**8. The Select Committee on Finance, having considered the Proposed Fiscal Framework of the Minister of Finance on 25 October 2017, reports on 01 December as follows:**

1. **INTRODUCTION**
   1. On 25 October, the Minister of Finance, Mr Malusi Gigaba, tabled the Medium-Term Budget Policy Statement (MTBPS) in the National Assembly in terms of section 6 of the Money Bills Amendment Procedure and Related Matters Act, Act 9 of 2009 (hereinafter The Act). The tabled MTBPS included the revised fiscal framework for 2017/18, which has been reported on and the proposed fiscal framework for the next three years as per sections 6 (1) and (2) (a) and (b) of the Act. This report is for the proposed fiscal framework in line with section 6 (5) of the Act.
   2. On 26 October, the Minister of Finance provided a brief political overview of the MTBPS for 2017/18. The Director General, Mr. Dondo Mogajane, and senior officials from the Department gave a technical overview of the MTBPS.
   3. Cabinet has decided that the Presidency will now, on the basis of the Medium Term Strategic Framework (MTSF), which is based on the National Development Plan, provide a framework of the government’s priorities within which the budget priorities should be decided. The Committee therefore invited the Minister in the Presidency, Mr Jeff Radebe, to provide an overview on the Mandate Paper which was approved by Cabinet to give guidance on the budget priorities.
2. **OVERVIEW OF MANDATE PAPER BY THE MINISTER IN THE PRESIDENCY** 
   1. Minister Jeff Radebe explained to the Committee that the Cabinet, acting on advice of the National Planning Commission, had proceeded to strengthen the alignment of the country’s budget to the Medium-Term Strategic Framework (MTSF) 2014-2019 and the National Development Plan (NDP) Vision 2030 in order to give effect to the country’s developmental priorities. In this regard, the Department of Planning, Monitoring and Evaluation (DPME) and the NT were asked to develop the 2017 Mandate Paper in order to synchronise the blueprint Government plan (the MTSF and the NDP) priorities with budgeting.
   2. He said that the Mandate Paper’s main objective was to ensure that decision making on budget priorities advance the MTSF and NDP goals and targets. He said that the 2017 Mandate Paper sets out prioritisation criteria which seek to guide the consideration of budget proposals for 2018/19 for all spheres of government and all government entities.
   3. He said that the Mandate Paper is firmly focused on the outcomes spelt out in the NDP and the MTSF, of a decent life for all South Africans, the eradication of poverty and the reduction of unemployment and inequality. To advance the Mandate Paper for 2018, the Minister said that the following set of priorities were approved for guiding the budget process: youth development; job creation and small business development; infrastructure expansion and maintenance; land reform, smallholder farmer and agriculture development; comprehensive social security; education and skills; an integrated plan to fight crime; and advancing South Africa’s interests in SADC, the African Continent, BRICS and the Indian Ocean Rim Association.
   4. Minister Radebe clarified that the Mandate Paper does not indicate specific funding allocations as this was part of the budgeting process led by NT. It however makes recommendations on the priorities which will focus budgeting on the achievement of the country’s overarching plans. Its aims to reinforce initiatives that have the greatest growth and transformative impact. He further said that the South African government will spend approximately R1.5 trillion, which is about a third of the country’s GDP. He said that the Budget Mandate process was therefore important in implementing government plans, refocusing and reprioritization to ensure socio-economic transformation.
3. **POLITICAL OVERVIEW BY MINISTER OF FINANCE**
   1. Minister Malusi Gigaba stated that the key message of the MTBPS was that the country’s economic situation was dire and requires tough decisions to be made to turn it around. The Minister noted challenges around the country’s escalating debt and the increasing budget deficit. He said the debt-to-GDP ratio was likely to breach the 60% mark if no bold interventions were made immediately.
   2. He said that is was concerning that the global and regional economies, including in the Sub-Saharan region, had recovered and were now growing, but South Africa’s economy remained muted and subdued. He said that a presidential task team has been established to examine the subdued economic performance and to develop proposals to restore fiscal sustainability.
