



**SUBMISSION TO THE STANDING COMMITTEE ON FINANCE AND THE SELECT COMMITTEE ON FINANCE
ON THE FISCAL FRAMEWORK AND REVENUE PROPOSALS IN THE 2018/19 NATIONAL BUDGET**

SUBMITTED BY:

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Budget 2018/19: Hurting the poor by hiking VAT and slashing basic education funding

Overview

On Wednesday, 21 February 2018, Finance Minister Malusi Gigaba tabled the national budget for the 2018/19 – 2020/21 Medium Term Expenditure Framework (MTEF) period. The Standing Committee on Finance as well as the Standing Committee on Appropriations have called for the submission of comments on the national budget.

Equal Education welcomes the opportunity to provide input and comment on the budget. Our submission is structured as follows:

- In Part 1, we provide a background on Equal Education
- In Part 2, we discuss the revised education allocations
- In Part 3, we discuss the proposed VAT increase and its implications on the poor and provisioning of education

Part 1: Background on Equal Education

Equal Education (EE) is a membership-based, democratic movement of learners, parents, teachers and community members. Its core objective is to work towards achieving quality and equality in South African education. In order to achieve its objectives, EE conducts a broad range of activities. These include campaigns grounded in detailed research policy analysis and supported by public action and mobilisation. Where necessary, EE uses the courts and legal processes to advance the value of, and to contribute to, a strong civil society that holds government, private interests and individuals accountable.

Our core membership base is made up of high school learners, known as ‘Equalisers’, who actively advocate for quality education for all across five provinces: Eastern Cape, Limpopo, KwaZulu-Natal, Western Cape and Gauteng.

As a movement, Equal Education convenes a national congress every three years, where the leadership of the organisation is elected by its membership. The elected National Council (EE’s highest decision making body) is bound to implement the resolutions taken by members at congress. Since being founded in 2008, Equal Education has led campaigns aimed at the development of learning facilities; improved practice; content and access to teaching; the building of commitment and passion among teachers and learners; and improving the overall efficacy of South Africa’s education system. Our focus and attention is directed by the interests of our members, who are from working class and poor communities. EE believes that the systemic crisis in education cannot be solved by government alone. 3 However, government has a duty to lead society, and marshal all the resources available, both public and private, to achieve quality education for all.

Part 2: Basic and Higher Education Allocations

EE welcomes the desperately-needed investment of R57 billion which has been re-allocated over the MTEF to fund fee-free higher education. Equal Education has been a staunch supporter of the call for [fee-free](#) higher education, with the poorest being prioritised. The National Student Financial Aid Scheme (NSFAS) will be the primary vehicle through which fee-free tertiary education is rolled out. EE welcomes this reinvestment in NSFAS because it means that the responsibility to fund this sector remains with the State, as opposed to the pro-privatisation models proposed by the Heher Commission: the Income-Contingent Loan Model (ICL) and the Ikusasa Student Financial Aid Programme (ISFAP), both of which EE is strongly opposed to.

We are, however, deeply concerned that fee-free higher education has come at the expense of basic education. The needs of poor, Black students have been pitted against those of poor, Black learners. For a vast number of South African learners, fees are not the only barrier to higher education - poor quality basic education can also block their access to tertiary education.

The crises in our schooling system ([early grade reading proficiency](#), [infrastructure](#), [safety](#), and [scholar transport](#)) means that attention to spending on basic education and implementation of programmes, necessitates greater political will, and a highly competent bureaucracy. Furthermore, for most South African learners, passing matric well and potentially obtaining a higher education qualification is already largely unattainable by the time these learners reach the end of Grade 3.¹ The 2016 [Progress in International Reading Literacy Study](#) (PIRLS) revealed that after four years of schooling, a staggering 78% of South African learners cannot read for meaning. Despite the challenges that persist in the South African education system, basic education has not been prioritised in the budget.

