Report of the Select Committee on Finance on the 2019 Fiscal Framework and Revenue Proposals, dated 05 March 2019

The Select Committee on Finance, having considered the Fiscal Framework and Revenue Proposals tabled by the Minister of Finance on 20 February 2019, reports as follows:

1. INTRODUCTION

1.1. The Minister of Finance, Mr Tito Mboweni tabled the 2019/20 national annual budget (the Budget), the estimates of national expenditure, the Division of Revenue Bill and the Appropriation Bill before Parliament on 20 February 2019. The national budget was tabled in line with section 27 of the Public Finance Management Act, Act No. 1 of 1999 (PFMA) and section 7 (1) of the Money Bills Amendment Procedure and Related Matters Act, Act No. 9 of 2009 (Money Bills Act).

1.2. The Minister briefed the Committees on Finance and Appropriations of both Houses on 21 February, together with the Director-General, Mr Dondo Mogajane and senior officials from the National Treasury (NT). The Committees received a post-budget input from the Parliamentary Budget Office (PBO) in line with its statutory mandates. Public hearings were held on 28 February and the National Treasury responded to the inputs and submissions made on 2 March, addressing the specific requirements of section 8 (3) of the Money Bills Act. Civil society participants then replied to the submissions by NT and members of the Committees engaged with both the participants and NT.

1.3. 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), the South African Institute of Tax Professionals (SAIT), PriceWaterhouseCoopers (PwC), the Organisation Outdoing Tax Abuse (OUTA) and, Priority Cost Effective Lessons for Systems Strengthening South Africa (Priceless SA)

1.4. The following organisations made written submissions but did not make oral submissions: PRICELESS, South African Insurance Association (SAIA) and Civil Society Organisations on Gender Based Violence

1.5. The National Treasury responded to the submission and engaged with the Committee on 01 March.

2. POLITICAL OVERVIEW BY THE MINISTER OF FINANCE

2.1. The Minister of Finance emphasized the need for the public to understand that there was no endless supply of money in the fiscus. He explained that the low economic growth is being accompanied by increasing expenditure demands for social needs and public services. He said that with the increasing population putting pressure on expenditure items such as hospitals and schools, the country's expenditure far outweighed revenue collection. This led to a huge budget deficit which has to be financed through borrowing, thus increasing debt service costs, he said.

2.2. The Minister said that the biggest risks to the fiscal framework were the State Owned Enterprises (SOE's) and the increasing public sector wage bill. He said that if SOEs such as Eskom, South African Airways, the South African Broadcasting Corporation (SABC) and Denel required more money from the fiscus, the state will now appoint chief reorganisation officers, who will work with the Board and management in the same manner that a curator is appointed for private companies in trouble. He said that government will now be very strict as it wants its resources to be properly looked after.

2.3. The Minister warned about the upward trajectory of the debt-to-GDP ratio, which is set to reach 60.2% in 2023/2024 and 60.1% the following year. He warned that this trend will lead commentators to talk of the dangers of a debt trap and lead people to think that SA cannot manage its finances and that it might need assistance. He said that the debt-to-GDP ratio should be managed down to below 40%.

2.4. He said that Eskom will receive an allocation of R23 billion per annum over the medium-term. He said that government had set concrete measures as Eskom undergoes its unbundling into three separate entities responsible for generation, transmission and distribution. He said that unbundling would ensure more competition on the electricity generation side, which will benefit consumers.

2.5. Adding to the Minister's overview, the Director-General highlighted a series of economic and fiscal measures intended to move the economy unto a new trajectory and reduce the long-term risks to South Africa's public finances.

2.6. Mr. Mogajane said that the central economic policy goal for government is to accelerate inclusive growth and job creation. He said that its main fiscal objective is to ensure sustainable finances by containing the budget deficit and stabilizing public debt. He explained that the 2019 Budget proposals support these objectives. Other goals were to: support the restructuring of the electricity sector, reduce the immediate risk of Eskom to the economy and public finances, renew economic growth by strengthening private sector investment, improve the planning and implementation of infrastructure projects and, rebuild state institutions.

2.7. He said that the risks to the fiscal and economic outlook remained elevated. The domestic risks included SOEs, load shedding, higher electricity prices, prolonged industrial action in mining, adverse weather conditions, tax buoyancy and the SARS reorganization process. On the international front, the risks were the slower growth in China, trade frictions, the terms of Brexit, and the potential banking sector risks in Europe.

