**3. The Select Committee on Finance, having considered the 2018 Medium-Term Budget Policy Statement for the revised fiscal framework tabled by the Minister of Finance on 24 October 2018, reports as follows:**

1. **INTRODUCTION**
   1. On 24 October, the Minister of Finance, Mr Tito Mboweni, 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 09 of 2009 (hereinafter “the Act”). The tabled MTBPS included the revised fiscal framework for 2017/18 and the proposed fiscal framework for the next three years.
   2. As per section 12(5), read with section 12(7) of the Act, this is the report on the revised fiscal framework. The Committee will report on the proposed fiscal framework as per the Act shortly.
   3. On 25 October, the Minister of Finance provided a brief political overview of the 2018 MTBPS. The Director General, Mr. Dondo Mogajane, accompanied by senior officials from the Department gave a technical overview of the MTBPS.
2. **POLITICAL OVERVIEW BY MINISTER OF FINANCE**
   1. Minister Mboweni emphasised the need for government and NT, in particular, to manage public finances prudently. He said that he was cognisant of the need to leave room for the economy to grow and attract investment while managing the fiscal leakages that were exposed by the Auditor General, and fighting fraud and corruption.
   2. He said that the current situation of revenue shortfall was not sustainable and required expenditure reprioritisation to manage. The Minister expressed his concern that if government did not take tough decisions, the debt-to-GDP ratio and low growth trap would lead to a loss of fiscal sovereignty and compel South Africa to borrow from the international multilateral financial institutions, which had stringent terms and conditions.
   3. The Minister said he was disappointed with the difficulties at SARS, which have tarnished the reputation of the institution and these had been allowed to continue for a long time. He said that this situation could have been avoided.
3. The Director General added hisconcerns that over the medium term, consolidated expenditure will continue to grow by eight per cent. He said that the CPI inflation rate has been lower than the increase in government expenditure and this was a cause for concern and is unsustainable. He also emphasised the need to get out of the “low growth trap” and “debt trap”.
4. In order to stimulate economic growth, the DG highlighted the President’s structural reforms, including unlocking PPPs (Public-Private Partnerships) and the pending infrastructure fund. The BRICS bank fund, he highlighted, can be tapped into, if the challenges of infrastructure project management (planning, identification and implementation) are speedily resolved. In order to address modernisation challenges at SARS, he mentioned that additional R1.5 billion has been set aside for that.
5. **Summary of the Revised Fiscal Framework** 
   1. The Minister of Finance announced in the 2018 Budget, a one percent increase in the VAT rate to raise additional revenue, but despite this the deteriorating economic performance and revenue shortfalls would lead to a national debt-to-GDP increase. Over the medium-term, government is maintaining the main budget expenditure ceiling, retaining national department’s compensation ceiling and avoiding any increases in major tax instruments.
   2. Revenue shortfalls have widened over the past four years rising to R49 billion in 2017/18. The revenue shortfalls would have been wider were it not for increases in PIT and withholding of dividend taxes. The 2018 MTBPS shows that revenue shortfalls will result in an in-year shortfall estimated at R27.4 billion relative to the 2018 Budget estimate. Over the MTEF, it is expected that revenue shortfall will be R24.7 billion in 2019/20 and R33 billion in 2020/21.
   3. The main budget expenditure ceiling remains unchanged while in year adjustments add R17.4 billion to SAA (R5 billion), SA Post Office (R2.9 billion) and South African Express receives R1.2 billion.
   4. Over the MTEF, to ensure that the expenditure ceiling remains intact, reprioritisation of R32.4 billion will take funding from non-performing areas to fund the upgrading of informal settlements and Presidents’ economic stimulus and recovery plan.
   5. Debt service costs is to exceed the budget by R1 billion in 2018/19, R4.9 billion in 2019/20 and R7.9 billion in 2020/21. This reflects a larger deficit due to currency depreciation and higher interest rates which place a greater burden on government given the poor financial position of major state owned entities.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Table 1: Consolidated government fiscal framework** | | | | | | |
|  |  | **2017/18** | **2018/19** | **2019/20** | **2020/21** | **2021/22** |
|  | **R billion/percentage of GDP** | **Outcome** | **Revised** | **Medium-term estimates** | | |
|  | **Revenue** | **1,360.0** | **1,467.2** | **1,582.0** | **1,705.1** | **1,840.0** |
|  |  | *28.8%* | *29.1%* | *29.2%* | *29.2%* | *29.3%* |
|  | **Expenditure** | **1,549.5** | **1,669.2** | **1,808.4** | **1,950.9** | **2,091.1** |
|  |  | *32.8%* | *33.1%* | *33.4%* | *33.4%* | *33.2%* |
|  | **Budget balance** | **-189.6** | **-202.0** | **-226.4** | **-245.8** | **-251.1** |
|  |  | *-4.0%* | *-4.0%* | *-4.2%* | *-4.2%* | *-4.0%* |
|  | **Total gross loan debt** | **2,489.7** | **2,817.7** | **3,038.4** | **3,349.6** | **3,679.9** |
|  |  | *52.7%* | *55.8%* | *56.1%* | *57.4%* | *58.5%* |
| *Source: National Treasury* | |  |  |  |  |  |

1. **ANALYSIS OF THE PARLIAMENTARY BUDGET OFFICE**
   1. The PBO said that the 2018 MTBPS prioritises the economic stimulus and recovery plan and the improvement of governance of public institutions. It said that the MTBPS made no mention of the Mandate Paper, which was introduced as one of the budget prioritisation tools last year.
   2. The PBO further raised issues with regards to the achievement of the MTSF targets such as the creation of additional positions in health and the effective spending of the skills development levy. It said that more monitoring was required for specific matters such as the effectiveness and efficiency of interventions implemented to achieve the MTSF targets by 2019.
   3. The PBO said that fiscal consolidation had put downward pressure on domestic aggregate demand, investment, employment and GDP growth over the past two years. It said that the government’s plan to implement infrastructural projects, as part of the stimulus package, may have the potential to stimulate growth in the short-term. It said that the impact of this stimulus may however be limited because it does not adequately stimulate aggregate demand in the short to medium term. The PBO further raised concern that certain areas of focus in the stimulus could lead to more reliance on primary exports and short-term financial inflows.
   4. According to the PBO, there was a need for demand-side interventions, particularly those that could have a short term impact on growth. It said that such demand-side measures should support poor households and could also include increased support for existing grants and/ or increasing support for existing poverty alleviation programmes, including the school nutrition programme. It further said that demand-side support could also include support and subsidies for SMMEs in township and rural areas.
   5. The PBO submitted further that the stimulus programme should also consider providing more support to the economic cluster and specific areas such as industrial policy, where there has been low and even negative real growth in expenditure over the past few years. It said that there has been de-industrialisation and massive job losses in manufacturing, which is recognized as an important engine of growth because of its strong linkages with upstream and downstream sectors. It said that given the global downturn and the effect of escalating trade wars, the demand for South African exports may be constrained. Therefore, a focus on increasing domestic aggregate demand through supporting and growing household incomes and SMMEs could help weather the global economic storms over the MTEF.
