ANNEXURES

In addition to the material published in the *Budget Review*, the following annexures are available at www.treasury.gov.za

- Annexure W1: Explanatory memorandum to the division of revenue
- Annexure W2: Structure of the government accounts

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Report of the Minister of Finance to Parliament

Introduction

Section 7(4) of the Money Bills Amendment Procedure and Related Matters Act (2009, the Act) prescribes that the Minister of Finance (the Minister) must submit a report to Parliament at the time of the budget explaining how the Division of Revenue Bill and the national budget give effect to, or the reasons for not taking into account, the recommendations contained in:

- Budgetary review and recommendation reports 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 governments 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 a procedure to be followed before the introduction of the national budget by the National Assembly, through its committees, for assessing the performance of each national department. This procedure provides for committees to prepare budgetary review and recommendation reports which:

- Must provide an assessment of the department's service delivery performance given available resources.
- Must provide an assessment of the effectiveness and efficiency of the department's use and forward allocation of available resources.
- May include recommendations on the forward use of resources.

At the time of tabling the annual budget the Minister is required to explain how the budget gives effect to these recommendations, or why they have not been taken into account.

This is the first year that budgetary review and recommendation (BRR) reports have been submitted to the Minister, and the first time that the Minister's response to the reports has accompanied the annual budget. The BRR reports were tabled by the relevant portfolio committees during October, November and December 2010.

Due to the large number of BRR reports, a separate document will be tabled in Parliament with detailed responses to the committees' recommendations. In many cases, however, the different committees have made the same recommendations to a number of departments. This report contains a summary of these overarching concerns, drawing on responses to the specific issues raised on each committee's report.

General issues

The concerns consistently raised by the BRR reports across departments are often related. It is not possible or necessary to prioritise between them, and their ordering below is not significant:

- ***Adherence to financial requirements:*** Departments need to adhere more stringently to their financial and legal requirements, such as the Public Finance Management Act (1999). In many cases departments are instructed to adhere fully to the demands of the Auditor-General.
- ***Reporting:*** Departments are urged to improve the standard and increase the regularity of their reporting. They are urged to report not only to the portfolio committees, especially on issues raised in BRR reports, but also to communicate better with interested parties, including the public.
- ***Measurable objectives:*** A corollary of good reporting is the adoption of clear objectives. Only when departments establish clear objectives can their success or failure to achieve these be assessed. Operational plans need to be accurately costed and sufficiently detailed prior to implementation.
- ***Monitoring and evaluation:*** Departments need to establish effective mechanisms for monitoring and evaluation of programmes and projects. The portfolio committees called for departments to establish both financial and non-financial performance indicators.
- ***Internal controls and oversight:*** Monitoring staff is as important as monitoring projects. Where there are agencies and state-owned enterprises reporting to departments, the need for greater departmental oversight is stated repeatedly.
- ***Control of funds***: Departments should establish effective and efficient financial control over funds and ensure the appropriate allocation of the same.
- ***Accountability:*** Departmental staff members who have demonstrably failed in their tasks under the terms of their performance agreement should be held accountable for their failure and dereliction.
- ***Service delivery:*** The commitment of a number of departments to service delivery has been questioned, and these departments are urged to make service delivery a priority.
- ***Asset management and supply chain:*** A number of departments are urged to establish systems for asset management that will count, verify, record and document all assets. The BRR reports also underscored the importance of effective supply chain mechanisms.
- ***Filling vacant positions***: Most, if not all, government departments struggle to fill vacant positions. The problem is especially common at senior management level, where the absence of staff is a hindrance to the effective management of departments. Recruitment processes need to be accelerated.
- ***Capacity building:*** A number of departments should provide training to existing members of staff to ensure that they are better able to do their jobs. Institutional capacity can also be enhanced by effective administration, and information and communication technology (ICT) capabilities.
- ***Communication between departments:*** Departments are asked to improve their communication with, and the flow of information between, other departments whose work overlaps with their own.