2.8. On SOEs, the DG said several entities were struggling to meet their debt obligations, with return on equity deteriorating to -0.3 percent in 2017/18. He said that this reflected weak revenue growth, high cost structures, growing debt-service costs flowing from a decade long accumulation of debt that weighed heavily on profitability. He explained that government had initiated reforms to strengthen the governance, financial management and operations of SOEs, with Eskom being the immediate focus.

2.9. He said that in its current form, Eskom was not financially sustainable and could not meet the country's electricity needs. He said that establishing a more competitive electricity sector will improve business and consumer confidence, encourage private sector investment and reduce upward pressure on prices. He said that the R23 billion per annum financial support to Eskom will enable it to service its debts, meet redemption requirements, secure the necessary liquidity to undertake urgent maintenance and restore stable electricity supply. He added that further steps in restructuring the electricity market will be announced in the months ahead.

2.10. The DG noted that the GDP outlook has been revised down since the 2018 MTBPS from 1.7 percent to 1.5 percent due to weak employment and investment growth. He said that CPI inflation is increasing and expected to be 5.2 percent in 2019 due to rising food inflation and electricity prices. He however said that progress was being made on growth enhancing reforms including preparations to; allocate the telecommunications spectrum, reform visa requirements and remove barriers to mining investment. He highlighted the reprioritized spending in the budget to support black commercial farmers, revitalize township and industrial parks, rebuild the South African Revenue Service, address urgent matters in health and education including the filling of critical medical posts, completing school sanitation projects and, improve the quality of public infrastructure projects.

2.11. The DG said that owing to natural attrition, government was managing the public service wage bill as employee numbers were declining at a rate sufficient to absorb the 2018 wage agreement. He said that new employees tended to be younger and lower ranked than employees who were leaving the public service. He said that over the medium term, government will take additional steps to manage growth in compensation of employees. He said that the proposed reduction to compensation budgets amounted to R5.3 billion in 2019/20, R11 billion and 10.7 billion in 2020/21 and 2021/22 respectively. One of the interventions included early retirement without penalties.

3. OVERVIEW OF THE NATIONAL BUDGET – FISCAL FRAMEWORK

3.1. Revenue collection has deteriorated in relation to estimates since the 2018 MTBPS. The revenue shortfall has now increased to R42.8 billion compared to the R27.4 billion initial revenue shortfall for 2018/19. National Treasury has attributed the shortfall to persistent weak economic activity in corporate income tax. Clearing of VAT refund backlog will also reduce the net revenue collection.

Table 1 Consolidated fiscal framework

R billion/percentage of GDP	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	Outcome			Revised estimate	Medium-term estimates		
Revenue	**1 215,3**	**1 285,9**	**1 353,5**	**1 455,2**	**1 583,8**	**1 696,4**	**1 836,6**
	29,4%	*29,1%*	*28,7%*	*28,8%*	*29,3%*	*29,2%*	*29,4%*
Expenditure	**1 366,3**	**1 443,0**	**1 543,8**	**1 665,4**	**1 826,6**	**1 948,9**	**2 089,0**
	33,1%	*32,7%*	*32,7%*	*32,9%*	*33,7%*	*33,5%*	*33,4%*
Non-interest expenditure	*1 227,9*	*1 288,6*	*1 374,0*	*1 476,7*	*1 617,2*	*1 716,2*	*1 833,1*
	29,8%	*29,2%*	*29,1%*	*29,2%*	*29,9%*	*29,5%*	*29,3%*
Budget balance	**-151,0**	**-157,0**	**-190,3**	**-210,2**	**-242,7**	**-252,6**	**-252,4**
	-3,7%	*-3,6%*	*-4,0%*	*-4,2%*	*-4,5%*	*-4,3%*	*-4,0%*

Source: National Treasury

3.2 The allocation to Eskom is the main driver for consolidated expenditure. The reconfiguration of Eskom is totalling R69 billion over the MTEF period. Eskom continues to be the significant driver of SOE borrowings. A large proportion of SOE’s borrowing over the medium term will refinance debt.

3.3 In the context of weak economic growth and the need to address the large risk posed by Eskom, the 2019 Budget proposes large-scale expenditure reprioritisation and tax measures that narrow the deficit from 4.5 percent of GDP in 2019/20 to 4 percent by 2021/22.

4. INPUT FROM STATUTORY INSTITUTIONS

4.1. Parliamentary Budget Office

4.1.1. The Parliamentary Budget Office (PBO) said that the 2019 Budget priorities included narrowing the budget deficit, stabilising the debt-to-GDP ratio, supporting the restructuring of the electricity sector, economic growth renewal through strengthening private sector investment, improving the planning and implementation of infrastructure projects and, rebuilding state institutions.

