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: *Fiscal support for electricity market reform*

A

Report of the Minister of Finance to Parliament

Introduction

This annexure fulfils the requirement of section 7(4) of the Money Bills and Related Matters Act (2009). This section of the act prescribes that the Minister of Finance 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 allocations 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 the Minister of Finance introduces the national budget. This procedure provides for committees to prepare budgetary review and recommendation reports, which:

- Must assess the department’s service-delivery performance given available resources.
- Must assess the effectiveness and efficiency of the department’s use and allocation of available resources.
- May include recommendations on the planned use of resources.

The budgetary review and recommendation reports were tabled by the relevant portfolio committees in October and November 2018. The National Treasury’s responses to the committees’ recommendations are detailed below.

Portfolio Committee on Agriculture, Forestry and Fisheries

The committee recommends that there should be an intervention from the Minister of Finance for additional funding to the Agricultural Research Council (ARC), which is the government's premier agricultural research institution in the country that is on the verge of collapse due to underfunding. With the challenges that the sector is currently contending with, the collapse of the entity will be costly and risky to agricultural development, innovation and growth as South Africa will be forced to depend on privately-funded and international agricultural research innovations. Additional funding for the ARC is a necessity to give effect to the Malabo Declaration on Accelerated Agricultural Growth and Transformation for Shared Prosperity and Improved Livelihoods that was signed by African Heads of States including South Africa and the members of the African Union in Malabo, Equatorial Guinea in June 2014.

The National Treasury is aware of the ARC's important contribution to research and development. Over the medium term, the Department of Agriculture, Forestry and Fisheries has been allocated an additional R400 million (R130 million in 2019/20, R140 million in 2020/21 and R130 million in 2021/22), which will be transferred to the council for the construction of a foot and mouth vaccine facility at the Onderstepoort Veterinary Institute. The facility is expected to enhance the country's vaccine research capacity and ensure there is a secure supply of the vaccine.

However, government's ability to provide additional funds to the ARC is limited due to the constrained fiscal outlook. Departments, public entities and constitutional institutions are required to reprioritise funds within their existing baselines to fund any emerging priorities. Should the fiscal outlook improve, future recommendations for additional funding may be considered.

Portfolio Committee on Basic Education

Together with relevant authorities, the department should fast track the implementation of plans to allocate ring-fenced funds for learner transport.

The National Treasury is part of the task team on this issue. The ring fencing can only happen once a policy decision is taken on whether the function lies with the Department of Basic Education or the Department of Transport.

Consideration should be made for additional funding for the Accelerated Schools Infrastructure Delivery Initiative (ASIDI) programme given that expenditure on ASIDI projects increased at the end of 2017/18 and that the 2018/19 first quarter report showed that the programme had 83 schools under construction and another five schools had reached partial completion. Based on the current acceleration on the projects, it appears that the budget allocation will not be enough to complete the projects that are currently running.

In the 2018 Adjustments Appropriation Act, the ASIDI programme received a further R800 million for 2018/19.

Consideration should be made to increase the budget of Umalusi due to its expanded mandate.

Due to the constrained fiscal outlook, the scope to provide additional funding is limited. Departments, public entities and constitutional institutions are required to reprioritise funds within their existing baselines to fund any emerging priorities. Should the fiscal outlook improve, future recommendations for additional funding may be considered.

Portfolio Committee on Economic Development

National Treasury should brief the committee on the procurement processes that the Competition Commission is expected to follow for its sector-specific needs. This should happen before the third quarter of the current financial year.

The National Treasury is available to brief the committee on request.

Portfolio Committee on Health

The Department of Health, National Treasury and provincial treasuries should allocate a certain amount to offset the growing expenditure on accruals.

Accruals incurred by provincial health departments have increased significantly in recent years, exceeding R14 billion as at 31 March 2018. Of this, R8 billion is older than 30 days. This partly reflects financial pressures in provinces, but it also reflects poor financial management. While accruals may need to be offset, it is important that provincial departments of health first demonstrate that they have controls in place to stop accrual growth. Once they have been have stabilised, national and provincial treasuries may consider additional allocations to offset existing accruals. It should also be noted that the 2017 Budget included an additional R1 billion to the provincial equitable share to alleviate pressure in medicine budgets, which contributes significantly to accruals in provincial health departments.

The Department of Health and National Treasury should provide adequate funding to the Office (Office of the Health Ombud) in line with the recently approved structure for better reporting and functionality.

Spending in the Office of Health Standards Compliance, the entity which the Health Ombud falls under, has increased substantially in recent years, from R33.4 million in 2014/15 to R111.6 million in 2017/18. Despite this increase in spending, the entity declared a surplus of R31.8 million in 2016/17 and R35.5 million in 2017/18. The National Treasury approved the retention of these surpluses in both years. The National Treasury and the national Department of Health will continue to work closely with the Office of Health Standards Compliance and, through the annual budget process, ensure that the entity is adequately funded.

