REPORT OF THE STANDING COMMITTEE ON FINANCE ON THE 2021 FISCAL FRAMEWORK AND REVENUE PROPOSALS, DATED 09 MARCH 2021

1. INTRODUCTION

The Minister of Finance, (Minister) Mr Tito Mboweni tabled the 2021 National Budget before Parliament on 24 February 2021 in line with 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) and senior officials from the National Treasury (NT) briefed the Committees on Finance on 25 February 2021. The Committees received a post-Budget tabling input from the Parliamentary Budget Office (PBO) and the Financial and Fiscal Commission (FFC) on 02 March 2021.

Public hearings were held on 03 March 2021. The Committees received twelve written and oral submissions from the Congress of South African Trade Unions (COSATU), Budget Justice Coalition (BJC), Fiscal Cliff Study Group (FCSG), South African Institute of Chartered Accountants (SAICA), the South African Institute of Tax Professionals (SAIT), PriceWaterhouseCooper (PwC), the Research Unit on the Economics of excisable products (REEP) from the University of Cape Town (UCT), the Organisation Undoing Tax Abuse (OUTA), Amandla.mobi, 1Road Consulting, National Council Against Smoking (NCAS) and the Healthy Living Alliance (HEALA). NT responded to the issues raised during the public hearings and engaged with the Committee on 05 March 2021.

2. POLITICAL OVERVIEW

The Minister drew the attention of members to the Budget highlights, emphasising that the Budget supports, amongst other things, economic developments, social services, which constitute about 56 per cent of the total Budget and political party funding. In response to the advice asked about solutions to the persistently poor economic performance given the role and responsibility of the NT as the custodian of economic policy, the Minister explained factors influencing economic growth. He said these factors include macroeconomic stability, openness of the economy, technological capacities, citing spectrum as an example, human capital and life expectancy, political conditions and the rule and law as well as race, class, gender and ownership. The latter factor needs to be addressed, he said. The Minister emphasised that policy certainty is critical for the private sector to invest and that we should be concerned about the debt service costs.

The Deputy Minister briefly contextualised the 2021 Budget confirming that the Budget largely supports the priorities articulated by President Ramaphosa in the 2021 State of the National Address (SONA). He said that the Budget was premised on addressing corruption, fighting the COVID-19 pandemic, economic recovery reforms and the constitutional obligations that the country has.

In addition to the context provided by the Deputy Minister, the DG explained that the 2021 Budget is a balancing act, framed by two objectives, namely, promoting economic recovery and returning public finances to a sustainable position. The DG clarified that fiscal policy continues to focus on short term economic support, fiscal consolidation and debt stabilisation. On tax measures, the DG mentioned that the R40 billion in previously proposed tax measures will be withdrawn to support the economy and that a relatively improved revenue performance made some resources available to support debt stabilisation. The expected revenue loss will be offset by an increase in excise duties on tobacco and alcohol, the DG said. He further highlighted that the 2021 Budget made provision for contingency reserves and that it supports the operationalisation of Vulindlela for economic recovery, though debt servicing costs remain a burden. On the Corporate Income Tax (CIT) pronouncements to decrease the rate, the DG clarified that the Budget was signalling the future path, the details of which will be provided in the upcoming Taxation Law Amendment Bill (TLAB).

Senior NT officials outlined the key issues reflected in the Budget. Key amongst these was expected Gross Domestic Product (GDP) growth recovery in 2021. NT said that the fiscal strategy is underpinned by three objectives, (1) narrowing the deficit and debt stabilisation, (2) providing continued short term support to the economy and (3) improving the composition of spending. Emphasis was made that the risks to the economic and fiscal outlook are significant, that compared to other developing countries, South Africa's borrowing remains large and debt service costs are twice as large and that the consolidation is pro-poor and growth friendly.

3. OVERVIEW OF THE FISCAL FRAMEWORK AND REVENUE PROPOSALS

3.1. Economic outlook

The 2021 Budget Review highlighted that economic decline in 2020 was a result of effects of COVID-19 pandemic and structural constraints to growth. NT expects real GDP growth of 3.3 per cent in 2021, from a contraction of 7.2 per cent in 2020, moderating to 2.2 per cent in 2022 and 1.9 per cent in 2023. GDP growth will be driven by a rebound of household consumption to 2.9 per cent in 2021, despite an expected decline in investment from an estimated 18.4 per cent in 2020 to 2.4 per cent in 2021.

A decline in investment is attributed to persistent electricity interruptions, low confidence and low capital spending by public corporations. NT expects a recovery in global growth and the commencement of the African Continental Free Trade Area to support moderate improvements in exports, from –10.9 per cent in 2020 to 5.7 per cent in 2021. A successful rollout of COVID-19 vaccines, steps taken by the Government to address structural challenges, higher investment by public corporations are expected to further support growth in the medium term.

NT's identified risks to the economic outlook include the impact of new waves of COVID-19 infections, rising public debt and additional credit rating downgrades. NT cautioned that without implementation of structural reforms, private investment and economic growth are likely to grow slowly.

Table 1: Macroeconomic performance and projections

Real percentage growth	2020	2021	2022	2023
	Estimate	Forecast		
Household consumption	-5.9	2.9	2.4	2.0
Gross fixed-capital formation	-18.4	-2.4	3.9	3.9
Exports	-10.9	5.7	3.0	2.8
Imports	-16.5	6.3	4.6	2.5
Real GDP growth	**-7.2**	**3.3**	**2.2**	**1.6**
Consumer price index (CPI) inflation	3.3	3.9	4.2	4.4
Current account balance (% of GDP)	1.7	-0.1	-1.0	-1.4

Source: National Treasury, South African Reserve Bank and Statistics SA

Table 1 above shows that inflation expectations appear to be well anchored over the medium term, remaining within the set target range of 3-6 per cent.

