

**7<sup>th</sup> October**

**Session begins**

**Judge:**

*Shall we begin?*

**Speaker:**

*Thank you Chairperson. The witnesses we have today Chairperson is from national treasury and we've agreed with national treasury that they would make a presentation of about twenty minutes or so and then they would take questions from the evidence leaders and the panel.*

**Judge:**

*Thank you.*

**Speaker:**

*I believe that all of the witnesses that you see before you from national treasury would need to be sworn in Chairperson.*

**Judge:**

Good morning Mr Sax. can you name the- Can each of your members name them please and just place the names on record. And then we'll have a swearing in after that. Thank you.

**Sax:**

*My name is Michael Sax*

**Mokgajane:**

*Dondo Mokgajane*

**Stewards:**

*Dean Stewards*

**Debraine:**

*Julia Debraine*

**Excelson:**

*Chris Excelson*

**Makhanya:**

*Nokwazi Makhanya*

**Judge:**

*Thank you. May I ask you all to stand? Is there anybody who objects to take the oath? Well when you hear the oath you can refuse to take it if you wish. Or you could ask to confirm but unless you have some objection I'm asking you to swear that the evidence that any of you will give will be the truth the whole truth and nothing but the truth and if you do raise your right hand and say I will.*

**Witnesses:**

*I will (Individually)*

**Judge:**

*Thank you. You are the principal spokesman Mr Sax. Thank you- Yes Ms Pillar*

**Ms Pillay:**

*Thank you Chairperson, Mr Sax I think we can begin with a presentation.*

**Mr Sax:**

*Thank you. If you want this- So in brief the presentation directs itself to the issues of the funding of the PSET system that's the post school education and training system and the budget in the recent period and how we approach the budget to put this on some of the issues there. So we start with the constitutional and policy background. We then look at some data and numbers on the budgeting for higher education and then we conclude with some further considerations which we think are important. So starting with the Bill of Rights: of course I won't presume to lecture, Legal- the legal profession about the Bill of Rights but just to indicate how we in national treasury would see the picture. So the Bill of Rights says everyone has a right to adequate housing; health care; food and water and Social Security including appropriate social assistance in respect of each of these rights the state must take reasonable legislative and other measures within its available resources to achieve the progressive realisation of these rights, in respect of children under eighteen, the rights that they have in the Constitution which include basic nutrition shelter basic health care social services the Bill of Rights does not qualify those rights by saying they are subject to progressive realisation or resource availability and my assumption there is that there is no qualification so those rights must be provided. then lastly with respect to education It says "everyone has a right to a basic education including adult basic education" And again I'll note it doesn't qualify that right in terms of progressive realisation or available resources and then it says and to further education which the state through reasonable legislative measures must make progressively available and accessible. I will not try to interpret that but, just to note that the formulation is slightly different in respect of further education from what it is in relation to the other rights. So, in our view I mean I think we can demonstrate quite soundly That the budget is allocated- the budget allocations are indeed guided by these constitutional rights. So basic education gets seventeen point five.*

**Judge:**

*Can we stop for a moment, you, and we have all assumed that basic education means basic education which applies to the Department of basic education. But nineteen ninety five there was no such creature, and the Constitution doesn't refer to higher education refers to further education and the question I raise is why should we assume that basic education means education right through until trickle or until you want to leave school? Why should we not assume that basic education means education that's basic? That is to say the basic principles of reading- writing 'arithmetic and so on and whatever comes later in the process are further education.*

**Sax:**

*I wouldn't say that we should assume one or the other. All I would say is that within government the way our understanding is that basic education refers to up to matric, from early childhood development up to matric-*

**Judge:**

*Is any reason why you think that?*

**Sax:**

*I think it's- it's a commonly, Yes accepted principle in the education sector that's all I would say. And maybe it deserves further interrogation or to*

**Judge:**

*Sorry to have interrupted you*

**Sax:**

*That's fine, that's fine,*

**Judge:**

*And I wanted to hear to your view thank you.*

**Sax:**

*So when I say basic education here I am referring to the debate- in a sense the department of basic education-*

**Judge:**

*So housing again and municipal and I wouldn't argue- I mean with respect to each of these, you could interpret the right in the constitution to mean One thing or another thing that might not be perfectly aligned with what we allocated in the budget and there's certainly room for discussion on that the main point I'm making is that the large allocations in the budget do reflect on those rights guaranteed in the Constitution so basic education; housing gets fourteen percent of the budget last year. Health care services almost thirteen percent and social protection almost twelve percent, post school and education and training budget were sixty four billion rand in this year's budget about five point two percent of the resources. If you add all of those things together they come to- you're left over with about thirty percent of the budget. Thirty eight percent, I'm sorry. Which you must allocate to defence, police, the courts, Home Affairs, agriculture, land reform, employment program, science research, industrial development, foreign affairs, administrative functions regulation of infrastructure and executive and legislative functions within government. So almost forty- I mean sixty percent of the budget is allocated directly to things that are reflected in the Constitution in the Bill of Rights in particular of course these other things are also Constitutional requirements but that's my point. Progressive realisation within available resources. How do we understand that? First of all in our view that implies an obligation on us to ensure fiscal sustainability. Because if you are not fiscally sustainable, You will not achieve progressive realisation, you will be subject to a sudden reversal specially if there's an over reliance on debt and we've seen many countries in Africa for example in the one nine hundred eighties, that relied except for excessively on debt had social programs were reversed suddenly. Ult- available resources is ultimately determined by the size of the economy. Because government doesn't generate its own resources, government shifts resources from the private economy and uses them for social programs. So the size of the economy determines the total envelope of available resources, of course you could say we must raise taxes But there's a complex relationship that I won't go into between the level of taxation and the rate at which the economy grows, so it's possible to raise taxes to a such an extent that the economy begins to not grow and therefore your available resources do not increase in a dynamic sense in the long run. So budget allocations in total, bearing all of those factors in mind. Are determined according to fiscal space. What is-?*

**Panel:**

*Sorry Mr Sax. Perhaps it might be necessary to explain this complexity that you talk about because assuming- assuming we as a commission recommend some kind of taxation. Your argument is the complexity between taxation and economic growth, is complex and they relate to each other. So perhaps you can unless you're going to do it further down the line at this point, Explain- Perhaps in simple terms.*

**Sax:**

*I would say that it is it is deserving of an entire session on its own. Because it at a general level, you can have different levels of taxation, you can sustain a high level of taxation and still have economic growth- It's possible. On the other hand, so for example in the Nordic countries they have achieved this. In other countries higher levels of taxation are associated with lower levels of economic growth. A lot depends on the social compact that is agreed in society. A lot depends on the quality of expenditure. Because taxation, although it is a legal requirement to be an effective tax system you need adherence through participation and tax morality in society. It is possible there's something in economics called the Laffer curve where you increase the tax rate but you collect less tax- actual taxation. Because once it gets beyond a certain threshold people change their behaviour. If I increase personal income tax more, people will develop strategies to register their income as not personal income but as corporate income.*

**Panel:**

*OK-*

**Sax:**

*And then With respect to individual tax instruments. Each one has its own complex relationship so people talk about the skills levy for instance as one of the mechanisms for funding the problems we have now, the skills Levy is a tax on the payroll of companies. So effectively it's a tax on employment. So if you want to employ somebody. And you have to pay a skills levy on top of their salary. It means that the cost of employing a person goes up which can lead to lower levels of employment. V.A.T is a tax on consumption which has particular properties both in the short run, in an immediate sense and in the long run. So my submission is- it's you shouldn't raise a tax without thinking about it and we have the Davis committee which is looking into all of these issues.*

**Panel:**

*Let's for a moment. For argument's sake say we say that raise Tax through VAT by one point two percent to one percent for a period of two years. What complexities rise out of that? and I know you've indicated now that well whether people consume less, In terms of VAT, I'm not sure but because that would only be- you see income tax, If you tax you say well people earn less move somewhere else. So that's how it could be affected. How would it be affected VAT-wise?*

**Sax:**

*So what I would say and I will ask Mr Exelson he wants to add afterwards, is that in the short term, about sixty percent of demand in the economy is consumption. So if you raise VAT the impact on in the short term on economic growth is likely to be quite significant. On the other hand in the long term because VAT is a tax on consumption rather than a tax on income, the consensus amongst economists is that the long term economic growth rate is much more compatible with a higher level of VAT than income taxes. So if you look at the Nordic countries that I mentioned for example they have very high tax rates- Vat rates. So Sweden has a VAT rate to twenty five percent because at a certain stage in their history they realize to overcome this contradiction between economic growth and social provision, The increased taxes had to be more efficient taxes and VAT is regarded as more efficient. The third issue is equity. So VAT is not generally progressive. It is a flat tax. And what we would say there is a lot depends then on what are you going to do with the money that you raise from VAT, if you're going to impose a flat tax across society and use that money on spending programs that target the poor in particular, you would strengthen the progressivity of the fiscal system. But if you were to raise VAT and then spend it on an item that is more concentrated on the more wealthy-affluent parts of society, you would strengthen the- you would make the system more regressive. So those are the complexities I don't know as-*

**Judge:**

*With regard to what you've just said. If you were to take my colleague's example to spend- rather to raise that for a year or perhaps two years. It's one percent to one half percent and to plant back into education for the poor, as a bridging measure.*

**Sax:**

*We would need to understand more why you would only do it for two years because once people are in the system, you would need to presumably make that commitment for ever so-*

**Judge:**

*Assuming that one is able to find a longer term means of financing. But, not one that can be squeezed to provide use just at the present time. But perhaps in two or three years' time.*

**Sax:**

*We would- I mean I think let me call on Mr Axelsson about the- One of the principles into taxation that is very important is stability and people knowing what are the tax rates so we would be very reluctant to raise something and then reduce it and then it replace it with something else we would much rather just do what needs to be done and Chris-*

**Chris:**

*It's just- I agree with his-*

**Panel:**

*Sorry Mr Axel--. This place, each of you if you can just place yourself on record, each time you speak so that the record reflects who is speaking.*

**Axelsson:**

*Chris Axelsson, tax policy and international trade. I would agree with Michael's earlier points that only one thing I wanted to just add was about this two years point. So if you do it with an upfront statement that you're only going to do it for two years. It could just have interesting impacts on the economy so, A lot of the durable goods that people buy to the big expenditure, The VAT plays a big part in that and if they know that the VAT is going to go down in two years' time, Now they could very well put off those big expenditures and then you might see you a dip in the economic activity because now they're not buying those things and then also you won't raise as much money because now they're not spending on those durable goods and so my only piece of advice would just be that if you were going to do it for two years. You sort of, do it in your own knowledge that is two years but you don't legislate it or make that public, no. Anyway just make my point. Thank you.*

**Panel:**

*OK Thank you.*

**Sax:**

*Mean the general point which is highlighted by Mr Axelsson's comment is that this is a complex relationship because it depends on human behaviour. And how millions of economic agents respond to an incentive and you have to take that into account. So to move to the next slide. I think the rising floor of available resources in our view; we have been achieving that in a sustainable manner. This graph shows real spending per person. And you can see not per person in the system but per South African. In nineteen ninety eight we were spending about three thousand rand per South African on education. Today we're spending in excess of five thousand rand per South African on education. So a lot of What I'm coming to is now how is that budget for education divided between the different segments of the education system particularly further education versus basic education but we wish to sustain this floor and in order to do that we need to sustain economic growth and we need to make sure that our debt is held within sustainable levels. So the second kind of background issue government policy decisions. And we are officials. Sitting here. So we work on the basis of policy documents that are adopted in cabinet. That is what guides us when we give advice on how we advise on the on the allocation of budgets and in respect of the commission's work, The three important documents of the National Development Plan, the white paper and the medium term strategic framework. Now. None of those documents proposes fee free university education. So were we to proceed into this terrain. We would certainly need some policy guidance on how to implement it, all of those documents-*

**Judge:**

*Do any of those documents say "no fee free?"*

**Sax:**

*It doesn't, not. But of them, call for a progressive expansion of post-school education within available resources. That's what- and all it envisage that the expansion of access to further education system will essentially be achieved through technical and vocational colleges. So all of them see a massive improvement in particularly the quality of the university system. The number of Ph. D. graduates. But the emphasis in these documents on access. Is not primarily on university- it does seeing increasing access to universities but the main government idea for improving access is through the T.VET. College's technical and vocational training. And there's a very good reason for this and it is the reason of equity. Because most students most of the students who get access to university Are from the upper income desires of the population they come from the more affluent population. Whereas the T.VET colleges are able to absorb a much more broader base of matric- matriculates into them so that that that's the policy background Secondly and I didn't mention it here but the main financial instrument that all of these documents envisage would fund the increase in Access is NSFAS and that is why budget allocations in the last five years have seen a massive increase in allocation to NSFAS and within NSFAS allocations an increasing reliance on bursaries rather than loans so that now about fifty percent of NSFAS awards our bursaries rather than loans. So that's how Government policy which instructs the budget managers how to respond that's the instruction that's been given to us in Century. So the N.D.P. the National Development Plan, Contains ambitious targets with respect to the post school education system. With respect to many other things national health insurance. Early childhood development there are many larder-bole and important post policy programs that are called for in the N.D.P. but unfortunately the N.D.P. was drafted without any clear resourcing Plan. Implicit in the N.D.P. was the assumption that economic growth would accelerate and that this would generate the resources to fund those policies. Unfortunately since the N.D.P. was adopted in twenty eleven economic growth has done the opposite is decelerated every single year. Similarly the white paper contains no resourcing plan, so there is no section in the white paper on political education on how it will be financed and there's a quotation there on the white paper that summarizes its goals that you would expand headcount enrolment and to one point six million in universities from the current one million. Which is quite moderate, you would exceed and it's lower than the expansion that you've seen over the last five years you would expand T.VET colleges which currently have about five hundred thousand people or seven hundred thousand I'm told, to two point five million which is a massive expansion. This expansion requires of making it affordable for students to this end, and the government has significantly increased funds for NSFAS and the document simply says the government remains committed to progressively extending this to university students as resources become available. So it doesn't go beyond that on how it's to be resourced. So a perennial weakness in government policy making which we face in Treasury and it is a big problem in in the country. Is that policies are adopted prior to consideration of the financial fiscal and broader resource implications. The difficulties arise because while you articulate very well the benefits of a of a policy and those benefits are very correct. You don't then articulate the*



**Sax: \*Continued\***

*Costs. And if you don't articulate the costs and then you delegate that function to somebody else that's very convenient but unfortunately it means that the person you've delegated the cost to is left with a bit of a problem. Because everybody is articulating benefits but now one terrible person in the system, if I can use a colloquialism is left to deal with the cost. So it's important-*

**Judge:**

*Sorry, are you the divider of the pie?*

**Sax:**

*No.*

**Judge:**

*Who divide the-*

**Sax:**

*The divide of the pie is parliament.*

**Judge:**

*Well, they take your advice generally don't they?*

**Sax:**

*The divider of the pie legally is parliament they appropriate resources and government, the executive tables its appropriation bill in parliament. After taking cabinet decision so that the appropriation bills goes to cabinet. Cabinet is advised by a ministers committee on the budget and the ministers committee on the budget is advised by something called M. Tech which is the medium term expenditure Committee which is a structure of the directors general of central government departments so I won't deny that we have an important role in advising the process.*

**Judge:**

*Alright, who first divide the pie? - I am not for the moment asking who finally divides the pie, who is the first divider of the pie?*

**Sax:**

*We provide advice on how budget allocation should be made. That's what Treasury does we advise the ministers committee on the budget and the ministers committee on the budget then makes decisions.*

**Panel:**

*Oh wait. Mr Sax. Perhaps we must talk in simple terms, you have a process that heads of department come together and say I need thirty nine billion for housing for the period, MTF period, twenty fifteen- twenty ninety. That goes to treasury, treasury then says "fine what are your objectives and so forth". Now before it even reaches parliament there is a discussion. At the level of treasury and department in terms of well, you can't have what you what you also hope because the pie so small now the chairperson is talking about that discussion at that particular level because I assume that the Minister is taken into confidence by his or her head of department in terms of what they've asked for and then you have a process of bids and so forth. So the chairperson is asking during that process, the initial process somebody is dividing a pie.*

