REPORT OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE 2015 MEDIUM TERM BUDGET POLICY STATEMENT, DATED 25 NOVEMBER 2015

Having considered and heard comments from identified stakeholders on the 2015 Medium Term Budget Policy Statement, the Standing Committee on Appropriations reports as follows:

1 Introduction

The Minister of Finance tabled the Medium Term Budget Policy Statement (MTBPS) on 21 October 2015 as required by section 6 (1) of the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009 (the Act), outlining the budget priorities of government for the medium term. The 2015 MTBPS was tabled with the Division of Revenue Amendment Bill [B27 - 2015] and the Adjustments Appropriation Bill [B28 - 2015] in Parliament. Part of the MTBPS was referred to the Standing and Select Committees on Appropriations for consideration and report. This was done in accordance with their respective mandates as outlined in the Act. Among its responsibilities, as per Section 6 (8), in respect of the MTBPS, the Committee was required to consider and report on the following issues:

- the spending priorities of national government for the next three years;
- the proposed division of revenue between the spheres of government and between arms of government within a sphere for the next three years; and
- the proposed substantial adjustments to conditional grants to provinces and local government, if any.

The MTBPS provides an overview of government's key spending areas as the setting for detailed sectoral policies and departmental programmes that will accompany the 2016 budget. The Committee, in order to deepen democracy, good governance and promote public participation during the budget process, invited public comments. To give effect to this process a number of stakeholders were identified, namely,

- Financial and Fiscal Commission (FFC);
- Parliamentary Budget Office (PBO);
- Human Sciences Research Council (HSRC);
- Public Service Commission (PSC);
- Department of Higher Education and Training; and
- Council on Higher Education.

In addition, an advertisement was published in national and community newspapers from 16 to 23 October 2015 inviting general public comments and the following submissions were received:

- South African Local Government Association (SALGA);
- Rural Health Advocacy Project (RHAP);
- Students from Tshwane North Technical Vocational Education and Training (Tshwane North TVET);
- Public Service Accountability Monitor (PSAM);
- Congress of South African Trade Unions (COSATU); and
- Human Rights and Democracy of South Africa.

The 2015 MTBPS was tabled within an economic environment characterised by low growth across the world markets, slower global trade, volatile capital flows, weak commodity prices and heightened geopolitical tensions. It is important to note that all countries' globally are trying to tackle their own domestic challenges and initiate the necessary changes required for promoting economic growth.

The Committee notes that the spending plans contained in the 2015 Budget sought to respond to the country's immediate need for improvement in the economic growth outlook. The 2015

MTBPS contains proposals that seek to build on these commitments and proposes a number of initiatives to stabilise debt and improve the efficacy of spending. It is envisaged that in the medium term, government will continue to limit the country's external vulnerabilities and address domestic structural constraints to faster growth.

The 2015 MTBPS proposes fiscal guidelines that seek to entrench government's commitment to sound and progressive fiscal management. The new long term fiscal guideline builds on government's counter cyclical approach and seeks to align the spending ceiling explicitly with the long-term path of economic growth. Government revenue growth will continue to outpace spending growth, narrowing the budget deficit from 3.8 per cent in the 2015/16 financial year to 3.0 per cent in the outer year of the medium-term expenditure framework (MTEF). Fiscal policy ensures the health of the public finances by applying the principles of counter-cyclicality, debt sustainability and intergenerational fairness

The 2015 MTBPS reflects the policy priorities contained in Government's Medium-Term Strategic Framework (MTSF), which identify the key actions required to implement the National Development Plan (NDP). The 2015 MTBPS notes that whilst poverty, inequality and unemployment continue to negatively affect the lives of many people, there has been progress in reducing poverty and expanding services to many South Africans.

The 2015 Development Indicators Report highlights the following:

- South Africa's life expectancy increased from 52 years in 2004 to 61 in 2014.
- Infant mortality dropped from 58 to 34 deaths per 1000 live births between 2002 and 2014.
- The number of households living in formal dwellings increased from approximately 8 million to 12.4 million.
- The share of households with basic access to electricity increased from 77 per cent to 86 per cent.
- Access to water increased from 80 to 86 per cent and access to sanitation increased from 62 to 79 per cent.
- The proportion of 5 year-old children attending early childhood development facilities has more than doubled to 87 per cent, and adult literacy has increased to 84 per cent.

The main budget tabled in February 2015 had projected the economy to grow by 2 per cent for the financial year 2015/16, 2.6 per cent for 2016/17 and 3 per cent in 2017/18. The 2015 MTBPS has revised growth projections down to 1.2 per cent, 2.1 per cent and 2.7 per cent respectively. The downward revision in growth projections reflects the continued weak global economic environment with slow economic growth in the country's major trading partners and other emerging markets. The MTBPS states that some of the main contributing factors to the country's revised economic forecasts include electricity supply constraints, falling commodity prices and lower confidence levels. Limited growth in employment and household income constraints continue to hold back consumption.

Some of the long term trends in our socio-economic structure outlined in the 2015 Development Indicators Report that will need to be accounted for as we embark on a new growth path for the country include:

- The movement of people from rural areas and small towns to cities, and the resultant changes in lifestyle and living standards that are associated with urbanisation,
- The increasing use of public transport and urban amenities;
- The increasing demand for education, use of social media and access to the internet, and;
- The growing importance of service industries and tourism, and the growth of our economic links with Africa and the global economy.

The MTBPS states that the 2015 public-sector wage agreement resulted in a 10.1 per cent increase in the wages and benefits of government employees and that this led to a compensation budget shortfall of R12.2 billion in the current fiscal year, R20.6 billion in 2016/17 and R31.1 billion in 2017/18. There needs to be commensurate improvements in the quality of

public services. The wage agreement has consequences for the composition of spending as wage adjustments place pressure on capital and other critical service delivery goods and services. The weak economic performance continues to put a great deal of pressure on the fiscus, with revenue insufficient to cover expenditure. The budget deficit is high, debt levels have approached the limits of sustainability and the economy is vulnerable to global volatility.

In his MTBPS submission, the Minister of Finance indicated that the central fiscal objective over the medium term is to stabilise the growth of debt as a share of Gross Domestic Product (GDP). Rising debt-service payments are already crowding out spending on social and economic priorities. Expenditure on core social and economic programmes will be maintained, while spending on non-essential goods and services is set to decline in real terms in the medium term.

It is against this background that the Committee engaged with identified stakeholders on the 2015 MTBPS.

2 Medium Term Expenditure Framework

The NDP represents an opportunity to unite South Africans behind the common objective of faster, inclusive and sustainable economic growth. The state submits that it remains committed to working with the private sector and labour to achieve a more stable industrial relations environment, improve confidence, and speed up growth and job creation.

In engaging with government's proposed spending plans for the 2016 MTEF, the Committee notes the following main risks to the medium-term fiscal outlook as reported in the MTBPS:

- A further deterioration in the economic growth outlook. A decline in growth results in falling revenue growth which increases the deficit and debt levels as a share of GDP.
- Rising inflation would lead to an increase the likelihood of unplanned expenditure. For example, higher-than-expected increases in electricity and water tariffs would increase the cost of providing free basic services. In addition, rising inflation would also result in faster compensation expenditure growth given that the wage agreement is linked to inflation.
- The weak financial positions of several major public entities remains a significant risk to the fiscal outlook. The MTBPS reports that work is underway in developing a uniform legislative framework that regulate state-owned companies.

The government proposes expenditure growth of 7.2 per cent a year over the next three years and the main budget framework is projected to reach R1.3 trillion by 2018/19. It is envisaged that compensation budgets will outpace inflation by 2 per cent each year on average which will result in strong growth in health, education, security and other personnel-intensive sectors.

Capital spending declines in real terms but capital transfers grow, partly reflecting shifts towards local government grants that fund water infrastructure. Debt-service costs remain the fastest-growing expenditure item. The MTBPS states that National Treasury together with the Department of Planning, Monitoring and Evaluation in the Presidency, will make greater use of expenditure reviews and evaluations in the allocation of resources.

Table 1: Main Budget Framework, 2012/13 to 2018/19

R billion	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
		Outcome		Revised	Medium-term estimates		
Division of available funds							
National departments	**420.0**	**453.2**	**489.6**	**550.2**	**557.6**	**596.7**	**642.0**
Provinces	**380.9**	**410.6**	**439.8**	**471.8**	**503.4**	**548.8**	**591.1**
Equitable share	310.7	336.5	359.9	386.5	412.2	447.6	482.5
Conditional grants	70.2	74.1	79.8	85.3	91.2	101.2	108.6
Local government	**76.4**	**82.8**	**87.8**	**101.3**	**106.9**	**115.3**	**128.4**
Equitable share	37.1	39.0	41.6	51.7	52.9	57.5	62.7
General fuel levy sharing with metropolitan municipalities	9.0	9.6	10.2	10.7	11.2	11.8	12.5
Conditional grants	30.3	34.3	36.0	38.9	42.9	46.0	53.2
Total	**877.4**	**946.6**	**1 017.2**	**1 123.2**	**1 168.0**	**1 260.8**	**1 361.5**
Percentage shares							
National departments	47.9%	47.9%	48.1%	49.0%	47.7%	47.3%	47.2%
Provinces	43.4%	43.4%	43.2%	42.0%	43.1%	43.5%	43.4%
Local government	8.7%	8.8%	8.6%	9.0%	9.2%	9.1%	9.4%

Source: National Treasury (2015)

Over the MTEF period, national departments are allocated 47.4 per cent of available non-interest expenditure, provinces 43.4 per cent and local government 9.2 per cent. Medium-term allocations to national departments increase by an average annual rate of 5.6 per cent (excluding all indirect grants). Provincial and local government allocations show slightly higher growth in the medium term due to government's emphasis on front-line services such as health, education and basic services. This is also as a result of the rising cost of these services due to higher wages, and bulk electricity and water costs.

