SUPPLEMENTARY BUDGET 2020

RESPONSE TO PUBLIC SUBMISSIONS – 03 JULY 2020

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SUBMISSIONS ON THE SUPPLEMENTARY BUDGET WERE RECEIVED FROM THE FOLLOWING ORGANISATIONS

- Accountability Now
- Budget Justice Coalition
- Congress of South African Trade Unions
- C-19 People's Coalition Economic Working Group
- Childrens institute
- Financial and Fiscal Commission (FFC)
- Fiscal Cliff Study Group
- Geoff Everingham
- Institute for Economic Justice
- Moses Moadira
- Parliamentary Budget Office
- Peter Meakin
- South African Institute of Chartered Accountants
- Organisation Undoing Tax Abuse (OUTA)

KEY COMMENTS DURING PUBLIC HEARINGS – 30 JUNE TO 01 JULY 2020

1. Debates on austerity and stimulus:
    - Need for a major policy stimulus, including further monetary interventions to spur demand
    - Planned fiscal consolidation will harm the economy
    - Debt is not a significant problem
2. Tax policy:
    - Wealth and solidarity taxes
3. Spending:
    - Allocations do not align with the President's announcement in April
    - Social grants and gender based violence
    - Local government allocations
4. Reforms:
    - No major reform announcements
    - Measures taken to address corruption and fruitless & wasteful spending
5. Financing:
    - International Finance Institutions
    - Pension Funds

FISCAL POLICY

KEY FACTS ABOUT SOUTH AFRICA'S FISCAL STANCE

- SA's fiscal stance has been expansionary for more than a decade (average 4% annual increase since 2008 in REAL terms), and the supplementary budget presents the most expansionary budget in many years:
    - Unprecedented expansion of the fiscal deficit;
    - Unprecedented increase in borrowings
- This expansion provides one of the most robust responses to the CoVid pandemic among developing countries:
    - Large cyclically-adjusted primary deficit;
    - 10% of GDP larger than comparable countries in the G20
- However, SA cannot use the pandemic as an excuse not to address weak public finances and achieve higher growth rates in the future:
    - Higher government spending has not translated into higher growth in the past decade
- The austerity vs stimulus debate is a false choice, and the National Treasury does not make policy according to this paradigm
- Reprioritisation is a prudent and appropriate approach to funding part of the relief measures:
    - Announced by the President on 21 April 2020
    - In line with practices in numerous countries worldwide
    - Provides an opportunity to address waste and reduce non-priority spending in government

SELECTED OBSERVATIONS REGARDING THE SUBMISSIONS

- Rejections of the active scenario ignore the prospect and implications of a debt crisis
- While the consolidation effort will be challenging, there are upside risks iro: potential of economic growth measures as well as improvements in inflation dynamics and terms of trade
- Calls for more government spending are based on the incorrect assumption that SA suffers from short-run cyclical demand challenges rather than long-run structural weaknesses in the economy
- Higher government spending and borrowing has not led to higher growth in many years
- We should not confuse people’s desire to lend us money with our ability to pay it back

AUSTERITY/STIMULUS DEBATE

- The COVID-19 economic response is massively countercyclical when measuring the size of the fiscal impulse
- Government only has a choice between a looming debt spiral or fundamental reform. No other option exists
- Policy of government is that a structural increase in the level of spending must be matched by an increase in structural revenues
- Growth and distributional consequences of fiscal choices
  - More borrowing does not necessarily translate into higher growth
  - Fiscal stimulus cannot address underlying structural issues
  - Rising debt-service costs crowd out other areas of spending over time
  - Increasing reliance on foreign savings raises vulnerability to external shocks
- Quality of borrowing is crucial
  - Consumption vs investment
  - Ability to spend efficiently
- Spending reductions may have short-term harmful effects on growth. But the implications of a fiscal crisis would be profoundly negative

REMINDER: THE GAP BETWEEN REVENUE AND EXPENDITURE IS STRUCTURAL AND WIDENING

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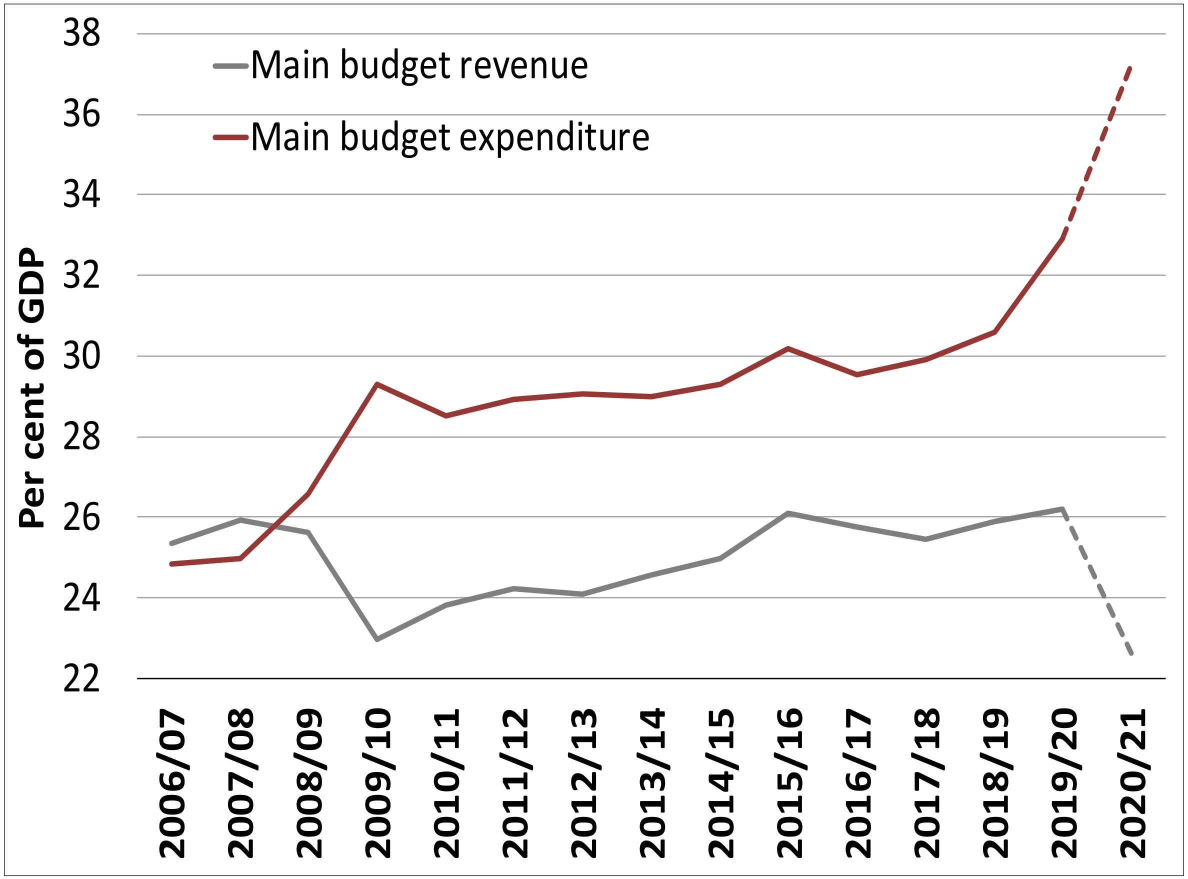
Main budget revenue and expenditure