   3. Minister Gigaba said that some of the solutions to the county’s economic challenges are domestic. One of the easiest and quickest things to do is to restore business and consumer confidence. But there is also a need address structural challenges as soon as possible. There is a need to take decisive and bold decisions.
   4. He stated that NT remained committed to fiscal consolidation and will continue to maintain and enforce the expenditure ceilings over the medium-term.
4. **SUMMARY OF THE CONSOLIDATED FISCAL FRAMEWORK**
   1. The table below shows the consolidated fiscal framework. It shows that over the MTEF revenue collection and expenditure will remain muted at around 30% and 34% of GDP respectively. Budget deficit will recover to below 4% from the projected revised 4.3% in 2017/18. It also shows that total gross loan debt will increase from the now projected 54.2% in 2017/18 to 59.7% in 2020/21.
   2. The MTBPS also shows that government debt held by non-residents has risen, over the last ten years, from 4.4% of GDP in 2007 to 17.65 in 2017. The implications of this, according to the MTBPS, is that a sharp negative global investor sentiment towards South Africa could result in large capital outflows which could destabilise South Africa’s economy.



1. **ANALYSIS BY THE PARLIAMENTARY BUDGET OFFICE**
   1. The PBO noted that there seemed to be a general consensus across international agencies that the widespread implementation of fiscal consolidation measures around the world following the global economic recession had a net negative impact. It further noted that general macroeconomic performance in South Africa across a range of key macroeconomic variables during the period of fiscal consolidation was also negative. It said that while real GDP per capita increased from 2012 to 2013, it declined after that until 2016 to close to 2012 levels.
   2. The PBO said that the outlook for economic growth and revenue is poor. It said that the fiscal objective of stabilising debt as share of GDP over the medium term appeared unlikely. Also, the goal of achieving a primary surplus will not be realised in 2018/19 as projected in the 2017 Budget Review. In light of this negative outlook, the PBO said that an important question that needed to be considered is whether the country should continue to blindly implement its fiscal consolidation framework or to look into other fiscal policy alternatives.
   3. The PBO said that the MTBPS hinted at the hard choices that are required to return the public finances to a sustainable position and proposed microeconomic interventions to stimulate the economy, improve regulation, competiveness of manufactured exports, and reindustrialisation. The PBO noted that there would be much better results and more success if these interventions occurred in an economy that was growing, where aggregate demand was higher, and where employment and spending power allowed for paying off of sovereign debt and increased household consumption.
   4. The PBO noted that NT has revised downwards, from 1.3% to 0.7%, the country’s economic growth forecast for 2017/18, slowly recovering to 1.9% over the medium term. It also noted the projected increase in the budget deficit for 2017/18, from 3.1% to 4.3 %, arguing that this may delay the attainment of fiscal objectives of stabilising debt as a share of GDP. It further noted the estimated revenue shortfall of R 50.8 billion for 2017/18, R 69.3 billion in 2018/19 and R 89.4 billion in 2019/20. It noted that while government remained committed to the set expenditure ceilings over the medium term, fiscal risks may lead to the breach of such ceilings.
   5. The PBO said that Parliament should probe into the declining tax buoyancy in order to ascertain how it affects revenue collection and what implications this may have for public finances and if there were any structural issues in tax revenue mobilisation and on measures that SARS would put in place to improve tax collection and administration going forward.
   6. The PBO referred to the introduction of the Mandate Paper to the budgeting process and highlighted that Community Development, Learning and Culture, and Health were forecast to be the fastest growing non-interest expenditure items over the medium term accounting for 7.9%, 7.6% and 7.5%, respectively. It however said that low economic growth and poor revenue collection may scupper the government’s spending commitments. The fiscal situation of some state owned companies (SOCs) continue to put pressure on public finance, the PBO emphasized.
