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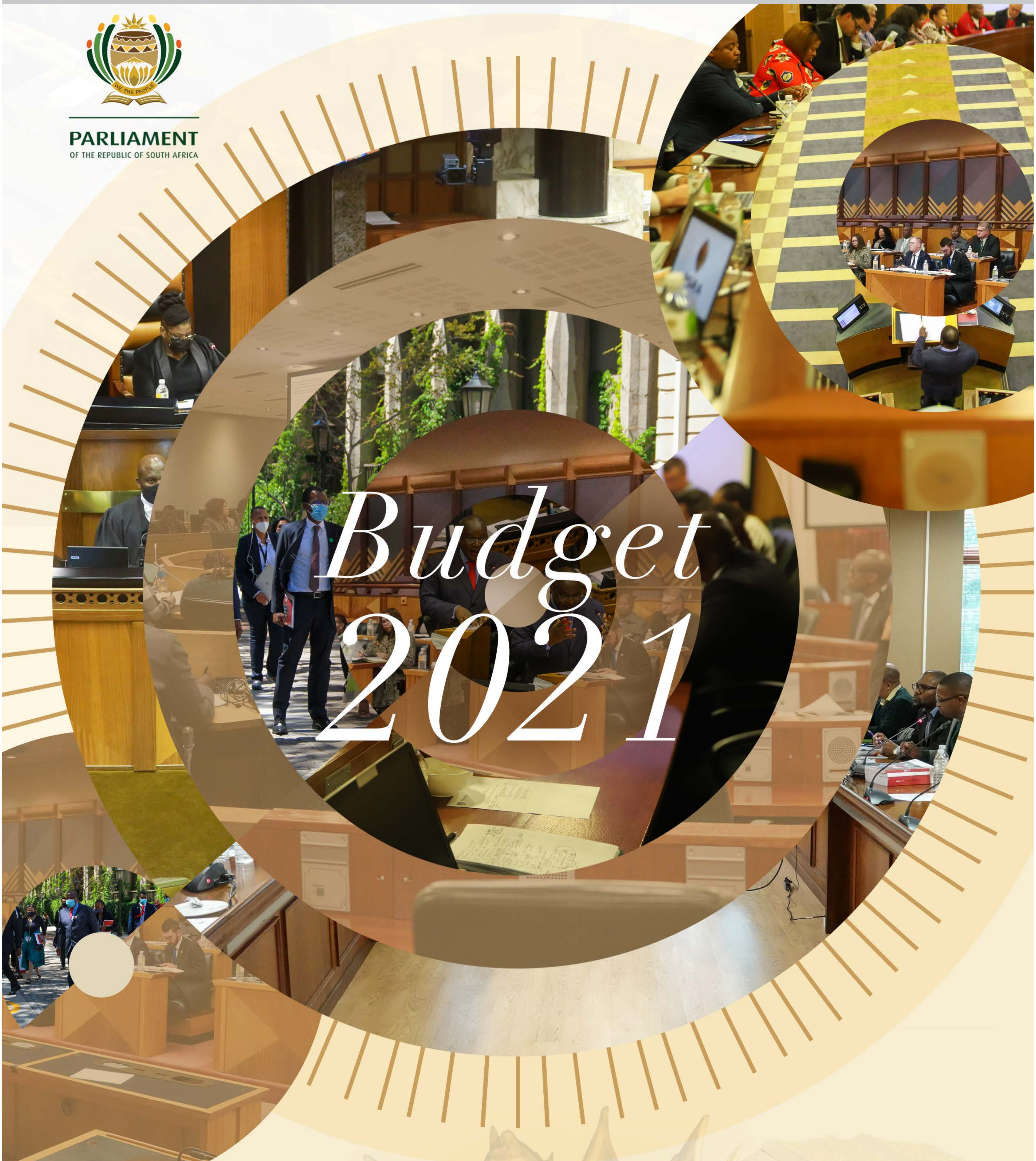
Special budget edition

insession

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Budget 2021



Following up on our commitments: Making our future work better

Minister Mboweni promises to "leave the economy in a better shape for those who will come after us"

When the Minister of Finance, Mr Tito Mboweni, presented his 2021 Budget Speech in the National Assembly (NA) recently, he tabled three Bills that are traditionally tabled before anything is said from the speech, which is largely about appropriations and allocations to various government departments for the delivery of services in the next financial year, ***writes Mava Lukani.***

The Bills are:

1. 2021 Appropriation Bill
2. 2021 Special Appropriation Bill
3. 2021 Division of Revenue Bill
4. The Budget Review
5. The Estimates of National Expenditure (ENE)

Last year, the Minister said, the government had outlined a strategy for South Africa to become a winning country, and since then the government has mourned the passing of nearly 50 000 people as a result of the Covid-19 pandemic. "The damage caused by Covid-19 runs deep and we share in the collective pain of many South Africans who have lost their jobs," said Mr Mboweni.

All this notwithstanding, he said, we are not without hope. Nobel Laureate Archbishop Emeritus Desmond Tutu reminds South Africans that: "Hope is being able to see that there is light despite all the darkness." He observed that sometimes we forget that just beyond the clouds the sun is shining.

Mr Mboweni saluted the bravery and fearless sacrifices of the frontline workers who continue to save thousands of South African lives. "We salute all our healthcare and essential service workers who remain standing at the front line of our fight against Covid-19. We also salute the many South Africans who rallied to help others survive," he added.

According to Mr Mboweni, these acts of human solidarity and sacrifice reflect a patriotic spirit that runs "in our veins and inspires us. Often, we speak about how we must leave this Earth better than we found it for future generations . . . Today I want to leave you hopeful and outline how we will leave this economy in a better shape for those who will come after us."

Under the leadership of President Cyril Ramaphosa, the government has crafted a fiscal framework that extends support to the economy and public health services in the short-term, while ensuring the sustainability of public finances in the medium-term. This is the first reason for hope.

