



# BRIEFING ON THE 2016 APPROPRIATION BILL

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10 May 2016

*For an Equitable Sharing of National Revenue*

# ROLE AND FUNCTION OF THE FFC

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- What is the FFC?
    - Permanent statutory body established in terms of Section 220 of Constitution
    - Independent and subject only to Constitution and the law
    - Must function in terms of an act of Parliament
  - What is the mandate of Commission?
    - Makes recommendations envisaged in Chapter 13 of the Constitution
  - How: Enabling legislation
    - Section 214 (2), 218(2), 228 (2), 229(5), 230(2) 230A(2) of the Constitution
    - FFC Act (No 99. of 1997) IGFR Act (No. 97 of 1997)
    - Provincial Tax Regulation Process Act, Municipal Fiscal Powers and Functions Act, Borrowing Powers of Provincial Government Act
- FFC in IGFR system
- Various, Municipal Finance Management Act, Municipal Systems Act, Money Bills Amendment Procedure and Related Matters Act

# BACKGROUND

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- Submission made in terms of S4(4c) of MBPARMA (Act 9 of 2009)
  - Requires Parliamentary Committees to consider any recommendations of FFC during their deliberations on Money Bills
- Also made in terms of FFC Act of 1997
  - Requires that FFC responds to any requests for recommendations by any organ of state on any financial and/or fiscal matter(s) relevant to its mandate



# RESPONSE TO THE 2016 APPROPRIATION BILL

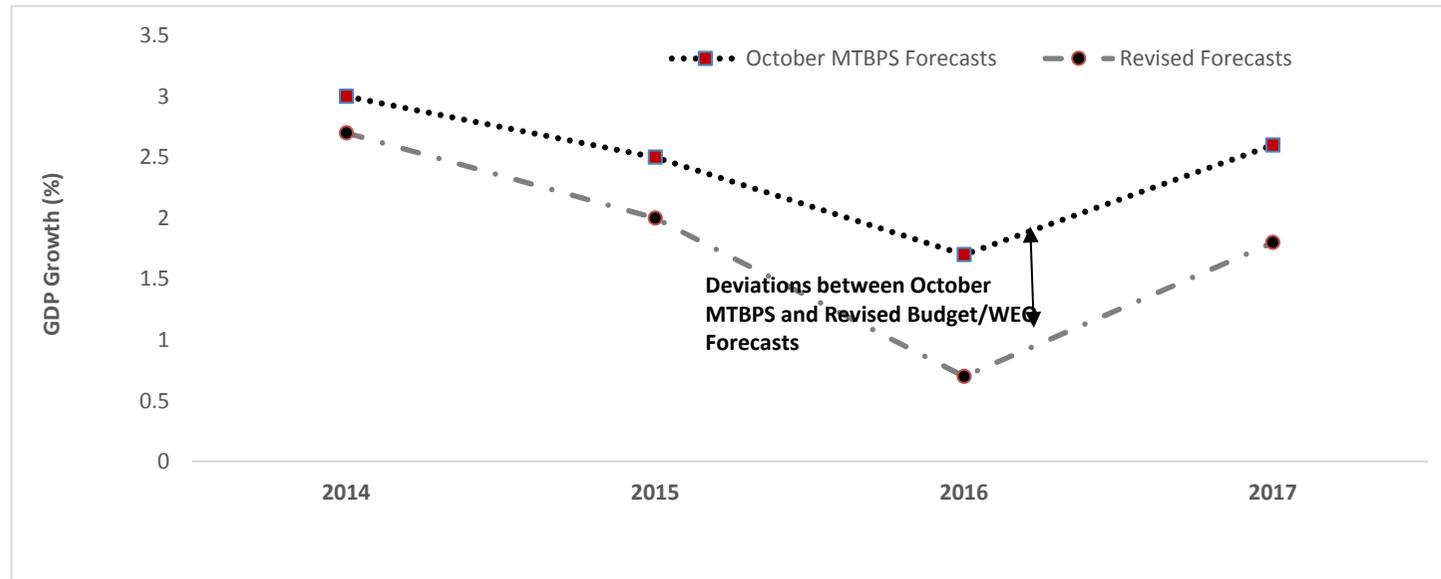
*Briefing on the 2016 Appropriation Bill*

