets of delegated municipalities in accordance with the PFMA and the MFMA. Eight provincial treasuries have agreed to implement province-specific municipal support strategies.

The National Treasury also uses several technical intergovernmental forums to monitor and address fiscal risks in provinces and municipalities, and visits every province annually to monitor budget execution and fiscal issues. Municipal financial issues are also discussed at quarterly MFMA meetings with provincial treasuries and annual visits are conducted to all non-delegated municipalities.

Strengthening compliance with the conditional grant framework

The National Treasury should ascertain if the conditional grant funds that were transferred to the provinces but not spent in 2014/15 have indeed not been used for any other purpose to ensure that service delivery is not compromised.

Conditional grants are subject to legislated financial and non-financial reporting to the relevant national sector departments and to the National Treasury on a quarterly basis. In addition, the Auditor-General of South Africa audits expenditure on conditional grants and reports findings to the Standing Committee on Public Accounts. Unspent grant funds are subject to legal requirements and approval before they can be rolled over into the following year.

The National Treasury also regularly monitors expenditure on conditional grant allocations and responds appropriately when provinces and municipalities underperform, including by channelling funds to areas where they are urgently required.

Funding for shortfall in compensation of employees in provinces

The National Treasury should provide further details on how provinces were able to reprioritise funds within their own budgets to fund the shortfalls in personnel budgets. Furthermore, the National Treasury should indicate how incidences of ghost employees might be contributing to the current compensation of employees' costs and also indicate if all provinces have conducted and completed a personnel head count.

Provinces accommodated the shortfalls in compensation budgets primarily by not filling non-critical posts made vacant through employee attrition. Headcount numbers in provincial departments have dropped since the start of 2015/16, from 907 748 to 897 970. Some of these numbers include front-line service delivery staff that will need to be replaced. Nevertheless, in the short term, the staff reductions have created some temporary fiscal space.

Three provinces (the Eastern Cape, KwaZulu-Natal and Limpopo) have previously undertaken staff verification projects to root out ghost employees. However, if not supported by measures to verify each subsequent new employee added to the payroll system, these checks do not solve the ghost employee problem entirely. The DPSA launched a project in 2011/12 to clean up the payroll system and address this issue.

Funding for zero per cent fee increase for higher education institutions

The National Treasury and the DHET should, as soon as possible, provide Parliament with details of how and where the required funds will be sourced and what the implications of this process will be on the operational needs of the DHET.

Over the medium term, R5.7 billion has been allocated to the DHET for university subsidies to fund the zero per cent fee increase and R10.7 billion to the NSFAS for short-term debt relief for 71 753 students. These students were underfunded between the 2013 and 2015 academic years, or are currently unfunded in 2016. The funds were sourced from a Cabinet-approved reprioritisation of budget baselines across national, provincial and local government. The reprioritisation is not expected to have adverse effects on the operational needs of the DHET because the funds were transferred directly to universities and the NSFAS.

Recommendations of the Select Committee on Appropriations on the proposed Division of Revenue and the conditional grant allocations to provincial and local spheres of government as contained in the 2015 MTBPS

Holistic approach in funding higher education and training

In addressing the need for additional funding for higher education, government should take a holistic approach that will also address all relevant issues within the sector such as shortfalls in subsidies to universities, NSFAS, further education and training colleges and operational costs for the DHET.

The National Treasury and the DHET are working together closely to consider options for funding higher education and training. An interdepartmental task team is investigating options to finance the White Paper for Post-School Education and Training. Options under consideration include reprioritising funds from existing government programmes, instituting efficiency measures in post-school education and training institutions, implementing reforms to the NSFAS, and mobilising new sources of funding through the tax system.

Review of the equitable share formula

> *The National Treasury should, on a regular basis, review its application of the equitable share formula in order to address challenges such as shortfalls in provinces to cover employee compensation costs and the pressing needs for municipalities to sustain the provision of free basic services with the current rising electricity costs, water shortages and population growth.*

The National Treasury undertakes annual technical updates to the data used in the calculation of the equitable shares. The updates take into account changes in the cost of services, and the number of people in each province and municipality to whom services are to be delivered.

In addition, the structure and components of the equitable share formulas are periodically reviewed. The National Treasury, the Department of Cooperative Governance and Traditional Affairs, and the South African Local Government Association – with support from the Financial and Fiscal Commission and Statistics South Africa – last reviewed the formula for the local government equitable share in 2012. The formula is in the fourth year of a five-year phase-in period and work towards the next refinement is set to begin in 2016. All updates and changes to the formula are described in detail in the *Explanatory Memorandum to the Division of Revenue* (http://www.treasury.gov.za). Between 2016 and 2017, the National Treasury, in collaboration with the Financial and Fiscal Commission and provincial treasuries, will review the provincial equitable share formula to determine whether the formula's components remain responsive to the country's realities.

