

DATE: 03-03-2017

SET 7 – HEARING 1 – DAY 5

**COMMISSION OF INQUIRY INTO
HIGHER EDUCATION AND TRAINING**

PARTIES PRESENT:

The Chairperson
Commissioners
Head of Evidence Leaders
Evidence Leaders
Experts
Secretariat

WITNESSES:

Minister P. Gordhan – Department of Finance
Deputy Minister M. Jonas – Department of Finance
Mr. D. Mogajane – Department of Finance
Mr. M. Sachs – Department of Finance
Mr. C. Axelson – Department of Finance

**TRANSREC CC
P.O.BOX 17119, RANDHART
ALBERTON, 1457
Tel: 011 864-4061/ Fax: 086-503-5991
www.transrec.co.za**

SESSION 1 – 3 MARCH 2017

JUDGE: Good morning Miss Pillay, good morning Minister and Deputy Minister and your colleagues, thank you very much for attending. Miss Pillay.

5 ADV. K. PILLAY SC: Good morning Chair, Chair I see that the Minister has come through with a delegation, I am not sure whether or not you are going to place them under oath or not Chair.

JUDGE: Well let us see, Minister who will be testifying?

MINISTER P. GORDHAN: Good morning Judge and other members and
10 the other commissioners, I will make the first presentation and if there are technicalities that require others to participate Judge with your presentation they will make a contribution, we will try and minimise that if that is possible.

JUDGE: It has been the practice at this stage of the proceedings to
15 place witnesses under oath, do you have any objection to taking the oath?

MINISTER P. GORDHAN: I will prefer to do it by affirmation if that is fine.

JUDGE: Certainly, do you affirm that the evidence that you will give in
20 this hearing will be the truth the whole truth and nothing but the truth.

MINISTER P. GORDHAN: I affirm that.

MINISTER P. GORDHAN [Affirmed]

JUDGE: Thank you.

ADV. K. PILLAY SC: Thank you Chair. Minister I think we can begin with

the presentation and we will ask questions as and when they arise.

MINISTER P. GORDHAN: May I proceed.

JUDGE: Please.

ADV. K. PILLAY SC: Thank you.

5 MINISTER P. GORDHAN: Firstly thank you Judge and the
commissioners for this opportunity to make I think the second or third
presentation by the National Treasury to yourselves. A substantial
presentation was made by Mr Sachs and Mr Mogajane on 7 October
2016 which provided a fair amount of technical and processed detail that
10 might have been useful to you. What we have also done Judge is to
make available material from the latest budget which was delivered last
week and so the pack that you see in front of you consists of the
estimates of national expenditure that is the thickest book in that pile, the
budget review which is the primary source of government decisions and
15 direction on budget related matters and the budget speech and there is a
fourth document that I am not too familiar with but you will have a look at
that.

JUDGE: Division of revenue.

MINISTER P. GORDHAN: Oh the division of revenue. As you know in
20 our system any nationally collected revenue by virtue of the constitution
has to be divided amongst the three spheres, national, provincial and
local and ultimately that has to be appropriated by parliament. In the first
instance Judge we point out as if you like points of departure something
that I am sure you have heard before which is that higher education is
25 and should be treated as part of an education value chain and that if one

or other part of the value chain does not work it certainly makes an impact on other parts of the value chain and it is something that we in South Africa whether we are in government or outside need to be concerned with.

5 The second is the relationship with, as you will see in a moment between growth or inclusive growth on the one hand, the revenue that the economy generates which has an administrative element to it as well and whether and how that revenue collection actually creates the necessary fiscal space to do the things that government intends to do in
10 terms of its policy framework. The third is that the money that we spend as government which is approximately 1.4, 1.5 trillion rands in the new financial year depends on two sources, firstly is largely tax revenue but the others forms of revenue that is generated in government, for example hospital fees and secondly borrowing so currently as you might
15 know we owe about 2.2 trillion rands in debt and a lot of which was assembled or accumulated in the post 2008/2009 period when the great recession came to our shores and turned what was a budget surplus into a budget deficit and that was a policy choice that government made in order to borrow so that we do not have to reduce or cut social
20 expenditure in any way.

 Of course lower growth and this is the environment that we have found ourselves in over the past few years means that we cannot endlessly continue with high deficits so we have got to manage our deficit and that is what in our budget documentation you will see the
25 commitment to fiscal consolidation meaning as long as we do not grow

adequately as an economy let alone inclusively or not we have got to manage a couple of things (1) is to demonstrate that the amount of borrowing, future borrowing that we doing is managed in the proper way. Secondly the deficit itself and thirdly is to ensure that we do not
5 accumulate debt beyond our own limits to inability to pay at the end of the day so deficit borrowing and debt management are important consequences as a result of low growth.

We will also show you a slide in a moment on the socio economic realities of South Africa and what they essentially reflect is the
10 competing demands that government is actually faced with and this is not unimportant in a context where your commission is required to make recommendations on how future financing of higher education and training is to actually take place. We I am sure in the past have explained, and let me repeat, political priorities at the end of the day in
15 any government around the world determines budget priorities, so in our system prior to for example 2014 elections the ruling party would have emerged with a manifesto, that manifesto once the new government is in place is converted into a medium term strategic framework, that framework is the basis upon which individual departments develop their
20 strategic plans which are then converted into annual performance plans which contain the programs that you will see in the thick book in front of you provided that those programs attract funding and in a sense that constitutes the budget prioritising process.

JUDGE: I am sorry do you leave out that the National Development
25 Plan, how do you reconcile the political program if I may call it that and

the National Development Plan?

MINISTER P. GORDHAN: That was an omission so somewhere between the manifesto and the MTSF is the National Development Plan so it is very integral to this process as well and since 2009 and since the
5 adoption of the NDP we have seen the alignment constantly taking place between the NDP and the individual programs as well so thank you for that reminder. The great recession also had serious consequences for South Africa's fiscal capabilities and the economy more generally. Initially we grew pretty well for a year or two close to 3 percent but since
10 then and certainly in the latter years we have seen very low growth as you can see the last year 0.5 percent and in 2017 we anticipate 1.3 percent for various reasons.

But lower growth in these years has actually meant that we have had to curtail expenditure so you will hear and read about haircuts and
15 all sorts of other forms of shaving if you like, each of which are directed at ensuring that government begins to trip the easier parts of its expenditure without impacting negatively on the core social programs but also those programs which support our economy as well and we are still pretty much in that mode. In the last few years this commitment that we
20 have made to ourselves and to our own country let alone the Rating Agencies has been reflected in the development of an expenditure ceiling so we shall not spend above a certain amount and that has imposed a particular discipline as far as expenditure is concerned.

So our responses in sum over the last few years has been a
25 combination of cutting expenditure on the one hand and raising taxes on

the other hand so I am sure some of us have already started making our calculations on the new tax rate that we have to announce last week and in the current or next financial year some 28 billion rands in new taxes have to be raised to balance the books so to speak but throughout this process I think it is very important to bear in mind that government has
5 been totally committed to safeguarding social expenditure.

COMMISSIONER KHUMALO: Can I just interrupt you, on the expenditure ceiling is it perpetual or is it for a certain period?

MINISTER P. GORDHAN: Well as long as we do not grow as an economy we will have to keep curtailing expenditure because we cannot
10 raises taxes endlessly either so it is an exercise that every six months we will look at. As you know we also have a medium term budget policy statement in October each year so in the period between now and October, mainly September we will keep a careful eye on growth patterns, revenue patterns, expenditure patterns and look at what
15 adjustments need to be made to sustain a credible fiscal path at the end of the day and it is circumstances around us that will determine what kind of posture we take so we cannot give you an answer as to what we would do two or three hence, but inherent in each budget that is
20 announced is a three year projection because we work on the basis of a medium term expenditure framework so those are if you like in the later years indicative numbers and an indicative direction subject to the kind of economic conditions in which we find ourselves.

COMMISSIONER KHUMALO: And do you have an ideal growth rate
25 where we would be comfortable about removing the ceiling if necessary?

MINISTER P. GORDHAN: Well the National Development Plan says we need a 5 percent growth rate if we had to fair the kind of employment that is necessary but even if we get to 3 percent for now we will be in a much better position than we would be at 1.3 percent for example and
5 that is why from a Treasury and government point of view and indeed other stakeholders as well, both labour and business you will see that a lot of our focus is on trying to create conditions in South Africa where we minimise negative noises and optimise confidence in our economy which is crucial to getting investment going which is crucial to generating
10 growth which is crucial to making sure jobs are created and revenue is generated provided all other factors are performing as well so that is the equation that we seek at the end of the day, is that okay Miss Khumalo?

COMMISSIONER KHUMALO: That is fine.

MINISTER P. GORDHAN: So my last points in the points of departure as
15 you will see, as you know in any situation both commercial and governmental the demands on budgets and there was a table that my colleagues presented to you when they were here in October, the demands on the budgets are always greater than the money available and therefore choices have to be made about what is actually supported
20 and what is not. Equally choices have to be made when new demands or unanticipated demands as was the case early last year imposed upon the fiscal system as well because once you have an expenditure ceiling then it is a zero sum game, if we want to give some extra amount of money into one area it has to come from some other area which has to
25 face the consequences of expenditure cuts and that is the, if you like,

system that we are locked into at present, so prioritisation and the management, political management of these processes becomes quite a crucial area.

It might even be necessary Judge in the coming months if the
5 revenue situation does not meet our expectations to even for the first
time consider cuts in year which is rare ...[intervenes]

JUDGE: I am sorry cuts in year?

MINISTER P. GORDHAN: Meaning, having just announced a budget
framework on expenditure and taxes, if we see a deteriorating situation
10 in front of us government will have to look at further options to stay within
the expenditure ceiling and that is something that we will discuss in the
next month or so.

COMMISSIONER ALLY: But Minister in that regard obviously the budget
process is a long process and your officials as well as the cabinet plus
15 the Ministers that deal with this have a discussion around issues like this
long before the time in terms of where the cuts might come from so that
people are aware that, otherwise then in terms of planning you have a
problem is it not, if you do not have these discussions continually with
the people that are relevant.

20 MINISTER P. GORDHAN: And that is the norm that we would work with,
what I am pointing to is that if something happens outside of the norm in
our current environment where you have low growth, limits on revenue, a
tight fiscal situation an expenditure ceiling and we do not have a limitless
access to borrowing and to raising taxes we have got to look inside the
25 system and see what else can be done, now my colleagues will explain

to you how the first zero fee increase announcement in December I think
2015 had to be contended with in our first budget in 2016 and that is an
example of, if you like, something that happened on a short term basis.
Now much of the allocations will still remain in place but to find the 7 or 8
5 billions rands during that period meant that we really had to go with the
scalpel and start looking for where the meat could come from so to
speak.