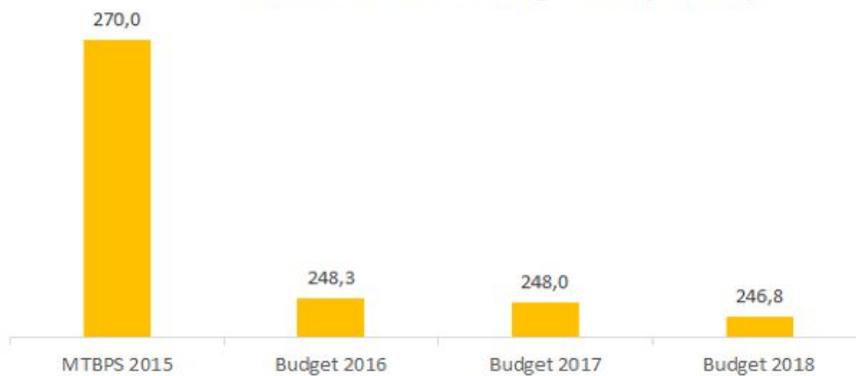
One myth which seems to drive our country's current complacency toward basic education spending: that South Africa spends an unusually high amount of its national budget on education spending. This is in fact not true.² According to the 2018 budget, higher education funding is the fastest growing budget line item at 13.7%, outgrowing basic education by 6.9%. Additionally, Treasury has quietly and consistently downwardly revised the projected spending on basic education. Given our growing school-going age population³, high inflation rates, and ambitious National Development Plans (NDP) goals, spending on education should increase annually, especially until historic backlogs are remedied.

¹ Van der Berg, S. "What the Annual National Assessments can tell us about learning deficits over the education system and the school career year". Stellenbosch Economic Working Papers: 18/15. Department of Economics University of Stellenbosch, 2015.

² Countries to which South Africa is compared are often highly developed countries. Compared to countries with a similar GDP/capita and similar debt to service each year shows that our spending on education is not unusually high. Among countries with a similar GDP/Capita in 2013 to South Africa (within \$500 range from South Africa's GDP/Capita) the average government expenditure on education in 2013, as percentage of GDP, is 5.8%. In the same year, South Africa spent 6% of our GDP on education. [2013 was used as this is the most recent year for which substantial data is available on government spending on education. The two countries for which no spending data was available were excluded from the sum. World Bank data was used.]

³ Statistics SA "Statistical Release: Mid-year population estimates 2017". July 2017. p. 9.

Decrease in projected spending on basic education for 2018/19 financial year, from MTBPS 2015 to Budget 2018 (R billion)



While the Finance Minister announced increased spending on basic education, the increase is by less than Treasury had predicted. If the baseline funding available for basic education for the 2018/2019 financial year remained at R270 billion, as was predicted in the 2015 Medium Term Budget Policy Statement (MTBPS), the increase in basic education funding from 2017 to 2018 would have been 16.98%. However, given the consistent downward revision of the projected funding, it is only a 6.93% increase.

Basic education funding has also suffered due to major cuts to school infrastructure grants - a first since the promulgation of the Minimum Norms and Standards for School Infrastructure in 2013. The provincial Education Infrastructure Grant (EIG) will be reduced from R10.046 billion in 2017 to R9.918 billion in 2018. Similarly, the School Infrastructure Backlog Grant (SIBG), which funds the nationally administered Accelerated Schools Delivery Initiative (ASIDI), will be slashed from R2.595 billion in 2017 to R1.321 billion in 2018.⁴ These cuts must be reversed, and the national Treasury must simultaneously support provinces to spend their budgets. Treasury's intervention should incentivise transparent and effective infrastructure planning, and include the creation of stronger financial mechanisms to monitor and sanction implementing agents - those that build schools on behalf of departments of education.

