Parliamentary Budget Office

PARLIAMENT OF THE REPUBLIC OF SOUTH AFRICA

NOTES:
2015 MTBPS PRESENTATION

Slide 5: Growth continues to disappoint…

- The South African economy continues to grow at a slow pace.
- In the first half of 2015, the economy grew by a modest 1.6% compared to the same period in 2014.
- The poor performance is due to both local and global factors.
- Weak global growth, a slowing Chinese economy, and lower commodity prices have affected the economy.
- Domestically, poor performance in manufacturing and mining, slowing consumer demand and structural challenges such as electricity supply have affected growth.
- National Treasury, in line with other organisations, reduced its growth outlook over the medium term.
- The IMF estimates that South Africa's potential GDP – the growth level possible at which inflation is constant – is between 2 and 2½ %.
- GDP over the medium-term outlook as well as potential growth are well below the 5% required by the NDP.

GDP Growth Outlook	2015	2016	2017	2018
National Treasury Budget Review 2015	2.0%	2.4%	3.0%	-
National Treasury MTBPS 2015	1.5%	1.7%	2.6%	2.8%
South African Reserve Bank - January 2015	2.2%	2.4%	-	-
South African Reserve Bank - September 2015	1.5%	1.6%	2.1%	-
IMF World Economic Outlook - April 2015	2.0%	2.1%	2.4%	-
IMF World Economic Outlook - October 2015	1.4%	1.3%	2.1%	2.5%
World Bank Global Economic Prospects - January 2015	2.2%	2.5%	2.7%	-
World Bank Global Economic Prospects - June 2015	2.0%	2.1%	2.4%	-

Slide 7: The fiscal framework

- Keeping with the commitments made in last year's MTBPS, Treasury noted that the central fiscal objective over the medium term is to stabilise debt as a share of GDP.
- To do this, it aims to reduce the budget deficit over the medium term.
- However, the lower growth estimates over the medium term means that spending would have to decrease and/or revenue would have to increase to maintain the same deficit as a share of GDP.
- Revenue forecasts have also been revised downwards.
- The expenditure ceiling was maintained from the levels indicated in the 2015 Budget Review and close to the 2014 MTBPS. The growth in the expenditure ceiling will also be governed by a "fiscal guideline".
- The budget deficit is estimated to fall from 3.3% in 2016/17 to 3% in 2018/19
- This is slower than estimated in the 2015 Budget and the 2014 MTBPS

Slide 8: Composition of spending

- Interest expenditure as a share of total current payments and expenditure has been increasing.
- Compensation of employees share of total payments has also been increasing. It is expected to increase over the MTEF to 41.3% of total payments by 2018/9.
- This may have crowded out spending on goods and services, falling from 17.7% in 2012/13 to 15.7% today.

Slide 9: The public sector wage bill

- Treasury noted that a public sector wage settlement significantly higher than inflation would present a risk to the fiscal framework.
- This risk materialised.
- The 2015 public sector wage agreement resulted in a 10.1 per cent increase in wages and benefits of government employees this year, about 4 per cent higher than budgeted for.
- This had to be funded from the contingency reserve.
- Ability to respond to revenue or expenditure shocks is compromised.
- Treasury warned that departments may need to shift funds away from goods and services, and capital investment.

Slide 11: Revenue outlook

- However poor growth has negatively affected revenue collection
- Revenue estimates have been revised downwards compared to the 2015 Budget, largely due to lower Corporate Income Tax (CIT)
- Personal Income Tax (PIT) receipts have, however, been stronger than expected. This is due to high wage settlements (public and private) as well as the effect of higher marginal tax rates introduced this year.
- The sale of Vodacom shares is expected to raise R25.4 bn to finance Eskom's requirements, and the first instalment for the New Development Bank contribution

Slide 12: Revenue considerations

- Important to note that these revenue estimates are not-policy adjusted. Treasury has hinted at possible additional revenue raising measures. Revenue proposals are presented in the Budget Review.
- The Davis Tax Committee has released several papers for comment
    - VAT

    - Wealth tax
    - Mining
- Treasury have also indicated that the carbon-tax paper will be released soon.
- Additional revenue is required to fund additional national priorities. e.g. NHI.
- However any additional revenue proposals must be sensitive to the impact on growth
- Challenges with earmarked taxes.

