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 performance on service delivery 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 2016. 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 development finance institutions to meet the goals of the National Development Plan (NDP).
- Strategies should be developed to expedite the settlement of land restitution claims given the programme's significant funding.
- There needs to be a funding framework that encourages the efficient use of public resources through prudent financial management by departments and entities.
- A long-term funding solution should assist departments with losses caused by foreign currency exposure.
- Additional funding should be provided and steps taken to counter the effects of drought on the agricultural sector.
- The need to fill critical posts for departments and entities.
- Consideration should be given to producing the BRRRs earlier.
- Funding arrangements for certain programmes need to be reviewed.
- A review of the infrastructure grants framework is needed.
- 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 for 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 new 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 2016 MTBPS

Identification of programmes at risk with regards to budget execution

The Minister of Finance should ensure that the National Treasury, in partnership with the Department of Planning, Monitoring and Evaluation (DPME), develops systems and mechanisms targeted at identifying those programmes and spending areas that are most at risk with regards to budget execution. These identified programmes and spending areas are to be submitted to the committee.

The DPME is leading government's effort to evaluate programmes. The National Treasury works closely with the DPME to identify programmes and spending areas that are at risk in respect of budget execution. A full presentation will be available for the committee's consideration during the course of 2017.

Guidelines to contain personnel costs without affecting service delivery

The Minister of Finance should ensure that the National Treasury, in partnership with the Department of Public Service and Administration (DPSA) and the DPME, develops comprehensive cost-containment guidelines targeted at national and provincial departments of education and health, ensuring that posts for critical staff are protected in relation to service-delivery requirements, payroll management is effective, and that all districts have costed human resource plans and innovative methodologies to contain costs without compromising service delivery.

Departments have prepared human resource budget plans indicating critical posts that have to be funded. Mechanisms for exiting non-critical posts such as employee-initiated severance packages are available within the current public service regulations, to implement where necessary. In some provinces, premiers' offices have taken control of payroll management. Provinces have been encouraged to budget adequately for health personnel, particularly for occupation-specific dispensation posts. Provinces have imposed restrictions on filling vacant posts, requiring all appointments, excluding health and education critical posts, to be approved by both the provincial treasury and the office of the premier.

The National Treasury agrees with the need to identify and protect critical posts, especially in areas where access to healthcare is already limited. In principle, the National Treasury believes that the prioritisation of posts is best done locally, and will continue to engage with the Department of Health and the Department of Education, and provincial treasuries, to find ways to manage budget pressures and to provide guidance on the best approach for critical posts in the context of constrained budgets.

The Minister of Finance and MECs for Finance have agreed that health service staff should be protected while containing administrative personnel expenditure. Only new vacant posts in health and education not budgeted for (particularly for new facilities) need the approval of the provincial treasuries and offices of the premier, because additional funding may be required. This will ensure that provinces keep to the set expenditure ceilings without negatively affecting service delivery.

Aligning resource planning with the NDP

The Minister of Finance should ensure that the National Treasury develops and publishes a long-term fiscal report that spans the timeframes outlined in the NDP. This will assist the country in aligning resource planning towards long-term fiscal sustainability.

The National Treasury agrees with this recommendation. The intention is to expand the Fiscal Risk Statement (to be published as part of the 2017 MTBPS in October) to include more detail on the long-term fiscal outlook. As suggested by the committee, this will span the timeframes outlined in the NDP.

The impact of infrastructure projects on communities

The Minister of Finance should ensure that the National Treasury, in partnership with Statistics South Africa and the DPME, develops indicators that will assist national and provincial departments and state-owned entities to track the impact of infrastructure programmes on communities, including jobs and economic participation. These should assist in detecting challenges early to allow for rapid remedial response.

The National Treasury agrees to a coordinated approach with Statistics South Africa and the DPME to improve the indicators used to track the impact of service delivery related to infrastructure. Statistics South Africa has established a system with readily available data based on community surveys and other statistics that it collates and reports. Well-designed monitoring frameworks should include performance indicators at input, activity, output and outcome levels to ensure that departments are able to monitor progress on policy objectives. The National Treasury will continue to support departments and public entities in refining monitoring frameworks to ensure that government objectives are consistently tracked and reported.

Outreach programmes on the use of reporting systems

The Minister of Finance should ensure that the National Treasury, in partnership with the DPME, embarks on education outreach programmes to all departments and state entities on the use and access to rich datasets contained in the prevailing systems of government such as, though not limited to, the Basic Accounting System and PERSAL.

A National Treasury survey on the use of systems for reporting purposes found that a high percentage of the sampled respondents did not know how to use reporting systems such as the Vulindlela Management Information System. This system provides access to the datasets contained in all the transversal transactional systems of government. Departments tend to use the Basic Accounting System, which is the main transactional system, for reporting. Budgets allowing, departments would benefit from extending their use to include the rest of the available systems for their reporting.

The move to an integrated financial management system will have a long-term effect. Implementing the system will require substantial adjustments and the retraining of data users, which will provide an opportunity to educate users and managers on the use of data from the various financial systems.

