

*Tuesday, 7 March 2023]*

No 29 —2023] FIFTH SESSION, SIXTH PARLIAMENT

**PARLIAMENT**  
OF THE  
**REPUBLIC OF SOUTH AFRICA**

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**ANNOUNCEMENTS,  
TABLINGS AND  
COMMITTEE REPORTS**

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TUESDAY, 7 MARCH 2023

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# ANNOUNCEMENTS

## National Assembly and National Council of Provinces

### The Speaker and the Chairperson

#### 1. Classification of Bills by Joint Tagging Mechanism (JTM)

- (1) The JTM in terms of Joint Rule 160(6) classified the following Bill as a section 76 Bill:
  - (a) **Division of Revenue Bill** [B2–2023] (National Assembly – sec 76).
- (2) The JTM in terms of Joint Rule 160(6) classified the following Bill as a Money Bill:
  - (a) **Appropriation Bill** [B3–2023] (National Assembly – sec 77).
- (3) The JTM in terms of Joint Rule 160(6) classified the following Bill as a Money Bill:
  - (a) **Second Adjustments Appropriation (2022/23 financial year) Bill** [B4–2023] (National Assembly – sec 77).
- (4) The JTM in terms of Joint Rule 160(6) classified the following Bill as a Money Bill:
  - (a) **Eskom Debt Relief Bill** [B5–2023] (National Assembly – sec 77).

## National Council of Provinces

### The Chairperson

#### 1. Bills passed by Assembly and transmitted to Council for concurrence

- (1) Bill passed by National Assembly and transmitted for concurrence on 7 March 2023:
  - (a) **Transport Appeal Tribunal Amendment Bill** [B8B-2020] (National Assembly – sec 76).

The Bill has been referred to the **Select Committee on Transport, Public Service and Administration, Public Works and Infrastructure** of the National Council of Provinces.

(2) Bill passed by National Assembly and transmitted for concurrence on 7 March 2023:

(a) **Marine Pollution (Prevention of Pollution from Ships) Amendment Bill** [B5-2022] (National Assembly – sec 76).

The Bill has been referred to the **Select Committee on Transport, Public Service and Administration, Public Works and Infrastructure** of the National Council of Provinces.

## 2. Membership of Committees

(1) The following changes were made to the membership of Select Committees of the National Council of Provinces:

**Select Committee on Land Reform, Environment, Mineral Resources and Energy** (*Agriculture, Land Reform and Rural Development; Environment, Forestry and Fisheries, Mineral Resources and Energy*)

**Appointed:** Hon. Mr M J Magwala (Western Cape – EFF)

**Resigned:** Hon. Mr A Arnolds (Western Cape – EFF)

**Select Committee on Public Enterprises and Communications** (*Public Enterprises and Communications*)

**Appointed:** Hon. Mr M J Magwala (Western Cape – EFF)

**Resigned:** Hon. Mr A Arnolds (Western Cape – EFF)

# COMMITTEE REPORTS

## National Assembly

# **1. REPORT OF THE STANDING COMMITTEE ON FINANCE ON THE 2023 FISCAL FRAMEWORK AND REVENUE PROPOSALS, DATED 07 MARCH 2023**

## **1. INTRODUCTION**

The Minister of Finance, Mr Enoch Godongwana, tabled the 2023 National Budget before Parliament on 22 February 2023 in terms of Section 27 of the Public Finance Management Act, Act No. 1 of 1999 (PFMA) and Section 7 (1) of the Money Bills Amendment Procedure and Related Matters Act, Act No. 9 of 2009 (Money Bills Act).

The Minister, the Deputy Minister, and senior officials from the National Treasury (NT) briefed the Committees on Finance on 23 and 28 February 2023. The Committees received post-Budget tabling input from the Parliamentary Budget Office (PBO) and the Financial and Fiscal Commission (FFC) on 28 February 2023.

The Committees held public hearings on 01 March 2023 and received 15 written and oral submissions from the Congress of South African Trade Unions (COSATU), Fiscal Cliff Study Group (FCSG), South African Institute of Chartered Accountants (SAICA), the South African Institute of Tax Professionals (SAIT), PriceWaterhouseCoopers (PwC), the Healthy Living Alliance (HEALA), Institute for Economic Justice (IEJ), Amandla.mobi, Dr Sean Muller of the Johannesburg Institute for Advanced Study (JIAS) at the University of Johannesburg, Mr Benjamin Cronin of the University of Cape Town, the Widows Voice of South Africa, Budget Justice Coalition (BJC), Public Economy Project (PEP), South African Sugar Association (SASA), and Baker Kharva Chartered Accountants (BKCA).

NT and South African Revenue Service (SARS) responded to the issues raised during the public hearings and engaged with the Committee and stakeholders on 03 March 2023.

## **2. NATIONAL TREASURY'S OVERVIEW OF THE 2023 BUDGET**

During the Minister's briefing with the Committees on Finance, NT provided an overview of the 2023 Budget. NT expects the South African economy to slow in 2023 and over the medium term, in line with weaker economic activity globally. Real Gross Domestic Product (GDP) growth is now projected to average 1.4 per cent from 2023 to 2025, compared with an average of 1.6 per cent projected in the 2022 Medium Term Budget Policy Statement (MTBPS). Emphasis was made that the risks to the economic outlook remain elevated.

NT explained that in order to enhance economic growth, government continues to provide a stable macroeconomic policy framework, implement various reforms through Operation Vulindlela and the Economic Reconstruction and Recovery Plan (ERRP), implement urgent measures in the energy sector to reduce load-shedding, support recovery in the transport sector and make budget provision for infrastructure and prevention of crime and corruption.

NT explained that the government's medium term fiscal strategy aims to achieve fiscal sustainability by narrowing the budget deficit and stabilising debt and supporting economic growth. The strategy also reduces fiscal and economic risks, avoids tax rate increases and protects the social wage.

NT expects to achieve a primary surplus in 2022/23 and the consolidated deficit to narrow at a faster rate than previously estimated. Government debt is now projected to stabilise at 73.6 per cent of GDP in 2025/26, three years later and at a higher level than projected in the 2022 MTBPS estimate, due to the scale of Eskom debt relief arrangement.

NT attributed higher-than-expected revenue to positive growth in most major tax bases despite intensified load-shedding and weaker global economic conditions. As a result, the gross tax revenue estimate for 2022/23 is projected to be R93.7 billion higher than projected in the 2022

Budget, partly supported by improved tax compliance and tax administration. The medium-term revenue estimates are also expected to be marginally better than projected previously.

As reported, the 2023 Budget proposes a total tax relief of R13 billion; supports the clean energy transition, increases the electricity supply and cushions the impact of consistently high fuel prices. The 2023 Budget also includes several tax proposals designed to support businesses and individuals given the higher cost of living and to promote private investments in green energy.

In terms of government expenditure, NT reported that the social wage will constitute an average of 60.2 per cent of total non-interest spending over the next three years; while spending across functions supports the implementation of new and existing policy priorities.

Some of the proposed in-year allocations include R1 billion to South African Airways (SAA) to assist the business rescue process, R2.4 billion to the South African Post Office (SAPO) to implement its turnaround plan, and R5 billion towards the Land Bank. Over the medium term, an additional R227 billion will be allocated to address a range of spending pressures. According to NT, an Eskom Debt Relief Bill amounting to R254 billion over the medium term was tabled to strengthen the utility's balance sheet, enabling it to restructure and undertake the investment and maintenance needed to support the security of electricity supply.