The 2020 fourth Quarter Labour Force Survey (QLFS) from Statistics South Africa shows that the number of employed persons increased by 333 000 to 15 million while the number of unemployed persons also increased by 701 000 to 7.2 million. The rate of unemployment rate measured 32.5 per cent, the highest recorded since the start of the QLFS in 2008. Compared to a year ago, total employment decreased by 1.4 million. NT added that the labour market effects emanating from COVID-19 are particularly severe for low-skilled workers in high-risk occupations and are deepening existing inequalities across age, education, gender and race.

3.2. Fiscal framework and revenue proposals

Table 2 below shows that the consolidated revenue is expected to increase from R1.36 trillion in 2020 to R1.5 trillion in 2021, reaching R1.7 trillion in 2023/24. NT revised revenue estimates higher than projected in October 2020 in the current year and by smaller amounts over the medium term. Upward revisions were attributed to recovery in consumption and wages between October and December 2020, and a boost to CIT receipts from the mining sector, R99.6 billion more. Revenue estimates are now R213.2 billion lower than R312.8 billion projected in the February 2020 Budget.

Consolidated expenditure as a percentage of GDP is expected to decrease from a record 41.7 per cent (R2.05 trillion) in 2021 compared to 29.6 per cent in 2008/09, to 37.7 per cent and 34.9 per cent in 2022 and 2023, respectively. Over the medium term, the bulk of this spending, nearly R3 trillion, or 56.6 per cent is allocated to social services.

Consolidated Budget deficit, which reaches a record 14 per cent of GDP in 2020/21, is projected to narrow to 6.3 per cent of GDP in 2023/24. The deficit supports households, businesses and the public health sector from the impact of the COVID-19 pandemic.

Table 2: Consolidated Government fiscal framework

R billion/percentage of GDP	2019/20	2020/21	2021/22	2022/23	2023/24
		Revised estimate	Medium-term estimates		
Revenue	**1 530.5**	**1 362.7**	**1 520.4**	**1 635.4**	**1 717.2**
	29.7%	*27.7%*	*28.4%*	*28.9%*	*28.6%*
Expenditure	**1 822.3**	**2 052.5**	**2 020.4**	**2 049.5**	**2 095.1**
	35.4%	*41.7%*	*37.7%*	*36.2%*	*34.9%*
Budget balance	**-291.8**	**-689.8**	**-500.0**	**-414.1**	**-377.9**
	-5.7%	*-14.0%*	*-9.3%*	*-7.3%*	*-6.3%*
Gross loan debt	**3 261.3**	**3 949.7**	**4 382.8**	**4 819.9**	**5 234.5**
	63.3%	80.3%	81.9%	85.1%	87.3%
Net loan debt	**2 997.7**	**3 657.7**	**4 202.5**	**4 657.8**	**5 091.6**
	58.2%	74.3%	78.5%	82.2%	84.9%

Source: National Treasury

Gross loan debt is now expected to increase from R3.95 trillion, or 80.3 per cent of GDP in 2020/21 to R5.23 trillion, or 87.3 per cent of GDP, by 2023/24. NT expects the proposed fiscal framework to stabilise debt at 88.9 per cent of GDP in 2025/26 (Table 2).

Debt-service costs will rise from R232.9 billion in 2020/21 to R338.6 billion in 2023/24, now consuming 19.2 per cent of tax revenue. In 2020/21, gross borrowing requirement increased from R432.7 billion to R670.3 billion, or from 8 to 13.6 per cent of GDP. Contingent liabilities are projected to reach R1.11 trillion by 2020/21.

On tax proposals, the 2021 Budget makes no provision for tax increases, to support economic recovery. The Personal Income Tax (PIT) brackets and rebates increase above the inflation rate while excise duties on alcohol and tobacco increase by 8 per cent. Other tax changes include increases of 15c/litre and 11c/litre for the general fuel levy and the Road Accident Fund (RAF) levy, respectively, with effect from 07 April 2021. The Unemployment Insurance Fund (UIF) contribution ceiling will be set at R17 711 per month from 1 March 2021.

NT's identified risks to the fiscal framework include failure to maintain compensation Budget ceilings, weak financial position of public entities and local Government and the medium-term debt redemptions of State-Owned Entities (SOEs) totalling R182.8 billion. NT emphasised that "a departure from this assumption in the forthcoming wage agreement will be unaffordable and compromise debt stabilisation" (2021 Budget Review).

4. SUMMARY OF ISSUES RAISED DURING THE PUBLIC PARTICIPATION PROCESS

4.1. Macroeconomic issues

The stakeholders generally noted that the 2021 Budget rightly focuses on economic recovery. Concerns were raised that Government is facing a trust and credibility crisis due to the consistent lack of implementation of policies targeted at economic growth, job creation and service delivery. Some scepticism was reserved on the medium term economic growth forecasts. On delivery of infrastructure delivery, the concerns include that there is no “helicopter view” of strategic projects at all tiers of Government; spending seems haphazard; lack of transparency and accountability on how the Master Plan is monitored and measured against targets.

Recommendations for economy recovery made by the stakeholders

4.1.1. There is a need for a review and overhaul of Government’s macro-economic framework to stimulate the economy and restore fiscal position. This should be part of the ongoing engagements at Nedlac on interventions under the Economic Reconstruction and Recovery Plan (ERRP).

4.1.2. Government should address the structural constraints to growth to unlock large-scale investment by the private sector while the public sector creates an enabling environment.

4.1.3. The Ministries of Energy and Communications should be given clear, hard deadlines to deliver on infrastructure reforms, including renewable energy, high demand spectrum and digital migration.

4.1.4. For job creation, Government should provide further incentives to companies in exchange for employment and training and investigate reforming the education system into one that promotes Science, Technology, Engineering and Maths (STEM) and entrepreneurship.