- The COVID-19 pandemic erupted when South Africa was already in a weak fiscal position
- In recent months, fiscal deterioration has accelerated
- In 2020/21, significant tax revenue underperformance is expected, and expenditure will increase as government reprioritises and allocates funds to contain COVID-19.
- The main budget deficit and gross borrowing requirement will increase sharply

ROOM FOR ADDITIONAL SPENDING IS LIMITED

- The COVID-19 pandemic exacerbated an already weak fiscal position, leaving very little fiscal space to respond.
  - Budget 2020 expected an already large deficit of 6.8% of GDP; this has increased to a record 15.7% consolidated budget deficit
  - The gross borrowing requirement for 2020 – the sum of the main budget deficit and maturing loans – **has increased by R344.2 billion to R776.9 billion**
  - Gross debt to GDP will peak at **87% in 2023/24, compared to 50.5 in 2016/17**
  - This adds to the already high levels of debt and increases debt-service costs to almost 22% of main budget expenditure.
- South Africa's tax-to-GDP is already high given the country's level of development. Any additional taxes should be considered prudently
- Additional spending will require higher debt, which comes with higher interest rates
- Rising debt service costs are crowding out our ability to pay for health and education services and to take care of the vulnerable through social programmes

A DEBT CRISIS CAN HAVE LONG RUN IMPLICATIONS – CONSERVATIVE ANALYSIS

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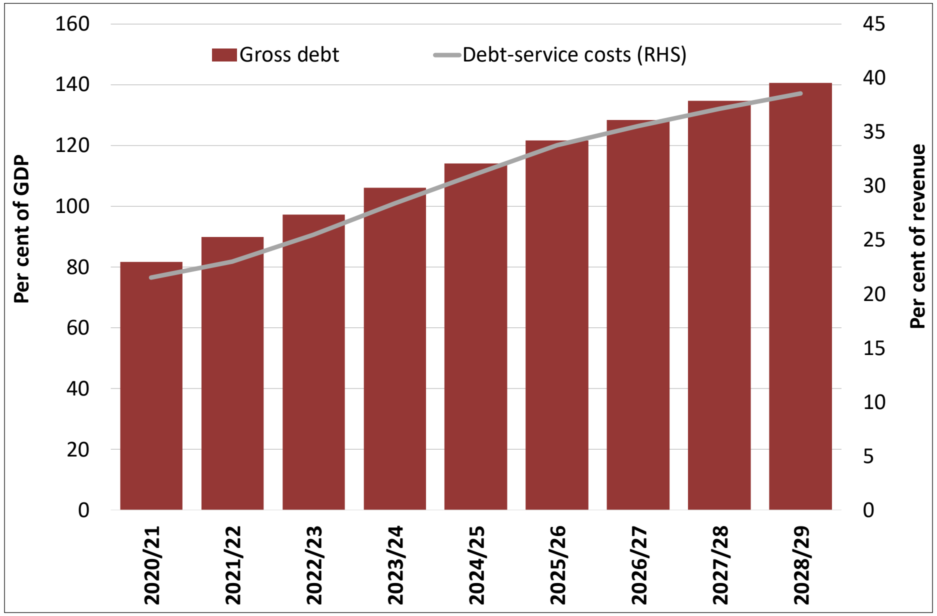
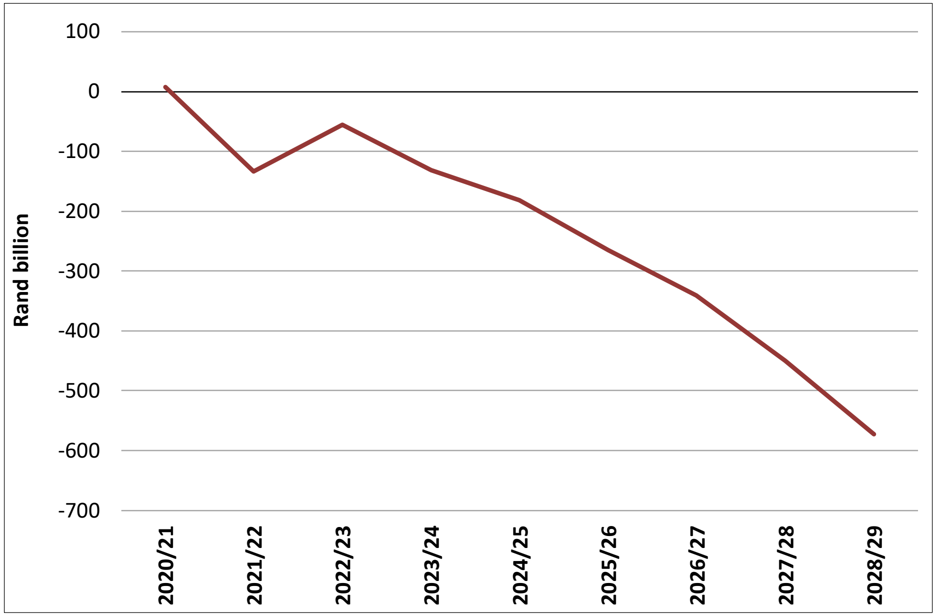
Debt dynamics

