Financial and Fiscal Commission

Submission on the

2021 Division of Revenue Bill

For an Equitable Sharing of National Revenue

15 March 2021

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1. Background

1.1. The 2021 Budget's stated purpose is to seek to strike a balance between economic recovery and restoring public finances, in continuity with the 2020 Medium Term Budget Policy Statement (MTBPS). In addition, the budget policy imperatives are in line with the state of the nation address (2021), the President's **four** major priorities are:

i. Defeat (contain and overcome) the coronavirus pandemic by strengthening the health system and a massive, agile vaccination programme.

ii. Accelerate economic recovery to overcome poverty and hunger, joblessness and inequality. The Covid-19 relief announced last year is ongoing to provide cash directly to the poorest households, wage support to workers, and various relief measures to struggling businesses.

iii. Implement economic reforms to create sustainable jobs and drive inclusive growth through the Economic Reconstruction and Recovery Plan (ERRP), a massive Infrastructure Investment Plan and an R100 billion Fund rollout with technical skills at its focus.

iv. Fight corruption and strengthen the state.

1.2. The 2021 Budget is set against the backdrop of a contracting economy, made worse by the onset of the Covid-19 pandemic with heightened uncertainties. In Q4 2020, the unemployment rate reached its new peak at 32.5% (Stats SA, 2020) deepening inequalities on all social and economic levels. Widening of the budget deficit due to revenue shortfall and emergency government spending, coupled with debt-service costs, requires drastic steps to avoid a debt spiral.

1.3. In line with the request from the Select Committee on Appropriations, the Commission makes this submission on the 2021 Division of Revenue Bill, in terms of Section 214(1) of the Constitution and Section 35 of the Intergovernmental Fiscal Relations Act (1997) as well as S4(4c) of Money Bills Amendment Procedure and Related Matters Act or MBAPRMA (Act 9 of 2009), as amended.

2. Fiscal Framework in brief: Division of Revenue

The 2021 Fiscus

2.1. Table 1 presents the budget estimates of the 2021 Budget relative to the 2020 Budget for the 2021/22 financial year. The difference between the two budgets shows the policy shift in the fiscus for the year ahead and puts it in context as real fiscal values signalling the government's intent. Examining the data shows the significant downward adjustment in tax revenue projected for the financial year ahead with a shortfall of R132.6 billion in total revenue. On the other hand, expenditure was adjusted downward by R23.4 billion, resulting in the main budget revenue increasing by R116.2 billion - R482.6 billion deficit for 2021/22 alone or 9% of GDP.

Table 1: Main budget: estimates of national revenue - 2020 vs 2021 Budget

R million	2020 Budget	2021/22 2021 Budget	Difference
Main budget revenue			
Current revenue	1 478 538.9	1 344 235.9	(134 303.0)
Tax revenue (gross)	1 512 193.8	1 365 124.3	(147 069.5)
Total revenue	1 484 294.1	1 351 672.1	(132 622.0)
Main budget expenditure			
Direct charges against the National Revenue Fund	872 909.4	830 023.0	(42 886.3)
Debt-service costs	258 482.1	269 741.1	11 259.1
Provincial equitable share	573 989.5	523 686.4	(50 303.2)
Appropriated by vote	988 835.6	980 583.9	(8 251.7)
Provisional reduction to fund Land Bank allocation	-	(5 000.0)	(5 000.0)
Provisional allocations not assigned to votes	1 852.6	12 645.2	10 792.6
Provisional allocation for Eskom restructuring	33 000.0	-	(33 000.0)
Infrastructure Fund not assigned to votes	4 000.0	4 000.0	-
Compensation of employees adjustments	(54 929.1)	-	54 929.1
Total	1 845 668.5	1 822 252.2	(23 416.3)
Contingency reserve	5 000.0	12 000.0	7 000.0
Main budget balance	(366 374.3)	(482 580.0)	(116 205.7)
Percentage of GDP	*-6.0%*	*-9.0%*	*-3.0%*
Financing			
Domestic short-term loans (net)	48 000.0	9 000.0	(39 000.0)
Domestic long-term loans (net)	278 161.0	319 185.0	41 024.0
Market loans	337 400.0	380 000.0	42 600.0
Redemptions	(59 239.0)	(60 815.0)	(1 576.0)
Foreign loans (net)	40 498.0	41 795.0	1 297.0
Market loans	44 790.0	46 260.0	1 470.0
Redemptions (including revaluation of loans)	(4 292.0)	(4 465.0)	(173.0)
Change in cash and other balances (- increase)	(284.7)	112 600.0	112 884.7
Total financing (net)	366 374.3	482 580.0	116 205.7

Source: Commission's own calculation using National Treasury Budget Review Statistical Annexure 2020/21

2.2. The total effect of fiscal consolidation at R23.4 billion in the main budget expenditure is the result of, among other things reduction in: the direct charge of provincial equitable share of R50.3 billion for the financial year in concern compared to last year's main budget; Appropriation by vote to national departments of R8.3 billion; a provisional reduction to fund the Land Bank at R5 billion, and no provisional allocation for Eskom compared to the 2020 Budget. However, counteracting this effort are increases in debt-service costs of R11.3 billion; a provisional allocation not assigned to votes (for public employment initiative); and compensation of employees adjustment. This, as uncertainty lingers in arresting the ballooning public sector wage bill through controlling the salary amount, as opposed to reducing the headcount attempted in 2018/19.