# PRESENTATION OUTLINE

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- In accordance with the request from Standing Committee on Appropriations, presentation will focus on an assessment of the 2016 Appropriation Bill with respect to:
  - i. Allocative Efficiency and baseline changes to main votes
  - ii. Effecting Government's five priority areas in the Medium Term Strategic Framework
  - iii. Infrastructure Investment in national Government and
  - iv. Mechanisms that can stimulate cost efficiencies

# 1. GENERAL OVERVIEW



- 2016 Appropriation Bill enacted at a time of escalating exogenous and endogenous headwinds
  - Third straight year of downward revision to growth forecasts – cumulative 2.5% between 2014 – 2017
  - Low fragile growth below NDP targets, substantially constrains Government’s ability to address triple challenges – high social ills, fiscal and external balances
  - Slow growth will see South Africa’s external competitiveness lag behind those of its peers in BRICS and MINTs.

## 2.1 ASSESSMENT OF BASELINE CHANGES AS PER 2016 APPROPRIATION BILL

- Allocations to the national sphere show a decline of -3.8% in the 2016 Appropriation Bill, signaling a significant departure from the previous three years
  - Reductions targeted at non-essential goods and services (E.g. travel), compensation budgets, procurement reforms and cost-containment measures

National Votes	2013/14	2014/15	2015/16	2016/17 Appropriation Baseline Change  (A)	Annual Avge Real Growth (2013/14- 2015/16)  (B)	Difference between (A) and (B)
<b>11. Public Works</b>	-22.2%	-6.1%	-1.0%	-2.2%	-9.8%	7.6%
<b>14. Basic Education</b>	8.5%	8.7%	3.2%	-1.0%	6.8%	-7.8%
<b>15. Higher Education and Training</b>	2.8%	1.2%	2.6%	10.7%	2.2%	8.5%
<b>16. Health</b>	1.1%	4.9%	1.8%	1.3%	2.6%	-1.3%
<b>18. Correctional Services</b>	1.9%	-1.4%	0.6%	-1.8%	0.4%	-2.2%
<b>21. Justice and Constitutional Development</b>	0.2%	2.9%	-0.4%	1.5%	0.9%	0.6%
<b>23. Police</b>	3.1%	-0.7%	0.3%	-0.3%	0.9%	-1.3%
<b>24. Agriculture, Forestry and Fisheries</b>	-0.7%	2.4%	-8.3%	-7.6%	-2.2%	-5.4%
<b>25. Economic Development</b>	8.7%	-16.0%	22.7%	-30.4%	5.1%	-35.6%
<b>26. Energy</b>	-8.5%	-10.1%	11.9%	-2.6%	-2.2%	-0.4%
<b>38. Human Settlements</b>	7.6%	0.9%	-0.8%	-6.1%	2.6%	-8.7%
<b>39. Rural Development and Land Reform</b>	0.2%	-6.7%	-7.0%	3.6%	-4.5%	8.1%
<b>Total appropriation by vote</b>	2.4%	1.4%	6.8%	<b>-3.8%</b>	<b>3.5%</b>	-7.3%

## 2.2 ASSESSMENT OF 2015/16 SPENDING OUTCOMES

- Most votes on par with the national average (99%) in 2015/16, with the exception of Basic Education, which has repeatedly underspent over the previous three years largely as a result of underperforming conditional grants
- The national average spending for 2015/16 is marginally above the spending average for the period 2012/13 – 2014/15, as a result of improved resource allocation and spending alignment

	Percentage	% expenditure (2012/13)	% expenditure (2013/14)	% expenditure (2014/15)	Avg % Spending (2012/13 - 2014/15)	% expenditure 2015/16
<b>National Sphere</b>		98%	99%	97%	98%	99%
Selected Key budget Votes						
11. Public Works		90.1	97.2	98.52	95.28	98.92
14. Basic education		91.1	95.2	98.58	94.95	97.52
15. Higher Education and Training		100.3	100.0	100.15	100.13	99.80
16. Health		101.2	98.1	97.73	99.02	99.40
18. Correctional Services		97.6	99.7	99.36	98.91	100.00
21. Justice and Constitutional Development		98.7	96.9	98.22	97.93	99.63
23. Police		101.1	100.0	100.00	100.36	100.00
24. Agriculture, Forestry and Fisheries		100.2	98.9	98.79	99.30	99.86
25. Economic Development		100.1	99.5	99.71	99.78	99.77
26. Energy		97.8	99.6	83.60	93.68	98.24
38. Human Settlements		96.8	96.4	99.81	97.67	98.36
39. Rural Development and Land Reform		100.5	99.9	99.41	99.94	99.7