COMMISSIONER ALLY: That is correct Minister.

MINISTER P. GORDHAN: The last point Judge by way of introduction is
10 that I think talking to as many of the role players as possible on this
particular question it is quite clear that as we said in both the state of the
nation address of the President and the budget speech that we need to
enter into a further round of dialogue with all of the key role players each
of whom will have a diversity of solutions to offer and in that sense we
15 hope that this is a contribution towards defining a policy road map on the
one hand and secondly a better grasp of where the funding can be
obtained within the kind of constraints that we have to work with and the
competing demands. Our next slide ...[intervenes]

ADV. K. PILLAY SC: Minister before we move onto the next slide may I
20 just ask you a few questions around the notion of prioritisation. Now you
mentioned that there is a whole chain of documents that have to be
taken into account when you approach the whole budgeting process and
you mentioned the NDP being one of the documents that is key in
identifying priorities for government, now we had before us Professor
25 Makgoba who is the Deputy Chairperson of the NPC and he testified that

in his view the NDP recognises higher education as a public good and therefore foreshadows the notion of fee free higher education and training but he says that there is, and he testified that in his view there was a misalignment between what is provided for in the NDP and the budgeting process and that the budgeting process or the budget, the product of the budgeting process did not properly articulate what is envisaged in the NDP.

JUDGE: In other words he was saying in the one document the NDP you say these are our priorities but when it comes to the budget you do not find that reflected.

MINISTER P. GORDHAN: Well the notion of priorities with the greatest respect to Dr Makgoba is not one which says there is a number 1, 2, 3, a political priority is different from let us call it a spending priority so to say that over time education and its entire value chain needs to attract as much resources as possible and then my colleagues can give you the numbers in a moment, education does take the largest slice of expenditure so as a total value chain it is correct that government is actually spending the largest amount of money on education, now say then that higher education should be given a particular kind of treatment is a different proposition with great respect.

The second point is that one cannot just jump from an NDP vision of what we would like to see in South Africa by 2030 to today's budgeting because if I had Dr, you had Dr Motsoaledi here to argue the case for national health insurance by the time he finishes I can assure you, you will be convinced that is an equally important if not more

important priority. If I had, if you had invited Mr Nkwinti the Minister of Rural Development who chairs the presidential infrastructure coordinating commission and Mr Patel the Minister of Economic Development here, they will convince you that infrastructure is key to
5 growth, to development, to job creation and that would generate enough resources in order to fund education or anything else as well.

So if one really wants to get a total perspective then one needs to hear all of these role players at least half a dozen of them so that it gives you balanced picture of, and that is what this slide is about of all
10 the priorities or challenges that we face and within that challenging environment how do you meet each of the challenges so if there are demands around water and sanitation for example assuming that they are spending their money well which increasingly seems doubtful then how do you say to people wait for the water whilst we fund X, Y and Z
15 whatever X, Y and Z might be.

JUDGE: Well it must surely be clear that the question of whether fee free education is feasible depends not upon whether there is a lot of money available or a lot of resources at hand but in the first instance whether it is regarded as sufficiently important to put it before other
20 priorities because the lower down the list one puts it the less feasible it becomes and naturally because there is less money available for it so feasibility is in the first instance a political decision.

MINISTER P. GORDHAN: Which is a cabinet decision at the end of the day.

25 JUDGE: Yes indeed.

MINISTER P. GORDHAN: We are merely on the Treasury side
functionaries who have to say how do you access money, how do you do
your borrowing, how do we explain what the fiscal envelope is that we
have to work with and then enter into the appropriate levels of dialogue
5 to balance out the different priorities, that is the only point I am making
that it is understandable that when ones focus is on a particular area that
appears to be the key area and the point I am making as a counter is
that if you equally had other people here to say whilst I understand your
focus on higher education I also understand that there are these other
10 needs and at the end of the day you can still prioritise education and it is
as I say in the budget numbers as a total value chain but decision
makers are not going to be in a position to ignore certain areas in
preference to others so it is a balancing act Judge where prioritisation
does mean that you attract more resources but it might not mean that
15 you attract all the resources that are required today or tomorrow but over
time it is a challenge that can in fact be met.

ADV. K. PILLAY SC: Minister you drew a distinction between a political
priority and a budgeting priority, can we just understand who sets the
political priorities, who sets the budgeting priorities and what is the inter
20 relationship between the two?

MINISTER P. GORDHAN: Well it is not budgeting priorities, budgeting is
just part of the political process as well so if you still go back to the
manifesto, the NDP, the MTSF, the individual programs, the various
presentations that are made by departments to the medium term
25 expenditure committee which is a technical committee made up of senior

officials, the consideration that the Ministers committee on the budget will give to the kind of presentations that are made and the competing demands that we actually have to cope with and final recommendations that we would make to cabinet over a period of time not only on the budgeting priorities but I suppose the budgeting priority in this case is not about a program it is about maintaining fiscal credibility and making sure that we have a viable and sustainable fiscal framework at the end of the day so it is within that process that program priorities might emerge and will emerge and choices will have to be made and resources might have to be diverted from X to Y but those are processes that take place in these structures that I have actually outlined.

ADV. K. PILLAY SC: And from a perspective of political prioritisation you mentioned that you had your manifesto, your NDP, your MTSF etcetera, none of these documents because they are all pre-dated the 2015 crisis, none of these documents deal expressly and explicitly with the question of student fees, it deals with increased enrolments and you increasing access to higher education and training but given the fact that there was this clear social disruption in 2015 related to the question of fee free higher education, when or did the question of providing or increasing access to higher education and eradicating the question of fees did that come onto the political agenda?

MINISTER P. GORDHAN: No it has been there I think as a systemic issue that we have got to improve funding for both higher education but also for the training part, I think we should see it as a duality and not neglect one in favour of the other because ultimately you will have larger

numbers of people and individuals who are on the training side rather than on the tertiary education side. Secondly my colleagues are in a better position but once the events of 2015 that you refer to took place and the political decision was made on the question of zero fee increases the technical work was done to say let us go and fine, well firstly, what is going to be the cost of a decision and that is often missing by the way in any political conversation so generality is abound and pronouncements there can be many but very often they are not accompanied by costing, so if I do X what will it cost and secondly what, is it affordable within the kind of framework in which we are currently operating so it is a discipline that I think more and more needs to be inculcated so that there is a very direct relationship between a policy proposition or choice, a costing of that choice and the affordability of the costing that we have engaged in.

And then since the 2016 budget as you can see in the numbers, what some R33 billion for the next three years has been set aside that is no mean amount which was not there in previous planning processes that that has been set aside and that is why we emphasise the necessity for a clear road map because that then tells all stakeholders where are we heading, over what kind of period we are looking at whatever proposition we want to get to, I do not think that yet we, at the moment we have total agreement on what you call the eradication of fees because that is a difficult social question as well which we need to ask, I mean why can parents who are willing to pay for their children to have higher education not be allowed to pay and make a contribution and

thereby lighten the burden on the state so slogans are one thing, I think we also need to see as a responsible society and government what is the right way to go and that is where the dialogue that is going on at the moment and the kind of meeting of minds that needs to take place and
5 consensus building process becomes quite important. So once we have the policy roadmap clear we can start indicating what the costing is and what the affordability is.

ADV. K. PILLAY SC: Minister you mentioned the responses to the student protests in 2016 and 2017 and indeed in all instances you see
10 significant amounts of money being made available by the state for the purposes of higher education as a direct response to the social upheaval and the protests on campuses and we have had students appear before us who used that to demonstrate that in instances where there is political will that money can and will be found for the cause of higher education,
15 do you have a comment on that?

MINISTER P. GORDHAN: No we have a political will as a government and as a ruling party to meet all of the social challenges that we have before us some of which are listed on the slide. Secondly over the years we have set aside huge amounts of money as part of the social wage,
20 education, health, housing and so on, you know our latest budget our calculation is at two thirds of our expenditure is going towards the social wage. I do not think we necessarily need upheavals to attract funding, there has been a policy shift initiated in, I am just approximating, but in December 2015 or thereabouts and that policy shift required that new
25 funds be found and that those funds be found in a very constrained

environment and we have done our best as a government to find those funds and meet some of the immediate needs that we have whilst at the same time we all acknowledge that we need to do longer term planning, I mean theoretically it is possible to shut down half the government
5 programs, shift all the money to where social upheavals require it and nothing stops us from doing that but is that the responsible thing to do as government is a question that all of us will have to ask.

So again like most things in life this I about a balancing act, it is about meeting the new requirements on the one hand and sustaining the
10 overall requirements on the other hand and at the same time committing oneself certainly as government and other stakeholders to a process of dialogue and consensus building that will more constructively take us in the right kind of direction.

JUDGE: Minister one of the things that we have been discovering is that
15 outside of the normal affairs of government of income and expenditure as I am sure Mr Sachs and his colleagues know there are large quantities of money which are dormant or which are not being used for the purposes for which they were provided either because there are no claimants on those funds or because there is no immediate need to use
20 them because people are building empires and we have a strong impression and a certain amount of evidence that there are large cash resources available which will not affect the balance of the state economy adversely at all but to which no recourse is being had. The one obvious one of course was the huge surplus in the Unemployment
25 Insurance Fund and we have had evidence that oh there have been

amendments made and we want to make further amendments and costing has been done and when the costing is done there will not be anything left but when we ask for the costing and we look at it we find that in 10 years time it stands to have a surplus of 296 billion rand, now
5 that to my way of thinking is government money being wasted, it is simply being allowed to lie in the hands of one group of people to do what they like with without any purpose.

The Unemployment Insurance Fund has for the last 10 years basically been a money lender building up a surplus without any purpose
10 and there are others, when we put to one of the witnesses there seems to be a rather large surplus here he said yes but you should look at such and such and he was talking about pension funds of unclaimed, not monies that are held for existing pensions but unclaimed funds and that is the sort of money which the government could borrow against a
15 guarantee with the little chance that the money would be repaid and why are opportunities not being made or not being made use of in these lines so we are troubled when we hear about income and expenditure, we know the problems that you have to balance but it does seem that there are resources available which are not being used. Now of course it
20 might better be put to the national health scheme, sure one accepts that but that it is not being used at all is troubling.

MINISTER P. GORDHAN: Can I respond?