**Mokgajane:**

*Thank you advocate I think it's important to realise and to note that at no given point in time do we reset the button for a one point three trillion to decide to decide on how the pie is distributed. we adopted in nineteen ninety eight a medium term expenditure Framework budget in system where we give three year allocations and those allocations, through an utharative process will set baseline allocations and budgets. So based on any annual process that we embark with departments, there is a base that departments are working from so as a result you already have a pie distribution based on previous budgets allocations processes. Then again before even the medium term expenditure committee meets, we have various engagements with the departments, departments will put on the table their needs in any given point in time they will far exceed their available resources through baseline amounts or indicative amounts that are already allocated, including Estimates of how tax revenues will be realized in the quantum of that. Now once that discussion happens we engage through various functional group meetings, clustering, education sector together clustering, Security services together, administrative functions and so on, through that process we then have an understanding and idea as to how much is being bit by departments. Through an internal Treasury process. What we do, Various units in the treasury, ourselves in public finance mainly responsible for the national government departments including the inter-governmental relations will have on-going engagements which are throughout the year, in identifying bits that have been put And most of the time is benchmarking those against available resources against, what would an essentially be targets, whether these budget requests are in line with the priorities. So now once you go through that process then a process of elimination happens along the way, I would give a classic example in terms of last year's budget process. The Department of arts and culture would put a bit for World-Choir Games. Now its a few millions that they need to host the World Choir Games. We will then go back through internal process that says "is World-Choir Games a priority at this point in time?" it is not because clearly last year the priority Was National higher- I mean further education and training in the form of funding for universities through the zero fees last year. Now that determination and proposal is then made through M-Tics, Medium term expenditure that finally goes through ministers committee on the budget and all those other bits will have fallen off along the lines so the same will happen from defence If you think about it. The defence review, they will coast and say for us to do A defence review we need*

**Makgajane: \*Continued\***

*so many billions. Now through- again that proves that I just explained bits fall through and then medium term expenditure Committee finally takes responsibility that finally is taken By main combat in deciding on the pie and the pie as I said it's not a pie that is the one point three to it but it's a pilot is in addition to the budget. If the resource available based on the growth of the economy as Mr Sax indicated and based what we think is maybe available in terms of maybe allocations for the for the following financial year.*

**Panel:**

*Thanks Mr Mokgajane. I think perhaps and depending on what comes later we need to interrogate that very process and understand the system. Because as you say in nineteen ninety eight, government decided on a certain system. And as officials you implemented that particular system but the question that might arise in the interrogation is that system correct? And for now perhaps we can we can leave it for that plan*

**Panel:**

*And the second question that would arise is who determines the priorities and when they change? Which is a key issue which is looking at?*

**Sax:**

*So in respect to that question. Who determines the priorities and when do they change. I have indicated that we have a national development plan and we have a medium term strategic framework that those are the policy decisions taken by Cabinet that then go into the budget process. I should add to what Mr Mokgojane says that when he says things fall away. It's not that they're not report; it is that we go to main combat and cabinet with recommendations to say these are the things we recommend you support. And these are the things that we recommend you don't support but the full list is there of everything and so cabinet is at liberty to change whatever we do. Secondly we have a-*

**Judge:**

*Sorry so if you record- hundred and twenty nine million rand and its additional amount for Higher Education and Training is a national priority, then you would put it in your report to the ministerial committee.*

**Sax:**

*If well so. So there would need to be two steps. So let me just step back a moment and this is very important because it goes back to the point I was making earlier. There is an incentive for people to speak about benefits but delegate the problem of costs and not confront them and those costs come in two forms they come in the form of cuts that must be made to other budgets or taxes that must be imposed on society. Right. So the way we approach the budget and the system that was adopted in nineteen ninety eight and there's legislation that requires this the money bills and related matters Amendment procedure. Parliament first in October the twenty sixth this year we're going to table a medium term expenditure*

**Sax: \*Continued\***

*framework. That is going to set out a macroeconomic picture. And it's going to set out a fiscal framework that says "this is the envelope of spending". So if we agree to that one Hundred and twenty eight billion that is required. We must make cuts of one hundred twenty eight billion on the other department's right. So if you're saying if you just focus on the benefit of university education. But you don't focus on those other Constitutional requirements that we have to fund. And you say that's Treasury's problem. You are reinforcing this incentive that all of people that may not want to take responsibility for the full burden of the adjustment. So it's important to say that parliament is responsible for these decisions and Parliament responds to recommendations that are made by Cabinet and cabinet is advised by a technical bureaucracy called treasury that engages with all departments on these things. So there are two reasons why-*

**Panel:**

*Mr Sax before you moves on. I think what we trying to understand and you describe it as a technical bureaucracy I think that's open to debate what we're trying to understand is that the level of treasury, When you make your recommendations and Budget chair allocations, how it is that you prioritize and what trade-offs are made. What decisions are made into trade-offs at the level of treasury and that's what we're trying to give to you*

**Panel:**

*And I was hoping that you would announce now but that you complete your- your presentation because these are issues that we are going to discuss and interrogate so that we get an understanding of the process.*

**Judge:**

*More than that, when you do interrogate the process. I would like you to interrogate precisely how you dealt with the request for a hundred and twenty eight million.*

**Sax:**

*That is the content of the rest of my slide chairperson, which I will now proceed to-*

**Judge:**

*Thank you.*

**Sax:**

*The so. So there are essentially so what I say there is the white paper which is the policy pronouncement adopted by cabinet and it was adopted in November twenty thirteen. So that becomes now of budget bid for the budget that will be announced in twenty fifteen. Because by November we've already essentially completed the next year's budget. So then the Department of Higher Education comes and says we've adopted this white paper, and we think that we need one hundred twenty nine billion rand to implement over the next three*

**Sax: \*Continued\***

*years. So our logic goes like this: Firstly we have a fiscal limit. Within which. So we also, so Remember we had set aside sixty billion rand and this goes to the heart of prioritization who determines the priorities. We had said our advice was to set aside sixty billion rand for new policy proposals and had that advice been heeded. We would have had significant resources to put into this request-*

**Judge:**

*Sorry, by new policy proposals to the whole spectrum.*

**Sax:**

*Yeah. So we had set aside in the twenty fourteen budget sixty billion rand that we had not allocated to any particular priority. That was sitting as a policy Reserve and we said this reserve and we said it quite explicitly at the time this reserve should be set aside for new policy priorities including N.H.I. and the expansion of the post school system right, but then the choice was made not by us. But we take responsibility for it by cabinet and by the public service co-ordinating bargaining chamber. To allocate those resources in a different way. They were all allocated to the salaries of public servants so we were left with nothing to allocate to additional pa- priorities policy priorities so that is a choice that is made in the political system and I'm not saying it's a wrong choice but it is definitely a choice. So there's a there's two issues then we have with all those two issues we raise with the Department of basic education when they submit this bid for one hundred twenty eight billion. Firstly the fiscal space currently. Prevents us from allocating such a large number because there's no way you're going to take one hundred twenty eight billion out of somebody else's budget. Secondly. We say this is a huge amount of money and we've noticed that your white paper as good as it is. Does not contain a resourcing plan. So we start asking questions. What are the throughput rates that you are assuming in your model? What are the one of the costing elements, How is this thing going to evolve and we're not satisfied that the answers we're getting, Show that the technical work has been done to implement the program and I'm using this as an example of met so there are two factors that we have to take into account. First is the bid or the proposal. Can we fund it? And we can in the sense that we can cut other people's budgets but there's a cost to that. Secondly is the proposal an effective technique- has the technical work been done. Is there a business case a business plan. Apart from the broad policy objectives and in this case we agreed with the Department of Higher Education and Training. And the department in the presidency responsible for planning, that lets not proceed to fund this because it is of such a magnitude. That we would need to consider the operational and implementation plan in more detail. So we agreed with them to set up an into departmental technical team to do that work. That work was then done so in the in the N.T. B.P.'s that followed in twenty fourteen and there's a quotation from the N.T. B.P.'s it says "the medium term strategic framework which gives us our priorities, projects a large expansion of access to technical vocational an adult education as well as universities. Given the scale of the needs identified an inter-departmental team will that develop financing proposals.*

**Sax: \*Continued\***

*So we didn't say no, we said we need more detail on what we're trying to achieve because also what needs to be remembered of this relationship between the financing and the policy is that if you do the policy, you design your policy without a thought About or without giving due sufficient consideration to financing and then you ask the financing question afterwards. The policy itself will not be optimal because the financing, the resourcing of a policy needs to affect how the policy itself is developed, so if you want to expand the skills Levy as an example a hypothetical example. To finance T.VET colleges, Maybe you need to have a governance model for T.VET colleges that more closely engages with the private sector institutions that from whom the money is being taken, for that- I'm just using this is a hypothetical example to say so the financing choice can affect the nature of the policy proposals you're making. So if you if you do the one and then you leave it to somebody else to do the other. A difficult conversation ensues. So the task team work has been completed. And it's currently being processed within government we have given the commission sight of that work. We just-*

**Judge:**

*That is the report we received, that hasn't yet been released to the public*

**Sax:**

*It hasn't yet been released publicly but what we anticipate that it will be once government has as that's what we want to take it back to cabinet basically because again that's where we get our mandate from. So-*

**Judge:**

*And then will the implementation of the report. Follow program, will be put on shelf or will it be watered down, can't you tell?*

**Sax:**

*So what we then need to the question we need to then answer is what is the opera and I think Department of Higher Education themselves are working in overdrive around an implementation strategy for the White Paper is that it's not which is not yet completed. So there's the department itself is leading the process of developing an implementation strategy, the work of the Interdepartmental task team is feeding into that work and once we have an implementation strategy, then we can look at how we proceed but also within the fiscal constraints that we have so it might not be the full hundred twenty eight billion. But certainly we have recognized that there is a need to expand funding for post college education and training and we've- we've acted on that Recognition. Which brings me to my next slide which shows that: There is no single policy large policy area in the mid ones I mentioned before.*

**Sax: \*Continued\***

*That are constitutional- constitutionally mandated that have grown as rapidly as the allocation for the post-school education and training sector over the last five years with the possible exception of some elements of housing because we've also had large expansion which is I think is not shown here but housing, But even housing it has not kept pace with the post school education. So this is an index it just shows if all of these things Received one hundred in twenty eleven. How much would they be getting today? So I'd show you the growth of those budgets. And you can see that the only budget that is growing faster than post-school education and training is that service costs which again is a constitutional obligation. It's a direct charge against the discus it just determines on how much we borrowed in the past, determines how much we will pay and this is where fiscal sustainability comes into the picture that if that thing is growing too fast, You have less resources for these other things but there you can see the police Budget has hardly grown this is in real terms so it's after inflation the police budget has hardly grown. The basic education budget has hardly grown. The social welfare budget has hardly grown although there has been some growth there and the health budget is hardly grown. And in my view. Health in this country is underfunded. I would. I would not-*

**Judge:**

*With or without the proposed scheme with or without the proposed scheme?*

**Sax:**

*With or without the proposed NHI, health services- public health services in South Africa do not have the resources we would like them to have. I would say that basic education also needs more resources although there are many institutional factors there and many of the problems that emerge in the problems of efficiency in the in the university system because you have a three year degree taking six years to be completed. Which means that the cost of a student is double what it should be a lot of those problems arise because of inefficiencies or lack of effectiveness in the basic education system which is not preparing those students properly for university career? So all of these things are things that you can make a very strong case that they are underfunded then the funding should be increased. Nevertheless they are growing like this because we have fiscal constraints.*

**Judge:**

*Well we have been told that there is a big interconnection between education for medical students and the building of new hospitals-*

**Sax:**

*For instance that*

**Judge:**

*You cannot hope to provide for increased numbers of medical students and issue also provide new training hospitals.*

**Sax:**

*That is another complex subject. And the only comment I would make about it is that it's so important always to bear in mind. That we are not living in a society in which government is alone. So you train people and there is a private and a public sector so- this is another debate that we having within government about the available resources for the health sector and how we proceed in implementing the N.H.I. which from a resourcing point of view is an even bigger question than the post school education but the point I'm making is that the post school education and training Budget over the last five years has been the one of the fastest growing budgets in government. Some other budgets have grown equally fast for example public works employment budgets, the community works program and others have grown exceedingly fast antiretroviral therapy has grown very fast. So there are some others that have grown program small but as a major element of the budget a major department. This is the fastest growing over the last five years. Now what that has one of-*

**Judge:**

*Sorry, where in this do we find the sort of increase of salaries that you spoke about in relations to the education of the sixty billion, is it-*

**Sax:**

*Its health and- so salaries, most of our salaries. Its police officers, nurses and teachers. So in those budgets for basic education, health and police. The vast- vast bulk of that really increase has been on salaries. So it means in addition to these budgets being not growing as fast as we would like them to grow if we had no fiscal constraints in addition to that the salary element of those budgets has crowded out other elements of the budget. So all of those departments are. Under budget stress I would say and this comes to the costs of cutting other budgets to fund another budget because it's really difficult to find now because we've been under fiscal stress for since this period twenty eleven been under extreme physical stress. It's very difficult to find the budgets that can easily be cut without affecting basic services for poor people*

**Panel:**

*and may just ask sorry, if you can just go back to the previous slide, the growth that's reflected from twenty fifteen to twenty sixteen for pet will that include for example the oneself expenditure for example the amount Allocated to offset the zero-percent decision?*

**Sax:**

*And then by the way the dotted lines are just our budget projections of course seventeen-eighteen and eighteen-nineteen of the future. So that's what we intend to that's what's in our last budget or our last midterm.*



**Judge:**

*I'm surprised that your post school education and training shows a levelling-off in two thousand fifteen-sixteen. To Some extent of two thousand sixteen-seventeen. If you are having to put in the additional money to fund the fees increase. If you want to do is fund from the fees and only increase.*

**Sax:**

*So. I think it's a question of magnitude. So the important thing is that the for example allocations for NSFAS have doubled in that period. More than double probably. And so the growth continues to be strong. I would have to double. I mean I would have to go into the data behind this. It's a good question and I don't have a very good answer right now. Unless you truly you know we'll look at it. So this growth in the budget means that there's been a sustained increase in the share of the post-school education and training system as a share of G.D.P... And here we get into- really see the problems in the issues we're facing now because that sector that has been growing rapidly. Is not only universities. So you see on this graph the unit- the so I've now break- broken down that budget growth into different sectors. And you see that university subsidies which are the bottom are the bottom red-dark part started out they kind of been stuck around point six point seven percent of G.D.P. right? So they haven't grown as a share of national income over the last fifteen years according to this graph. But what have grown have been NSFAS allocations to universities. And if you think include that NSFAS allocations to universities which are the salmon colour. If I can call it that you see that the total government allocation to universities probably has increased somewhat moderately. As a share of G.D.P. at least since two thousand and six. I mean in these numbers- one must also recognise that between two thousand and about two thousand and four-five we had the mergers of institutions. So the budgeting- the whole budgeting system changed quite considerably in the nature of the institutions change. So at least if we say a low point in two thousand and five-six we expanded since then university education. But you can see there that the real expansion. Has been in the T.VET colleges which is the combination of the dark blue and the light blue which is NSFAS allocation to the T.VETs, there's also been some expansion in the S.D.L. is the skills development levy. So those are the budgets that are funding the workers training. So the SETAs and the National Skills fund and then other would be like administrative budgets. So the system as a whole has expanded. But and I would argue as per the mandate set out in the National Development Plan and the medium term strategic framework and the white paper. Most of the expansion or our large share of that expansion has been in the colleges sector that target working class youth to develop technical and vocational skills. But overall we've gone from about one percent of G.D.P. to about one almost one and a half percent maybe I can put it like that. Now that we've heard a lot about people will say zero point seven percent, It's very low other African countries allocate more to university education and it's true and I don't mean by this slide to argue in any way that our funding for university education is sufficient. I think we all agree that to meet its developmental objectives. South Africa needs to spend more on its skill system as a whole and also the university system. Of course we have fiscal constraints which are a problem for us but if we if we didn't have those constraints certainly we would like to expand funding but this shows the amount you spend on a student. Relative*

**Sax: \*Continued\***

*You're to your G.D.P. per capita so on. This is World Bank data it's not our data. So there's a World Bank UNESCO data set that that captures these things. So it's saying South Africa spends per student in the PSET sector about thirty eight percent of its per capita income so per capita income in South Africa is about six thousand five hundred U.S. dollars. So it's saying per student we allocate about forty percent of that, let's say two thousand and what the figure is but two thousand dollars per student in the system. Now that you know other countries allocate less so the USA and this is government spending, the USA allocates twenty percent. Cuba allocates sixty three percent. So it's like it's giving you an indication of the relative allocation-*

**Judge:**

*Yeah but this and this because it's not from South Africa but the United Nations figures the surely can't include your latest concession in relations to-*