4.1.2. The PBO stated that government had revised its economic growth expectations downward. It said that improvements in business, consumer confidence and more effective public infrastructure spending will be negatively affected by slower global growth.

4.1.3. The PBO submitted that to support future growth government ought to stabilise SOEs, reduce policy uncertainty and blockages and, strengthen state capability through comprehensive structural reforms.

4.1.4. The PBO noted that government estimates of household consumption and investment growth were low. It further noted that poor household demand and deteriorating global conditions may pose downside risks to investment in South Africa despite the investment summit pledges.

4.1.5. The PBO submitted that government should arrest fiscal slippage in order to prevent a further credit downgrade as any downgrade by Moody’s will have significant adverse effects on public finances, growth and development. It said that in the event of a downgrade, South African bonds will be excluded from the global bond indices and result in a sell-off which will weaken the Rand. A downgrade will also lead to further increases in borrowing costs, it said. The PBO said that Moody’s opinion due at the end of March was contingent on the credibility and implementation of plans to address the fiscal situation of SOEs.

4.1.6. The PBO noted that despite increases in tax, revenue as a percentage of GDP showed a declining trend for the previous two years. It said that corporate income tax (CIT) was expected to decline over the medium term despite expected economic growth. It said that government should explore boosting its revenue by also taxing income and profits from the digital economy.

4.1.7. The PBO said that the Budget Facility for Infrastructure technical team had strengthened state capacity to consider and budget for complex infrastructure projects. It submitted that projects that do not represent value for money needed to be turned down. It also noted that the government infrastructure plans amounted to R526 billion over the medium term.

5. INPUTS FROM STAKEHOLDERS

5.1. **Congress of South African Trade Unions**

5.1.1. The Congress of South African Trade Unions (COSATU) acknowledged the partial successes of the Jobs Fund and Industrial Business Incentives. It said that it had hoped to hear from the Minister what the government would do to take the economy from 1% to 3% growth. COSATU said there were messages it had hoped to hear from the Minister's budget speech such as the role of the SARB in protecting and creating jobs and growing the economy, in addition to protecting workers from inflation.

5.1.2. COSATU said that it was disappointed about carbon tax and on the increase in the health promotion levy (sugar beverages tax) as it appears that government had abandoned its transition commitments to protect vulnerable workers' jobs in those sectors.

5.1.3. COSATU submitted that there was still space to increase company tax from 28 to 30% without spooking investors. It further said there was space to increase personal income tax for those earning above R1.5 million per annum. It submitted that there was a need to increase inheritance and estate duty taxes for the wealthy.

5.1.4. COSATU said that it does not believe that expenditure and debt management need to be achieved through austerity. Instead it needed to be managed through curbing corruption, wasteful expenditure and rollovers as the office of the auditor general had estimated that up to 10 percent or R150 billion was lost every year from these. While it applauded the projected R526 billion allocation to infrastructure, COSATU said that government needed to put measures in place to prevent this allocation from falling into the hands of looters.

5.1.5. COSATU said that it welcomed the freezing of Cabinet members' salaries and below-inflation increases for senior management. It submitted that national and provincial cabinets and mayoral committees can easily be cut by 50 percent and accept salary cuts of 25 percent. COSATU said it was pleased that the public sector wage bill was, in fact, stable, appropriate and in line with international norms at 35 percent in spite of what it said is the Minister's inflammatory and misleading rhetoric about it threatening the state's survival. It said that whilst government was boasting about the declining numbers of public servants, it failed to mention how this was resulting in long queues at hospitals and home affairs, rising teacher-learner ratios in classes and declining policing levels, among others. COSATU submitted that government needed to reduce the bloated cabinet and executive structures and not reduce and overwork service delivery workers.

5.1.6. It said that it was not convinced that the unbundling at SOEs will address the ballooning management costs and said that it welcomed government's plans to ensure tighter oversight over the SOEs. COSATU said that government needed to explain more clearly what it means by introducing equity partners in SOEs.

5.2. **Budget Justice Coalition**

5.2.1. The Budget Justice Coalition (BJC) said it believed that reshaping the current tax mix towards more tax justice, better oversight of state expenditure and an increased focus on fighting tax evasion and avoidance can relieve the burden that has been imposed on the poor and working class by increasing taxes.