To fight crime and corruption, NT reported that the government allocated additional funds (R711 billion) over the medium term to the National Prosecuting Authority (NPA), Special Investigating Unit (SIU), South African Police Service (SAPS), and the Department of Defence. SARS gets an allocation of R4.5 billion to strengthen tax administration and collection and combat the illicit economy.

The major fiscal risks outlined by NT include low or no economic growth, leading to lower tax revenues and simultaneous requests for fiscal support; rising borrowing costs due to inflation and higher interest rates; and unaffordable spending pressures such as the wage bill.

### **3. OVERVIEW OF THE 2023 FISCAL FRAMEWORK AND REVENUE PROPOSALS**

#### **3.1. Economic Outlook**

The South African economy is expected to decelerate from 4.9 per cent in 2021 to 2.5 per cent in 2022. NT expects the GDP growth to average 1.4 per cent over the next three years, as a result of persistent structural constraints especially power cuts, and a less supportive global environment (2023 Budget Review).

NT has predicted GDP growth of 0.9 per cent in 2023, which is three times higher than the South African Reserve Bank's forecast of 0.3 per cent, attributed to extensive load-shedding and other logistical constraints. NT expects the economy to grow by 1.5 per cent in 2024 and 1.8 per cent in 2025, while the South African Reserve Bank (SARB) revised its projections downwards to 0.7 per cent and 1.0 per cent, respectively, assuming ongoing high levels of load-shedding, modest household spending and investment growth.

#### **Table 1: Macroeconomic performance and projections**

Percentage change	2019	2020	2021	2022	2023	2024	2025
	Actual			Estimate	Forecast		
Household consumption	1.2	-5.9	5.6	2.8	1.0	1.5	1.8
Government consumption	2.1	0.8	0.6	0.3	-2.2	0.4	0.0
Gross fixed-capital formation	-2.1	-14.6	0.2	4.2	1.3	3.8	3.5
Gross domestic expenditure	1.4	-8.0	4.8	3.8	0.9	1.5	1.8
Exports	-3.4	-11.9	10.0	8.8	1.0	2.2	2.9
Imports	0.4	-17.4	9.5	14.0	1.1	2.3	2.9
<b>Real GDP growth</b>	<b>0.3</b>	<b>-6.3</b>	<b>4.9</b>	<b>2.5</b>	<b>0.9</b>	<b>1.5</b>	<b>1.8</b>
CPI Inflation	4.1	3.3	4.5	6.9	5.3	4.9	4.7
Current account balance (%GDP)	-2.6	2.0	3.7	-0.4	-1.8	-2.0	-2.1

Source: National Treasury, South African Reserve Bank, Statistics South Africa

Risks to the economic outlook include weaker global growth; the impact of continued war between Russia and Ukraine and continued electricity supply constraints; low implementation of structural reforms; and deterioration of the fiscal outlook due to unfunded spending pressures.

Table 1 above shows that the inflation rate is expected to revert to the set target range of 3-6 per cent over the medium term. Headline Consumer Price Inflation (CPI) breached the target range in 2022 averaging 6.9 per cent. Headline CPI is largely driven by increases in the prices of food, oil, electricity and other administered prices. The SARB assessed the risks to the inflation outlook to be on the upside and continued to tighten monetary policy, increasing the repurchase rate by a cumulative 375 basis points to 7.25 per cent (from 3.5 per cent) between November 2021 and January 2023.

The 2022 fourth Quarterly Labour Force Survey (QLFS) from Statistics South Africa shows that the number of employed persons increased by 169 000 to 15.9 million. The rate of unemployment measured at 32.7 per cent (7.75 million unemployed people) compared to a peak of 34.9 per cent in the third quarter of 2021.



### 3.2. The 2023 fiscal framework and revenue proposals

Table 2 below shows that the consolidated revenue is expected to increase from R1.89 trillion in 2022/23 to R2.23 trillion in 2025/26. A more broad-based corporate tax recovery; improved tax compliance and tax administration improve the near-term revenue outlook, despite intensifying load-shedding and weaker global economic conditions. Most major tax bases grew positively, as income and profits proved more resilient than anticipated, while there are no tax proposals to raise additional revenue in the revenue estimates.

Over the Medium-Term Expenditure Framework (MTEF), consolidated government expenditure will total R7.08 trillion. The consolidated expenditure in 2022/23 is now estimated at R2.17 trillion, R2.24 trillion in 2023/24 and almost R2.5 trillion in 2025/26. The government proposes an additional R227 billion to the main budget non-interest spending over the medium term while in-year non-interest expenditure increases by a net R23.4 billion.

The consolidated budget deficit is now projected to narrow from 4.2 per cent of GDP in 2022/23 to 3.2 per cent of GDP in 2025/26. NT expects to achieve a primary budget surplus in 2022/23.

**Table 2: 2023 Consolidated fiscal framework**

R billion/percentage of GDP	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outcome			Revised estimate	Medium-term estimates		
<b>Revenue</b>	<b>1 519.6</b>	<b>1 409.2</b>	<b>1 750.6</b>	<b>1 892.7</b>	<b>1 958.9</b>	<b>2 077.8</b>	<b>2 225.3</b>
	26.7%	25.1%	27.8%	28.5%	28.0%	27.9%	28.0%
<b>Expenditure</b>	<b>1 807.1</b>	<b>1 964.4</b>	<b>2 042.9</b>	<b>2 168.8</b>	<b>2 242.6</b>	<b>2 359.7</b>	<b>2 477.4</b>
	31.7%	35.0%	32.5%	32.6%	32.0%	31.7%	31.2%
<b>Budget balance</b>	<b>-287.5</b>	<b>-555.1</b>	<b>-292.3</b>	<b>-276.1</b>	<b>-283.7</b>	<b>-282.0</b>	<b>-252.1</b>
	-5.0%	-9.9%	-4.6%	-4.2%	-4.0%	-3.8%	-3.2%
<b>Gross loan debt</b>	<b>3 261.3</b>	<b>3 935.7</b>	<b>4 277.5</b>	<b>4 727.4</b>	<b>5 060.2</b>	<b>5 423.7</b>	<b>5 843.0</b>
	63.3%	70.7%	68.0%	71.1%	72.2%	72.8%	73.6%
<b>Net loan debt</b>	<b>2 997.7</b>	<b>3 601.8</b>	<b>4 011.1</b>	<b>4 483.0</b>	<b>4 912.8</b>	<b>5 323.5</b>	<b>5 757.0</b>
	58.2%	64.7%	63.8%	67.4%	70.1%	71.4%	72.5%

Source: National Treasury

NT expects gross loan debt to stabilise three years later and at a higher level than projected in the 2022 MTBPS, at 73.6 per cent of GDP in 2025/26, due to the scale of Eskom debt relief arrangement, which increases government borrowing. Debt-service costs will rise from R307.2 billion in 2022/23 to R397.1 billion in 2025/26.

The 2023 Budget proposes R13 billion in tax relief to support households and the economy, support the clean energy transition, increase the electricity supply and cushion the impact of consistently high fuel prices. The main tax proposals for 2022/23 include an adjustment in the Personal Income Tax (PIT) brackets and rebates; an expansion of section 12B renewable energy incentive; not adjusting the general fuel levy and increasing specific excise duties.

