**Report of the Standing Committee on Finance on the 2022 Fiscal Framework and Revenue Proposals, Dated 08 March 2022**

## INTRODUCTION

The Minister of Finance (Minister), Mr Enoch Godongwana, tabled the 2022 National Budget before Parliament on 23rd February 2022 in terms of Section 27 of the Public Finance Management Act, Act No. 1 of 1999 (PFMA) and Section 7 (1) of the Money Bills Amendment Procedure and Related Matters Act, Act No. 9 of 2009 (Money Bills Act).

The Minister together with the Director-General (DG), senior officials from the National Treasury (NT) briefed the Committees on Finance on 24 February 2022. The Committees received post-budget input from the Parliamentary Budget Office (PBO) and the Financial and Fiscal Commission (FFC) on 1 March 2022.

The Committees held public hearings on 2nd March 2022 and received a total of eleven written and oral submissions from the Congress of South African Trade Unions (COSATU), Fiscal Cliff Study Group (FCSG), South African Institute of Chartered Accountants (SAICA), the South African Institute of Tax Professionals (SAIT), PriceWaterhouseCoopers (PwC), the Healthy Living Alliance (HEALA), South African Breweries (SAB), Institute for Economic Justice (IEJ), 1Road Consulting, Amandla.mobi and Woman on Farms Project (WFP). NT and the South African Revenue Service (SARS) responded to the issues raised during the public hearings and engaged with the Committee and stakeholders on 4 March 2022.

## THE MINISTER’S POLITICAL AND NATIONAL TREASURY’S OVERVIEW

The Minister’s political overview focused on economic and fiscal issues that the government is grappling with and how the 2022 Budget addresses these issues. The Minister emphasised that the 2022 Budget was about striking a delicate balance between growing the economy, fiscal sustainability and supporting livelihoods and that the social wage accounts for about 59 per cent of total non-interest spending.

The Minister acknowledged that the country has been operating under difficult times but the higher than expected revenue provided some space to address some of the spending challenges. Part of the R180 billion revenue over-collection assisted the government in responding to the unrest that occurred at Kwa Zulu Natal and Gauteng provinces in July 2021 and adding R7 billion to support Sasria, the state-owned insurer.

The Minister acknowledged that the additional revenue was not a silver bullet for South Africa’s financial position as much of it had already been allocated to critical spending programmes before the 2022 Budget was tabled. It was also reported that the 2022 Budget strengthens the fight against crime with an additional allocation of R8.7 billion to the Police, R1.1 billion to the Department of Justice and Constitutional Development, R32 billion to the National Student Financial Aid Scheme (NSFAS) while the Office of the Chief Justice receives an additional R39.9 million. The Presidential Youth Employment Programme also receives a boost.

The Minister indicated that despite all that, the budget reduces the fiscal deficit as a crucial part of the debt management strategy and that the government continues to ensure the health of public finances. He said that the budget provides some relief to taxpayers, both households and companies.

The Minister also mentioned that NT was working on the Public Procurement Bill. He said that after losing a case in the Constitutional Court in the previous week and the outcomes of the Zondo Commission report, consideration will have to be given to these before the Bill is finalised.

Senior NT officials outlined the key issues reflected in the 2022 Budget. The emphasis was that the 2022 Budget continues to consolidate the public finances while providing immediate support to the COVID-19 pandemic response, job creation and social protection.

The 2022 Budget overview highlighted that the medium-term growth outlook has improved moderately but growth remains subdued; that although growth will return to pre-pandemic levels, the 1.8 per cent growth over the medium term, on average, will not be sufficient to reduce poverty and inequality.

Other 2022 Budget key points include that a portion of the higher‐than‐anticipated revenues collected in 2021, will be used to reduce the deficit and the borrowing requirement, and to achieve a primary surplus by 2023/24, a year earlier than expected. Also, the government proposes R 5.2 billion in tax relief to help support economic recovery, provide some respite from fuel tax increases and boost incentives for youth employment. NT expects that a more rapid implementation of economic reforms, complemented by fiscal consolidation, will ease investor concerns and support faster recovery and higher levels of economic growth over the long term. It was acknowledged that significant risks to the economic and fiscal outlook, however, remain.

## OVERVIEW OF THE 2022 FISCAL FRAMEWORK AND REVENUE PROPOSALS

### Economic outlook

The South African economy rebounded strongly from the pandemic in 2021, with Gross Domestic Growth (GDP) growth averaging 4.8 per cent, despite the impact of the July 2021 unrest, inadequate electricity supply and a contraction in the third quarter of 2021, resulting from a new wave of COVID-19. In line with the global economic developments, NT expects the growth rate to decline to 2.1 per cent in 2022 and average 1.8 per cent over the next three years. The deceleration in growth from 2021 to 2022 is primarily a result of the fading rebound from the pandemic and decreasing export prices (2022 Budget Review).

The medium-term growth outlook has improved moderately, with elevated uncertainty due to global and domestic risks. NT expects GDP growth over the medium term to be supported by more rapid implementation of economic reforms and fiscal consolidation. It was highlighted that the rating agencies remain concerned with the country’s ability to implement fiscal consolidation measures, and its high public debt and low economic growth. Significant risks to the outlook include the emergence of new COVID‐19 variants, rising global inflation, continued disruptions to the power supply, rising inflation and fiscal risks. NT acknowledged that structural constraints have reduced potential economic growth for the past decade and remain an impediment to recovery.

Table 1: Macroeconomic performance and projections



Source: National Treasury

Table 1 above shows that the inflation rate is expected to remain within the set target range of 3-6 per cent over the medium term. Headline Consumer Price Inflation (CPI) averaged 4.5 per cent in 2021 and is expected to increase to 4.8 per cent in 2022 and decline slightly to 4.4 per cent and 4.5 per cent in 2023 and 2024, respectively. The risks to the inflation outlook are elevated due to increases in the prices of food, oil, electricity and other administered prices. The South African Reserve Bank (SARB) continued to tighten monetary policy, increasing the repo rate by a cumulative 50 basis points to 4 per cent in January 2022.

NT highlighted that the initial recovery in economic growth during 2021 was not matched by higher employment or investment and that the slow take‐up of vaccinations leaves the country vulnerable to new waves of COVID‐19 infections. The 2021 third Quarterly Labour Force Survey (QLFS) from Statistics South Africa shows that the number of employed persons decreased by 660 000 to 14.3 million. The rate of unemployment measured 34.9 per cent or 7.6 million persons, the highest recorded since the start of the QLFS in 2008. The low-skilled workers are severely affected and this deepens the existing inequalities across age, education, gender and race.

### Fiscal framework and revenue proposals

According to NT, the medium‐term fiscal policy is focused on reducing the budget deficit and stabilising the debt‐to‐GDP ratio.

Table 2 below shows that the consolidated revenue is expected to increase from R1.72 trillion in 2021/22 to R1.77 trillion in 2022/23, reaching R1.98 trillion in 2024/25. A surge in commodity prices has significantly improved the in‐year revenue outlook even compared with pre‐pandemic expectations. NT acknowledged that a portion of the positive effect of commodity prices on tax revenue is likely to be temporary. Overall, tax revenue projections are higher than the 2021 Medium Term Budget Policy Statement (MTBPS) estimates by R71 billion in 2022/23, R86.3 billion in 2023/24 and R92.4 billion in 2024/25. The upward revision reflects improvements in Corporate Income Tax (CIT), Personal Income Tax (PIT), Value Added Tax (VAT), fuel levies, customs duties and specific excise duties, meaning its broad-based.

The consolidated expenditure as a percentage of GDP is expected to increase from 33.2 per cent (R2.08 trillion) in 2021/22 to 33.5 per cent (R2.16 trillion) in 2022/23. Total consolidated government spending will amount to R6.62 trillion over the next three years, and the social wage will take up 59.4 per cent of total non-interest spending over this period. The largest increase (R260.5 billion) over the period 2012/13 and 2021/22 resulted from the introduction of fee-free higher education, health spending related to the COVID‐19 pandemic pressures, increased spending by the Unemployment Insurance Fund (UIF) as the rate of unemployment persistently increased, bailouts of State-Owned Entities (SOEs) and larger‐than‐anticipated wage settlements (2022 Budget Review).