2. **SUMMARY OF PUBLIC SUBMISSIONS**
   1. **CONGRESS OF SOUTH AFRICAN TRADE UNIONS**
      1. COSATU said that it was extremely disappointed by the MTBPS. It said the MTBPS confirmed that the country is in the midst of its worst governance and economic crisis since 1994 as it said nothing, proposed nothing and offered no hope to millions who are poor and unemployed. COSATU said it had hoped that government would rise to the occasion by acknowledging its failings and producing a meaningful plan to arrest the collapse of the economy and the looting of the state, and spur economic growth.
      2. COSATU submitted that the ANC campaigned and was elected on a manifesto to create jobs but since 2014 unemployment has nearly doubled to a real rate of 36.2%. It said that municipalities and provincial departments were outsourcing permanent public sector jobs to the Expanded and Community Works Programmes. It said that the MTBPS showed that Departments were failing to meet their job creation targets. It further said that the Presidency had not kept to its promise made in September 2016, to organised labour and business of a Presidential Jobs Summit to bring social partners together to ‘stem this jobs bloodbath’.
      3. COSATU further expressed its ‘deep disappointed’ that the Department of Labour had failed to deliver the Unemployment Insurance Amendment Act due to two typing mistakes. It said that this progressive law would have seen billions of UIF funds given to the thousands of retrenched workers and mothers on maternity leave. This law has been delayed since 2013.
      4. COSATU said that the Auditor General, senior Cabinet members and countless media articles painted a picture of more than R100 billion of the state’s trillion Rand budget being lost to corruption, wasteful and irregular expenditure. It said that no one had been sent to prison despite this ‘avalanche of looting’. It further said that there was a collapse of good governance and allegations of widespread looting at SAA, Eskom, SABC, Transnet, SASSA, PRASA, and Denel, yet the MTBPS offered no meaningful intervention or plan to stop this crisis. It said that there was vague mention of changing SOE boards but there was no indication of full scale forensic audits in the implicated entities from NT.
      5. COSATU alleged that it was clear that the President and the Cabinet are not bothered that South Africa is on the way to being downgraded at the end of November. COSATU warned that a further downgrade would result is SOE debt guarantees being called in immediately at SAA (R19 billion) and Eskom (R350 billion) and that this would collapse the economy and lead to further loss of jobs. It said that with no tangible plans, the country was in serious danger of seeking a bailout from the IMF and the World Bank.
      6. COSATU said it hopes that the silence of the MTBPS on the government’s alleged previous desires to use the PIC funds to bail out SAA, SABC, Eskom and Denel is a sign that it has received the message that workers will not allow the use of their pension funds to bailout SOEs until the ‘criminals that looted and collapsed these institutions’ have been brought to book.
      7. COSATU submitted that there is enough room for the South African Reserve Bank (SARB) to lower interest rates to help lift workers out of ‘bone crushing debt levels and also help spur economic growth’. It submitted that the SARB needs to play a more active and progressive role in protecting and creating jobs. It said that government cannot afford any more income tax hikes nor a VAT increase, but could look into increasing taxes on luxury goods and raising tariffs on imports. It further submitted that government should deal with leakages caused by corruption and wasteful expenditure, sort the R6 billion social grants outsourcing debacle and cut down the country’s bloated Cabinet of 78 Ministers and Deputy Ministers by half.
      8. COSATU warned that the plans by government to privatise state assets without consulting social partners and stakeholders will backfire as COSATU will not support privatisation.
      9. COSATU said it was alarmed at the projected rise in state debt levels. NT needs to ensure that debt levels are stabilized urgently. Government ‘needs to stop blaming public servants for the wage bill’. It must instead reduce the exorbitant salaries of SOE CEOs and executives, Political Office Bearers including the Directors General. Government needs to engage the Public Sector Collective Bargaining Council to discuss which posts are critical for service delivery and cannot be frozen and which posts are not.
      10. COSATU said it welcomed the Minister’s honest statements that the expansion of nuclear energy is both unaffordable and unnecessary at a price tag of R1 to R3 trillion.
      11. COSATU expressed strong support for the envisaged National Health Insurance (NHI) and expressed concerns about its delay and alleged that it had been watered down due to extreme pressure by industry.
