FFC Submission on the 2022 Budget

01 March 2022

Financial and Fiscal Commission

Presentation Outline

1. Background
2. Economic Overview and Prospects
3. Fiscal Framework and Revenue Proposals
4. 2022 Appropriation Bill
5. 2022 Division of Revenue Bill – Provinces
6. 2022 Division of Revenue Bill – Local Government
7. Public-sector institutions and investment
8. Balancing economic and social recovery with ensuring sustainable public finances
9. Concluding remarks

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1. Background

- Two years post the onset of the Covid-19 pandemic in South Africa, responding to and containing this health crisis and its wide-ranging socio-economic impacts continues to dominate government's plans and priorities – this is set to continue over the foreseeable future
  - Shocks brought on by the Covid-19 pandemic have led to contractions in the gross domestic product (GDP), increased debt levels and high unemployment and income losses – all of which have served to further entrench inequality and poverty
  - Government has had to go to extraordinary measures to ensure funding to purchase vaccines and ensure income and other types of support for the most vulnerable
  - The July 2021 civil unrest placed additional strain placed on government as public resources had to be marshalled to extend the provision of income support as well as to aid the recovery of businesses, especially small and medium sized enterprises that had been hard hit by the unrest
- Budget 2022 reiterates the priorities underpinning both Budget 2021 and the 2021 MTBPS – the achievement of economic and social recovery alongside fiscal sustainability. This submission comments on progress towards achieving these priorities
- This Submission on the 2022 Division of Revenue (DoR) Bill is made in terms of Section 214 (1) of the Constitution of the Republic of South Africa (1996) and Section 35 of the Intergovernmental Fiscal Relations (IGFR) Act (1998) as well as S4(4c) of Money Bills Amendment Procedure and Related Matters Act or MBARARMA (Act 9 of 2009), as amended

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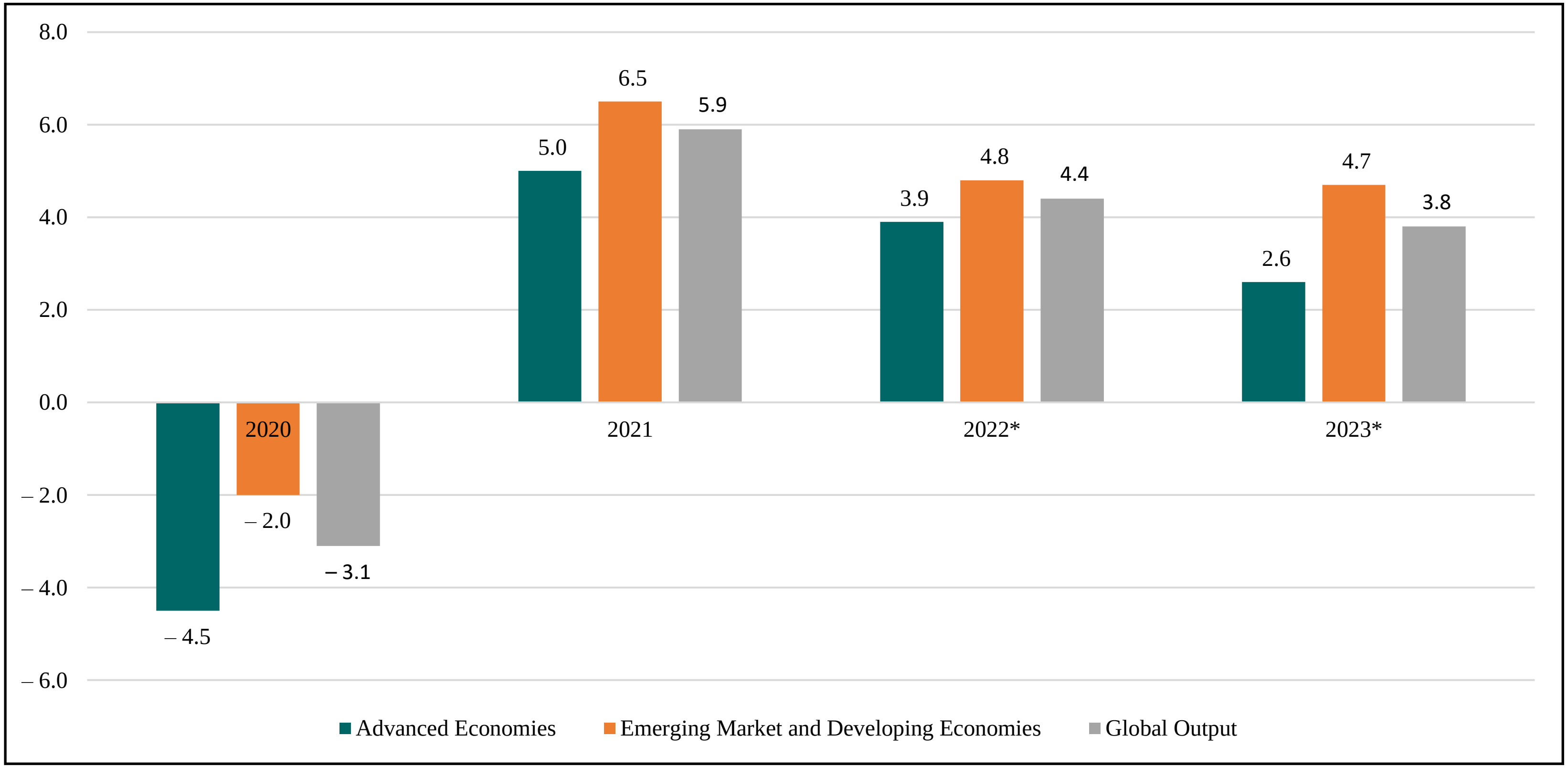
2. Economic Overview and Prospects

GLOBAL OUTLOOK



- The International Monetary Fund estimated that global output increased by 5.9% but is expected to moderate in 2022 to 4.4%. The first half of 2022 is anticipated to show moderate growth in both emerging and developing economies and advanced economies due to the disruptions brought on by the ever-mutating Covid strains.

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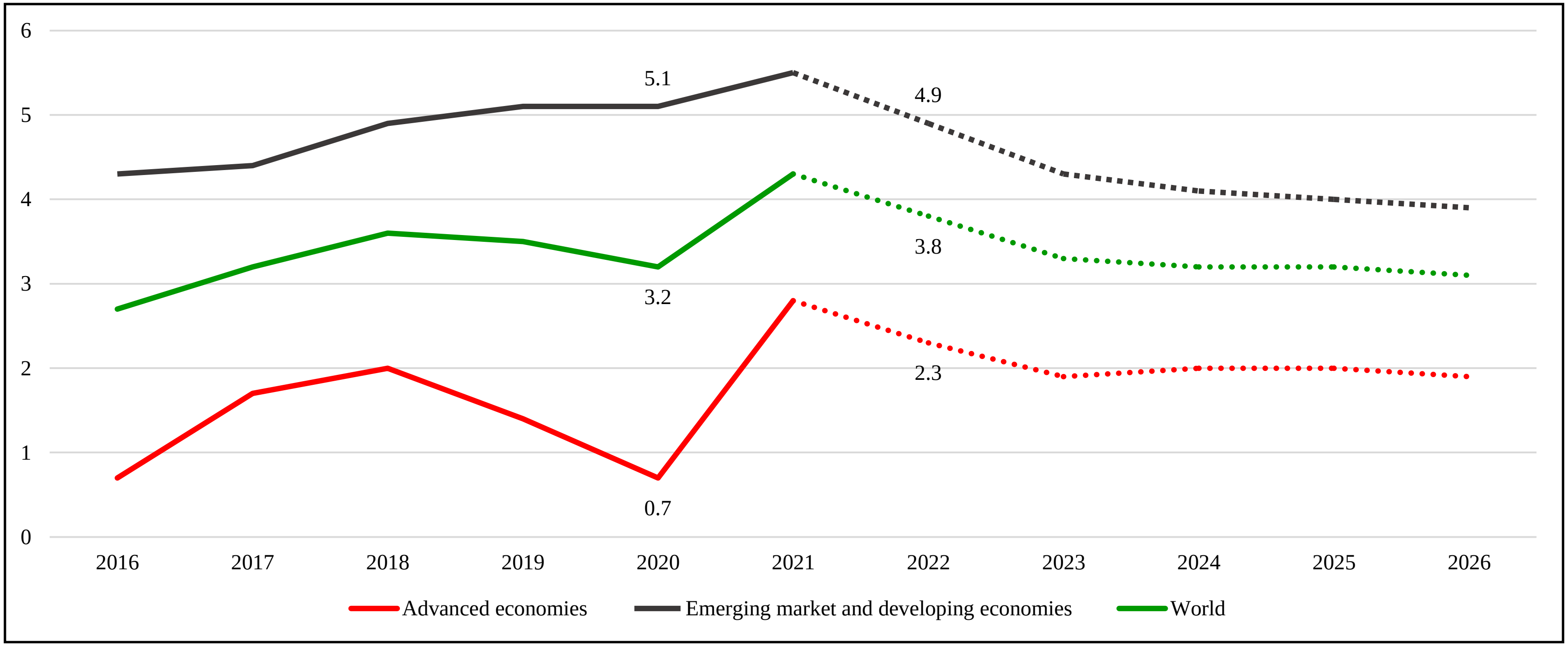
GLOBAL OUTLOOK



- Inflation is expected to continue rising in 2022. Price pressures in 2022 will average about 3.9% in advanced economies and 5.9% in emerging market and developing economies.
- Inflationary pressure seems to be derived mainly from a transitory set of factors, such as the pandemic-related reallocation of spending from services to goods and supply-chain and other disruptions to production

