

2021 MEDIUM TERM BUDGET POLICY STATEMENT

REFUELLING THE TANK



Standing & Select Committees on Finance
Public Hearings - MTBPS
17 November 2021

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2021 MEDIUM TERM BUDGET POLICY STATEMENT

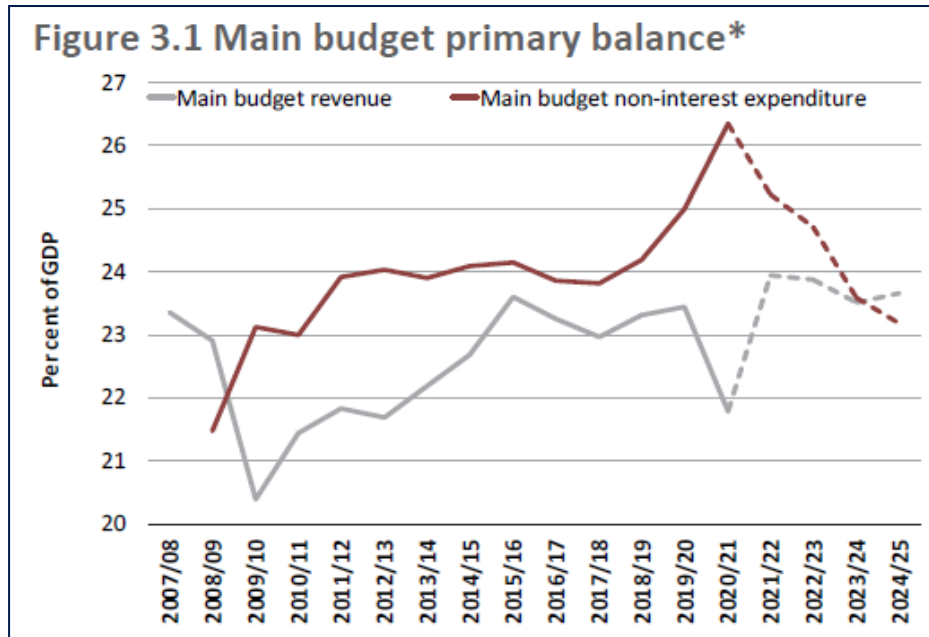
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WE KNOW THE PROBLEMS

01 Admission of persistent problems

- Revenue is not the problem, expenditure is.



Expenditure increased on average 8.8% - significantly higher than inflation

- Main reason for growth in expenditure is the **public-service wage bill**.
- Expenditure is **not efficient or effective**.



01 Consequences of the problems



Business constrained – electricity shortages, inefficient & high-cost of transport, communication platforms & red-tape



Unemployment – one of the highest in the world



Social grants – 18.3 beneficiaries (2020/21); expected to grow to 22.6m (2040/41)



Education – SA second last in the world for quality education + aging workforce



Crime – continues to increase + aging workforce

900 service delivery protests in South Africa over six months

Written by Guy Martin - 20th Apr 2021

2303



South Africa recorded more than 900 service delivery protests in six months from August to January, according to Minister of Police Bheki Cele, as the pandemic did little to halt them.

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, Cele stated in response to a parliamentary question from Freedom Front Plus MP

SF Du Toit.

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%
Aggravated 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%



01 Solutions to some of the problems



Crime prevention funding

We support the additional funding for Police. Review budgets and spending by Police and other organs in law enforcement.

Accountability for Budgets and spend

Introduce proper consequence management for non-reporting, inappropriate budgeting and improper spending, especially for CAPEX

Review workforce & enhance productivity

Review workforce skills mix and age demographic to ensure fit for purpose. Introduce and enforce productivity criteria.



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PROMISES MADE, PROMISES BROKEN

02 Promises made, promises broken

Expenditure ceilings

- Promise to maintain spending within these levels since 2012
- 2021 ceiling **breached by R56bn**
- 2023/24/25 ceilings raised due to additional *temporary* revenue
- *Why are these ceilings breached?*

Table 3.3 Main budget expenditure ceiling¹

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

Accountability

- 2018 Promised Performance Agreements for Ministers & more accountability, yet regressing **adverse AG findings** year-on-year
- *How many performance targets have been met?*
- *What was the outcome of the R50m incurred for a study on revised performance management system?*
- *Why has consequence management not been implemented across government as recommended by the AG?*
- *Has Parliament been actively monitoring & holding to account the failures by Ministers?*



02 Promises made

Public-service wages

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.”