To craft the 2021 budget, Minister Mboweni solicited tips from the public. Many tips received spoke about the limits to increased taxation. "We agree that tax increases must be kept to a minimum as we stabilise our public finances. We have chosen not to introduce the R40 billion in tax measures initially proposed in the October Medium Term Budget Policy Statement," he added.

Economic outlook has improved, says Minister Mboweni

Minister Tito Mboweni told Members of the National Assembly (NA) and the whole nation about the improved outlook for the South African economy, which he described as his second reason for hope, ***writes Mava Lukani.***

Mr Tito Mboweni

Global economic growth is expected to rebound to 5.5% in 2021 before moderating slightly to 4.2% in 2022, spurred on by the expected rollout of Covid-19 vaccines and other additional policy initiatives. China is expected to grow at 8.1% in 2021, while India will achieve a growth rate of 11.5% in 2021. Sub-Saharan Africa is forecast to grow by 3.2%. In this context, Mr Mboweni said the South African economy is expected to rebound by 3.3% this year, following a 7.2% contraction in 2020, and average 1.9% in the outer two years.

The Minister is also hopeful because the government is making meaningful progress in the implementation of structural economic reforms. South Africa's structural weaknesses limit the rate at which our economy can grow. "Our structural reform agenda, as articulated in the Economic Reconstruction and Recovery Plan, is aimed at removing these brakes on growth," he emphasised.

On Operation Vulindlela, which the Minister introduced last year, he said it has already made demonstrable progress in accelerating the pace of implementation of high-impact structural reforms. Much of that progress was outlined in the 2021 State of the Nation Address. Mr Mboweni thanked his Cabinet colleagues for their support of Operation Vulindlela and assured Members of the Cabinet that Deputy Minister, Dr David Masondo and the team from the Presidency and National Treasury remain hard at work together with the relevant departments to ensure that the implementation of the remaining reforms is appropriately funded and accelerated.

"We will not rest until we have fundamentally altered the structure of this economy by lowering barriers to entry, broadening ownership patterns, raising productivity and lowering the cost of doing business," he emphasised.

"We face many challenges as a developing country. We are confronting these head-on. Our country has a network of highways and byways which are the envy of many countries. The mighty N1 from Cape Town to Beitbridge, the scenic R71 that meanders through the misty mountains of Makgoebaskloof and delivers us to the Kruger National Park, and the expansive N4 that stretches from Botswana across our country into Mozambique.

He said all these are part of the lifeblood of the regional economy. "Our great dams, bridges and railway lines have supported our economy for decades. However, much of this infrastructure now needs repair or replacement."

He told the NA that the government has committed itself to a R791.2 billion infrastructure investment drive to this end. "We are already partnering with the private sector and other players to roll out infrastructure through initiatives such as the blended finance infrastructure fund," he added.

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More money for Health, Social Welfare, Provinces and Municipalities

According to Minister Tito Mboweni, the 2021/22 Division of Revenue stands as follows: 48.7% of nationally raised funds are allocated to the national government, 41.9% to provinces, and 9.4% to local government, ***writes Mava Lukani.***

This is after providing for debt-service costs, the contingency reserve and provisional allocations. The provincial equitable share will be augmented by R8 billion for provincial health departments in 2021/22 to deal with Covid-19. Of the R10.3 billion for vaccines, R2.4 billion is allocated to provincial departments of health to administer the Covid-19 vaccine programme.

The equitable share for the local government sphere is set to increase to 9.7% of the Division of Revenue in 2023/24. "We are aware that financial governance remains a challenge for many municipalities. Therefore, the Municipal Systems Improvement Grant is extended for the rollout of the District Development Model," the Minister added.

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enhancing public involvement;
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strengthening cooperative government;
strengthening legislative capacity.

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Provinces will receive R3.5 billion from the Department of Social Development to improve access to early childhood development services. R6.3 billion is allocated to extend the special Covid-19 social relief of distress grant until the end of April 2021. In addition, R678.3 million is earmarked for provincial departments of social development and basic education to continue rolling out free sanitary products for learners from low-income households.

Regular social assistance grants are adjusted as follows:

1. A R30 increase for the old age, disability and care dependency grants to R1 890.
2. A R30 increase in the war veterans grant to R1 910.
3. A R10 increase in the child support grant to R460.
4. A R10 increase for the foster care grant to R1 050.

On procurement and zero-based budgeting, Minister Mboweni told Members of the NA that "our fiscal path requires that we better leverage government's status as the largest purchaser of goods and services in the economy".

The finalisation of the Public Procurement Bill is urgent, Mr Mboweni said, and the National Treasury is fast-tracking it. Furthermore: "The Bill addresses fragmentation in procurement legislation. We aim to table this reform before Cabinet before the end of this year."

On the fight against corruption, Minister Mboweni said the Department of Justice and Constitutional Development is allocated R1.8 billion to improve business processes. "This allocation will support our brave law enforcement agents in the fight against crime and corruption. We are bringing the long arm of the law into the digital age through the Justice Modernisation Programme."

The South African Revenue Service, the South African Reserve Bank and the Financial Intelligence Centre are working jointly to combat criminal and illicit cross-border activities through an inter-agency working group. "This group has completed 117 investigations and found R2.7 billion for our fiscus," Mr Mboweni said.

"Customs and excise operations are reducing the illicit movement of goods across borders," the Minister explained, "assisted by specialised cargo scanners, resulting in 3 393 seizures valued at R1.5 billion for the fiscal year to January 2021."

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Vaccination programme is funded in national budget

*The fiscal framework Minister Mboweni tabled to the National Assembly (NA) when he delivered the 2021 Budget Speech recently entailed the following, **writes Mava Lukani.***

- Main budget revenue is projected to be R1.35 trillion, or 25.3% as a share of gross domestic product (GDP) in 2021/22. This rises to R1.52 trillion in the outer year (2023/24) of the Medium Term Expenditure Framework (MTEF).
- At the same time, non-interest spending will remain steady at approximately R1.56 trillion over the next three years, but will decline as a share of GDP from 29.2% in 2021/22 to 26.2% of GDP in 2023/24.