Portfolio Committee on Higher Education and Training

A commitment to build 12 new Technical and Vocational Education and Training (TVET) college campuses by 2020 was made by government. However, only one new TVET college campus was completed and two were nearing completion and their operationalisation costs were funded through the skills fund. This had a negative impact on its sustainability and the rolling out of the skills development interventions. The committee recommends that voted funds be provided for sustainable ways of funding the operationalisation of all the 12 new TVET college campuses. Funding from voted funds has been secured from 2019/20 onwards for the three current sites (approximately R400 million from year 1). The remaining still needs to have a sustainable operational budget secured. The department should pursue discussions with National Treasury and other funders (for example SETAs) to secure the required funding in due course.

The National Treasury has added R967 million in the 2019 medium-term expenditure framework (MTEF) period (R200 million in 2019/20, R322 million in 2020/21 and R445 million in 2021/22) for the start-up operational costs of all new TVET colleges. Over the medium term, the Department of Higher Education and Training must ensure that these costs are part of plans for the building of any new TVET college to avoid using funds from the National Skills Fund and the sector education and training authorities. The TVET subsidy will fund ongoing operational costs and the department's baseline will provide for employee compensation.

Portfolio Committee on Home Affairs

Additional funding should be made available to complete the harvesting of addresses during registration and voting as well ensuring that the biometric function of voter registration devices are operational before the National Elections in May 2019.

Due to the constrained fiscal outlook, the scope to provide additional funding is limited. Departments, public entities and constitutional institutions are required to reprioritise funds within their existing baselines to fund any emerging priorities. Should the fiscal outlook improve, future recommendations for additional funding may be considered.

National Treasury should consider allocating more funding to the Independent Electoral Commission (IEC) for the completion of its ICT refreshment urgently.

Due to the constrained fiscal outlook, the scope to provide additional funding is limited. Departments, public entities and constitutional institutions are required to reprioritise funds within their existing baselines to fund any emerging priorities. Should the fiscal outlook improve, future recommendations for additional funding may be considered.

Portfolio Committee on Justice and Correctional Services

The National Prosecuting Authority should be provided with additional funding to address the shortfall on its compensation of employees' budget, to fill vacancies, and to create capacity at new courts as well as additional funds for the resumption of its Aspirant Prosecutors programme.

Due to the constrained fiscal outlook, the scope to provide additional funding is limited. Departments, public entities and constitutional institutions are required to reprioritise funds within their existing baselines to fund any emerging priorities. Should the fiscal outlook improve, future recommendations for additional funding may be considered.

Legal Aid South Africa should receive additional funding to prevent it from having to cut posts with adverse consequences for service delivery and to ensure that it is able to maintain its civil work despite the current fiscal environment.

To ensure Legal Aid South Africa remains sustainable, the entity will receive additional funding of R309 million over the medium term for compensation of employees, of which R104.5 million is reprioritised funding from the Department of Justice and Constitutional Development.

Portfolio Committee on Labour

The committee recommends that additional funding be made available to the Commission for Conciliation, Mediation and Arbitration (CCMA) to enable it to fully implement its statutory obligations in terms of the National Minimum Wage, Basic Conditions of Employment Act and Labour Relations Act.

For the 2019 MTEF period, R109 million is added to the CCMA baseline (R30 million in 2019/20, R38 million in 2020/21 and R41 million in 2021/22) to address the increasing caseload arising from the implementation of the national minimum wage and amended labour laws. It will also be used to develop training material for commissioners and assessors to preside over advisory arbitration processes and to conduct balloting and certification processes.

Portfolio Committee on Mineral Resources

National Treasury should fund the necessary infrastructural upgrade of the Council for Geoscience to ensure compliance with its designation as a national key point.

The Council for Geoscience receives a total transfer allocation of R1.1 billion over the 2019 MTEF period (R420.9 million in 2019/20, R444.1 million in 2020/21 and R259.9 million in 2021/22) mainly for the entity's operations.

Due to the constrained fiscal outlook, the scope to provide additional funding is limited. Departments, public entities and constitutional institutions are required to reprioritise funds within their existing baselines to fund any emerging priorities. Should the fiscal outlook improve, future recommendations for additional funding may be considered.

National Treasury should provide additional funding to the Department of Mineral Resources to be used in the upgrading of the cadastral system.

Cabinet has approved an additional allocation of R188 million in 2019/20 and R198.3 million in 2020/21 through government's economic competitiveness and support package for the Council for Geoscience's digital information system, building, equipment and facilities. This support is aimed at improving the services and quality of analytical and research work offered by the council.

Portfolio Committee on Police

The committee recommends that funds allocated to the Integrated Justice System (IJS) Revamp project should be allocated correctly between operational and non-operational functions.