5.2.2. The BJC said there is a need for much greater focus on employment and economic growth in monetary policy - that is, new approaches to interest rates, exchange rates and inflation targeting that are best suited to the social conditions facing South Africa. It said that there was a need for much greater policy coherence and active collaboration between the National Treasury, the South African Reserve Bank (SARB) and the social and economic departments. It further said that as per the UN Committee Recommendation 17(e), South Africa needs to re-examine its growth model in order to move towards a more inclusive development path.

5.2.3. It said that based on the UN Committee recommendations to South Africa, the country has to review fiscal policy in order to improve its capacity to mobilize domestic resources, consider revising the Equitable Share Formula for both local and provincial government to reduce regional disparities, increase the funding in social security and services, and task the DPME with ensuring that public policies are directed towards realising the rights of the covenant.

5.2.4. The BJC called on NT to take action to end austerity by ensuring real per capita increases in non-interest government expenditure over the medium term. It should also measure the cumulative impact of previous and existing budget cuts on the rights of the disadvantaged and the marginalised. It should also institute cost containment measures that comply with human rights standards of equity

5.2.5. On revenue, the BJC said that there has to be a review of the tax regime to ensure transparency and participation. There was a need to increase tax rates on personal and corporate income and wealth. They said that there is a need for a permanent annual net wealth tax of between 0.5 to 2 per cent. Capital gains and estate duty taxes need to be raised, the BJC said. The BJC said that a land property tax needed to be introduced and VAT needed to be reduced to 14 percent. It further said that rates of increase for the fuel levy and road accident fund levies needed to be reduced. It further urged for the implementation of the Davis Tax Committee recommendations on curbing tax evasion and avoidance.

5.2.6. The BJC made further recommendations on improving state capacity to end corruption and the looting of state resources by providing full budgetary support to the law enforcement agencies. It further called for more improvement and transparency on the budget process through the filling of all vacant posts at National Treasury, improving parliament's capacity to scrutinise budget proposals through the filling of all posts within research units, especially at the Parliamentary Budget Office, providing civil society movements more space and time to meaningfully participate in the formulation of budgets of the three spheres of government and, clarifying the role of the mandate paper and the Department of Planning Monitoring and Evaluation (DPME) in the budget process.

5.3. **Pietermaritzburg Pensioners' Forum**

5.3.1. The Pietermaritzburg Pensioner's Forum (PPF) expressed disappointment at the R80 per month increase to the old age grant and said that they did not see the need to vote as pensioners seem not to be taken seriously.

5.3.2. The PPF said its members had been to Parliament before and have written several letters to the ANC Caucus, Minister Mboweni and President Ramaphosa about their call for pensioners to receive a double payment for December to ameliorate hardships caused by food inflation and the increase in VAT.

5.3.3. They submitted further that there was a need to equalise old age pension grants with the National Minimum Wage and be increased towards a living wage.

5.3.4. Quoting the Standing Committee on Finance 2018 Medium-Term Budget Policy Statement for the revised fiscal framework report of 24 October 2018, which reads: "…National Treasury considers a higher increase in grants than is usually the case by reprioritising expenditure …" the PPF said that it was of the view that the National Treasury did not listen to the Committee.

5.4. **Priority Cost Effective Lessons for Systems Strengthening South Africa (PRICELESS)**

5.4.1. PRICELESS SA said it supported the continued implementation of the Health Promotion Levy (HPL) as a taxation on sugar-sweetened beverages (SSBs). It said that this measure would help to reduce consumption of sugary beverages and improve the health of South Africans.

5.4.2. It reiterated the importance of the HPL in the context of the increasing severity of the epidemic of non-communicable diseases in South Africa. It said that while the increase proposed is limited to an inflationary increase, it nonetheless supported the increase as a means to strengthen and improve the HPL.

5.4.3. PRICELESS SA further recommended that the Customs and Excise Act be amended to build an annual inflationary increase into the HPL to ensure the tax is not eroded in future years.

5.5. **Fiscal Cliff Study Group**

5.5.1. The Fiscal Cliff Study Group (FCSG) said that its research showed that social assistance payments, civil service remuneration and debt-service costs will absorb all government revenue. Based on information contained in the 2019 Budget, compensation of employees, social assistance payments and debt-service costs amounted to 71,8 percent of tax revenue, it said. This is a deterioration from the February 2018 budget, when this ratio was 70,5 percent of tax revenue and stood in stark contrast to 2007/08, when this ratio was 55,0 per cent.