**Sax:**

*No it wouldn't these I mean-*

**Judge:**

*Would it include the previous concession?*

**Sax:**

*No this is I think most of these numbers- This is actually be the average between twenty ten and sorry two thousand and twenty ten. Just an average over a so it's, It doesn't include so there may have been some growth but I don't think the growth would have been a dramatic change in this number. What I would urge is this is not. That this is an indication is just giving you an indication of something. So but the point I what I wanted to point out is that Cuba spend sixty three percent of its G.D.P. per of its G.D.P. per capita or allocates about sixty three percent of its average income per student. The USA allocates twenty percent. Now Cuba of course is a socialist country in which there is no private sector except for the tourism sector therefore the whole of government is the only is the economy in a sense. Whereas in the USA, If you were to include private spending on higher education. This number would be much higher and that goes for a lot of the more developed countries including Brazil. Where university education- public university education is free. But most students particularly students from working class families go to private institutions where they pay fees because the public you know the universities are so expensive that the academic criteria to enter them have been raised so high. That generally only children who come from wealthy backgrounds are able to access the public system. This is what some of our research indicated, am i right to know? So-*

**Judge:**

*So it's very difficult to find a true compare- comparison?*

**Sax:**

*Well I would say there is many comparatives either each with their own similarities and differences that you need to you would need to look at. The point I'm making is that the balance between public and private in the provision of this function is an important difference between countries and it's something we have to think about here as well that that that because we know that there can be unintended consequences. You can say fee free education for everybody. And it sets in motion a set of incentives that you may not have intended. That result as and in a sense I'm saying that's what happened in Brazil and it's happened in many African countries sense in motion a set of incentives that result in the public education system being free but elitist and or being on the other hand it could be free and popularly accessible but internationally not credible in the sense that you lead to a quality decline because a soon as you say the government must pay for the entire university budget. Then going back to the process of prioritization we are then going to be saying to universities and this would be the incentive you set in motion. OK we're paying for your entire budget. Now this year, now the fact is that the senior managers in the public sector received a two percent increase in their salaries in nominal terms. So a real reduction in their salaries by four percent. Now if you're saying that we're paying for the entire university sector. And then we look at it and we say we've got these fiscal constraints. We'll be going and saying but how much can we afford to pay academic staff in universities. And we might say- we might say that they should also have a two percent increase like public servants because that and by the way in Brazil the academics at those public universities are essentially public servants by the way in T.VET colleges they are also The lecture's they are public servants they're not independently employed by institutions. So we might say curtail your wage bill because we're under a fiscal constraint then of course that would have consequences because the quality of academic, teaching academics- good academics might say let me rather go and teach in Europe where the where the wages are higher. So we this is why we have to be very careful before- When we when we have a program like the white paper or the National Development Plan before we begin going down the path we need to consider these resourcing issues and what the consequences will be. Now this just shows it's kind of showing a similar thing but this is now not a share of G.D.P. I'm just thinking that whole budget of the sector. If you add together. The skills development levy, the allocations of government to NSFAS, The T.VET, that the allocations for T.VETs and the Allot- and the university subsidies. What's been the share in that total budget of these different sectors and you can see that the university subsidies have declined a lot as a share of the total budget that has been offset somewhat by the increase in NSFAS allocations. But the but there's also been significant growth in T.VET colleges both through a direct subsidy and through NSFAS allocations to those TVET colleges-*

**Panel:**

*May just ask a question from the- Mr Sax, looking at what you describe is the salmon portion of the graph. It seems that there's only been an increase in the in the NSFAS portion for the twenty sixteen-twenty seventeen year and that prior to that it actually seems to have been shrinking between twenty thirteen to twenty fifteen and is the growth that's reflected for twenty sixteen-twenty seventeen due to the- it's called the bailouts want to be description.*

**Sax:**

*It would partly be that yes. The. I mean this is the problem with what they call an economic eyeballing, we would we would probably want to look at the actual numbers which we can provide you but if you compare the Salmon piece back to twenty- two thousand and four. You can see that there was a large growth from twenty eleven. I mean it almost doubled in size you need to add to that the light blue piece which is the NSFAS allocation to other non-university let me put it like that. So those two things together have massively expanded as a share of this total budget and then I think you're right that the sixteen-seventeen number would also include those allocations, sixteen-seventeen it's a bit complicated because in sixteen-seventeen in addition to funding the fee the zero fee increase. We also funded we eliminated accumulated debts of NSFAS students and so it wasn't whether you ascribe that spending to that particular year is a complicated issue.*

**Panel:**

*Just on the previous night. You referred to other as administrative cost is it still let administrative here?*

**Sax:**

*In the main be the budgets of the National Department of Higher Education I don't know. And the administrative budgets of public entities like the Council on Higher Education and the Umlauts and all that would be basic education but Saga and are those kind of institutions. So this is a graph that is showing now the share of university income and it's derived from the Council on Higher Education data and it's the one that is most often referred to in the media. So I wanted to try to put it here. And it shows government subsidy as a share of the universities income-*

**Panel:**

*It seems a source is different from what you're saying. Cretan Council and higher education are two different institutions.*

**Makhanya:**

*Chair is the Council on Higher Education transformation not the C H E. So this is the correct source. It's not CHE its CHET.*

**Panel:**

*That's what I'm saying, Mr Sax indicated the council and higher education, so my- I'm saying there are two different institutions.*

**Sax:**

*My mistake. My assumption is that the real experts will correct me if I'm wrong but this is kind of audited outcomes. So the data sources for both data sets are similar if not the same and they're- That's why it only goes up to twenty thirteen because you need audited outcomes now, The point that is most often made is that in two thousand government gave University sub- gave fifty percent subsidised universities to the tune of fifty percent of their income and that has dropped to forty percent. And like many of the debates that we have in economics that is true, but it is also there are other things that are also true that- So one of the things that is also true is that as you can see quite well, So often then what people then draw from that conclusion is that the reduction in the state subsidy has led to an increase in fees.*

**Panel:**

*Alright.*

**Sax:**

*But what they don't what people usually don't present is the proportion of the fees that it's being paid by NSFAS. So what we've done here is we've taken the total fees that proportion and we've subtracted that the for. These that are paid by another transfer because NSFAS is a transfer to universities that subsidizes fees. So if you add those two things together which is the black part in the light blue part? You see that the state's contribution in total has fallen slightly since two thousand but it remains at about- Let's say forty-five, forty-six, forty-seven percent. Now the other important thing about this which I think is highlighted better on the next slide-*

**Panel:**

*Sorry Mr Sax can we go back that previous slide, the difficulty with what you want to what you're trying to demonstrate in this slide, the fact that your fees that determine based on the black portion. So in other words the NSFAS contribution only comes after your fees are determined. And so therefore it doesn't mitigate the fact that how your fees that paid by students who can't afford to pay.*

**Sax:**

*So my argument is not that students have not faced higher fees. I think students have faced high fees clearly. And to the extent that those higher fees also increase what NSFAS has to pay for that's also a factor but the NSFAS awards have in terms of the number of students that receive them have increased significantly. So an increasing share of fees and students who receive an NSFAS award, I mean there are problems in NSFAS and sometimes universities do the top slicing where they don't pay all the fees and that's why you have the accumulation of debt. So I'm not my argument is not that students haven't faced a higher burden of fee payments. It's that government's total contribution to the system in terms of subsidy has declined. But to a large extent that has been offset by an increased contribution through NSFAS.*

**Panel:**

*But that doesn't assist the student who doesn't qualify for this NSFAS. So for that student government's declining allocation has resulted in higher tuition fees for them*

**Sax:**

*You may argue that this is, so again I'm not saying this is not true. What I'm saying is that there's been a conscious or that there's been a shift in funding from the state in the composition of funding from the state. So the total quantum of funding from the state again if I take two thousand and six as the starting point. So you had university amalgamation between two thousand and two thousand and four, fine our funding level declined somewhat. But then from about two thousand and six we have our share of funding and I'm going to come back to this because the next slide also picks up the same argument and has implications for what the evidence leader is saying. The share of university income. That is a transfer from the state has increased somewhat since two thousand and six, the composition of that transfer has changed. It has changed from a general subsidy to a targeted subsidy. Targeted at poor students. Now there is considerable research in the- out there and I would recommend papers by Safes fund and Burke from Stellenbosch University that shows that the university subsidy the black part has a particular fiscal incidence. And what we say when we say fiscal incidence in this context is who are the recipients of that transfer in terms of the income of the population. So Safes fund and Burke has a paper that shows that between fifty and sixty percent of the people who receive that black portion are from the upper desire of the affluent population the other ten percent of affluent people. Where is their allocation through NSFAS deliberately and consciously target students who come from poorer communities? So there is a rationale behind this shift in composition from the general subsidy to a to a targeted and its fast subsidy. Again I'm not arguing that students are not facing hardship or that the NSFAS threshold is very low and there are many students who fall above that threshold but still struggle to pay and they are faced right -rising fees. I'm not disputing any of that and I'm not disputing that you know it would make sense for government to increase its resources even more to this sector and many other things. All I'm saying is that there's a rationale behind the budget prioritization that has taken place over the last few years, both from universities to T.VET colleges because T.VET colleges expand access for the*

**Sax: \*Continued\***

*Working class and the poor and from the general university subsidy to an NSFAS subsidy which also aims to expand access for the working class and the poor.*

**Panel:**

*And whose decision was this just this rationale that you dis-*

**Sax:**

*I wouldn't say it was a decision that was- We just sat there and made a decision one day but there's a process of engagement between us, the Department of Higher Education and Training, cabinet. This is what the White Paper I mean if I can go back to the slide. I won't go back there. But if you look at Slide six. This is what the White Paper said we must do and this is what the National Development Plan said we must do and this is what the medium term strategic framework said what we must do and we did it. So we may have done it and we maybe you can say we should have done it more we should have done it differently but I'm just trying to convey that we're not simply sitting knowing That there's a problem and not trying to engage with it. So the next slide shows some similar metrics or some similar numbers but using a different metric and let me explain what it is: its sources of university income it's the same numbers checked again. Deflated which means taking out inflation. So it's in it's in today's prices. And it's a per full-time equivalent which is essentially saying it's per student. So you convert the headcount into people are doing part time they only count for half, so per student. What have been the sources of university income? And you can see that if you the red line right at the bottom are NSFAS and although the base is low you can see a significant expansion of NSFAS allocations per full time student in universities this is just for universities since twenty ten. Then the subsidy itself has not declined in real terms over this period. It maybe declined a bit but it's basically been around thirty five thousand rand. Per student in today's prices and remember this is despite a massive expansion in the number of students over this period. If you add those two together you get the total government part contribution which has increased per fall time equivalent. Now there are two things to notice here. The one is that when I say twenty fifteen prices. The costs that universities face may have increased and in fact have increased faster than the general prices in the economy. So the universities have been facing- So although our real contribution per student has remained constant the cost per student that universities faces have increased faster than that, one of the factors behind that is About, The sharp depreciation of the exchange rate that I'm sure universities have raised with you. But you know when the exchange rate depreciates in the budget for example we don't say necessarily for example to the Department of Foreign Affairs, the exchange rate is depreciated therefore we fully compensate you for everything, we say if the exchange rate is depreciating every year over twenty years. We say to foreign affairs you need to economize because the costs you face are increasing and it's like if you're in a home and you're buying milk and eggs and the price of milk and eggs goes up. Maybe you will consume less of it. It's not a nice thing to say but this is the economic incentives that face us all, but in the public sector, this incentive is less keenly felt because the feeling is that resources are there they must pay.*

Sax: \*Continued\*

So you need to find a way when costs rise faster than other prices when relative costs rise in the university sector. How do you how do you economize on your cost to try to offset that which is a question of efficiency. So the second point I want to make is that. The purple line, which is other private income which you can also some people call third-stream income. And you can see that in two thousand and seven, third-stream income reached a peak and then it fell quite strongly. So why? Essentially that graph is very familiar to us because it looks exactly the same as the graph of government revenue. Government revenue also Pea- reached a peak maybe in twenty zeros eight and declined. Because the business cycle turned, because the economy was growing less strongly. And the fore, all sources of revenue that are generated in the private sector were less. So I want to quote again so for- this is now another academic by the name of- Charles Simpkins. Who says: the increase in the total in the proportion of total income made up by tuition fees, increased from twenty six percent in two thousand and seven to thirty one percent in twenty twelve. This is a cause for concern. When viewed together with the decline in third-stream income during this period. It appears as if universities have offset declining third-stream income. By substantial increases in tuition fees. As is evident from the high annual real increase in tuition fees of eight point four percent over this period so what he's saying in this paper is that the real dynamic behind increasing tuition fees is third stream of income. Now I am not arguing again that the state should not have funded more or maybe the state should have offset that decline in third stream income all that there is no problem of inadequate resources from the state that there is also from the state we would like them to be more. All I'm saying is that the picture is more complicated when you look it's not a direct channel of causality from declining state funding to increasing fees and these are not problems that will go away. So even if we had fee free schooling, free for university education we would still face exchange rate fluctuations. You know- we would still face rising cost base that we would be under pressure, because now it would be on budget we would have to see what we would do so. My last slide chairperson is just to say what are those some of the things that we think should be considered when looking at the resourcing question going forward. Firstly obviously fiscal space, when we say we should raise taxes to finance this new objective on our new objective but we should you know the they are answer is obvious raise taxes. What we need to bear in mind is that we are currently; we have been raising taxes to finance the things we already committed to. So in the last budget we raised taxes by seventeen billion rand. In the budget before that we raised taxes by fifteen billion rand. In the current year, our revenue collection is below our expectations and by like- I won't make any announcements because we only make announcements at the time of the medium term budget policy statement and in the budget but the growing fiscal shortfalls that we face and the rising debt that we face which threatens to lead to a rating downgrade which will further undermine economic growth which will further undermine our revenue. Is has pushed us in the last few years to raise taxes and. It is, and so that is even before we think about taxes for this thing sorry to use the example you used to earlier by raising VAT. If you were to raise VAT by one percent you would generate twenty billion rand. That might be enough to resolve the problem at least temporarily that we face in higher education on the other hand, what would you do if you were faced with a twenty billion rand shortfall in the discus.



**Sax: \*Continued\***

*Now you must do both. Now you're talking about raising that by two percent. And then you then have to go and have to the other commission on health costs and speak to the minister of health and say maybe there's something there that is needed to improve funding of the health system. Now we're talking about three percent. And by the way government also has a defence review that says that spending on defence in South Africa is less than one point one percent of G.D.P. and it must be increased to two percent of G.D.P. so. So all of these things in budgeting you don't you can't just look at the one element. You have to look at all of these elements and arrive at balance decisions. Secondly resource- expended enrolment and so over the last five years the university system has grown by about the number of students has grown by about five percent every year, so we now have about a million students. If we have fee free education are we saying what is our final end-state should it continue expanding? In line with the population expansion? Is a million all we can afford? Can we afford two million? So we need to when we when we discuss the issue also put the enrolment and that's the size of the university population on the agenda because if you were to agree to free fees today. But you say university costs are escalating by ten percent a year whereas average inflation and our revenue is increasing by about seven percent a year and students must continue increasing by five percent a year you're saying this is the amount you have to pay this year but this amount is going to increase by fifteen percent every year. So within five years. The pressure that you're going to place on other budgets although in mind if be affordable this year. Even if it was which I'm not saying it is but even if it was, within five years it would start putting pressure on other budgets and then when that happens. Other ministers will be saying all other constituencies in society will be saying why are these university students who have a great advantage when they graduate of being almost fully employed which they are and earning high salaries than the rest of the population? Why are they are getting a large share of the budget. Shouldn't we give it to health or to social grants or to economic development or something else? And when that happens we will- That's when we will start asking the question how can we could tell costs in this sector. And when that question arises the implications between the all the interaction between the costs and the quality of the system which would be even begin to emerge and that's really the third point which is throughput writes about thirty percent of students in universities who register for a through three year degree, complete the degree in three years. Am I my right? According to the date there different studies but that's the data I have thirty. Percent complete a degree in three years. So if a student takes six years to complete this three year degree. It means. Whereas you would it would have cost you one hundred thousand rand it actually cost you two hundred thousand rand. We want to expand the T.VET sector in order to increase access by the through the throughput rates in the T.VET sector are Even more what woeful and our I know a view that needs to be considered is Shouldn't you first address the efficiency and the quality of the if I can say the production of students, before expanding the system and I'm not saying you should. I'm just saying it's a qi- It's a question to ask the SETA system. How which takes about fifteen billion rand a year. How effective is it? Again these are not choice. This is not a choice. Going back to our earlier discussion that Treasury would make to shift resources from the SETA system to the unit that is a political choice that would need to be made in cabinet.*