During the 2019 MTEF process, the Peace and Security functional group decided that, with effect from 1 April 2019, the funding allocated to the South African Police Service (SAPS) for the IJS programme will be shifted to the Department of Justice and Constitutional Development. This department, through the IJS Board, is responsible for the governance of the entire programme. This will address the current overlap between the programme's operational and non-operational functions, ensuring more effective coordination, governance, project prioritisation and spending.

SAPS remains a key role player in the implementation of the programme. Although funds for the IJS programme will be shifted to the Department of Justice and Constitutional Development, the SAPS will keep its allocation for the implementation of the criminal justice system seven-point plan over the medium term.

National Treasury should consider the application by the Independent Police Investigative Directorate (IPID) for funds derived from other revenue streams, like the Criminal Assets Recovery Account (CARA) to upgrade its ICT infrastructure.

The National Treasury does not have the authority to make decisions regarding the use of CARA funds. This authority lies with the CARA committee, which is responsible for providing Cabinet with recommendations on the use of funds and giving advice on specific issues related to the criminal assets recovery process. As part of the 2019 MTEF process, the National Treasury invited representatives from the CARA unit within the Department of Justice and Constitutional Development to present at the Peace and Security functional group on CARA and the process to be followed by departments when making submissions for funding requests. The IPID was also part of this meeting.

The Ministers of Finance and Public Works should address the alleged continuation of payments to the owner of the City Forum building despite the lease agreement having been found to be invalid.

The National Treasury has been working with the IPID and the Department of Public Works to resolve this matter. The Department of Public Works is procuring alternative accommodation for the IPID.

The Civilian Secretariat for Police should address the challenges regarding inadequate office space. The National Treasury should engage the SAPS to reallocate the funds for office accommodation to the department.

The National Treasury supports this recommendation. Through a mediation process including the Civilian Secretariat for Police and SAPS, the National Treasury has facilitated the shifting of R20.3 million over the 2019 MTEF period from SAPS to the Civilian Secretariat for Police for office accommodation.

Portfolio Committee on Public Enterprises

The Minister of Finance should utilise his vested power to hold the shareholder representatives and others in the state-owned companies to account on financial management as articulated in the Public Finance Management Act (PFMA) of 1999.

The National Treasury works closely with shareholder representatives, including the Department of Public Enterprises and state-owned companies, to ensure compliance with the PFMA. In cases where there are audit findings, the National Treasury continuously engages and monitors the entities' implementation of remedial measures. It also considers continuous breaches of the PFMA when evaluating requests for additional funding. However, it is the responsibility of accounting authorities to take remedial action where breaches such as unauthorised, irregular and wasteful expenditure have taken place.

The Minister of Finance should assist the Department of Public Enterprises to identify business and environmental risks associated with state-owned companies.

On receipt of the annual reports and corporate plans for state-owned companies from the Department of Public Enterprises, the National Treasury analyses them, after which it provides feedback to the department annually. Where necessary, engagements between the two departments and the state-owned companies may take place.

The Minister of Finance should assist government through mechanisms to reduce risks associated with wholesale funding and limit exposure of state-owned companies. The Financial Sector Regulation Act of 2017 lays the foundation of the Twin Peaks model of financial regulation and confers on the South African Reserve Bank (SARB) an explicit statutory mandate to enhance and protect financial stability.

The Financial Sector Regulation Act does not apply to the wholesale funding risks to state-owned companies and exposures of state-owned companies, but only to financial institutions. The credit and market risks faced by state-owned companies should be managed by the respective entity's finance and risk department and reported to the board on a regular basis. The auditors and executive authorities of these institutions must ensure that they have best-practice frameworks to mitigate these risks.

The Minister of Finance should introduce a transparent framework in terms of how to run state-owned companies commercially, and compensate them for any development mandate expenditure through budget transfers.

The accounting authority of a state-owned company is the board of directors. The board has a fiduciary duty to ensure that institutions operate on a going-concern basis. If the institution fails to remain a going concern, then boards are required by law to begin an orderly winding down of the entity. The National Treasury developed a template for costing developmental mandates, which has been shared with executive authorities. The state-owned companies are completing the framework's costing template. This is a process that must be overseen by the institution's board of directors and executive authority. However, funding developmental mandates should be considered alongside other expenditure priorities and the overarching objective of fiscal sustainability in the appropriations process.

The Minister of Finance should enhance fiscal policy to create buffers against shocks through the development of a framework with threshold levels on the minimisation or avoidance of risky contingent liabilities.

The National Treasury has a number of mechanisms in place to monitor government's guarantee exposures. These include a central register where all national government guarantees are recorded. The register is updated quarterly with the latest issuances and usage of guarantees, and is published in the *Budget Review* as required by the Constitution. The Fiscal Liabilities Committee assesses government's contingent liabilities. Once guarantees are issued, the committee reviews credit risk reports on the guarantee portfolio and reports on compliance with guarantee conditions. The National Treasury conducts annual credit risk assessments on all state-owned companies that have been granted guarantees. Each entity with a guarantee is charged a fee, which is deposited into the National Revenue Fund. These fees act as a disincentive for guarantee applications and defray the costs of a call on a guarantee. Ultimately, however, the only way to reduce contingent liability risk to the fiscus from public entities is for these institutions to generate sufficient income to service their guaranteed obligations. This is a process that must be overseen by the boards of these entities.

