



BUDGET

23 FEB 2022

ACCOUNTING FOR
IMPLEMENTATION

**Standing & Select Committees on
Finance
Public Hearings
2 March 2022**

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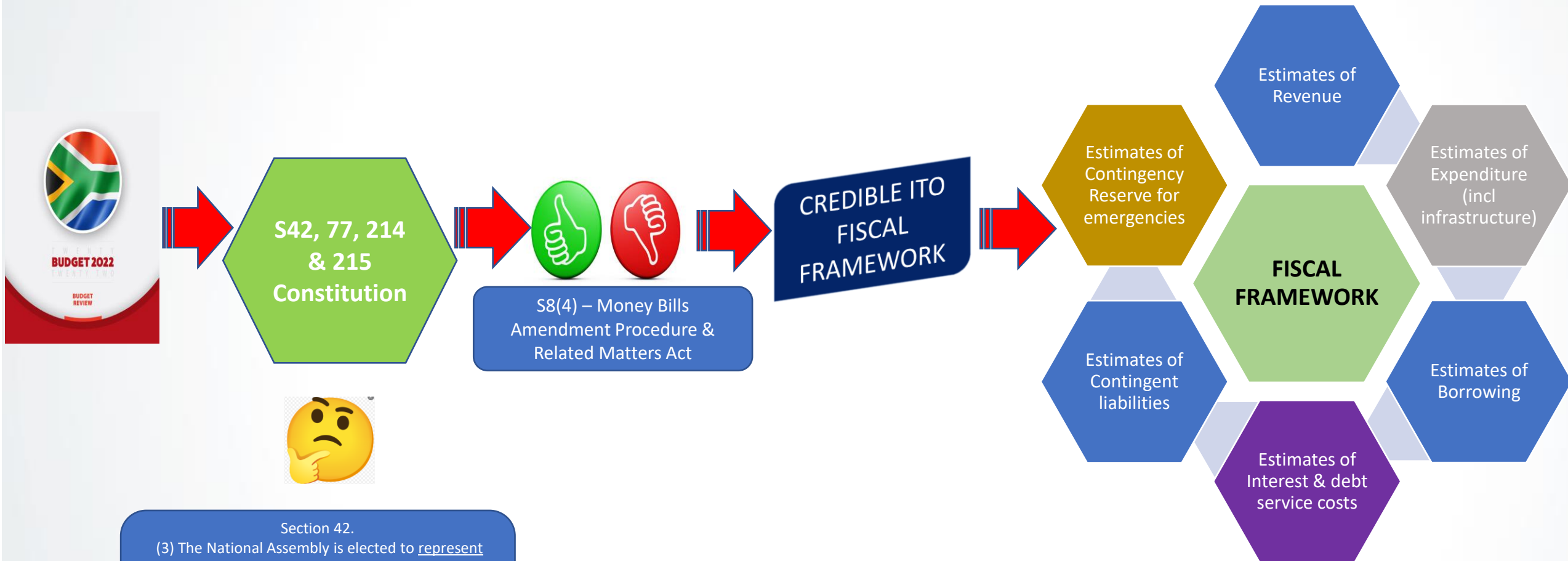
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Enabling you to ask the right questions and impose consequences

COMMITTEE MANDATE & FISCAL FRAMEWORK

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Section 42.

(3) The National Assembly is elected to represent the people and to ensure government by the people under the Constitution. It does this by choosing the President, by providing a national forum for public consideration of issues, by passing legislation and by scrutinizing and overseeing executive action.



Questions Parliament needs to ask itself:

1. The accountability and credibility of macro economic and fiscal policy framework is with Parliament as the Constitutional oversight body. Is it meeting that mandate?
2. Is Parliament comfortable that it is meeting its mandate of holding the Executive to account on behalf of the people?

ESTIMATES OF REVENUE



- 01 Tax-to-GDP ratio - Methodology**
- 02 Tax-to-GDP ratio - Ceiling**
- 03 Funding for SARS**

ESTIMATES OF REVENUE

TAX TO GDP RATIO - Methodology

How well the government controls a country's economic resources. Good gauge of extraction of tax from economy for Gvt use.

