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Dear Sirs and Madam

COMMENTS ON THE 2021 MEDIUM TERM BUDGET POLICY STATEMENT (MTBPS)

1. We present our comments and submissions on behalf of the South African Institute of Chartered Accountants' (SAICA) National Tax Committee on the Medium-Term Budget Policy Statement (MTBPS) released by Minister Enoch Godongwana on 11 November 2021.

2. We once again thank the Standing and Select Committees on Finance for the ongoing opportunity to provide constructive comments in this regard. SAICA continues to believe that a collaborative approach is best suited in seeking solutions to complex challenges.

REFUELLING THE TANK – IS THERE ENOUGH FUEL FOR ECONOMIC GROWTH?

3. As mentioned in our 2021 Budget submission, South Africa's fuel tank was running low even before COVID-19 hit our shores. The MTBPS shows a slightly improved fuel tank largely due to higher commodity prices that have *temporarily* increased economic growth and tax revenue.

4. However, the main problem does not lie in the raising of financial resources, but rather how those financial resources are being applied and invested into the economy in order to generate the returns we require to achieve the desired outcomes.

5. Government expenditure has exceeded revenue in every year since 2008/09. In that time, the consolidated budget has grown from **R712.8 billion in 2008/09 to R2.13 trillion in 2021/22 – an average increase of 8.8% per year** which is significantly more than inflation.

6. Of more serious concern, is the fact that it is admitted in the 2021 MTBPS that higher expenditure has **not always been efficient or effective**. The 2021 MTBPS also acknowledges that much of the increase was absorbed by a rising public-service wage bill. It continues by stating that the effectiveness of several large spending programmes is questionable, and state procurement systems often fail to deliver value for money.

7. This acknowledgment is welcome, but it does little to help the situation. Notwithstanding Government's many promises since 2012 (see discussion below) to accelerate structural reforms by specifically reducing the public service wage bill and debt levels, businesses remain constrained by longstanding obstacles like electricity shortages, the inefficient and high costs of transport and communication platforms, and red tape.

8. Citizens of the country are equally frustrated by the services (or lack thereof) received from the Government. According to the South African Police Service (SAPS) Incident Registration Information System (IRIS), a total of **909 protest actions** took place from **1 August 2020 to 31 January 2021**. The average over the past seven years has been 2.26 protests daily, with on average **nearly five protests** per day during the **six-month period August 2020 to January 2021**[1]. The main reasons for these protests are crime, labour-related concerns (mainly the supply of protective equipment to staff such as healthcare workers) and electricity supply problems.

9. The prevalence of a high crime rate, especially violent crime, will inevitably result in a wastage of money from an economic point of view. No economy can be built on a lawless society as no government can enforce policy and changes in such a lawless environment and law-abiding businesses cannot grow and survive.

10. The concern from a crime perspective is evident from the crime statistics for the first quarter of the 2021/22 financial year (April to June 2021 – see Table on the next page)[2], which show an increase in all categories except two (stock theft and burglary at non-residential premises (despite the lockdown – in fact, 1 577 schools were vandalised during lockdown[3])).

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[1] https://www.defenceweb.co.za/featured/900-service-delivery-protests-in-south-africa-over-six-months/

[2] https://businesstech.co.za/news/government/514708/south-africas-latest-crime-stats-everything-you-need-to-know-3/

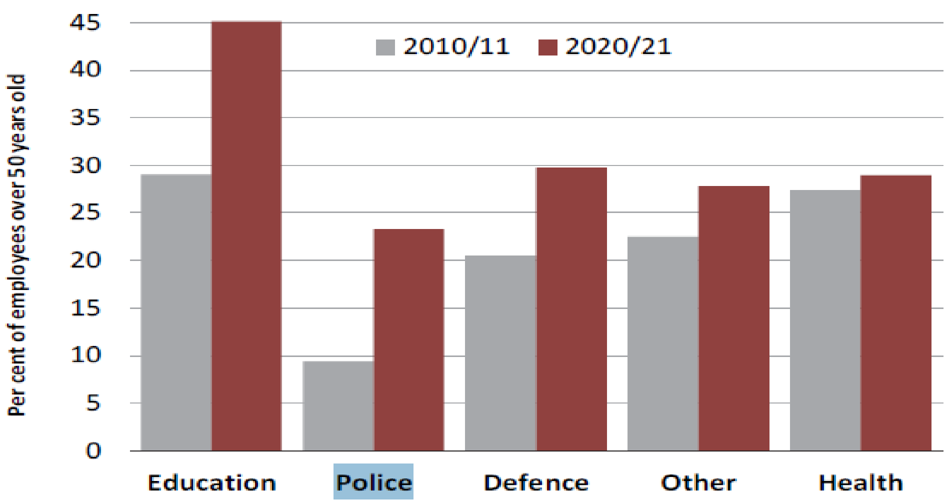
[3] https://www.dailymaverick.co.za/article/2020-11-26-our-education-system-is-broken-and-unless-we-fix-it-all-else-is-doomed/

Sub-Categories	Q1 2020 vs Q1 2021	Q1 2019 vs Q1 2021
Contact Crimes	60.6%	0.6%
All Sexual Offences	74.1%	5.0%
Aggrivated Robbery	107%	45.2%
Contact-Related Crimes	42.3%	0.5%
Property-Related Crimes	6.0%	-24.8%

Contact Crimes	Q1 2020 vs Q1 2021	Q1 2019 vs Q1 2021
Murder	66.2%	6.7%
Sexual Offences	74.1 %	5.0%
Attempted Murder	47.5%	12.5%
Assault to do grievous bodily harm	70.1%	0.3%
Common Assault	51.6%	8.9%
Common Robbery	65.4%	-16.9%
Robbery with aggravating circumstances	56.8%	-5.1%

11. Submission: The reasons for the high crime rate may be many and complex. Reducing crime significantly will however remain a prerequisite to achieving structural reforms and economic growth. Effective and appropriate policing and investigations to enable speedy prosecutions, is a core part of rebuilding the economy. We therefore support the additional funding of R950 million allocated to the South African Police Service and National Defence Force but note, with concern, the reduction in the number of employees in the Police (3.1%) and Defence Force (0.7%) from 20219/20 to 2020/21 as well as the increase in the ageing of the workforce in these departments – see the Figure below.

Figure B.3 Ageing of the workforce in government

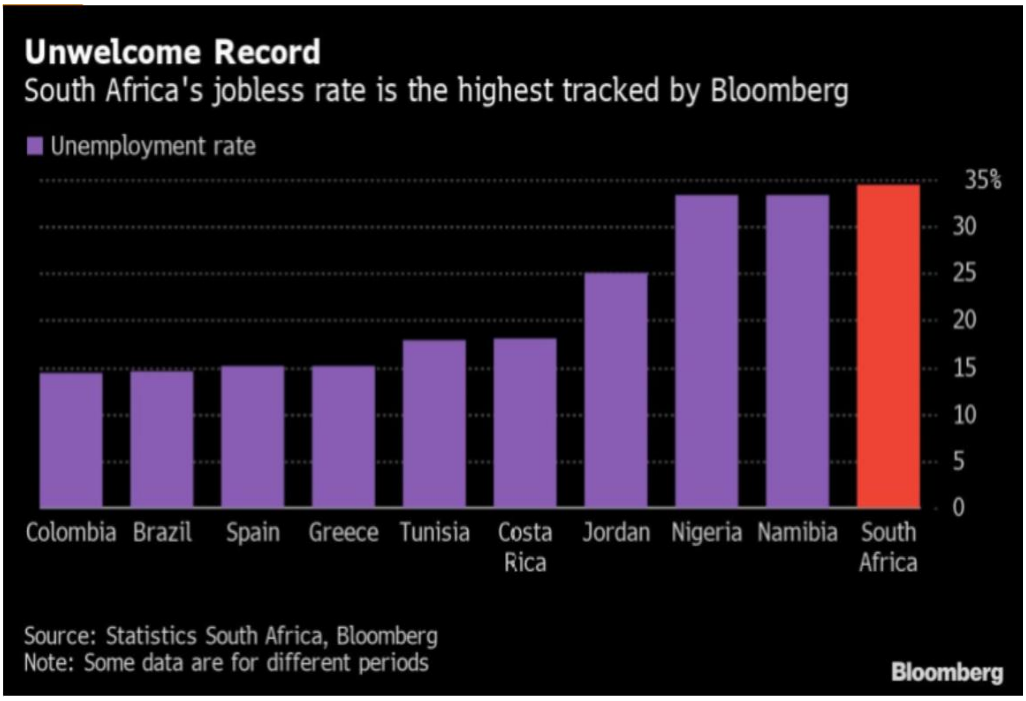


Source: National Treasury

12. It appears that government's plan in 2019 (see Annexure A) to scale up early retirement without penalties has not been successful and it is hoped that effective recruitment plans for younger candidates are in full progress.