2.3. In particular, the rising debt-service cost, or funds that could be spent on economic and social priorities are being redirected to service debt, is expected to consume R269.7 billion, equivalent to 13.4% of the budget in one financial year alone (2021/22).

2.4. To cover the increased deficit at R116.2 billion and fund the total deficit of R482.6 billion for the 2021/22 financial year, the government has looked to raising funds in long-term

domestic debt and foreign loans, as well as sacrificing the available cash and other balances for redemption of R112.9 billion.

2.5. In sum, the Fiscal stance tabled in the 2021 Budget is by all counts worse than compared to a year ago (the 2020 Budget), with total revenue declining sharply due to the Covid-19 pandemic. Despite reprioritisation efforts and repurposing with some additional consolidation, even coupled with the boost to corporate income tax receipts from the mining sector, the budget deficit grows.

2.6. As shown in Table 2 – expenditure defrayed from the National Revenue Fund (NRF) in terms of revenue division decreased: total national appropriation by vote reduced by R2.3 billion in the 2021 Budget. However, total appropriation before subnational transfers gained by R5.2 billion - due to the provisional allocation for contingencies for the Covid-19 responses. Provincial equitable share and conditional grants were adjusted downward by R50.3 billion and R2.2 billion, comparing the 2020 to 2021 Division of Revenue Bills. Local government equitable share, conditional grants and general fuel levy declined by R4.3 billion in total.

Table 2: 2021 Division of Revenue - expenditure defrayed from the NRF

	2021/22		
R million	**2020 Budget**	**2021 Budget**	**Difference**
Debt-service costs (National Treasury)	**258 482.1**	**269 741.1**	**11 259.1**
Infrastructure fund not assigned to votes	**4 000.0**	**4 000.0**	**-**
Provisional allocation for Eskom restructuring	**33 000.0**	**-**	**(33 000.0)**
Provisional reduction to fund Land Bank allocation	**-**	**(5 000.0)**	**(5 000.0)**
Compensation of employees and other adjustments	**(54 929.1)**	**-**	**54 929.1**
Contingency reserve	**5 000.0**	**12 000.0**	**7 000.0**
Total appropriation by vote	743 614.6	741 325.6	(2 289.0)
Total direct charges against the NRF ex. transfers	25 255.3	21 978.3	(3 277.0)
Provisional allocation for contingencies	1 852.6	12 645.2	10 792.6
Total appropriation before subnational transfers	**770 722.4**	**775 949.0**	**5 226.6**
Provincial equitable share	**573 989.5**	**523 686.4**	**(50 303.2)**
Provincial conditional grants	**117 961.5**	**115 782.5**	**(2 179.0)**
General fuel levy sharing with Local government	**15 182.5**	**14 617.3**	**(565.2)**
Local government Equitable share and conditional grants	**127 259.5**	**123 475.8**	**(3 783.7)**
Main budget expenditure	**1 850 668.5**	**1 834 252.2**	**(16 416.3)**

Source: Commission's own calculation using National Treasury Budget Review Statistical Annexure 2020/21

2.7. South Africa's risk of falling into a debt trap remains, with more loans, cash committed, and debt-service cost raised - needed to finance the widening deficit. In line with pro-poor government policies to continue temporary support for low-income households and unemployed workers, such as the special Covid-19 social relief of distress (SRD) grant - it is extended for three months. Unemployment benefits under the temporary employment relief scheme (TERS), and the public employment initiative of R11 billion under provisional allocations not assigned to votes are allocated to boost short-term employment. The government should remain vigilant of its fiscal parameters and perhaps should have acted sooner to impose hard transformation through financial and budgetary controls and adjustments.

3. COVID response and Intergovernmental Relations

3.1. The breakout of Covid-19 necessitated drastic budget and policy responses with serious impact on intergovernmental relations. The national government responded with a range of disaster policy measures that were implemented disproportionally across the three spheres. National Government was generally responsible for economic relief measures while provinces and municipalities took control of health responses and only some social - relief interventions such as temporary shelter for the homeless and delivery of water to schools. Table 3 below shows that national government was responsible for 92% of additional spending provided for the total Covid-19 responses in 2020/21.

