# Briefing by the Financial and Fiscal Commission on the 2017 Medium Term Budget Policy Statement

Tuesday, 07 November 2017

*For an Equitable Sharing of National Revenue*

# BACKGROUND

- This submission on the 2017 MTBPS is made by the Commission in terms of:
  - Section 4 (4c) of the Money Bills Amendment Procedure and Related Matters Act (MBAPRMA) (2009), which requires Committees of Parliament to consider FFC's recommendations when dealing with money bills and related matters
  - Part 1 (3) {1} of the FFC Act (2003) as amended, which provides for the Commission to act as a consultative body and make recommendations to organs of state in all spheres on financial and fiscal matters

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# INTRODUCTION

- 2017 MTBPS formulated against backdrop of an economy mired in low growth
  - Economic growth projections have been revised downwards for the next three years
  - Low and fragile growth acts as a dead weight on the country's ability to raise tax revenues
- South Africa missing out on benefits of the global upswing as economy has become decoupled from world economy
- The number one problem is currently low economic growth which weighs in on the fiscus

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# INTRODUCTION [CONT.]

- Overall, 2017 MTBPS was candid about current dire economic situation
  - Recognises that low confidence has become endemic to the economy and now almost become a ‘structural constraint’ to growth
    - MTBPS: **‘Restoring confidence is cheapest form of stimulus we can inject’**
  - Expenditure ceiling remains sacrosanct
- However, it also reflected negative features and inherent risks
  - Contrary to MTBPS in last 5 years, no detailed plan of action to address negative situation and confidence-building aspects
  - Key fiscal risk relates to threat to stability of the fiscal system
    - Has serious implications for subnational government
    - Built on the twin pillars of buoyant revenue collection and a stable fiscal framework
      - Vulnerable municipalities, as well as provinces

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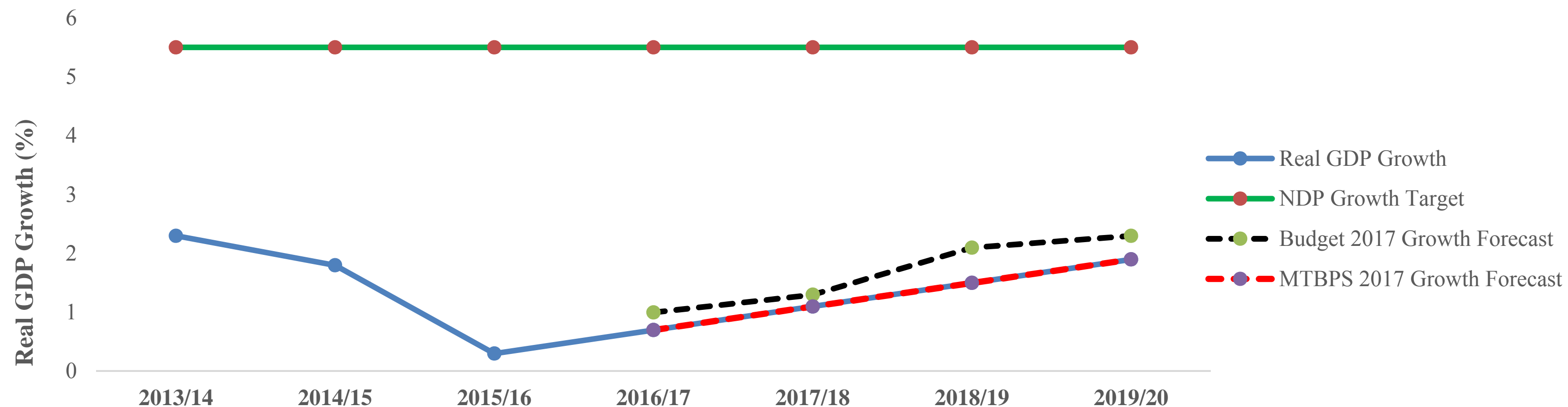
# ECONOMIC PERFORMANCE 2013/14 – 2019/20




- Fiscal and Monetary Policy as instruments for promoting growth have reached their limits
- In line with these concerns, and for the third consecutive year, medium-term growth forecasts revised downwards for 2017, 2018, 2019 and 2020, from 1.3% to 0.75%, 2% to 1.1%, 2.2% to 1.5% respectively and a final figure, published for the first time, of 1.9% for 2020
- Projections of negative per capita growth for 2017 and 2018 mean poverty rates will remain fairly consistent with 2016 levels. This is detrimental to South Africans, particularly the poor, for whom a growing economy is necessary for jobs, decent wages, and a sustainable system of social grants

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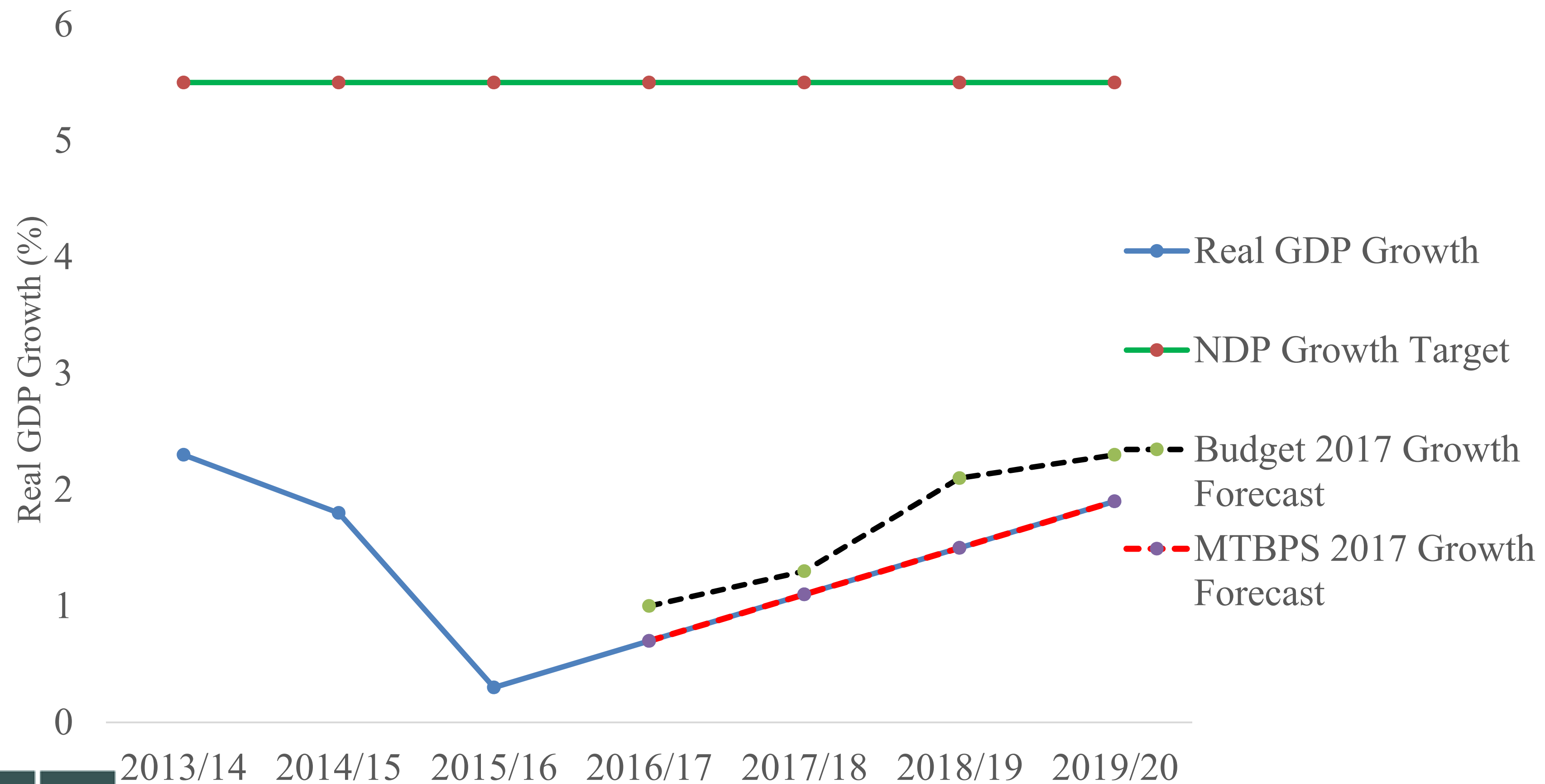
# ECONOMIC PERFORMANCE 2013/14 – 2019/20