Joint recommendations on the fiscal framework

As provided for in section 6(1) of the Act, the Minister submitted the *MTBPS* to Parliament on 27 October 2010. The Act provides in section 6(7) that reports of the finance committees of the National Assembly and the National Council of Provinces on the proposed fiscal framework for the next three financial years be submitted to the Minister. The reports of these committees as tabled contain the following recommendations:

Reducing the level of debt

> *That National Treasury should take appropriate steps aimed at reducing the level of debt at a faster rate in order to further create "an economic cushion" in the event of another economic recession in the near term.*

Since February 2010, the forecast for economic recovery has been revised upwards, with a lower inflation level. This means that national net loan debt is now expected to peak at about 40 per cent of GDP before stabilising and declining in 2015/16. At the time of the publication of the 2010 *Budget Review*, debt was forecast to peak at 44 per cent of GDP in the same period.

The *MTBPS* framework also includes an improved revenue outlook, lower levels of non-interest expenditure as a proportion of GDP and lower interest costs. All these factors assist in contributing to a faster recovery in the budget balance. In February 2010, the consolidated government balance was expected to move from 6.2 per cent of GDP in 2010/11 to 4.1 per cent in 2012/13. The 2011 medium-term expenditure framework (MTEF) indicates a budget position of 5.4 per cent of GDP in 2010/11, narrowing to 4.4 per cent in 2012/13 and then to 3.7 per cent in 2013/14.

This rate of recovery is in line with National Treasury modelling on the gap between actual GDP and potential GDP. Forecasting shows that while South Africa has moved out of recession, the economy is still performing below its long-run level and will continue to do so until about 2014/15. Until this gap between actual and potential closes, the fiscus will continue to support the economic recovery and inclusive growth.

Guaranteeing fiscal stability

> *That National Treasury should provide a detailed report to the committee on how government intends to guarantee fiscal stability, including a contingency plan in case of a "double dip" recession.*

Fiscal and monetary policies in major developed and developing economies have supported stronger demand, but the recovery remains fragile and marked by persistent global imbalances. South Africa's countercyclical response during the recession partly offset the sharp reduction in trade, and will continue to support a recovery in private investment and consumption. Monetary policy has also adjusted to weak demand, with interest rates declining further this year in response to lower-than-expected inflation. The combination of tighter fiscal policy and looser monetary policy will support demand while moderating the build-up of imbalances arising from strong capital inflows. Over the medium term, the strength of South Africa's recovery is highly dependent on the trajectory of the world economy, though stronger growth can be achieved through appropriate policy measures.

While the international outlook is more positive, a sharp slowdown in growth momentum since mid-year highlights the fragility of the recovery. Factors weighing on global growth prospects include:

- Continued depression in employment and demand in many countries, particularly in the United States, where the impact of stimulus measures is fading.
- Deflation, which remains a threat in advanced economies due to low levels of capacity utilisation and weak demand. With limited scope for additional fiscal stimulus some governments are taking extraordinary monetary policy measures, such as large-scale purchases of government bonds, to boost liquidity.
- The challenge of reducing non-performing banking system assets, boosting productivity and adjusting fiscal policy to reduce public debt in most of the world's largest economies.

- Concern about the development of asset bubbles in China. To prevent overheating of the Chinese economy, the authorities are tightening monetary policy.

South Africa's fiscal policy framework is designed to ensure that our wellbeing is not unfairly purchased at the expense of future generations. Programmes that raise the level of government spending need to be clear about how the required revenue will be raised, and at what cost to the productive sectors of our economy. As mentioned in the Minister's 27 October 2010 *MTBPS* speech, the National Treasury is preparing a paper on fiscal guidelines for wider discussion. The paper will promote greater public understanding of the principles of fiscal sustainability, now and in the future.

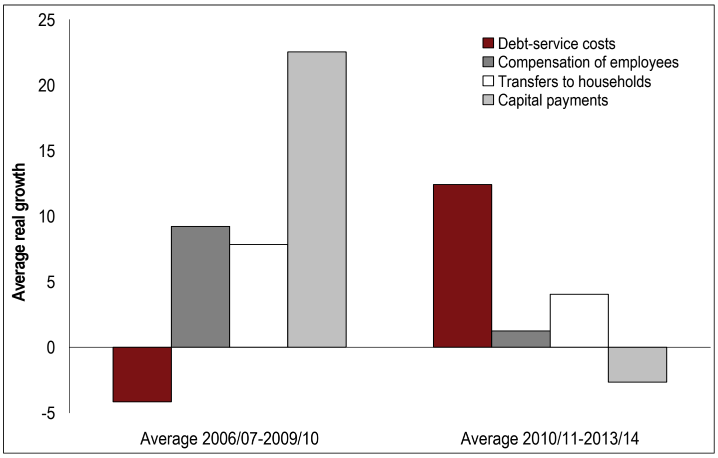
Expenditure forecasts

That National Treasury should take appropriate steps to accelerate the rate of decline in expenditure.