With this framework, the National Treasury provided the budget for South Africa's vaccination campaign. "This campaign allows us to emerge from the restrictions to economic activity," he emphasised.

The government is allocating more than R10 billion for the purchase and delivery of vaccines over the next two years. "We've increased the contingency reserve from R5 billion to R12 billion to make provision for the further purchase of vaccines and to cater for other emergencies," he said.

With this framework, the government is on track to achieve their goal of closing the main budget primary deficit. "We shall achieve a primary surplus on the main budget in 2024/25," according to Mr Mboweni. This achievement will coincide with the end of this sixth Parliament.

Most importantly, government will stabilise government debt at 88.9% of GDP in 2025/26 and the ratio will decline thereafter. "This is a significant improvement to the framework we presented in October last year and it creates a sound platform for sustainable growth," he claimed.

Members of the NA heard that total consolidated spending amounts to R2 trillion each year over the medium-term, the majority of which goes towards social services. Getting the fiscal house in order is the biggest contribution to supporting the government's Economic Reconstruction and Recovery Plan. "Continuing on the path of fiscal consolidation during the economic fallout was a difficult decision. However, on this, we are resolute. We remain adamant that fiscal prudence is the best way forward. We cannot allow our economy to have feet of clay," he emphasised.

The high government debt levels increase the cost of borrowing across the economy. "The rising debt leads to higher future taxation and uncertainty. Servicing this rising debt takes away resources that could have been invested in infrastructure and frays our social solidarity."

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Highlights

BUDGET 2021

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BUDGET FRAMEWORK

The budget deficit has been revised to 14 per cent of GDP in 2020/21 in response to the spending and economic pressures of the COVID-19 pandemic.

- Gross debt has increased from 65.6 per cent to 80.3 per cent of GDP for the year 2020/21.
- The 2021 Budget proposes measures to narrow the main budget primary deficit from 7.5 percent of GDP in the current year to 0.8 per cent in 2023/24.
- The proposed fiscal framework will stabilise debt at 88.9 per cent of GDP in 2025/26.
- Government will roll out a free mass COVID-19 vaccination campaign for which R9 billion has been allocated in the medium term.
- Over the medium term, debt-service costs are expected to average 20.9 percent of gross tax revenue.

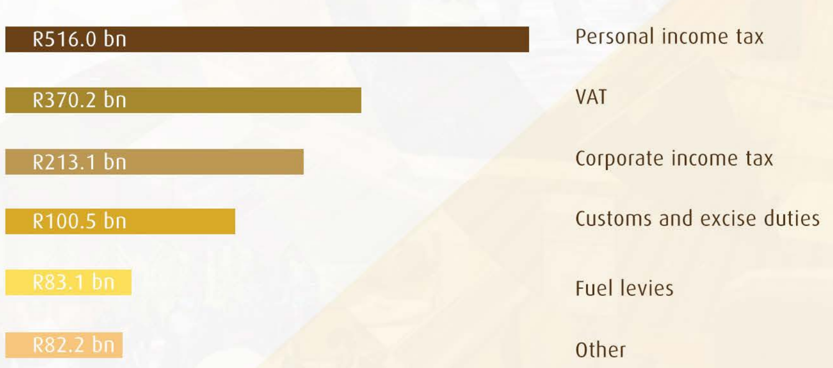
SPENDING PROGRAMMES

- Total consolidated spending amounts to R2 trillion each year over the medium term.
- The bulk of the spending is allocated to learning and culture (R402.9 billion), social development (R335.2 billion) and health (R248.8 billion) in 2021/22.
- The fastest-growing functions over the medium term are economic development, community development and general public services.
- The majority of funding for new and urgent priorities is provided through reprioritisation and reallocation of existing baselines.

TAX PROPOSALS

- To support economic recovery, government will not raise any additional tax revenue in this budget.
- The personal income tax brackets and rebates will increase above the inflation rate of 4 per cent.
- Government will increase excise duties on alcohol and tobacco by 8 per cent for 2021/22.
- Inflation-related increases of 15c/litre and 11c/litre will be implemented for the general fuel levy and the RAF levy, respectively, with effect from 7 April 2021.
- The UIF contribution ceiling will be set at R17 711.58 per month from 1 March 2021.

TAX REVENUE, 2021/22



CONSOLIDATED GOVERNMENT FISCAL FRAMEWORK

R billion/percentage of GDP	2020/21 Revised estimate	2021/22	2022/23	2023/24
		Medium-term estimates		
Revenue	1 362.7	1 520.4	1 635.4	1 717.2
	27.7%	28.4%	28.9%	28.6%
Expenditure	2 052.5	2 020.4	2 049.5	2 095.1
	41.7%	37.7%	36.2%	34.9%
Budget balance	-689.8	-500.0	-414.1	-377.9
	-14.0%	-9.3%	-7.3%	-6.3%
Gross domestic product	4 921.0	5 352.2	5 666.3	5 997.2

MACROECONOMIC OUTLOOK - SUMMARY

Percentage change	2020 Estimate	2021	2022	2023
			Forecast	
Household consumption	-5.9	2.9	2.4	2.0
Capital formation	-18.4	-2.4	3.9	3.9
Exports	-10.9	5.7	3.0	2.8
Imports	-16.5	6.3	4.6	2.5
Gross domestic product	-7.2	3.3	2.2	1.6
Consumer price inflation (CPI)	3.3	3.9	4.2	4.4
Current account balance (% of GDP)	1.7	3.9	4.2	4.4