3.2. The 2021 budget makes provision for a further R10 billion allocation to provinces through the Provincial Equitable Share (PES) to deal with pandemic related interventions – protecting health care professionals, acquiring personal protective equipment (PPE) and contact tracing. Approximately R2.4 billion of this will be allocated through the new Covid-19 component of the HIV/AIDS, Malaria and Community Outreach grant, to cater for vaccine rollout administration. The 2021 Budget Review further indicates that provinces had spent 60% of the R21 billion Covid-19 allocation by the end of quarter three in 2020/21. Much of the expenditure was directed at compensation of employees, additional hospital bed capacity and field hospitals, PPE and medical supplies as well as laboratory services. The 2021 budget also includes a R6.5 billion two-year allocation to the National Department of Health for vaccine procurement. And due to cost uncertainties, an estimated R9 billion could also be drawn on from the contingency reserve and emergency allocations. However, it remains unclear whether the size of the allocation is compatible with the government's goal of achieving herd immunity within a 12-month period.

Table 3: Breakdown of Covid-19 fiscal response package

	Supplementary Adjustments Budget 2020/21		2021 MTEF	
	Amount (R billion)	% share	Funding Vaccine rollout	Amount (R billion)
Health – Covid-19 intervention	R20	Provincial (4%)	Provincial H. Dept.	R2.40
Municipal allocation	R20	Local (4%)	Current purchase	R1.30
Social and basic income grant	R50	National (92 %)	National Department of Health	R6.45
Job creation and support for SMEs and Informal sector	R100			
Salary income support (UIF)	R40		SAMRC	R0.10
Tax relief	R70		GCIS	R0.05
Business loan guarantee scheme	R200		Contingency Rev.	R9.00
Total	R500	100%	**Total**	R19.30

Source: National Treasury 2021 Budget Review, page 3.

3.3. From the perspective of intergovernmental fiscal relations and coordination, interventions such as the business loan guarantee scheme and support for SMMEs have not been gazetted or allocated per province using an equitable criterion, as applied in most conditional grants. Similarly, the centralisation of vaccine procurement means that

economies of scale can be achieved, however provinces cannot autonomously respond to their respective vaccination needs and could also evade responsibility. Further, a special audit of Covid-19 responses by the Auditor-General indicates that the interventions at all government levels have been marred by maladministration, low take-up rates and slow spending, procurement irregularities and a lack of performance data. These blurs the lines of intergovernmental accountability for delivery arrangements across the three spheres.

Recommendations

- The Commission calls for better alignment of responsibilities for Covid-19 responses between national and subnational governments as per the Constitution and well- synchronised resource allocation and vaccination goals.

4. 2021 Division of Revenue Bill – Provinces

Overview of provincial government allocation

4.1. The 2021 budget makes provision for a total R1.5 trillion and R356 billion in PES and conditional grant allocations over the 2020/21 MTEF period, respectively. The 2020 MTBPS indicated that the provinces are likely to bear the greatest burden of the Covid- 19 induced fiscal constraints with the equitable share then expected to decline by R60 billion in 2021/22, R85 billion in 2022/23 and R64 billion in 2023/24 relative to the estimates tabled in the 2020 Budget. Budget 2021 revised PES estimates compared to the 2020 Budget remain far below the forward allocation initially tabled.

4.2. However, in comparison to the revised allocation in the 2020 MTBPS the PES is adjusted upward by R9.7 billion, while conditional grants increase by R0.4 billion in the 2021/22 financial year. Table 4 provides a comparison of PES and conditional grants baseline allocation changes over the four tabled budgets.

4.3. The Commission notes the fluctuations of MTEF forward estimates with concern as this uncertainty undermines the integrity of MTEF. Over optimistic MTEF estimates not only send wrong spending signals, but also destabilise provincial budgets when implementation plans have to be suddenly adjusted. While the Commission appreciates that forward estimates are a function of growth projections, it is imperative that the fluctuations are kept to a minimum.

Table 4: Provincial allocation baseline changes

R' Billion		2020/21	2021/22	2022/23	2023/24
2020 Budget	PES	538.4	578	604	-
	Conditional grants	110.8	118	123.1	-
2020 SAB	PES	538.5	-	-	-
	Conditional grants	106.8	-	-	-
2020 MTBPS	PES	520.7	514	522	523.1
	Conditional grants	107.6	115.4	119.8	122.5
2021 Budget	PES	520.7	523.7	524.1	525.3
	Conditional grants	107.6	115.8	119.3	121.5

Source: National Treasury, 2020 & 2021

4.4. Recovery to budget stability for many provinces may take longer, considering that the special adjustment budget proposed the repurposing of the PES by R20 billion to provide for Covid-19 responses. While inevitable, persistent erosion of provincial equitable share baselines is likely to destabilise provincial departmental delivery processes and performance plans if not managed well. Spreading the resources thinly through expenditure reprioritisation will result in abandonment of projects, completion delays and importantly weakens the quality of delivery. The unprecedented budget cuts and reprioritisation over the past 5 years needs to be carefully managed through a coordinated and holistic process of expenditure review, rather than the current budget line item or sectoral approach. The sectoral approach promotes a culture of budget protectorate and may even hamper the proposed budget reforms, irrespective of the budgeting approach – across the range from incremental to zero-based budgeting.

