

REPORT OF THE STANDING COMMITTEE ON APPROPRIATIONS ON THE ADJUSTMENTS APPROPRIATION BILL [B28 – 2015] [NATIONAL ASSEMBLY (SECTION 77)], DATED 25 NOVEMBER 2015

The Standing Committee on Appropriations having received a briefing from the National Treasury on the 2015 Adjustments Appropriation Bill and engaged with identified departments, reports as follows:

1. Introduction

The Minister of Finance tabled the Medium Term Budget Policy Statement (MTBPS) on 21 October 2015, outlining the budget priorities of government for the medium term estimates. The 2015 MTBPS was tabled in Parliament with the Adjustments Appropriation Bill [B28 - 2015] and the Division of Revenue Amendment Bill [B27 - 2015]. Section 12 (15) of the Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009 (Money Bills Act) provides that in the event of a revised fiscal framework, an Adjustments Appropriation Bill must be referred to the Committee on Appropriations in the National Assembly only after the Division of Revenue Amendment Bill has been passed by Parliament. Accordingly, the 2015 Adjustments Appropriation Bill was referred to the Standing Committee on Appropriations (the Committee) by the National Assembly on 24 November 2015, for consideration and report.

To facilitate public participation, an advertisement was published in national and community newspapers from 16 to 23 October 2015 inviting general public comments on the 2015 MTBPS and related budget instruments and no submissions were received specifically on the 2015 Adjustments Appropriation Bill. However, submissions on the MTBPS from COSATU, PSAM, Rural health Advocacy Project and students included inputs on the 2015 Adjustments Appropriation Bill. National Treasury and the Financial and Fiscal Commission as well as four departments affected by the 2015/16 adjustments were also requested to make submissions to the Committee on the 2015 Adjustments Appropriation Bill (the Bill). These were the Departments of Public Works, Basic Education, Health and Water and Sanitation. The Department of Water and Sanitation were requested to furnish the Committee with reasons for its adjustments in writing however no submission was received in this regard.

2. Overview of 2015 budget adjustments

The 2015/16 budget adjustment provides for an overall net increase of R1.9 billion for the following adjustments to vote appropriations:

- R1.2 billion for national government public sector salary adjustments;
- R753.1 million for unforeseeable and unavoidable expenditure;
- R301.0 million for allocation of amounts announced by the Minister of Finance in the 2015 Budget Speech;
- R1.6 billion for roll-overs;
- R1.2 billion in self-financing expenditure; and
- R3.183 billion in declared unspent funds.

The adjustments to vote appropriations and estimates of direct charges are offset against the R5 billion in unallocated reserves set aside in the main Budget. The total estimated adjustments spending for 2015/16 thus decreases by R433.687 million, from a budgeted R1 222.345 billion to a revised R1 221.911 billion. Total

estimated expenditure amounts to R1 246.930 billion, after accounting for the Eskom Special Appropriation Act, 2015 and the estimated contribution to the New Development Bank.

Table 1: 2015/16 national government public sector salary adjustments

Vote and description of expenditure	R thousand
National government public sector salary adjustments	1 173 468
2 Parliament	27 316
4 Cooperative Governance and Traditional Affairs	2 500
5 Home Affairs	68 623
7 National Treasury	14 257
8 Planning, Monitoring and Evaluation	2 105
9 Public Enterprises	2 007
10 Public Service and Administration	5 614
12 Statistics South Africa	8 643
13 Women	2 100
15 Higher Education and Training	66 783
16 Health	2 190
19 Defence and Military Veterans	295 420
21 Justice and Constitutional Development	112 600
22 Office of the Chief Justice and Judicial Administration	15 166
23 Police	423 699
24 Agriculture, Forestry and Fisheries	42 376
27 Environmental Affairs	15 308
28 Labour	17 367
29 Mineral Resources	20 000
30 Science and Technology	3 986
31 Small Business Development	1 861
32 Telecommunications and Postal Services	1 925
33 Tourism	3 945
39 Rural Development and Land Reform	17 677

Source: National Treasury (2015)

An additional R1.2 billion has been allocated to cover the costs of increases in personnel remuneration that were higher than provided for in the main Budget. The largest adjustments are towards personnel intensive departments such as Police and Defence and Military Veterans.

Table 2: 2015/16 Unforeseeable and Unavoidable Expenditure

Vote and description of expenditure	R thousand
6 International Relations and Cooperation R720 million for the impact of the depreciation of the Rand on foreign currency denominated expenditure	720 000
9 Public Enterprises R33.106 million for the tenth claim submitted for damages and losses in terms of the indemnity provided to Denel Aerostructures by government in respect of the A400M military aircraft contracts	33 106
Total	753 106

Source: National Treasury (2015)

For the Department of International Relations and Cooperation, funds have been allocated for unforeseeable and unavoidable expenditure due to the impact of the depreciation of the Rand on foreign currency denominated expenditure. An additional

R33.106 million has been allocated to Denel for the tenth claim by Denel Aerostructures under the 2007 indemnity agreement with government, for the Airbus A400M contract.