CONSOLIDATED GOVERNMENT EXPENDITURE BY FUNCTION, 2020/21-2023/24

R billion	2020/21 Revised estimate	2021/22	2022/23	2023/24	2020/21 2023/24 Average growth (excl. COVID-19)
		Medium-term estimates			
Learning & culture	387.2	402.9	411.0	416.0	2.7%
Health	247.0	248.8	245.9	245.0	2.5%
Social development	413.3	335.3	326.2	325.2	2.4%
Community development	211.5	218.8	234.0	234.0	5.6%
Economic development	191.9	207.5	210.9	217.2	5.0%
Peace & security	218.6	208.6	212.9	213.4	-0.1%
General public services	62.5	68.4	68.5	69.1	3.5%
Payments for financial assets	87.6	48.2	27.2	24.9	
Allocated expenditure	1 819.6	1 738.6	1 736.5	1 751.6	1.6%
Debt-service costs	232.9	269.7	308.0	338.6	
Contingency reserve	-	12.0	5.0	5.0	
Consolidated expenditure	2 052.5	2 020.4	2 049.5	2 095.1	3.3%

Budget supports economic transformation and job creation

Minister Tito Mboweni told Members of the National Assembly that his fourth reason for hope is that the 2021 Budget explicitly supports economic transformation and job creation. To that end, government's R6.2 trillion spending over the Medium Term Expenditure Framework (MTEF) gives expression to the Economic Reconstruction and Recovery Plan, ***writes Mava Lukani.***

According to Minister Mboweni the 2021 budget is not an austerity budget. "Our fastest-growing area of spending is our investment in the future – capital payments. The Minister for the Department of Public Service and Administration, Minister Senzo Mchunu, is working with our partners in organised labour to achieve a fair public sector compensation dispensation when negotiations on a new multi-year wage settlement begin later this year."

The government has made R83.2 billion available for the public employment programmes since the 2020 Special Adjustments Budget. "We are now augmenting this by R11 billion for the Presidential Youth Employment Initiative, taking the total funding for employment creation to nearly R100 billion," he said.

On land reforms, the government plans to finalise 1 409 restitution claims at a cost of R9.3 billion over the next three years to achieve redress and equitable access to land. The Department of Agriculture, Land Reform and Rural Development has also set aside R896.7 million for post-settlement support. "This will include the recruitment of approximately 10 000 experienced extension officers," the Minister added.

A total MTEF allocation of R7 billion is made to the Land Bank. This allocation will help to resolve the bank's current default and re-establish the development and transformation mandate. "This amount will not affect the expenditure ceiling," Mr Mboweni explained, "but will be offset through an expenditure reprioritisation process."

Furthermore, any support to state-owned companies and public entities will have to be done through budget reprioritisation as outlined in the 2020 Medium Term Budget Policy Statement.

The Department of Small Business Development has allocated R4 billion over the medium-term to township and rural enterprises, including blended finance initiatives. The Department of Tourism has reprioritised R540 million over the medium-term to establish the Tourism Equity Fund as one of the measures to support the tourism sector's recovery.

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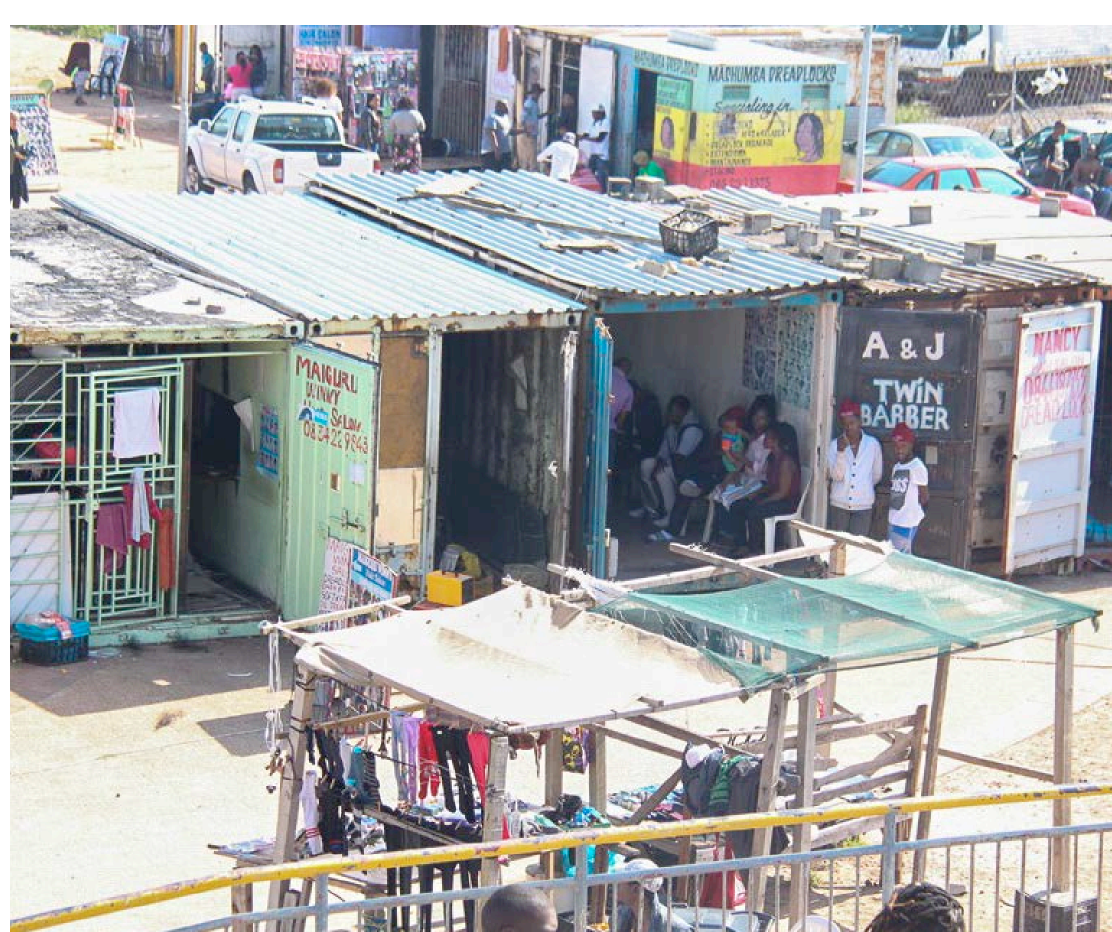
"THIS AMOUNT WILL NOT AFFECT THE EXPENDITURE CEILING, BUT WILL BE OFFSET THROUGH AN EXPENDITURE REPRIORITISATION PROCESS."