Table 2: Consolidated 2022 fiscal framework



Source: National Treasury

The bulk of the spending is allocated to learning and culture (R 1.3 trillion), social development (R1 trillion) and debt service costs (R1 trillion) over the Medium Term Expenditure Framework (MTEF) while economic development and community development grow faster than other functions at 8.5 per cent and 7.9 per cent, respectively.

The consolidated budget deficit is now projected to narrow from 6 per cent of GDP in 2022/23 to 4.2 per cent of GDP in 2024/25. The deficit reached a high of 10 per cent in 2020/21. A portion of higher‐than‐anticipated revenues since the 2021 Budget is used to reduce the deficit and the borrowing requirement. As a result, the government expects to achieve a primary surplus by 2023/24, a year earlier than projected in the 2021 MTBPS. NT stated that achieving this goal will represent a major milestone in returning the public finances to a sustainable position. NT acknowledged that the government has failed to close the large gap between revenue and expenditure that emerged during the 2008/09 global financial crisis. Since then, rising expenditure, unmatched by revenue growth, has led to primary deficits and a sevenfold increase in public debt (2022 Budget Review).

Gross loan debt is now expected to increase from R4.35 trillion, or 69.5 per cent of GDP in 2021/22 to R4.69 trillion or 72.8 per cent of GDP in 2022/23. NT expects the proposed fiscal framework to stabilise gross loan debt at R5.43 trillion or 75.1 per cent of GDP in 2024/25, a year earlier than projected in the 2021 Budget and in line with the government’s fiscal consolidation. This is mainly the result of revenue performance. NT mentioned that although the debt trajectory has improved relative to the 2021 Budget, uneven implementation of reforms and high fiscal risks continue to threaten the country’s economic recovery and credit ratings (2022 Budget Review).

Debt-service costs are expected to rise from R268.3 billion in 2021/22 to R301.8 billion (4.7 per cent of GDP) in 2022/23, reaching R363.5 billion (5 per cent of GDP) in 2024/25. Debt service costs account for 15.1 per cent of total spending and grow faster than all functions, including education and health.

According to the NT, the largest risk to the recovery in the public finances is a deterioration in GDP growth. Other significant risks to the fiscal framework include the introduction of unfunded spending programmes, higher borrowing costs, the contingent liabilities of SOEs, higher‐than‐budgeted public‐service wage settlements and higher‐than‐expected global inflation which could lead to higher global interest rates, affecting debt‐service costs and the exchange rate. Also, an adverse decision by the Constitutional Court in the case relating to the 2018 wage agreement could significantly increase compensation costs. Contingent liabilities, one of the key risks to the fiscal framework, are projected to increase from R1.15 trillion in 2021/22 to R1.23 trillion in 2024/25. In 2020/21, SOEs made limited progress in their reforms and most of these companies deferred their capital investment projects to preserve cash to meet short‐term obligations (2022 Budget Review).

The 2022 Budget provides R5.2 billion in tax relief to support households and the economy. The main tax proposals for 2022/23 include an inflationary relief through a 4.5 per cent adjustment in the PIT brackets and rebates; an expansion of the Employment Tax Incentive (ETI), through a 50 per cent increase in the maximum monthly value, to R1 500 to encourage businesses to increase youth employment; no change to the general fuel levy and increases of between 4.5 per cent and 6.5 per cent in excise duties on alcohol and tobacco. The CIT rate will reduce from 28 per cent to 27 per cent.

NT attributed improved revenue collection and compliance trends to progress made in rebuilding the SARS. Over the past year, the SARS has recruited an additional 490 staff and has invested R430 million in refreshing and modernising its Information and Communication Technology (ICT) infrastructure. The dedicated new unit focused on high‐wealth individuals is said to be taking shape. Other revenue-enhancing initiatives include the multi‐year customs modernisation programme currently underway; enhanced efforts to counter criminal and illicit activity; a review of all businesses that received payments from national and provincial government over the past five years and implementation of the majority of the Nugent Commission recommendations. The SARS is currently aligning the outstanding recommendations with those of the State Capture Commission (2022 Budget Review).

## KEY ISSUES RAISED DURING THE PUBLIC PARTICIPATION PROCESS

Overall, the stakeholders generally supported the 2022 Budget, particularly the government’s continued commitment to consolidating public finances while providing support for the pandemic response, job creation and social protection and tax relief. There are, however, some stakeholders whose view is that the government’s continued fiscal consolidation path is not sustainable, it comes at the expense of the well-being of the people of South Africa and does not adequately address the fundamental crises facing the workers. There are conflicting views on the proposed reduction of the CIT.

### **Macroeconomic issues, policy and reforms**

This section briefly summarises the comments, issues raised and recommendations made by the stakeholders on the economic growth, policy, reforms and the labour market and responses by the NT.

### Summary of comments and concerns raised by the stakeholders on macroeconomic issues

The stakeholders expressed concerns about the country’s potential GDP growth rate, which declined from around 4 per cent during the mid-2000s to only 1.9 per cent to 2.3 per cent range currently. PwC and SAICA noted a strong connection between the government’s tax revenue earnings and economic growth.

The FFC’s view is that it is improbable that the economy will return to pre-pandemic production levels in 2022, as NT estimated, while the PBO is concerned that the government’s structural reforms are slow and inadequate to boost growth and achieve meaningful macroeconomic stability over the medium and long term.

The FFC noted that the composition of economic function expenditure is not well aligned to the Economic Reconstruction and Recovery Plan (ERRP). In particular, localisation through industrialisation and food security as crucial interventions for job creation associated allocations are declining.

On industrial policy support, the IEJ said that the policy was being reduced to a regulatory tool rather than a strategy for building capacity and capability in the manufacturing sector. Its concern is that the budget allocations in this space are inadequate and premised on an outdated neoliberal Public-Private-Partnerships (PPP) model that has consistently failed to deliver development outcomes. Also, there had not been a substantial project delivered through the PPP model in a decade and PPPs have been shown to erode the capacity of the state, contributing to sovereign debt crises with little impact on poverty reduction and developmental outcomes.

On labour markets, the FFC applauded the efforts and outcomes associated with the government’s attempts to stimulate employment through numerous interventions, however, it observed that this has not changed the macro-level picture of unemployment. The IEJ and COSATU submitted that while the third phase of the Presidential Employment Programme was welcome, it was disappointing that the funding declined from R24 billion in the 2021 MTBPS to R18 billion in the 2022 Budget. The stakeholders believed that the initiative plays an important role in mitigating the crisis, however, it only creates short-term opportunities, on an inadequate scale, and may not allow for sufficient skills transfer. The IEJ further raised a concern that there is no evidence to show that the ETI led to any substantial alleviation of unemployment, yet additional funds were being channelled to the scheme.

### Recommendations made by stakeholders on macroeconomic issues

#### The PBO recommended that economic recovery and reconstruction has to be inclusive. Also, a new economic growth path should be built on increasing the well-being and buying power of the poor majority as that will enhance the ability of millions of unemployed South Africans to effectively contribute to the economic future of the country.

#### IEJ recommended that more of the revenue windfall should be allocated towards supporting economic recovery, income support, job creation and industrial support.

#### FFC recommended that the Infrastructure Fund should operate within the confines of the Intergovernmental Fiscal Relations (IGFR) principles in respect of the equitable distribution of projects and being assigned to a vote. The Commission further recommended that the budget process for 2023/24 focuses on aligning the allocations to ERRP, informed by comprehensive budget and expenditure reviews.

#### COSATU recommended that the Presidential Employment Programme should be reversed in the 2022 MTBPS, that is, it should rather be expanded to ensure that it can create at least 1 million jobs in light of an all-time high unemployment rate of 46 per cent and rising. About 2.2 million workers have lost their jobs since the COVID-19 pandemic.

#### With regards to attempts to create jobs, FFC recommended more significant structural reforms focused on artisanal skills to address unemployment in the long run.

#### For the government to realise its key role in job creation and retention, IEJ recommended that the Presidential employment programme must be scaled up, and gaps filled, together with a broader public sector jobs strategy. IEJ further recommended that the loan guarantee scheme should be made available for industries such as Tourism and Agriculture that are well-positioned for job creation. On the other hand, IEJ said it believed that the ETI should be cancelled and this would enable government to raise about R4.8 billion in revenue.

