JOINT BUDGET COMMITTEE REPORT ON THE MEDIUM TERM BUDGET POLICY STATEMENT (MTBPS) 2006

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Introduction

> ***The MTBPS is guided by the obligations of government embodied in legislation and oversight by Parliament, and by the policy direction and political mandate as expressed in the State of the Nation Address. In that address earlier this year, President Mbeki declared that "South Africa has entered its Age of Hope." The President placed the accelerated and shared growth initiative – AsgiSA – at the centre of our national expectations of a higher, shared growth path (Foreword, MTBPS 2006).***

The Joint Budget Committee reports as follows:

The Minister of Finance, the Honourable Trevor Manuel, tabled the Medium Term Budget Policy Statement (MTBPS) before Parliament on 25 October 2006. The Joint Budget Committee (henceforth 'Committee') planned to hear submissions from National Departments, non-profit and research organisations from 26 October to 02 November 2006 under the following five themes:

Theme 1: Rural Development and Urban Renewal
- Department of Agriculture
- Department of Land Affairs
- Department of Water Affairs and Forestry
- Agri SA

Theme 2: Justice and Protection Services
- Department of Correctional Services
- Department of Justice and Constitutional Development
- Department of Defence
- Department of Safety and Security

Theme 3: Employment and Economic Growth
- Department of Minerals and Energy
- Department of Environmental Affairs and Tourism
- Department of Public Service and Administration
- Department of Public Enterprises
- FEDUSA
- Department of Transport
- Department of Labour

Theme 4: Social Services
- Department of Education
- Department of Public Works
- People's Budget Coalition
- Department of Health
- Department of Housing
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- Department of Social Development
- Department of Sports and Recreation
- SALGA

Theme 5: International Trade

- Department of Trade and Industry

The report is divided into three broad sections. Section 1 outlines the presentation of the National Treasury on the MTBPS. Section 2 outlines submissions of departments and other organisations. Section 3 lists the general concerns and recommendations of the Joint Budget Committee on the MTBPS. Note that no submissions were received from economists, although invitations had been extended by the Committee.

The following departments did not make any submissions to the Committee:

- Department of Communications;
- Department of Defence; and
- Department of Labour.

The delegations of the following departments made submissions to the Committee, but did not have either the executive authority or accounting officer present:

- Department of Correctional Services;
- Department of Justice and Constitutional Development;
- Department of Provincial and Local Government;
- Department of Safety and Security;
- Department of Sports and Recreation;
- Department of Trade and Industry; and
- Department of Transport.

Joint Budget Committee Mandate

The Committee's mandate regarding the MTBPS requires it to consider the distribution of available financial resources for expenditure against government policy priorities. This mandate is distinct from that of the Portfolio and Select Committees on Finance, which deliberate on the macro-economic, fiscal and intergovernmental dimensions of the MTBPS respectively.

The Committee has interpreted its mandate to mean that it should consider the following:

- the likely impact of expenditure allocations in the MTBPS on the effectiveness and efficiency with which departments can respond to government's stated policy priorities; and
- whether departments are making the tough choices required, tailoring their planned expenditures to priorities, choosing effective strategies and seeking efficiency in implementation.

The hearings aim at addressing these issues, and preparing the Committee and Parliament for its deliberations and vote on the Budget itself next year.

Section 1: Briefing by the National Treasury

Sitting as the Joint Budget Committee, the Portfolio and Select Committees on Finance, the Committee was briefed on the MTBPS by the Minister of Finance and the Director-General (DG) of the National Treasury on 26 October 2006.

The Minister outlined the substantial increase in broad expenditure trends over the past decade, although strong revenue trends facilitated tight fiscal deficits. The economic outlook for the medium term was described as a continuation of the recent strong growth rates and commodity prices that are largely due to international demand factors, emanating from particularly China and India. The National Treasury believes that the country's economic growth is sustainable and is in line with ASGISA growth targets. The risk that the United States' twin deficit situation poses to South Africa should be monitored closely, as capital flows to developing countries are very sensitive to exchange rate changes in the United States.

The National Treasury highlighted the following:

- considerable short-term challenges, namely managing the fiscal-monetary policy mix;
- long-term challenges, namely reducing poverty and inequality;
- poor agriculture sectoral performance in the economy; and
- vibrant construction industry output growth.

The widening trade deficit since 2004 is a matter of concern. The widening current account deficit due to increasing reliance on imports is of concern, and the situation is exacerbated by the current negative government and household savings. Over the medium term, government savings are projected to turn positive. Prudent management of the demand factors for oil and related fuel imports is necessary, as these factors pose a continuing threat for inflation outlooks, although oil prices are projected to be in a decline over the medium term.

Key issues in terms of the medium term budget trends noted by the Minister are listed below.