Slide 14: Debt to GDP ratio: IMF and National Treasury forecasts

- The difference between IMF and Treasury figures is explained by both the difference in expected debt levels as well as the difference in forecast growth:
    - Approximately 60-65% of the difference is explained by different GDP forecasts and 35-40% by different debt expectations
- [Technical note: the IMF figures are for calendar years, whereas the Treasury's figures are for fiscal years: in practice this means that the difference between the two institutions' Debt:GDP ratios are likely to be understated]

Slide 15: Debt sustainability

- As with this year's Budget, the primary focus of the MTBPS is on curbing the increase in South Africa's public debt relative to the size of the economy. This can be achieved by limiting the increase in expenditure, increasing revenue, or some combination of the two.
- The issue of debt sustainability is always important, but it is particularly topical at present. Austerity policies in countries like Greece and the U.K. are motivated by the claim that debt levels in those countries are/will soon be unsustainable.
- One important consideration is: what debt should we look at? For national government should we look at gross or net debt? And should we then include social security funds and public entities? Should municipal debt be included? Etc
- A lot of recent literature has focused on the question of whether there is a debt:GDP threshold for countries beyond which the accumulation of public debt has a negative effect on growth or/and precipitates economic crises.
- Because the focus is on debt relative to GDP, economic growth – and how it is measured – is critical. For example, South Africa recently benefited from having our GDP 'rebased' – leading to larger estimates of GDP

Slide 16: Estimated effect of GDP rebasing on debt-to-GDP ratio

- The graph shows how the higher GDP estimates from the 'rebasing' by StatsSA have led to lower debt:GDP ratios

Slide 17: Sustainable debt levels for SA

- Note assumptions underlying IMF analysis, including that 60% is actually taken from a range of 50-80%
- The question that National Treasury, and Parliament, must consider is: what is an appropriate, sustainable level of debt for South Africa?
- In last week's briefing the Minister appeared to suggest that 50% debt:GDP was a sustainability threshold, which is consistent with other statements by Treasury regarding the risk of SOE liabilities. But it is not clear whether this is for gross or net debt.
- As noted in the PBO's 2015 Budget presentation, SADC has agreed a prudency threshold of 60%. This is measured against net debt, provisions and contingent liabilities – more details on which will be available with the 2016 Budget.

- =A recent IMF working paper (December 2014) suggests a debt ceiling of 60% and a debt target of 40% for gross debt. It estimates, based on 2013/14 figures, that achieving this would require permanent 1.2% increase in revenue/GDP or 1.4 percentage point decrease in planned expenditure growth.

Slide 20: Alignment of policy with budget

Expenditure priorities for the revised MTEF includes education and skills development, health, social protection and infrastructure.

The graph shows a comparison of the annual average growth over the MTEF as presented in the 2015 MTBPS and the 2015 National Budget. The expenditure growth trends are categorised within function groups. The categorising of expenditure is based on the policy objectives which the expenditure is intended to achieve.

Composition of function groups:

- **Basic education**
  - Basic education
  - Arts, sport, recreation and culture
- **Health**
- **Defence, public order and safety**
  - Defence and state security
  - Police services
  - Law courts and prisons
- **Post-school education and training**
- **Economic affairs**
  - Industrial development and trade
  - Employment, labour affairs and social security funds
  - Economic infrastructure and network regulation
  - Science, technology, innovation and the environment
- **Human settlements and municipal infrastructure**
- **Agriculture, rural development and land reform**
- **General public services**
  - Executive and legislative organs
  - General public administration and fiscal affairs
  - Home affairs
  - External affairs and foreign aid
- **Social protection**

Changes in the medium term growth trends are notable in:

- Defence, public order and safety
- Human settlements and municipal infrastructure
- Agriculture, rural development and land reform
- General public services as a result of the increase in Home Affairs in specific in 2018/19

Slide 21: Responding to expenditure challenges: MTEF

Public expenditure challenges:

The 2015 public sector wage agreement for non-senior management employees provides for the following:

- An increase of the housing allowance from R900 to R1200 for public servants below salary level 10
- The Government Employees Medical Scheme employer contribution increasing by "medical CPI" equivalent to CPI + 3 per cent in each year of the 2016 MTEF period
- 2015/16 financial year: 7 per cent cost of living adjustment

- 2016/17 and 2017/18 financial years: CPI + 1 per cent cost of living adjustment
- A housing allowance increase equivalent to CPI from 2017/18

In some instances compensation budgets are still overestimated due to weaknesses in budget management. Despite specific interventions, in terms of cost containment, by the National Treasury budgets are not realistic. The adjusted budget is proof of this.