- Mr Tito Mboweni



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Budget Expenditure

BUDGET 2021

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CONSOLIDATED GOVERNMENT EXPENDITURE

R2.02 TRILLION

ECONOMIC DEVELOPMENT: *R207.5 bn*

Economic regulation and infrastructure	R93.1 bn
Industrialisation and exports	R36.2 bn
Job creation and labour affairs	R33.4 bn
Agriculture and rural development	R27.4 bn
Innovation, science and technology	R17.4 bn

PEACE AND SECURITY: *R208.6 bn*

Police services	R104.6 bn
Defence and state security	R48.5 bn
Law courts and prisons	R46.7 bn
Home affairs	R8.9 bn

GENERAL PUBLIC SERVICES: *R68.4 bn*

Public administration and fiscal affairs	R46.1 bn
Executive and legislative organs	R14.5 bn
External affairs	R7.9 bn

R269.7 bn
DEBT-SERVICE COSTS

R12.0 bn
CONTINGENCY RESERVE

SOCIAL SERVICES

R1.21 TRILLION

LEARNING AND CULTURE: *R402.9 bn*

Basic education	R255.1 bn
University transfers	R45.6 bn
National Student Financial Aid Scheme	R37.3 bn
Skills development levy institutions	R21.3 bn
Education administration	R19.6 bn
Technical & vocational education and training	R13.0 bn

HEALTH: *R248.8 bn*

District health services	R105.5 bn
Other health services	R51.4 bn
Central hospital services	R44.1 bn
Provincial hospital services	R38.1 bn
Facilities management and maintenance	R9.7 bn

COMMUNITY DEVELOPMENT: *R218.8 bn*

Municipal equitable share	R78.0 bn
Human settlements, water and electrification programmes	R52.9 bn
Public transport	R45.0 bn
Other human settlements and municipal infrastructure	R42.9 bn

SOCIAL DEVELOPMENT: *R335.3 bn*

Social security funds	R105.9 bn
Old-age grant	R86.5 bn
Child-support grant	R73.3 bn
Other grants	R35.7 bn
Provincial social development	R23.6 bn
Policy oversight and grant administration	R10.2 bn

Public finances are dangerously overstretched, says Minister Mboweni

The Minister of Finance, Mr Tito Mboweni, said compared to October 2020, the country is in a better place. However, the assessment from the Supplementary Budget he delivered in June last year still stands: "Our public finances are dangerously overstretched," he warned. ***Mava Lukani reports.***

Despite the modest improvements in the South African fiscal position, he said: "Our borrowing requirement will remain well above R500 billion in each year of the medium term. Consequently, gross loan debt will increase from R3.95 trillion in the current fiscal year to R5.2 trillion in 2023/24."

The government owes a lot of people a lot of money, including foreign investors, pension funds, local and foreign banks, unit trusts, financial corporations, insurance companies, the Public Investment Corporation and ordinary South African bondholders. "We must shore up our fiscal position in order to pay back the massive obligations we have incurred over the years," he said.

In 2020/21, the government expects to collect R1.21 trillion in taxes, which is about R213 billion less than their 2020 Budget expectations. "This is the largest tax shortfall on record," he said. In 2021/22, the government expects to collect R1.37 trillion, provided its underlying assumptions on the performance of the economy and tax base hold. "I would like to take this opportunity to thank those South Africans who diligently continue to pay their taxes," he said.

The 2021 budget proposed the following:

1. The corporate income tax rate will be lowered to 27% for companies with years of assessment commencing on or after 1 April 2022.
   He said this will be done alongside a broadening of the corporate income tax base by limiting interest deductions and assessed losses.

"We will give consideration to further rate decreases to make our tax system more attractive. We will do this in a revenue-neutral manner. We also intend to leverage the insights of the Davis Tax Committee as we undertake this reform," he said.

2. Personal income tax brackets will be increased by 5%, which is more than inflation. This will provide R2.2 billion in tax relief. Most of that relief will reduce the tax burden on the lower and middle-income households. This means that if you are earning above the new tax-free threshold of R87 300, you will have at least an extra R756 in your pocket after 1 March 2021.

3. Fuel levies will increase by 27 cents per litre, comprising 15 cents per litre for the general fuel levy, 11 cents per litre for the Road Accident Fund levy and 1 cent per litre f or the carbon fuel levy.

4. And an 8% increase will be added in the excise duties on alcohol and tobacco products.

Minister Mboweni announced that in this coming fiscal year, the South African Revenue Service (Sars) will establish a dedicated unit to improve wealthy individuals' tax compliance. "This first group of taxpayers have been identified and will receive communication during April 2021." In support of these efforts, he said: "We request that this House approves an additional spending allocation to Sars of R3 billion over the medium term."

WE THE PEOPLE

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Minister Mboweni accounts before appropriations and finance committees of Parliament

A delegation from national Treasury led by the Minister of Finance appeared before a joint meeting of the appropriations and finance committees of Parliament to brief them about the Budget Speech the minister delivered in the National Assembly (NA) the previous day, ***reports Abel Mputing.***

Briefing the committees, Minister Mboweni cautioned the joint meeting that an illusion should not be created that this budget is geared towards economic growth. He said the 2021 budget is meant to support growth. "To give impetus to it, much more needs to be done by various sectors of the economy to bring about real economic growth that will create much-needed jobs."