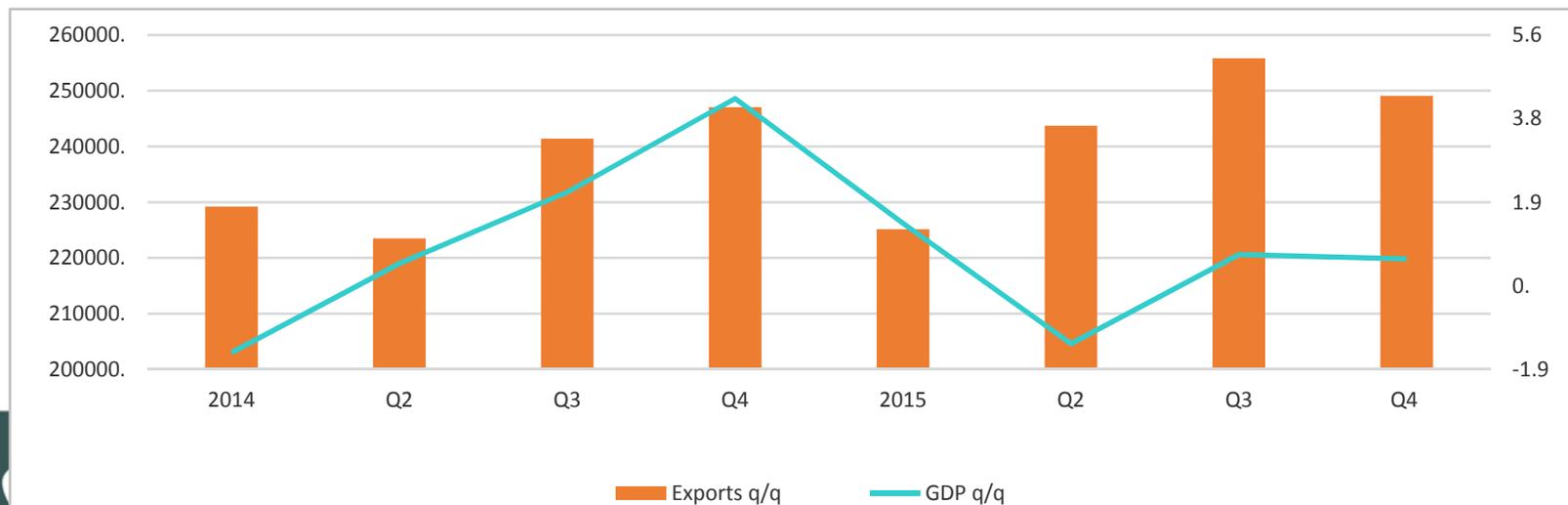
## 3. ASSESSMENT: 2016 APPROPRIATION BILL AND GOVERNMENT'S FIVE KEY PRIORITIES

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- Five overarching Government priorities that inform the assessment:
  - 3.1. Promoting economic growth
  - 3.2. Job creation and economic transformation
  - 3.3. Education
  - 3.4. Health
  - 3.5. Improved public service