Provincial equitable share and formula

4.5. There are overwhelming concerns that the PES formula is not responsive to the unique needs of the various provinces. On the one hand, urban provinces lament the inability of the formula to address the impact of inward migration on provincial budgets, while the rural provinces note that the formula perpetuates historical development imbalances. PES formula reforms have been on the agenda of the Government and of the Commission over the past decade - with Commission recommendations made in 2010, 2018 and 2020. In its Submission to the 2021 Budget the Commission recommended that the PES formula incorporate certain aspects of the costed norms approach such as acknowledging the high cost of delivering services to vulnerable groups.

4.6. It remains the Commission's position that the PES formula should remain simple to understand and not be overloaded with too many objectives. Complementary reforms are needed with respect to other elements of the intergovernmental fiscal system - particularly in respect of balancing the trade-off between subnational revenue and expenditure discretion on the one side, and tightening oversight and accountability on the other hand.

Conditional grants for provinces

4.7. The total provincial conditional grants allocation for the 2021/22 financial year amounts to R116 billion, increasing from R110 billion in 2020 Budget. The 2020/21 allocation was reduced to R106 billion during the Supplementary Adjustment Budget, before it was revised upwards to R107 billion in the 2020 MTBPS. Spending revisions were undertaken by delaying projects, suspending allocations to programmes with poor historical performance and repurposing funds for the Covid-19 response. The largest reprioritisations were undertaken in the education infrastructure grant amounting to R6.6 billion mainly to provide for delivery of water, sanitation and PPE in schools. Table 5 shows baseline changes to selected conditional grants between the 2020/21 and 2021/22 financial year.

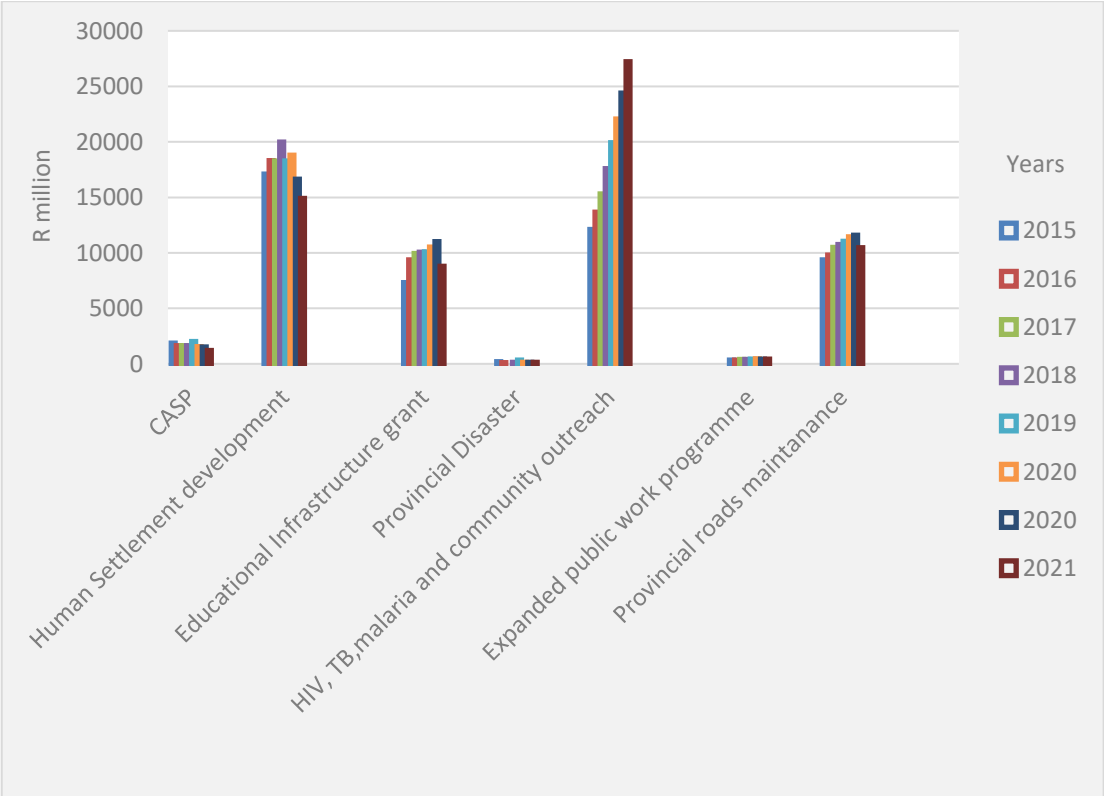
Table 5: Baseline Changes to selected provincial conditional grants

