**1. REPORT OF THE STANDING COMMITTEE ON FINANCE ON THE 2019 REVISED AND PROPOSED FISCAL FRAMEWORK, DATED 12 NOVEMBER 2019**

The Standing Committee on Finance, having considered the 2019 Medium-Term Budget Policy Statement for the revised and proposed fiscal framework tabled by the Minister of Finance on 30 October 2019, reports as follow:

## Introduction

### The Minister of Finance, Mr Tito Mboweni tabled the 2019/20 Medium Term Budget Policy Statement (MTBPS) before Parliament on 30 October 2019. The MTBPS was tabled in terms of section of the Money Bills Amendment Procedure and Related Matters Act, Act No. 9 of 2009 (Money Bills Act).

### The Minister briefed the Committees on Finance and Appropriations of both Houses on 31 October 2019, together with the Director-General, Mr Dondo Mogajane and senior officials from the National Treasury. The Committees received a post-budget input from the Parliamentary Budget Office (PBO) and the Financial and Fiscal Commission (FFC).

### Public hearings were held on 06 November 2019. The Committees received written and oral submissions from the Congress of South African Trade Unions (COSATU), Budget Justice Coalition (BJC), Pietermaritzburg Pensioners Forum (PPF), Fiscal Cliff Study Group (FCSG), South African Institute of Chartered Accountants (SAICA), British Tobacco Farmers Association (BTFA), British American Tobacco (BAT), Financial and Fiscal Commission (FFC), Rural Health Advocacy Project (RHAP), Tobacco Institute of Southern Africa (TISA) and WoMin African Alliance and International Rivers. The National Treasury responded to the inputs and submissions made on 08 November 2019.

### The following organisations made written submissions but did not make oral submissions: Shotspotter, the Organisation Outdoing Tax Abuse (OUTA) and the African Women Chartered Accountants (AWCA).

## Political overview by the Minister of Finance

### The Minister of Finance briefed the Committees on Finance 01 November 2019 on the 2019 MTBPS. The Minister emphasised a need to boost Gross Domestic Product (GDP) growth and development and highlighted that there are attempts to support an economic recovery path in the 2019 MTBPS. Amongst other things, the Minister mentioned that agricultural industrial parks have the potential to stimulate economic growth while government continues to resolve other socio-economic challenges, including water and sanitation. The debt to GDP ratio has increased significantly and so did the debt service costs. The Minister believes that government will be able to address these challenges when GDP grows at higher rates and revenues are higher.

### The Minister indicated that South Africa is faced with a “conundrum” of low growth, low revenue collection, high expenditure expectation and a growing fiscal deficit. All these challenges lead to higher debt and few resources for social and economic investment. The Minister further emphasised that the MTBPS is not an actual budget but “an indicative budget policy statement”. According to the Minister, key risks to the MTBPS are (1) low growth, low revenue and overall pressure on the fiscus, (2) State Owned Entities (SOEs) such as Eskom, the South African Airways (SAA), the South African Broadcasting Corporation (SABC) and Alexcor, (3) public sector wage bill, particularly compensation of employees and (4) fiscal leakages such as litigations against the state. Key amongst these leakages are the medico-legal claims, Road Accident Fund (RAF) and the police litigations, mostly in the Gauteng and the Eastern Cape provinces. These litigations have to-date cost the state about R100 billion. The Minister proposed that the law enforcement agencies should decisively deal with corruption and theft of government resources.

### The National Treasury Director General, echoed the Ministers sentiments, that the current challenge faced by the country is a low growth, low revenue environment. The latter of which the South African Revenue Service (SARS) Commissioner will have to account for. The DG mentioned that the second draft of the economic recovery document was released by the National Treasury a day before the Committee briefing by the Minister of Finance. He emphasised the need to stabilise debt, address ESKOM inefficiencies, improve spending and ensure a sustainable budget framework.

## Overview of the National Budget: Revised Fiscal Framework

### **Economic overview and outlook**

### On the macro-economy, South Africa is now projected to grow at 0.5 per cent in 2019, compared to 1.5 per cent projected in the 2019 budget review, a downward revision of 1.0 percentage points. This poor economic growth performance resulted from structural challenges, economic shocks and uncertainty. South Africa is experiencing higher rates of unemployment and low consumer and business confidence compounded by policy and political uncertainty, and drought and electricity supply shocks.

### Over the last three years, South Africa’s growth outlook has deteriorated significantly since the 2019 Budget tabling. National Treasury expects GDP growth to average 1.2 per cent in 2020, 1.6 per cent in 2021 and 1.7 per cent in 2022. This projected economic growth will be supported by a very gradual recovery in confidence and modest employment from investment in key sectors. Key risks to the outlook include a prolonged under-recovery in investment and disruptions to electricity supply and renewed labour unrest, a slowdown in growth due to US-China trade tensions and continued Brexit uncertainty.

Table 1: Macroeconomic projections

Source: Reserve Bank and National Treasury

### **Revised and proposed medium term fiscal framework**

### According to the National Treasury, poor economic performance since Budget 2019, led to deteriorated public finances, sharp reduction in revenue projections, a widening budget deficit and a higher debt to GDP ratio.