JUDGE: Sorry if I made a speech but that is what has been
...[intervenes]

25 MINISTER P. GORDHAN: No, no, that is fine, you are the Chair you can

do anything. If I may respond and I do not know if my colleagues need to be sworn in perhaps the Deputy Minister as well as so that they can all contribute if you agree Judge but in the first instance there is clear evidence and we can give you the details if not today then in due course

5 that not all of these pools of funds are 'ignored' or 'marginalised'. Much of what we have tried to bring to bear to find the initial 7 billion and then now the 33 billion actually by tapping into the Skills Development Fund which also had a huge surplus, not of the order that you speaking of by certainly a fair amount of accumulated money and it is by gaining access

10 to those funds with the consent of the Minister of higher education and training that we are able to cope with some of the numbers without serious and drastic changes to allocations made as the commissioner was indicating to other programs and the departments. The second point is that we might want to more carefully look at once off injections

15 into a system of funds and sustained injection of funds.

JUDGE: No certainly, certainly

MINISTER P. GORDHAN: So if one for example puts 100 billion into a system at this point in time it does not, it just increases the base for the next year but from the next year onwards you have got to find the

20 hundred plus inflation at the minimum in order to sustain the expenditure in future years.

JUDGE: Well in that regard it might not be so if you putting 100 billion into infrastructural development for a Tvet colleges for example?

MINISTER P. GORDHAN: No we are working as the deputy Minister as

25 a Chair of the PIC will attest to on a number of propositions to meet

some of those requirements but there is a bit of tardiness on all sides to actually get the right kind of movement but we can come back to that point. The key point being made here is that if this is so called consumption expenditure you need a sustained revenue stream over a
5 long period of time that either comes from the fiscus or elsewhere and given our current growth trajectory we are going to find ourselves in difficulty. The third point is that, I have not had the opportunity I am not sure if my colleagues have to look at the evidence that was put to you and examine whether the conclusions you have come to are appropriate
10 in terms of the current law that operates, secondly who does the money belong to ...[intervenes]

JUDGE: They are not conclusions by the way they are *prima facie* views.

MINISTER P. GORDHAN: Sure, so I think we were asked some tough
15 questions, who does the money belong to, so for example money belonging to different pension funds even if they are unclaimed are theoretically the property of those who have made the contribution both employer and employee.

JUDGE: That is why I suggested that what should be done is that the
20 money should be borrowed against a guarantee because at the moment the monies are being lent out on interest as an investment for the pension holder and that can just as well be lent to the government.

MINISTER P. GORDHAN: No, no that is fine so the only thing is as a
25 borrower we will ask ourselves is at what rate are you going to lend us that money and if we had to go into the market would we get the same

kind of money at a cheaper rate.

JUDGE: No but bear in mind these are funds which are unlikely to be called on because ...[intervenes]

MINISTER P. GORDHAN: Ja but we are not the governors of those
5 funds we will have to negotiate with the trustees or the financial stability board or whatever the structure is that has the statutory responsibility and they could demand X and X could be higher than what the market offers us at this particular point in time so that is why we have an asset and liability section in the Treasury whose full time business amongst
10 other things is to actually manage the Treasury, manage cash and manage the borrowing process as well. So Judge if you give us the necessary evidence or information that you have we can then provide you with written responses on some of those issues.

JUDGE: Well the obvious one is the UIF fund which has been allowed to
15 build up over such a long period.

MINISTER P. GORDHAN: Sure, there again government will have to make some policy choices.

JUDGE: Yes.

MINISTER P. GORDHAN: Does it use it to for example provide
20 subsidies that will give internship options to a million youth over a couple of years and as we all know international evidence shows that once you have a year or so exposure to a work environment that places you in a much better position to get a job in the future so which is the priority when you have what six or seven young people completely without any
25 hope or option versus the higher education situation so those are

propositions that we can examine.

JUDGE: Well these are, that particular example is one that has been shown to us to be intimately connected with the question that we are concerned about, we need to build up work opportunities so that persons
5 in the Tvet colleges do not come out with empty certificates.

MINISTER P. GORDHAN: Sure. I am not sure if, can Mr Sachs contribute to this?

JUDGE: Of course if he wishes to. Would you just place your name on record please.

10 MR. M. SACHS: Michael Sachs, would you like me to make an affirmation?

JUDGE: Yes of course, do you affirm that the evidence you give will be the truth the whole truth and nothing but the truth?

MR. M. SACHS: I do.

15 **MR. M. SACHS: [Affirmed]**

JUDGE: Thank you.

MR. M. SACHS: So I would make two points, the first is that borrowing is borrowing is borrowing and a lot of our borrowing is from pension funds, the significant share of our borrowing is from pension funds
20 because pension funds buy government bonds and by buying government bonds they lend the government money so it is not clear why we should, if you are suggesting that we should borrow in order to fund higher education then that we would then ask ourselves okay the recommendation is that we should borrow then the answer, the question,

the financing question then becomes who should we borrow from.

JUDGE: No but you are misunderstanding me Mr Sachs, this is not the usual sort of borrowing, this is borrowing against a guarantee in respect of funds that will almost certainly never be claimed and so your
5 guarantee will almost certainly never have to be honoured and if you have any guarantees they will be guarantees in respect of small pension amounts and so that one or two or a dozen of those might be honoured but the great majority will not be.

MR. M. SACHS: So with respect Judge I would suggest, I think I am
10 disagreeing with the proposition that you are advancing rather than, because it will still be a liability on our balance sheet.

JUDGE: Yes.

MR. M. SACHS: So it will still be borrowing, so it will still contribute, so at the moment we owe R2.2 trillion rand, if we do this we will owe more
15 so from our point of view as government it will be debt, the difference will be who we owe the money to and maybe the risk associated with it but it is still borrowing and then we would have to compare it why is this, and the issues you are raising is why is this class of debt different from another class of debt say issuing a 50 year bond which we do regularly
20 so it is not immediately apparent to us why this class of debt has advantages.

JUDGE: Well if you borrow R40 billion and you are unlikely to have to repay it and you will only have to guarantee repayment with interest if a claim should be made on those funds, surely there is some reality in that
25 which makes it a better investment than many others.

MR. M. SACHS: So maybe we should just say we can look into that, I do not know maybe Mr Axelson would add. The second point I would want to make is that if you look at chapter 8 of the budget review it deals with the financial position of public sector entities and there is a line there or
5 there is considerable evidence there about social security funds. There is data there that shows that social security funds in 2015 had total assets of R191 billion and a lot of those assets are the assets of the UIF but social security funds also had liabilities of R194 billion and that includes a huge liability on the Road Accident Fund so if you were to ask
10 me what we should do with the UIF surplus my answer would be that government needs to conclude its policy on comprehensive social security because we have a Road Accident Fund, we have an Unemployment Insurance Fund, we have a Social Security Agency, we have many ideas about what to do with social security.

15 It is a problem that the UIF is accumulating this surplus but you, as I think the Minister was trying to point to, you have to distinguish between a stock and a flow. If we take that stock and we pump it into higher education all you are doing is postponing, you will postpone the problem of how you will fund that higher education in future because say
20 we take that 100 billion and we space it over five years so the University system costs about 60 billion rand to operate at the moment so say in the first year we pay for all, the whole system R60 billion you are left with R40 billion in your UIF surplus so the following year you have to raise R20 billion.

25 Then the year after that you have to raise R60 billion and you do

not have any surplus left and the only way you will be able to do that is by raising some stream of revenue that will continue in perpetuity. It is true that for infrastructure you could, it might be a temporary thing but I do not think that the primary problem we have here in free education is
5 an infrastructure problem it is a stream of revenue to pay for operating costs which are the costs of lecturers, text books, libraries and operating the Universities.

JUDGE: Believe me you have a huge infrastructure problem from all the evidence that we have heard, anyway that may be but, so it just seemed
10 to me that if you can get a basic capital injection that must be better than not having a basic capital injection.

MR. M. SACHS: So if we were to take that capital and double the size of the University system by building another 26 Universities we would then have to say who is going to pay the salaries of the lecturers that are
15 going to teach in those Universities, who is going to pay for the cleaning staff or for the residences.

JUDGE: Of course.

MR. M. SACHS: For all of those things so you would have a capital injection that without, you would still have to face that you need to raise
20 taxes to pay for the operations of those assets in perpetuity or you would have to cut expenditure from somewhere else in this instance.

JUDGE: Thank you, thank you very much I understand what you are saying.

COMMISSIONER KHUMALO: Can I just follow up, on the unclaimed
25 funds that are sitting in different reserves would it be considered

borrowing in the adverse sense if what Judge is suggesting because they have been sitting there for decades in that there is no claim on them, people have been traced you cannot find them and you are saying that all that the department needs to do is to give a guarantee that in
5 case a claim comes at any given point then those funds can be available for a claimant, is it in adverse borrowing, would it affect the debt?

MR. C. AXELSON: Chris Axelson.

COMMISSIONER ALLY: Sorry Chris you would have to be sworn in.

JUDGE: Sorry thank you.

10 MR. C. AXELSON: Can I affirm.

JUDGE: Do you affirm that the evidence that you give will be the truth the whole truth and nothing but the truth.

MR. C. AXELSON: Yes I do.

MR. C. AXELSON: [Affirmed]

15 JUDGE: Thank you.

MR. C. AXELSON: So it is an interesting area this and there has been quite a bit of debate, the unclaimed benefits that we see in the system, there have been calls that no enough effort has been made to trace these individuals and I think that is the one worry and that is the one
20 worry that the financial services board is looking at and if you look at, yes they have not been claimed in decades up to now but if the effort is put into actually tracing these individuals and a lot more resources are put towards that then those unclaimed benefit funds might well reduce in time and that is our only worry because it would be a contingent liability

that within stay and how long would it stay for, you know would there have to be a time at which you no longer call it a contingent liability so if the unclaimed benefits individuals grandkids come forward you know would they be allowed to get that contingent liability back.

5 And then if it was being used, I mean to be honest there might be less of an incentive to try and find these people if it is now a big contingent liability on the governments books and I think those are just some of the concerns that I would have.

JUDGE: Yes we have heard the story that there is now some desire to
10 employ experts and tracing agents now these are smallish pension funds, it will take three hours work to destroy the whole value of a pension funds from a tracing agent, it sounds completely nonsensical with all due respect and there are hundreds and hundreds and hundreds of these people and if that is not the old chancery system of England
15 where you can spend so much money on the administration that nobody gets anything at the end then it is very difficult to see a difference with all due respect.