R' Million		2020/21	2021/22	2022/23	2023/24
Human Settlement Development Grant	2020 Budget	16.621	13.414	13.871	
	SAB	14.892			
	2021 Budget		13.708	14.000	14.024
Comprehensive Agriculture Support	2020 Budget	1.522	1.620	1.672	
	SAB	1.191			
	2021 Budget		1.598	1.592	1.618
Education Infrastructure Grant	2020 Budget	11.008	11.710	12.255	
	SAB	8.787			
	2021 Budget		11.689	12.229	12.678

Source: National Treasury, 2020 & 2021

4.8. Figure 1 below depicts the growth trajectory of the key largest conditional grants per sector. As can be seen that constant reprioritisation has had a negative impact on the Human Settlement Development grant since 2018 - a key instrument to deal with the growing housing backlog. Conversely, the HIV/AIDS, TB, Malaria and Community Outreach grant shows exponential year-on-year growth. While a healthy growth is commendable, the increase in the health-related grant may be reflective of failing health preventative measures. The Commission notes the proposed change outlined in the 2021 Budget to separate the Informal Settlement Upgrading program from the Human Settlement Development grant and cautions that this should not impede municipal integrated planning.

Figure 1: Provincial conditional grants growth trajectory (2015 – 2021)



Source: National Treasury, 2015 and 2021.

4.9. The Commission has on several occasions recommended the devolution of the housing function to municipalities with implementation capacity - in order to facilitate integrated spatial planning and development. Similarly, the partial conversion of the R10 billion in the provincial government Covid-19 allocation into a conditional grant, should be closely monitored in terms of its impact. The PES must be the primary default allocation mechanism for provincial expenditure responsibilities, ensuring provincial accountability and budget discretion. Similarly, the continued inability of the Department of Transport to deal with the incentive portion of the Provincial Roads maintenance grant?? allocation thereby undermining the initial objective of introducing incentive portion of the conditional grant, needs to be addressed.

Recommendations

- The Commission recommends that government provides parliament and provincial legislatures with regular reports on attainment of Covid-19 delivery targets. These reports should also detail the programs and projects that experienced cuts owing to the budget reprioritisation, and what the impact is on service delivery. The reports must indicate the projects stopped, delayed or scaled down – including the number of beneficiaries affected, especially the most vulnerable.

5. 2021 Division of Revenue Bill – Local Government

Introduction

5.1. The year 2021 will be a challenging one, as municipalities face the Covid-19 related challenges first-hand. The Covid-19 pandemic has threatened the viability of many municipalities and further compounded deep seated financial, fiscal, governance and service delivery challenges. Although government provided R11 billion to relieve municipalities from Covid-19 related pressures, spending of such funds has been low. According to National Treasury, "from March 2020 to February 2021… municipalities had spent close to 40% of the R11 billion added to the local government equitable share"[1]

5.2. While the Covid-19 situation continues to evolve, it should be noted that it is already creating legacies for the local government sector, including the following:

i. Many municipalities will be left with a wider deficit due to the rapid expansion of Covid-19 related expenditures in the face of widespread revenue under collections.
ii. Many municipalities will be left with higher debt.
iii. The Covid-19 circumstances have amplified challenges of access to basic services (housing, water, and sanitation).

[1] Budget Review 2021; p 69

iv. While the lockdown has accelerated the use of technologies (a legacy that needs to be captured), it has amplified inequalities as marginalised local communities cannot access this technology without a deliberate and direct investment.

v. The crisis has also amplified the need for long term change to make local government work effectively, efficiently and be accountable.

5.3. The political landscape of local government will also change dramatically in 2021 because of the municipal elections. This year the sector will see the introduction of new councillors and many will be leaving, and the process will bring in its own governance and fiscal challenges. For example, uncertainties related to the formation of coalitions and non-return councillors will require gratuities. The budget statement proposes reprioritisation of monies from the direct conditional grants (i.e. the municipal infrastructure grant and the integrated urban development grant) to fund the once-off gratuities to non-returning councillors.

5.4. Other major developments in the sector in 2021 will include the roll out of the District Development Model and the review of the Local Government Capacity Building system. These initiatives, if fully undertaken, will move the local government sector forward and quicken the recovery process.