### Revenue estimates have been revised downwards since 2014/15 partly due to inefficiencies and structural weaknesses of SARS. Poor revenue performance, estimated at R52.5 billion in 2019/20, lower than the 2019 Budget estimate, was affected by weaker than expected economic growth, poor employment growth and weaker household consumption, which moderated Value Added Tax (VAT) collection. Total revenue is expected to reach R1.8 trillion in 2022/23.

### Table 2 below shows that total government expenditure increases from R1.978 trillion in 2019/20 to R2.215 trillion in 2022/23. The framework has revised down expenditure ceiling (excluding Eskom) for this year and the next two years, relative to the 2019 Budget.

Table 2: Consolidated government fiscal framework

Source: National Treasury, 2019 MTBPS

### In 2019/20, the budget deficit widened to 5.9 percent due to lower nominal GDP, tax revenue shortfalls and financial support for Eskom. The deficit is expected to peak at 6.5 per cent in 2020/21 and decrease slightly to 5.9 per cent in 202/23 as a result of lower revenue, additional financial support to Eskom and higher debt service costs.

### Weak economic growth and the deteriorating fiscal position have affected government’s borrowing strategy. Gross debt loan is expected to increase from 60.8 per cent of GDP in 2019/20 to 71.3 per cent of GDP in 2022/23. Key drivers of this increase remain the budget balance and fluctuations in the interest, inflation and exchange rate.

### Key risks to the fiscal outlook are continued weak economic outlook, failure to achieve required spending reductions and revenue increases from measures announced in the Budget 2019 and a worsening of Eskom’s financial and operational position.

## Submissions from stakeholders

### **Fiscal and Financial Commission**

#### The FFC noted the fiscal commitments made by government to curb spending and expand tax revenue. It said that despite the announcements, total expenditure has remained far higher than total revenue, resulting in continued deterioration of the cash book balance. It said that the economy was heading towards an implosion emphasising the need for decisive steps to be taken to grow the economy.

#### The FFC said that the National Treasury’s Economic Strategy for South Africa Paper compliments other socio-economic policy frameworks. It cautioned against a reactionary approach that deflects and destabilises the state machinery. It said that this strategy paper should have ideally commenced by conducting an audit analysis of the development policy landscape.

#### It said it supports the proposal of delivering a capable state supported by a new compact between the government, private sector and other special partners based on credibility, capacity and certainty. The Commission also emphasised the importance of governance, parliamentary scrutiny and accountability through consequence management in ensuring delivery.

#### The Commission called for a decisive and cogent response in terms of fiscal reprioritisation and consolidation in reducing government expenditure, especially in non-essential deliveries, the wage bill, sale of government assets, restructuring of state-owned companies and ultimately a sustainable reduction of the debt-to-GDP ratio.

#### The FFC welcomed initiatives on controlling the wage bill such the freezing of salaries for Ministers, MECs and other senior civil servants. It said that these measures should be extended to state-owned companies and local government. It cautioned that the historical wage bill benefits over the last decade were unsustainable. It said that wage increases should be linked to productivity.

#### The Commission noted the one percent real growth in the goods and services component of the budget. It said that the corruption on this spending item was extensive and it was important that cost containment initiatives by the Chief Procurement Office are matched by broader government efforts to rid government of corruption.

#### The Commission recommended the strengthening of tax administration by also increasing capacity including enhancing capacity to confront tax base erosion and profit shifting.

### **Parliamentary Budget Office**

#### The PBO noted that in the June State of the Nation Address (SONA) the President acknowledged the slow progress with the implementation of the National Development Plan (NDP), and that government has to prioritise and focus on implementing the plan. It further argued that the integration of the NDP activities into processes of government, the alignment of budgeting and reporting structures, and monitoring and evaluation have been some of the challenges in the implementation of the NDP.

#### It said that the absence of a new Medium Term Strategic Framework (MTSF) and Mandate Paper meant that the 2019 MTBPS was based on the June SONA. In the light of this, it urged that government provides greater clarity on priorities, focussing on how it will achieve them, aligning its structures and budgets to achieve these priorities.

#### The PBO said that the outlook for global growth was made worse by weak demand in an increasingly uncertain international political and economic climate. It said that the widespread global adoption of fiscal consolidation and austerity has contributed to poor domestic and global economic performance. It observed that fiscal consolidation in South Africa had not led to the lowering of government debt-to-GDP ratios as was intended.

#### The PBO explained that there is some consensus globally that fiscal and monetary measures should complement each other in order to aid economic recovery. It said that South Africa’s demand constrained economic growth continues to be below the world and developing country average growth rates and complementary fiscal and monetary policy could assist to improve the situation.

#### The PBO said that given that private consumption and investments were likely to remain subdued, more public consumption and investment through fiscal expansion is required.

#### The PBO argued that the 2019 MTBPS does not offer solutions within the fiscal framework to address poor growth prospects during the Medium Term Expenditure Framework (MTEF). It further contended that the successful implementation of the sectoral initiatives, as suggested by the National Treasury’s Growth Agenda, will be difficult to achieve in the current global economic climate. It said that business and societal challenges as well as constrained government spending will hamper the contribution of these sectoral initiatives to economic growth. It recommended that as private households and firm’s contribution to growth was expected to remain subdued, government can make a direct contribution to growth through increasing expenditure.

