**REPORT OF THE STANDING COMMITTEE ON FINANCE ON THE 2017 REVISED FISCAL FRAMEWORK, DATED 08 NOVEMBER 2016**

## Introduction

The Minister of Finance tabled the 2016 Medium Term Budget Policy Statement (MTBPS) before Parliament on 26th October in terms of the Money Bills Amendment Procedure and Related Matters Act (‘Money Bills Act’) and subsequently engaged with the Standing and Select Committees on Finance on 27 October 2016.

The Finance Committees then received inputs from the Parliamentary Budget Office (PBO) and the Financial and Fiscal Commission (FFC) and at public hearings took submissions from the Congress of South African Trade Unions (COSATU), Equal Education, Rural Health Advocacy Project (RHAP), Professor J. Rossouw and Mrs Nyamane.

On 4 October 2016, the Committees received a presentation from the National Treasury (NT) addressing the specific requirements of section 8(3) of the Money Bills Act for approving the fiscal framework, and responding to selected issues raised by Members, the PBO, FFC and stakeholders who took part in the public hearings.

## The Minister’s Overview of the MTBPS

The key messages from the Minister of Finance’s briefing to the Finance Committees are that:

2.1 In a constrained economic environment, the MTBPS proposed a “measured, balanced and careful attempt at fiscal consolidation”. The emphasis was that prudent fiscal management alone is not the solution, inclusive growth is needed and that required domestic and foreign confidence and removal of structural constraints to growth.

2.2 Government needs to implement reforms outlined in the National Development Plan (NDP) and the Nine Point Plan. The Minister hoped that Parliament would play its role in removing structural blockages to growth and contribute towards creating national consensus on economic growth. The Ministers’ view is that Parliament was not adequately engaging on growth issues.

2.3 The Minister indicated that there needs to be more support for Small Micro and Medium Enterprises (SMMEs) and that some entities needed to be consolidated, with the assistance of Parliament. The Tourism and the oceans economy needed to be focused on more intensively.

2.4 The Bills in the parliamentary process including the Minerals and Petroleum Resources Development Bill and the Communal Land Tenure Bill needed to be cleared for certainty.

2.5 The Minister emphasised that no State Owned Entity (SOE) should be a liability on the fiscus and that the South African Airways (SAA) challenges needed to be addressed more actively to ensure it becomes stable and profitable

2.6 The Minister said that a balanced consolidation approach, policy certainty, political stability and greater national unity would create a stable environment for growth that is necessary to alleviate the potential of a sovereign credit ratings downgrade; and

2.7 The overall message was that with decisive action and collaborative effort, South Africa could emerge from this period of economic uncertainty and achieve the growth required for its goals.

## Input from statutory institutions

### Financial and Fiscal Commission

The FFC submission on the 2016 MTBPS fiscal framework focused on the dynamics underpinning the economic growth outlook, overview of public finances and the overall fiscal implications.

The FFC noted that in view of the global economic outlook, South Africa’s growth forecast has been revised downwards to less than 1.5%, lower than when the 2016 Budget was announced, by both the NT and the International Monetary Fund (IMF). The per capita income growth for South Africa was also markedly less than those of comparable emerging market economies.

The FFC said that the country is “walking on an economic tightrope” due to both external and internal factors. The FFC highlights South Africa-China rising trade linkages, over the past decade, and significant reliance on a Chinese economy that is itself rebalancing from investment-led to consumption-led growth. There is lessening Chinese appetite for manufactured goods and commodities (which both accounted for 50% of South Africa’s exports to China) and dampening commodity prices.

While there was a notable depreciation of the Rand from 2010 onwards this has led to no appreciable impact on exports. The decline in export growth, accompanied by declining global trade volumes, has led, the FFC observes, to a rising account deficit and increased borrowing requirements.

This had a notable impact on South Africa’s debt-to-GDP ratio being revised upwards, with considerable negative implications for borrowing costs, flows of direct investments and further currency depreciations.

The domestic dynamics related to State Owned Enterprises (SOEs) and their deteriorating financial performance. The FFC highlights that the 2016 Budget outlined four areas for reform to strengthen the SOEs which are: 1. Financial and operational stabilisation, 2. Coordination and collaboration among different entities, 3. Rationalisation and consolidation and, 4.The enactment of a new governance framework.

