

Performance and Expenditure Reviews

22-11-2016



National Treasury
REPUBLIC OF SOUTH AFRICA

Why did we start the Performance and Expenditure Reviews (PER)?

- Government needs to understand
 - Programme performance - progress with specific policy initiatives
 - Expenditure analysis - the full cost of policy decisions
 - Cost modelling: evaluating policy scenarios in an uncertain future, new policies
- Fiscal consolidation, yet we need resources
 - Greater efficiency in delivery
 - Better understanding of mix of policies and appropriateness of choices
 - Applied to existing and new programmes/policies
 - **Savings, will be very important going forward**
- Presidency and NT need rich & detailed information - data that we can trust
 - Information at the basis of joint discussions between DPME and NT in preparation for budget decisions

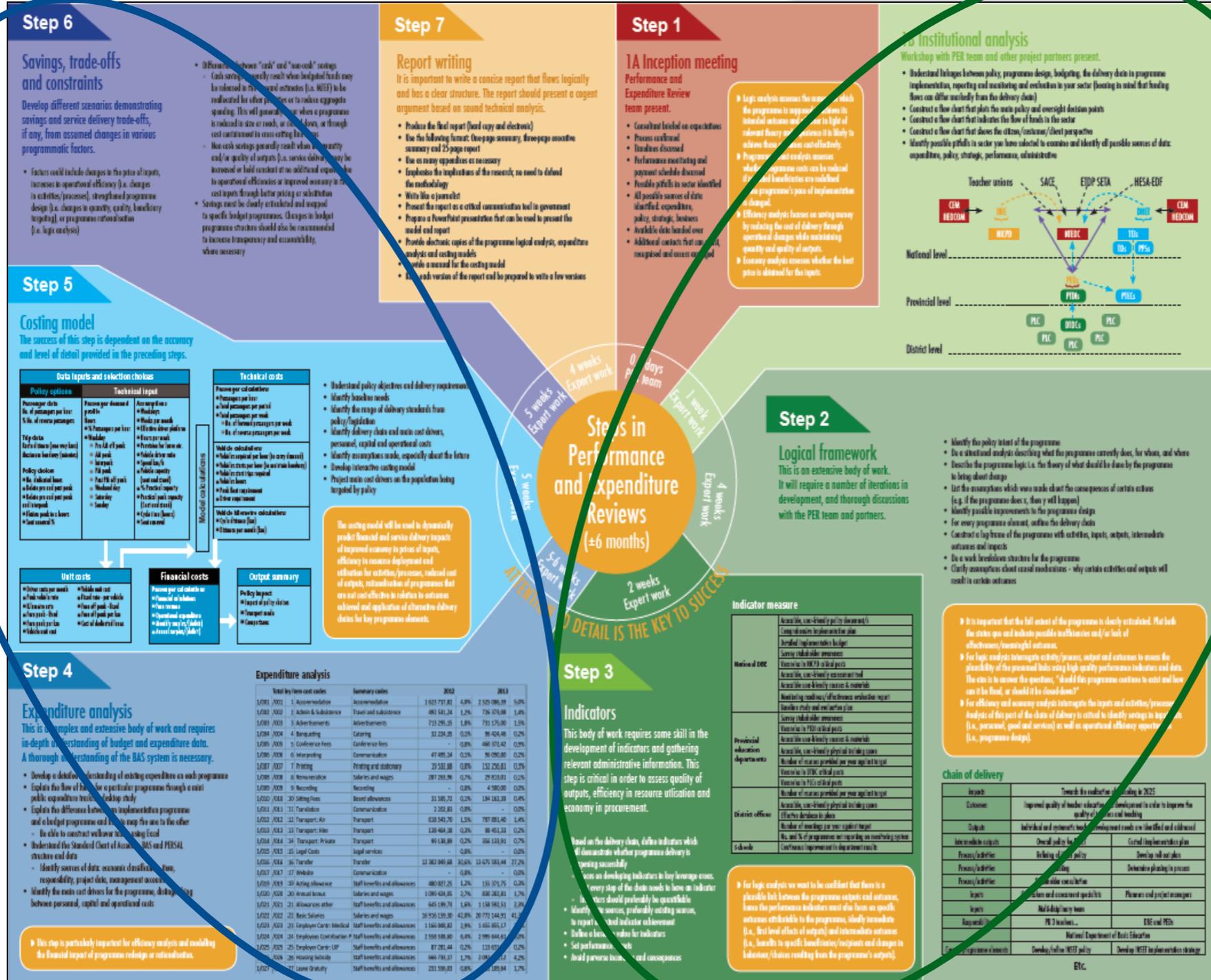
How do we organise the Performance and Expenditure Reviews?