   6. The PBO said that the fiscal slippage over the past few years has been due to lower than estimated growth and revenue collection shortfalls. It said that the downward revisions to revenue and modest increases in expenditure resulted in larger than estimated deficits and debt. It further said that the low levels of growth and expenditure raise questions about government’s approach to fiscal policy, raising questions on whether the government’s fiscal policy approach was still guided by counter-cyclical policies or has fiscal consolidation replaced that approach. It further questioned whether there was a clear time-frame for continued fiscal consolidation.
   7. On the VAT rate increase, the PBO submitted that it was implemented prior to the conclusion of due parliamentary processes. It suggested that Parliament may consider a review and rewording of the VAT Act together with any other legislation that allows the executive to implement proposals before the conclusion of due parliamentary processes approving such legislation. The PBO further suggested that targeted spending on low income households may be more effective than zero rating, which sometimes benefits high income households. The PBO submitted further input on targeted spending highlighting possible interventions on social grants, food and transport costs to cushion low income households.
   8. The PBO submitted that discussions on the wage bill should go deeper to understand the drivers of the increase in wages, including consideration of policy decisions to reduce the gap between low and high wage personnel. It advised the Committees to seek information about the productivity and efficiency of public sector expenditure including the wage bill, the productivity and efficiency of major expenditure sectors, such as education and health, to determine the level of service delivery. The PBO further advised Parliament that other factors may contribute towards a more productive and efficient public expenditure, including proper infrastructure, better management and monitoring.
2. **ANALYSIS OF THE FINANCIAL AND FISCAL COMMISSION**
   1. The Financial and Fiscal Commission (FFC) acknowledged that the 2018 MTBPS was formulated in an economic environment characterised by extremely low growth, escalating public debt, and low levels of investment. It said that the ability of government to address key socioeconomic challenges was further severely compromised by weak governance during most of the past decade. This was reflected in, amongst other things, public and private sector corruption, the failure of state-owned enterprises (SOEs) to deliver on their development mandate, and the rapid decline of the SARS.
   2. The FFC’s submitted that growth predictions do not augur well for government’s efforts to reduce poverty, unemployment and inequality. It said that the risks identified in the 2018 Budget had materialised, causing a fiscal slippage and a downward revision of tax revenues. It noted however that the expenditure ceiling remains intact to anchor fiscal policy.
   3. The FFC noted that public debt as a share of GDP had increased twofold in the last ten years, driven, primarily, by higher primary expenditure coupled with higher interest payment levels during periods of sluggish growth. It noted further that the fiscal deficit had thus widened significantly, and public debt had ballooned from 27% of GDP in 2007/08 to 53% in 2017/18. It submitted that high public debt and public gross financing needs have translated into expenditure inflexibilities and reduced the capacity of public finances to respond to temporary shocks.
   4. The Commission welcomed the measures aimed at boosting business and consumer confidence, which should receive implementation traction in government with haste. It further recommended addressing structural bottlenecks in order to boost growth and clarifying the framework governing the proposed land expropriation without compensation.
   5. It said that there was a need to building fiscal space through conservative debt levels and managing downward expenditure diversion to debt service costs, reducing the wage bill through natural attrition coupled with a review of government’s functional organisation and abandoning the strict linking of wage increases to the consumer price index, deepening the fight against corruption, assessing the recent increases in the scope of service delivery priorities, addressing governance issues and rethinking the business models of state-owned entities.
   6. The FFC submitted that there was a need to lay a solid foundation for future growth during the downturn, through a comprehensive review of budget programmes aimed at promoting growth. Government must manage the debt portfolio in order to minimise debt service costs and sovereign credit risks, it said.
   7. The FFC said it was not apparent that the current stimulus package was underpinned by the earlier programme review envisaged by the Commission. It warned that stimulus interventions that are superimposed on a structurally deficient economy will yield less than desirable results.
   8. In enhancing efficiency in the public sector, the Commission advised that, value for money must be sought more resolutely, for example, by costing institutional outputs and assessing performance and then comparing them, being mindful to innovate for constant improvement.
   9. On the provincial wage bill, over half of which is dedicated to personnel, the Commission submitted that provinces will have to carefully manage this pressure and practise financial prudence to ensure that wage pressures do not divert resources away from key health and education inputs.
   10. At local government, the FFC said that the fiscal health of a majority of municipalities has deteriorated over the past few years. It noted that a thorough and comprehensive rethink of the local government fiscal framework is necessary, including the governance and institutional regimes in the sector. It welcomed efforts to improve capacity within municipalities. It said that in the past 5 years, government had invested an average of R2 billion a year on improving capacity through various grants to municipalities, training and skills development programmes as well as the deployment of experts. Over the 2019 MTEF, government will invest a further R9 billion on local government capacity development initiatives. It submitted that the returns to such investment in the past have been poor as many municipalities continued to perform dismally and there is therefore an urgent need for a thorough review of government capacity initiatives within the local government space.
   11. The Commission welcomes efforts to publish expenditure reports of existing infrastructure projects to enhance accountability and transparency. It said that this will minimise project cost overruns and ensure timely completion of the projects. In addition to publishing expenditure records, government needs to invest in an infrastructure delivery inspectorate to ensure that projects are delivered in accordance with the required standards and quality, the FFC submitted.
   12. The FFC said that it has, on numerous occasions, cautioned against the long-term risks of contingent liabilities for the national budget and overall macro-economic balance.
   13. The Commission noted with concern that there has not been any action towards implementing the previous budget statements regarding the proposal to either privatise SOEs or dispose equity stakes to private partners. It said that the paucity of action in implementing such proposals undermined the credibility of the budget statement. It submitted that government should have a clearly set out framework outlining tasks, processes and timelines towards diversifying the capital structure of SOEs. Most importantly, there should be a concerted effort to improve the balance sheet of SOEs and government’s equity, prior to embarking on equity sales. It said that the selling of equity stakes should not be carried out indiscriminately but instead it should consider government’s delivery and developmental obligations. The FFC further recommended that government sets uniform rules and procedures for guarantees and bailouts taking into account the public value of services provided, historical financial and non-financial performance and adherence to guarantee/bailout conditions.
3. **SUMMARY OF PUBLIC SUBMISSIONS**
   1. **CONGRESS OF SOUTH AFRICAN TRADE UNIONS**
      1. COSATU said it appreciated the serious crises facing our stagnant economy, declining government revenues, rampant corruption, rising levels of wasteful expenditure, unsustainable and growing levels of unemployment and SOEs facing collapse. It said it believed that the country is facing its worse economic and governance crises since 1994 and that in order to turn the ship around, bold leadership is needed. It said that it did not feel that the government provided this in the MTBPS. It could not see clear plans within it to deal with corruption, wasteful expenditure, stabilising the SOEs, increase revenues, grow the economy and reduce unemployment. COSATU submitted that this was a tragic missed opportunity to show how, as a nation, we will get out of this quagmire.