### Responses by the National Treasury on issues raised and recommendations made

On inclusive growth and structural reforms, NT noted that the structural constraints have reduced potential growth for the past decade and remain an impediment to recovery. It said that the economic effects of the pandemic were exacerbated by inadequate electricity supply, with the highest levels of load-shedding to date. It said that reducing regulatory constraints, providing effective services, and coordinating and sequencing economic interventions will bolster public and private investment, which will, in turn, increase resilience and support economic transformation.

NT stated that reforms are needed to promote growth and employment. These reforms include stimulating demand through investment in infrastructure, complemented by employment programmes and social transfers that will boost household consumption; modernising network industries will support an increase in the economy’s productive capacity; boosting electricity production; and reducing the cost of doing business.

NT stated that the 2021 MTBPS detailed notable progress on the implementation of structural reforms through Operation Vulindlela. It further said that work is underway to expedite the approvals required to register embedded electricity generation plants, complete the analogue to digital migration and auction spectrum, and clear the backlog of water-use licences.

NT reported that post-COVID-19 recovery strategies include stimulating the economy through public employment programmes and tax incentives while implementing reforms to ease the skill constraints and make it easier to do business. Labour-intensive, export-orientated sectors are receiving additional support. It said that while the fiscal policy may only affect economic growth to a certain extent, structural reforms are imperative to accelerate the economic growth needed to reduce poverty and unemployment while also increasing investment.

## Revenue estimates, tax proposals and SARS issues

### Comments and issues raised by the stakeholders on revenue and tax

On revenue estimates, SAICA observed that there has been a consistent decade-long trend of materially over-estimating revenue and economic growth, with “unplanned windfalls” fortuitously changing the trend recently. PwC agreed with SAICA that revenue forecasts were conservative. It said that NT and SARS have been conservative in their tax revenue estimates for the current fiscal year as well. SAICA also raised a concern that it is uncertain where the forecasted additional tax revenue will come from in the medium term and why the Minister is unclear on whether this will come from increased taxes.

PwC highlighted significant revenue risks in an event of lower commodity prices and suppressed GDP growth as a result of electricity interruptions and the emergence of new COVID-19 variants. PwC cautioned that should any of these risks materialise, there could be a material effect on the forecast deficit and debt consolidation. Also, the impact of the Ukraine-Russia war impact was not yet known and not factored in the 2022 Budget.

Regarding the revenue windfall, FFC supported the decision to use some of it to improve pro-poor and growth-inducing allocations in non‐interest spending over the MTEF period. FFC said it believed that this is an approach that does not jeopardise the path to deficit reduction and fiscal consolidation. It however cautioned that certain elements of funding within the 2022 Budget will create future funding obligations should revenue not recover and this will place departments under significant pressure.

Regarding tax policy, SAICA submitted that the tax-to-GPD ratio also appears to be calculated inappropriately by the exclusion of pertinent tax amounts. It added that research into introducing a tax-to-GPD ratio ceiling, as promised in 1996 by the Joint Standing Committees on Finance (JSCoF), has also not been undertaken to provide clarity on whether there is a level at which high taxes become detrimental to the economy. FFC, on the other hand, said it supports the government’s approach of focussing on broadening the tax base, improving administration and lowering tax rates. FCSG submitted that there is little room for further PIT increases as this tax base alone R284 billion or 50.6 per cent of PIT and 20 per cent of total government revenue, can emigrate.

PwC supported the reduction of the CIT rate but questioned the timing and sought clarity on the way forward for tax neutral rate reductions. On the contrary, IEJ submitted that the CIT rate was slashed from 50 per cent to 28 per cent between 1990 and 2018, without any significant impact on job creation or investment. It argued that this further decrease is a regressive measure that will not contribute to employment.

SAB’s raised concern regarding the excise tax, particularly the annual adjustments for unfortified wine, which has received an in line with an inflation adjustment of the excise rate by 4.5 per cent as stipulated in the excise policy. SAB sought clarity on the rationale behind the continued concessions to wine. It further noted from the 2021 Budget and reaffirmation in the 2022 Budget that an Alcohol Tax Policy Review will take place and sought clarity on the process that will be put in place for stakeholders to comment on the revised policy before it is finalized and implemented; the problem statement which the Policy Review will aim to address and the timeline for implementing the proposed changes.

On tax incentives, PwC noted that the 2021 Budget announced a review of the tax incentive regime to reduce wasteful tax incentives and that the 2022 Budget does not provide a detailed breakdown of the spending on these incentives and that the potential “revenue” that may be achieved by terminating these incentives is not clear. On PIT review of monetary amounts, it noted that several tax tables and thresholds have not been amended for the effects of inflation over several years and that the lack of regular changes to these results in tax increases by stealth, in the absence of any explicit statement of intent on the part of NT to increase taxes.

SAIT submitted that it supports well-designed tax incentives but is concerned about the loss of interest in depreciation since depreciation incentives are well-targeted and noted that a review of depreciation and investment allowances will take place during 2022/23, followed by the release of a discussion document. SAIT further appreciated engagement and research such as Research and Development incentives, energy efficiency incentives, which should be linked to Carbon rather than Income Tax. It further opined that savings incentives for individuals only mitigate anti-selection and are deferral mechanisms. SAIT welcomed policy certainty and suggested a review of the provisional tax system to align it with changing circumstances and international development.

HEALA welcomed NT’s announcements to increase the Health Promotion Levy (HPL) by 4.5 per cent, as well as to pursue consultations towards including fruit juices and lowering the levy-free threshold for sugar content per volume. HEALA cautioned about the health and economic impact of excessive consumption of sugar. It submitted that not only was the HPL introduced at half its recommended levy rate, but inconsistent annual increases against inflation means it has decreased in real terms since 2018. It believes that doubling and maintaining the levy rate would offer major additional state revenue while saving many more lives and lessening the healthcare burden.

On tax administration issues, SAICA observed that the 2022 Budget estimates SARS to operate optimally to collect estimated additional revenue in the medium term even though SARS, by its estimations, requires much more resources to ensure its effective and efficient operations, about R9 billion. SAICA further submitted that SARS’ perceived inequitable conduct about compliant taxpayers is creating a further risk of increased costs of collection and decreased taxpayer voluntary compliance. SAICA said that it is still concerned that SARS has insufficient funds to meet its April 2022 deadline for implementation of Generally Recognised Accounting Practice (GRAP8) and that it cannot successfully fulfil its mandate.

SAICA said that research showed that improving the delivery of a revenue authority’s services will, in turn, improve the taxpayer’s experience and ultimately their compliance. SAICA said it had seen an increase in taxpayer dissatisfaction with SARS’ services as is evidenced by the number of operational queries received from its members as well as the lengthy agenda of SARS or Registered Controlling Bodies (RCB) National Operations meeting. The concerns include SARS not taking responsibility for its actions, such as the recent identity theft of taxpayer profiles and delays in VAT refund payments.

SAICA noted the concerns raised by taxpayers regarding the lack of service delivery by SARS and the continued lack of accountability and oversight in this regard. It further noted that a structural review of the governance of SARS was promised after the 2018 Nugent Commission, yet no public consultation process was followed, with taxpayers being one of the victims of the governance failures at SARS. It said it was concerned that the Minister noted that a document will be published for comment yet concluded that most of the recommendations have been implemented. It said it viewed this as a major oversight by the Minister in ensuring an effective, fair and efficient SARS.

1Road Consulting expressed concerns about SARS’ conduct during VAT audits and withholding of VAT refunds. This concern was also shared by SAICA, South African Institute of Professional Accountants (SAIPA) and SAIT. It said that requests for a further meeting with NT and SARS to address this went unheeded. 1Road Consulting highlighted that the VAT audit and withholding problem is not restricted to the export sector but spread widely across the economy impacting small, medium and large businesses, including those in business rescue. It pointed out that the VAT withholdings severely impact Small, Micro and Medium Enterprises (SMMEs), to the point of insolvency.

1Road Consulting further submitted that taxpayers, in the face of a never-ending VAT audit and withholding of VAT refunds, are powerless unless they litigate. It said that taxpayers’ cash flows are significantly compromised and may be driven into insolvency and that SARS acts as judge, juror and executioner as there is no law to compel SARS to issue a revised VAT Assessment within a specified period and dispute resolution cannot commence. All the while, VAT refunds are withheld.