#### It said that the government’s proposals to reduce the wage bill should take into account the potential impact of this on service delivery and other issues such as tax revenue. It further said that infrastructure spending has been declining over time, in part, due to fiscal consolidation and this was likely to affect service delivery and was not supportive of the government strategy to support economic growth through fiscal multipliers from infrastructure spending.

#### The PBO said that government should consider introducing the wealth tax and taxing the income and profits in the digital economy.

### **South African Institute of Chartered Accountants**

#### The SAICA submitted that tax revenues have been maximised and increasing the tax rate will result in a decrease in tax revenue. It said that taxpayers were already overburdened and increasing taxes could achieve unintended consequences. The SAICA said that lowering income tax could stimulate investment and economic growth. It welcomed the additional allocation to improve SARS capacity and National Prosecuting Authority (NPA) to combat corruption.

#### SAICA raised concerns about additional funding being made available to certain SOE’s and questioned whether efficiencies will be achieved. It said that more needs to be done to ensure that the capital infrastructure is maintained to avoid further crises.

#### It further raised concerns about lack of accountability, poor consequence management which appeared to be a norm in public entities. It said that government should act decisively, prosecute those responsible for mismanagement of resources, and recover money where possible.

### **Fiscal Cliff Study Group**

#### The Fiscal Cliff Study Group (FCSG) stated that the sum of compensation of employees, social assistance payments and debt-service costs amount to 72,3% of tax revenue. It reminded the Committee that in the previous submission, it had recommended that the central and provincial governments should only purchase vehicles manufactured in South Africa. It therefore welcomed the decision by the Minister to cap the amounts of money for purchasing government cars for Ministers at R800 000. It said that the Minister had taken the right decision but that more can be done, notably adding that only vehicles manufactured in South Africa should be purchased.

#### The FCSG also welcomed the announcement by the Minister that salaries for Ministers will be capped but further proposed a moratorium on wage increases for all government employees.

#### It explained that the fiscal cliff deteriorated further compared to the 2019 Budget, albeit marginally, as the precipice moved closer by 1 year. It said that the fiscal cliff must be avoided.

#### It further said that the precarious state of state owned companies was a major concern that could move the fiscal cliff closer than 2043. It submitted that it was necessary for all SOEs to contain costs and improve transparency.

### **Organisation Undoing Tax Abuse**

#### The Organisation Undoing Tax Abuse (OUTA) argued that the significantly low voter turnout in the 2019 national elections was a clear message to the government that there was no value for money in public service delivery. It said that it was dissatisfied with the Ministers’s 2019 MTBPS, labelling it a “reiterated plea for understanding and support for the reforms”.

#### OUTA expressed concerns regarding VAT increase of the previous year arguing that it did not deliver the expected results. It attributed the latter to virtually non-existent economic growth and the recent downgrades that have pushed the country to the brink of a junk credit rating. It said that in order to rectify the VAT shortfall, government needs to lower the VAT as this will create more disposal income. It further urged government to decrease the debt-to-GDP ratio to below 65%.

#### OUTA welcomed steps by government to address what it called a bloated public service. It said that government needs to reduce its expenditure by R50 billion per annum while addressing the patronage that allows only politically connected people to accumulate massive wealth without contributing to the economy.

#### OUTA argued that the financial mismanagement in the local government had the potential to affect the economy adversely. It said that government should re-think its business model especially in the local government.

#### It welcomed the announcement that the Public Procurement Bill will soon be introduced. It also welcomed the discussions with potential equity partners on state owned companies and called for consequences on those responsible.

### **Congress of South African Trade Unions**

#### COSATU expressed is disappointment at what it called the government’s weak and inadequate 2019 MTBPS. It said that unemployment has been on the rise since 2008 as 40% of citizens were unemployed or were being retrenched monthly due to weak economic growth. It said that this was despite the excellent agreements reached during the investment summits. It said that in the MTBPS, there was nothing mentioned about the government’s job creation targets. It proposed that a clear plan with timeframes by all departments be made to ensure that it meets the Presidential Jobs and Investment Summits commitments.

#### COSATU said that government should have a clear plan on how to ‘stop the bleeding’ of the state-owned companies as they were on the brink of collapse. It said that while it supports the additional financial support given to SOE’s, it feels that bail-outs were not a sustainable plan. In this regards it proposed that a comprehensive public audit of all ESKOM expenditure and contracts be done urgently. It further advocated for the arrest of those implicated in the looting of Eskom and seizure and forfeiture of their assets and also called for the dismissal of those implicated in its mismanagement. It further advocated for similar actions to be undertaken at PRASA, the RAF as well as SAA, SA Express, SABC and Denel.