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# PUBLIC FINANCE DEVELOPMENTS

- Developments during March 2017 triggered negative market reactions
  - Standard and Poor's (S&P) downgraded South Africa's long-term foreign currency credit rating from an investment-grade rating (BBB-) to a sub-investment (or junk) rating (BB+)
  - Fitch also downgraded South African debt to sub-investment grade for both the foreign and the local currency rating
  - The downgrades mean that South Africa has ceased to be an investment-grade rated country for the first time in 18 years. The aftermath of the downgrades also saw significant bond disinvestment by institutional investors. Investors now consider South Africa's long-term debt to have become riskier and want to be compensated for this risk with higher yields
- A fiscal slippage has ensued - after five years of fiscal consolidation, the primary deficit was reduced from 2.3% of GDP in 2012/13 to 0.5% in 2016/17
  - However, the main budget deficit, will now be 4.7% of GDP in 2017/18, compared with a 2017 Budget projection of 3.5%, in other words a shortfall of approximately 1.2% of GDP (R50.8 billion) required to consolidate the budget which is unprecedented in recent times
  - Over the medium term, the main budget deficit is expected to stabilise at 4.6% of GDP. The primary deficit will now stabilise at 0.7% of GDP

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# PUBLIC FINANCE DEVELOPMENTS [CONT.]

- Initial aim of the fiscal consolidation exercise was to stabilise the gross government debt to GDP ratio at 53% in 2018/19, but now projected to reach over 60% of GDP by 2022, with debt service costs reaching 15% of main budget revenue by 2020/21
- While government expenditure amounts to 33% of GDP and compares very well with the average of emerging economies, it is skewed towards current spending
  - The wage bill accounts for approximately 35% of total expenditure and the debt service costs amount to 15% of the budget
    - The two expenditure items account for half of total expenditure, seriously restraining government ability to meet physical and social infrastructure investment needs essential to enhancing growth

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# STATE OWNED ENTERPRISES

| | Guarantee | Exposure | Guarantee | Exposure | Guarantee | Exposure |
|---|---|---|---|---|---|---|
| Eskom | 350 | 149.9 | 350 | 174.6 | 350 | 218.2 |
| SANRAL | 38.9 | 27.4 | 38.9 | 27.2 | 38.9 | 30.1 |
| Transnet | 3.5 | 3.8 | 3.5 | 3.8 | 3.5 | 3.8 |
| PRASA | | 48 | | 2 | | - |
| Denel | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| DBSA | 12.9 | 4.1 | 13.9 | 4.4 | 12.7 | 4.2 |
| Land Bank | 6.6 | 2.1 | 6.6 | 5.3 | 11.1 | 5.4 |
| IDC | 1.6 | 0.3 | 2 | 0.2 | 1.9 | 0.2 |
| South African Post Office | 1.9 | 0.3 | 4.4 | 1.3 | 4.4 | 3.9 |
| South African Airways | 14.4 | 8.4 | 14.4 | 14.4 | 19.1 | 17.9 |

- Government guarantees and exposure to SOEs has been accelerating in recent years
- Contingent liabilities in SOEs could derail the fiscal consolidation course, resulting in further downgrades thus hiking the cost of public debt and crowding out other growth-enhancing expenditures
- Downgrades could also result in significant international capital outflows, putting pressure on the exchange rate and inflation, and consequently on household budgets and consumption

# Major Risks

- The key factors heightening the risk of a rising budget deficit and public debt relate to:

1. **Revenue side of the equation as opposed to the expenditure side**

   – Relying on personal tax to fund the budget through higher personal tax rates, has largely been exhausted

   – Given that increasing the rate of VAT is likely to be severely contested by trade unions and groups concerned with the interests of the poor, government has a huge challenge in terms of raising sufficient revenue to plug the revenue shortfall other than reigniting growth

2. **Public sector remuneration**

   – A public service which is frequently seen to be inefficient and incompetent and overly remunerated in relation to its productivity as opposed to redirecting expenditure towards infrastructural developmental projects has impacted negatively on development outcomes for South Africa

3. **Funding free higher education and training**

   - Estimates vary surrounding the potential cost of free higher education education, with a figure somewhere between R30 billion and R60 billion being estimated. This is a sizeable amount which exacerbates the potential increase in public debt

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# MAJOR RISKS [CONT.]

4. **Expenditure on affordable set of infrastructure projects**

- Procurement of train carriages that is totally unsuitable for South Africa's rail network

5. **Drain on the fiscus stemming from soft budget constraints afforded to SOEs**

- Government’s continued bailout and raising the guarantees of institutions has had the undoubted effect of shifting resources away from programmes of higher priority

6. **Corruption and fraud**

- The essence of the damage brought by these factors is that government is being compelled to purchase goods and services to execute its functions at a premium, compared with market-related prices

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# OVERVIEW OF 2018 FISCAL FRAMEWORK

| R billion/percentage of GDP | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|---|---|---|
| **Main budget revenue** | **965.5** | **1,076.2** | **1,137.6** | **1,193.5** | **1,294.5** | **1,398.9** | **1,502.1** |
| **Main budget expenditure** | **1,131.9** | **1,244.6** | **1,305.5** | **1,413.1** | **1,516.6** | **1,642.0** | **1,767.4** |
| *of which:* | | | | | | | |
| Non interest allocation | 1,017.1 | 1,115.8 | 1,159.0 | 1,249.8 | 1,333.5 | 1,438.7 | 1,544.1 |
| Debt service costs | 114.8 | 128.8 | 146.5 | 163.3 | 183.1 | 203.3 | 223.4 |
| Contingency reserve | – | – | – | – | 3.0 | 5.0 | 8.0 |
| **Main budget balance** | **-166.44** | **-168.39** | **-167.84** | **-219.64** | **-222.05** | **-243.13** | **-265.31** |
| As % of GDP | -4.3% | -4.1% | -3.8% | -4.7% | -4.5% | -4.6% | -4.6% |
| **Primary balance** | **-51.65** | **-39.59** | **-21.34** | **-56.30** | **-38.99** | **-39.84** | **-41.96** |
| As % of GDP | -1.3% | -1.0% | -0.5% | -1.2% | -0.8% | -0.7% | -0.7% |
| **Consolidated budget balance** | **-134.6** | **-142.2** | **-147.5** | **-203.0** | **-193.1** | **-208.1** | **-225.8** |
| **As % of GDP** | -3.5% | -3.4% | -3.3% | -4.3% | -3.9% | -3.9% | -3.9% |