The FFC highlighted SOEs such as PetroSA, SAA, South African Post Office (SAPO), Eskom and SANRAL which it described as hamstrung by inefficient operations, poor governance and, weak balance sheets. PetroSA, SAA and SAPO were recording huge losses and heavily reliant on issuing debt through state guarantees which have increased from R177 billion or 8% of the GDP in 2007/08 to R553 billion or 15% of the Gross Domestic Product (GDP) in 2015/16. This exposes the fiscus to heightened risks of contingent liabilities should any of the SOEs default on their debt obligations. This highlighted, according to the FFC, the need for more comprehensive and extensive reforms to ensure that SOEs deliver essential economic and social services that will enhance growth and fiscal outcomes.

GDP simulations as predicted in 2011 by the Commission mirrors the medium term growth forecasts over the 2016 MTBPS under a scenario of protracted slow growth. The Commission reaffirms that over the medium term, government should continue with a gradual programme of fiscal consolidation that entails reducing moderately but consistently the budget deficit.

The Commission appreciates and notes the advancement that the 2016 MTBPS for the first time was tabled with the Risk Report that sets out NT’s assessment of risks as well as a framework for responding to identified risks. The Commission welcomes the introduction of this report to establish a sound framework to enhance discussion around various fiscal options for addressing economic challenges.

The Commission is of the view that the proportion of total revenue allocated to local government from 8.7 percent in 2013/14 to a projected 9.1 percent in 2017/18 is welcome. In principle, the Commission welcomes the projected growth and acknowledges that local government plays a critical role in the delivery of basic services to poor households and priority to this sphere is appreciated.

In terms of growth of Provincial Equitable Share (PES) and conditional grants, the Commission notes the growth in conditional grants and cautions government against allowing growth in conditional grants to surpass growth in the PES.

While funds are being put aside for the contingency reserve, the Commission has in the past warned against excessive withdrawal of the contingency reserve. The Commission welcomes the new policy approach of maintaining consistency in the contingency reserve as it provides the fiscus with at least some room to manage ongoing fiscal pressures.

The Commission has re-emphasised wage increases should be linked to productivity. The Commissions submission for the 2016/17 Division of Revenue called for a framework for measuring productivity as a step to benchmark improvements in the public sector over time. The decision to exclude teachers, nurses, doctors and police from headcount reductions is welcomed by the Commission.

In line with reducing costs of spending on goods and services, government has established reforms to create a central database as a way of reducing the administrative and cost burden of procurement. When the public procurement bill is tabled it will replace other relevant existing bills. The Commission “welcomes these initiatives and calls for appropriately formulated indicators that can track the impact of these reforms in achieving value for money”.

In the 2016 MTBPS, reform measures were announced to establish a single governing law for public entities, rationalising the number of entities and mobilising co-investment and technical support. The Commission welcomes reforms announced to strengthen financial the management and governance at SOE’s.

According to the FFC, the current reprioritisation process is delinked from the long term development goals outlined in the NDP. Attaining some targets would require government to drastically reconsider its social expenditure composition from one that seeks to embed expenditure programmes to one that drives developmental impact in a meaningful way.

The Commission is of the view that expenditure reprioritisation processes should entail comprehensive sectoral expenditure and performance reviews to minimise operational and spending inefficiencies and eliminate non-performing programmes.

The Commission is concerned about Government’s ‘”nadequate focus on, or allocations made to improve” employment and economic infrastructure. In its annual submission for the 2017/18 division of revenue, the Commission noted that Public Employment Programs (PEPs) have poor labour market outcomes and further recommended a shift away from chasing numbers to focusing on skills transfer and employability. Prioritisation need not only take place at an expenditure level, but also within programme implementation processes.

The Commission supports the expenditure reprioritisation underlying the 2017 MTBPS, but further implores Government to adopt a proactive approach when addressing community concerns to avoid damage of social infrastructure and the subsequent long term deployment of police forces within protest hotspots.

The Commission welcomes the interim funding made available to the PSET sector to address student demands for free tertiary education and cushion higher education institutions and technical, vocational education and training (TVET) colleges against rising cost pressures while a sustainable solution is being sought.

The Commission therefore is of the view that the short to medium term job creation initiatives should focus on reskilling laid-off workers in the mining and steel industries through the skills levy as well streamlining job creation schemes to focus on few selected strategic sectors.

### Parliamentary Budget Office

The PBO raised concerns about the lack of economic growth and emphasised the need to ensure that the MTBPS proposals supports economic growth.