Over the MTEF average real growth in non-interest expenditure is forecast to be 2.7 per cent a year. This is much lower than in previous years. Figure 1 illustrates average real growth in elements of expenditure under this scenario. The figure shows that despite a contraction in the fiscal deficit, most of the growth in expenditure is being driven by interest costs on debt. Further reductions in expenditure would only lead to less money available for essential services.

The measured unwinding of the fiscal deficit laid out in the 2011 fiscal framework means that debt stock and interest costs will stabilise in 2015/16. This rate of recovery is in line with National Treasury modelling on the gap between actual GDP and potential GDP. These forecasts show that while South Africa has moved out of recession, the economy is still performing below its long run level and will continue to do so until about 2014/15. Until this gap between actual and potential closes, the fiscus will continue to support the economic recovery and inclusive growth. The 2011 fiscal framework provides the resources to achieve these outcomes.

Figure A.1 Real growth in expenditure, 2006/07 – 2013/14



Creating fiscal space

National Treasury should provide the committee with a detailed report on how government would rebuild the fiscal space.

Countercyclical fiscal policy assists in defining a sustainable fiscal path by ensuring that expenditure that seems affordable when the economy is overperforming remains affordable during a recession; and by encouraging a growth-friendly environment with low inflation, a low cost of capital and a competitive real exchange rate. This fiscal stance enables government to save for future economic downturns.

The National Treasury has already begun the process of creating addtional fiscal space. In addition, the Treasury is preparing a discussion document, to be released at the time of the 2011 Budget, that will discuss how government can promote long-term fiscal space and stabililty. The *Budget Review* provides further details on this issue in Chapter 4.

> *National Treasury should provide the committee with a detailed report on the impact of a zero-rating value-added tax on books on the fiscal framework.*

The proposal to zero-rate books is not supported for the following reasons:

- Very little of the benefits will be passed on to consumers in the form of lower prices.
- Of the limited benefits that will be passed on to consumers, most will accrue to middle- and upper-income households.
- Zero-rating of books will trigger requests for similar relief measures for other "merit" goods and services. This might undermine VAT as an efficient revenue raising instrument.
- Redistribution is better achieved through the expenditure side of the budget and through a progressive personal income tax system.

Based on the results of a study commissioned by the National Treasury, it is doubtful whether the zero-rating of books would achieve the desired outcome of more affordable academic books. Also, attempts to restrict a VAT concession to educational publications would be arbitrary and lead to compliance and administration complexities for both the industry and revenue authorities.

It is unlikely that a preferential VAT treatment for books would lead to a substantial price reduction for consumers. The study suggests that consumers would probably enjoy only about 13 per cent of any VAT concession, while 87 per cent of the benefits would accrue to publishers and distributors. Of the limited benefits that would be passed on to consumers, most of it would be enjoyed by middle- and upper-income groups.

The relatively low book penetration in South Africa appears to be due primarily to low literacy levels. This problem could be more effectively addressed through enhanced literacy programmes and expenditure programmes to provide a variety of reading materials to all public primary and secondary schools, and to public libraries.

> *National Treasury should resolve issues pertaining to the SACU's revenue-sharing formula as a matter of urgency*

An international consultancy that specialises in economic policy has been contracted by the Southern African Customs Union Secretariat to formulate proposals pertaining to the review of the SACU revenue-sharing formula. A first draft of the report has been circulated to member states, and discussions on the initial findings between member countries are under way. The purpose of the review is to establish a more equitable formula. However, given the uneven sizes of the participating economies, it is expected that SACU member states will be affected differently through a redesign of the formula. Following these discussions at officials' level, it is expected that this matter will be discussed by the Council of Ministers of Finance, after which official negotiations towards a revised formula will commence.

> *The Minister of Finance should consider tabling the Medium Term Budget Policy Statement early in October in order to allow parliamentary processes to follow accordingly.*

The *MTBPS* is the South African pre-budget statement issued to provide an indication of the policy priorities and macroeconomic and fiscal framework that will inform the main Budget proposal. It is currently tabled in the last week of October.