13. Further indications of the structural and economic crisis that South Africa is in, is the increase in unemployment and in the number of recipients of social grants as well as the poor educational outcomes amongst students.

14. Unemployment has reached 44.4% in the current year (one of the highest in the world), with unemployment averaging 36.1% amongst the youth (15 to 34 years).

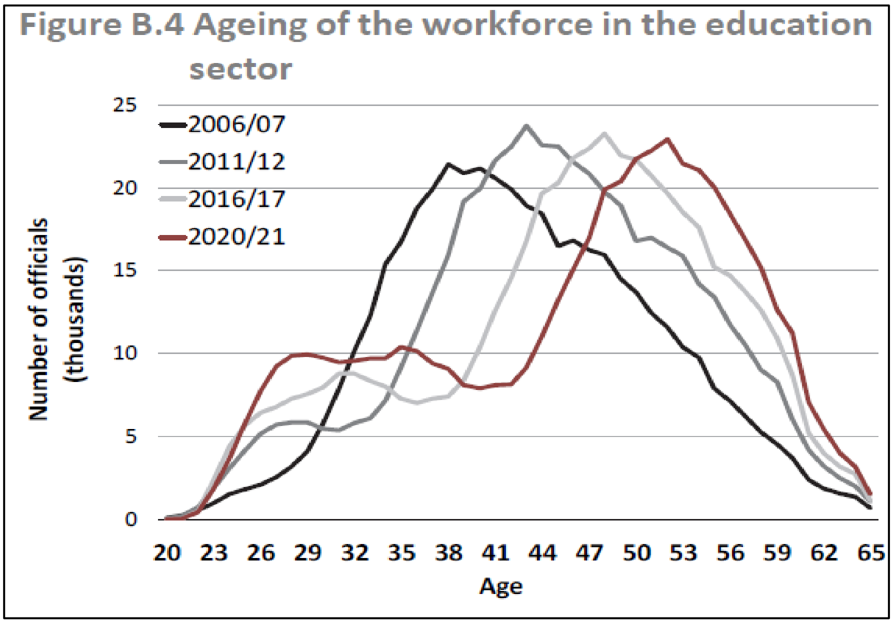


15. In 2019, approximately 18 million South Africans vulnerable to poverty or in need of state support received social grants, relief assistance or social relief paid by the government[4]. This has increased to 27.8 million in 2021 (which includes the temporary special COVID-19 grant)[5] – a staggering 46.2% of the country's population. If the COVID-19 grant is excluded, the number of beneficiaries of the social grant (18.3 million) in 2020/21 is expected to grow to 22.6 million in 2040/41[6].

16. From an education perspective, despite the enormous amounts spent on this sector (basic education inflation averaged 8.5% in the past decade, while CPI inflation averaged 4.8% - a similar trend is found in the higher education sector), South Africa is ranked **second-last in the world according to a** 2020 a survey that was completed to benchmark the **quality of education** within a country at a global level[7]. Added to this dismal result, many teaching posts are vacant due to the reduced compensation budgets, resulting in increased class sizes. A further concern is the ageing workforce of teachers

[4] https://www.statista.com/statistics/1116080/population-receiving-social-grants-in-south-africa-by-population-group/
[5] Full MTBPS, page 2
[6] Full MTBPS, page 59
[7] https://www.dailymaverick.co.za/article/2020-11-26-our-education-system-is-broken-and-unless-we-fix-it-all-else-is-doomed/

– in 2006/7 there were about 31 000 officials aged between 60-65, and in 2020/21 there are now 63 000.



PROMISES MADE, PROMISES BROKEN

17. The current Minister is not the first to correctly acknowledge the challenges of the country and its finances and to propose that fundamental changes must occur.

18. However, as noted in previous years, though the Minister's words are to be applauded, there seems very little in the budget that indicates that government will really seek to meet these promises; there were no firm undertakings and no disclosure as to how the fundamentals that underpin these promises will be delivered on. Again, we may have to wait for the Budget Review in February 2022, though very little if ever have those fundamental commitments and interventions been disclosed there either.

19. For example, if the public sector wage bill amount is a problem as identified by the Minister, what about it is wrong according to government? Too many people, the wrong mix of people or an overpaid workforce? Identifying exactly what is wrong will drive what needs to be fixed. Further, will the Minister then implement the mechanisms such as Regulation 78 & 79 which his predecessors have consistent failed to do (and the recent legal confirmations as to its application) to ensure that wage spending is kept under control and within budget? Also, where is the progress report in relation to discussions with unions and NEDLAC given that unilateral action will not succeed?

20. The concern is that the fundamental changes proposed never seem to realise for these reasons. The Government makes many promises year on year, yet these promises are consistently broken, which we discuss below.

21. Consistent lack of fiscal discipline will then continue to deter private sector investment into our economy.

Expenditure ceilings

22. The main budget expenditure ceiling provides an upper limit within which departments prepare their budgets. It has anchored fiscal policy since the 2012 Budget. The Budget Review includes the baseline ceiling and the MTBPS includes adjustments to the ceiling if necessary.

23. Government aims to maintain spending levels within the ceiling, however, these ceilings are consistently not adhered to. This is no different in the current year, where expenditure is expected to **breach the 2021 Budget Review ceiling** of R1.51 trillion **by R56 billion** owing to the COVID-19 lockdowns and public violence, as well as **wage bill adjustments**.

24. What is also concerning is that the MTBPS states that the revenue improvements since the 2021 Budget (which are regarded as temporary) will allow for an increase in the spending ceiling over the MTEF period. The ceiling is raised by R30.5 billion in 2022/23 and R28.1 billion in 2023/24, compared with the 2021 Budget.

Table 3.3 Main budget expenditure ceiling[1]

R million	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
2019 MTBPS	1 307 235	1 404 675	1 493 029	1 591 287	1 673 601		
2020 Budget Review	1 307 119	1 409 244	1 457 703	1 538 590	1 605 098		
2020 MTBPS	1 307 112	1 418 408	1 502 867	1 479 709	1 516 052	1 529 585	
2021 Budget Review		1 418 399	1 504 656	1 514 934	1 521 721	1 530 664	
2021 MTBPS		**1 418 456**	**1 487 388**	**1 570 890**	**1 552 268**	**1 558 725**	**1 627 154**

1. The expenditure ceiling differs from main budget non-interest expenditure
The precise definition and calculation of the expenditure ceiling is contained in Annexure C
Source: National Treasury

25. Although certain social expenditure is considered necessary, raising the expenditure ceiling goes against the statements made in previous budget speeches (see Annexure A) in which a reduction in expenditure was promised in order to stabilise debt.

26. If the stabilisation of debt is an objective government seeks to achieve, it going to require a lot more fiscal discipline in keeping to spending plans and debt reduction. South Africa is a country with many dire needs and there will always be more reasons for than against breaching the spending ceilings.

27. Submission: As the improvement in revenue is regarded as temporary and the fiscal outlook is not certain, the expenditure ceilings should not have been raised and should be reduced to meet the promises of reduced debt funding by the government (see Annexure A). Government keeping to its promise of spending discipline is more important than making the promise.