The NT has revised downwards economic growth forecast for 2016/17 from 0.9 % to 0.5 % and growth is forecast to reach 2% over the medium term. The NT estimates that there will be an increase in the budget deficit for 2016/17 from 3.2% to 3.4 % and that this may delay the government from attaining the desired fiscal environment to stabilise debt as a share of GDP. However, the NT expects the budget deficit to be within target over the medium-term at an estimate of 3.1 % for 2017/18 and decrease to 2.5 % by 2019/20.

Although the revenue forecasts are revised downwards for 2016/17, the expenditure ceiling has been maintained through the past four years and further reduction to the ceiling is proposed. The PBO noted that contingent liabilities over the Medium Term Expenditure Framework (MTEF) period pose fiscal risks which required heightened oversight to ensure that there is no event of default by any of the SOEs, as their debt is guaranteed by government. The PBO noted NT’s inaugural publication of the Fiscal Risk Statement which highlights the risk outlook for attaining the fiscal objectives in the medium term.

For government to attain its fiscal objectives over the medium term, spending would have to decrease or revenue would have to increase. It is worth noting that the MTBPS proposes raising revenue by R43 billion over the medium-term. This would require further growth to achieve as any proposals to raise revenue have to be sensitive to the impact on growth and potential socio-economic implications.

Failure to achieve revenue targets by R23 billion for 2016/17 points towards the need for reprioritisation of expenditure allocations to fulfil competing government commitments. With reprioritisation, there will naturally be trade-offs. Expected expenditure growth is 7.6% in nominal terms for total government spending over the medium term period. Losers include general public services with only 4.1% anticipated growth over the MTEF period, agriculture, rural development and land reform (4.8%) and economic affairs (4.9%).

The “fees must fall” movement has undoubtedly placed funding of Post-School Education and Training (PSET) at the top of government’s priority list. As a consequence, the PSET expenditure is expected to grow by 9.2% over the medium term period. Government further intends to maintain its social protection and health commitments, which are both expected to grow by 8.2%.

The PBO noted that the link between the medium term spending proposals and the nine-point plan announced by the government in the 2015 Budget Review are not obviously pronounced in the MTBPS.

## Input from stakeholders

### Congress of South African Trade Unions

The submission by COSATU covers a wide range of issues, some of which are not of immediate relevance to the Finance Committees. For the purpose of this report, attention will mainly be focused on issues related to the fiscal framework.

COSATU appreciated the massive economic, fiscal and budgetary challenges that are facing the government as well as many of the positive aspects within the MTBPS but remain concerned about the high rates of unemployment. The trade union federation also appreciated that government has not increased VAT to date and cautioned the government about the negative impact of increasing VAT on the poor households and on economic demand.  It further urges that government should not increase income taxes on the working and middle classes again but rather increase taxes on the wealthy, luxury goods and non-essential imports.

COSATU welcomed government’s commitment to invest R987 billion in public infrastructure over the next three years.  It urged the private sector to assist in building South Africa by ending what it called an investment strike. COSATU believes that the South African Reserve Bank should assist economic growth with the lowering of interest rates.

The trade union federation welcomes the reduction in travel subsistence costs but decried the frequent overseas trips by the Ministries and Departments.  COSATU believes that overseas travel should only be limited to trips which will generate investment and trade for South Africa.  Taxpayer’s money should rather be saved from this line item and be reprioritized to employing more nurses, teachers, police officers and other critical skills to enhance service delivery.

COSATU recommends that there should be engagements on the public service head count, the freezing of posts and the public service conditions of service with the workers at the Public Service Central Bargaining Council.  The trade union federation remains concerned about the impact of the moratorium placed on public service posts in the Department of Health and lack of detail in the MTBPS on progress made towards implementing the National Health Insurance (NHI).  COSATU however applauded government’s continued roll-out of ARVs. It recommends that government reduces the size of its cabinets and reduce the high packages paid to senior officials in government to reduce the wage bill. Furthermore, the Department of Labour should review its moratorium on vacancies and appoint more labour inspectors.

The trade union federation appreciated the massive expansion in funding for poor tertiary students by government since 2008 and, in particular, over the past two years.  It welcomed the 0% increase in university fees for working and middle class families over the past two years.  According to COSATU, the MTBPS did not clarify how government will meet urgent and legitimate demands for “free” tertiary education for students from working and middle class households.