Tax revenue growing despite weak economic growth

StatsSA

South African tax-to-GDP ratio

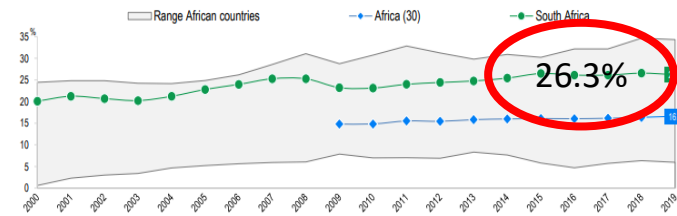
Tax as a percentage of gross domestic product (GDP), 1996/97 - 2017/18



OECD

Tax-to-GDP ratio over time

The tax-to-GDP ratio in South Africa decreased by 0.4 percentage points from 26.6% in 2018 to 26.2% in 2019. In comparison, the average* for the 30 African countries increased by 0.3 percentage points over the same period, and was 16.6% in 2019. Since 2010, the average for the 30 African countries has increased by 1.8 percentage points, from 14.8% in 2010 to 16.6% in 2019. Over the same period, the tax-to-GDP ratio in South Africa has increased by 3.1 percentage points, from 23.1% to 26.2%. The highest tax-to-GDP ratio in South Africa was 26.6% in 2018, with the lowest being 20.1% in 2000.



IMF/World Bank

24.1%

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Tax to GDP 2022

Net tax revenue (Gross tax revenue minus SACU payments)	X
ADD: SACU	X
ADD: UIF	X
ADD: RAF	X
ADD: COID	X
ADD: Provincial taxes	X
TOTAL /GPD	XX %

Actual tax extraction



SAICA

DIFFERENCE MAKERS™



Question Parliament needs to ask itself:

1. Is the current tax-to-GDP calculation methodology used by National Treasury appropriate to inform Parliament of the impact on the macro-economic of the fiscal policy?

ESTIMATES OF REVENUE

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TAX TO GDP RATIO - Ceiling

Katz Commission Report into Taxation

4. TOWARDS A GUIDING FRAMEWORK - CHAPTER 2

RECOMMENDATIONS OF THE KATZ REPORT

2.8.1 The commitment of the Government to avoiding increases in the present percentage of national and provincial tax revenue to GDP of about 25% is supported [para. 2.3.9.]

RECOMMENDATIONS OF THE JSCOF:

The recommendations 2.8.1 to 2.8.4 are broadly supported with the addition that:

* the impact on the wider economy of maintaining a tax level of 25% of GDP, and how this figure was determined, be investigated;

* that while welcoming the fixing of a ceiling for the tax burden as a percentage of GDP, further evaluation be done of the 25% rate set, and the economic implications of higher or lower rates;



Questions Parliament needs to ask itself:

1. Has any further research been done as requested by JSCoF on the level at which high taxes become detrimental to the economy?
2. If not, why not?
3. Does the Committee agree that there is a level at which high taxes become detrimental to the economy and if so, are we/have we been breaching it under the current fiscal policy?

ESTIMATES OF REVENUE

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REVENUE ESTIMATES

Table 3.3 Revised gross tax revenue projections

R million	2020/21	2021/22	2022/23	2023/24	2024/25
Revised estimate	1 249 711	1 547 071	1 598 447	1 694 259	1 807 614
Buoyancy	3.69	1.93	1.09	1.06	1.06
2021 MTBPS	1 249 711	1 485 415	1 527 412	1 608 006	1 715 258
Elasticity	3.69	1.73	0.99	0.97	1.05
2021 Budget	1 212 206	1 365 124	1 457 653	1 548 512	
Elasticity	2.39	1.44	1.15	1.07	

Table 1.1 Macroeconomic outlook – summary

	2021 Estimate	2022	2023	2024
Real percentage growth		Forecast		
Real GDP growth	4.8	2.1	1.6	1.7

Where is the revenue going to come from? Increased tax rates that deliver less taxes?

Trend of over-estimating revenue & economic growth
(Refer also to SAICA's 2019 Budget submission)

Affects expenditure & debt needed to fund deficit

Critical that revenue estimates are accurate as possible



Questions Parliament needs to ask itself:

1. Are the numbers presented a reasonable estimation of future fiscal revenues given the historical trends of overestimation and declining economic factors?
2. Where is the additional tax revenue going to come from (tax increases despite a shrinking economy)?
3. Should it come from tax increases, is Parliament comfortable with this considering the current small tax base, economic conditions and reducing tax rate increase returns?