4.1.5. In order to restore trust, the oversight bodies must ensure accountability from those entrusted with implementation and service delivery.

4.1.6. Government shop map the National Implementation Plan and allocate responsibilities to all tiers of Government, introduce project and individual performance management process and monitoring and measuring of implementation success. Crime intervention should be prioritised and mapped to align with Governments key areas of infrastructure.

4.2. Fiscal policy issues

Some commentators raised concerns that the 2021 Budget is an “austerity” Budget in that, amongst other things, it withdraws the state from its constitutional responsibilities. It was cautioned that as the Government is negotiating for a sustainable fiscal path, it should not lose sight of the Constitutional imperatives nor lead to the retrogression of citizens' socio-economic rights. A view was expressed that fiscal policy continues to dump the burden of fiscal consolidation on the backs of the poor and

vulnerable. Other commentators, however, remained adamant that this is not an "austerity" Budget given the size of the sustained deficits.

The move by the NT to change composition of expenditure from consumption to investment was welcomed by some stakeholders, indicating that the fiscal credibility for spending lies in the actual expenditure and service delivery outcomes. Concerns were raised, however, that even with expenditure reprioritisation efforts, repurposing, some additional consolidation, the boost to CIT receipts from the mining sector, the Budget deficit widens further. The problem identified was that despite the need for further stimulatory fiscal policy, years of over exuberance means that South Africa has almost reached its fiscal cliff.

With regards to the level of debt, the stakeholders cautioned the Government about a looming "sovereign debt crisis". Specific concerns raised included that the level of debt, which has no threshold of debt to GDP ratio is unsustainable; that South Africa has missed every debt target set over the last years and that the NT's approach to debt management has failed.

Several stakeholders raised concerns about the risks to the fiscal framework and fiscal consolidation, some indicating that the structural fiscal deficit is driven by unsustainable increases in expenditure. Risks identified included that (1) GDP growth forecasts may be affected by further lockdown measures necessitated by further waves of COVID-19 infections; (2) that even in the absence of further shocks to economic recovery, growth may be slower than forecast, having a negative impact on revenue collection; (3) that a slower than anticipated COVID-19 vaccine rollout could further complicate the situation; (4) that the fiscal framework is highly dependent on compensation Budget ceilings over the medium term and (5) that the financial positions of public entities and Local Government remain weak.

Recommendations for fiscal policy by the stakeholders

4.2.1. On the "austerity Budget", the Committees should call on the NT to defend their proposals in light of the Constitution or reject this Budget. Government should not lose sight of the Constitutional imperatives nor lead to the retrogression of citizens' socio-economic rights. Others favoured continued fiscal constraint in future Budgets.

4.2.2. To improve efficiency of spending, (1) Government should focus on reducing its size to find the needed funds whilst enhancing the quality of service delivery and its performance, (2) make the outcomes of the spending reviews public, (3) active engagement between the three spheres of Government to ensure the formalization and alignment of provincial and local Government economic reconstruction and developments plans with the ERRP, (4) more specifically, provincial economic recovery plans should justify their strategic planning approach to stimulating economic growth at the provincial level and the implementation plans to address, among other things, reducing youth

unemployment as a key priority and (5) exercise oversight over Government departments to ascertain whether funds are used efficiently and effectively.

4.2.3. To address the structural deficit, there is a need for structural reduction in expenditure, rather than in further tax increases, given that significant tax increases in recent years have not delivered the expected revenues, but have instead had a detrimental impact on economic growth and levels of compliance.

4.2.4. A fiscal rule which constrains spending levels over and above the current expenditure ceiling is needed to address the burgeoning public debt. On sovereign debt crisis, global lenders' willingness to provide funds should not be confused with South Africa's ability to repay these funds as South African bonds offer exception returns compared to global alternatives.

4.2.5. For fiscal credibility (1) fiscal policy must be realistic and responsible, (2) Government must be committed to establishing and maintaining a sustainable medium-to-long term fiscal framework that supports long run stable economic growth, (3) such a framework should be able to accommodate temporary fiscal actions, stimulate aggregate demand and cushion fluctuations in output and (4) fiscal policy must be prudent and transparent, for accountability.

4.3. Revenue and tax proposals

Several stakeholders welcomed (1) the withdrawal of R40 billion increase in taxes over the medium term, (2) the adjustment of tax brackets for inflation and no increase in PIT, (3) the proposal to reduce the CIT rate with effect from 1 April 2022 and (4) measures to broaden the tax base in a revenue neutral manner. Others however, did not favour the decrease in CIT rate to 27 per cent in 2022 whilst freezing public servants' salaries for four years. This was seen as the proof that the Budget is pro-business, citing that the Budget fails to account for the impact of previous CIT cuts on job creation, investments and economic growth.

The submissions on tax policy mainly covered the revenue issues, Government tax incentives, excise tobacco and alcohol taxes and illicit trade, the health promotion levy, capacitating the South African Revenue Service (SARS) and a wide range of tax proposals.

On revenue matters, stakeholders noted that (1) there are some discrepancies in various revenue estimates, (2) that the widening revenue shortfall is causing significant harm to the fiscal credibility of the Government's fiscal policy, (3) that the revenue forecast for 2020/21 appears to be conservative based on recent figures and (4) that Southern African Customs Union (SACU) revenue sharing formula seems biased towards the Botswana, Lesotho, Namibia and Eswatini (BLNE) countries, putting a large strain on South Africa's fiscal position.

On the review of tax incentives, some stakeholders broadly supported the principle, indicating that it is preferable to have a lower CIT rate across a broad base than a higher rate across a narrow base with a

large number of incentives. Another stakeholder agreed that ineffective incentives lead to abuse, deadweight loss, administrative cost, skewing of the economy and wrong outcomes.