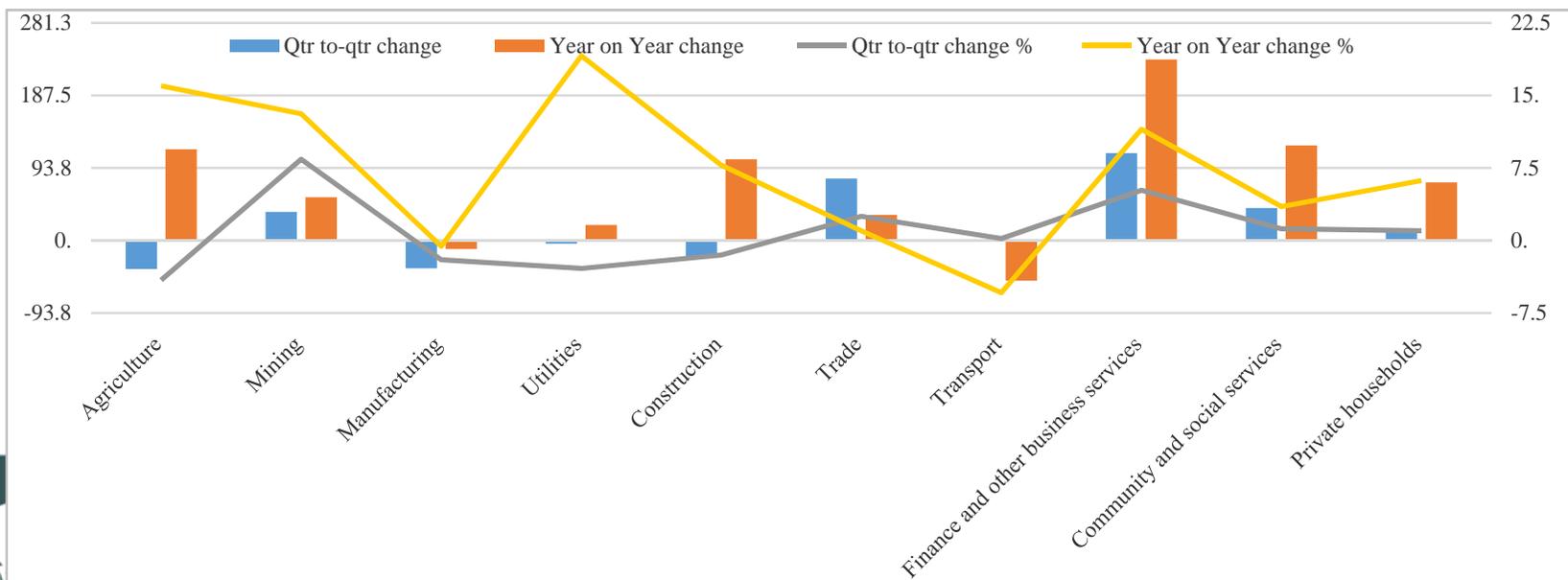
## 3.1. ASSESSMENT: PROMOTING ECONOMIC GROWTH

- South Africa's GDP growth is lagging behind population growth translating into declining per capita incomes.
- In addition to the various policy initiatives and reforms aimed at enhancing growth, structural reforms are required to enhance external adjustment. Competitiveness-boost from lower relative prices is being weakened by binding structural impediments resulting in less than full transmission of domestic policies and thus translating into a missed opportunity for the rebalancing of the economy.



## 3.2. ASSESSMENT: JOB CREATION AND ECONOMIC TRANSFORMATION

- Weak economic growth and limited fiscal resources present a serious constraint to job creation. Job losses are more pronounced in agriculture, manufacturing and construction, whereas these sectors with high impact on both output and employment. Support for these sectors is crucial in making employment creation initiatives more meaningful.
- In the medium term, investment in public employment programmes including expanded public works and the jobs fund will increase by 5.8% in the medium term from R11.8 billion in 2016/17 to R13.6 billion in 2018/19.



## 3.3. ASSESSMENT: EDUCATION

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- Education is one of Government's key priorities and accounts for 17.6 % of total government expenditure
- Key developments with the sector include:
  - Prioritizing the provision of learner and teacher materials to strengthen and improve quality of teaching and learning
    - The Commission welcomes this priority as it responds to a recommendation from a study the Commission conducted in 2004/05
  - Merging of the indirect component of the school infrastructure backlogs with the education infrastructure grant by 2017/18
    - The Commission welcomes the merging of these two grants as it streamlines grants with the same purpose. However, the reason for merging grants should not be due to poor performance but rather to improve efficiencies
  - New conditional grant in 2017/18 to expand and improve ECD
    - The Commission welcomes the introduction of this grant as this is in line with a recommendation made in its submission for the 2016/17 Division of Revenue

## 3.4. ASSESSMENT: HEALTH

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- Health remains a priority in the 2016 Appropriations Bill and key developments/priorities include:
  - Expansion of the HIV and AIDS treatment and prevention
    - The Commission supports this priority, however is concerned with the reduction of R176 million given an increased uptake of people on ARV's
  - Treatment of tuberculosis including enhanced screening and earlier detection to the diagnosis
    - The Commission supports this priority as early detection will result in early identification of the disease and treatment
  - 2016/17, the final year for NHI and a close-out report will be produced
    - The Commission supports the proposal for a report reviewing reasons for the conclusion of the NHI and among other things, the report will provide reasons for its poor performance and identify possible solutions that will assist the sector to realize the vision that underpinned NHI through the National Health Insurance indirect grant from 2017/18