The Minister of Finance should provide leadership on revenue enhancement in state-owned companies with regards to the review of pricing models, selling non-productive assets, and collecting arrears.

The legislation governing public entities requires that the boards of state-owned entities develop and approve strategies and turnaround plans for the companies. Routine business activity such as asset disposal and arrear management must be executed by the company's management.

Portfolio Committee on Public Works

Engage with the National Treasury taking into account measures contained in the Intergovernmental Relations Framework Act (2005) so that the Independent Development Trust (IDT) can collect management fees and all debt owed to it from client departments. These engagements to be reported to the committee on interventions before the budget vote process in the 2018/19 financial year on regulatory measures and action steps to ensure that all heads of departments (HoDs), Directors-General, and accounting officers of departments and heads of organs in future pay fees owed in the financial year that projects are planned and completed.

The National Treasury welcomes the recommendation. The IDT has approached the Department of Public Works and the National Treasury for technical assistance in improving its revenue collection. The National Treasury will engage with the trust and the department to identify suitable ways for the entity to collect management fees on time. The National Treasury is reviewing its Instruction 04 of 2014/15 (management fees to be charged by the IDT) to strengthen areas relating to effective and efficient revenue-collection measures, and to close any gaps in the trust's revenue and debt management practices. It will continue to discuss revenue and debt management with the IDT, implementing agencies and the Department of Public Works over the medium term.

Portfolio Committee on Rural Development and Land Reform

The committee recommends that the Minister of Finance should assist the Commission on Restitution of Land Rights (CRLR) to develop and implement strategies for settling the commitment register of R5 billion within the MTEF period. The strategy should also address the suspense account of the Commission.

The Department of Rural Development and Land Reform is allocated R3.6 billion in 2019/20, R3.3 billion in 2020/21 and R3.5 billion 2021/22 for its restitution programme. The National Treasury, through the Government Technical Advisory Centre, has been helping the commission to implement strategies for settling land claims quickly. It is also willing to assist the commission in addressing concerns regarding the suspense account, guided by the Minister of Rural Development and Land Reform.

Support the Commission, which meets the criteria for a national public entity in terms of Section 1 of the PFMA, to become a fully autonomous entity as envisaged in the Restitution of Land Rights Act (1994). Autonomy will help the CRLR to comply with the requirements of an entity as well as improve service delivery efficiency. Therefore, the Minister of Finance in consultation with the Minister of Rural Development and Land Reform and the Chief Land Claims Commissioner should consider making budgetary allocation that would allow the CRLR to be an autonomous national public entity accountable to the Minister of Rural Development and Land Reform as well as Parliament.

There are ongoing consultations between the CRLR and the National Treasury to establish it as a fully registered entity. During the 2019 MTEF period, the Department of Rural Development and Land Reform submitted an additional funding request of R2.7 billion over the MTEF period for the establishment of a fully autonomous commission. However, due to the constrained fiscal outlook, the scope to provide additional funding is limited. Should the fiscal outlook improve, future recommendations for additional funding may be considered. The commission should meanwhile continue using the Department of Rural Development and Land Reform's resources.

The Minister of Finance should assist the Department of Rural Development and Land Reform and Department of Agriculture, Forestry and Fisheries to develop a comprehensive policy on integrated development support for agricultural land reform in line with the blended finance model involving the National Treasury and the Land Bank.

The National Treasury is ready to assist these departments and will be guided by the Minister of Rural Development and Land Reform and the Minister of Agriculture, Forestry and Fisheries. A total of R887 million has been allocated to the Department of Agriculture, Forestry and Fisheries over the medium term to be transferred to the Land Bank for the blended finance mechanism.

The Minister of Finance should ensure that the budget is allocated for the Office of the Valuer-General to enable smooth running of the office.

Over the 2019 MTEF period, R451.8 million was allocated to the Office of the Valuer-General. By the end of 2017/18, the entity had a surplus of R51.1 million, of which R41.1 million was surrendered to the National Revenue Fund.

Portfolio Committee on Science and Technology

The Minister of Science and Technology should continue her engagement with the National Treasury to secure additional funding for the science and technology portfolio and that the committee supports all funding requests made in this regard.