Growth-enhancing initiatives

The Minister of Finance should ensure that the National Treasury and the DPME, together with relevant stakeholders, cascade best practice in economic growth-enhancing initiatives and partnership models such as the Invest SA One Stop Shop, the CEO Initiative and the Presidential Business Working Group to provincial and local spheres of government.

An extensive programme of engagement with local and provincial government on the ease of doing business is under way. It includes work with the Department of Trade and Industry, the Government Technical Advisory Centre and the World Bank to disseminate best practice on how local government should work. The Department of Trade and Industry is the lead department in the Invest SA One Stop Shop initiative. The National Treasury is ready to support it in any way possible. The CEO Initiative has focused on national programmes. The National Treasury will share lessons learnt with the other spheres of government. A report on the suggestions from business will be shared with the Department of Cooperative Governance and Traditional Affairs for dissemination.

Instruction note on cost containment for major infrastructure projects

The Minister of Finance should ensure that the National Treasury considers formulating and developing cost-control instruction notes for all major infrastructure programmes of government, similar to the newly developed cost-control instruction notes governing school construction.

The Office of the Chief Procurement Officer issued an instruction note in 2015. The note gave effect to cost-control measures for the construction of new primary and secondary schools and the provision of additional buildings at existing schools. The Office of the Chief Procurement Officer also published the Standard for Infrastructure Procurement and Delivery Management in November 2015, which became effective on 1 July 2016. The standard sets out a procurement framework for the planning, design, execution, tracking and monitoring of infrastructure projects. The office continues to consider similar interventions to improve efficiency and control measures where necessary.

Cost-containment measures for foreign missions

The Minister of Finance should ensure that the National Treasury considers formulating and developing special cost-control instruction notes for all foreign missions and immediately embarks on a comprehensive reprioritisation drive in South Africa's foreign missions.

The National Treasury will issue an instruction note to departments operating foreign missions. During the 2017 Budget process, the National Treasury has engaged with the Department of International Relations and Cooperation on the possible rationalisation of foreign missions and related costs. Over the medium term, the department has committed to implementing various initiatives, such as rescheduling existing foreign infrastructure projects, reviewing the foreign service dispensation, reducing voluntary membership fee contributions, and rationalising locally recruited personnel in foreign missions. Consequently, R183.6 million will be reprioritised from various goods and services items and payments for capital assets over the medium term.

Enhancing financial management capacity in departments and entities

The Minister of Finance should ensure that the National Treasury, together with the DPME, the Auditor-General of South Africa and relevant partners, strengthens targeted training and other capacity-enhancing initiatives aimed at those departments and state-

owned entities that are at risk in the areas of supply chain management, financial management, monitoring and evaluation functions, bolstering the internal control environment and internal audit functions.

The Capacity Development Strategy for Public Financial Management seeks to address the capacity constraints of the state in an integrated and holistic manner. The implementation of the strategy includes the design, development and piloting of various education and training solutions across government. Select programmes will become mandatory in an effort to develop generic core competencies. A public financial management portal has been designed and is being implemented to provide a platform for knowledge and information sharing, networking and learning. Relations with the relevant sector education and training authorities are being strengthened to ensure strategic alignment, funding and delivery of priority programmes. A draft business case on professionalising financial management and a draft framework for financial management education and training have been developed for consultation.

Introducing cost-containment targets into resource planning

The Minister of Finance should ensure that the National Treasury, in partnership with the DPME, considers the inclusion of comprehensive cost-containment targets in resource planning and budgeting frameworks to ensure enhanced emphasis of cost-containment principles in the implementation of government programmes.

The National Treasury agrees with the recommendation. It included a requirement in the 2017 MTEF guidelines that all national and provincial departments indicate and quantify their cost-containment initiatives when preparing budgets. The DPME is evaluating departmental planning processes and the effectiveness of the framework for strategic plans and annual performance plans.

Incorporating risk assessment in budget performance reports

The Minister of Finance should ensure that the National Treasury considers the inclusion of quarterly risk assessment reports in quarterly budget performance reports submitted to Parliament.

The National Treasury submits quarterly expenditure reports to Parliament and the analysis includes all the risks associated with under and overspending. The DPME, as the department responsible for budget performance reports, should develop a performance reporting framework and coordinate reporting on risk.

Rollout of basic social infrastructure to the poor

The Minister of Finance should ensure that the National Treasury considers formulating and developing innovative measures to minimise unit connection costs in rural areas while continuing the rollout of basic social infrastructure in the poorest and most vulnerable rural communities.

The norms and standards for delivering services to all households are determined by departments, ensuring that they consider the cost implications and trade-offs involved. In electrification, water and sanitation, this often means the trade-off between connections to infrastructure networks versus on-site solutions where there are no economies of scale to justify the costs relative to the benefits. Continual monitoring and feedback on the implementation of the national electrification programme (including non-grid connections) provides lessons for improving the provision of sustainable options for poorer communities.

Improving the management of government property

The Minister of Finance should ensure that the Office of the Chief Procurement Officer, together with the Department of Public Works and all relevant stakeholders, speedily revamps systems for the effective management of government property.

The Department of Public Works has embarked on several initiatives to facilitate improvements in the management of government property. The department, through its Property Management Trading Entity, is finalising and verifying its asset register, which has begun to provide a more accurate account of the number of buildings or immovable assets in its portfolio. The trading entity has developed a user-charge model, which will enable the department to determine the real costs of providing government accommodation.