Table 2: Consolidated Government Expenditure[1], 2014/15 to 2018/19

R billion	2014/15 Outcome	2015/16 Revised	2016/17	2017/18	2018/19	Average annual growth 2015/16 – 2018/19
			Medium-term estimates			
Basic education	**197.4**	**213.9**	**228.6**	**249.8**	**270.0**	**8.1%**
Basic education	189.2	204.5	219.2	239.6	259.3	8.2%
Arts, sport, recreation and culture	8.2	9.4	9.5	10.2	10.7	4.5%
Health	**144.6**	**157.7**	**169.7**	**184.7**	**200.6**	**8.3%**
Defence, public order and safety	**162.6**	**172.0**	**183.7**	**198.9**	**211.8**	**7.2%**
Defence and state security	47.5	50.0	53.0	57.2	60.8	6.7%
Police services	78.3	83.1	88.7	96.0	102.5	7.3%
Law courts and prisons	36.9	38.9	42.0	45.7	48.5	7.6%
Post-school education and training	**54.4**	**63.7**	**66.2**	**71.0**	**76.6**	**6.3%**
Economic affairs	**168.8**	**187.6**	**202.3**	**208.5**	**222.5**	**5.9%**
Industrial development and trade	26.4	30.4	32.2	32.6	34.9	4.7%
Employment, labour affairs and social security funds	52.3	65.7	73.1	75.4	77.8	5.8%
Economic infrastructure and network regulation	71.9	71.1	76.0	78.8	86.0	6.5%
Science, technology, innovation and the environment	18.1	20.5	20.9	21.7	23.8	5.2%
Human settlements and municipal infrastructure	**156.4**	**178.7**	**189.9**	**204.2**	**222.6**	**7.6%**
Agriculture, rural development and land reform	**24.2**	**25.6**	**26.5**	**28.3**	**30.0**	**5.4%**
General public services	**62.2**	**72.5**	**71.8**	**75.8**	**79.8**	**3.3%**
Executive and legislative organs	10.2	12.6	13.1	14.0	14.9	**5.7%**
General public administration and fiscal affairs	37.5	44.9	44.0	46.5	47.1	**1.6%**
Home affairs	7.0	7.2	7.2	7.4	9.3	**8.8%**
External affairs and foreign aid	7.4	7.7	7.5	7.9	8.5	**3.5%**
Social protection	**143.4**	**154.0**	**168.0**	**181.3**	**195.7**	**8.3%**
Allocated by function	**1 114.0**	**1 225.7**	**1 306.6**	**1 402.6**	**1 509.5**	**7.2%**
Special appropriations: Eskom and New Development Bank	–	25.0	–	–	–	–
Debt-service costs	114.8	127.9	142.6	157.2	174.6	10.9%
Contingency reserve	–	–	2.5	9.0	15.0	–
Consolidated expenditure	**1 228.8**	**1 378.7**	**1 451.7**	**1 568.8**	**1 699.1**	**7.2%**

[1] *Consisting of national, provincial, social security funds and public entities*
Source: *National Treasury (2015)*

National Treasury states that the downward revision to GDP, shortfalls in revenue and the weaker exchange rate have led to an upward revision of the debt-to-GDP ratio. Critical is the fact the debt-ratio trend stabilises in the medium term as a result of continued restraint in expenditure growth and improvements in the budget balance. Debt service costs grows faster than total state expenditure in the medium term. The cost of servicing government debt is projected to grow at an average annual rate of 10.9 percent in nominal terms over the medium term.

The fastest growing programmes as outlined in the consolidated expenditure framework are health, social protection, basic education and human settlements and municipal infrastructure. There will be lower expenditure growth in the areas of general public services and agriculture, rural development and land reform. Basic education, health and social protection receive over

43 per cent of allocations which shows the continued prioritisation of funding for the social sector.

Basic education remains the largest single category of government expenditure. The MTBPS notes that the quality of outputs in education do not match the extent of the investment in the sector. Learner performance improved in the 2014 annual national assessments and international benchmark assessments though it is still below acceptable levels. There are targeted support programmes that are aimed at helping teachers improve instruction in maths, science and technology through an intensive in-service training programme. It is envisaged that universal access to grade R is expected to be achieved within the next three years and government aims to provide all qualifying children in registered centres with an ECD subsidy.

The proposed spending projections for the health sector point to higher growth in allocations over the medium term at 8.3 per cent per annum. Growth in health spending will fund the scaling up of response to HIV/AIDS and tuberculosis. The national antiretroviral treatment programme now reaches more than 3 million people. Work is underway in developing the system of national health insurance (NHI) which will enable South Africa to achieve universal health coverage. Lessons learnt from the current NHI pilots will be used in designing an appropriate model for the system.

With regards to social assistance, the number of South Africans receiving social grants is projected to reach 18.1 million in 2018/19, growing at 2.2 per cent a year over the MTEF period. The increase is mainly due to higher life expectancy and efforts to ensure all eligible children younger than two years of age benefit from the grant.

The provision of basic service is emphasised in government's medium term budget framework. Over the 2016 MTEF, allocations to municipalities amount to R351 billion, growing at an average of 8.2 per cent a year. This includes provision for free basic services, eradication of infrastructure backlogs and institutional capacity-building. Rising electricity prices and population growth have put pressure on the ability of municipalities to fund free basic services for low-income households. Government proposes to add R6 billion to the local government equitable share to offset these trends.

With regards to job creation and skills development, the MTBPS indicates that R37 billion is allocated to public employment programmes in the medium term. This should allow the Expanded Public Works Programme to create about 6 million short-term jobs. Spending projections for post-school education and training keep pace with inflation in the years ahead. The Minister of Finance submitted that an interdepartmental team is working out the financial implications of the white paper on post-school education, and how the expected expansion of enrolments can be funded.

Provision is made for funding of R16.2 billion in the MTEF to support industrialisation through incentives, promotion of various industries, and assistance to small enterprises and cooperatives. New Special economic zones will begin operating in the Free State and Gauteng. The government is to review the effectiveness of business incentives so as to assess the impact of incentives on economic growth, productivity, competitiveness, the balance of trade and employment. Special emphasis will be given to job creation and the need to incentivise labour-intensive economic activities.

With regards to infrastructure development, emphasis in the medium term will be on building partnerships with the private sector to boost inclusive growth and job creation in South Africa's cities. Additional will be the shift in focus to improving value for money in infrastructure delivery. The government will invest more in the refurbishment and renewal of ageing infrastructure, while continuing to expand social infrastructure to under-served areas. With specific reference to cities, Development Bank of Southern Africa will facilitate new, long-term lending instruments that encourage the participation of institutional investors and pension fund; and link borrowing periods and project lifespans.

The MTBPS notes that about 74 per cent of the road network is beyond its design life and significant sections of the non-toll network require urgent rehabilitation. Measures to improve the efficiency of investments in the secondary road network include the introduction of a new performance component incorporating efficiency indicators for managing road networks. In terms of rural infrastructure, it is critical to note the majority of municipal infrastructure grants for services such as water, sanitation, electricity and roads are allocated to the 27 priority rural district municipalities.

With regards to safety, security and justice, it is envisaged that the South African Police Service will strengthen its public-order policing capabilities and address training gaps, including those identified by the Marikana Commission of Enquiry. Proposed allocations will allow for key positions in the Public Protector of South Africa to be filled and advocacy field capacity in the South African Human Rights Commission to be enhanced.

2.1 Budget reforms and emerging issues confronting public expenditure

There are three issues highlighted in the proposed budget framework which will have a significant impact on the efficacy and effectiveness of funding allocations and expenditures. These are the wage bill, public sector productivity and the appraisal and rollout of government's capital projects.

The 2015 MTBPS states that the public-sector wage agreement led to a compensation budget shortfall of R12.2 billion in the current fiscal year, R20.6 billion in 2016/17 and R31.1 billion in 2017/18. It is envisaged that a large portion of the costs of the agreement will be funded through savings, reallocation and drawdowns on contingency reserves. With specific reference to the reserve allocations, projected contingency reserves of
R15 billion and R45 billion in the two outer years have been cut to R2.5 billion and R9 billion respectively to accommodate the wage bill. In addition, the MTBPS point to the need to radically change the manner in which future negotiations are conducted and is considering proposals to reform remuneration in the public sector.