Wages

28. The public wage bill is acknowledged as a problem, though very little explanation is given as to what government believes is wrong with it other than its overall cost and how it will commit to address those matters. It therefore has over the last decade continued to make high level promises that it has not kept.

29. **Budget Speech 2013**: "*Government will continue to monitor growth in state employment, which has been a major contributor to the increasing wage bill over the past five years, to ensure that budget objectives are met. Government is committed to moderating growth in the wage bill and* ***aligning it with improvements in productivity*** *in the public sector*."

30. **Budget Speech 2014**: "*Government aims to maintain employee numbers at a constant level over the next three years, with exceptions to this policy requiring a compelling explanation.*"

31. **Budget Speech 2015**: "*Government is budgeting for a wage agreement that protects the real buying power of public servants. If current negotiations result in a settlement that departs significantly from inflation, government will have to effect substantial reductions in capital expenditure****, introduce more stringent controls*** *on public employment or find ways to curtail spending on other critical priorities*."

32. **Budget Speech 2016**: "*While overall growth in spending has been slowing, spending on compensation of employees is projected to grow by 7.4 per cent over the medium term as a result of the 2015 wage settlement*."

33. **Budget Speech 2017**: "*The National Treasury and the Department of Public Service and Administration are working with departments to reduce headcount, including testing the idea of voluntary severance packages*."

34. **Budget Speech 2019**: "*Over the medium term, government will take additional steps to manage growth in compensation. Government proposes to progressively phase out this bonus over the next four years, and to* ***replace it with other performance management measures****. Additional measures to contain the wage bill, including active management of overtime and progression payments,* ***are under consideration***."

35. **Budget Speech 2019**: "*The 2020 Budget proposed compensation reductions totalling R160.2 billion for 2020/21 to 2022/23, relative to the pre-Budget baseline*."

36. **Budget Speech 2020**: "..*compensation at the consolidated budget level is projected to grow by 2.1 per cent in the current year and 1.2 per cent per year over the medium term*."

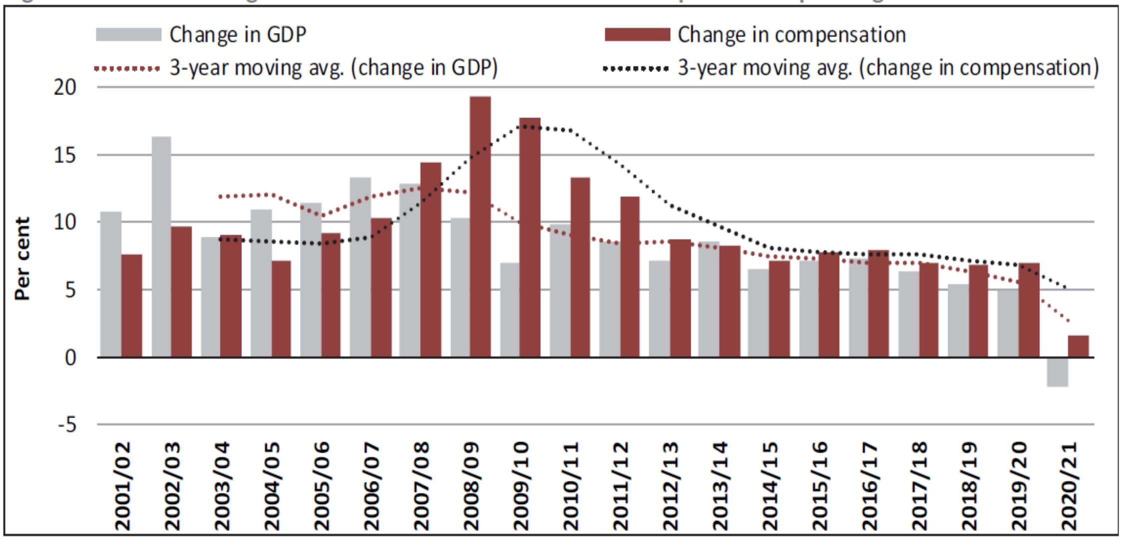
37. **Budget Speech 2021**: "*Performance bonuses are already being phased out and careful consideration is being applied to amend or abolish some allowances and benefits. In July 2020, most municipalities implemented the first year of a three-year wage agreement, negotiated separately from the national agreement, that raises wages by 6.25 per cent per year.* ***Not all municipalities have budgeted for these increases****. Unless municipalities rapidly improve efficiency, this agreement will compromise the local government fiscal framework and service delivery*."

38. Despite the many promises made above to monitor and reduce public service compensation, the recent public-service wage agreement **breached the budget ceiling** for compensation of employees by R20.5 billion. This is despite the promise made in the February 2021 Budget, that there would be a salary freeze for public-service employees until 2024.

39. Furthermore, should the Constitutional Court overrule the Labour Appeals Court's decision that declared the salary increases for public servants for 2020/2021 unlawful and invalid, [because the Executive contravened Regulations 78 and 79 of the Public Service Regulations in agreeing to the salary increases without the National Treasury approval and the cost of which could not be covered from the relevant departmental budget], this could result in **further unbudgeted costs being incurred** which would either need to be funded by increased revenue/debt, or it could force the government to take active steps to reduce the size of the public service.

40. Since 2007/08, consolidated compensation spending (excluding public entities) has grown more quickly than nominal GDP in every year except 2013/14. As a result, public-service compensation absorbs an increasing share of GDP, as is evident from the Figure below.

Figure B.1 Annual change in nominal GDP and consolidated compensation spending



Source: National Treasury

41. The substantial increase in the wage bill is evident from the fact that between 2006/07 and 2020/21, **compensation spending on the consolidated budget rose** by **an annual average of 9.9%** (from R170 billion to R635.4 billion), while compensation spending by national and provincial departments rose by 9.8% (from R153 billion to R570.3 billion). Inflation accounts for 46% of the increase. Of the rest, **75% was used to raise salaries** in the public sector and **25%** was used **to increase employment**.

42. Included in these costs are suspensions, which have cost the government R4.5 billion since March 2019.[8] Furthermore, the 2020 Budget data shows that the average government worker remuneration passed R400 000 a year in 2019, with this figure heading towards R450 000 in 2021. By comparison, the average formal sector salary in South Africa is **R23,122 a month**, including bonuses and overtime, according to Stats SA.[9]

43. Despite Government's promise in 2014/2017 to maintain/reduce the head count of government employees (see Annexure A), the state employed 1.34 million people in the 2020/21 fiscal year, up 0.7% from a year earlier.

44. Submission: Government's public-service wage bill has been a major concern for credit-rating agencies that have downgraded South Africa's sovereign debt to "junk" status. Although these costs are reported as being 35% of expenditure, it **absorbed 41% of government revenues in 2019/20 and 47% in 2020/21 which is the real measure**.

45. Unless the Constitutional Court rules otherwise, it is essential that the Executive must, when negotiating wage agreements, ensure the amount is within the budget framework and National Treasury should be enforcing regulations where wage spending is outside budgets and without approval.

46. For government to achieve fundamental improvements, it must first establish what the underlying problems are with the wage bill. Are there too many employees, is the wage mix incorrect, is there insufficient productivity and why or is it all of these and to what extent?

47. Urgent reforms need to be instituted in this regard as mentioned in our previous submissions, to ensure that the are adequate numbers of staff to deliver the required level of public services. Labour will have to start agreeing on measures that enhance accountability and productivity from its members. Civil society, Business and Government need to agree on accountability measures and interventions for overseers and leadership who have often failed this country.

48. In order to ensure a sustainable wage path, the structural mix (composition of employees) needs to be addressed - fewer bureaucrats and more staff at the coal face of delivery are needed and remuneration should be determined in accordance with generally accepted business practices.

