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SUBMISSION TO THE STANDING COMMITTEE ON APPROPRIATIONS ON THE SECOND SPECIAL APPROPRIATION BILL, 2021

01 SEPTEMBER 2021

BACKGROUND

- The stated purpose of the 2021 Budget is to strike a balance between **economic recovery and restoring public finances** as alluded to in the 2020 MTBPS
- The President's **four major priorities** stated in the 2021 SONA are to:
  1. **Defeat (contain and overcome) the coronavirus pandemic** by strengthening the health system and undertaking a massive vaccination programme;
  2. **Accelerate economic recovery** to overcome **poverty** and hunger, **inequality** and **unemployment**. The COVID-19 relief announced last year remains ongoing
  3. **Implement economic reforms to create sustainable jobs** and **drive inclusive growth** through the Economic Reconstruction and Recovery Plan (ERRP), including the Infrastructure Investment Plan
  4. **Fight corruption and strengthen the state**.
- Whilst the above priorities remain valid, the Second Special Appropriation Bill for 2021 is being considered on the back of: (a) civil unrest that took place in July, (b) South Africa's slow emergence from an easing third wave of Covid-19 infections and (c) South Africa's official unemployment rate reaching a record 34.4% in the second quarter of 2021
- The Commission makes this submission on the Second Special Appropriation Bill for 2021
  - in terms of Section 214 (1) of the Constitution and Section 35 of the Intergovernmental Fiscal Relations Act (1997), as well as Section 4(4c) of Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009), as amended

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2021 Fiscal Framework and Context within which the Second Special Appropriation Bill is Tabled

2021 Division of Revenue: Expenditure Defrayed from the National Revenue Fund

R million	2021/22		
	2020 Budget	2021 Budget	Difference
Debt-service costs (National Treasury)	**258 482.1**	**269 741.1**	**11 259.1**
Infrastructure fund not assigned to votes	**4 000.0**	**4 000.0**	**-**
Provisional allocation for Eskom restructuring	**33 000.0**	**-**	**(33 000.0)**
Provisional reduction to fund Land Bank allocation	**-**	**(5 000.0)**	**(5 000.0)**
Compensation of employees and other adjustments	**(54 929.1)**	**-**	**54 929.1**
Contingency reserve	**5 000.0**	**12 000.0**	**7 000.0**
Total appropriation by vote	743 614.6	741 325.6	(2 289.0)
Total direct charges against the NRF ex. transfers	25 255.3	21 978.3	(3 277.0)
Provisional allocation for contingencies	1 852.6	12 645.2	10 792.6
Total appropriation before subnational transfers	**770 722.4**	**775 949.0**	**5 226.6**
Provincial equitable share	**573 989.5**	**523 686.4**	**(50 303.2)**
Provincial conditional grants	**117 961.5**	**115 782.5**	**(2 179.0)**
General fuel levy sharing with Local government	**15 182.5**	**14 617.3**	**(565.2)**
Local government Equitable share and conditional grants	**127 259.5**	**123 475.8**	**(3 783.7)**
Main budget expenditure	**1 850 668.5**	**1 834 252.2**	**(16 416.3)**

Source: Commission's own calculation using National Treasury Budget Review Statistical Annexure 2020/21

- Total national appropriation by vote reduced by R2.3 billion in the 2021 Budget. Before subnational transfers, however, gained by R5.2 billion due to provisional allocation for contingencies (i.e. Covid-19 response)
- Provincial equitable share and conditional grants were adjusted downward by R50.3 billion and R2.2 billion from the 2020 to 2021 Division of Revenue Bills, respectively
- Local government equitable share, conditional grants and general fuel levy declined by R4.3 billion in total.
  - ➢ In comparison to these expenditure changes between the 2020 and 2021 Budgets, revenue shortfall for the 2021/22 financial year is estimated at R132.6 billion