In doing more with less, the state will need to consider ways of structuring the wage bill. In particular, the balance between remuneration levels, employee numbers and productivity may need further consideration. The MTBPS indicates that the government will seek reforms that strengthen the link between pay and performance, improve payroll systems, simplify remuneration policies, streamline bonuses and allowances, and ensure that institutional arrangements for collective bargaining are effective and mindful of resource constraints. In addition, linked to the reforms will be continual strengthening of budgetary controls on non-essential items and the implementation of cost-containment measures.

With regards to cost containment measures, there has been positive progress with a 3 per cent decrease achieved in spending on consultants, a 6 per cent decrease in travel and subsistence and a 47 per cent decrease in catering, entertainment and events expenditure. It is critical to note though that there is still not full compliance with these measures.

The MTBPS notes that improved coordination coupled with targeted incentives and efforts to build municipal financial capacity have improved capital project planning and execution. Local government spent 91 per cent of allocated infrastructure budgets in 2014/15, up from 86 per cent in 2013/14. In the medium term, government will introduce a capital budgeting framework that will seek to entrench value for money principles in infrastructure investment. The framework will include new appraisal tools for capital projects, the strengthening of procurement regulations, placing measures to lock in resources for operations and maintenance and ensuring more transparency on the full life-cycle costs of large capital projects.

The government has completed the second phase of its local government infrastructure grant review. Proposed reforms to be introduced from 2016/17 include enabling the use of funds for the renewal, refurbishment and rehabilitation of existing infrastructure together with the prioritising of maintenance, grant reforms aimed at support financially sustainable transit networks in large cities, consolidating urban grants over the MTEF period to tackle challenges

in the built environment, rationalising grants to reduce complexity and administrative burdens and introducing grants that differentiate between metros, secondary cities and rural areas.

In terms of overall budget reforms, the MTBPS proposes a fiscal guideline for the expenditure ceiling in the outer year of the fiscal framework. The proposal is that the spending ceiling should be linked to South Africa's long-term economic growth projections. In essence the fiscal guideline will ensure that when times are good, spending grows more slowly than the economy, and when times are bad, spending will outpace GDP growth. With regards to overall policy coordination, government has decided that all future legislation and regulations will be subject to a socioeconomic impact assessment before being passed so as to mitigate unintended consequences.

Reforms underway in modernising public procurement include the establishment of the government's eTender portal, the Central Supplier Database is now operational, the transversal contract for Learner Teacher Support Material has been completed, a single procurement bill is being developed and tender documents are to be made more user friendly. There will also be compulsory standards for infrastructure procurement and delivery management which are to be issued in April.

With regards to enhancing partnerships with the private sector, the MTBPS states that government will explore a bigger role for private finance as a complement to public funds in the social provision of housing, tertiary education and health care.

3. Hearings on the 2015 MTBPS

3.1 Parliament Budget Office

The Parliamentary Budget Office (PBO) in its submission on the 2015 MTBPS commented on the macroeconomic outlook, fiscal framework, revenue outlook, debt outlook, expenditure outlook, the NDP and MTSF, and challenges and possible risks. With regard to the revenue outlook, the PBO commented that there was a R35 billion downward revision in gross tax revenue between the 2015/16 and 2017/18 financial years. In terms of the Public Sector Wage Bill, the PBO stated that there was a R50.91 billion shortfall between the 2014/15 and 2017/18 financial years when compared to budget estimates.

In terms of expenditure for the 2015 MTBPS, the PBO highlighted the following challenges: public sector wage agreements; weaknesses in budget management; employment trends; cost of post-school education; efficiency and effectiveness; and capital planning and expenditure. With regard to the realignment of baseline budgets for realistic budget estimates, the PBO reported that this should seek to achieve better correspondence between the following:

- Programmes and targets;
- Resource and policy objectives and outcomes;
- Emerging cost pressures;
- Historic and current trends; and
- Historic and current performance.

With regard to the alignment of the NDP with the 2014-2019 MTSF, the PBO stated that there was an alignment in most areas, however, areas mostly associated with Outcome 5 still needed to be strengthened. The PBO further commented on the progress regarding the MTSF with specific reference to Outcomes 1 (Quality Basic Education), 2 (a long and healthy life for all South Africans), and 5 (a skilled and capable workforce to support an inclusive growth path). Table 3 below will provide a summary of the said progress.

Table 3: Progress on the MTSF

Outcomes	Number of targets and indicators	Number of targets achieved by 2014/15	Percentage Achieved

Outcome 1: Quality Basic Education	61	22	36%
Outcome 2: A long and healthy for all South Africans	58	26	45%
Outcome 5: A skilled and capable workforce to support an inclusive growth path	50	26	52%

3.2 Financial and Fiscal Commission

The Financial and Fiscal Commission (the FFC/ the Commission) submitted that the 2015 MTBPS is significant due to its consideration of long term issues in budget formulation as expressed by the guideline which encompasses an expenditure rule, a structural budget balance rule and a revenue rule. South Africa was encouraged to focus its strategy for reigniting growth i.e. improving education expenditure outcomes, increasing skills bases, maintaining strong growth on social safety net spending and increasing productivity of public infrastructure. The FFC commented on the internal dynamics impacting South Africa's growth prospects highlighting pressures faced by the mining industry such as the drop in China's imports, the declining commodity prices, and industrial tensions as well as infrastructure bottlenecks. The Commission emphasised the need to resolve electricity supply constraints; implement more coordinated policies to enhance Small Micro and Medium Enterprises (SMMEs); address the skills mismatch within the labour market; and enhance the efficiency of infrastructure spend across the three spheres of government.

The FFC indicated risks to the fiscal outlook which include further deterioration in economic growth and inflationary pressures. Other risks which could exert pressure on the fiscal framework include the weak financial positions of several major public entities, healthcare reform and social protection, and the limited reserves to respond to revenue underperformance or unexpected spending (i.e. limited fiscal buffer) due to use of the contingency reserve to fund beyond inflation increases in the public wage. The FFC recommended that government should work with state-owned entities (SOEs) to implement turnaround plans and also ensure that wage increases are linked to increased productivity and performance across the public sector. In this regard, the FFC re-iterated its recommendation for a framework for measuring productivity.

With regard to expenditure prioritisation, the FFC indicated that the 2016 budget should prioritise activities that stimulate growth i.e. infrastructure and industrial development. It also highlighted that aligned and coordinated infrastructure plans should remain a key government priority. The FFC welcomed the growth in the allocation for human settlements and municipal infrastructure but maintained that the current approach to housing delivery and funding needs to be reviewed in order to promote active citizenry and self-building housing initiatives. The Commission had concerns with uncertainties associated with the housing function shift to metros and the performance of the Municipal Human Settlements Capacity Grant.

The FFC noted with concern the two year extension of the indirect component of the National Health Grant for funding of the Human Papillomavirus (HPV) and viewed this as indicative of improper planning during the introduction of the grant. The expansion of the HIV/AIDS grant to cover tuberculosis was supported by the FFC as long as the new priorities do not displace the original intentions of the grant. The Commission welcomed the merging of basic education infrastructure grants as well as the review of the National School Nutrition Programme (NSNP) and emphasised that the programme should meet the minimum requirements in providing meals to all learners in national quintiles as per the National Norms and Standards for school funding.

The FFC submitted that the slowdown in allocations to employment programmes is likely to increase pressure on social services, and also indicated that Public Employment Programmes (PEPs) should not be seen as strategy to increase available jobs but to improve labour market outcomes. The FFC was of the view that the PEPs in their current form are too generic and rarely customized to respond

to the prevailing economic conditions and participants seldom exit the programme and transition into sustainable jobs.

The Commission welcomed the additional resources channelled to the local government sector through the local government equitable share (LES) formula, however was concerned that the growth in the cost of basic services i.e. bulk electricity and bulk water in the outer years would outstrip growth in LES. The FFC also welcomed reforms to infrastructure grants and was of the view that these would enhance administrative efficiency and reporting, introduce predictability and transparency by a formula driven Public Transport Network grant and also assist municipalities to pay more attention to asset care and maintenance. Interventions by National Treasury, the Department of Cooperative Governance and Traditional Affairs (COGTA) and the South African Local Government Association (SALGA) to assist municipalities with payment agreements with Eskom were welcomed however municipalities were encouraged to take their fiduciary responsibilities seriously by honouring these agreements. The FFC also welcomed the allocations for funding major re-demarcations and proposed that an objective financial impact of demarcations should be determined and communicated to receiving municipalities. Provincial Treasuries and COGTA were encouraged to closely monitor this grant and ensure that it strictly used to defray demarcation related costs.