Key significant risks to the fiscal framework include weaker-than-projected GDP growth and higher interest rates, worsening global financial conditions, weak financial conditions of several state-owned companies, a public-service wage agreement that exceeds the rate of growth of the compensation budget and additional spending pressures such as new, unfunded social spending programmes or the realisation of contingent liabilities, which would affect the sustainability of the public finances.

#### **4. KEY ISSUES RAISED DURING THE PUBLIC PARTICIPATION PROCESS**

The Committee received input on the 2023 fiscal framework and revenue proposals from civil society organisations, tax institutions, constitutional and statutory institutions and individual members of society. Key comments focused mainly on economic policy, tax policy and tax proposals, revenue and expenditure issues and other budget-related matters.

Specific comments were made on the wage bill, a proposal of increasing social grants, particularly the Social Relief of Distress (SRD) grant, the proposal of a universal Basic Income Grant (BIG), the introduction of the wealth tax, the impact of the Eskom debt relief arrangement, the decision to postpone the implementation of the Health Promotion Levy (HPL)

to a later date, the renewable energy tax incentives, Employment Tax Incentive (ETI) and other tax proposals.

#### 4.1. Economic policy

The stakeholder's views included that the current macroeconomic framework is not consistent with the Constitutional obligations of government to protect and advance human rights. Some stakeholders argued that the continued policy of austerity has undermined the levels of public and private investment and failed to grow the economy. They argued further that there is notable uncertainty on the policy issues that are critical for proper fiscal planning.

Concerns were raised that the 2023 Budget is anti-poor because it is based on a macroeconomic framework that has prioritised debt stabilisation at the expense of service provision. While some commentators believe that the government's proposal to reduce its consumption spending over the medium term might assist with fiscal consolidation to stabilise debt, others asserted that debt is unlikely to stabilise over the medium term and aggregate demand growth will be reduced, instead.

Some of the recommendations made include that the Committee should request a macroeconomic framework that targets a reduction in unemployment, poverty, and inequality. It was recommended that NT must publish assessments of the implications of all budget policies and then work to reduce inequality and any negative and regressive budgetary impacts. It was submitted that fiscal consolidation must not be prioritised above all else, and policymaking must align with evidence and the Constitution. Whilst it is important to reduce the debt trajectory, that should not be at the expense of growing the economy and rebuilding the public services society requires, some stakeholders submitted.

#### 4.2.Revenue issues

Stakeholders observed a short-term improvement in the fiscal position and improvements in revenue projections over the medium-term, due to strong collections of the PIT and Corporate Income Tax (CIT) and cautioned that various significant risks such as real economic stagnation mean continued fiscal weakness over the medium-term and that will impact the financial position and outlook and the credibility of the future budget.

Concern was also raised that while NT reports an improvement in the budget deficit, suggesting a stronger fiscal footing, these improvements reflect the exclusion of likely expenditures from the framework; and a change in accounting practice that wrongly excludes Eskom bailouts from spending and the deficit. A suggestion was made that the fiscal space created by revenue overruns should be used to protect essential public services from funding cuts.

#### 4.3.Tax policy, tax incentives and tax proposals

There appeared to be general support for: government's policy commitment in the 2023 Budget to avoid tax rate increases while the economy is recovering from recent shocks; the fuel levy relief; the allocation of additional funding to SARS to further strengthen efficient revenue collection and; that tax policy has been anchored on protecting the tax base and efficiency-based reforms. A proposal was made that the government should table the Road Accident Fund (RAF) and Road Accident Benefit Scheme (RABS) Bills in Parliament.

While most stakeholders supported the introduction of rooftop solar incentives, concerns were raised about the exclusion of other components such as solar batteries and that the maximum rebate of R15 000 is inadequate and will severely limit the impact of this tax incentive. Stakeholders further cautioned that in its current form, the incentive may have minimal effect in encouraging individuals to migrate to renewable energy; creating a potential for abuse,

which might increase the administrative burden on SARS. It was submitted that the timing within which big business should use the incentive is impractical given the size of projects in those industries, and that the incentive has the potential to channel R9 billion to wealthier individuals and better-resourced businesses for little public benefit, thereby increasing inequality.

Some of the proposals made include that the rooftop solar energy tax incentive should be zero-rated for Value Added Tax (VAT) purposes and that to increase its effectiveness, consideration should be given to complementing the tax incentive with other instruments directed at the same objective, such as the introduction of regulations requiring new residential developments to have solar systems installed and phasing out electric geysers.

On the ETI, one stakeholder presented that the amount of tax revenue foregone is likely to exceed R40 billion and there is no credible evidence that it has led to any significant new job creation. Concern was also raised that the ETI inflated company profits instead of benefitting the poor and unemployed and that continuation and expansion of the incentive discredit government claims to evidence-based policy and developmental state.

Stakeholders expressed opposing views on PIT and wealth tax. While concerns were raised that there is very limited room to tax individuals further as PIT contributes the largest component of total taxes (more than 55 per cent), one of the proposals made was that government should increase PIT for individuals earning over R1 million annually. The government was cautioned that this tax base is mobile and can emigrate. Some commentators did not support a proposal to introduce a wealth tax, arguing that it may not be the answer because if the government continues to tax the rich, the rich will leave the country and the middle-class taxpayers will end up bearing the brunt of such a wealth tax.

A wide range of tax proposals made in the 2023 Budget include: an immediate reversal of the CIT rate to 28 per cent; removing tax breaks from pension and medical aid rebates for higher-income earners; raising tax rates on estate duties and dividend taxes; reversal of tax relief to individuals with an annual income of more than R500 000 per annum; implementation of effective controls to limit capital outflows; expansion of the tax base within reasonable limits because South African taxpayers are already at the fiscal cliff; ensuring that the rich people declare their wealth; prioritising additional measures to address tax evasion and illicit financial flows by individuals and companies; a review of tax incentives such as the ETI; a commitment to not increase VAT other than on luxury goods; and ensuring that there is no increase in the PIT for individuals earning below the R1 million threshold per year.

Further opposing views were observed on the decision to postpone the HPL to a date later than April 2023 to allow the sugar industry to recover from the losses, amongst other reasons. The sugar industry welcomed the decision much to the healthy food activists' disappointment. A recommendation was made that NT should reconsider the decision to side with the sugar industry and increase the HPL in 2023/24 as initially promised and commit to the public consultation process timeframe for expanding the HPL to include fruit juices and non-sugar sweetened beverages.

#### 4.4. Expenditure issues

Concerns were raised that the South African government is all too good at raising and allocating money, but it is not good at adequately spending money. It was said that too much focus was being placed on expenditure at the national level, while poor and inefficient financial performance of State-Owned Entities (SOEs), in particular, also continued to put pressure on public expenditure. It was recommended that to turn the economic situation around, other government departments need to be held accountable for ensuring effective expenditure.