COSATU welcomed the positive work that has been achieved in massively increasing the country’s renewable energy capacity.  This has seen South Africa’s energy capacity increasing significantly and leading to the creation of 27 000 jobs and the investment of R190 billion. This has also led to a significant drop in the costs, although Eskom has not yet passed this onto consumers. Instead consumers have endured exorbitant and above inflation electricity price increases.

Government’s progressive interventions to protect, support and grow the clothing, textiles and auto-manufacturing industries are welcome as this has seen thousands of jobs saved and created.  Government should shift more resources to such programmes. COSATU recommends that the Expanded Public Works Programme (EPWP) programme must be reviewed as it has become a source of cheap labour for cash strapped municipalities and departments.

It would provide relief to COSATU if the back log of 70 000 land claims cases can be speedily addressed.  Solving less than 400 cases a year means that we will never resolve all these cases.

### Equal Education

Equal Education (EE) is a social movement of teachers, learners, parents, and community members working towards achieving quality and equality of education in South Africa.

EE highlighted that in 2013 government published the Minimum Uniform norms and standards for Public School Infrastructure, committing that by 29 November 2016, all schools without access to water, electricity and sanitation and schools built with mud, wood, metal and asbestos (i.e. “inappropriate schools”), would be eradicated. The National Education Infrastructure Management System (NEIMS) report by the Department of Basic Education (DBE) published in June 2016 indicated that approximately 5 000 schools still have pit toilets and 171 schools are without access to water.

The EE is concerned that the 2016 MTBPS made no mention of basic school infrastructure and that there was insufficient funding to meet the norms and standards obligations. This suggest that the deadline for November 2016 might not be met.

The proposed Division of Revenue Amendment Bill (DORAB) made adjustments for Education Infrastructure Grant (EIG) only for the Western Cape and Limpopo provinces. Additionally, the EIG funding will be reduced in 2017/18 and 2018/19. This was a concern because provinces are not near meeting the norms and standards targets.

The Accelerated Schools Infrastructure Delivery Initiative (ASIDI) was created to “eradicate inappropriate” schools between 2011/12 to 2013/2014 financial years. Given the challenges in expenditure, the implementation period was extended to 2017/18. The Adjusted Estimates of National Expenditure (AENE) indicate that the targets set for 2016/17 will not be met by the end of the financial year. The EE drew attention to the movement of funds from ASIDI to the Western Cape Province. It also highlighted that this movement of funds was done in 2014 and thus disadvantaged other provinces.

Scholar transport was another aspect, according to EE, that was not given enough attention by the documents presented in the MTBPS, namely the AENE and the DORAB. Implementation of scholar transport is unclear as it is managed by the DBE and the Department of Transport. The shared roles and responsibilities resulted in ineffective provision of scholar transport, hence there are still many deserving learners that were not enjoying this serviced The 2015/16 DBE annual report indicates that about 130 438 learners in need of scholar transport did not receive it. It is also observed that in the current MTBPS and the proposed DORAB funding of scholar transport was not provided for.

The EE movement made the following recommendations on school infrastructure and scholar transport:

* Government should undertake a costing assessment to determine the budget allocations that will be required for provinces to comply with the norms and standards for school infrastructure. The DBE should then regularly monitor provincial progress toward compliance and expenditure to ensure that school infrastructure development is performed efficiently.
* The planning and provision of schools that meet minimum norms and standards should be undertaken in an open and transparent manner. Additionally, delivery schedules should be publicly accessible in order for progress to be measured and for provinces to be held accountable.
* The DBE is likely to miss the deadline for the Norms and Standards. Parliament should and therefore do more in its oversight function and the national DBE should ensure effective implementation of the ASIDI programme.
* The DBE should produce a plan and timeline to show how it will fast track the eradication of inappropriate structures, including those that still remain under ASIDI, and how it will ensure that all schools in South Africa have access to water, electricity and sanitation facilities by the end of the financial year.
* The NT should provide adequate funding to ensure that these targets are met.
* The DBE should collect and verify data on the number of learners who need scholar transport, particularly in the Eastern Cape and KwaZulu Natal where the need is greatest.
* A conditional grant geared towards providing learners with transport or accommodating them in boarding facilities where appropriate, particularly in rural areas, where learners have to walk long distances to and from school, should be established.
* Lastly, consideration within the conditional grant, and/or existing budgets, should be given to the funding implications of maintenance of buses, safety regulations, and the requirements of universal access.

### Rural Health Advocacy Project

The RHAP advocates for the provision of quality healthcare, and its submissions focused on the implications of the MTBPS on the delivery of health care services to the most deprived rural communities. They are of the view that wasteful expenditure in other areas of government should be reduced and go towards the public health system, together with other resources.