SAIT submitted that it values a continuous engagement on tax administration with SARS and acknowledged the inroads made into the largely non-compliant taxpayers. SAIT raised concerns about the taxpayer’s rights, the Tax Ombuds draft compendium, the possibility of a reverse charge on VAT and whether SARS is targeting the real culprits.

### Recommendations made by stakeholders on revenue and tax issues

#### SAICA recommended that revenue estimates should be as accurate as possible, as these estimations underpin the revised downward estimations in the budget deficit and consequently the projected debt that will be needed to fund any deficit. Over-estimating economic growth and revenue while underestimating expenditure trends raise questions about the credibility of the budget.

#### SAICA recommended that Parliament should question whether the current methodology used to calculate tax-to-GDP ratio properly and appropriately informs it of what the impact is of fiscal policy. As Parliament is accountable for the final approval of the budget, SAICA recommended that it should request financial data that best informs its decision making.

#### PwC recommended greater clarity on the stated intention to further reduce the CIT rate on a revenue-neutral basis as the tax base is broadened. It said that the targeted tax rate, noting that it had previously suggested a rate of 25 per cent, as well as the base-broadening measures and timelines to achieve that target rate, should be indicated.

#### HEALA recommended that to better strengthen the HPL and promote South Africans’ rights, policymakers should immediately increase the HPL tax rate from 11 per cent to 20 per cent and commit to annual adjustments of this tax rate that account for inflation. Also, the scope of Sugar-Sweetened Beverages (SSBs) should be widened to include fruit juices while the taxable threshold should be lowered from 4g per 100ml in the longer term.

#### On PIT review of monetary amounts, PwC recommended that all tax tables and monetary amounts should be reviewed by NT and Parliament on an annual basis as part of the budget and tax legislative cycle process to ensure transparency in policy-making.

#### FCSG recommended that NT should publish full details and calculations of the Seigniorage sharing agreement in the Common Monetary Area (CMA) and the South African Customs Union (SACU) agreement as an annexure in the 2022 MTBPS. It highlighted that South Africa pays more than R1.2 billion and R40 billion annually to its CMA partners and SACU partners, respectively.

#### IEJ said it had made repeated submissions demonstrating that expenditure cuts are not necessarily progressive tax proposals that can finance a universal basic income grant and other desperately needed measures. IEJ proposed the introduction of a luxury VAT rate of 25 per cent on luxury goods, a social security tax of 1.5 per cent to 3 per cent progressively levied on the highest income earners and a wealth tax of one per cent for the top 1- 3 per cent wealthiest South Africans.

#### Women on Farms Project also recommended the implementation of a wealth tax on the richest one per cent of South Africas’s taxpayers and that the revenue collected must be ring-fenced to finance redistributive spending, accompanied by open, accessible, accountable and transparent consultative, monitoring and implementation processes.

#### Amandla.mobi. recommended that NT should tax the rich by introducing a wealth tax and increasing PIT for those earning over R1 million annually and increase the sugary drinks tax to 20 per cent.

#### SAB submitted that there should be a greater incentive by way of price, for consumers to purchase lower strength alcohol products. Alcohol products with higher alcohol content should attract a higher excise tax burden and this would correctly influence consumers to reduce harmful consumption by purchasing cheaper lower Alcohol by Volume (ABV) products.

#### COSATU recommended that more needs to be done to reinforce SARS’ capacity and build upon the excellent work it is doing and that particular focus needs to be given to tackling tax and customs evasion and to move the tax regime to a more progressive one. Also, SARS needed to be empowered to undertake lifestyle audits of politicians, senior managers in government and SOEs and wealthy individuals.

#### 1Road Consulting recommended that the Tax Administration Act should be amended to include that SARS:

#### must complete and finalise a VAT audit within four months from the date that the taxpayer provides all the relevant material requested by SARS;

#### may not withhold VAT refunds for more than two VAT periods under audit. More specifically, SARS may not continuously roll out audits into future periods and withhold the VAT refunds due, until the original audit periods have been completed;

#### may not continue requesting information, which would delay the finalization of the audit; at the outset must agree a deadline with the taxpayer for the audit finalisation. Any extension of the audit must be supported by a full motivation for the extension;

#### must allow compliant taxpayers to apply for the release of VAT refunds withheld if they have a proven good compliance record and will suffer irreparable financial harm by the continual non-refunds;

#### may not withhold VAT refunds simply based on pure conjecture and suspicion. There must be a factual basis for the withholding;

#### must not unreasonably and unfairly place the onus on businesses to control criminality in a supply and distribution chain;

#### must refer their findings to the National Prosecuting Authority (NPA) and South African Police Service (SAPS) for a full criminal investigation, where criminality is alleged. It cannot take it upon itself to be for all practical purposes, judge, juror and executioner - on the charges of criminality;

#### must ensure transparent standard non-discriminatory treatment of all taxpayers under audit; and

#### must issue a revised assessment within 10 business days of finalising an audit; issue full and proper audit progress reports and not a simple report recording simply and unhelpfully “in execution”. That does not comprise an audit progress report.

### Responses by the National Treasury on issues raised by the stakeholders

NT explained that the 2022 Budget revenue estimates aligned with the baseline macroeconomic projections of the tax bases, and accounted for the risks to revenue collection.  It said that estimates of medium-term nominal GDP growth are marginally higher than the 2021 MTBPS projections. It said that there were no additional revenue measures beyond those proposed in the 2022 Budget as tax policy focused on broadening the tax base, improving administration and lowering rather than raising tax rates to support the economic recovery, subject to major expenditure decisions. It said that the medium-term tax elasticity assumptions from the 2021 MTBPS were prudent and maintained for the 2022 Budget estimates. NT explained that despite some reversal of commodity-driven revenues expected over the medium term, significant additional revenues were expected over the next three years. It said that the rebuilding of SARS was evident in improved revenue collection and compliance trends. Additional revenue gains from SARS efficiency improvements represented an upside risk to the revenue estimates.

On taxation and revenue policy, NT noted and welcomed the number of questions on tax policy and revenue projections. It said that in past years, NT has requested that the Committee schedules a special session on tax policy and financial sector announcements soon after the Budget, either as part of the post-budget hearings or soon after this process. NT said that tax announcements are market-sensitive, and no prior consultations take place before the budget day announcements. NT explained that the rates and monetary threshold announcements are finalised by the budget day, hence its publication of the draft Bill on budget day. It said that SCoF can immediately have hearings on this Bill should it decide to do so, rather than waiting until August as it currently does.

NT explained that consultations on non-rates issues, such as the tax base, only begin post-budget during March-June, followed by the publication of the Taxation Law Amendment Bill (TLAB) and Tax Administration Law Amendment Bill (TALAB) in July each year. It said that taxpayers only learn the finer details on tax announcements in July from the two draft Bills. In some instances, an extra round of consultation with some parts of TLAB around April/May.

## Expenditure, debt, deficit and borrowing issues

### Comments and issues raised by the stakeholders on expenditure and debt issues

SAICA raised concerns that, together with various unbudgeted expenses, increased debt service costs on foreign loans and the war in Ukraine will have a collective impact on the debt borrowing estimations, indicating that the current levels disclosed in the budget are not credible. SAICA said that this concern is affirmed by the upward trend of debt level estimations in the last 12 years, notwithstanding estimations of a reduction or stabilisation in various medium-term audit opinions reported on in the Auditor General reports. It said that these reflect a lack of consistent and transparent treasury control interventions by NT, as well as the lack of performance by various departments as is disclosed in their individual departmental annual performance plans.

The FFC welcomed the government’s decision to use a portion of the revenue windfall to lower the gross borrowing requirement and reduce debt issuances. However, it cautioned that debt stabilisation risks remain elevated and posed significant challenges to public finances.

COSATU agreed that the public debt needs to be brought under control but it cannot be the sole focal point for Budget 2022. It cautioned that an austerity only approach will further weaken the state’s capacity to provide quality public services, extend solidarity to the poor, rebuild the state and grow the economy.

IEJ raised concerns that debt stabilisation outlined in the fiscal framework appeared to be occurring at the expense of public services. It noted that the government had set its sights on achieving a budget surplus by 2024/25 but now, the forecast date has been brought forward to a year earlier, in 2023/24. It said its view was that there can be no rationale for such speed towards this target when it comes at the expense of protecting and assisting people who are vulnerable or investing in the economy and public services. A further concern is that despite the increase in the population and inflation of 4.8 per cent, overall non-interest expenditure remained stagnant at no annual increases over the medium-term.