3.3 Human Sciences Research Council

The Human Science Research Council (HSRC/the Council) commended government for its continued prioritization of health issues as a means for addressing both poverty and inequality in South Africa. This was evident in the proposed additional allocations to this sector amounting to R324.783 million which was derived from the implementation of various cost containment measures. Whilst the HSRC was encouraged by the above inflation 8.3 per cent annual budget increase in the health sector, it cautioned that the improvement of efficiencies was just as important as the increase in the budget envelope. The Council further highlighted the following areas in respect of the health sector for consideration:

- Funding for the accelerated implementation of the NHI was important to address the inequalities in access to quality services and health outcomes.
- There was a need for more investment in health systems strengthening to enhance performance and health systems resilience.
- A funding structure was needed that supports the mainstreaming multi-sectoral partnerships thus having more coherent investments in health and health related investments across sectors.
- Funding for health research was limited despite increasing demands for new knowledge and innovation in addressing the various health challenges.

The HSRC also commented on the interventions suggested in the 2015 MTBPS in respect of a skilled and capable State and stated that three interventions of focus, i.e. improving effectiveness, expanding partnerships with the private sector and strengthening governance in State-Owned Entities (SOEs) were not budget interventions per se. The Council welcomed the inclusion of education and skills development in the medium term spending priorities which suggested alignment with the development of skills which were necessary to improve the State's capacity. Questions however remained over how government at all levels applied the various interventions suggestions in the NDP to improve skills of civil servants. Whilst the Council welcomed the refocused Municipal Systems Improvement (Indirect) Grant, it expressed concern that its focus was placed on rural local government structures. To this end, the HSRC indicated that this should also be extended to urban local government structures which were under distress.

In terms of partnerships with the private sector, the HSRC commented that the 2015 MTBPS was not clear how this would be achieved and instead focus was placed on current partnerships and those envisaged for the future. The Council submitted that it welcomed the announcement that work has commenced on the development of a uniform legislative framework to regulate SOEs. It further welcomed efforts by government to stabilise several SOEs as well as the commitment to restrict fiscal

support to these entities through offsetting asset sales so as to ensure there was no net impact on the budget deficit.

The HSRC also commented on social cohesion, violence, and the public perception around trust/corruption and stated that the mid-term budget paid little attention to these areas. The Council stated that trust in government was decreasing whilst trust between race groups was diminishing which increased conflict and there was increase in violent crime and violent protests. The point was made that dialogue was critical to social cohesion and nation building however there were delays in the appointment of a service provider to facilitate same by the Department of Arts and Culture. Furthermore, it was reported that the allocation of R48.795 million albeit it under spent, was insufficient as social cohesion, violence and trust perceptions needed evidence based strategies.

3.4. Public Service Commission

The Public Service Commission (PSC) submitted that the 2015 MTBPS is less clear about Human Resource strategies and highlighted areas where the public service can be strengthened so as to complement the proposals of the 2015 MTBPS. The PSC made reference to its recommendations which form part of a Discussion Document *'Building a Capable, Career-Oriented and Professional Public Service to Underpin a Capable and Developmental State in South Africa (2015*)'. The PSC proposed that the public service be professionalised by changing the career system to allow for a deliberate and systematic building of a skills pool. To this end, the PSC recommended that all occupations in the public service be specified with regard to inter alia job content, entry and promotion requirements with regard to task, knowledge and skills proficiency, career progression and succession planning, mobility in and out of the occupation, and continued professional development requirements.

The PSC was of the view that corporate support processes are highly regulated and that these should be transformed by focusing them on outcome in addition to compliance. Proposals in this regard included a regulatory impact assessment by the Department of Public Service and Administration. The PSC pointed out corporate support issues in departments which need continued attention such as the non-implementation of court awards and judgments, the cost of prolonged periods of precautionary suspensions with full pay, outsourcing functions that ought not to be, and non-payment of invoices within 30 days. Reference was also made to the Performance Management Development System (PDMS) with regard to attainment of its objectives and its affordability in terms of time and direct costs of monetary awards. It was also reported that the PDMS is a source of the majority of grievances referred to the PSC. The PSC's recommendations also included the reviewing of management structures and processes in order to align responsibility, authority and accountability. PSC suggested that health districts, school districts and police station management could be prioritised in this regard.

The PSC provided the status of the filing of performance agreements (PA) of Heads of Departments (HODs) as at October 2015 citing some of the departments which had not complied or complied late with this. Furthermore, the PSC submitted an analysis of 11 selected departments reflecting budget spending versus performance for the past three financial years. The PSC re-iterated that there is still a poor link between the expenditure and the performance of departments. The PSC also submitted that department's strategic and annual performance plans do not provide a sufficient basis to make real strategic trade-off decisions from a cost-benefit point of view. To this end, the PSC proposed that departments should prioritise analytical capacity such as financial modelling, policy analysis, evaluation, strategic planning, and process design. With regard to opportunities for efficiency, effectiveness and value for money, the PSC highlighted that the delivery model in South Africa is still too top down and that although collaboration and coordination are intended for saving of costs there is a general trend of duplicating structures by not taking into account existing provincial and local structures.

3.5 South African Local Government Association (SALGA)

The South African Local Government Association (SALGA) submitted that trends in the 2015 MTBPS reflect overall limited funding to local government in comparison to the other two spheres of government and that this would increase pressure for the collection of own revenue. SALGA

acknowledged the progress in policy matters such as conditional grants reviews, the costing of basket of service and the division of fiscal powers and function however was of the view that these policies still need to be reflected in the figures. Although SALGA welcomed the review of grants, it submitted its disappointment at the discontinuation of the Municipal Human Settlements Capacity Grant and the decrease to 3% instead of 5% window in the Urban Settlements Development Grant. SALGA was of view that it was imperative to engage on the conditions of the grants to eliminate duplication of reporting requirements, to get key sector departments such as Sports and the Department of Human Settlements on board and to monitor the changing of grant terms. The Municipal Demarcation Grant was also appreciated although its sufficiency was deemed short.

SALGA submitted the following local government challenges which in its view were not boldly addressed in the 2015 MTBPS:

- Budget and cash flow issues: non-payment of creditors, uncollected revenue of R106 billion and solvency issues;
- Migration and informal settlements: demand for services, inability to pay and delivery protests;
- Infrastructure pressures: electricity theft, water leaks, infrastructure maintenance and refurbishment challenges
- Financial viability of municipalities; and
- Support beyond demarcation and in other areas not yet affected.

SALGA indicated that although the Local Government Fiscal Powers and Borrowing Acts provides for a variety of measures aimed at increasing the revenue generating capacity of local government, National Treasury has been reluctant to support these measures. These measures include: local business tax as a dedicated revenue stream for funding economic infrastructure (replacement of RSC Levy); direct revenue source for municipal roads infrastructure (e.g. surcharge on vehicle licencing fee); financial instruments including borrowing and bond market in the context of pool financing between and amongst stronger municipalities; legal basis through the Division of Revenue Act for leveraging the Equitable Share to increase or enhance the credibility and borrowing capacity of municipalities; and the revision of the regulatory framework for Public Private Partnerships to ensure greater efficiency of process without digressing from principle of state regulation of pricing, norms and standards, accountability, sound financial principles and value for money.

SALGA proposed additional legislation, infrastructure and support in the form of a National Collections Agency to bolster the effectiveness of debt collection by municipalities as part of building municipal financial viability. In addition reference was made to legislative instruments which may have negative fiscal and other impact on the LG sector and these included the financial impact of the Administrative Adjudication of Road Traffic Offences (AARTO), the impact of Public Service Amendment on the IT environment, impact of SPLUMA implementation on fiscal and technical capacity, and the impact of Standard Charts of Accounts (SCoA) on audit outcomes in terms of technical readiness of non-pilot municipalities. SALGA encouraged the Committee and the Auditor-General to conduct oversight over implementation readiness for SCoA. SALGA was concerned about the municipal instability that may arise due to LG elections and cited that clear municipal monitoring and support mechanisms by NT, COGTA and provinces was needed. These would entail identification of gaps, resources, coordination and support models. It was emphasised that interventions should be differentiated and targeted between cities and other categories. SALGA also alluded to the impact of Eskom's untenable business practices on municipalities and that this issue has been escalated to the Minister of Finance and the Presidency.

3.6 Rural Health Advocacy Project (RHAP)

The Rural Health Advocacy Project (RHAP) is an NGO which works on rural health and health care financing covering equity, efficiency and the effectiveness of expenditure in rural health care contexts. Its submission focused on the impact the budget policy decisions could have on access to human resources for the public sector health system. RHAP was concerned about the implementation of staffing moratoria at provincial level; emerging budgetary pressures from higher than inflation

increases in compensation of employees (CoE); and the substantial increase in administrative and policy posts at the expense of service delivery posts.