- In current 2017/18 financial year, real growth in expenditure (at 2.6%) is projected to far outstrip growth in revenue which is expected to decline by 0.6% – revenue is projected to fall short by R50.8 billion (1.2% of GDP)
  - Over the 2018 MTEF period, growth in revenue projected to recover to estimated real annual average of 2.3% with the projected upswing to be driven by new tax measures

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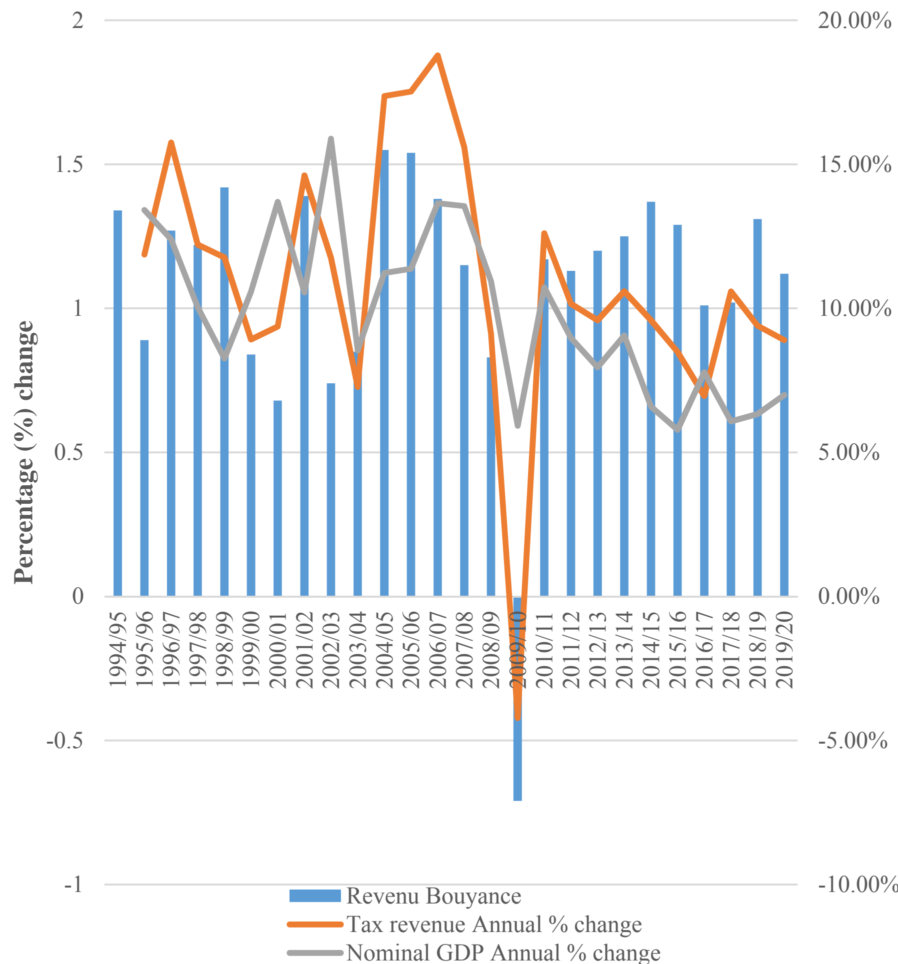
# MTEF Division of Revenue Amongst the Three Spheres

| R billion | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | Real Annual Average Growth 2018/19-2020/21 |
|---|---|---|---|---|---|---|---|---|
| **Division of Available Funds** | **Outcome** | | | **Revised** | **Medium-term estimates** | | | |
| **National Departments** | **490.0** | **546.1** | **555.7** | **603.5** | **633.1** | **683.5** | **729.2** | **0.9%** |
| **Provinces** | **439.5** | **471.4** | **500.4** | **538.2** | **575.8** | **617.8** | **663.9** | **1.6%** |
| Equitable share | 359.9 | 386.5 | 410.7 | 441.3 | 471.7 | 506.6 | 543.7 | 1.6% |
| Conditional grants | 79.6 | 84.9 | 89.7 | 96.9 | 104.1 | 111.2 | 120.1 | 1.8% |
| **Local Government** | **87.6** | **98.3** | **102.9** | **112.6** | **121.6** | **132.4** | **143.0** | **2.6%** |
| Equitable share | 41.6 | 49.4 | 50.7 | 57.0 | 62.7 | 69.0 | 75.7 | 4.1% |
| General fuel levy sharing with metropolitan municipalities | 10.2 | 10.7 | 11.2 | 11.8 | 12.5 | 13.2 | 14.0 | 0.4% |
| Conditional grants | 35.8 | 38.3 | 40.9 | 43.8 | 46.4 | 50.3 | 53.3 | 1.1% |
| **Total** | **1,017.1** | **1,115.8** | **1,159.0** | **1,254.3** | **1,330.5** | **1,433.7** | **1,536.1** | **1.4%** |

Division of revenue amongst three spheres will generally be characterised by low growth increases over 2018 MTEF

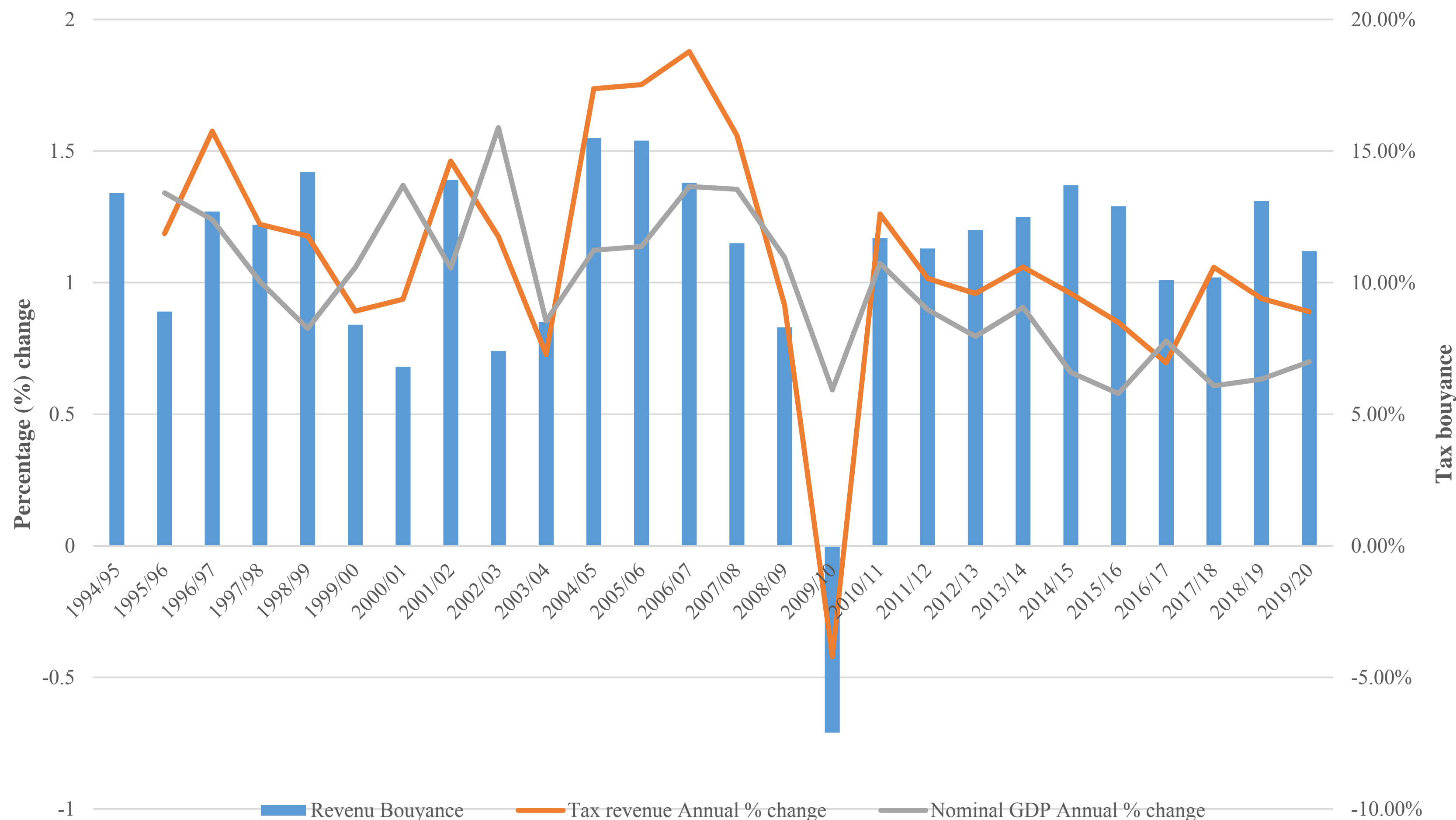
- Main driver of growth are allocations to municipalities, particularly equitable share
- Potential for spike in indirect grants to provinces over 2018 MTEF – also a number of cases of earmarking within existing grants

