ANNEXURES

Three 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
- Annexure W3: Strengthening trade and investment links with Africa

A

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 by the National Assembly, through its committees, for assessing the performance of each national department before it introduces the national budget. 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.

The budgetary review and recommendation reports were tabled by the relevant portfolio committees in October and November 2013. Due to the large number of reports, a separate document will be tabled in Parliament with detailed responses to the portfolio committees' recommendations. In many cases, however, the different committees have made the same recommendations to a number of departments. These overarching concerns are summarised below.

General issues

- Recruitment and retention of skilled persons
- The urgent need to fill vacant posts, especially at senior management level and in critical or priority positions
- Departments should institute indicators and targets that are SMART – specific, measurable, achievable, realistic and time-bound
- Performance targets should be aligned with budgets and organisational structures
- Stricter adherence to the Public Finance Management Act (1999) and National Treasury regulations
- Supply chain management needs to be improved
- Departments must address concerns raised by the Auditor-General
- Improved cooperation across government
- Fraudulent or unethical behaviour should be eradicated
- Staff should be made accountable for unauthorised, irregular, fruitless or wasteful expenditure
- Departments' objectives must be aligned with the National Development Plan
- Internal audit functions and governance structures should be adequately capacitated
- The funding arrangements of government entities should be reviewed
- Financial management must be improved and unqualified audits ensured
- Policies should be developed for the procurement, use and monitoring of consultants
- Information and communications technology should be upgraded
- Issues raised in previous budgetary review and recommendation reports should be addressed
- Performance agreements should be in place for staff at all departments
- Mechanisms are needed to monitor and evaluate government programmes.

A number of committees also recommended that additional budget allocations be made available for certain programmes, sub-programmes or other budget items. Where these recommendations are supported by the relevant departments when weighed against other priorities, they will be taken into account in future budget discussions.

The following section comprises the Minister of Finance's response to the other committee reports. In cases where different reports make the same recommendations, these are not repeated.

Recommendations of the Standing Committee on Appropriations on the 2013 MTBPS

Education infrastructure

> *The National Treasury, in conjunction with the Department of Basic Education, should develop systems and mechanisms targeted specifically at enhancing the performance of schools infrastructure programmes such as the Accelerated Schools Infrastructure Development Initiative.*

The National Treasury is supporting the national Department of Basic Education to improve infrastructure delivery in the sector through the Infrastructure Delivery Improvement Programme (IDIP). The IDIP supports the development of management systems and the building of human-resource capacity to enhance infrastructure delivery. The Department of Basic Education is a strategic partner of the programme and it has received technical assistance. The IDIP is in the design stage of its fourth phase. It is engaging with the department on the most appropriate support mechanisms needed to sustainably enhance delivery and capacity within its infrastructure delivery system.

Further education and training colleges

> *The National Treasury should develop and implement mechanisms to ensure that baseline funding requirements are in place for the successful transfer of the further education and training colleges function to the Department of Higher Education and Training.*

The National Treasury agrees that baseline funding needs to be in place to ensure the successful transfer of the further education and training colleges from provinces to the Department of Higher Education and Training. This requires agreement between the nine provinces and national government on the shifting of funds, staff and assets, as well as formal consultation with the Financial and Fiscal Commission. Since 2010, the National Treasury has made extensive support available to the Department of Higher Education and Training, including through the Technical Assistance Unit, which completed a diagnostic report on the function shift. The National Treasury has also helped create a new conditional grant to ring-fence part of the funding for the function and has facilitated discussions with provincial treasuries through the Technical Committee on Finance.

A special committee, including provincial treasuries, will be established in 2014 to work with the heads of the Education Committee and the Council of Education Ministers to provide executive stewardship of the full funding shift of further education and training colleges on 1 April 2015 and adult education and training functions on 1 April 2016.

Expenditure reviews and grants

> *The National Treasury's announced programme of expenditure reviews include an assessment of the performance of direct versus indirect conditional grants.*

The National Treasury and the Department of Performance Monitoring and Evaluation are conducting a programme of expenditure reviews to examine spending in different sectors. Indirect grants that form part of a sector's funding will be examined as part of the expenditure reviews. The National Treasury is also managing the review of all infrastructure grants to local government. This will include a review of the relative performance of different forms of grants, including direct and indirect grants.