Mr Mboweni cited the R24.7 billion allocated to agriculture as a case in point. "This amount is not sufficient to unlock the value chain of our agricultural sector," he said. "It's just not enough for such a massive responsibility."

South Africa's economic growth rate forecast is below 2%, lower than that of other developing countries. In responding to a question about this at the joint meeting, the Deputy Director of Economic Policy, National Treasury, Mr Duncan Pieterse, said that the current growth projections are reasonable, despite the fact that "our forecast is stuck in low levels. There are constraints to our growth that keep it below 2%".

The committees heard that there is no intention to raise tax, but rather to reduce tax instead. However, the national delegation said tax reduction is a matter that needs to be debated to get various views on what would be an ideal tax framework that would be acceptable to various social and economic stakeholders. The delegation hinted that the National Treasury will also take into consideration the tax recommendations of the Dennis Davies Tax Commission.

Mr Floyd Shivambu told the National Treasury delegation that no economy would grow exponentially if it does not invest in its industrialisation strategy. In his view the only way to reduce debt is to expand the economy; fiscal consolidation will fail. The National Treasury didn't respond to this view. Mr Shivambu also asked how did the National Treasury come up with the R10 billion projections for the vaccine rollout.

In response, the Deputy Director, National Treasury, Ms Mampho Modise, explained that the current R10 billion allocation on vaccines is based on an estimated model that took into consideration the R1 billion spent in securing the vaccines for the first phase of its rollout.

Mr Geordin Hill-Lewis highlighted the problem of the high public sector wage bill and asked the delegation about government's plans to consider retrenchments in the public sector as a means to reduce the burden of the public sector wage bill on the national budget.

On plans to address high levels of poverty and destitution, given the fact that social grants have increased below the inflation rate, the response was that since 2012, social grants increases were in line with the inflation rate, but the government had to make a challenging balancing act of protecting the poor and implementing the need to consolidate the budget.

Mr Dion George, a committee Member, asked the delegation whether National Treasury would consider any future bailout for state-owned enterprises (SOEs), especially South African Airways (SAA). Minister Mboweni replied: "We had to bail out SAA because we were compelled by law to honour the business rescue obligations. Ideally, SOEs have to be self-sustainable in the future."

He told the joint meeting of the committees that the government cannot force the private sector to invest. "What we can do is that we can create enabling conditions to invest. Private sector invests where it sees an opportunity. If they see a benefit, they will expand investment. Currently, there are constraints related to policy uncertainty. Currently, our policy environment is very bad. It does not encourage investment."

The Chairperson of the Portfolio Committee on Finance, Mr Joseph Maswanganyi, proclaimed that the imperatives of an inclusive economy must be dealt with. The economy cannot continue to serve the interests of one sector of our society at the expense of the other. "The recent statistics have shown that black youth, women and general population constitute the 32% of the unemployment rate in this country," he said. "That is a grave concern that needs to be urgently addressed."

He also decried the National Treasury's protracted delay in the tabling of the Procurement Bill before Parliament. "We believe that this year the Bill will come before Parliament for processing because it can assist in addressing the issue of inclusive growth, if one considers that the government spends over R800 billion on procurement. If we can do a break down we can realise that black women, youth and small business enterprises get a marginal benefit from that."

He further commented on the urgent need for an inclusive economy. "It's estimated that 70% of the R500 billion stimulus package went to white companies. That cannot be ignored, it's in fact a cause for concern. Hence, there is an urgent need for an inclusive economy."

Standing Committee on Appropriations engages PBO and FFC on budget cuts and mitigation measures

The Standing Committee on Appropriations received a briefing from the Parliamentary Budget Office (PBO) and Financial and Fiscal Commission (FFC) on the Division of Revenue Bill, which was tabled by the Minister of Finance when he delivered the 2021 Budget Speech in February. The committee asked about the impact of budget cuts on the government's social programmes and about measures to mitigate the impact of cuts on service delivery, ***Abel Mputing reports.***

The FFC registered its concern about the fluctuations in conditional and equitable share, as this affects intergovernmental relations and the implementations outcomes at local and provincial levels of government. The FFC analysis has shown that, in most cases, the formula used to work out provincial government equitable share is not responsive to the unique needs of individual provinces. Budget cuts have meant that provincial and local governments have had to reprioritise their budgets and this has affected their ability to dispense critical service delivery, particularly to vulnerable groups, the FFC told the committee.

The PBO's presentation also underlined the impact of cuts on social programmes such as social grants. It shared a view that the current Division of Revenue Bill did not live up to expectations because of unseen financial pressure exacted by Covid-19. As a result, the PBO Director, Dr Dumisani Jantjies, said: "Certain budget choices had to be made to address all concerns equitably."

For example, a cut of well over R2 billion from the Public Transport Network Grant due to non-expenditure has a direct impact on local service delivery and many Members of the committee considered this unacceptable. The cut has left 13 cities with no public transport network plans. The FFC Commissioner, Prof Aubrey

Mokadi, said the FFC is still investigating why the grant was not spent.

Prof Aubrey Mokadi told the committee that a lack of sound leadership often undermines performance, which in turn leads to the ineffective implementation of service delivery at local level. The standing committee commented that a lack of qualified personnel at local government is to blame for non-expenditure. The PBO Deputy Director, Ms Nelia Orlandi, said: "There is a correlation between the lack of the necessary skills and non-expenditure, which often leads to underperformance. This is reflective of the lack of the necessary skills at certain municipalities to make budgetary decisions."