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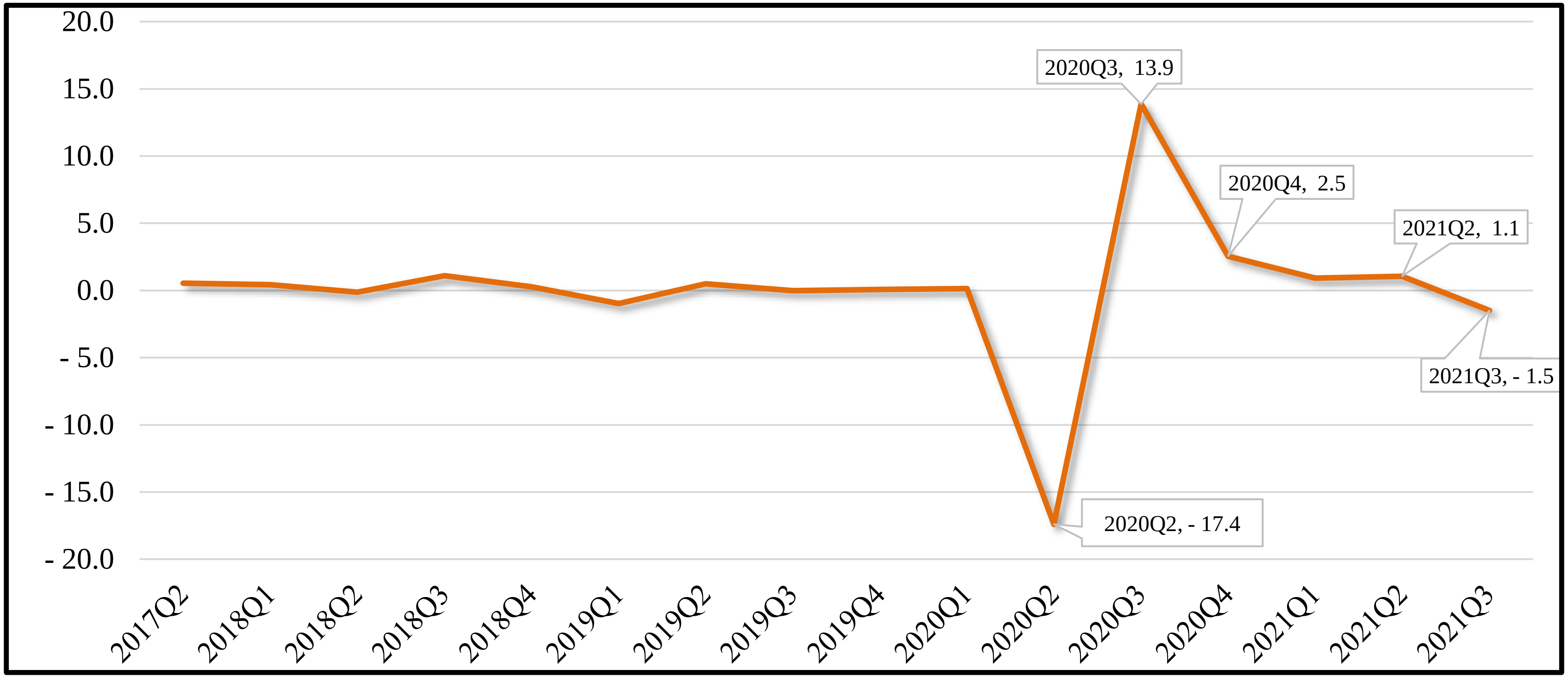
Gross Domestic Product (quarter-quarter changes)



- Signs of a slow economic recovery were starting to emerge, with the economy growing for four consecutive quarters from 2020 quarter 3 to 2021 quarter 2. However, the recovery was disrupted in the third quarter when GDP decreased by -1,5%.
- The Omnicron Covid-19 variant undermined economic recovery progress, and the unrest in KwaZulu-Natal and Gauteng also disrupted the economic recovery.

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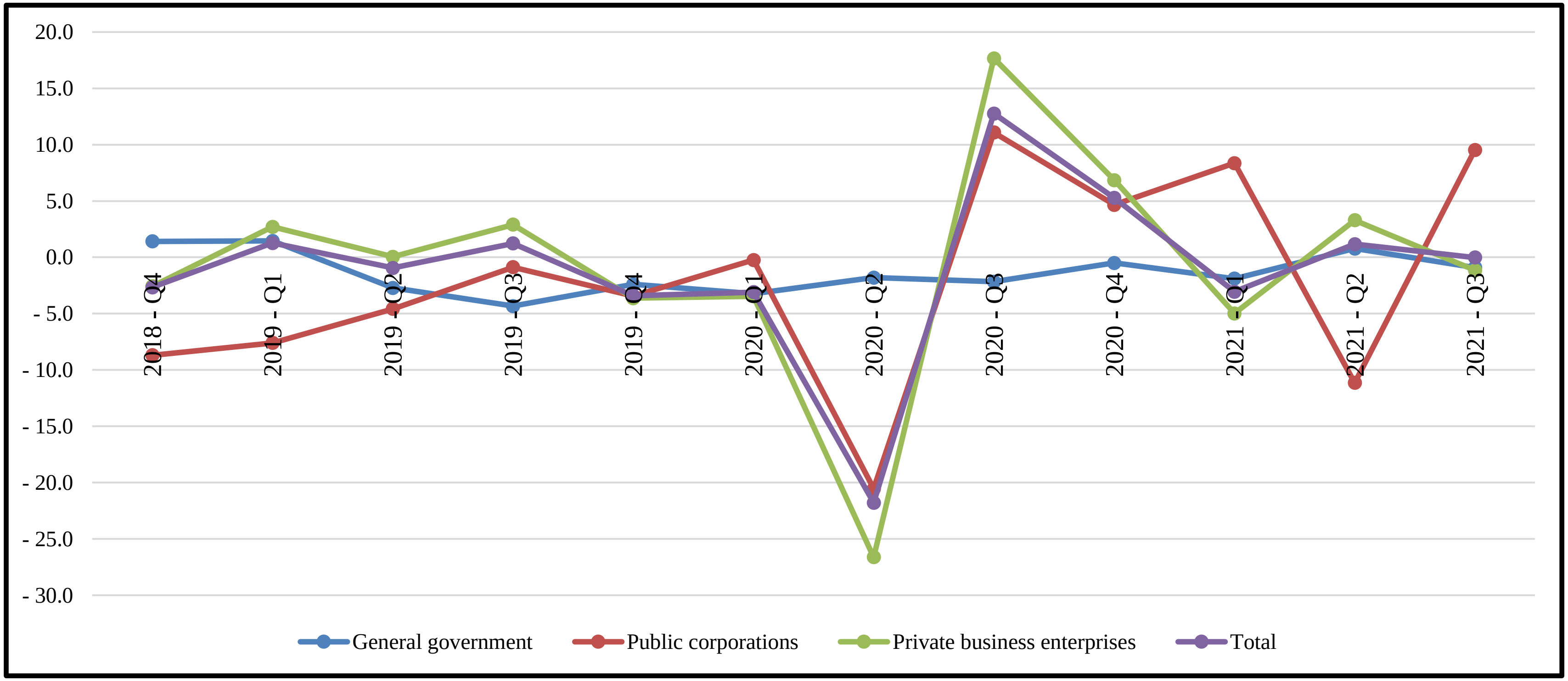
GROSS FIXED CAPITAL FORMATION (INVESTMENT)



- Total Gross Fixed Capital Formation (GFCF) improved following a sharp decline due to the impact of Covid-19. Government investment declined by -0.9% in the third quarter of 2021.
- The private fixed capital formation also declined by -1.2%, while public corporations fixed capital formation increased by 9.5%.

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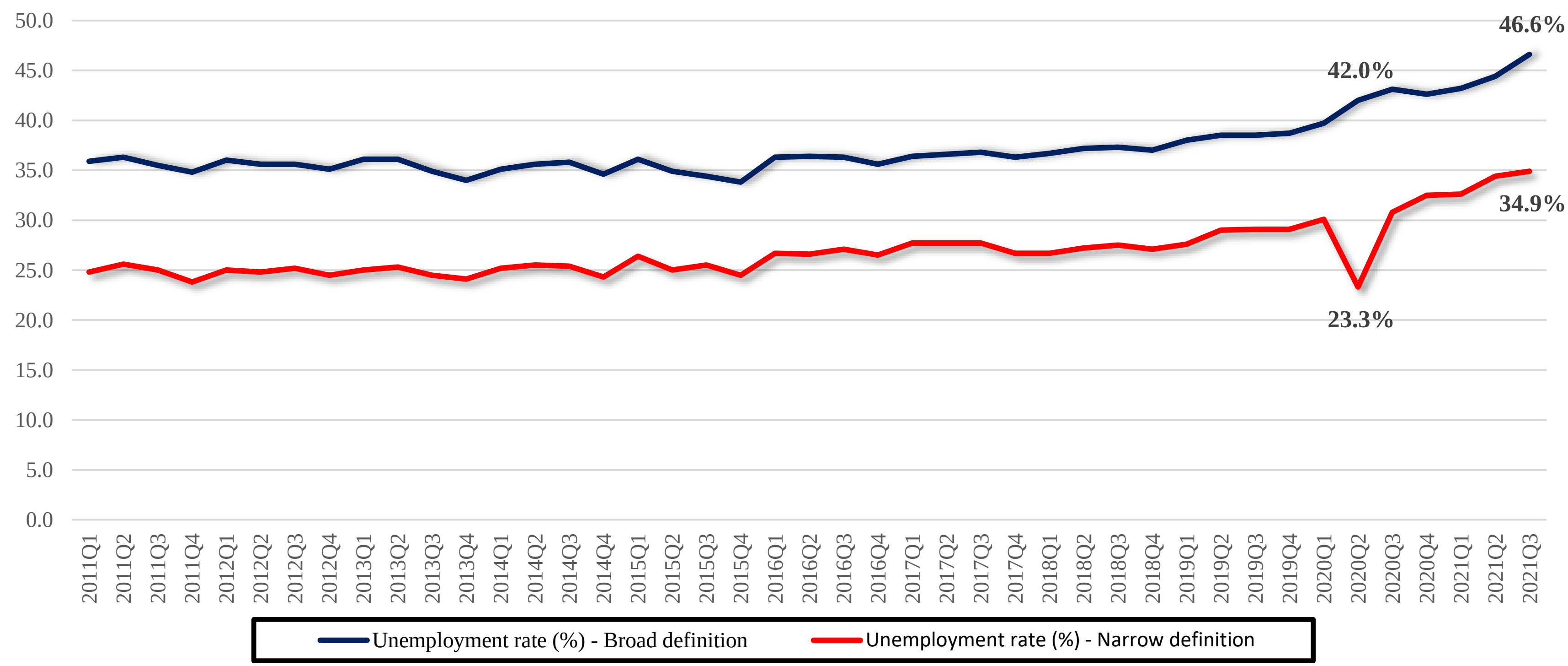
UNEMPLOYMENT RATE



- The employment recovery continues to be sluggish and has not recovered to Pre-Covid-19 levels.
- The official unemployment rate rose by 0.5 of a percentage point from 34,4% in the second quarter of 2021 to 34,9% in the third quarter of 2021 - the highest recorded unemployment rate in South Africa
- According to the expanded definition of unemployment, the unemployment rate increased by 2.2 percentage points to 46,6% in quarter 3 2021 compared to quarter 2 2021.