This ensures that the fiscal framework can be updated for the most recent macroeconomic outcomes and revenue performance. The South African Reserve Bank publishes its bulletins on a quarterly basis. The budget process allows for the National Treasury to update its macroeconomic forecasts twice in a year. The *Budget Review* tabled with the main budget includes data up to and including December and the *MTBPS* includes data up to and including September. The September bulletin is usually only released in the final week of September. The National Treasury takes only two weeks to update its assumptions about macroeconomic performance over the next three years and finalise its forecasts in line with the information in the bulletin. Revenues are updated with outcomes for the year up to and including September. This is an important inclusion in the process as several companies pay provisional tax in September.

Extended Cabinet usually meets in the second week of October. At this meeting the National Treasury presents the Division of Revenue and fiscal framework for approval. Once amendments have been indicated and approval of the executive obtained, the Treasury takes less than two weeks to finalise the *MTBPS* and have it printed.

It should also be noted that the Adjusted Appropriation Bill, amending the estimates of expenditure of the current financial year, is tabled at the same time. Along with this the Adjusted Estimates of National Expenditure publication and amended Division of Revenue Bill are tabled. In order to arrive at financial estimates for the remainder of this financial year, departments provide information to National Treasury on their expenditure up to and including September (six-month actual expenditure). This information is only submitted by mid-October and is incorporated into documents that are printed in time for tabling at the end of October.

To ensure that the most recent and accurate information informs the proposals that are tabled for legislative consideration, it is not possible to table the proposals sooner, owing to the sequencing of important decisions and data releases.

Recommendations of the Select Committee on Appropriations

As required by both sections 9 and 10 of the Money Bills Amendment Procedure and Related Matters Act, the Select Committee on Appropriations held public hearings on 5 March 2010 in line with section 9(5)(b) of the Act. The Committee received written and/or oral submissions from the following stakeholders: national Department of Higher Education and Training, the national Department of Basic Education, the national Department of Health, the national Department of Rural Development and Land Reform, the national Department of Energy, the South African Local Government Association (SALGA), the Aids Law Project, the South African Institute of Chartered Accountants, the Financial and Fiscal Commission (FFC), the City of Cape Town and Eskom.

The Committee noted the changes in the 2010/11 Division of Revenue Bill, including the new conditional grants. The Committee's report addresses in some detail the 2010 Division of Revenue and intergovernmental transfers, including:

- Recommendations by the FFC on the 2010 Division of Revenue and Government's response to the FFC recommendations on the 2010 Division of Revenue
- Recommendations by provinces on the 2010 Division of Revenue
- Conditional grants to provinces with respect to the health sector, including HIV and Aids
- Conditional grants to provinces with respect to the education sector
- Roles and functions of the national Department of Rural Development and Land Reform
- Specific recommendations by SALGA on transfers to local government and the National Treasury's responses to SALGA's submission
- Specific recommendations by the City of Cape Town on the funding of public transport and by the South African Institute of Chartered Accountants on municipal capacity financing
- Conditional grants to municipalities and Eskom for electrification.

The Minister wishes to record his appreciation that the Select Committee on Appropriations, having considered the 2010 Division of Revenue Bill and submissions through public hearings, recommended the adoption of the 2010 Division of Revenue Bill.

All recommendations made by the Select Committee on Appropriations are noted and will be considered as part of the next budget process, which will be informed by priorities contained in the medium-term strategic framework and departmental priorities. The division of revenue process requires that trade-offs be made when deciding on how the national revenue will be divided between the three spheres of government, and whether such funding will be directed through conditional grants or the equitable share.

The fiscal framework and the division of revenue on which the MTEF budgets are based are driven politically through a committee that includes of a number of national ministers, chaired by the Minister of Finance (the Ministers' Committee on the Budget, or MinComBud) and submitted to Cabinet for approval. Provinces and the South African Local Government Association (SALGA) are also consulted via the Budget Council and Budget Forum.

The concluding recommendations, as adopted by the Select Committee on Appropriations on 24 March 2010, are set out below, together with the response of the Minister.

Conditional grant for early childhood development

> *Treasury should introduce a grant for early childhood development (ECD) for the national Department of Basic Education in order to ensure that ECD is prioritised as one of the department's key functions.*

The Minister agrees that there is a case for ECD to be appropriately prioritised as one of the key priorities of government and that sufficient resources need to be directed towards this function. Provinces have prioritised the funding of ECD in their budgets, where this type of expenditure shows the largest growth in education expenditure over the 2010 MTEF (28 per cent compared to the average growth of 7.6 per cent). This means that expenditure on ECD of R1.6 billion in 2009/10 will increase to R2.7 billion in 2010/11 and amount to R3.3 billion in 2012/13.