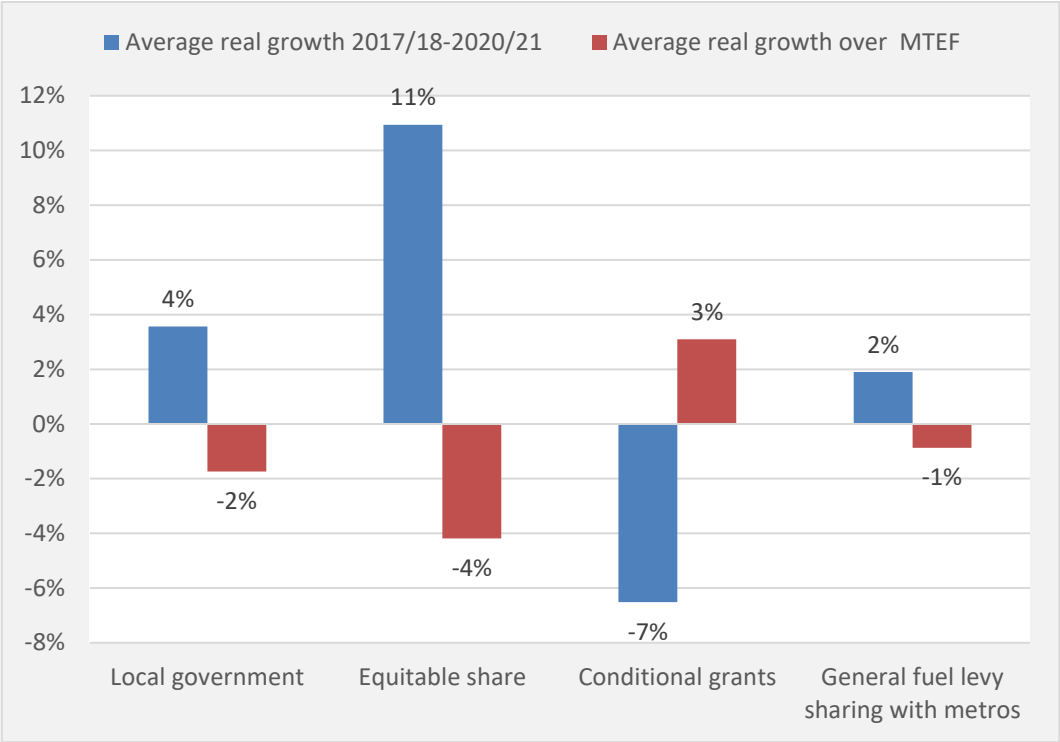
Local Government Fiscal Framework and Local Government Equitable Share

5.5. Over the 2021 MTEF the Local Government sector is set to receive transfers amounting to R456 billion; R432 billion as direct transfers and R23 billion in the form of indirect transfers from national votes. The share of local government allocations rises modestly over the MTEF, from 9% in 2021/22 to 9.7% in 2023/24. It should be noted that this growth is not because more resources will actually be transferred to the sector, but rather a result of reductions to the public-service wage bill that affect the national and provincial spheres, reducing their shares in the reduced total government expenditure. The real growth rates of the local government transfers are shown in Figure 2 below.

5.6. The total local government transfers will decline by 2% (as part of the fiscal consolidation measures) over the MTEF. In nominal Rand amounts, the total local government transfers will be reduced by R20.2 billion - R15.5 billion from the local government equitable share allocation (4% of it), R2.7 billion from the General fuel levy (1%) and R2 billion from the conditional grants. The more concerning development is the decline of 4% in the real average growth rate of the local government equitable share allocation, this decline of R15.5 billion will adversely affect the delivery of basic services to the poor and vulnerable.

5.7. The poor and vulnerable are counting on government for relief in these difficult times of Covid-19 and sharply rising unemployment. Mindful of this, to mitigate the adverse impacts of these cuts on service delivery, the Commission implores municipalities to strengthen their revenue collection systems and to stop revenue leakages through harnessing new smart technologies. The use of new technologies, one of the legacies of the Covid-19 pandemic, needs to be sustained and embedded in all municipal policies and strategies.