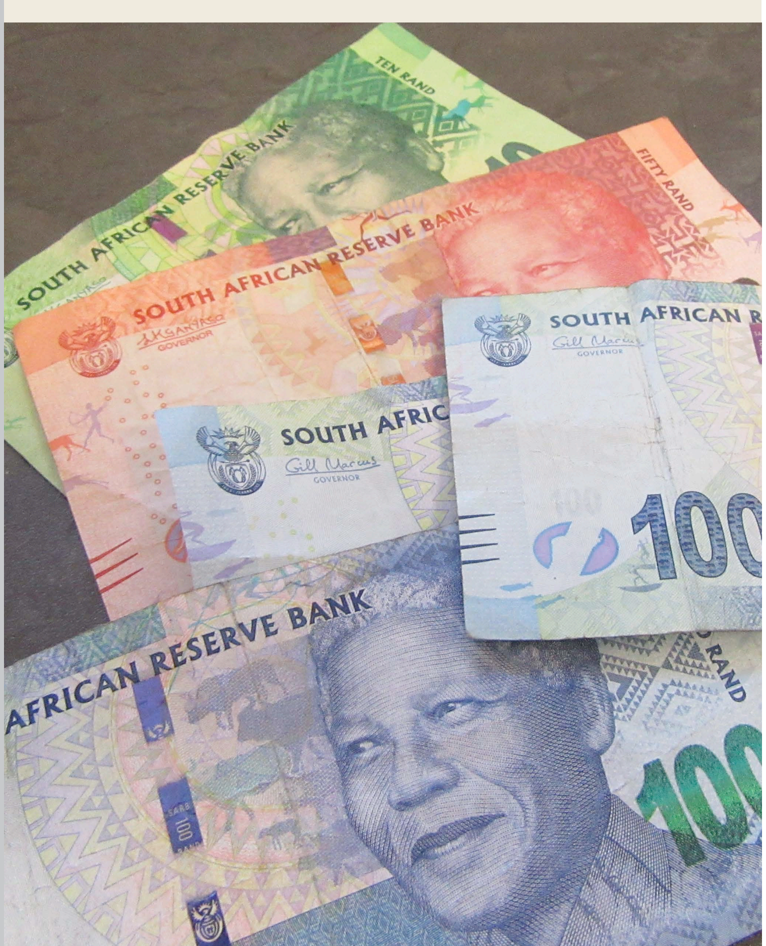
The committee heard from both presentations that the current Division of Revenue Bill has contributed to a 4% cut in the local government equitable share.

Mr Michael Sachs of the FFC also told the committee that cuts to the portfolios of defence, police, basic education and some healthcare provisions have eroded the value of the budget. "Most worrying is the decrease of basic education budget in the world of Covid-19, and other high employment sectors such as defence, police and the health sector."

The committee wanted to know how the objectives of the National Development Plan would be achieved in light of these cuts. In response, Dr Jantjies said the budget did not live up to expectations.

The Chairperson of the standing committee, Mr S'fiso Buthelezi, proclaimed that the lack of funds for programmes is often emphasised. However, there is also a need to deal with underlying problems at many local municipalities. These challenges often contribute to wasteful and fruitless expenditure. "We need to ask: what has been done to rectify that? We can't continue to stretch the rand too far and squeeze it until we get less than its expected value," he added.

"We need to react to issues of incompetency not post facto, when the horse has bolted. We need to react in real time and we need people who advise us to ensure that that happens, so that we can deal with inefficiencies in various spheres of government to ensure that services are delivered to our citizens as expected."



Standing committee hears money was borrowed to fund incremental rise of compensation in the public sector over the years

The National Treasury appeared before the Standing Committee on Appropriations to explain some of the budgetary cuts on social programmes in the Division of Revenue Bill, ***reports Abel Mputing.***

Mr S'fiso Buthelezi, Chairperson Standing Committee on Appropriations

According to the Head of Intergovernmental Relations at the National Treasury, Ms Malijeng Ngqaleni, the cuts were meant to reduce consumption in expenditure which outpaced the GDP (gross domestic product) over the years.

The ballooning wage bill is case in point. "Compensation expenditure to GDP increased about 11% in three years, outpacing the GDP growth in these respective years and private sector wages," Ms Ngqaleni said.

She said what is even worse is that the government had to borrow funds to fund the incremental rise of compensation in the public sector over the years and it has now been realised that such an act is untenable given the rise in our debt to GDP ratio, which is alarmingly skewed.

According to her, other than the Bill's valiant attempts to arrest the runaway compensation bill in the public sector, the National Treasury has now introduced measures to improve the spending efficiency of provincial and local government spheres.

She said: "The Government Technical Advisory Centre has been incepted to improve efficiency in spending in these spheres of government."

She said the purview of this objective is procurement, especially at local government. "The supply chain management of local government needs modernisation to be automated to be in a position to publish their awarding of tenders," she said.

Responding to the outcry regarding the cuts on conditional and equitable share grants, the Chief Director, Intergovernmental Policy and Planning, Ms Wendy Fanoe, said although conditional and equitable share grants are reduced, they will have little impact on service delivery because most of them were not spent due incapacity to do so.

Ms Ngqaleni told the committee that the National Treasury has proclaimed that on the whole the Bill is meant to encourage economic growth and has protected some programmes critical in instigating expenditure in investment, than consumption. The increase in infrastructure investment is a

case in point.
She also claimed that the Bill continues to be distributive and places more emphasis on funding rural rather than urban social programmes. As such, rural provincial and local government will get more per household than those in urban areas.
The committee asked the National Treasury about the claim that money has been taken from the National Student Financial Aid Scheme (NSFAS) to fund the rollout of vaccines. In response to that the Chief Director, National Treasury, Mr Edgar Sishi, Said: "There are no NSFAS funds that have been diverted to the rollout of the vaccines. The funds for this rollout come from, among others, contingency funds."
The Chairperson of the committee, Mr S'fiso Buthelezi, raised a concern that much of the fiscal framework of the current Division of Revenue Bill depends on the successful implementation of the freeze on public wage bill. In response to that, the National Treasury said an attempt to freeze public sector wage bill is a risk to the current fiscal framework. It added that the reality is that "the fiscus cannot afford these increases when we are faced with collapsing taxes".
The committee heard that if that doesn't succeed, it will mean that such a fund will come from the infrastructure fund and that will definitely affect the economic recovery plans that hinge on infrastructure investment.
During the engagement there was a view from the committee that longitudinally, the wage bill should be looked at holistically in relation to the structure of departments and the calibre of personnel that the public sector requires.