Ways to enhance ECD will be explored. This recommendation will be brought to the attention of MinComBud and the Cabinet member responsible for the Basic Education as requests for the introduction of new conditional grants are made by national departments during the budget process. That motivation should include a description of the purpose of the grant, its goals, the conditions, allocation criteria used to share the grant across provinces and motivation as to why the activities the grant funds should not be funded from the provincial equitable share.

Universities be established in Mpumalanga and the Northern Cape

> *The national Department of Higher Education and Training should establish at least one university (in phases, starting with faculties producing scarce skills) in Mpumalanga and Northern Cape provinces before the end of the 2009-2014 government term.*

The recommendation is noted and will be brought to the attention of MinComBud and the Cabinet member responsible for Higher Education and Training. The National Institute for Higher Education (NIHE) in Mpumalanga and the NIHE in the Northern Cape have already been established. These institutes improve access to university education programmes by coordinating the delivery of university programmes in those provinces. During 2010/11 the department will explore the viability of a model for the NIHE as post-school institutes.

Include senior leaders of provincial governments in the review of the provincial equitable share

> *The National Treasury should consider the need to include senior leaders of provincial governments in the task team dealing with the comprehensive review of the provincial equitable shares formula to ensure that the views and concerns of provinces on the matter are taken on board and there is a common understanding by all stakeholders involved on how equitable shares are allocated.*

The National Treasury is consulting widely in the review of the provincial equitable share formula and will continue to do so through the Budget Council (consisting of the Minister of Finance and MECs for Finance) and through joint MINMECs (consisting of national minister responsible for a sector and MECs of that sector). Senior government officials from provinces and national government are and will be included in these consultations. Once agreement has been reached on the final structure of the new formula, the National Treasury will make information on how the shares are allocated available and make presentations to interested and affected parties.

Introduce a special grant to build capacity at genuinely poor municipalities

> *The National Treasury in conjunction with the national Department of Cooperative Governance and Traditional Affairs should conduct a study to identify all municipalities that are 100 per cent dependent on the conditional grants (and do not have any revenue base due to economic and other related circumstances and who are genuinely poor); and should develop support mechanisms to help them with funds and financial management skills so that they can be able to provide services to the community. National Treasury may want to introduce a special grant for such municipalities to achieve the same purpose mentioned here.*

It is agreed that there is a need to appropriately support municipalities with a weak fiscal base. The responsibility is therefore placed on national and provincial government to support and strengthen the capacity of municipalities to manage their own affairs. No municipality is fully (100 per cent) dependent on conditional grants, as all municipalities receive equitable share allocations commensurate to their service delivery responsibilities to poor households. Also, the institutional component of the equitable share makes provision for basic institutional and governance costs.

Concerns have been raised that the current local government equitable share formula does not appropriately cater for the funding needs of poorly resourced municipalities. The local government fiscal framework and equitable share formula are accordingly being reviewed to ensure that the funding needs of all municipalities, including poorly resourced municipalities, are adequately addressed. Various reforms have already been made to the local government fiscal framework to increasingly focus on the funding needs of poorly resourced municipalities, such as the introduction of a minimum *municipal infrastructure grant* to ensure that they are not unfairly penalised due to small population sizes. Further reforms are being explored by the National Treasury, in conjunction with the national Department of Cooperative Governance and Traditional Affairs, to support poorly resourced municipalities.

Any increased fiscal support to poorly resourced municipalities, however, will not have the intended benefits if these increases are not supported with complementary capacity interventions. The National Treasury has prescribed competency frameworks and relevant financial management qualifications, and introduced financial management and budget reforms.

Together with provincial treasuries, the National Treasury has also worked to ensure that appropriately capacitated staff are appointed in municipalities to undertake financial management and budget functions. The local government turnaround strategy has been introduced by the Department of Cooperative Governance and Traditional Affairs to address the current capacity constraints in municipalities. It is important that these interventions, reforms and frameworks are supported by the appointment of appropriate candidates into key positions and ongoing support to municipalities from the relevant provincial departments.