#### COSATU said that it strongly rejected the ‘continuous attacks’ by National Treasury on the rights of nurses, teachers and police to earn a living wage. It argued that many of the wage bill statistics in the MTBPS were a distortion. It said that the failure of National Treasury to mention the reason behind the increased wage bill as a means to address the apartheid wage gap was concerning. It suggested that government needs to constantly engage with unions on the wage bill. Government further has to reduce national, provincial and mayoral committee posts and the bloated management structures within the public sector, it said.

#### COSATU said that fixing SARS will be key to stabilising government as that can increase revenue collection and provide more resources in support of economic stimulus and job creation. COSATU further submitted that the government needs to cancel the VAT increase of last year and fast track the implementation of the SARS Commission of Enquiry’s recommendations.

### **Tobacco Institute South Africa**

#### The Tobacco Institute of South Africa (TISA) raised its concerns about the increase in excise duties. It said that the increase will serve to shrink the legal tobacco industry while boosting the illicit market. Owing to the price elasticity on cigarettes, TISA said that consumers could not absorb higher than inflation price increases. It said that this will result in consumers reverting to cheap illicit products where no taxes are paid. This will negatively affect the fiscus as revenues from domestic and imported cigarettes will fall, it submitted.

#### While TISA applauded the medium to long term turnaround strategies to rebuild SARS and other government institutions, it submitted that short term measures were also needed to ensure that the legal tobacco industry is protected and losses to the fiscus are contained.

#### TISA noted National Treasury’s response to the proposals it made in September. It said that it agrees with NT that legal enforcement needs to be strengthened. It said that effective enforcement was however not the only tool needed to address the issue of illicit tobacco trade and revenue losses.

#### It called for a cigarette excise duty freeze for at least three years. This excise duty freeze should be alongside correcting the excise rate level of cigarettes (targeted incidence of 40 per cent) and strengthening the enforcement capacity.

### **British American Tobacco South Africa**

#### The British American Tobacco South Africa (BATSA) submitted that excise rate increases will not lead to higher tax revenues. Increases in excise rates will result in consumers being unable to afford legal cigarettes, it said. It explained that owing to affordability issues, consumers substitute to cheaper illicit brands, which in turn boosts the profits of illicit traders.

#### BATSA recommended an excise freeze on cigarettes for the financial period 2020/21. It said that excise duties should be supplemented by improved tax administration and enforcement. BATSA further submitted that the excise duty rates should not be based on the price increase on the most popular price category.

### **Limpopo Tobacco Processors**

#### Limpopo Tobacco Processors (LTP) raised concerns that further increases in taxes and an increase in the price to consumers of legal tobacco products will lead to them substituting away from legal products to cheaper, illicit ones. It said that the consequence of this was that there will be further job losses and the tobacco industry will be unable to expand and assist black emerging tobacco farmers.

#### While LTP noted the key role that enforcement can play in addressing issues around illicit tobacco trading, it submitted that it will take a long time to strengthen it. LTP called for excise tax rates to be brought back in line with the 40 per cent targeted incidence. It also called for a freeze on tobacco related excise duties over a period of at least three years.

### **Black Tobacco Farmers Association**

#### The Black Tobacco Farmers Association (BTFA) acknowledged that tobacco farming has the potential to transform underprivileged rural communities, particularly in respect of ensuring employment, income and food security for its members. It raised concerns, however, that the growing illegal cigarettes market will serve to destroy legal tobacco farming of smaller black farmers.

#### The BTFA called on Parliament to stand up for black farmers. It said that excise increases on tobacco should not be approved without considering who are benefitting and who are being hurt by the increases. BTFA also called on Parliament not to do anything that has effects on smoking rates and that only makes tax dodgers richer while making the legal industry poorer and more destitute.

### **African Women Chartered Accountants**

#### African Women Chartered Accountant (AWCA) said that it was not clear from the MTBPS how government planned to reduce the budget deficit and debt given the low growth path and low revenue collection. It speculated that to fund this deficit the Minister will probably raise taxes, which he alluded to in the MTBPS. It submitted that this would result in less disposable income for households and strain investment by corporates and individuals, thus contributing to a vicious circle of low economic growth. Additionally, AWCA said, government will borrow in order to balance the budget, attracting additional debt and related debt servicing costs.

#### AWCA said that Moody’s Investor Service (the only credit rating agency that currently rates South Africa as an investment grade) has put the country on a negative watch, which signals a possible downgrade to junk status. It said that this would result in even more financial resources being allocated towards debt service costs. Inevitably, this will negatively impact on the government’s ability to deliver on its social-economic mandate, AWCA said.

#### AWCA noted that apart from Eskom’s R26 billion allocation this year, an additional R11 billion is being spent on several state-owned companies that are in financial distress. It said that this is an unsustainable situation for the fiscus. It said that government reforms should focus on improving governance, operational and financial performance. It welcomed the potential partial privatization of South African Airways but warned that government may have to implement reforms in order to make sure SAA is attractive for the potential investors.

#### AWCA submitted that part of the reforms should ensure that the boardrooms of the SOEs, at both board and executive levels, is inclusive of women executives, in line with the 2014 Women Empowerment and Gender Equality Act which calls for at least 50 per cent representation of women in decision-making structures. If further submitted that qualified board members with key skills including finance, risk management, technical, law, economics, entrepreneurs amongst others should be appointed.