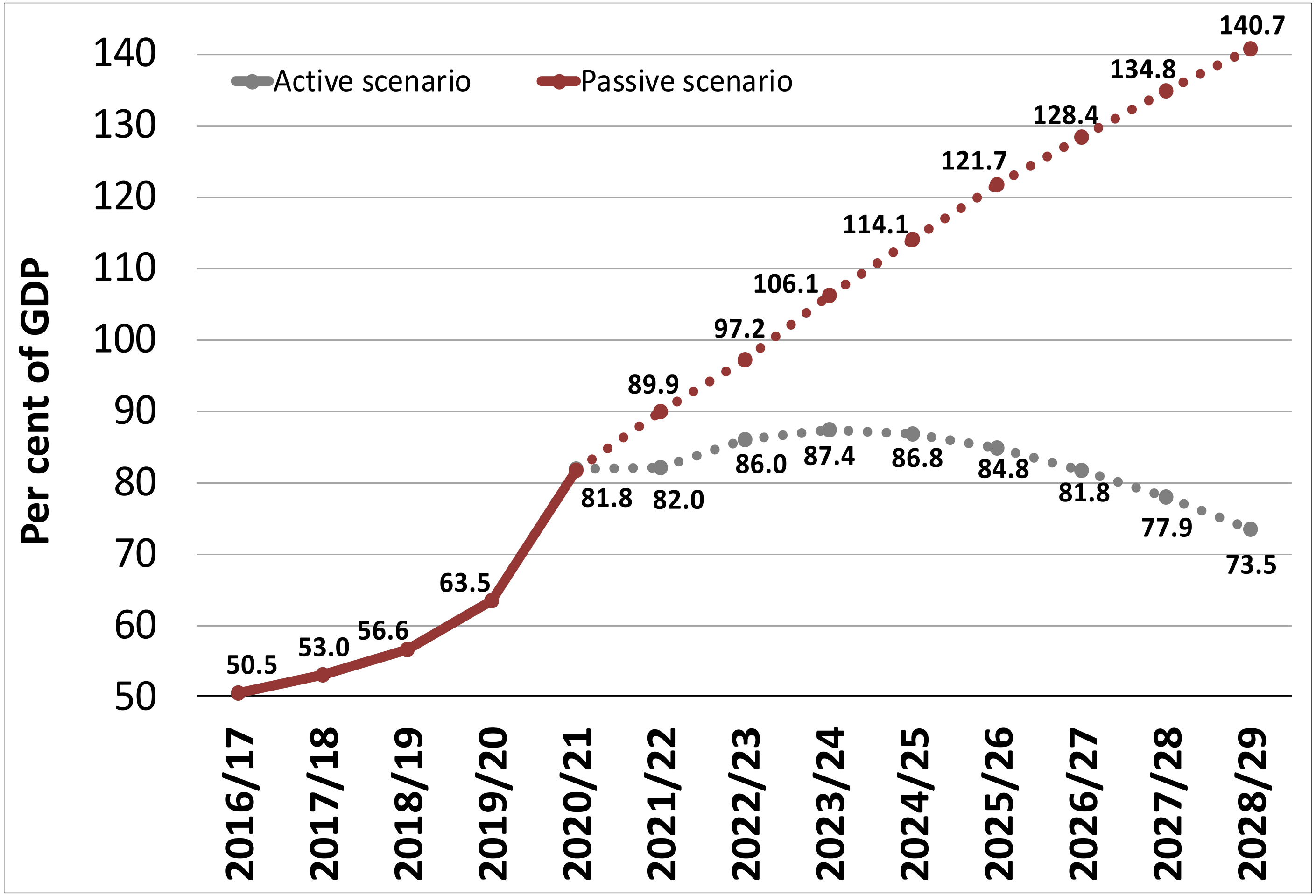


Loss of nominal GDP



- Failure to arrest the debt trajectory will see debt-service costs consume around 31% of main budget revenue by 2024/25
- The stock of debt crosses the 100% mark in 2023/24, reaching over 140% in 2028/29
- Deficits remain elevated at around 12% of GDP for a long-time, severely constraining domestic saving and investment
- A fiscal crisis could deduct more than R2 trillion from GDP over the next decade

DEBT OUTLOOK SCENARIOS



- We can take steps to avoid a debt crisis and place the economy on a path towards higher potential and real growth

- In the active scenario, debt stabilises at 87.4 per cent of GDP in 2023/24

CAN GEPF BE USED TO FUND THE RESPONSE

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Selected income and expenditure of GEPF

R billion	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Revenue							
Employer contributions	30.8	33.5	36.1	38.6	42.1	45.3	48.7
Employee contributions	17.1	18.7	20.3	21.7	23.4	25.1	26.9
Investment income[1]	49.9	54.0	68.5	69.0	69.5	72.0	84.2
Expenditure							
Benefits paid	43.2	57.9	85.8	83.1	88.3	94.9	102.5

1. Dividends on listed equities, interest on bonds and money market instruments and income from unlisted properties and unlisted investments excludes adjustments for value of financial assets

Source: Government Pensions Administration Agency

Government Employees Pension Fund actuarial valuations

R billion	2008	2010	2012	2014	2016	2018
Assets at market value	707	801	1039	1426	1630	1800
Best estimate liabilitie	614	737	1012	1174	1407	1663
Liabilities including reserves	829	1082	1476	1715	2054	2384
Funding position						
On best estimate liabili	*115.2%*	*108.7%*	*102.7%*	*121.5%*	*115.8%*	*108.3%*
On liabilities including reserves	*85.3%*	*74.1%*	*70.4%*	*83.1%*	*79.3%*	*75.5%*

Source: Government Employees Pension Fund

- Fiscal sustainability will not be achieved if we spend today what has been saved for tomorrow

- The GEPF exists to provide retirement security to about 1.3 million employees and 460 000 beneficiaries and manage governments pension liabilities
- The GEPF's funding position has steadily deteriorated since 2016 driven by lower-than-expected investment returns and introduction of new benefits and improvements to existing benefits. In addition, contributions to the fund were lower than actuarial assumptions.
- Investments by the Fund are determined by the Board of Trustees in line with the GEP Act (1996)
- Forcing the Fund to invest in suboptimal assets will create a significant long-run liability for future generations
- The fund is reliant on investment income to pay benefits. It is expected that the impact of the credit ratings downgrades and the COVID-19 will adversely affect the fund's position

INTERVENTIONS TO SUPPORT PUBLIC INFRASTRUCTURE SPENDING

- Sustainable Infrastructure Development Symposium is a welcome intervention
- Budget Facility for Infrastructure (BFI) is an institutional process to appraise and evaluate large infrastructure projects
- Funding for the PICC, GTAC and the DBSA to assist government institutions with project preparation and planning
- Infrastructure delivery improvement programme provides technical assistance and training for the provincial and national departments of health, education and public works
- Framework for Infrastructure Delivery and Procurement Management System (FIDPMS) aims to bring about efficiencies through coordinated management of the procurement processes
- Local government grants review is focussing on eliminating inefficiency and underspending by reviewing the overall grant structure and improving asset management
- Infrastructure Fund’s implementation unit has been established in the DBSA, and has identified potential projects in excess of R500 billion. A review of public-private partnership regulation is under way

TAX POLICY

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TAX MEASURES

- Some comments stated that there should not be any tax increases while the economy recovers from the impact of COVID-19, while others called for additional tax measures to be introduced.
- The 2020 Supplementary Budget stated that there would be tax increases of R40bn over the next four years to help stabilise debt and that the specifics of the tax increases will be announced by the Minister of Finance in the 2021 Budget.
- The Davis Tax Committee has done a number of research reports on these topics, including on the viability of a wealth tax, and how it relates to a land tax, an on estate duty
- Tax amendments over the last five years have included some of these proposals, with a higher estate duty rate for large estates and amendments to limit avoidance, alongside higher taxes on the wealthy through a new top personal income tax bracket and higher dividends tax and capital gains tax rates
- All the additional proposals on tax measures are useful and will be considered before the 2021 Budget

COVID-19 TAX RELIEF TAKE-UP

- Comments stated that there has been little uptake on the tax relief measures:
- Preliminary data from the South African Revenue Service (SARS) up until 25 June 2020 indicates that:
  - Over 9,000 firms utilised the deferral of pay-as-you-earn in April (over 7,000 in May) and the total relief for those two months was around R750 million
  - The Skills Development Levy exemption has provided relief of R1.6 billion
  - Excise duty and fuel levy deferrals amounted to R7.5 billion
  - There were 255 applications on a "case-by-case" basis for relief and of those 167 have been approved to the value of R1 billion
  - There were 434 SMME vendors who took advantage of filing VAT returns on a more frequent basis to access VAT refunds more timeously
- A large portion of the tax relief is yet to be recorded as estimates for the employment tax incentive are not yet available and since the majority of the provisional tax relief will only take place with filing at the end of June.
- Similarly, the take-up will increase as the available months for relief continue and as the employment tax incentive .