The National Treasury recognises the importance of science, technology and innovation in growing the economy. The Department of Science and Technology has been allocated R25 billion over the medium term. Of this, the department transfers 92 per cent to its entities to fund research and development programmes that form the strategic foundation for scientific innovation. The department will also receive donor funding amounting to R118.8 million over the 2019 MTEF period for projects relating to the green economy and strengthening the smallholder essential oils value chain. Due to the constrained fiscal outlook, the scope to provide additional funding is limited. Departments, public entities and constitutional institutions are required to reprioritise funds within their existing baselines to fund any emerging priorities. Should the fiscal outlook improve, future recommendations for additional funding may be considered.

The Minister of Science and Technology advises against all proposed funding reductions from the National Treasury and that the regulations regarding the non-acceptance of Memoranda of Agreement for remunerated services be reconsidered in light of the adverse effect it has had on entities like the Council for Scientific and Industrial Research (CSIR) who could not secure its targeted contract income.

Given the tight fiscal environment and the need for the National Treasury to direct spending to other pressing national priorities that are underfunded, reductions have been effected across all votes, particularly on entities with favourable financial positions and large cash reserves. Baseline reductions to science and technology spending have been kept to a minimum.

National Treasury should elaborate on its view that, "the department's six entities are adequately funded to deliver on their mandate given the yearly applications to the National Treasury to retain surplus funds." The committee maintains that the performance delivery of the entities has been structured around the budgets that have been allocated to them, and not according to all the responsibilities that they are mandated to fulfil.

In 2018/19, the National Treasury applied stringent measures on the retention of surpluses, requiring compelling evidence on the need to retain funds. Entities under the Department of Science and Technology are adequately funded to deliver on their mandate given the amount of transfers they receive in relation to their respective mandates. This is further supported by cash reserves in the entities' bank accounts that accumulate interest, resulting in the requests to retain cash surpluses. Over the 2019 MTEF period the Department of Science and Technology will transfer the majority of its allocated budget to its entities to execute their mandates, and these entities also generate profits from their activities and the services they render to various stakeholders. Moreover, entities' performance indicators indicate that they are able to achieve their targets with the allocated budget as shown in the various annual reports and annual performance plans submitted to the National Treasury.

Portfolio Committee on Small Business Development

The committee had in the past recommended that the department needs to engage National Treasury in order to ascertain how much it would cost to establish necessary institutional support structures such as Co-operatives Development Agency, Co-operatives Advisory Council, Co-operative Development Fund and Co-operatives Tribunal, including discussions with the Department of Higher Education concerning the Co-operatives Training Academy. In light of the present co-operatives mortality rate such institutional support structures are indispensable.

Since 2017, the National Treasury has recommended that the Department of Small Business Development consider creating a unit within the department that will execute the functions of the Cooperative Banks Development Agency until the fiscal framework permits the establishment of a standalone agency.

Portfolio Committee on Tourism

The committee recommends that the Minister of Finance, through the National Treasury develops a tourism funding model for local government through determining a percentage of the budget that could be ring-fenced for tourism in the Division of Revenue allocations, in order to advance destination enhancement, market access, product development, and linkages to the Local Economic Development budget.

Government recognises the importance of tourism and the role municipalities play in facilitating its growth. Within the local government fiscal framework, most economic functions are funded from local government's own revenues. These revenues are raised primarily from the sale of services and property rates and account for 70 per cent of all municipal revenues. These are an appropriate source of funding for economic functions, as increased economic activity – including increased tourism traffic – will result in higher property values and sales of services, thereby helping to fund the cost of these functions. The opportunities for tourism promotion and the type of investment needed are likely to vary widely across South Africa's 257 municipalities, making it difficult to prescribe a one-size-fits-all approach to how much municipalities should spend in this area. Many activities that are essential to enhancing tourism also overlap with other functions, such as improving public transport, upgrading parks and ensuring the reliability of basic services. These are core municipal activities that can also improve the tourism potential of an area. Municipal councils are appropriately placed to decide on suitable tourism promotion projects in their areas.

The Minister of Finance through the National Treasury should capitalise the Tourism Transformation Fund with the budget commensurate to the transformation imperatives of the tourism sector which still resembles the apartheid patterns of ownership, management and control.

The National Treasury acknowledges the importance of tourism and the need for the development and transformation of the sector. However, due to the constrained fiscal outlook, the scope to provide additional funding is limited. Departments, public entities and constitutional institutions are required to reprioritise funds within their existing baselines to fund any emerging priorities. Should the fiscal outlook improve, future recommendations for additional funding may be considered.

The Minister of Finance should advise Parliament on the feasibility of introducing a Tourism Tax that could be introduced in South Africa, and whether such a tax would have a substantial impact on the increase of budget appropriated to the Tourism Vote.

The South African tourism levy charges the consumer a 1 per cent levy for the use of specific tourism services. The funds collected are primarily used by South African Tourism to promote the country as a preferred travel and tourism destination. Any consideration to introduce other taxes will need thorough evidence-based research.