Debt levels

49. Minister Godongwana echoed previous Ministers' speeches when he stated that in order to achieve fiscal sustainability, stabilising the debt burden is critical. Yet, the MTBPS seems to achieve its objectives by increasing debt – gross debt is forecast to grow from

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[8] https://www.iol.co.za/news/politics/government-wants-employees-salaries-frozen-for-three-years-5c07ae11-c874-47ad-a153-10b857abf81d

[9] https://businesstech.co.za/news/government/525464/heres-how-much-money-government-employees-earn-in-south-africa/

69.9% of GDP in 2021/22 to 77.8% of GDP in 2024/25 with another promise that debt will stabilise in an adjusted future.

Table 1.3 Consolidated government fiscal framework

R billion/percentage of GDP	2020/21 Outcome	2021/22 Revised	2022/23	2023/24	2024/25
			Medium-term estimates		
Revenue	1 414.1	1 648.8	1 695.7	1 772.7	1 890.9
	25.4%	*26.7%*	*26.7%*	*26.5%*	*26.6%*
Expenditure	1 971.8	2 128.5	2 075.0	2 126.3	2 239.8
	35.4%	*34.5%*	*32.7%*	*31.7%*	*31.5%*
Budget balance	-557.7	-479.7	-379.3	-353.6	-348.9
	-10.0%	*-7.8%*	*-6.0%*	*-5.3%*	*-4.9%*
Total gross loan debt	3 935.7	4 313.9	4 744.7	5 144.4	5 537.6
	70.7%	*69.9%*	*74.7%*	*76.8%*	*77.8%*

Source: National Treasury

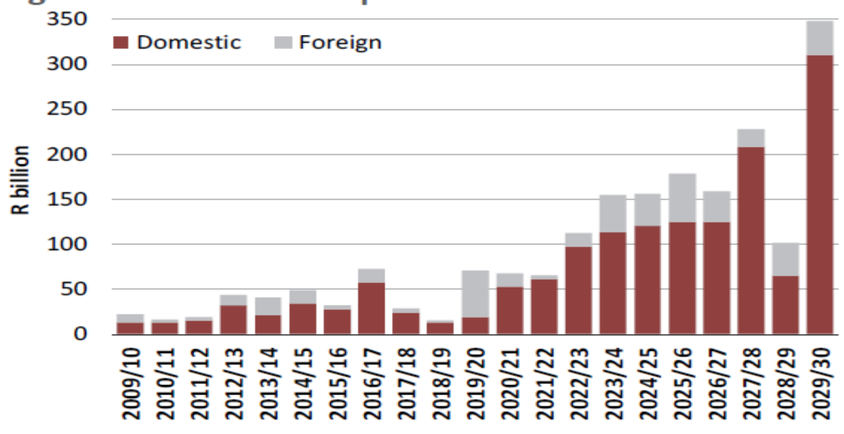
50. Overall, public debt has **increased seven-fold**, from R577 billion in 2007/08 to over R4 trillion in 2021/22.

51. This means that the government will be paying more in the form of borrowing costs - interest on its debts now amounts to an average of 21c of every Rand collected in tax revenue and interest is set to increase by an average of 10.8% over the medium term. This is expected to average R334.5 billion a year – higher than projected spending on health, social development and peace and security! In addition, the interest rate that government pays on its debt is higher than the GDP growth rate.

52. Although debt redemptions will be elevated (almost tripling over the next three years: R65 billion in 2022 to R155 billion in 2023), how these payments will be made has not been elaborated upon, other than stating that this will be done by **reducing non-interest expenditure**, something government has been poor at achieving as well.

53. Of further concern, is the increase in foreign debt that will be used, exposing the country to currency fluctuations and a weaking Rand.

Figure 3.5 Debt redemptions



Source: National Treasury

54. A primary budget surplus – where revenue is higher than non-interest spending – is expected by 2024/25, bringing the period of fiscal consolidation to an end. This consolidation will be supported by structural reforms that unlock private-sector investment and job creation. Again, broad promises have been made, yet with no tangible undertakings. Whether this will materialise, considering the previous promises made over the years, is questionable.

55. Submission: Debt reduction will only occur if budget surpluses are realised. Government's commitment to reducing expenditure in order to achieve this is essential. This commitment has not been evidenced over the last 12 years, and we do hope that our new Finance Minister will be able to stick to these commitments and curtail the need to obtain more debt.

Accountability

56. The introduction of Performance Agreements for Ministers and their availability to the public for scrutiny is welcomed[10].

57. However, little has come from this and as we have seen from the adverse Auditor General Reports year on year, any benefits from it do not seem to have filtered down to provincial or local government level. Appropriate consequence management in instances of non-performance has generally not been implemented.

58. How many of the performance targets set have in fact been met given the AG PFMA[11] and MFMA[12] reports? As importantly, where has parliament been in actively monitoring and holding to account Ministers for failures?

59. We again note the R50 million expenditure incurred in 2020 on a study on revised performance management systems, though we are yet to see an agreement and consensus with labour as to what this means for their members and how it will be enforced.

60. Organised Labour should, however, accept that if they refuse productivity and accountability interventions, job and salary cuts will be inevitable as the economy spirals further downwards and not even "political understanding" will prevent that.

61. Submission: An example should be set at the top and the Presidency should be annually reporting on Ministers' progress in implementing performance contracts and interventions taken against non-performing Ministers. The same should apply to the executive leadership and even more so with leadership at State-owned Entities (SoEs) who receive private sector-benchmarked salaries without having to carry the same risks.

[10] https://www.gov.za/ministers-performance-agreement

[11] PFMA 2019-2020 (agsa.co.za)

[12] MFMA 2019-20 Report V11 01.indd (agsa.co.za)

62. A 'public sector productivity pact' as recommended by BUSA should be entered into between the government and public sector workers where they agree to minimum standards for both wages and productivity.

63. We eagerly await feedback from the National Implementation Framework "Professionalising the Public Sector" in the hope that this will provide answers to the many problems experienced with the public sector services.

64. National Treasury is also not a mere passenger in enforcing fiscal controls as we have laid out in our previous submissions. Yet National Treasury has consistently failed to meet its constitutional mandate, given the dire state of fiscal control compliance and reporting in the public sector.

65. Lastly, Parliament and its committees (e.g. SCOF, SCOA, SCOPA) should also acknowledge and fulfil their role in oversight and consequence management.

UNBUDGETED EXPENDITURE: CONSIDERATIONS NOT INCLUDED IN THE BUDGET

66. The overview of the budget would not be complete without a review of what is missing.

67. There are certain expenses that have, although mentioned to a certain extent in the MTBPS, not been included in the MTBPS forecasts. These are discussed next.

SARS' funding requirements

68. Commissioner Kieswetter has stated that SARS will have to battle with a R9 billion deficit over the next three years, despite it receiving an additional R3 billion over the next three years.

Reflecting on the 2022 financial year – MTEF Submission to National Treasury

	2022/23	2023/24	2024/25
Funding requirement	14 226 354	15 177 066	16 123 404
Funding available	11 870 417	12 000 213	12 585 626
Deficit	(2 355 937)	(3 176 853)	(3 537 778)
Funding allocation	14 226 354	15 177 066	16 123 404
Personnel cost (CTC and related)	9 853 715	10 467 754	10 963 782
Physical facilities and related expenditure	901 923	975 198	1 055 052
Information and Communication technology(Maintanance and support)	1 436 297	1 660 543	1 953 778
Other operational expenditure	556 080	580 825	606 904
Capital Expenditure	644 500	621 800	633 836
Projects - e-Filing enhancements, Tax and Customs modernisation ect	833 840	870 946	910 051

69. Investment in SARS is critical, as it is responsible for the revenue collection that funds government expenditure. The fall in SARS' compliance levels from 65.05% in 2019/20 to 62.61% in 2020/21 is also concerning and has been felt by compliant taxpayers who are

having to incur additional and unnecessary costs in order to get SARS to comply with its obligations in terms of the law.

70. Notwithstanding undertakings to do so, National Treasury has still not released the promised discussion document on Governance at SARS. As we reiterated in our Nugent Commission submission, SARS is a critical entity and we should not ignore the fundamental failures that enabled state capture and which have resulted in a lack of accountability or in exploitation.