### **ShotSpotter**

#### ShotSpotter’s emphasized the use of smart technology in policing to more efficiently allocate the limited budget. It said that despite the public anger at violent crimes, no additional funding was being allocated to policing.

#### ShotSpotter argued that crime is taking a knock on the macro-economy. It said that South Africa has developed a reputation for its unacceptable levels of violent crime and this seriously dampens investor sentiment at a time when investment to provide jobs is desperately needed.

#### It said that the use of smart technology to fight crime is a cost effective and efficient way to fight crime because even when the government cannot spend more, it can spend better. Addressing crime with a limited budget will be difficult, but not impossible as long as the budget is used in the correct way, it added.

### WoMin African Alliance and International Rivers

#### WoMin made submissions on the allocation to the Department of Energy of financing for the Grand Inga Dam Project in the Democratic Republic of Congo. It said that while the Department of Energy’s budget does not specifically mention the Grand Inga Dam Project, it believed that the Department of Energy will be incurring expenditure in the coming financial year and beyond in the development of this project because of:

##### The treaty entered into between the RSA and the Democratic Republic of Congo committing South Africa to obtaining energy from the Grand Inga Dam Project.

##### The 2011 Memorandum of Understanding between RSA and the Democratic Republic of Congo committing South Africa to obtaining energy from the Grand Inga Dam Project.

##### The 2019 Integrated Resource Plan published by the Department of Energy.

##### The Department of Energy’s Budget Vote 26 allocation to Foreign Governments and International Organisations under Programme 6: Clean Energy.

#### WoMin explained that the Grand Inga Dam Project is intended to be implemented by the South African government which has undertaken to facilitate the mobilization of its financial resources required for the development of the project. It said that the project will entail significant public expenditure over many years. To date, concerns have been raised over governance issues regarding the project evident from the World Bank report supporting their withdrawal from the project in 2016, WoMin said.

#### WoMin said that the South African government has committed to this project without there being any independent South African project appraisal and risk assessment of this project. It said that the Treaty required a feasibility study meaning “a report regarding the technical, financial, legal and regulatory aspects of the project to facilitate decision making regarding the optimal options to be undertaken for its development.” It recommended that the Budget Facility for Infrastructure (BFI) should be tasked to conduct a project appraisal and rigorously assess the feasibility, risks and proposed financing arrangements

#### It recommended that before the South African taxpayer can underwrite any aspect of the development of this project, Parliament must ensure that a transparent and participatory process is undertaken in order to interrogate such feasibility. It said this will ensure that any budget allocation to it this project is Constitutionally compliant. It emphasized that Parliament is obligated to promote and ensure transparency in procurement, and in national, provincial and municipal budgetary processes. It further said that the Department of Energy’s current procurement process for the Grand Inga Project has not been conducted in a transparent manner. Parliament should take steps to make the process transparent, in line with its constitutional obligations, WoMin urged.

#### WoMin further recommended that Parliament ensures that the Department of Energy provides information to Parliament as to amounts of its proposed budget it intends to spend on any aspect of the development of the Grand Inga Hydroelectric Power Project and associated infrastructure such as the transmission lines.

#### Lastly, WoMin recommended no funds or loan guarantees should be approved for expenditure on the Grand Inga Dam Project until Eskom has demonstrated that it is financially sustainable.

### **Budget Justice Coalition**

#### BJC raised concerns about the impacts that the deepening of austerity proposed by the 2019 MTBPS would have on various sectors. Amongst other things, it submitted that austerity is bad for economic growth, employment, equity and public services. It recommended alternatives to austerity as follows:

##### Feminist budgeting: Gender responsive budgeting and planning that is intersectional in its approach, where all government departments and agencies must be required to provide disaggregated data, by gender, race, class, levels of poverty, disability, and age; in relation to programme implementation and in relation to service delivery, and in budget allocations and expenditure.

##### Six principles for a fiscal plan: Consider a stimulus package to stimulate economic growth; consider stimulus and growth independently from equity and sustainability; address SOE debt over the medium term; consider progressive taxation to raise additional revenue; crowd in additional resources without excessive reliance on the private sector and promote long term structural transformation.

##### Taxes and revenue: Consider a high level overview of the tax system in SA; review indirect taxes and its disproportionate burden on the poor; restore South Africa’s statutory corporate income tax rate to early 2000s levels; end tax breaks for the rich; tax the rich more; increase tax rate ceiling from 25 per cent of GDP to 32 per cent; address illicit financial flows, base erosion and profit shifting; address SARS capacity to collect revenue and ensure transparency to re-establish trust and confidence in our tax system.

##### Public debt: Cut wasteful expenditure; make limited cuts to expenditure; accept that South Africa will have, for the medium term, significantly higher levels of debt (this would entail setting the debt target much higher, e.g. at 70 per cent of GDP, and announcing this. This will stop the regular increases of projected debt levels which undermine market confidence) and manage SOE debt.