**Sax: \*Continued\***

*But questions need to be asked about where are the efficiencies in the system and lastly the question of equity which I've mentioned already. There has been expanded access to university education more poorer students are in university education. I don't want to in any way create an impression that those students are somehow affluent or are not struggling to and in many cases the absence of financial resources causes people to drop out and that is a problem, but in the broad scheme of things university education both in South Africa and the rest of the world tends to be accessed by people who are from The more affluent part of the community. And if we should for example to raise VAT and shift that money into university education. That would make our fiscal system more regressive, because all of the other elements of our expenditure are very well effectively targeted towards the poorer part of the community. Whereas the university system is the one major element which is so that that needs that means we need to ask questions about the PSET system as a whole, but also within the piece that system. Are its universities or is it colleges- technical colleges that we want to expand. So these are these are questions that we would certainly be asking when we look at the operational plans and the financing plans. Thank you so much.*

**Judge:**

*I think we could all do with a quarter of an hour. Thank you very much.*

### **Session Adjourns**

### **Session Convenes**

**Judge:**

*You are still under oath Mr Sax Thank you. Yes Miss Pillay.*

**Ms Pillay:**

*Thank you Chairperson, I had intended to start with questions to Mr Makgajane even if he is not yet with us Chair so just give me-*

**Judge:**

*Perhaps can ask you question when I'm done; Mr Sax is it a part of your function to look for money? In the sense that supposing that you know that there is, a Holding of money in a particular place which is not being used by government. And which you could use. As part of your budgetary allocation. The way you. Prioritize things. Do you can you have access to that money or can you advise government to have access to that money or do you limit yourself purely to the revenue the state?*

**Sax:**

*No we also deal extensively with the spending. So it's revenue and spending and debt. Those are maybe the three elements that Treasury engages with. And we can and do regularly interrogate all aspects of expenditure from various different angles and make recommendations about closing Programs, using money better. So we have an extensive technical bureaucracy. That looks at all of that all of it is a negotiation I think this is the important thing. It's not Treasury sitting in its office looking at numbers and making decisions. The budget process is an intensive process of negotiation and discussion which treasury convenes with all departments that results in outcomes that are then communicated to the political leadership.*

**Judge:**

*So if it should turn out that a particular branch of government has a large amount of unused underutilized fund that would be a matter of concern to you?*

**Sax:**

*it would be a matter of concern and we would we would and we do frequently make recommendations that those funds be used in a particular way- or that problem be addressed but we wouldn't have access to those we couldn't we couldn't take that forward without the political agreement of the minister concerned Who is in cabinet,*

**Judge:**

*Clearly and what is your attitude towards the taxation of pension funds.*

**Sax:**

*And maybe that's a question for Mr Axelson.*

**Axelson:**

*And just general attitude or the changes be made recently?*

**Judge:**

*Well supposing that a tax was post. On the pension fund holdings. Small. -*

**Sax:**

*Ok we moved away from that decade ago or so ago. You know our view is that we're trying to incentivize saving and we thought that getting rid of the taxation in the build-up of that growth would incentivize saving and because we tax that money on the way out of their retirement funds, we receive it as an annuity, And we felt that we get off a share from it but it is as any other text option it's something that we can look at but we were quite*

**Judge:**

*Oh I was. I think causing the pension to somewhere along the line, to give up, what point one percent... In the interest of education*

**Sax:**

*It would be slightly against what we do now but it is nice and the it can be considered and it would just we would just worry about the impact on savings and the impact on investment. But it gets smaller levels it variable into -*

**Judge:**

*Do you know what the holdings of pension funds amount to in this country?*

**Sax:**

*I can have a look at it. It's in the trillions. And if I'm correct I can have a quick look I'm not sure exactly how much-*

**Judge:**

*And I'm not referring only of course to the government pension. But to private pension funds as well. I can have a quickie and find out. But I'm not sure at the moment. Offhand.*

**Sax:**

*So the government pension fund I may be wrong but it's one point four trillion. That it has in assets. The often people look at the assets of pension funds but neglect to consider the liabilities and so we. Yeah we would I suppose we will also. I suppose we were also know that in the commission's program there's another set in around February. Yes And one of the issues that we haven't given you any views about are the kind of solutions from the taxation side that in the end we would be very happy to make up their future presentation on*

**Judge:**

*Fro for example I would be very interested know to know what the possibilities are and in relation to pension fund. I would be very interested to know what to possibilities are in relation to the unemployment insurance fund. Because I heard in Parliament the other day that the reserve in the fund at the moment is one hundred twenty three billion rand odd. Like to know how much goes to the pension fund each year and how much is paid off in benefits or to the how who held it has progressed over the last ten or fifteen years with the pay out over exceed the income and if so how often that happens. Something along those lines and there must be other sources as well that you know about that. You certainly know about that I don't know about.*

**Panel:**

*Chairperson if I may just interrupt and just indicate that all of those issues will be analysed and six of the herring in fair amounts.*

**Judge:**

*Yes and well pleased to hear from Mr Sax that he would be in a position to assist in the treatment.*

**Sax:**

*Certainly. And it's useful for you to flag these issues so that we come back prepared on an on exactly the list because I will. Will waive several flags. I hope some show. Thank you.*

**Panel:**

*Just Judge, on father flagging also curious to know what is the treatment of the penalties maybe that flow from the Competition Commission of those penalties that people pay.*

**Sax:**

*So. Those are so in the Constitution it says that all the revenue that accrues to government must be deposited into the national revenue fund and less explicitly excluded by national legislation. So any fines levied on the companies through. Competition Act all have to be deposited in the national revenue fund-*

**Judge:**

*Automatically added to the port-*

**Sax:**

*And of course there are often discussions within government about then the use of those funds. But we mean one of the. Important features of our fiscal system that many other countries are jealous of, is the these the centralization of the fiscal system. It's something that. Is it's. An important kind of best practice in global fiscal systems that we have got right that many countries wish they had got right because once you have many different pots of money around the place you can that are not accountable to power because the national revenue fund again the principle of parliamentary accountability that anything that is taken out of the national revenue fund must be appropriated by parliament. So once you construe your system in a different way that you have funds that receive revenue and money can be taken out without parliamentary approval. You open yourself up to malpractice. Not that it should never happen but it's a you must be very careful about that the other the other point general point I would just make about something like the U.I. F. is that it is of concern to us and it's something that we've raised in our budget documents many times that the U.I. If it does continue to accumulate a surplus a couple of two budgets a glow we proposed mechanism all of giving a contribution holiday to put the money back in the pockets of the contributors rather than continue accumulating the surplus by the surplus becomes a stock of- an asset which is similar to the pension funds issue is an asset. Now something like university education. Is you could consider it as an investment. But what you need to do is have a stream of income. And if you if you if you premise that stream of income on an asset. You have to confront the reality that eventually the asset will be not there and then you will need a stream of income to and you might want to convert that asset into some kind of*

**Sax:**

*Investment either in infrastructure or something that will sustain its value over time. Home. You just ask*

**Sax:**

*Chair we just asked for the numbers that was there's about three point seven trillion in retirement two three point seven trillion from the twenty four thousand financial services field report.*

**Panel:**

*Sorry is that the government only pension fund?*

**Sax:**

*Yeah that's GEPF included so the GEPF has one point four five in the remainder and there some smaller pension funds like Telkom et cetera and there is about one point seven in private funds and about another five hundred billion in underwritten funds which are insurers who provide retirement vehicles.*

**Judge:**

*Thank you.*

**Panel:**

*I don't know if we can be advised maybe on the next set on the liabilities that flow from that so that that figure is not viewed in that space.*

**Judge:**

*I assume we will come to those in due course.*

**Sax:**

*The basic idea is the liabilities are the monies that must be paid over to the pensioners when they retire. And if you if you don't. So if you run down the asset from a fiscal point of view say for the Government Employees Pension funds. It's like a way of accumulating debt but hidden because you are if you run down the asset and then they have to pay out pensions in future you will have to pay all those pensions not from their from their funds but from fiscal funds which is kind of the same as borrowing. So oftentimes in our world of fiscal Treasury things. It's not we don't have a problem so much with the act. But we wanted to be explicit wanted to be very clear that there is this cost that requires borrowing and a mechanism that appears to obscure all of this and create the impression that you are not accumulating the liability on your balance sheet is something we worry about because. We believe that society should confront the costs that it's faces and provide for those costs and often it goes back to the earlier discussion of people not wanting to engage in the cause. So they will find a way around it that it doesn't appear that the costs are there but they build up and then then in*

**Sax: \*Continued\***

*The future for a future generation result in a crisis where the pensions can't be funded and it's happened in many societies.*

**Judge:**

*this is all- there's an awful lot that we can debate about in due course but if your pension fund drawing an investment income which exceeds inflation anyway. Why should one percent mean anything in the call in the big bigger context where it could be used for the public good? This is a debate which we could have when it's correct.*

**Sax:**

*I think only point I tried to make is that we do tax that amount. Anyway when it comes out. So it's it would just be really a change in the time of the tax. And then you just have to see whether it would have an impact on those members would they be paying more tax under the current system or not but it would really just be changing the timing so it's not as if it's something we don't tax.*

**Judge:**

*Well I do understand that but the money's wanted now isn't it? Very well*

**Panel:**

*Thank you Chairperson. It's I think Mr Sax. before I begin on the budget processes which is what I wanted to take up with Mr Makgajane, May I turn to what you began your presentation with. And that's the question of constitutional and policy background the constitutional and policy background to resource allocation. Now the submission that you made is that you use the interpretation of the constitutional right as a tool in arriving at allocations and you used for example the right to basic education and the fact that the right is not subject to the constraint of progressive realisation and use that as a tool to decide what the appropriate allocation would be to basic education and juxtapose that to the right to further education which is subject to the constraint of progressive realisation. And I think the submission you were making was that the two rights. Differently in the constitution and they treated differently for the purposes of allocation. Now if I can just understand if one looks and you were looking at basic education first this PSET because obviously nine budgets in terms one is dealing with PSET and not with further education. But if one looks for example if you break down the components of PSET It includes adult basic education. Which itself would be located under the right to basic education and not the right to Further education not just notionally can we understand how that is factored into the process.*

**Debraine:**

*From public financing in the National treasury. In terms of adult basic education- For the purpose of budgeting we included adult basic education the first level of adult basic education and that is included in adult basic education. So the remainder. Of adult education is with the with the T.VET. So the separation in the way that it's described the so that- programme in basic education. Takes care of adult basic education*

**Speaker:**

*Can me just to take that the point up a bit further. I think the way in which the right is formulated is that it allows state departments to come up with policies and programs to progressively realize that right now the question is what happens if for example the department were to say that they interpret that right to further education as requiring them to start now with realizing right to fee free education for the poor and to briskly progressively then provide Fee free education for everybody. How would that then factor into national treasuries assessment of allocations.*

**Sax:**

*I would submit that's exactly what is happening now and what has happened over the last. So I think sometimes we need to go back and say well our Constitution isn't that it's twenty some odd years twenty one years since ninety six. You know there's various policy processes that taken place in the higher education space it culminated in a white paper the white paper said we need to increase access the instrument that was identified to achieve that was NSFAS allocations for NSFAS has progressively increased so it's not its maybe. Again it's a continuous and dynamic process there's not one point at which you make a decision and then because each year. Things change so when the N.D.P. was drafted or when the N.D.P. was thought about in two thousand and eight two thousand and nine before two thousand and nine the economy was growing at five Percent. And so all kinds of ideas were put into the N.D.P. but since then the economy has grown at two percent and then. So how does society respond to this it's. So. And now we have the fees must fall, social protest if I can put it like that again we are a democratic society would change maybe how we interpret the Constitution so it's an on-going process of discussion and negotiation and democratic decision making -*

**Panel:**

*And in the process of that engagement between national treasury and the line Department. If there was to be a disagreement as to the nature and content of the right and what the obligation and government is how would that disagreement play out?*



**Sax:**

*Well ultimately cabinet must decide to make decisions and so we continuously disagree within government on all kinds of issues both fundamental issues and operational issues and eventually cabinet and the executive must make decisions and to the extent if the cabinet doesn't make a decision on a particular issue. It becomes a difficult situation because then who is right. Who is wrong? Who knows the tension could can build up in the system. So that ultimately we have a collective cabinet system that must make decisions about what are the priorities of government and when you decide that something is a priority. The implication is that something else is not a priority. And you must be equally firm in insisting that the one thing is a priority as you are insisting the other thing is not a priority so that resources can be shifted from one to the other and often I think just as a general observation the. The challenges we have in society and in government are that everything is a priority. And there's not a clear direction as to what really is the priority of priorities and that leaves our technical process off shifting resources that we don't we would like let me put this even more strongly as Treasury I mean go back to the early debate of who devised the part we advocate for much firmer political guidance on these questions. Continuously and we would like to be told. These programs we don't believe are necessary anymore. We think you should close them down and shift that money to the other set of programs. Unfortunately we get from a what usually happens is we're told these programs must be funded how you get the money is your problem. And that makes life quite difficult for us and it means that if we then make decisions that OK let's close this other program and move the money there. Then it's we have to take responsibility for that we have been blamed for the program that is closed but we're not praised for the program that is funded. So it's a complicated process now in the absence of clear political direction from cabinet-*

**Panel:**

*You testified that one of the policy documents which you have regard to is the N.D.P. when you make these allocation decisions. Public mediations. If we can just turn to Chapter nine off of the N.D.P. for example we had the chairperson of the N.P.C. appear before us professor. And we took him through the chapter on education. And he agreed with us that a higher education and training is an apex priority for government. Do you agree with that proposition?*

**Mokgajane:**

*We wouldn't say he's an apex pilot would say he's among many priorities of government. Then I think what Michael was saying earlier on was that. Everything then tends to be priority and everyone all the sectors that we engage with will all direct us to the National Development Plan because it is there then it becomes priority but we also say within the National Development Plan we should be guided through a political process in terms of how to progressively make sure that we are after twenty thirty terms of the outcomes that we all want and we think to date. Our approach has been that when we progressively work towards realizing that they've made their goal as stipulated. But the question is much bigger*

**Mokgajane: \*Continue\***

*Than that and that that actually you know. If we have to explain the process then then maybe that would be much clearer in from the brain fog. I think we were able to explain the last appearance before the commission. And I think it was important to note that. As a young democracy twenty two years or twenty one years whatever. Our institutions are developing. Including our budget reform agenda. From what it was to what it is now as it is developing. There are some new things that we stumble along and only. As you move along in the twenty years is to become more smart and clever as a country as a Treasury. We then realize how best to change some of the processes. The budget process is technically I mean it's got three components which are mutually inclusive one is a very technical process like. I mean we issue. What we call medium term expenditure framework guidelines every year in around June in there. We've got simple things like the dates that the most up departments must submit their database by basic information that see if a department. To interact with how the structure should be of the submissions and sort. And there's a very intense process that goes from June of every year and it's also a process this budget process also very administrate if we make sure you know. Competing against various products means you must meeting must meet its various endeavours with various government departments. It's also very political in that you need. A political was our committee in the form of a main part a minister's committee on the budget in terms of cabinet. But because also it's too complex. You also in terms of the entire government of fiscal regimes of nineteen ninety seven have to engage with the budget Council which is chaired is an entirely into government of the four between the nine images of finance and the minister of finance and in the same budget consulate some point tends into a budget forum where then it brings in organized local government picture to discuss matters of national race the revenues and how this should be distributed among called police. Yes. So in the whole budget process. You've got a component where we will engage with the Department of Education. We will have a problem as broader trends are where we have to interact with provinces in terms of initially just divide the nation and raise revenues including Politian local government. So in that it became and it is as I said at me straight. If it's a pound. Because at some point a budget will be presented in February. Some point. Budget ministers no medium term expenditure policy statement live to be before parliament and sometime in October those dates are set. So all process is a pound one it's also intense in that. At any given point in time we need to the whole system need tax. Above the process is that you've identified the medium term expenditure committee extended covering their parliament. They all appropriate and present parliament. Like the beginning you have apart from the engagement with Department of Education.*

**Pillay:**

*Mr Mokgajane can I just take two steps back and maybe the right time to tell you the whole process. Can you just explain to us how is the process kicked off. I mean why does a department submit to national treasury to start the whole process?*

**Panel:**

*Sorry Mr Mokgajane, before you respond, I Also but from what from what adv. Pillay is asking. There was a suggestion by the chairman of the planning commission. They're using the budget system that is being used is it still the old one. I'm not sure if you can tell us if it was the budget system before and what it is now in how does it work as- Advocate Pillay.*

**Panel:**

*Just to give you a date. Professor Makgoba talks of the nineteen sixty three.*

**Sax:**

*I'm unable to. I wasn't born yet on this long so and I've so I've studied all fiscal history of this country and nineteen sixty three doesn't ring any particular bells-*