# FFC Outlook on Revenue Performance 1994/95– 2019/20




- Annual percentage change in tax revenues has fallen over the past two and a half decades
    - Between 1994/95 and 2007/08, the average tax revenue annual percentage change was 13.29%.
    - Between 2008/09 and 2019/20, it fell to 8.48%.
    - Similarly, between 1994/95 and 2007/08, the average nominal GDP annual percentage was 11.78%.
    - Between 2008/09 and 2019/20, it falls to 7.76%.
- The key components that are supposed to drive the expansion of revenue associated with economic growth are performing poorly, resulting in the shortfall
    - Raising sustainable tax revenues will require improvements in economic growth rates

# Revenue Tax Buoyance, Nominal GDP and Tax Revenue Growth 1994/95– 2019/20



# Revenues And Tax Proposals

- Medium term projections (2018/19-2020/21) show that the total tax revenue shortfall against budget estimates will amount to R209 billion in the medium term
  - Since this projection assumes that the growth rate will moderately increase in the medium term, there is a risk of further revenue slippage if the projected growth rates fail to materialise and consequently tax buoyance does not improve
- 2017 MTBPS did not announce any measures to raise more revenues to plug the revenue gap – this could create a sense that there is a lack of coherence and urgency regarding how the situation will be resolved in the eyes of the credit rating agencies who are monitoring such metrics closely for their next decision on South Africa's credit rating
  - The key challenges to raising more revenues relate to low growth and lack of trust in the effectiveness of government spending. Restoring confidence in public institutions and ensuring greater effectiveness of public policies will be key to generating capacity to raise more taxes
- Efforts to raise more tax revenue should now concentrate on expanding the tax bases through the reduction of deductions, credits and allowances and improving tax revenue efficiencies through lowering compliance costs for small businesses. There is also scope to broaden the VAT base and improve its compliance

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# UNALLOCATED RESOURCES

- The contingency reserve over the 2018/19 MTEF has declined significantly in the 2017 MTBPS when compared with the 2017 Budget
  - The amounts being put aside are far from adequate (R3 billion in 2018/19, increasing to R8 billion in 2020/21) for government to mitigate any unforeseen events
- The Commission is of the view that a policy of reducing the contingency reserve in an environment of increased uncertainty and rising social demands limits the fiscal buffer that is necessary to protect public finances

**Adjustments to the unallocated reserves, 2015/16-2020/21**

| R'billion | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|---|---|---|---|---|---|---|
| Budget 2015 | 5 | 15 | 45 | | | |
| MTBPS 2015 | | 2.5 | 9 | 15 | | |
| Budget 2016 | | 6 | 10 | 15 | | |
| MTBPS 2016 | | | 6 | 10 | 20 | |
| Budget 2017 | | | 6 | 10 | 20 | |
| MTBPS 2017 | | | | 3 | 5 | 8 |

# Expenditure by Economic Classification

- The compensation budget outpaces inflation by 1.8% on average over MTEF period
  - Growth of the compensation budget over this period suggests government could be budgeting for a wage bargaining agreement that is marginally above CPI. Should the wage bargaining agreement be in excess of the predicted range, government's fiscal position could worsen, leading to a higher debt to GDP ratio
  - The Commission is of the view that both government and unions should aim to reach a settlement that supports government's current fiscal position as this would be in the best interests of the country's economy

| R'billion | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | Real Annual Average Growth Rate |
|---|---|---|---|---|---|---|
| Compensation of employees | 510 | 549.3 | 587.9 | 629.9 | 677.8 | 1.8% |
| Goods and services | 208.1 | 220 | 236.4 | 255.8 | 270.2 | 1.2% |
| Transfers and subsidies | 472.9 | 505.1 | 543.1 | 584.8 | 627.1 | 1.8% |
| Payments capital assets | 93.6 | 102.4 | 105.1 | 109.3 | 113.8 | -0.5% |
| **Real year-on-year growth (%)** | | **2016/17–2017/18** | **2017/18–2018/19** | **2018/19–2019/20** | **2019/20–2020/21** | |
| Compensation of employees | | 2.2% | 1.6% | 1.5% | 2.0% | |
| Goods and services | | 0.19% | 2.03% | 2.61% | 0.03% | |
| Transfers and subsidies | | 1.28% | 2.10% | 2.08% | 1.63% | |
| Payments capital assets | | 3.88% | -2.79% | -1.60% | -1.48% | |

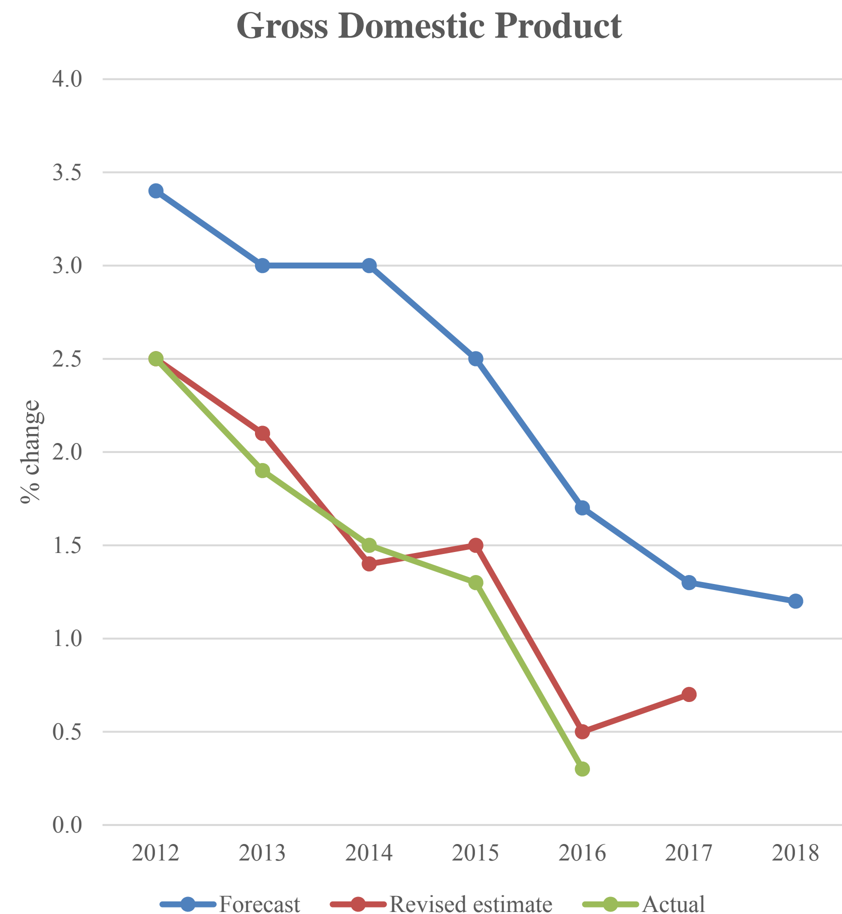
# Medium Term Strategic Framework Goals and Progress to date