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3. Fiscal Framework and Revenue Proposals

Consolidated Government Fiscal Framework

	2021/22	2022/23	2023/24	2024/25
R billion/percentage of GDP	**Revised estimate**	**Medium-term estimates**		
Revenue	**1721.3**	**1770.6**	**1853.2**	**1977.6**
	27.5%	27.5%	27.2%	27.3%
Expenditure	**2077.0**	**2157.3**	**2176.8**	**2281.8**
	33.2%	33.5%	32.0%	31.5%
Budget balance	**-355.7**	**-386.6**	**-323.6**	**-304.2**
	-5.7%	-6.0%	-4.8%	-4.2%
Debt-service costs	**268.3**	**301.8**	**335.0**	**363.5**
	4.3%	4.7%	4.9%	5.0%
Gross Domestic Product (est.)	**6251.5**	**6441.3**	**6805.3**	**7233.7**

- A consolidated budget deficit of 6% of GDP is projected for 2022/23, narrowing to 4.2% of GDP in 2024/25
- Debt servicing costs will exceed R300 billion per year from 2022/23, becoming the fastest-growing spending item
- The poor and inefficient financial performance of State-Owned Entities still weighs on public expenditure
- A narrowing tax base due to rising unemployment may put pressure on public spending, increase the budget deficit, and increase borrowing requirements

Allocations by Economic Classification

R billion	2021/22 Revised estimate	2022/23 Medium-term estimates	2023/24	2024/25	Total MTEF
OPERATING ACCOUNT					
Current payments	1 847.30	1 936.30	1 926.10	2 013.90	5 876.30
Compensation of employees	665.1	682.5	675	702	2 059.50
Goods and services	277.9	284.8	281.6	299.9	866.2
Interest payments	276.9	310.8	343.7	372	1 026.50
Current transfers and subsidies	627.4	658.2	625.8	640	1 924.00
CAPITAL ACCOUNT					
Capital receipts	0.2	0.2	0.2	0.2	0.7
Capital payments	82.2	102.4	109.1	116.2	327.7
Capital transfers	73	81.4	86.8	91.8	260

- Over the MTEF period, capital payments will receive an allocation of R327.7 billion representing an average growth of 12.2% over the 2022/23 to 2024/25 period
- Capital transfers will receive a total allocation of R260 billion over the MTEF period, representing an average growth of 7.9%
- Employees compensation average growth of will be 1.8% over the MTEF period, and the average growth of goods and services will be 2.6% over the MTEF

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Allocations by Functional Classification

R billion	Total allocation between 2021 Budget and 2022 Budget		Change between MTBPS 2021 and Budget 2022	Average annual change 2021/22 to 2024/25
	2021/22 Main Budget	2021/22 Revised estimate		
Learning and culture	389.8	415.2	25.4	-1.1%
Health	227.7	238.4	10.7	-1.8%
Social development	280.4	304.6	24.2	-2.5%
Community development	204.2	211.7	7.5	3.4%
Economic development	187.7	192.9	5.1	4.2%
Peace and security	214.0	218.4	4.4	-3.1%
General public services	62.4	71.7	9.4	-4.9%
Consolidated non-interest expenditure	**1566.1**	**1652.8**	**86.7**	
Consolidated non-interest expenditure including payments for financial assets	**1662.7**	**1727.4**	**64.7**	
Consolidated non-interest expenditure excluding compensation of employees	935.5	987.8	52.3	

- Allocations across functions support the implementation of existing policy priorities around protecting the vulnerable
- However, over the MTEF period the learning and culture decreases by -1,1% and the social development decreases by -2,5%
- Only the Community development and Economic development increase over the MTEF
- The budget cuts must consider the effect of these cuts on employment, a balance between budget cuts and employment preservation must be maintained

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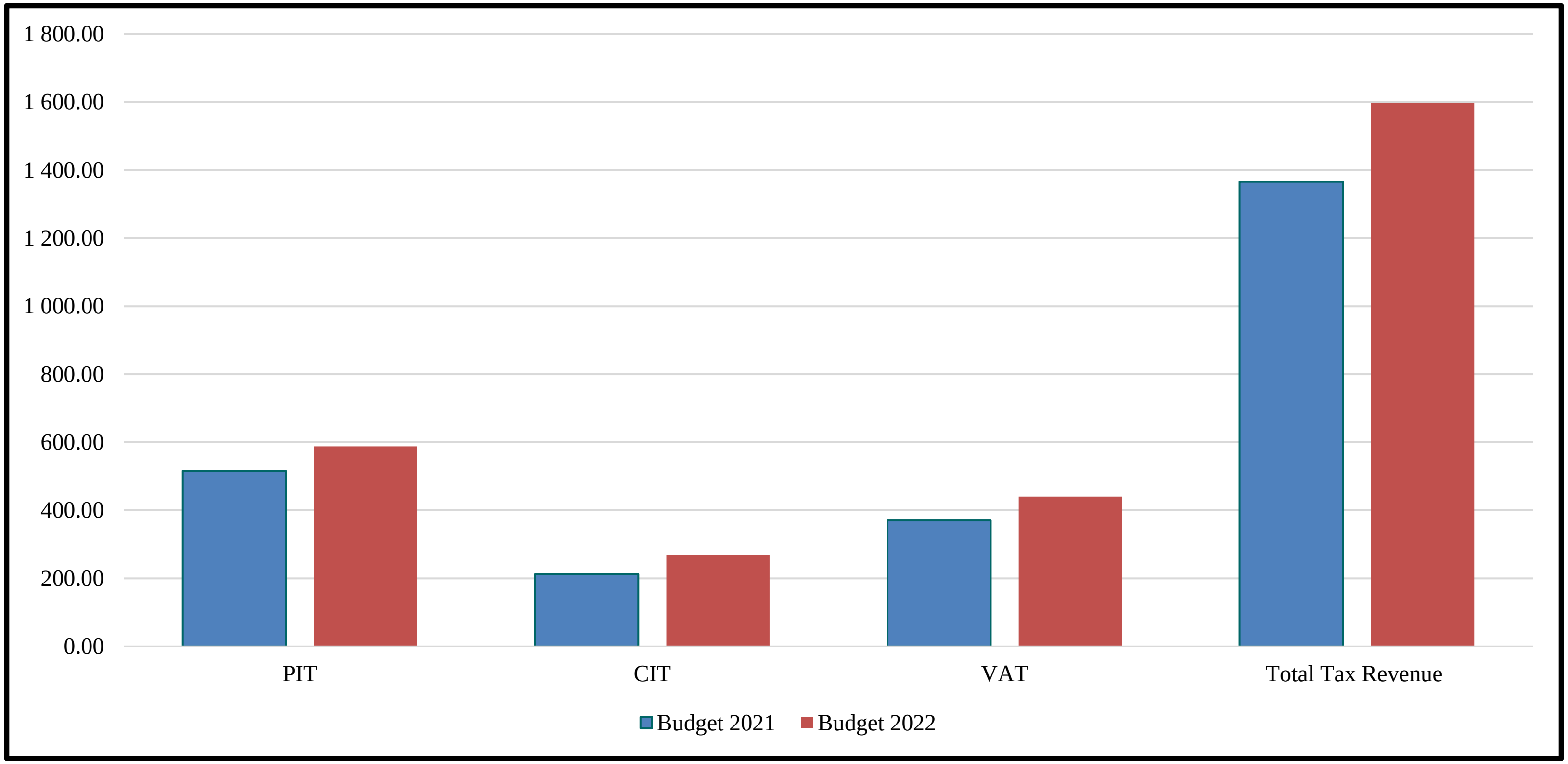
Tax Revenue



- Gross tax revenue for 2021/22 is R61.7 billion above projections. The upward revision shows an improvement in Personal Income Tax (PIT), Company Income Tax (CIT), and Value Added Tax (VAT)

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4. 2022 Appropriation Bill

APPROPRIATIONS BILL

- Total appropriation by vote, amounts to R1.057 trillion in 2022/23 (or R3.1 trillion over the next three years) - represents a nominal increase of 3% when compared to the revised estimate for 2021/22
  - Funding outlined in 2022/23 Appropriation Bill contains strong emphasis on social protection spending and spending on economic development
  - The positive growth projected for 2022/23 is not maintained in 2023/24 when the total allocation is projected to decline by 4% - departments set to feel the pinch of constrained resources more strongly in 2023/24, especially if revenue does not improve
  - Summary of issues from 2022 Appropriation Bill:
  - **Social Development** vote which will receive R257 billion in 2022/23
    - Three new developments over the MTEF: (1)Extension of SRD grant for 12 months (2022/23), (2) Extension of CSG to cater for double orphans (2023/24) and (3)Social security grants to be linked to inflation (2023/24)
    - Interventions will bring welcomed relief to poor and vulnerable households who rely on social security grants especially given the detrimental effects of the past two years
    - Permanent replacement for the SRD grant: the Commission notes that processes are underway to identify the best options for replacement. For the Commission, a primary consideration regarding the viability of any potential replacement for the SRD grant will be the long-run effect that a universal grant would have on the sustainability of the fiscus

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APPROPRIATIONS BILL [CONT.]