ESTIMATES OF REVENUE

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FUNDING FOR SARS



SARS electronic systems

Continued lack of accountability & oversight

FUNDING FOR MANDATE

Insufficient funds (R9bn over 3 years requested)

GRAP implementation? NT will continue to engage?

SERVICE DELIVERY

Increasing complaint taxpayer dissatisfaction

Compliance behaviour affected and compliance costs increase

REVIEW OF GOVERNANCE STRUCTURE

Nugent recommendations almost implemented

No public consultations to date



Questions Parliament needs to ask itself:

1. Does SARS have sufficient resources to meet the optimistic revenue forecasts so it can target non-compliant taxpayers & ensure acceptable service delivery to compliant taxpayers, so as not to affect their tax compliance behaviour?
2. What is the progress on the implementation of GRAP adopted in 2012 by ASB, considering the concerns with the current reporting framework and is the delay in its implementation acceptable to you?
3. Given SARS' necessary draconian powers and the outcome of the Nugent Commission, is Parliament satisfied with its level of oversight over SARS' service delivery and treatment of taxpayers?

ESTIMATES OF EXPENDITURE



- 01 Expenditure ceilings**
- 02 Pre-spending of next year's budget**
- 03 Unbudgeted expenditure**
- 04 Use of the Contingency Reserve**
- 05 VIP protection for politicians**

ESTIMATES OF EXPENDITURE

Expenditure ceilings

Table 3.5 Main budget expenditure ceiling

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	1 487 399	1 570 890	1 552 268	1 558 725	1 627 154
2022 Budget			1 487 399	1 575 002	1 630 905	1 613 671	1 686 932

Source: National Treasury

Effectiveness of ceilings and
credibility of budget process?



Questions Parliament needs to ask itself:

1. Are consistent breaches of expenditure ceilings acceptable?
2. Is the budget credible considering these consistent breaches?
3. If not, what is Parliament going to do about it given its oversight role?

ESTIMATES OF EXPENDITURE

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Auditor General Report

Pre-spending on next year's budget

Key financial health indicators at departments – sustainability

Indicators	2020-21
Sustainability	
Deficit (expenditure exceeded revenue)	R41,74 billion
Number of departments with deficit	32% (50)
Cash shortfall (bank overdraft less prepaid expenses/advances plus money to be surrendered to treasury)	R33,29 billion
Number of departments with cash shortfall	61% (89)
>10% of following year's budget (excluding employee cost and transfers)	18% (27)
Bank in overdraft	19% (30)
Estimated settlement value of claims against the state at year-end	R166,07 billion
Number of departments with unsettled claims	94% (138)
Claims settlement value >10% of following year's budget (excluding employee cost and transfers)	37% (55)



Departments/Municipalities will start their 2021/22 financial year with a part of their budgets effectively pre-spent





Question Parliament needs to ask itself:

1. Is the Budget credible given extent of pre-spending i.e. is this money “hidden” somewhere else or will service delivery budgeted for not happen?
2. Is allocating more resources to these Departments/Municipalities that have not consistently operated within their budgets acceptable?

ESTIMATES OF EXPENDITURE

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Unbudgeted expenditure

Public Sector
Wage Bill
adjustments

Will this
practice change
after CC ruling
on 28 Feb 2022
with wage
negotiations
happening
before budget
not after?

SOE's
contingent
liabilities

R1.2trn

Municipalities
financial
health

R7.4bn

Water &
sanitation
infrastructure

Police funding

Legal liability
provisions

> R121bn

GEPF
underfunding?

R8-16bn

ESTIMATES OF EXPENDITURE

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Unrealistic budget expectations

Police vs Police Services Budget?

R2,9bn wage increases

SONA & Budget 2022
Where will 12 000 new recruits salary come from?

