FINANCIAL AND FISCAL COMMISSION

Briefing to the Standing and Select Committees on Finance on Adjustment Budget 2020

30 June 2020

INTRODUCTION

- The health and economic state of disaster from Covid-19 Pandemic has necessitated drastic adjustment of the February budget to respond the crises.
- Section 30 (2) (a) of the PFMA empowers the Minister of Finance to table an adjustment budget when fiscal targets are compromised by significant and unforeseeable financial and economic events.
- A combination of pre & post Covid-19 economic deterioration, sovereign credit downgrades, and widening fiscal deficit has made the 2020 Budget fiscal targets unattainable.
- The adjustment budget is necessary to mitigate the downside Covid-19 healthcare, socio-economic and fiscal risks.
- Government is forced to make drastic changes to the budget within a short period of time – Making it difficult to follow a systematic reprioritisation framework that is growth enhancing.

BACKGROUND

- It is against this background that the Standing and Select Committees on Finance have requested FFC to make a submission on the responsiveness of adjustment budget to the risks.
- The Commission makes this submission in terms of section 214 (2) of the Constitution.
  - Requires Parliamentary Committees to consider any recommendations of the FFC during deliberations on Money Bills
- Also made in terms of Financial and Fiscal Commission Act (1997) as amended
  - Requires that the FFC responds to any requests for recommendations by any organ of state on any financial and/or fiscal matter(s) relevant to its mandate
- The Commission's submission should be seen as a continuation of the inputs made to the Standing Committees regarding the impact of Covid-19 on the budget.

PRESENTATION OUTLINE

- Recap of Commission inputs on Covid-19
- Changes in macro and fiscal outlook from the 2020 Budget
- Changes in fiscal framework from the 2020 Budget
- Budget reprioritisation and allocation of funds
- Implications of reprioritisation for the Division of Revenue

FINANCIAL
AND FISCAL
COMMISSION

Summary of Commission Inputs on the Impact of Covid-19 on the Budget

TOWARDS A BOLDER STIMULUS

- GDP growth in 2020 will contract significantly. Fiscal and monetary support warranted must be commensurate with the magnitude of the forecasted economic contraction.
- Only R95 billion could be considered a fiscal stimulus. This means that the Covid-19 stimulus falls far too short of the expected shock to the economy.
  - The R95 billion is earmarked for business support, job creation and protection is not adequate given the scale of projected job losses- in excess of a million.
- The stimulus package should not be delayed considering the damage caused by Covid-19 pandemic.

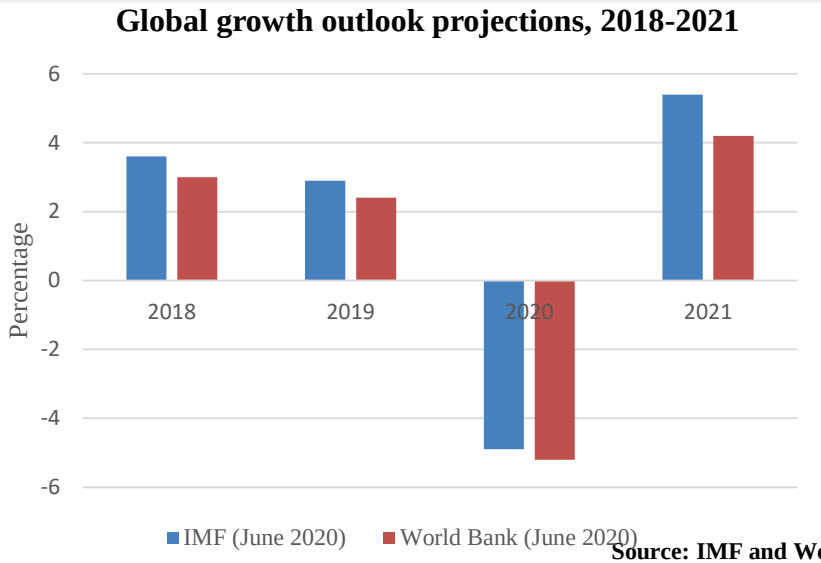
NEED FOR BOLDER REFORM AGENDA

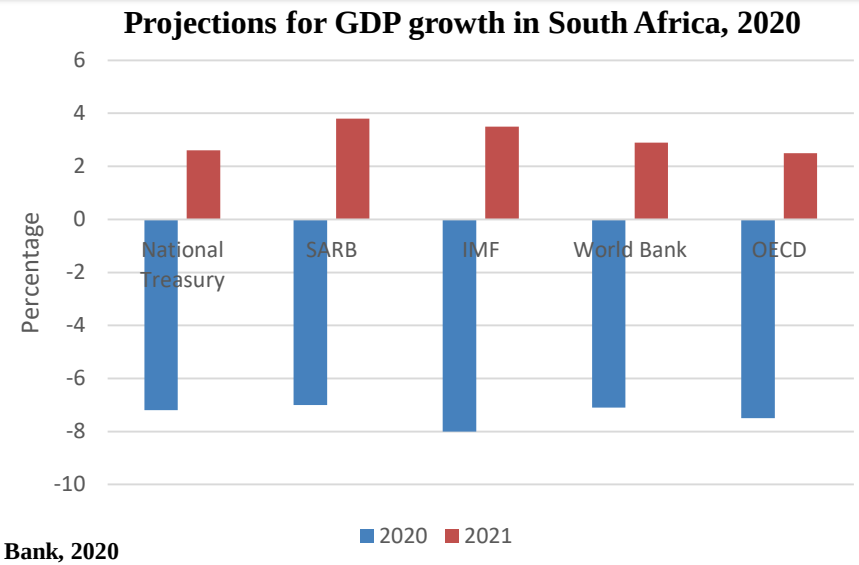
- Government reconsider the fiscal consolidation stance on condition that the spending increase is directed at social relief in the short run and growth inducing activities in the long run. The relaxation of the fiscal consolidation must be accompanied by robust reform focusing on the following:
  - Fighting corruption and improving governance;
  - Reducing high levels of concentration in the economy;
  - Improving land reform and agriculture for food security;
  - Reducing the cost of broadband and assignment of high-demand spectrum; and other costs of doing business;
  - Strengthening capacity of State;
  - Reviewing of "means tests" of beneficiaries of government across the board.

FINANCIAL
AND FISCAL
COMMISSION

MACROECONOMIC AND FISCAL POLICY OUTLOOK

Deep Global and Local Growth Contraction Expected





Source: IMF and World Bank, 2020

- The global and local economic growth outlook is grim.
- Unprecedented fiscal and monetary policy interventions will be required to boost the South African economy, just to its pre-Covid-19 growth trajectory.

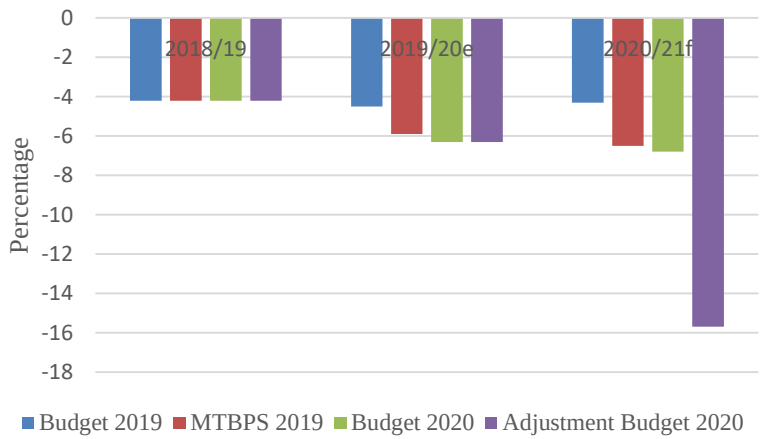
SA's SOVEREIGN CREDIT RATING HAS DETERIORATED

Description	S&P	Moody's	Fitch	Grade
Speculative	BB+	**Ba1** **Negative outlook**	BB+	Speculative
	BB	Ba2	**BB** **Negative Outlook**	
	BB- **Stable Outlook**	Ba3	BB-	
Highly Speculative	B+	B1	B+	
	B	B2	B	
	B-	B3	B-	

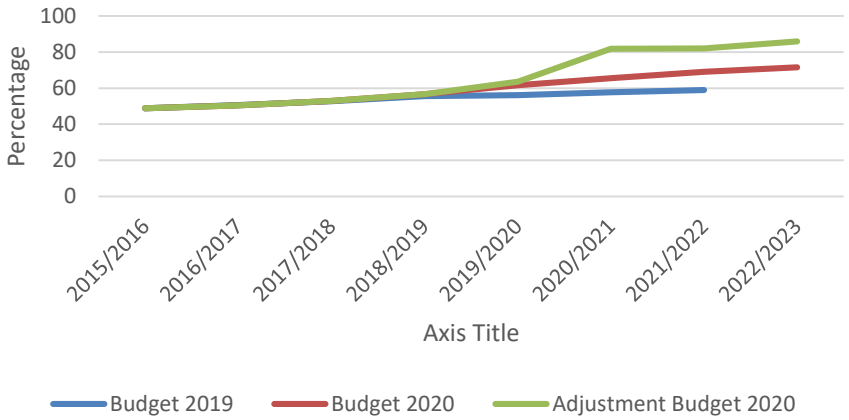
- Sovereign credit rating downgrades poses a greatest danger to economic recovery.
- Moody's downgraded South African local-currency sovereign credit rating from Baa3 to Ba1. This means SA lost its membership to the World Government Bond Index
- Deteriorating fiscal position will increase the costs of borrowing and further worsen debt sustainability prospects. SA may also be unable to raise finds to meet its borrowing requirements. Currently, every rand that South Africans pay in tax, 21 cents goes to paying the interest on past debts. This excludes repayment of the debt.