Table 3: Appropriation of expenditure earmarked in the 2015 Budget speech for future allocation

Vote and description of expenditure	R thousand
3 5 Transport R301 million for the South African National Roads Agency for the Gauteng freeway improvement project	301 000
Total	301 000

Source: National Treasury (2015)

Table 4: Roll overs

Vote and description of expenditure	R thousand
4 Cooperative Governance and Traditional Affairs R1.499 billion for the local government equitable share for municipalities to pay Eskom and / or Water Board accounts	1 498 818
1 0 Public Service and Administration R5 million for the Public Service Remuneration Review Commission's extended term	5 000
1 2 Statistics South Africa R69.405 million for the capital contribution to the public private partnership project for the construction of the new head office building	69 405
2 3 Police R8.090 million for the Civilian Secretariat for Police for payment of an IT network initiation fee, to the State Information Technology Agency	8 090
2 6 Energy R35.525 million for the integrated national electrification programme for non-grid electrification service providers to provide electrification connection to households	35 525
Total	1 616 838

Source: National Treasury (2015)

Total roll-overs for the 2015/16 adjustment budget amount to R1.6 billion. This is largely due to the R1.499 billion which has been rolled over for the local government equitable share for municipalities to pay arrear accounts to Eskom and the various water boards arrear for bulk water and electricity services. It is important to note that in general the budget amount for roll-overs allocated in the budget adjustment process has been in decline in recent years. Roll-overs amounted to R1.5 billion in 2012/13, R894.1 million in 2013/14 and R157.7 million in 2014/15.

Table 5: Self-financing expenditure

Vote and description of expenditure	R thousand
4 Home Affairs Expenditure incurred to issue official documentation, which is defrayed by revenue generated from the issuing of the documents	921 500

18 Correctional Services Expenditure for offender gratuities, which is funded from revenue generated by the hiring out of offender labour	970
19 Defence and Military Veterans R182.2 million for expenditure incurred to deploy troops in the Democratic Republic of the Congo, which is reimbursed by the United Nations; and R31.2 million for defence activities that are funded from selling equipment and spares procured through the Special Defence Account	213 351
34 Trade and Industry Unitary payment in respect of the public private partnership for shared campus accommodation, which is funded from unitary payments received from public entities	61 000
Total	1 196 821

Source: National Treasury (2015)

Table 6: Declared unspent funds and projected underspending

Vote and description of expenditure	R thousand
7 National Treasury	264 500
1 Public Works	98 865
1 Basic Education	224 714
1 Higher Education and Training	30 600
1 Health	216 283
1 Social Development	275 000
1 Correctional Services	30 000
2 Justice and Constitutional Development	110 000
2 Police	88 000
2 Agriculture, Forestry and Fisheries	16 633
2 Energy	250 000
2 Environmental Affairs	20 000
3 Science and Technology	20 000
3 Tourism	10 000
3 Trade and Industry	134 400
3 Transport	43 220
3 Water and Sanitation	700 000
3 Arts and Culture	93 812
3 Human Settlements	400 000
3 Rural Development and Land Reform	200 000
4 Sport and Recreation South Africa	7 669
Total declared unspent funds	3 233 696
National government projected underspending	3 000 000

Source: National Treasury (2015)

The 2015 budget adjustments provide for total declared unspent funds amounting to R3.234 billion. National Treasury declared unspent funds of R164.5 million from the Employment Creation Facilitation Fund (Jobs Fund) due to delays in project approvals. The rescheduling of funds is being effected over the medium term. Furthermore, R100 million has been declared on the South African Revenue Service to reduce the entity's high level of surplus funds.

Other areas wherein a significant amount of unspent funds have been declared include R163.112 million from the education infrastructure grant in Basic Education, R66.582 million from the comprehensive HIV and AIDS grant, R62.5 million from the national health grant: health facility revitalisation component; and R51.717 million from the health facility revitalisation grant in the Department of Health. In respect of the Department of Social Development, R275 million declared due to a decrease in the estimate of social grant payments.

The Department of Energy has declared R250 million in unspent funds due to delays in the finalisation of the procurement process for suppliers in the production, installation and maintenance of solar water heaters. To address these challenges the Department indicates that it has implemented corrective measures and new institutional arrangements have been put in place to manage the programme within the department.

With regards to the Department of Water and Sanitation, there was a R200 million budget reduction 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.

In respect of the Department of Human Settlements, R400 million in unspent has been declared from the Social Housing Regulatory Authority. The AENE indicates that the spending performance of the Social Housing Regulatory Authority is expected to improve over the medium term. With regards to the Department of Rural development and Land reform, R200 million in unspent funds has been declared on the agricultural land holding account due to cost containment measures effected within the department.

The following are the shift of funds between votes following the transfer of functions as per section 30 of the PFMA (as amended):

Function/s	From:	To:
Superior court functions	Department of Justice and Constitutional Development	Office of the Chief Justice and Judicial Administration
Capacity building programme for economic development and for the customised sector programme for craft	Department of Trade and Industry	Department of Small Business Development
Digital Migration awareness campaign	Department of Telecommunications and Postal Services	Department of Communications

Ministerial functions of the Minister and Deputy Minister of Planning, Monitoring and Evaluation	The Presidency	Department of Planning, Monitoring and Evaluation
Cost of living related expenditure for officials working in foreign missions	Department of Home Affairs	Department of International Relations and Cooperation

Source: National Treasury (2015)

3. Comments by stakeholders and Adjustments per Identified Departments

The following section contains discussions between the Committee and the identified departments below.

3.1 Financial and Fiscal Commission

The Financial and Fiscal Commission (FFC) in its submission highlighted that although the 2015/16 mid-year spending trends suggest improvement in overall spending, individual departmental performance shows somewhat uneven spending patterns with some departments performing far above the norm whilst others reflect significant underspending. The FFC indicated that excessive deviation below or above the norm is 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.

3.2 Department of Public Works

The Department of Public Work's budget has been adjusted downwards by R98.9 million from a main appropriation of R6.4 billion to R6.3 billion due to declared unspent funds which are as follows:

- R38.9 million on the Expanded Public Works Programme (EPWP) which comprises R24.4 million on the EPWP Integrated Grant and R14.5 million on the Social Sector Incentive Grant; and
- R60 million on the transfers and subsidies to the Property Management Trading Entity due to a projected underspending on infrastructure projects.