Treasury should engage with FFC and Statistics SA on data used in the equitable share formula

> *The National Treasury should engage the Financial and Fiscal Commission, Statistics South Africa and all relevant stakeholders entrusted with the responsibilities of compiling data used in determining the formula for the allocation of equitable shares to find a reasonable, fair and equitable way of updating data with specific attention to the fact that the South Africa's census that is conducted once in a decade becomes greatly outdated towards the end of a ten-year period results.*

The Minister notes and supports this recommendation. The National Treasury will engage the FFC, Stats SA and other interested parties on this matter. This will include exploring the possibility of using the results of the 2007 community survey in conjunction with the 2001 census and possible other credible data sources to inform the population, poverty and service delivery data that underpins the local government equitable share formula.

Standing Committee on Appropriations on the 2010 Division of Revenue

As required by both sections 9 and 10 of the Money Bills Amendment Procedure and Related Matters Act, the Standing Committee on Appropriations held public hearings with selected departments to support their budget proposals. These include the Departments of Health, Cooperative Governance and Traditional Affairs, Basic Education, Higher Education and Public Works. The FFC and National Treasury are invited to these hearings. The Committee provided a report on the Committee's perspective on the Division of Revenue Bill and recommendations to the House for consideration.

The Committee's report addresses the 2010 Division of Revenue and intergovernmental transfers, including:

- Conditional grants to provinces with respect to the education sector
- Conditional grants to provinces with respect to the health sector
- Public Works conditional grants
- Conditional grants to municipalities.

The Minister wishes to record his appreciation that, having noted the budget increase and the new government approach to outcome-based performance, the Committee recommended the adoption of the 2010 Division of Revenue Bill.

All recommendations made by the Standing Committee on Appropriations are noted and have been considered as part of this budget process, informed by priorities contained in the MTSF and departmental priorities. The division of revenue process requires that tradeoffs be made when deciding on how the national revenue will be divided between the three spheres of government and whether such funding will be directed through conditional grants or equitable share. The fiscal framework and the division of revenue on which the MTEF budgets are based are driven politically through MinComBud and submitted to Cabinet for approval. Provinces and organised local government are also consulted via the Budget Council and Budget Forum. The concluding recommendations, as adopted by the Standing Committee on Appropriations on 3 March 2010, are set out below, together with the response of the Minister.

Control of government expenditure

> *The overall expenditure of government at the end of the second quarter of each financial year needs to be at 50 per cent. This will most likely lead to improved quality of spending and reduce the level of unauthorised spending and fiscal dumping at the end of the financial year.*

The flow of government spending throughout the year depends on the timing of the rollout of projects and programmes. Most current expenditure items can be budgeted for on a monthly basis and divided evenly across the year. These include expenditures on wages and salaries, medicines, textbooks, fuel and so on. Elements of current expenditure such as the purchase of military equipment or large defence infrastructure, however, would occur once off and thus could not be spread over the year.

Compliance with the PFMA

> *National Treasury should monitor compliance with section 43 of the PFMA and report its findings to Parliament. The National Treasury must regularly engage Parliament on the Money Bills Amendment Procedure and Related Matters Act and the PFMA in respect of virements amounting to more than 8 per cent to avoid irregularities.*

The National Treasury consistently monitors compliance with section 43 of the PFMA. An accounting officer may shift funds between main divisions (i.e., budget programmes) not exceeding 8 per cent appropriated under the main division, with certain exceptions, without seeking Treasury approval. This is in keeping with the spirit and intent of the PFMA, which ensures that the onus of financial responsibility lies with the department. Shifts are disclosed to Parliament in the Adjustments Appropriations at the mid-point of the financial year and in the annual report. Shifts in excess of 8 per cent represent a significant change from the way the allocations are presented in the Appropriations Act; consequently, it is appropriate for Parliament to monitor these shifts more closely.

Guidelines for the shifting of funds

> *In the event that funds are shifted, the relevant departments should ensure that their budgets are aligned to their respective strategic plans and must be utilised for the intended purposes.*

The PFMA provides recourse against departments who are found guilty of excessive underspending and fiscal dumping in the form of wasteful expenditure. This government is spending more money on service delivery than any previous government. The fiscal consolidation and return to sustainability requires that the questions about value for money, efficiency of expenditure and optimal service delivery be examined and addressed. Areas of inefficient spending need to be saved or reappropriated to more critical projects that are new or underfunded.