COMMISSIONER ALLY: Perhaps Minister and your team these are
20 suggestions and ideas that are coming forward from evidence that has been led, rightly so you would like to see that evidence in order to make an informed opinion on the veracity or not of that. The issue is that we all trying to find ways and means correctly so questions are put what about health, what about transport, what about all the rest of the social obligations that government has in terms of the constitution itself also so
25 that is the other aspect and I think it would be wise for your team to have

a look at that particular evidence because from where we are sitting the point we are putting through seems that it has merit, for now you might be, your *prima facie* view is that we do not make sense but if you go through it deep, thoroughly you might say well it is true and discussions
5 among your colleagues in the fiscal commission and the whole fiscal group in terms of how we take this issue forward and funding of various social programs could help so we have digressed a bit from your presentation but these are important issues that we still would like you to consider because Advocate Tshidi has indicated that National Treasury
10 as well as Nedlac are looking at the issue of the pension funds and the surpluses so we are aware of these discussions and from our point of view we just wanted more solutions coming out of these discussions than further discussions upon discussions.

MINISTER P. GORDHAN: No thank you Commissioner Ally, firstly let me
15 emphasise that we would welcome any new ideas or out of the box thinking that might lead us towards solutions that might appear to be intractable at a particular stage. Secondly I think both the commission and ourselves are at a disadvantage as we talk now because all we have is the *prima facie* set of facts or proposition before us and so we
20 certainly want to exercise the option of receiving that information, applying our minds and giving you a reasoned set of responses. Thirdly I think what we are trying to point out to you through the various interventions is that there is a but factor, so something looks attractive but there is a but that needs to be considered so as you apply your
25 minds and until we come back to you have some regard for that factor.

JUDGE: Yes well one witness said to us there are all these billions and billions in various accounts but you will never get it out of them because they think they own it.

MINISTER P. GORDHAN: Well you think if you were in our shoes you
5 would be looking for any pile of cash lying anywhere and at different stages since 2009 and we can give you instances, if given a bit of time, we have gone through various accounts and 'swept' them.

JUDGE: I am sure you have.

MINISTER P. GORDHAN: To say you have got a surplus you do not
10 need to bring it into the system so it is not as if we have not exercised that option in the past but as you correctly point out there is an ownership factor either in real terms and pensioners money is pensioners money and we take your point around administrative costs but I mean only a few weeks ago we were approached by for example
15 the Deputy Minister of Mineral Resources that there is new initiative to trace miners so that, I mean whatever we think of the proposition there is an intent that that which the miners are entitled to should be given to them if they can in fact be found, a proposition that I think none of us would disagree with.

20 Even on the question of financing infrastructure, I have a reluctant Deputy Minister here but I am going to force him to say a few words now once you swear him in to explain that we have had a number of conversations around how the PIC could contribute towards some of the ideas that you are sharing on development of infrastructure and if we
25 can, if I can put it politely, overcome some of the bureaucratic hurdles we

would be there sooner rather than later but the last point I want to make is the point that Mr Sachs has made. Often we think in terms of the new infrastructure we can put in place, that does not only apply to education by the way it applies to other areas as well but from a financing or a
5 Treasury point of view they will think one step ahead and one step ahead is what are the operational costs, how do we sustain them and where will the money come from which is not a frivolous question and I am sure you would agree. So if the Deputy Minister can just say a few words so that you know he earns his salary for today, on this matter with your
10 permission Judge.

JUDGE: Thank you. Yes Mr Jonas do you have any objection to taking the oath or do you wish to affirm.

DEPUTY MINISTER M. JONAS: Affirm.

JUDGE: Do you affirm that the evidence that you give will be the truth
15 the whole truth and nothing but the truth.

DEPUTY MINISTER M. JONAS: I do.

DEPUTY MINISTER M. JONAS: [Affirmed]

JUDGE: Thank you.

DEPUTY MINISTER M. JONAS: Thank you very much Judge. Can I
20 start off by saying that I think part of the debate about financing infrastructure through the use of pension funds is something that we are into, there are a couple of proposals on the table that we are looking at for PIC in particular jointly with the PIC and Treasury to look at a more viable way of dealing with the issue. The same point though arises that
25 it is still borrowing.

JUDGE: It is still.

DEPUTY MINISTER M. JONAS: It is still borrowing.

JUDGE: Yes.

DEPUTY MINISTER M. JONAS: And therefore the issues of the cost of
5 the financing etcetera are big and topical in that conversation, the
advantage probably is that you could better structure it and there is
commonality of interest amongst all the actors that are in that
conversation, we are looking at two areas at the moment which is
student accommodation as well as the new health infrastructure that is
10 required as an initial probably pilot intervention in that regard and the
idea would be to create an infrastructure fund and some project
management facility that actually ensures that you manage the levels of
efficiencies in the delivery of that so the debate is going on and I think
there are propositions, concrete propositions in that direction and I think
15 there is urgency to make that work already. I must also add that we are
already funding student accommodation through different interventions
and I think it is a doable thing, thanks.

COMMISSIONER ALLY: Well we are aware of PIC's, well PIC owns
Softpoint or what is the name, Southpoint.

20 JUDGE: Southpoint.

COMMISSIONER ALLY: Which deals with education, Minister you seem
to be very worried that PIC owns or has a share in a company called
Southpoint which deals with student education, accommodation and that
is the area. Now apparently a study shows that 600 000 beds are
25 needed and what the Deputy Minister is indicating those are the efforts

at the moment to try and bridge that gap through PIC and some other initiatives.

DEPUTY MINISTER M. JONAS: I am talking about an internal government initiative which is led by the PICC, the Presidential
5 Infrastructure Coordinating Committee.

COMMISSIONER ALLY: Not the PIC?

DEPUTY MINISTER M. JONAS: PIC is the source of the funding including government anyway, thanks.

COMMISSIONER KHUMALO: Deputy Minister the Minister was talking
10 about the effects of low growth and he mentioned the borrowing and debt management so in the suggested proposals of us accessing the surplus, the unclaimed benefits that are just sitting there, nobody is using them they are just sitting there, would the debt management of that, maybe the repayments of the beneficiaries of that would it not in the long term
15 make the borrowing that I know Mr Sachs is always concerned about, look even more workable in the scheme of things, that is what I am trying to find out if government would look at that and see if providing guarantees because if the status quo of those funds remains for that period untraceable as it is there is no harm in my uneducated opinion.

20 DEPUTY MINISTER M. JONAS: I thought the understanding now is let us look at what the proposal, the evidence that has been presented to you and let us try to study it in-depth but I think the broad principle on borrowing is borrowing, ultimately if you borrow you have to pay back and you have to do it within the government borrowing framework but
25 also you have to look at the cost of that financing, the levels of efficiency

etcetera so I am just saying I think the point, the strong point is yes we are willing to look at the evidence and probably it might give us ideas that we did not have but equally I think borrowing will be borrowing.

ADV. K. PILLAY SC: Minister just to round up the discussion on priorities
5 now that we have stepped away from the unclaimed benefits, in your most recent budget speech you mentioned five critical priorities in which government is committed to work with the private sector and social stakeholders to propel inclusive growth, now amongst those five critical priorities was basic education and Tvet education mentioned specifically,
10 is there a reason why higher education was not dealt with?

MINISTER P. GORDHAN: The budget speech firstly has as disclaimer, cannot cover all of the things that we might be involved in so I was actually speaking to a leader of the business community this morning before I got here who was explaining how business is involved in
15 mobilising the sources for higher education, so just as an example, and that is not recorded there. Secondly there is a specific initiative called the CEO initiative through which some work has been done. Thirdly there is an initiative which was put in place some time ago which is led by Mr Necane and that covers I think basic education and some of those
20 areas.

So what we reflecting in the speech is the white section of work being done, some of which is explicitly stated, some of which is not there so the interface between government and business is a fairly wide one and covers many areas so there is no signal of any kind that you should
25 read into what is in there or not in there.

ADV. K. PILLAY SC: We have indicated Deputy Minister that our group would like to hear Treasury's views on the Isfap model but we can get to that in due course. Perhaps we can pick up with the South African realities.

5 MINISTER P. GORDHAN: I am in your hands. Let me rush through the presentation Judge as quickly as I can so that if there are any other issues we can then deal with them. Slide 2 deals with the realities and this is a very summarised representation of a three year study on inclusive growth in South Africa or prospects for inclusive growth and the
10 levels of inequality and poverty in our society and all we are reflecting here is how, and indeed like the rest of the world the bottom 20 percent have benefited from social grants and better access to services and the top 20 percent because they have the necessary skills and can attract the right level of pay and bonuses.

15 The second bullet point, wealth is highly concentrated, more so than perhaps most countries that is why we have the dubious privilege of having amongst the highest genie co-efficient between 95 percent of the world is in the hands of 10 percent of the population which is clearly an unsustainable way to go. 35 percent of the labour force are employed
20 which is well known to all of us. Half of all children in Grade 5 cannot yet read adequately, this is where the importance of the education value chain as a whole including the contribution of early childhood education to this development is of note.

Half of all school leavers each year enter the labour market
25 without a senior certificate pass and 75 percent of them will still be

unemployed five years later which contributes to the disastrous situation as far as youth employment is concerned that we currently face. Our towns and cities remain divided and still reflect old apartheid style planning and the concentration and you can see here poverty is concentrated in townships and rural areas which is a major factor in terms of access to economic opportunities, access to information that could lead either to business opportunities or to employment and the kind of asymmetry of information that you find in our society, 30 or 40 kilometres out of the city centre it seems that people would be living in an isolated zone and if you add transport costs to this equation it is a huge destabilizing factor and liberating factor on young people seeking job opportunities and of course low growth in South Africa does not help.

The next slide reflects some of the more recent thinking around inclusive growth and interestingly Judge this is now a narrative that has pervaded the world not just a South African issue because there is a recognition that GDP numbers might reflect positively on those countries where those numbers are heading 2 percent and beyond but they do not necessarily reflect the extent to which lower income groups, middle class and working class people benefit from GDP numbers and it is worse so in South Africa and so we see the link between growth and transformation as a crucial one which has been happening to some extent in the last 20 years but certainly needs to happen in a lot more accelerated way in the period ahead and both education and training have an important role to play in terms of providing economic opportunities.

The budget as we indicate here plays a central role in transformation by promoting redistribution and this is quite an important point which I am sure might have been made to your already which is that the key or the main redistribution mechanism in South Africa may be
5 twofold, (1) is the tax system which is the case for most countries in the world. We have a very progressive tax system, we have a very redistributive tax system and for many years to come those who are in the higher income groups need to understand that if we are going to have social stability and social progress in South Africa they need to
10 make an additional contribution as part of their social solidarity so that people in the lower income groups or the unemployed can actually benefit from the redistributive mechanism.