- Government through the 2014 MTSF has set priorities and targets to be achieved by 2019 – mixed results with respect to the progress to date
  - Some targets closer to their attainment (health and education) – the emphasis should shift towards improving the quality of outcomes
  - On those targets that are far from attainment (e.g. economic growth) – various interventions are needed including reducing removing uncertainty in key sectors, improving governance, value addition and raising job-intensity of exports

| Sector | Priority | 2014 MTSF Target | Progress | NDP targets |
|---|---|---|---|---|
| **Economic growth** | GDP growth | 5% by 2019 | Average growth of 1.9% between 2010 and 2016 | 5.4% |
| **Health** | Increasing the number of people on antiretrovirals | 5.1 million | 3.8 million | |
| | Raising life expectancy at birth | 63 years | 63 years | |
| **Education** | Grade 12 learners qualifying for university entrance | 250 000 | 162 374 | 450 000 |
| | Students enrolled at universities by 2019 | 1.07 million | 985 212 | 1.62 million |

# ACCELERATING GROWTH

- Reaching MTBPS growth targets remains elusive
  - Cumulative range of budget and policy interventions are growth neutral
  - Proposed structural reforms are not forthcoming
- Accelerating growth should entail redirecting expenditure towards high impact areas and strengthening levers for effective structural reforms

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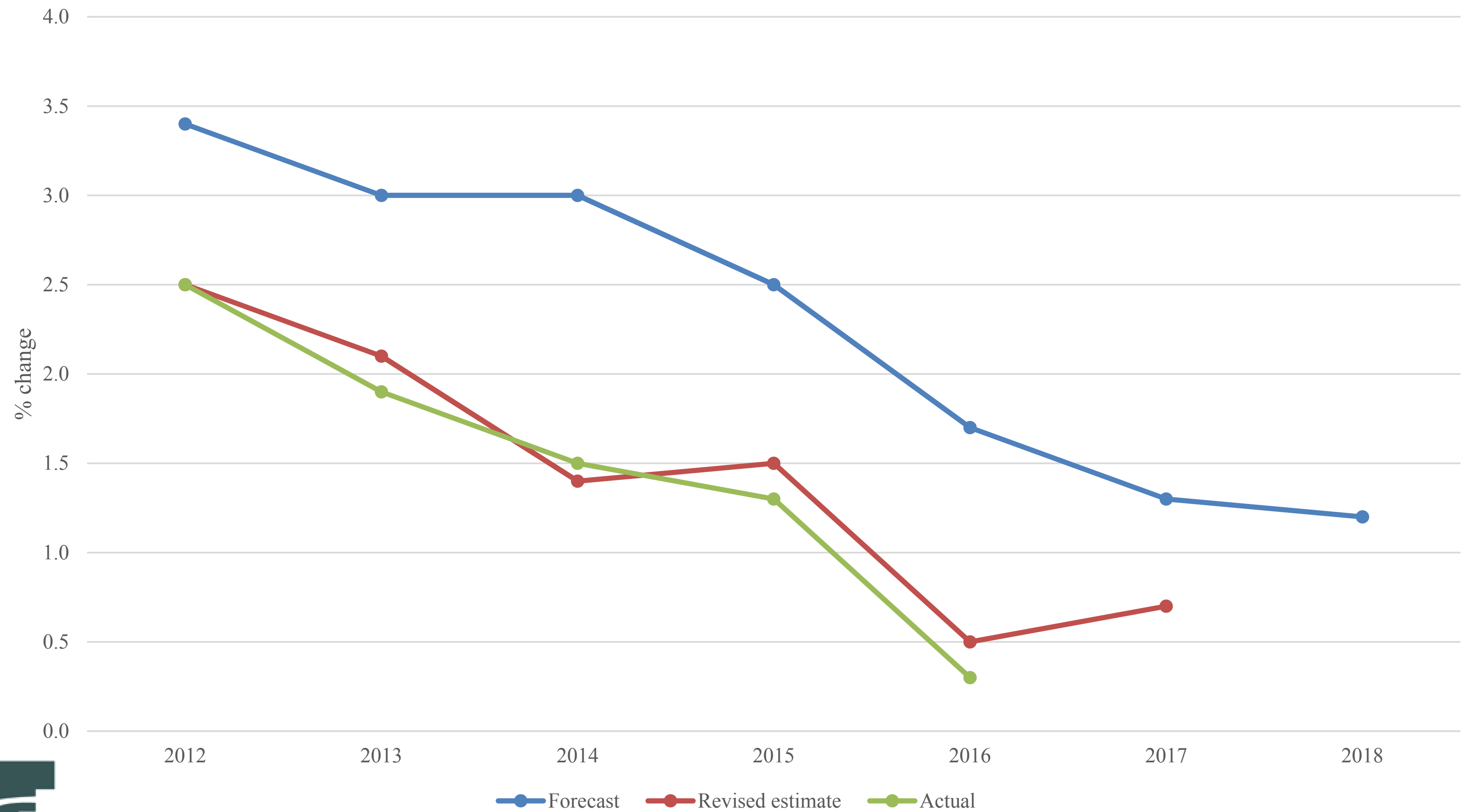
# ACCELERATING GROWTH: GROSS DOMESTIC PRODUCT