The Office of the Chief Procurement Officer, together with the Property Management Trading Entity, did a comparative analysis in 2015/16 of rentals paid by government versus market-related rentals. The sector has also been made aware of the reforms on procurement as well as government's implementation of a new framework for leasing procurement. Talks have started with holders of large portfolios and landlords to renegotiate leases. A new property empowerment policy is being developed and a property management and leasing framework has been developed. The standard for leasing and letting for the public sector is expected to be issued by 1 April 2017 for use across government.

The National Treasury will continue to support the Department of Public Works and the Property Management Trading Entity in their work to introduce more effective and efficient asset management practices that could unlock the vast and underexploited economic potential in government's immovable asset portfolio.

Earmarking of funds for early childhood development programmes

The Minister of Finance should ensure that the National Treasury puts in place measures to ensure that funds earmarked for early childhood development (ECD) programmes are used only for that specific purpose and prioritise emphasis on the quality of the programme directed at concrete efforts at foundational learning and teaching.

Provincial departments of education are responsible for the delivery of Grade R. Provincial departments of social development are responsible for ECD for children aged 0-4 years old. Each provincial department of education and social development has an ECD budget programme that funds components of ECD. Provincial treasuries have an oversight role and monitor spending on a monthly basis and link spending to the objectives.

The new *early childhood development grant* coming into effect in 2017/18 will enable the Department of Social Development to ring-fence funds for the expansion of ECD and to facilitate compliance with the National Integrated Early Childhood Development Policy. Provinces will not be able to use conditional grant funding to replace funding for items that they have previously allocated to ECD subsidies. This ensures that any investment provinces have made in ECD in the past remains within the ECD budget. If a child is subsidised in one year, the place that child holds will continue to be subsidised indefinitely – the number of children subsidised will not decrease. Part of the Department of Social Development's responsibilities under the new conditional grant will be to develop a standardised reporting framework and monitoring tool for the grant and to take appropriate action in cases of non-compliance with the conditional grant framework.

The importance of inclusive economic growth

The Minister of Finance should ensure that the National Treasury and all relevant stakeholders develop and roll out a detailed programme identifying all factors needed for the attainment of inclusive growth and incorporate these into dialogues with legislatures, departments and other role players so as to outline concrete steps that need to be taken and to emphasise the importance of inclusive economic growth as a necessary condition to support radical social and economic transformation.

The National Treasury is developing a detailed plan for these key factors, which it will share with the National Planning Commission, the DPME, the Department of Cooperative Governance and Traditional Affairs, the Department of Trade and Industry and the Department of Economic Development for careful consideration to inform the development of inclusive growth strategies.

Timely payment of teachers and nurses

The Minister of Finance should ensure that the National Treasury puts in place measures to ensure that payments for personnel in critical positions such as teachers, nurses and all other school and hospital staff are timeous and adhere to agreed employment contracts. No teacher or nurse should be unpaid following the rendering of services.

The government relies on a payroll and personnel management system called PERSAL. The system is well maintained and programmed to release payments to staff promptly. Provinces have to ensure that correct and adequate information is captured on the system on time. There are specialised units within the National Treasury, the DPSA and the State Information Technology Agency that ensure that PERSAL is working well to avoid non-payment of staff.

Social and behavioural change programmes to reduce non-communicable diseases

The Minister of Finance should ensure that the National Treasury, together with the Department of Health, considers ways of leveraging resources within available funds for the provision of social and behavioural change programmes. This will highlight the importance of good nutrition, especially in children and poor communities, so as to reduce the prevalence of non-communicable diseases. This should have a positive effect on quality of life trajectories of children, especially in rural and disadvantaged communities.

The Minister of Finance announced in the 2016 Budget the decision to introduce a tax on sugar-sweetened beverages to address obesity and the non-communicable disease burden in South Africa. The National Treasury is committed to working with the Department of Health to support initiatives alongside the sugar tax to decrease the incidence of obesity and non-communicable diseases. Decreasing the public's preference and demand for unhealthy food products through education, and detecting and preventing non-communicable diseases, are critical to reducing obesity. The Department of Health's integrated school health programme promotes healthy habits among school children.

Reprioritisation of funds within the Department of Communications

The Minister of Finance should ensure that the National Treasury, together with the Department of Communications, embarks on a comprehensive reprioritisation programme within the Department of Communications' portfolio so as to realise efficiencies and leverage savings towards the funding of the Department of Communications in the areas of basic office infrastructure and critical personnel support services and critical programmes such as the digital terrestrial television project.

The Department of Communications and the National Treasury have embarked on a reprioritisation exercise to fund critical personnel support services and the digital terrestrial television project. As a result, R32 million has been reprioritised from the transfer payments to the South African Broadcasting Corporation over the medium term. The National Treasury, the Department of Communications and the Department of Public Works are looking at the accommodation requirements for the Department of Communications to determine the funding requirements for office accommodation.