TVM: R97bn after 3 years inflation @ 5%

Vote		Main Division R'000	Current Payments			Transfers and Subsidies R'000	Payments for Capital Assets R'000	Payments for Financial Assets R'000
			Compensation of Employees R'000	Goods and Services R'000	Interest and Rent on Land R'000			
28	Police Purpose: Prevent, combat and investigate crime; maintain public order; protect and secure the inhabitants of South Africa and their property; and uphold and enforce the law.	100 695 315	79 137 378*	16 736 234		1 259 399	3 562 304	

Table 5.4 Consolidated government expenditure by function[†]

	2021/22 Revised estimate	2022/23 Medium-term estimates	2023/24	2024/25	Percentage of total MTEF allocation	Average annual MTEF growth
R million						
Police services	108 453	110 220	108 577	114 222	6.0%	1.7%



Questions Parliament needs to ask itself:

1. Is the budget credible without considering these expenses?
2. How will the promised appointment of 12 000 additional police officers be funded if after adjusting for inflation the police will have a lower budget in 2025 than in 2022?

ESTIMATES OF EXPENDITURE

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VIP Protection

4 National Prosecuting Authority <i>Provide a coordinated prosecuting service that ensures that justice is delivered to victims of crime through general and specialised prosecutions. Remove profit from crime. Protect certain witnesses.</i> Of which Departmental agencies and accounts – Safety and Security Sector Education and Training Authority: Operations	4 910 265
VS	
5 Protection and Security Services <i>Provide protection and security services to all identified dignitaries and government interests.</i>	3 496 325

What does this tell the people of Parliament's view on equality and service?



Question Parliament needs to ask itself:

1. Is Parliament aware of what the 2022 Budget amount is for this unit?
2. Are the interest of the people of the country being met by approving this expenditure for a handful of “dignitaries” at nearly same level as NPA that must ensure justice for 60 million people?

ESTIMATES OF EXPENDITURE

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Contingency Reserve

Used as a “suspense account” for **foreseen** expenditure rather than for **unforeseen** emergencies (natural disasters/pandemics etc.)



SOUTH AFRICAN AIRWAYS



Questions Parliament needs to ask itself:

1. Is Parliament satisfied with the current use of the Contingency Reserve?
2. If so, where will the funds come from for the unforeseen emergencies when we spend it on foreseen short-term matters?

ESTIMATES OF BORROWING

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Estimates of debt

Dependent on:

Revenue
estimations



Expenditure
control



Unbudgeted
expenditure



Questions Parliament needs to ask itself:

1. Are debt level estimates accurate considering concerns with these 3 items?
2. Given historical inability of government to keep to expenditure/debt levels why does Parliament believe these estimates are credible?