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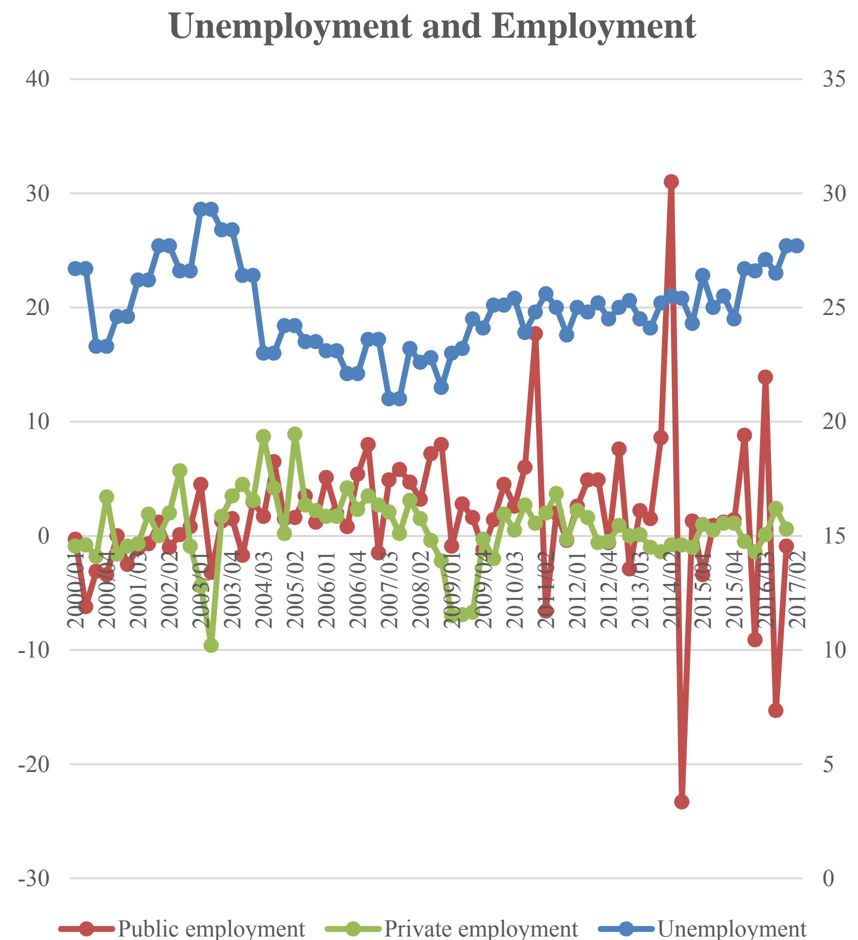
# JOB CREATION

- Unemployment is reaching 2002 levels due to low growth
- Public employment programmes (PEPs) created in excess of 6 million jobs without a dent on unemployment
- Joblessness is also underpinned by structural barriers
- Budget responses need to focus on reskilling and monitoring of PEP programmes

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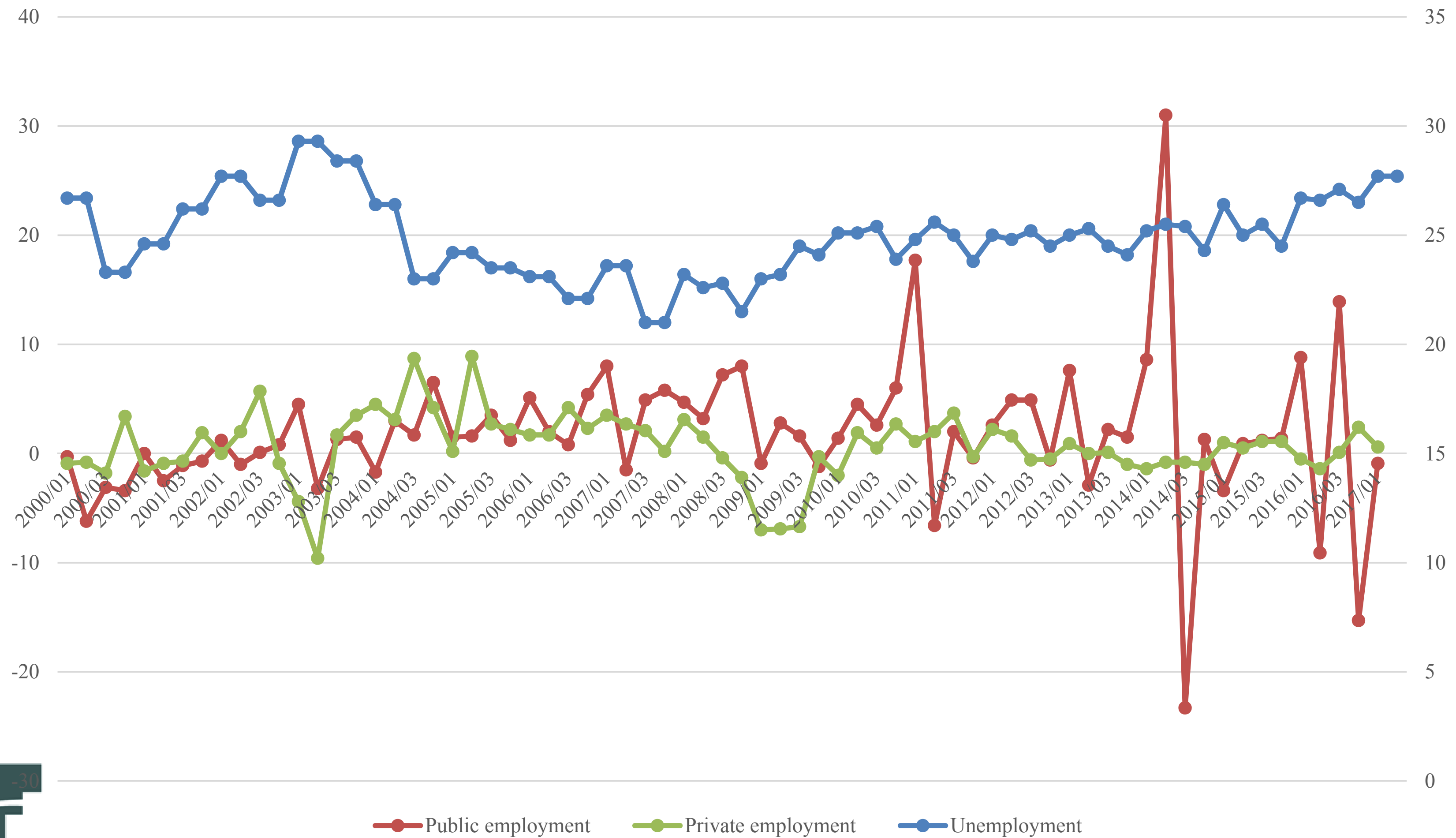
# Unemployment and Employment

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# INFRASTRUCTURE INVESTMENTS

- Infrastructure investment remains a key spending priority to drive growth and employment
  - Proposed spending of R900 billion over 2018 MTEF
- Growth and jobs effect of previous infrastructure spending has been muted
- SOEs are the key drivers of infrastructure spending
  - Leakages undermine growth and job effects
- Provinces and municipalities lack sustained focus on infrastructure spending and its efficiency/productivity
  - Capital spending cuts commonly used to address budget pressures

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# SOCIAL SPENDING PRIORITIES

Health

- The Commission welcomes the additional resources for the Community Health Workers programme earmarked through HIV/AIDS grant
- Programme needs to be properly standardised and targeted, with part of the funding directed towards training

Education

- Additional funding is allocated towards reducing municipal services cost pressures on schools through PES
- Government should ensure that provinces make necessary arrangements to learner allocations
- The Commission further welcomes the proposal to direct up to 40% of Education Infrastructure Grant towards maintenance

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# SOCIAL SPENDING PRIORITIES [CONT.]