Service quality in employment programmes

> *The National Treasury develops and incorporates spending conditions in respect of the Community Work Programme and other employment programmes that stipulate minimum standards of service quality for those non-governmental organisations and service providers implementing the programmes.*

Using non-governmental organisations and other service providers to implement projects that fall within the Expanded Public Works Programme (such as the Community Work Programme) is an important part of the delivery model for public employment programmes, but it requires careful and constant oversight by the responsible departments. The National Treasury works on this and all other implementation issues with the Department of Public Works, the Department of Cooperative Governance and other departments involved with the Expanded Public Works Programme.

Quarterly expenditure reports

> *The National Treasury, in consultation with the Department of Performance Monitoring and Evaluation, includes performance on pre-determined objectives in its quarterly expenditure reports submitted to the Standing Committee on Appropriations.*

The National Treasury is committed to evaluating the impact of government expenditure and recognises the need to further develop existing methodologies for doing so. Where the impact of government interventions can only be measured after some years, the link between performance and quarterly expenditure information is tenuous. Moreover, the collection of performance information is typically more complicated than that of financial data, which means that there is often a lag between the two that makes it hard to reconcile them on a quarterly basis. Where possible, the current reports discuss the purpose and impact of the expenditure, but the primary function of the quarterly expenditure reports is to provide a detailed breakdown of appropriated funds, and to clarify how they are being spent throughout the year.

Devolving human settlements

> *The Ministers of Finance and Human Settlements develop and implement a capacity enhancement and support initiative specifically aimed at the successful devolvement of the human settlements function to the six metropolitan municipalities.*

The 2014 Budget includes a new conditional grant to fund the development of capacity to administer housing programmes in the six metropolitan municipalities assigned this function. The *municipal human settlements capacity grant* has an allocation of R900 million over the 2014 medium-term expenditure framework (MTEF) period and will be administered by the Department of Human Settlements.

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

Underspending and service delivery

> *The National Treasury should develop systems and mechanisms targeted specifically at ensuring that projected underspending does not compromise the service delivery performance targets.*

Projected underspending figures published with the budget are estimates of the funds that are unlikely to be spent before the end of a financial year. Common reasons for this underspending include delays in departments' work schedules due to, for example, adverse weather conditions, or the late submission of invoices. Departmental budgets are not reduced by these estimates, which means that departments can still access these funds should service delivery catch up with the original spending targets. The National Treasury examines departmental monthly and quarterly actual and projected spending data on an ongoing basis through its in-year monitoring system.

Rural households infrastructure grant

> *The National Treasury should consider re-scheduling the* rural households infrastructure grant *from a direct to an indirect grant.*

The *rural households infrastructure grant* funds the construction of on-site sanitation facilities in rural areas where reticulated sewerage is not viable. Following engagements between the National Treasury and the Department of Human Settlements about how the performance of this programme can be improved, the 2014 Division of Revenue Bill includes both direct and indirect allocations for this programme. About 60 per cent of the grant will be an indirect grant through which the Department of

Human Settlements will install infrastructure in weaker municipalities, while 40 per cent will be transferred as a direct grant to municipalities with better capacity to implement projects. The Department of Human Settlements will also be responsible for developing capacity in municipalities receiving the indirect grant so that they can implement projects themselves in future. This approach will ensure skills transfer and create an incentive for municipalities to improve their performance.

Emergency Call Centre

> *The Minister of Finance should engage with the Minister of Communications on the appropriate budget for the 112 Emergency Call Centre project given the persistent shifting of funds away from the project.*

Following a bilateral meeting, the two ministers noted the consistent underspending on the 112 Emergency Call Centre and agreed that its funding should be reprioritised towards the Digital Migration Strategy and broadband planning. These two programmes place significant pressure on the department's budget.

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

Costs of the public service

> *The escalating costs of compensation of public service employees and funds spent on consultants need to be brought under control as there is no correlation between these costs and the provision of services to the poorest of the poor and underspending.*

The National Treasury agrees with the committee. Spending on compensation of employees and consultants increased by an annual average of 12.6 per cent between 2008/09 and 2012/13, largely due to the introduction of the occupation-specific dispensation, higher wage settlements and a strong increase in public service employment during the economic downturn. Over the 2013 MTEF, expenditure on compensation of employees and consultants is expected to increase by an annual average of 6.2 per cent. However, as a percentage of total expenditure, spending on consultants and employees will fall from 35.4 per cent in 2012/13 to 34 per cent in 2015/16, while spending on other classes of expenditure will increase 1.1 per cent faster on average. The National Treasury will put mechanisms in place to monitor deployment of and spending on consultants to ensure that value for money is realised in this area.