Comments on the Eskom debt relief were that while the allocation of R254 billion in cash is welcome and may assist in overcoming Eskom's bankruptcy, based on past experiences, it is doubtful that adopting the same approach, such as special appropriations, even with conditions, to address the structural issues at Eskom would yield a different outcome in 2023. Others argued that the restructuring and turnaround plan may prove challenging to implement, and the increase in fiscal transfers to Eskom could indicate the permanent subsidization of coal-fired electricity supply out of general taxation. Two commentators are against the conditions attached to the debt relief, citing that these conditions will only accelerate privatisation and be a key obstacle for Eskom to address the load-shedding crisis.

Some commentators see the wage bill as a significant contributor to fiscal pressure and recommended that the growth restraint announced in earlier Budgets should be applied in practice because the whole budget rests on maintaining this budget position. NT was commended for a strong effort in reducing the impact of the public sector wage bill on overall expenditure. In contrast, unions argued that the wage bill has been stable at 35 per cent of the budget since 2008 and that the cause of the fiscal crises were the billions lost to corruption, wasteful expenditure, and the mismanagement of the state and SOEs. The government was cautioned that denying public servants CPI increases to protect their wages fuels the brain drain of skilled public servants to better-paying jobs.

Several stakeholders advocated for an increase and extension of the SRD grant beyond 2024 and the implementation of a universal BIG. It was said that there is a lot of scholarship, evidence and credible argument to support the expansion of the social security net through a BIG-like mechanism. A suggestion was made to scrap rent-seeking schemes such as the ETI to fund it. Some commentators see social grants as the main means of survival for millions of households in South Africa.

#### 4.5. Other budget-related issues

The other issues raised by the stakeholders include a timeous adoption of the Public Procurement Bill, considering public comments; an assertion that “water-shedding” will be far more devastating and far-reaching than load-shedding while Parliament appears to be silent on this matter; reconsideration of the timing of the interventions and effective dates to ensure proper and fair implementation of the Financial Action Task Force (FATF) greylisting remedial action plan.

### **5. SUMMARY OF SUBMISSIONS MADE BY STATUTORY INSTITUTIONS**

#### 5.1. Parliamentary Budget Office

The PBO commented on the economic impact of the 2023 Budget, the fiscal policy framework, government revenue and SOEs. The PBO submitted that NT projections of GDP growth over the medium term illustrate how fiscal consolidation hinders GDP growth and that projected government consumption expenditure, which is expected to decline by an average of 0.6 per cent annually over the medium term, will make a negative contribution to the GDP growth predicted.

The PBO argued that the forecasts depend on recovery in investment and NT’s investment projections have consistently been too high and again seem unjustifiably high in the 2023 Budget. PBO said that it does not expect private investment levels to improve much over the medium term because the structural reforms proposed by the NT do not fundamentally address the deeper structural challenges that hamper investment and growth in the economy. Also, the extraordinarily high levels of unemployment, poverty and inequality, market concentration, inadequate state capacity to deliver infrastructure projects and the negative impact of continued fiscal consolidation all point toward continued poor investment and economic growth.



On the fiscal policy framework, the PBO noted that the 2023 Budget maintains the government's long-standing fiscal consolidation stance by reducing government consumption spending and pursuing a primary fiscal surplus that the government is unlikely to achieve in the current financial year and over the medium term. According to the PBO, this hurts the real economy, erodes the state's capacity to deliver services and risks higher debt and it means fewer resources for teachers, doctors, nurses and police to serve a growing population.

The PBO stated that the non-adjustment to the fuel and the RAF levies will provide significant relief in the context of high inflation and exacerbated cost of living. It said that since rich people spend so much more on consumption relative to the poor, they would again benefit more than anyone else. Also, the extension of RAF to food manufacturers and the extension of the general fuel levy relief will ease potential price pressures on households, the PBO said.

The PBO noted that approximately 69 per cent of the proposed tax relief is for renewable energy incentive and the studies have shown that clean energy subsidies disproportionately go to higher-income and wealthier people. The PBO asked whether the government should be incurring substantial expenditure to persuade consumers who would have chosen to spend on renewable energy anyway. While NT stated that the incentive cap for households is due to limited fiscal space, the PBO sees no limit for businesses, which is contradictory.

On SOEs and public finances, the PBO noted that the 2023 Budget shows that the contingent liabilities are now expected to decline to R904.1 billion in 2025/26. However, many SOEs remain unable to adequately fund their operations and debt obligations; and are even less able to optimally invest in infrastructure. According to the PBO, poor performance and inefficiencies of SOEs have real economic and quality-of-life implications for households and businesses. The PBO further noted that NT has been developing a new framework for managing bailouts to SOEs to reduce fiscal risks and promote long-overdue reforms. The PBO questioned whether the term "credible" should be applied to a fiscal policy framework that may

be biased towards achieving a surplus and debt reduction in the short term even if that fiscal framework means that government does not provide enough resources for key SOEs to avoid large-scale economic damage in the short and long-term viability.

## 5.2. Financial and Fiscal Commission

FFC acknowledged the multitudes of internal and external constraints and challenges under which the 2023 Budget was crafted, and submitted that certain aspects of the legislation may be inconsistent with the principles of fiscal discipline and credibility.

The FFC noted that the 2023 budget presents improvements in fiscal projections due to strong collections of the PIT and CIT. The FFC submitted that various pressures over the medium term will impact the fiscal position; the poor and inefficient financial performance of SOEs continues to put pressure on public expenditure; tax policy has been anchored on protecting the tax base and efficiency-based reforms; and tax incentives to enhance clean energy targeted only solar panels which excluded solar batteries means that individuals can only claim a rebate to the value of 25 per cent, capped at a maximum of R15 000 per individual and these two factors severely limit the impact of this tax incentive and mean that it will only have minimal effect in encouraging individuals to migrate to renewable energy initiatives.

The FFC welcomed the adoption of its recommendation made in the previous budget submissions to lower and maintain policy consistency in the PIT and CIT regimes. It said that this will allow households and businesses battered by the Covid-19 pandemic, civil unrest, natural disasters, and load-shedding, as well as the system of tax collection and administration at the SARS, to recover and improve efficiency.

The FFC cautioned that in 2019, the government had made an R23 billion provisional allocation per year to Eskom to service its debts and meet its redemption requirements (2019 Budget Review). In addition, a special appropriation, with conditions, by the Department of

Public Enterprises (DPE) at R59 billion was allocated to assist Eskom with its financial obligations over the medium term. It expressed doubts that this special appropriation, even with conditions, will assist to address the structural issues at Eskom.

## **6. SUMMARY OF SUBMISSIONS MADE BY THE STAKEHOLDERS**

### **6.1. Fiscal Cliff Study Group**

The FCSG noted that the 2021 to 2023 Budgets show continued improvement, as the ratio decreased from 91.0 per cent in 2021 to 73.6 per cent in 2023. While the FCSG welcomed this development, it noted that a major reason for the improvement is the revenue windfalls during 2021/22 and 2022/23. According to FCSG, the risk remained that these were once-off events and their projections indicate likely deterioration in the fiscal cliff barometer, following the MTEF budget estimates.

The FCSG submitted that civil service remuneration is a significant contributor to fiscal pressure. The 2023 Budget indicates a rise of 3.3 per cent per annum over the medium term, a significant increase over the 1.8 per cent rise budgeted for in 2022. It noted that previous cuts of around R60 billion announced during the 2021 Budget, have been re-introduced as expenditures in the 2022 and 2023 Budgets. The FCSG recommended that the growth restraint announced in earlier Budgets should be applied in practice. Their view is that the whole budget rests on maintaining this budget position in respect of civil service remuneration. According to the FCSG, if this position slips, the budget falls apart.