Since 2012 the number of government employees declined by 12 000. This is less than one per cent of the 1.328 million employees in 2012.

The table below shows the 2015 estimated budget shortfall, the preliminary reallocation and the remaining shortfall for the current financial year and two outer years of the MTEF.

Preliminary reallocation to compensation of employees

R million	2015/16 Estimate	2016/17	2017/18
		Medium-term estimates	
Compensation budget estimated shortfall in 2015	12 200	20 600	31 100
National departments			
Allocations from contingency reserve	1 173	2 866	7 126
Reprioritisation within baseline	–	907	1 040
Provincial departments			
Allocations from contingency reserve	3 827	7 134	18 938
Preliminary reallocation	**5 000**	**10 907**	**27 104**
Remaining shortfall	**7 200**	**9 693**	**3 996**

Continuous growth in post-school expenditure necessitate higher growth over the medium term. The spending challenges are due to a combination of increased costs and the expansion of enrolments. The expansion of the number of medical students is also a requirement of the National Development Plan. The financial implications of the white paper on post-school education still needs to be determined before consideration by Cabinet in 2016.

Government is planning to review the effectiveness of business incentives. This initiative is welcomed and should be extended to other programmes such as the skills development and job creation initiatives.

Over the medium term, a new capital budgeting framework will be introduced by the National Treasury. The aim is to improve resource allocation, value for money and service delivery in capital budgeting and implementation.

The graph shows a comparison of the annual average growth over the MTEF per economic classification items, as presented in the 2015 MTBPS and the 2015 National Budget.

Most of the items are growing faster over the medium term as presented in the MTBPS. Transfers to departmental agencies and accounts and households and payments of capital assets are estimated to grow slower than what was estimated in the 2015 National Budget.

Slide 22: Responding to expenditure challenges: Adjusted appropriations

Some examples of the motivations for virements, shifts, declared unspent funds and other adjustments include:

- In two specific case studies shifts were made from vacant positions to cover for salary level notch increments related to performance evaluation and for the upgrading of salary levels from level 9 to 10 and 11 to 12. In this specific case the Department could cover all compensation of employees spending pressures and declare R28.5 million unspent. Further to this a vacancy rate of 10.2 per cent were reflected in the 2014/15 annual report, without taking the additional positions to the structure into account. When considering the additional post a vacancy rate of approximately 7 per cent were realised.

The table below shows the declared unspent funds per National Department. A total of more than R3.2 billion has been declared unspent.