Improving efficiency and effectiveness of spending on post-school education

The Minister of Finance and the Minister of Higher Education and Training should ensure that the National Treasury and the Department of Higher Education and Training consider the following to ensure efficiency, effectiveness and value for money in the post-school sector given the very significant funding expansions proposed:

- *Embarking on a comprehensive budget reprioritisation programme in all sector education training authorities for maximum outlays towards training and supporting learners, artisans, apprentices and students.*
- *That the Office of the Chief Procurement Officer conducts a comprehensive review of major costs drivers within the post-school sector and all state entities in the post-school sector.*

Most of the highlighted items are tasks that are best undertaken by the Department of Higher Education and Training and the relevant public entities and institutions. For example, the department's Sector Education and Training Authorities Coordination Unit in the Skills Development Branch should drive the budget reprioritisation process in conjunction with the boards of the training authorities. The National Treasury is prepared to assist the department.

The Office of the Chief Procurement Officer will support the department on the best procurement approaches once it submits a request to the National Treasury for help with the review of major cost drivers in entities in the post-school sector.

Recommendations of the Standing Committee on Appropriations on the 2016 Adjustments Appropriation Bill

Linking financial and non-financial information in expenditure reports

The Minister of Finance and the Minister of Planning, Monitoring and Evaluation should ensure that the National Treasury and the DPME consider developing and implementing systems for the compilation of consolidated quarterly reports combining financial and non-financial performance and present these jointly to the committee.

The National Treasury is reviewing the formats of the monthly and quarterly reports and will involve the DPME in the review process.

Alignment of budget and strategic planning within the National Treasury

The Minister of Finance should ensure that the National Treasury aligns and enhances its budget planning and strategic planning function to ensure that annual performance plans align with programme budget allocations.

The National Treasury recognises the importance of coordinating and integrating planning, budgeting, implementation and monitoring functions. It continues to strengthen strategic planning and budgeting mechanisms. It works closely with the DPME to improve strategic planning capabilities within government and ensure that the sequencing of planning and budgeting is aligned, and performance reporting is enhanced to promote evidence-based decision making.

The filling of critical vacant posts within the National Treasury

The Minister of Finance should ensure that the National Treasury fills all critical vacant posts timeously.

The National Treasury has frozen all unfunded vacant positions as part of its cost-containment measures. To ensure that service delivery is not negatively affected by this decision, a recruitment committee chaired by the Director-General was established. This committee meets regularly to assess all current vacancies and approve critical posts that need to be filled urgently. All the approved critical posts have been filled promptly, with a turnaround time of between four and five weeks, and a vacancy rate of 1.5 per cent as at 31 December 2016.

Recommendations of the Standing Committee on Appropriations on the 2016 Division of Revenue Amendment Bill

In-year revision of conditional grant frameworks

The Minister of Finance should ensure that the National Treasury effects the proposed corrections to the conditional grant frameworks that were submitted together with the bill, in accordance with section 16(4) of the Division of Revenue Act (2016).

The corrections were implemented as recommended by Parliament.

Recommendations of the Select Committee on Appropriations on the 2016 Division of Revenue Amendment Bill

The impact of reducing the bucket eradication programme grant

The National Treasury, in collaboration with the Department of Water and Sanitation, should provide further details to the committee on the municipalities and specific projects that will be affected by the reduction of the bucket eradication programme grant, as well as future plans for those projects.

Municipalities with reduced indicative allocations were allocated funds in the 2016 Budget to account for these reductions. In some cases, the projects will cost less than expected by the end of 2016/17, allowing the funds to be shifted to projects elsewhere. Furthermore, there have been delays due to changes in the scope of work and technical challenges, such as the need to upgrade bulk supplies or drill through more rock than anticipated. In these cases, it will not be possible to spend the planned amounts in 2016/17, so the funds are reprioritised to other projects where they can be spent. The bucket eradication projects not completed by the end of 2016/17 will be funded and completed through the *water services infrastructure grant* and the *regional bulk infrastructure grant* in 2017/18. Details of which projects in each of these grants are supporting the completion of bucket eradication projects will be provided to Parliament during hearings on the 2017 Division of Revenue Bill.

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 2016 MTBPS

Monitoring of spending on capital projects

The National Treasury should closely monitor spending on capital projects as well as provide guidance and support to sector departments and municipalities.

The recommendation is supported. The National Treasury and sector departments provide extensive support for grant design and monitoring. In addition, the Municipal Infrastructure Support Agent and sector departments have undertaken extensive work to ensure that municipalities have the capacity to map the infrastructure delivery cycle, which includes planning and making provision for infrastructure maintenance, repairs and replacement.

Review of the provincial equitable share formula

The National Treasury should ensure that the review process of the provincial equitable share formula, where applicable, factors in some of the concerns raised by provinces.

The recommendation is supported. The formula is being reviewed to determine whether its components remain responsive to the country's realities. Provincial treasuries form part of this task team and have raised the matters that are of importance to them.

Reduction of allocations to provincial and local government grants

The National Treasury should ensure that the proposed reductions in allocations to a number of provincial infrastructure grants do not compromise the NDP targets as expressed within the medium-term strategic framework. That is, the provision of an efficient, competitive and responsive economic infrastructure network. Furthermore, the National Treasury should ensure that the reduction and reprioritisation of funds do not compromise the long-term development goals as outlined in the NDP and should ensure that the proposed reductions in some local government conditional grants do not compromise the NDP targets as expressed within the medium-term strategic framework.