71. In addition to this, we are concerned that SARS has insufficient funds to meet its April 2022 deadline for implementation of GRAP. The Accounting Standards Board, in April 2012, approved the adoption GRAP in the Public Sector to replace the Modified Cash Basis of Accounting (MCB) and SARS asked for multiple extensions, the last till April 2022.

72. This delay, as also confirmed by the Auditor General, has contributed to various dubious practices by government including “hiding” unauthorised expenditure by just not paying it which MCB allows departments and organs to do. It also allows SARS to “adjust” refunds by dubious administrative practices, including in disputes as already alluded to by the then Finance Minister, Pravin Gordhan.

73. Given the current circumstances we do not believe that SARS will meet the April 2022 deadline and there seems to be no urgency by National Treasury in implementing what is a critical part of improving accountability and enhancing financial reporting.

74. <u>Submission</u>: Noting the importance of SARS to the success of the budget, priority should be given to providing it with the funds that it requires to function optimally.

75. National Treasury also needs to urgently address the implementation of GRAP in the public sector.

<u>Contingent liabilities – SoEs</u>

76. By 2023/24, contingent liabilities are expected to exceed R1 trillion. Any guarantee or contingent liability that realises will only see our country’s debt levels rise even further. We have previously raised concern that these debts, given the underlying vulnerabilities, are improperly classified as contingent but are in fact real.

77. One of the domestic risks identified in the 2021 Budget has begun to materialise. That is the continued financial deterioration of SoEs. Yet despite this acknowledgement, the Minister has stated in the 2021 MTBPS that no further bailouts will be provided (other than Denel that receives R2.9 billion to settle its debt repayment obligations).

78. Many SoEs have insufficient funds to cover operational expenses. With no mention of any reforms or actions to ensure that these concerns are addressed, it is highly likely that these risks might realise. No provision for this has not been made in the MTBPS. For example, the Road Accident Fund’s accumulated liabilities are estimated at over **R450 billion**, the SANRAL toll-fee debacle has also not been finalised and it will thus remain a

significant burden on the public finances should a verdict not be reached on this (current guarantee facility is R37.9 billion).

79. Thus, the fiscal framework provides no support to SoEs over the medium term, but these entities remain a large "contingent liability" risk.

80. Despite the Minister stating that Government's strict enforcement of minimum criteria before guaranteeing state-owned company debt, as outlined in the 2021 Budget, has led to a decline in bailout requests, he also stated that the broader context of financial distress, poor governance and unsustainable operations in many entities remains unaddressed.

81. No action plan on how to resolve these serious concerns that can have a dire effect on the fiscus, has been provided.

82. <u>Submission</u>: With no action plan in place to assist or sell the ailing SoEs, the expenditure side of the budget is currently understated.

<u>GEPF long-term funding objectives</u>

83. The GEPF, as at the valuation date in 2018, met the minimum funding level; however, it did not meet its long-term funding objectives (75,5% versus the required 100%). Given that the government was already underfunding the required contributions by 2,9% in 2018, this situation is likely to be significantly worse after COVID-19.

84. Based on the 2018 valuation report, should government be required to contribute an additional 2,5% to the fund, this would equate to **approximately R8 billion** and should the required contributions be 5%, this would equate to approximately R16 billion. Both these numbers exceed the proposed tax increases of R5 billion in 2021/22 and R10 billion in 2022/23.

85. <u>Submission</u>: Based on this valuation, it should be determined if government's contributions towards the fund would likely need to increase further to ensure that it meets its long-term funding objectives. It would appear that this possibility has not been taken into account in the budget.

86. We understand from the GEPF's Annual Report 2020/2021 that the valuation of the Fund, effective 31 March 2021, is currently in progress, the results of which are expected to be available to the public in January 2022. We eagerly await this report and trust the necessary adjustments will be made in the 2022 Budget Speech.

<u>Water and sewage infrastructure</u>

87. Of even greater concern is our ability to deliver potable water. Pressure continues to grow on water, yet rainfall has become more unpredictable as South Africa is already a water scarce country.

88. In this regard it remains concerning that 37% of potable water is lost to dilapidated infrastructure and 80% of municipal sewerage works are dysfunctional, resulting in our

river systems becoming part of the sewer system. Yet the Department of Environmental Affairs does not appear to have done much to address this destruction of our river systems and COGTA has not acted against municipalities breaking the law.

89. We cannot see how an allocation of R193 million will fix this problem and we are not convinced that that the establishment of a National Water Resources Infrastructure Agency that will be responsible for improving the management of bulk water resources will help resolve the concerns that are present.

90. Submission: Like the case of electricity, government has been warned for many years of an impending water crisis, yet it seems such warnings have been ignored. This has resulted in a very high price that is still today being paid by South African society, not only in costs, but also in water supply shortages as has been experienced in parts of Gauteng recently.

Local Municipalities

91. The trend of audit outcomes on local government since the last municipal elections in 2016 shows a lack of any significant improvement. In 2019/20, only 11% municipalities received clean audits. Only 37% received unqualified audits, 31% received qualified audits, 3% received adverse opinions and 9% disclaimed opinions[13].

92. When presenting her report, Auditor General Maluleke said: "*The financial position of just over a quarter of municipalities is so dire that there is significant doubt that they will be able to continue meeting their obligations in the near future. Almost half of the municipalities are exhibiting indicators of financial strain, including low debt recovery, an inability to pay creditors and operating deficits."*

93. Other concerning findings in the Auditor General's report include the following[14]:

93.1 The 22 councils countrywide with disclaimed audit outcomes — the worst possible — went through almost R5.5-billion without being able to say where the money went. Put differently: of the R6.45-billion taxpayers contributed via the national purse to those municipalities through equitable share and conditional grant allocations, only R980-million could be accounted for by municipal financial year-end.

93.2 Irrecoverable debt averaged around 59% in 2018/19 and increased to 63% in 2019/20. This means councils owe suppliers such as Eskom and water boards more money than is in the kitty.

93.3 Unauthorised expenditure increased by R2.6 billion or 22% from the R11.98 billion recorded in 2018/19 to R14.61 billion in 2019/20.

93.4 Money used to pay consultants in municipalities amounted to R1.02 billion. Most municipalities appoint consultants for financial reporting as their own finance

[13] https://pmg.org.za/blog/State%20of%20Local%20Government
[14] https://pmg.org.za/blog/State%20of%20Local%20Government

employees lack the skills required to prepare financial statements and schedules in support of those financial statements. This over-reliance on consultants leads to a high total cost of financial reporting. In 2019/20, 156 municipalities (78%) appointed financial reporting consultants – an increase from 62% in previous year. Consultants are also not rotated, as shown by the same consultants used in the previous year being re-appointed at 74% of the municipalities.

93.5 Further findings are also depicted in the Figure on the next page.

94. The 2021 Budget stated that the scope of the municipal infrastructure grant would be expanded to help municipalities improve their asset management practices, but this change has been delayed, and will only be transferred if the Department of Cooperative Governance and Traditional Affairs does the work required to identify municipalities that need this intervention.

95. National government also realised that they need to shift their support to developing capacity rather than building capacity. The review proposed a new framework to build a capable local government by improving the current system incrementally and identifying pilot sites for innovation and experimentation. The 2022 Budget will detail the next steps in this project and should provide an indication of the costs of these next steps.

96. Municipalities' aggregate **cash shortfall** is currently a **staggering R50.7 billion**, up from R32.9 billion in 2019[15]. In terms of the MTBPS, these entities will only receive R17,8 billion over the medium term. This could see many municipalities facing collapse, yet this has not been provided for in the expenditure side of the Budget.

[15] SA's municipal death spiral (businesslive.co.za)

THE ILLUSIVE NECESSICITIES – ACCOUNTABILITY AND IMPLEMENTATION

97. Upon presentation of the audit outcomes by the Auditor General in June 2021, Members of Parliament (MPs) pointed out that the report revealed grand theft, grand corruption and grand mismanagement. MPs said that lack of accountability for mismanagement of public funds was the single biggest problem in government.