      2. It further registered its disappointment that the MTBPS did little to flesh out government’s stimulus and infrastructure plans. It made little reference to the Presidential Jobs and Investment Summits and how those progressive commitments will be implemented.
      3. While COSATU appreciated the efforts of the President to deal with the explosion of corruption and applauded the 2018 cabinet reshuffle as part of dealing with this crisis, it believed that government does not have a clear and decisive plan to halt corruption. It said the reality was that most departments, SOEs, provincial and local governments are blighted by it. It would have wanted to hear from government: How much has been lost to corruption? How much is still being lost? How much has been saved? How much has been recovered? What is being done to prevent future corruption? Who has been arrested, prosecuted, convicted etc? Which assets have been seized?
      4. COSATU called upon government to: conduct comprehensive forensic audits of all departments, SOEs, provincial and local government; institute life style audits for all executives, management and SCM officials across all departments, SOEs, provincial and local government; place all SOE and local government procurement systems on government’s transversal systems; centralise large procurements through the Chief Procurement Office; deploy officials from the CPO, AG and Treasury to SCM offices in SOEs, provincial and local government and; address the leadership crises in SARS, NPA, SAPS and SSA.
      5. COSATU said it accepts the need for an expenditure ceiling. It was however deeply concerned by the ever rising levels of state debt, wasteful expenditure and corruption. It said that debt levels had to be brought under control urgently and expressed doubt that it will stabilise at 58% in the next three years, as projected in the MTBPS. It added that high levels of debt will erode the country’s fiscal sovereignty.
      6. If further raised concerns about levels of debt in SOEs and Eskom’s plans to increase its debt levels from R400 to R600 billion with no clear business plan.
      7. COSATU said it rejects government’s continuous attacks upon public servants, in effect blaming them for the budget crisis. It said that it was not ordinary public servants that looted the state but politicians and senior officials. It submitted that the ballooning wage bill has been driven, to a large extent, by the massive growth in management posts and perks. It noted that although the country’s population has almost doubled since 1994, the public service head count has decreased by 3% since 2016 and that the wage bill has stabilised at 35% of the budget. It noted further that 148 000 public service posts were currently vacant and that this was having a massive negative impact upon service delivery in schools, hospitals etc.
      8. COSATU said that it believed that recent revenue hikes have been disproportionately dumped upon the poor e.g. VAT, electricity and water tariffs, income tax and bracket creep adjustments. It said that the tax regime should be overhauled to make it more progressive, reduce loopholes for the rich and increase income tax on the rich, increase taxes on imports and luxury goods and company tax. It said that particular attention needs to be given to customs collections where billions is lost in illicit trade with regards to tobacco and clothing. It further said that customs must be retained within SARS and not placed under the Border Management Agency.
      9. COSATU welcomed the addition of flour and sanitary pads to the VAT exempt list and the commitment to distribute sanitary pads in schools. It submitted that the VAT interventions do not go far enough to help the poor. COSATU urged government to do more to help the poor through; giving vouchers for locally produced school uniforms to learners at no fee schools; exempting locally produced poultry (frozen whole and/or pieces) as a key food and nutritional food item purchased by working class families; increasing the free electricity and water allocations to poor households and/or; reducing electricity and water tariffs to poor households.
      10. COSATU raised concerns about the crises facing the SOEs, particularly Eskom, SABC, SAA, SA Express, Denel and Prasa. It said that it believes these SOEs can still be saved through decisive leadership. It said that although the President signed the Jobs Summit agreement where the state pledged no retrenchments, SABC and the other SOEs are now planning to retrench workers. It said this was unwarranted and urged Parliament and government to intervene.
   2. **FEDERATION OF UNIONS OF SOUTH AFRICA**
      1. The Federation of Unions of South Africa (FEDUSA) said that compensation of employees was one of the fastest growing items in the budget at an average of 11.2% per annum. It said that the main driver was large increases in wages and other employee benefits, rather than increases in employment. A major cause of this were the above-inflation agreements between government and unions, it said. It said that while the number of workers increased between 2006 and 2013, after that they started to decline by about 1% per annum due to personnel leaving.
      2. FEDUSA submitted that it was unfair to blame workers for South Africa’s burden of the public sector wage which constitute only 35% of government expenditure. It submitted that to allow employees to share in the growing prosperity, wages and salaries should increase at a rate equal to price inflation plus productivity growth.
      3. FEDUSA welcomed the announcement by the Minister of Finance that national and provincial departments would have to absorb the R30.2 billion budget overshoot following the conclusion of a 3 year public wage agreement, earlier in the year, within their R1.8 trillion compensation over the life of the agreement.
      4. FEDUSA said that the low economic growth, corruption, inefficient SOEs and a bloated cabinet required bold and decisive action to sort out these problems in order to restore domestic and global investor confidence and that of the credit rating agencies.
      5. FEDUSA said that it welcomed the reprioritisation of education through improving the quality of teaching in order to build scarce skills, transform society through inclusive economic growth and create jobs on a massive scale in line with the objectives of the NDP. It said that it was pleased that the expansion of the healthcare services could result in the creation of 2200 critical posts across the provinces and the success of the Clothing and Textile Competitiveness Programme which saw exports from the sector grow from R1.7 billion in 2008 to R25.1 billion in 2017 and the opening of 22 new leather factories.

* 1. **ORGANISATION UNDOING TAX ABUSE**
     1. The Organisation Undoing Tax Abuse (OUTA) decried what it called the eroding social contract between taxpayers and government, leading to trust deficit perpetuates which in turn led to the budgetary deficit. It highlighted that all consumers paid tax including the unemployed and the soaring costs of living has made it increasingly difficult for ordinary people to pay taxes and spend money in general. It said that as a result, economic growth has been revised to about half of what was projected by National Treasury in February 2018. The combination of these factors means that credit providers will now increase interest rates, exacerbating the heavy debt servicing costs government carries year-on-year.
     2. OUTA said that a decade of extreme maladministration in SOEs as well as regional, national and local organs of state had resulted in markedly poor performance in the public sector, diverting scarce funds that could have been allocated to deeply impoverished families who require better water and sanitation services, refuse removal, public transport, quality healthcare and education into consistently loss-making entities. It further said that money had also been diverted to increases in the government wage bill.
     3. It said that government had reached its limits in raising taxes and any further increases would be counterproductive in terms of actual revenue collection and its data showed that taxation correlates to an average decline in GDP of about 0.3%.
     4. A key theme that OUTA’s submission has in common with that of the Financial and Fiscal Commission is the imperative of value for money and confining additional debt to capital expenditures. In other words, debt should only be used to fund expenses that can reasonably be expected to yield growth or returns in the future. This is good for business, and economic growth can augment the limitations of real tax revenue, OUTA said. According to its calculations, the optimal level of taxation for South Africa should lie somewhere between 20% and 24% of economic output. It said that this was at least 5% (and up to 9%) below the 28.9% level of the 2017/2018 fiscal year.