The Department has reported the following implications for the budget adjustments:

- EPWP Incentive Grant: a reduction in the target for work opportunities created from 1 127 186 to 1 126 779 in the 2015/16 financial year. (Less work opportunities created and less opportunities for skills development); and
- Postponement of purchase of Parliamentary Towers building in Cape Town

With regard to the Department's expenditure performance as at 30 September 2015, a spending of 39.6 per cent was recorded against the adjusted budget of R6.3 billion.

3.3 Department of Health

The Department of Health's main appropriation of R36.5 billion has been adjusted downward by R214.1 million to R36.2 billion mainly due to 2014/15 declared unspent funds on the following grants:

- R18.623 million on the national health insurance conditional grant;
- R66.582 million on the comprehensive HIV and AIDS conditional grant;
- R16.861 million on the national tertiary services conditional grant;
- R51.717 million on the health facility revitalisation conditional grant; and
- R62.500 million on the indirect health facility revitalisation component of the national health grant.

Although the Department was requested to indicate how these budget adjustments would impact on service delivery, there was no information submitted pertaining specifically to the unspent conditional grants. The Department however reported on the adjustments where funds were channelled to the University of Witwatersrand for the medical student expansion programme. It was indicated that these funds have been channelled from programmes such as Health Facilities Infrastructure Management and that this would result mainly in slower performance of infrastructure projects nationally which may have a knock-on impact on financial conditional grant performance. In addition, the shift will also result in scaling back some of the Department's initiatives related to improvement of the availability of medicines at public health facilities in South Africa, monitoring in the health system, TB related programmes such as screening at correctional facilities, number of facilities offering full package of T1 services, and the number of hospitals compliant with National Core Standards.

With regard to the Department's mid-year performance for the 2015/16 financial year, spending of 50.0 per cent has been reported against an adjusted budget of R36.2 billion. Spending trends on conditional grants reflect improvement in comparison to the same period in the previous year, with the exception of the National Health Insurance (NHI) grant and the National Health Grant (NHG). It was reported that most provinces are underperforming on the NHI grant with the exception of the Western Cape. Reasons provided for underspending on the NHI grant include delays in payment of invoices, delays in Supply Chain management (SCM) process and delivery of Information Technology (IT) equipment and uniforms, and austerity measures at various provinces. The reasons for underspending on the different components of the NHG are as follows:

- **Human Papillomavirus Component (HPV):** under spending attributed to the seasonal nature of the grant whereby only one dose has been done this financial year and no province has submitted claims;
- **Health Facility Revitalisation Component:** under spending due to late submission of information for the Department to finalise the plans and this has resulted in most projects being on planning stage; and
- **NHI Component:** under spending on Health Practitioners Contracting whereby OR Tambo recently joined other provinces in contracting and will submit invoices in this regard in the third quarter as well as under spending on the Centralised Chronic Medicine Dispensing and Distribution due to delays in implementation of the business plan, procurement delays related to appointment of Pharmacist and equipment.

3.4 Department of Basic Education

The Department of Basic Education's main appropriation of R21.511 billion has been adjusted downward by R224.714 million to R21.284 billion mainly due to 2014/15 declared unspent funds on the following grants:

- R30.2 million - Maths, Science and Technology grant;
- R163.1 million - Education Infrastructure grants;
- R18.3 million - National Schools Nutrition Programme grant; and
- R12.3 million - HIV and AIDS grant.

With regard to the Department's mid-year performance for the 2015/16 financial year, a spending of 57.8 per cent or R12.294 million has been reported against an adjusted

appropriation of R21.286 billion. The reported deviations regarding expenditure performance related to Programme 2 (Curriculum Policy, Support and Monitoring) and Programme 3 (Teachers, Education, Human Resources Development and Institutional Development) where 43.71 per cent and 76.31 per cent has been spent respectively. The overall expenditure however signals a marked improvement compared to the spending rate of 54.7 recorded in the same period of 2014/15. In terms of the shifting of funds, the Department provided the following explanations:

- Funds were shifted from Departmental Compensation of Employees (IQMS) to cover the shortfall in the Compensation of Employees of the National Education Evaluation and Development Unit (NEEDU) earmarked funds due to posts that were shifted from the Integrated Quality Management System to NEEDU.
- Other transfers – funds were shifted to cover households. These are payments in respect of officials who are exiting Government and this item is not budgeted for.
- Total budget cuts on conditional grants - these cuts are in respect of transfers that were made to provinces in the previous financial year but were not spent.

The Department further reported on the budget pressures affecting service delivery. In terms of Compensation of Employees, it was reported that the high percentage on Compensation of Employees is due to the carry through expenditure after the implementation of the Public Service Co-Ordinating Bargaining Council (PSCBC) Resolution 3/2009 (upgrading salary levels 9/10 and 11/12). Furthermore, the allocation on this item made provision for a 5% increase of salaries for the improvement of conditions of service with effect from 1 April 2015. The impact of the additional 2% increase that was negotiated for public servants without additional allocation has put more pressure on this item and, as a result, key vacant posts cannot be filled. With regard to Goods and Services, the Department reported that the current expenditure reflected on this project, was in respect of stipends for volunteer educators that were accrued in the 2014/15 financial year. The Department requested the roll-over which has not been approved. The impact of the non-approval of the roll-over will mean that the Department will have recurring accrued payment of stipends into the 2016/17 current financial year.

3.5 Special hearing for funding no fee increment in Higher Education

The Committee, in recognising the recent student protests and the need for finding immediate solutions to funding higher education in South Africa held a joint briefing together with the Select Committee on Appropriation and the Portfolio Committee on Higher Education. The Department of Higher Education and Training, National Treasury and the Council on Higher Education briefed the Committees on the funding implications of the no fee increment in universities for 2016.

In the hearings, National Treasury reported that it was not necessary to amend the 2015 Adjustments Appropriation Bill as resources can be mobilised to fund the shortfall arising out of the no fee increment in universities in 2016.