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.”

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.”



02 Promises made

Public-service wages

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.”*

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.”*

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.”*



02 Promises made

Public-service wages

Budget Speech 2020

“The 2020 Budget proposed compensation reductions totalling R160.2 billion for 2020/21 to 2022/23, relative to the pre-Budget baseline.”

“..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.”

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.”*

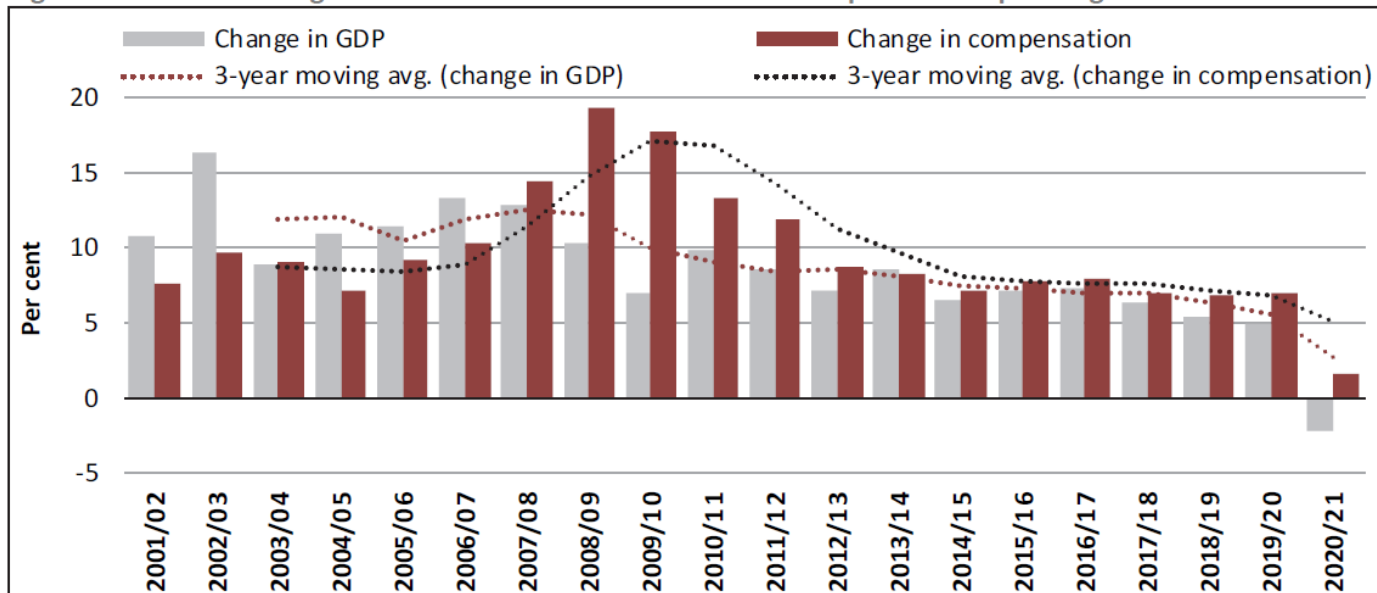


02 Promises made, promises broken

Public-service wages

- Compensation grown more quickly than GDP
- Increase due to: 1) inflation (46%)
2) increase in salaries (40.5%)
3) increase in number of employees (13.5%)

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



Source: National Treasury



02 Promises made, promises broken

Public-service wages



Picture: Ian Landsberg/ African News Agency (ANA) Archives

Government wants employees' salaries frozen for three years

By [Loyiso Sidimba](#) ⌚ Apr 16, 2021

- Yet compensation ceiling **breached by R20.5bn**
- **Constitutional Court ruling** could result in **further unbudgeted costs** being incurred