According to RHAP, provincial departments have managed budgetary pressures by securing adjustments to CoE budgets or shifting funds from goods and service during the Adjustments process. This has contributed to growing accruals whereby goods and services expenditure is not adjusted to account for shifts within spending priorities thus resulting in hidden deficits which must be recovered from current expenditure without the necessary budget adjustment. RHAP commented that the freezing of posts was being implemented by provincial departments of health and treasuries to curb overspending and the cost pressures as highlighted above. RHAP was concerned that the reference of the 2015 MTBPS to no funds for the expansion of public sector employment over the next three years and to the need for some departments to reduce their establishment would exacerbate the issue with dire consequences for health care service delivery. These consequences include diminished capacity to deliver services; poor supervision of existing staff; weakened support processes (e.g. procurement); additional strain on already overburdened staff, and consequently overburdened staff leaving the public service and deepening the crisis.

To this end, RHAP made the following recommendations which emanated from a workshop held at the Public Health Association Conference:

- The National Department of Health in collaboration with National Treasury should provide guidance through policy on how provinces should protect critical posts.
- Critical posts to be determined locally and defined as those that potentially have catastrophic consequences for service delivery if they remain vacant.
- National Treasury to play an active role in ensuring that Districts develop costed recruitment plans and provide guidance to District Managers on how the financial aspects should be addresses.
- Decision-making on cost saving and cost-cutting should be made at the district level based on Promotion of Administrative Justice Act (PAJA) principles of rationality, proportionality and the progressive constitutional right to health.
- Corruption and unauthorised expenditure should be performance managed.
- Government to guide treasuries on how to exercise discretion in protecting health rights where Treasury directly intervenes in health administration.

3.7 Congress of South African Trade Unions (COSATU)

The Congress of South African Trade Unions (COSATU) in its submission stated that whilst it welcomes certain aspects of the 2015 MTBPS, it expressed concern about National Treasury's failure to abandon its discredited fiscal and monetary approach. In terms of government expenditure, COSATU stated that whilst it was sympathetic to the difficult balancing act forced upon government by this precarious economic climate, it however did believe that now is the time to reduce state expenditure. The Congress further agreed that wasteful and unproductive expenditure must be reduced but the economy demanded that Sate expenditure and government investments be increased in order to expand infrastructure, support vulnerable industries and create decent permanent work for all. To this end it welcomed government's commitment to not reduce socio-economic expenditure and to approach the possibility of any tax increases with caution.

COSATU commented that it appreciates the need for sustainable debt management and to avoid a reckless approach to deficit expenditure. However it does not believe that the economy can afford to reduce the deficit expenditure as rapidly as planned by National Treasury. COSATU further indicated that it appreciates government's commitment to ensure that expenditure grows at a faster rate than inflation. Whilst, COSATU welcomed government's commitment to explore reforms that will support a progressive and efficient tax system, it was of the view that this cannot include an increase in Value-Added Tax (VAT) or income taxes on lower and middle income workers. It also rejected any above inflation hikes in electricity and water tariffs.

COSATU stated that it remained deeply distressed that whilst government recognises the massive unemployment crisis, nothing new was mentioned in the MTBPS to address this matter. It further

welcomed government's engagements and support towards addressing labour market strife and towards achieving a national minimum wage at Nedlac. However business must now come to the party and accept their responsibility to help move South Africa forward. COSATU further stated that temporary jobs must become permanent with employers approaching wage negotiations in good faith. The point was also made that outsourcing by government and the private sector must cease and be replaced by permanent decent work.

The Congress reported that it strongly rejected government's threatened VAT increase as this will have a massive debilitating impact on the poor, the middle class, economic growth and job creation. To this end it suggested that company taxes can be increased whilst taxes on luxury goods can be provided and a wealth tax on millionaires would be supported. In terms of the Public Sector Wage Bill, the Congress suggested that the wage bill was in line with international norms and that it has not grown out of size, instead it decreased by 12 000 over the past year. The Congress suggested that emphasis be placed on the elimination of ghost employees in the public sector and that the substantial wage gap be eradicated.

COSATU also commented on the performance of State-Owned Enterprises with focus on Eskom, SANRAL and commented on the adjusted allocations which were made towards the following areas:

- Health;
- Social Development;
- Basic and Higher Education;
- Expanded Public Works Programme and Community Works Programme;
- Justice and Correctional Services;
- Transport;
- Rural Development;
- Household and Basic Services;
- Tourism;
- Home Affairs; and
- Police Services.

3.8 Public Service Accountability Monitor (PSAM)

The Public Service Accountability Monitor (PSAM) in its submission made the following recommendations on the 2015 MTBPS:

a) School Nutrition Programme (NSNP)
   - The DBE must administer rigorous statistical data collection relating to NSNP indicators to inform planning and budgeting.
   - National Treasury: promote /establish/establish rigorous Provincial and District Monitoring Systems for Tracking Expenditure and Programme Implementation- especially where targets are not met.

b) Personnel Provisioning
   - Treasury interventions to regulate post distribution.
   - Treasury: insist finalisation/uniformity of post provisioning model.
   - Consider impact of school rationalisation.

c) Scholar Transport Programme
   - Consider impact of school rationalisation.
   - Advertise concrete timeframes to consider conditional grant funding model.

d) Early Childhood Development (ECD)
   - Dire need for explicit funding model.
   - Interim Monitoring and Evaluation.

3.9 Students from Tshwane North Technical and Vocational Education Training

Seboane Mothlothlong proposed additional allocations to higher education and that non-priority areas should be adjusted to get more funding in this regard.

Tshiamo Masemola submitted that funds allocated for the building of smart schools should be reprioritised to first deal with basic learning materials which are foundational and necessary for students to effectively operate technological devices envisaged in the smart schools. Tshiamo made reference to reprioritising half of the funds allocated for transport in Gauteng to address urban migration challenges such as human settlements and unemployment. He also submitted that more opportunities should be created for youth to invest in SMMEs and become entrepreneurs.

L.K. Ngomane proposed public education and intensified public consultation on the budget process making reference to hearings at educational institutions and other public forums. In addition, L.K. Ngomane submitted that expenditure on non-essential items like Sports Awards and advertisements should be curbed.

3.10 Business Unity South Africa

Business Unity South Africa (BUSA) commended National Treasury for maintaining a fiscally prudent approach in the context of the economic challenges faced by the country. National Treasury was encouraged to have a conservative approach to future growth forecasts given that it has consistently revised down growth targets. BUSA emphasised the resolving of electricity constraints, policy certainty and restored confidence levels as key determinants of achieving the GDP growth rate for 2015. BUSA was concerned that our current trajectory does not accommodate the very changed and challenging global and domestic circumstances and thus called for a comprehensive review of spending priorities in this regard. In terms of the MTBPS as a whole, BUSA supported the measures taken towards fiscal consolidation, the strengthening of public institutions, and increased allocations towards education. It urged that greater focus and impetus should be given to the implementation of the NDP.

In terms of the budget deficit, concerns were raised regarding the increase in government debt as a percentage of GDP, the interest repayments increase of R1.5 billion, and drawing down on the contingency reserve to fund the above inflation public service salary settlement. However, National Treasury was commended for maintaining the expenditure limit in the MTEF and for the intention to stabilise the debt ratio. BUSA was of the view that unreliable infrastructure is a significant and ongoing risk for economic growth and called for further clarity on SOEs funding for expansion requirements, developments on independent coal and gas power projects and assessment on viability of building additional nuclear power capacity. BUSA also called for an efficient and timeous rollout of new infrastructure and maintenance of existing infrastructure.

BUSA welcomed government's proposed initiatives for promoting economic development, employment and enterprise development making reference to the manufacturing competitiveness enhancement programme, special economic zones, business tax incentives as well as public employment programmes. BUSA also welcomed the amicable wage settlements in coal, private securities industries. It highlighted that discussion on comprehensive social security such as NHI were a critical component of labour relations stability. BUSA welcomed financial sector reforms, however were concerned that the reforms inadequately cater for the transformation imperative given the limited progress to date. BUSA were also of the view that National Treasury's efforts to promote investment in South Africa will be crucial given the current patterns of capital flows away from emerging economies.

3.11 Business Leadership South Africa

Business Leadership South Africa (BLSA) commended the Minister of Finance on maintaining a prudent fiscal approach, particularly in the face of the significant challenges facing the country. It however highlighted areas, i.e. infrastructure, State-Owned Companies, and tertiary education, where a closer relationship was needed between National Treasury and corporate citizens. In terms of infrastrucrure, BLSA expressed concern at the long delays in the completion of mega projects like the

Medupi and Kusile power stations and suggested that the management before embarking on these needed more stringent scrutiny, for instance the proposed nuclear build programme. BLSA welcomed the involvement of National Treasury in the current costing exercise underway regarding the nuclear build programme and further stated that it was also attempting to assess the economic implications of the proposed project and urged the latter to share information in that regard.

BLSA also alluded to the failure of local government to spend if capital budgets on infrastructure and put forward that a more open approach to public private partnerships needed to be adopted to this end. BLSA stated that it was pleased to be engaging with stakeholders in an attempt to harness private sector funds and skills to support continuous upgrading of municipal infrastructure for essential services such as water and sanitation. The planned reforms to strengthen infrastructure planning, implementation and procurement were welcomed by BLSA.