There were some mixed reactions to increasing tobacco and alcohol excise duties by 8 per cent. Some views were that increases are bad and might encourage illicit trade, others opined that the increase in the current context is not appropriate, or high enough, while others expressed satisfaction with the proposed increase above inflation. One stakeholder cautioned that the increase will be another hard blow to the industries that have been most constrained by national lockdown.

HEALA submitted that the health promotion levy is a proven public health strategy to reduce sugar consumption and related- non-communicable diseases. Its concern is that NT's failure to stick to its original proposal of 20 per cent has cost South Africa billions in the short-term, and that the long-term costs are far greater.

There was a concern that while promotion of exports supports the economy, the lawful Value Added Tax (VAT) zero rating of exports generally cause export companies to fall into a net VAT refund position and their business models build such refunds into their cash flow projections. The issue raised is that taxpayers in the face of a VAT audit are totally powerless unless they litigate, which means (1) taxpayers' cash flows are significantly compromised and may be driven into insolvency, (2) SARS acts as judge, juror and executioner and (3) 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.

On tax administration, the concern raised was that the current tax policy engagement is too limited with too few engagements and that SARS' systems are too heavily designed to manage and collect taxes from the largely compliant taxpayers. It was also a cause for concern that the Tax Administration Act (TAA) can be one-sided against taxpayers, which becomes problematic when SARS operates unfairly against innocent taxpayers.

The stakeholders are generally supportive of renewed commitments to enforcement and administration. In particular, the additional spending allocation of R3 billion to SARS to modernise its technology infrastructure and systems, expand and improve the use of data analytics and artificial intelligence capabilities, and participate meaningfully in global tax compliance initiatives was welcome. Stakeholders stressed that the fiscal framework depends heavily on SARS' capability to bolster revenue collection and that SARS capacity to detect tax evasion was affected by mismanagement and corruption. Concerns were raised, however, that SARS' drop in performance is not just a financial and human capital numbers problem. The delayed adoption of Generally Recognised Accounting Practice (GRAP) by SARS and other Government entities has, contributed to various dubious practices by Government including "hiding" unauthorised expenditure, the stakeholder said.

Recommendations for tax and revenue proposals by the stakeholders

4.3.1. There is a need to review the SACU revenue sharing formula and ensure a more equitable sharing of the customs revenue pool, given South Africa's current fiscal crisis.

4.3.2. On tax incentives, NT and SARS should ensure that (1) the incentive design is aligned with the business practices and regulations that are already part of the environment and (2) incentives and tax breaks should be preceded by studies to determine key factors for success, whether in manufacturing, mining or agriculture, with focus on building interrelationships between the various industries forming the supply chain.

4.3.3. On excise tobacco duties, NT and SARS should (1) consider postponing any increases in the applicable excise duties pending the outcome of the announced review as this will provide a better understanding of the potential implications, (2) discard the failed fiscal rule of setting excise taxes to about 50 per cent of the retail price of a popular brand of cigarettes and (3) rapidly move to achieve the World Health Organisation (WHO) and World Bank targets for excise taxes.

4.3.4. In order to crack down on the illicit tobacco trade, (1) there is a need for strong tax administration, (2) prominent; high-tech tax stamps and other pack markings; unique identification codes on packages; export bond; tracking and tracing; better enforcement; increased resources with a focus on large scale smuggling and stronger penalties, (3) there is a need for speedy ratification of the WHO Protocol to Eliminate Illicit Trade in Tobacco Products and implementation of its recommended measures and (4) NT and SARS should not include the tobacco industry representatives in any illicit trade discussions as they are involved to some extent and (5) prioritise additional measures to address tax evasion and illicit financial flows by individuals and companies.

4.3.5. There is a need to review the decision to increase the fuel levy particularly for the RAF and revenue from increases of fuel levy should be ring-fenced specifically for capital expenditure on infrastructure.

4.3.6. On tax administration, (1) SARS should target non-compliant taxpayers such as tenderpreneurs, wholescale evaders and businesses that illegally understate their tax obligations, (2) develop a new model to tackle non-compliance and reduce over-reliance on systems, (3) ensure that tax administration is fair for the generally compliant tax payers, (4) hold discussions between the export industry representatives, SAIT, Office of the Tax Ombud, SARS and NT to find an acceptable resolution to the valid concerns raised and before main decisions are made (5) a comprehensive multi-disciplinary study and engagement be undertaken for each industry to determine their challenges in terms of growth and removal of barriers before any incentives are considered.

4.3.7. HEALA urges NT to act with urgency and double the health promotion levy to its originally proposed 20 per cent to save lives both now and in the future.

4.3.8. Other tax proposals include an annual wealth, inheritance, and estate taxes; import duties on luxury goods that can be produced locally; a review of the tax regime aimed at decreasing tax burden

on individuals; starting the process of ensuring the rich declare their wealth, a review of tax breaks; a commitment to no increase in VAT, and introduction of a resource rent tax and a solidarity tax.

4.3.9. On capacitating SARS (1) immediate progress on the SARS governance structure with consideration for the SAICA proposed SARS Advisory Council in its Nugent commission submission is required, (2) the blatant ignoring of the law by some SARS officials as mentioned in the Tax Ombud report needs to halted and the necessary disciplinary action should be taken, (3) NT should consider providing more funds to support SARS as that will contribute to SARS achieving its mandate, (4) SARS needs to move with speed on lifestyle audits of the wealthy and (5) Parliament should seek GRAP implementation deadlines from SARS and across the whole of Government, of no more than 24 months which would be 13 years since its first adoption by the Accounting Standard Board (ASB).