Joint Standing Committee hears that underspending will not solve Parliament's imminent budget shortfall

The Acting Secretary to Parliament, Ms Baby Tyawa, appeared before the Joint Standing Committee on the Financial Management of Parliament recently to brief the committee on Parliament's risk management strategy and the implementation of action plans to attend to concerns raised in Parliament's 2019/20 annual report, ***reports Mava Lukani.***

Ms Baby Tyawa, Acting Secretary to Parliament

Ms Tyawa told the committee that the Strategic Risk Register covers the key institutional risks linked to Parliament's strategic outcome-oriented goals, as set out in Parliament's strategic plan. Parliament is moving towards the establishment of a Risk Management Forum, which should be concluded in April 2021.

Parliament's Risk Management Forum is comprised of operational managers in the various parliamentary divisions. The committee heard that Parliament has a wide risk management framework and its risk policy is updated annually.

Ms Tyawa used the meeting as an opportunity to share proposals to mitigate the far-reaching implications of reductions in Parliament's budget over the following three financial years. These reductions were highlighted by the Minister of Finance when he delivered the 2021 Budget Speech in the National Assembly in February.

According to the Finance Minister, Parliament's budget will be revised downwards by R892 million over three years and R443 million of the reduction will come from employee salaries. In light of this, Ms Tyawa said Parliament needs to revisit its five-year strategy and reprioritise.

According to Ms Tyawa, Parliament's management has had discussions with the National Treasury on the impact of this budget reduction and weigh the risks of reducing employee compensation. She said if Parliament's budget is reduced in this way, it will be necessary to consider staff numbers in the context of achieving the institution's mandate.

Furthermore, Parliament will require a framework to manage its wage bill. Currently, Ms Tyawa said, if all posts were filled, the wage bill would be R1.1 billion and results in a deficit of R5 million from the 2020/21 compensation budget.

The reductions of the compensation of employees as set out by the National Treasury seem to force the institution to retrench, a phase that is contradictory to the wage bill reduction proposal management is busy with.

Ms Tyawa presented to the committee that the budget allocation from the National Treasury for the 2021/22 financial year is R924 million for compensation of employees, which includes R100 million for medical aid contribution of former Members of Parliament (MPs) and Provicial Legislatures.

The actual budget allocation for compensation is R824 million, which will mean a shortage of R303 million if the current staff complement is sustained and critical vacant positions are filled.

Due to the proposed reductions, Ms Tyawa requested the committee and the Executive Authority to engage with the National Treasury to avoid salary reductions and to motivate strongly for salaries to remain as they are.

Ms Tyawa was asked by

the committee about the possibility of using Parliament's current underspending to sustain the wage bill and avoid retrenchments. In response she said that Parliament only saved R169 million from underspending, which is not enough to address the shortfall. In response to another question about MPs' perks, Ms Tyawa advised that administrative officials are not in a position to comment on that.

The committee was pleased with the implementation of action plans to attend to concerns raised by the Auditor-General (AG) in Parliament's 2019/20 annual report. The Co-Chairperson of the committee, Ms Peace Mabe, said: "We are impressed by your implementation of the AG's recommendations, especially Parliament's payment of its service providers within 30 days."

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Parliament agrees to the 2021 Fiscal Framework and Revenue Proposals

During their recent separate plenary sessions, the National Assembly (NA) and the National Council of Provinces (NCOP) agreed to the Finance Committees Reports on the 2021 Fiscal Framework and Revenue Proposals.

The Fiscal Framework and Revenue Proposals is a framework for a specific financial year that gives effect to the national executive's macro-economic policy. It includes, among other things, estimates of all revenue, budgetary and extra-budgetary specified separately, expected to be raised during that financial year and estimates of borrowing for that financial year.

The framework was tabled by the Finance Minister Mr Tito Mboweni on 24 February 2021 together with the 2021/2022 Budget, the Division of Revenue Bill and the Appropriations Bill.

Parliament's Standing Committee on Finance recommended approval of the Fiscal Framework and Revenue Proposals to the NA and the Select Committee on Finance recommended approval to the NCOP. Agreement to the framework and proposals follows meetings between the finance committees, the Minister of Finance and senior officials from National Treasury. The committees also received input from the Parliamentary Budget Office and the Financial and Fiscal Commission.

Public hearings were held and the committees received written submissions from stakeholders, such as the Congress of South African Trade Unions, the Budget Justice Coalition, the Fiscal Cliff Study Group, the South African Institute of Chartered Accountants, the South African Institute of Tax Professionals, PricewaterhouseCoopers, the University of Cape Town's Research Unit on the Economics of Excisable Products, the Organisation Undoing Tax Abuse, Amandla.mobi, 1Road Consulting, National Council Against Smoking and the Healthy Living Alliance.

One of the recommendations made by stakeholders is that to improve efficiency of spending, government should focus on reducing its size to find the needed funds whilst enhancing the quality of service delivery and its performance. Several stakeholders also welcomed the withdrawal of R40 billion increase in taxes over the medium term and the adjustment of tax brackets for inflation.

Parliament's Select and Standing Committee on Finance also made a number of observations and recommendations, while acknowledging that the 2021 Budget was tabled under extremely difficult economic conditions, exacerbated by the impact of the Covid-19 pandemic.

One of the recommendations made was that the National Treasury and South African Revenue Service should intensify revenue enhancement initiatives to collect maximum revenue due to government in order to enable it to deliver on its constitutional obligations.

The committees remained concerned that despite government's efforts to support job creation, the rate of unemployment reached record levels in the last quarter of 2020, making it extremely difficult for the economy to absorb new entrants into the labour market, particularly the youth.

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