ECONOMIC POLICY

UNSUSTAINABLE SPENDING HAS HARMED ECONOMIC GROWTH

- **Government expenditure increased from 27.9 per cent of GDP in 2009 to 32.2 per cent of GDP in 2019**
- **Unsustainable spending leads to higher debt**, which is associated with lower growth
  - Fiscal multipliers in emerging markets are smaller than in advanced economies, partly due to structural constraints
  - South Africa's fiscal multipliers are very small (and possibly negative before the crisis)
  - High-debt countries can have negative multipliers because fiscal consolidation is likely to have positive credibility and confidence effects on private demand and lower interest rates
  - Negative fiscal multipliers means that spending increases can actually have a contractionary impact on growth.
- Recent spending growth has raised aggregate economic risks, and, with it, the costs of borrowing in the economy as a whole
  - South Africa's risk premium – the additional return that investors demand to compensate for higher risk – increased from 3.2 per cent at the end of 2019 to 5.2 per cent at 15 June 2020
- This has resulted in **reduced investment by the private sector**, resulting in **slower growth and less employment**

GOVERNMENT SPENDING AND INVESTMENT IN THE ECONOMY

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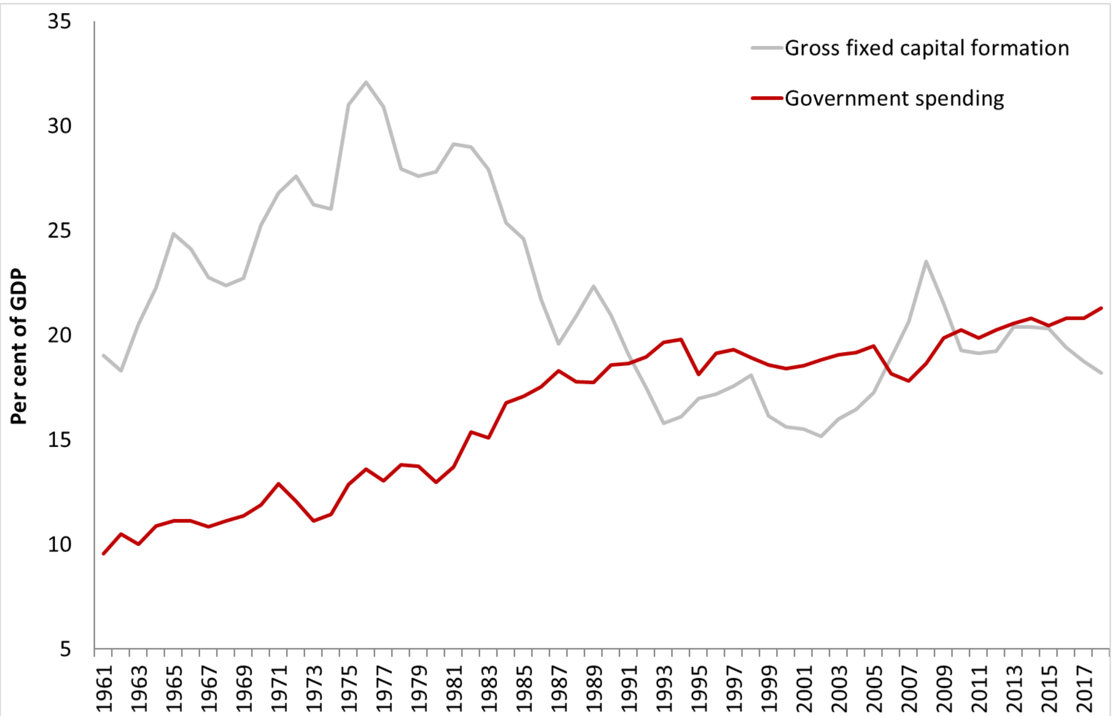
Spending as % GDP



Source: SARB Quarterly Bulletin; National Treasury

- **Government spending has been on a continuous upward trajectory**
- **It is not always true that higher government spending leads to higher growth**
- **Gross fixed capital formation represents total investment in the economy**
- **Government spending has overtaken investment** as a share of nominal GDP
- **Investment has begun to decline as an overall share** following a resurgence in the 2000s
- This has **negative implications for future potential** growth

STRUCTURAL FACTORS CONTINUE TO CONSTRAIN THE ECONOMY

- In addition to fiscal consolidation, debt stabilisation will require removing structural constraints to growth.
- South Africa faces a number of structural problems that were identified in the National Development Plan.
- To address these issues, the government is implementing reforms as discussed in the document titled **Economic Transformation, Inclusive Growth, and Competitiveness: Towards an Economic Strategy for South Africa**.
- The paper is a detailed examination of the structural reforms that can reverse the downward trend in South Africa’s growth potential and competitiveness while furthering government’s objectives of economic transformation and inclusive growth.

WHY ARE STRUCTURAL REFORMS CRITICAL?

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- **Real GDP per capita has declined since 2015,** productivity growth has been slow and **investment growth has been negative in 12 of the last 17 quarters**
- Economic growth has **persistently been worse than expected since 2011**
- Estimates of long-term potential growth, the natural rate of growth for the economy, have fallen from close to 4 per cent in the late 2000s to **less than 1 per cent in 2019**
- What are the main elements of the reform agenda?
  - Modernise and reform network industries, such as road, rail and telecommunications so that lower costs and increased efficiency can improve business competitiveness
  - Re-orient trade and industrial policies and pursue greater regional integration to boost exports, employment and innovation
  - Lower barriers to entry to make it easier for businesses to start, grow and compete against large, dominant players
  - Enable labour- intensive sectors such as construction, retail, tourism and agriculture to achieve more inclusive growth.

FINANCING AND CONTINGENT LIABILITIES

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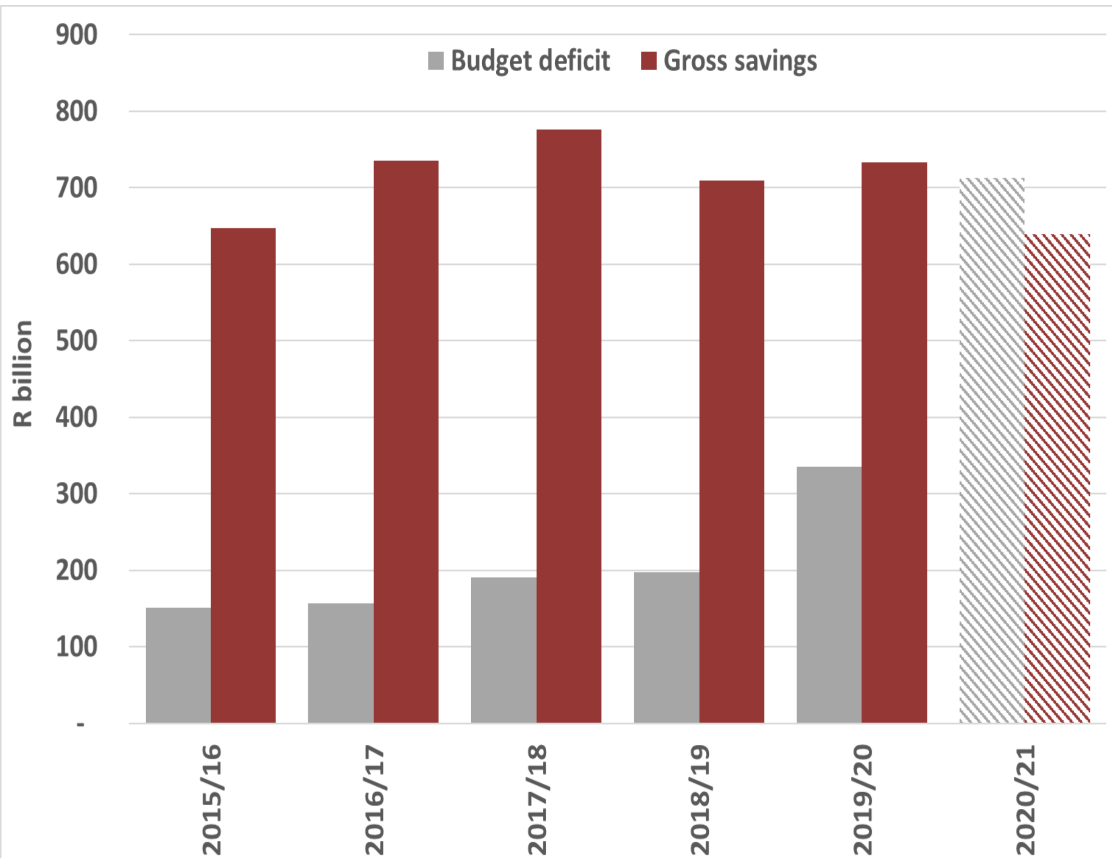
THE CHALLENGES OF INCREASING BORROWING (1/2)