The CHE submitted that attention needs to be given to NSFAS loan and debt recovery rates, Universities to self-examine and implement cost containment measures, that Sector Education and Training Authority (SETA) funds be examined, that universities to share infrastructure, services and resources where practical and overall improvements in internal efficiencies.

With regards to the 2016 no fee increment shortfall, the Department submitted that based on actual figures from Universities, the shortfall in 2016 due to the no fee increase is R2.330 billion with tuition fee increment of R1.915 billion and residence fee increment of R415 million. The department indicated that following consultation with all parties it was agreed that the shortfall for 2016 will be shared between universities and government as follows:

- Universities will contribute R394.7 million; and
- The Department in consultation with National treasury will secure the remaining R1.935 billion.

The breakdown for the R1.935 billion as submitted by the Department is as follows:

- Reprioritisation of existing earmarked grants to universities – R361 million;
- SETA surplus funds surrendered to the National Skills Fund (NSF) – R1.274 billion; and
- Shortfall to be funded through the National Revenue Fund – R300 million.

The Department indicated that the funds will be released to universities during the last quarter of the 2015/16 financial year and the first quarter of the 2016/17 financial year. The Department indicated that the reprioritisation of the earmarked grant (R361 million) was meant for programmes for improvements in management and administration of Historically Disadvantaged institutions and SETA surplus funds had been earmarked for support to Technical Vocational Education and Training Colleges (TVETs) and post graduate scholarships in the university sector.

The FFC proposed the following in terms of addressing government's resolution to implement a 0% fee increase in 2016:

Options for the short term

- Option A: universities to reduce their expenditure –though this may compromise the standard/quality of education thus undesirable
- Option B: state to intervene with financing through three mechanisms, firstly, through reprioritisation within the DHET itself and thereafter, more broadly across government, secondly, through the utilisation of the unallocated (contingency) reserves or thirdly, through the Sale of non-strategic assets.

The FFC indicated that the reprioritisation option together with universities exercising greater fiscal austerity would set a positive example for the private sector to respond.

In the hearings, National Treasury reported that it was not necessary to amend the 2015 Adjustments Appropriation Bill as resources can be mobilised to fund the shortfall arising out of the no fee increment in universities in 2016.

It further reported on four manners in which resources could be mobilised to fund higher education on a longer term basis as follows:

- Raising taxes (i.e. Davis Commission will look into wealth tax) however a difficulty exists in this regard as the economy was currently performing poorly hence raising taxes will be equivalent to cutting expenditure.
- Reprioritise spending from other areas which will not be easy as it will inflict significant pain in other areas of Government spending.
- Re-balancing funding within the post school education system through earmarked taxes. For example, Skills Education Training Authorities (SETAS) and the Unemployment Insurance Fund (UIF) surpluses which create imbalances in the budget.
- Mobilising resources for loans from the private sector which will require policy reforms.

3.6 Inputs by various stakeholders on the 2015 Adjustments Budget

In its submission, Cosatu highlighted its concerns with regards to the slow expenditure performance and rollovers for the Departments of Cooperative Governance and Traditional Affairs, Basic Education, Social Development,

Correctional Services, Energy, Defence and Military Veterans, and Water Sanitation. Cosatu further submitted that government must intervene and provide the necessary capacity to ensure that departments' budgets are correctly aligned and spent. Savings through the eradication of wasteful expenditure is welcomed.

Cosatu also submitted that Government, the universities' management and private sector need to address the student fees crisis. The federation also raised concerns around the non-attainment of targets for the EPWP/ CWP programmes and indicated that the EPWP/ CWP posts should be absorbed in the departments and municipalities and converted to permanent decent jobs.

With regards to the justice cluster, Cosatu welcomed the Assets Forfeiture Unit's success in freezing R412.5 million of suspect assets and called for more to be done. Cosatu raised concerns at the under expenditure in the housing grants and water infrastructure grants and called on these challenges to be addressed.

COSATU commended the improvements in Home Affairs' delivery levels. While the federation welcomed the R1 million allocated towards the SAPS education trust for fallen police officers' children, they indicated that more was needed to honour the sacrifices of our fallen heroes and their children.

In its submission, the Rural Health Advocacy Project indicated that the adjustments budget has required that departments shift funds away from other areas of the budget, such as goods and services and infrastructure to accommodate higher than planned for increases in compensation budgets. The Rural Health Advocacy Project submitted that while the National Treasury has stated that this reprioritisation of budgets will be done in a manner that "avoids any compromises to service delivery", it was concerned at the adequacy of the measures being implemented to avoid negative service delivery impact especially with regards to departments being able to fill critical posts within health system. Frozen posts have particularly severe consequences for rural facilities, which are generally already understaffed. The Rural Health Advocacy Project called for the Health and Treasury representatives to assess the extent of the budgetary shortfall and identify which decision should be made on the basis of what would be fair administrative action.

The Public Service Accountability Monitor submitted that it remains concerned at the levels of inadequate nutritional support, inadequate infrastructure provisioning, fluctuating expenditure trends and the spending performance of school infrastructure delivery especially in underperforming but priority provinces. The Public Service Accountability Monitor called for the establishment of rigorous Provincial and District Monitoring Systems for tracking expenditure and Programme Implementation schools infrastructure, the school nutrition programme and the early childhood development programmes.

3.7 Proposed amendments to the 2015 Adjustments Appropriation Bill as submitted by the Democratic Alliance

The Democratic Alliance proposed amendments to the 2015 Adjustments Appropriation Billing citing the crisis in Higher Education as the overarching reason for the proposed amendments. The proposed amendments are as follows:

- a) Shift in unforeseeable and unavoidable from the Department of International Relations and Cooperation to the Department of Higher Education and Training to fund the shortfall in the Department of Higher Education and Training in the 2015/16 financial year.