Reductions have been proposed on various conditional grants to provincial and local governments. These are necessary to achieve fiscal consolidation and reprioritise funds to meet other government priorities aligned with the NDP. In determining the reductions made to each grant, past underperformance and potential efficiency gains were considered. Even after these reductions have been made, most major infrastructure grants to provinces and municipalities still grow over the medium term, and those to local government grow by at least 5 per cent per year over the 2017 MTEF period.

Prioritising basic services in local government

The National Treasury and municipalities should ensure that the funds added to the local government equitable share are used as planned. That is, to offset the cost pressures of bulk water and electricity.

Section 227 of the Constitution specifies that local government is "entitled to an equitable share of revenue raised nationally to enable it to provide basic services and perform the functions allocated to it". The local government equitable share is therefore an unconditional allocation. However, Section 153 of the Constitution states that a municipality must manage its administration and budgeting and planning processes to give priority to the basic needs of the community. Municipalities are therefore expected to prioritise the provision of free basic services in their budgets. The National Treasury and provincial treasuries will ensure that this happens through budget benchmarking processes with municipalities.

Review of the local government equitable share formula

The announced plans to update the local government equitable share formula with the 2016 Community Survey data should be applied in such a manner that it has minimal negative impact on certain municipalities.

The release of the 2016 Community Survey provided an opportunity to update the household numbers in the formula using the most recent data. The current model for estimating household numbers has proven to be broadly consistent with the Community Survey results in most cases. However, few municipalities will experience significant changes in their allocations as a result of these updates. The Budget Forum has endorsed a three-year phase-in to minimise the impact of allocation changes to these municipalities. In 2017/18, all municipalities are guaranteed to receive at least 95 per cent of the indicative allocation for the equitable share published in the 2016 division of revenue.

Improving the delivery of electrification and other basic services in metropolitan municipalities

The National Treasury should ensure that coordination between the delivery of electrification and other basic services is improved in cities by incorporating the integrated national electrification programme (municipal) grant allocations for metros into the urban settlements development grant.

This recommendation is supported. The National Treasury will work with the Department of Energy and the Department of Human Settlements on incorporating the *integrated national electrification programme (municipal) grant* allocations for metropolitan municipalities into the *urban settlements development grant* for 2018/19.

Recommendations of the Select and Standing Committees on Finance on the 2016 Revised Fiscal Framework

Managing the refinancing of maturing debt

The committees note that a significant amount of long-term government debt will start to mature in 2018/19 and recommend that the National Treasury plans effectively for that and reports to committees at the 2017 MTBPS.

In planning for the maturing debt over the period 2017/18 to 2020/21, the National Treasury introduced a bond-switch programme in 2014/15, exchanging shorter dated debt (bonds maturing over the period 2017/18 to 2020/21) for longer dated debt to address the high refinancing risk to the government debt portfolio. Of the R404.2 billion that was outstanding in maturing debt as at February 2015, R130.4 billion has been exchanged as at January 2017. In addition to the budgeted cash for repayment of maturing debt, the National Treasury will continue with the bond-switch auction programme to manage the refinancing of maturing debt.

Strengthening the social pact to improve economic growth

While recognising the difficulties, the committees recommend that the National Treasury and government as a whole intensify efforts at cooperation between government, Parliament, the private sector, trade unions and civil society to improve economic growth and create jobs.

The National Treasury supports the recommendation. Building cooperation between government, Parliament, the private sector, trade unions and civil society is a critical part of inclusive economic growth. The National Treasury continues to support and engage with such efforts wherever possible.

Increasing policy certainty in key sectors of the economy

The committees recommend that the National Treasury and government as a whole provide policy certainty in key economic sectors and aggressively implement policies aimed at stimulating growth and restoring consumer and business confidence.

Confidence is critical in raising investment, employment and economic growth. The National Treasury is working to communicate government's efforts to increase policy certainty to local and foreign business and investor communities, international financial institutions and the South African public. The National Treasury has been spearheading coordination with business, unions and government on key initiatives such as agriculture, tourism and the YES Initiative. It continues to look for opportunities to encourage dialogue between the public and private sectors. In addition, the National Treasury debates policy with sister departments through the cluster process.

Leveraging resources to stimulate economic growth

The National Treasury, the Department of Economic Development and other departments should work on a programme to mobilise resources behind actions that stimulate economic growth. This should include leveraging resources in public institutions that have strong balance sheets, including development finance institutions, the Unemployment Insurance Fund and metropolitan municipal councils.

Page 7 of the 2016 *Budget Review* and pages 17-21 of the 2016 MTBPS identify key areas of intervention that are expected to stimulate growth. Some of the interventions are already being implemented and receiving funding. Key infrastructure projects, for example, will receive R947.2 billion in government funding over the medium term. Government is working with business and labour to build a foundation for faster growth. The Presidential Business Working Group and the CEO Initiative are working together to support the economy. Investments in energy, transport and telecommunications will be catalysts for growth. As the custodian of the New Growth Path, the Department of Economic Development is working with the Industrial Development Corporation to strengthen industrialisation by focusing on sectors that have significant potential for economic growth. About R60 billion has been set aside over the medium term and the highest portion of this capital will be allocated to priority value chains such as metals and mining, and agro-processing and agriculture.