      12. COSATU expressed its serious concern about the inadequate infrastructural roll-out to schools by the Department of Basic Education this year and the lack of plans to implement free tertiary education by the Department of Higher Education, urging for the immediate release of the Heher Commission’s report. It also expressed concerns on slow delivery by the Department of Water and Sanitation, and on governance and alleged corruption at PRASA.
      13. In summary, COSATU recommended:
   2. The resignation of the President and key Ministers alleged to be involved in corruption or the collapse of key Departments.
   3. Convening of the long promised Presidential Jobs Summit with labour and business to agree on a jobs and economic stimulus plan.
   4. The overhauling of the boards and executives of SAA, SABC, PRASA, Denel, Eskom and SASSA.
   5. The commissioning of full scale independent forensic audits of the SAA, SABC, Denel, Eskom, SASSA and SSA.
   6. The investigation and prosecution of those responsible for state corruption, both the government and private sector people involved.
   7. Lifestyle audits of senior public and private sector leaders across the board.
   8. Deployment of officials from the Chief Procurement Officer’s office to oversee supply chain management in all municipalities and key SOEs.
   9. Crackdowns on tax evaders.
   10. Meaningful cuts of wasteful expenditure by government and SOEs.
   11. Engagements with unions on wages to reduce expenditure, the freezing of vacancies and the wage bill at the PSCBC.
   12. A parliamentary bill to protect the integrity of the PIC.
   13. Cancellation of all nuclear expansion plans.
   14. Insourcing the payment of social grants through the Post Office.
   15. Fast tracking the establishment and roll out of a progressive and comprehensive social security system and National Health Insurance.
   16. Eradicating the infrastructure backlog at schools.
   17. Fast tracking engagements on free and affordable tertiary education.
   18. Development and implementation of a water plan for the nation along the lines of the electricity war room previously.
   19. **Public and Environmental Economics Research Centre (Peerc), University of Johannesburg-- Dr Sean Muller**
       1. Dr Sean Muller of PEERC submitted that the current economic environment strengthens the case for the finance committees to use the full 30 days allowed to them by the Money Bills Act (2009) to report on the proposed fiscal framework/MTBPS (as opposed to 9 days allowed for the revised fiscal framework/adjustments budget). He said that the shorter period makes civil society submissions very difficult.
       2. Dr Muller said that the revised fiscal framework for 2017/18 is extremely concerning as it seemed to abandon fiscal consolidation (deficits, borrowing and debt rise beyond what was proposed and approved), driven largely by a R50.8 billion revenue shortfall. He said that the fiscal support for SAA that was not budgeted for showed how SOEs receive undesirable fiscal prioritization because of the urgency created by the risk of default on loans subject to government guarantees.
       3. He welcomed the provision of additional information on civil service remuneration and posts in the MTBPS (although it remained inadequate). He said that departments and provinces are struggling to meet previously-imposed expenditure ceilings.
       4. Dr Muller said that fiscal consolidation made sense because the state’s countercyclical approach was having a limited impact on the economy, while leading to a rapid rise in national debt relative to GDP. He said that non-fiscal factors – policy and political uncertainty, corruption and mismanagement in critical departments and enterprises – appear to have played a significant role. He warned that further increases in debt without corresponding increases in growth would become unsustainable and would lead to sovereign downgrades.
       5. He reminded members that the 2015 Budget aimed to stabilize net debt at 40% of GDP (now projected to be 49.1% by the end of 2017/18). He said that the IMF uses a generic 70% ‘high risk’ threshold for gross debt, but a 2014 study for South Africa proposed a country-specific threshold of 60% for gross debt. The baseline MTBPS projects exceeding the 60% threshold by 2021, but a local debt downgrade is likely to make that happen earlier (2020 or even 2019).
       6. He said that in response to expected revenue shortfalls – and despite recent downgrades and the looming prospect of a local debt downgrade – the MTBPS simply abandons consolidation and fails to propose an alternative. That reflects further political, rather than bureaucratic, failures: an unwillingness to tackle institutional corruption and mismanagement that is hindering economic growth and revenue collection; and an unwillingness to cut expenditure on bloated parts of the state.