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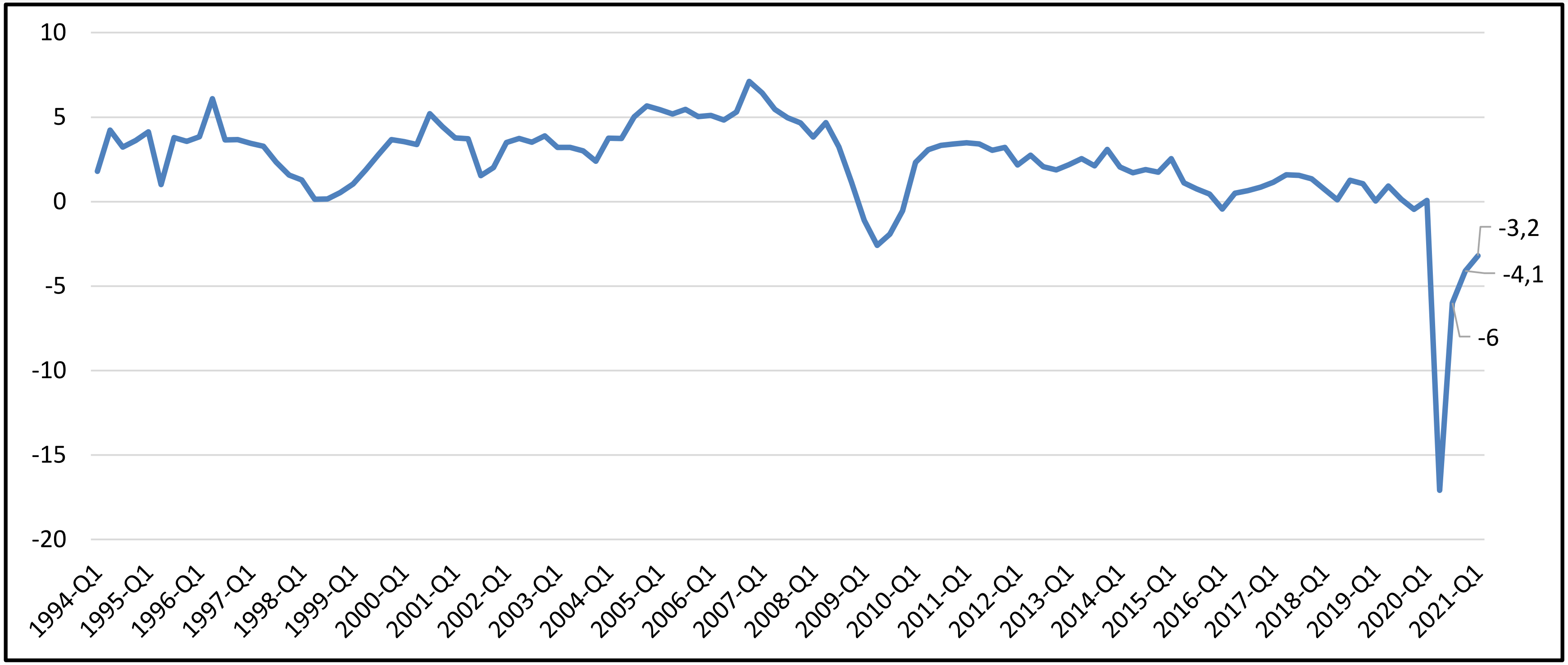
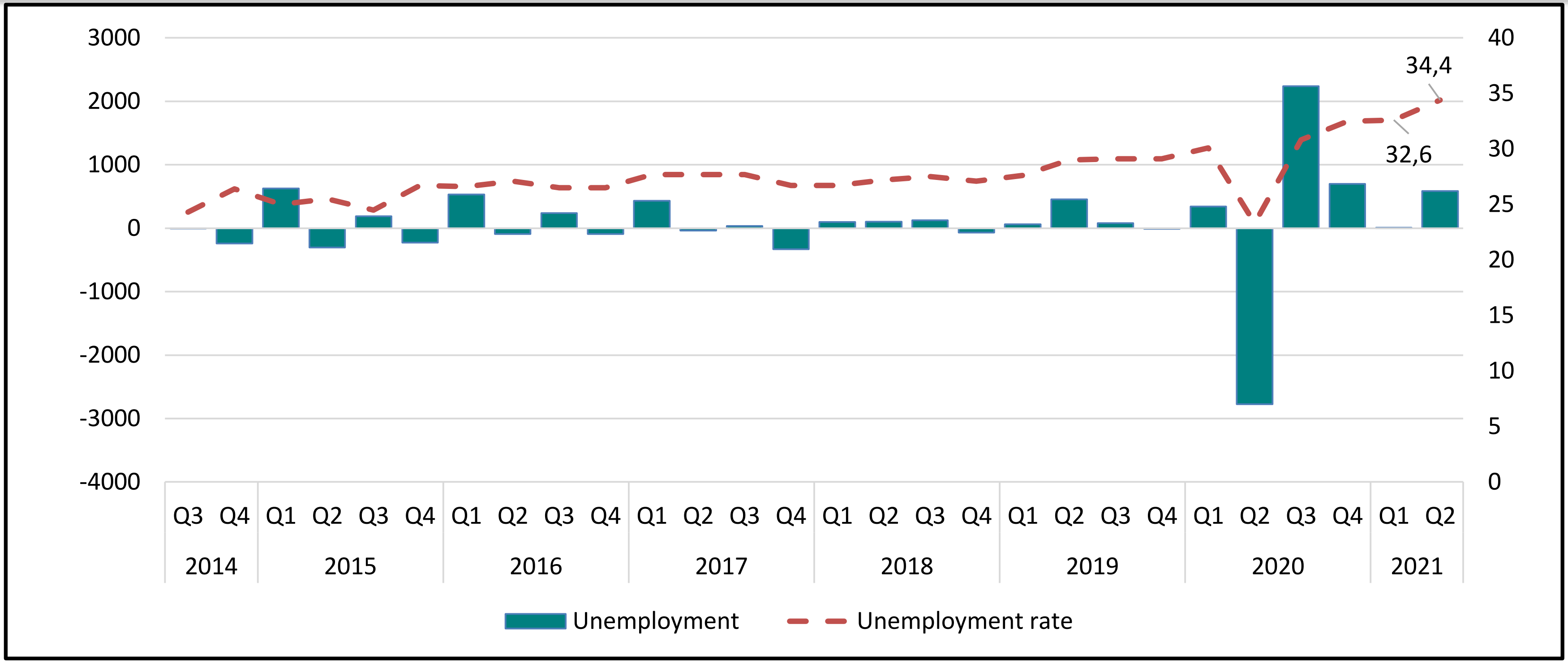
Context: Real Gross Domestic Product Growth (Y/Y % Change)