Recommendations of the Standing Committee on Finance on the 2015 Revised Fiscal Framework

Incorporating proposals to stimulate economic growth in the MTBPS

> *The Committee recommends that, in future, the MTBPS should set out in more concrete detail proposals on stimulating economic growth.*

The MTBPS highlights the major drivers of government's spending and regulatory reforms, including measures to stimulate growth. For example, pages 15 to 18 of the 2015 MTBPS set out the major projects under way to stimulate economic growth, with additional information on relevant allocations detailed in pages 31 to 39. Further details of individual programmes are available in the annual *Estimates of National Expenditure*. The National Treasury also engages with departments on projects that could stimulate economic growth, employment and infrastructure development. The outcomes of these engagements are reflected in the MTBPS.

Progress on the funding for higher education and training

> *The Committee recommends that the MTEF should reflect progress on the funding for higher education. In this regard, the Committee suggests that government looks into the possibility of the budget of the DHET being reprioritised to find some of the funding for "no-fee increases". Consideration needs to also be given to allocating unused funds from the National Skills Fund and the sector education and training authorities (SETAS), while ensuring that skills training needs are not unduly undermined. The Committee also recommends that government, through engagement with all the relevant stakeholders, consider providing free tertiary education to the needy reasonably soon.*

The DHET will investigate how funds from the SETAs and National Skills Fund can be used to support universities and the NSFAS. The National Treasury will support the department in this exercise.

In January 2016, the President appointed a commission of inquiry into higher education funding and other issues. The commission will consider the feasibility of providing fee-free higher education in South Africa. The commission will submit a final report to the President within 10 months of its appointment.

Employability of graduates

The Committee recommends that the National Treasury, within the norms and protocols of interdepartmental exchanges, engages with the DHET and the DPME on the need for universities to produce graduates who are more likely to be employed and meet the developmental needs of the country.

The National Treasury will work with the DHET and the DPME to implement recommendations in the White Paper for Post-School Education and Training to strengthen the relationship between universities and employers. Encouraging employers to expand workplace training opportunities, especially in areas where qualifications or professional registration depends on practical workplace experience, will be a particular area of focus.

The DHET, in consultation with the National Treasury, the Department of Labour and the DPSA, is also considering the feasibility of introducing a community service scheme for graduates. Such a programme will provide unemployed graduates with skills and experience that could help them find work.

Linking the expenditure ceiling to long-term economic growth projections

The National Treasury should brief the Committee in the first quarter of 2016 on the "fiscal rule of thumb" guideline that links the expenditure ceiling to long-term economic growth projections over the MTEF period and improvements on the capital project appraisals model.

The proposed fiscal guideline and revised capital project appraisals model are both works in progress. The National Treasury welcomes the opportunity to present the proposals to the committee in early 2016.

Cost-containment measures

The Committee recommends that the National Treasury provide a comprehensive report in writing on progress on its cost-containment goals within 21 days of the adoption of this report by Parliament.

The comprehensive report on the progress made with the cost-containment measures will be submitted to the Standing Committee on Finance by the end of February 2016.

Drought-relief initiatives

The National Treasury needs to engage more effectively with the Department of Agriculture, Forestry and Fisheries, COGTA, the Department of Water and Sanitation and the Department of Rural Development and Land Reform to see what more can be done about the drought affecting key parts of the country.

An interdepartmental task team led by the Department of Cooperative Governance and Traditional Affairs – through the National Disaster Management Centre – has been established to oversee government's response to the drought. The National Treasury forms part of this task team. The drought-response measures already in place include drilling and rehabilitating boreholes, initiating water conservation and demand management projects, augmenting water sources where shortages exist, providing livestock feed and alternative grazing, and monitoring food prices to develop interventions to maintain food security.

The Department of Rural Development and Land Reform has set aside R187 million for drought alleviation and will provide grazing land for animals in drought-stricken areas. The Department of Agriculture, Forestry and Fisheries has set aside about R450 million for 2016/17 to support the country's drought-relief efforts. This is in addition to funds offered by provincial departments of agriculture to farmers affected by the drought.

The *comprehensive agricultural support programme grant* is also being used to help mitigate the effects of the drought and ensure production continues – a condition of the grant. To date, R159 million has been set aside from this grant to begin implementing drought-mitigation action plans. An additional R54 million from the *municipal disaster grant* and the *provincial disaster grant* is also to be used for this purpose. Section 20(5) of the Division of Revenue Act (2015) also provides for the reallocation of a portion of existing infrastructure grants that are unlikely to be spent to fund the reconstruction and rehabilitation of infrastructure damaged by a disaster.

Funding for early childhood development

> *The Committee recommends that National Treasury engages with Ilifa Labantwana and the Department of Social Development, and seeks within budgetary and other constraints to progressively address their concern that the MTBPS is too limited in its focus and allocation of early childhood development (ECD) resources to ensure a meaningful realisation of ECD priorities. The committees would like the National Treasury to report back to them on this when the 2016/17 national budget is brought to the committees for consideration.*

The National Treasury is engaging closely with Ilifa Labantwana on ECD issues. An additional R812 million for ECD is allocated in the 2016 Budget and a new conditional grant, which gives the national department far greater scope to impose conditions and policies, has been created for ECD. The additional funds are both to increase the number of subsidised children and to assist with infrastructure maintenance, a key factor contributing to difficulties in the registration of ECD centres. The National Treasury is also working with the Department of Social Development and others to develop an ECD financing policy.