Figure 2: Local Government Average Real Growth Rates



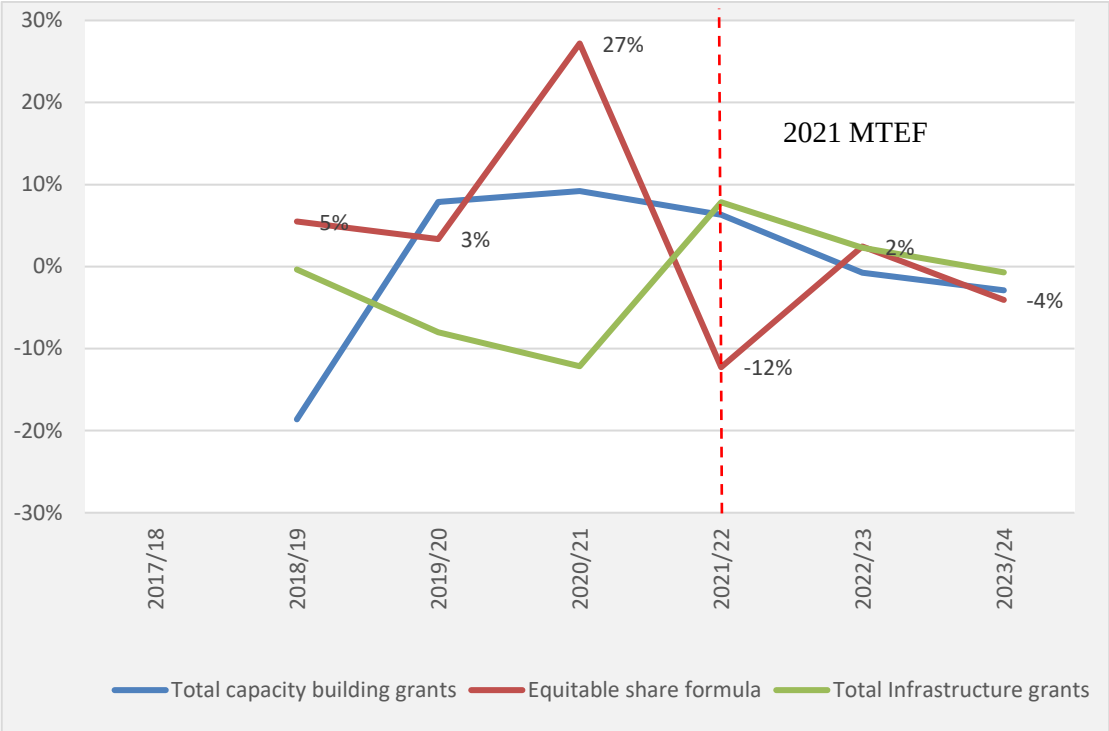
Source: FFC Calculations based on NT Budget data.

Local Government Conditional Grants

5.8. Over the 2021 MTEF conditional grants to municipalities amount to R143 billion as direct conditional grants, and R24 billion is added in indirect conditional grants. Considering the net effect of all changes to these allocations, conditional grants will increase modestly, by 3% in real terms (albeit from a very low base) during the 2021 MTEF (Figure 2). Figure 3 compares the real growth rates after inflation, of infrastructure and capacity building grants and the local government equitable share allocation. Figure 3 shows a steady decline in all these conditional grant transfer windows in real terms over the MTEF. It would seem the shift from consumption spending (LES) towards capital spending (conditional grants) observed in the 2020 Budget was short lived.

5.9. Figure 3 shows that, going forward, basic services provision will be under severe pressure, including infrastructure and capacity building programs. The Commission notes the ongoing review of capacity building systems and grants championed by National Treasury and other relevant stakeholders. This review is long overdue as the returns to municipal capacity building initiatives have been poor. Many municipalities continue to perform dismally, and many are dysfunctional despite government investing between R2 billion and R3 billion annually on local government capacity building systems.

Figure 3: Real Growth Rate in the three local government transfer windows



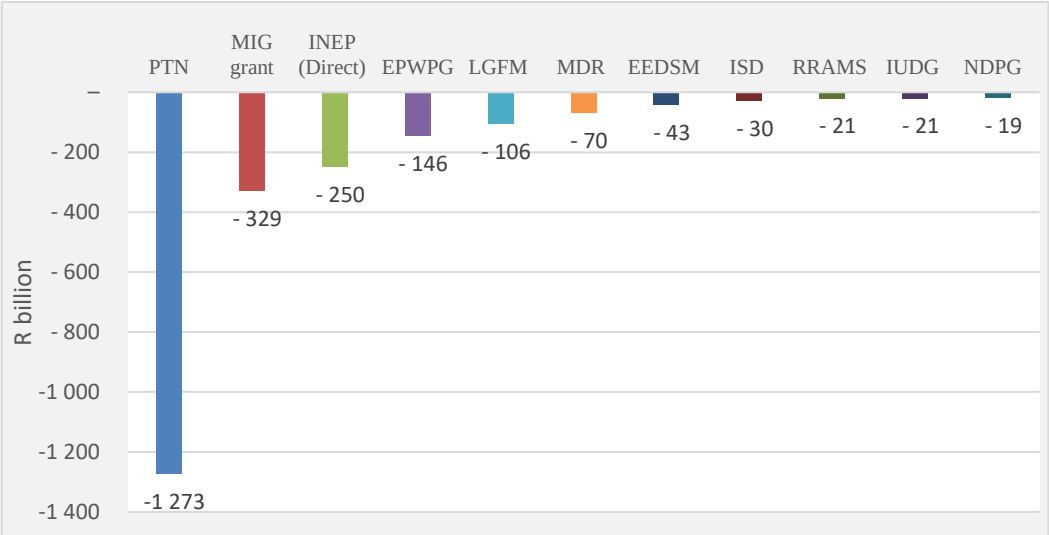
Source: FFC Calculations based on NT Budget data.

Conditional Baseline Cuts

5.10. Over the MTEF, the municipal conditional grants baseline will be cut by R2 billion. Figure 4 shows the spread of these cuts. According to government, the basis for these baseline cuts is underspending. The Commission would like to underscore the point that underspending may be a symptom of bigger challenges which need to be investigated with a view to resolving the issues first; before any cuts are affected or funds reprioritised to other areas. One of the reasons for underspending could be the Covid-19 circumstances, as the pandemic has imposed many restrictions and disruptions to the normal business of municipalities. As this is a global phenomenon and beyond the control of municipalities, caution must be taken when grant baselines are being cut due to underspending.