Portfolio Committee on Trade and Industry

The Minister of Trade and Industry should consider engaging with the Minister of Finance with a view to make funding available for maintenance, upgrading and investment in new technology for the technical institutions such as the South African Bureau of Standards, the National Metrology Institute of South Africa and the National Regulator for Compulsory Specifications to improve efficiency and ensure modernization during the outer years of the Medium Term Expenditure Framework.

Due to the constrained fiscal outlook, the scope to provide additional funding is limited. However, during the 2018 adjustments budget, R100 million was shifted from the special economic zones incentive programme to the South African Bureau of Standards to replace outdated infrastructure. The National Metrology Institute of South Africa and the National Regulator for Compulsory Specifications were also allowed to retain surpluses from 2017/18 to allow the entities to respectively acquire a new building and modernise systems. In addition, the Department of Trade and Industry is considering reprioritising more resources within its baseline to fund critical priorities within the South African Bureau of Standards and the National Metrology Institute of South Africa.

Portfolio Committee on Water and Sanitation

The Minister of Water and Sanitation and the Minister of Finance should ensure that the Department of Water and Sanitation, in consultation with National Treasury and the Department of Cooperative Governance and Traditional Affairs (CoGTA) where necessary, urgently develops and implements a financial recovery plan for the improvement of the department's financial position and service delivery performance. Furthermore, National Treasury should consider secondment of the Government Technical Advisory Centre officials to assist the Department of Water and Sanitation with the development and implementation of a financial recovery plan.

The National Treasury has supported the Department of Water and Sanitation in drafting a financial recovery plan. This draft plan aims to review control measures related to supply chain, programme and project management, addressing leadership in the department, capital budgeting and staff morale. The department's accounting officer, who is responsible to manage expenditure, revenue, assets and liabilities, in terms of section 38 of the PFMA, should sign off and implement this plan.

Portfolio Committee on Women in the Presidency

The committee recommends that the funding model for the Commission for Gender Equality (CGE) should be aligned with the rest of the Chapter 9 institutions, in particular the Public Protector, to enable it to optimally give effect to its mandate.

The National Treasury has taken note of this recommendation. The funding model for the CGE is similar to that of the Public Protector of South Africa: both are funded through transfer payments in the votes of the Department of Women and the Department of Justice and Constitutional Development respectively.

The CGE should be provided with additional funds in order to retain existing staff and attract new staff. Specific emphasis should be placed on the funding of staff for legal clinics, public education and information, communication and legal support. To this end, provinces with the largest case load should be prioritised where offices require additional support.

Due to the constrained fiscal outlook, the scope to provide additional funding is limited. Departments, public entities and constitutional institutions are required to reprioritise funds within their existing baselines to fund any emerging priorities. Should the fiscal outlook improve, future recommendations for additional funding may be considered. The National Treasury will continue to engage the CGE as part of the budget process, specifically in relation to the issues highlighted by the committee.

Recommendations on the fiscal framework proposed in the MTBPS

Recommendations of the Standing Committee on Appropriations on the South African Airways Special Appropriations Bill

That the Minister of Finance should ensure the following conditions are implemented: i) Impose conditions to be met by the SAA before any part of the amount is transferred; ii) Impose conditions to be met by the SAA after the transfer of any part of the amount; and iii) Stop the use of the amount in respect of which conditions have been imposed in terms of subparagraph (ii), until such conditions are met.

The Minister of Finance has set the following conditions:

Before transfer of funding:

(i) The entire R5 billion should only be used to repay government guaranteed debt.

(ii) SAA should submit to the National Treasury and Department of Public Enterprises the maturity profile of government guaranteed debt together with the negotiation plans to extend the rest of the airline's government guaranteed debt and to manage other short-term debt with different lenders.

(iii) The exact amount of the maturing debt should be transferred two days before maturity date by the Department of Public Enterprises.

(iv) The department should not transfer more than the amount of the maturing debt at a time.

After transfer of funding:

(v) By 28 February 2019, SAA must report on the progress made on the initiatives that have been implemented to improve working capital management and reduce reliance on short-term government guarantees. Updates on these initiatives should be provided on 30 April 2019, 31 July 2019, 31 October and 31 December 2019. Thereafter, updates should be provided by the last day of each quarter.

(vi) On a quarterly basis, SAA must provide financial performance reports including progress on debt repayment and progress on the implementation of measures in condition (v).

That any future considerations for recapitalisation of SAA and other entities are benchmarked against comprehensive assessment of the utilisation of bailout funds within the context of key performance indicators.

Ordinarily, a state-owned company maintains its status as a going concern if it is able to generate sufficient internal resources to cover its operations and new investments. A bailout only becomes necessary when a firm is no longer able to service commitments falling due that are guaranteed by the state. To prevent future bailouts, the boards of state-owned companies must develop and implement strategies that return these institutions to profitability.

That National Treasury in its review of the Supply Chain Management Reforms considers the extent to which laws and regulations enable profitability and competitive edge for state owned entities.