**Judge:**

*It was a good year. It was a great year*

**Sax:**

*Was that the year you were born in? The important date is nineteen ninety seven because the entire fiscal system was revolutionized in that date. That's when we introduced the medium term expenditure framework the medium term budget policy statement before that there were two departments state expenditure and finance they were. Combined into one department ninety six is also very important because ninety six was the date we adopted a new constitution which has a whole chapter that sets out the responsibilities of financing government and nine hundred ninety nine is another important day because that's when the public finance management act which governs all of these processes was passed. Just before maybe going I just wanted to add something on to the previous reply that in terms of the apex priorities. There's a document. Called the medium term strategic framework and two thousand and fourteen to two thousand and nineteen adopted by Cabinet. That sets out the priorities that guide resource allocation. And it says that the priorities that we should focus on are radical economic transformation rapid economic growth and job creation. Rural Development land an agrarian reform and food security. Ensuring access to adequate human settlements and quality basic services improving the quality of an existing access to education and training. Ensuring quality health care Social Security for all citizens fighting crime and corruption contributing to a better Africa and a better world and social cohesion and nation building. So those are the apex priorities of government in the last year the department of in the last budget year. The Department of planning monitoring and evaluation led by Minister Jeff Kgadebe. Engaged in a process which we welcomed them and encouraged to be because we've been raising this issue that we need stronger apex priorities. And that we really know how to allocate resources through and they did a lot of work that was then presented to the cabinet in July and after July. The minister if you just statement which indicated the government's apex priorities amongst them. Higher education. So to that extent he's absolutely correct. It is an apex priority. The difficulty we now have is that yes it's an apex priority we should prioritize resources towards further education and*

**Sax: \*Continued\***

*Training. Indeed we are last year we prioritized sixteen billion rand from through other bodies to this sector. Again this year we are now engaged in the process of finding an additional amount that we will announce in October but it is of a city similar magnitude to fund the sort. So you know the fiscal constraint and the absence of additional resources makes prioritise action extremely difficult in the two thousands from two thousand and one to two thousand and nine each budget added huge resources. So the discussion we would have in the budget is here's all of the money we've committed to spend. Now we have an extra fifty billion over the next three years. Where should we spend it and that's a very wonderful discussion to have and. I was in the treasury at that time I think some of my colleagues were and I envy the times they lived through because now the question is you have to spend on fee free if you have to spend on a zero fee increase. Now can you go and tell us whose budget you're going to cut in order to get that money it's a very different conversation that we're having.*

**Pillay:**

*Just on the question of the apex priority. Prof. Makgoba testified that he's feel there was a misalignment between the recognition of higher education and training in the apex priority in the N.D.P. and the budget and do you have a response to that?*

**Sax:**

*I would say that's so I don't think this priorities are identified as an apex priority in the N.D.P. there. B.P. has many chapters national health insurance housing. You know you can name all of those priorities that I mentioned in that first slide where I said this is where the budget is allocated all priorities in the National Development Plan. It's true that as I said in July after the cabinet a decision was taken that Skills Development in fact it was put rather than universities should receive the attention of an apex priority and we're currently working on the next budget which should be good but the trouble with budgeting and this is not a South African problem it's a global problem everywhere in the world budget managers try and get away from what is called incrementalism. Which is that each year. You don't discuss the whole budget. You just discuss a change at the margin and the only way you can shift resources in a sustainable way. The only way you could have a fundamental shift away. Re prioritize the budget is by having a vision that you sustain every year for five or six years to say hi or if you said higher education higher education Kyra education that's your priority and you stuck on that note for five years. After five years you would see material shifts in the budget. It's very limited what we can announce in February. It will be a small margin change at the margin. But if you make those small changes at the margin every year for five years you will you will achieve something. So it's an apex priority but it will take time to redistribute resources towards that priority -*

**Pillay:**

*But does this mean Mr sax that if we assume that July was the critical date when it was changed from an ordinary priority to an apex parity. Does this mean that in the budgets going forward we should see a slight difference in how and how high you higher education training is treated in the budget?*

**Sax:**

*As I indicated in the slide earlier higher education budgets. Since twenty eleven have been growing faster than basic education budgets health budgets police budgets defence budgets. So I imagine given the cabinet prioritise action statement that this will continue.*

**Judge:**

*But if for example in two months' time you were told that the Health Insurance Scheme is the most important thing in the budget that goal would change*

**Sax:**

*If cabinet changes its mind so will we.*

**Panel:**

*Just on that fall for the allocation or maybe in the Judge's word, the pie. Are we able to in advance to say possibly the pie is going to get say maybe if there are fines that are paid? So are you able to say how much where is the fiscal position that any given time. Priorities or not to know how much it is able to do that?*

**Sax:**

*We are able to determine all we are able to tell you with a high degree of confidence. How much we're going to spend. But where we're less confident on how much we're going to receive in revenue because the revenue we receive abstracting from any policy changes. Assuming we don't change our tax policy in any way the revenue we receive is largely determined by the performance of the economy. So I can tell you how big the spending pile will be next year and it's about one point four trillion or something that might be slightly out and if they have less in your spending if there's a surplus in the space in the revenue. If the revenue comes in more than we had expected next year. My recommendation would be that that needs to contribute to stabilizing the growth of debt because we are borrowing a considerable amount. To pay for that one point four trillion expenditure. So if we get a revenue bonus. I mean obviously this is our up to discussion but we're already starting from a negative position where the revenue is not covering the expenditure and we have to borrow so. That higher education asked four hundred fifty billion over three years we borrow one hundred sixty billion every single year to finance our expenditure now. So if we get one hundred sixty billion if we got an extra one point five billion. I would be happy if it was only one hundred fifty eight point five billion that we borrowed.*

**Panel:**

*Can on that revenue bonus what guides what legislative framework guides how it is used?  
Who has got the air-throaty to say we are going to use the bonus like this this year?*

**Sax:**

So the Constitution requires all revenue to be deposited into the national revenue fund and you can only withdraw money from the Rajah Revenue fund in terms of an appropriation Act of Parliament which then allocates that resources to its various uses.

**Panel:**

*Do you give that advice?*

**Sax:**

*I mean other people advice to parliament has a Parliamentary Budget that also advises them.*

**Makgoba:**

*And as we indicated is a political process like for instance last week we went to a committee called extended cabinet it's meaning it's coming at them its current form including premiers in finance in there we present the fiscal framework that we're going to present in the medium term budget policy statement. Now in that meeting we give them broad parameters around our assumptions on go including they explain each envelope as we see it and what kind of debt to G.D.P... Tajiks would you want to see. And we put it up front and up there. And then we get indication of the OK. With it or not. OK with it. Meaning. By OK means we all care with the difference in your budget deficit that you're putting together and where you are dead should be at so it becomes led by the time we go to Parliament in October in June February in the budget. The process has already identified what are the priorities in so far as the fiscal framework. So yes. We make a recommendation terms of what do we do with the subclass essentially But as we've been saying from the morning that having a dent decides in terms of whether they agree with this debt that to G.D.P. ratio whether they agree with the question that you are presenting or whether they say instead of being at forty five point two percent. We want you to be at fifty or sixty percent of G.D.P... Technically as economists were able then to advise. What are the implications if Cabinet is to advise us to go to say we'd like Japan? Some people argue that but the U.S. is undergoing ten percent of G.D.P. Japan is two hundred twenty percent that G.D.P. Less you sort of only at forty five forty six percent. Why don't you. Every country every situation has got its own unique circumstances. And when we go to Cabinet or go to external cabinet to get a decision amend it out. We put all of these options on the table in terms of what we think possibly we should be at in line taking to account economy growth take into account the tax savings that you are proposing and set because the obviously many occasions. Now I don't know if we have to be on so question my colleagues. Will look at in terms of just the process now when at what point in camp and present the budget and what do we do they are maybe we can start to take into account the*

**Makgoba: \*Continued\***

*Broad - that I gave that will have those engagements overarching that will be the political process that must sign off and tick off*

**Pillay:**

*That will be useful for our purpose he could just have a very quick description of the process. Beginning with when that the department presents its budget requests that budget and what happens.*

**Debraine:**

*OK. I happen also to be a function group leader. Budget is grouped in two groupings that relate to each other so for example that you see as one to understand. Protection Services it will live just as corrections police defeats all together. So the all I think eleven of those things. It's out the whole of government is divided, I've got two function groups. Post School Education and Training is a function all on its own other function basic education which includes basic education and arts and culture in the provinces. So for all the function groups it works in this way we issue these guidelines in June we could we could obviously the that the commission copy that sits at is under was explaining the date spot which things are at the is that if those are the guidelines. So we do to start off with we've seen that out then we also have any information session so that your body understands what it is that they need to submit. In the guidelines or also contain things like what we think the inflation rate is going to be. We also sometimes say how much money additional money we have available. So in that context. You can understand are sometimes one could be a little bit perplexed if you say. These are only sixty billion in available and you get the budget that exceeds the. Who's that with the new fly the people maybe even that they better get off which is why we have the information station. So we explain how the process is going to work the genie follows some military and each year. They have to submit an extensive database that outlines the expenditure by program and by economic Yes if occasion. We also expect. Three things. Then and signed by their accounting officer in the case or both school education and training would be the digital you question in training and explain it in a negative Ricci's you've given us the numbers but the less what that means in detail. And in A and also that when we need signed by the executive authority which in this case would be the minister of intervening. As well as your populate the data that's. I would in convene a meeting between the officials in the national Clichy and include in the meeting the department of planing monitoring and evaluation in the Department of Public Service and administration because one of the issues this year that we need to discuss compensation budgets. So sometimes you include other departments also depending on the on the issue. Planing wanted thing and evaluation is the because they have all the performance information. So that the budget is not just about. We need more money but also an explanation of what you did with the current money with you achieved you told the tower while you've done except. I normally bring the department to give the. I really call it a pre-budget highlevel in which we have a frank discussion about this year the conversation went something like this. There are no additional resources available. And anything that you want funded will have to be funded through reprioritisation should either within your own budget between components or at a*

**Debraine: \*Continued\***

*Later point will have to reprioritise from one of the other function groups. If you will function groupies the apex priority, so that meeting number one. Today it's just a general a little bit through the guidelines.*

**Panel:**

*Sorry Ms Derain could I just ski a question around that's a very proud that she talking about at this level is a very narrow one in the sense that it's constrained to the functional group. So it's not really prioritizing beyond that.*

**Derange:**

*No*

**Judge:**

*Can they not say to you look we hear what you say. But weren't you please move the- to try and obtain this money through tax? Or does it not go that far?*

**Debraine:**

*No that's not that's not the conversation that happens in a function group in general, it may happen that. It might happen at the more strategic level- at the medium term expenditure committee with the director general of treasury chairs. That is we that conversation would happen.*

**Judge:**

*Thank you.*

**Sax:**

*Let me say even more broadly as Mr Mokgajane says we have now gone to cabinet with the fiscal framework we went presented last week of the week before that this is the fiscal framework which is the total spending ceiling the revenue targets the expected anticipated growth and it's in that context that the discussion about taxation and how much we can spend and how much we. Borrow takes place then once that discussion is completed. We then are in a position to say how much you how and how much resources are available and how they should be allocated and so on. It's a very deliberate separation. Because if you had two ways of budgeting what I've described is top down. You can do it. Bottom up or you take everybody's bits and you add them together and that's how that determines your fiscal framework which is what we try to avoid So we want to have the discussion about resources at a global level and we take it to cabinet we present goes and that too by the way in terms of the money bills legislation that guides money bills parliament has to adopt the fiscal framework before the appropriation bill is referred to the Appropriation Committee and you start discussing appropriations. So you're bound by the resource availability you make the*



**Sax: \*Continued\***

*Resource availability decision first and then you make the how do you divide the pie between the different needs.*

**Panel:**

*And so the resource availability discussion happens without considering the needs or wants a line Department.*

**Mokgajane:**

*Principle it's got to be me. In other words you say today. This is what of got. And as indicated in education you tell them there's no additional allocation for you if you want money you must reprioritise with your baseline and so that is what. That's my understanding. I'm getting.*

**Sax:**

*Exactly. So at the street so the process that Ms Debraine is devoted to is the process between officials technical people in departments we all. So I have the C.F.O. of Department of Higher Education he's not sworn in but he would be talking looking at their budget and technically what can be done. Where can we make savings etc.? But when we discuss the fiscal framework that's a high level strategic program. The president is there the deputy president also when we have the ministers committee on the budget that's like twenty ministers and we presented there before we go to the cabinet and you know if there's an issue that says we need an extra this fiscal framework is it going to be able to accommodate one to three pressures which need to be addressed next year and then we will answer will say no and they will say well then we think you should look at raising a tax or borrowing more we can have that discussion and that's exactly how we presented to them. In fact we go there and we say there are three options you can either accept the spending limit or you can raise taxes or you can borrow more. And those decisions are made and at the point the point where those decisions are made. You're having a strategic discussion once that is concluded then we go into the technical process.*

**Panel:**

*So for the past two or three years has the issue of financing higher education in changing been dealt with at the fiscal policy framework meetings?*

**Sax:**

*It fought for certainly in following the decision in November twenty fifth in where decision was taken that there should be no fee increase. There was a cabinet meeting. I remember the day quite well it was the ninth of December twenty fifteen where I don't know whether I'm supposed to say these things or I'm it's under the Official Secrets Act or whatever. I'm not sure I hope I don't get prosecuted but certainly the discussions in cabinet that took place on the on the fiscal framework and all of these things had in mind those events and definitely. It was something that we were. We were aware that they would there were these*

**Sax: \*Continued\***

*pressures in the system and we were saying this is how you can respond to them you can either address them within the current spending system which means cutting budgets elsewhere or you can raise taxes or you can borrow more and the decisions that were taken were. Communicated in the budget of February last year*

**Panel:**

*Mr Sax imp not eager to expose you in any way necessarily but I just wanted to get a sense the meetings the fiscal framework meetings are they matters of public record.*

**Sax:**

*These are cabinet meetings that I'm talking so not all the meetings of the ministers Committee of the budget and the cabinet. So those meetings are within the- are not.*

**Panel:**

*Ms Debraine, it was still your turn.*

**Debraine:**

*And I just did it to say again it's not on the full the PSET function could have been the Seattle. It was either additional resources*

**Sax:**

*There is something else I wanted add which is that when you say are they public record. The way the system is supposed to work and I don't say it does work. Try this but the idea behind it is that in October we present our fiscal framework. So after having these go through we then present them to parliament and then the reason we present that six months before the budget is because society is supposed to debate. What we have presented and Parliament is supposed to lead that debate. And then reach conclusions and parliament then gives a report to the minister. So before we have determined the fiscal framework there is a public process of debate how effective parliament is in executing that function is something we can get we can engage with but it's not like the fiscal framework is decided in secret and then announced. It's announced six months in advance and then there's or four months in advance and then there's an extensive. It that allows for that in. Including public hearings in Parliament on the fiscal framework that take place and then you will see in February to what extent the executive has shifted its position in response to that debate and then Parliament again adopts the fiscal framework and is at liberty to change it.*

**Panel:**

*And these debates. Does this happen through the standing committee and finance and then the minutes of that of that committee those up public records?*

**Sax:**

*Not only the minutes but the actual meetings. You can attend them or watch them on television*

**Panel:**

And within that committee and within the standing committee of Finance has the issue of funding of higher education and training it has been debated in the last two or three years?