The second of course is the social wage and in particular the social grants and more and more there is agreement and certainly the
15 study that I indicated earlier shows the same that social grants play a key role in keeping people out of poverty and generating some kind of dignity amongst our own people as well so I am indirectly saying that the new 45 percent tax bracket should be welcomed by all concerned notwithstanding some of the noises that we have been hearing more
20 recently.

JUDGE: It is a pity you could not raise an extra 5 percent we would all have been happier.

MINISTER P. GORDHAN: I hope that is going to be recorded by the media, makes life easier the next time round, thank you for your
25 contribution there Judge. Education we acknowledge is key to

transformation, I will not go to all of the slides but quality of schools and further education institutions, a clear plan is required and that is the road map that we are talking about so that we can maximise social and economic transformation, the value chain is referred to again and where
5 Universities and Tvet colleges fit into the value chain.

ADV. K. PILLAY SC: Minister may I just ask you a question about the value chain, when you approached the question of priorities and you look at the education value chain as a whole do you prioritise certain or does Treasury prioritise certain levels within the value chain over others?

10 MINISTER P. GORDHAN: I am sorry I must keep correcting you, Treasury does not make these decisions, these are government decisions and I think if we get that narrative right it is very helpful with respect. So I think by ...[intervenes]

ADV. K. PILLAY SC: So who would we look to Minister for that decision
15 making?

MINISTER P. GORDHAN: I beg your pardon.

ADV. K. PILLAY SC: Within government who do we look to for that decision then?

MINISTER P. GORDHAN: It is the government collector, it is the
20 government collector, if you go back to 1994 basic education would have been seen as the priority because that was the more dysfunctional part and that was the part that was affected by Bantu education with all its ramifications and would have been the area that was given attention I am presuming, I was not there at the time, I do not think anybody else
25 was there as well and over time other areas of the education value chain

began to get attention, the last of which was ECD actually, early childhood education and that all the studies are showing is the crucial part of the value chain that if you invest in that part of the value chain the rest begins to flow much more easily so as a society we have got to
5 undertake some adjustments at both ends if you like, both in the post secondary school environment but also in the early childhood education area as well.

ADV. K. PILLAY SC: Now at any given point in time Minister what we are trying to get to is when you faced with these competing, in a sense
10 competing bids from the various departments, ECD, social development / basic education, higher education in respect of both higher education and Tvet's, when you are faced with these competing bids how do you prioritise amongst them how to allocate money?

MINISTER P. GORDHAN: Well in the first instance you have let us call it
15 a rollover effect because if basic education has been receiving what 200 odd billion rands you are not going to drastically cut that by half you might have to look at a different proposition which is a proposition that we need to look at across government as well which is what value for money are we getting, what impact are we making with the money that
20 we are spending and that applies to higher education as well, the 15 percent pass rate or thereabouts at University level, what are we investing in right, or the dropout rate in the first year as what it is, what are we investing in and what impact are we making so I am hoping that the commission is looking into those issues as well otherwise it becomes
25 a bottomless pit where quality is not improving, impact is actually not

being made and yet more money is being asked for.

So I think there is a lot of work that we have to do as South Africans across the value chain which would enable us to distribute our resources in the right kind of way taking into account all the lessons that we have learnt as well. So firstly it is the rollover effect, secondly it is the greater equity in the system so you know is there a way of balancing out, what each segment in the value chain should be getting and how do we incrementally improve that. Thirdly all of that is subject to fiscal capability, fiscal space so where you have limited room for manoeuvre so that is why we keep coming back to the proposition that money you know as they say does not grow on trees, it only grows when the economy grows and if we get the right kind of conditions we will get our economy to grow because the potential is there but sometimes we pretty good as South Africans are shooting ourselves in the foot, sometimes with no toes left at the end of the day as well as far as the growth proposition is concerned so it is those processes that will determine.

And if you look at the numbers over a ten year period which my colleagues can do for you, you will probably see each of these areas progressing or declining in some ways as well so once you begin to emphasise a new area one part of the value chain might actually decline which I think is the case for a period in the case of the tertiary education system.

ADV. K. PILLAY SC: Can we just deal briefly with the so called inefficiencies in the higher education system Minister because we had the department appear before us on a number of occasions and the

evidence was that they have obviously identified inefficiencies you refer to, the high dropout rate, the low throughput rate and they have done it historically I think from the white paper, the 2013 white paper and what the evidence from the Minister and other officials in the department was
5 to the effect that they have set up numerous ministerial task teams, they have received numerous reports on how to address the issue, unfortunately implementation of those recommendations requires more money and they have put these in bids to National Treasury and those bids are never successful which is why they have difficulty addressing
10 the kind of efficiencies that you have described.

MINISTER P. GORDHAN: Ja I think that calls for some tea between myself and Minister Nzimande and we can then negotiate that proposition. As I said earlier on any and all departments and entities within government will be able to justify a higher slice of the fiscal cake
15 than they currently have but the reality is that that is not how life works so there will always be a tension between requirement and what is available in reality and I think it is good that the higher education department is able to project into the future and give us some sense, I think for the total system requires 120 billion rand as I right, and so we
20 have got the numbers now we have to work out how in a manageable way and in a balanced way government approaches that question and that proposition and there are times when you require the money and there are times when as recent evidence shows where good leadership, good management, good systems, good supervision also gives you
25 better results and the same amount of money gives you a much greater

impact so there are schools in the poorest areas in South Africa that got 100 percent matric passes with very limited resources, better resource schools performed very poorly, 40, 50 percent passes.

So the more recent explanations have been around the question
5 of leadership in that environment. If you speak to the Auditor General he will tell you the same, so in the last probably two or three years there is a lot of focus on the Auditor Generals reports both in respect of municipalities and provincial national departments on the question of leadership so apart from the numbers and the systems and the financial
10 statements and whether there are unauthorised expenditures or irregular expenditure leave that in one bucket. The other issue is what leadership is being offered, what diligence is being applied to spending public money and getting the results that people actually want.

So that is why you will hear us say quite frequently that there is
15 enough money in the system for now, spend it better, use it better, get better impact in the different environments in which we actually operate and so until we can get growth right and the revenue proposition right which will also improve our ability to pay back debt and borrow more we have got to manage with what we have. Can I continue?

20 ADV. K. PILLAY SC: Thank you Minister yes, I think you are on slide 5 the second last bullet point.

MINISTER P. GORDHAN: Ja this is the new slide, together we can find roadmap for higher education, it is a point I have made already that current efforts are finding common ground and consensus is absolutely
25 essentially and I think there is a greater meeting of minds that different

stakeholders need to sit in the same room and develop a collective vision for where we want to see higher education and training in the next 5, 10 or 15 years and what does it mean for all of us in terms of the kind of organisational and financial commitments that we need to make in this particular direction. We then say in the next slide that ...[intervenes]

COMMISSIONER ALLY: Before you move on Minister.

MINISTER P. GORDHAN: Sure.

COMMISSIONER ALLY: Mr Sachs has been here and was, well was not here when the finance people from the Department of Higher Education were here and Mr Sachs explained to us how the bidding works as well as Department of Higher Education and Training. The issue is that there are discussions that take place and perhaps you have explained it already, the problem we have is this, that Mr Sachs will tell everybody else this year there is, you have got to, your baseline will remain the same so you cannot come to me and say I need 100 billion more, and they give it there, they give all the programs of what they need to improve the system so when it comes to the bidding committee or whatever committee deals with it they say but are you really serious, you have been told there is no money and then you come with this bid so those are the difficulties you have.

Now you say the roadmap must take all of us into, all of us must come together and speak together but it would seem that they are speaking and unfortunately for South Africa as you indicate our economy is not growing while our mouths are talking and therefore what do we do and Miss Pillay has been trying to put it then comes down to the ruling

party looking at priorities and giving direction and advice as how we go forward in terms of our priorities, is that not what happens, what needs to happen at the end of the day?

MINISTER P. GORDHAN: Well as I said earlier on and throughout our exchanges this morning the ruling party does indicate its priorities but it is not isolated as one priority everything else is to be neglected, it is a collective of priorities amongst which it uses the term the Apex priority is education so and that is reflected in the NDP and MTSF.

JUDGE: What does it mean?

10 MINISTER P. GORDHAN: I beg your pardon?

JUDGE: What does it mean?

COMMISSIONER ALLY: Apex.

MINISTER P. GORDHAN: It is, what should I, it is more equal than all the equals right, so it is more important than all the equivalent demands that we actually have and as I said earlier on education as a whole does attract a larger slice of expenditure so there is absolute consistency between education being the Apex and the allocations that are actually made but this commission is about one segment of the education value chain and I think the contradiction that we have to deal with is how does this segment 'demand money' and at whose expense within the value chain or outside of the value chain in a constrained environment, so that is the first point.

The second point commissioner is that when we talk about everybody getting together in the room, today on this issue there are many stakeholders inside government and outside government and the

more recent efforts about getting all of them together and we want to commend that and say that is the way to go forward and that is the way we might be able to find each other and understand each others opportunities and constraints and contributions and give some shape to the kind of tasks that you have been given but the challenges that we have been asked to attend to as well but more importantly as we have demonstrated, within the overall mandate that we have we found money in the first instance, 7 billion, 33 since then, another 5 since then and that will continue but those are marginal amounts in terms of the total challenge that we have but there is not going to be an instantaneous answer.

If you are looking for an instantaneous proposition we might not find it but maybe you have information that we do not have so let us look at that information and if need be think outside the box and come up with propositions as the Deputy Minister was indicating whilst bearing in mind and at some stage I would like Mr Sachs to take you through some of the chapters of the budget review because you are going to find those tables in there very interesting because what we are talking about here are not general narratives and propositions, they are reflected in numbers and those are the numbers that the world out there looks at to establish whether we are fiscally credible or not and whether we are running a good ship or not at the end of the day.

And whether it is the social security funding and the different amounts and how they balance out, our consolidated borrowing, how we intend to do it, we are privileged in South Africa to be amongst the top

five out of 94 countries in budget transparency Judge and so a lot of the information is there and it will be useful to study those as well so those would be my responses.

COMMISSIONER ALLY: Thank you.

5 MINISTER P. GORDHAN: Mr Mogajane wants to add Judge.

JUDGE: Yes of course.

MINISTER P. GORDHAN: You have to be sworn in.

JUDGE: What is your full names sir?

MR. D. MOGAJANE: Dondo Mogajane.

10 JUDGE: Yes Mr Mogajane do you swear or do you wish to affirm or be sworn.

MR. D. MOGAJANE: Affirm.

JUDGE: Affirm. Do you swear that the evidence that you will give will be the truth the whole truth and nothing but the truth?