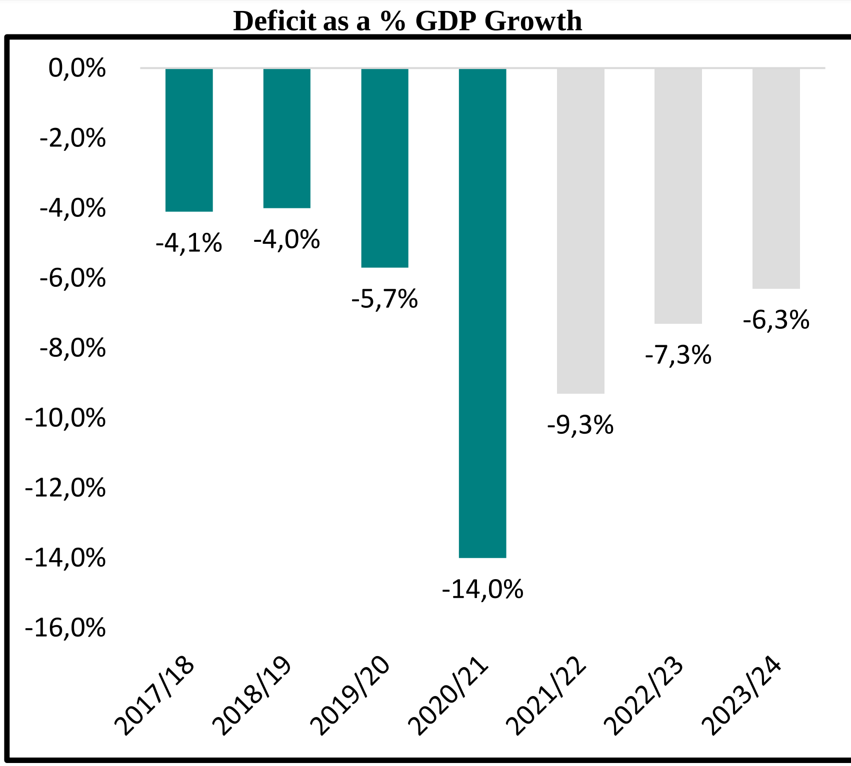
- Signs of an economic recovery are slowly emerging, though GDP is still at a lower level than during pre-crisis.
- In the third quarter of 2020, GDP contracted by 6.0% year-on-year (y/y) and in the fourth quarter of 2020, GDP contracted by 4,1% year-on-year.
- The economic recovery continued in the first quarter of 2021, but GDP still contracted by 3,2% year-on-year basis.