**Sax:**

*It has certainly come up as one of the pressing fiscal issues and in the department or I mean in the Committee on Appropriations. In fact after the so when we present the frame to B.P.'s in the budget. Usually what happens is there's a joint meeting of all of the different committees appropriations and finance in the two houses where we then present and there is extensive discussion about all of the issues we're discussing now the problems in the end of the economy the need to finance certain priorities why one thing is funded in another thing is not so and I don't recall the specific but also the Department of the Committee on Appropriations has called and had several sessions on specifically this issue of funding of.*

**Panel:**

*We were aware that I think the chairperson at the Appropriations Committee. He's testifying before us next week, I'm the only chairperson that is not doing that that's not doing that is the standing committee in finance and one of the questions we considering is we're the two to get the stent that that chairperson before us and I'm sure. You know.*

**Panel:**

*Good. But also in terms of what I said earlier it is important to note that the process itself is evolving. You know from what it was ten years of totally different like now clearly in the last two years it has been critical of this process that we are claiming. In no way or even in legislation is it indicated clearly how the Treasury or the budget office interact with South Africans out there. So it's a matter of whether the student groupings formed themselves as a pressure group and wanting to present to us tomorrow morning at ten or something. Some So do we go. Do we go in the context of a budget process or do you go in as ordinary public servants who just want to sort this is so the process is evolving from how you know it's fine expression of the democracy is as it evolves so there's some what we are learning is a formalized process in terms of engaging with the departments but we're not saying it's all conclusive in terms of hearing other views. So I don't know.*

**Sax:**

*Reminds me a lot after the last budget when one of the things we initiated as a national treasure over the last few years is to have much better engagement with civil society organizations so what we've been doing is after everybody it and you can say it's after the Budget it should be before but nevertheless to we have convened our own expense national workshops of civil society organizations where we take them through and the aim is to empower them to engage in the process better at the last one that took place in Cape Town I think it was in March of twenty fifteen we specifically went help to invite the student leadership and we had S.R.C. presidents from several campuses as well as representatives of other Southeast there and we went through all of the same similar things that we what this is the budget. This is the fiscal constraints and we so we have an interest in better public deliberation on all of these issues because also we don't. It's not like we enjoy being in a position where we are perceived to be this group of people who are taking decisions. You know in the face of national you know somehow blocking society from making decisions because we're not we feel that any agenda that exposes this to public scrutiny more public deliberation in a democratic basis we strongly welcome.*

**Panel:**

*What we are trying to assist in Mr Sax the extent to which the demand for fee free education was debated considered discussed before the budget was finalized*

**Makgoba:**

*Leading up to December immediately and much of the dates but I assume is the issue came softly before remembering. Yes it was before early October, It could have been there was a conference a summit in Durban where the minister of education. In terms of agreeing on processes to actually start engaging on the Vista funding in the U.K. is to find out of the process a presidential led by the D.G. of the presidency Dr Levees convened a task team comprised of students national vice chancellors associations and any other you know we met until we came up with a report that finally made recommendations on the zero fees and amount in terms what exactly it means that made us finally life that they need which was identified at the time a sixteen point eight billion and that finally make a recommendation to the December cabinet meeting and. The general didn't cabinet meeting that decided on the field situation for this current financial year so far as I know there isn't that was more and I guess the process. More than any other way. Could've happened without our knowledge.*

**Panel:**

*And the second part of the process the one that went into the NSFAS issues and which produced ultimately the recommendation of a pilot the next first pilot study for twenty seventeen. Part of that there was a lot of that is there's the-*

**Makgoba:**

*Yes, that the task team I'm talking about*

**Panel:**

*And the pilot that's recommended for twenty seven teams zero to one twenty two thousand and then between one twenty two thousand and six hundred thousand. Has that recommendation been coasted?*

**Debraine:**

*now that I mean that the that there was the biggest cost team that they don't do and then size was charged with running that task team which was then a sub-grouping. Myself and Nokwazi are part of that task team that we have just finished the deliberations in was being ease has been to beat in Moscow to age occasion in training but the cost of the thing is not taken place. So these are the principles. How it should work. The main players because one of the things that we need to do because it's going to be a public private partnership arrangement in terms of the treasury rules. You have to conduct a feasibility study and so there will be the thing that will generate the actual costs and that takes place over a fee the number of hurdles that you have to go through in order to proceed along the public knowledge.*

**Panel:**

*I was about to ask Ms Debraine what time frame. Do you see the feasibility study taking place?*

**Debraine:**

*It could be anything up to a year or maybe even longer than a year because it's a formal proceeding terms of the of the Clichy these three all the little stages. If to give to the if to a point transaction advisors they have to do the modelling. They have to look at their risks. All of that in the US C.D.'s of spaces in which they need to come back and the initial think Michael is the one that has to approve.*

**Sax:**

*So I mean something like that. I mean I think the thing we need to be aware of and. Responsive to is that it's very important that government acts in a rational legal way before that that it doesn't make hasty decisions a lot of the processes we have in government and in the budget process are exactly about making sure that you don't simply change course and do something and then and then people are left with the consequences or future generations are left with consequences on the other hand you know something like this is clearly a case of so there's a social urgency and a political urgency behind it and inside circumstances you can so definitely try and fast track processes. The whole design of the N.S.FAS. For our system is certainly an important part of what needs to happen and would need to have had happened in any case even if we were not in this social process. So it's very important but I think as my first slide state we have a policy and that policy has not yet changed. So we can't simply as.*

**Sax: \*Continued\***

*Officials will do something that's the framework we're still working on and it's a framework of expanding access through expanding and it's fast and expanding particularly the college system and we're continuing to budget for that was the fact that the university subsidies are continue to expand faster than most elements of the budget itself*

**Panel:**

*So thank you Ms Debraine do you want to pick up again---*

**Debraine:**

*He was no money. So the idea they know the engagement between the treasury and the DEAT is to look through one of the things we look at these past expenditure of all you're able to spin the money that you have been allocated for the D.N.A. that is fairly easy because they transfer ninety nine point eight percent of the budget but for other departments let's say if I was in charge of housing they would day we would have a very long conversation because it would show that they were not spending their money and not building that houses in line with the budget so I mean that at that it's another issue that they had one often conference in the money's allocated for a specific purpose but the purpose is never that me in the timeframe that the department sees it is done so that you don't know that in advance so often when you OSS departments all you able to spin the money on to will be yes because it's beat the day of the money they're not doing it. But we are we can show you many examples a classic example is basic education in school and what is-*

**Panel:**

*What happens to unspent budgets? What happens to the money at the end of the year?*

**Debraine:**

*We conduct the process in which Reese for some things you can apply for. Rollover it's the term we use so you can say. I've made commitments to in specie for capital. We've committed to we didn't get the money out of the door in the financial year that it was meant to be done in but here are our commitments all the conflicts we've signed with the contracted to build those three schools they each cost fifty million so we'd like you to roll over that hundred fifty million into the next financial year. And then rerun the process that sees what you can that all over and what you can't all of we run a procedure in the technical process. And then suddenly to everything else that also goes and gets approved back in and out of my wallet is able to continue with the put continue with the project and*

**Panel:**

*Money that's not rolled over?*

**Debraine:**

*So money that's not rolled over. Now for the previous year. So money that is there is not that old of use is lifting the nation levy fund and is used to. You can I think you can use that date. And it would be doing. And to spending the last time. Maybe you can just say it each year. It's been it's very I think it was six billion us around the right number.*

**Judge:**

*Before you get there. I assume most brain that you also have a system. If my recollection is correct. Joining this been spinning throughout the financial year. Process is when you say. Department the X. you are not spending this amount of money and we are now all off way into. The financial year. We'll morning. I know warning system that you L. and your discussions take place. What the necessary Department is I correct?*

**Debraine:**

*Yes you are so we have the school then and then in your monitoring system so we do it on a monthly basis. So we can advise departments that we can see you not spinning are the issue is the it. Is it an issue that we could help you with because sometimes we can? What is the problem so that we can understand it because we ran an adjustment budget in the middle of the year which is now actually? In Reach we then say well if you are not going to be able to spin that money then you must please. Did it. So it's not that it's not another budget process. It's adjusting the budget of twenty sixteen seventeen. In line with what you are able to really port to Parliament on a quarterly basis is to the state of play across the national departments and then that committee will either call in the slow spin something something's done. You kind of get an idea that capital for example is not spinning in the same way as you would spend on salaries say this is the same you demand that goes the people of the capital you need a little bit of planing and then you start slowly and sometimes you'll get the towards the end. So we try to look at each component in its criteria so that you don't say well it's you haven't spent your money before. But if it's a capital project and we know these a time did it fine. But we do or stipple its but its natural human instinct to say no I am going to spin and spin. I'm not going to dealing with you always looking on the on the bright side and from the budget office aside they will always say that because public finance deals with the National departments they do so. Looking on the bright side. Ways they are just all those numbers people they just look at the numbers. So yes we do if that system. So at the same time that we're on the budget process for the next thirty years we also are looking at what people are doing in you. So now it was at a first meeting I have indicated what the what the these sources all that available. We then discuss explain what they expect. Expenditure is being like and we look at over the number of years. The Department of I use a new department in terms of from They've only existed since two thousand and eight. So they don't have a long the study and as I see it because they do transfers they spend all their money. The time so that so that it's that it's a video short discussion. They all say the skills development levy. Which beach funds the skills fund in the seat is in that money is not available for the sick day but we still discuss how that spending is looking in that that spinning isn't always been is good. It should be and they've accumulated launch so always-*

**Panel:**

*When you say it's not available what do you mean?*

**Debraine:**

*The skill development levy is an Levy so it can only be used for the National Skills fund in the SETAs is it can't just be taken and used university subsidies for example.*

**Sax:**

*That's governed by. Legislation that governs the use of that levee so we it's not like any other revenue.*

**Panel:**

*Well let's assume that. So where you have the skills for and live the projects those particular projects would have been yes would form part of the educational process because my understanding that some of those funds are used in T.VET so forth. So perhaps you can you can clarify what you mean. I think that question is based to the to the National School Fund in the SETA of people in the department of training by the own internal processes for allocating than the national skills and so is Michael indicated earlier. It's not it doesn't come by the appropriation. So they run the own process and they finally get called in to with was in-*

**Panel:**

*So in those terms it's not that they're doing something illegal. No it's no it's just no it's just not in OK.*

**Debraine:**

*They may need it. Not us. OK.*

**Sax:**

*Our job is to hand over the money. And after that. Obviously we have interests and we follow very with great interest. What happens? But we don't have a legal mandate to do.*

**Judge:**

*Ms Debraine at a moment convenient to you we are going to adjourn for half an hour. So you just indicate to me that you think*

**Debraine:**

*Maybe I should finish up at O.C.S. for Extra and also indicate that this is the for the formal press. So we have that meeting we look at expenditure patents. We also look at performance and on and we rely on the department of planing monitoring and evaluation. They make a presentation indicating the targets that will see it for the sick with or they've reached those targets why didn't they meet those targets.*



**Debraine: \*Continued\***

*Some of the targets or already late or not meet because they related to funding. But some of the thought were to not meet because they relate it to other inefficiencies either in the university system with the three that system. So we're looking at really interested in is the throughput that I can proving and it is so one is one these one is quite a view that the quality S.P.X. in the system all be eating fruit. Obviously one would like those throughput that I did Michael C. to be much higher because it means a waste of resources even if a student takes six years to complete the three year to get the you could in effect to fund it. To students to thirty year degrees.*

**Panel:**

*I'm sorry to interrupt you. Apart from throughput rates what are the inefficiencies in the higher education system is considered at that level.*

**Debraine:**

*What we would look at administration so for example in these firsts. They used a paper based system before they moving on to a new student funding model. In which you won't give files of paper sitting around what you think will be available electronically and also look it's the money not to the university but allocates it to the student. So the issue of top slicing that Michael spoke about. Will be removed from the system. So it's also Demon the state of efficiencies it's snowing. For example in the D. that seek to. What is how many students are taking particular kinds of courses all those the kinds of courses that to beat the prospect of getting a job. This of some use. So it's a range of elements that get looked at-*

**Panel:**

*Can me just to test my own understanding if at this level in the context of T.VET colleges. We know that the throughput rates are not what they should be so they quite low. And if the NDP is calling for increased and romance in the in the T.VET. Colleges. How are these factors then measured up at this level in deciding on assessing the request for budget by the line item by the line department?*

**Panel:**

*Ms Debraine before you answers that. Maybe to improve the throughput rates, allocated enough resources to apartment of basic education to make sure that. For the record-*

**Debraine:**

*So in some ways it's a little bit strange because I'm also the function group leader for basic education so I see them sipped at least and obviously the two things are linked. The ones throughput is the ones you put in in general we want to focus on the quality I speak says Michael indicated in the beginning. You cannot continue to just push on excess. If you infect the throughput right or so low. We have to focus on quality.*

**Debraine: \*Continued\***

*So we've been we've been indicating to the department we'd like to see budget requests that gave as an indication that the department is actually B.C.B.S. about improving quality in which they have done. They've been nice to see also not. Used. Appropriated funds to do that that they've used money out of the skills development leave the two able to improve the Qualifications and things of that nature. So in the basic education side. We're also interested in the throughput and the we also asked the Department of basic education to indicate to us what will all the quality elements that they would like to see. And it involves things from teacher education to using trying to have English beating the shit eating at lower levels focusing on basic myths and literacy. So we also the if the budget requests are directed to improving on the quality side. So but in the context of scarce resources anything in this round says it means we have to the product dies away from other things and so those choices. The department we also department to show us how they with - does so in this instance for food for example they were very frank they said we are unable to be flawed guys because everything is important. So we that we have we have at least two meetings. Depending on the year we in two formal meetings and between those meetings the whole thing runs from July to September. Between then the formal meetings in which the D.G. and the - will come and be seen. What all the issues. Why do they say this particular project is more important than another project? We asked them to please I think the proposals. So if you asking for around twenty nine billion. Could we at least know from you? What is the most important one? Sometimes you can get people are willing to do that it sometimes they not.*

**Panel:**

*And that this specific. Criteria for project but so that some of them with self-eliminate through this process?*

**Debraine:**

*Yes we ask people to say is the project in the medium term strategic framework. What are you able to give us the outputs? Do you have an implementation plan? And you put out a ties. If it's so important for you if you see it. What is not so important or you are able to take even a little bit of money because that would indicate that it's the most important thing. So once we can see it's a some of those criteria that quite a few others around about the ability to implement so forth and so on. You can see which ones will eliminate it. So you can you can kind of the rank them yourself. But we like people to tell us what they would believe because it's in the best interest dollars So we have to formal meetings in the between that myself in in the day into it with the department around the database making sure that all the numbers. Then I the unfortunate cause all the fortunate doors of making a presentation to the medium term expenditure Committee. So I then become the voice of the people. So you can see it's in the department's best interest to be frank and upfront with me because I'm going to be getting not this kind of questioning but much worse from the medium term expenditure committee who have who have no particular interest in any of the see this. So each of us functional group leaders come. And we make up these and they should try to put forward that base case function and why they should receive money.*

**Debraine: \*Continued\***

*And that would be the Indo of my job is a functional group leader then it's up to the medium term expenditure committee to deliver it once they've heard all eleven function groups is to and then they may call us so we've. Sometimes four or five in hearings to come and explain it all You get told to go into work. You're not satisfied with your explanation please bring us the nation.*

**Sax:**

*Poll and this probably the natural end but for example when Ms Debraine came to the medium term expenditure committee with one hundred twenty eight billion that's when MTECH said. Mentation plan costing it seems like this elephant is too big to digest in in one bite. Can you go back and form an into departmental pass team that fairly examines how this is going to be implemented and make proposals about how we should fund it including issues of taxation and such.*

**Makgoba:**

*In the past but I know it's something that. And in that we then become because we are also part of the medium term expenditure Committee. We then become. Then I would say something like in terms of the cost structure you the department you and the department are transferring so many billions to universities. We then have to be asking. The Department to actually ensure that money starts transfer to the appropriately used in terms of the cost efficiencies because they're also it's important that really government kind of have a site in terms of once the money he's University of Transkei what happens. What kind of arrangements. What kind of benefits structural deficiencies just generally are the end. By going to cost containment measures. Clive's and so on things that makes sure. So I think that's another face that at some point is really moving forward. The department and maybe they can be. Quizzed when they meet you to try to check. You know what happens when the money he's the university. Because you know used you transferred him too much. OK maybe not but then obvious you know it's also about because clearly who operate in an environment where resources are scarce. Have they take that into consideration as they just go about day to day operations of the rest?*

**Panel:**

*So what you basically suggest is that you follow the money to varsity and see.*

**Judge:**

*May we adjourn for half an hour?*

**Debraine:**

*I think the Mr Sax just wanted to complete an answer on that question Chairperson*

**Sax:**

*I was going to just have but inevitably if universities are more reliant on public funding and less reliant on private funding either from fees following the money imply accountability and you're accountable to the people who give you money. So inevitably if you are getting fees you will be more accountable to the people paying fees if you're getting third stream income or if you know if all of your money is coming from government an issue does arise as to are you creating a say an incentive for the erosion of autonomy of those institutions Yes*

**Debraine:**

*Thank you Chair.*

**Panel:**

*Thank you Chairperson. Mr Sax, to briefly turn to the issue of the casting of fee frees higher education and training and perhaps I could refer you to the submission files by National treasury. And specifically page three of this document. But Page- Page three. Right. You'll see in this submission. The heading the financial implications of a fee free higher education and training and in the universities and TVET colleges. And it's stated that between twenty seventeen and twenty thirty assuming inflation and growth in allocations for universities and TVET colleges to compensate for no fees would require and it says fifty five point two- sorry five two point five billion in additional funding for universities and ninety point nine billion in additional funding for TVET colleges. And I just understand these figures that set out here; do they represent full cost of study?*