BUDGET DEFICIT IS BALLOONING

Budget deficit as a percentage of GDP projections, 2018/19-2020/21



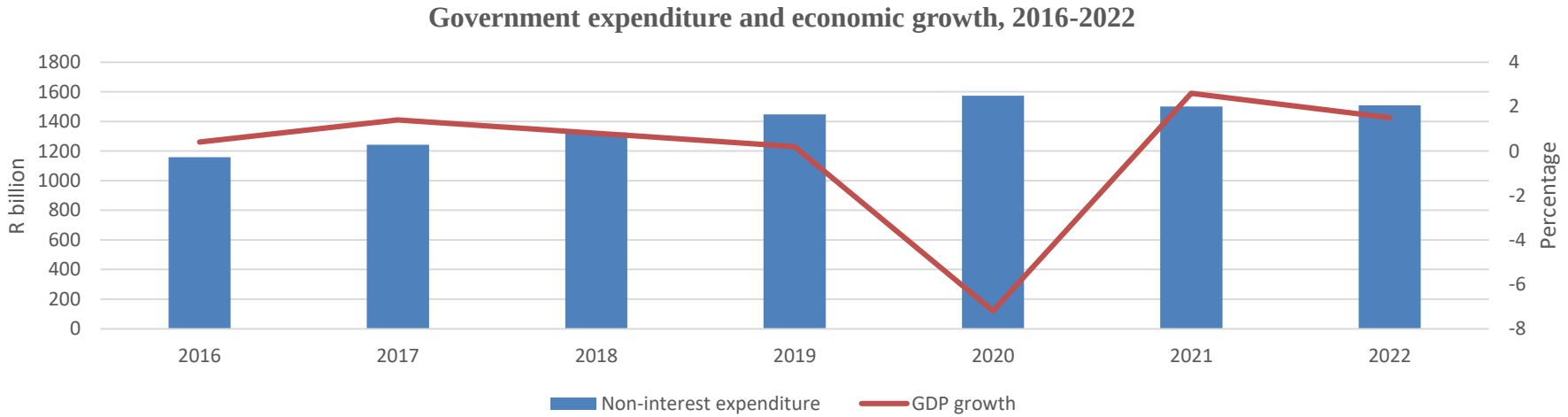
Government debt as a percentage of GDP, 2015/16-2022/23



Source: National Treasury, 2019&2020

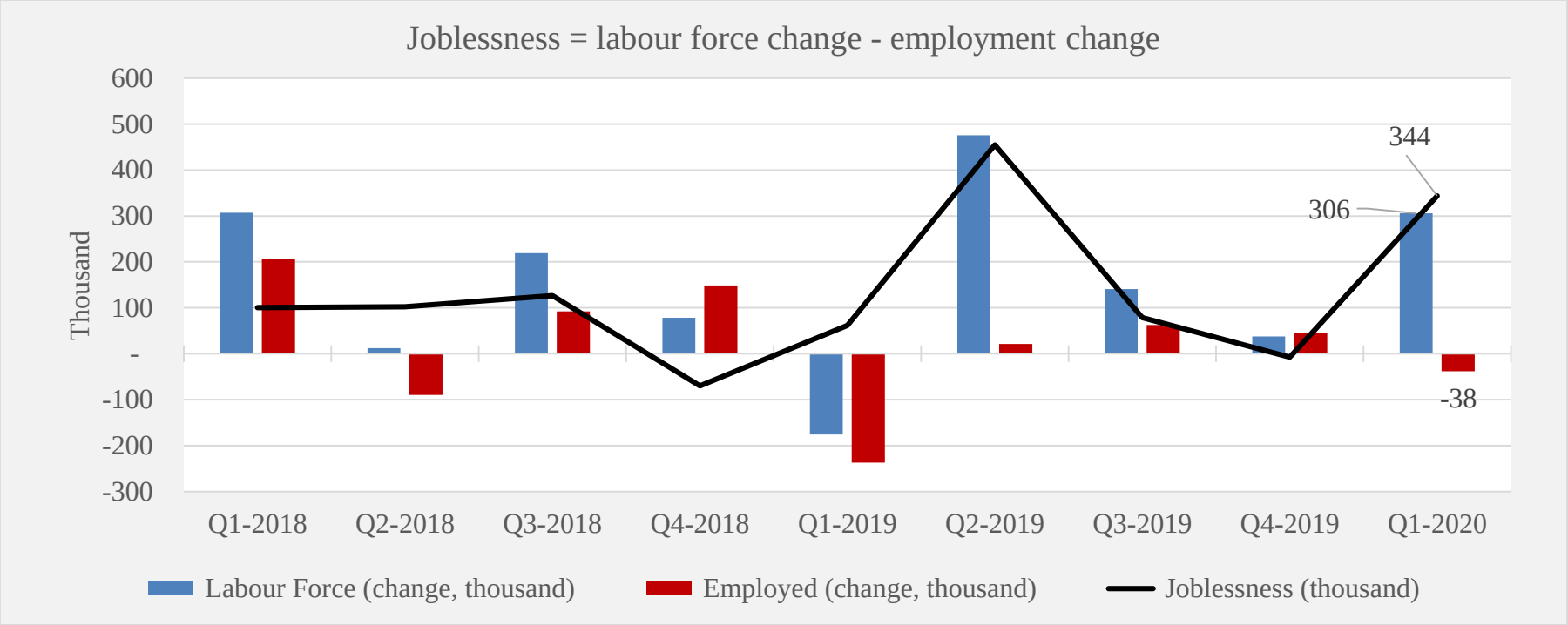
- Deficit reduction and debt stabilization targets are becoming increasingly elusive, leaving SA with limited fiscal space.
- The Commission is of the view that intentions by government to stabilise debt are imperative and will be seriously challenged by tax revenue shortfalls, additional expenditure and economic underperformance.
- In the absence of near term economic recovery government will need to embark on drastic expenditure reforms in order to stabilise the debt and enhance growth.
- There is need for delicate balance in expenditure reduction and meeting basic needs.

Public Expenditure and Economic Growth



- Public expenditure is a crucial fiscal policy instrument to influence the economic growth.
- In South Africa, empirical evidence show that the causal relationship runs from economic growth to government expenditure (Odhianbo, 2015).
  - This imply that economic growth drives government expenditure rather than the other way round.
  - Therefore from a policy perspective government needs to focus on creating a conducive environment for growth particularly targeting growth enhancing sectors.

COVID-19 IMPACT: CHANGES IN EMPLOYMENT AND JOBLESSNESS, Q4 2019 – Q1 2020



- 38 000 jobs were lost in Q1 2020, with the addition of 306 000 entrants in the same quarter unable to find jobs in the labour market.
- Hence, the total estimated unemployment increased by 344 000 resulting in 7.07 million unemployed individuals in South Africa.