The turnaround of SAA is led by the airline's board, with oversight provided by the Department of Public Enterprises. This turnaround includes strategies to enable the airline to return to financial sustainability, which focus on efficient, equitable and value for money supply chain management. Due to the separation of powers, government departments do not amend laws, but implement laws passed by Parliament.

Recommendations of the Standing Committee on Appropriations on the 2018 Adjustments Appropriation Bill

That the Minister of Finance should ensure that National Treasury investigates and implements mechanisms aimed at supporting the programme participants of the Employment Creation Facilitation Fund to ensure that the fund is utilised optimally for its intended objective.

The National Treasury remains an important supporter of job creation in the country and continues to support the efforts of the Jobs Fund. Since its formation in 2011, the Employment Creation Facilitation Fund (now the Jobs Fund) has worked to encourage innovation in job creation through structured partnerships with the private, public and non-profit sectors by awarding once-off grants to organisations through a competitive process. As of December 2018, the Jobs Fund has disbursed R4.6 billion in grant funding to 125 projects and leveraged R8.6 billion in matched funding. These projects have created more than 170 000 permanent jobs and more than 55 000 short-term jobs, in addition to providing training for over 240 000 people and placing more than 20 000 young people in internships.

Recommendations of the Standing Committee on Appropriations on the 2018 MTBPS

The Committee notes that the MTBPS made no mention of the Mandate Paper, which was introduced as one of the budget prioritisations tool last year, and requires NT to provide greater clarity on this at the next quarterly meeting.

The Department of Planning, Monitoring and Evaluation was fully involved in all the meetings of the 2018 Medium Term Expenditure Committee. The mandate paper was discussed and used to guide decisions at these meetings. The allocations made in the 2018 MTBPS reflect the recommendations and implications of the mandate paper.

That the Minister of Finance should ensure the National Treasury in consultation with Provincial Treasuries and the relevant national departments assists provincial departments of health, education and social development with the development of funding plans for filling of critical frontline posts to mitigate the diversion of resources from frontline services due to the pressure of the wage bill.

The education sector uses post provisioning norms – a mechanism for allocating teachers to schools – to ensure schools have enough educators. This process is finalised in September each year, so educators are always prioritised in the wage bill. In addition to this, provinces have continued to prioritise social sectors to ensure that service delivery is not compromised. The health sector is filling 3 139 positions announced by the Minister of Health recently, which covers medical specialists, medical doctors and other health staff.

That National Treasury in consultation with Provincial Treasuries and the National Department of Health assists provincial departments of health with the development of medium-term plans for the gradual elimination of unpaid bills and accruals.

The Budget Council has endorsed the decision for provincial departments of health to report on the challenges facing the sector, which include accruals on a quarterly basis. This reporting will allow national and provincial treasuries to monitor accruals and gradually reduce unpaid bills. The aim is to have a reasonable level of accruals that are not older than 30 days and are cash-backed.

That National Treasury in consultation with relevant stakeholders investigates the possibility for government to invest in an infrastructure delivery inspectorate to ensure that infrastructure projects are delivered in accordance with the required standards and quality.

The National Treasury has made funds available to the Development Bank of Southern Africa (R400 million) and the Government Technical Advisory Centre (R60 million) to assist in developing a pipeline of well-prepared, bankable projects that can leverage private sector investment and expertise. In addition, R165 million has been allocated to the Technical Project Management Unit of the Presidential Infrastructure Coordinating Commission to strengthen technical assistance to departments. A process is already under way to hire qualified engineers and quantity surveyors to help public-sector institutions monitor projects and ensure that quality checks are in place before any expenditure is incurred.

To standardise procurement, the National Treasury has published the Standard for Infrastructure Procurement and Delivery Management and embarked on an awareness and capacity-building campaign across government. The National Treasury will support provinces and municipalities to improve the effectiveness of agency agreements and the management of control frameworks.

It is also introducing an improved reporting system that will provide details of all projects in the general government infrastructure budget, which will consolidate and automate reporting in the public domain.

Recommendations on the division of revenue

Recommendations of the Standing Committee on Appropriations on the 2018 Division of Revenue Amendment Bill

The Minister of Finance should ensure that National Treasury gazettes the following corrections to the Conditional Grant Frameworks as well as the New Conditional Grant Frameworks as set out in annexures 2 and 3 of the Bill, in accordance with section 16(4) of the Division of Revenue Act, 2018.

The corrected frameworks will be gazetted together with the details of the revised allocations that were provided through the Division of Revenue Amendment Act (2018).

Recommendations of the Select Committee on Appropriations on the 2018 Division of Revenue Amendment Bill

The Committee is of the view that any financial or accounting reform should result in an effective and efficient municipal environment. The Committee recommends that, as required by Section 34 of the MFMA, National Treasury and provincial treasuries, together with Salga (as a recognised organised local government association in terms of Section 163(a) of the Constitution), provide support and ensure that there is necessary capacity to maintain and operationalise the Municipal Standard Chart of Accounts systems with immediate effect.