Linking medium-term spending proposals to government's nine-point plan

The Parliamentary Budget Office noted that the link between the medium-term spending proposals and the nine-point plan announced by government in the 2015 Budget Review are not obviously set out in the MTBPS. The committees agree with this and recommend that the National Treasury takes this into account in its 2017 Budget documents.

Chapter 5 of the 2017 *Budget Review* sets out government's medium-term spending plans. The NDP and the medium-term strategic framework provide the broad framework in which budget allocations are made. Nevertheless, links with the nine-point plan, which is integrated into government policy planning, should also be clear. The National Treasury could make a specific presentation available for the consideration of the committee should this be deemed necessary.

Increasing allocations to economic services departments

The committees recommend that the National Treasury increase the allocation to economic affairs and will refer this to the Appropriations Committee to consider how this could be done.

The National Treasury agrees with the recommendation. However, due to the constrained fiscal framework, the scope for increasing allocations in any cluster, including that of economic affairs, is limited. New priorities are being funded by reprioritising funds in existing departmental baselines. Should the fiscal framework improve, increasing allocations to the economic cluster may be considered.

Effectiveness of government's job-creation initiatives such as the Jobs Fund

The committees recommend that the National Treasury evaluates the effectiveness of government's job-creation initiatives, including the Jobs Fund, in reducing the high rate of unemployment and prepare a comprehensive report for the committees by the end of the first quarter of 2017.

The National Treasury has noted the committees' recommendation. The Jobs Fund's mandate is to co-finance projects that have the potential to contribute significantly to sustainable job creation. From inception to date, the fund has issued seven calls for proposals and managed a portfolio of 125 projects. Of these approved projects, 106 have been contracted with a grant allocation of R5.6 billion. As a result of this grant-funding project, partners have committed an additional R7.3 billion for job creation. These partners aim to deliver 136 069 new permanent sustainable jobs, place an additional 90 087 people into vacant positions and provide 224 089 training opportunities. The fund has gathered evidence on what works when designing programmes that accelerate the transition of unemployed women and youth from education to employment, and on successful enterprise development or business incubation programmes, including in the agricultural sector.

Reskilling of laid-off workers in the mining and steel industries

The committees recommend that the National Treasury give concerted attention to the Financial and Fiscal Commission's view that short- to medium-term job-creation initiatives focus on reskilling laid-off workers in the mining and steel industries through the skills levy and streamlining job-creation schemes to focus on a few selected strategic sectors.

The Unemployment Insurance Fund aims to prevent job losses and create conditions conducive for job retention in companies in distress through the Turnaround Solutions Programme implemented by Productivity SA. The training layoff scheme, financed by the National Skills Fund and the Unemployment Insurance Fund, is available to vulnerable workers who would otherwise have lost their jobs due to operational requirements. It is entered into voluntarily between the employer and affected employees. The scheme involves a temporary suspension of work so that workers can be sent for training. However, take-up has been poor. As a result, the department has simplified the procedures for accessing the scheme.

The government is also providing incentives and programmes to create jobs. To date, the Expanded Public Works Programme has created 4.2 million jobs of various durations and the Jobs Fund has created 132 748 jobs. The manufacturing incentive programme under the Department of Trade and Industry has created and sustained 200 000 jobs since its inception. The community work programme under the Department of Cooperative Governance and Traditional Affairs is also expected to create 744 369 jobs of varied duration over the medium term.

Increasing labour inspectors and the impact of the Expanded Public Works Programme on decent wages

The committees recommend that the National Treasury give serious attention to the Congress of South African Trade Unions' (COSATU's) recommendation that more labour inspectors be appointed by the Department of Labour and COSATU's concern regarding *the unintended consequences of the Expanded Public Works Programme, which it argues has become a source of cheap labour for cash-strapped municipalities and departments.*

The baseline for labour inspectors is increased by R54.5 million in the 2017 MTEF period. No reductions were made to the number of labour inspector posts so that the Department of Labour could remain within the compensation ceiling. The department has faced challenges in the past in retaining inspectors and finding suitably specialised candidates because of the higher salaries offered by the private sector.

The Expanded Public Works Programme complies with the wage rates determined by the Department of Labour through the Minister of Labour's determination. The national and provincial departments of public works therefore closely monitor the implementation of the Minister of Labour's wage determination to ensure compliance.

The balance between spending restraint and tax increases

Government has rightly proposed that fiscal consolidation measures be balanced between spending restraint and tax increases. Government should ensure that the progressivity of the fiscal system is a key consideration in the tax measures to be proposed in the February Budget.

As in previous years, the 2017 Budget proposes both limitations of expenditure and increases in tax revenue to consolidate public finances. Tax revenue will increase by R28 billion in 2017/18 and the revenue will be raised in a progressive manner, as the largest revenue increase will arise from changes to the personal income tax system. High-income earners will face the largest increase in their tax liabilities. The progressivity of the tax amendments was carefully considered, as shown through the publication of the distributional impact of the personal income tax tables in Chapter 4 of the 2017 *Budget Review*. Additional revenues will be sourced through increases in dividends withholding taxes, excise duties and the fuel levy.