Grant designs

> *Grant designs, capacity, monitoring and evaluation in government departments need to be improved on a continuous basis to ensure effective and efficient spending.*

This recommendation is supported. The National Treasury provides extensive support for grant design and monitoring. Departments that are considering a new grant are provided with technical guidance on how to design, manage and monitor conditional grants. For existing grants, annual workshops on the Division of Revenue Act are held with all national transferring officers to discuss changes to the act, how the different provisions work, and what levers are available to grant managers to carry out their mandates. The National Treasury meets with national departments every quarter to review performance and assist departments with compliance issues. It also conducts annual training sessions with provinces and national departments on how to compile a business plan. National departments have committed substantial resources within their departments to the administration and monitoring of conditional grants.

Proper costing of business plans

> *The business plans and strategic plans of departments should be properly costed. Departments should refrain from budgeting for programmes that they know they may not be able to roll out, as these funds could be allocated to other government functions. The National Treasury should ensure that there is compliance with credible budgeting within the various spheres of government.*

Government's annual budget processes are intended to ensure that all new plans are properly costed and that sufficient funds are available to sustain them before they are included in the budgets. The use of three-year MTEF budgeting at all levels of government means that projects must be budgeted for over a multi-year period and not just as a once-off appropriation. Government agrees that these principles should be applied rigorously during budget processes in all three spheres.

Roll-overs

> *The National Treasury should ensure that, when roll-overs are approved, there are also plans and capacity to spend the roll-over funds in addition to current allocations.*

The roll-over of funds from one financial year to another is generally permitted to allow departments to complete activities that they originally planned to finish before year-end, but were unable to do so due to unforeseen circumstances. The undertakings typically funded by the roll-over of funds are close to completion at the start of the financial year. Requests for the roll-over of funds are submitted to the National Treasury. The request's evaluation takes into account several factors, such as the department's current and historical spending performance, and whether the expenditure can be financed within the department's current budget. In the case of an institution with a poor spending performance history, roll-over funds are usually either not recommended, or recommended with the condition that the National Treasury will monitor departmental expenditure levels before making a final recommendation as to whether the roll-over should be approved or not. The National Treasury has provided guidance to municipalities on the roll-over processes and has instituted measures to give certainty that funds would be correctly used, including evidence that work on relevant projects has started and the submission of progress reports.

Withholding of funds

> *The National Treasury should ensure that withholding of funds is used as a last resort when all efforts (to support and enforce compliance) have been exhausted. Government should ensure that action is taken against officials when withholding of funds is due to non-compliance or dereliction of duty.*

The National Treasury agrees with this recommendation. The Division of Revenue Act asserts that the National Treasury and the national transferring officer should follow certain processes before funds are withheld. Government engages with provinces and municipalities, giving them the opportunity to present their position and indicate remedial actions implemented to prevent reoccurrence. It should be noted that conditional grants are only withheld subsequent to an extensive consultation process between the National Treasury, the national transferring officer and the province or municipality.

Failure to spend

> *The National Treasury should ensure that failure to spend is not regarded as savings since this might encourage underspending in some cases.*

The National Treasury undertakes to use the term "savings" only when referring to situations in which the planned outcomes are achieved at a lower cost than originally budgeted for. Situations where there is a failure to spend is called underspending. When the latter occurs, the National Treasury provides support to improve the performance of the programme. Where this is unsuccessful, consideration may be given to reprioritising some of the unspent funds towards other areas.

Conditional grant for municipal restructuring

A transitional conditional grant should be made available for the 2014/15 and 2015/16 financial years to municipalities that will be impacted by the re-demarcations to be introduced from the next municipal elections, to enable these municipalities to undertake the necessary preparatory work towards this restructuring.

The Municipal Demarcation Board has indicated that several municipalities will be merged after the 2016 local government elections. National and provincial governments have a responsibility to help municipalities manage this technically complex process successfully, with minimum disruptions for residents. In the two provinces most affected by mergers (Gauteng and KwaZulu-Natal), the provincial governments are already working with the affected municipalities to help them plan for the mergers. At a national level, the response is being coordinated by the Department of Cooperative Governance and a forum has been set up, chaired by the department, with representatives from the National Treasury and the South African Local Government Association. This team will examine the issues involved and make recommendations on further support needed, including whether specific financial support needs to be given to some or all of these municipalities to assist them with the costs of these mergers.