Vote no	Name of Vote	Description	Amount

6	DIRCO	Expenditure for the impact of the depreciation of the Rand on foreign currency denominated expenditure	720 000 000.00
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b) Shifts from various Departmental votes to the Department of Higher Education and Training vote to 'top up' NSFAS funding in the 2015/16 financial year:

Vote no	Name of Vote	Description	Amount
2	Parliament	Increased financial support to political parties of the fifth Parliament	7 482 000.00
6	DIRCO	Shortfall in funding for the procurement of furniture and fittings on state owned properties	5 000 000.00
		Shortfall in funding for maintenance of state owned properties	7 868 000.00
		Shortfall in funding for foreign allowances	13 500 000.00
9	Public Enterprises	Shortfall in budget for office furniture	70 000,00
10	Public Service and Administration	Shortfall in funding for printing of the service delivery journal by the policy oversight, development and knowledge management unit	1 141 000,00
11	Public Works	Shortfall in the budget for consultants to develop legislation	1 300 000,00
13	Women	Provision for the co-hosting of the African Union Summit	3 500 000,00
16	Health	Vehicles for the Minister and Deputy Minister in line with the Ministerial handbook	1 259 000,00
17	Social Development	Travel and communication for ministerial outreach programmes	5 000 000,00
18	Correctional Services	Purchase of bulls for reproduction purposes	540 000,00
19	Defence and Military Veterans	Guard services rendered to the Defence Headquarters	11 149 000,00
23	Police	Office furniture and critical security equipment for members in VIP protection and security services	26 500 000,00
		Protection and security services	69 708 000,00

24	DAFF	Annual national beef cattle improvement scheme awards	200 000,00
		Prize money for female farmer of the year awards	450 000,00
25	Economic Development	Reallocation of funds mainly for travel in the ministry	2 361 000,00
26	Energy	Critical operational and project expenditure, which includes: energy awareness, promotional branding and material services, advertisements, media monitoring, printing of corporate publications, and ministerial public participation projects	4 000 000,00
28	Labour	Office furniture and equipment	1 615 000,00
35	Transport	Establishment of the South African network for women in transport summit	7 500 000,00
36	Water and Sanitation	Furniture and office equipment	3 815 000,00
37	Arts and Culture	Operational subsidy to the Moral Regeneration Movement	1 500 000,00
38	Human Settlements	Refurbishments of Ministers offices	245 000,00
		Various goods and services shortages in the ministry	7 519 000,00
		Procurement of furniture	700 000,00
		Total	R 183 922 000,00

The Committee deliberated on the proposed amendments submitted by the Democratic Alliance to reprioritise funds for the Department of Higher Education and Training as a result of the zero increment in university fees for the 2016 academic year. The Committee disagreed with the proposed amendments and was satisfied with the indication by both the National Treasury and the Department of Higher Education and Training that reprioritisation within the Department's budget in the 2015/16 financial year will be adequate to fund the shortfall due to the zero increment in university fees.

4. Committee Observation and Findings

The Standing Committee on Appropriations, having considered the inputs from the above stakeholders on the 2015 Adjustments Appropriation Bill made the following findings:

- 4.1** The Committee notes with concern the declared unspent funds of R3.2 billion and projected under-spending of R3.0 billion in the 2015 budget adjustments. Of particular concern to the Committee is the declared unspent amounts from the Employment Creation Facilitation Fund (Jobs Fund) and water infrastructure grants. The Committee is of the view that the declaration of unspent funds and projected under-spending should not compromise

service delivery performance and thus undermine the aims of the Medium Term Strategic Framework.

- 4.2** The Committee notes that R1.499 billion has been rolled over for the local government equitable share for municipalities to pay arrear accounts to Eskom and the various water boards arrear for bulk water and electricity services. The Committee is of the view that government departments and entities should also be obligated through applicable provisions in the annual appropriations to pay for services rendered by local government and other state agencies.
- 4.3** The Committee welcomes inputs made by Cosatu, the Rural Advocacy project and the Public Service Accountability Monitor Public on the 2015 Adjustments Budget and especially welcomes input that calls for enhanced monitoring and evaluation systems for government expenditure to ensure that service delivery targets are not compromised.
- 4.4** The Committee notes with concern the declared unspent funds of R700 million for the Department of Water and Sanitation. The Committee views the provision of basic services such as water and sanitation as paramount in the improving the quality of life of South Africans.
- 4.5** The Committee notes that there continues to be protracted delays in the filling of funded vacant posts and the reprioritisation of earmarked funds for posts to other expenditure items. The Committee views this as inconsistent with the State's prime objective of building a capable state.
- 4.6** Whilst the Committee notes the FFC's submission that overall mid-year spending performance has improved compared to 2014/15, it however remains concerned that there are wide variations in spending performance by departments.
- 4.7** The Committee notes National Treasury submissions that it was not necessary to amend the 2015 Adjustments Appropriation Bill as resources can be mobilised to fund the shortfall as a result of the no fee increment in universities in 2016.
- 4.8** The Committee welcomes initiatives to fund the no fee increment but is seriously concerned at the impact that this will have on programmes for improvements in management and administration of Historically Disadvantaged institutions and earmarked support for TVETs and universities. All stakeholders should ensure these institutions are adequately assisted.
- 4.9** The Committee notes the undertaking by the Department of Higher Education that that the zero fee increment shortfall of R2.330 billion for 2016 will be shared between universities and the Department. The Committee further notes National Treasury submission that it was not necessary to amend the 2015 Adjustments Appropriation Bill as resources can be mobilised to fund the shortfall arising out of the no fee increment in universities for 2016.
- 4.10** The Committee welcomes the range of options for long term funding provided by the various stakeholders which include significantly reprioritising state funding, committed implementation of plans to sell nonstrategic assets, increasing the tax burden, ensuring those who afford to pay more or borrowing.
- 4.11** The Committee notes with concern the challenges in the reporting systems for the Department of Public Works thus the attainment of less than half the annual target for the number of work opportunities. The Committee emphasises that efficient data systems are critical as budget decision rely on timeous information.