     5. OUTA said that, for the time being, a significant reduction in state expenditure is needed. It said that targeted expenses in the public sector are essential for our developmental state, but there are countless examples of superfluous and/or inefficient entities and activities that are being sustained in government without benefiting the public. It said that according to its data, the reduction required in recurring current Government expenditures lie between R270 billion as a minimum and, ideally, R485 billion per annum.
     6. It said that if drastic measures are not taken, government runs the risk of losing control over its finances. This will happen if the public sector collectively approaches a state of bankruptcy – at which point multilateral credit providers and investors can choose to reclaim what is left of their funds. This would effectively render the South African economy helpless against the conditional funding mechanisms of the International Monetary Fund and other institutions like it, it said. The drastic measures that OUTA referred to were the implementation of strong improvements in efficiency; distinguishing between allocative efficiency (elimination of activities that are unnecessary) and productive efficiency (reduction in the resources needed to achieve essential outputs).
     7. To ensure allocative efficiency, OUTA proposed the privatisation and restructuring/consolidation of SOEs that perform overlapping functions and said that to achieve productive efficiency, serious governance issues in all state organs should be resolved.
     8. OUTA said it strongly supports the revitalized power and responsibility of the Auditor General and other enforcement institutions to tackle fruitless, wasteful and irregular expenditure, corruption and general financial maladministration. It said that accountability mechanisms need to be strengthened as financial mismanagement, corruption and general maladministration has exacerbated the scarcity of funds available to government for the performance of its essential functions.
  2. **SOUTH AFRICAN CONSTITUTIONAL PROPERTY RIGHTS FOUNDATION**
     1. SACPRF said that it was evident from the MTBPS that the economic position of RSA is so dire that the time had come to institute radical economic transformation of the tax system. It submitted that it was critical to gradually replace income taxes and VAT with land rents, otherwise known as the Single Land Tax (SLT). This is a rates and taxes type user-charge which ignores what people legally do on the land. Instead it captures the monthly rand value of the position and zoning. Each land category in each suburb, or portion, then pays the same SLT per square metre.
     2. SACPRF said that income taxes and VAT were internationally deemed to be ‘dead weight’ taxes. They increased the cost of work, capital, land and consumption, it said. This then reduced GDP and Brian Kavanagh, an Australian economist, estimates that income taxes and vat increase the cost of living in western style economies by 2.34 times for every tax-rand collected, it added. It said that in South Africa, this means that nearly half the potential GDP is lost. It requested NT to check this, adding that whatever NT finds, the loss of jobs, investment, access to land and consumption was unacceptable.
     3. Notwithstanding the positive conclusions of the DTC Wealth Tax Report regarding the superiority of SLT, they stopped short of recommending its adoption other than to replace transfer duty. Their administrative reasons ignore that Hong Kong and Singapore have adopted SLT. Perhaps they are concerned that their tax-planning work will reduce, said SACPRF. They should be because tax-planning under SLT is confined to deciding where to own land.
     4. The second reason to change to SLT is it will make unused land affordable. According to ABSA average residential land prices rose seventeen times to R850K from 1994 to 2018 (four times the CPI). This was without any effort or investment by owners. The state’s preference for income tax and vat collections therefore indirectly subsidises land rents and prices. This is wrong because in subsidising land prices it denies nine million unemployed access to land to work for themselves, SACPRF argued. The least they could do is to become life-time market gardeners on a “starter” farm of 1000sqm acting as outlier-growers to big food processors. There they can earn four times more than the R3500pm minimum wage and build themselves a decent house, said SACPRF. SACPRF said that nine million low input farms at 1000sqm each will take up 900 000 hectares of land. That is 6% of South Africa’s total arable land. Once they have learned to farm there is lots of space to grow into, according to SACPRF. In giving a short-term stimulus to the economy, National Treasury should consider reducing vat by 50% to R740bn pa said SACPRF. The state subsidy to Municipalities, it said, should be cut but they should be encouraged to recover this by increasing rates on vacant land by ten times. Non-payment should mean that municipalities expropriate the land without compensation and then lease to tenants to recover R740bn pa.
  3. **BRITISH AMERICAN TOBACCO**
     1. British American Tobacco (BAT) voiced concerns on how the growth of the illicit trade in cigarettes had affected legal companies especially in the absence of enforcement from SARS. It noted with concerns the revelations at the Nugent Commission that SARS officials were instructed to stop inspecting cigarette factories.
     2. BAT has estimated that it will pay R8.74 billion in excise duty in 2018/19, which is less than it paid to SARS in 2015/16 - despite excise rate increases in both 2017 and 2018.
     3. It stated that while government policy is to discourage tobacco consumption, BAT has found that smoking prevalence has not declined and was instead increasing. It said that the tax base was being destroyed and jobs being lost due to illicit tobacco trade. It further submitted that tobacco tax policy was not delivering its intended policy objectives.
     4. BAT submitted that challenges with illicit tobacco trade can be addressed through effective enforcement. It submitted that NT should refrain from increasing excise duty rates until SARS can effectively enforce the current tax laws. It added that another excise increase in 2019, which was not backed by robust enforcement, will exacerbate the problem and motivate more consumption of illicit tobacco, further shrinking the tax base while the smoking incidence continued to grow.
  4. **FISCAL CLIFF STUDY GROUP**
     1. The Fiscal Cliff Study Group argued that the fiscal cliff had now come closer than before. It said that there was a noticeable deterioration (upwards movement/”kink”) after the latest economic and 2018 MTBPS data were included in the analysis. The fiscal cliff precipice moved forwards by almost a decade based on the 2018 MTBPS analysis and is now back to where it was during the Study Group’s 2016 estimates.
     2. The Fiscal Cliff Study Group welcomed the improved disclosure on civil service remuneration. It said that more data should be published on drivers of civil service remuneration, particularly the impact of new government departments, notch increases and performance bonuses.
     3. It said that going forward, total annual increases in civil service adjustments (including notch increases and others) should not exceed the rate of inflation.
     4. The Fiscal Cliff Study Group said that South Africa needs more realistic forecasts from the National Treasury. It said that the history showed an upwards bias projection which contributed to the current fiscal crisis; expenditure estimates were based on too high economic growth projections.
     5. The Fiscal Cliff Study Group said that South African Airways should not be merged with SA Express but should simply be closed. It said it made no sense to merge two non-performing entities. It said that the merger of two weak companies would not result in one strong company, as was shown by the failed merger of the two vehicle manufacturers (Studebaker and Packard) during the 1950’s in the USA.
     6. The Fiscal Cliff Study Group submitted that excise tax stamps on cigarette packaging should be reintroduced as this will limit the illegal cigarette trade and help protect government revenue.
     7. The Fiscal Cliff Study Group reiterated its call that members of the executive and senior government officials should buy cars assembled in South Africa*.*
  5. **PIETERMARITZBURG PENSIONERS FORUM**
     1. The Pietermaritzburg Pensioners Forum (PPF) is a forum of women pensioners who live in Msunduzi. They were represented by seven pensioners: Mrs Faith Mofokeng, Mrs Thoko Ngubane, Mrs Doreen Taylor, Mrs Hilda Mbesa, Mrs Fikile Gumede, Mrs Tholani Ndlovu and Mrs MaKhosazane Sindane. They outlined two interventions they wanted NT to seriously consider and urgently implement:a 100 percent increase in the old age grant in December and that old age pension be increased to that of a living wage over time.