5.5.2. The FCSG said that the fiscal cliff barometer, which is calculated on the basis of projected developments in social assistance payments, civil service remuneration and debt-service costs, compared to the projected development in the government's tax revenue, showed a deterioration over the past year since the 2018 budget.

5.5.3. Based on data in the 2019 budget, the fiscal cliff barometer reading is 0.39, which is much higher than the barometer reading of 0,19 of the 2018 budget, therefore representing a considerable deterioration over the past year. Based on trends manifesting in the 2019 budget, South Africa will reach a fiscal cliff in 25 years - by 2044.

5.5.4. The FCSG said that Government cannot afford to increase taxes any further as the top of the laffer curve had been exceeded. It further said that the National Treasury should use more conservative economic growth forecasts to regain public confidence as the forecast were normally off the mark

5.5.5. The FCSG submitted that the large range of differences in expenses between Cabinet ministries indicated that clearer budget guidelines should be urgently implemented. It further submitted that the personal income tax returns of the President, Deputy President, Ministers and Deputy Ministers should be made public.

5.6. PriceWaterhouseCoopers (PWC)

5.6.1. PWC said that it welcomed the discussion regarding the restructuring of Eskom and noted the commitments made with regards to setting strict conditions for the bailout. It said that it noted that financial support for SOE's will be raised from the sale of non-core assets.

5.6.2. PwC welcomed the steps taken to manage the wage bill which including allowing natural attrition to take its course, applying active measures such as encouraging early retirement without penalties and the changing of the performance bonus payment system. It said that it was disappointed that not much detail had been provided in the budget with regards to the reconfiguration of government departments and hopes that concrete announcements will be made in the 2019 MTBPS.

5.6.3. PwC raised concerns about the accuracy and reliability of the revenue forecasting models and processes adopted by NT. It suggested that revenue forecasts for 2019/20 could be overestimated. It further said that tax buoyancy constituted a significant fiscal risk. PwC submitted that there was no room left to increase personal income taxes and welcomed the decision not to increase rates on companies.

5.6.4. It said that while the NT needed to curb structures that undermine the rules governing share buy-backs and dividend stripping, it was important for such measures to be designed appropriately in the first place in order to avoid loopholes.

5.6.5. It submitted that the proposed implementation date for carbon tax was not aligned with the Greenhouse Gas Reporting Regulations, which are reported for a full calendar year. It said this will create significant compliance and administration burdens should the effective date be implemented in its current form. It further said that carbon tax should be fiscally neutral but the budget forecasts revenues of R1.8 billion from carbon tax fuel used as a revenue instrument.

5.7. South African Institute of Tax Professionals(SAIT)

5.7.1. The South African Institute of Tax Professionals (SAIT) said that SARS should have made a personal income tax inflation adjustment in order to cover the revenue shortfall. It said that is supported the efforts made by SARS to resurrect the Large Business Centre and urged for the appointment of a new Commissioner as soon as possible. It said that good tax administration cannot be dependent on persons – it must be institutionalised.

5.7.2. SAIT identified areas that should be targeted for improved revenue collection: parties contracting with government who do not pay their taxes, companies that artificially set-up to get government contracts but simply disappear after getting income that is not taxed, illicit flows should not be limited to tobacco/alcohol but to high net worth individuals that under-report, companies that operate outside the traditional audit system of SARS and, the cash economy must be targeted since it is unknown how much revenue comes from cash businesses.

5.7.3. SAIT raised a concern about VAT refunds. It said that the payment of interest due to the delay is not automatic and failure to pay VAT refunds can be the death of many small businesses.

5.7.4. SAIT submitted that the Office of the Tax Ombud (OTO) should have more powers to investigate without asking for Ministerial approval and should be part of the parliamentary process when the Tax Administration Act is amended.

5.8. The South African Institute of Chartered Accountants (SAICA)

5.8.1. The South African Institute of Chartered Accountants (SAICA) said that it noted that policy uncertainty remained one of the biggest hurdles to economic growth. It said that very few if any economic drivers are contained in the fiscal framework. It highlighted that the rating agencies had downgraded South Africa because of the growing debt and the economy had slowed. It said that investors were also starting to lose appetite to invest in South Africa.

5.8.2. SAICA noted that the NT had challenges in economic and revenue forecasts. It said that the NT forecasts were overly optimistic and unrealistic in the medium term.

5.8.3. SAICA raised concerns about the high public sector wage bill which, when compared to other countries, had grown significantly since 2015. SAICA further raised the issue about lack of public accountability as articulated by the Office of the Auditor General in its 2018 audit findings. It said that there was grand scale looting of the public purse.