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 2013 MTBPS

Value for money

Government should ensure that growth in expenditure translates into a better life for all so there is value for the money spent.

As in previous budget processes, the 2014 MTEF budget process sought greater efficiencies to ensure that service delivery remains protected and that more is achieved with the current level of financial resources. The 2014 Budget publications provide comprehensive information on how budget resources are generated and how institutions plan to spend these resources, including what service delivery will result from this spending, to demonstrate how value for money will be achieved. In addition, any funding allocated through an Appropriation Act is subject to the provisions of the act itself, which states that funds need to be spent in accordance with the purposes specified. Spending is also subject to the provisions of the Public Finance Management Act, through which the accounting officer of a department, trading entity or constitutional institution is charged with ensuring the effective, efficient, economical and transparent use of the resources of the department, trading entity or constitutional institution at all times. Departments are continually tasked with assessing the aim, purpose and effectiveness of programmes and public entities, and whether outcomes and outputs can be attained at a lower cost.

Spheres of government

National and provincial spheres of government should, in terms of section 154 of the Constitution, continue to support and strengthen municipalities to manage their own affairs and also fulfil their constitutional mandates.

In fulfilling these requirements, government has institutionalised a number of programmes to support municipalities in discharging their own mandates. The National Treasury, in consultation with all provincial treasuries and the Department of Cooperative Governance, has developed programmes to monitor municipal financial performance and help municipalities focus on critical factors in financial management, governance, transparency and accountability. Capacity-building initiatives include the following:

- The *municipal systems improvement grant* provides funding to all non-metropolitan municipalities to help them implement their local government turnaround strategies.
- The *local government finance management grant* funds the modernisation of financial management and implementation of the Municipal Finance Management Act (MFMA) (2003).
- The *infrastructure skills development grant*, introduced in 2012, places interns with technical skills in well-capacitated municipalities for a two-year period. They then complete their internship at municipalities that are struggling to attract skilled labour.
- The *municipal finance improvement programme* focuses on capacity building in various financial management disciplines and attempts to address gaps in the implementation of the MFMA.
- The *city support programme* responds to requests from metropolitan municipalities for an integrated programme of assistance to address challenges in transforming their built environments. Although this programme is coordinated nationally, cities are seen as the drivers and the City Budget Forum is the institutional arrangement for the cities' participation and engagement.

Payment schedules

> *The National Treasury should, where applicable, stipulate payment schedules when the Division of Revenue Bill for 2014/15 is presented.*

Although it is possible to provide high-level details of the payment dates (contained in the conditional grant frameworks that form part of the annual Division of Revenue Bill, which is presented to Parliament), it is not possible to provide detailed payment schedules for each grant when the bill is presented to Parliament. Grant allocations to provinces and municipalities are contained within the voted funds of national departments and require detailed planning with the chief financial officer of each department, the programme managers who are responsible for each grant, the provincial and municipal receiving officers, their chief financial officers and each programme manager. Cash flow planning takes place after the tabling of the Budget, because any submissions made before that will likely be of poor quality and not agreed to by all stakeholders. The National Treasury notes the recommendation and would be able to provide reliable payment schedules to the committee on or before 31 March for provincial transfers and on or before 30 June for municipal transfers.

Unfunded mandates

> *To avoid incidences of unfunded mandates and challenges with accountability, allocation of funds should follow functions and capacity to perform such functions should be ascertained before devolution of such functions.*

The principle that funds follow functions is one of the most important components of the intergovernmental fiscal system. The Financial and Fiscal Commission Act (1997) enshrines this principle in law and sets out the steps that must be taken to ensure that any function shift is accompanied by a fair transfer of resources. In summary, the act requires that the Minister of Finance must first agree to any function shift before it is submitted to the Financial and Fiscal Commission for an independent assessment of its impact and the adequacy of financial transfers proposed to accompany the function shift. If these steps are not followed then a function shift is legally invalid.

Ensuring that the government sphere taking over the function has the appropriate capacity requires careful planning, because it is difficult and expensive to build capacity for a function before an organisation has the legal responsibility for it. A phased approach to functional transfers can help with this, as can capacity and financial support. In the case of the devolution of the human settlements function to six metropolitan municipalities, the importance of this recommendation is recognised in the decision to provide these cities with a *municipal human settlements capacity grant* from 2014/15 to fund their operational costs in building capacity to administer the function.