- Allocation to the **Higher Education and Training** (DHET) vote will increase from R98 billion in 2021/22 to R110 billion in 2022/23. Additional funding of R32.6 billion allocated to the National Student Financial Aid Scheme (NSFAS) for strengthening fee-free higher education – this is made possible for additional funding as a result of the revenue windfall
  - Potential risk: the funding of new students creates future funding obligations. If revenue does not recover, DHET budget will be under severe pressure and could lead to underfunding of priorities
  - Commission awaits details regarding the new funding model for higher education
- Positive growth projected for allocations to **Basic Education** vote over the next 3 years
  - Given concurrent nature of function, increases at provincial level will be key
  - Commission welcomes the additional R24.6 billion allocated to provinces to address teacher shortages. Should teachers be hired, a future funding obligation is created for provinces. Should the sector face slower or negative growth over the coming years, education department budgets will be under severe pressure
  - Shift of ECD function from DSD to DBE
- Strong growth projected for **Cooperative Governance** vote. Increased funding of R28.9 billion is directed at equitable share allocation to municipalities
  - Given the role that municipal services such as water, sanitation, electricity and refuse removal play in social and economic development, the Commission welcomes government's efforts to protect this pool of funding

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Appropriations Bill [cont.]

- Alongside increases to social protection programmes, the 2022 Appropriation Bill shows strengthening of allocations to economic development-related departments, reinforcing the infrastructure-led growth approach:
  - **Water and Sanitation** vote: additional allocation of R5.3 billion over the medium term for capital projects involving water resource and regional bulk infrastructure
    - Water is critical for the health and safety of our people and fundamental to growth and development. Commission thus supports the increase in this Vote
  - **Transport** vote will increase by 7.8%, on average, from R69.1 billion in 2022/23 to R81.6 billion in 2024/25
    - A large fraction of the vote allocation (R76.4 billion) is transferred to the South African National Roads Agency (Sanral) - of this amount 59.3% (R45.3 billion) will be used to fund the upgrading, strengthening and refurbishing the national non-toll roads network
    - Good road infrastructure enables and facilitates trade of goods and services which is critical for economic growth and development - the Commission thus supports this allocation
- With respect to job creation:
  - **Trade, Industry and Competition** vote received additional allocations amounting to R2.1 billion in 2021/22. Of this amount, R800 million was to create work opportunities through the presidential employment initiative, and R1.3 billion was to respond to the social unrest in July 2021 and the negative impact of the Covid-19 pandemic
  - **Employment and Labour** vote will receive R677.2 million over the first two years of the MTEF period for the pathway management network, a presidential employment initiative

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Recommendations

- The Commission supports government's decision to prioritise funding for social protection alongside increases for key votes within the economic development cluster
  - The fact that a number of the increases are temporary and enabled by the revenue windfall cannot be overemphasised
  - Increases across certain sectors will create future funding obligations for departments – this includes NSFAS funding for existing bursary holders/new entrants to institutions of higher learning as well as the R24.6 billion allocated to hire teachers
    - Should the recovery of revenue not be realised, departments will be under severe pressure come 2023/24. Already projections for total allocation by vote show a decline for 2023/24
    - The Commission therefore advises department to be aware of this potential threat and to be proactive in terms of developing contingency plans to fund commitments should this scenario arise
    - In particular, we emphasise the urgency of ensuring that the processes related to the introduction of the new higher education funding model unfold swiftly and are concluded in time for introduction in 2023

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5. 2022 Division of Revenue Bill – Provinces

Overview of Provincial Government Allocations

- The 2022 budget proposes a total allocation R682 billion or R2.0 trillion over the MTEF to the provincial fiscal framework
- The 2020 allocation represents a slight improvement to the 202l MTBPS estimate of R658 billion
  - The upward adjustment is largely as a result of the R53 billion added to the PES to address teacher and LTSM shortages, hire education assistants and strengthen Covid-19 responses
- Notwithstanding the upward adjustment in 2021 and 2022, the 2022 MTEF allocations remains below pre-covid 19 projections
  - Conditional grant allocations are beginning to catch up to pre-Covid-19 levels – albeit at a slower growth rate
  - Average growth of total conditional grants MTEF allocation over the pandemic period is 6% in nominal terms

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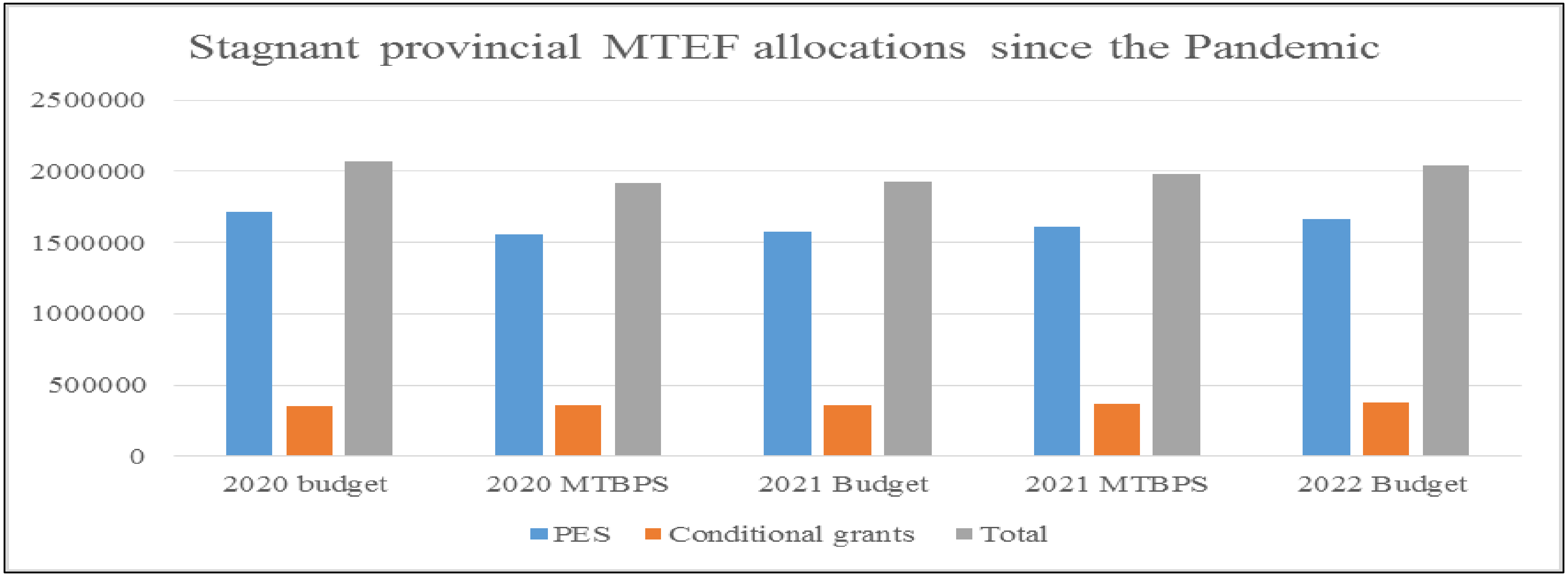
RECOMMENDATION



- The Commission recommends that provinces identify selected delivery indicators and provide assessments of service levels using 2020 financial year as a point of reference to determine the impact of stagnant allocations on service delivery. The assessments must also incorporate provincial conditional grant delivery targets set out in the 2020 DoRA in comparison to the year of assessment

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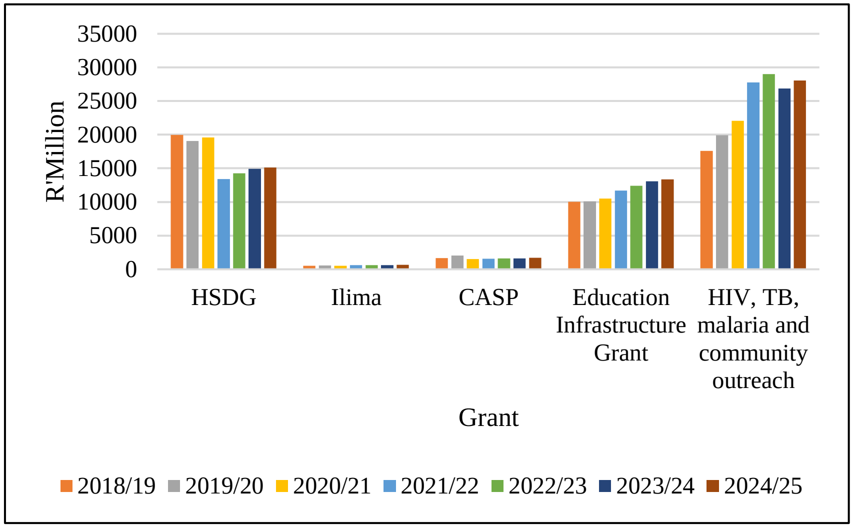
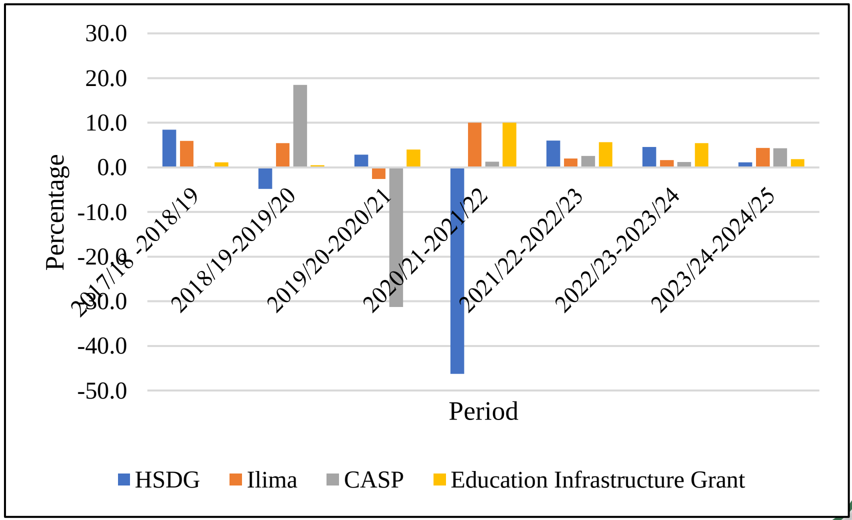
KEY PROVINCIAL CONDITIONAL GRANTS