4.4. Other issues raised

On SOEs, stakeholders noted that aside from an allocation of R7 billion for purposes of recapitalisation of the Land Bank, the 2021 Budget does not appear to have made any additional allocations to troubled public sector institutions and SOEs such as Eskom, Transnet, Denel, Airports Company South Africa (ACSA) and the South African Broadcasting Corporation (SABC). They cautioned that the ongoing risk posed by the precarious financial position of many public sector institutions should not be underestimated. Of particular concern to the stakeholders was the risk posed by Eskom, given that as economic recovery progresses and demand for power grows, Eskom supply will remain under pressure, which could necessitate the need for further spending. It was submitted that without rapid improvements in financial management of public entities, they will continue to put pressure on public finances.

On the public sector wage bill, some stakeholders generally welcomed the commitment made in the 2021 Budget to restrain its growth. They support the measures to be taken in this regard, including, phasing out of performance bonuses, reconsidering Occupation Specific Dispensation (OSD), pay progression rules, reducing headcounts etc. Some cautioned that curtailing civil service wage bill growth, while good, is overoptimistic and constitutes a risk to the fiscal framework. COSATU on the other hand views the essence of the 2021 Budget and the Medium Term Expenditure Framework (MTEF) as a wage freeze in expenditure across the state. The Federation is concerned that when inflation is factored in, this will mean cuts and that this will be done upon the backs of public servants through a four-year wage freeze imposition. Other concerns raised regarding employment relations include lack of skills and accountability, increasing employment costs, non-performance and corruption in all spheres.

Other budget related issues raised are related to the Public Procurement Bill, measures to combat corruption, implementation of the proposed Zero Based Budgeting (ZBB) approach, Regulation 28 of the Pension Fund Act, the loan guarantee scheme, strategy for effective roll out of vaccines, proposals

for local Government, the need for accountability and consequence management as well as the importance of oversight and increasing social grants.

Recommendations made by the stakeholders

4.4.1. On SOEs: Government should (1) develop a strategy to address the public sector dysfunction to restore accountability with consequence management as part of the consolidation effort, (2) assess the value of each SOE, with a clear plan presented for some to be closed, sold, or amalgamated, within six months, (3) protect institutions that still function well, but, refrain from helping failed SOEs, (4) reduce the remuneration and bonuses of executives at SOEs, (5) note that the RAF is the state's second largest contingent liability and its funding model requires urgent attention and (6) the procurement functions of entities repeatedly requiring bailouts should be put under a microscope.

4.4.2. On the wage bill: (1) There should be no salary increases for state employees in higher income brackets within the state for the next two years, (2) Government should improve productivity if jobs cannot be cut; address structural mix of employees and implement consequence management and public reporting, (3) COSATU wants Government to commit to respecting collective bargaining and the 2018 wage agreement, (4) an engagement with unions at the Public Service Co-ordinating Bargaining Council (PSCBC) on the wage bill and the next wage agreement is needed, (5) there is a need to reduce the packages of political office bearers and senior management in the public service, entities, SOEs and municipalities by 25 per cent, (6) reduce the number of Deputy Ministers from 33 to 10, (7) consider a single wage bill structure for the entire state with salary caps of senior managers in the public service, (8) ensure professionalization of the public service and do away with cadre-deployment and (10) all state employees who do not have the necessary qualifications for their respective roles should be phased out of office.

4.4.3. On the Public Procurement Bill: NT must urgently finalise the Bill and subject it to meaningful, impactful public participation and proper scrutiny. The measures contained in the Bill must, amongst other things, aim to hold those who are involved in corruption accountable; ensure that all procurement processes are transparent at every stage of the tender; provide for a revamped single centralised online system and consider the Information Technology (IT) systems that utilise artificial intelligence.

4.4.4. On corruption: Government should (1) extend the ban on public servants and members of the executives from doing business with the state to include national and provincial leaders of political parties and their extended families, (2) capacitate commercial crimes courts and prioritise corruption cases in both the public and private sectors, (3) Parliament must hold the National Prosecuting Authority (NPA), South African Police Service (SAPS) and the Judiciary to account for their dismal records in the

prosecution of corruption cases and (4) require annual lifestyle audits for all public servant and politicians.

4.4.5. For effective implementation of ZBB approach: These is a need to professionalise local Government; plan, prioritise and actively engage with the communities; standardise and regulate ZBB across all municipalities; consistently share knowledge and harmonize it with existing municipal policies; do a detailed expenditure analysis to get a better understanding of Government spending and the rationale thereof and implement it at all levels of Government.

4.4.6. On Regulation 28 of the Pension Fund Act: the proposed amendment of Regulation 28 should be urgently effected to allow for pension funds to invest in infrastructure, with clear oversight mechanisms to prevent corruption in the infrastructure programme.

4.4.7. On the Loan Guarantee Scheme: NT, the South African Reserve Bank (SARB) and the commercial banks should present proposals on a revamping of the scheme to Nedlac for engagement with organised labour and business.

4.4.8. Government must ensure that public institutions, such as the Commission for Conciliation, Mediation and Arbitration (CCMA) and NPA, have the funding necessary to realise their mandates.

4.4.9. On the vaccine strategy: Civil society, business, academia, and professional health bodies should be pulled together to establish some concrete, detailed and practical plans to roll out the COVID-19 vaccine strategy with timelines and anti-corruption measures. Government should fund the mass roll-out of the COVID-19 vaccine and stop cuts to social spending such in education and health, while also laying the foundations for us to realise a National Health Insurance (NHI).

4.4.10. On local Government: since own revenue collection is not a panacea and municipal accountability is sorely lacking, the utilisation of existing streams of rates and taxes must be improved. Financial preparations must be made for increasing detachment of municipal energy and water consumption from central utilities like Eskom. Parliamentary intervention and a review of the Equitable Share formula is needed.

4.4.11. On consequence management: The Presidency, NT and Department of Public Service and Administration (DPSA) should identify all in the public service who have dishonestly done business with Government, claimed COVID-19 relief or other grants, or in any way benefitted illegally, and ensure that a clear plan is rolled out within months to hold all perpetrators to account. The consequences should be financial and harsh. Such transgressions are material irregularities in terms of the Public Audit Amendment Act 5 of 2018.