The FCSG noted that PIT contributes the largest component of total taxes, making it an important item to analyse as far as fiscal sustainability is concerned. In the 2023/24 tax year, some 761 000 individual taxpayers fell into the top three income tax brackets. These taxpayers alone contributed more than 55.0 per cent to PIT and some 20 per cent of all taxes collected,

indicating very limited room to tax them further. According to the FSCG, this tax base is mobile and can emigrate.

FCSG submitted that the Southern African Customs Union (SACU) payments increased sharply over the past two decades. Also, South Africa has a seigniorage sharing agreement in the Common Monetary Area (CMA). In the 2023/24 financial year, the CMA seigniorage sharing payment is budgeted at R1.4 billion and it amounted to R654 million in the 2013/14 fiscal year, which means that these payments more than doubled during the last decade.

The FCSG recommended that in future Budget Reviews, NT should report SACU payments as separate line items for customs, excise, and development components, publish the full details and calculations of the seigniorage sharing agreement in the CMA as an annexure in the next budgets, clarify what the impact of greylisting will be on SACU and CMA partners and payments and the government at all levels, including Cabinet, should only purchase vehicles manufactured in South Africa.

## 6.2. Public Economy Project

The PEP noted the short-term improvement in the fiscal position on the back of a nominal boom and that real economic stagnation means continued fiscal weakness ahead.

PEP acknowledged that the 2023 Budget was presented in the context of multiple crises facing South Africa. In particular, the growth outlook has deteriorated since the tabling of the 2022 MTBPS, with load shedding, rail export constraints, and the operational crisis of local government all playing a role in constraining South Africa's growth prospects, in a context of global uncertainty. PEP highlighted that there is notable uncertainty on the policy issues critical for proper fiscal planning. In particular, political incoherence at the centre of government makes effective planning, budgeting and oversight nearly impossible, which is taking an increasing toll on the quality of budget institutions and reporting.

PEP submitted that the government's proposal to reduce its consumption spending further over the medium term will assist with fiscal consolidation to stabilise debt, but also reduce aggregate demand growth through an unprecedented negative shock to government consumption spending. Resources for core government services, namely basic education, healthcare and criminal justice will be reduced, which will hurt the incomes of lower middle-income citizens, and reduce the consumption basket of the poorest. PEP was of the view that these effects might be somewhat offset by rising transfers for Early Childhood Development (ECDs), public employment programs and social grants, which are only partially included in the budget. However, the size of the proposed contraction to government consumption will overwhelm these measures over the medium term.

PEP submitted that the allocation of R254 billion in cash will overcome Eskom's bankruptcy, creating a strong financial platform to address load-shedding, and invest in the infrastructure necessary for electricity sector structural reforms to succeed in the context of a just energy transition. While the economics of the plan is sound, as electricity is a binding constraint on growth, PEP argued that the restructuring and turnaround plan may prove challenging to implement, and the increase in fiscal transfers to Eskom could indicate the permanent subsidization of coal-fired electricity supply out of general taxation.

PEP noted that aside from the Eskom bailout fiscal measures that respond to the electricity supply disaster are few and paltry and cautioned that significant additional spending pressures may emerge during the year. PEP further noted that NT reported an improvement in the budget deficit, suggesting a stronger fiscal footing, however, these improvements reflect the exclusion of likely expenditures from the framework; and a change in accounting practice that wrongly excludes Eskom bailouts from spending and the deficit. Once these factors are accounted for, the expectation of an improved fiscal outlook is not real. According to PEP, debt is unlikely to stabilise over the medium term.

### 6.3. Institute for Economic Justice

The IEJ submitted that the current macroeconomic framework is “economic suicide” and “inconsistent with the Constitutional obligations of the government to protect and advance human rights.” It urged the Committee to call for a macroeconomic framework that targets unemployment, poverty, and inequality. It said that national budgets have been prioritising debt stabilisation through a rush to reach a primary budget surplus. As a result, the IEJ explained, cuts have been made to public goods such as public services while tax windfalls have been used to pay down debt. The IEJ said that the tabled Budget proposes a real reduction in non-interest expenditure of R162 billion over the medium term. It stated that this is a real decrease of 2.65% and comes on top of previous budget cuts.

The IEJ said that while NT has argued that this is not an austerity budget, in its response to civil society, it has argued that cuts are necessary due to underperformance by some government departments. It pointed out that NT however fails to state what measures are put in place for it to undertake the human rights impact assessment of these cuts. We submit that National Treasury must publish assessments of the implications of all budget policies and then work to reduce inequality and any negative and regressive budgetary impacts. The Budget, for example, has not accounted for how women, especially in rural areas, are impacted by its austerity measures, the IEJ pointed out. It further explained that the cuts to real non-interest expenditures continue to undermine the provision of public services and reduction in allocation to the SRD grant.

The IEJ said that it agreed with NT that there are structural constraints, e.g. water, transport, etc. It argued however that fiscal policy has a fundamental role to play in this and other social and economic sectors. It said that NT fundamentally views fiscal expenditure as full of waste and inefficiency. Ultimately, the IEJ submitted, government must expand carefully selected public expenditure, coordinated with monetary and industrial policy, to address the country’s

biggest and most immediate challenges and mobilise financing for developmental reindustrialisation. Fiscal consolidation must not be prioritised above all else, and policymaking must align with evidence and the Constitution, the IEJ stated.

The IEJ welcomed the debt relief extended to Eskom. It argued, however, that the conditionalities attached to the relief will only accelerate privatisation and be a key obstacle for Eskom in addressing the load-shedding crisis. The cautioned that private profit margins of IPPs will drive up prices, resulting in the majority of poor people not being able to afford electricity. Secondly, the IEJ said that IPPs do not have sufficient capacity to tackle the scale of load shedding. It submitted that unconditional debt relief should be only one part of a wider debt restructuring process. The relief should include a reduction in repayments to private debt holders (“haircuts”) and the overcapitalised Government Employees’ Pension Fund writing off its share of Eskom debt.

The IEJ decried that in the context of widespread social need, attempts to raise additional revenue have not been made. At the same time, a number of tax relief measures accrue to the well-off. It said that progressive taxation should be used to create fiscal space, redistribute income, and invest in public services and social protection. This should include, at least, immediately returning the corporate income tax rate to 28%, introducing a wealth tax, raising funds for basic income through social security, reducing, or removing, tax breaks through pension and medical aid rebates for higher-income earners, raising tax rates on income from wealth, for example, through estate duty and dividend taxes, interrogate the implications of the introduction of the global minimum tax on MNCs.

The IEJ argued emphatically that Budget 2023 is anti-poor. This is because the Budget is based on a macroeconomic framework that has prioritised debt stabilisation at the expense of service provision. The continued policy of austerity has also undermined levels of public and private

investment and failed to grow the economy. We reiterate that the committee must reject this Budget and call for one that prioritises addressing unemployment, poverty, and inequality.

#### 6.4. Budget Justice Coalition

The BJC submitted that the fiscal space created by revenue overruns should be used to protect essential public services from funding cuts. It said that this means allowing at least CPI inflation linked and population/ service user growth based on increases to funding for core services. It said that this can be compatible with a medium-term fiscal consolidation path if there is the political will to make it so.