**Sax:**

*So essentially what these figures are is so remember that the study we commissioned, Was not into fee free education. It was into the implementation of the white paper. So these figures are what it would cost to implement the white paper. If you look at page three of the submission. There's a table there which shows that for example; TVET colleges enrol money would you expand from seven hundred thousand to two point five million. So what we've done is then say OK. Given the data that we have from that exercise. Now what would be the consequences if we took all private funding or fee the stream of income that was assumed in the model out of the model, and shifted that to government? And this is the amount that we get, it's just a let me just tweak like correctly for the-*

**Judge:**

*Figures for those-*

**Panel:**

*So I just want to understand what you're saying I have saying that this this deal, that this particular portion of the submission deals with the implementation of the white paper, the costing of the white paper target.*

**Sax:**

*Up to twenty thirty.*

**Panel:**

*I understood this to be just without looking at white paper targets. That's just until twenty thirty the costing of no fee.*

**Sax:**

*It assumes that you are on track to achieve the White Paper targets. So it assumes that enrolment for instance will expand along the path that is set to achieve a two point five million expansion and so. So which is that which is a significant- So what I'm saying is that not all of these costs- it's not simply the pure cost of no fees. If you because this is this are really the issue is that if you were to say no more fees, all of the current fee income of universities. According to the C H E T data or C H E data whichever one is about. Then we say twenty billion and The NSFAS, contributes about four or five billion. Is that right? To universities. Yeah. So you're left with sixteen Billion that students are contributing in fees. So if you were to say zero fees this year or next year. You would be looking at in one year maybe let's say fifteen to twenty billion. But then you have to ask how will the system evolve after that? Will enrolment continue to grow? Will third stream income continue to decline? Will costs continue to rise in the way that they have in the past? Before you get a sense of now, over time as the system now reaches a new equilibrium. What would be the total cost of government? So let me let me state very clearly that we have not coasted, Specifically the implementation, With the demands that are being made by the student movement now we still need to process those and we don't have a policy to achieve universal free education and we haven't coasted that. What we can do is give rough indications of what the static impact would be-*

**Panel:**

*because that really was my question around whether or not the demand as it's current to articulated which is fee free high education training for all, whether that has been coasted by national treasury.*

**Sax:**

*No*

**Judge:**

*Ms Pillay, I've just asked the sergeant to bring the report that we've just recently received because the figures in there are slightly different.*

**Ms Pillay:**

*I think that relates to the costing of the targets in the White Paper Chairperson.*

**Panel:**

*Just as we wait for that, have you coasted the issue of providing fee free education for the poor?*

**Sax:**

*What we have coasted is the white paper, for the White Paper envisages a significant expansion of access to tertiary education post-college education. But in the main the main expansion is it through technical and vocational Colleges and in the main those colleges today. Very few people pay fees. So I can say yes but again we haven't looked specifically at- if you take the university sector and said let's- let's take for example the six hundred thousand rand threshold that was set by the minister of higher education when he announced this year. If you said we should waive the fees of those students and substitute that with- with a transfer from government in the form of a university subsidy. In the first year. The total cost is- and I mean these are really just back of envelope kind of discussions we haven't done the costing work that's the point but on the back of envelope basis. I would say the total fees are about twenty billion. We already cover about four billion. My working assumption is that that six hundred thousand rand threshold covers about eighty percent of the university population. So again you're looking at somewhere in the region of fifteen to twenty billion per annum to do that but the real- the real dilemma is not what it will cost next year. The real dilemma is what will it cost in ten years' time and how will that cost impact on the development of the university system. Because if the costs in ten y- if the cost next year is acceptable but the cost in ten years' time is unacceptable to society. The consequence can be the erosion of the quality of the university system.*

**Panel:**

*- look the costing system. We'll discuss down the line, there's various aspects to it in terms of why a university or different universities cost so much and others not and which then relates to how fees come up and so forth, this particular aspect is looking at your Assumptions that you have and finding whether there is money or not and that's the way I've understood you presenting your presentation. Ms Pillay was just trying to find out when you- This was drafted, the basis of these assumptions that were made.*

**Sax:**

*And so there's a whole range of assumptions in the report and the report itself is a very thick document. Assumptions about throughput rates, assumptions about the number of academic staff who have Ph. D.s because if you because and the because these are all elements of the white paper to say you want to increase the number of academic staff with Ph. D.'s that implies that the compensation budget of universities is going to increase. Assumptions about what are other key assumptions? Enrolment growth is a major one. Student Housing like having a certain greater percentage of students housed in the near to on campus. The changing structure of the core structure. Are you offering medicine or are you offering like what kind of courses are your Because each of those are the different cost associated with so there's a whole Range of target set out in the white paper that this costing model attempts*

**Sax: \*Continued\***

*To then say how much it will cost and what are the different assumptions because and that's the importance of making policy and costing and financing at the same time. Because then you confront the trade-offs and you say OK what is the priority? Is the priority to have students located on campus? If so can we go a little bit easy on the professors with Ph. D.'s for just as a frivolous example but you can actually put on the table now I do you can have a discussion about which are the things that are nice to have and which are the things that you cannot compromise and then you can focus that discussion and say maybe we need to do this part first. And that part later. So yeah so all of those things are embedded in the costing model and all we've done here is then say in addition to that if we were then to eliminate fees from the system then what is the total?*

**Judge:**

*In addition of course one would have to take into account; necessary infrastructures spending.*

**Sax:**

*There's a huge I mean we actually. One of the conclusions of the research let me let me put it like that is that the target for expanded enrolment is so ambitious. That it is we- there's a question mark about whether that infrastructure investment or whether you can actually physically expand the system at the rates that the that the white paper sets out. It's something that we need to look at and discuss but there's a massive infrastructure cost associated with that.*

**Panel:**

*Just- on this document is the costing based on the white paper exclusively? Or is it based on a potential maybe movement in the in the economic climate? What's the status quo of this?*

**Sax:**

*So it's costing the expenditure so it's based on the white paper exclusively but then you have to ask yourself what will the economic growth be in the next fifteen years. And that will give you a sense once you've done that that will give you a sense of what will be the share of national income that will need to be devoted to this program. So if you take the numbers we have there been the report itself said implementing of the white paper will result in spending in the PSET sector, rising from one point seven percent of G.D.P. today. To five percent of G.D.P. in twenty thirty. Now underlying that is an assumption about what is the rate of economic growth going to be. So if growth is lower. That five percent becomes higher. And conversely.*

**Panel:**

*And what's your prediction on that.*

**Sax:**

So

**Panel:**

*Are we optimistic?*

**Sax:**

*Our I mean if I can refer you back to our last presentation the last time we gave the Background Briefing. And we showed you how far our medium term projections which our three year projections were from the outcomes and we had quite a bit of discussion where the chairperson was asking us why do we get it so wrong so regularly and we were struggling to explain. So that's a three year projection so a fifteen year projection is really in the realm of you- You've really got to look talk about scenarios rather than projections you've got to say if growth is remains at its current average level which is about two percent then this will be the consequences. If growth returns to its historic average which is about three percent then these will be the consequence if we managed to achieve the NDP target. Which is five and a half percent annual economic growth, then all of this becomes very easy to afford and then you have to say well what is your estimate of the probability associated with each of those scenarios. At the moment I would be very sceptical because I post my personal view is that the world has entered into a phase of lower economic growth and South Africa's growth historically has been very much influenced by the global growth rate. And therefore I would be sceptical about achieving the target set out in the N.D.P. for economic growth over the next fifteen years, so but the thing about economic growth as it is with all growth rates is that it makes a massive difference whether growth is two percent or three percent. Once that persists over a period of time. So these two percent growth rate is a completely different prospect from a three percent economic growth rate over ten or fifteen year period.*

**Panel:**

*Just drawing from what advocate asked earlier about what if- if education becomes an apex project. Do we reprioritize because from the- Professor Makgoba when he was showing us similar slide, where Cuba's GDP is more than ours it any given rate. So I'm saying. Then he spoke about the budget being realigned or something like that? We likely if a political decision is made. That we're prioritising because he was saying that if it's a priority, we would invest more. So is that a possibility because a C.F.S. slide is actually saying well all of these things inequality our priorities, these is nothing I don't know if I'm getting it correctly. He's saying there is nothing more important than the other. And if a decision is made that this is important more than the other, are we able to reprioritise and redirect funds accordingly?*



**Sax:**

*We are. So in my slide I was saying all of these things are constitutional requirement in terms of the Bill of Rights and certainly if we were to significantly direct resources away from Social Security for example, we would probably be open to constitutional challenge. I don't know what the consequences would be but-*

**Judge:**

*There won't be placement with the university campus.*

**Sax:**

*Well exactly. So we have so that's the broadest level. If you have a commitment to reprioritizing the budget towards higher education and in order to achieve a particular objective, it can be done. There's nothing stopping you from doing it. The only point I would make is there will be consequences. So the things that you have not prioritized will now suffer as a result.*

**Panel:**

*On that point as well is it possible that we have not looked enough for extra resources, in that we can draw from them like the suggestions that came in now, if that comes it comes to the national revenue fund. And will be redistributed, can we ring first those states we've identified for this possible reprioritisation.*

**Sax:**

*Not sure which-*

**Panel:**

*I'm saying now, I know I am not being articulate now, but I'm that if as per earlier submissions say there is a taxation of the pension fund and we are getting the funds, that revenue bonus of some sort. In that we have specifically said that there are these revenue out there that if collected correctly and it comes to the fund you can use it for this reprioritisation. So I'm saying in that context nobody suffers because people stay at their allocations because we have gone and gotten extra things.*

**Sax:**

*Although one might argue that the taxpayer suffers but so this is a-*

**Panel:**

*Just make an example if that- maybe the two hundred and thirty six for, corruption is identified quickly and has gone to the discus. You know-*

**Sax:**

*So OK let's distinguish between the revenue and the expenditure; on the revenues. So the difference between revenue and the expenditure is borrowing. So one thing that we would never advise is that government should fund any program that is a permanent program of consumption such as free university education by borrowing. Because you're subjecting yourself. The more you borrow the- it's unsustainable. So we would advise we would say either you need to raise revenue to fund this new program or you need to re-prioritize within spending to fund it. So if you raise revenue on a permanent basis and there's a permanent increase in taxation to fund the proposal that can be done. There's no technical reason why you can't. The argument I made at the beginning is that there are many important issues to be considered before you act but there's no, I'm not saying that you shouldn't or that you can't act you can raise taxes and fund this. the other question that arises is it's not only this that is called for in the N.D.P. early childhood development is also called for, national health insurance is also called for, the defence review also calls for a big increase so All of those things then are in the queue for increased taxation and the you might get to a point, So implicitly what I'm saying is that if you choose that this one is the one you are limiting the space for further tax increases to support those other things in the future. So you are implicitly making a choice about expenditure as well. Then on the expenditure side. You can re-prioritize expenditure to existing from one function to another function to fund this, the example that is often used and that was being offered to me by the SABC just now is defence that why can't you shift money from defence into higher education and of course again the answer is you can if you if you decide to as a society. But there will be consequences and in this case the consequence will be that you are shifting resources from an institution that absorbs unemployed youth from poorer communities, the Defence Force, and you are shifting those resources to universities which absorb the youth from more affluent communities and you might say that's warranted. Because the universities are generating the skills we need whereas the Defence Force is not, so again I'm not saying you shouldn't do it, I'm just saying you should confront the consequences before you do it and be sure that you've done- the one of corruption is I think the basic idea for me is summarized in the slogan if you like that you cannot budget with stolen money. You cannot base future, your future revenue stream on the belief that you will combat crime. So if you know that- I don't know I'm trying to struggle for like personal life for example but we constantly struggle against corruption. We constantly struggle against waste the chief procurement officer of national treasury was in the newspaper yesterday talking about the amount of waste we incurred in the purchase of goods and services in government and I will be, I think we will all say its big and its part of our mandate to trace that down and find that money. But we can't budget on the basis that the proceeds of corruption will be returned and then we will have resources. The way needs to happen is that the institutions tasked with fighting corruption, Should become more effective which is a constant. So if they become if they are able to tackle corruption more effectively. There will be more resources in the discus and then we can have a discussion about what we do with those resources but you can't plan on the basis that that will be successful. Also there's a very complex chain see when we decide to allocate money to let's say higher education. You see you have in mind an outcome and impact on society and there's a complex chain between the allocation of resources, the resources then purchase*

**Sax:\* Continued\***

*Inputs those inputs are professors and classrooms and et cetera. And then that generates an output and the output is a graduate with a degree and then that output has a has impact on society which is that that graduate is able to better. I don't know make a contribution to economic development that then leads to faster economic growth. Now if you find inefficiency in that chain of logic. So you find that so that there's a wastage somewhere in that system such as that students is taking six years to do a three year degree. Therefore the impact you are having is less than what you would what would then you address that problem and there are more resources. Yes you would hope that that would then improve the impact if you say that you address the problem you have more resources then you take those resources away from that sector and give it to somebody else it might not be sustainable to do that. So if you're running a hospital and Treasury comes to you and says you are wasting a lot of money in your hospital. Please run your operations more efficiently. And then you comply and you deliver your service more efficiently and then Treasury comes and says thank you very much. We're taking this money and we're giving it to higher education, you immediately undermine the incentive in the system for people to improve the to eliminate waste because they'll say Well whenever we do this is just we're raising money for somebody else. So you won't-*

**Panel:**

*Would you rather there compliment the fees for swimming? Because for them to keep that money that is derived from discus, I mean efficiency is like thanking them the fees for swimming.*

**Sax:**

*Let me use another example: In higher- in basic education. Apart from teachers a major cost is textbooks. We were of the view that province's provincial governments are spending more on than they need to on textbooks and so the cheap procurement officer has been trying to establish a transversal contract for the purchase of textbooks that will significantly reduce the cost of textbooks in the in the basic education system. If we succeed there will be savings there. We would have eliminated some waste but everybody knows that the impact that despite the fact that we allocate about six and a half percent of G.D.P. to education, the impact in terms of an educated population is not what it should be so if you get those extra resources by eliminating that waste in the system. The question you then have to. I'm just posing the question then would you take it away from basic education and give it to higher education or would you say OK now we've saved this resources. Let's. Spend more on teaching teachers mathematics. So they're more effective mathematics teachers. So the impact of the money that we're spending in the basic education system improves. If you take an approach that the money. Everything you save is going to be just moved somewhere else you will undermine the incentives for improvement and I think-*

**Panel:**

*I was thinking along the lines of if it was an efficient system and the exact amount was allocated there wouldn't be wastage anyway. So the many would not have left the fund originally. So I was looking at it from that perspective.*

**Judge:**

*And I haven't heard you mention thing about nuclear cottage. I understand we were about us- considering whether we should sign contracts for nuclear power stations. Is it contemplated that such entities should be funded by loans or by direct payment.*

**Sax:**

*The construction of nuclear or nuclear power is one of the many it's part of the energy mix in terms of the RP. So there's also that wish we have got coal generated the power, we've got wind and solar and so on. And we also have nuclear. We're doing it already with Quebec- remains an idea, a proposal that's on the table.*

**Judge:**

*Yes, but would such a thing be funded by loans or-*

**Sax:**

*In terms of the funding arrangements department came in make a bid for it and say we want to embark on a nuclear power plant. There's been various feasibilities that has under-taken various discussions between treasury and the Department of higher Education, i mean Department of Energy and Cabinet then decided, directed us and the department to try to embark on a study, financing Model for this. We have been in discussion with them intensely so, last year- the second half of last year, we've got a report ready that we still have to get an opportunity to present to Cabinet- in last year's budget as you see it in the current budget we allocated two hundred million to the department to: one, set up sort of project office within the department and use the money for any other associated studies or whatever you can in setting up this capacity in an office to look at nuclear, So there is no bit. As Yet, that is on the table. The department has tightly on the ninth of December, cabinet has decided and directed the department together with us to work on a request for proposal. That is being worked on and the request book proposal still have to be issued the Minister of education indicated that there would be putting it out on the thirtieth But subsequent to the date has been changed-*

**Judge:**

*So what this means is that in the future perhaps in the short term you have to budget for such things?*

**Sax:**

*Not really doesn't necessarily mean in the short term, in the short term what we've said and what government said today was that we will go with the request for proposals in the market and test the market because there are various prizes if you think about if you want to put it simply as that weather is comprised to-*

**Judge:**

*So this will become another one of the priorities which has to be considered?*

**Sax:**

*yes, at a later stage and if we saw did I get- Once we know exactly how much it would cost, because currently all we can do we know the various cost structures based on various regions in the world and we not sure, some would be three thousand per megawatt of power - dollars. And it ranges anything from two thousand five hundred to ten thousand five hundred dollars. So we in a stage where a request for proposal has to be issued, we are in constant engagements with a department but there is no concrete budget allocation that we can point.*