5.8.4. SAICA also raised concerns around the retrospective application of technical amendments in tax laws which it said were being implemented without clarity such as in the case of dividend stripping measures.

5.9. **Organisation Undoing Tax Abuse**

5.9.1. The Organisation Undoing Tax Abuse (OUTA) said it supported the NT's decision not to increase direct taxation on individuals and corporations until the way in which government spends hard-earned taxes is fixed. It said its research found that a one percent increase in taxation produced only a 0.05 percent increase in additional real tax revenue (at tax levels prevailing between 2014 and 2017). It submitted that the limits to productive taxation might have been reached already.

5.9.2. OUTA said it strongly supported the move to reduce total compensation costs since the historical decline in the quality of public service delivery and its bloated headcount could not be reconciled. It said that private sector growth may absorb job searching youths more sustainably than government, expressing support for the Employment Tax Incentive (ETI).

5.9.3. OUTA said it strongly agrees with the principle guiding the introduction of conditional support for ailing state-owned enterprises like Eskom, SAA, Denel and others. It said that in its submission to the Finance Committees during the processing of the 2018 MTPBS, it had recommended that organs of state that no longer confer a direct benefit to the public, especially if their services can be augmented or substituted by business, should be privatised in full or partially, or wound down entirely.

5.9.4. It said that it supports the move towards improved cooperation and cross pollination between the public and private sectors – since this may be mutually beneficial if done lawfully and transparently and at arms-length in order to prevent state capture.

5.9.5. OUTA submitted that there must be strict compliance and enforcement of the Public Finance Management Act and the Municipal Finance Management Act within government to ensure significant savings and reduction of waste. It also emphasised consequence management, urging that those who violate the law should be prosecuted.

5.10. **CIVIL SOCIETY ORGANISATION**

5.10.1. The Civil Society Organization (CSO), in its written submission, said that there was no evidence in the budget of the pronouncements made by the President in the state of the nation address (SONA) on ending gender based violence.

5.10.2. It said that President Ramaphosa had said that government will be strengthening the function of various specialized units such as the Family Violence, Child Protection and Sexual Offences Units. It submitted that the increase of R150 million allocated for VIP protection should instead be reallocated to achieve the resolutions of the Gender Based Violence and Femicide Summit.

5.10.3. It submitted that an interim structure that will develop the National Strategic Plan for gender based violence should be established with an adequate budget in order to put plans in place.

5.10.4. The CSO further submitted that NT and parliament must play a greater role in ensuring gender responsive budgeting.

5.11. **SOUTH AFRICAN INSURANCE ASSOCIATION**

5.11.1 The South African Insurance Association (SAIA) welcomed the priority given to promoting investment in the agriculture sector by the Minister of Finance in the budget. It said that support should not only be confined to emerging farmers but the whole commercial farming sector needed to be nurtured. It submitted that investment in agriculture could be enhanced through improved access to Multiperil Crop Insurance (MPCI). It proposed that this insurance be subsidised through an allocation in the budget as insurance could enable emerging and commercial farmers to access finance.

6. COMMITTEES OBSERVATIONS AND RECOMMENDATIONS

6.1. Organised around the apt theme of 'Risk, Renewal, Growth", the government has never before been faced with such challenging circumstances to shape a budget that balances the need to contain expenditure and be reasonably pro-poor and developmental. The Committee believes that the government has managed this reasonably well. In particular, we welcome the fact that pro-poor spending will once again grow in real terms. We note the R1,244 trillion for learning and culture, R717 billion for National Health Insurance and Health as a whole, and R894 billion for social development, over the MTEF.

6.2. In the Committee's previous Fiscal Framework reports, while noting the severe budgetary constraints, we called for higher increases in social grants as part of an overall approach to cushion the effects of the 1 percent increase in VAT. This remains our view. We believe more needs to be done to cushion the effects of the VAT increase on the poor. While difficult, we believe this can be done through re-prioritising expenditure in a variety of ways that we have raised before. We will refer this matter further to the Select Committee on Appropriations (SCOA).

6.3. Obviously, the Fiscal Framework has to be evaluated in terms of the extent to which it contributes to investment, growth, job creation and the reduction of inequalities. In the Committee's 2018 Proposed Fiscal Framework report we welcomed the President's Economic Stimulus and Recovery Plan and called for an implementation plan. We realise that such a plan is not the responsibility of NT alone, but government as a whole, but recommend that NT deals with this at its first quarterly briefing of the new Committee in the next parliamentary term. We agree, as raised in the public hearings, that there are very few if any economic drivers in the fiscal framework. We believe that the government also needs to follow up on the R300 billion pledges at the Investment Conference and see to it that this converts into bricks and mortar and jobs.

