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BALLOONING DEBT AND DECREASED TAX REVENUE DENT MTBPS

The Minister of Finance, Mr Malusi Gigaba, delivered the 2017/18 Medium Term Budget Policy Speech and tabled the Medium Term Budget Policy Statement (MTBPS) on 25th October 2017. In his speech, the Minister noted that gross national debt is projected to reach 61% of gross domestic product (GDP) by 2022, with debt-service costs approaching 15% of main budget revenue by 2020/21. The MTBPS is delivered in a context where there is growing inequality levels, and the unemployment rate is sitting at 27.7% - the highest figure since September 2003.[1]

Even though GDP is expected to grow marginally in the current year, the State is accumulating debt faster than it is able to collect and increase revenue collection. Minister Gigaba rightly drew attention to the fact that “Tax revenue is projected to fall short of the 2017 Budget estimate by R50.8 billion in the current year, the largest downward revision since the 2009 recession.”[2] This shortfall in revenue collection is coming at a time when the country is under pressure to stick to its path of fiscal consolidation to prevent further credit rating downgrades. He said that nearly 15 per cent of the main budget revenue will be spent servicing debt by 2020/21.[3]

The Public Service Accountability Monitor (PSAM) calls on the Finance Ministry and relevant line departments to address the following concerns:

Health:

In his 2017 Budget speech, former Finance Minister Pravin Gordhan stated that the National Health Insurance (NHI) fund would be established in order to support the priority health programmes, and that more details in this regards would be provided in the October 2017 Adjustments Budget. Minister Gigaba noted Cabinet’s adoption of the White Paper on NHI in June 2017. The White Paper estimated that full implementation of NHI would increase public spending on health from 3.9% in 2017/18 to 6.2% of GDP by 2025/26 (assuming a long term economic growth rate of 3.5%). The Finance Ministry have rightly reassessed the situation (against a more conservative long-term growth rate of 2.5%), and found that health spending through a fully implemented NHI will require 6.8% of GDP in 2025/26. This scenario explains the caution in the MTBPS that: “In the absence of higher economic growth, several of government’s current policy commitments will need to be revisited, because their cost implications appear to exceed available resources.”[4] National Treasury also need to await input from the Davis Tax Committee “on the feasibility of proposals to adjust the medical tax credit”.[5] This will also influence the costing of NHI and may impact upon the timeframes for the establishment of the NHI fund. We therefore encourage the National Treasury and Department of Health to provide a comprehensive financial plan to support the implementation of the NHI.

While health is acknowledged as one of government’s key policy priorities, the overall quality of services provided at clinics and hospitals needs major improvement. While the MTBPS contends that some medical negligence claims are unjustified or excessive, estimated pay-outs

[1] http://www.treasury.gov.za/documents/MTBPS/2017/speech/speech.pdf at page 9
[2] http://www.treasury.gov.za/documents/MTBPS/2017/speech/speech.pdf at page 16
[3] http://www.treasury.gov.za/documents/MTBPS/2017/speech/speech.pdf at page 17
[4] http://www.treasury.gov.za/documents/MTBPS/2017/mtbps/FullMTBPS.pdf at page 57
[5] http://www.treasury.gov.za/documents/MTBPS/2017/mtbps/FullMTBPS.pdf at page. 24.

for such claims “have grown at an average rate of 45 per cent since 2012/13, and amounted to R1.2 billion in 2016/17.”[6] The MTBPS also noted that “contingent liability arising from claims against the state at the end of 2016/17 totalled an estimated R56 billion.”[7] Efforts to improve the quality of public health services is not always dependent upon increased budgets, but often upon improved management and accountability within this vital sector.

<u>Basic Education:</u>

While Minister Gigaba explained that R44 billion would be spent on building new schools and refurbishing others, R415 million in-unspent funds was declared within the School Infrastructure Backlogs Grant (SIBG) according to the Adjustment Estimates that accompanied the MTBPS.[8] The underspend is explained as being due to delays in appointing contractors. This is unacceptable given the economic climate and needs of learners and teachers.