Human Settlements

- The Commission welcomes the proposed grants to address tittle deeds backlogs and emergency housing
  - There is a need to desist from disintegrating the grant system to fund separate activities of the build programme
- The Commission is concerned about the slow pace in accrediting municipalities with the housing function

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# Special Issues: Higher Education and Training

- Post-school education and training has strongest real annual average growth of 2.5% over 2018 MTEF period – whilst the Commission welcomes this relative prioritisation:
  - Deferring crucial decisions to 2018 Budget creates uncertainty for institutions and students/households to budget and plan for the 2018 academic year
  - Broader tightening squeeze on resources available to universities has implications for quality of their research outputs and therefore innovation (e.g. National Research Foundation funding reduced)
- Regarding fee free higher education, Commission is of the view that the PSET grant, loan system and post training earning claw back mechanisms must be strengthened to remove financial barriers to accessing tertiary education

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# SPECIAL ISSUES: BROADBAND

- Greater investment in information and communication technology (ICT) can facilitate employment and inclusive growth as well as access to service delivery by enabling poor and rural communities to be reached
  - Poor broadband infrastructure serves to effectively exclude these communities from the potential benefits and opportunities associated with greater connectivity
- Continued delays in assigning spectrum has significant social and economic implications for South Africa and threatens government's ability to achieve target of broadband for all
- Commission welcomes work underway to license broadband spectrum and the fact that the bulk of additional telecommunication spectrum is ready to be allocated immediately
  - However, no reference made to delivery and/or progress timelines so as to provide clarity on exactly when these processes will be finalised

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# REVIEW OF ACTUAL SPENDING

- Expenditure smoothing implies government spending that is evenly distributed across the four quarters of the financial year
  - If such smoothing were to occur, it would be expected that total expenditure up to September would be at 50% of the main budget
- Highlights based on analysis of aggregate spending and percentage spent six months into the 2017/18 financial year indicate:
  - Total government spending (49%), spending by all votes (49%) and transfers to the PES (50%) are close to the assumed norm of 50%

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# Review of Actual Spending [cont.]

- Notwithstanding overall positive performance, an assessment of individual departmental performance shows somewhat uneven spending patterns
  - On the one hand certain departments far exceed the norm (Higher Education and Training spent 73% of its budget) whereas others such as the Human Settlements and Rural Development and Land Reform have recorded spending of 39% and 37% respectively
  - Excessive deviations below or above the norm are undesirable from an expenditure smoothing perspective
    - Unless a department's annual performance or strategic plan explicitly identifies under or over spending as a chosen spending profile, departments should attempt to remain within the confines of spending performance guidelines

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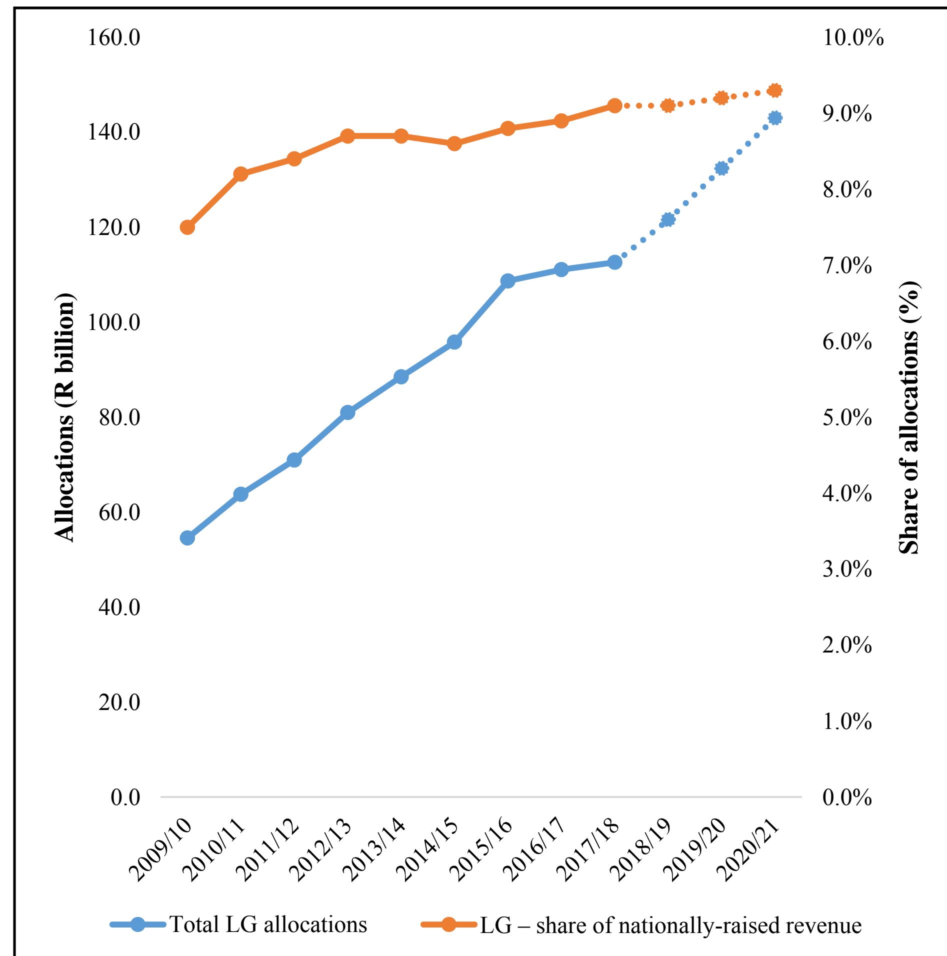
# LOCAL GOVERNMENT ISSUES

- The Commission welcomes the confirmation of additional R1.9 billion to the baseline of local government allocations as announced in the 2017 MTBPS (with the bulk of this amount (R1.5 billion) set to be allocated through the LGES.
- These additional resources will not only raise the share of the local government allocations (to 9.3% by 2020/21), but will significantly cushion the poor from the risks associated with low economic growth

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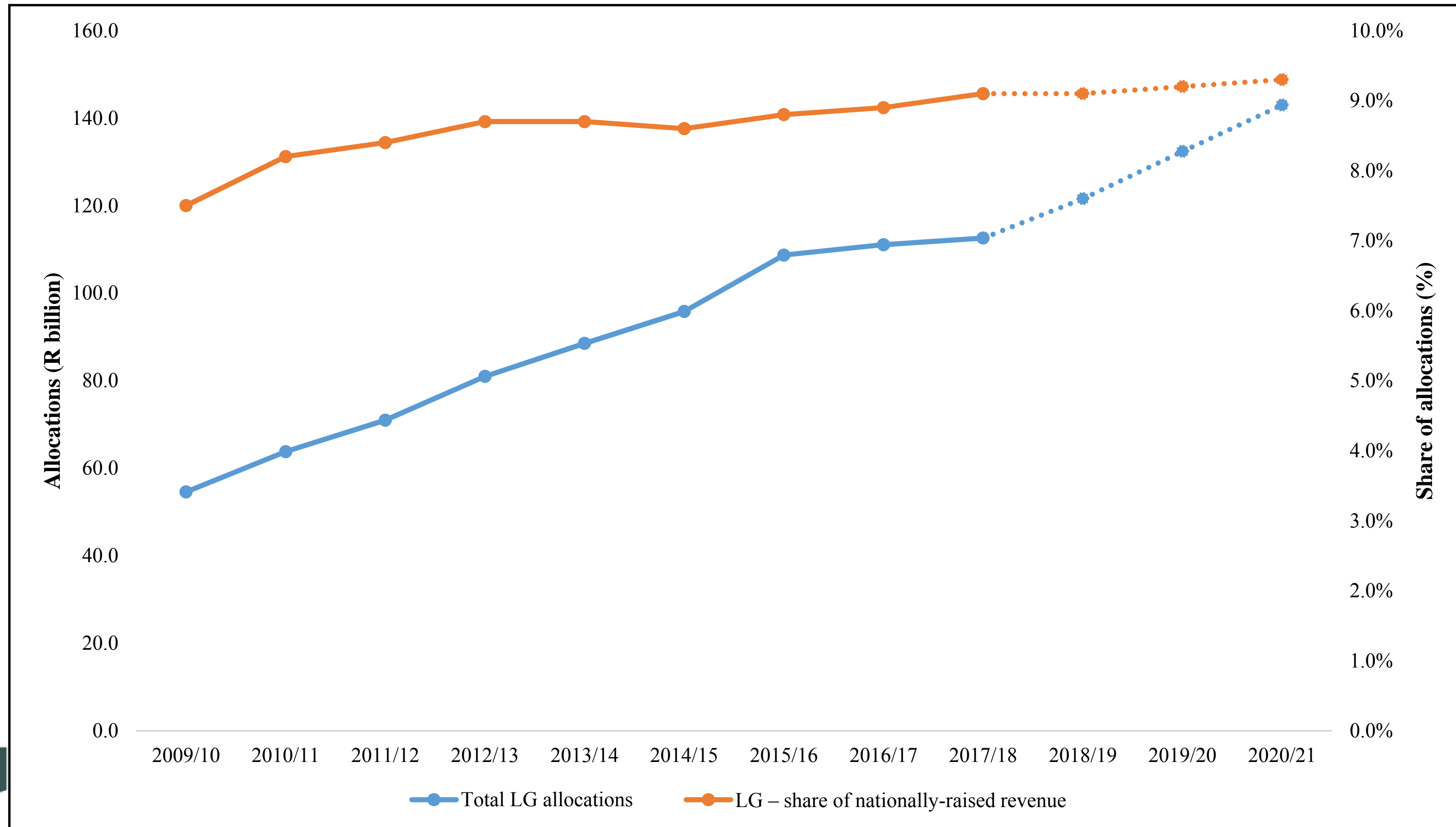
# Local Government Allocations