The Budget deficit exceeds the size of Gross domestic savings



- The gross saving rate of SA at approximately 14.5 per cent is low and cannot sustain the level of spending/ investment
- The growth rate of gross borrowing requirement outstrips the growth rate of assets under management(constrained by the level of savings in the country)
- International investors have sold off R58 billion in South African government debt thereby reducing external savings
- The growth in national government debt is crowding out private investment which could resulted in new job creation and increased revenue
- Government is not generating enough revenue to repay accumulated debt. More borrowing is done to repay debt and interest creating a vicious cycle that could lead to a sovereign debt crisis

THE CHALLENGES OF INCREASING BORROWING (2/2)

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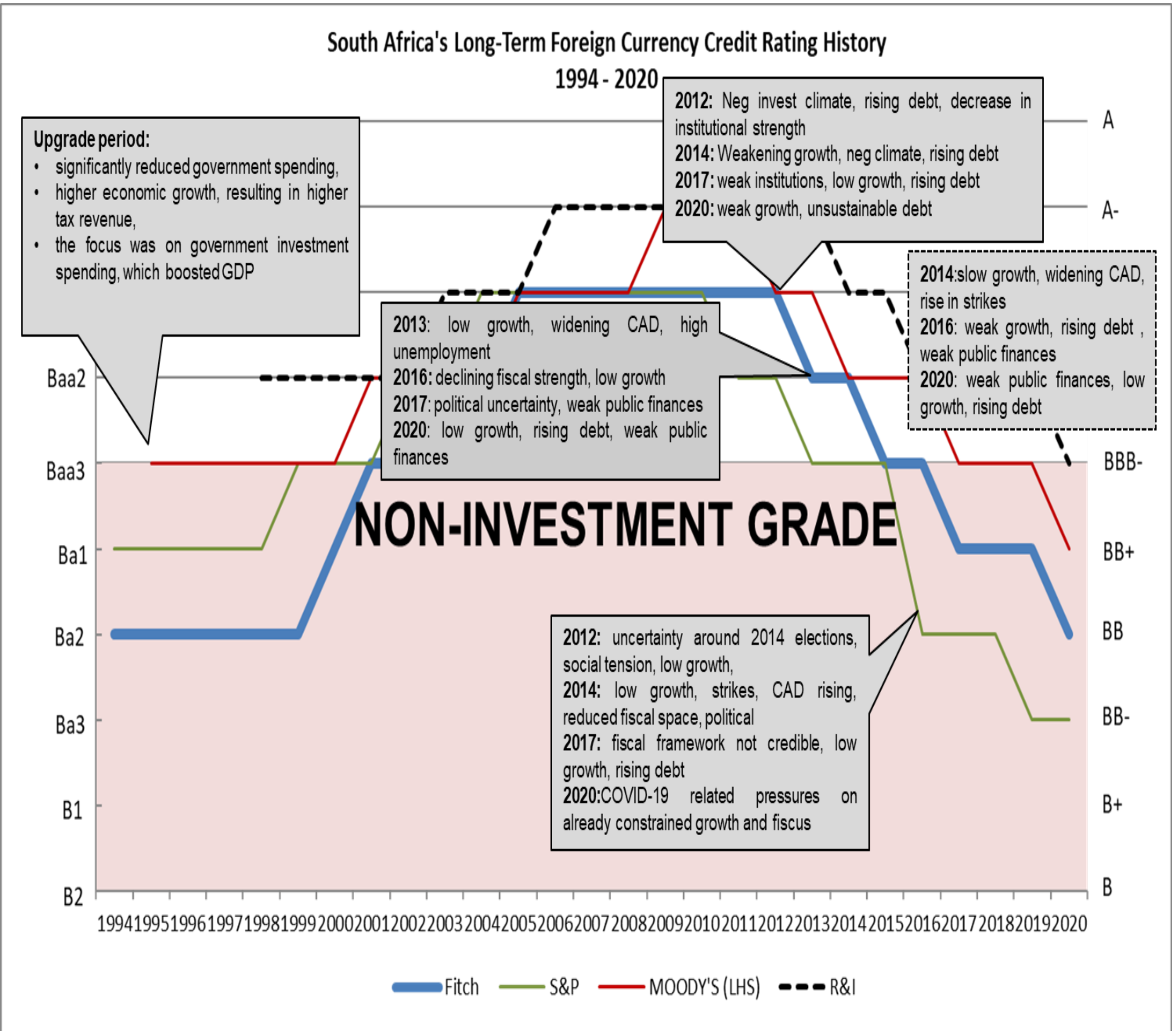

- Rating downgrades by S&P, Moody's and Fitch highlight perils of inaction.
- Between March and April, the rand depreciated more sharply than comparable developing-country currencies.
- Long-term government yields are above end-2019 levels, which means that government borrowing costs are higher. The steepness of the yield curve indicates investor concerns about fiscal sustainability.
- If debt does not stabilise, government will be unable to borrow at affordable rates.

FINANCING THE GROSS BORROWING REQUIREMENT

- Since February 2020, the gross borrowing requirement for 2020/21 has increased by R344.2 billion to R776.9 billion. Government has revised its financing strategy to minimise the effect of this deteriorating financial position on its stock of debt and on debt-service costs.
- The domestic capital market is under pressure. To moderate its domestic borrowing, government will draw down sterilisation deposits. It will also source funding from international finance institutions
- Existing foreign cash deposits will be used to finance foreign currency commitments. The proceeds from international loans will be converted into Rands to partially finance domestic commitments.

Table 4.3 National government gross borrowing requirement and financing

	2019/20	2020/21		2021/22	2022/23
R billion	Preliminary	Budget	Revised	Medium-term estimates	
Gross borrowing					
Main budget balance	**-345.3**	**-368.0**	**-709.7**	**-495.6**	**-430.5**
Redemptions	**-70.7**	**-64.7**	**-67.2**	**-64.9**	**-150.0**
Domestic long-term loans	-19.4	-52.5	-52.5	-60.5	-134.2
Foreign loans	-51.2	-12.2	-14.7	-4.4	-15.8
Total	**-416.0**	**-432.7**	**-776.9**	**-560.5**	**-580.5**
Financing					
Domestic short-term loans (net)	36.1	48.0	146.0	56.0	64.0
Domestic long-term loans	305.4	337.7	462.5	388.4	451.4
Foreign loans	76.1	29.3	125.2	31.9	63.2
Change in cash and other balances[1]	-1.6	17.7	43.2	84.2	1.9
Total	**416.0**	**432.7**	**776.9**	**560.5**	**580.5**