- Consistent reprioritisation has had a negative impact on the HSDG – (between 2020/21 and 2021/22, negative year-on-year growth rate of 46,3%)
  - A significant decrease in the HSDG in recent years and marginal growth over the 2022 MTEF imply a further delay in reducing housing backlogs and improving housing condition
- The HIV/AIDS, TB, Malaria and Community Outreach grant/District Health Programmes grant has shown significant growth – between 2020/21 and 2021/22, an increase of R5.7 billion – and grows by R1.3 billion between 2021/22 and 2022/23. While the Commission commends the protection of the District Health Programmes grant, it is of the view that prioritisation on spending should be on preventative measures and programmes





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RECOMMENDATIONS

- The Commission recommends that provinces identify selected delivery indicators and provide assessments of service levels using the 2020 financial year as a point of reference to determine the impact of static allocations on service delivery. The assessments must also incorporate provincial conditional grant delivery targets set out in the 2020 DoRA in comparison to the year of the evaluation as the benchmark.
- The Commission notes that despite the R24.6 billion over the 2022 MTEF for provincial education departments to address the shortage of teachers, the Commission recommends that the government consider the carry through cost for teachers going forward.

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6. 2022 Division of Revenue Bill – Local Government

Introduction

- 2022 will be a challenging year for municipalities as the political landscape has changed drastically after the municipal elections with governance and fiscal challenges which have the potential to impact the delivery of basic services

- All these changes are taking place against the backdrop of COVID-19, which amplified challenges related to access to basic services (water, electricity, and sanitation) with wider fiscal gaps - municipalities (68%) are in financial distress
  - In addressing some of these challenges, the Commission notes and welcomes the review of the Local Government Capacity Building system, which started in 2021 with its implementation envisaged to kick start in 2023. The Commission is of the view that such initiatives will enhance municipal performance and move the local government sector forward and quicken the recovery process.

- Another welcomed development in the local government sphere is strengthening own municipal revenue through development charges, which plays a critical role in financing infrastructure-related projects and boosting economic growth.
  - The Commission welcomes this approach as it aligns with the FFC 2020/21 Submission for the Division of Revenue for supplementary revenue sources to supplement municipal revenue. The Commission further stresses that these reviews should be synchronised with the District Development Model (DDM), which seeks to address critical issues of municipal finances service delivery failures.

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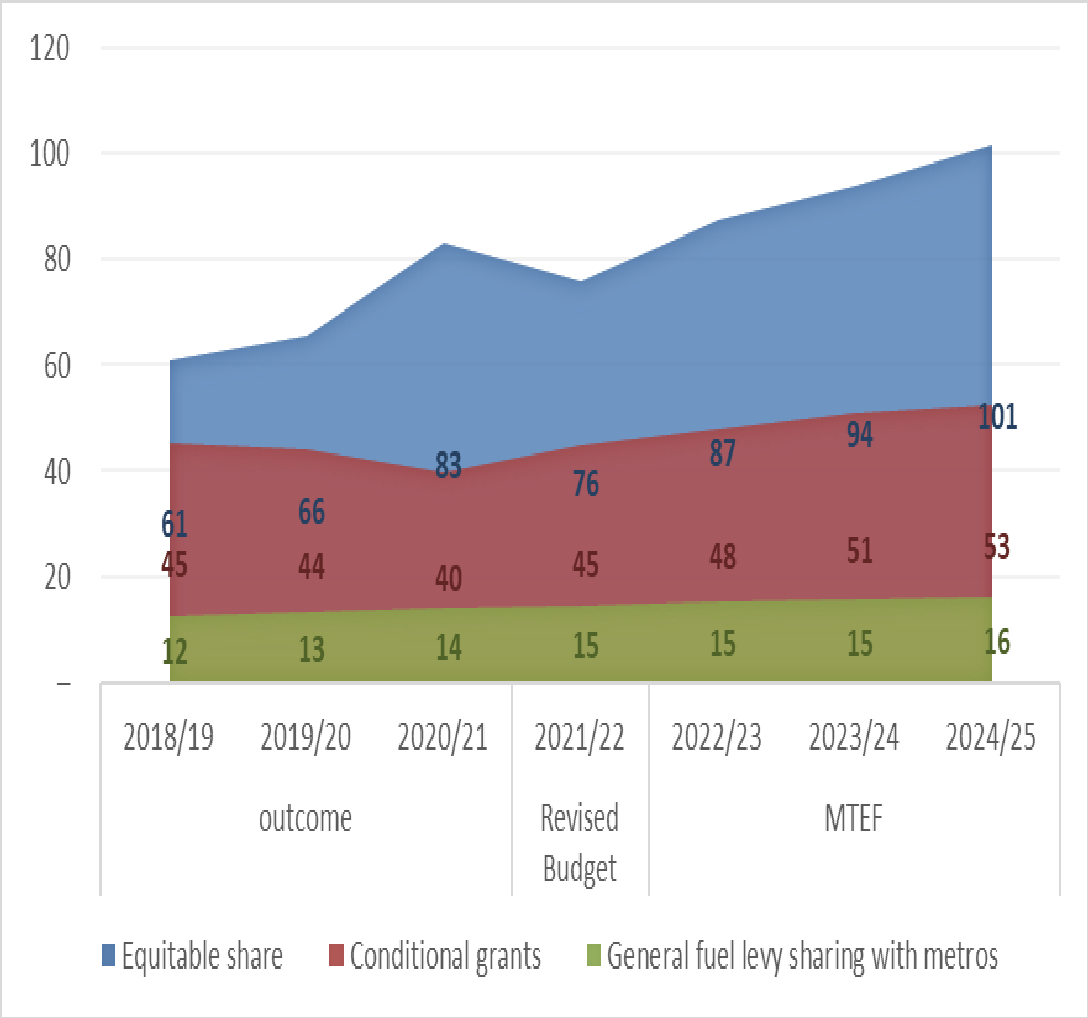
Local Government Equitable Share



- The share of local government allocations is expected to increase over the MTEF, from 9% in 2022/23 to double-digit of 10% 2023/24 compared to the previous two financial years (2019/ 2020 and 2020/2021)

- The Commission is of the view that in order for municipalities to fulfil their constitutional mandate of providing these basic services they will need to improve on efficient spending with cooperative governance support from national and provincial governments

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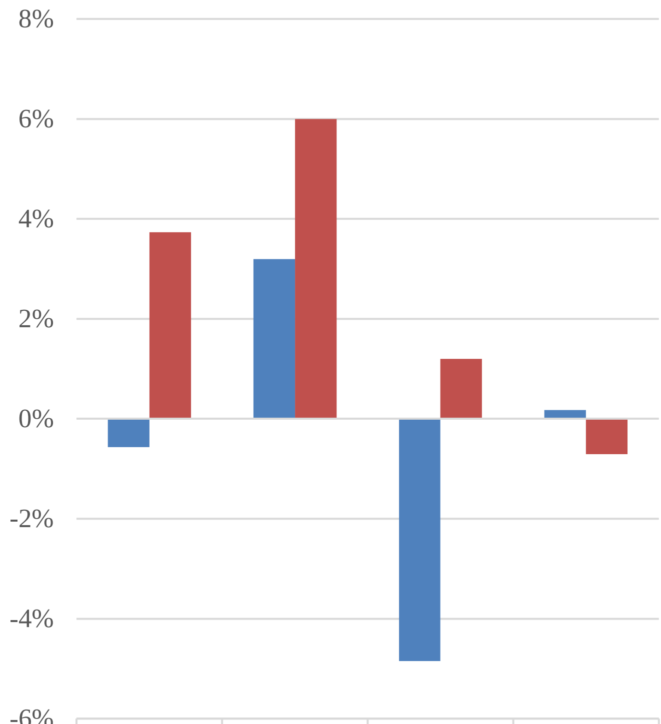
Local Government Transfers

Average Real Growth Rates

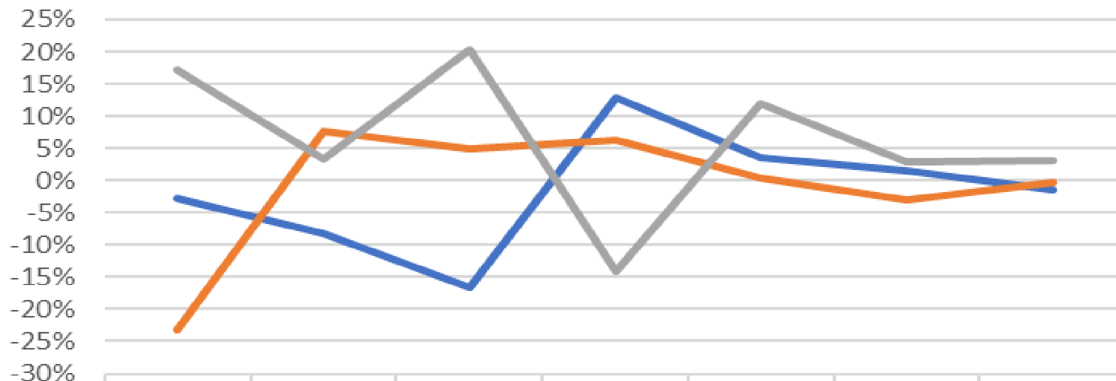


	Local government	Equitable share	Conditional grants	General fuel levy sharing with metros
Average Real Growth 2019/20 - 2021/22	-1%	3%	-5%	0%
Average Real Growth Over MTEF	4%	6%	1%	-1%

- Total local government transfers will increase over by 4% over the MTEF
- The increase in LES allocation, in turn, has resulted in positive (6%) real average
- The Commission welcomes the government's efforts to keep LES growth rates above inflation through increased allocation - the positive real growth rate of the LES will go a long way in offsetting the ever-increasing costs of basic services, thereby enabling the sector to provide basic services to poor households
- Likewise, the steady positive real growth rate on conditional grants over the 2022 MTEF, is in line with the government's partly infrastructure-driven economic recovery plan, although in the last outer year, a negative growth rate is noted with concern.