The BJC recommended that the government makes use of the GEPF accumulated reserves to resolve Eskom's debt crisis. Furthermore, it cautioned against the imposition of conditionalities on Eskom without meaningful public consultation. It welcomed the R254 billion in Eskom's Balance Sheet relief but noted that it may be insufficient. It said that Eskom's debt that is held by the GEPF should be written off. The BJC raised concern about the impact of the Disaster Management Act regulation exempting energy projects from environmental regulation. It said that this may be costly in the long term.

On tax proposals, the BJC recommended that the government reverses tax relief to high income earners (all those with an annual income of more than R500 000 per annum) and stipulate a plan and timeline to introduce a progressive net wealth tax. The BJC said that illicit financial flows, base erosion and profit shifting required effective controls to limit the amount of capital outflows.

The BJC noted some progress made on Gender Responsive Budgeting (GRB) and welcomed promises to complete the development of GRB guidelines. It proposed that civil society be consulted on the guidelines being developed by government on GRB. It also requested a clearer information on the GRB roadmap and called for National Treasury and Cabinet to commit to a



GRB process that ensures that womxn, with diverse perspectives, and with lived experience of different contexts, are centred in the process of developing goals, and debating priorities. It added that GRB should not be limited to budget allocations and priorities, it must be applied to all public-finance decisions, such as those relating to ‘fiscal-consolidation’/austerity, borrowing, and taxation. The BJC stressed the need for continued public participation in processes including the GRB and FOA processes.

The BJC urged for the timeous adoption of the Public Procurement Bill, taking public comments into consideration. It recognised that it could take some time to complete further public consultations and urged NT to commit to much greater transparency as an immediate action. It welcomed the proposed tabling of the Bill in March this year.

The BJC raised concerns about the erosion of the health care system through budget cuts particularly at a time when the country is still recovering from the effects of the Covid-19 pandemic. It called for an increase in allocations to healthcare to CPI inflation plus 2.2% for service user growth.

The BJC reiterated its call for basic education funding to increase in line with CPI inflation plus 1.4% for projected learner enrolment growth. It recommended an increase of R350 to the food poverty line to account for food price inflation of the past three years. It further called for the SRD to be extended beyond 2024 and the implementation of a universal basic income grant (UBIG).

Overall, the BJC recommended that budgets for fundamental rights be increased to align with CPI inflation. It emphasised that the current budget is not supportive of a capable, developmental state.

## 6.5. Congress of South African Trade Unions

COSATU said it is deeply worried that the Budget was insufficiently bold to stimulate an economy struggling to emerge from a recession and global pandemic; reduce an unemployment rate of 42.6%; and rebuild a state weakened by state capture, corruption and austerity budget cuts. It submitted that whilst it is important to reduce the debt trajectory, it should not be at the expense of growing the economy and rebuilding the public services that society requires. It said that since elections are in a year's time, there was no time to spare nor could the country afford for Departments to miss targets and return unspent monies.

It submitted that if government is to deliver on its commitments, it needs to fix its relationship with public servants. It said that the wage bill has been stable at 35% of the budget since 2008. It said that the cause of the fiscal crises are the billions lost to corruption, wasteful expenditure, the mismanagement of the state and SOEs; calling for all these issues to be fixed. COSATU submitted that denying public servants CPI increases to protect their wages fuels the brain drain of skilled public servants to better paying jobs. It called for government to engage on the wage bill at the PSCBC to find a win-win resolution. COSATU applauded the work done by SARS in exceeding revenue collection by R93 billion, thus helping government to plug numerous fiscal holes. It said that this shows the value of investing in the public service and its employees.

COSATU welcomed many of the relief measures provided for in the Budget. It said it was however aggrieved that in a sea of youth unemployment, Treasury slashed the Presidential Employment Initiative from R24bn to R9 billion. It said that it was scandalous to allocate a 4.5% salary increase for Parliamentarians, yet 0% increase for the SRD Grant which have been R350 since 2020. It called on Parliament to reverse what it called the callous budgetary cuts to progressive programmes.

COSATU further welcomed the R4 billion fuel tax relief for commuters. It called on government to table the RAF and RABS Bills in Parliament to fix the RAF and reduce fuel tax hikes. Whilst welcoming support for renewable energy investments, COSATU said that government's RDP homes' solar panel programme needs to be revived. COSATU said it was pleased with progress made in legislation enabling struggling workers limited early access to their pensions. It said that this legislation must come into effect by 1 March 2024.

COSATU welcomed the additional 15 000 SAPS members. It said that more is needed to reinforce the SAPS, NPA, SARS and courts to win the war on crime and corruption, including SARS conducting lifestyle audits of the wealthy and tackling tax evasion. Increased allocations to fund infrastructure investments, especially transport, water, NSFAS and SARS were also welcomed. It however expressed dismay at the below inflation increases for basic education, home affairs, police and the judiciary.

COSATU welcomed further the R254 billion Eskom debt relief. It called on Eskom to ramp up maintenance, investing in new generation capacity and ending the loadshedding. It said that Eskom needs more support to close fiscal leakages and tackle criminality. Whilst appreciating the additional funds for Transnet and PRASA, these need to be accompanied by law enforcement support to tackle cable theft and vandalism. COSATU said it was aggrieved by an absence of clear turn around plans to rebuild DENEL, the Post Office and municipalities struggling to provide basic services and with 20 routinely failing to pay their own employees. It said that the pending retrenchments of 4000 postal employees and slashing the remaining 9000 staff's wages by 40% must be stopped.

#### 6.6.South African Institute of Chartered Accountants

SAICA submitted that the culture within the government is the single biggest impediment to economic and fiscal policy implementation in the country. It urged Parliament to make the final

determination on the Budget, not NT. SAICA noted various discrepancies in the “completeness” of the Budget and as such asked Parliament if it is confident it has created a culture of oversight and complied with its duty in section 214(2) if Parliament has never amended the Budget notwithstanding all the material concerns and challenges raised by civil society.

SAICA commended NT for having a good record for transparency of financial information but needs to improve in certain areas such as capital expenditure funding. It noted that the quality of information is wholly dependent on the standards applied to compile it and its usefulness impact by its timeline. In that regard, SAICA questioned whether Parliament is satisfied with the quality of information it was receiving to perform oversight, especially with the different reporting methods of Cash Accounting Standard used by Parliament versus the Generally Recognised Accounting Practice (GRAP).

SAICA submitted that “water-shedding” will be far more devastating and far-reaching than load-shedding and expressed concern that Parliament has been silent on this matter. SAICA further questioned whether the Minister of Finance is meeting his Constitutional mandate to avert the looming disaster by using the budget allocations and Treasury controls and whether Parliament knows the real funding requirement for renewal, maintenance and expansion at all three spheres of government, for effective oversight.

SAICA noted that greylisting has happened and NT tried to avoid it through legislative measures. SAICA suggested that NT should amend and reconsider the timing of the interventions and effective dates to ensure proper and fair implementation. SAICA asked whether Parliament has sufficient monitoring processes and whether the relevant state agencies and civil society can effectively implement the legislative changes by 1 April 2023.