Declared unspent funds

	R thousand
National Treasury: R164.5 million from the Employment Creation Facilitation Fund and R100 million from the South African Revenue Service	264 500
Public Works: R60 million from the Property Management Trading Entity; R24.405 million from the expanded public works programme integrated grant for provinces; and R14.460 million from the social sector expanded public works programme incentive grant for provinces	98 865
Basic Education	224 714
R163.112 million from the education infrastructure grant; R30.243 million from the maths, science and technology grant; R18.334 million form the national school nutrition programme grant; R12.3 million from the HIV and AIDS (life skills education) grant; and R725 000 from the occupational specific dispensation for education sector therapists grant	
Higher Education and Training: R28.5 million from compensation of employees; and R2.1 million from goods and services	30 600
Health	216 283
R66.582 million from the comprehensive HIV and AIDS grant; R62.5 million from the national health grant: health facility revitalisation component; R51.717 million from the health facility revitalisation grant; R18.623 million from the national health insurance grant; and R16.861 million from the national tertiary services grant	
Social Development: R275 million in respect of a decrease in the estimate of social grant payments	275 000
Correctional Services: R30 million from compensation of employees	30 000
Justice and Constitutional Development: R60 million from IT services for integrated justice system projects; and R50 million from direct charges against the National Revenue Fund for magistrates' salaries	110 000
Police: R88 million from the integrated justice system transversal project	88 000
Agriculture, Forestry and Fisheries	16 633
R11.226 million from the comprehensive agricultural support programme grant: infrastructure component; R4.055 million from the Ilima/Letsema projects grant; and R1.352 million from the land care programme grant	
Energy: R250 million from the solar water heaters programme	250 000
Environmental Affairs	20 000
R10 million from the South African National Parks; R5 million from the expanded public works programme; and R5 million from the South African National Biodiversity Institute	
Science and Technology	20 000
R7.5 million from the Council for Scientific and Industrial Research; R7.5 million from the National Research Foundation; and R5 million from travel and subsistence costs	
Tourism: R10 million from the tourism incentive programme	10 000
Trade and Industry: R134.4 million from the special economic zones	134 400
Transport: R43.220 million from the provincial roads maintenance grant: roads maintenance component	43 220
Water and Sanitation	700 000
R200 million from the Water Trading Entity; R200 million from the municipal water infrastructure indirect grant; R198 million from the Magalies Water for Pilansberg Scheme; R64 million from the regional bulk infrastructure indirect grant to local government; and R38 million from the water infrastructure development programme	
Arts and Culture	93 812
R54 million from capital works projects; R34.273 million from the community library services grant: capital heritage institutions component; R3.1 million from compensation of employees and office accommodation; and R2.439 million from the community library services grant: current component	
Human Settlements: R400 million from the Social Housing Regulatory Authority	400 000
Rural Development and Land Reform: R200 million from the Agricultural Land Holding Account	200 000
Sport and Recreation South Africa	7 669
R4.069 million from the mass participation and sport development grant; and R3.6 million from compensation of employees and office accommodation	
	3 233 696

Slide 23: Realigning baselines for realistic estimates

The realignment of baselines should seek to achieve better correspondence between:

- Programmes and targets with the situation or environment in which the Department operates (targets should be evidence based)

- Resources and policy objectives and outcomes
- Emerging cost pressures
- Historic and current spending trends
- Historic and current performance

Analysts and oversight bodies must provide guidance and monitor the implementation of frameworks and guidelines for efficiency and effectiveness.

Analysis of current spending trends and additional proposed expenditure over the 2016/17 to 2018/19 MTEF shows:

- Expenditure of between 70 and 30 per cent of the adjusted budgets for April to September 2015.
- 47.3 per cent of Provincial Conditional Grants have been transferred of which 36.8 per cent have been spent as at end August 2015.
- Additional resources have been provided to support HIV/Aids and tuberculosis, while R66.58 million has been declared unspent in the adjustments appropriations. Despite slow spending on this grant, most of the targets for the 2015/16 financial year have been reached by mid-year.
- Additional funding has been provided for social grants based on higher-than-expected estimates for beneficiary numbers while R275 million has been declared unspent in 2015/16 due to a decrease in social grant payments.

The table below shows a scenario where an alternative baseline has been calculated for selected departments and a total for national department. The calculation did not consider any additional funding needs, policy priorities or functional shifts. The alternative baseline has been estimated only in terms of the expenditure performance of departments in the first six months of the current financial year.

Expenditure of selected votes, 2014/15 and 2015/16

			2015/16				
R million	Preliminary outcome 2014/15	Main budget	Adjusted budget	% spent on adjusted budget as at end September	Actual spending April to September i.to. Adjusted budget	Estimate i.t.o.actual spending	Difference between Adj. budget and estimate i.t.o actual spending
Basic Education	19 529	21 511	21 286	57.75%	12 294	24 588	3 301
Higher Education and Training	38 987	41 844	41 880	70.42%	29 491	58 983	17 103
Agriculture, Forestry and Fisheries	6 629	6 383	6 409	54.10%	3 467	6 934	525
Labour	2 420	2 687	2 704	45.05%	1 218	2 436	-268
Trade and Industry	8 685	9 594	9 498	38.14%	3 623	7 245	-2 253
Water and Sanitation	11 617	16 447	15 747	30.53%	4 808	9 615	-6 131
Rural Development and Land Reform	9 396	9 380	9 197	39.26%	3 611	7 223	-1 975

The scenario shown in the above table might even identify further resources for reallocation when performance on non-financial outputs are brought into the equation.