RHAP expressed concerns about the impact of cost-cutting measures and the deepening of austerity measures on users of public health services and the overall health system. This includes plans announced early in 2016 to reduce the number of midwives with over 50 % in rural hospitals serving remote, and impoverished communities who have no other alternative access to services.

The RHAP brought to the attention of the Committees the claim that in some areas health care worker posts continue to be frozen for periods of time and vacant posts are not filled timeously, if at all. They further alleged that outreach services to rural people with disabilities have already been discontinued and new health facility organograms are being developed risking further cuts to small and fragile rural teams.

The RHAP welcomed the containment of personnel expenditure but submitted that health staff should be protected and, most importantly, guidance on how to do so should be provided. Failure to do so would lead to catastrophic consequences for health care. These include diminished capacity to deliver services, poor supervision of existing staff, weakened support processes (e.g. procurement), additional strain being put on already overburdened staff, and overburdened staff leaving the public service, thus deepening the crisis.

The RHAP welcomed the recommitment by the Finance Minister to increase the NHI Conditional Grant to support the contracting of additional General Practitioners into the public system and to bolster support for the schools health programme.

The RHAP recommended that:

* The National Department of Health, in collaboration with the NT, should provide guidance through policy on how provinces are expected to protect critical posts at times of austerity.
* Adequate consideration should be given to ensure that disadvantaged communities are not further marginalised in their access to health care.
* Critical posts needed to be defined locally for both health professionals and support staff.
* The National and Provincial Departments of Health must ensure districts have costed Human Resources plans in place. The NT should provide support in the costing of the Human Resources plans.
* District management teams should play a central role in deciding where to save costs, based on agreed sets of principles of access and equity.
* Corruption and unauthorized expenditure should be performance managed instead of punishing all managers and districts by withdrawing their delegation of authority for the transgressions of others.
* In the event of a Section100 intervention or when the NT co-manages a Health Department, there should be an up-front agreement around the prioritization of health needs and clear processes for appointments to occur.

### Professor Jannie Rossouw

Professor Jannie Rossouw, on behalf of three independent researchers, submitted that the situation of a fiscal cliff, a situation where social assistance expenditure and civil service remuneration will absorb all government revenue, has improved marginally since 2014, owing to revenue data updates.

Prof Rossouw is of the view that government has the NDP but has no clear coherent strategy to change South Africa’s current low-growth trajectory and increased unemployment.

On revenue proposals, Prof Rossouw does not support a wealth tax but supports increasing income tax brackets such that individuals earning between R1 million and R2 million are taxed at 45% and those earning over R2 million be taxed at 50%.

Prof Rossouw cautioned against VAT increases due to its perceived possible regressive nature despite its easy implementation. Other taxes to consider are a tax surcharge on income tax, payroll tax and a levy on financial transactions.

Prof Rossouw proposed that government should consider expenditure cuts, rather than tax increases and as in the last submission, emphasized that South Africa needed an expenditure reprioritization such as cutting out the provision of expensive official cars and reducing the number of cabinet Ministers.

Prof Rossouw reiterated, as in the previous year, that it is necessary to review the transfer payments made by South Africa to the Southern African Customs Union (SACU). Lastly, Prof Rossouw mentioned that he was encouraged that civil service employment had levelled out. He submitted that the remuneration of public servants should not be allowed to grow.

### Mrs Nyamane

In her oral submission, Mrs Nyamane recommends that a central database should be established that links all government institutions and stores administrative information of all government employees. This will provide civil servants with an opportunity to routinely view their personal information and ensure that the system is updated with the correct information. For example, when Mrs Nyamane was about to retire in 2008, her personal details captured by the file created by Government Employees Pension Fund (GEPF) was inaccurate. She was told she had 7 outstanding loans with several banks. She is still currently paying monthly installments on the loan. She suspects fraudulent identify theft. She has tried to get the matter resolved but with no cooperation from GEPF. Mrs Nyamane has also had to pay a housing bond for a second time. The bank does not want to release her title deed for a fully paid loan. She has tried to get the matter resolved because all her pension is being used to pay for fraudulent loan repayments.

## Committees observations and deliberations

### The Committees, once again, note the onerous timelines in the Money Bills Amendment Procedure and Related Matters Act for processing its Fiscal Framework Report. The Committees need more time and capacity to more effectively engage with the MTBPS and intends to effect amendments to the Act before the 2017 MTBPS is introduced.