       7. He warned against suggestions that fiscal consolidation may be responsiblefor the current fiscal situation and that fiscal expansion could be an alternative. He said that the perceptions of South Africa’s debt thresholds among investors and ratings agencies are different to those they have of developed countries; they want lower debt to GDP ratios for countries like South Africa. He said that if government pursues a fiscal expansion path and it fails, the rise in national debt ratios would be much more dramatic and would possibly result in a debt trap, leading to a need for international assistance. He argued that South Africa’s growth challenges and revenue shortfalls were largely a result of political and governance failures at the highest levels. He submitted that the Committees could either accept a potentially unsustainable increase in debt, or recommend expenditure reductions and tax increases that impact negatively on the general public. Such measures will, however, only delay the inevitable unless the political situation, including revenue administration, is resolved for the better.
   20. **FISCAL CLIFF STUDY GROUP (FCSG)** 
       1. The FCSG was represented by Prof Jannie Rossouw and focussed on developments regarding a possible ‘fiscal cliff’ looming over South Africa. He explained the fiscal cliff hypothesis as ‘the point where social assistance payments, civil service remuneration and debt-service costswill absorb all government revenue’. He said that during the 2017/18 fiscal year this ratio stood at 72,5% of the main budget revenue, a significant rise from the 55,0% recorded a mere decade ago (2007/08).
       2. Prof Rossouw said this means that it can no longer be business as usual in government finances and fiscal policies as the state is mortgaging away the income of next generations through the government debt burden and government guarantees for state-owned enterprise. He said that fiscal prudence remained imperative, especially over the medium term, and should be linked to a measurable goal of achieving both the existing expenditure ceiling, as well as introducing a debt ceiling. He said that this goes hand-in-hand with the notion that the deficit before borrowing must be contained.
       3. He submitted that the size of the civil service should be reduced through an employment moratorium. Civil service remuneration increases could be reduced by including the cost of annual notch increases in the cost of general adjustments. He welcomed the disclosure of civil service employment and remuneration as contained in the MTBPS (Annexure B of the Budget Review). He said that this information should be expanded on in future Budget Reviews.
       4. He submitted that the viability of underperforming, non-essential state-owned enterprises should be evaluated. He said that bonus payments for executives at SOEs and government institutions (e.g. SARS) should be abandoned as they drove behaviour which was sometimes not in the interests of good governance.
       5. He called for a reduction in the size of the Executive. He said that on average, each Ministry costs the country between R30 million and R50 million per annum, highlighting the need for consolidation.
       6. He recommended that government should amend its procurement policies and require government to purchase only vehicles manufactured in South Africa for the government’s vehicle fleet.
       7. He warned against the nuclear power plan as South Africa cannot afford such expenditure.
       8. He submitted that South African Customs Union assistance must be reconsidered and amended to development aid to ensure international respect for South Africa as a donor country.
       9. He said that to win back trust, government employees should be seen as “leading from the front”. He recommended that the tax returns of all Ministers and Deputy Ministers (including the President and Deputy President) be made public to inspire exemplary leadership.
   21. **UNITED NATIONS CHILDRENS’ FUND (UNICEF)**
       1. UNICEF was represented by its Country Representative, Mr. Herve Ludovic De Lys and Mr Russel Wilderman, its Social Policy Specialist. UNICEF noted that the MTBPS was delivered in a context of limited economic growth, declining budget revenues and rising poverty and inequality. It said it was however encouraged that expenditure on basic education, health, and social development is set to grow by almost 2 per cent in real terms on average over the 2018 MTEF.
       2. UNICEF further noted that additional expenditure interventions to support vulnerable households and individuals include an additional R1.2 billion for provinces to address violence against women and children; a continued commitment to expand the provision of Early Childhood Development programmes, including increasing the number of qualified Grade R educators; allocation of additional resources to the school nutrition grant to protect it against rising food inflation; and ensuring that social grant allocations keep pace with headline inflation.