     2. The PPF said that it believed that pensions play the same role as a wage as it brought income into pensioners’ homes. It said that for many pensioners, it is the only source of income. PPF said that December and January were very difficult months for pensioners as they cover the usual expenses plus the extra expenses of school uniforms, shoes, stationery and extra food, since the schools are closed. The PPF said that the cost of living had gone up and monthly pensions cannot cover these increases.
     3. The PPF said that the extra pension in December would help them ensure that their school going grandchildren will be much better prepared in the new school year. The PPF said that its members saved in stokvels during the year and believed that it would be much better if they could take those savings and use them to invest in small businesses in order to get extra income.
     4. The pensioners told the Committees that this year was even worse to manage on their pensions because of the increases in fuel, electricity, transport to send their grandchildren to school, VAT and food prices. The pensioners further told the Committees that they were the only breadwinners in their extended families and they are relied on to cover all the expenses with a minimum old age grant.
     5. They pleaded with the Minister of Finance to increase the monthly pension to a living wage of R8,000 as Rl,700 was far too low. They said that due to the low amount of the grant, they were compelled to borrow from *mashonisas* on a monthly basis. Their grants are spent in a few hours on food, electricity, transport, scholar transport, debt repayments and burial insurance and they are left with nothing.
     6. The pensioners said they believed South Africa was struggling to create jobs. If resources are invested in pensioners, that will provide them with some relief and better prospects for their families.
  6. **BUDGET JUSTICE COALITION**
     1. The Budget Justice Coalition (BJC) said that the MTBPS did not take bold steps to stimulate the economy and embark on a more inclusive growth path. It further said that an economic recovery and turnaround will only come from investment in all aspects of improving people’s lives. It submitted that South Africa “austerity” policy direction did little to ensure government’s revenue-raising and spending advances to ensure the fulfilment of socio-economic rights.
     2. The BJC submitted that the public sector wage bill was not the root cause of South Africa’s problems but austere debt targets; instead it was a refusal to improve the progressivity of the tax system by increasing taxes on the rich and corporations. It said that billions in revenue had been foregone from the two decades of decreasing corporate and personal income tax rates and a failure to crackdown on tax evasion also contributed to the country’s budget deficit, as did underperformance and irregular, fruitless and wasteful expenditure.
     3. The BJC said that the MTBPS showed **l**ow government consumption expenditure growth when considered against population growth. It further said that the President’s fiscal stimulus existed only in name as there was no new expenditure was allocated and the identified priorities were funded through taking funds away from other programmes. The BJC recommended that the reprioritisation of funds be examined and a committee that focussed on a pro-poor rights-based fiscal policy be established.
     4. The BJC submitted that government’s commitment to maintain expenditure ceilings and avoid increasing taxes reduced the room for counter-cyclical borrowing and spending and shrunk the space for pro-equality policies. It recommended an increase of PIT for high income earners, the raising of CIT rates moderately, higher VAT rates on luxury goods, cutting tax breaks for the wealthy and increasing taxation on wealth.
     5. The BJC welcomed the scrapping of VAT on sanitary pads, bread flour and white cake flour. It expressed disappointment that further items such as nappies, school uniforms, protein-rich foods such as chicken and peanut butter and, candles were not zero-rated as was recommended by the VAT panel appointed by NT. The BJC further raised concerns about the failure to consider targeted expenditure in terms of old age pensions and child support grants, among others to reduce the effect of the VAT increase on the poor. The BJC recommended that the VAT increase be reversed.
     6. The BJC welcomed the interventions to improve governance at SARS and the additional allocation of R1. 5 billion to SARS. It recommended a number of measures to increase revenue and the expenditure framework including through borrowing below market rate from the GEPF, the utilisation of the unemployment insurance fund to introduce a work seekers’ grant and dealing with illicit financial flows.
     7. On macroeconomic policy, the BJC submitted that austerity measures do not work and the South African government needs to urgently enter into a dialogue about more creative economic alternatives. It said that fiscal policy needs to be strongly counter-cyclical. It further submitted that policies such as inflation targeting should not be prioritised as they exacerbated risks to the economy. It further submitted that South Africa’s monetary policy should target employment creation and growth.
     8. The BJC made a number of other recommendations on infrastructure spending, fiscal risks, health, education, social development, criminal justice, human settlements, rural development and land reform, gender budgeting, unemployment and the public sector wage bill.

* 1. **IAN GLASS**
     1. Mr Glass is dependent on his living annuity and separate supplementary retirement savings. Since retiring, he has become increasingly alarmed at the effects of the poor economic performance and of the Capital Gains Tax (CGT) on his retirement savings. He fears for his retirement future, particularly should if it is to be a long one.
     2. Mr Glass is of the view that CGT imposes onerous burdens on taxpayers and raises issues of complexity, uncertainty, record keeping, document retention and immobility, as well as the likely traumatic disputes with SARS.
     3. Mr Glass believes that medical expenses and retirement accommodation costs, which are the major expense items for retirees, as well as holiday costs are escalating well above the inflation rate. His living annuity has performed below the inflation rate; and he loses up to 1.8 per cent of his separate retirement savings through the CGT.
  2. **AGRI SA**
     1. The Agri-SA said it was greatly concerned over the R27.4 billion shortfall in tax revenue. It said that there was an urgent need to address governance issues at SARS.
     2. Agri-SA noted and welcomed the commitment to avoid increases in major tax instruments by NT. It submitted that it would be fair if potential increases in excise taxes are set below inflation, given the already high rates charged and the recent history of above-inflation increases.
     3. Agri-SA welcomed the commitment to reconfigure spending on state-owned enterprises. It noted however that similar statements had been made in the past with no clear signs of real progress. It said that the key deliverable on this is to reverse the culture of debt commitments and cash-flow bailouts worth billions of Rands.
     4. Agri-SA further commented on the role played by the ballooning wage bill in escalating government spending, and in turn debt levels. as well as the instruction to government departments to absorb salary increases. It said that the wage bill was the biggest fiscal challenge and will require several years to manage downwards, if at all.
     5. Agri-SA welcomed initiatives to strengthen financial management and fight corruption announced in the MTBPS. It however stressed that these commitments be urgently and effectively implemented to ensure that these problems are addressed.
  3. **AUWAL SOCIO-ECONOMIC RESEARCH INSTITUTE**
     1. Auwal Socio-Economic Research Institute (ASRI) said that there were several aspects of the 2018 MTBPS and the country’s approach to the management of public finances that warranted particular attention regarding the efficient management and allocation of public resources.