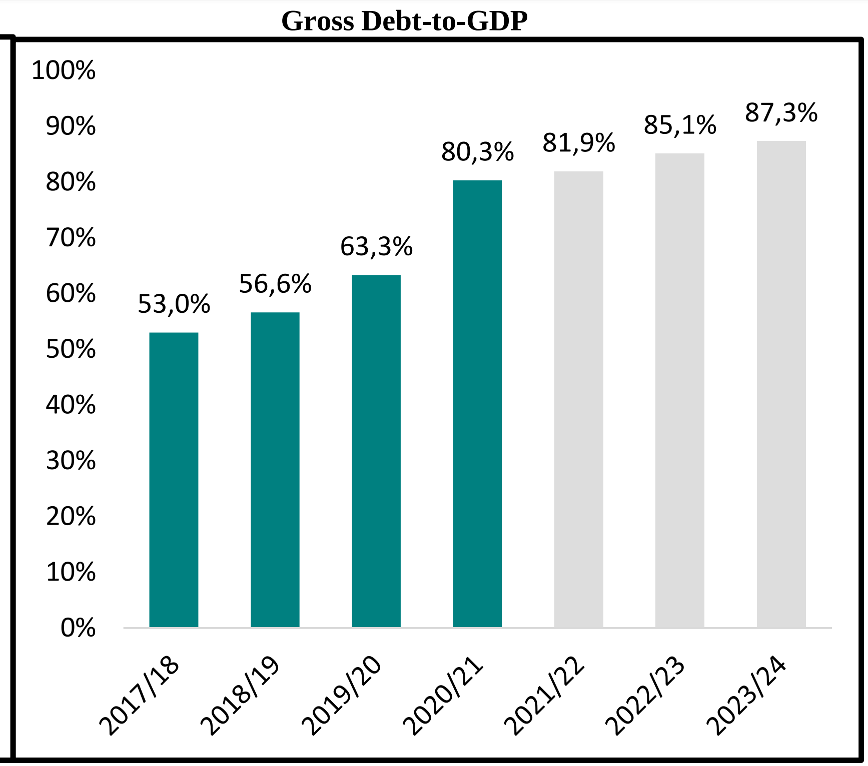
Context: Unemployment Rate 2021 Quarter 2



- The official unemployment rate increased from 32,6 in quarter 1 of 2021 to 34,4% in the second quarter of 2021.
- The number of unemployed persons increased by 8 000 to a total of 584 000 individuals in quarter 2 of 2021.
- The unemployment rate according to the expanded definition of unemployment increased by 1,2 percentage points to 44,4% in quarter 2 of 2021.