15 MR. D. MOGAJANE: I affirm.

MR. D. MOGAJANE: [Affirmed]

JUDGE: Thank you.

MR. D. MOGAJANE: Thank you very much. I think Minister I thought maybe let us address this, you know Advocate Pillay did ask this
20 question earlier on and I see Commissioner Ally is also asking the same question, if we move to slide 22 just to clear this once and for all to say, slide 22 we are showing where we had to reduce budgets to look for money, to make sure that there is funding, enough funding for higher education and this is the same, we can look for the same table or similar

table from last year. So we went to national government departments all of them, we went, slide 23 yes. We went to national governments and over the MTF we had to reduce their budgets by 10 billion.

Where did we get that money from, we got them from
5 compensation of employee budgets meaning we had to tell departments you have to reduce your level of employees, in some cases meaning you have to not fill vacant positions or where possible you have to lay off some people that is what actually that means. Then we also went to provinces, 5.5 or 5.6 billion and we finally went to local government
10 departments or conditional grants going to local government and we had to cut that by 2.4 billion so for this current financial year that we, the budget that we passed last week, in trying to address some of the funding challenges of which higher education is one by the way and taking the big chunk of that so when we, when you say we are not
15 funding or they came up with a budget bid of 120 we might agree on some, in this case it could have been that higher education and in particular fees, the zero fees last year, the 8 percent that we are covering for missing middle and all your NSFAS allocations because of not a growing and reduced revenue in terms of if you go through the
20 budget review and some of the table that Mr Sachs will take us through you will see that in some cases our revenue estimates have been revised downwards meaning therefore that we have then to keep or make money available through some cuts and they were painful.

Now I am asking that question Advocate Pillay to say yes we did
25 go and cut budgets, last year we did the same, as you can remember we

looked for 16 billion to address the zero fees, this year again we looked for 16 billion to address the fees. On another hand you do not have an economy that is growing and effectively that means you have got reduced tax revenues coming through to be able to fund your spending
5 that is increasingly rising and again if you know answering some of the questions that have been asked, if you go to the same and some of the slides that are indicated then this is the slide that we took the commission through in detail it will be slide 14.

MALE: It is 15, there is one difference.

10 MR. D. MOGAJANE: Yes it will be slide 15 Minister, the slide that is titled Main Budget Primary Deficit Continues to Narrow.

COMMISSIONER ALLY: I think technology disappointed the Minister.

MR. D. MOGAJANE: Yes, we came to the commission at the time and we indicated that in the years of plenty and that is what I think I said at
15 the time, in the years of plenty you know deficit was around 22 percent, 22.5 percent, we had enough money, we ramped our spending, our non interest spending was around 21, 22 percent, our revenue was much higher. We ramped up our spending that is when government at the time took decisions to increase spending, we increased social grants, the
20 qualifying criteria from 14 at the time 13 to what it is now 18 but the bad thing happened to us as a country in 2008/2009, our revenue declined and then that slide is showing exactly that, but we are able yes, before this one, yes this slide, now in around the year 2008/2009 you can see we kept our non interest spending very high, our revenue was declining
25 but we could not come to 2010/2011 reduce our spending because we

had to sustain it at that high level.

So meaning because money is not coming through, tax revenues, the economy is not doing bad that is when our debt situation increased and that is where we are at this point in time and we are
5 saying we are maintained at an average of around 50 percent and we are comfortable that it is stabilising at that level because there is not enough tax revenues coming. Now when that happens and then the R120 billion bid come by the department yes we will, and not only them by the way, it is not 120 from one department, all in all it could even go
10 up to about R400 billion in terms of the bids that come through the budget process that we explained.

The team that I am part of in the Treasury is the one that interacts with the departments on an ongoing basis, on a daily basis if you want go there, and the bids and the interaction is such that everyone
15 wants more, not only higher education but everyone. Defence will for instance say we want to pack because it is the international norm that defence payment should be maybe 2 or 3 percent of GDP or GDP is 4 trillion rand if you look for 3 or 4 percent it is way above what the budget allocation currently is around 70 or about 80 or so billion rand. So the
20 challenge that we constantly will have Advocate, Commissioner Ally will be exactly that that departments come they have got huge amounts and bids within the expenditure ceiling and the debt levels that we think we are comfortable with, that will make our borrowing costs to be at a certain amount which we are comfortable with which people who are
25 lending money to us will be comfortable with will want to keep it at some

levels.

And as we have indicated in some of the slides here that we said our fiscal consolidation agenda will be comfortable if it is at the particular level. Now you can argue or anybody can argue that Japan is at 200
5 percent of debt to GDP ratio, do we want to go there, do you want to increase it to be 100 percent of GDP, we can if we have to take that but it will come at huge cost if you can imagine in terms of the people that we go out in the market every week to borrow money from. As I said before we go in the market every week and we get 15 or so billion rand and we
10 are comfortable, every time there are mistakes that you made in terms of how we project, how we interact, the kind of allocations that we made that can have an impact in terms of the costs that we are paying in terms of this debt.

So finally the last point is what the Judge what you were saying
15 and when we kept on saying borrowing is borrowing, debt is debt is debt, we can go and borrow against unclaimed benefits, we can go and borrow from anybody but it remains, we are increasing our stack of debt, stock of debt and is that where we want to be and the challenge will also be the people who are prepared to lend us money are they, because the
20 issue about how possible our affordability, our willingness to pay whether we are able to pay our service, our debt, becomes a question as we interact moving forward in terms of funding so we still out there in terms of do you believe we should break the ceiling that we have, do you believe we should break the debt consolidation agenda that we have.

25 Do you think we should just go to 100 percent of GDP or not and

then on an ongoing basis that is the assessment that we make all the time and that informs the kind of allocations we make so we have the choice as a country to make, you know if I engage with national health insurance and then I see they have sent a text message here, the issue
5 is we need money for that, can we increase the proposal out there, everyone is saying we should increase VAT by 4 or 2 percent, we need another 200 or so billion rand to address that. Defence is an ongoing in terms of our borders, how our borders are porous and so it is an issue. we have got housing, water and sanitation challenges and so on so we
10 have to engage with competent realities on an ongoing basis and, but I think the roadmap suggestion is that we know the number and we know but what government committed itself to this, this is what we said again provision for free education to the poor that is the end game maybe and how do we get there because that is what is government, that is what is
15 in the NDP it is there in the manifesto, it is there in many other documentation.

So how systematically we get there is a challenge obviously along limited resources we have to commit ourselves that as government we want to reach there where free education for the poor is realised but
20 however we have to do it in a very, very systematic way, thank you.

COMMISSIONER ALLY: Mr Mogajane you will recall you expressed yourself as passionately as you are now on the same issue and our understanding was we understood you that you have the constraint, it is when a department comes here and we asked them the question, you
25 telling us you have got all these visions and so forth, did you tell that to

Treasury and they say yes, so I understand your explanation hence as we have, because we will return again and we will go in a cycle, hence we are saying there are other measures because all we are trying to do is look for money as besides looking for the money there is a system that is broken and we are aware of that system so in the bigger scheme of things we have got to try and marry the two and where they are and we have indicated we will give you the ideas that have come through as to where money can be found and you will be given time in which to assess them and do not be in a hurry to throw the baby out of the bathwater but assess them in a manner of trying to help us and the Minister indicates well it is not only us his mandate is much bigger than just higher education or education as such and we understand that so in the light of what we have said about the proposals or ideas that are coming forward perhaps we should understand it in that manner.

15 MINISTER P. GORDHAN: Ja I think you certainly, we are recycling some of the things which is my fear and because we indicated a long while ago that give us the information we will apply our minds to it that we are open to out of the box thinking but recognise that there are all these other constraints or factors that need to be considered and we will then give you a considered view.

ADV. K. PILLAY SC: But Minister in the interest of time may I propose that we move onto slide 18 of the slide because a lot of the slides that you are about to deal with we have seen quite a bit of it already so if we could go to slide 18, I am not sure if on yours it is 18 or 19.

25 MINISTER P. GORDHAN: I am going to quickly get to 18 right so I was

going to make the same proposal so if you are comfortable slide 8 merely says we have been here before and what we discussed with you. slide 9 is work framing and keeping on the wall because it is the key reminder that that is the equation that we need to get right at the end of the day. What we need to do as I said earlier on, either in the formal session or informally, take you through the budget review and indicate the tables that you need to look at. Slide 10 is absolutely important in terms of the distribution to taxes and what we think is going to happen in the current financial year with an over 30 billion loss in revenue so again any shocks to the economic system or the tax administration system has consequences for the fiscal balances that we need to maintain and I think it is quite important that we understand where the shortfalls are.

Slide 11 is equally important because it says that if we are talking about any increases in taxes to meet whatever requirement and in this case the 28 billion that we needed to bring to the party, how do we get to it and again this is valuable information for yourselves and of note here is personal income tax is the biggest contributor and the biggest contributor in this segment is the fact that we have given very little relief for inflation to tax payers in South Africa in the coming year and the rest of course is available for you to look at.

The consolidated fiscal framework is also absolutely crucial, we do not have to go through the detail now but if you look at the left hand side it gives you the revenue picture across 17, 18 and beyond, the expenditure envelope that we have set and the consistency as a percent of GDP and again if GDP increases those ratios will go lower and leave

us more space. Non interest expenditure is a crucial number, the higher the borrowing the higher the interest costs the lower the non interest expenditure and that is the other equation that we should hang up somewhere on the wall because the borrowing does incur interest and
5 now we were in this space somewhere in the post 1994 period and in the early 2000's we recovered from it Judge and we are returning to that spot.

So if we want the non interest expenditure envelope to increase then we have got to decrease interest payments which is a crucial if you
10 like short to medium term objective. If you look at those numbers before you, 17, 18, 169 billion rands are of the 1.56 trillion rands is actually paid out as interest and that is a top line cut, what do you call it, top slicing of the amount in terms of the constitution and then the budget balance is what we call normally the deficit. The next slide you have been through
15 already but we have been grappling to get the red and the black lines to marry, no sooner we bring them together they seem to separate.

This is the debt consolidation picture and this is necessary as long as the low growth environment continue. Again if GDP increases, we are a 4 trillion plus economy, imagine if we do become a 6 trillion
20 economy then all the equations change and then we have more space to do the kind of things that we need to do as well so medium term perspectives make an important contribution to how we identify roadmaps for various challenges that we actually have. This reflects the growth picture that I tried to summarise for you earlier on. Slide 16 is not
25 unimportant, in fact this shows you the basic education and post, if you

combine those two the brown and what appears to be maroon it outclasses all of the other segments of the expenditure pie and that then shows you the priority factor that you were talking about earlier on very graphically, very graphically.