1. A positive value indicates that cash is used to finance part of the borrowing requirement
Source: National Treasury

SOC FINANCES WERE WEAK LONG BEFORE THE EMERGENCE OF COVID-19

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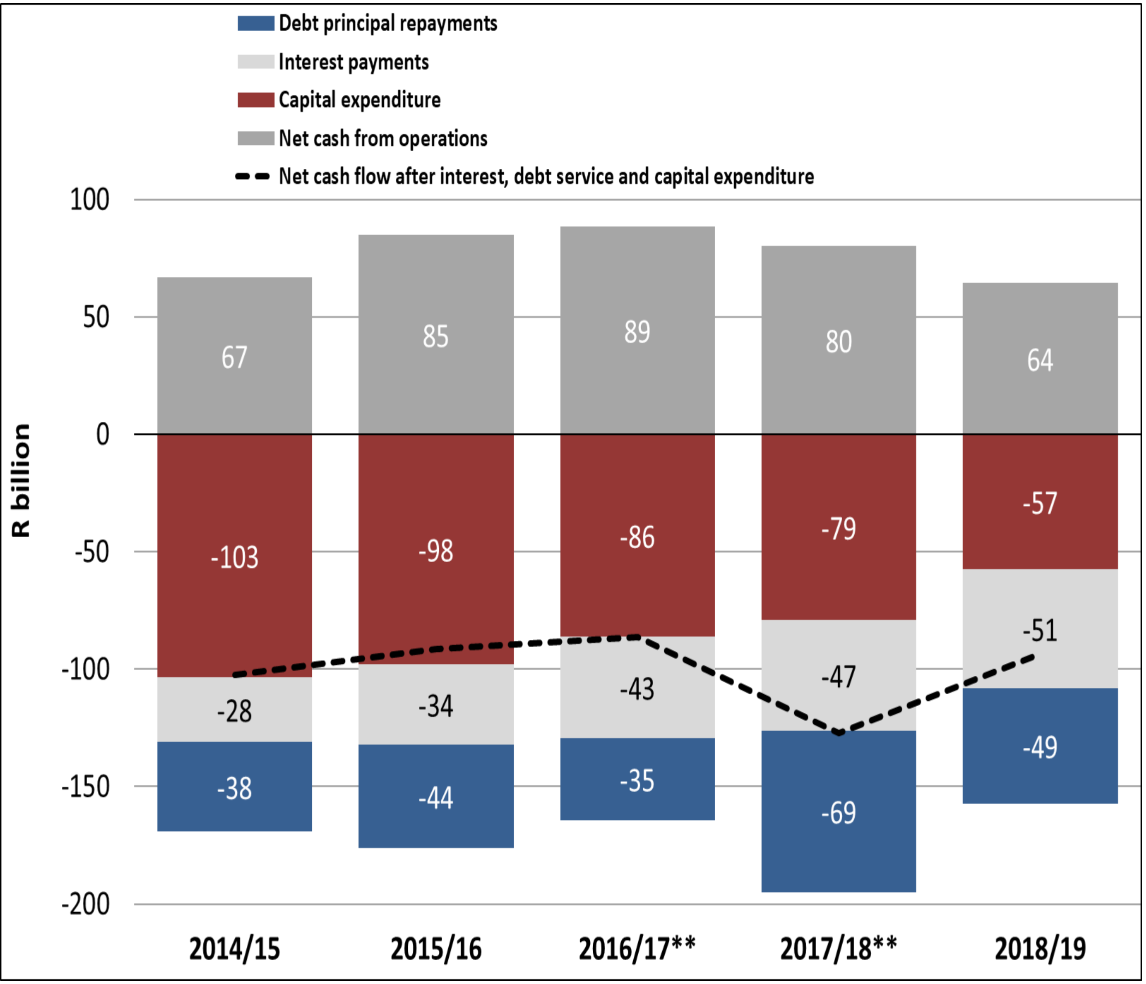
SOC cash balances



- SOCs have been running negative cash balances well-before emergence of pandemic owing to poor financial performance
- Reforms planned include:
  - Rationalisation (closure and merger of some state-owned companies, and incorporating certain functions into government)
  - Equity partnerships,
  - Stronger policy certainty and implementation.
- Planned transfers from the fiscus will be strictly conditional on improving their balance sheets.

PLANNED SOC REFORMS

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ACTION	SOC	NEXT STEPS
Close	SAA/ SAX/ Alexkor	No further action required in terms of bailouts except settle guaranteed debt as entity is insolvent and BRPs have not released turnaround plans. Close Alexkor and transfer the mining rights to African Exploration Mining and Finance Corporation; consolidate state mining operations.
Retain/Fix/ Dispose Non-core	Denel/ SABC	Cut cost structure (retrench, VSPs, cut salaries) Denel: Dispose non-core assets like Denel Hensoldt and Denel LMT; SEPs for Denel Dynamics, Land Systems, Denel PMP; Consolidate Denel properties with Eskom and Transnet Properties. SABC: Finalize the separation of its financials between its developmental (public broadcaster) and commercial mandate. All non-profitable commercial operations should be ceased/disposed of as a matter of urgency
Retain/Fix	Transnet/Eskom/ Necsa	Transnet: Introduce Private Sector Participation for Ports and Rail. Introduce greater incentives for concessionaires on dormant branch lines. Eskom: Cut cost structure (retrench, VSPs, cut salaries), Municipalities and Soweto to settle outstanding debt, Dispose of Eskom Finance Company. Implement the Eskom Roadmap. Necsa:New Business model required.
Retain/ Consolidate	Sentech/BBI/ Safcol	Merger of BBI and Sentech currently underway to form a new state information communication technology (ICT) infrastructure company to enhance the state's capacity.
Retain/Fix/ Repurpose	SAPO/ CEF/ Landbank	SAPO: Repurpose to just focus on its developmental mandate to deliver services/goods in underserviced areas. Cease or dispose of all non-profitable commercial operations and subsidiaries. CEF:Fix PetroSA, Develop policy framework to deal with the liquid fuels sector and whether need for national oil companyAddress immediate liquidity challenges and restructure balance sheet. High probability that recapitalisation will be required. Review Land Bank's business model to ensure fit-for-purpose to enable proper and adequate support towards the agricultural sector (development and commercial).

THE SPENDING PACKAGE

THE COVID-19 SPENDING RESPONSE PACKAGE

- President Ramaphosa announced a social relief and economic support package worth R500 billion. This would include the reprioritisation of around R130 billion from within the current budget for 2020/21. These were indicative amounts and required a rigorous budgeting process.
- The President’s announcements were not reneged on or rejected. The revised allocations reflect a rigorous and detailed process which was unanimously and unreservedly endorsed by MTEC, **MinComBud** and Cabinet chaired by the President.
- The Special Adjustments Budget tabled by the Minister of Finance on 24 June 2020 included total downward adjustments to 2020/21 spending amounting to R100.9 billion for national, provincial and local government.
- Although the initial announcement by the President with respect to reprioritisation of the existing budget was R130 billion, subsequent shifts in departmental spending needs related to Covid-19 as well as existing non-discretionary spending commitments meant that only R100.9 billion could be adjusted.
- This is a temporary suspension to spending in 2020/21 to provide funds for the Covid-19 response. The full amount of R100.9 billion has therefore been accordingly repurposed for Government’s Covid-19 related interventions as part of the fiscal relief support package.
- Suspended funds were reprioritised (meaning that the purpose of the spending was revised from what it was initially intended for in Budget 2020) to support Covid-19 related interventions in frontline departments such as health and social development, as well as in provinces and municipalities in line with the President’s announcement.

IN-YEAR SPENDING ADJUSTMENTS

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Table 2.2 Revisions to main budget non-interest expenditure

R million	2020/21
Main budget non-interest expenditure (2020 Budget Review)	**1 536 724**
Proposed upward expenditure adjustments	**145 000**
Proposed downward expenditure adjustments	**-100 885**
National departments' baseline suspensions	-54 403
Repurposing of provincial equitable share	-20 000
Provincial conditional grant suspensions	-13 848
Local government conditional grant suspensions	-12 633
Other adjustments	**-8 109**
National Revenue Fund payments	13
Downward revisions to skills development levy	-2 122
Lower skills development levy due to 4-month holiday	-6 000
Revised non-interest expenditure	**1 572 730**
Change in non-interest expenditure from 2020 Budget	36 006

Source: National Treasury

- Main budget non-interest spending has increased by a net R36 billion in the current year.
- This amount consists of R145 billion added to spending for the fiscal response to the pandemic. This amount is partially offset by R109 billion from the items shown in Table 2.2.