CONTEXT: BUDGET DEFICIT AND GROSS DEBT TO GDP





- The consolidated budget deficit, which reached a record 14% of GDP in 2020/21, is projected to narrow to 6.3% of GDP in 2023/24. Government gross debt has increased to 80,3% in the 2020/21 financial year, from 63,3% in the 2019/20, due to Covid-19. The National Treasury expects gross government debt to stabilise at 88.9% of GDP in 2025/26.
- **Rebasing the GDP compresses to some extent these percentages, but not the trends.**

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ASSESSMENT OF SECOND SPECIAL APPROPRIATION BILL, 2021

Overview of Additional Amounts Proposed in the Second Special Appropriation Bill

- Aim of a special appropriation is to appropriate additional amounts or effect appropriation adjustments to specific votes
- The Second Special Appropriation Bill for 2021 proposes additions to five Votes namely National Treasury, Social Development, Defence, Police and Trade, Industry and Competition
  - Need for additional amounts is as a result of the combined impacts of the Covid-19 pandemic and recent unrest that took place in parts of KwaZulu-Natal (KZN) and Gauteng provinces
  - Additions across the five votes amount to R32.85 billion – the bulk is in respect of transfers and subsidies to households via the Social Development Vote

Vote	Main Division (R'000)	Current Payments (R'000)			Transfers and Subsidies (R'000)	Payment for Capital Assets (R'000)	Payment for Financial Assets (R'000)
		Compensation of Employees	Goods and Services	Interest and Rent on Land			
National Treasury	3,900,000						3,900,000
Social Development	26,700,000				26,700,000		
Defence	700,000	354,442	324,260		21,298		
Police	250,000	250,000					
Trade, Industry and Competition	1,300,000				1,300,000		
TOTAL	**32,850,000**	**604,442**	**324,260**	**0**	**28,021,298**	**0**	**3,900,000**

National Treasury Vote

- An amount of R3.9 billion is Specifically and Exclusively Appropriated through payments for financial assets to purchase equity of the South African Special Risks Insurance Association (SASRIA)
  - The civil unrest experienced in KZN and parts of Gauteng in July was unforeseen and will negatively impact the economy and the fiscus
  - The better-than-expected performance of the economy so far in 2021 that provided a windfall in tax receipts could now be offset by a lower tax take, as many businesses could make losses and employees could lose jobs
    - Pay As You Earn (PAYE) taxes and Corporate Income Tax (CIT) could thus disappoint on the downside. Support for business is critical, however, it translates into additional expenditure that is likely to worsen the fiscal scenario at the time when it was beginning to show signs of improvement
  - The urgent need to support businesses, in particular small and medium enterprises to recover the losses incurred from the unrest, cannot be overemphasised. It is critical for economic growth and job creation
  - This allocation for SASRIA provides for repairing damage to businesses, a necessary step, but only a first one.

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SOCIAL DEVELOPMENT VOTE

- The Second Special Appropriation Bill of 2021 proposes that an additional amount of R26.7 billion be allocated to the Social Development vote, all to be spent through transfers and subsidies:
  - The bulk of this (98%) is in respect of transfers to households to fund the reintroduction of the social relief of distress (SRD) grant (R350)
    - Includes Social Assistance Transfers: Social grants - Specifically and Exclusively Appropriated
    - Of which, R9.763 billion expenditure is authorised in terms of section 16(1) of the PFMA for Social Relief of Distress (SRD)
  - The balance (of R500 million) allocated to provide for social security policy development and the fair administration of social assistance
    - Of which R250 million expenditure is authorised in terms of section 16(1) of the PFMA to improve application and payment processes including the strengthened eligibility assessment system
- Was originally meant to be implemented from May to October 2020, but was extended twice –first to January 2021 and again to April 2021
    - With the 2020 Special Adjustment Budget, R25.5 billion addition was made to the Social Development budget to fund increased spending on social grants
    - At the time of 2020 MTBPS, an additional R6.8 billion allocated to Social Development to fund the extension of the SRD grant up until January 2021
    - A special appropriation of R2.8 billion (tabled with the 2021 Budget) was allocated to the Social Development Vote to fund the extension of the SRD grant up until April 2021

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Social Development Vote [cont.]