     2. The ASRI said that fiscal consolidation seemed to have replaced “counter-cyclicality” as the country’s fiscal policy. It said it was critical for the National Treasury to indicate whether “fiscal consolidation” had indeed replaced “counter-cyclicality” as the country’s fiscal policy. In the interest of transparency it would be prudent for the Treasury to provide its potential GDP estimates as these are necessary to assess the actual fiscal stance of the government. It further submitted that it was necessary for the National Treasury to indicate the cost to GDP arising from the moderation in government expenditure (consumption and investment) under fiscal consolidation compared with a typical counter-cyclical public expenditure path.
     3. The ASRI further submitted that the country’s fiscal goals are also continuously missed (fiscal slippage), whilst the state’s ability to meet its socio-economic responsibilities and support economic growth is constrained. It cautioned that the credibility of government’s growth projections and growth story warranted particular interrogation from civil society and law makers. It said that there was a need for clarity on the country’s actual economic growth policy, and the risks associated with its approach.
     4. The ASRI is of the view that budget adequacy and fiscal sustainability warrant effective and efficient management of public finances. It said that South Africa’s large socioeconomic needs warrant careful allocation of public resources and that the need for effective and efficient allocation and spending was critical.
     5. It recommended that NT together with line departments should indicate the extent of under-funding of key socio-economic functions and what measures have been effected to compensate for budget inadequacy. It said that several clear cases of poor expenditure allocations are apparent, and necessitated attention to free-up resources for priority areas.
     6. The ASRI submitted that the collective bargaining for public sector wages presented a high cost to the realisation of the country’s socio-economic rights. It added that collective bargaining models in the private and public sectors differed and this had resulted in public sector wage settlements generally exceeding that of the private sector, and the public wage bill growing as a share of total expenditure. In this regard, it recommended that government considers alternate approaches to public sector wage settlements to ensure that the government wage bill remains sustainable without prejudicing service delivery, growth, the sustainability of public finances, and the rights of public sector employees.
     7. The ASRI submitted that increasing the basket of VAT zero-rated goods has direct costs to the government in terms of foregone revenue. It said there was currently uncertainty as to how much the inclusion of new products into the zero-rated basket will cost government, with the Treasury claiming that the panel has underestimated costs.
  4. **PRICEWATERHOUSECOOPERS**
     1. PricewaterhouseCoopers (PwC) raised concerns about the downward revision of R20 billion of VAT revenues due to a backlog in VAT refunds which needed to be cleared. Its concern is that the impact may not be limited to the current year, but could have a knock-on effect to forecasts over the medium term. It said that the implications could be far reaching as Moody’s has signalled a reduction in sovereign rating for South Africa.
     2. PwC further noted that the withholding of VAT refunds is the true extent of the tax base being overstated. It said that this impacted on the ability of NT to accurately forecast tax revenues and creates a vicious cycle of ever more aggressive actions in order to achieve the inflated revenue forecasts.
     3. Furthermore, PwC stated that withholding tax refunds effectively understates government debt and creates added risk that would negatively impact government’s credibility and the reliability of budget accounts. PwC recommended that an independent investigation should be conducted by an appropriate body and action taken against any SARS officials implicated in any wrong-doing.
     4. PWC also raised several concerns around corporate income tax-payers being approached to make early payments of provisional tax.
     5. It said that given that the credit book had doubled in the last three years, it is possible that tax refunds have been withheld to embellish revenue collections. PwC urged SCOF to actively engage SARS and NT on issues that have significant fiscal matters.
  5. **SOUTH AFRICAN INSTITUTE OF CHARTERED ACCOUNTANTS**
     1. The South African Institute of Charted Accountants (SAICA) noted the tabling of the 2018 MTBPS and commended the Minister of Finance for acknowledging and identifying specific fiscal and economic problems. SAICA suggested that nothing has changed from a policy perspective in the last ten years and no real additional plans have been presented.
     2. The SAICA submitted that at a minimum, government would set definitive fiscal boundaries such as (i) set an absolute threshold for public debt that it would not exceed (ii) absolute threshold for the deficit that it would not exceed and (iii)apply tougher spending austerity measures in the budget
     3. It noted with concern SARS’s tax refunds and pre-collection practices. It said that pre-collection practises involved SARS’s collection of VAT in March, which was only due for payment in April. It added that among the key issues was the growing tax credit book, which increased to R29 billion in 2017/18 from R1.4 billion in 2014/15. It said that this suggested that tax refunds have been held back in recent years.
     4. The SAICA submitted that there was a need to enquire into these observed anomalies on other tax refunds and pre-collections, besides VAT. It said it should be ascertained whether the fiscus may face further downward revisions in revenue if these off-book debt practices are confirmed.
     5. The SAICA also said it was important for SARS to explain why it had been unable to implement Generally Recognised Accounting Practice (GRAP) and continued with the current modified cash basis. It said that the current modified cash basis was subject to manipulation in instances where SARS could hold on to cash that is legally not its own in order to exaggerate revenue collection.
     6. The SAICA recommended that NT, together with SOE’s and municipalities, be requested to compile a holistic financial exposure over short and medium term on capital expenditure funding (CAPEX) so that proper and informed solutions can be sought in collaboration with business and civil society.
     7. The SAICA welcomed the rebuilding of SARS and noted the recent SARS Acting-Commissioners’ apology to taxpayers at the Nugent Commission. It submitted that a permanent SARS Commissioner be appointed without delay.
  6. **PIETERMARITZBURG ECONOMIC JUSTICE AND DIGNITY GROUP**
     1. The Pietermaritzburg Economic Justice and Dignity Group (PEJDG) said it was deeply concerned that the MTBPS did not announce substantial measures to intervene directly to assist millions of South Africans to better deal with the effects of the economic crisis. The PEJDG said that the crisis was disproportionately borne by the poor.
     2. The PEJDG said that poorest households relied on just one wage earner. It said that wage levels continued to be extremely low and have been stretched by massive levels of unemployment. It said that social grants, which play the same role as wages, in that they bring income into homes have not been used as an instrument to help households absorb the shocks caused by the deepening affordability and economic crisis. Millions of South African families rely on grants, they are set too low and do not protect households from poverty, it was said.
     3. The PEJDG is concerned that the MTBPS proposed measures to get South Africa out of the economic crisis seem to be locked in a framework of supply-side interventions, which have in the past failed to deliver results and may continue to fail. The chance of economic recovery will improve if the economic stimulus measures and other forms of investment are focussed on the millions of people who are excluded from participating in the economy.
     4. The PEJDG said that the economic recovery rests with the millions of South Africans who are excluded from participating in the economy. An instrument which could have been used to deal both with protecting households from the economic crisis are social grants. The PEJDG said that social grants are an effective and immediate instrument to deal with both assisting households and stimulating a broad-based consumer recovery in the economy. The PEJDG would have liked the MTBPS to have announced large increases in the level of social grants to protect millions of households.
     5. It said it supports the Pietermaritzburg Pensioners Forum proposal for all pensioners to be provided a double pension or bonus of R1 700 in December, making the total old-age grant in December, R3 400.