Source: Statistics South Africa, Quarterly Labour Force Survey (Q1 2020) and own calculations

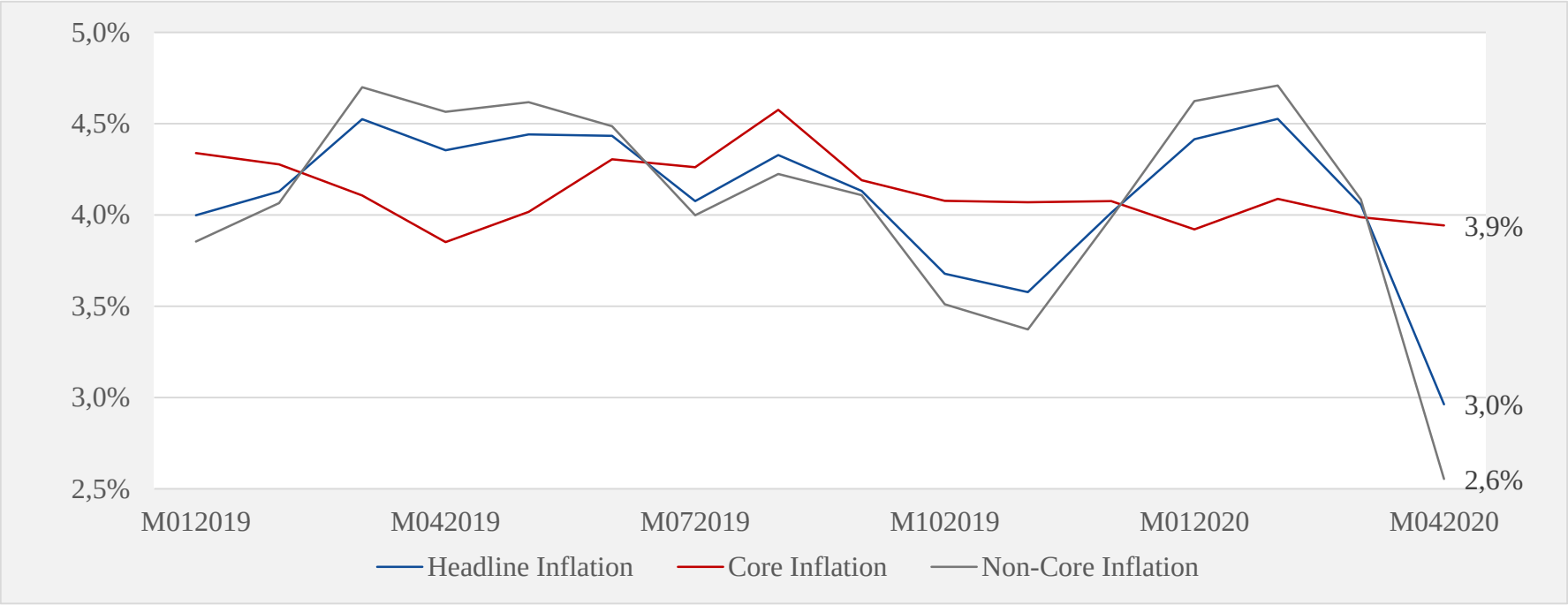
COVID-19 IMPACT: CHANGE IN EMPLOYMENT BY OCCUPATION AND INDUSTRY, Q4 2019 – Q1 2020

by Occupation	2019Q4-2020Q1 (change, thousand)	by Industry	2019Q4-2020Q1 (change, thousand)
Manager	**4**	Agriculture	**-21**
Professional	**-22**	Mining	**6**
Technician	**-44**	Manufacturing	**-15**
Clerk	**-59**	Utilities	**-4**
Sales and services	**15**	Construction	**-7**
Skilled agriculture	**-10**	Trade	**71**
Craft and related trade	**33**	Transport	**-17**
Plant and machine operator	**11**	Finance	**-50**
Elementary	**44**	Community and social services	**-33**
Domestic worker	**-9**	Private households	**30**
Other	**-2**	Other	**2**
Total employed	**-38**	**Total employed**	**-38**

- The data illustrates that job types such as clerk, technician and professional suffered the most losses during the period under review, losing 59 000, 44 000 and 22 000 jobs, respectively. Meanwhile, elementary (e.g. messengers, package and luggage porters and deliverers), craft, related trade and sales and services increased, potentially due to essential services.
- In terms of jobs by industry, finance, community and social services and agriculture suffered the most job losses, where as the trade industry gained.

Source: Statistics South Africa, Quarterly Labour Force Survey (Q1 2020) and own calculations

COVID-19 IMPACT: FINANCIAL STABILITY AND CORE INFLATION



- Due to the sharp decline in economic activities and transactions, prices become more stable. Headline inflation is now at the lower-bound of the targeting range of 3 per cent.
- However, Core inflation which includes: food, non-alcoholic beverages, clothing and footwear, housing and utilities, health, public transport, communication and education items saw a higher price inflation for essential items during the COVID-19 pandemic.

Source: Statistics South Africa, Quarterly Labour Force Survey (Q1 2020) and own calculations

FINANCIAL
AND FISCAL
COMMISSION

REVISED FISCAL FRAMEWORK

Adjustments to Main Budget Framework

Adjustment Between Budget 2020 and adjustment Budget

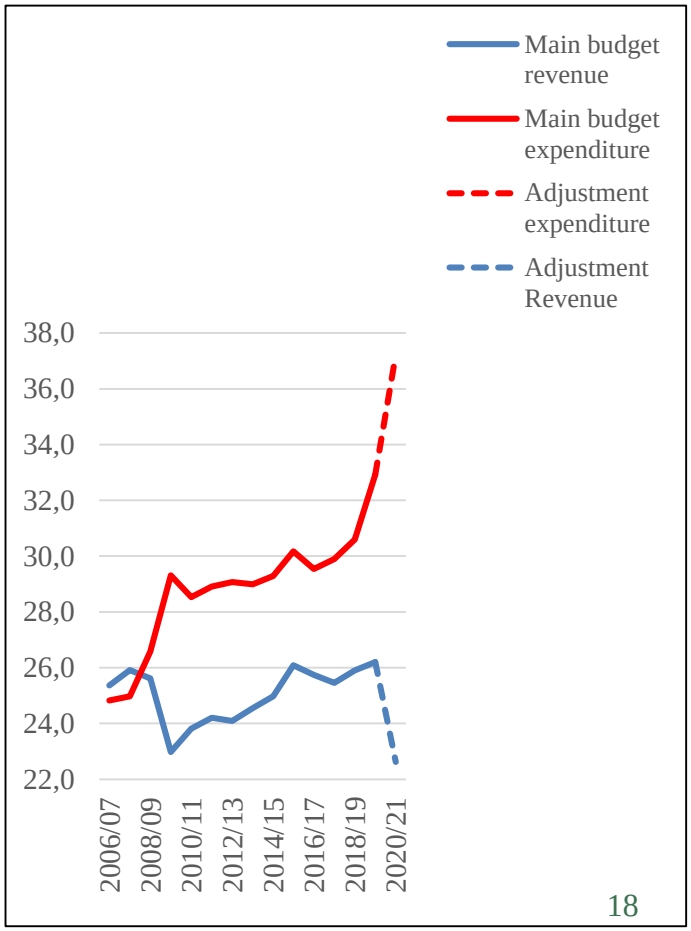
R'billion/ % of GDP	2020/21		Net Adjustment (R'billion)
	Budget 2020	Revised	
Main budget revenue	**1,398.0**	**1,099.5**	**-298.48**
	25.8%	**22.6%**	
Main budget expenditure	**1,766.0**	**1,809.2**	**43.18**
	32.5%	**37.2%**	
Non-interest expenditure	1,536.7	1,572.7	36.01
	28.3%	32.4%	
Debt-service costs	229.3	236.4	7.17
	4.2%	4.9%	
Main budget balance	**-368.0**	**-709.7**	**-341.66**
	-6.8%	**-14.6%**	
Primary balance	**-138.7**	**-473.2**	**-334.49**
	-2.6%	**-9.7%**	

- Commission notes that even prior to Covid-19, slow growth had impacted on government revenues, leading to a rising deficit and debt
  - Covid-19 has further exacerbated these challenges with fiscal space further deteriorating and estimates showing that the main budget deficit will more than double from 6.8% of GDP to 14.6% of GDP
  - The credit downgrades compounded this.
- On the revenue side, government has indicated that beyond 2020/21, it will seek to achieve a primary surplus by 2023/24 – this will necessitate tax increases
  - Commission notes that at the time of Budget 2020, promising avenues for increasing tax revenue (for example taxing the digital economy and new environmental taxes and reforms) were highlighted– unclear whether these will still be pursued. Further details on how tax revenue increases will be achieved will be detailed in MTBPS 2020