4.4.12. On accountability: NT is urged to start properly using its powers in terms of section 216 of the Constitution, to ensure that all organs of state are practicing fiscal discipline as a first line of defence.

Should they fail to do so (referred to as "systemic and pervasive failures" according to the Auditor General's reports) NT should stop further equitable share transfers of funds to these entities as required.

4.4.13. On oversight: Parliament is urged to exercise effective oversight over the executive and organs of state by ensuring that they fulfil their positive obligations of fiscal discipline to prevent the blatant abuse of taxpayer funds.

4.4.14. On social grants: Government should continue relief measures beyond April 2021; increase the social grants; extend the R350 COVID-19 unemployment grant until 2022; extend the UIF COVID-19 Temporary Employer/Employee Relief Scheme (TERS) for as long as the disaster management restrictions are implemented; report progress made towards the implementation of the Basic Income Grant (BIG) and adjust the eligibility criteria to include adult women who are unemployed and who receive a child support grant on behalf of children.

5. Responses by the National Treasury to the public submissions

NT responded to the public hearings on the fiscal framework and revenue proposals and noted that comments were mostly on the economic growth and reforms, fiscal policy, revenue and tax proposals, expenditure, and other matters.

On economic growth and reforms, NT reiterated that implementation of structural reforms articulated in the ERRP is expected to raise economic growth and create jobs and that Government should create an enabling environment for the private sector to flourish. NT said that the easing of electricity supply constraints can support a recovery in private sector investment, which contributes about 70 per cent. It also said that shifting the composition of Government spending from consumption to investment will support economic recovery.

On fiscal policy, NT said that the 2021 Budget sought to ensure fiscal sustainability. It said that the 2021 Budget presented an improved debt-to-GDP outlook relative to the 2020 Medium Term Budget Policy Statement (MTBPS), which should take pressure off interest rates, reduce crowding-out, and improve investor sentiment. It said that short-term support to the economy was directed at funding for crucial health and employment interventions that support the economic recovery. In this regards, it highlighted the three-month extensions of the special COVID-19 social relief of distress grant and the UIF's TERS and funding for the public employment initiative and for provincial hospitals in 2021/22. It mentioned that up to R10.3 billion is provided for vaccine rollout in the current year and over the next two years. It added that the contingency reserve increases from R5 billion to R12 billion in 2021/22.

NT noted that after interest payments, capital transfers and capital payments grow fastest. It reiterated that 2021 Budget also provided funding for key infrastructure reforms related to the Infrastructure Fund. NT further noted that over half of allocations go towards learning and culture, health, and social development functions over the medium term. It said that debt-service costs, estimated at R916 billion over the MTEF period is the third largest spending item by function.

Addressing concerns that 2021 Budget was incorrectly targeting the wage bill, NT explained that the compensation of employees accounted for about 34 per cent of consolidated spending in 2019/20. Between 2006/07 and 2019/20, compensation was one of the fastest growing spending items, increasing faster than GDP growth, NT said. By 2019/20 rising compensation spending had become unaffordable and at the general Government level (which includes municipalities), South Africa's wage bill as a share of output is approximately 5 percentage points higher than the Organisation for Economic Co-operation and Development (OECD) average and on par with Iceland and Denmark. It said that until the mid-2000s, public-service compensation spending grew more slowly than nominal GDP.

Since 2004, however, this relationship has reversed, and the ratio of compensation spending to GDP has increased to about 11 per cent, it said. NT explained further that since 2006/07, the average public-service remuneration has increased at a faster pace than per capita GDP, and is now 4.7 times larger partly as a result of slow economic growth and high levels of unemployment. It said that remuneration for employees of national and provincial Governments tends to be higher than that of private-sector workers. More than 95 per cent of public servants earn more than the bottom 50 per cent of registered taxpayers, said NT. Statistics South Africa survey data also suggests that public-sector compensation growth has outpaced private sector compensation growth over the past decade, NT added.

NT also addressed questions raised around the announced tax proposals, particularly the proposed reduction of CIT in 2022. It highlighted that South Africa's CIT rate is not out of line with other African countries, however it also states that the contribution of CIT to GDP in those countries is substantially lower due to tax holidays, tax exemptions, and investment allowances. It said that tax holidays reduce the tax base and create distortions between sectors, which is inequitable and negative for economic growth. NT also clarified that South Africa's "composite effective average rate" is 27.1 per cent, while the "composite effective marginal tax rate" is 9.8 per cent. It explained that the first measure reflects the average tax contribution from an investment, while the second measure shows "the extent to which taxation increases the pre-tax rate of return required by investors to break even." It said that the second measure does not reflect the contribution from CIT, but relates to the investment return and is dependent on which sector you are referring to, which asset is being purchased and whether the investor is financing their investment with debt or equity, amongst other assumptions.

NT further clarified that it was a myth that the rich were not being taxed, highlighting that over the past six years, Government has introduced numerous measures to increase the tax paid by those with large incomes and the wealthy. These measures include, (1) one percentage point increase in all the PIT brackets except the bottom bracket in 2015/16 and a new top tax rate of 45 per cent above R1.5 million in 2017/18, (2) an increase in the dividends tax rate from 15 per cent to 20 per cent in 2017/18, (3) an increase in the capital gains tax inclusion rate from 33 per cent to 40 per cent for individuals and from 66 per cent to 80 per cent for companies in 2016/17, (4) a higher tax rate for estate duty of 25 per cent for estates above R30 million in 2018/19, (5) an increase in the ad-valorem tax on luxury goods from 7

per cent to 9 per cent in 2018/19, (6) a new transfer duty rate of 11 per cent for properties above R2.25 million in 2015/16 and (7) another new transfer duty rate of 13 per cent for properties above R10 million in 2016/17. NT said that the 2021 Budget was discontinuing the Venture Capital Company (VCC) incentive (12j), which provided tax deductions worth R745 million to high net worth individuals in 2018/19. NT also responded to submissions and concerns on the increases on excise duties and on concerns about PIT.