5 The only question is, how within that value chain the distribution occurs and if we need to increase that segment of the pie where is it going to come from, defence, debt service costs, economic affairs and you will see in the next slide that economic affairs is in fact that is the lower end of the bars that you have, the horizontal ones gets very little
10 attention but that is what is going to create the growth environment so what we are doing at the moment is the very rapid increase in debt service costs, the grey bar, the second fastest growth is in post school education and training so government has been prioritising this area although not necessarily adequately in terms of the kind of demands that
15 we have at this point in time but there is a balance between the upper part of this chart and the lower parts of this chart because if we do not play the necessary supportive role to different segments of the economy we will not get the fiscal space and the revenue space that we actually require.

20 Another representation, slide 18, which is where Advocate Pillay wanted to go, again shows the red line which is the rapidly increasing and outclassing everything else including basic education in terms of the pace at which the increases are actually taking place and the numbers on your left hand side.

25 ADV. K. PILLAY SC: Minister may I just ask you a question around the

third bullet point and despite the fact that you do have the red line which is outpacing all the other lines one of the difficulties faced by Universities is that the subsidies have grown at a very marginal rate whereas government has increased its allocation to NSFAS for administration.

5 Now we have had evidence before us that the impact of this adverse for University fees because it creates a perverse incentive for Universities to be able to get more money into their systems that they increase University fees so that they can access more NSFAS allocation or greater NSFAS allocation.

10 MINISTER P. GORDHAN: I am going to differ to one of my colleagues who have a wider or longer association with this issue than I have if you do not mind.

MR. M. SACHS: Just explain the proposition is that if you increase NSFAS allocations then fees go up.

15 ADV. K. PILLAY SC: Because you keeping the University subsidy growing at a very marginal rate and you increasing the NSFAS allocation it creates a perverse incentive for Universities to increase the University fees so that they can get more money through the NSFAS allocation

MR. M. SACHS: So I think in a previous, Mr Mogajane will add, I think in
20 a previous presentation we pointed out that the total allocation to Universities per student in real terms has increased but there has been this shift from the general fund through University subsidies towards NSFAS which may have, which has consequences, everything you do have consequences but the logic behind the shift is that the general
25 allocation to University subsidies is of all government social expenditure

streams the most regressive, in other words a lot of that subsidies goes to the top 10 percent of most affluent South Africans whereas the NSFAS allocation goes to the poorest South Africans and it is targeted so there has been many shifts in the streams of funding and certainly these things
5 have consequences and it may be that this contributed to the increase in fees but remember that there are many factors behind including the costs of Universities, the exchange rate.

I thin other, particularly affluent Universities have been raising fees for more affluent students in order to provide additional subsidies
10 for NSFAS students so it is a complex systems which is, and of course you know we would love to increase everything, we would love to have enough for everything but we do not have so we have to make these choices and in this context the thing that is driven the choice and again it is not a Treasury choice it is something that is very, being very
15 consciously implemented as government policy to shift funding towards Tvet colleges and towards NSFAS students who are in the lower income categories.

JUDGE: But given Mr Sachs this unintended consequence that increased or a diversion of funding from University subsidies to NSFAS
20 allocation may result in higher University fees which is what one of the reasons why you dealing with the difficulties that you are at Universities, is government looking at other ways in which to solve the problem for example differentiated fees which is something that you mentioned, alternatively fee regulation as a means to keep University fees under
25 control.

MR. M. SACHS: Government is thinking about all of these issues but it is difficult for us to pronounce conclusively on these issues partly because we are waiting for the outcome of this commission which, so once the commission reports then we will be able to really decisively chart the roadmap forward but there are, the point I am making is there are many factors behind the increase in fees and we would like to, I mean if we had unlimited resources we would certainly increase the University subsidy in tandem. One of the other factors has been the decline in third stream income since the global financial crisis in 2008 which has also resulted in an increase of fees.

Let me say there are many Universities in this country and particularly the historic black Universities that cater for the poorest students in which almost the entire student body is catered for through NSFAS so the question is almost your, if we were to follow your logic, I am not saying it is a wrong logic, but there would be trade-off which is that it is the but you see there that which is the limited resources we do have would now be shifted into more elite Universities that educate the children of the wealthy, that would be the consequence we would have to deal with and then the question you would be asking us is, why do you not increase the NSFAS so I think the point that we are making in that bullet 3 is that average expenditure in the budget is growing at 7 percent so the spending on social grants for destitute pensioners, the spending for the healthcare system, the spending for policing, the spending for defence, in fact you can see there that defence is declining in real terms its budget in that graphs so all of those other things in that graph are

experiencing much less rapid growth than both University subsidies which are growing at 10 percent and NSFAS which is growing at 16 percent.

So then you are saying but you know these things that are
5 already growing far more rapidly than anything else you are suggesting that they should grow faster and ultimately the only way they can grow faster in a sustained way is for the economy to perform better and the resources available to the public sector to increase over time.

JUDGE: And may I just ask, we know that over the past two years or so
10 since 2015 there have been significant bailouts or cash injections into the PSET system, how sustainable is this going forward?

MINISTER P. GORDHAN: It is built into the MTF equation if you can call it that it sits within the framework if there is lower growth and lower revenue then we do not know we will have to see what kind of pressures
15 that that actually brings into, onto the fiscal system and that is why an incremental approach is so crucial. If we take big leaps with unknowns into the future everybody is now talking about, I am not sure if you are familiar in the 2008/2009 period with the phenomenon of black swans so that language has come back onto the global stage, the black swan is a
20 completely unanticipated event and that is what the financial crisis was except that there were a few individuals who anticipated it and became famous for that too.

So if we have black swan events then of course it throws the whole equation into chaos so the incremental approach is the preferred
25 approach and national focus on getting growth right in this country and

getting more people engaged in the economy is a crucial proposition for everything else to work at the end of the day so we empathise with the Universities and their constraints. One of the things that some of the Treasury people are pretty good at is looking at the minuses of a particular entity or department and asking the question how are you spending your money you see and how are you generating revenue where it applies and is the most appropriate set of decisions being made in terms of actual expenditure, now I think that is a territory that we have not quite got in to, the cost Mr Sachs is implying which is what is the cost structure of different Universities that actually leads to decisions around fees and I am not sure what evidence the commission has received or invoked in this particular regard because in difficult times that is part of the proposition that we need to actually look at as well to see.

And I think Vice Chancellors have taken some good initiatives to rationalise access to journals, purchase, increase their collective purchasing power, get lower rates for particularly journals that have requirements for foreign currency and so on and I am sure there are other measures that I am not familiar with but these are all issues that we will interact with as well as we get into the future but economics as they say is about trade-offs so these are some of the trade-offs that we need to look at. The next one you are familiar with and it is related to what we are talking about and thus took at or represent some of the difficulties that Universities have gone through in recent years but also some of the improvements that we have inspired.

JUDGE: That last graph if you do not mind does not seem, I emphasise

seem, to reflect the enormous increase in numbers in Tvet colleges *vis-à-vis* Universities. The balance of expenditure or the increase in the balance of expenditure does not seem to reflect that at all.

MINISTER P. GORDHAN: No there is no doubt that Tvet colleges needs
5 a particular focus not only in terms of not only in terms of financing but also in terms of as you put it earlier improvement of infrastructure, improvement in the quality of education that is provided and the quality of management which are issues that Minister Nzimande I am sure is dealing with, you wanted to add something.

10 MR. M SACHS: I mean if you look at the grey part of the graph in around 2004 and you compare it with the grey part of the graph in 2017 it is almost doubled as a share of GDP so as a proportion of the total funding it remains small but the growth rate of that funding is very high.

MINISTER P. GORDHAN: But what we might want to do is relate that to
15 numbers and see if we can reflect these increases in allocation on a per capita basis.

COMMISSIONER ALLY: Yes because Minister Mr Sachs will know in
2004 round about that time he had about 354 000 student at Tvet's and now you have moved to almost 800 000 and therefore you might have
20 that particular shift.

MINISTER P. GORDHAN: No let us look at the numbers on a per capita basis as you are indicating and see what it actually shows. The next slide is giving you some numbers in terms of spending of almost R90 billion by 1920 growing well above anticipated inflation rates at 9.2
25 percent. Over the immediate three year period another R21 billion has

been added and the details are there. A total of 615 000 University students will receive NSFAS loans and bursaries over the next three years. The additional R7.7 billion I indicated earlier is also referenced here and transfers to NSFAS rise from R11.4 billion in 2016/17 to R13.8 billion so those are some of the numbers that you might want to take into account.

The next slide looks at the enrolment factor that you have just referred to, Universities 100 000 increase between 2016/17 and 19/20. Tvet's stable at 710 000 and community education and training colleges increase to 340 000 when we get to 2019/20 as we anticipate. The new Universities in Mpumalanga and Northern Cape having allocated R4.2 billion and the student accommodation that the Deputy Minister was referring to is referenced in the last bullet point. This is the slide that Mr Mogajane was referring to so when you have a zero sum situation any new requirement means that money has to be sourced internally from various places and you can see what we are talking about here.

For the 2017/18 budget the instruction if you like that the ministers committee on the budget issued to all departments and entities is that they are required to reduce their administrative costs by 1.1 percent, alright so that was top slicing across all departments and entities and that was explained earlier on. There has been speculation about the graduate tax which I am sure the commission will apply its mind to and there are some numbers here that might help you to look at that. So in conclusion Judge once again thank you for this opportunity to engage, I am sure there will be some questions and comments from your

side. What we need to underline is the importance of looking at the totality of the challenges that we face as a country, the limitations that are imposed upon us by the low growth factor, the importance of looking at higher education and training as part of the education value chain and
5 as that pie chart indicated it is still the sector that attracts the most amount of money in terms of government expenditure.

What is crucial however as a country however is that we get the growth factor right that we have higher levels of inclusivity which benefits the working people and poor and lower middle classes in our society and
10 that applies to young people from the same families that want to enter the training or University system as well. I think there is still some way to go in terms of building national consensus through this engagement that is occurring out there both as far as government is concerned and civil society formations including the business sector as well and we are
15 committed as a Treasury to make our contribution in a positive way. We look forward to some of the information that you said you have and we will in a helpful way analyse that for you and give ideas to you in that regard as well, thank you very much.