Main Budget Revenue

- At the time of 2020 Budget, the Commission noted that slow growth had impacted on government revenues, leading to a rising deficit and debt which has constrained government's ability to invest in society and the economy.
- Revenue decline is largest driver of the defict
- Given the pandemic and credit downgrade, a further decline in revenue as a result of restricted economic activity, is anticipated
- Tax revenue underperformance expected to be R304.1 billion lower than the 2020 Budget estimate
  - For 2020/21, the Commission recommends that tax policy should prioritise fiscal support to ensure that the economy survives the pandemic because under the current circumstances increasing tax revenues is not a feasible policy option
  - Beyond 2020/21, government has indicated that it will seek to achieve an primary surplus by 2023/24. Details of to achieve this to be tabled in the MTBPS. Details of how this will be achieved to be set out in 2020 MTBPS

Main Budget Revenue relative to Expenditure



Expenditure Adjustment by Economic Classification

R'million	Budget 2020	Revised	Net Adjustment
Current payments	**265,720**	**267,544**	**1,824**
Compensation of employees	187,668	187,077	-591
Goods and services	77,891	80,306	2,415
Rent on land	161	-	161
Transfers and subsidies	**1,215,936**	**1,228,251**	**12,315**
Provinces and municipalities	781,934	785,373	3,439
Departmental agencies and accounts	143,296	131,193	-12,103
Higher education institutions	44,803	43,920	-883
Foreign governments and international organisations	2,829	2,721	-108
Public corporations and private enterprises	32,525	29,172	-3,353
Non-profit institutions	9,073	8,503	-570
Households	201,477	227,370	25,893
Payments for capital assets	**15,303**	**14,582**	**-721**
Payments for financial assets	**42,552**	**45,565**	**3,013**
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**	**1,572,731**	**36,006**

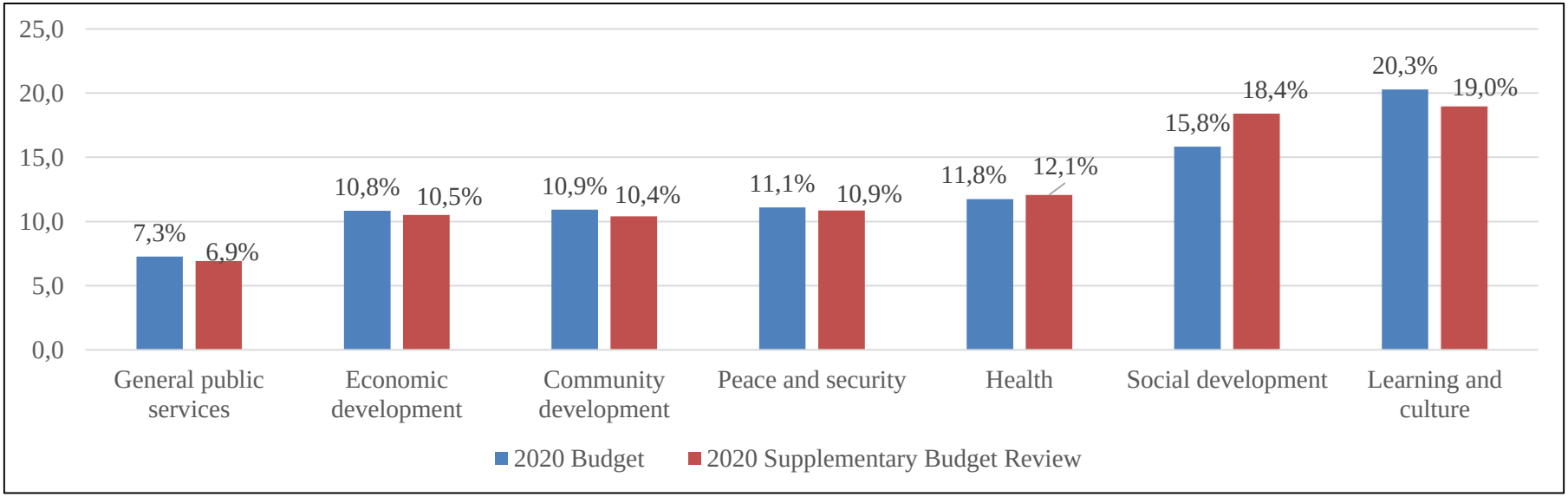
- Transfers and subsidies component sees largest adjustment (increase of R12.3 billion) - bulk of increase is to vulnerable households (increased social payments) and transfers to local government
  - Commission welcomes these adjustments – especially support to municipalities as they are key to implementing response to Covid-19
- Net increase to current payments mainly driven by additions to goods and services (R2.4 billion) whilst compensation (COE) sees a R591 million reduction
  - Commission notes that Budget 2020 indicated intention to cut COE – extent to which this will be achieved is questionable
- R3 billion added to recapitalise the Land Bank
  - Persistent financial assistance to ailing SOCs divert funds from critical areas of service delivery
  - Commission believes reforms of SOCs long overdue – efforts to stabilise, re-purpose, rationalise SOCs are urgent

ADJUSTMENT BY FUNCTION CATEGORY

R'million	Budget 2020	Revised	Net Adjustment
General public services	618 840	619 599	759
Economic development	88 381	80 886	-7 496
Learning and culture	151 543	138 364	-13 179
Health	55 516	58 430	2 914
Peace and security	207 006	212 991	5 985
Community development	219 727	221 835	2 108
Social development	198 497	223 837	25 341
Total	**1 539 511**	**1 555 941**	**16 431**

- Largest net increases are to Social Development (net increase of R25.3 billion) and Peace and Security (net increase of R 5.9 billion) and Health (net increase of R2.9 billion)
  - The Commission acknowledges the importance of these essential, frontline sectors in directly responding to Covid-19 and scaling up and maintaining social assistance interventions to vulnerable households
- General public service increases by R 759 million.
  - The function is supporting the provision of quarantine sites for people who test positive for COVID-19 and repatriation of South Africans stranded abroad
- The biggest reduction is to Learning and Culture with a net decrease of R13.1 billion
- The FFC notes the adjustment by function category and the difficult balance that government has tried to achieve
  - The Commission welcomes the prioritisation of funding towards fighting Covid-19 while protecting livelihoods and the economy.
  - However, the Commission is wary of the extent and modalities of the health adjustment, given its centrality to fighting Covid-19.
  - Commission questions whether efforts in respect of economic recovery are sufficient

Share of Consolidated Expenditure by Function



- The learning and culture function sees a decrease in its share of consolidated expenditure of 0.4%. This is from 20.3% in the 2020 Budget to 19% in the Adjustment budget
- Community Development function also sees a decreases in its share of consolidated expenditure by 0.5%. This is from 10.9% in the 2020 Budget to 10.4%. General public services decrease by 0.4% from 7.3% in the 2020 Budget to 6.9% Adjustment budget
- In the front line departments, only social development (from 15.8% to 18.4%) and health (from 11.8% to 12.1%) increase as a share of consolidated expenditure in the adjustment budget