- 4.12** The Committee welcomes progress made in the printing of workbooks. The Department of Basic Education submitted that the printing and delivery of Workbooks volume 1 is 99 % complete. The Committee however concerned at the slow progress made in ensuring that schools provide nutritious meals.
- 4.13** The Committee welcomes improvements in overall grant expenditure performance of the department of health compared to the previous year. The department spent R15.2 billion against the total original budget of R31.8 billion. However, the Committee is concerned with the slow spending performance for the National Insurance Grant and components of the National Health Grant.
- 4.14** The Committee notes the proposed amendments submitted by the Democratic Alliance to reprioritise funds for the Department of Higher Education and Training as a result of the zero increment in university fees for the 2016 academic year. However, the Committee disagrees with the proposed amendments and is satisfied with the indication by both the National Treasury and the Department of Higher Education and Training that reprioritisation within the Department's budget in the 2015/16 financial year will be adequate to fund the shortfall due to the zero increment in university fees.

5. Committee Recommendations

The Standing Committee on Appropriations having engaged with the above stakeholders on the 2015 Adjustments Appropriation Bill recommends as follows:

- 5.1** That the Minister of Basic Education should ensure the following:
- 5.1.1** That the Department of Basic Education (the Department) align and enhance its budget planning and infrastructure planning function in order to ensure that projected spending is in line with planned performance.
- 5.1.2** That the department enhance data systems, develop appropriate indicators and monitoring mechanisms that ensure that all schools within the school nutrition programme are able to provide nutritious meals.
- 5.1.3** That the Department ensures that all vacant posts are filled timeously.
- 5.2** That the Minister of Public Works should ensure the following:
- 5.2.1** That the Department of Public Works (the Department) align and enhance its budget planning and strategic planning function in order to ensure improvement on the spending performance of especially on its public employment programmes.
- 5.2.2** That the Department together with the assistance of State Information Technology Agency ensures that efficient data and reporting systems for all its public employment programmes are in place so as to ensure budget decisions are credible.
- 5.3** That the Minister of Water and Sanitation should ensure the following:
- 5.3.1** That the Department of Water and Sanitation (the Department) align and enhance its budget planning and strategic planning function in order to ensure improvement on the spending performance of especially on its water infrastructure grants
- 5.3.2** That the Department ensures that all vacant posts are filled timeously.
- 5.4** That the Minister of Health should ensure that:
- 5.4.1** The Department of Health (the Department) align and enhance its budget planning and strategic planning function in order to ensure improvement on the spending performance of especially on its health infrastructure grants .
- 5.4.2** That the Department ensures that all vacant posts are filled timeously.

- 5.5** That the Minister of Finance should ensure the following:
- 5.5.1** That National Treasury develop relevant provisions in the annual appropriations act that compels national departments and public entities to pay for services rendered by municipalities and other state agencies so as to eradicate inter-state debt.
 - 5.5.2** That National Treasury together with Department of Public Service and Administration submit a progress report on work undertaken in freezing or eliminating long standing vacant posts and removing redundant public service posts.
 - 5.5.3** That National Treasury together the Department of Higher Education and Training and relevant stakeholders including the leveraging of expertise from Auditor General of South Africa and other stakeholders to support higher education institutions most affected by the reprioritisation exercise especially the historically disadvantaged institutions.
- 5.6** That the Minister of Higher Education and Training should ensure that:
- 5.6.1** Department of Higher Education and Training and National Treasury ensure funding is mobilised in the 2016 MTEF for all affected programmes in Historically Disadvantaged Institutions and TVETs as result of reprioritisation and that these programmes continue as planned.
 - 5.6.2** The Department of Higher Education and Training ensure that there is continued support for TVET and CET and that vocational skills programme links with the private sector are continually strengthened.

6. Conclusion

The responses, by the relevant Executive Authorities, to the recommendations as set out in section 6 above must be sent to Parliament within 60 days of the adoption of this report by the National Assembly.

The DA objects to the passing of the Adjustments Appropriation Bill in its current form as we believe that the Bill fails to appropriate sufficient funds to cover the shortfall that Universities will face at the start of 2016, prior to the start of the new financial year. For this reason the DA moved 26 separate amendments in Committee which would have allowed for wasteful and frivolous expenditure within the current adjustments budget to be shifted and reprioritised to the Department of Higher Education and thus to assist with tertiary fees for poor students.

Specifically, in line with section 10(10) of the Money Bills Amendment and Related Procedures Act, 2008, the amendments proposed by the DA were justified on the following grounds:

(a) Reason for amendments

The crisis in Higher Education funding is the overarching reason for the proposed amendments to the 2015 Adjustments Appropriation Bill.

While the shortfall due to the agreed 0% increase in student fees for 2016 has been muted for the 2016 budget, several universities cannot afford to operate until then without subsidies from government.

It has now been confirmed that the R1.9 million which the Minister has committed to funding the gap in 2016, R361 million will be plundered from Historically Disadvantaged Institutions (HDI) development grant and the remaining R1.2 million will be taken from SETA's.

The HDI grant is an allocation of about R410 million per year (of R2.5 billion over the next five years) for developing systems for improved management and administration at HDIs. These programmes are sorely needed – the University of Fort Hare (UFH), for example, has been brought to the brink of bankruptcy by poor financial management and requires urgent intervention. It will be cut.