- Initiated as joint project between NT and DPME in the Presidency
- Topics identified by National Development Plan, Ministers' Committee on the Budget, Medium Term Strategic Plan, senior officials in DPME & NT
- Work closely with relevant department, each individual PER had an oversight committee
 - NT Public Finance, department representatives, DPME in the Presidency
- Body of work done by specialised consultants such as sector experts & modellers
 - Open tender
- Standardised methodology
 - Break through i.t.o. time and cost
 - Projects completed 5-6 months

How do we assure quality of work?

- Very intense management of process
 - Collaborative participation by departments
 - Sign off by oversight committee at various stages before proceeding
- International accepted approach
- Conducted review of methodology in 2014, by International and local public finance experts on PERs
 - Methodology assessed as strong
 - Need to make pertinent proposals on savings/ cuts
- Institutionalise in Treasury
 - Developed and delivered in-house course for 70 staff
 - Will become part of routine work in Public Finance
 - Plan to roll-out to provinces
- Each PER comprises of a summary, a report, expenditure and/or cost model and policy or programme analysis in logframe format

What is the methodology?



Readily available information in existing systems in government

Programme and policy analysis

Expenditure analysis
Cost models
Scenarios on policy parameters

Completed PERs

Urban Space
Housing Programmatic Comparison
Rapid Verification of Informal Settlements
Social Housing
Water Services Delivery Chain
Public Transport in Metros
Rural Space
MAFISA
Land Restitution
Biofuels
Higher Education & Training
National Skills Fund (NSF)
Technical Vocational Education and Training (TVET)
National Student Financial Assistance Scheme (NSFAS)
Post School Education and Training (PSET)
Basic Education
In-Service Training of Teachers (INSET)

Economic Development
SEDA Technology Incubators
Science Councils
Industrial Development Zones
Nutrition and food security for children
Provincial Roads
Artisan Development
Administrative Services
Foreign Missions Cost Drivers
Critical Skills Immigration Policy
Government Rental Office Accommodation
Language Services
Social Welfare NPOs
National School of Government (NSG)

Not available
Border management agency (input into feasibility study for BMA secretariat)
The cost-effective strategy for the rollout of broadband (awaiting other processes)
School infrastructure (data problem)
PSETA (project failed)

Urban space

Housing

- SA has made significant progress in providing formal housing
- 20% of households in non formal dwellings in 2012 versus 25% in 2002 despite growing numbers of households,
- Subsidised housing is a key element of SA's social contract
- RDP housing
 - 370 000 units delivered between 2010 and 2012 for R45bn
 - Unit costs of RDP houses greater than value of subsidy, implying burden on local govt
- Delivery is somewhat lower than previously reported, both for RDP housing and for informal settlement upgrading projects

Social Housing

- Social housing has a big role to play in restructuring and densifying urban space
- 18 000 units delivered in 59 projects (2007/08 to 2013/14)
- Provides subsidies to attract private investors into provision of affordable rental accommodation but, private investment has been trivial
 - A failure to raise value of subsidies with inflation
 - A failure to adjust income bands for targeted households, increasing unaffordability of rents for tenants
 - Investor concern that state would not raise rents or enforce eviction orders if needed