Support for municipalities

> *The National Treasury, in terms of its legal obligations and in collaboration with provincial treasuries, should continue to monitor and support municipalities to ensure that they budget adequately for infrastructure repairs and maintenance.*

Over the past six years, the National Treasury has established two annual strategic engagements with the 17 municipalities whose finances it monitors directly: a mid-year budget and performance review, and a budget benchmarking exercise to assess budgets, financial management and service delivery performance. The municipalities that take part account for over 70 per cent of total municipal budgets. Provincial treasuries replicate the same engagements with the municipalities they are responsible for monitoring. Among other things, these engagements aim to determine whether municipalities have budgeted adequately for repairs and maintenance. The recommended ratio is currently 8 per cent of total operating expenditure.

In the 2011 *Local Government Budgets and Expenditure Review*, the National Treasury highlighted the magnitude of repairs and maintenance and renewal backlogs that exist in municipal infrastructure, particularly electricity, water reticulation, sewerage, storm water and roads systems. These backlogs are affecting the financial sustainability of municipalities, the reliability and quality of their services, and their contribution to economic growth.

Provincial infrastructure

> *The National Treasury should ensure that, at the provincial sphere, allocation of funds follows functions relating to maintenance, repairs and replacement of infrastructure.*

The National Treasury and sector departments have undertaken extensive work to ensure that provinces are capacitated to map the infrastructure delivery cycle, which includes planning and making provision for infrastructure maintenance, repairs and replacement. The reforms being introduced to the health and education infrastructure grant systems are intended to achieve better value for money from investment in provincial infrastructure by institutionalising proper planning, budgeting and delivery of infrastructure.

Provincial expenditure

> *The National Treasury should monitor and support provincial treasuries to improve on their projections and expenditure controls.*

The National Treasury monitors and supports provincial treasuries to, among others, improve their projections and expenditure controls. Annual budget benchmarking exercises take place between the National Treasury and each provincial treasury to assess the budget, financial management and service delivery performance information of the province. The National Treasury also provides individualised support to provincial treasuries through in-year monitoring of budget performance. Technical and political feedback on provincial budget performance is also provided in various forums, such as the Technical Committee for Finance and the Budget Council.

Grant reductions

> *The National Treasury should ensure that the reduction of allocations to certain grants does not compromise service delivery.*

The decision to reduce conditional grant allocations is primarily informed by persistent underspending on these grants. As part of the National Treasury's oversight role towards provinces and municipalities, it regularly monitors expenditure on conditional grant allocations. In cases where provinces and municipalities underperform, the National Treasury takes appropriate steps, including channelling funds to areas where they are urgently required. This is one of the measures that the National Treasury has established to remedy fragmented service delivery in some provinces and municipalities.

Recommendations of the Standing Committee on Finance on the 2013 Revised Fiscal Framework

Education headcount project

The National Treasury should assess value for money, efficiency and effectiveness of all education-related investment. Such assessment should include roll out of headcount project piloted in Limpopo Province to the rest of the country.

The National Treasury agrees that the headcount project piloted in Limpopo should be extended to other provinces to assess value for money, efficiency and effectiveness of education spending. The phased rollout to other provinces has already started.

Alignment with the National Development Plan

The National Treasury should assist with the implementation of the National Development Plan, and ensure that the departments align their strategic plans, annual performance plans, sector plans, delivery agreements and budgets with the priorities and strategic objectives articulated in the National Development Plan.

This recommendation is strongly supported by the National Treasury, which is already working with departments to ensure that the objectives of the National Development Plan inform their strategic plans.

Regulatory environment

One of the factors that led to South Africa's economic growth lagging that of the emerging market economies could be the regulatory environment. The National Treasury should consider using a regulatory impact assessment mechanism to better assess the impact of regulation on small, medium and micro enterprises.

The National Treasury and the Presidency worked together to implement regulatory impact assessments from 2007 until 2009, when this responsibility was taken over primarily by the Cabinet Office in the Presidency, with the National Treasury providing technical support where necessary. In 2010, the Economic Development Department became responsible for economic impact assessments of policy. Although the National Treasury remains committed to limiting the unnecessary regulatory burden on small, medium and micro enterprises, it must work within its mandate, which does not include the right to request impact assessments from line departments. That mandate is currently held by the Cabinet Office.