- The national budget is broadly in balance over the MTEF period, and is projected to be in surplus in 2007/08.
- Section 32 (of the PFMA) reports should report expenditure trends of all national and provincial departments. These reports are useful documents that may aid oversight bodies to interrogate departments' expenditure track records and possible remedial actions. Savings could be identified early on and unspent funds have to be returned to the National Treasury so that they can but re-applied elsewhere.
- Government's focus on infrastructure as key to development is demonstrated by the additional R28 billion for public infrastructure over the MTEF.
- Social services remains the major spending area of the 2007 MTEF with 57% of total allocations.
- Other specific key spending areas are the strengthening of criminal justice system and public administration to improve the quality of social services, such as education, health, welfare.

- The Provincial equitable share grows by 7% in real terms over the MTEF and additional conditional grant allocations will be made. The new provincial boundaries present significant challenges for provincial fiscal management.
- The Local Government equitable share grows by 11% in real terms over the MTEF and additional conditional grant allocations will be made.
- Considerable (R45.7 billion) capital expenditure transfers to municipalities overthe MTEF, with the most (R24.7 billion) destined for infrastructure to roll out basic municipal services.
- Capacity-building in municipalities is a priority matter for the National Treasury.

The 2006 MTBPS noted the following key public spending priorities identified at the start of the 2007 medium-term expenditure framework (MTEF).

- "Investment in stadiums and public transport to ensure a successful 2010 FIFA World Cup.
- Strengthening the criminal justice sector, with particular emphasis on visible policing and improving court case flow.
- Stepping up investment in the built environment in the form of housing, roads, water, sanitation and community facilities.
- Contributing to improved economic efficiency through investment in roads, rail, electricity generation and supply, dam construction and skills development."

Some examples highlighted in the National Treasury's submission to the Committee are matters of concern.

- Savings by Correctional Services of R800 million.
- Savings by Land Affairs of R1 billion.

Members of Parliament engaged the Minister and the DG of the National Treasury on a number of issues, which are listed below together with the responses.

- The need to ensure stable and sustainable international capital inflows in order to create healthy balance of payments. A suggestion was made that the National Treasury should renew efforts for the country to become more export-oriented to minimise the current account deficit. The National Treasury's response gave acknowledgement to the need to become more export-oriented, but emphasised the need to be globally competitive – this would mean a mind shift away from old trade thinking which focused on making money towards governments creating incentives for business to manage their time and labour creatively ("self-discovery"). The effect of oil import inflation and a myriad of other factors playing themselves out on global markets all impact on a worsening current account situation, which makes government intervention quite difficult. Further to its response, the National Treasury explained policy options in curbing current account deficits, among others through constraining domestic expenditure through either monetary policy (interest rate hikes) or fiscal policy (tax increases, less government expenditure). As government would like to play a significant role in creating the public goods necessary for employment creation and poverty alleviation, it most probably should concentrate on capital expenditure and/or save where possible in order reduce interest rate pressures that would lead to greater investment expenditure by the private sector.
- The additional R80 billion over the MTEF may be too expansionary and government capacity constraints may hamper the effective spending of funds. The National Treasury in its response agued that the it was not a too liberal

argued that it is not empowered by law to be responsible for skills development initiatives. Mathematics pass rates are for example key indicators of a skilled labour force and the National Treasury is not responsible for attaining associated targets. This example illustrates the interrelatedness of skills development, as critical shortages of teachers of mathematics and science are cluster performance areas. The National Treasury however argued that it facilitates financial support programmes by the relevant departments and entities, such as bursaries for further education and training (FET) institutions, which target essential skills such as quantitative and artisan skills.

Section 2: Briefings by other national departments and organisations

Theme 1: Rural Development and Urban Renewal

Department of Agriculture

The Committee inquired about the various savings incurred by the department, most notably savings as a result to vacant posts. Written submissions should be provided to substantiate the reasons for these various savings.

The Committee inquired about the reason for a number of vacancies not being filled. The department acknowledged a significant staff turnaround figure. A staff retention strategy is in place, although the strategy is only successful insofar as public sector frameworks allow may allow for. There is for example no minimum stay period.

The Committee inquired about the progress on the One-Stop-Shop programme. The Department argued that better leadership alignment between itself and Land Affairs is necessary to ensure the success of the programme.

The Committee inquired about specific budget items that saw chronic under-expenditure and what the department is doing to remedy the situation. The Department needs to submit a written explanation on this issue to the Committee.

The Committee inquired about the absence of a dedicated programme for food security. The department responded that there was a move away from providing farmers with food parcels. The department observed that poverty is more effectively reduced by the distribution of social grants. The Department of Agriculture informed the Committee that it was a leading department in the area of poverty reduction through targeted conditional grants to the other spheres of government.

The Committee's Chairperson noted at the end of the submission of the Department of Agriculture that some questions have not adequately responded to. The Department should submit further written submissions on the issue of the One-Stop-Shop, items that saw chronic under-expenditure, poverty reduction strategies, credibility of some of the statistics presented, and grants issued to certain beneficiaries, among others. The Chairperson requested the department to report in writing on the issues that were not adequately answered. The DG responded that such a response will be received within seven days of the request.