PBO said that the analysis of the functional budget structure over the years shows the effect of the high proportion spent on debt-service costs than on the other functions provided by the government. It said that the analysis of the proportions of government spending on the economic sectors of government spending shows a shift away from current expenditure towards capital expenditure. PBO submitted that a budget surplus and lower debt levels do not mean increased macroeconomic stability and growth in business confidence, particularly given the severity of the triple crisis in South Africa.

SAICA stated that a contingency reserve is meant to provide for and be utilised for unforeseen emergencies such as natural disasters or pandemics. However, it observed a worrying trend where the contingency reserve is being utilised by NT as a “suspense account” where foreseen expenditure that NT wants to keep as conditional grants are budgeted in the contingency reserve. This happened with provisions for South African Airways (SAA) and now the R5 billion for the Land Bank, SAICA further noted.

FCSG submitted that South Africa has been running historically large budget deficits in the last 15 years. It noted that this started with the countercyclical fiscal stimulus introduced in the 2009 Budget in response to the 2008/09 global financial crisis but seems to have become entrenched in the fiscal framework. It highlighted that the budget deficit of 10 per cent of GDP in 2020/21 is one of the largest on record and that expenditure and debt continue to grow at 3.2 per cent and 9.5 per cent, respectively. Also, social grant beneficiaries are expected to increase by more than a million over the medium term and the special grant will be extended for another year. According to the FSCG, all of this is evidence of a highly expansionary fiscal stance and that the reality is that South Africa has reached its fiscal cliff; thus ironically making it appear as if certain measures similar to austerity are being implemented. It emphasised that this is not an austerity budget, given the size of sustained deficits.

FCSG submitted that based on the 2020 MTBPS figures, South Africa had reached its fiscal cliff, as the sum of the three expenditure items amounted to more than 100 per cent of the country’s tax revenues. It said that the 2021 and 2022 Budgets have however shown some improvement, as the ratio decreased to around 91 per cent and 74.7 per cent, respectively. It was also noted that a major reason for the improvement is the revenue ‘windfall’ during 2021/22, likely a ‘once off’ event. FCSG said that its projections indicate that there will be further deterioration in the fiscal cliff barometer, following the medium-term budget estimates.

SAICA noted an admission in the 2022 Budget Review that the effectiveness of expenditure ceilings has been limited. It submitted that expenditure ceilings have habitually been breached and thus cannot be relied upon as a measure of fiscal control for estimations. SAICA questioned the credibility of the budget process given the historical mismatch between planned service delivery and spending patterns.

SAICA said that there should be proper and credible oversight of future estimations. It said that these cannot be made without being properly informed by historical spending and reviewed performance by Parliament and its committees. It said that Parliament was not powerless to address the above and it would not be in the best interests of the country if the budget was accepted as is. SAICA said that the finance committees have had the to amend budgets since 2009, after the passing of the Money Bills Act. It said that Parliament could, for instance, amend the budget of R3,4 billion allocated to VIP Protection Unit which provides security to a few identified dignitaries and reduce it by half and reallocate resources to the NPA, which has a budget of only R4,9 billion or to SARS. It also encouraged Parliament to amend the budgets of departments who, without proper justification, materially under deliver and seemingly over budget and overspend.

SAICA noted concerns that taxpayers will suffer if NT withholds funds from non-performing municipalities. It submitted however that taxpayers were already suffering from lack of service delivery by the various departments and municipalities. It said that this is evident from the number of court cases that have arisen where citizens are taking municipalities to court over failed service delivery. It said it was also evident from the annual reports of various departments where they have spent nearly their whole budget for the year, yet only met 30-40 per cent of their targets. SAICA further submitted that budget spending must match performance, otherwise the budget process loses credibility.

SAICA made several other points which can be found in its full submission saying that Budget 2022 did not cater for various unbudgeted expenses such as SOE contingent liabilities, financial support to municipalities, costs for dilapidated water and sanitation infrastructure, costs needed to appoint 12000 new police officers, and increased debt service costs on foreign loans as a result of the war in Ukraine, among others.

PwC observed the risks to expenditure, which included the: public sector wage bill, support to SOEs, and temporary social grant support being extended or becoming permanent. It noted further that the expenditure ceiling has been increased by R192.2 billion in the first two years of the MTEF period, indicating a significant slippage in expenditure.

Although PwC applauded government for its efforts to contain public-sector wages, it remained concerned that future wage negotiations may weaken this resolve. It submitted that the above matters will impact the government’s ability to pursue fiscal consolidation. It said that it was not clear what the proposed strategy will be should the spending pressures translate into additional expenditure.

FSCG noted that the companies listed in Schedule 2 of the PFMA 1999 referred to as major public entities are intended to operate as sustainable businesses that generate profits and can borrow on the strength of their balance sheets. It said that these companies have extensive borrowing powers compared with other public entities. However, the 2022 Budget highlighted that in 2021/22, SOEs made limited progress in their reforms and that over the past 12 months, several SOEs missed their capital investment and loan disbursement targets. It noted that investors have increasingly expressed unwillingness to extend capital to such entities without government guarantees. FCSG said it believes that now is the time to normalise the SOE’s extensive borrowing powers.

FFC indicated that it 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. FFC expressed concern about the trajectory of increasing shares of public infrastructure investment of SOEs and public entities (shares increased from 9.8 in 2021/22 and reached 13.6 in 2022/23 and expected to reach over 15 per cent in 2024/25) while the share of provinces and municipalities were decreasing. FFC said that this indicates that government is increasingly implementing public infrastructure investment through public entities despite their poor performance. FFC said it was concerned about the decreasing share of local government given the huge infrastructure backlogs in municipalities, in terms of both new infrastructure and rehabilitation and maintenance of existing infrastructure.

On the wage bill, FCSG reiterated that it had warned government about unsustainable growth in civil service expenditure since 2013, indicating that the civil service remuneration is a significant driver of fiscal unsustainability. FCSG noted that the 2022 Budget indicates a rise of 1.8 per cent per annum over the medium term and that previous cuts of around R60 billion announced during the 2021 Budget seem to have been re-introduced as expenditure in the 2022 Budget. It said that the whole budget rests on maintaining this budget position in respect of civil service remuneration and that if this position slips, the budget will fall apart.

COSATU welcomed the Minister’s recognition of the need for government to respect collective bargaining and to engage unions at the Public Sector Coordinating Bargaining Council (PSCBC) and other collective bargaining fora on the wage bill and conditions of service.

COSATU expressed concerns about the impact of 4.8 per cent budget cuts over the MTEF to the Department of Trade and Industry and Competition (DTIC) as well as below-inflation increases of 1.9 per cent on the Foster Care Grant and 0.2 per cent on Health. COSATU welcomed the extension of the R350 COVID-19 Social Relief of Distress (SRD) grant which provides direct relief to 10 million beneficiaries. It said that the grant was supposed to be adjusted for CPI. COSATU also noted with concern that 175 out 259 municipalities are in financial distress yet no clear interventions were provided in the budget to turn them around.

Amandla.mobi welcomed the R350 grant extension by government. It said its members were however disappointed that the grant was not increased and expanded to include more people. Amandla.mobi said that NT has ignored its calls to make public participation in the creation of the budget accessible to all. Instead, the current budget tips reinforce inequality, it said.

The PBO highlighted that extreme unemployment and inequality continued spatial apartheid, corruption, state capture, and poor service delivery performance means that the percentage spent on the social wage is an inadequate indicator, just like GDP. It further said that real per capita spending on almost all functions is expected to decrease.

The Women on Farms Project’s submission is about the implementation of a wealth tax on the richest one per cent of South Africans. The submission also indicated that the study associated with the University of the Witwatersrand found that between R60 billion and R160 billion additional revenue can be raised from this source. Argentina and Bolivia were also cited as examples of countries that have successfully implemented wealth tax. The WFP also raised concerns around the importance of land ownership and redistribution and implementation of the BIG.

### Recommendations made by stakeholders on expenditure issues

#### SAICA indicated that although it agrees that SCoF is not solely responsible for the credibility of the budget, Parliament as a collective is and it is Parliament that determines how it arranges its affairs. SAICA therefore, suggests that the Standing Committee on Appropriations, the relevant Portfolio Committee and the Standing Committee on Public Accounts should join the JSCoF Budget Review public hearings to ensure that there are no gaps in the budgeting process so that a credible budget can be approved.