02 Promises made, promises broken

Public-service wages



Enforce budgets for wage negotiations

- Executive ensure sufficient budget & get prior approval
- NT enforce regulations

Understand the wage problem

Establish the real underlying problems:

- Too many employees?
- Incorrect employee mix?
- Insufficient productivity?
- Lack of consequences for spending and performance breaches

Implement Reforms

- Introduce performance measures to ensure required productivity
- Remunerate according to performance
- Ensure composition of employees according to needs of citizens and alignment to strategy execution



02 Promises made, promises broken

Debt

- Fiscal sustainability depends on stabilizing debt burden through controlled spending.
- Yet gross debt is forecast to grow – **increased seven-fold** from 2007/8

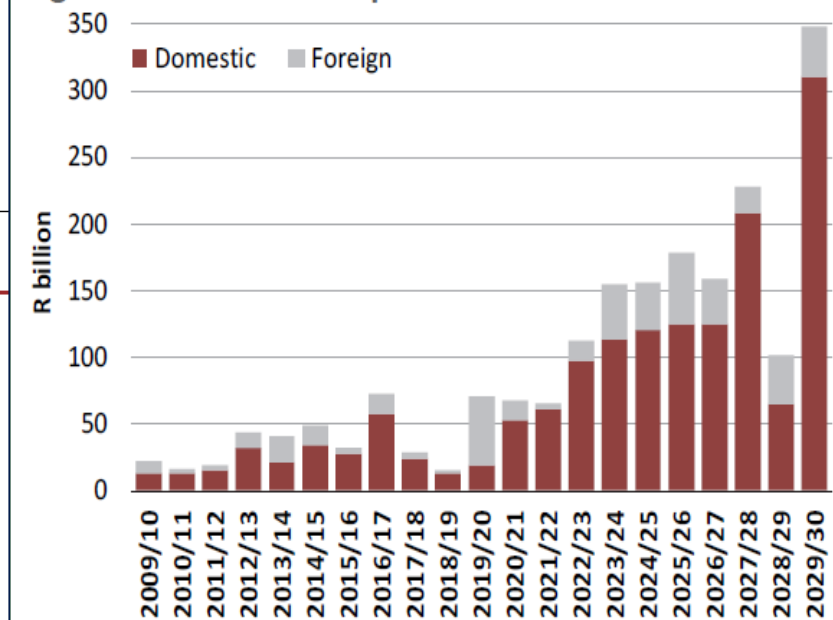
Table 1.3 Consolidated government fiscal framework

	2020/21	2021/22	2022/23	2023/24	2024/25
R billion/percentage of GDP	Outcome	Revised	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



Figure 3.5 Debt redemptions



Source: National Treasury



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UNBUDGETED AMOUNTS

03 Unbudgeted amounts

SARS

- **R9bn deficit**
- Compliance levels dropping
- GRAP implementation (Apr 2022)?



Priority must be given to SARS

NT to urgently address GRAP

Contingent Liabilities

- By 2023/4 > **R1trillion**
- No further bailouts for SoEs – but no action plan to address SoEs concerns
- **RAF = R450bn**
- Contingent or real liabilities?



Action plan needed for SoEs

GEPF

- Long-term funding objectives could be understated
- **R8bn – R16bn**



Include, if necessary, in 2022 Budget

Water & sewage

- Infrastructure dilapidated / dysfunctional
- R193m won't fix this
- Need for National Water Resources Infrastructure Agency?



Urgent action needed by COGTA/DFFE

Local Municipalities

- Financial positions so dire there is significant doubt they will meet their obligations
- **Cash shortfall = R50.7bn**
- Budget allocation = R17.8bn over the medium term



Provide for in budget



03 Unbudgeted amounts

Local government budgeting for failure:

Deficit Budgets 2018/19 - 2021/22

National	2018/19	2019/20	2020/21	2021/22
Number of deficit budgets	83	167	63	135
% of deficit budgets	36.2%	65%	24.5%	52.5%
% variance (Adj budget to Audited Outcome)	52.5%	13.6%	24.5%	Not available yet



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ILLUSIVE NECESSITIES

04 Illusive necessities



It starts with You!

04 Illusive necessities |

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THANK YOU