       3. UNICEF welcomed these initiatives, but also recognised that the MTBPSexpressed several financing concerns, namely:

* Provinces are under severe financial strain due to unpaid bills totalling R26 billion;
* Debt service costs constitute the fastest growing expenditure item, thus threatening the fiscal space for social service expenditures; and
* The present climate may not be conducive to supporting programmatic interventions such as “the quality of education” that are much harder to cost.
  + 1. UNICEF said that in the present climate where resources are constrained, the quality of spending and its impact has become paramount as is the ability to monitor the extent to which government programmes achieve short, medium-and long-term goals. It said that this called for better integration between strategic and operational management in order to give effect to a performance management culture.
    2. UNICEF encourages the government to expand service provision by: preserving and expanding rights-based and equity-focused service delivery for children; protecting spending on priority programmes such as early childhood education, the national school nutrition programme, the no-fee primary school allocation, support for public-run special school education, and infrastructure spending in the most disadvantaged areas; reforming the provincial allocation formula so that it explicitly considers the poverty of individuals, given the high opportunity costs associated with poverty; protecting investments in quality primary health care and accelerating infrastructure spending to tackle equitable access issues to health facilities and services in the provinces; and implementing the Government-backed ‘Social Protection Floor.’
    3. To limit intra-governmental differences, UNICEF submitted that national and provincial treasuries must treat all expenditures as potential candidates for expenditure reductions. By continuing to be open and transparent, while formulating clear rules to inform the nature and the extent of fiscal adjustment, UNICEF believes that much-needed stability can be brought to the country’s public finances during this challenging time.
  1. **MR MIKE NKOSI** 
     1. Mr Mike Nkosi, an independent economist, made a written submission and could not attend the hearings. He observed that the Minister of Finance fleetingly referred to ‘monetary policy’ in his speech, yet it is the most effective instrument available to the government and South African Reserve Bank to influence economic growth and reduce unemployment. He said that the current monetary policy stance of the SARB harms the country’s growth and is not supportive of the stated growth and employment objectives. He said that while the Minister noted that unemployment is high, he did not mention any radical or creative ways to deal with this problem.
     2. He submitted that other central banks in Europe, the United Kingdom, Japan, US and China have been prepared to lower their interest rates and implement unconventional policies to stimulate economic growth while SARB remained steadfast with implementing policies that are anti-growth and anti-employment.
     3. He also said that digitisation reduces the incidence of corruption and reduces the costs of doing business for both the state and private economic actors, and increases access for citizens to services. Digitisation can be used in tender procurement processes and education.
     4. Mr Nkosi further stated that while spending on social grants and housing are important, they do not contribute to long term economic growth. He said that investing in education would improve business confidence, encourage investment and attract FDI.
     5. He welcomed the mooted selling of a portion of Telkom shares but submitted that using those proceeds to recapitalise SAA would be a complete waste of resources. He argued further that the justification by the Minister of Finance that the recapitalisation of SAA is necessary to preserve jobs appeared to be unscientific and questioned the research used to inform this view. He said that government should review their ownership in SOEs especially those without a developmental role. He sees no justification in increasing spending on defence, while increasing expenditure on the police would yield significant economic benefits such as increased tourism and FDI.

1. **OBSERVATIONS AND RECOMMENDATIONS** 
   1. As noted in the Committee’s Report on the 2017/18 Revised Fiscal Framework, there are invariably overlaps between the issues raised in the Revised Fiscal Framework and the Projected Fiscal Framework, and the observations and recommendations in this Report should also take into account those made in the Revised Fiscal Framework Report.