- In May, when the FFC commented on the 2021 Appropriation Bill, the FFC cautioned against the impact of real cuts (over and above inflation) in this Vote and its impact on the poor and vulnerable given that 94.8% of the budget is allocated in respect of income support through social assistance grants

R'million	Audited 2019/20	Main Budget 2020/21	Revised Estimate 2020/21	Main Budget 2021/22	Real Growth Rates: 2021/22 Medium Term Expenditure Estimate Relative to: 2019 Audited Outcome	2020/21 Main Budget	2020/21 Revised Estimate
Social Development	199,708.4	197,718	230,807.3	205,226.9	-4.3%	-0.1%	-14.4%

- Given the economic and health crises facing South Africa, the social security grant system has played a critical role in providing much needed support to poor and vulnerable South Africans
  - It is estimated that as at 2020, approximately 18 million people received grant income - this rises by 6 million when the SRD grant beneficiaries are included
  - Eligibility criteria expanded to now include caregivers, which is likely to improve gender balance in uptake of the grant
  - The FFC's recently tabled Submission on 2022/23 DoR highlights the progressive coverage of pre-existing and SRD grants, whereby the vast majority of recipients are found to be in the lower cohorts of the household income distribution
  - The introduction of the SRD grant has provided some impetus for the discussion of a Basic Income Grant (BIG) – to this end and as detailed in its Submission for the 2022/23 DoR, the Commission recommends that the Minister of Finance should consider the fiscal impact of such a grant

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Defence Vote

- The Second Special Appropriations Bill, 2021, contains additions to the Defence Vote
  - An amount of R700 million is to be appropriated to Provide and employ defence capabilities, including an operational capability, to successfully conduct all operations as well as joint, interdepartmental, interagency and multinational military exercises.
  - Of which, R354.442 million (50.6 per cent) is Specifically and Exclusively Appropriated for Compensation of Employees; R324.260 million is allocated via the Goods and Services classification of expenditure; and
  - R21.298 million is allocated through transfers and subsidies for Operations of the Southern African Development Community Secretariat to enhance regional peace and stability, essential for regional trade and development.
- However the question which arises that at this critical moment, where South Africa faces multiple crises, as also purposed in this special appropriation (i.e. the COVID-19 pandemic, the economic and financial damages caused by the recent unrest), among other internal instabilities impacting the capabilities of the State – should scarce resources perhaps rather be prioritised inward domestically?

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POLICE VOTE

- The Second Special Appropriations Bill proposes an additional amount of R250 million in respect of the Police Vote, Specifically and Exclusively Appropriated towards compensation costs associated with the Visible Policing Programme
- With the tabling of 2021 Budget, the Police Vote was deprioritised
  - In particular the Visible Policing Programme which plays key role in enhancing community safety and reducing violence against women and children, declined from R53.4 billion in 2020/21 to R49.5 billion in 2021/22
  - At the time concerns were raised around how this cut would be absorbed especially given the labour-intensive nature of this department and the Visible Policing programme in particular

	Audited	Main Budget	Revised Estimate	Main Budget	Real Growth Rates: 2021/22 Medium Term Expenditure Estimate Relative to:		
R'mil	**2019/20**	**2020/21**	**2020/21**	**2021/22**	**2019 Audited Outcome**	**2020/21 Main Budget**	**2020/21 Revised Estimate**
Police	95,930.2	101,711	99,560.9	96,355.5	-6.4%	-8.8%	-6.9%

Police Vote [cont.]