Part 3: Proposed VAT Increase

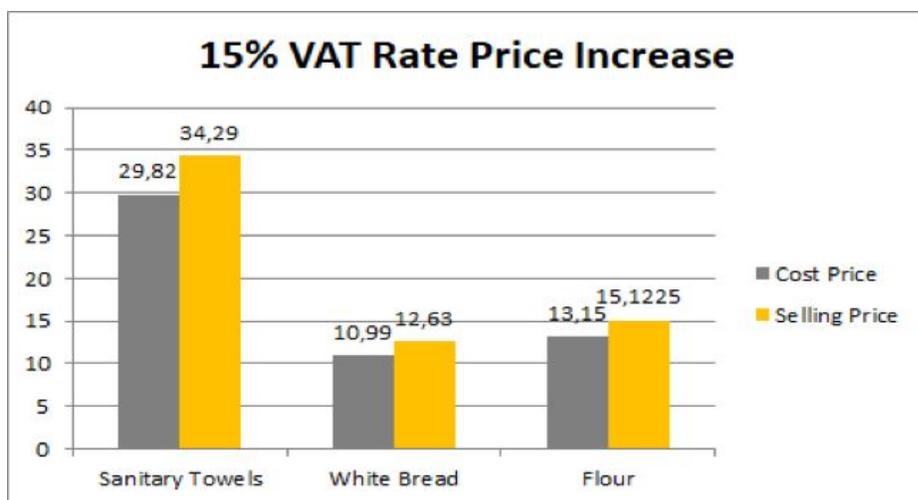
The 2017/18 financial year saw SARS incur a crippling R48.2 billion revenue shortfall.⁵ This failure to collect income taxes - an income stream comprising 37.1% of government's revenue - has put South Africa in a precarious economic position. National Treasury's scramble to finance the budget deficit has resulted in measures that will adversely affect poor South Africans the most.

⁴ Values were obtained from Budget Review 2017 Basic Education Medium Term Estimates and Budget Review 2018 Basic Education Medium Term Estimates.

⁵ Budget Review. 2018. National Treasury.

One attempt at plugging the hole in the national fiscus is a value added tax (VAT) increase - a regressive measure. It is the antithesis of a tax system that aims to build a cohesive and inclusive society through progressive taxation and redistributing resources.⁶ Equal Education rejects an increase in VAT.

The broad-based VAT increase is intended to produce a more efficient tax system that will improve revenue collection. When it comes to paying VAT, low income households carry a relatively greater tax burden than more affluent households, as they spend a larger proportion of income on basic goods. To mitigate the effect of a VAT increase on these households, a list of zero-rated basic products (goods charged at 0% VAT) was developed. Gigaba has also tabled increases in the old age, child support, and disability and care dependency grants to offset the effect of the VAT increase. However, this does not fully alleviate the additional pressure on impoverished families considering how small the grant increases are, and the limited list of 19 zero-rated basic products.



Many necessary goods that poor households tend to buy fall outside the basket of zero-rated goods. These include products such as poultry, bread flour, white sugar and pay-as-you-go airtime.⁷ There is a need to revisit the classification of goods as luxury or necessity to more adequately account for spending patterns in poorer households. Furthermore, households with school-going children will be impacted by increases in the cost of school uniforms, and menstrual hygiene products which are already largely unaffordable for low-income learners. The cost of providing education will also increase as the prices of textbooks and materials for building schools rise. Education-related goods should therefore also be considered for zero-rating.

⁶ The Davis Tax Committee. 2013. The Davis Tax Committee Terms of Reference: Objectives of the South African Tax System. Available: <http://www.taxcom.org.za/termsofreference.html>

⁷ Isaacs, G., Lifting the lid on a VAT increase, 2017. Available online: <http://www.wits.ac.za/news/latest-news/in-their-own-words/2018/2018-02/lifting-the-lid-on-a-vat-increase.html>

Given the high levels of inequality in South Africa⁸, it is deeply concerning that Treasury is proposing a tax collection measure that is anti-poor. The question still remains whether a VAT increase and accompanying attempts at mitigating its effects on the poor is the best option, when one considers that there are other ways of closing the revenue gap.

In a separate joint submission Equal Education joins other civil society members in proposing alternative measures to reduce the revenue shortfall. We have not repeated those proposals here and request committee members to refer to the joint submission alongside this submission.

It is further *imperative* that the administrative capacity of SARS to collect taxes be urgently addressed - any internal corruption must be rooted out and dealt with decisively. The revenue collector's ability to clamp down on tax avoidance and tax evasion by corporates and wealthy individuals *must* also be strengthened so that there is never a repeat of last year's revenue shortfall.⁹

If this administration will truly be one that does not put profit above people, it will reconsider its decision to increase VAT, when other, more equitable and possibly more effective forms of revenue collection exist. Moreover, President Ramaphosa and Minister Gigaba *must* prioritise social spending and ensure that, in an attempt to grow the economy, they do not force financially vulnerable members of society to compete over shrinking resources.

⁸ Poverty Trends in South Africa, Stats SA, 2017. Available:
<http://www.statssa.gov.za/publications/Report-03-10-06/Report-03-10-062015.pdf>

⁹ Ibid.