The SETA surplus, which itself arose from poor management and negligent underspending at SETAs, had already been earmarked to fund important projects in the TVET sector. The R1.2 billion was slotted to fund:

- 20 Apprenticeship Centres across the country at TVET Colleges;
- 3 966 Apprenticeships in the next three years; and
- 500 TVET College lecturing positions.

These key projects will now be scrapped to address the shortfall.

When asked in Parliament about the probability of there being opportunity costs should the funds be drawn from the HDI projects rather than Treasury itself, the Minister reacted indignantly, saying that there would be no prejudice to poor students. He claimed that the projects would get the money back next year when a new budget is considered. This was entirely disingenuous. The Minister is in no position to make such guarantees and it is clear that government has no intention of paying these funds back in the New Year.

There has never been a clearer case on the table that this committee must do all that it can to fund the gap from non-priority expenditure in the existing financial year.

A second important aspect of the need to find the funds now, is that Universities simply do not have the reserves to survive until the 2016 budget.

At a meeting of the Committee on Higher Education and Training on 28 October 2015, Minister Blade Nzimande was asked by an ANC MP whether Universities could use reportedly extensive financial reserves they held to fund the R2.6 billion shortfall created by a moratorium on university fees announced by President Jacob Zuma last week.

Minister Nzimande referred the question to Dr Diane Parker, Acting Deputy Director General: University Education at the Department of Higher Education and Training. Dr Parker made it clear that this was not a possibility and confirmed that University reserves were in general very limited. She also confirmed that the sufficient reserves were essential for universities to operate effectively. Wealthy universities with reserves used these reserves to finance special infrastructure projects and bursaries, while poorer universities had little to no reserves.

Dr Parker also spoke to the shortages experienced by universities in the first three months of the academic year when universities would rely entirely on initial fee payments from students. Government subsidies are only transferred to universities in April of each year. With fee income reduced substantially by the moratorium on fee increase next year, universities will be stretched to meet financial commitments, particularly in the first three months of the year. Dr Parker indicated that wealthy universities may be able to borrow against the ring-fenced reserves to fund this

shortfall but that poorer universities would have no such reserves to exploit. Even in normal circumstances, universities with low reserves are “*unsustainable*”.

Ultimately, without immediate financial relief, Universities without significant reserves are likely to collapse with insufficient funds to pay their expense in the first three months of 2016. The Department has been secretive as to which universities are at threat in this respect, but comments from the Minister published in the Sunday Times on 25 October 2015 revealed that at least eight universities are on the verge of bankruptcy and require bailouts. The Minister remained cagey on the details at the committee meeting later that same week and failed to indicate which universities he was referring to despite being asked.

It is clear, however, that the University of Fort Hare (UFH) is among them. UFH reported a shortage in required NSFAS funding of over R100 million to the Committee as early as 10 September 2014. More recently, UFH has reported that it will be out of money by the end of the year and that it had a general funding shortfall of over R100 million. Dr Mvuyo Tom, Vice Chancellor of UFH also admitted that the University had resorted to pilfering NSFAS funds entrusted to the UFH to unlawfully pay salaries of UFH staff.

It is thus clear that UFH, at the very least, is in desperate need of money. It has already resorted to fraud and theft of student funding to keep itself afloat in this year, and even with this theft, the university expects to be out of money by the end of the year. It is incomprehensible how much worse things will be for UFH now that it will not receive the increased fees it had set for next year.

Accordingly, it seems UFH will collapse unless government urgently sends it funds. No doubt, there are likely to be at least 7 other universities in similarly dire straits.

It is thus absolutely necessary for government to urgently assign additional funding immediately and before the next budget. Universities, particularly poorer universities without reserves, urgently need this money to survive January, February and March 2016. This cannot wait until the deliberation of the 2016 national budget but must be dealt with now.

(b) Impact on broad strategic priorities and allocations of relevant budgets

Higher Education

The additional amount to be shifted from various Departmental budgets to the Department of Higher Education and Training (DHET).

This will align directly with the DHET Strategic Plan 2015/16 – 2019/20 as it will provide more funds for student subsidies, both for Universities and NSFAS, and it will thus help to lower the pressure on Universities to increase fees in the long term.

Specifically the following quotes from the Strategic Plan are relevant:

“The provision of funding assistance to students in TVET colleges and universities via the National Student Financial Aid Scheme (NSFAS) will continue to enable poor and academically eligible students to access education in these sub-sectors.”

“A major risk element is the insufficient financial resources for student funding made available for poor students through the NSFAS, as well as the lack of financial aid for students of the working class. Funding needs to increase substantially in order to support the growth of the sector and poor and working class students in universities.”

“The increase in university block grants has not kept pace with inflation in the higher education system, which is higher than the general inflation rate. The increase in subsidies has therefore not kept pace with the real growth in the system. As the funding from the Department for universities is on average 40 per cent of the annual income for the sector, there is more and more pressure on universities to increase student fees.”

Looking specifically at the proposed R720 million to be shifted away from the DIRCO budget, the quote below from the National Treasury in the 2015 Budget Review shows that this decrease will not negatively affect the Departments ability to achieve its strategic priorities:

“Government spends over R3.5 billion a year to maintain foreign missions. Rapid spending growth is largely attributable to higher property costs and rising staff costs. While the costs of locally recruited staff are too high, cost of living allowances for South African staff are more generous than those offered by other countries and international organisations – between 20 and 50 per cent higher than the United Nations, for example. The location of some of the most expensive missions is not aligned with trade relations or other economic interests.”

Finally, the table below covers each amendment and the possible effect on strategic priorities:

1. Shift in unforeseeable and unavoidable expenditure from the Department of International Relations and Cooperation to the Department of Higher Education and Training to fund the shortfall in the Department of Higher Education in the 2015/16 financial year

Vote no.	Name of Vote	Description	Amount	Effect on strategic priorities
6	DIRCO	Expenditure for the impact of the depreciation of the Rand on foreign currency denominated expenditure	720 000 000,00	NONE – a decrease in missions that are not aligned to trade relations is aligned to Treasury proposals.