FINANCIAL
AND FISCAL
COMMISSION

BUDGET REPRIORITISATION AND SUSPENSION OF ALLOCATIONS

ALLOCATIONS : ADJUSTED BUDGET

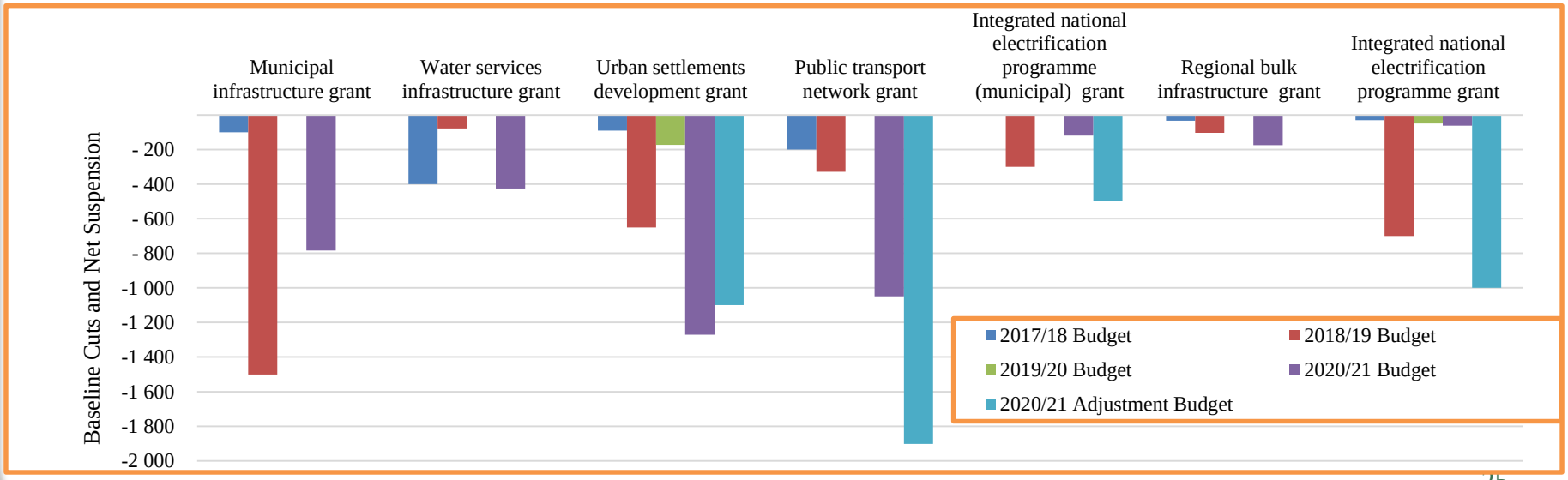
- In his speech on proposed economic stimulus package, the president indicated plans to secure a total amount of R130 billion for COVID-19 responses through reprioritisation and reductions across the three spheres of government.
  - In the adjusted budget the amount to be reprioritised is R100,9billion
  - National departments to contribute 53,9%,
  - Provincial and local governments to contribute 33,6% and 12,5% respectively
- On the whole the FFC supports the general thrust of government's reprioritisation as it closely follows criteria proposed by Commission to parliament in its submission to the Select and Standing Committees on Appropriations and Finance but future adjustment should be linked to growth.
- However three key concerns need noting:
  - Repeat reprioritisation/baseline cuts/suspensions
  - Provinces were left on their own to reprioritise: the extent of realisation and impact is unknown
  - Instead of the R20 billion promised to be injected to local government as announced as part of the fiscal package only R11 billion constitutes additional resources

REPRIORITISATION CRITERIA

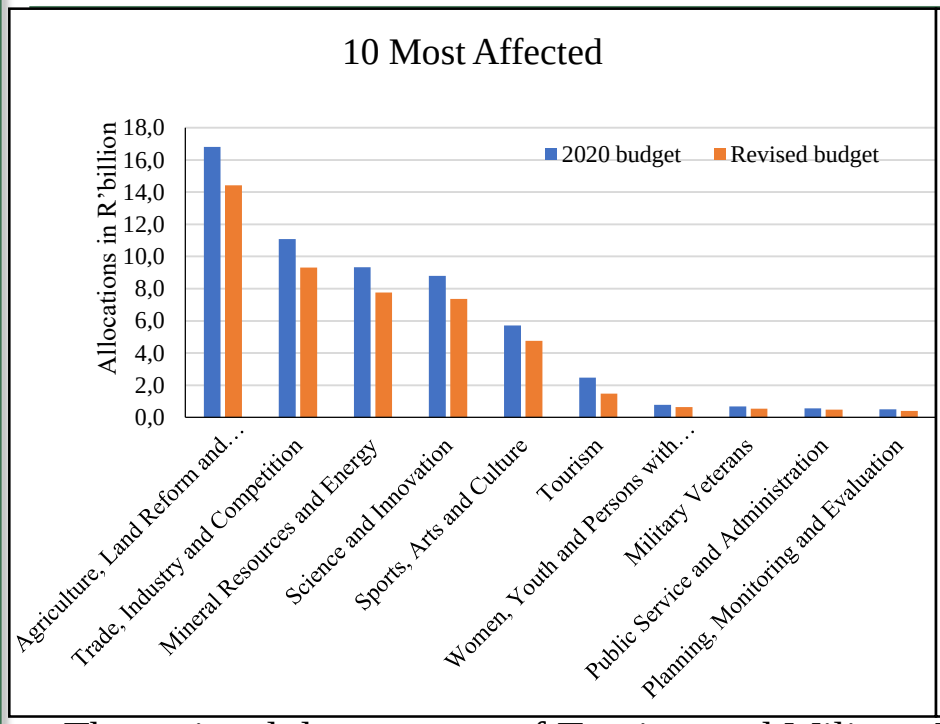
FFC Criteria	Government Reprioritisation Focus
Rights based approach: Protecting spending that caters for the basic rights of people (e.g. spending on basic services: water and sanitation, refuse removal);	Government protected to a large extent basic services as it reprioritised. Education was not priority before but it was prioritised in the adjustment budget
Equity and fairness: Balancing rural vs urban (spatial equity), formal vs informal. For example, a grant dedicated to urban areas may be a better candidate for reprioritisation than a grant focussing on rural areas	Evidently reprioritisation was not aggressive in grants with a rural focus and more aggressive on grants with an urban bias
Spending performance: Reprioritising spending that exhibits consistent underspending, irregular or wasteful spending	The government reprioritised aggressively on funds or line items with a history of underperformance/underspending and those likely to be underspent due to Covid-19 related lockdown.
Impact: Reprioritising spending that would have the least impact on livelihoods and the economy e.g. include travel, subsistence allowances, training and catering;	Suspending allocations for capital and other departmental projects that could be delayed or rescheduled to later., e.g. the implementation of infrastructure projects at various museums and the National Archives, as well as some legacy projects, has been delayed due to the restrictions on the economy
Essential vs non essential to Covid-19: In determining where to prioritise, decision makers need to distinguish between essential departments or items of spending relative to non-essential Moderate compensation of employees	Reprioritisation was more aggressive on non-essential Covid-19 related spending, e.g. • planned projects or planned construction projects was targeted • Scaling back on the purchase of library construction, • Filling of vacancies suspended until later in the financial year e.g. vote 37

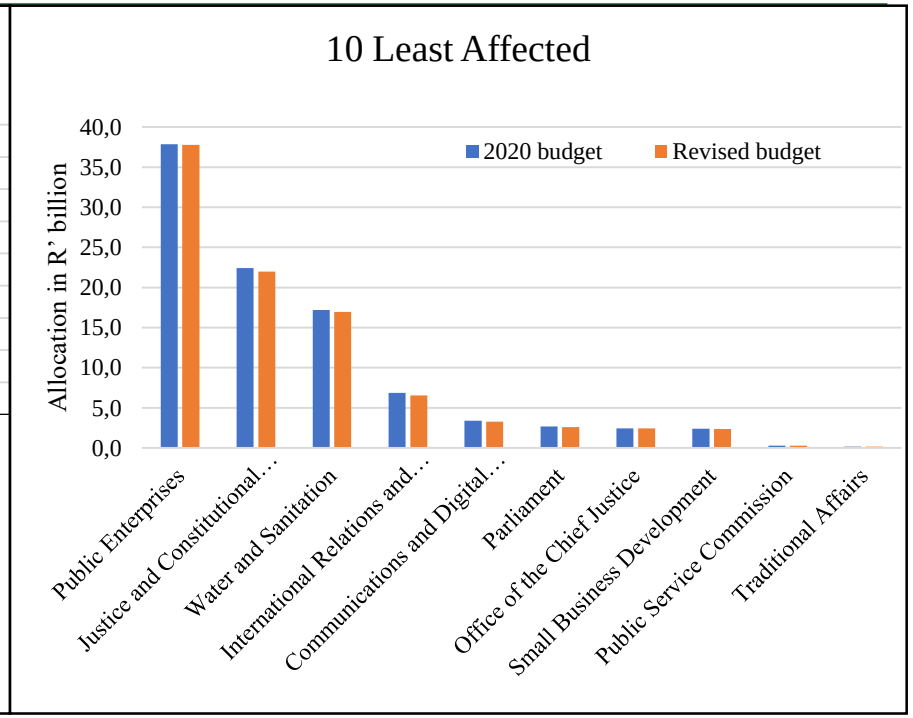
Continuous Baseline Cuts (2017-2020 budgets) and Net Suspensions (2020 Adjustment Budget

- Repeat reprioritisation/baseline cuts/suspensions is likely to have negative consequences.
  - It compounds uncertainties on subnational governments in terms of planning and service delivery; affects infrastructure investment and asset care; service delivery in the long run; and ultimately derails the country's from achieving its NDP or SDG goals.
  - There is therefore a need for a thorough assessment of the implications of the repeated reprioritisation of some grants on employment, poverty alleviation, rural and urban development, education and health outcomes among others.