     6. Whilst it acknowledged that government is under strain, budgetary allocations by necessity should be guided by political priorities. Investment directly into the pockets of millions of people and their families will offer exponential benefits in social, health, education and economic outcomes at the level of millions of households and future savings for the state. The initial expenditure investment will return in both revenue form via increased taxes and increased growth, as well as savings via improved developmental outcomes and reduced social disorder. Funding for this investment would require a reprioritisation of the entire budget, including targeting monies identified for the economic stimulus package and investment pledges to be shifted to the welfare system.
  7. **ALTERNATIVE INFORMATION AND DEVELOPMENT CENTRE**
     1. The Alternative Information and Development Centre (AIDC) raised concerns about the high rates of unemployment as well as climate change. It said that if government is serious about addressing climate change, the slowing down of the economy, as well as deepening unemployment, inequality and poverty, it would have to radically break away from austerity and follow a new industrial development path.
     2. The AIDC said thatin order to create this one million climate jobs, it is critical that the renewable energy industrial programme is state driven with local manufacturing being the main objective. In relation to timeframes, developing local plants to manufacture wind turbines and solar cells could be built and up and running in a year. It said that this will have compounding effects such as creating many more jobs in other sectors. The Centre also highlighted the importance of the Jobs Fund as an important programme in terms of addressing unemployment. It said that the underspending of the Fund needs to be addressed.
     3. The AIDC submitted that the lack of investment in the real economy was one of the major impediments to the sustained creation of decent work. It said that according to a 2014 Global Financial Integrity report, South Africa lost almost $30 billion in illicit capital outflows in 2012. It said that increasing the pool of domestic savings would put downward pressure on interest rates creating greater incentives for investing in the creation of small, medium and micro enterprises (SMMEs). It submitted that this will also help job creation, and the country will be able to increase its tax base.
     4. The AIDC said that three main reforms had to be undertaken to massively curb illicit financial flows. These are: 1. a complete shift from tax secrecy to a tax transparency culture, 2. Rules framing transfer pricing guidelines have to be reshaped to close the loopholes used by accountants and tax practitioners who help their clients to avoid paying their fair share of taxes and wages and, 3. customs agencies should treat trade transactions involving tax havens with the highest level of suspicion and exercise increased scrutiny. Another short term measure would be to re-impose capital control mechanisms, it said.
     5. The AIDC submitted that SARS and other regulating authorities (SARB, the CIPC etc.) have to be properly resourced to deal with the complexities of IFFs and BEPS.
     6. The AIDC further submitted that there must be a change to regulate borrowing from government-controlled public funds. It said that this would safeguard South Africa’s fiscal sovereignty.

1. **ON THE COMMITTEE’S ROLE**
   1. The Committee reiterates its belief that we need to be far more effective and efficient in our oversight role, and to the extent the executive fails to fulfil its responsibilities, this is, partly, a reflection of the failure of parliamentary committees to effectively fulfil our own responsibilities.
   2. The Committee mandates the Committee Chair to engage with the Speaker’s Office and the Secretary of Parliament to ensure, beyond the role of the NCOP, that Parliament does far more to facilitate the effective participation of ordinary people in the national budget process, including through making oral submissions at national public hearings.
   3. The Standing Committee on Finance and the Select Committee of Finance will seek to ensure that we have joint quarterly meetings with NT and SARS and follow up on the issues taken up in this report.
2. **OBSERVATIONS AND RECOMMENDATIONS** 
   1. The Committee congratulates Minister Tito Mboweni on his appointment and wishes him well.
      1. This report on the Revised Fiscal Framework has to be linked to the report on theProposedFiscal Framework for the next three years that the Committee will adopt within the next 10 days. The two reports overlap in several respects.
   2. Over the years, increasingly, it is the powerful and well-resourced organisations that make oral submissions at MTBPS public hearings. This year the Committee was very pleased to receive oral submissions from pensioners from Msunduzi representing the Pietermaritzburg Pensioners Forum. While the Committee is empathetic with their concerns, the MTBPS does not deal with actual increases in grants. This is done through the budget in February each year so the doubling of the old age pension for December is not possible. We also note that 33% of the South African population in 2017 (about 17 million people) were social grants beneficiaries and more than 22% percent of the South Africa’s households receive grants as the primary source of income, and this is amongst the highest percentage globally. Moreover, in view of the low economic growth rate and the other very difficult economic circumstances it would not be possible to do this or increase the pension to a living wage of R8000. However, the Committee recommends that in view of the VAT increase, constant increases in the cost of fuel and increases in the cost of living generally, NT considers a higher increase in grants than is usually the case by reprioritising expenditure and not exacerbating the debt-to-GDP ratio, as increases in debt in these specific circumstances will ultimately affect the poor disproportionately the most.
   3. The Minister tabled the 2018 MTBPS under significantly deteriorating economic circumstances and far more eroded fiscal space since the tabling of the 2018 National Budget. The Committee is concerned that while the global economy is growing at 3.7%, BRICS at 4.7%and Sub-Saharan Africa at 3.1%,South Africa has now entered a technical recession after years of sluggish economic growth.
   4. The numbers in the Revised Fiscal Framework are dire. Economic growth for this Financial Year is now projected to be 0,7% compared to the projected 1,7% in the February 2018 Budget. The projected growth rate of 1.8%in 2019 has also been reduced compared to the projections in the February 2018 Fiscal Framework. Especially concerning too is that while in the February 2018 Fiscal Framework, the budget deficit was expected to be 3.8%and the debt-to GDP ratio 55.1**%** the Revised Fiscal Framework projects it will be 4.0%and 55.8%respectively. Against all expectations, it is anticipated that there will be a R27,4 billionshortfall in revenue, R20 billion of which will constitute VAT returns, including R11 billion that is made up of returns that have been withheld. The Committee recommends that NT and SARS should report on progress on improving these numbers at its quarterly briefings of the Committees. Apart from the economic growth, the key concerns are raising revenue and managing the debt to ensure South Africa’s fiscal sovereignty is not undermined.
   5. More than ever, the country needs economic growth. The Revised Fiscal Framework and the MTBPS as a whole have to be evaluated in terms of the extent to which they contribute to investment, growth, job creation and the reduction of inequalities. The Revised Fiscal Framework is not promising in this regard. The Committee believes that the government needs to, among other things, do far more to reduce political and policy uncertainty; address key structural challenges; revitalise and strengthen SARS; encourage job-creating investment; spend money more efficiently and effectively; act decisively against corruption; and tackle the illicit economy far more effectively.
   6. The Committee reiterates its views that government alone cannot ensure the necessary economic growth. Parliament, the private sector, the trade unions, other sections of civil society and the public all have a role to play. It is for government however to lead in this regard. The Committee welcomes the President’s Economic Stimulus and Recovery Plan and wants to see an implementation plan. The Committee will deal with the Plan further in our Proposed Fiscal Framework Report to be adopted within two weeks. The Committee also welcomes the South AfricanInvestment Conference 2018 held from 25 to 27October and the pledges of investment of R290 billion. Even though some of the investments announced may not be new, the Conference has contributed to boosting confidence in the South African economy. Government has to however monitor progress on the implementation of these programmes and report regularly to the relevant parliamentary committees.