5.11. The public transport network grant, municipal infrastructure grant and the direct integrated national electrification programme grant will account for over 90% of the cuts. The public transport network grant will get the largest cut (R1.3 billion) due to the fact that 54% of the 13 cities receiving this grant, have not successfully established public transport systems. The project will be halted in three municipalities. The Commission implores the government to investigate the reasons why these cities have not successfully launched public transport systems. This should be done with a view to assisting the remaining cities to establish viable public transport systems. As has been note above, baseline cuts to municipal infrastructure grant (R329 billion) and the integrated urban development (R21billion) grant are meant to provide for once-off gratuities to non-returning councillors.

Figure 4: Baseline Reductions to Conditional Grants



Source: National Treasury Budget Review database.
Notes: PTN -Public transport network; MIG- Municipal infrastructure; INEP- (Direct) Integrated national electrification programme; EPWP- Expanded public works programme; LGFM- Local government financial management grant; MDR- Municipal disaster relief; EEDSM -Energy efficiency and demand-side management; ISD- Infrastructure skills development; RRAMS- Rural roads asset management systems; IUDG- Integrated urban development; NDG- Neighbourhood development

6. Concluding Remarks

6.1. The Commission notes the 2021 Budget and the fiscal position taken by the government. The policy position is consistent with the 2020 MTBPS and the 2020 Supplementary Budget, guided by the economic and social support response packages to the Covid-19 pandemic. However, as the government is negotiating for a sustainable fiscal path, it should not lose sight of the Constitutional imperatives nor lead to the retrogression of citizens' socio-economic rights.

6.2. Reprioritised current spending not devoted to addressing the Covid-19 pandemic - should be expended to yield maximum multiplier effects, such as providing basic municipal infrastructure and services (i.e. water, electricity and refuse) as the backbone for local economic development. In turn, the effect on basic services of volatile and excessive tariff increases (e.g. 15.63% tariff hike for electricity) and municipal debt increases (in part due to debt owed by provincial and national government) are of grave concern and need an urgent resolution.

6.3. The fiscal credibility for spending lies in the actual expenditure and service delivery outcomes. The Commission calls for active engagement between the 3 spheres of government to ensure the formalization and alignment of provincial and local government economic reconstruction and developments plans with the national Economic Reconstruction and Recovery Plan. More specifically, provincial economic recovery plans should justify their strategic planning approach to stimulating economic growth at the provincial level and the implementation plans to address, among other things, reducing youth unemployment as a key priority. Reconstruction and recovery are not only about availability of budget, but also sacrifices, cooperation and hard work.

6.4. The Commission notes the financial and performance dysfunctionality, and the Commission advises that public sector dysfunctionality must be addressed with measures to restore accountability, with consequence management as part of the consolidation effort - especially in local government and state-owned companies. The Commission notes the recent Committee briefings by the SIU at the Public Accounts committee and National Treasury at both Finance and Appropriation Committees, on among other things: audit outcomes of the Land Bank, Eskom, South African Broadcasting Corporation (SABC), Passenger Rail Agency of South Africa's (PRASA) and investigations into Covid-19 PPE procurement by state institutions and so on; where dysfunctionality persists.

6.5. In as early as the 2019 MTBPS submission, the Commission emphasised fiscal leakages as wastage and inefficiency that undermines fiscal credibility. The Commission notes that citizens do not get their rightful returns from public spending, especially as non-interest government spending being is reduced. These issues must be addressed by:

i. A decisive and coherent strategy and the political will
ii. Implementation of the fiscal consolidation, targeting cuts at areas of underspending and questionable performance
iii. Eradication of duplication of functions – i.e., the merging of departments and public entities
iv. Investment in the use of technology and other areas of improving the capability of public sector personnel
v. Eradication of contract mismanagement and procurement irregularities.

6.6. On the Division of Revenue, the 2021 Budget as policy statement can only ultimately be assessed in terms of its final outcomes. The reduction in conditional grants which are key to both provincial and local economic infrastructure, will have a consequential effect on local and provincial economic development and therefore national economic development. The 2021 Budget should in promoting economic growth be more specific in supporting local demand and localised product procurement to support value chains. This concept of a *localised product value-chain* approach towards growth was also recommended by the Commission in its 2021/22 Annual Submission for the Division of Revenue (Chapter 3, Recommendation 2), agreed to in the 2021 W1 Annexure: Explanatory memorandum to the division of revenue.

For and on behalf of the Financial and Fiscal Commission

Mr Michael Sachs
Acting Chairperson/ Deputy Chairperson
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Date: 15 March 2021