Impact of budget pressures on personnel numbers for health professionals

> *The Committee supports some of the key concerns raised by Rural Health Advocacy Project (RHAP). RHAP is concerned about staffing moratoriums implemented at the provincial level, budgetary pressures which have emerged, and a number of growing accruals. The Committee recommends that the National Treasury should meet with RHAP and the national Department of Health and report back to the Committee when the 2016 Budget is brought to the committees for consideration.*

The National Treasury has met with RHAP, and participated and presented at their full-day workshop.

During the budget benchmark exercises, provinces were advised to focus budget cuts, reprioritisations and hiring freezes on administrative posts rather than front-line health professionals. Based on the National Treasury’s monitoring, there does not appear to have been a significant reduction in health professional numbers. For example, there were 134 453 nurses employed in the public sector in September 2013 and 136 439 in September 2015. The number of doctors peaked in June 2014 at 20 042 and has since declined to 19 352 in September 2015, which is still significantly more than the 15 527 doctors in 2009. These numbers exclude the several hundred additional doctors employed through the *national health insurance grant*.

Financial viability of South African Airways

> *While recognising the complexities, the Committee recommends that the National Treasury ensure that South African Airways (SAA) is financially viable reasonably soon.*

In 2013, SAA developed a long-term turnaround strategy. Some initiatives in the strategy stalled, contributing to the deterioration in the airline’s financial performance. Between November 2014 and March 2015, SAA implemented a 90 day-action plan to stabilise the airline and fast-track the implementation of its turnaround strategy. The plan is expected to yield R1.1 billion in savings in 2015/16 through network changes, fleet refinancing and procurement savings.

Together with government, SAA also refined its turnaround strategy. The airline projected that it would generate a positive operating profit in 2016/17, and its performance for the first six months of 2015/16 was in line with the budget. However, the further decline of the rand and the slow-down in growth globally are expected to have a negative effect on the airline – offset to some extent by the lower oil price.

It will take time for SAA to become financially viable without government support. To ensure SAA continues to operate, government has issued guarantees totalling R14.4 billion against which the airline has raised funding. No funding has been allocated to SAA since 2009/10, when R1.5 billion was set aside for the airline.

Finalisation of personnel headcount project in provinces

> *The National Treasury should work with provincial treasuries to finalise the personnel headcount projects in the provincial departments and report to the finance committees.*

Provincial departments, supported by the National Treasury and their counterparts in national government, are reassessing personnel models, including headcount numbers. The National Treasury played a major role in finalising the provincial government of Limpopo's headcount, and it is also part of the process in KwaZulu-Natal.

Improving the efficiency and effectiveness of spending in provinces

> *The National Treasury should work with the national and provincial departments to determine the causes of underspending, and contribute more to ensure more efficient and effective spending, and the tabling of more credible budgets aligned to key government priorities. The National Treasury needs to monitor the fiscal performance of provincial treasuries more effectively as there are cases of accruals of over R1 billion, while cash in the bank is minimal.*

The National Treasury is working with national departments and provincial treasuries to ensure that budgets are credible and aligned to government priorities. Common reasons for underspending include delays in work schedules due to, for example, adverse weather conditions, or the late submission of invoices. The National Treasury examines departmental monthly and quarterly actual and projected spending data on an ongoing basis through its in-year monitoring system, provincial visits and benchmarking exercises. The matter of accruals versus cash in the bank, including inter-state debt, is discussed at the appropriate intergovernmental forums, including the Budget Council and the Forum of the South African Directors-General.

Revision of the Southern African Customs Union revenue-sharing formula

> *In the 2015 fiscal framework report, the committees recommended that the National Treasury considers reviewing the revenue-sharing formula with regards to the Southern African Customs Union (SACU). The Committee requests an update from the National Treasury in this regard.*

Discussions within SACU about the implementation of its six-point plan, including the review of the revenue-sharing formula, reached a deadlock in July 2013 because the decision-making process requires agreement by consensus. Since assuming the chairpersonship in July 2015, South Africa has sought to provide stronger leadership on the review. Following on from the Minister of Finance's participation in ministerial-level bilateral engagements during the second half of 2015 to revive discussions, National Treasury officials have begun bilateral engagements with their counterparts in SACU member states to explore the technical components of the review of the revenue-sharing formula.

The formula's review is only one aspect of the six-point plan. Other aspects include reforming the revenue-sharing arrangement so that it underpins regional industrialisation, the equitable distribution of the common revenue pool and sustainable regional integration. To this end, SACU's council of ministers has convened a ministerial retreat for June 2016 to discuss the implementation of the six-point plan in its entirety. The outcome of the retreat will determine how the review of the revenue-sharing formula is to proceed.