##### SOEs: National Treasury should present to the Finance Committees on the project applications that have been made to the Budget Facility for Infrastructure and specifically request clarity on whether the Grand Inga Project has been properly appraised; Undertake oversight visits to Eskom, SABC, SAA, Denel and South African National Roads Agency Limited (SANRAL) to determine whether these SOEs are taking sufficient measures to better manage their finances including tighter management of their procurement functions; ensure that all SOEs that require loan guarantees disclose the full details of all loan agreements that it enters into; request that Treasury provide full disclosure of pre-conditions given to any SOEs that obtain special appropriations and regularly reports to Parliament on the compliance of SOEs with the pre-conditions; request that Treasury and the Department of Public Enterprises present on plans to manage Eskom’s debt; request Treasury to present on how it is performing its oversight function to ensure that fiscal risks entailed in contingent liabilities do not materialise and to highlight where SOEs are non-compliant with Treasury's requests or are failing to implement turnaround plans; engage the PBO and the FFC to ask if they can identify existing allocations and areas of underspending that can be applied to reskilling and supporting mine workers and to boosting other sectors in the economies of provinces hardest hit by job losses in the mining sector; ensure that responses to the country’s environmental crises are adequately met with financial and human resource capacity by ensuring strategic coherence between the departments of Environmental Affairs as well as Agriculture, Forestry and Fisheries Agenda 2030 and the National Development Plan commitments; request an investigation into financial mismanagement at Nuclear Energy Corporation of South Africa (NECSA) and consider inviting Collaborative Africa Budget Reform Initiative (CABRI) to present on the measures that can be taken to better manage the risks that contingent liabilities present.

##### Dealing with corruption: It called on Parliament to hold Ministers, MECs, and high-ranking officials in departments with audit findings acccountable for their performance.

##### Social stimulus: Expand employment within the public health sector, particularly community health workers; implement a health management information system and improve health financing to align health expenditure in support of inclusive growth by prioritising the health sector infrastructure investments in areas where the greatest impact can be had.

##### A sustainable public sector wage bill: Protect and advance frontline services; decompose the wage structures and identify where the wage bill gets spent; review the role of government as a provider of employment in the presence of high unemployment; enable departments to make better use of performance management options and review the early retirement plan.

### **Rural Health Advocacy Project**

#### RHAP raised concerns on the revenue raising proposals and harsh austerity measures in the form of spending cuts. It said that these will exacerbate poverty and inequality and retard job creation and economic growth.

#### It submitted that any cut in health expenditure is gender negative because women are the biggest users of the health care system and in the majority of cases, serve as primary caregivers to dependents, both children and relatives. It said that for the provision of health care in rural contexts, carefully considered budgets are essential to ensuring that sufficient resources are available to deliver on activities and meet objectives.

#### RHAP recommended that departments and National Treasury need to ‘rural-proof ‘budgets before they are finalized, to mitigate the effects of austerity. It said that an effective manner to ‘rural-proof’ budgets was to adopt a rural adjuster that accounts for factors such as economies of scale and the higher unit costs of goods and services in rural settings. A rural adjuster could be included in budgeting guidelines that National Treasury issues to provinces to use when they undertake their budgeting or it could be built into a resource allocation formula used to determine the proportion of available resources a province or department should receive.

#### It recommended that:

##### The Finance Committees consider taking a lead on reigniting the Women’s Budget Initiative that prepared women and children’s budgets.

##### In order to mitigate the effects of austerity on people living in rural settings, particularly women, a rural adjuster is included in budgeting guidelines that National Treasury issues to provinces.

##### The Committees request a presentation on the District Health Coordination model in order to seek clarity on how the procurement mechanism will be transparent and accountable.

### **Pietermaritzburg Pensioners Forum**

#### The PPF expressed its disappointment at the R80 per month increase to the old age grant. They are of the view that government was not taking old-age grant recipients serious. It highlighted that for the past two years, the PPF had made numerous written and oral submission on the budget to the Parliamentary Committees and had further written letters to the National Treasury, the President and the Africa National Congress (ANC) caucus on the plight of age-old grant recipients.

#### It submitted that the R80 increase to the old-age pension grant did not seek to address challenges faced by pensioners such as the increased VAT, the increase on fuel prices, higher food inflation and the high unemployment rate that affects their children which they in turn had to support with their grant money. The PPF submitted that the old age grant which is currently R1 780.00 per months should be increased more substantially to cater for these considerations.

#### The PPF further appealed for a bonus payment of the old-age grant in December to cater for the holiday season.

### **Helen Suzman Foundation**

#### The Helen Suzman Foundation (HSF) wrote to the Committee to raise issues related to the relationship between the MTBPS and the Budget. The Committee considered the letter and across political parties decided that as the HSF letter raises primarily legal issues, the Legal Services Unit be mandated to reply to it.

## REVISED FISCAL FRAMEWORK: COMMITTEE OBSERVATIONS AND RECOMMENDATIONS

### The Committee reiterates its concern about the persistently deteriorating macroeconomic picture of low growth, failure to achieve targets set, high and increasing debt level, which are bordering on threatening future generations, and the goal post shifting in terms of budget deficit stabilisation.

### The Committee acknowledges the initial efforts by the National Treasury in developing an economic recovery plan, which seeks to restore South Africa to a sustainable growth trajectory. However, the Committee believes that National Treasury needs to engage more with other departments and external stakeholders to shape a more consensual approach to sustainable economic recovery.