Slide 24: Provincial spending

The table shows the expenditure by province and by sector for the period April to September 2015. Most of the provinces are reflecting expenditure of almost 50 per cent. The Free State is the only province that reflects expenditure above 50 per cent. This is due to the over expenditure in the previous financial year.

Expenditure by province, 2014/15 and 2015/16

	2014/15			2015/16		
R million	Preliminary outcome	Over(-)/ Under(+)	Deviation from adjusted budget	Main budget	Actual spending April to September[1]	% spent as at end September
Eastern Cape	**61 558**	**1 284**	**2.0%**	**64 995**	**31 299**	48.16%
Free State	**28 833**	**-301**	**-1.1%**	**29 375**	**15 084**	51.35%
Gauteng	**85 753**	**1 531**	**1.8%**	**95 391**	**46 174**	48.40%
KwaZulu-Natal	**97 385**	**173**	**0.2%**	**101 961**	**50 646**	49.67%
Limpopo	**50 943**	**1 281**	**2.5%**	**52 728**	**25 268**	47.92%
Mpumalanga	**36 372**	**727**	**2.0%**	**38 702**	**18 899**	48.83%
Northern Cape	**13 400**	**130**	**1.0%**	**14 161**	**7 005**	49.47%
North West	**31 840**	**574**	**1.8%**	**34 224**	**16 693**	48.77%
Western Cape	**48 228**	**711**	**1.5%**	**52 059**	**24 223**	46.53%
Total	**454 312**	**6 110**	**1.3%**	**483 597**	**235 290**	48.65%
Education	186 860	1 836	1.0%	198 863	95 852	48.20%
Health	140 920	715	0.5%	176 523	88 024	49.87%
Social Development	15 283	134	0.9%	13 725	6 864	50.01%
Other functions	111 249	3 425	3.0%	94 486	44 550	47.15%

Source: National Treasury

The table below shows the additional Provincial Equitable Share funding to provinces. This funding is allocated from the contingency reserve to assist provinces with the expenditure pressure as a result of the higher than above estimated wage agreement.

Additional PES, 2015/16

R thousands	2015/16
Eastern Cape	**555 160**
Free State	**238 794**
Gauteng	**686 829**
KwaZulu-Natal	**877 619**
Limpopo	**488 758**
Mpumalanga	**307 134**
Northern Cape	**87 899**
North West	**246 412**
Western Cape	**337 927**
Total	**3 826 532**

The conditional grant table show the transfers received and expenditure per province for the first 5 months of the financial year. The table also shows the estimated over or under spending per province.

CONDITIONAL GRANTS: FUNDS RECEIVED AND PAYMENTS MADE BY PROVINCES AS AT 31 AUGUST 2015

GUIDELINE PERCENTAGE : 41.67%

Province R thousand	% Transferred of national	% Actual payments of	Projected outcome for	Projected (over)/under
Eastern Cape	50.0%	37.9%	9 959 483	100 839
Free State	49.9%	40.3%	6 607 798	1 569
Gauteng	42.8%	32.2%	17 123 410	-
KwaZulu-Natal	49.8%	41.7%	17 030 423	(149 748)
Limpopo	43.9%	35.1%	6 751 686	(9 370)
Mpumalanga	50.9%	35.8%	6 851 055	-
Northern Cape	49.4%	35.6%	3 794 958	(129 566)
North West	47.0%	33.0%	6 942 256	0
Western Cape	45.9%	37.6%	10 588 700	(81 279)
Total	**47.3%**	**36.8%**	**85 649 769**	**(267 555)**

Slide 26: Alignment of the NDP with the 2014 – 2019 MTSF and progress

The National Development Plan (NDP) lays the basis for much-needed economic and policy reforms to establish a platform for faster growth. Its objectives are embedded in government's medium-term strategic framework (MTSF).

It is therefore necessary or important to assess the alignment of the NDP with the 2014 – 2019 Medium Terms Strategic Framework (MTSF) and the progress made with the implementation of the NDP.

Expenditure priorities for the revised MTEF includes education and skills development, health, social protection and infrastructure.