LOCAL GOVERNMENT CONDITIONAL GRANT

Real Growth Rates in Three Local Government Transfer Window



	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Outcome			Revised Budget	MTEF		
Total Infrastructure grants	-3%	-8%	-17%	13%	3%	2%	-1%
Total Capacity building grants	-23%	8%	5%	6%	0%	-3%	0%
equitable share formula	17%	3%	20%	-14%	12%	3%	3%

- The figure shows a steady decline in real growth rates of the infrastructure grant over the MTEF, while the capacity grants are at a standstill and even recording negative growth rate in 2023/24.
- The Commission notes the long-overdue reviews of capacity-building systems and infrastructure grants undertaken by the government. Previously, Commission recommended, the need for conditional grants with a similar purpose to be streamlined to maximise efficiency.

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Conditional Grant Changes

- Additions to the baseline on direct conditional grants are noted over the 2022 MTEF of R3.6 billion.
  - Neighbourhood Development Partnership Grant (R1.6 billion), Regional Bulk Infrastructure (over R1billion), and the Public Transport Network Grant (R621million). The Commission welcomes the additions to these infrastructure-related grants as they are in line with the Economic Recovery Plan (ERP) set through the infrastructure-led projects meant to boost economic growth and employment opportunities
- However, during the 2022 MTEF, municipal conditional grant baselines are expected to be reduced by over R1 billion; R875 million from direct conditional grants, and R1.45 million from indirect conditional grants respectively.
- These reductions to the baseline grants due to underspending are a concern
  - The direct grant- Public Network Grant (R859 billion), the Energy Efficiency Demand (R16 million), the indirect grant -Regional Bulk Infrastructure (R95 million), and the Integrated National Electrification (R50 million) and these grants are reprioritised.
- The Commission is of the view these reductions send a negative signal to what the government is trying to accomplish by investing in infrastructure catalytic projects.

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Recommendations

- The Commission welcomes the government's efforts to keep LES growth rates above inflation as it will go a long way in offsetting the ever-increasing costs of basic services and enable the delivery of basic services to poor households.
- Commission notes and welcomes the reviews of capacity-building systems and infrastructure grants. The Commission is of the view that such initiatives will enhance municipal performance and move the local government sector forward and quicken the recovery process.
- The Commission further stresses that these review initiatives should be synchronised with the District Development Model (DDM), which seeks to address critical issues of municipal finances service delivery failures.
- Lastly, the Commission stresses that municipalities must improve the efficiency of spending with cooperative supports from the national and provincial spheres of government through monitoring, reporting and evaluation to fulfil their constitutional mandates.

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7. PUBLIC-SECTOR INSTITUTIONS AND INVESTMENT

Guarantees to State-Owned Companies

	2017/18		2018/19		2019/20		2020/21		2021/22	
% of GDP	Guarantee	Exposure	Guarantee	Exposure	Guarantee	Exposure	Guarantee	Exposure	Guarantee	Exposure
Eskom	6.81	4.88	6.46	5.27	6.15	5.75	6.29	5.36	5.60	5.25
SANRAL	0.76	0.59	0.72	0.73	0.67	0.69	0.68	0.67	0.61	0.79
SAA	0.37	0.22	0.35	0.28	0.34	0.31	0.34	0.12	0.31	0.05
Land Bank	0.19	0.07	0.18	0.02	0.17	0.05	0.17	0.04	0.15	0.003
DBSA	0.24	0.08	0.21	0.08	0.02	0.08	0.02	0.09	0.16	0.08
Transnet	0.07	0.07	0.06	0.07	0.06	0.07	0.06	0.07	0.06	0.06
Denel	0.05	0.05	0.06	0.06	0.12	0.08	0.12	0.06	0.05	0.05
SA Express	0.02	0.02	0.05	0.003	0.03	0.003	0.004	0.004	0.00	0.00
IDC	0.008	0.002	0.009	0.002	0.02	0.004	0.009	0.002	0.01	0.002

- In 2022/23, contingent liabilities will reach R1.17 trillion, accounting for 18.11% of GDP due to tenacious SOE cash shortfalls and stringent borrowing requirements. Guarantees primarily drive contingency liabilities to SOEs, which account, on average, for more than 50 % of the total contingency liabilities
- If all the SOE guarantees were to materialise, government debt would increase to more than 100% GDP by 2026, highlighting the urgency and importance of reforming SOEs in light of the immediate risk they pose to the fiscus

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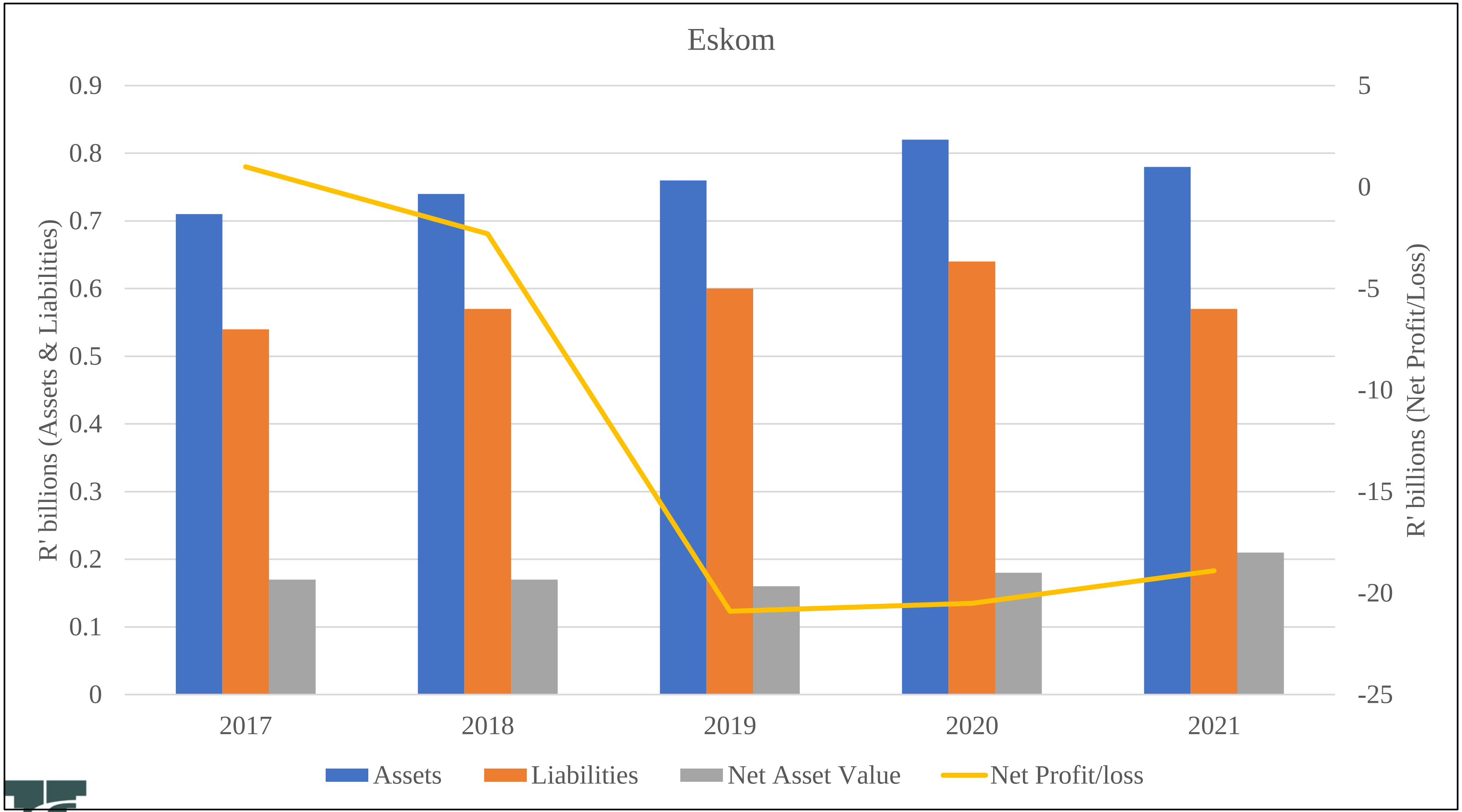
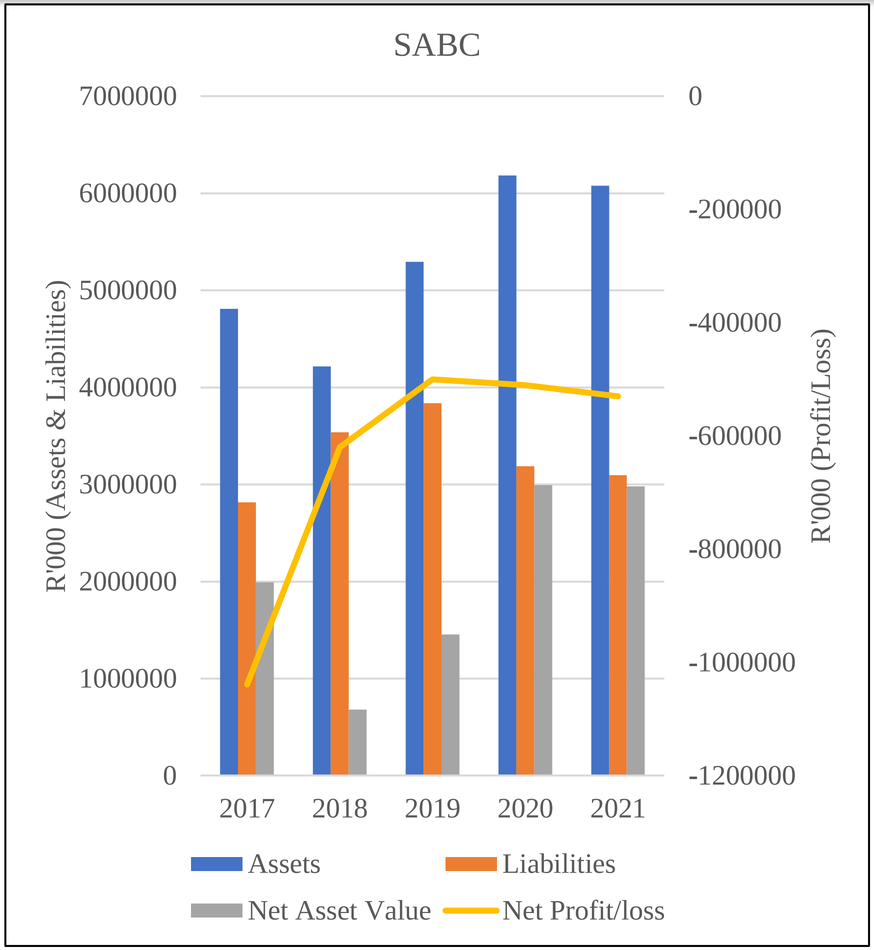
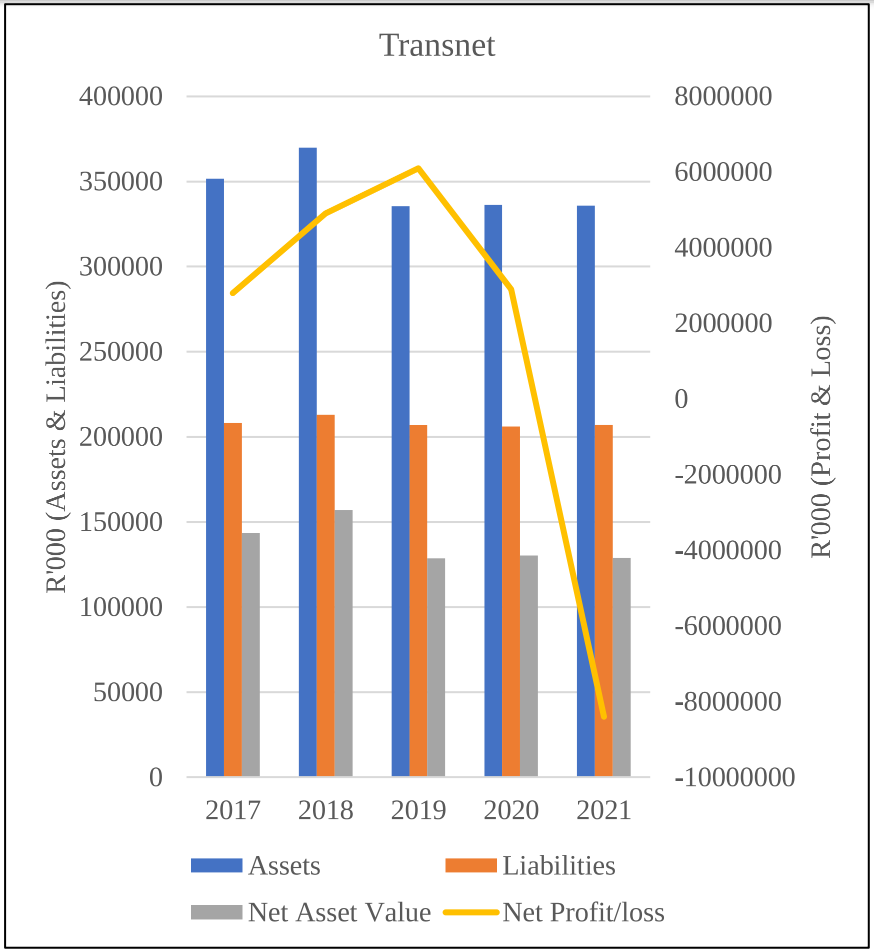
Financial Performance of State-Owned Companies