With regard to State-Owned Companies, BLSA was of the view that the extent to which State-Owned Companies placed pressure on the fiscus was unacceptable and unsustainable. It further stated that the cutting of reserves left no room for any unexpected expenditure incurred by State-Owned Companies to be repeatedly absorbed by the fiscus with no consequences for those responsible. It further welcomed the work undertaken on a legal framework to regulate State-Owned Companies and looked forward to being engaged on the content of the legislation, in particular in the area of governance.

3.12 Special hearings on funding for higher education

The MTBPS provides an overview of government's key spending areas as the setting for detailed sectoral policies and departmental programmes that will accompany the 2016 budget. The Committee, in recognising the recent students' protests and the need for finding immediate and long term solutions to funding higher education in South Africa held a joint briefing together with the Select Committee on Appropriation and the Portfolio Committee on Higher Education. The briefing was by the Department of Higher Education and Training and the Council on Higher Education on the funding implications of the no fee increment in universities for 2016. In addition, the Committee requested input on higher education funding from the following stakeholders, namely,

- Financial and Fiscal Commission (FFC);
- Parliamentary Budget Office (PBO);
- Human Sciences Research Council (HSRC); and
- Council for Higher Education

The Department Higher Education and Training submitted that the number of Grade 12 learners estimated to gain entrance into a university will increase from 172 000 in 2013 to about 250 000 by 2019, increasing pressure on universities to expand. This constitutes approximately 30 per cent of National Senior Certificate students each year with the remaining school leaving students catered for through other public post-school opportunities, i.e. Technical Vocational Education and Training and Community Education and Training colleges, skills development opportunities.

The system currently caters for approximately 1 million university students, 720 000 TVET college students and 330 000 CET college students. It is critical to note that the NDP states that all qualifying NSFAS students should receive Full Cost of Study loans and that students who do not qualify should have access to bank loans, backed by State sureties.

With regards to the 2016 zero fee increase shortfall, the Department submitted that based on actual figures from Universities, the shortfall in 2016 due to the no fee increase is R2.330 billion with tuition fee increment of R1.915 billion and residence fee increment of R415 million. The department indicated that following consultation with all parties it was agreed that the shortfall for 2016 will be shared between universities and government as follows,

- Universities will contribute R394.7 million
- The Department in consultation with National treasury will secure the remaining R1.935 billion.

The department submitted that in the long term the baseline for university funding must be increased by a minimum of R2.4 billion in 2017 in order to offset the zero fee increase in 2016 whilst maintaining the current student population and programmes offered by institutions. The department also submitted that there remain shortfalls between the number of students that NSFAS was able to support and those that qualified but not supported.

In 2014, South Africa spent 0.72% of GDP on direct subsidies to higher education, including NSFAS. If NSFAS grant is excluded, the figure reduces to 0.62% of GDP. This is significantly lower when compared to 2011 figures of African countries at 0.78%, Organisation for Economic Cooperation and Development countries at 1.21% and the rest of the world at 0.84%.

The table below shows what is required to fully fund 25.5% of the undergraduate population.

Table 1: Full Cost of Study Funding

FCS NSFAS Funding for UG students	**2016/17**	**2017/18**	**2018/29**
	10 702 165.0	12 261 301.0	14 019 319.0

Source: Department of Higher Education and Training

The Council of Higher Education in its submission indicated that the central dilemma facing higher education funding is the clash of competing developmental goals such as an increase in access and success rates; improvements in quality and the advancement in expansion; static and declining resources while costs burgeon exponentially.

The CHE indicated that the Main reason for increase not necessarily tuition fees but rather increases in other costs such as student support services, accommodation, meals and books.

The CHE submitted that attention needs to be given to NSFAS loan and debt recovery rates, Universities to self-examine and implement cost containment measures, that SETA funds be examined, that universities to share infrastructure, services and resources where practical and overall improvements in internal efficiencies.

In the hearings, National Treasury reported that it was not necessary to amend the 2015 Adjustments Appropriation Bill as resources can be mobilised to fund the shortfall arising out of the no fee increment in universities in 2016.

It further reported on four manners in which resources could be mobilised to fund higher education on a longer term basis as follows:

- Raising taxes (i.e. Davis Commission will look into wealth tax) however a difficulty exists in this regard as the economy was currently performing poorly hence raising taxes will be equivalent to cutting expenditure.
- Reprioritise spending from other areas which will not be easy as it will inflict significant pain in other areas of Government spending.
- Re-balancing funding within the post school education system through earmarked taxes. For example, Skills Education Training Authorities (SETAS) and the Unemployment Insurance Fund (UIF) surpluses which create imbalances in the budget.
- Mobilising resources for loans from the private sector which will require policy reforms.

The Parliamentary Budget Office submitted that critical issues to be considered in relation to NSFAS funding include the number of students satisfying the means test who are unable to

access funding, the gap between NSFAS disbursements and actual, full cost of study, students who do not satisfy means test but cannot afford full costs of study and the efficacy of process for collecting loan repayments.

The FFC indicated that the spending prioritisation framework proposed in MTBPS 2015 poses a challenge in terms of addressing government's resolution to implement a 0% fee increase in 2016. However, the FFC proposed the following:

Options for the short term

- Option A: universities to reduce their expenditure –though this may compromise the standard/quality of education thus undesirable
- Option B: state to intervene with financing through three mechanisms, firstly, through reprioritisation within the DHET itself and thereafter, more broadly across government, secondly, through the utilisation of the unallocated (contingency) reserves or thirdly, through the Sale of non-strategic assets.

The FFC indicated that the reprioritisation option together with universities exercising greater fiscal austerity would set a positive example for the private sector to respond.

Options for the long term

- In the long term options around financing may include significantly reprioritising state funding, committed implementation of plans to sell nonstrategic assets, increasing the tax burden or borrowing.

In summary, the FFC indicated that a clear system of differentiation in the determination of free education needs to be devised together with a precise definition of free education.

The HSRC in submission indicated that in 2014 there were about 3 million tertiary graduates between the ages of 15 to 64 whilst the NDP's aspirational target is 10 million university graduates by 2030. This will require significant resources. In addition, critical to note that the university enrolments have increased by only 10 per cent between 2010 and 2013 whilst TVET enrolments have increased by 78 per cent.

The HSRC indicated only 10% of students pay back the loan and highlighted the need to improve NSFAS' mechanism for disbursing funds to students. Other key interventions proposed for NSFAS include the need for higher throughputs for students on funding and increased loan repayments. The HSRC also highlighted the need for the use of National Skills Fund (non-fiscus) to fund students from low income homes studying scarce skills in the country

The HSRC submitted that in the short term NSFAS required a R10 billion injection of funds and that in the long term the President's task team to advice on the structures that should be put in place.

Key principles to be considered in the long term include that of paying according to your ability wherein wealthy people pay more and only the neediest are allowed to study for free subsidised by the state. Furthermore, all students who benefit, even the poor, must pay back something towards recovering the cost of the investment

Business Leaders South Africa (BLSA), in response to the comments from the public and government that the private sector should be approached for funding, submitted that it was important to consider the current contribution of the latter to tertiary education. BLSA alluded to the findings of the 2014 Customer Satisfaction Index survey which revealed that on the basis of a wide definition of CSI, included cash and non-cash contributions as well as expenditure on social causes as a result of licence-to-operate conditions, or by other operating (non-CSI) departments. The said survey revealed that a total CSI expenditure of 8.2 billion was reported by 99 companies that participated in the survey. When applying the narrower definition of CSI, which only includes expenditure by CSI departments, the estimated expenditure amounted to

R6 billion. From this, education attracted most support with 94 per cent of respondents indicating investing in this sector whilst 49 per cent of the CSI expenditure was directed at education initiatives. In terms of the wide definition of CSI, this equated to R4.018 billion and on the narrower definition, amounted to R2.940 billion and 26 per cent of these amounts went towards tertiary education. BLSA commented that it recognized the funding challenges that the no fee increase decision will have and welcomed any initiatives to engage with all stakeholders including businesses to address the long term sustainable funding of tertiary education.

4. Committee observations and findings on the 2015 MTBPS

The Standing Committee on Appropriations, having considered the 2015 Medium Term Budget Policy Statement, and having engaged with the various stakeholders makes the following findings and observations:

In terms of the overall thrust of the 2015 MTBPS

4.1 The Committee notes the 2015 MTBPS proposed fiscal guidelines that seek to entrench government's commitment to sound and progressive fiscal management. The new long term fiscal guideline builds on government's counter cyclical approach and seeks to align the spending ceiling explicitly with the long-term path of economic growth.

4.2 The Committee notes that the compensation budget shortfall due to the 2015 public-sector wage agreement will be funded through savings, reallocation and drawdowns on contingency reserves. The Committee emphasises that any proposed savings, reallocations and reductions should not have an adverse impact on the service delivery, especially for the poor and vulnerable.

4.3 The Committee remains concerned with the size of the wage bill and its effects on the composition of spending. It is critical to note that funding for compensation shifts resources away from much needed capital infrastructure and service delivery goods and services. Henceforth, the Committee supports the need to significantly change the manner in which wage agreements are concluded.