#### SAICA recommends that Parliament should better exercise its oversight powers over the NT to ensure that it is accountable for its obligation in terms of Section 216 of the Constitution. That is, the NT must consistently implement the constitutional remedy of withholding funds from government entities that have serious and persistent material breaches of treasury controls. The qualified audit reports will indicate where this process should start.

#### COSATU recommends that government should resolve the 2020 wage agreement matter and rebuild trust with unions and workers and that the government needs to lead by example and cut the excessive packages paid to politicians and senior managers in the government SOEs and to protect lower and middle-income public servants.

#### The FCSG recommends that the growth restraint announced in the 2002 Budget should be applied in practice since the whole budget rests on maintaining this budget position in respect of the civil service remuneration. If this position slips, the budget falls apart.

#### While COSATU welcomes the additional funding for Eskom, Transnet, Passenger Rail Agency of South Africa (PRASA) and Denel, it recommended that the planned retrenchment of 6 000 South African Post Office (SAPO) workers must be stopped, that alternatives to retrenchments must be found, that clear turnaround plans should be put in place to save and rebuild SOEs, that the government should ensure that a review of the fuel price regime happens and that government needs to re-table the Road Accident Fund (RAF) and Road Accident Benefit Scheme (RABS) Bills in Parliament as part of overhauling the fuel price and addressing the RAF’s ballooning liabilities.

#### FCSG recommended that NT should refrain from helping non-essential or failed SOEs; publish a review of the “extensive borrowing powers” of SOEs as an annexure to the 22 MTBPS, thus serving an early warning in respect of possible further financial problems and publish a list of all SOEs in the 2022 MTBPS for further analysis and scrutiny.

#### FFC recommended that government should assess the SOEs to appraise their profitable feasibility, operational efficiency, their track record in resolving market failures, and attaining developmental goals. Also, the government should homogenise the legislative framework for SOEs to remove legal ambiguity, reinforce implementation, and improve disclosure and reporting requirements. FFC further recommended that the government should implement the necessary operational, governance and financial reforms that would enable SOEs to effectively and efficiently deliver infrastructure to realise an investment return.

#### COSATU, IEJ, Amandla.mobi and WFP recommended that the R350 SRD grant should be extended beyond March 2023 and be used as a foundation for a BIG and that the budget cuts to public services must be reversed.

#### Amandla.mobi. further recommended that government should make significant increases to all social grants, such as increasing the child support grant to R950 per child and expanding to include pregnant mothers, increasing the old age grant to R2.500, giving pensioners a 13th cheque in December and increasing all other grants by no less than R150. On increasing old-age pension, Amandla.mobi. urged the Finance Committees to hold NT to account and answer why they have not met with the Pietermaritzburg Pensioners Forum.

#### FCSG reiterated its recommendation that the central and provincial governments should only purchase vehicles manufactured in South Africa.

#### IEJ recommended that the government should reflect on the impact of austerity and strategy to reduce budget deficits. The IEJ supports the Budget Justice Coalition’s call that the government must conduct Human Rights Impact Assessments (HRIA) of fiscal policy and of individual budget decisions where human rights are impacted.

### Responses by the National Treasury on issues raised and recommendations made

NT acknowledged that there was a disconnect between economic growth and spending. It said that between 2010/11 and 2019/20, non-interest consolidated expenditure had grown at an average annual increase of 7.8 per cent, while nominal GDP grew at 7.2 per cent. It said that in the 2013 Budget, the government initiated a process to slow expenditure growth by reducing baseline budgets and setting ceilings on compensation spending. However, unfunded policy decisions contributed to a persistently large budget deficit, increasing pressure on basic service delivery.

On fiscal policy issues, NT stated that over the past few years there has been a disconnect between government spending and economic growth. Higher spending should be accompanied by inclusive economic growth. It said that despite measures aimed at controlling expenditure growth, the funding for the social wage has been protected to ensure that necessary goods and services are provided to those who are in need.

NT explained that the decision not to implement the final leg of the 2018 wage agreement, together with other measures to reduce average wage costs have improved the wage trajectory. It said that the government is firmly committed to the compensation ceiling as announced in the budget. It said that no further budget reductions were announced in the 2022 Budget. Instead, additional spending in critical spending areas was made using a portion of revenue improvements.

It noted that the composition of public spending has also deteriorated, the proportion that supports long-term growth is smaller, while debt-service costs consume an increasing share of GDP and revenue.  It said that the projected revenue over-collection allows for the response to immediate spending pressures. It said that the windfall in 2021/22 will be used to finance the special COVID-19 social relief of distress grant until the end of March 2023. It said that significant portions are also allocated to Education and Health, as well as for Infrastructure investment and public employment. It added that higher spending on social wage should be accompanied by inclusive economic growth.

On the redistributing effect of the budget, NT noted that the consolidated budget has grown from R712.8 billion in 2008/09 to R2.08 trillion in 2021/22, which is an average annual increase of 8.6 per cent. It said that over the MTEF, an allocation of R3.33 trillion, or 59.4 per cent of total non‐interest spending is dedicated to the social wage. It explained that this aims to alleviate poverty, reduce unemployment and accelerate growth. This includes the 12-month extension of the SRD grant, additional funding for health, education and the presidential employment initiative. It said that despite measures aimed at controlling expenditure growth, the funding for the social wage has been protected to ensure that necessary goods and services are provided to those who are in need. It said that a key weakness in recent economic performance has been persistently high joblessness, which lies at the root of weak economic development outcomes. It assured that government and stakeholders are working on a sustainable long‐term approach to social protection consistent with the government’s broad development mandate and the need to ensure affordability.

On managing the public‐service wage bill, NT explained that compensation spending for national and provincial government grew by 7.3 per cent on average for the period 2014/15 to 2019/20, compared with 6.8 per cent average growth in non-interest expenditure. It said the decision not to implement the final leg of the 2018 wage agreement and other measures to reduce average wage costs have improved the wage trajectory. It said that a new round of collective bargaining will begin in March 2022. The NT is working with the Department of Public Service and Administration to keep the compensation baseline within affordable limits. NT said that over the MTEF, the consolidated government wage bill increases by annual average growth of 1.8 per cent, which is 0.8 percentage points higher than pencilled in the 2021 MTBPS. It explained that the higher growth reflects an exception made for additional funding to frontline services such as health, education and police. NT said that the government is firmly committed to the compensation ceiling as announced in the budget, and has tasked the NT and all departments to align to the budget.

On SOEs, NT stated that the operational and financial health of many state-owned companies continues to decline. It said that over the past 12 months, several have missed their capital investments and loan disbursements targets. Investors have increasingly expressed an unwillingness to extend capital to such entities without government guarantees, leaving many state-owned companies at risk of defaulting on their debts. NT explained that to reduce their demands on limited public resources, SOEs need to develop and implement sustainable turnaround plans that align with their mandates, incorporate long-term structural considerations in their sectors and identify appropriate funding models.

In 2022/23, the NT said that it will publish a framework outlining the criteria for government funding of SOEs. It said that government will guide and support credible restructuring plans. Guaranteed debt continues to have the full backing of the government.  It said that the total amount of approved guarantees to SOEs is expected to reach R560.1 billion by the end of 2021/22, which is R21.5 billion lower than in 2020/21. The associated exposure is estimated to increase by R32.1 billion to R416.8 billion by March 2022. Eskom accounts for 78.7 per cent of these guarantees. It said that excluding Eskom, total debt maturing over the next three years is expected to amount to R67.4 billion, of which 22 per cent or R14.9 billion is guaranteed by the government. NT further clarified that the list of all public entities can be found on the NT Website (PFMA Schedules).

On current fiscal challenges, NT said that the government expects to realise a primary surplus (revenue exceeds non-interest expenditure) by 2023/24, ending fiscal consolidation. It said that no further budget reductions were announced in Budget 2022. It said that increases in critical spending areas were made by using a portion of revenue improvements. NT said that the government’s debt is high and projected to rise to R4.35 trillion in 2021/22 despite some revenue improvements enabling deficit reduction over the MTEF. Gross loan debt is projected to stabilise at 75.1 per cent of GDP in 2024/25, given that revenue projections over the MTEF realise. It said that as a result, approximately 20 cents of every rand collected in revenue every year will be used to pay debt-service costs.