REVISIONS TO MAIN BUDGET SPENDING PLANS FOR 2020/21

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Table 2.4 Major revisions to non-interest spending plans

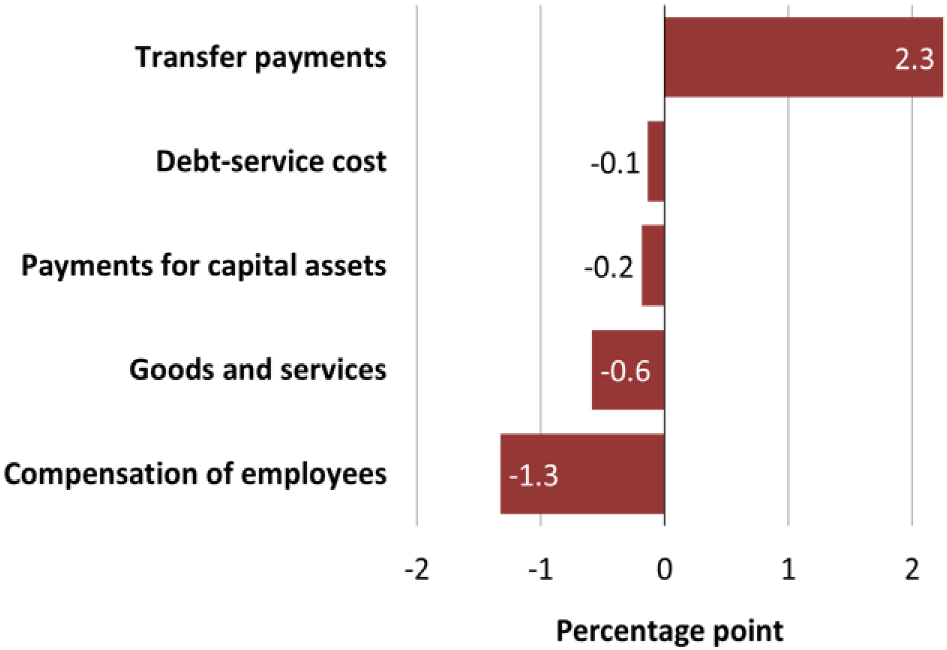
R million	Budget 2020	Reductions	Allocations	Other adjustments	Revised
General public services[1]	618 840	-24 310	25 055	13	619 599
Economic development	88 381	-12 145	4 649	–	80 886
Learning and culture	151 543	-15 617	10 560	-8 122	138 364
Health	55 516	-2 631	5 544	–	58 430
Peace and security	207 006	-4 185	10 170	–	212 991
Community development	219 727	-26 322	28 430	–	221 835
Social development[2]	198 497	-15 675	41 016	–	223 837
Provisional allocations: COVID-19 package	–	–	19 575	–	19 575
Provisional allocations not assigned to votes	-7 786	–	–	–	-7 786
Contingency reserve	5 000	–	–	–	5 000
Total	**1 536 724**	**-100 885**	**145 000**	**-8 109**	**1 572 731**

1. Includes the provincial equitable share that funds a range of functions including health and basic education
2. Includes Department of Women, Youth and Persons with Disabilities
Source: National Treasury

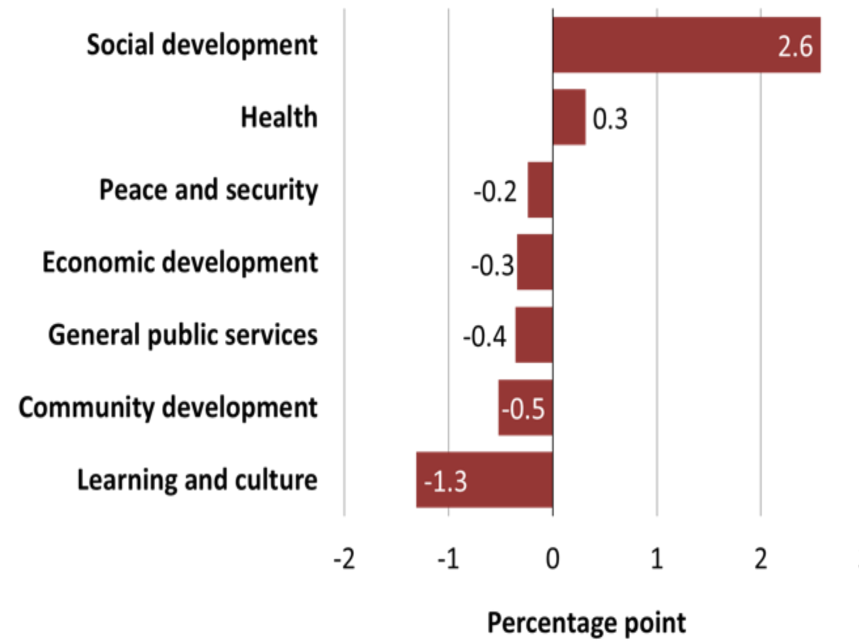
- Spending was adjusted by removing funds underspent due to delays caused by the lockdown from the baselines of affected departments; suspending allocations for capital and other departmental projects that could be delayed or rescheduled to 2021/22 or later; suspending allocations to programmes with a history of poor performance and/or slow spending and redirecting funds towards the COVID-19 response within functions, or towards government's fiscal relief package.

CONSOLIDATED BUDGET SPENDING AND DEFICIT FOR 2020/21

Change in share of expenditure by economic classification, 2020/21*



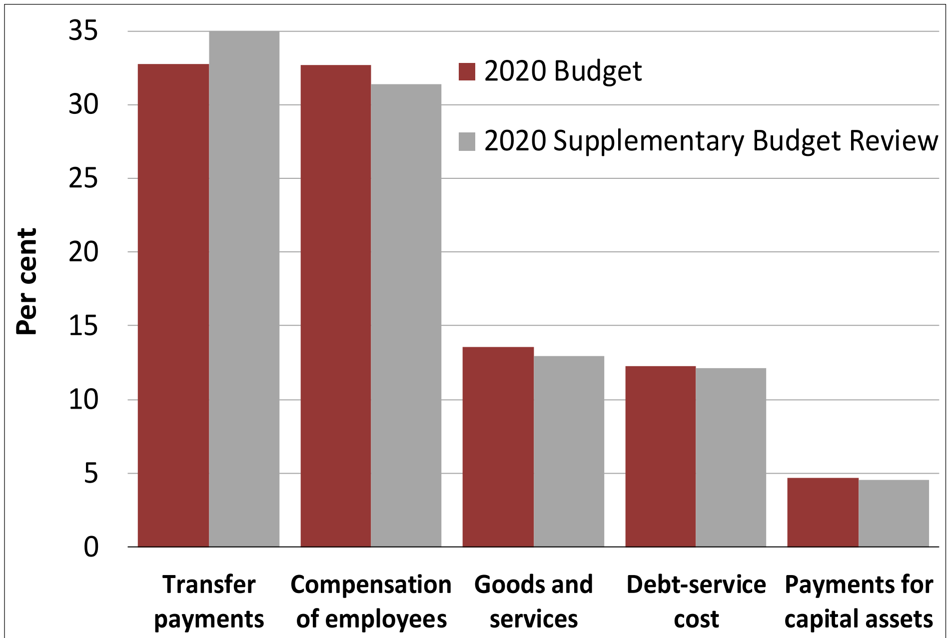
Change in share of expenditure by function, 2020/21*