Financial Performance of State-Owned Companies





Financial Performance of State-Owned Companies

- SOEs play a very significant role in economic development but their worsening operational and financial performance are placing a heavy burden on the fiscus - underscores the urgency to address their weak performance.

- The financial health of SOEs as measured by key financial ratios reflects weak financial performance as both the profitability and solvency ratios are deteriorating. The decreasing net asset values resulting from increasing liabilities as well as net losses for SOEs attest to their poor financial health.

- The Commission supports the proposal for a centralised shareholder model for commercial SOEs as proposed by the PCRSOE as well as the government initiative to publish a framework outlining the criteria for government funding of SOEs.

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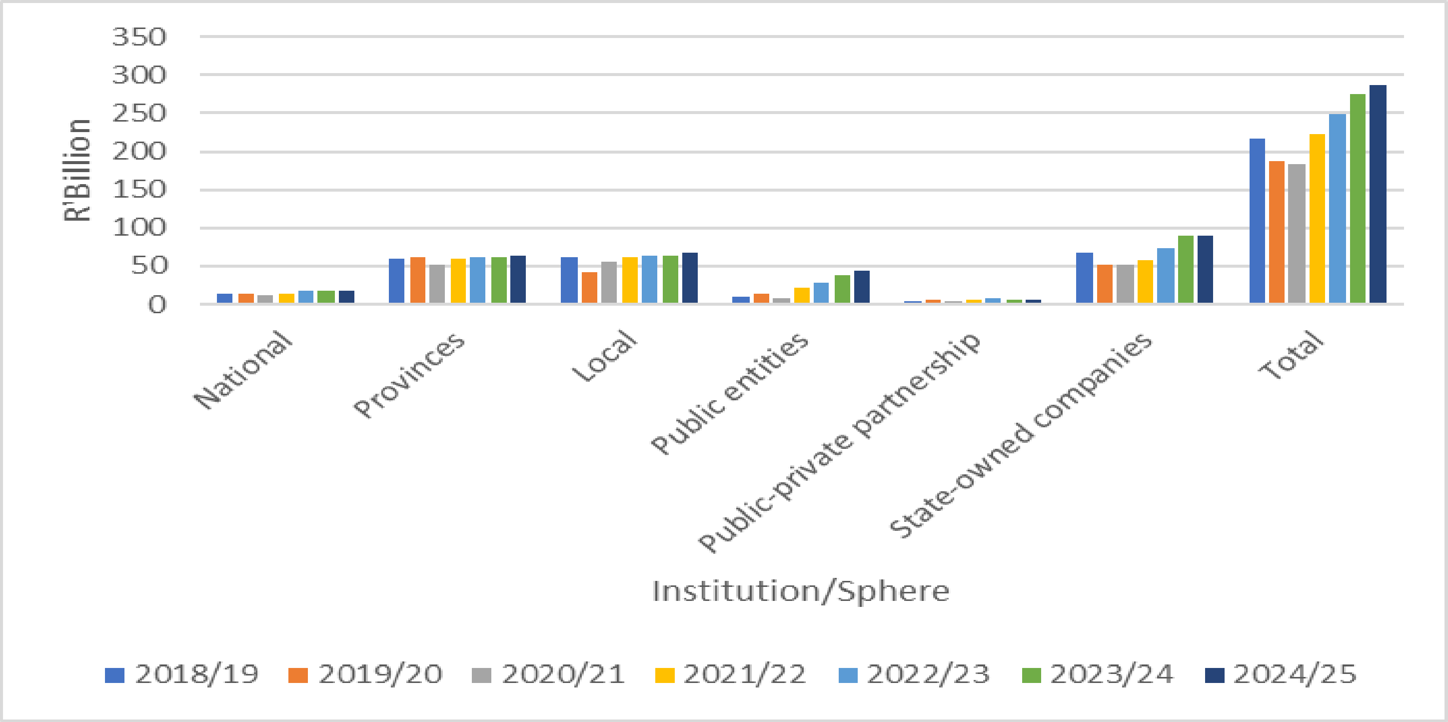
PUBLIC INFRASTRUCTURE INVESTMENT

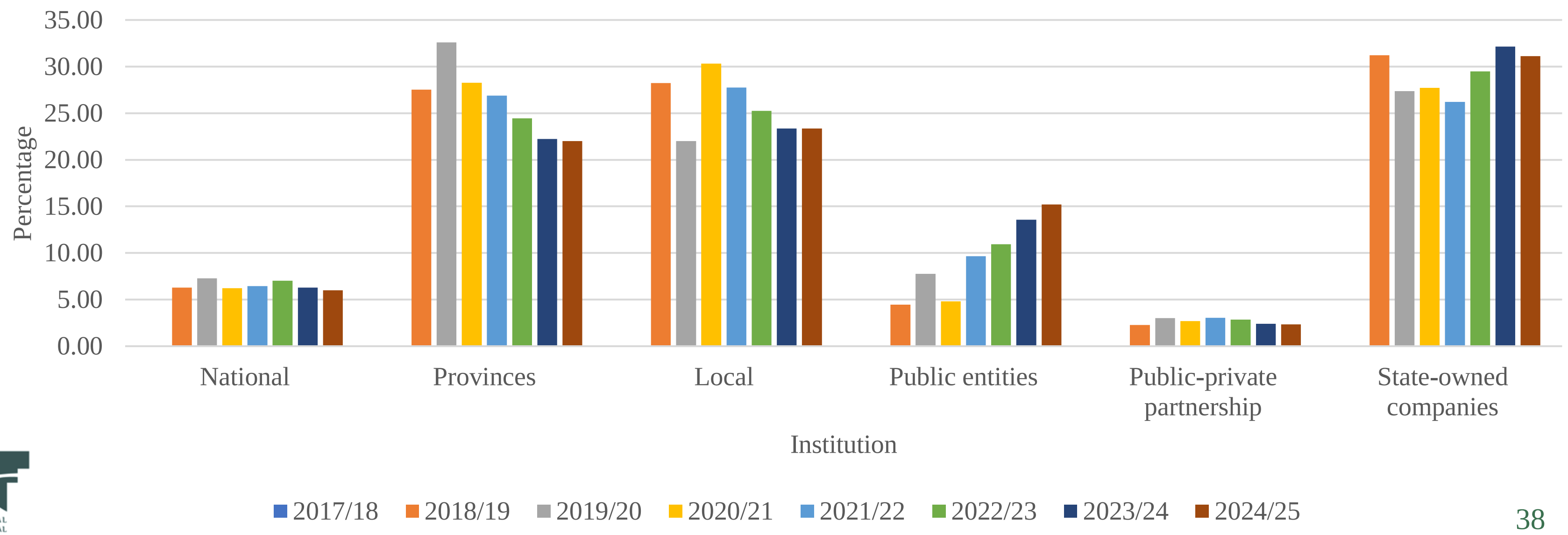


- Infrastructure is key for national economic growth and development, unlocking of private sector investment and attracting foreign direct investment, and is crucial for households' access to basic services and improvement of socio-economic conditions and job creation
- Total public sector infrastructure investment decreased between 2018/19 and 2019/20 from R216.2 billion to R187.4 billion, and picked up in 2021/22 with an investment of R249.5 billion

FINANCIAL AND FISCAL COMMISSION

Public Infrastructure Investment [cont.]