Hence it was necessary for the PBO to assess the alignment of the NDP with the 2014-2019 MTEF for the following outcome:

- Outcome 1: Quality Basic Education
- Outcome 2: A long and healthy life for all South Africans
- Outcome 5: A skilled and capable workforce to support an inclusive growth path

To determine the alignment of the NDP with the 2014 – 2019 MTSF the actions and targets from the objectives for Education, Training and Innovation and Health in the NDP were listed in tables. The actions and targets of the sub-outcomes presented in the MTSF action plans were manually matched with the actions and targets in the NDP. It should be noted that this manual process could be subjective.

Furthermore, progress was assessed by comparing the number of targets achieved in the Programme of Action (POA) report with the total number of targets set per sub-outcome. In some cases a margin for variance from the targets has been allowed for the achievement of the target.

The Parliamentary Budget Office (PBO) acknowledges the fact that not all NDP targets are taken-up in the 2014 – 2019 MTSF.

To ensure implementation over the next 15 years the proposals to reach the outcomes will need funding, capacity, restructuring, prioritisation, reprioritisation, and reporting and monitoring procedures and systems.

It is therefore critical to ensure that the short to medium -term planning of government is aligned and implements the actions and objectives outlined in the NDP.

Slide 27: Progress on the MTSF

Outcomes	Number of indicators & targets	Number of targets achieved by 2014/15	Percentage achieved
Outcome 1: Quality Basic Education	61	22	36%
Outcome 2: A long and healthy life for all South Africans	58	26	45%
Outcome 5: A skilled and capable workforce to support an inclusive growth path	50	26	52%

The Programme of Action Report, consolidated by the Department of Planning Monitoring and Evaluation, has been assessed in terms of the number of targets achieved for 2014/15 for Outcome 1, 2 and 5.

The assessment highlight some of the achievements in terms of targets achieved on target deadline, but there are still challenges as some of the targets were not achieved by the target deadline. In some cases there was misalignment between the targets set for indicators and the indicator.

Outcome 1: Quality Basic Education

Medium term achievements on indicators and targets are poor, with only 22 targets achieved out of 61 (i.e. 36%)

Sub-outcomes	Number of Indicators and targets	Number of targets achieved for 2014/15-2015/16	Comment
Sub-outcome 1 : Improved quality of teaching and learning through development, supply and effective utilisation of teachers	8	3	38% achieved. A system to assess teachers are in place. For some of the targets set, systems are not in place to determine the achievements. Only 37% of schools had all posts filled permanently.
Sub-outcome 2: Improved the quality of teaching and learning through provision of infrastructure and learning materials	5	2	40% achieved. 106 new ASIDI schools completed and 64 handed over against a target of 150.
Sub-outcome 3:Regular annual assessments to track improvements in the quality of teaching and learning (ANA)	6	4	67% achieved. Mostly new indicators. The finalisation of a policy and questionarre is still outstanding.
Sub-outcome 4: Improved grade R and planning for extension of ECD	6	4	67% achieved. School readiness of grade 1 learners who attended grade R is still outstanding
Sub-outcome 5: A credible, outcomes-focused planning and accountability system (building the capacity of the state to intervene and support quality education)	13	3	23% achieved. 7 new indicators. The appointment of competent principals and signing of performance contracts by prinicipals are still negotiated with unions. Some data is outstanding or could not be collected.

Outcome 2: A long and healthy life for all South Africans

Medium term achievements on indicators and targets are poor, with only 26 targets achieved out of 58 (i.e. 45%)