6.4. The Committee agrees with NT that there is an urgent need to ensure sustainable finances by containing the budget deficit and stabilizing public debt. We also agree with NT's aims of supporting the restructuring of the electricity sector, reducing the immediate risk of Eskom to the economy and public finances, renewing economic growth by strengthening private sector investment, improving the planning and implementation of infrastructure projects and rebuilding state institutions.

6.5. The Committee welcomes the progress being made on growth-enhancing reforms including the preparations to allocate the telecommunications spectrum, reform visa requirements and remove barriers to mining investment.

6.6. The downward revision of growth rate forecasts from 1.7 % to 1.5 % in 2019 in the four months since October 2018 MTBPS and the possibility that the latest forecasts may still not be realised given the risks identified, once again raises questions about the credibility of NT's forecasts and the need for it to improve in this regard. It would be useful if at its next quarterly meeting with the new Committee in the next term of Parliament that NT explains how it decides on its forecasts and how it manages and monitors the risks identified.

6.7. The Committee notes that the budget deficit and debt to GDP ratio have widened since the 2018 MTBPS. The current prediction is that the deficit and gross loan debt will stabilise at 4.0 per cent and 58.9 per cent in 2021/22, respectively. The Committee reiterates its concern about further increases in the public sector borrowing. The Committee recommends that the incoming Committee engages further on this in the quarterly briefings by NT.

6.8. The Committee notes that in the context of the weak economic growth and the need to address the risk posed by Eskom, the 2019 Budget proposes large-scale expenditure reprioritisation and tax measures that narrow the deficit from 4.5 percent of GDP in 2019/20 to 4 percent by 2021/22. The new Committee could monitor progress in this regard.

6.9. The Committee expresses its concern about the upward trajectory of the debt-to-GDP ratio, which is set to reach 60.2% in 2023/2024 and 60.1% the following year, and believes that everything possible needs to be done to avoid the ratio getting worse, including improving economic growth and protecting pro-poor programmes.

6.10. The Committee notes that CPI inflation is increasing and expected to be 5.2 percent in 2019 due to rising food inflation and electricity prices. This reinforces our view that government needs to far more effectively implement its pro-poor programmes.

6.11. Obviously, the biggest challenge is how to rescue Eskom. We welcome the decision to link the R23 billion a year support to Eskom to the appointment of a Chief Reorganisation Officer who will contribute to the implementation of the mandate of the Presidential Task Team on Eskom. We urge that there be intensive and effective consultation with the trade unions on the restructuring of Eskom. The private sector is also urged to play its full part, both in its self-interest and in the country's interests, in contributing to Eskom's strengthening.

6.12. The Committee agrees with NT that if SOEs require financial support, the state should appoint chief reorganisation officers to work with their Boards and management in the same manner that a curator does with private companies in trouble. NT committed, in cooperation with the Department of Public Enterprises, to initiate reforms to strengthen the governance, financial management and operations of SOEs. We welcome this. Progress on this will be jointly monitored by the Select Committee on Public Enterprises and the Select Committee on Finance, but NT also needs to brief the new Finance Committee in the next parliamentary term. We also reiterate our call for the Shareholder Management Bill be introduced early in the 6th term of Parliament. The Committee also believes that there needs to be far more progress on the sale of the non-core assets of SOEs.

6.13. The Committee will pay keen attention to how the SCOA processes issues related to the public sector wage bill.

6.14. The revenue shortfall has now increased to R42.8 billion compared to the R27.4 billion initial revenue shortfall for 2018/19. National Treasury has attributed the shortfall to persistent weak economic activity in corporate income tax. Clearing of VAT refunds backlog will also reduce the net revenue collection. The targets set to address the VAT refunds backlog were not met (this amounted to R31 billion in January 2019 as opposed to R19 billion predicted in October 2018). This is of concern.

6.15. However, we note the improvements in SARS these past few months. We look forward to the appointment of the new SARS Commissioner, and welcome the formation of a new Illicit Economy Unit; the strengthening of the SARS IT system; the revival of the Large Business Unit; and the appointment of Judge Dennis Davis to assess the amount of revenue not being collected that is due to SARS.