98. They indicated unless something significant were to be done about financial mismanagement as a matter of urgency, the country was finished[16].

99. MPs proposed a roadmap to deal with the challenges in municipalities and emphasised that institutions from the legislative, executive and accounting spheres needed to work collaboratively to improve the administration within municipalities as well as to examine the political forces at play. The following extract from the meeting is provided:

> *Chairperson of the Standing Committee on Public Accounts, Mr Mkhuleko Hlengwa (IFP), said the legislative sector needed to take a fair amount of responsibility and accountability on the failures and collapse of the necessary framework by the municipalities in their audit action plans. These repeat findings were happening on Members' watch. <u>Parliament needed to respond to these matters in a far more constructive and sustainable manner as opposed to shot-gun interventions and oversight</u>.*
>
> *He <u>proposed a roadmap</u> wherein parliamentary committees would meet <u>to target the interventions and be more specific in how MPs wanted these done.</u> There was a necessity, particularly in the worst performing provinces, that Parliament engage with the provincial legislature SCOPA. Ordinarily those Committees were the first point of call for oversight. If the province was instituting a Section 139 intervention then the <u>provincial legislature committee responsible for COGTA should be hands-on</u>. <u>Parliament needed to relook at the legislative oversight modalities which were currently at play to turn this situation around.</u>*
>
> *In the roadmap, moving forward, the reporting that the Committee would require from the AG on this needed to run parallel with the matters referred to law enforcement agencies. Those agencies need to indicate to the Committees how they are processing these matters. Otherwise, the AG would not be empowered if the referrals were not processed. <u>The law enforcement agencies were key to this as well.</u> The Fusion Centre and Anti-Corruption Task Team needed to <u>provide the Committees with updates</u> on the local government space. <u>Operation modalities need to be developed</u>. This was a matter SCOPA had raised with COGTA as well.*

[16] https://pmg.org.za/blog/State%20of%20Local%20Government

100. The 2021 MTBPS has indicated that flowing from the special lekgotla of the Budget Forum (the intergovernmental structure established to facilitate consultation on local government finances) that ended in July 2021, various government departments are implementing and monitoring joint working plans for a five-year local government reform.

101. Submission: We agree with the Chairperson on the Standing Committee on Public Accounts that Parliament needs to respond to these matters in a far more constructive and sustainable manner.

102. There has been growing discontent with many local authorities and calls by concerned citizens for the municipalities to be dissolved. Although the five-year local government reform is welcomed, without its immediate implementation, which should include regular monitoring and oversight, these reforms will be too late.

103. Parliament needs to use its oversight powers to ensure that local municipalities do not fail and that all other government departments fulfil their respective obligations.

PROMISES MADE IN THE 2021 MTBPS

104. In order to assist Government to track and report back on its promises, we have set out below the promises made in the current MTBPS.

105. **Expenditure:**

105.1 Spending will remain restrained.

105.2 Government will avoid permanent increases in departmental or programme baselines, or *further bailouts of SoEs*, which would compromise fiscal sustainability.

105.3 Government will use the results of the spending reviews to implement zero-based budgeting to assess programme effectiveness and to realise greater value for public money.

106. **Wages:**

106.1 A comprehensive public-sector remuneration strategy for the medium to long-term is being developed, across all government entities.

106.2 The Department of Public Service and Administration will continue reviewing personnel spending to reduce unsustainable growth in the public-service wage bill.

107. **Electricity:** Additional 6 800MW of renewable energy will be added to the grid over the medium term through the Renewable Energy Independent Power Producer Procurement Program.

108. **Water and sanitation:**

108.1 The Department of Water and Sanitation is fast-tracking its application process to ensure that the 90-day target for issuing single-use water licences will be implemented by March 2022, to improve the ease of doing business.

108.2 A National Water Resources Infrastructure Agency will be established and operationalised (no date provided).

108.3 To provide for a more systematic response to improve water and wastewater management in municipalities, from 2022/23, conditional grants will include conditions that are aimed at incentivising improved asset management and performance. National departments are expected to improve monitoring and regulatory compliance through periodic reporting and capacity-building.

109. **Education:**

109.1 A ministerial task team is conceptualising a new student financial funding model for the higher education and training system. The team will table a report in Cabinet in November 2021.

109.2 The operating model for the rollout of community libraries will be reviewed over the medium term to ensure that construction of new libraries is matched with their full operating and maintenance costs and with a greater focus on providing information and communications technology.

110. **Infrastructure:**

110.1 Simplification of regulations, elimination of delays in approval and implementation, standardisation of project preparation and capacity-building at all levels of government will be implemented from early 2022.

110.2 Joint initiatives by the National Treasury, the Infrastructure Fund and Infrastructure South Africa aim to improve the scale, speed, quality and efficiency of infrastructure spending. This mainly involves creating a credible pipeline of projects, conducting project appraisal and technical analysis and attracting private-sector participation and financing.

111. **Reforms:** Regulatory reforms that enhance competition are being prioritised (no mention of what these are were provided). Other reforms specifically mentioned are as follows:

111.1 Diversifying energy generation to alleviate electricity supply shortages and taking additional steps towards a competitive energy market.

111.2 Releasing broadband spectrum, with the auction process starting on 1 March 2022.

111.3 Opening third-party access to the freight rail network by the end of 2022, to increase capacity.

111.4 Starting the eVisa system rollout by March 2022 to promote tourism.

111.5 Reviewing the legal regime governing skilled migration.

111.6 Accelerating infrastructure investment.

112. **South Africa’s financial system:** The National Treasury will work with the Reserve Bank, the Financial Intelligence Centre and other departments to address the deficiencies identified in the country’s anti-money laundering and counter-financing of terrorism systems within the 18-month timeframe established by the Financial Action Task Force during 2021.

113. **South Africa’s macroeconomic policy review:** The National Treasury is reviewing government’s policy from the global financial crisis to the present in order to propose appropriate reforms to policy targets and institutional frameworks. A draft review document is due at the end of March 2022 and a final review document is expected to be published in 2023.

CONCLUSION

114. Rising government expenditure has not been matched by higher economic growth, increased productivity or greater efficiency. Yet despite this being the case for almost ten years and promises being made to bring the situation under control, nothing substantial seems to be done about it. The slow pace of reform continues to sap business confidence, private investment, productivity and competitiveness.

115. We agree with Government that it should continue to consider measures to support employment growth and that joblessness cannot be solved by fiscal resources, it **requires strong and sustained economic growth**.

116. We need to get to the root causes as to why we, as a country, keep failing to attract the investment that is so critical to this growth. One of these reasons is taxpayers keep paying for services that they are not receiving. Services received from the public service should reflect value for money. Those with jobs should be performing at the required standard, otherwise they should be performance-managed or consequence-managed.

117. Another reason for this failure, is that South African companies’ ability to hire suitable staff is undermined by an education system that does not provide adequate skills, and rigidity in workplace laws make matching human capacity to required production onerous and costly. These issues need to be addressed.

118. With regard to infrastructure, an overall “helicopter view” of each area, detailing how projects address specific strategic areas at national, provincial or local government level and how the budget priorities align to the overall plan, is needed. Implementation of the infrastructure reforms should be expedited as this will bolster employment.

119. Crime impacts all these key areas. Crime intervention should be prioritised and aligned with required improvements in the judicial sector.

120. The monitoring and measurement of implementation success and accountability measures are lacking in all the current reform plans. Government, including Parliament, must keep its promises to the citizens of the country. Implementation is a critical component of a successful plan and the feasibility of implementation should be considered at the outset of any initiative.