## 3.5. IMPROVED PUBLIC SERVICE

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- Capable State required to achieve goals in the NDP
  - Among measures adopted include reforms to stabilize public entities and compulsory impact assessments of proposed government policy and regulatory change
  - Government's tender system is undergoing major reforms led by the Office of the Chief Procurement. The Public Procurement Bill is in the pipeline, which will replace all other legal instruments governing public procurement
  - What is required are appropriately formulated indicators that can track the impact of these reforms in achieving value for money and reducing graft in government operations
- Measures aimed at improving capability to implement infrastructure projects
  - New procurement standards issued in November 2015 to allow officials greater flexibility to negotiate lower prices
  - Introduction of management contracts, where one contractor hired to oversee all aspects of a project, thus reducing government exposure to risk of overruns and delays

## 4. INFRASTRUCTURE INVESTMENT AT THE NATIONAL LEVEL

- Investment in infrastructure is essential for sustaining economic growth
  - Over the 2016 MTEF, R275 billion is allocated in respect of economic infrastructure and network regulation
- The untangling of infrastructure bottlenecks through increased infrastructure investment in the electricity and transport amongst others is crucial given their strategic importance in enhancing economic growth
  - R34 billion in 2016/17 is allocated to public transport, including commuter rail
  - The funding for the electrification program declines from R5.8 billion in 2015/16 to R5.7 billion in 2016/17 is R5.7 billion
- To achieve sustained economic growth aligned and coordinated infrastructure investment plans should remain a key priority for government
  - The Commission would like to emphasize that while investment in new infrastructure is critical, management of existing infrastructure is also equally important.

## 5. MEASURES TO STIMULATE COST EFFICIENCIES

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The Commission is of the view that an efficient government is key to attracting investment and sustaining growth. The Commission has identified the following areas to improve public sector efficiency.

### **PROCUREMENT**

- The Commission continues to be concerned about waste, poor quality government services and inflated prices and the frequent flouting of supply-chain processes by all spheres of government against all the tenets spelt out in Section 117 of the Constitution, the PFMA and MFMA.
- The Commission notes the efforts by Government to invest in supply-chain processes and is of the view that such investments should be cascaded to subnational government and government entities as a matter of urgency.

### **REDUCTION OF GOVERNMENT SPENDING ON TRAVEL AND ACCOMMODATION.**

- The National Treasury (2016), estimates that R10 billion is spent annually on air and other travel by all spheres of Government. The Commission is of the view that efforts to contain such expenditures need to be followed by sub-national government and government agencies and a centrally managed system where travel and accommodation rates can be negotiated for all layers of government should be put in place.

# 5. MEASURES TO STIMULATE COST EFFICIENCIES

[CONT.]

## **CONTAINING THE PUBLIC SECTOR WAGE BILL**

- The public sector wage bill crowds out other government priority expenditures and forces sector departments to reallocate funding from priority areas to fund the wage bill. The Commission is of the view that a strict regime in managing a bloated public sector workforce should be applied to the local government as well and that the public sector wage bill should be linked to public sector productivity.

## **ELIMINATING SPENDING INEFFICIENCIES**

- The Commission continues to be concerned with deep rooted problems of underspending on appropriated funds, and high incidences of irregular and wasteful spending. Efforts at building capacity of oversight and monitoring bodies, and budget officers should be doubled as they are key to improving spending efficiencies.

## **IMPROVING EFFICIENCIES IN MUNICIPAL SPACES**

- (Other areas to reap efficiency gains in the local government include reducing water and electricity loses, improving billing systems and ensuring regular repairs and maintenance of infrastructure.

## 6. CONCLUSION

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- The 2016 Appropriation Bill continues the same trend of both the 2016 Division of Revenue Bill and Fiscal Frameworks, and Revenue Proposals by keeping within the expenditure ceilings set by the 2016 Budget Review
- Government continues with the thrust of balancing the need to protect social grants, while targeting non-core and non-performing programs as areas where expenditure can be cut
- Commission supports increased efforts at improving efficiencies in the 2016 Appropriation Bill, although key indicators need to be developed to track value for money arising from these initiatives
- The Commission welcomes measures being taken to reign in the wage bill, but notes that for the compensation projections to be realistic a multi-year wage bargaining agreement will be required, where salaries are pegged close to the inflation rate and productivities



THANK YOU.

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