ADV. K. PILLAY SC: Minister before we conclude there is just one
20 further issue which we need to raise with you and this was specifically raised before us by a number of student organisations and that is the question of inefficiencies within government and whether or not those inefficiencies are eradicated there would be sufficient funds for the purposes of funding higher education and training and a specific incident
25 that has been brought to our attention Minister is I think a comment you

made at the chamber, the cape Chamber of Commerce in August 2016 where you said that there will be enough funds for University students if we stop the corruption, even if we cut corruption by 25 percent we will have at least 40 million to spend on University fees for the poor. Now
5 does this demonstrate Minister that if we get rid of certain inefficiencies within government, under-spending, corruption etcetera that there will in fact be sufficient money to fund higher education and training?

MINISTER P. GORDHAN: Well firstly it is a guesstimate you know corruption or stealing from the state is a known factor but it is an
10 unknown quantity if we knew that it would be easy to chase. Secondly corruption is a phenomenon that both in our society and elsewhere does undermine the way in which tax payer money is actually spent but in this instance borrowed money as well. Thirdly we have got some efficiencies in the last five years or so and there is graphs in the budget review that
15 we can point you to largely in terms of efficiencies on the goods and services aside, so there has been good progress and responsibility in that regard but there is not at this point in time sufficient access being taken against those who are known to be corrupt or engaging in allegedly corrupt activity in order to discourage that kind of behaviour
20 and ensure that public money is spent in the right kind of way, that is a fact of life that is well known if one just looks at the media let alone ones own investment.

So there are resources that are being misspent whether that same resources should be used for higher education is a different
25 proposition but notionally if we have less leakage in the system, either in

terms of efficiencies or fraud and corruption more money is available within the government system to do the things that we need to do and if on a regular basis within that system we are paying twice the price for a particular service or set of goods then you know it is an opportunity cost
5 as the economists would say, so some schools could be built for 30, 35 million rands with the floor space of about 7000, 7500 square metres and yet in various provinces they cost between 70 million and over 100 million.

Now you have got to bring into the equation distance from
10 centres, the transport of materials, but even if you factor all of that in there are various NGO's that are contributing to school building programs that show that if these are efficiently managed resources you can get a lot more out of that than we might be currently getting from the current way of expenditure so there are I think opportunities to let us say
15 save money but also stop leakages as well but these things only work if there is a risk of detection on the one hand and if there is a risk of law enforcement on the other hand and if on both sides of that equation we do not show enough will then people will make merry with public funds.

COMMISSIONER ALLY: However Minister on that note we have been
20 told that you cannot budget for leakages and so forth because it does not work that way and therefore perhaps you need to clarify more about if you do not have these wastages we will have more money for other things to do so at the beginning of the budget cycle each of the departments will indicate to you what programs they have and obviously
25 a costing exercise is done so from the beginning of the budget process

we do not know where these leakages are and it is only after that you find there was there and you go back and the Auditor General will tell you well the money was not spent there either for capacity reasons or some others so it is a difficult thing to manage the fact that you say well
5 if there is no corruption and no leakage then we will have more money, I think the logic is there but it is difficult in budgeting process for budgeting purposes.

MINISTER P. GORDHAN: No I think this is a proposition which essentially says that if for example R10 million is allocated in a particular
10 area and assuming that school for example costs R5 million, notionally you should deliver two schools, if however for some reason the costs have been doubled unfairly and improperly you will get one school, now you can apply that principle anyway, you can from a set amount get 10 houses built or you can get 20 houses built and that is the efficiency and
15 effectiveness of expenditure that we actually looking at so at the end of the day there are all sorts of beneficiaries in this system but the losers are the poorest people, the losers are those who are supposed to be the main object of all of the things that we do which is to improve peoples lives and ensure that they live in greater dignity and that their basic
20 needs are actually met so every time somebody engages either within government or outside government in this sort of activity they are in fact literally robbing the poor from as I said either having access to a house or water or whatever the case might be.

And we need to speak in plain language, if I may say so, on this
25 particular question so that there is no doubt because sometimes

sophistry is an attempt to actually cover up nonfeasance of all sorts, I think we need to make it clear that those who engage in this activity are stealing from the poor end of the story, whether it is a poor student at the University, whether it is those who should be getting more for NSFAS
5 bursaries or loans or whatever the case might be and in a constrained economic environment we can do more with the kind of funds that are available to us.

COMMISSIONER KHUMALO: Minister, on the efficiencies in the different departments there was not evidence per say led but an
10 argument on if maybe there is underperformance and the allocation of that budget is not allocated the following year to a certain department so there is some kind of reprioritisation does that money now go back to the fiscus or can we consciously say it moves to higher education if it is for the purpose of this exercise today because I think it was one of the
15 Ministers was saying that if you have saved in a department that becomes your money it does not move to other ones, is there principle around that?

MINISTER P. GORDHAN: In any surplus cash in principle reverts to the national revenue fund however if there are commitments, contractual
20 commitments then those amounts are as we call to rolled over, so in September each year the Ministers committee on the budget now chaired by the President sits as a Treasury committee and it will consider recommendations made by the Treasury as to which amounts are rolled over and which amounts are not rolled over and which amounts are not
25 rolled over and the Treasury would have done its homework per

department, per instance to check whether there are contractual commitments or not.

COMMISSIONER KHUMALO: And there is no exclusive ownership of particular surplus per department if it is unused or if it is under
5 performance.

MINISTER P. GORDHAN: It goes back into the pool.

COMMISSIONER KHUMALO: To the pool.

MINISTER P. GORDHAN: Remember we are still borrowing money so if there is surplus cash in the system it means that the R15 million that we
10 borrow each week might require that in a particular week you only borrow 5 because there is this surplus cash that is available so we are not in a balanced budget situation, invariably we can either bother less or we are going to have to borrow more depending on how each of those instances actually works out.

15 COMMISSIONER KHUMALO: Okay just on the other, the previous slide before this, the graduate tax, if the decision that comes out of the commission is that poor students are the ones who are entitled to fee free, graduate tax is levied to those poor students only or across the board of all graduates because I see the slide is saying graduates, all
20 graduates and how do we determine that, do we go back and say those who were paid for by the state or do we just levy the tax across the board?

MINISTER P. GORDHAN: I am not aware of the details, Mr Sachs can come in.

25 MR. M. SACHS: It could be designed in various ways but I think and we

do not have a specific you know we have not designed it yet but the principle we would have in mind is that it would be a progressive tax in the same way that personal income tax is so it would depend on your future earnings, if you graduate from University and you do not earn you do not pay tax, if you graduate and you go on to become a CEO of a major listed company and you earn R5 million you will pay a proportional amount which will rise in proportion, that is how we work, in this modelling we were assuming it would be a 1 percent surcharge on personal income tax.

10 COMMISSIONER KHUMALO: Mr Sachs are you considering whether or not the student was funded like if a student paid for themselves and were from a household that qualified or they had a grant at some point, maybe in terms of NSFAS, would it be a consideration and would it not be discriminatory of you to be.

15 MR. M. SACHS: It could be a consideration, the way I see this is that these are ways in which you defer the fees so instead of, it is not fee free it is deferred fees so you pay in future and the question is what is the basis on which you pay in future, one way of doing it is through a debt obligation that you have which is what we are currently doing through NSFAS, the problem with that is that if you think about it again going into Advocate Pillay's question earlier, everybody is getting a subsidy, even the children of the wealthy get a subsidy through the University grant but at the moment they do not pay anything back so the Advocate of a graduate tax is, the only criteria is your future earnings and if you earn in future enough to contribute you make a contribution.

25

The main or the issue that we are raising there in that slide is that in our modelling this would only be a partial solution, if the, so we say Universities, the entire operating budget of Universities in 2015 was R60 billion and we think that graduate tax on this basis of modelling
5 would only raise about 3 or 4 billion rand but maybe other designs can be conceived of.

MINISTER P. GORDHAN: I think the key here is that we have got to create a social environment in our country where if you have progressed in life recognise the fact that there are many others who have not and
10 that for probably the next 10, 15 or so years we are going to require extraordinary measures of social solidarity partly through the tax system because that is what progressive taxation is about but partly through some extraordinary measures as well so that all of us can be better off in X years time, whatever X years might be and so whilst on the one hand it
15 could be seen as a deferred fee so to speak, on the other hand it reflects also the element of social solidarity and more and more we have got to start educating ourselves about the importance of sharing, supporting and demonstrating solidarity to those who are not well off who actually constitute a significant number of people in the South Africa context, so
20 apart from the mathematics and the fiscal policy dimensions that we have discussed here let us not forget the humane and human element which is those who have do have some obligation socially to share with others so that we can all be better off.

ADV. K. PILLAY SC: Thank you Chair, thank you Minister we have no
25 further questions.

JUDGE: Thank you very much Minister we are indebted to you.

NO FURTHER QUESTIONS

JUDGE: Miss Pillay how do you propose that we proceed from here?

ADV. K. PILLAY SC: Chair I had a discussion with Mr Mogajane and
5 what we are going to do is put together certain structured questions for
National Treasury and have them respond to those in writing.

JUDGE: Very well, you did not propose that Mr Sachs should give any
additional evidence today?

ADV. K. PILLAY SC: Unless he volunteers to give evidence Chair we are
10 happy to release him.

COMMISSIONER ALLY: He seems eager.

MINISTER P. GORDHAN: Do you want to take them through the budget
review

JUDGE: Ja I am not suggesting that we pressure you into it Mr Sachs at
15 all.

MR. M. SACHS: I am in your hands.

JUDGE: No on the contrary, it may be that we do ask you still to come
on yet another occasion to answer unanswered questions.

MR. M. SACHS: I would be happy to.

20 JUDGE: Thank you to your whole delegation, we understand the time
and the trouble that it has been to you.

MINISTER P. GORDHAN: Thank you Judge thank you commissioners.

MEETING ADJOURNS

TRANSCRIBER'S CERTIFICATE

Hereby is certified that insofar as it is audible the foregoing is a true and just transcription of the proceedings which is mechanically recorded.

SET 7 – HEARING 1 – DAY 5

COMMISSION OF INQUIRY INTO HIGHER EDUCATION AND TRAINING

<u>CASE NO:</u>	Inquiry
<u>RECORDED AT</u>	Pretoria
<u>TRANSCRIBER</u>	C Dias
<u>DATE COMPLETED</u>	05-02-2017
<u>NO AUDIO FILES</u>	1
<u>NUMBER OF PAGES</u>	71

This is to certify that the following problems were experienced with the above matter:

1. This is a verbatim transcript.
2. Due to the fact that this is a true reflection of the record, and it is transcribed as heard, grammatical errors may occur because of the way role players speak throughout.
3. Where names, places, esoteric terms etc are unknown they are spelt phonetically.



TRANSREC CC
P.O.BOX 17119, RANDHART
ALBERTON, 1457
Tel: 011 864-4061/ Fax: 086-503-5991
www.transrec.co.za