

DEMOCRATIC ALLIANCE MEMORANDUM

TO THE MINISTER OF FINANCE, MR NHLANHLA NENE

06 MARCH 2018

The ANC government's decision to increase VAT by 1 percentage point is an unnecessary one, and is simply an easy way out for the government to refuse to take responsibility for its poor management of the country's finances. It is symptomatic of an ANC government which has failed to plan ahead and make the necessary cost-cutting measures to shield ordinary citizens from poverty and unemployment. The budget hammered the poor and is a legacy of the past decade of disastrous management of the South African economy.

Instead of raising regressive taxes which will hurt the poor, the DA presented an alternative option to balance the deficit. In our pre-budget preview, we pointed out that crippling tax increases were avoidable and R112 billion in savings and asset sales could be found through:

- cutting the size of the executive, to about 15 ministries, which could save R13.8 billion over the medium term;
- decreasing the number of foreign missions by 69, which could save approximately R3.9 billion over the medium term;
- more efficient running of the provincial legislatures, which would save an estimated R5.8 billion over the medium term;
- pulling out of the New Development Bank, which would save about R17.2 billion;
- the sale of government's shares in Telkom, valued at R7 billion; and
- privatising, or part-privatising, some of the 223 "public entities" – many of which run at massive losses.

Instead of taking the lead on slashing waste and trimming the fat, the following cost-cutting proposals were announced that will only reduce service delivery:

- Provincial Equitable Share, the proportion of the budget allocated to provinces, will be reduced by R4.7 billion;
- Provincial conditional grants, mainly Human Settlements and Education infrastructure, will be reduced by R13.7 billion;
- Local Government grants will be reduced by R16.1 billion:

- conditional grants, which includes money for building schools, will be cut by R13.9 billion;
- indirect grants by R2.2 billion; and
- The police services will be reduced by 2 000 personnel.

These cuts to service delivery, and the VAT increase of 1 percentage point will make life harder for the millions of South Africans who face a daily battle to put food on the table. This increase will force poor South Africans to pay more for basic goods, services and transport. In short, it is an assault on the poor.

The DA's Shadow Deputy Minister of Finance, Alf Lees MP, has already committed to forwarding our proposals to Minister Nene, in the genuine hope that the draft Rates and Monetary Amounts Bill will be withdrawn and amended to remove all tax increases. Through bold expenditure cuts, a comprehensive expenditure review and the sale of assets, the necessary savings can be made to protect ordinary South Africans from poverty.

All in all, the former Finance Minister failed to cut the fat and instead opted to protect the few and reach into the pockets of poor South Africans to cover the cost. We look forward to engaging with the new Finance Minister and setting a new beginning that will drive economic growth, create desperately-needed jobs and shield poor South Africans.

Therefore, on behalf of all South Africans, and particularly the poor and jobless, we call on you to reverse the decision to increase VAT by 1 percentage point, and instead embark on a process to cut waste in government, raising an additional R112 billion.

Submitted by:

Received by:

Mmusi Maimane, MP
Federal Leader of the Democratic Alliance
On behalf of the DA

on behalf of National Treasury

Date: _____