### Given the extremely challenging economic environment, the Committees commend the NT on shaping a MTBPS and a balanced fiscal consolidation path that does not negatively affect service delivery and ensures social protection. The Committees note that some of the factors that slowed economic growth such as electricity supply constraints and industrial action have receded somewhat and there are expectations that the severe drought will subside, and are encouraged that the MTBPS sustains public sector infrastructure spending budget over the medium term.

### The Committees recognize the severity of the economic growth and job-creation challenges that confront the country. Even the projected 0.5% growth in 2016 may not be realized. Prospects for global growth are also dim, but it is not as if the country is powerless. Through working together across the divides and implementing decisions already taken, including the 9-point plan, effectively and speedily, conditions can certainly be improved to lift growth and create jobs. The Committees agree with the Minister of Finance’s constant emphasis in his MTBPS Speech on the need for unity and action; on the need to “act together for a better future”; on the commitment to “building a coalition for faster growth”. It is captured very well in his reference to the Pedi saying that: “Lions that fail to work as a team will struggle to bring down even a limping buffalo”. The Minister is correct to say: “What we seek, and more, can be done if we collectively make the right choices; support confidence and investment in our economy; create a predictable and stable policy and political environment; and put the national interest first. It is up to us.”

### The Committees note that the rate of unemployment increased from 25% to 26.5 % between the first and second quarters of 2016, a loss of 112 000 jobs. The Committees further note the NT’s assertion that if constraints to economic growth are not addressed, the unemployment rate will continue to increase. The Committees are seriously concerned about this.

### The Committees welcome the appointment of a new SAA Board. The Committees are however concerned that the SAAA and other SOE’s exposure of state guarantees remain one of the largest risks to the fiscal consolidation path and the national fiscus, given that a significant part of the SOE debt is foreign denominated and more exposed to external shocks.

### The Committees note that net debt-to-GDP ratio is now expected to stabilise at 46.2 % in 2019, from 44.3 % in 2015/16. The Committees need to consider issues related to what might be reasonable and sustainable debt levels, given South Africa’s economic growth and development goals, and need to organise a structured exchange with the PBO and NT on this.

### The Committees further note from the PBO submission that when provisions and contingent liabilities are added to net debt, the SA balance sheet deteriorates to more than 50% over the medium term. This is of serious concern.

### The Committees note the impact of a rising current account deficit on debt service costs, partly arising from the exchange rate depreciation.

### The Committees recognise the work done by the NT in averting the credit ratings downgrade by the International Credit Rating Agencies. The Committees remain concerned about the impact of the possible downgrading on the fiscal consolidation path, particularly the state’s ability to service debt.

### The Committees welcomes the allocations to post school education in 2017/18 and over the MTEF period. The Committees will continue to work with the Appropriations and other relevant Parliament Committees to consider ways of improving the allocations without prejudicing other key social, economic and developmental programmes.

### The Committees welcome NT’s commitment to the expenditure ceiling but want to see far more value for money on services delivered. The Committees commit to strengthen their oversight roles in this regard.

### The Committees note with concern that some National Departments spent a total of R11.34 billion on leases of buildings and infrastructure in 2015/16.

### The Committees understand the need for tax increases in the current circumstances but are concerned that in an environment of low growth, increasing unemployment and subdued household consumption, any tax increases by NT need to take full account of possible unintended negative consequences on consumers and the economy.

### The Committees note COSATU’s opposition to increases in VAT and personal income tax, citing the impact that these would have on the poor and middle income households.

### The Committees note that some of the issues raised in the written submissions and oral presentations made, particularly by the RHAP, COSATU and Equal Education need to be referred to the Appropriations and other parliamentary committees.

### The Committees concur with COSATU on the need for adequate labour inspectors and the unintended consequences associated with the Department of Public Works’ EPWP and Community Works Programme.

### The Committees note the challenges that some pension fund beneficiaries are still experiencing in accessing their monies.

## Committees recommendations

### The Committees note the explanations provided of the macroeconomic and fiscal position, and the assumptions and projections provided. The Committees recommend the adoption of the Revised Fiscal Framework and the proposed Medium Term Fiscal Framework.

### The Committees welcome the Risk to the Fiscal Framework Report provided in this year’s MTBPS and recommend that the NT provides such a Report in each MTBPS and reports to the Committees regularly on the risks.