It is the observation of the Committee that the Department of Agriculture has the necessary resources and capacity to implement its programmes. The Department of Agriculture did not make any proposals for the 2007 MTEF to the Committee. It is the Committee's observation that there needs to be closer cooperation and coordination between the Departments of Agriculture and Land Affairs.

Department of Land Affairs (DLA)
The submission of DLA highlighted the work the department does in rural development and the degree to which issues of land restitution are being address according to government priorities.

The Committee inquired about the extent of housing and land availability coordination. The department responded that land need is identified by municipalities. The department only makes land available and does not manage housing provision. The department stressed the importance of municipal IDPs to identify the various housing backlogs.

The Committee inquired about the appropriateness of the willing-buyer-willing-seller concept to reach targets set out for 2014. The Committee was not satisfied with DLA's answer to its question and requests a written submission by the department to explain its programme that will enable it to reach the 2014 targets.

The DG responded to various questions on under-expenditure by arguing that under-expenditure during the first two quarters of the financial years is a common feature of the department. To a large extent, under-expenditure on land restitution is due to the slow pace at which claimants came forward. The DG assured the Committee that expenditure will pick up from the third quarter. The DG is of the opinion that the operations of DLA are adequately funded over the MTEF.

The department stated that its under-expenditure on compensation for employees is due to persistent vacancies. The department noted that it has a problem in absorbing interns that graduate from its internship programme.

The Committee inquired about the delays in the deeds office that appear to be curbing service delivery. The DLA responded by arguing that the recent property boom presents serious challenges to its efforts and if more registration needs to be done, then the department will need more capacity. A systems upgrade will therefore be necessary.

The Committee inquired about the capacity of municipalities that facilitate the delivery of DLA functions. It was agreed in the session that when the Department of Provincial and Local Government makes it submission, the issue of local government capacity will be addressed. The Committee commented that area based planning may be superfluous in the light of known local government capacity constraints. The DLA argued that business process re-engineering may prove to be the answer. This entails assisting municipalities with target-setting, the necessary training and support, such as decentralizing officials to local centres.

It is the observation of the Committee that DLA has adequate access to resources, but that the department has to increase its capacity to implement its programmes in the light of key challenges, such as the exploding property boom and high staff turnover. The electronic registration process at the deeds office should be fast-tracked. The department is to provide a written submission to the Committee, detailing the reasons and remedial actions for under-expenditure in all the programmes, reasons for persistent vacancies, and retention strategies, especially for interns. The department did not make any proposals for the 2007 MTEF to the Committee. It is again the Committee's observation that there needs to be closer cooperation and coordination between the Departments of Agriculture and Land Affairs.

Department of Water Affairs and Forestry (DWAF)
The Committee expressed its concern about global warming and the need to re-circulate water for domestic use. DWAF admitted to the concern and remarked that South Africa is a water scarce country. The department have 25 year projections that guide the objectives of its programmes.

With regards to intergovernmental coordination, DWAF undertook to renew efforts to assist with setting up the One-Stop-Shops with stakeholder line departments.

The Department commented on the concern about the pace of eradication of the bucket system. A targeted number of backlogs to be eradicated has been set for end of 2007. It was not clear from DWAF's response that it is on track with the eradication of bucket system backlogs. This issue requires a further written response from the department to the Committee.

The Committee expressed its concerned that retired engineers returning as consultants may be an expensive option for the DWAF. DWAF remarked that it is only temporary solution. A longer-term solution will be to set up a learning academy for engineers. Over the medium term the supply of qualified engineers should be sustainable.

The Committee expressed its concern that money allocated and used for disaster management purposes should be put to the correct use and yield value for money. The Department undertook to where necessary provide a detailed breakdown of geographical expenditure trends.

The Committee inquired from DWAF about the reasons for available relief funds for disaster relief not being used. DWAF responded with saying that at least every district municipality should have a disaster management response team and centre. The problem is that funds are sometimes tied up in contingency reserves, which means that these funds cannot be proactively used for long term disaster management.

DWAF explained the reason for a R50 million rollover destined for commercial forestry activities – the department still farms 70 to 80 million hectares of plantations. Some designated areas ('Categories A') were sold off to public enterprise. DWAF was paid through the exchequer account and is accounted for as revenue. The rollover facilitated the inclusion of the amount in the adjustment estimates.

It is the observation of the Committee that DWAF has the necessary resources to implement its programmes, but the recruitment and retention of highly skilled personnel, especially engineers, is a matter of concern. DWAF need to submit a written submission to the Committee on its progress with the eradication of bucket system backlogs. The Committee recommends that DWAF undertake to cooperate and coordinate with other line department stakeholders when developing service units such as schools and clinics. The department did not make any proposals for the 2007 MTEF to the Committee.

Agri-SA
The Committee expressed its interest in Agri-SA's commitment to the land reform process. Agri-SA responded and state that its members support land reform support the 30% national government target. Agri-SA is also committed to assist with capacity-building effort after legal expatriation processes.