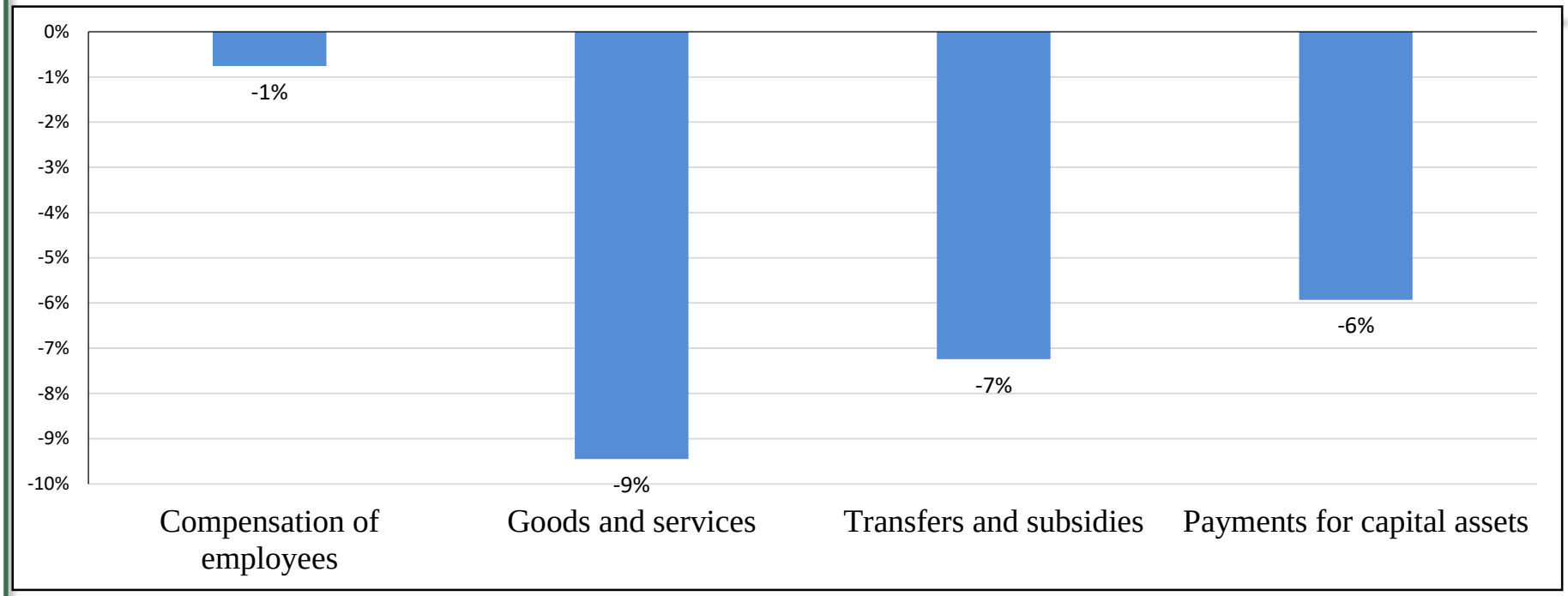
BUDGET ADJUSTMENTS BY VOTE: ADJUSTED BUDGET VS 2020 BUDGET





- The national departments of Tourism and Military Veterans are the most effected, with their budgeted spending reduced by R1.0billion(40%) and R137million(20,1%) respectively.
- The national department of Public Enterprise and Office of the Chief Justice are the least affected with their budgeted spending reduced by R92 million (0,2%) and R30 million (1,2%).
- The Commission notes and the reprioritisation in departments, as certain departments are in reality likely to underspend in the 2020/21 financial year due to lockdown.

Reprioritisation and Reductions by Economic Classification



- Suspension of funds are mainly on transfers and subsidies, goods and services, payment for capital assets and employee costs.
- Goods and services are the most affected, with 9% of its budgeted spending suspended followed by transfers and subsidies with a spending suspension of 7%.
- The Commission notes the targeting of spending on goods and services, as this category consists(mostly) of non-essential items and there is high anticipated underspending due to lockdown.

Provincial and LG Grant Reprioritisation Analysis

- The FFC notes the grant reprioritisations/ repurposing in line with the criteria/identification as presented in the briefing to SCoA's in May 2020 which include considering the critical role these grants play in terms of directing funds these grants to Covid 19 related impacts and delay non essential services as well as infrastructure that is at planning or pre feasibility stage.
- Provinces will reprioritise R20 billion from their own budget and R7.5 billion taken from conditional grants. The criteria for reprioritising the R20 billion is not clear - each province will do its own reprioritisation regiven its provincial profile of the disease. This may result in unevenness in the services delivered by provinces. In the absence of a uniform criteria it may be advisable that provinces report to Parliament on the reprioritisation criteria used.
- Instead of the R20 billion promised to be injected to local government as announced as part of the fiscal package turns out to be R11 billion in the adjustment budget: R9.4 billion will be reprioritised from conditional grants. This will pose challenges to LG in terms of service delivery, delivering on the Covid-19.
- So the local government receives R11 billion as additional funding through the LES, and R9.4 billion will be reprioritised from conditional grants. Largest part of reprioritisation is from Municipal Infrastructure Grant (R4.4 billion), Urban Settlement Grant (R2.2 billion), Public Transport Network (R1billion).

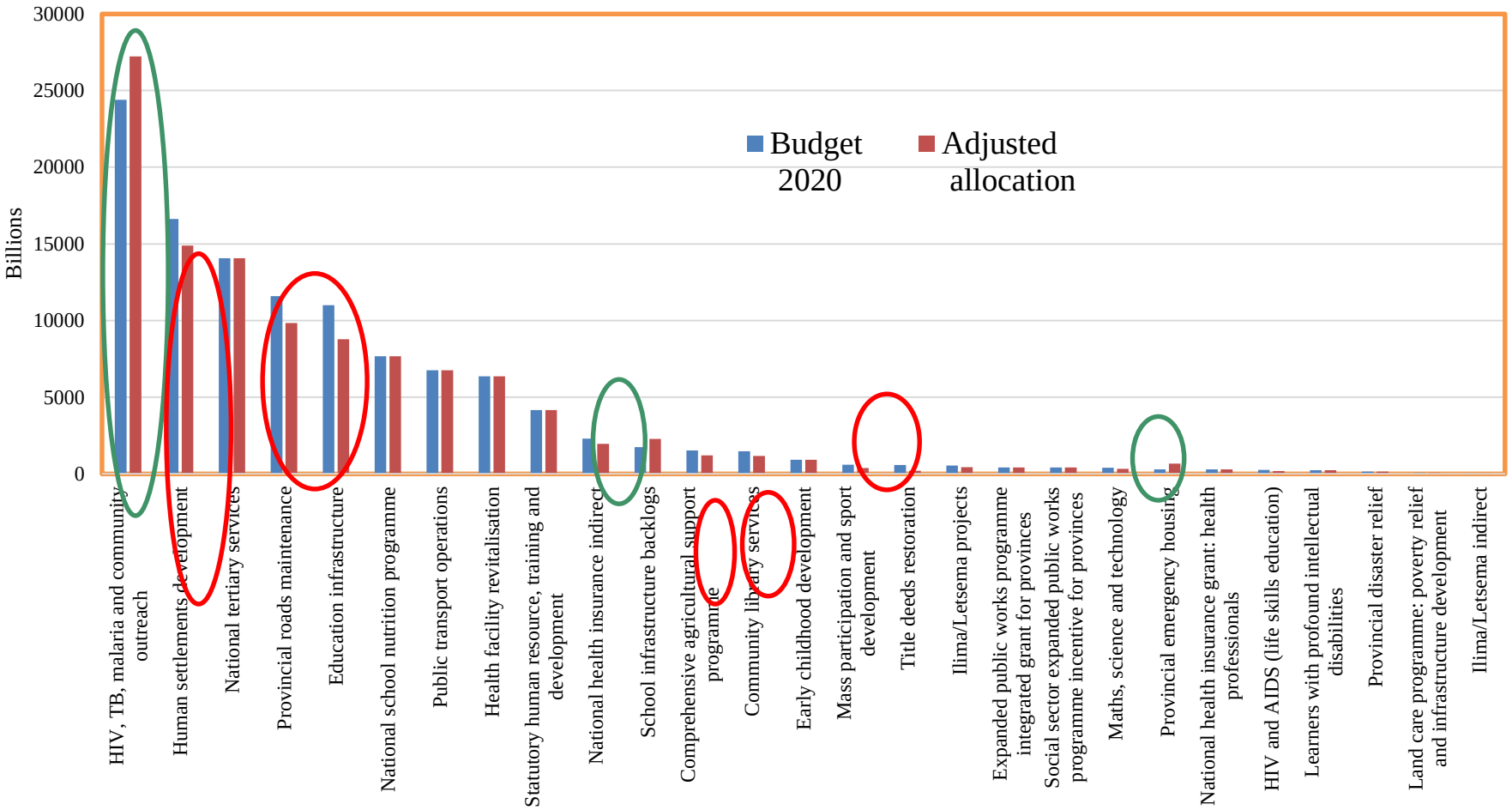
Summary of All Conditional Grants Recommended for Reprioritisation and Reprioritised