Responding to debates about an austere Budget, NT stated that South Africa has largely ran structural and cyclically adjusted primary deficits. It explained that in general, both the Cyclically Adjusted Primary Balance (CAPB) and Structurally Adjusted Primary Balance (SAPB) have been in deficit since 2009/10, trending with the weakening in economic growth. However, it said, the structurally adjusted primary deficit is generally much larger than the cyclically adjusted primary deficit, except for 2017/18 and 2018/19 where there were small or no extraordinary payments that affected the CAPB. NT said that the CAPB is notably weaker than the SAPB because of the large SOE's equity injections, especially in 2009/10, 2010/11, 2015/16 and 2019/20. It added that structural expenditure events, weigh heavily on the deficit, and thus, as these events are expected to decline over the medium-term, the SAPB will improve markedly.

6. Committee's observations and recommendations

The Committee acknowledges that the 2021 Budget was tabled under extremely difficult economic conditions, exacerbated by the impacts of COVID-19 pandemic.

6.1. Macroeconomic issues

6.1.1. The Committee notes that (1) despite GDP contraction of 7.2 per cent in 2020, NT expects real GDP growth of 3.3 per cent in 2021, 2.2 per cent in 2022 and 1.9 per cent in 2023, (2) GDP growth forecasts assume a rebound of household consumption from -5.9 per cent in 2020 to 2.9 per cent in 2021, notwithstanding an expected continued decline in investment from an estimated -18.4 per cent in 2020 to -2.4 per cent in 2021 and moderate improvements in exports from –10.9 per cent in 2020 to 5.7 per cent in 2021, partially supported by a recovery in global growth, (3) inflation expectations appear to be well anchored over the medium term, remaining within the set target range of 3-6 per cent, averaging 3.3 per cent in 2020 and (4) despite a slight increase in total employment to 15 million, the rate of unemployment measured 32.5 per cent in the fourth quarter of 2020, the highest on record since 2008, misplacing 1.4 million people compared to a year ago.

6.1.2. The Committee notes that the risks to the economic outlook are quite significant and that the 2021 GDP growth projection of 3.3 per cent appears very optimistic given a sharp contraction in the previous year. Moreover, for close to 10 years now, NT has over-estimated its GDP projections. In these volatile COVID-19 times it is, in any case, given the considerable uncertainties, very difficult to project

GDP estimates. We recommend that NT should regularly engage with the Committee to report progress made in implementing its risk management strategy. NT conceded that in the last ten years spending was predicated on an economic growth rate that did not materialise.

6.1.3. The Committee remains concerned that despite Government's efforts to support job creation, the rate of unemployment reached a record level in last quarter of 2020, making it extremely difficult for the economy to absorb new entrants into the labour market, particularly the youth. We note NT's decision to remove the VCC incentive, which was aimed at, amongst other things, job creation. We recommend that NT should regularly review other incentives intended to support economic growth, create jobs and support Small Micro and Medium Enterprises (SMMEs) such as the Employment Tax Incentive to determine the extent to which these programmes are achieving intended policy objectives and report progress to the Committee. NT and SARS should also consider the concerns raised and the recommendations made by the stakeholders on incentives.

6.1.4. The Committee notes some progress made in implementing reforms aimed at addressing structural constraints to growth, reported by President Ramaphosa in the 2021 SONA and in the 2021 Budget Review. We are concerned that much needed economic recovery is highly dependent on timely and successful implementation of reforms, largely through the Operation Vulindlela initiative. We recommend that NT provides more detail on the implementation of the ERRP in its next quarterly report to the Committee. We still urge for a speedy implementation of economic reforms and for Government to create a conducive environment for the economy to thrive, create jobs and encourage investment and, over time, reduce heavy reliance on social services. As indicated in the previous reports, we believe that "re-industrialisation and localization 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".

6.2. Fiscal policy issues

6.2.1. The Committee notes that (1) consolidated expenditure amounts to R2 trillion each year over the medium term, up from R1.8 trillion in 2020, (2) consolidated deficit reaches a record 14 per cent of GDP in 2020/21 and is expected to narrow to 6.3 per cent of GDP in 2023/24, (3) gross debt-to-GDP ratio is now projected to stabilise at 88.9 per cent in 2025/26 and (4) debt service costs are projected to rise from R232.9 billion in 2020/21 to R338.6 billion in 2023/24, now consuming 19.2 per cent of tax revenue.

6.2.2. The Committee notes, with concern, that the Budget deficit has now reached a double digit record level and has doubled since the February 2020 Budget, in response to the spending and economic pressures of the COVID-19 pandemic. We also note that NT still projects primary balance stabilisation in 2023/24, despite the current fiscal challenges. The Committee previously raised a concern that NT's

expectation of a primary balance stabilisation in 2023/24 does not appear to be credible given the past experience of failure to close the "hippopotamus mouth", and the fact that this forecast relies on return to fiscal discipline and faster implementation of economic reforms". The Committee reiterates its recommendation that NT presents a more credible plan with a longer time frame, as moving too quickly to cut expenditure relating to key programmes will further negatively impact upon the economy, and cause more hardship and loss of jobs. The Committee further recommends that the NT should provide the Committee with regular reports of progress made in achieving this target.

6.2.3. The Committee observed that (1) debt to GDP ratio remain high and that the debt servicing costs continue to crowd out other services, (2) the country's borrowing requirement has increased, raising the probability that South Africa may default on its debt obligations, (3) that the fiscal space is now eroded, leaving limited or no room to manoeuvre in an event of other shocks and unforeseen circumstances and (4) that the contingency reserve appears insufficient to cushion the economy against external factors. We recommend that the Minister of Finance reports quarterly on the effectiveness of NT's debt management strategies that would ensure that the level of debt stabilises over the medium term and avoids a sovereign debt crisis.