121. In relation to accountability, in the "OVERSIGHT AND ACCOUNTABILITY MODEL - ASSERTING PARLIAMENT'S OVERSIGHT ROLE IN ENHANCING DEMOCRACY" document issued by Parliament, the following is stated:

"The true test of democracy is considered the <u>extent to which Parliament can ensure that government remains accountable to the people</u> <u>by maintaining oversight of government's actions</u>. Whether Parliament is indeed successful in effectively holding the Executive accountable will ultimately <u>depend on the extent to which committees and individual members of Parliament actively exercise their oversight role</u>. Whilst an appropriate legal framework and adequate resources constitute critical elements for effective parliamentary oversight and accountability, it is equally important that individual members, as well as members of the Executive, understand the rationale for accountable government and the purpose it serves. <u>Effective oversight requires the political will on the part of the individual members</u> of Parliament to utilise the oversight mechanisms and the array of tools at their disposal optimally."

122. We therefore urge *each member of Parliament* to <u>actively and effectively exercise his/her oversight role</u> and to ensure that implementation of Government's critical deliverables is achieved. This will not only instil confidence in the government but will put our country onto the first step of a long ladder to sustainable inclusive growth.

Yours sincerely

David Warneke
Chairperson: National Tax Committee

Pieter Faber
Executive: Tax

Dr Sharon Smulders
Project Director: Tax Advocacy

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ANNEXURE A

National Budget Speeches: 2012 – 2021

2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
DEBT									
Highlight: Gross loan debt is expected to increase from R3.95 trillion, or 80.3 per cent of GDP, in 2020/21 to R5.23 trillion, or 87.3 per cent of GDP, by 2023/24. Better-than-expected revenue collection since the 2020 MTBPS projections increased government's cash balances. Over the medium term, this cash will be used to reduce the borrowing requirement and, consequently, debt issuance. Cash balances are expected to decline	**February Budget** **Highlight:** Over the past year, government's gross borrowing requirement has increased by 21.4 per cent to R407.3 billion. Borrowing is expected to reach R497.5 billion in 2022/23. To contain the budget deficit and move towards debt stabilisation, **the 2020 Budget proposes a significant reduction in government**	**Highlight:** Over the past year, government's gross borrowing requirement has risen by R15.3 billion to R239.5 billion. This was mainly the result of lower-than-expected revenue collection. The domestic capital market finances most of government's borrowing requirement. In light of the deteriorating economic environment and the need to address the considerable risks posed by Eskom,	**Highlight:** During 2017/18, the budget deficit increased sharply relative to projections in the 2017 Budget. While the deficit rose by R50.5 billion, this was partially offset by a reduction in loan redemptions. As a result, the final gross borrowing requirement rose by R25.1 billion, from a projected R220.9 billion to R246 billion for 2017/18, or from 4.7 per cent to 5.2 per cent of GDP. **Government's medium-term financing strategy reflects**	**Highlight:** Government debt now stands at R2.2 trillion, or 50.7 per cent of GDP, and interest payments **continue to grow rapidly**. In 2017/18, the gross borrowing requirement will be R220.9 billion. Government also expects to borrow R21.2 billion to increase its cash reserves to meet future commitments. To meet current commitments and stabilise the growth of debt,	**Highlight:** Government's net **borrowing requirement is expected to decrease** from R172.8 billion in 2015/16 to R151.3 billion in 2018/19. Net debt stabilises at 46.2 per cent of GDP in 2017/18. The borrowing requirement for 2016/17 is expected to amount to R156.3 billion, declining to R151.3 billion in 2018/19. In addition, government will borrow R191.7 billion over the medium term to finance debt due	**Highlight:** Over the past five years, government has expanded its borrowing programme in response to difficult economic circumstances. As a percentage of GDP, net debt has grown from 21.8 per cent at the start of the financial crisis in 2008/09 to 40.8 per cent in 2014/15. The 2015 Budget proposals support the long-term health of the public finances with a series of	**Highlight:** Debt levels remain sustainable. South Africa's debt has a long maturity structure and its exposure to foreign currency liabilities remains low, reducing the impact of global volatility. The 2013/14 borrowing requirement will be R162.9 billion, decreasing to R151 billion in 2016/17. Financing this requirement will increase government's net loan debt from R1.4 trillion in 2013/14 to R2 trillion by 2016/17.	**Highlight:** Government's gross borrowing requirement of R215.5 billion in 2013/14 will be financed mainly with domestic bonds. Net loan debt is projected to reach 38.6 per cent of GDP in 2013/14. Government's debt management strategy is intended to keep the cost of debt as low as possible, ensure access to global and domestic markets, diversify funding instruments and encourage the	**Highlight:** In 2012/13, government's net borrowing requirement is expected to reach R168.8 billion, up from R152.7 billion After increasing in line with budget deficits, government's net debt stock is expected to peak at 38.5 per cent of GDP in 2014/15. Owing to prudent macroeconomic policies, and deep and liquid capital markets, the state is able to finance its borrowing

over the next three years. Government's fiscal strategy puts South Africa on course to achieve a sufficiently large primary surplus to stabilise debt. The consolidated budget deficit is projected at 14 per cent of GDP in 2020/21, narrowing to 6.3 per cent of GDP by 2023/24. Debt is now expected to stabilise at 88.9 per cent of GDP in 2025/26.	**expenditure growth, mainly as a result of lower growth in the public service wage bill.** These steps will moderate spending as a share of GDP and improve the composition of expenditure, but will not stabilise debt. **Supplementary Budget** **Highlight:** Cabinet has endorsed a 2021 budget process that moves towards debt stabilisation. The 2020 MTBPS will set out plans to narrow the deficit so that debt peaks at 87.4 per cent of GDP by 2023/24. **Government will take the necessary**	**the 2019 Budget proposes reprioritisation of expenditure** and tax measures **to contain the budget deficit and stabilise debt.** In addition to the expenditure ceiling, the National Treasury is investigating the feasibility of other measures to anchor fiscal sustainability, such as rules to protect the composition of spending and limit the pace of debt accumulation. It will draw on global best practice to develop recommendations.	**a prudent approach to managing debt** in an environment of great uncertainty. The strategy maintains a broad range of funding instruments in the domestic and global markets. It includes measures to manage refinancing risk by adjusting the composition and maturity of the debt portfolio.	government proposes tax increases totalling R28 billion. The revenue proposals are concentrated at the upper end of the income spectrum, strengthening the progressive character of the fiscal system. To manage maturing debt, the bond-switch programme, which exchanges bonds with shorter maturities for longer-dated bonds, will continue. Issuance of Treasury bills will be reduced to manage refinancing risk associated with low demand at auctions, and to minimise the	(loan redemptions). The Budget proposes to add R48 billion to tax revenue by providing limited relief for fiscal drag and increasing the fuel levy, excise taxes and the effective capital gains tax rate, as well as additional revenue measures to be outlined in future budgets. The expenditure ceiling has been reduced by R25 billion over the medium term **by targeting compensation budgets of national and provincial government**. To respond to new spending needs in higher education, drought relief and its multilateral development commitments, government has	revenue and expenditure measures to narrow the budget deficit and stabilise debt. These measures include increases in personal income tax rates and the fuel levies, and a R25 billion **reduction in** **budgeted expenditure over the next two years.** Government's borrowing plans over the next three years reflect a **prudent** **approach to accumulating and managing debt**. The medium-term fiscal framework will result in debt stabilising at 43.7 per cent of GDP in	The consolidated budget deficit is expected to narrow from 4.0 per cent of GDP in 2013/14 to 2.8 per cent in the outer year, supporting a stabilisation of debt at 44.3 per cent of GDP.	growth of South Africa's liquid capital market. Fiscal policy works to ensure that debt levels remain sustainable. Government's gross borrowing requirement of R215.5 billion in 2013/14 will be financed by domestic bond issuance of R165.6 billion, net short-term loans of R23 billion, cash balances of R15.8 billion and borrowing of US$1.5 billion on global markets. Five new domestic bonds will be introduced in 2013/14.	requirement mainly in the domestic market. Government's debt instruments remain attractive to global investors,. Global investors increased their holdings of South African domestic bonds from 12.8 per cent in 2008 to 29.1 per cent in 2011. As part of its commitment to transparency, the National Treasury will begin publishing yearly reports on South Africa's public debt management. The first such report will be produced by end-June 2012, complementing

	measures to stabilise mounting public debt over the medium term. And in the months ahead, it will consult with the private sector, trade unions and civil society on the reforms needed to chart a path to faster, inclusive economic growth. A package of proposed fiscal and economic reforms will be set out in the 2020 MTBPS.			impact of adverse interest rate movements.	reprioritised R31.8 billion. Spending on core social and economic programmes has been protected, and measures to improve spending efficiency instituted. These proposals will close the budget deficit more rapidly than announced in the 2015 Medium Term Budget Policy Statement, stabilising debt at 46.2 per cent of GDP in 2017/18. **Government is committed to meeting these targets and will take additional steps to do so as required**.	2017/18. The net borrowing requirement of R180.9 billion in 2014/15 is R1.1 billion higher than projected in the 2014 Budget, and is expected to decrease to R173.1 billion in 2015/16. Domestic capital markets will remain the main source of financing.			regular domestic and international road shows and the recent launch of an investor relations website.