MEDIUM -TERM STRATEGIC FRAMEWORK 2014 - 2019 OUTCOME 2: A LONG AND HEALTHY LIFE FOR ALL SOUTH AFRICANS				
Sub-outcomes	**Number of Indicators and targets**	**Number of targets achieved for 2014/15**	**Percentage achieved**	**Comment**
Sub-outcome 1: Universal Health coverage progressively achieved through implementation of National Health Insurance	5	1	20%	The White Paper on the NHI is still awaiting approval from Cabinet
Sub-outcome 2: Improved quality of health care	6	2	33%	An Office of Health Standards Compliance (OHSC), an independent entity with a CEO has been established. Only 3 of the 5 Central Hospitals targeted were fully compliant with National Core Standards as at 31 March 2015. Charlotte MaXeke and Tygerberg Hospitals did not comply.
Sub-outcome 3. Implement the re-engineering of Primary Health Care	11	3	27%	Ward-based primary health care outrage has expanded to 1 748 from a baseline of 1 063. The screening of grade 1 and 8 learners are however on 23.2% and 8.6% against targets of 30% and 25%.
Sub-outcome 4. Reduced health care costs	1	0	0%	The target is to establish a pricing commission
Sub-outcome 5. Improved human resources for health	3	0	0%	The intake of Medical Students has not increased. The success of the Cuban programme needs to be determined before the expansion of this programme is considered.
Sub-outcome 6: Improved health management and leadership	4	2	50%	An Ideal Clinic Manual is being prepared which includes establishment of Clinic Committees and The workload indicator of staffing norms (WISN) process and normative guidelines for Primary Health Care facilities management structures have been completed. A monitoring and evaluation system has, however not been implemented as planned for 2014/15.
Sub-outcome 7: Improved health facility planning and infrastructure delivery	2	0	0%	The 2014/15 target was for 150 health facilities to have undergone major and minor refurbishment and that four Provincial Departments of Health have established Service Level Agreements (SLAs) with Departments of Public Works. No progress has been reported.
Sub-outcome 8: HIV & AIDS and Tuberculosis prevented and successfully managed	12	11	92%	Patients have access to treatment. Achieving the target of 1 million male medical circumcisions has been a challenge.
Sub-outcome 9: Maternal, infant and child mortality reduced	13	6	46%	Progress has been made, however targets that have not been achieved were closer to the baseline number than the target for 2014/15. One outstanding indicator target that has increased is the fatality rate of children under 5 years as a result of malnutrition.
Sub-outcome 10: Efficient Health Management Information System developed and implemented for improved decision making	1	1	100%	Integrated Health Information system based on the Interoperability Norms and Standards supported by Health Information Exchange are being piloted in 700 PHC Facilities in the NHI Pilot Districts.

Outcome 5: A skilled and capable workforce to support an inclusive growth path

The Medium term assessment indicates that more than half of the indicators and targets were achieved, with 26 targets achieved out of 50 (i.e. 52%).

MEDIUM -TERM STRATEGIC FRAMEWORK 2014 - 2019				
OUTCOME 5: A skilled and capable workforce to support an inclusive growth path				
Sub-outcomes	**Number of Indicators and targets**	**Number of targets achieved for 2014/15**	**Percentage achieved**	**Comment**
Sub-Outcome 1: A credible institutional mechanism for labour market and skills planning	8	3	38%	Integrated data used in analysing the post school education and training sector has been published as targeted by the publication of the annual statistical publication on the Department's website. There is no progress in terms of the functional and business requirement specifications for the Central Application System for universities and on the initialisation of research into the requirements of the PSET System for a central Application System. Only the functional and business requirement specifications for the Central Application System for universities were completed and consulted with universities as targeted.
Sub-Outcome 2: Increase access and success in programmes leading to intermediate and high level learning	9	3	33%	New Indicators. The establishment of the 9 public Community Education and Training Colleges was gazetted on 16 March 2015. The Ministerial Committee to review the funding framework for TVET Colleges and Adult Learning Centres was established as targeted. Minimal progress has been made as to the building of 6 new TVET College campuses as only contractors for 3 sites had been appointed by the 31 March 2015.
Sub-Outcome 3: Increase access to high-level occupationally directed programmes in needed areas	16	10	63%	Most of the targets were achieved. By March 2015, the department was analysing the campus master and maintenance plans, and disability audits submitted by universities though the target was to have university plans analysed and a macro infrastructure plan for the system developed by March 2015. The survey to determine the percentage of graduates in ICT Skills programmes was delayed.
Sub-Outcome 4: Increase access to occupationally-directed programmes in needed areas and thereby expand the availability of intermediate level skills with a special focus on artisan skills	3	2	67%	Low number (than the targeted number) of Artisan candidates were found competent. A draft SETA Charter of Governance has been completed as targeted. About 73 164 more than the targeted 37 000 Work based learning opportunities had been created.
IMPACT INDICATORS	14	8	57%	Targeted number of headcount enrolments in TVET colleges not achieved by 31 March 2015. But the number of students enrolled in public higher education studies universities and the number of graduates in Engineering sciences, Human Health and Animal Health, Natural and Physical Sciences, initial Teacher Education and the number of Research Masters graduates from universities were achieved as planned by 31 March 2015.