**Judge:**

*But the point is it may very shortly become another competing priority?*

**Sax:**

*yes; So I wanted to make two points about this, which goes back to the recurring discussion we having about priorities and who sets priorities and how they set, and again it underscores that it's not Treasury necessarily I mean at the margin the process that you've described is important but political decisions are made by Cabinet and on this one as well. It's something that will be discussed decided by Cabinet and once cabinet has decided it's our responsibility to then also engage in the same way we're engaging with higher education on the issues. Secondly we have large infrastructure projects of any nature. It's a bit different from a recurrent spending of a consumption nature. What you would hope is that the users of that information because a nuclear power station ultimately will sell electricity to South African consumers as any power station does, so we would hope that the consumers of electricity would ultimately pay the cost of that- Power Station through an electricity tariff rather than through taxation arrangement unless somebody says from the tax base you should subsidize the price of electricity which is a different-*

**Judge:**

*I understand that but the infrastructure to have to would have to be paid up. Paid for.*

**Sax:**

*But then you borrow against a future stream of income which is different from borrowing you see borrowing against a future stream of income makes sense because you know the income is going to come. The problem is you don't you need a big capital amount to the beginning and then you borrow to finance that capital amount knowing that there's the income that comes later will pay back the borrowed.*

**Panel:**

*Can I just go back to the question of inefficiencies and corruption? because I think this is a very important issue that's been raised by a multitude of stakeholders and it's important that be put the question to you in a in a very structured way and get a very structured response because it's a refrain that we've heard almost from every stakeholder that the indications are that there is large inefficiencies in how government performs its functions and that's hard and that these high levels of corruption. the three specific scenarios or examples which I'd like to put to you is the following: The first is that Professor Makgoba testified before the commission and he And according to him there is large under spending of departmental budgets and that this underspend funds could be used to fine entire education and training. The second example is the these statement made by the minister of finance at the Cape Chamber of Commerce in August twenty sixth with the minister's said in a quote There will be enough funds for university students if we stop the corruption. Even if we cut corruption by twenty five percent. We will have at least forty million to spend on university fees for the poor and he said if you pay the right price. And this goes to the question of inefficiencies he says if you pay the right price for the coal that you buy if your tenders are priced correctly. If you end even a quarter of that you will get thirty to forty billion that the poor will benefit from. So there's no point in using the poor as a point of political ret rich, you must be serious about solving the problem of poverty and unemployment and the way to do it is to stop the bloody nonsense. And we see we can certainly do it and the third example which I think echoes what the minister was saying at the Cape Chamber of Commerce meeting was one that was appeared just this past week in social media. It was a statement by the chief procurement officer Mr Kenneth Brown, Who sited binding machines and as an example of the massive wastage. That means that as much as forty percent of government six hundred billion budget for goods and services. Is being consumed by inflated prices from supplies and by fraud. He said that it means without adding a cent government can increase its output by thirty to forty percent and generate additional money to go into the discus and pay for poor programs.*

**Judge:**

*May I add a fourth, which is also being put up a commission that South Africa runs too many embassies and it's too greater cost-*

**Sax:**

*Let me start Michael can add. It is true. Sure it is and it is correct. You know I was there when the minister made this point at the Chamber of Commerce. Agreeing with Kenneth in terms of where they are coming from and one or the other we can also add in terms of what-remember we engaged with departments on an on-going basis, we engaged with provinces on an on-going basis. There- we cannot deny that these wastage in the system. There is and the estimates can range from anything twenty or forty, whatever the amount or I can eve say that this ten million that we can get. There is wastage in the system and through efficiencies. As an example, in twenty thirteen, on the twenty three- third of October, we introduced cost containment measures, we were accused of collapsing the system if you think about it but all we're doing is that we can stretch the rent. Compared to what Also we've been doing with we were cutting actually at the time, twenty thirteen onwards we said it's a haircut, what we're doing just two percent across the board cuts on cutting services something that will continue doing up to today. Even last year and then that's what we're thinking, even our guidelines we said to departments for next year, give us scenarios. If your budget is to decrease by one, two or three percent. - is Part of the next year's budget process so that you have an idea what kind of monies we claw back on goods and services in particular because the wastage we have seen ourselves. I just landed this morning from New York as an example in the past when they were there's a state visit five or six-seven departments would accompany the president on a state visit. Because it's an overseas trip. All business class seats would have been taken by a junior officials, PA's et cetera, without saying they're not importing the system. But the fact is the choice of hotels or to stay within London. We went in is not a secret; we went on a state visit in twenty ten ire twenty eleven to the U.K. the South Africa did- delegation was staying at the "Dorchester" why? So all I'm saying is that we think if we cut on that, including and lesser cost but we know it's going to be small moneys but we are enforcing efficiencies in the system and we slowly starting to see benefits because once you cut. You're still forcing the departments to do work. And the departments will close down: the example that Chase raising our own embassies is not something that we are not. Closed also. We have raised this with the Department of international relations and operation intelligence. We are engaging them, we want them to rationalize embassies one them to see. Again there's something called Foreign Service dispensation for post that officials. What that means as an example. If I'm posted in Washington. Fortunately I used to be there before and I know I've seen it myself where by officials. Because they're deco-officials their salaries can that's unfortunate. You cannot blame them. Is this the structure and you're forcing them to change those they're the system that's currently in place. You are an official a director achieved at it. Whatever it is your salary continues here you get overseas allowance. Between eight and twelve thousand dollars which by US standards. OK you can survive. We give you a commutation we pay for your rent, we pay for your kids, and we pay for everything. But we are saying that's one of the most expensive cost items in the government, look at it. Look at it and we're forcing it because part of it is based on your rank and then there are the other things that we squeezing them on currently and I'm using squeeze carefully here. Based on your rank, the system says you can stay in the house or an apartment.*

**Sax: \*Continued\***

*That's maybe six or ten thousand dollars rental. Irrespective of whether you have kids or not or whether you have a- you are married or not; I know those years I was there- i Was not an ambassador, i was attached to the World Bank at the time for a specific- different purpose. I knew that there were South Africans that I know who would live in a big mansion in the most expensive city in Washington not married all because they just happen to be chief directors and now I'm asking myself Is this the most efficient way of using government resources, now, Multiply that across all regions where at cons- but I know now they are doing- they did something about those things on embassies it's something that we're saying do we need embassy everywhere what is our- we- Michael read out here in terms of the MTSF that - inter, you know the actual, Africa and the world is one of our key apex priority areas. Where in Africa is it or is it east, is it west? Where do we think go by because it's all about bilateral engagements boosting economic ties, improving the- argument presented is critical and we agree. But is it all is it everywhere the same time? Based on our challenges. Because current we've got a huge expenditure risk. We had to now in the details will be announced last year as an example we're to give the department in excess of seventy-eight hundred million as compensation towards exchange rate fluctuations. Now think about. Let's for arguments sake say a billion every year, that we have to because you've got embassies all over. We've got people all over and so on. So these are some of the and we are engaging the departments on an on-going basis on these things. And so when the minister or Kenneth says that: We believe there could be if we squeeze more efficiency out in the system. We can find the billions where they are. And we can give endless examples in terms of the of the cars we introduce for instance. You have seen if you like this more money but the important thing is that you know public opinion matters here. If you limit a car that the minister can purchase. Seven hundred fifty thousand rands now because we know in the past. you Have seen you've got two centres, Cape Town and jobber, you've got two cars as a minister and a deputy minister You've got a car worth one million plus in cape town on a car with one million plus here, so- But the government was able to converge on these things and say maybe let's limit a car.*

*Let's limit. You cannot do all driving X-5s, in seven fifties maybe buy a cheaper car. So the system I used the word "self-correct" when i was talking somewhere somehow is self-correcting. Some ounce of quality but we believe and I think we South African and as Government in particular. Focus and actually realise that opportunities to save are there they are there. the example about- if we have to give you the numbers the example that Michael used about textbooks, a pack, pencils everything delivered an average was around five hundred- six hundred thousand- six hundred rands, delivered through central procurement- The chief procurement office was able to come up with for I think grade three or four. COME TO ABOUT hundred fifty six rand. Compared to six hundred rand, in terms of the same thing. Three pencils ten whatever you know a pack delivered. Now if we are smart enough now imagine if you have to look at that as an example what the amount of savings but again, it's complicated as he said once you realise the savings.*



**Sax: \*Continued\***

*This is in education space, it becomes a provincially equitable share because that's where the money goes, you've allocated through a division of revenue process. Once you realise the savings how do you get it because it becomes a vertical thing in terms of vertical division of revenue, because it's*

*Subject to the whole equitable share formula process to reallocate the money back. So that's maybe not an easy example but all I think we are putting Kenneth' and Minister's statement is that through examples anecdotal evidence unfortunately most cases that we have. If we have to come up and be serious about public resources and spending we could save a lot and unfortunately we are the bad guys all the time. I'm talking like this. I'm passionate to my colleagues know and they actually call me the father of course condemning the treasury. Because we have seen we have engaged- There's a lot of wastage in the system. So unless if we take it upon ourselves to actually ensure that the very principle that says this is public money and it must be used appropriately with care and not steal, we could get a good a long way and that's why I think loosely. You'll find any treasury official saying if we stop some corruption, we can squeeze more money and actually allocate for a good cause but-*

**Judge:**

*Doesn't there's a core a Political will?*

**Sax:**

*Political will I think we have. We have because mean-combat, when we present a cost containment drive and proposal, it has- it was never too rejected at all. I'm not talking now the current government. From at least since the ninety's, since i have been in the treasury. That's something that politically has been welcomed and it's been implemented but you also need to just go an extra mile. Let the law enforcement agencies take charge because it's not untrue that some of the cases or some or some of the evidence is left unattended to, so that an example can be shown in the system. And then we can we can get some amusing care- the word care. If you care about public resources before you inflate a price as an official you think twice.*

**Panel:**

*Just on what Michele was saying that once it becomes a provincial even that saving you can't recover. professor Makgoba the other day was talking English model of- as much as they don't call it fee free but he was saying how to make the counsel of that the of the area. The local council of the area where the universities. The kids go through that system. I don't know if you're familiar that but it becomes maybe the equivalent of our local- you know government here and –*

**Sax:**

*Well yeah I was also in exile in London with Professor Makgoba. So maybe I should also be knowing about those things but, unfortunately. They have a very different system of education from ours and our Constitution mandates so to go that route you would have to change the constitution because the Constitution makes basic education a current concurrent function between national and provincial government and requires us to equitably divide revenue between those two spheres of government in order to execute the delivery of the function. I wanted-*

**Panel:**

*Suggesting higher education is also funded like that-*

**Sax:**

*At by local government*

**Panel:**

*Something likes that*

**Sax:**

*I haven't heard this idea before but I'm sure it's something you could think about although remember local government. It's not like the challenges we have in terms of waste and corruption and the issues that we were discussing now and don't also apply in equal measure at a local government level. I well I want to just make three points in response to the quotations and the first on the on the under spending is that over the last five years at least we have never published an amount that we intend to spend in February in the budget. And then by the end of the year we have spent less, it's never happened in the last we may have happened a long time ago but in the last five years the amount that we spend at the end of the year is always more than we announced at the time of the budget in February. But what happens in many years or used to happen before we had such severe physical constraints. Is that halfway through the year we adjust the budget. So we always leave aside a contingency reserve so for example this year the contingency reserve is six billion. Now one of the things that were announced in the minister's speech in February was that we would need to provide for drought relief. So we announced the spending number in February, in October Now when we go to parliament to propose the adjustment appropriation bill. It will propose some adjustment drawing down on the contingency reserve to fund that. But then so the spending number in the adjustment budget often increases but sometimes the increase is more than people can have the capacity to spend and then you end up with under spending, but the under spending is in relation to the thing that has been upwardly adjusted. So really again it's like there is under spending sometimes the other example is the school building program. So when the school building program that- then it was a massive priority. The president of the country said no child shall study under a tree by the end of when did he say that? Two thousand and eight.*

**Sax: \*Continued\***

*No child shall continue studying under a tree and we will address this problem and it was then that apex priority and we allocated eight comma two billion to that program. In the first year they spent seventy million. And the rest was under spending. Now you wouldn't say in that context that then this money for school building is clearly its not required, move it somewhere else. There's a very strong need for schools. The problem is that the department or the people responsible for that have not yet built their capacity to spend the money. But the problem isn't under spending the problem is the capacity to spend which needs to be invested it on the question of the Kenneth Brown quote. Again you allocate an amount of money in the hope that it will have an impact on society and it goes through a chain of causation from allocating the money, buying the inputs, converting those inputs into outputs and then hoping that the outputs have the impact that you desired the*

*Kind of waste that Kenneth Brown is raising is critical and we try and combat it all the time. But if you eliminate that waste, in the first instance what you would hope is that the amount of money that you would initially appropriated now will have a better impact for which you appropriated it. Not that you you're going to now take that money away from that impact and give it to somebody else. Lastly on the quotation from the Minister of Finance which one has to be very careful with in my position. I think I want to just draw a broader conclusion out of it which is that the real problem with corruption and waste is that it makes the real choices we face very difficult to discuss. Because it dive. It means that when we say there's this difficult decision that has to be made about whether the country prioritizes this way or that way that statement lacks impact because people, There's a perception, valid or not that there's a lot of money lying around. That can just be picked out to solve the problem which isn't true. But it makes the conversation about the difficult policy choices we have to make very different even more difficult than they do obscures them. Definitely. If we eliminated corruption there would be more resources but as I said earlier, you can budget on the basis that stolen money is going to be returned.*

**Panel:**

*Thank you. Chairperson. I have no further questions I'll just check my colleagues if there's any questions here.*

**Adv. Lawanda:**

*Just one question. We've been advised that to cover the deficit of the zero percent. No increment, the Department of Higher Education reprioritized. Some of the their allocations. So I think it was what was referred to as movement within the department and they got some of the monies from I think its NSF. From the NSF that was intended for the T.VETs. Now in as much as the department must follow the money say whatever they've transferred. Is it not so also that Treasury must follow the money it's allocated to the department to make sure that they don't take from those very critical areas within the system itself such as T.VET's and colleges given the difficulties that they're having.*

**Sax:**

*Is Julia- Let me correct one thing adv. Lawanda about what, as much as you prioritize to fund the shortfall as a result of zero percent last year was not solely the department, the reprioritisation did not only happened within the department. We had to go, we separated to prioritize within the department because of the quantum we had to go to the whole of government, look across and so we had cuts all over spending programs infrastructure programs to come to a realisable amount of sixteen point whatever billion. So let me clarify that it was not only from one department.*

**Ms Pillay:**

*I think in the way that the National Skills fund and SETAs operate as I indicated earlier, that is not discuss money. We still do have oversight over it. But the department has categories in the National Skills fund to which they assign amounts. So in the discussion of how we going to find the money for the zero fee increase which I think came to two point three billion. There was it just- in the first year. The distribution was going to be between what universities themselves could fund, what they could find on the budget and then what the discuss would bring up be so that amount of money is a suggestion from the DEAT. They must've done reprioritisation well, this is not important. So well less important Police important so, and we will use those funds. We do we do. Last year. And then the discuss picked up the bill for the for the MTF. So you know in that instance it wasn't a case of us making the choice so it was a departmental choice.*

**Sax:**

*Obviously it's a negotiation as well that takes place and we will if we see as the questioner was pointing to earlier that there are resources in the system, that in our view maybe are surpluses for example accumulating some way that are not being spent on it happens it's not DEAT a problem. It's throughout the system so last year one of the cuts we made we look at all of the public entities across the system and we said where you've accumulated a surplus and you've got cash in the bank. And we don't see where that's going to be spent. We're going to reduce our transfer to you and you will have to use that cash for a year. So we would so and the same would apply to the extent that it is maybe skills money going to do so. And of course we will engage with DEAT on that question.*

**Panel:**

*Thank you. Chair we have no further questions*

**Chairperson:**

*Is the witness now excused?*

**Panel:**

*The witnesses are excused.*

**Chairperson:**

*Mr Sax thanks for a very interesting presentation. I hope that we learn from it and thank you to all your colleagues.*

**Panel:**

*We have- I'm just getting it straight- On Monday we have Mrs - I think. Also on Monday we have the DEAT Witnesses. So it's D. Barker and team to talk about zero percent, the fee increment enrolment planning. That on Tuesday we have Mrs E. Phase, chairperson of the enrolments Committee- Appropriations Committee. We're waiting for confirmation from the Minister of Finance which day in the week between Wednesday and Friday he will come but we do have the minister of higher education in training on Thursday. But we believe they're important political prioritization issues that he needs to answer to Chair's*

**End of session.**