4.4 The Committee is gravely concerned that the current above-inflation increases has depleted contingency reserve of R65 billion. This has removed the fiscal buffer that is necessary to protect public finances in an economic environment facing prospects of a ravaging drought as well as uncertain global economy and rising social demands.

4.5 The Committee welcomes the fact that South Africa ranked third out of 102 countries in the 2015 release of the Open Budget Index. The survey measures the quality of budget transparency, public participation in the budget process and institutional oversight. The Committee notes the submission by National Treasury that the executive, Parliament and audit institutions all need to consider how to deepen citizen engagement on the public finances.

With regards the budget principles of efficiency, effectiveness and economy

4.6 The Committee endorses reforms that are aimed at strengthening the link between pay and performance, improve payroll systems, simplify remuneration policies, streamline bonuses and allowances, and ensure that institutional arrangements for collective bargaining are effective and mindful of resource constraints. The Committee places emphasis on increasing productivity in the all spheres of government especially within the constrained fiscal environment.

4.7 The Committee supports health-sector innovations currently underway which are aimed at realising greater efficiencies. The Committee also welcomes the multiple interventions underway in ensuring that the state procurement is efficiency and effective.

4.8 The Committee welcomes the undertaking in the MTBPS that all future legislation and regulations will be subject to a socioeconomic impact assessment to mitigate unintended consequences. The Committee views this as critical in strengthening policy certainty and in aligning policy priorities with the budget framework

4.9 The Committee notes that local government fiscal capacity varies substantially across various municipalities and trends show that it appears to have declined over time. The Committee also notes the intention of government to expand the municipal debt market. However, the Committee has reservations on the ability of some municipalities to sustainably service debt and is of the view that borrowing should be encouraged for capital investment and job creation wherein revenue collection through rates and service charges should enable municipalities to sustainably deliver basic services such as water, sanitation and facilitate energy distribution.

4.10 The Committee is gravely concerned that the current above-inflation increases has depleted contingency reserve of R65 billion. This has removed the fiscal buffer that is necessary to protect public finances in an economic environment facing prospects of a ravaging drought as well as uncertain global economy and rising social demands.

4.11 The trends in service delivery performance versus expenditure show that while departments regularly exhaust their allocated budgets, the attainment of stated performance targets continues to be a challenge and is uneven across sectors. In particular, while some departments performed well below average, the Departments of Basic Education and Economic Development managed to achieve more than 80 per cent of their planned performance targets for 2014/15.

4.12 The Committee notes the Minister of Finance's submission that there has been progress in the implementation of cost containment measures with significant reductions in non-essential items. The Committee is concerned that that there is not yet full compliance with these measures and notes the work underway in further clarifying and revising the Cost Containment Instruction for enhanced implementation.

With regards to the focus area of education, job creation and skills development

4.13 The Committee welcomes MTBPS' proposal that all qualifying children in registered centres will be provided with an ECD subsidy and notes that this is in line with the Committee's recommendation in the 2014 MTBPS which called for the provision of early childhood development programmes in each district.

4.14 The Committee notes that there will be a review on the impact of incentives on economic growth, productivity, competitiveness, the balance of trade and employment. Particular focus will be given to job creation and the need to incentivise labour-intensive economic activities. The Committee views that as important as all incentives should be underpinned by value for money and visible outcomes especially in terms of job creation.

4.15 The Committees notes with concern the FFC's submission that public employment programmes such as EPWP are too generic and rarely customized to respond to the prevailing economic conditions. The Committee views is as important to link the effective measurement of the state's employment programmes to the take-up rate of workers into regular employment and improving wages and productivity.

With regards to improving health care and services:

4.16 The Committee notes that NHI is being phased in over a 14-year period with full implementation envisaged in 2025/26. A white paper on NHI will be published in 2015/16 financial year and that key lessons learnt from the current NHI pilots will be used in designing an appropriate model for the system. The Committee emphasises its previous findings that there should be regular engagement on issues pertaining to the rollout of the NHI given its potential significant impact on the intergovernmental fiscal relations within the health sector.

4.17 The Committee notes the submission by Rural Health Advocacy Project regarding the freezing of posts by provincial health departments to contain cost pressures. Whilst the Committee welcomes measures to control cost pressures, it is of the view that this should always be done without compromising on service delivery.

4.18 The Committee notes the HSRC's submission that the health sector needs a funding structure that supports the mainstreaming of all health related interventions which includes investments in related interventions such as poverty reduction, food and nutrition security, education, water and sanitation.

With regards to accelerating economic growth and development, investment and infrastructure delivery

4.19 The Committee notes the significant infrastructure investment underway amounting to R542 billion the medium term earmarked for public transport, school buildings, health facilities, water infrastructure and others. In addition, infrastructure plans by large state-owned companies exceed R400 billion over the next three years. The Committee re-iterates that principles of efficiency and effectiveness should underpin the states infrastructure investments. The Committee also welcomes the introduction of a new capital budgeting framework.

4.20 The Committee notes that government will continue to encourage private-sector participation in infrastructure projects such as renewable energy and transport. The Committee re-iterates its view that government should minimise administrative bottlenecks as this would remove blockages to private sector participation in the economy.

4.21 The Committee supports HSRC's submission on the need to building trust between the private sector and the state through coherent and consultative policy development and the strengthening of the social compact between state, private sector, labour and civil society in order to achieve 'grand bargains' on key issues. Trust is essential to social transformation.

4.22 The Committee views the expansion of incentives that reward performance in project implementation and in the appointment of suitably qualified personnel as a positive development in improving infrastructure delivery and is in line with previous recommendations by the Committee. The Committee further supports the emphasis placed on the management of municipal infrastructure over its entire life cycle.

4.23 The Committee notes the National Treasury's submission that greater role for private finance as a complement to public funds in social provision will also be explored in the housing, tertiary education and health sectors. In addition, the Committee acknowledges the FFC's submission that current approach to funding and housing delivery is fiscally unsustainable and needs to be reviewed with a view of promoting active citizenry and self-build housing initiatives. The Committee views communication and education on the costs of public programmes such as human settlement be broadly communicated to enhance the public's understanding of their budgetary impacts.

4.24 The Committee views reforms at state owned entities and the financial stabilisation of public entities as critical. The Committee notes that work is underway in costing the developmental mandates undertaken by state owned companies separately from their commercial activities, with the financial implications being more clearly set out in shareholder compacts. Interventions addressing challenges in state owned entities should be fast tracked.

With regards to developing a capable and effective public service

4.25 The Committee recognises that the country's public servants make an important contribution to the country's development goals. However, the Committee is concerned that the wage agreement will set back efforts aimed at improving the composition of government spending

with pressure placed on capital and critical goods and services. While the Committee is mindful of the challenges faced by public servants who do not qualify for many state grants such as NSFAS, housing and others; public service productivity should remain a primary priority objective.

4.26 The Committee notes with concern the Public Services Commission's submission that human resources are not sufficiently highlighted in the MTBPS. The Committee views human resource management practices as critical and is a key component of the Medium Term Strategic Framework. The soft aspects of human resource management, such as employee satisfaction and morale, are often the most important drivers of performance.

4.27 The Committee notes with concern the FFC's submission that the growth in public (as well as private) sector remuneration has outstripped the growth in labour productivity and their call for the introduction of policy disincentives which discourage poor performance and a renewed focus placed on productivity.

4.28 The Committee recognises the importance of a public service career system that builds an internal pools of skills, it is of the view that opportunities should be available for graduates and external candidates and that emphasis should be on getting appropriately skilled staff for the job.

4.29 The Committee notes that PSC's submission that the ratio between corporate support and line function contributes substantially to the high wage bill of the public service and that the mode of administration is compliance rather than solutions driven.

4.30 The Committee concurs with the PSC that the performance information in annual reports needs to improve with an elevated focus on service delivery objectives and outcomes. In addition, the Committee agrees that there should more than one year's performance information data so that performance trends can be established

4.31 There has been a significant decline in compliance with the submission of Performance Agreements with the PSC submission indicating that less than a quarter of national departments had submitted performance agreements by the due date of 30 June 2014. The Committee views this a setback for the promotion of performance oriented culture in the public service.

4.32 The Committee notes with concern the PSC's submission that the PMDS is the source of a majority of grievances referred to the PSC, that the system is overly bureaucratic, has limited measurable performance standards and the questions around its affordability in terms of the time it takes and direct costs of monetary rewards. The Committee again reiterates the need for performance agreements and assessments to be linked to Annual Performance Plans (APP) so as to remove the anomaly of rewarding staff for performance whilst APP targets are not achieved.

4.33 The Committee supports the recommendation by Public Service Commission for integrated planning and the alignment of strategic and financial information in the Annual Performance Plans so as to allow for options in making real strategic trade-off decisions.

4.34 The Committee remains concerned that the Performance Management Development Systems has significant cost implications due to its link to individuals and not the department hence there are instances where departmental performance is poor and yet the department pays out substantial performance bonuses.