Urban space

Transport

- SA cities are very low density, long commutes, high transport costs, and expensive public transport, requiring significant subsidies (R27bn in 2014/15)
- Although 66% of public transport use minibuses, these receive only 2% of subsidies
 - 55% goes to PRASA (most for recap.), 4% to Gautrain, & 36% to buses
- Findings
 - Changing demand patterns is key to making the system more economically sustainable, but requires spatial reordering and densification
 - Taxis are competitive despite lack of subsidies because they are more flexible but also because they avoid the costs of formality
 - New rapid bus transport systems are proving popular, but are also more expensive than anticipated
 - Fragmented management of public transport reduces efficiency

Urban space

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Rural space

Mafisa

- R1bn programme to provide micro-loans to small scale farmers, through financial intermediaries
- 8% interest on loans, intermediaries carry risk of default, model inherently flawed - only viable at less than 5% default, not realistic
- Mafisa 'competing' with other grant instruments
- Treasury withdrew Mafisa funds,
 - waiting for repayment of outstanding loans, unlikely
- Unexplained transfers of large amounts to specific intermediaries

Land Restitution

- To date, R29,3bn exp settled 85% of the approx 60 000 claims lodged
 - 92% of all claims finalised as financial compensation; 87% of claims in urban areas
- Two components of 'backlog'
 - i) Research has been completed and the claim has been awarded (settled), but the legal transfer has not occurred (not finalised), it is on the Commitment Register R4.8bn
 - ii) Outstanding claims of 8 733 at estimated cost of R16.9 billion
- New claims window
 - DRDLR estimate 397 000 new claims at cost of R230 - R260bn

Higher education and training

- 50 colleges 26 universities
 - 1.7m enrollees, expenditure of nearly R80bn - $\pm 70\%$ from govt.
- Work-related training
 - SETAs and NSF R13.8bn
 - Community colleges R1.7bn
- Rapid enrolment growth in last 5 years
- To meet NDP/White Paper goals in PSET sector:
 - Spending would have to rise from 2.3% of GDP to 4.4%

Table 1: Summary of targets in the White Paper on Post-School Education and Training

Sector	2010	2014	% change (2010–14)	Target (2030)	% change (2014–30)
TVET	358 393	702 000	96%	2 500 000	256%
University	892 936	969 155	9%	1 600 000	71%
Total enrolments (PSET)	1 251 329	1 671 155	27%	4 100 000	145%
Community colleges	N/A	257 927	N/A	1 000 000	277%

Higher education and training

TVET colleges

- 700 000 students in 2014 – growing from 360 000 in 2010
- R9.1bn expenditure in TVET colleges - 85% from govt – institutional grant, NSFAS and NSF
- NDP goal is 2.5m students by 2030 (can schools deliver students?)
- Throughput rates are low
- Questions about the value of TVET qualifications in the labour market

Universities

- Enrolment 669 000 (2014) 550 000 (2000)
- Graduates 189 000 (2013) 88 000 (2000)
 - Historically black universities graduation rates lower than historically white universities
- R30.3bn (2015/16) govt funding growing $\pm 11\%$ p/a since 2008,
 - Fastest growth in NSFAS and slowest for block grants
- Student fees have been increasing, reducing affordability
 - NSFAS loans have grown from 6% to over 30% of all fees

Higher education and training

NSFAS

- Intended to ensure poor students can attend college/university
- Only top 25% of households can readily afford university costs
- Beneficiaries 425 000 (2014) 211 000 (2010)
- Expenditure R9bn (2014) R3.7bn (2010)
- NSFAS funds spread too thinly across qualifying students and reduced ability to prioritise students/study areas
- Key issues for NSFAS,
 - Average value of NSFAS awards is lower than full cost of study
 - Repayment below 5% of outlays, depriving NSFAS of funding
 - 'Missing middle' in funding strategy