In the MTBPS, it is explained that “R7.3 billion that had been shifted to the provincially-administered education infrastructure grant, but had not been allocated to specific projects, be returned to the department’s school infrastructure backlogs grant over the 2018 MTEF period”.[9] The failure to allocate such funds to projects requires explanation, and corrective action needs to ensure that when the R7.3 billion is allocated to the SIBG in 2018 MTEF, it is efficiently and effectively spent to respond to learners and educators most in need of support. It is high time that the Department of Basic Education (assisted by Treasury) address challenges in school infrastructure provisioning.

<u>Human Settlements:</u>

We call on the Finance Minister to not reduce grants aimed at addressing housing backlogs and improving the living conditions in informal settlements, where the majority of South Africa’s poor live. It is also of paramount importance to desist from bailing out State owned Enterprises (SoE) that are repeat offenders, especially at the expense of services that could enhance basic human rights. The 2017 Estimates of National Expenditure noted a reduction over the MTEF of funds intended for the Urban Settlements Development Grant and the Human Settlements Developments Grants (HSDG), of -R282.3 million and –R3, 449 billion respectively.[10]

The MTBPS notes a review of the HSDG which will see the introduction of two new grants directed at clearing the title deeds backlog and to respond to emergencies.[11] Reviewing the HSDG may reduce its budget further and consequently reduce targets with regard to informal settlements upgrading and housing subsidy units. Over and above planned reductions to certain housing grants, there needs to be improved levels of overall expenditure with Human Settlements. In the first six months of 2017/18 only R13.1 billion (39%) of its adjusted appropriation of R33.5 billion for the year was spent.[12]

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[6] http://www.treasury.gov.za/documents/MTBPS/2017/mtbps/FullMTBPS.pdf at page.53

[7] Ibid

[8] http://www.treasury.gov.za/documents/MTBPS/2017/aene/Vote%2014%20Basic%20Education.pdf

[9] http://www.treasury.gov.za/documents/MTBPS/2017/mtbps/FullMTBPS.pdf *at* page 43

[10] http://www.treasury.gov.za/documents/national%20budget/2017/ene/FullENE.pdf at page xiv.

[11] http://www.treasury.gov.za/documents/MTBPS/2017/mtbps/FullMTBPS.pdf at page 43.

[12] See further at page 273 of http://www.treasury.gov.za/documents/MTBPS/2017/aene/Vote%2038%20Human%20Settlements.pdf

Local Government
The 2017 MTBPS correctly noted the following:

> **Financial management challenges in municipalities**
> Like the rest of government, municipalities face a difficult fiscal environment. Even as demand for services rises, weak economic growth has put stress on consumers' ability to pay for services, while transfers from national government are growing more slowly than in the past.
>
> Some municipalities have managed these challenges well, but others have fallen into financial distress and face liquidity problems. These include municipalities that are unable to meet their payment obligations to Eskom, water boards and other creditors.
>
> These municipalities need to rectify governance and management problems, focus on collecting revenues owed to them, and eliminate wasteful and non-core pending.

While the Minister noted that municipal spending is projected to be R197 billion"[13] and will focus on the maintenance of existing infrastructure, improved procurement of infrastructure projects, and better management of conditional grant, past practice has revealed lengthy delays in the transfer of conditional grants to municipalities. It is critical to ensure prompt transfer of such grants to enable the timeous commencement of infrastructure projects.

Conclusion

Increasing national debt diverts resources towards servicing such debt, while reducing the funds available for social services. Debt has risen from 4.4% of GDP in 2007 to 17.6% in 2017.[14] It is also noteworthy that the public-sector wage bill has increasingly crowded out other areas of spending.[15] The MTBPS notes that spending on compensation of employees "has continued to grow more quickly than nominal GDP. A fair and reasonable compromise between government and state employees in the current round of wage talks is in the public interest."[16]

The economic climate, rising national debt and forecasts for the medium term strongly suggest that fiscal prudence and improved financial management and political leadership is required.

ENDS

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[13] http://www.treasury.gov.za/documents/MTBPS/2017/speech/speech.pdf at page 21.
[14] http://www.treasury.gov.za/documents/MTBPS/2017/mtbps/FullMTBPS.pdf at page 3.
[15] See more at: http://www.treasury.gov.za/documents/MTBPS/2017/mtbps/FullMTBPS.pdf from pages 33 onwards.
[16] http://www.treasury.gov.za/documents/MTBPS/2017/mtbps/FullMTBPS.pdf at page 34.

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