- According to 2021 Estimates of National Expenditure, the Department expected to manage the budget cuts partly through reducing number of personnel from 181 344 in 2020/21 to 162 945 by 2023/24
  - Largest reduction is in the Visible Policing Programme – personnel to be cut by 3499 between 2020/21 and 2021/22

Police	Number of funded posts	Revised estimate			Medium-term expenditure estimate								
		2020/21			2021/22			2022/23			2023/24		
		Number	Cost (R'mil)	Unit cost	Number	Cost (R'mil)	Unit cost	Number	Cost (R'mil)	Unit cost	Number	Cost (R'mil)	Unit cost
Programmes Total	**183,447**	**181,344**	**76,147.0**	**0.4**	**175,345**	**75,300.5**	**0.4**	**169,140**	**75,299.7**	**0.4**	**162,945**	**75,297.1**	**0.5**
Administration	34,981	34,641	13,381.7	0.4	33,418	13,243.5	0.4	32,108	13,219.1	0.4	30,801	13,196.1	0.4
Visible Policing	94,798	93,253	39,324.7	0.4	89,754	39,013.5	0.4	85,863	39,013.3	0.5	82,015	39,012.2	0.5
Detective Services	38,423	38,631	16,654.5	0.4	38,080	16,442.6	0.4	37,377	16,467.6	0.4	36,677	16,492.6	0.4
Crime Intelligence	8,762	8,373	3,812.7	0.5	8,040	3,735.2	0.5	7,874	3,735.1	0.5	7,676	3,732.8	0.5
Protection &Security Services	6,483	6,446	2,973.3	0.5	6,053	2,865.6	0.5	5,918	2,864.5	0.5	5,776	2,863.4	0.5

Source: 2021 Estimates of National Expenditure

- Whilst fiscal constraints dictate a reduction in government spending, there is a need to weigh the options and potential impact of cuts
  - For example, are there opportunities for cutting more on Administration or Protection and Security Services as opposed to a programme that focusses on on-the-ground safety and security?

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TRADE, INDUSTRY AND COMPETITION

- The Second Special Appropriations Bill proposes an additional expenditure amount of R1.3 billion in respect of the Trade, Industry and Competition Vote, Specifically and Exclusively Appropriated and authorised in terms of section 16(1) of PFMA, via transfers and subsidies, towards Various Institutions of the public corporations through the Industrial Development Corporation (IDC) financing.
  - The purpose of this special appropriation is to stimulate and facilitate the development of sustainable and competitive enterprises, through the efficient provision of effective and accessible incentive measures, that support national priorities.
- The Commission notes uncertainty regarding this special appropriation, despite being specifically and exclusively appropriated, as the selection of the beneficiaries to be supported, the conditions for such allocations and the expected outcomes are unknown, save that it will be executed through a transfer to the IDC as financing vehicle.

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CONCLUDING REMARKS AND RECOMMENDATIONS

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- In respect of the proposed adjustments detailed in the Second Special Appropriation Bill of 2021
  - Overall, the additional appropriations to the five Votes detailed in the Bill are essentially addressing the unanticipated implications of domestic and regional unrest and are therefore supported by the Commission as they largely constitute non-discretional spending
  - Notwithstanding the above, the Commission makes the following recommendations and observations
    1. Whereas fiscal support for businesses and households impacted negatively by the unrest is vital, additional expenditure diverted to this is bound to undermine infrastructure and other expenditure supporting the nascent fiscal recovery driven by better economic performance; and to detract from the fiscal consolidation exercise aimed at reducing debt-servicing costs
    2. The Commission appreciates that current economic conditions may necessitate a reduction in government spending. There is a need to consider the choices made within this reduced resource envelope and to ensure a favourable balance between core and non-core spending (example of Police vote but applies more broadly) - and even unforeseeable spending

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Concluding Remarks and Recommendations [cont.]

3. Given the experience of the implementation and relief brought by the SDR Grant, there is a need for the Minister of Finance to consider the policy options and affordability of some form of income protection/Basic Income Grant – this will enable better planning and prevent the need for stopping/reintroducing support measures for poor and vulnerable South Africans
4. Precise and detailed information relating to the specificities of the allocations so as to enable more in-depth analysis is not included in the Bill. To this end, the Commission recommends that:
   - An indication of the outputs against the various proposed allocations be provided
   - In the case of Social Development, Parliament should receive a clear plan detailing how the R500 million adjustment will be used to enhance the grant application and payment processes

THANK YOU.

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