   2. The majority in the Committee believes it is correct for the MTSF, which is based on the NDP, to be used as the framework to determine the budget priorities and that this is long overdue. The majority agrees on the need for a Mandate Paper. Plans have to shape budgets. This is provided for in the local government legislation in terms of which a municipality decides on its annual budget in terms of its Integrated Development Plan Framework. The Committee welcomes the proposal to set this out in legislation for the national and provincial government spheres as well. It will contribute towards more coherent planning across all three spheres of government and SOEs within the framework of the NDP. It will also provide for Parliament to be more focused in its oversight of the budget and the performance of the executive. The Committee notes the clarification by Minister Radebe that the Mandate Paper does not indicate specific funding allocations as this is part of the budgeting process led by the NT and the Minister of Finance. While welcoming this more coherent approach that seeks to firmly integrate the NDP and MTSF with the budgeting process, the Committee believes that the constitutional and statutory powers, functions and roles of NT and the Minister of Finance in the budget process and related matters as spelled out in the Constitution, Chapter 13, and the Public Finance Management Act, Act 1 of 1999, particularly section 6 of Chapter 2 and Chapter 4 needs to be adhered to. The Committee welcomes the DPME proposals to provide for more public consultation in determining government priorities.
   3. The Committee notes the establishment of the Presidential Fiscal Committee which will develop proposals to ensure that the expenditure ceiling remains intact in the current fiscal year, consider additional measures to reduce expenditure, stabilise the national debt over the medium term and look into ways of ensuring that public resources contribute more effectively to economic growth. The Committee recommends that progress on the work of this Committee be reported on at the Quarterly NT briefings to the Committee.
   4. In these extremely challenging economic times, it is obviously difficult to have a redistributive budget. We welcome the Minister’s commitment to retain social spending, the R948 billion allocation to infrastructure and the increase in expenditure from R77 billion to R97 billion for higher education over the next three years. The focus on youth development and health are also very welcome. Two-thirds of spending, we note, goes towards realizing the social rights in the Constitution.
   5. The low economic growth means that there will be a R50,8 billion shortfall in tax revenue, and we note that borrowing will shoot up, with nearly 15% of the budget being spent on servicing debt by 2020/21. The shortfall in revenue is projected to increase to R 69.3 billion in 2018/19 and R 89.4 billion in 2019/20. The budget deficit is projected to grow to R225 billion in 2020/21, although it is projected to decrease as a percentage of GDP from the projected 4.3% in 2017/18 to just below 4% in 2020/21. This means that, more than ever, we have to focus on the quality and efficiency of spending, and more decisively and quickly root out wastage and corruption.
   6. While the Committee believes that the primary reason for the revenue shortfall is the slow economic growth, it feels that SARS also needs to be more effectively capacitated and more efficient in its work. It also needs to far more effectively tackle Illicit Financial Flows (IFFS), including through working with other state agencies. It also needs to more actively address waning public confidence in SARS, decreasing tax compliance amongst tax payers and a decline in tax morality. Revenue shortfalls have become a risk to the fiscal outlook and the Committee recommends that SARS and NT report more pointedly and in greater depth on progress in revenue collection in their Quarterly Briefings to the Committee.
   7. The Committee welcomes the Judicial Commission of Inquiry into tax administration and governance at SARS, which is expected to assess the factors responsible for revenue under-collection and recommend remedial action**.** The Terms of Reference of the Commission and who is appointed as the judge and the support team would be important considerations if the Commission is to be of adequate value.
   8. The Minister of Finance should strengthen his collaboration with the relevant stakeholders and Ministries to address corruption and IFFs, and NT must continue to regularly report on progress. The Committee reiterates its previous recommendation that government considers establishing an Inter-Ministerial Committee, led by the Minister of Finance, to more effectively tackle IFFs. The release of the Paradise Papers has reinforced the need to tackle IFFs far more effectively.
   9. The Committee is concerned that the percentage of debt to GDP is projected to reach 60 per cent in the last year of the 2017 MTEF period. The Committee recommends that NT should develop and implement a credible debt management strategy over the short to medium term, to effectively manage and monitor the “debt trap” and report quarterly to the Committee. In addition to providing fiscal policy certainty, the Minister of Finance should indicate the timeframes and the levels at which debt is expected to stabilise. The Committee notes that the Minister says that debt to GDP ratio need not reach 60%, provided government takes decisive actions on structural reform. This cannot be done by NT alone, but by government as a whole. However, we recommend that NT reports to the Committee at its Quarterly Briefings on its role in ensuring progress in this regard. The Committee will also hold NT to account for this in all the work we do.