Department	FFC Recommended	Adjustment budget reprioritised	Amounts Reprioritised
Sports, Art and Culture	Community Library Services Grant	√	R10million
	Mass Participation and Sport Development Grant	√	R58 million
Basic Education	National School Nutrition Programme	√	R50million
	HIV/AIDS	√	R40million
	Maths Science and Technology	√	R30million
	Education Infrastructure Grant	√	R4.4 billion
	School Infrastructure Backlogs Grant	X	-
Human Settlements	Urban Settlements Development Grant	√	R2.2 billion
	Human Settlements Development Grant	√	R378 million
	Title Deeds Restoration Grant	X	-
Cooperative Governance	Municipal infrastructure grant	√	R4.4 billion
Water and Sanitation	Regional bulk infrastructure grant	√	R401million
	Water services infrastructure grant	√	R689million
Health	National Tertiary Services grant	√	R298 million
	Health Facility Revitalisation Grant	√	R1billion
	NHI Indirect Grant	√	R23million
Agriculture Land Reform & Rural Development	Comprehensive Agricultural Support Grant	X	-
Transport	Provincial Roads Maintenance Grant	√	R4.4 billion
	Public Transport Operations Grant	√	R378 million
	Public Transport Network Grant	√	R1billion
National Treasury	Integrated City Development Grant	√	R190 million
	Neighbourhood Development Partnership Grant	X	-
	Financial Management Grant	X	-
Public Works & Infrastructure	EWP Integrated Grant for Municipalities	X	-

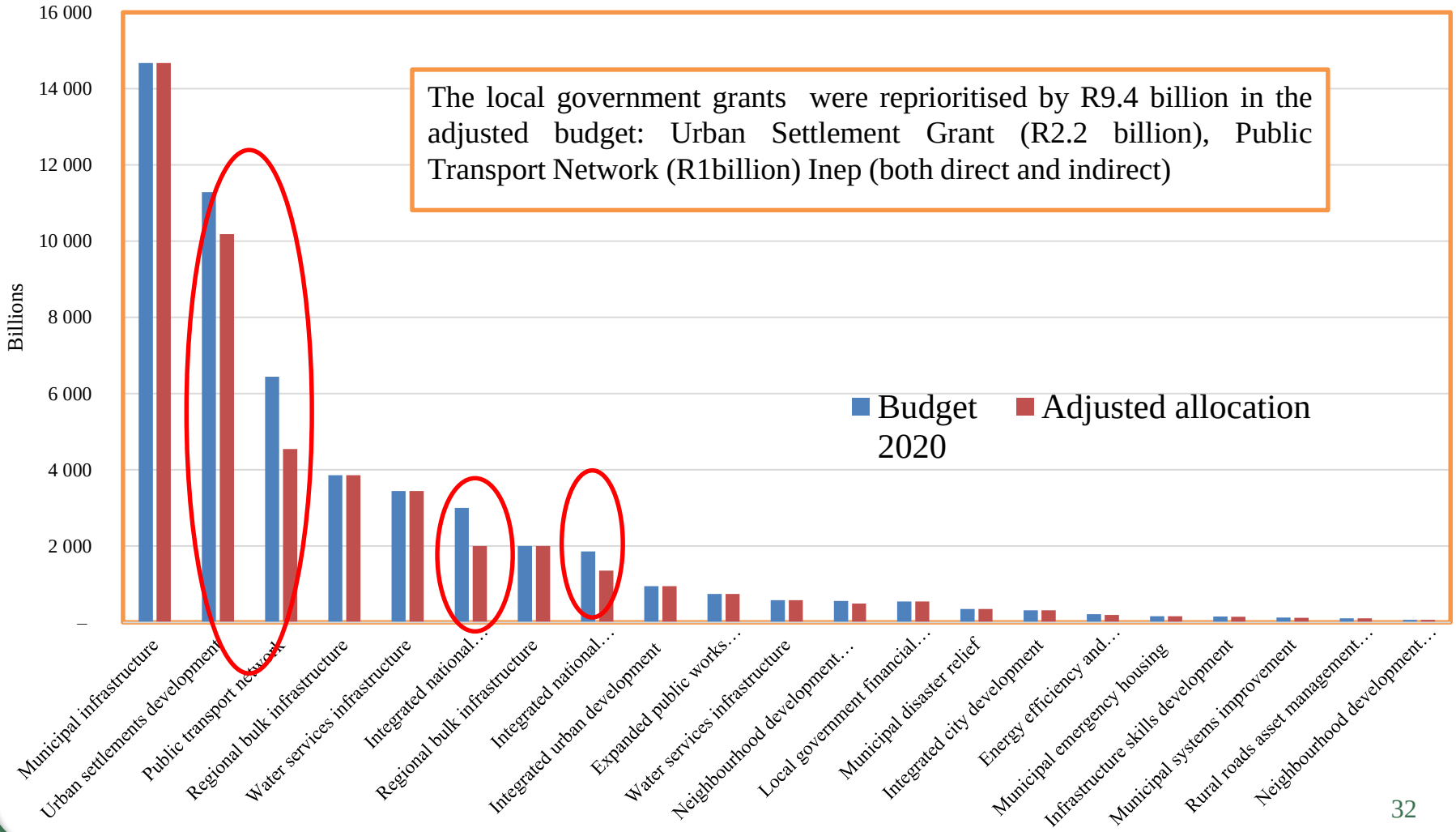
Budget 2020 vs Proposed Adjustment Allocations of Provincial Grants(1)

- The FFC notes the grant reprioritisations by R7.5 billion in 2020/21 adjusted budget
  - The grants where reprioritisations was the largest are in the Human Settlement Development Grant (R378million), Public transport Operation (R378million), Provincial Road Maintenance and Education Infrastructure (R4.4 billion) and Health Facility Revitalisation (R1billion).
  - The Commission would like to reiterate its previous stance that caution should be exercised with respect to reprioritisations especially on the infrastructure related grants, that it should not affect the day to day operations of these grants as well the maintenance and rehabilitation of existing infrastructure
  - While some grants were negatively affected, other grants were increased in the adjusted budget such as HIV,TB,Malaria and Community Outreach grant: Malaria component in the health grant (R.28 Billion). The grant also has a new Covid19 component . The FFC would like to reiterate its previous stance on this grant that it has many objectives which may have the potential not to meet all the objectives.

Budget 2020 vs Proposed Adjustment Allocations of Provincial Grants(2)



Budget 2020 vs Proposed Adjustment Allocations of LG Grants



The local government grants were reprioritised by R9.4 billion in the adjusted budget: Urban Settlement Grant (R2.2 billion), Public Transport Network (R1billion) Inep (both direct and indirect)

FINANCIAL
AND FISCAL
COMMISSION

Implications for the Division of Revenue

Changes to the Division of Revenue – Net Effect of the Adjustments

- The total non-interest expenditure R1 536 billion tabled in February has been revised upwards by 2% to R1 572 billion.
- Budget adjustment has resulted in slight shifts in the Division of Revenue.
- National government accounts for a larger share of expenditure reductions (R54 billion) followed by provinces (13.8 billion) and local government (R12.6 billion).
- The bulk of the reprioritised funding is reallocated to national government to support vulnerable households and health.
- Overall provinces carry the heaviest burden of expenditure reductions.