6.2.4. The Committee notes, with great concern, that the risks to the fiscal framework are quite significant. We note that the fiscal framework is largely framed on the assumption that the negotiations between Government, labour and trade unions will be successful and therefore create a savings of about R300 billion on the wage bill. The Committee's key concern is the impact on the economy and service delivery, of failure to realize the expected compensation savings, given that the previous wage bill reduction strategies such as early retirement and freezing of non-essential services post did not achieve the intended objectives. The Committee further cautions NT about the unintended consequences of its overall compensation reduction strategy. NT confirmed that the risks are indeed significant and that some of these risks have already materialized. In light of heightened pressure on public finances, we urge NT to presents a credible risk management strategy which would provide certainty and confidence to businesses, investors and credit rating agencies

6.2.5. The Committee notes the robust discussions held with NT and the civil society about NT's fiscal policy stance, which included the measures to address the persistently widening structural deficit, the warning about the looming sovereign debt crisis and "fiscal cliff", what constitutes an austerity budget and the overall credibility of the fiscal framework. We recommend that NT should consider the recommendations made by civil society to improve implementation of fiscal policy.

6.2.6. The Committee reiterates its recommendation on zero-based budgeting in its July 2020 special adjustment budget fiscal framework report where is said it "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.

6.3. Revenue and tax policy issues

6.3.1. The Committee notes that (1) consolidated revenue is expected to increase from R1.36 trillion in 2020 to R1.5 trillion in 2021, reaching R1.7 trillion in 2023, (2) the 2021 Budget makes no provision for tax increases, to support economic recovery, (3) PIT brackets and rebates increase above the inflation rate while excise duties on alcohol and tobacco increase by 8 per cent, (4) the general fuel levy and the RAF levy increase by 15c/litre and 11c/litre, respectively, with effect from 07 April 2021 and (5) the UIF contribution ceiling will be set at R17 711 per month from 1 March 2021.

6.3.2. The Committee notes that higher than anticipated tax revenue collection in 2020/21 was largely the result of the mining sector related windfall, which is likely once off. We also note revenue estimates are now higher than projected in the 2020 MTBPS but still R213.2 billion lower than projected in the 2020 Budget. The Committee recommends that NT and SARS should intensify revenue enhancement initiatives to collect maximum revenue due to Government in order to enable it to deliver on its constitutional obligations. The Committee has repeatedly raised the need to tackle the illicit economy more actively and stem the flow of billions of Rands out of the country. Given the continued impact of COVID-19 crisis, the limited scope for tax increases and the pressured public finances, this has become more necessary than ever. The Committee believes that not enough is being done to combat corruption through the illicit economy and will convene the stakeholders across departments to receive a full report on progress and put pressure for more action in this regard.

6.3.3. The Committee notes that South Africa has signed but not ratified the World Health Organisation Protocol to Eliminate Illicit Trade in Tobacco Products, which could assist in the fight against illicit trade in tobacco products. We recommend that this protocol be signed unless there are strong reasons not to do so – and the Committee needs to be briefed on this. The Committee recommends that NT engages with the Department of Health and SARS on this and report back on progress on this in the next quarterly report.

6.3.4. The Committee notes the general consensus from the stakeholders regarding the withdrawal of the R40 billion increase in taxes over the medium term, PIT tax bracket changes, review of tax incentives and capacitating SARS. We noted contrasting views on the proposals to reduce the CIT rate and the increase of excise duties on tobacco and alcohol. We further noted a significant number of a wide spectrum of tax proposals, ranging from a reviews of the SACU revenue sharing formula, tax regime, breaks and incentives to annual wealth taxes and a commitment to no increase in VAT. While there was a reasonably comprehensive reply to these issues, we recommend that NT and SARS should

engage the relevant civil society stakeholders to find practical solutions to the issues raised in the public hearings.

6.4. Other Budget related issues

6.4.1. The Committee notes the submissions made by the stakeholders regarding the risks posed by the SOEs and the fact that the 2021 Budget does not appear to have budgeted for possible bailouts, the challenges posed by uncertainties about the wage bill and the proposals to reduce it, input into the content and process of finalising the Public Procurement Bill, the proposed anti-corruption measures, the proposals for effective implementation of the ZBB, increasing the health promotion levy and the recommendation for a speedy implementation of the Regulation 28 of the Pension Fund Act. Further submissions included the roll out the COVID-19 vaccine strategy, implementation of consequence management, accountability to the Constitution, the need to exercise oversight effectively and the proposals to increase social grants.

6.4.2. The Committee recommends that the Public Procurement Bill be brought to Parliament within the next three months and that processing of Regulation 28 of the Pension Fund Act be acted on with due speed and efficiency.

6.4.3 While recognising the economic, financial and other challenges, the Committee recommends that, in view of the COVID-related huge job losses, increasing poverty and inequality, the NT and the government 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 to.

6.4.4 While recognizing that this is not the responsibility of NT alone, the Committee believes that the budget did not focus sufficiently on tackling corruption and wastage of public resources more effectively and the need for punitive action for wrongdoers in this regard.

6.4.5 We reiterate our previous positions that government needs to negotiate with the trade unions to seek compromises on the wage bill. We refer this matter for further consideration by the Appropriations Committee.

6.4.6 The government welcomes NT's support for the vaccination programme and will, together with other parliamentary committees, monitor progress in this regard.

Having considered the 2021 Fiscal Framework and Revenue Proposals, the Standing Committee on Finance approve the 2021 Fiscal Framework and Revenue Proposals as presented, with the above recommendations.

The DA agrees with the report

The EFF rejects the Budget and the report

The FF+ objects the report

Report to be considered