Provinces should have detailed savings plans

> *Provinces should come up with detailed saving plans and promote value for money in their spending. In promoting transparency and accountability, provincial departments and parastatals should reflect their amount and areas of savings during their quarterly reporting.*

The Committee's endorsement that savings and value for money spending should be encouraged in provinces is appreciated and this initiative is already being implemented. Since the start of 2009/10, provinces have been required to produce savings plans and reprioritise any savings away from low-level priorities to higher-level priorities. The spending of provincial departments is closely monitored on a monthly basis and areas of saving are discussed between the National Treasury and provincial treasuries on a quarterly basis.

Review the scholar transport policy

> *The Department of Basic Education in conjunction with the Department of Transport should urgently review the scholar transport policy in addressing the challenge of learners walking excessive long distances to school. The portfolio committee on basic education should monitor this development very closely.*

This recommendation is noted and will be brought to the attention of MinComBud and the Cabinet members responsible for Basic Education and Transport.

Address overdraft facilities that consume grant funds

> *The National Treasury must facilitate discussions with the provincial treasuries and provincial departments of Cooperative Governance and Traditional Affairs to address a challenge of overdraft facilities that consume grant funds. A more coherent and coordinated approach in the management of conditional grants is required in ensuring prudent spending and achievement of the intended objectives.*

The Minister agrees that steps should be taken to prevent grant funds being used to pay the interest on municipal overdraft facilities, or to repay the funds withdrawn from such facilities.

The National Treasury has engaged with the provincial treasuries on the implementation of the intergovernmental cash coordinating (IGCC) project. Cash to provinces is distributed in line with a payment schedule determined by the National Treasury for the equitable share formula, and payment schedules for the conditional grants which are agreed to by the National Treasury and the relevant national department. The IGCC project will coordinate cash management through a single facility, which will enable National Treasury to provide incentives that encourage good cash management and reduce the transaction costs and risks associated with each province managing its cash reserves independently. It will also enable better monitoring of cash management at provinces by national government.

As with provincial government, the National Treasury has introduced, through the Division of Revenue Act, payment schedules for both the equitable share and conditional grants allocations of both national and provincial government to municipalities.

The National Treasury has also introduced new budget and reporting regulations that require municipalities to budget for conditional grants explicitly, and report on their use transparently. Municipalities are required to budget only for the grants as stipulated in the national and provincial gazettes. This will facilitate more effective monitoring of the implementation of the Division of Revenue Act, as the budgets will have to reflect exactly where the conditional grant funds are to be used. Furthermore, the grant frameworks require that only projects that have been thoroughly planned and that have been through the evaluation processes prior to the start of the year should be funded.

The in-year reporting requirements set out in the new budget and reporting regulations also provide for explicit reporting of how conditional grant funds are used. This means the National Treasury and the provincial treasuries will be getting more regular information on the application of conditional grant funds. In instances where municipalities are not spending conditional grant funds in accordance with the prescribed conditions they will be subjected to close monitoring to ensure that they do not use those funds for other purposes. The budgeting and reporting requirements set out in the new regulations will result in the problem being greatly reduced and eliminated over time.

Assessment of the conditional grants

> *The Committee recommends thorough assessment of the conditional grants by the national transferring officers in conjunction with National Treasury to determine their impact and the extent to which their intended objectives have been achieved prior to their termination. More consultation with, and oversight by respective parliamentary committees should be performed prior to the termination of conditional grants.*

The Minister acknowledges and welcomes this recommendation. National transferring officers responsible for a conditional grant that has been identified for termination will be required to undertake a thorough assessment of their non-financial performance prior to termination. More stringent oversight by respective parliamentary committees of the performance of these conditional grants is also supported.

Departments of Energy and Water and Environmental Affairs should address backlogs in water and sanitation at schools

> *As government terminates grants for backlogs in water and sanitation at clinics and schools, and the backlogs in electrification of clinics and schools, the departments of Energy and Water and Environmental Affairs should provide sufficient funding to address backlogs that still remain in the existing schools.*

This recommendation is noted and will be brought to the attention of MinComBud and the Cabinet members responsible for Energy, Human Settlements and Water.

Department of Health to reconsider its moratorium on vacancies

> *The Committee recommends that the Department of Health should reconsider its moratorium on vacancies and other outstanding issues which will eventually enable it to address capacity issues.*

This recommendation is noted and will be brought to the attention of MinComBud and the Cabinet member responsible for Health.