- With respect to shares of public infrastructure investment – while the share of provinces and municipalities are decreasing, shares of State-owned Companies and public entities are increasing
  - Indicating that the government is increasingly implementing public infrastructure investment through public entities (shares increased from 9,8% in 2021/22 and reached 13,6% in 2022/23 and expected to reach over 15% in 2024/25), the Commission is concerned about this trajectory given poor performance of State-owned Companies and public entities
  - The Commission is concerned with decreasing share of local government given huge infrastructure backlogs in municipalities (both new infrastructure and rehabilitation and maintenance of existing infrastructure)



RECOMMENDATIONS

- The Commission recommends that government should assess the SOEs in order to appraise their profitable feasibility, operational efficiency, their track record in resolving market failures, and attaining developmental goals.

- The Commission recommends that government should homogenise the legislative framework for SOEs in order to remove legal ambiguity, reinforce implementation, and improve disclosure and reporting requirements.

- The Commission recommends that government implement the necessary operational, governance and financial reforms that would enable SOEs to effectively and efficiently deliver infrastructure in order to realise return to investment.

FINANCIAL AND FISCAL COMMISSION

8. Achieving a Balance between Economic and Social Recovery and Sustainable Public Finances

Balancing Recovery and Fiscal Sustainability

- South Africa's initial response to the Covid-19 pandemic holds lessons for a balanced and synchronised approach to recovery while maintaining stable public finances
- A three-pronged approach for returning to normality entailed:
  - Overcoming the Covid-19 health crises through social distancing requirements and inoculation measures
  - Protecting livelihoods in the face of devastating income loses and
  - Supporting businesses with tax deferrals, operational loans and payment holidays
- The 2022 Budget placed stronger emphasis on a people-centred or social recovery by allocating over R1.1 trillion, providing consumption and investment boost and retaining economic function expenditure
- The bi-directional impact of these interventions on the economy needs to be well understood to inform the national fiscal framework in the future

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Balancing Recovery and Fiscal Sustainability [cont.]

- The Commission is of the view that the composition of economic function expenditure is not well aligned to the Economic Reconstruction and Recovery Plan (ERRP)
- Whereas the plan identifies infrastructure roll out, localisation through industrialisation and food security as crucial interventions for job creation – associated allocations are declining
  - Infrastructure spending is marred by delivery and management deficiencies
  - The manufacturing incentives and the product and systems development allocations programmes are projected to decrease by 9% and 6.3% over the MTEF
  - Allocation to the food security and agrarian reform program under programme 3 of the Department of Agriculture, Land Reform and Rural Development, declines by 10.5% when compared to 2021/23 appropriation
- The Infrastructure Fund is one of the ERRP instruments to crowd-in private investments and fast-track approval process for large infrastructure projects
  - The Fund should operate within the confines of IGFR principles in respect of equitable distribution of projects and being assigned to a vote

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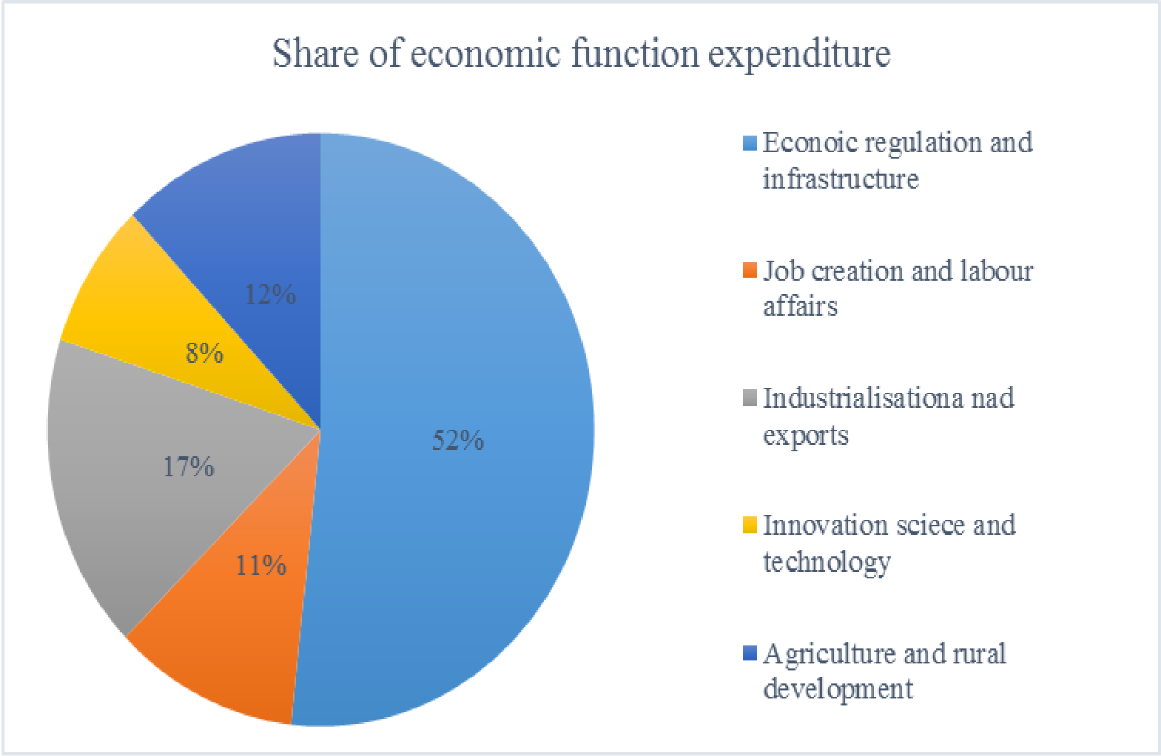
Balancing Recovery and Fiscal Sustainability [cont.]



- The Commission recommends that the budget process for 2023/24 focus on aligning the allocations to Economic Reconstruction and Recovery Plan – informed by comprehensive budget and expenditure reviews.

FINANCIAL AND FISCAL COMMISSION

9. Concluding Remarks

The Commission supports Budget 2022 and government's continued commitment to consolidating public finances while providing support for the pandemic response, job creation and social protection. The Commission further emphasises the following points:

I. In terms of the South Africa's growth prospects, the Commission's view is that it is improbable that the economy will return to pre-pandemic production levels within the year

II. Regarding revenue and tax policy, the Commission supports government's approach of focussing on broadening the tax base, improving administration and lowering tax rates

III. The Commission welcomes government's decision to use a portion of the revenue windfall to lower the gross borrowing requirement and reducing debt issuances. However, the Commission cautions that debt stabilisation risks remain elevated and pose significant challenges to public finances

IV. The Commission supports the decision to use the revenue windfall to improve pro-poor and growth inducing allocations in non-interest spending over the MTEF period
   - The Commission believes that this is an approach that does not jeopardise the path to deficit reduction and fiscal consolidation
   - It should however be noted that certain elements of funding within Budget 2022 will create future funding obligations (e.g. NSFAS funding for low income students, hiring of additional teachers) – should revenue not recover, this will place departments under significant pressure

9. Concluding Remarks [cont.]

V. The Commission applauds the efforts and outcomes associated with government’s attempts to stimulate employment through numerous interventions – however this has not changed the macro-level picture of unemployment. In this regard, more significant structural reforms focused on artisanal skills are required to address unemployment in the long run

VI. The Commission welcomes and awaits the finalisation of processes underway to find a more permanent alternative to the SRD grant. A key consideration for the Commission when evaluating a potential replacement will be the long-run viability and effects that a replacement will have on the fiscus

- Given that the SRD will be stopped in March 2023, it would also be useful for the government to have a definite timeline around this issue's decision-making process

VII. Given the role that municipalities play in delivering free basic services to indigent households, the Commission supports the growth in the allocation to this sphere

- The Commission stresses the need for municipalities to improve the efficiency of spending and value for money – this must be done with the support of the national and provincial spheres of government through monitoring, reporting and evaluation

FINANCIAL AND FISCAL COMMISSION

9. Concluding Remarks [cont.]

VIII. Fraud, corruption and fiscal mismanagement (in the form of fruitless and wasteful expenditure) remain rampant. The government must take decisive and prompt actions against the perpetrators of these wastages and leakages to send a clear message that the government is serious about addressing this challenge.

IX. Regarding progress towards the goals of economic and social recovery alongside fiscal sustainability, the Commission is of the view that Budget 2022 has placed stronger emphasis on a people-centred or social recovery by allocating over R1.1 trillion of the total budget to social wage programmes

- Budget 2022 further provides for expenditure-side economic recovery levers through the economic functions, which is set to receive R227 billion in 2022/23
  - Much emphasis on infrastructure – to this end, infrastructure management and delivery flaws are a key factor hampering the potential gains to the economy that can be derived from infrastructure spending
  - Note misalignment between the prioritisation of spending within the economic function relative to the priorities identified as high impact job creation interventions in the Economic Reconstruction and Recovery Plan, namely, infrastructure roll out, localisation through industrialisation and food security

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