Estimates of debt service costs

Ukraine/Russia
war

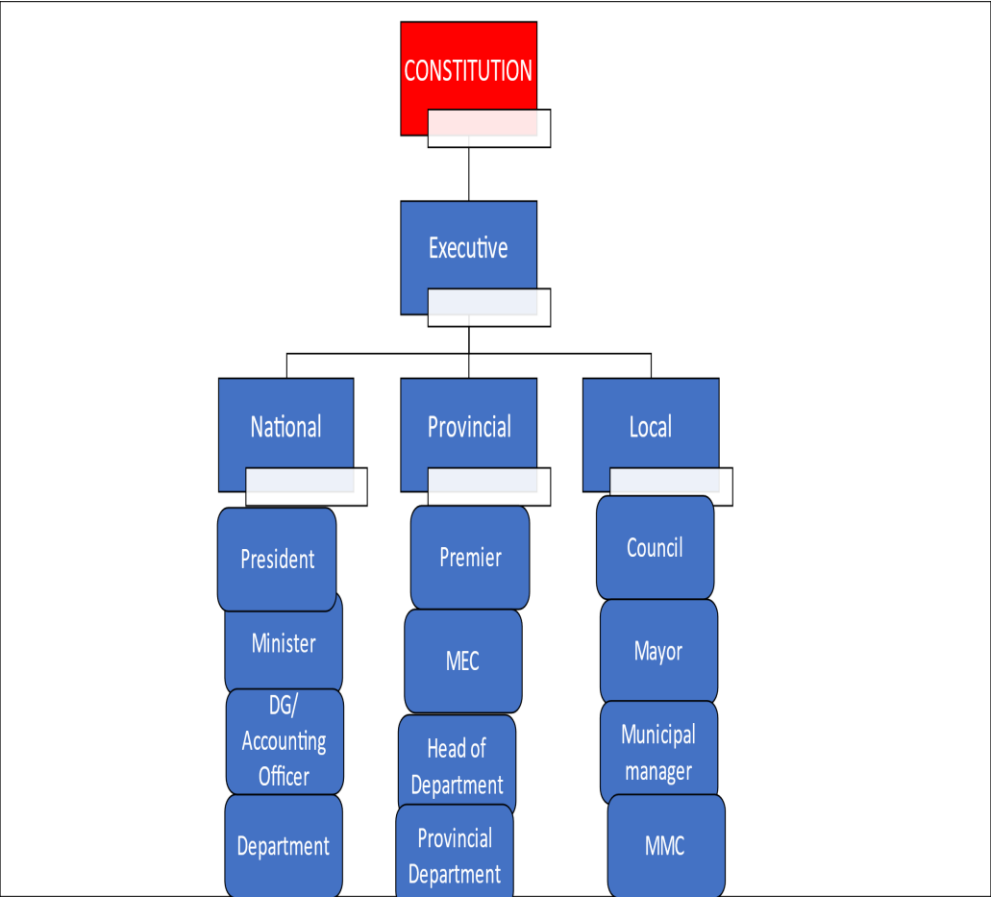
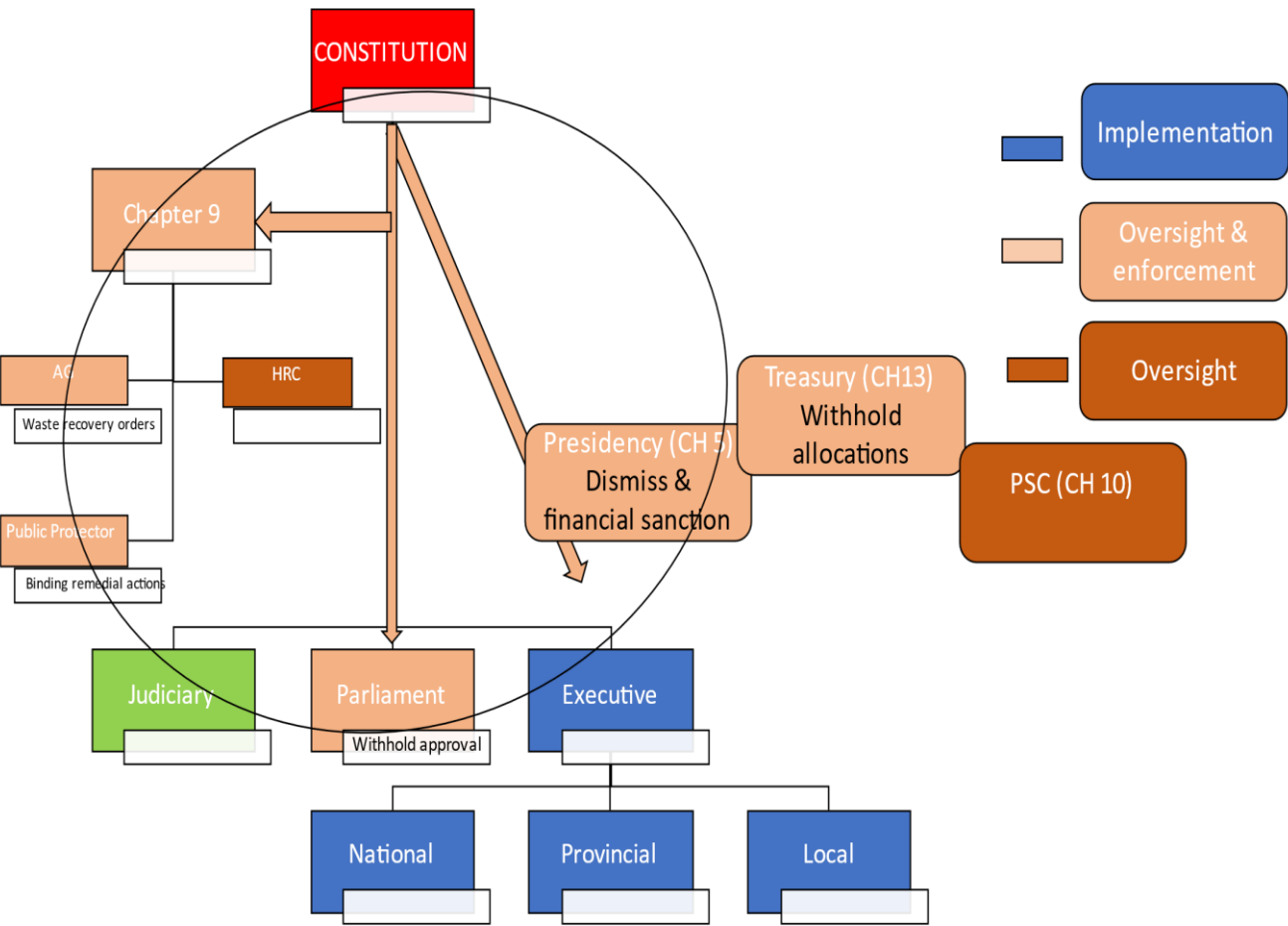