### The Committees welcome the balanced fiscal consolidation path set out in the MTBPS and recommend that government continues with a measured fiscal consolidation approach that moderately reduces the budget deficit while being supportive of economic growth.

### South Africa faces difficult fiscal choices in the years ahead. In conditions of slow economic growth, fiscal consolidation – whether in the form of higher taxes or lower expenditure – can weaken the recovery. On the other hand, the country remains highly vulnerable to global economic conditions, and government needs to stabilize the growth of debt. The Committees recommends for now that NT keep to its debt-to-GDP ratio targets.

### The Committees note that a significant amount of long term government debt will start to mature in 2018/19 and recommend that the NT plan effectively for that and report to them at the 2017 MTBPS..

### While recognising the difficulties, the Committees recommend that NT and government as a whole intensify efforts at cooperation between government, parliament, the private sector, trade unions and civil society to improve economic growth and create jobs. The Committees will seek to cooperate with other relevant parliamentary committees in this regard and explore the possibility of approaching the Speaker and NCOP Chairperson to consider setting up an ad hoc joint committee to deal with the economic growth and job-creation.

### A crucial aspect of reviving economic growth in the short term will be for government and the private sector to find ways of mobilizing private capital. In the short term government must act to build confidence in the economy and restore the momentum of private investment. The Committees recommend government and the private sector consider ways to unlock private and corporate resources to support fixed and residential investment. This should include actions to improve credit extension to households, expand the scope of the independent power producer programme and fast-track the implementation of a framework for co-investment.

### While a balanced fiscal consolidation path provides some certainty and confidence in the SA economy, more needs to be done to encourage the private sector to increase investment and support economic growth. The NT says that the country needs a “package of measures to encourage investor confidence”. The Committees recommend that NT and Government as a whole should provide policy certainty in key economic sectors and aggressively implement policies aimed at stimulating growth and restore consumer and business confidence.

### The National Treasury, the Department of Economic Development and other departments should work on a programme to mobilise resources behind actions that stimulate economic growth. This should include leveraging resources in public institutions that have strong balance sheets, including development finance institutions, the unemployment insurance fund and metropolitan municipal councils.

### The PBO noted that the link between the medium term spending proposals and the nine-point plan announced by the government in the 2015 Budget Review are not obviously set out in the MTBPS. The Committee agrees with this and recommends that NT takes this into account in its Budget 2017 documents.

### The Committees recommend that NT increase the allocation to economic affairs and will refer this to the Appropriations Committees to consider how this could possibly be done.

### The Committees recommend that the NT evaluates the effectiveness of government’s job creation initiatives, including the Jobs Fund, in reducing the high rate of unemployment and prepare a comprehensive report for the Committees by the end of the first quarter of 2017. Together with other relevant Committees, the Committees on Finance and Appropriations will further engage with the Ministers and Director Generals of the Departments of Trade and Industry, Economic Development and Agriculture to discuss the effectiveness of growth and employment creation initiatives as well as other cross cutting issues. The key focus would be ensuring that the allocations for economic and employment boosting initiatives address the intended outcomes, contribute to skills development and grow the economy.

### The Committees recommend that NT gives concerted attention to the FFC’s view that the short to medium term job creation initiatives should focus on reskilling laid-off workers in the mining and steel industries through the skills levy as well streamlining job creation schemes to focus on few selected strategic sectors.

### The Committees recommend that NT give serious attention to COSATU’s concerns about labour inspectors and the unintended consequences of the EPWP referred to in Section 4.1 above.

### Government has rightly proposed that fiscal consolidation measures be balanced between spending restraint and tax increases. Government should ensure that the progressivity of the fiscal system is a key consideration in the tax measures to be proposed in the February budget.

### The Committees recommend that the PBO conducts a study on the costs and benefits of VAT increases, particularly the implications for the poor and the possible impact on economic growth.

### The Committees recommend that COSATU presents its objections to VAT to NT and the Committees as soon as possible. The Committees note that COSATU has made submissions on this to the Davis Tax Committee. The Committees also recommend that COSATU presents its revenue proposals on increasing tax through a wealth tax and on luxury goods.

### While continuing to limit the growth of consumption spending and contain expenditure on non-essential goods and services, government should strive to increase its allocations to investment and capital spending. National Treasury should provide further detail on the proposed financing facility for social infrastructure when the Minister of Finance tables the budget in February.

### The Committees welcome government’s commitment to invest R987 billion in public infrastructure over the next three years and recommend that this investment be more actively and closely linked to improving the prospects for economic growth and sustainable jobs.