Shifting the composition of spending towards capital spending

While continuing to limit the growth of consumption spending and contain expenditure on non-essential goods and services, government should strive to increase its allocations to investment and capital spending. The National Treasury should provide further detail on the proposed financing facility for social infrastructure when the Minister of Finance tables the Budget in February.

Over the medium term, the total spending on infrastructure is R947.2 billion. Overall spending on infrastructure realises nominal growth of 4 per cent over the medium term. This confirms government's commitment to spending on public infrastructure. The proposed new budget facility for infrastructure finance is a budget reform that aims to improve planning, coordination and implementation capacity of public infrastructure projects. The new facility is discussed in Chapter 3 of the 2017 *Budget Review*.

Strengthening the oversight of state owned entities

The committees noted elevated risks associated with state-owned companies. Government guarantees have increased substantially in recent years, and a large share of state-owned company debts are denominated in foreign currencies. In order to improve monitoring of these risks, the National Treasury should table a quarterly report in Parliament, providing updates on guarantees extended, the extent of exposure against guarantees and the data on the portfolio of state-owned company assets.

The National Treasury has a review and monitoring process for managing the risks related to government guarantees issued to state-owned companies. In terms of the monitoring aspect of this process, a quarterly report outlining the movement in both the quality and volume of the guarantee portfolio is prepared and reported to the Fiscal Liabilities Committee and the Minister of Finance. This report should be able to satisfy the requirements of the committees and will be tabled in Parliament every quarter as recommended.

The committees recommend that the National Treasury strengthens oversight over South African Airways (SAA) and other state-owned entities to prevent defaults, return it to profitability and reduce pressure on the national fiscus and national debt. The committees will seek to exercise more effective oversight over SAA.

A new SAA board was appointed in September 2016. The Minister of Finance tasked the board with a number of actions and these have been receiving urgent attention. These activities included the finalisation of the annual financial statements for 2013/14 and 2014/15, both of which were concluded before the end of September 2016. SAA faces liquidity constraints in the short to medium term and government has been working closely with the board to address this, while working towards the long-term financial and commercial sustainability of the airline.

With support from the National Treasury, SAA has secured funding to allow the board time to review and strengthen its turnaround plan, and take steps to stabilise the airline and return it to financial sustainability. The board is finalising the recruitment process for the chief executive officer and the chief financial officer positions so that recommendations can be submitted to the shareholder for consideration.

The Minister of Finance has stressed to the SAA board that urgent action is required for the airline to operate sustainably. This includes the board reviewing and strengthening the airline's strategy to accelerate the turnaround and to ensure its robustness in the context of increasing competition and volatility in the fuel price and exchange rates. During this “business unusual” period, SAA will remain under intense government oversight through weekly, monthly and quarterly meetings.

Measures to reduce lease costs

The committees recommend that the National Treasury, working with the relevant departments, seeks to reduce the huge spending on leases of buildings and infrastructure.

The Department of Public Works is considering ways to reduce lease costs. Application of the user-charge model, which has been developed by the Property Management Trading Entity, will enable the department to determine more accurately the cost of accommodation provided by the private sector, and use such knowledge as an instrument for negotiating more reasonable and affordable rentals. The department is also looking at providing accommodation using its own vast stock of immovable assets. Some of the buildings will need to be refurbished to bring them to the required standard for housing departments or entities, while in certain instances, like Statistics South Africa’s offices in Salvokop, new buildings will be constructed.

Amendments to the Preferential Procurement Regulations

The committees recommend that the National Treasury processes amendments to the Preferential Procurement Regulations speedily to ensure that previously disadvantaged groups and small, medium and micro enterprises benefit significantly. Progress on this should be provided regularly to the committees.

The revised regulations were promulgated on 20 January 2017 and will be effective on 1 April 2017. The rollout of the revised regulations to practitioners, suppliers and oversight bodies such as parliamentary committees is still in the planning phase and is targeted for implementation from March 2017.

Funding for post-school education

The committees recommend that further allocations be considered for post-school education without prejudicing other key social programmes.

The 2017 Budget provides for additional allocations to the higher education sector through internal reprioritisation and baseline reductions, so ensuring increased allocations without affecting key social programmes and compromising expenditure limits. Further allocations to post-school education will have to be considered during the 2018 Budget process by the Ministers’ Committee on the Budget.

Achieving norms and standards for basic school infrastructure

Equal Education is concerned that the 2016 MTBPS made no mention of basic school infrastructure and that there was insufficient funding to meet the norms and standards obligations. Equal Education suggests that the deadline of November 2016 might not be met. The committees recommend that the National Treasury respond to Equal Education’s concern about this, and its other proposals, and will refer Equal Education’s proposals to the Appropriations Committee.

The November 2016 deadline was not met, but that was not due to a lack of funding. The problems in the rollout of the *school infrastructure backlogs grant* relate to poor performance by some implementing agents. There are difficulties in replacing underperformers with new contractors who are reluctant to "fix" previous contractors' errors, and delays in finalising the merging and rationalisation of schools in the Eastern Cape. The National Treasury's reply to this recommendation was sent to the Standing Committee on Appropriations through the 2016/17 second quarter expenditure report for the Department of Basic Education.