## 6.7. South African Institute of Tax

SAIT welcomed the 2023 Budget and applauded NT for its continued efforts. SAIT raised concern that the South African government is all too good at raising and allocating money but lacked in monitoring efficient spending. SAIT submitted that too much focus is being placed on expenditure at the national level, however, to turn the economic situation around, other government departments need to be held accountable for ensuring effective expenditure.

SAIT submitted that the tax base should be expanded within reasonable limits because South African taxpayers are already at the “fiscal cliff”. SAICA argued that a wealth tax may not be the answer because if the government continues to tax the rich, the rich will leave the country and the middle-class taxpayers will end up bearing the brunt of such a wealth tax.

SAIT cautioned that while international tax continues to place a significant emphasis on attacking cross-border activity, South Africa needs to be aware that anti-avoidance measures often result in double taxation which makes it hard for multi-national entities to compete and do business in South Africa. The excessive imposition of anti-avoidance measures will drive businesses offshore, SAIT argued.

SAIT noted that tax administration in South Africa has become more effective, attributed to SARS’ improved performance, however, the tax administration system is still not balanced. SAIT submitted that government needs to develop a simple method to resolve common errors made in good faith because minor errors should not attract penalties.

SAIT welcomed the introduction of energy incentives but cautioned that the timing within which big businesses should use the incentive was impractical given the size of projects in those industries. While batteries and inverters are not incentivised, SAIT proposed that the rooftop solar energy tax incentive should be zero-rated for VAT purposes. SAIT further recommended that the government needs to consider operating on a cash basis for income tax

and VAT and that small businesses should not be taxed on an accrual basis as they largely operate on a cash basis.

#### 6.8. PriceWaterhouseCoopers

PwC commended NT for a strong effort in reducing the impact of the public sector wage bill on overall expenditure, as the share of compensation of employees to total consolidated expenditure has decreased from 34.5 per cent in 2019/20 to 31.6 per cent in 2022/23. PwC cautioned that the realisation of significant risks will impact the fiscal outlook and implications for the credibility of the future budget.

PwC noted the upward payments to SACU to R79 billion in 2023/24 and R86 billion in 2024/25 and raised a concern that the SACU revenue sharing formula is weighted heavily against South Africa, in favour of the other member countries, particularly, the sharing of customs duties. PwC highlighted that no progress has been made to date to renegotiate the revenue-sharing formula.

PwC said that it welcomed and fully supported government's continued policy commitment to avoid tax rate increases while the economy is recovering from recent shocks, the fuel levies relief, and the allocation of additional funding to SARS to further strengthen efficient revenue collection.

PwC observed that the fiscal drag relief provided to individuals uses a 4.9 per cent forward-looking inflation rate which will likely result in fairly significant fiscal drag in 2023/24. It added that the 10 per cent adjustments to the retirement lump sum tax tables and transfer duties also do not provide full fiscal drag relief, resulting in an effective tax increase. PwC submitted that not all the monetary amounts, thresholds and tax tables were adjusted for the effects of inflation and these should be explicitly addressed in the budget on an annual basis.

PwC said that it supports the introduction of rooftop solar incentive but is concerned that only the solar panels qualify for the rebate. It said that the exclusion of other components and the maximum rebate of R15 000 is inadequate. It said that limiting the incentive to solar panels only creates a potential for abuse which might increase the administrative burden on SARS. PwC suggested that to increase its effectiveness, consideration should be given to complementing the tax incentive with other instruments directed at the same objective, such as the introduction of regulations requiring new residential developments to have solar systems installed and phasing out electric geysers.

PwC requested clarification on the diesel refunds on various terms to avoid disputes in the future. It also noted that relief is limited to only the RAF levy and not the general fuel levy and no reason was provided for this policy decision.

#### 6.9. Dr Sean Muller of the Johannesburg Institute for Advanced Study

On the political economy of Eskom debt restructuring, Dr Muller submitted that the fundamental issue is about shifting the costs of the just transition onto the less wealthy and less powerful, globally and locally. He explained that the Conference of the Parties (COP26) deal intended to manipulate the South African transition to favour such interests through conditional loans. That, according to Dr Muller stalled so that Eskom debt relief could be used for the same agenda, which is an overly rapid, overly decentralised, globally and locally unjust transition. He said that changing the Minister and the Deputy Director General (DDG) of Assets and Liabilities appears to have facilitated this and highlighted that the powers given to the Minister violate the principles of accountability and legislative oversight, and are outside Finance and Treasury mandates.

Dr Muller further submitted that the power utility 'death spiral' is caused primarily by the 'grid defection' of customers that are better able to pay. The renewable energy tax incentives,

therefore, fuels the death spiral. Dr Muller questioned whether the cost is worth the benefit but the problem is that for many years the cost has simply not been acknowledged by NT or many others. While NT does not appear to have provided any detailed justification for these incentives or means by which to evaluate them, Dr Muller submitted that legislative oversight ought to require both. He further submitted that these incentives have the potential to channel R9 billion to wealthier individuals and better-resourced businesses for little public benefit, thereby increasing inequality and further hastening Eskom's death spiral.

On the ETI, Dr Muller submitted that the amount of tax revenue foregone is likely to exceed R40 billion and there is no credible evidence that the ETI has led to new job creation. This, according to Dr Muller, means that it inflated company profits rather than benefitting the poor and unemployed and that continuation and expansion of the incentive discredit claims about 'evidence-based policy' and a 'developmental state'. He argued that this reflected poorly on the Presidency, NT, the media, and Parliament. Dr Muller said that the FFC's endorsement in the 2022/23 submission was based on overlooking all critical scholarship, which raises serious questions about competence, credibility and impartiality.

On developments in civil society, Dr Muller submitted that the composition and democratic mandate of supposed Civil Society Organisations (CSOs) has come up in the past in these and other committees. Members of Parliament are cautioned that a very good CSO, the Women and Democracy Initiative (WDI), doing public finance and legislature-related work had to close down due to lack of funding. However, some CSOs like IEJ with less experience, and less objective credibility are overflowing with donor money for very similar and 'feminist' work. Therefore, important lessons need to be learned and caution in the credence should be given to individuals and organisations based on their self-promotion.

Regarding the SRD grant, Dr Muller said that there is a lot of scholarship, evidence and credible argument to support the expansion of the social security net through a BIG-like mechanism.



Given that the current Covid relief grant provides an obvious basis and opportunity, a suggestion was made to scrap rent-seeking schemes like ETI to fund it. Also, the intention to end the grant weeks before the 2024 election appears designed to negatively affect the party taking that decision and it speaks to the particular complexities of South Africa that a majority party Minister and NT he oversees would do this. He said that this raises serious concerns about indirect electoral manipulation.

#### 6.10. South African Sugar Association

SASA welcomed the decision by NT to keep the HPL unchanged for the following two fiscal years as this decision allows the sugar industry to recover from its losses and actively participate in the South African Sugarcane Value Chain Master Plan to 2030. It also allows the industry to focus on its diversification plans to move from a sugar-only industry to a sugarcane-based industry, SASA said.

SASA highlighted that the sugar cane industry is the backbone of many of the rural economies of KwaZulu-Natal (KZN) and Mpumalanga. Amongst other things, at least one million livelihoods are dependent on the sugarcane growing and milling activities of the industry, the industry is among the most transformed commodities in the agricultural sector, with 21 per cent of sugarcane growing areas being transferred to black ownership, and in 2019, the industry put in place the R1 billion five-year transformation plan, which focuses on interventions aimed at remedying inequalities affecting the small-scale black sugarcane farmers as well as other capacity building grants for emerging black sugarcane farming organisations, increased funding for skills upliftment of black stakeholders, and enterprise development projects for black youth and women.