NT explained that debt-service cost increased, both in proportion and size of expenditure, to be the third-largest expenditure item (according to the functional classification of expenditure). It said that each year, a budget deficit adds to the debt, increasing the debt-service cost – this cannot continue indefinitely.  It said that the only way to manage this is through increases in tax or decreases in non-interest expenditure or, a combination of the above. It said that debt management also plays an important role.

NT stated that despite projections to reach a primary surplus by 2023/24, debt is high. Each year, a budget deficit adds to the debt, increasing debt-service costs, limiting the country’s capacity to spend more and this cannot continue indefinitely.

## Other budget-related issues

### Comments and issues raised by stakeholders

PwC submitted that an overarching concern with government expenditure has, for some years, been that government does not get good value for money in public spending. A series of spending reviews conducted in 2020 has highlighted significant restructuring opportunities and exposed large inefficiencies in spending. Importantly, these reviews have, as acknowledged by the 2021 Budget, revealed the limits of incremental budgeting, guaranteed increments in previous allocations invariably create further inefficiencies, as well as create perverse incentives to enter into contracts that have high unit costs.

Last year, the PwC welcomed the announcement in the 2021 Budget that, during 2021/22, the Department of Public Enterprises (DPE) and the NT will pilot zero-based budgeting, thereby producing significantly re-costed budgets from 2022/23 and ultimately improving the efficiency of spending. However, no mention was made in the 2022 Budget regarding the progress with the implementation of zero-based budgeting which is disappointing, as the PwC strongly believes that a review of government programmes and expenditure will be beneficial for the fiscal framework.

COSATU expressed disappointment that the government has not provided substantive measures to tackle corruption in the 2022 Budget. It submitted that the Public Procurement Bill should be fast-tracked, enhanced to tackle corruption, substantive to support local procurement and cover the entire state. It needs to be tabled at Parliament in 2022.

COSATU further submitted that the government needs to move with speed to draft legislation that would allow financially distressed and highly indebted workers limited access to their pension funds. This needs to be finalised in 2022 so it can come into effect in 2023.

Amandla.mobi. submitted the demands and voices of those the budget will most impact. The submission further outlined the lack of access to public participation. Amandla.mobi. recommends that more resources must be put in place to allow even the marginalised to access parliamentary public hearings and consultations. The Finance Committee and NT must make commitments to make sure the majority of people are aware of and can access channels to participate in budget public consultations and implement measures that will allow that to happen by March 2023. NT should also consider a free hotline for budget tips, as the 300 tips currently considered are not sufficient for the whole country.

### Responses by the National Treasury on issues raised by the stakeholders

On public participation, NT stated that South Africa ranked first, among 117 countries, in the 2017 and 2019 Open Budget Index. It said that the index measures the quality of budget transparency, public participation in the budget processes and institutional oversight. These included the pre-budget public participation; Budget tips (over 300 Budget tips received for 2022 Budget); post-budget public participation; People’s Guide to the Budget which is presented in 7 languages and circulated in communities; community radio stations engagements, about 21 radio stations across different provinces; Budget Outreach Programme and other public participation; NT Website where all budget information including data sets such as the new budget dashboard; Vulekamali, an easily accessible online budget data portal; and Fiscal Openness Accelerator to support innovation to deepen participation by members of the public in fiscal policy. NT said it is continuously looking at more inclusive public participation mechanisms.

On fighting corruption, NT said that the 2022 Budget Review states that funds are being reprioritised in the peace and security function to enhance capacity in institutions combatting crime and corruption. It said that the Investigating Directorate in the NPA and the Financial Intelligence Centre (FIC) are together allocated R426 million over the MTEF period. It said that this allocation will enable the permanent appointment of 68 personnel in the Financial Intelligence Centre and an estimated 90 personnel in the Investigating Directorate to provide specialised services. It explained that Legal Aid South Africa is also allocated R34.3 million over the medium term to provide capacity at newly established Specialised Commercial Crime Courts in the provinces of Limpopo, Mpumalanga, North West, and Northern Cape. NT explained that the Public Procurement Bill will be tabled before Parliament in 2022/23. It said that the bill will be revisited to take into account the recent Constitutional Court judgement on the preferential procurement regulations and the Zondo Commission report.

## COMMITTEE’S OBSERVATIONS AND RECOMMENDATIONS

The Committee welcomes the 2022 Budget and acknowledges that it strikes a difficult balance between growing the economy, ensuring fiscal sustainability, maintaining expenditure over the medium term and providing tax relief to individuals and companies. The Committee further acknowledges the continued difficult economic conditions under which the 2022 Budget was tabled and welcomes the more than expected revenue that was collected in 2021. However, it is concerned about the fiscal risks that are looming.

The Committee appreciates the productive environment in which the 2022 Budget was discussed, between the NT, SARS and civil society. The Committee further welcomes NT and SARS’ comprehensive responses to the issues raised by the stakeholders.

### Macroeconomic issues, policy and reforms

#### The Committee notes (1) that the expected real GDP growth of 1.8 per cent over the medium term, on average, will not be sufficient to reduce poverty, inequality and high rates of unemployment, (2) that GDP growth forecasts assume a more rapid implementation of economic reforms and fiscal consolidation despite the past trends of failure to do so, (3) NT’s acknowledgement that structural constraints have reduced potential economic growth for the past decade and remain an impediment to recovery and (4) the FFC’s submission that it is improbable that the economy will revert to pre-pandemic levels in 2022, as NT estimated, given that recovery was disrupted in the third quarter of 2021 when GDP decreased by 1.5 per cent, owing to the July 2021 unrest and the emergence of Omicron virus.

#### The Committee acknowledges some progress made in addressing structural constraints to growth, reported in both the 2022 SONA and the 2022 Budget Review but urges for speedy and practical implementation of economic reforms that will advance economic growth, job creation and reduce inequalities. While the Committee recognizes that this is not the responsibility of NT alone but of the government as a whole, the Committee recommends that NT should report progress made every quarter on structural reforms, including managing the electricity crisis that negatively affects consumers and SMMEs.

#### The Committee notes the government’s commitment to creating a conducive environment for the economy to grow, create jobs and encourage investment and, over time, reduce heavy reliance on social services. The Committee remains concerned that much needed economic recovery is dependent on timely and successful implementation of economic reforms, for the private sector to grow.

#### The Committee recommends that, for policy certainty, NT should clearly articulate the government’s economic policy on growth from which the ERRP was derived, in the upcoming 2022 MTBPS. As indicated in the previous reports, we believe that “re-industrialisation and localisation should become key pillars of our national reconstruction and inclusive economic recovery strategy and that there needs to be a “buy local campaign” for the state, private sector and consumers”.

#### The Committee remains concerned that despite Government’s efforts to support job creation, the rate of unemployment persistently increases and measured 34.9 per cent in the third quarter of 2021, the highest record since 2008. If all job-seekers are included, this rate rises to 46.6 per cent. The Committee recommends that NT should regularly provide progress made on the targeted government employment creation initiatives, including the Employment Tax Incentive and the Presidential Youth Programmes and whether these programmes are effective in reducing the number of people unemployed.

#### The Committee further notes that it will remain difficult for the labour market to absorb new entrants, particularly the youth and the unskilled, with moderate projected economic growth over the next three years. Given the phenomenally high level of unemployment, the Committee urges the government to seek to avoid the job losses pending in various public entities and negotiate with the trade unions, management and other stakeholders in this regard within the relevant regulatory framework and norms.

#### The Committee welcomes the additional R15 billion allocation to support SMMEs, as a positive development. The Committee recommends that NT should facilitate the accessibility of these loans to all qualifying SMMEs, covering all geographic areas and demographics and taking into consideration the lessons learnt from the R200 billion loan scheme that was provided in response to the COVID-19 pandemic. NT should quarterly report progress made, in terms of the successes and challenges experienced and how these challenges will be addressed.

#### The Committee observed that although Headline CPI is expected to remain within the set target range of 3-6 per cent over the medium term, the SARB has started tightening monetary policy and this might pose a significant risk to the economic outlook, along with the emergence of new COVID‐19 variants, rising global inflation, continued disruptions to the power supply and emergence of other risks.