6.16. Given that billions of rands are lost each year through Illicit Financial Flows(IFFs) and the urgent need for revenue, SARS needs, in cooperation with other state agencies, as we have repeatedly said, to do far more and far more quickly to reduce IFFs. Our Committee will continue to pursue this matter vigorously with SARS and the other relevant agencies. We also believe that there has to be more progress on NT deciding on the the Davis Tax Committee recommendations on curbing tax evasion and avoidance.

6.17. We agree with the proposal in the public hearings that NT should more effectively explore boosting revenue by taxing income and profits from the digital economy.

6.18. We note the concerns that the commitments made in Nedlac by NT and other government departments about reducing job losses related to the implementation of the Health Promotion Levy or sugar beverages tax are not being fulfilled. The same issues may arise in regard to the implementation of carbon tax. Progress on these Nedlac commitments need to be reported regularly to the Committee, beginning early in the next term of Parliament.

6.19. The Committee agrees with the proposal in the public hearings that the Office of the Tax Ombud should have more powers to investigate without asking for Ministerial approval and should be actively involved in amendments to the Tax Administration Act.

6.20. The Committee welcomes the recommendations of the Nugent Commission of Inquiry on SARS Tax Administration and Governance and urges NT to introduce amendments to the legislation reasonably soon.

6.21. The Committee welcomes the R526 billion for infrastructure over the medium term. We reiterate our support for the new approach to project planning, budgeting, preparation and implementation and welcome the progress of the Budget Facility for Infrastructure technical team.

6.22. The Employment Tax Incentive Scheme has been very successful with 1.1 million young people being beneficiaries and we welcome the decision to extend it for another 10 years. But National Treasury needs to do a more detailed study of the achievements of the project and establish more where these young people end up and why.

6.23. The Committee remains concerned about continued challenges at municipal level, which include that 113 of total 257 municipalities adopted unfunded mandates, an accumulated R25 billion in unpaid invoices recorded in 2017/18, declining revenue collection rates, 128 municipalities in financial distress at the end of 2016/17, 145 municipalities achieving unqualified audits in 2016/17 and 40 municipalities with negative cash balances in 2017/18.

6.24. The Committee notes that at the public hearings it was said that the office of the auditor general had estimated that up to R150 billion was lost every year through wasteful expenditure and corruption. We urge NT to ensure, in cooperation with other departments, that there is prudent management of public finances throughout the public service. We also urge law enforcement authorities ensure that the Asset Forfeiture Unit and the Special Investigating Unit recover money lost through corruption.

6.25. The Committee once again points out that considerable money can be saved by acting firmly against fruitless, wasteful and irregular expenditure and corruption, and improving the efficiency and quality of spending. Moreover, considerably more revenue can be raised through tackling IFFs and corruption in broader society far more effectively. The Committee reiterates its strong view that public servants who violate the Public Finance Management and commit other transgressions of the law should be acted against in terms of the law. We repeat our call for effective consequence management.

6.26. We believe that there has to be clarification on the role of the mandate paper and the Department of Planning Monitoring and Evaluation (DPME) in the budget process.

6.27. 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.

6.28. The Committee agrees with the concerns of the Civil Society Organisation on the need to tackle gender-based violence more decisively and will forward their submission to the SCOA and the Portfolio Committee on Women in the Presidency.

6.29. The Committee will also refer the submission of the Pietermaritzburg Pensioners Forum and the SAIA to SCOA to process further as they deal with appropriations issues.

6.30. 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. However, government has to lead in this regard. We welcome the progress so far – and would like to see more.

7. A Note on the Processing of the Fiscal Framework and Revenue Proposals

7.1. The Money Bills Amendment Procedure and Related Matters Amendment Act (Money Bills Act) was amended last year to, among other things, change the onerous deadlines in it to process the budget so that the public and the Committees have more time and space to engage more rigorously with the budget. In view of the May 2019 elections and the fact that the National Assembly will rise on 20 March and the NCOP on 28 March our Committees were not able to allocate more time for the processing of the Fiscal Framework and Revenue Proposals but in future the Committees in the 6th term of Parliament will be able to do so.

7.2. This report carries a very brief summary of the submissions made by stakeholders in the public hearings. Copies of the full submissions made by stakeholders both at the hearings and in writing only are available from the Committee Secretariat.

8. Our appreciation to the Committee Staff

8.1. This is the final Fiscal Framework and Revenue Proposals Report of the current Committee, whose term come to an end as the fifth term of Parliament ends soon. We take this opportunity to express our fullest appreciation to our Content Advisor, our Researcher, our Committee Secretary and our Committee Assistant.

The DA reserves its right on this report.

Report to be considered.