Linking remuneration to performance in the public sector

A critical element of containing consumption spending will be measures to limit the growth of compensation budgets. South Africa needs a stronger dialogue about performance and pay in the public sector. The DPSA, the National Treasury and the DPME should report jointly to Parliament before the middle of 2017 on the issues and concerns regarding performance, remuneration policy and pay.

The National Treasury and the two departments are working on reforms for remuneration policy, performance and pay in the public service. Discussions with interested parties are taking place and a report will be tabled in Parliament.

Compliance with instruction notes on cost containment

The committees welcome the progress on cost containment but believe that more can be done. The committees also recommend that the National Treasury engages with the Auditor-General's office to explore the possibility of the Auditor-General's office conducting annual audits of the compliance of national and provincial departments, municipalities and public entities with cost-containment measures decided by the National Treasury and on reporting on these audits, which can be considered by parliamentary committees. The committees require the National Treasury to report on the possibilities of this at its first quarterly briefings of 2017.

During September 2016, the National Treasury issued a revised Treasury Instruction on Cost Containment applicable to institutions that comply with the Public Finance Management Act (1999). This instruction aims to further reduce non-essential expenditure by introducing additional cost-containment measures, which include expenses on entertainment, advertising, newspapers and publications, and attendance at and the hosting of conferences. Cost-containment measures now cover more expenditure items. During April 2016, the National Treasury also issued a travel policy framework with measures to contain travel and accommodation costs.

During November 2016, the National Treasury also issued a revised Circular on Cost-Containment Measures on travel and accommodation for institutions that comply with the Municipal Financial Management Act (2003). The National Treasury is drafting regulations on cost-containment measures for these municipal institutions. These regulations will contain, among others, those measures that are currently contained in the circulars.

The National Treasury will engage the Auditor-General of South Africa on the possibility of including specific cost-containment expenditure items in annual audit plans. If agreement is reached on the items to be audited, the National Treasury will report annually to the committees on the outcomes of these audits. Feedback of the discussions with the Auditor-General of South Africa will be provided to the committees during the first quarterly briefings of 2017.

Compensation limits, prioritisation of critical posts in the health sector and progress on the implementation of national health insurance

In these difficult times, government's commitment to sustain social spending is welcome. However, the committee notes rising pressure on social budgets, particularly in the health sector. The National Treasury and the Department of Health should review the impact of limits on compensation spending for critical services for the poor, and guidelines that help provincial and district health authorities manage more constrained budgets should be developed.

Guidelines to manage compensation budgets have been developed and shared with the provincial departments of health. The budget for employee compensation for provincial departments of health has been protected given that most of the budget cuts have been implemented in national departments and within provinces. Moderate cuts were made to the health budgets.

The Minister of Finance and MECs for Finance have agreed that the health service staff should be protected while containing administrative personnel expenditure. Provinces have imposed restrictions on filling vacant posts, requiring all appointments, excluding health and education critical posts, to be approved by both the provincial treasury and the office of the premier. Only new vacant posts in health and education not budgeted for (particularly for new facilities) need the approval of the provincial treasuries and offices of the premier, because additional funding may be required. This will ensure that the provinces keep to the set ceilings without negatively affecting service delivery.

The committees agree with COSATU's concern about the impact of the moratorium placed on public service posts in the Department of Health and lack of detail in the MTBPS on progress made towards implementing national health insurance. The committees recommend that the National Treasury gives serious attention to COSATU's concerns, and will also refer this to the Appropriations Committee.

The National Treasury will manage the compensation budget and monitor it within the limited resources available. Service-delivery posts within the provincial departments of health are being protected by not filling non-critical or non-core posts, which ensures there is adequate funding. COSATU's concerns are recognised and taken into account. It is important that service-delivery posts be funded to provide adequate services to the poor.

With regards to the progress made on the implementation of national health insurance, the Department of Health is working closely with the National Treasury to address gaps in the insurance framework. Significant progress has been made in the following six work streams:

- Establish the National Health Insurance Fund
- Design and implement a national health insurance benefit package
- Prepare for the purchaser-provider split
- Explore the role of medical schemes under national health insurance
- Complete policy papers for release for public comment and further analyses
- Strengthen the district health system and governance.

The National Treasury continues to support the implementation of national health insurance through the indirect *national health insurance grant.*

Outreach programmes to members of the Government Employees Pension Fund

The committees recommend that the National Treasury, the Government Employees Pension Fund and the Government Pensions Administrative Agency strengthen communication and public awareness campaigns to enable the members of government pension funds, including those in the rural areas, to easily access their benefits.

The Government Employees Pension Fund and the Government Pensions Administrative Agency are combining communication initiatives to ensure their campaigns are more effective. The following communications and outreach programmes are in place:

- National roadshows
- Campaigns aimed at members who are about to retire
- Quarterly newsletters for members and pensioners
- Mobile offices in vans that go to rural areas to service and give information to members and pensioners
- Media relations such as advisories and press releases
- Exhibitions at government events such as Heritage Day celebrations
- Departmental presentations on benefits and participation at union events
- Client liaison officers who visit departments to assist with member queries
- Workshops to equip human resources practitioners to assist members
- Articles in stakeholder publications such as those of unions and departments.