### The Committees noted elevated risks associated with state-owned companies. Government guarantees have increased substantially in recent years, and a large share of state owned company debts are denominated in foreign currencies. In order to improve monitoring of these risks, National Treasury should table a quarterly report in Parliament, providing updates on guarantees extended, the extent of exposure against guarantees and the data on the portfolio of state-owned company assets.

### As the PBO puts it with regards to contingent liabilities, “the probability and extent to which they will be called on, affect the country’s credit rating, and ultimately the price and amount it can borrow”. The Committees recommend that the NT strengthens oversight over the SAA and other SOEs to prevent any defaults, return it to profitability and reduce pressure on the national fiscus and national debt. The Committees will seek to exercise more effective oversight over SAA.

### The Committee noted the FFC’s views that there need to be far more comprehensive and extensive reforms to ensure that SOEs deliver essential economic and social services that will enhance growth and fiscal outcomes. The Committees recommend that the FFC presents proposals in this regard to NT and brief the Committees on this in the first half of 2017.

### The Committees welcome the work of the Chief Procurement Office. The Committees urge that the inefficiencies in public procurement, such as the wastage of 40% of R600 billion spent on goods and services, be addressed and consequence management be implemented speedily and reports be provided at NT’s Quarterly Briefings to the Committees. The Committees also agree with the FFC that with the Public Procurement Bill there need to be “appropriately formulated indicators that can track the impact of these reforms in achieving value for money”.

### The Committees reiterate their recommendation that much swifter and more decisive action needs to be taken against civil servants who are responsible for Public Finance Management Act transgressions and for failure to perform.

### The Committees recommend that NT working with the relevant departments seeks to reduce the huge spending on leases of buildings and infrastructure.

### The Committees recommend that the NT process amendments to the Preferential Procurement Regulations speedily to ensure that previously disadvantaged groups and SMMEs benefit significantly. Progress on this should be provided regularly to the Committees.

### The Committees recommend that further allocations be considered for post school education without prejudicing other key social programmes. The Committees will work with the Standing Committee on Appropriations on this matter.

### The EE is concerned that the 2016 MTBPS made no mention of basic school infrastructure and that there was insufficient funding to meet the norms and standards obligations. They suggest that the deadline for November 2016 might not be met. The Committees recommend that NT respond to EE’s concern about this, and its other proposals, and will refer EE’s proposals to the Appropriations Committee.

### A critical element of containing consumption spending will be measures to limit the growth of compensation budgets. South Africa needs a stronger dialogue about performance and pay in the public sector. The Department of Public Service and Administration, the National Treasury and the Department of Planning Monitoring and Evaluation should report jointly to Parliament before the middle of 2017 on the issues and concerns regarding performance, remuneration policy and pay in the public service.

### The Committees welcome the progress on cost containment but believe that more can be done. The Committees also recommend that NT engages with the Auditor-General’s Office to explore the possibilities of the AG’s Office conducting over time annual audits of the compliance of national and provincial government departments and municipalities and public entities with cost containment measures decided by NT and reporting on these audits, which can be considered by parliamentary committees. The Committees require NT to report on the possibilities of this at its first Quarterly Briefings of 2017.

### The Committees recommend that NT considers the FFC recommendations made in Section 3.1 above and reports to the Committees on this.

### The Committees recommend that the RHAP, COSATU and Equal Education refer some of the issues raised during the MTBPS hearings to the relevant parliamentary committees such as Appropriations, Rural Development and Health. The Committees will also refer their submissions to these other relevant committees.

### In these difficult times, government’s commitment to sustain social spending is welcome. However, the committee notes rising pressure on social budgets, particularly in the health sector. National Treasury and the Department of Health should review the impact of limits on compensation spending for critical services for the poor, and guidelines that help provincial and district health authorities manage more constrained budgets should be developed.

### The Committees agree with COSATU’s concern about the impact of the moratorium placed on public service posts in the Department of Health and lack of detail in the MTBPS on progress made towards implementing the National Health Insurance (NHI). The Committees recommend that NT gives serious attention to COSATU’s concerns, and will also refer this to the Appropriations Committees.

### The Committees recommend that the NT, GEPF and the Government Pensions Administrative Agency strengthen communication and public awareness campaigns to enable the members of government pension funds, including those in the rural areas, to easily access their benefits.

Report to be considered

The Democratic Alliance (DA) noted their objection