African growth

The National Treasury should engage Business Unity South Africa in analysing the studies made that contrasts the key drivers of economic growth in Africa. Furthermore, there is a greater need for interventions in terms of taking investment opportunities in the African continent.

The National Treasury agrees with this recommendation and will seek a meeting with Business Unity South Africa in the near future. Annexure W3 of the *Budget Review*, entitled "Strengthening trade and investment links with Africa", contains information regarding South Africa's investment strategy for the African continent.

Cost-containment measures

Government, through the National Treasury, should within the next two months provide clear mechanisms that will be used in dealing with the planned cost-containment measures, add more measures where necessary and adapt the further announced ones when practically necessary.

The National Treasury Instruction 01 of 2013/14, which took effect on 1 January 2014, provides details of the cost-containment measures to be adopted by all departments, constitutional institutions and public entities.

The Jobs Fund

The National Treasury should provide Parliament with progress made with regards to the R9 billion Jobs Fund allocation for the employment creation programme launched by the Minister of Finance on 7 June 2011.

Since its inception, the Jobs Fund has run three calls for proposals, with the third call currently being finalised. Over the first two calls for proposals, 66 projects were approved with a total grant value of R3.48 billion. With the leveraged funds from project partners, the total value of job creation projects approved by the Jobs Fund stands at over R6.1 billion.

During the contracting process, targets for each project are agreed and finalised in line with the Jobs Fund's six programme indicators against which every project must report. The current portfolio of contracted projects targets the creation of 96 102 new, permanent jobs over the next three years. These are jobs that would not have existed without the Jobs Fund intervention. In addition, projects will place 48 933 individuals into existing, vacant jobs by providing training and placement services.

The ability to leverage funding from project partners and the innovative nature of many of the Jobs Fund initiatives has resulted in relatively low average grant costs to create a new, permanent job. This currently stands at R34 862.

Contingency reserve

The National Treasury should report to the House on the approach to the allocation of the contingency reserve in the light of the allocation of the full R4 billion reserve in this year's MTBPS.

Government allocates a contingency reserve to fund unforeseen and unavoidable spending pressures not included in the baseline. Following an analysis, which confirmed that unforeseen and unavoidable expenditure adjustments averaged R4 billion over the past five years, the decision was made to reduce the contingency reserve. Given government's commitment to maintain spending within previously announced limits, additional allocations are financed by drawdowns on the contingency reserve and savings realised in existing departmental budgets. Of the R4 billion contingency reserve in 2013/14, R2.4 billion was used to finance salary adjustments. The remainder of the contingency reserve was used to finance roll-overs, and unforeseen or unavoidable additions.

Budget deficit measure

The National Treasury should submit to the House a report on the recalibration of the budget deficit measure and include a comparison of the approach in other countries.

The International Monetary Fund's *Government Finance Statistics* manual (2001) requires that extraordinary receipts and payments are reported above the line, which means that they should be brought into the budget framework. This approach is used by many developed and emerging market economies. In line with this global standard, the South African government has brought extraordinary receipts and payments into the budget framework. This category includes receipts related to transactions on loans and similar items with a direct effect on the borrowing requirement. As Table A.1 shows, the inclusion of extraordinary receipts and payments in the budget framework results in a narrower budget deficit in 2013/14. It also means that there is no longer a difference between the main budget deficit and the borrowing requirement.

Extraordinary transactions and the budget deficit, 2010/11 – 2016/17

R billion	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Budget deficit excluding extraordinary transactions	**-120.9**	**-117.4**	**-150.4**	**-151.1**	**-155.9**	**-151.9**	**-130.3**
Percentage of GDP	*-4.4%*	*-3.9%*	*-4.7%*	*-4.4%*	*-4.1%*	*-3.7%*	*-2.9%*
Extraordinary receipts	3.0	5.2	11.9	11.8	2.9	1.6	3.4
Extraordinary payments	-0.8	-1.4	-2.6	-0.5	0.0	0.0	0.0
Budget deficit including extraordinary transactions	**-117.1**	**-110.8**	**-135.9**	**-138.8**	**-153.1**	**-150.3**	**-126.9**
Percentage of GDP	*-4.3%*	*-3.7%*	*-4.3%*	*-4.0%*	*-4.0%*	*-3.6%*	*-2.8%*