Question Parliament needs to ask itself:

1. Does the budget adequately reflect the impact of the war on foreign debt services costs & inflation (and other expenditure items)?

OVERSIGHT & ACCOUNTABILITY

Who is responsible for implementation of fiscal sustainability?

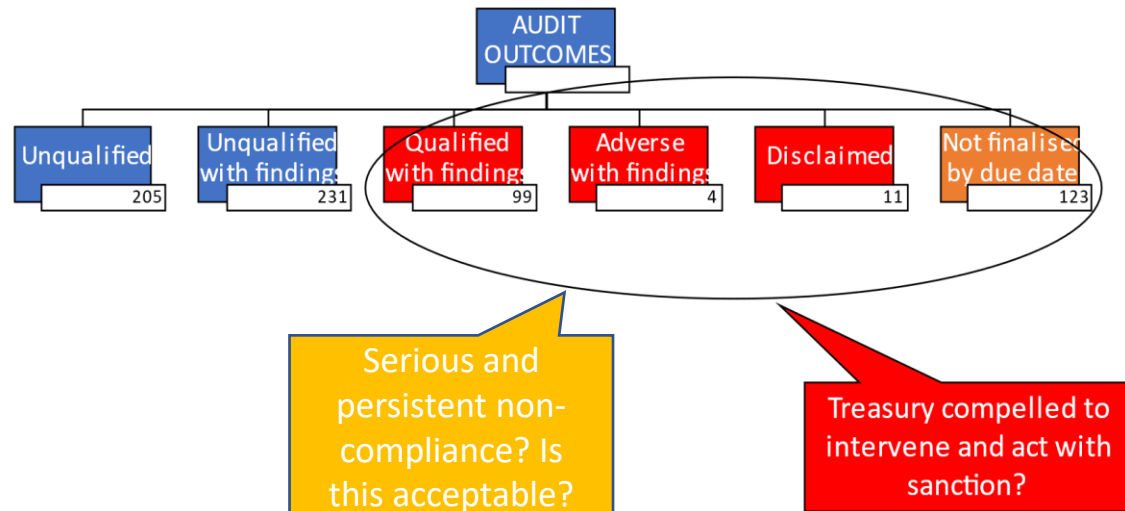


OVERSIGHT AND ACCOUNTABILITY

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Is the Budget credible? Is it accurate and implementable?

Audit findings and serious/persistent non-compliance (s216(2) Constitution) 2021



Questions Parliament needs to ask itself:

1. Were those in charge of these entities held accountable? Does Parliament know the answers to this?
2. Is Parliament satisfied that the National Treasury has been sufficiently implementing its s216 obligation on Treasury Controls to prevent pre-spending of budgets and pure disregard for financial management in many government entities?





Questions Parliament needs to ask itself:

1. Is Parliament using its enforcement rights by amending budgets to ensure that the Executive is held accountable for fiscal discipline failures and maintain economic unity?
2. Has Parliament adequately interrogated the Budget and its assumptions to ensure that its outcomes will realise?
3. Is Parliament's credibility at risk if the above has not been done?

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THANK YOU