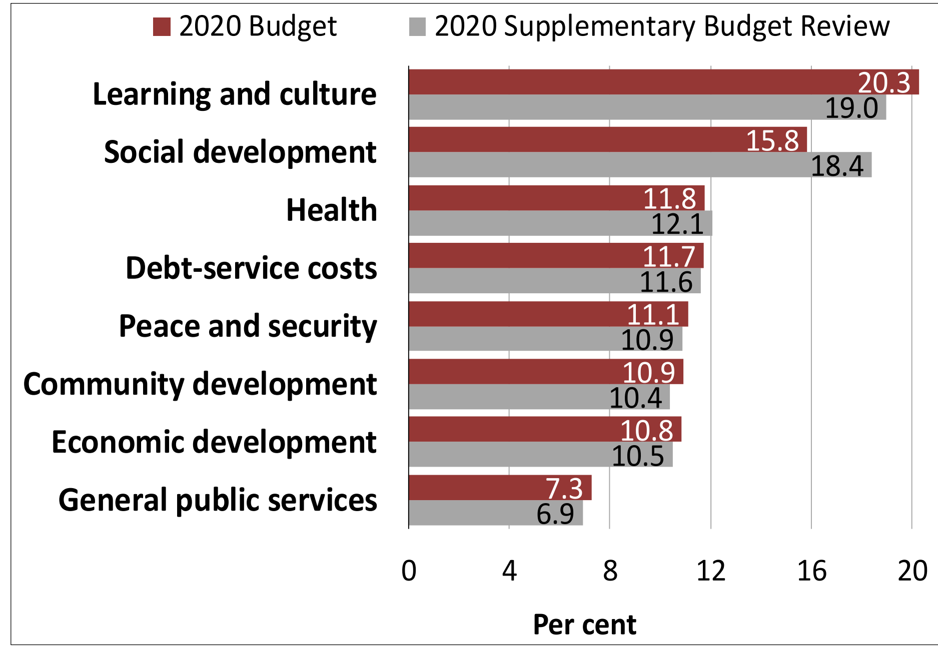
- In the current year, R40 billion will be drawn down from social security funds' cash surpluses to provide wage support to vulnerable employees due to the pandemic.
- Consolidated spending for 2020/21 has been revised from R1.95 trillion in 2020 Budget to R2.04 trillion, mainly due to additional funding of R145 billion allocated for government's COVID-19 response.
- The consolidated budget deficit more than doubles to a projected 15.7 per cent of GDP in 2020/21

CONSOLIDATED BUDGET SPENDING PLANS FOR 2020/21

Share of consolidated expenditure by economic classification, 2020/21



Share of consolidated expenditure by function, 2020/21



- The allocations increase spending on transfers to almost 35 per cent of total expenditure, while the share of all other components declines.
- Debt-service costs are now the fourth-largest spending item, similar in size to what government spends on health services.

SOCIAL DEVELOPMENT AND GRANTS

- Government has not reneged on the original R50 billion. The R41 billion is based on the current take-up to date for the special COVID-19 SRD and will be re-evaluated as progress unfolds.
- R15.4 billion is available in 2020/21 due to the front-loading of April grant payments to March 2020. These funds will be utilised for the special grants. The R15.4 billion overspending in 2019/20 will still need to be authorised through a special Finance Bill. An additional allocation of R25.5 billion is made available in this budget, bringing the total to R41 billion.
- R213 billion (or R228 billion if one includes R15.4 billion early payment) is available for payment of social grants in 2020/21. This is equivalent to income support for the lowest 5 income deciles at the level of the food poverty line.
- Monthly grant payments have increased by approximately a third. The 6-month duration is longer than COVID-19 social protection responses in many other countries and many informal sector workers have already returned to work under level 3 of lockdown.
- R21.8 billion additional has been made available for child support and caregiver grants and benefits 7.2 million households (informal sector workers amount to 5 million in the QLFS).
- 3.3 million special COVID-19 SRD applications have been approved to date. Of R10.3 billion available for SRD payments, only R800 million (7.8%) had been spent by 26 June 2019.
- Whereas getting grants to the needy is urgent, from a financial perspective, appropriate controls are required to ensure the right person receives the grant and to prevent fraud. Reaching informal sector workers has difficulties in social protection systems worldwide.
- The special adjustment is focused on COVID not on any other sectoral issues including Gender Based Violence, there will still be another adjustment budget in October. However no bids specifically for GBV funding were received by the National Treasury from a direct service rendering authority dealing with the issue.

THE 2021/22 BUDGET PROCESS

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- The Medium Term Expenditure Framework process will be guided by the principles of zero-based budgeting
- Will be applied as a series of overlapping evaluation exercises targeted at large programmes.
- Current system of expenditure reviews is a promising start towards zero-based budgeting.
- We need to connect the spending reviews to the budget process in a more meaningful way to achieve zero-based budgeting.
- There is currently no recent literature on the implementation of ZBB by government institutions. However, there are lessons to be learnt from government institutions that have applied ZBB before. In addition, the National Treasury is consulting with external experts in the field.
- If efficiently implemented, borrowing the principles of ZBB could result in a more efficient allocation of resources within government programmes and in line with policy priorities and economic constraints.
- Challenges in implementing the principles of ZBB include time and capacity constraints to complete ZBB within a budget cycle.
- Government may set up a separate process for applying the ZBB and only borrow principles instead of fully implementing the ZBB.

DIVISION OF REVENUE

SUPPORT TO MUNICIPALITIES FOR THE PANDEMIC

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- A R20 billion allocation was announced for municipalities but only R11 billion added to the local government equitable share:
  - A significant proportion of these resources for the provision of water and sanitation and for sanitising public transport facilities could be reprioritised within grants already allocated to local government
  - A total of just over R9 billion in spending is expected to be repurposed within existing grant allocations to local government for COVID-related spending.
- National Treasury and the transferring officers for each grant will monitor municipal spending. However, it is municipal accounting officers that are ultimately accountable for how funds are used.
- All COVID-19 related spending must be recorded using a COVID-19 project code. This will allow the National Treasury to monitor the amount spent.
- Municipalities must inform their community of what COVID-related spending they are undertaking and local communities must monitor that the funds are spent as intended.

PROCUREMENT AND SPENDING EFFICIENCY

IMPROVING SPENDING EFFICIENCY AND REDUCING WASTE

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- **Procurement** – reforms required to make legitimate procurement easier without undermining the necessary anti-corruption safeguards. Draft Public Procurement Bill has been gazetted for public comment
- **Sub-national reforms** – Government has reduced unfunded municipal budgets and is piloting initiatives to improve municipal revenue collection. Following a review, government is introducing several changes to the provincial grant system.
- **Claims against the state** – work has begun to limit unreasonable medico-legal claims against the state.
- **Tax incentives** – Over medium term, government will conduct a review of tax incentives, repealing or redesigning those that are redundant, inefficient or inequitable.
- **Spending reviews** – The National Treasury and the Department of Planning, Monitoring and Evaluation will undertake a new round of expenditure reviews to identify cost savings and improve efficiency.
- **Public-sector remuneration** – Government will publish a new law this year introducing a remuneration framework for public entities and state-owned companies.
- **Public office bearers** – There will be no increase in the salaries of public office bearers in 2020/21. This follows a reduction in benefits stemming from changes to the Ministerial Handbook.

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THANK YOU