The municipal standard chart of accounts is a key reform for improving efficiency in municipalities. All municipalities had to implement the standard by 1 July 2017. The National Treasury continues to provide extensive support for this reform, including appointing advisors to help provincial treasuries assist municipalities, providing guidance on implementation issues (including budgeting, transacting, reporting and preparing for audits), issuing annual changes to improve the chart, responding to queries and providing training to all stakeholders.

Recommendations of the Standing Committee on Finance on the 2018 Revised Fiscal Framework

The Committee is concerned about the misalignment of NDP goals and infrastructure spending outcomes in all three spheres of government. The Committee again urges government, including the National Treasury and the Presidential Infrastructure Coordinating Commission, and other stakeholders to address this far more effectively.

Over the past 10 years, the public sector has spent more than R2.3 trillion on infrastructure. State-owned companies have been the biggest contributors to public-sector expenditure over this period, spending R1 trillion in total. Municipalities and provincial departments have also increased their infrastructure spending, contributing R453 billion and R542 billion respectively. During this period, one of the biggest challenges in infrastructure has been the weak planning capability to translate strategic objectives into concrete project ideas. A number of initiatives are under way to align infrastructure projects to NDP goals.

The Presidential Infrastructure Coordinating Commission is updating its list of priority projects to accurately reflect NDP goals.

The Budget Facility for Infrastructure aims to increase the rigour of technical assessment and budgeting of capital, operations and maintenance of large infrastructure projects. Only national priority projects as designated by the Presidential Infrastructure Coordinating Commission can be submitted to the facility. A total of 24 Budget Facility projects have been recommended for funding and are being implemented.

The National Treasury is reviewing the Standard for Infrastructure Procurement and Delivery Management to ensure that infrastructure projects are aligned with the NDP and other government strategic planning documents.

The Committee recommends that in view of the VAT increase, constant increases in the cost of fuel and increases in the cost of living generally, NT considers a higher increase in grants than is usually the case by reprioritising expenditure and not exacerbating the debt-to-GDP ratio, as increases in debt in these specific circumstances will ultimately affect the poor disproportionately the most.

The 2018 Budget included above-inflation increases to social grants to compensate for the VAT increase. This adjustment was factored in over the three years of the MTEF period.

The Committee is concerned that continuous bailouts of SOEs are not sustainable and have depleted our contingency reserves. The Committee further notes that debt redemptions are expected to average R66 billion per year over the medium-term and that several SOEs are not able to service their debt obligations.

The Committee requires NT to exercise effective oversight over these entities and regularly report to it the progress being made in implementing their turnaround strategies.

Where an entity is recapitalised or provided with government guarantees, some of the mandatory conditions include the development of a sustainable turnaround plan and the establishment of committees to monitor the entity's performance with the intention of returning it to financial sustainability. These committee meetings are generally held weekly, monthly or quarterly depending on the level of severity of the entities financial problems. It is incumbent on the Executive Authority, which is the shareholder representative, to frequently update the committee on its adherence to these conditions and outline tangible mitigation strategies where entities are failing to meet the conditions.

We recommend that within the framework of its prescribed role NT conducts better fiscal oversight over other government departments and entities and in turn advocates robust fiscal oversight and monitoring and evaluation of monies transferred to implementing agents and entities at the provincial and local spheres of government.

Sections 32 and 71 of the PFMA allow for extensive monitoring of government's finances. In-year monitoring of national, provincial and local departments is undertaken monthly, tracking financial position, performance and cash flows. The results are reported to the Standing Committee on Appropriations quarterly. Government is also supported by the Reserve Bank, which tracks the same metrics using the Government Finance Statistics framework developed by the International Monetary Fund.

An additional R16.5 billion will be allocated to various programmes, including funding to restore much-needed capacity at the South African Revenue Service. The Committee welcomes these allocations, especially to infrastructure and SARS. But the Committee wants to see an implementation plan. NT is required to report on progress on this at its quarterly meetings with the Committee.

The National Treasury will liaise with the South African Revenue Service on the initiatives that they will undertake to improve capacity at the revenue authority. Updates on the implementation of these initiatives will be provided to Parliament.

The Committee however welcomes the South African Investment Conference 2018 held from 25 to 27 October and the pledges of investment of R290 billion. Even though some of the investments announced may not be new, the Conference has contributed to boosting confidence in the South African economy. Government has to however monitor progress on the implementation of these programmes and report regularly to the relevant parliamentary committees.

The Investment Conference 2018 demonstrated renewed confidence in the South African economy and generated investment pledges worth R300 billion. The majority of these pledges are made up of previously unannounced investments. Government acknowledges the importance of monitoring and reporting on progress, and has delegated these operational responsibilities to InvestSA, a division of the Department of Trade and Industry. The department will report on progress to Parliament.

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