### For several years now, National Treasury’s GDP growth forecasts have been overestimated and this had various repercussions, including for the country’s financing needs. In the 2019 MTBPS, the trend continues, where the National Treasury has revised its growth forecasts downwards, by 1.0 percentage point, from 1.5 per cent as projected in February 2019, to 0.5 per cent. By National Treasury’s own admission, economic growth forecasts carry with them huge economic and fiscal risks, which will most likely negatively affect the credibility of the fiscal framework, if they materialise. The risks identified previously, always materialised, leading to huge revenue shortfalls, a fiscal framework that cannot be trusted and expenditure plans that are not implementable.

### In the 5th Parliament, the Committee recommended that National Treasury quantifies, in monetary terms, and consistently monitor and manage the economic and fiscal risks identified and report progress made on quarterly basis to the Committee. Based on past experience and Moody’s recent downgrading of South Africa’s investment status to a level above “junk status”, the 2019 MTBPS forecasts may still be too optimistic. The Committee appreciates the global and domestic economic, political uncertainties and volatilities that make it difficult to reasonably accurately forecast GDP growth figures but recommends that National Treasury draw in more independent expertise in its forecasting process to improve the credibility of the fiscal framework and better manage the economic and fiscal risks associated with its forecasts.

### The Committee believes that debt is now likely to crowd-out expenditure on basic services. The Committee will, in the quarterly briefing with the National Treasury, engage further on this and the feasibility of debt management rules in light of an extremely constrained fiscus, which left limited to no room for stimulus.

### The Minister of Finance agreed that high debt now will burden future generations if it is not managed properly and the situation is unsustainable. We therefore require the National Treasury to report quarterly on the effectiveness of its debt management strategies, that would ensure that the level of debt stabilises over the medium term as the current situation is not sustainable.

### The Committee cautiously welcomes measures to improve governance and leadership in SOEs, particularly at Eskom and South African Airways. The Committee urges government to finalise the appointment of a new Eskom CEO as soon as possible. The Committee is concerned that SOEs continue to pose significant risks to the fiscal framework due to, among other reasons, corruption, mismanagement, operational inefficiencies and rising financial costs. The Committee expresses its concern that the overall debt of SOEs is estimated at R529.4 billion in 2019/20, of which Eskom accounts for 55.7 per cent. The Committee believes that this is key to turning the financial position of these entities and reducing their reliance on state bailouts.

#### The Committee urges the government to finalise the Shareholder Management Bill.

#### The Committee further urges the National Treasury and the Minister of Public Enterprises to strengthen their efforts in restoring the SOEs to financially stability and profitability so that these SOEs can support economic transformation and strengthen the state’s ability to accelerate national development.

#### There is also an urgent need to secure an equity partner for SAA and finalise the process of rationalising the relationship between SAA, SA Express, and Airlink.

### In a previous Fiscal Framework Report, the previous Committee noted: “The Committee expresses its serious concern that although the Committee Chairperson wrote to the Presidency on 15 November 2018 regarding the Fiscal Cliff Study Group’s proposal that members of the executive and government officials buy cars manufactured in South Africa for official use and following up on this, including with the President’s Parliamentary Counsellor about 10 days before the Budget, there has been no reply.” The Committee expresses its criticism of the Presidency for its failure to reply and requests the Committee Chair to insist on a response from the Presidency as soon as possible.

### The Committee believes that the public sector wage bill needs to be reviewed and this has to be done in consultation with the public sector trade unions. The same approach should also apply to employees in the SOEs. The Committee refers this matter to the Appropriations Committee.

### The Committee supports the new approach to project planning, budgeting, preparation and implementation and welcome the progress of the Budget Facility for Infrastructure technical team. The Committee believes that government needs to do much more to reduce corruption and wasteful and unnecessary expenditure and significantly improve the efficiency and quality of spending also in light of the Auditor General’s announcement of continued increases in wasteful, fruitless and irregular expenditure which stood at a total of R63.4 billion in 2018/19. Irregular expenditure increased from R52.7 billion in 2017/18 to R61.4 billion in 2018/19. The National Treasury should report progress made to the Committees on Appropriations in both the Houses of Parliament.

### The Committee acknowledges the cost containment measures implemented by the National Treasury and proposes that in addition to that, government should reduce the costs associated with the number of officials travelling to Cape Town by considering video conferencing, and regulating and coordinating international trips and travel.

### In the 5th Parliament, the Committee in its 2018 MTBPS fiscal framework report noted: “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 percent 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, National Treasury 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”.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. The Committee reiterates its views and refers the Pietermaritzburg Pensioner’s Forum submission to the Appropriations Committee.

### As previously recommended, the National Treasury, the SARB, the SARS and the relevant stakeholders should improve their efforts in addressing illicit financial flows (IFFs) as far too many billions of rands are lost to the country each year. The Committee acknowledges improvements in tackling IFFs in the past few months and appreciates the work currently being done, but far more needs to be done to reduce the huge revenue losses from the illicit financial flows and the illicit economy as a whole, including the illicit tobacco trade.