R' billion	2020 Budget	Revised budget	% change
National government	757.7	790.3	4.3
Provinces	649.3	645.3	-0.6
Local government	132.5	139.9	5.6
National	49.2	50.1	0.9
Provinces	42.2	41	-1.2
Local	8.6	8.9	0.3

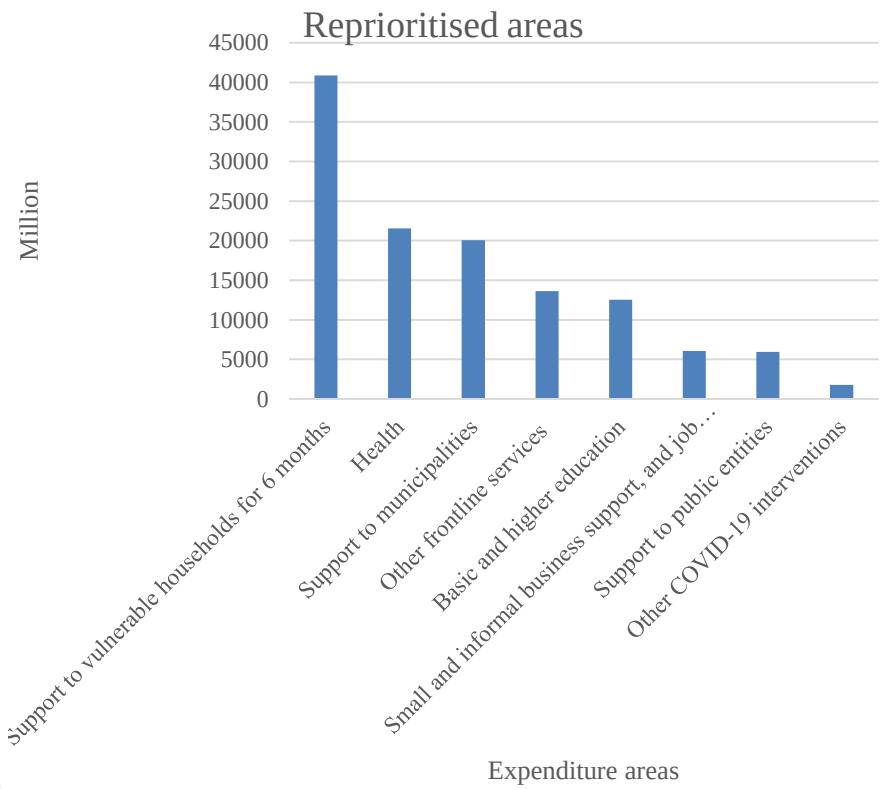
Provincial Budget Repurposing and Reductions

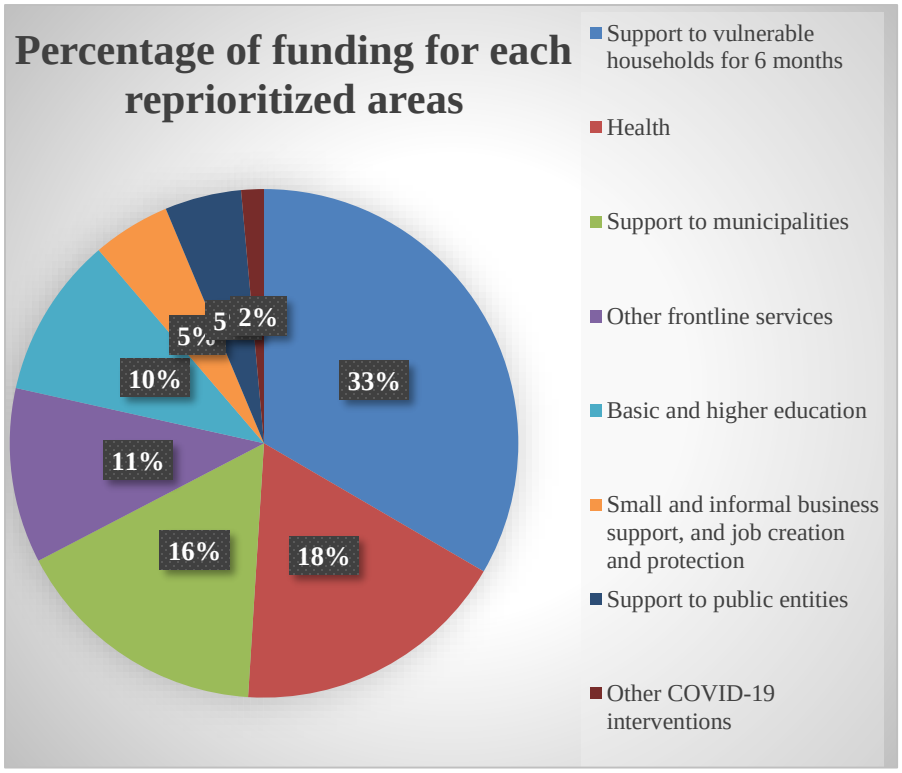
- The adjustment budget indicates that "provinces have committed to reprioritise R20 billion from the PES".
- Approximately 75% of the reprioritised funding is directed at health.
- The Commission is concerned about absence of a framework to guide provincial reprioritisation.
  - The proportional share of the reprioritisation seem to be equal across all provinces
- The absence of method in guiding reprioritisation will have serious implications on the budget structure and delivery of services.

Province	PES allocation 2020 budget	Health	Other sectors	Total repurposing	Total repurposing as % of PES	Health repurposing as % PES
Eastern Cape	71 415 000 000	1 988 374	662 791	2 651 165	0.0037%	0.0028%
Free State	30 017 000 000	835 589	278 530	1 114 119	0.0037%	0.0028%
Gauteng	112 118 000 000	3 126 485	1 042 162	4 168 647	0.0037%	0.0028%
Kwa-Zulu Natal	111 442 000 000	3 105 174	1 035 058	4 140 232	0.0037%	0.0028%
Limpopo	62 329 000 000	1 735 434	578 478	2 313 912	0.0037%	0.0028%
Mpumalanga	44 105 000 000	1 228 288	409 429	1 637 717	0.0037%	0.0028%
Northern Cape	14 290 000 000	396 847	132 282	529 129	0.0037%	0.0028%
North West	37 548 000 000	1 045 383	348 461	1 393 844	0.0037%	0.0028%
Western Cape	55 208 000 000	1 538 426	512 809	2 051 235	0.0037%	0.0028%
Total	**538 472 000 000**	**15 000 000**	**5000000**	**20 000 000**	**0.0037%**	**0.0028%**

Composition of the Reprioritised Budget

- The total allocation for Covid-19 relief amounts to R122.4 billion (excluding allocation to Land Bank equity investment and provisional allocation for Covi19 fiscal relief package).
- The largest share (33%) of this prioritised relief is for supporting vulnerable households for 6 months followed by increased allocation to health (18%).





Budget and Policy considerations For MTBPS…(1)

- Government needs to reconsider the sequencing of phases for managing the pandemic.
  - Support for investment and employment (phase 2) must be underpinned by economic reforms (phase 3) to achieve effective targeting of interventions.
- The package of reforms must incorporate suitable public sector reforms (particularly, expenditure reforms) given the conundrum of stagnant revenue, expenditure pressures and foreseeable low growth trajectory.
  - Expenditure reform strategies essentially consist of three main elements: ensuring the sustainability of social spending and the public wage bill; achieving efficiency gains while paying due regard to equity; and establishing institutions that promote spending control and enhance its effectiveness.
- The Commission notes the announcement about Zero Base Budgeting but has concerns over its effectiveness in changing the budget structure – data, time & resource intensive; and intense focus on annual major spending areas.

Budget and Policy considerations For MTBPS…(2)

- There is an urgent need in the present to Strengthen the institutional capacity of government to disburse relief funds and collate data on beneficiaries (needs and profiles).
- Outline a clear allocation and eligibility framework for the unallocated R19.6 billion set aside for job creation, a key element of phase 2.
- There is need to reconcile the announcement made by the President with regard to Covid-19 relief with the adjustment budget.
  - R100 billion job creation funding and R20 billion local government funding
- Outline business plans for phase 2 and 3 of managing the fiscus through and beyond the Covid-19 pandemic.

CONCLUDING REMARKS…(1)

- Budget adjustment is inevitable in the context of the devastating pandemic-low economic growth and diminished revenues are now critically worse.
- FFC is in agreement with government stance on reprioritisation as it closely follows its own criteria presented to Parliament ahead of the adjustment budget and also is consistent with Presidential pronouncements.
- The FFC is concerned with the repeat reprioritisation of the budgets and the likely impact on the economy and service delivery.
- There is an urgent need to assess the impact of repeat budget reprioritisation on the budget structure and delivery of basic services. Macro-reorganisation of government is needed.
- Economic growth stimulation must be at the centre of debt reduction strategy since inadequate revenue is the largest driver of the burgeoning deficit.

CONCLUDING REMARKS…(2)

- The Commission recommends that tax policy should prioritise fiscal support to ensure that the economy survives the pandemic because under the current circumstances increasing tax revenues is not a feasible policy option
- All spheres of government must table plans for revenue enhancement and expenditure management guided by the National Treasury.
- Parliament should receive reports on how provinces have carried out budget reprioritisation
- Reform plans with timelines are needed for each phase of managing South Africa out of the pandemic including measurements for success.
  - SOCs reform plans are equally necessary, as posing stranglehold on the fiscus
  - The Commission is concern about lack of information of SOCs restructuring and its consequences to the economy