### Revenue estimates, tax proposals and tax administration issues

#### The Committee notes that the consolidated revenue is projected to reach almost R2 trillion in 2024/25 and that tax revenue projections are higher than the 2021 MTBPS estimates. The Committee further notes that improved revenue, though broad-based, emanate largely from the commodity price surge windfall, which is temporary. The Committee further observed from SAICA and PwC submissions that NT might have continued to conservatively project revenue and economic growth.

#### The Committee welcomes the general fuel levy not being increased and the R5.2 billion tax relief for individuals and businesses provided for in the 2022 Budget, which is aimed at supporting economic recovery. The Committee further welcomes the positive developments at the SARS aimed at efficient revenue collection. The Committee recommends that SARS should intensify revenue enhancement initiatives to collect maximum revenue due to the government to enable it to deliver on its constitutional obligations. While recognizing the progress made on tackling the illicit economy in particular, the Committee stresses the need for SARS and other relevant agencies to do more in this regard. The Committee welcomes the government’s attempt and a plan to restructure fuel prices and recommend that this plan should be implemented in haste.

#### The Committee notes the proposal to decrease CIT by one per cent as part of the government’s intention to restructure the CIT system by reducing avoidance opportunities, expanding the tax base and encouraging investment. However, the majority in the Committee is not convinced that a reduction in CIT necessarily leads to the investment of this saving into the economy. The Committee once again observed that there are sufficient domestic savings that have not been re-invested into the economy to create jobs. The Committee recommends that NT and SARS should request reinvestment commitments from companies to stimulate economic growth, in light of the jobs lost. The Committee encourages the private sector to invest in the domestic economy while the government implements the economic reforms that would contribute to economic growth and improve business confidence.

#### While recognizing that more work still needs to be done at the SARS, the Committee acknowledges and commends the progress made in rebuilding SARS in the past few years. The Committee further recognises that the SARS needs more resources and suggests that the Standing/Select Committee on Appropriations considers recommending that the SARS’ budget should be increased to enable it to efficiently collect revenue and deliver on its mandate.

#### The Committee noted several concerns raised by the stakeholders, which include taxpayer rights, SARS subjecting the same compliant taxpayers for audit every year, the impact on taxpayers and SMMEs of the inefficiency with which SARS handles disputes, and withholding of VAT and diesel refunds. The Committee further noted progress reported by SARS on disputes, that between 2019 and now, the number of disputes decreased from 32 per cent to 7 per cent, in line with international standards and that the delays are mainly caused by lack of documentation. The Committee recommends that the NT and SARS should, within three months, meet with the relevant stakeholders to address the tax issues raised, particularly the dispute and escalation issues and report to the Committee on this.

#### The Committee recommends that the Tax Ombud appears before it or a joint meeting of the Finance Committees in the second quarter of this year to respond to the issues raised by the stakeholders. SARS and NT should also attend this meeting.

#### The Committee observed that the stakeholders generally support the tax relief and no increases in the fuel levy. The contrasting views on the proposals to reduce the CIT rate by one per cent and the need to provide SARS with sufficient funding to enable it to efficiently collect revenue are noted. The Committee further observed several tax proposals made, which include a wealth tax, sugar tax and VAT on luxury goods. While there was a reasonably comprehensive reply to these issues, the Committee recommends that NT and SARS should engage the relevant civil society stakeholders to find practical solutions to the issues raised in the public hearings.

### Expenditure issues

#### The Committee notes that consolidated expenditure as a percentage of GDP is expected to reach R2.28 trillion in 2024/25, amounting to R6.62 trillion over the next three years and that the social wage will take up 59.4 per cent of total non-interest spending over this period.

#### While the wage bill has an impact on the fiscal framework, this matter is better placed with the Appropriations Committees for further consideration. The Committee recommends that the government should continue to negotiate with the trade unions to seek compromises on the wage bill and develop a specific short to medium-term plan to address this.

#### The Committee notes the submissions made by the stakeholders regarding increasing social grants. While the Committee recognises the severe budgetary constraints, we reiterate our previous position that the NT and the government should seriously consider a Basic Income Grant after the necessary consultation with the relevant stakeholders. We refer this matter to the Appropriations Committee to give further attention.

#### The Committee reiterates its position that the Presidency needs to encourage members of the executive to buy cars that are assembled in South Africa. The Committee will pursue this matter further with the Minister of Finance, Minister of Trade, Industry and Competition and the Presidency. The committee recognizes that not all models of a particular brand of the cars assembled in South Africa are assembled here and that there are other related challenges. However, without being prescriptive, the executive should be encouraged to, as far as possible, buy cars assembled in the country. Public representatives generally and others who serve in the public service should also be encouraged to do this. This should also be encouraged where there are fleet cars bought in the public sector. The Committee will raise this with the Portfolio Committee on Trade, Industry and competition to also take this matter forward as part of the “buy local” campaign.

### Debt, deficit and borrowing issues

#### The Committee observed that gross loan debt is now expected to stabilise at R5.43 trillion or 75.1 per cent of GDP in 2024/25, a year earlier than projected in the 2021 Budget. The debt level as a percentage of GDP, nonetheless, remains high and the country might face a debt trap shortly. The Committee recommends that NT reports quarterly on the effectiveness of NT’s debt management strategies that would ensure that the level of debt stabilises over the medium term as expected and that extra-budgetary costs do not increase the debt level further.

#### The Committee further observed from the FFC submission that if all the government’s contingent liabilities materialises, the debt to GDP ratio will increase to 100 per cent by 2026. The Committee is concerned that contingent liabilities are projected to increase from R1.15 trillion in 2021/22 to R1.23 trillion in 2024/25 and that NT reported that in 2020/21 SOEs made limited progress in their reforms and most of these companies deferred their capital investment projects to preserve cash to meet short‐term obligations. The Committee recommends that NT should be extra-cautious in funding the SOEs and recurring debt in general, in light of the immediate risk they pose to the fiscal framework.

#### The Committee notes that debt service costs will rise to R363.5 billion (5 per cent of GDP) in 2024/25, now accounting for 15.1 per cent of total spending and growing faster than all functions, including learning and culture and health. Rapidly increasing debt service costs remain a concern as it crowds out social expenditure and service delivery.

#### The Committee welcomes the fact that a portion of the higher‐than‐anticipated revenues since the 2021 Budget, is used to reduce the budget deficit and the borrowing requirement, which will see a primary surplus by 2023/24, a year earlier than projected in the 2021 MTBPS. The Committee remains concerned that borrowing to finance SOE bailouts and recurrent expenditure is not sustainable particularly as it does not support economic growth or reduce the triple challenges of high levels of poverty, inequality and unemployment.

#### The Committee is concerned that the contingency reserves over the medium term are not sufficient to cushion the country against unforeseen circumstances, such as the re-emergence of the new COVID-19 virus, the potential impact of climate change on the economy and the current Russia and Ukraine war. The Committee cautions NT about the impact that these shocks might have on the economy, the country’s ability to repay the debt owed and the overall credibility of the fiscal framework. Understandably, the fiscal framework does not factor in the consequence of the Russia and Ukraine war. The Committee expresses its concerns about the likelihood of major increases in prices of fuel, fertilizers and other commodities and the consequences for the most vulnerable South Africans.

#### The Committee observed, with great concern, the significant risks to the fiscal framework, which include higher borrowing costs and contingent liabilities of SOEs. Other observations on extra-budgetary costs to the fiscal framework include SAA funding, the cost of rebuilding and temporary housing of Parliament and the new proposed SOE funding.

### Other Budget related issues

#### The Committee reiterates its recommendation on zero-based budgeting carried out in our July 2020 special adjustment budget fiscal framework report. The Committee requires to be briefed on the implications of zero-based budgeting. The Committee requires the Minister and NT to do this briefing at the next quarterly meeting.

#### The Committee recommends that the Public Procurement Bill should be brought to Parliament. The Committee recognises the need for NT to address the legal and other challenges affecting the Public Procurement Bill.

#### The Committee reiterates its recommendation that the government should implement consequence management for public servants who transgress the law or fail to do their jobs effectively.

Having considered the 2022 Fiscal Framework, the Standing Committee on Finance adopts the 2022 Fiscal Framework as presented.

The Economic Freedom Fighters reject the report

The Democracy Alliance, Freedom Front Plus reserved their position

Report to be considered