2021	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**
PUBLIC WAGE BILL / WAGE REDUCTION									
Highlight: Including COVID-19 adjustments, compensation at the consolidated budget level is projected to grow by 2.1 per cent in the current year and 1.2 per cent per year over the medium term. These growth rates can be achieved through, for example, doing away with annual cost-of-living adjustment in the public service up until 2023/24, together with measures to reduce headcounts – a combination of early retirement and natural attrition, as well as freezing or abolishing of non-critical posts. In addition, government is	February Budget Highlight: The 2020 Budget proposed compensation reductions totalling R160.2 billion for 2020/21 to 2022/23, relative to the pre-Budget baseline. This will affect national and provincial departments, and national public entities that receive transfers from government. **Supplementary Budget**	**Highlight:** Over the medium term, government will take additional steps to manage growth in compensation. The combination of natural attrition and active measures allows for a reduction of compensation budgets by R5.3 billion in 2019/20, R11 billion in 2020/21 and R10.7 billion in 2021/22. Government has decided to scale up early retirement without penalties. Where feasible, older employees will be allowed to retire early, with younger employees taking their place. Departments are required to realise	**Highlight:** In the 2016 Budget, government reduced the compensation ceilings of national and provincial departments by R10 billion in 2017/18 and R15 billion in 2018/19. The compensation baselines in the 2018 Budget maintain this status quo. To support higher levels of capital investment, the state needs to contain the public-service wage bill, which has crowded out spending in other areas. Compensation ceilings have helped to manage	**Highlight:** The 2015 wage agreement put significant pressure on the public finances by crowding out spending on goods, services and infrastructure. The National Treasury and the Department of Public Service and Administration are working with departments to reduce headcount, including testing the idea of voluntary severance packages. Negotiations on a new public-sector wage agreement are due to begin	**Highlight:** Compensation as a share of total spending is projected to remain at about 35 per cent between 2015/16 and 2018/19. After taking account of reprioritisation, the wage agreement and proposed reductions in national and provincial compensation, the consolidated wage bill is expected to grow at a nominal annual average of 7.4 per cent over the MTEF period.	**Highlight:** Assuming that cost-of-living adjustments will be aligned with CPI projections and overall headcount numbers remain broadly constant, the consolidated wage bill is expected to grow at a nominal annual average of 6.6 per cent over the MTEF period. Government is budgeting for a wage agreement that protects the real buying power of public servants. If	**Highlight:** The current public-sector wage agreement provides for annual cost-of living adjustments of inflation plus 1 per cent. While growth in employee compensation has slowed over the past two years, higher-than-expected inflation would add to the wage bill. These pressures are being partially offset by declining headcount growth at national and provincial levels, as government increasingly operates within currently funded staffing levels.	**Highlight:** Spending on compensation of employees is far slower than in previous years, growing at an annual average of 1.3 per cent in real terms over the MTEF period. As a result, government's wage bill declines as a share of total spending. The multi-year wage settlement reached in 2012 provides greater certainty against unanticipated wage increases that have to be	**Highlight:** Government will begin to shift the composition of spending from consumption towards capital investment. **Moderating growth in the public-sector wage bill**, and stabilising the growth in interest payments, will allow more funds to be spent on infrastructure and social spending.

exploring measures such as harmonising allowances and benefits, reconsidering pay progression rules and reviewing occupation-specific dispensations. Performance bonuses are already being phased out and careful consideration is being applied to amend or abolish some allowances and benefits. The fiscal framework reduces growth in the wage bill and the share of spending on wages, while sustaining real spending increases on capital payments, specifically for buildings and other fixed structures. Efforts to reduce growth in the public-service wage bill remain on course, with the Labour	**Highlight:** Cabinet has reiterated support for the proposed public-service wage bill reductions announced in February, which will improve the composition of spending.	permanent savings of 50 per cent of the cost attributable to early retirement cases. In December 2018, there were 126 710 public service employees between the ages of 55 and 59 years old. This initiative is expected to save an estimated R20.3 billion over the 2019 MTEF period, assuming that 30 000 employees take up the offer. The Department of Public Service and Administration has announced a change to performance bonus payments. In recent years, government has paid out about R2 billion per year in performance bonuses. Government proposes to progressively phase out this	headcounts but are limiting space to expand crucial frontline services.	during 2017. An agreement that takes account of fiscal constraints will reduce some of the pressure on staff headcount and enable government to direct a larger portion of expenditure to capital investment.	While overall growth in spending has been slowing, spending on compensation of employees is projected to grow by 7.4 per cent over the medium term as a result of the 2015 wage settlement. Government's efforts to curb unsustainable growth in the wage bill will see the proportion of consolidated spending consumed by compensation of employees remain at about 35 per cent over the medium term.	current negotiations result in a settlement that departs significantly from inflation, government will have to effect substantial reductions in capital expenditure, introduce more stringent controls on public employment or find ways to curtail spending on other critical priorities.	Government aims to maintain employee numbers at a constant level over the next three years, with exceptions to this policy requiring a compelling explanation. A further deterioration in the inflation outlook, however, would place additional pressure on the budget. A new round of wage talks will begin later this year on an agreement to take effect in 2015. The National Treasury and the Department of Public Service and Administration are working together to ensure that a fair and sustainable wage agreement is reached.	financed by the fiscus. Government will continue to monitor growth in state employment, which has been a major contributor to the increasing wage bill over the past five years, to ensure that budget objectives are met. **Government is committed to moderating growth in the wage bill and aligning it with improvements in productivity in the public sector**. As a first step, government has negotiated a three-year wage	

Appeal Court of South Africa confirming that the National Treasury must certify the affordability and sustainability of wage agreements prior to their implementation. The fiscal framework assumes compensation budget ceilings are maintained. A departure from this assumption in the forthcoming wage agreement will be unaffordable and compromise debt stabilisation. Above-inflation wage increases in local government will add to the financial pressure on local government. In July 2020, most municipalities implemented the first year of a three-year wage agreement, negotiated separately from the national agreement, that raises wages by		bonus over the next four years, and to replace it with other performance management measures. Additional measures to contain the wage bill, including active management of overtime and progression payments, are under consideration.						agreement, which improves predictability of growth in the wage bill over the medium term. This allows government to focus on initiatives to improve the quality of personnel spending, including rationalising staff establishments, restraining growth in personnel numbers and better use of excess personnel. Over time, these measures will help shift the composition of public spending away from compensation of employees towards more productive areas.	

6.25 per cent per year. Not all municipalities have budgeted for these increases. Unless municipalities rapidly improve efficiency, this agreement will compromise the local government fiscal framework and service delivery. The proposed wage bill adjustment will reverse the four-year trend of compensation growing as a share of provincial budgets. Over the MTEF period, spending on compensation of employees is likely to decrease from 61.1 per cent of provincial budgets to 60.8 per cent.									