2. Shifts from various Departmental votes to the Department of Higher Education and Training vote to "top up" NSFAS funding in the 2015/16 financial year

Vote no.	Name of Vote	Description	Amount	Effect on strategic priorities
2	Parliament	Increased financial support to political	7 482 000,00	NONE – Political party funding is sufficient at the

		parties of the fifth Parliament		current level for all business to remain on track.
6	DIRCO	Shortfall in funding for the procurement of furniture and fittings on state owned properties	5 000 000,00	NONE – Furniture is not a strategic priority
		Shortfall in funding for maintenance of state owned properties	7 868 000,00	NONE – As noted by Treasury, DIRCO missions cost too much as it is, so for the Department to cut back would be good.
		Shortfall in funding for foreign allowances	13 500 000,00	NONE – Again, if cuts are necessary then they should be made.
9	Public Enterprises	Shortfall in budget for office furniture	70 000,00	NONE – As above
10	Public Service and Administration	Shortfall in funding for printing of the service delivery journal by the policy oversight, development and knowledge management unit	1 141 000,00	NONE – Not a priority
11	Public Works	Shortfall in the budget for consultants to develop legislation	1 300 000,00	NONE – Not a priority
13	Women	Provision for the co-hosting of the African Union Summit	3 500 000,00	NONE – Not a priority
16	Health	Vehicles for the Minister and Deputy Minister in line with the Ministerial handbook	1 259 000,00	NONE – Frivolous expenditure
17	Social Development	Travel and communication for ministerial outreach programmes	5 000 000,00	NONE – Not a priority
18	Correctional Services	Purchase of bulls for reproduction purposes	540 000,00	NONE – Frivolous expenditure
19	Defence and Military Veterans	Guard services rendered to the Defence Headquarters	11 149 000,00	NONE – The DoD should be able to protect itself
23	Police	Office furniture and	26 500 000,00	NONE- As above

		critical security equipment for members in VIP protection and security services		
		Protection and security services	69 708 000,00	NONE – Not a priority
24	DAFF	Annual national beef cattle improvement scheme awards	200 000,00	NONE – Not a priority
		Prize money for female farmer of the year awards	450 000,00	NONE – Not a priority
25	Economic Development	Reallocation of funds mainly for travel in the ministry	2 361 000,00	NONE – Not a priority
26	Energy	Critical operational and project expenditure, which includes: energy awareness, promotional branding and material services, advertisements, media monitoring, printing of corporate publications, and ministerial public participation projects	4 000 000,00	NONE – Not a priority
28	Labour	Office furniture and equipment	1 615 000,00	NONE – As above
35	Transport	Establishment of the South African network for women in transport summit	7 500 000,00	NONE – Not a priority
36	Water and Sanitation	Furniture and office equipment	3 815 000,00	NONE – As above
37	Arts and Culture	Operational subsidy to the Moral Regeneration Movement	1 500 000,00	NONE – Not a priority
38	Human Settlements	Refurbishments of Ministers offices	245 000,00	NONE – Frivolous expenditure
		Various goods and services shortages in the ministry	7 519 000,00	NONE – Not a priority

		Procurement of furniture	700 000,00	NONE – As above
		Total	R 183 922 000,00	

(c) Implications of each amendment on affected vote and main divisions within that vote

DIRCO

The shift of R720 000 000.00 of expenditure due to the impact of the depreciation of the Rand on foreign currency denominated expenditure will no longer be accommodated.

The Department will thus need to consider closing non-strategic foreign missions, or on cutting down personnel at some missions in order to make up for this expenditure.

Others

Each line item noted below will have to be aborted by the relevant Departments concerned. As these

(d) Impact on balance of transfer payments, capital and recurrent spending

As the amendments proposed are budget neutral and only propose shift in amounts between budget votes where there is frivolous and non-priority spending, none of the amendments have an impact on transfer payments, capital or recurrent spending.

(e) Impact on service delivery

Service delivery will not be negatively impacted in any of the budgets from which amounts are being shifted.

None of the line items identified relate to key service delivery areas within the relevant budgets.

For DIRCO specifically, service delivery would not be effected by closing non-strategic missions. This is a global trend and in such a tough economic climate, as noted by Treasury, such changes become imperative.

In Higher Education service delivery will improve as more assistance will be provided to Higher Education institutions for relief to poor students.

This must be a priority for us.

(f) Relation to other reports

Most notably, these amendments are made in line with the *Report of the Ministerial Committee for the Review of the Funding of Universities* (the Report) and the *National Development Plan* (NDP).

Specifically the report noted that:

- “the amount of government funding is not sufficient to meet the needs of the public university system” and that

- *“Government should increase the funding for higher education, to be more in line with international levels of expenditure. This will enable the system to improve the functioning and resourcing of the universities, especially the under-developed universities”.*

Further, the goal of the NDP is that by 2030 headcount enrolments should reach 1.6 million in public universities. This can only be achieved if subsidies are made available for poor students and if Universities are subsidized in order to ensure that fees are not raised too high.

Conclusion

The DA thus objects to the Adjustments Appropriation Bill as it fails to cover the shortfall in higher education funding which Universities will face in the first quarter of 2016. Instead the Bill prioritises spending for wasteful and frivolous expenditure which the DA cannot support over funds for tertiary education for poor students.

7. Committee’s Recommendation on the Bill

The Standing Committee on Appropriations, having considered the **Adjustments Appropriation Bill** [B28 – 2015] (National Assembly: Section 77) referred to it and classified by the Joint Tagging Mechanism; reports that it has agreed to the Bill, without amendments.

Report to be considered.