#### The Committee requires the National Treasury and the SARS at their quarterly briefings to report on progress made in addressing the Illicit Financial Flows. As necessary these briefings should at times include the SARB, Financial Intelligence Centre (FIC), Hawks, National Prosecuting Authority (NPA) and other relevant agencies. As part of the overall fight against the growing illicit economy,

#### The Committee recommends that the National Treasury and SARS meet with relevant structures in the tobacco industry within three weeks to accelerate the campaign to combat the illicit tobacco trade.

### The Committee notes the submissions made by the WoMin African Alliance and International Rivers regarding the funding for the Grand Inga Dam Project in the DRC. In its response to the abovementioned stakeholder, National Treasury said that no money has been allocated to this project. The Committee stresses that should money be allocated to this project, it be done openly and transparently and there should be appropriate reporting to Parliament. The Committee recommends that the WoMin Alliance and International Rivers refers their concerns to the Minerals and Energy Committee.

## PROPOSED FISCAL FRAMEWORK: OBSERVATIONS AND RECOMMENDATIONS

### Several of the issues raised in Section 5 overlap with the issues raised in this Section, and so the recommendations made below should not be mechanically separated from those made in Section 5 above. Moreover, the submissions made in the public hearings do not draw a clear distinction between the revised and proposed fiscal frameworks.

### The Committee expresses its serious concern that the Medium Term Strategic Framework (MTSF) has not yet been finalised when this was supposed to have been done by the end of the 3rd quarter. The Committee urges that government does this as soon as possible, so that the MTBPS can also be evaluated more rigorously.

### The Committee recommends that National Treasury factors in all potential risks in its medium term forecasts, which have significant financial implications on revenue collection and debt levels, amongst other things. These include but are not limited to South Africa’s potential downgrading by Moody’s credit rating agency, to “Junk Status” in February 2020, unforeseen circumstances such as strike action, which previously wiped off 0.5 percentage points of GDP and electricity supply shortages. The Committee recommends that the National Treasury give a much more detailed explanation to it for the basis of its forecasts at future presentations of the Budget and the MTBPS.

### The Committee notes with concern, the direct impacts of inaccurate economic growth forecasts on tax revenue collection by SARS. We are concerned that the revenue shortfall increases from a projected R14.5 billion in 2018/19 to R52.5 billion in 2019/20 and R84 billion in 2020/21 and that the scope for further tax increases has also narrowed. The National Treasury should support SARS more actively, including financially and in rebuilding the organisation without interfering in its operational matters. SARS, National Treasury and the law enforcement agencies need to work far more effectively in processing cases against any staff members legitimately accused of financial misconduct and corruption.

### National Treasury and SARS needs to develop its policies and capacity to tax the digital economy more effectively and is required to report on this to the Committee at the first quarterly briefing of 2020. In addition to that, there should be a specific focus on this matter, amongst others, through a special joint sitting of Finance Committees, independent experts, the SARB, the SARS and PBO to look specifically into this matter.

### SARS need to work together with the relevant stakeholders to address the root causes of fiscal leakages emanating from, but not limited to, RAF claims, medico legal claims and police litigations, particularly those resulting mainly from negligence.

### Overall, there is an urgent need to quantify the extent of fiscal leakages and effectively conduct oversight over large infrastructure projects because leakages occur in instances of non-compliance with rules and procedures, corruption, no consequences for financial misconduct and poor or ineffective fiscal oversight.

### The Committee is concerned about a constantly increasing gross debt to GDP ratio, a projected increase from R3.2 trillion in 2019/20 reaching R4.5 trillion in 2022/23 (71 per cent by 2023) as this is likely to burden future generations if concerted efforts are not made to sustainably reduce it. The persistently widening budget deficit, expected to peak at 6.5 per cent in 2019/20, a level last experienced during the 2009 recession, is a cause for concern, since there does not appear to be a point of stabilisation over the medium term. The Committee also notes that debt service costs have become the fastest growing expenditure item, costing the national fiscus R203.7 billion per annum (13.7 per cent) in 2019/20 and are expected to reach almost R300 billion in 2022/23. These funds could be utilised for other competing economic and social needs. The Committee recommends that National Treasury do far more to incrementally reduce the debt to GDP ratio and report on progress on this at its quarterly briefings.

### The Committee notes that the 2019 MTBPS budgeted contingency reserves amounting to R18 billion over the medium term or R6 billion each year. These amounts are not adequate and are likely to leave South Africa susceptible to external and internal shocks in an event of unforeseen circumstances such as imminent dangers of food security and water scarcity, including through potential floods and drought. The Committee urges the National Treasury to quantify and factor in these potential risks in the economic growth forecasts and the overall fiscal framework. The Committee will discuss these risks further in the next quarterly briefing.

* + 1. The Committee notes the concerns of the FFC about National Treasury’s approach to it, and believes that National Treasury needs to take more effective account of the constitutionally-defined role of the FFC and engage with it appropriately.

The Committee recommends to the House to adopt the Revised Fiscal Framework as tabled by the Minister of Finance.

Report to be considered