Key conclusions

- White Paper and NDP goals are ambitious and expensive
- The key driver of sustainability in PSET sector is raising throughput rates: low graduation rates mean wasted resources and raises costs of producing graduates

Economic Development

Artisan development

- Producing artisans is costly - R6.5b (2014/15) costs shared by govt (60%) and employers (40%) Cost per artisan R450 000
- Throughput rate - 56%
- Curricula needs to improve to meet demands and needs of industry
- System unnecessarily complex for learners & firms, employer incentives too weak
- NDP's goal - 30,000 artisans per year- would require large increase in spending: ±R30bn in 2030

SEDA technology incubators

- 28 centres supporting firms in many sectors
- Programme is well-designed, and failure rate of start-ups as measured 3 years after incubation is comparable to international failure rates
- Need to re-focus on technological component

Economic Development

Effective partnering between Science Councils and private sector

- Partnerships with the private sector have not been a sufficiently explicit policy objective and must be pursued more rigorously, where appropriate
- Extent of partnering is dependent on:
 - Effort exerted by the science council
 - Nature of the industry- degree of competition, protection of intellectual property, maturity of the industry
 - Extent SC can offer technology services directly to the private and public sectors (as opposed to other statutory/mandatory functions).
- On average private investment worth only 72% of govt's investment,
 - Exceptions - Mintek (171%) and CSIR (104%) are exceptions

Industrial development zones

- High costs
- R10bn in infrastructure spend - 70% at Coega (by 2013/14)
- Private investment is R3.2bn
- Few full-time jobs created: 5,000 jobs
- High operational costs drive net operating losses of ±R400m in 2012/13
- New model of SEZs moves away from upfront investment in infrastructure, but uses off-budget investment incentives

Economic Development

Integrated nutrition programme (INP) – focusing on children

- Malnutrition is high relative to comparable countries
- Estimated R10.3bn spent on nutrition-relevant programmes (2015/16), most through social grants
- 18 programmes across govt., but most not solely for children
- Estimate that current spending is 30% lower than needed

Provincial roads

- 270,000km provincial roads, most unpaved
- Maintaining roads requires careful strategic planning, and undue delay is extremely costly
- National grant of R9.3bn to provinces to maintain roads, allocated based on formula
- PER sought to assess comparative effectiveness of provincial spending on road maintenance, but requisite data were not available

Administrative services

- At **foreign missions**, rate of growth in annual expenditure has exceeded the rate of depreciation of the currency
 - Cost of Living Adjustment (COLA) are 60% higher than those paid to US staff and 40–50% for UN staff
- In sample of 1 000 **leased office accommodation** for national govt
 - 60% of these leases were 45% above-market rates
 - Seven tenants hold more than 50% of leases (by value)
- Large overlaps on activities for the development of **language** diversity
 - Disproportionate share is spent on administration
 - Language units in depts as per Official Languages Act of 2012, could cost as much as R592m p/y
- Expensive regulations promulgated for **registration & M&E of Social Welfare NPOs** - scenarios show cost saving in different implementation approaches
- **National School of Government**
 - Costing of new proposals – led to more cost effective model of delivery

Conclusion

- Extensive body of work - pointing to both successes and areas that need improvement
 - Policies are sometimes designed and implemented with unrealistic expectations of availability of funding
 - Policies that require the re-alignment of government structures are often unable to achieve this.
 - Intergovernmental cooperation poses special challenges
- Expenditure data and cost models now available for departmental use
- Methodology part of world wide trend to use big data sets in rigorous analysis and demonstrates importance of learning by doing and continuous improvement
- Reform processes, where necessary, will take a longer time as it requires departments to take steps that involves reframing policies, implementation modalities, personnel etc
- Parliamentary Portfolio Committees could perhaps fruitfully engage departments on their responses to the PERs

Thank you

Questions?

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