   7. In recent years, NT has been overestimating its GDP growth forecasts, which has in turn negatively affected the fiscal framework. The Committee recommends that NT should improve the credibility of its forecasts given the impact the failure to achieve the set targets has on the broader economy. In the next quarterly engagement with the Committee, NT should report on measures it has taken to regularly update its forecasting model, acquire and retain the skills necessary to do economic modelling and improve the degree of certainty in the economic and fiscal targets set.
   8. We are concerned that the fiscal risks identified by NT in the MTBPS and Budget Reviews in the recent past have materialised, leading to worsened and continued fiscal slippage. Given the added potential impact of the volatility of global financial markets, trade disputes and other growing global risks, NT needs to propose effective measures to mitigate the likelihood of fiscal risks materialising and impacting on the broader economy.
   9. The Committee notes that R 5 billion has been allocated to SAA to help it repay some of the R14.2 billion debt that is maturing before March 2019, as it is currently not generating sufficient cash**.** This comes in the wake of R10 billion that had been allocated to SAA in 2017. The Committee believes that the terms of this have to be made clear, including how it is being linked to a successful turnaround strategy. Obviously, the state cannot continue to bail SAA out, and it must improve its performance. The majority in the Committee remain of the view, unless convinced otherwise, that SAA should remain in state hands, but as explained in previous reports, it needs to be able to draw a strategic equity partner, enter into other partnerships with the private sector, review its routes, rationalise its fleet, engage more effectively with the trade unions and staff, and fulfil other aspects of its turnaround strategy. However, as SAA now falls under the Portfolio Committee on Public Enterprises, this matter needs to be referred to it.
   10. The Committee reiterates its recommendation that members of the executive and senior department officials in the national and provincial spheres should buy cars used for their official duty that have been assembled in South Africa as part of the country’s automotive production development programme. The Committee adds that members of the executive in local government, public representatives and officials in all three spheres of government should also consider doing this.
   11. The Committee welcomes the President’s decision to review the shape and size of the executive and look forward to the outcome.
   12. As noted in section 10.5 above the Committee is seriously concerned about the withheld VAT returns and welcomes the Minister’s acknowledgment that “this has hurt the cash flow of a number of companies, including small businesses” and his statement that the Acting SARS Commissioner has “committed to processing the outstanding VAT refunds as quickly as possible.” We require a report on this at our next quarterly meeting with NT and SARS. The Committee has at its quarterly meetings with NT and SARS raised with SARS the allegations that it was withholding VAT returns to inflate its achievements of revenue targets, but SARS consistently denied this. The Committee is not clear to what extent VAT returns were withheld because of IT challenges and to what extent this was deliberately done. We require SARS to respond to this concern at its next quarterly meeting and will wait for the next Nugent Commission report before taking the matter further.
   13. The Committee notes that while the current “low growth trap” has had an impact on revenue shortfalls, governance challenges at SARS also contributed to that. The Committee urges NT to improve its oversight role over SARS and assist it in comprehensively addressing the current governance challenges to maximise revenue collection and restore its credibility as a key institution that should always uphold its reputation. The Committee further recommends that NT and SARS report on progress made on measures taken to address the challenges at SARS, in the next quarterly engagement. The Committee welcomes the R1.5 billion set aside to improve the much-needed capacity of SARS.
   14. The Committee welcomes the zero-rating for VAT of the additional items of sanitary pads, bread flour and cake flour, and the decision to provide free sanitary pads to female learners at schools.  However, the Committee believes that there should be one or two more additional targeted spending items that seek to specifically cushion the effects of the VAT on the poor and low-income earners beyond the pro-poor programmes that would have been provided anyway even if VAT had not been increased. This targeted expenditure related to the VAT increase should be within the expenditure ceiling. We believe NT should further consider the proposals in this regard of the VAT Panel led by Prof Ingrid Woolard.The Committee will take these and other issues related to the VAT increase into account when it finalizes the Rates and Monetary Amounts and Amendments of Revenue Laws Bill and other related tax bills.
   15. The Committee welcomes the dismissal of Mr. Tom Moyane as SARS Commissioner. The Committee feels that the President had no choice but to dismiss Mr. Moyane given the almost unanimous views expressed at the Nugent Commission that he had mismanaged SARS, the figures of revenue shortfall now emerging and the decisive and final proposal from the Commission that he be dismissed. We request the President to appoint a new SARS Commissioner reasonably soon.
   16. The Committee has for several years been focusing on the urgent need to tackle the Illicit Economy and Illicit Financial Flows (IFFs) far more decisively and has regularly expressed its concern about the inadequacies of SARS and other relevant organs of state in this regard. We welcome the re-establishment of an enforcement unit, to be possibly named the Illicit Economy Unit (IEU), and urge SARS to ensure that it is suitably resourced with officials of the necessary skills. We require SARS to report on this at its quarterly briefings.
   17. The Committee fully supports the Minister’s statements on the need to far more decisively tackle corruption. While this task is obviously not for NT alone to fulfil, we require NT to report on progress on the Minister’s initiatives in this regard at its quarterly meetings with the Committee.
   18. The Committee condemns the strong culture of non-compliance with PFMA and MFMA legislation that has emerged in all three spheres of government and the impact it has on the national fiscus. We recommend that within the framework of its prescribed role NT conducts better fiscal oversight over other government departments and entities and in turn advocates robust fiscal oversight and monitoring and evaluation of monies transferred to implementing agents and entities at the provincial and local spheres of government. The implementation of the Public Audit Amendment Bill will allow the AGSA to take remedial action to ensure that losses suffered by the state are recovered and refer suspected material irregularities for investigation. The Committee condemns the irregular expenditure by departments and SOEs that has increased since the previous year. Accounting officers who contravene the PFMA should be held responsible. Upon promulgation by the President, NT should report quarterly on the effectiveness of the Public Audit Amendment Bill in addressing governance challenges.
   19. The Committee notes that the majority of municipalities - 113 in 2018/19 up from 83 the previous year - have adopted unfunded mandates and also owe more than R23 billion in arrears to Eskom and the Water Boards. We recommend that NT and COGTA strengthen the support they provide to municipalities and review the current mechanisms used to assist municipalities in crisis.
   20. The Committee will deal further with the President’s Economic Stimulus and Recovery Plan; the public sector wage bill; SOEs; and other issues in its report on the ProposedFiscal Framework for the next three years.
   21. As much as there are serious economic challenges, and the forecasts are concerning, it is not all doom and gloom, and, as pointed out in section 10.7 above, if there is the necessary cooperation between government, the private sector, the trade unions, other sections of civil society and the public, and effective action based on this, the economy will certainly improve over time in the interests of the country’s developmental goals.
   22. The Committee expresses its appreciation to those who made submissions at the MTBPS public hearings. The Committees will incorporate the concerns that they have raised that are able to be acted on in our oversight and legislative roles.
   23. A copy of NT’s response to the submissions will be forwarded to the participants within a week.

The Democratic Alliance reserves its position on this report.

Report to be considered.