   10. The Committee appreciates the progress made by NT in implementing cost-containment measures since the 2012/13 financial year and notes that further cost cutting measures may compromise service delivery in departments. In light of the current expenditure breach of R3.9 billion, National Treasury should implement a comprehensive spending review to identify savings areas, including a review of programmes in government departments that have over a reasonable period of time failed to achieve their intended objectives and a reduction of dual functions between line departments and implementing agencies and enhance oversight over these agencies. Progress made should be reported to the Committee on a quarterly basis.
   11. The Committee notes that the South African economy has been performing at a rate that is relatively lower than its global and regional counterparts including Sub Saharan Africa. This implies that the challenges to our situation are largely domestic. A rigorous implementation of the 9-point plan and the Minister of Finance’s 14 confidence boosting measures is required to restore consumer, business and investor confidence in the short to medium-term and stimulate economic activity.
   12. The Minister of Finance should have a plan for managing the credit rating agencies and keep the public and the Committee informed. Upfront and timely policy statements on policy issues would assist in restoring confidence in the South African economy and trust in government.
   13. The Committee notes NT’s reduction of the contingency reserves over the MTEF. We believe that this leaves a limited room for unforeseen expenses. We note further the usage of contingency reserves, together with underspent funds to bail out SAA and to manage the widening budget deficit. The use of unspent funds could compromise government’s frontline service delivery.
   14. The Committee notes that the extension of SAA debt by local financial institutions has come at increased interest rates. While the Committee has been informed of the conditions set by these institutions in order to extend debt to SAA, we request more information on the revised interest rates and on plans to ensure that the repayment rates do not expose SAA to further liquidity pressures.
   15. The Committee strongly believes that there should be far more stringent conditions set for any financial support for SOEs. We welcome the Minister’s commitment to ensuring far more effective government oversight of SOEs, appointing effective Board members, ensuring that Boards appoint competent managers, tackling wastage and corruption, and, very crucially, acting against those who do not perform. The Committee requires to be briefed on progress on this and urge that the stringent conditions for bailouts be finalised as soon as possible.
   16. We note that 95% of the wealth of our country is in the hands of 10% of the population. This is completely unacceptable and reinforces the need for radical economic transformation that benefits all our people, but primarily the poor and disadvantaged. The promotion of Black industrialists programme is an important part of this. The decision to introduce the Public Procurement Bill next year to provide for set asides for disadvantaged strata of our society, including the youth, will also contribute to radical economic transformation.
   17. We welcome the CEOs Initiative decision to introduce a Youth Employment Service to provide internships to about a million youth over the next 3 years, and the R1, 5 billion SME Fund. NT needs to report to the Committee regularly on progress on these initiatives.
   18. We also support the Competition Commission’s market inquiry into data prices and government’s decision to introduce a Bill to more actively tackle the monopolization of the economy.
   19. The Committee welcomes the review of the 2002 SACU Agreement over the next two years through a Ministerial Task Team including the Trade and Industry and Finance Ministers.
   20. The Committee expresses its appreciation to those who made submissions at the MTBPS public hearings. The Committee will incorporate their concerns in its oversight and legislative roles.
   21. The Committee supports UNICEF’s plea that government should continue to protect social spending and will refer UNICEF’s submission to the Standing Committee on Appropriations for further consideration.
   22. We welcome the Minister’s statement that “procrastination and dithering must end; we must demonstrate decisive leadership.” We support too his statement that “government must improve its productivity and decisiveness.” The Committee will certainly hold the NT to account for this.
   23. The Committee recommends, in terms of Section 6 (5)of the Money Bills Act, the adoption of the Proposed Fiscal Framework. The Committee will monitor its implementation in terms of the observations and recommendations set out above.

DA reserves its position on this report

Report to be considered.