Outcome 1: Quality basic education

- Medium term achievements on indicators and targets for Outcome 1: Quality basic education are poor, with only 22 targets achieved out of 61 (i.e. 36%)
- The Adjustments Appropriation Bill indicates that R224.7 million had been taken away from the Department of Basic Education
    - Is there a link between the shortfalls of the NDP and MTSF alignment and the money taken away from the department?

Outcome 2: A long and healthy life for all South Africans

- Medium term achievements on indicators and targets for Outcome 2: A long and healthy life for all South Africans are poor, with only 26 targets achieved out of 58 (i.e. 45%)
- The decline R214.1million in the Health budget during the adjusted process could in some instances be linked to the low performance on targets.

Outcome 5: A skilled and capable workforce to support an inclusive growth path

By 2030, South Africa should have access to education and training of the highest quality, leading to significantly improved learning outcomes. The education, training and innovation system should cater for different needs and produce highly skilled individuals. The graduates South Africa's universities and TVET Colleges should have the skills and knowledge to meet the present and future needs of the economy and society.

To achieve the above, the following outputs have been identified:

1. A credible institutional mechanism for labour market and skills planning;
2. Increase access and success in programmes leading to intermediate and high level learning;
3. Increase access to and efficiency of high-level occupationally directed programmes in needed areas; and
4. Increase access to occupationally directed programmes in needed areas and thereby expand the availability of intermediate level skills with a special focus on artisan skills.

- The Medium term assessment indicates that 48 per cent of the indicators and targets were not achieved, with only 26 targets achieved out of 50.
- The budget of the Department of Higher Education was adjusted upwards by R36.2 million
    - Skills development received additional resources (R1.9 million), which is in line with the current challenges in the sector.

Slide 31: Additional analysis: Higher education funding

- There are three main issues raised relating to higher education funding: affordability of fees, funding of NSFAS , and the overall level of funding for higher education in South Africa.
- An additional question, which we are not able to address here, is: if more funding is needed or warranted, where could that be obtained from? For the committees of finance and appropriations, the particular question of interest is whether funds would need to be obtained from other votes, or/and whether funds are required through structural increases in revenue. It is unlikely that any significant increase in funding could be financed through

increased government debt, given that the Treasury's debt targets are already under pressure and it has committed to lowered expenditure ceilings.

Slide 33: Higher education inflation

- [Source on compensation as percentage of operating costs: StatsSA Report on Financial Statistics of Higher Education Institutions for 2014, and HESA Higher Education Price Index Report 2014]

Slide 34: HESA study (2014)

- [Source: HESA Higher Education Price Index Report produced by the Bureau for Economic Research]

Slide 35: Implications for fee freeze

- [Note: the figures in the slide are based on provisional information from DHET, which includes most – but not all – universities in South Africa]

Slide 37: DHET costing of NSFAS scenario shortfalls

- [Source: Department of Higher Education and Training scenario analysis, including breakdown of NSFAS allocation between universities and TVET colleges]
- The DHET costing is for universities only and makes the following assumptions, among others:
    - Full cost of study will increase by 9.8% per year and this will be matched by a corresponding increase in the NSFAS grant value
    - Undergraduate enrolment will increase at 1.8% per annum
    - If the R122,000 means test threshold is maintained, NSFAS grantholders will constitute 16% of headcount enrolments
    - If a R217,000 means test threshold is used, NSFAS grantholders will then constitute 25.5% of headcount enrolments
    - Full cost of study is an average across institutions, and therefore there may be significant differences between this and an individual student's costs at a particular institution

The Parliamentary Budget Office has not had the opportunity to analyse these assumptions in any depth and therefore these figures should be seen as a preliminary. For example, changes in the means threshold as well as the value of the NSFAS grant could affect enrolment behaviour, which could then lead to higher bursary requirements. Such uncertainties could be more fully accounted for in a more detailed analysis.

Slide 38: Ministerial Commission

- The Report of the Ministerial Commission on Higher Education Funding endorses use of both block and earmarked grants.
- Data provided by DHET show fees as percentage of total university funding increased from 24% to 30% between 2000 and 2010, while government funding share decreased from 49% to 41%.