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# Local Government Issues [cont.]

- The local government equitable share (LGES) allocations continue to increase but the growth rate (nominal and real) is set to be restrained over the MTEF. Over the 2018 MTEF, the allocations are set to increase by 4.1%, a slight drop from the 5% noted in the 2017 MTEF
  - Commission welcomes the increase in allocations via the LGES window, and notes that the formula continues to redistribute funds and allocate more resources to poor households
  - However the Commission remains concerned at the continued subdued growth rates of the LGES. To ensure that this does not compromise the delivery of basic services, municipalities may need to promote more efficient utilisation of available resources and find other alternative revenue sources

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# LOCAL GOVERNMENT ISSUES [CONT.]

- Conditional grants will continue to experience positive but very low, real growth rate trajectory
  - In line with the Commission's two previous recommendations, the intention to introduce performance incentives within the municipal infrastructure grant for intermediate cities and within the Public Transport Network Grant is therefore welcome
  - The Commission would like to underscore the point that incentives should be based on clearly defined (but differentiated) performance indicators
- The Commission would like to emphasise that in the context of a constrained fiscal environment, municipalities should review their internal management structures so that resources are used efficiently and effectively
  - Municipalities need to improve their revenue management, billing and debt management systems, impose cost reflective tariffs, avoid incidences of underspending, and inefficient procurement processes

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# REVISED DIVISION OF REVENUE 2017/18

- Declared unspent funds amount to R1.7 billion in 2017/18, which is a slight increase compared to R1.3 billion declared in the 2016/17 revised division of revenue
- Projected underspending has remained unchanged at R3 billion
- Roll-overs amount to R217 million
  - This represents a decrease when compared to R412 million in 2016/17
  - The decline in rollovers suggests that government is exercising stricter controls with respect to monitoring expenditure and rollover requests
  - Department of Cooperative Governance and Traditional Affairs has the largest rollover and increased the extent of its roll-overs from R27.9 million in 2016/17 to R73.2 million in 2017/18

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# REVISED DIVISION OF REVENUE 2017/18 [CONT.]

- Unforeseen and unavoidable (U&U) expenditure amounts to R586 million
  - R500 million will be used for water and sanitation programmes on water supply schemes and upgrades to the capacity thereof. The Commission supports initiatives and programmes by government of extending access to water supply so as to address issues of access and backlogs within the sector
    - However, the Commission is concerned about the indirect component of the grant being used to address water and sanitation programmes in light of the findings by the Commission in 2016/17 on the use of direct versus indirect grants
  - The Commission notes that government has earmarked funding of R19.8 million to be added to Comprehensive HIV/AIDS and TB Grant to assist the funding gap that is weakening the effectiveness of the malaria programme
    - As indicated in February when it presented its Submission on the 2017 Division of Revenue, the Commission cautions that baseline reductions to the grant in light of existing pressures due to increased uptake of people on ARVs every year and the extension of the scope of the grant (which included Tuberculosis in 2016) is of concern
    - The Commission, further submits that government funding for malaria is critical to further accelerate progress towards malaria elimination

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# Conclusion & Recommendations

- 2017 MTBPS characterised by: downward economic growth forecasts, rising impatience with social outcomes deemed by the population to fall short of expectations and conflicting objectives between social development and fiscal consolidation in the short term
  - The Commission notes that growth is considerably lower than what was projected in February 2017, hence efforts to improve the fiscal framework should ultimately be premised on re-igniting growth through embarking on structural reforms. Commission recommends:

| Recommendation | Detail |
|---|---|
| 1. Over the medium term, Government should continue with a gradual programme of fiscal consolidation that entails reducing the budget deficit moderately but consistently | |
| 2. Anticipating impact of economic downswing on low-skilled workers government must continue to strengthen public employment programmes (PEPs) | • Developing a monitoring framework for PEPs in order to evaluate performance against objectives;<br>• Developing an effective coordination system for PEPs based on integrated information systems to design, monitor and evaluate these programmes<br>• Targeting unemployed people with no prior work experience or access to social grants |
| 3. More effective government spending must be prioritised | • Improving supply chain management to reduce cost of procurement<br>• Full adherence to public procurement procedures and spending rules |
| 4. Efforts to raise more tax revenue should focus on | • Expanding the tax base through reduction of deductions, credits and allowances<br>• Improving tax revenue efficiencies by lowering compliance costs for small businesses |

# CONCLUSION & RECOMMENDATIONS [CONT.]

| | Recommendation | Detail |
|---|---|---|
| 5. | Unallocated contingency reserves should be safe guarded should an emergency arise | • In this environment of increased uncertainty and rising social demands, Government should avoid further drawdowns on contingency reserve |
| 6. | Spending on non-core goods and services should be reduced further by: | • Adhering strictly to cost-containment measures<br>• Achieving reductions in catering, travel and subsistence, advertising, conference facilities and consultants<br>• Leveraging innovative e-communication technologies to further reduce the R9,3 billion spent on travel and subsistence in 2016/17 |
| 7. | The Department of Human Settlements should ensure finalisation of the revised framework for the housing function – integrated planning, infrastructure, accreditation and financing | |
| 8. | To ensure greater accountability and therefore more prudent use of public funds, a set of uniform rules and procedures to inform the granting of guarantees and bailouts should: | • Consider public value of the services provided by the SOE;<br>• Assess historical performance of the entity<br>• Outline in detail the procedures for monitoring performance under the guarantee/bailout as well as corrective measures and sanctions should performance be sub-optimal or where an SOE does not meet the conditions of the guarantee granted to it.<br>• Appropriate disincentives should also be applied to ensure that parent departments act proactively and timeously to ensure a turnaround in SOE performance, thereby limiting the need for future guarantees |

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