Committee observations and findings on the funding for higher education

4.35 The Committee notes the post school system currently caters for approximately 1 million university students, 720 000 TVET college students and 330 000 CET college students. The Committee further notes that the NDP states that all qualifying NSFAS students should receive

Full Cost of Study loans and that students who do not qualify should have access to bank loans, backed by State sureties.

4.36 The Committee notes the undertaking by the Department of Higher Education that that the zero fee increment shortfall of R2.330 billion for 2016 will be shared between universities and the Department.

4.37 The Committee notes submissions by various stakeholders on the need for attention to be given to NSFAS loan and debt recovery rates, that universities should self-examine operational effectiveness and implement cost containment measures, that SETA funds be re-examined and that universities to share infrastructure, services and resources where practical and overall improvements in internal efficiencies.

4.38 The Committee notes that 2014 South Africa spent 0.72 per cent of GDP on direct subsidies to higher education, including NSFAS. If NSFAS grant is excluded, the figure reduces to 0.62 per cent of GDP. This is significantly lower when compared to 2011 figures of African countries at 0.78 per cent, Organisation for Economic Cooperation and Development countries at 1.21 per cent and the rest of the world at 0.84 per cent.

4.39 The Committee welcomes the range of options for long term funding provided by the various stakeholders which include significantly reprioritising state funding, committed implementation of plans to sell nonstrategic assets, increasing the tax burden, ensuring those who afford to pay more or borrowing.

4.40 The Committee concurs with recommendations of the Portfolio Committee on Higher Education on its Budget review and Recommendation report that adequate funding for higher education and training will enable the Department to achieve on its objectives, and that allocation of infrastructure grants to TVET Colleges will enable colleges to maintain, expand and develop their infrastructure to alleviate the acute shortage of student housing in colleges; and the need for partnerships between private sector, business and the Department of Higher Education and Training.

5. Recommendations

The Standing Committee on Appropriations, having considered the 2015 Medium Term Budget Policy Statement, recommends as follows:

5.1 That the Minister of Finance should ensure that:

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

5.1.2 National Treasury, in partnership with the Department of Public Service and Administration and the Department of Planning, Monitoring and Evaluation should develop and implement a framework for measuring productivity aimed at benchmarking improvements in the public sector in the medium to long term.

5.1.3 National Treasury, in partnership with the Department of Planning, Monitoring and Evaluation should embark on budget outreach programmes that seeks to educate all stakeholders and the general public on the formulation of budgeting outcomes and the various trade-offs involved in the development of the final medium term budget framework.

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

5.1.5 National Treasury, in partnership with the Department of Planning, Monitoring and Evaluation consider the inclusion of partnerships into planning and budgeting frameworks so as to ensure enhanced emphasis of partnerships in the implementation of government programmes.

5.1.6 National Treasury in partnership with the Department of Public Works, the Presidential Infrastructure Coordinating Commission and all relevant stakeholders in the built environment, should further strengthen its capital budgeting framework through the following measures, namely:

- Conduct a comprehensive audit of the country's capital infrastructure stock so as to link it with the imperative of improving current operations and maintenance.
- Integrate all infrastructure public maintenance plans and ensure that budgets are appropriately ring fenced and spending levels are maintained
- Developing an infrastructure strategy that shifts demand from overused infrastructure assets to underused infrastructure asset.
- Develop planning frameworks that allow for the selection of infrastructure projects and infrastructure investment only in the most important and value adding projects.
- To create transparent platforms for the participation of private sector and civil society in the development of project pipelines and best practice in design, construction and contract management of infrastructure projects.

5.1.7 The human settlements and National Treasury in partnership with the Financial and Fiscal Commission and other stakeholders develop mechanisms for appropriate disincentives so as to discourage poor performance especially in ensuring that the attainment of targets in the Annual Performance Plans is aligned to budget planning and spending performance.

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

5.1.9 National Treasury and the Department of Planning, Performance Monitoring and Evaluation develop systems and mechanisms aimed at incorporating values of trust and building the social consensus in the budget process and its contribution to growth and development.

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

5.1.11 National Treasury and the Department of Planning, Performance Monitoring and Evaluation provide regular feedback to the Committee on significant issues pertaining to the budget framework such as the introduction of the National Health Insurance, expenditure reviews and evaluations, review of business support incentives and

reviews on conditional grant performance and other critical budgetary and spending issues.

5.1.12 National Treasury to put in place measures to ensure that funds earmarked for the Municipal Demarcation Transition Grant are used only for the specific purpose of defraying costs related to the demarcation.

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

5.2 That the Minister of Public Service and Administration should ensure that:

5.2.1 The Department in conjunction with the School of Government and the Department of Planning, Monitoring and Evaluation to develop and rollout a public training programmes targeted at enhancing the capacity of public servants on initiating, building and maintaining partnerships at all levels with private sector and civil society organisation.

5.2.2 The Department together with the Department of Planning, Monitoring and Evaluation to submit a comprehensive report on the finalisation and submission of performance agreements by Accounting Officers.

5.2.3 The Department together with National Treasury and the Department of Planning, Monitoring and Evaluation ensure that human resources practices are meaningfully streamlined into the budget process and in the formulation of outcomes targets for the Strategic Plans and Annual Performance Plans.

5.2.4 Ensure that human resources practices and processes measure itself against the outcome of getting the right person for the job and on the overall performance of employees.

5.2.5 The Department together with the Department of Planning, Monitoring and Evaluation review the Performance Management Development Systems so as ensure individual performance is linked with departmental performance.

5.3 That the Minister of Planning, Monitoring and Evaluation should ensure that:

5.3.1 The Department of Planning, Monitoring and Evaluation should develop reporting frameworks that will ensure that information in annual reports improves with an elevated focus on service delivery objectives and outcomes. This should include having more than one year's performance information data.

5.3.2 The Department of Planning, Monitoring and Evaluation should develop innovative ways of fostering social dialogues on key issues affecting the economy through state programmes such as public employment programmes and encouraging inter-provincial state bursary and scholarship graduate placements

5.3.3 The Department of Planning, Monitoring and Evaluation should develop innovative ways of strengthening integrated and coordinated government through planning frameworks such as Strategic Plans, Annual Performance Plans and Annual reports. Departments and entities to be encouraged to share common services and common processes that reap significant efficiencies.

5.3.4 The Department of Planning, Monitoring and Evaluation in partnership with the Centre of Public Service Innovation should develop innovative ways of strengthening innovation systems within the public service and consider the introduction of

innovation manifestos for each departments and establish formal systems for the sharing of information and innovation experiences within the Public Sector.

5.4 That the Minister of Health should ensure that the Department of Health in partnership with the National Treasury provide guidelines and develop systems aimed at ensuring that critical posts in health facilities are protected and that all funding reprioritisation efforts across the health sector are implemented with due regard to service delivery implications.

Recommendations on the funding for higher education

The Standing Committee on Appropriations, having considered issues related to funding for higher education, recommends as follows:

5.5 That the Minister of Finance and the Minister of Higher education and Training should ensure that National Treasury and the Department of Higher Education and Training consider the following options for funding higher education:

- Embark on a comprehensive reprioritising programme for leveraging funds for higher education through state funding;
- Consider a programme aimed at selling nonstrategic assets;
- Consider options at increasing tax revenues with due consideration to the macro-economic growth objectives of the state;
- Consider options at leveraging funds within the post school system including re-examining the efficacy of SETAs, UIF and others and their budget balances;
- Consider ways for managing growth in significant cost drivers such as student support services, meals, accommodation and books;
- To benchmark South African higher education funding with comparable countries;
- To immediately embark on a comprehensive partnership building drive with key stakeholders in the financial sector to implement innovative ways for funding higher education students;
- Together with relevant stakeholders including the leveraging of expertise from Auditor General of South Africa and other stakeholders support higher education institutions most affected by the reprioritisation exercise especially the historically disadvantaged institutions;
- Embark on a comprehensive communication drive targeted at students and parents on all aspects pertaining to student funding and possible financing options; and
- Immediate support for the National Student Financial Aid Scheme to ensure its readiness for additional resources envisaged for the medium term.

5.6 That the Minister of Higher Education and Training should ensure that:

5.6.1 Department of Higher Education and Training and NSFAS ensure the development and implementation of systems linkages with the South African Revenue Service and other stakeholders to assist in the selection of students and in the repayments of loans.

5.6.2 Department of Higher Education and Training and the Council of Higher Education ensure each the all higher education institutions publish comprehensive information for households to calculate the full costs of study and this to include registration and tuition fees, residence fees, the cost of private accommodation, meals, books and other study materials and others relevant information.

5.6.3 The Department of Higher Education and Training ensure that there is continued support for TVET and CET and that vocational skills programme links with the private sector are continually strengthened.

6. Conclusion

The responses by the relevant Executive Authorities to the recommendations as set out in section 5 above must be sent to Parliament within 60 days of the adoption of this report by the National Assembly.

The Democratic Alliance reserved its right not to support the Report.

Report to be considered.