SASA said that the industry's diversification efforts hold great potential as they would take the sector a long way in reducing the negative impact of HPL into a new era of sustainable development.

#### 6.11. Healthy Living Alliance

HEALA submitted that inflation adjustments to the HPL are urgently needed. It stated that in the February 2022 budget speech, the Minister of Finance announced that there would be an inflationary increase to the HPL that would take effect on 1 April 2022. The planned increase from 2.21 cents/gram of sugar to 2.31 cents/gram of sugar was estimated to be a 4.5% increase. However, this tax increase did not happen and Treasury reported that this would be postponed to April 2023 to allow for further consultation. HEALA expressed disappointment that the increase has been further postponed as the Minister of Finance announced in February 2023 that the HPL will not be increased for the next two financial years.

HEALA submitted further that the HPL should be expanded to include fruit juices and non-sugar sweeteners. It pointed out that the HPL currently excludes 100% fruit juices and falsely creates the impression that juices are healthier. It stated that the sugar content of 100% fruit juice and SSBs is similar, and in some cases, 100% fruit juice products contain more sugar than other SSBs. It explained that studies have shown that consumption of fruit juice among children can increase the BMI percentile and high consumption of fruit juice can increase risk of diabetes prevalence.

HEALA said that the R2986 (2023) draft regulations on food labelling contain information on artificial sweeteners and state that products containing ingredients from list in Section 35(1) of the document will be labelled. It pointed out that currently, beverages containing non-nutritive

sweeteners (NNS) are not taxed in the HPL. It recommended that these beverages also be taxed to reduce consumption of these products.

HEALA urged that the decision not to increase the HPL in 2023/24 be considered as itsides with the sugar industry. I called on NT to commit to public consultation process time frame for expanding the HPL to include fruit juices & non sugar sweetener beverages. It submitted that that the public consultation process be finalised before the midterm budget in October. HEALA further noted that the expansion of the HPL has been announced and promised multiple times. It submitted that by Mid-Term Budget Speech 2023, there needs to be a public consultation on expansion of the HPL, with the document circulated and the process concluded. HEALA further called on NT to better incentivize access to healthy food and discourage consumption of unhealthy foods. It said that regulation R2986 (2023) shows a Nutrient Profile Model that should be adopted and called for better coordination between Finance and Health in ensuring strong food regulation.

#### 6.12. Amandla.mobi

Amandla.mobi submitted that social grants are the main means of survival for millions of households in South Africa and recommend that all social grants should be increased by R500 in the 2023 Budget, as the low economic growth, rising inflation and lack of income opportunities have left millions in poverty. Furthermore, the government should allocate funds for the implementation of the BIG by April 2024.

Amandla.mobi highlighted that the R350 SRD grant budget was decreased from R44 Billion to R35.7 billion, meaning even fewer people will get the grant; and that over 716 000 graduates have applied for this grant. Concerns were raised that the tabled budgets have continuously provided more relief for rich people and big businesses.

Amandla.mobi recommended that given the high costs of living, the government should implement an annual wealth tax to raise grants, stop budget cuts, increase PIT for individuals earning over R1 million annually, ensure that the rich people declare their wealth, and prioritise additional measures to address tax evasion and illicit financial flows by individuals and companies.

Amandla.mobi further called for: pro-poor interventions such as dramatically reducing the medical aid rebate and eliminating retirement fund contributions rebates for individuals earning over R1 million a year, review of tax incentives such as the ETI, committing to no increase in VAT other than luxury goods, and ensuring that there is no increase in the PIT for individuals earning below the R1 million threshold per year. Beyond the proposed tax commitments, Amandla.mobi called for the reallocation of public expenditure and the reduction of government irregular expenditure.

#### 6.13. The Widows Voice of South Africa

The Widows Voice outlined the steps taken towards voicing their pains and ill-treatment at the hands of the SARS from 2015 to date. The Widows did not only meet with the SARS NT but have also written to the Human Rights Commission (HRC) and met several Cabinet Ministers, Speakers of Parliament, the Committees and various senior government officials.

The Widows Voice submitted that the monthly stipend that they received from the GEPF as surviving spouse's beneficiaries called a "spousal pension" is below the tax threshold but it is then added to their salaries incurring high tax bracket increases. As a result, they end up owing SARS thousands of Rands which they are unable to repay.

The Widows Voice's list of recommendations includes that: the spousal pension should be treated as a grant; the tax law should be amended in favour of the widows; SARS must not treat spousal pension as a second income; provision of amnesty to the debts owed; refrain from

docking salaries, investments and property repossessions; write-off debt with no option of a compromise; and place a moratorium while amending the tax law.

#### 6.14. UCT Mr Benjamin Cronin

Mr Cronin submitted that (1) the fiscal framework constitutes neither primary nor secondary legislation and is not binding upon Parliament were it to seek to amend an appropriation, division of revenue or other forms of money Bill, it is a non-binding report that Parliament is only required to acknowledge when amending a money Bill, (2) it is imperative that Parliament, in the wording of its resolution regarding the fiscal framework, avoid the risk of any misinterpretation of the status of the fiscal framework, and (3) Parliament should indicate in its resolution that the fiscal framework is not binding and cannot be interpreted to fetter the open discretion afforded to Parliament to amend the money Bills presented to it.

Mr Cronin recommended that it would be prudent for Parliament, when adopting the fiscal framework, to record in its resolution that the fiscal framework is not binding on Parliament; the resolution is not envisaged to grant the fiscal framework the status of law; and Parliament is committed to meeting all of its Constitutional obligations when considering amendments to money Bills.

#### 6.15. Baker Kharva Chartered Accountants

BKCA submitted that the R130 billion should have been reprioritised within the existing budget, and there was no need to incur further interest-bearing borrowings from other banks and financial institutions. BKSA noted that there is rampant corruption and looting of state coffers which stems from the tender system. They recommend that stringent austerity measures should be implemented with the cutting out of all the unnecessary fringe benefits for government employees and that prudent management and monitoring of government expenditure could lead to more savings.

BKSA submitted that the risks to inflation are now benign due to sharp decreases in international oil and fuel prices. BKSA argued that if the President and the SARB care about the poor then interest rates should be cut and government should not bow to the demands of commercial banks. BKCA proposed a maximum cap of 12 per cent per annum on all types of interest rates to alleviate the plight of all hard-pressed people. It said it sees this as an alternative to interest-bearing borrowing from the IMF and other financial institutions.

## **7. NATIONAL TREASURY RESPONSES ON ISSUES RAISED BY STAKEHOLDERS**

NT's responses were categorised into the economic strategy underpinning the fiscal framework, the fiscal stance of the 2023 Budget, tax policy, fiscal policy, Eskom debt relief, and other matters.

On economic strategy, NT explained that South Africa needs much higher economic growth to address unemployment and poverty and that this requires a continued commitment to a macroeconomic framework that encourages investment, accelerated progress on reforms, and improved state capability. NT said that the focus is currently on the binding constraints of electricity and logistics, which are critical to support economic activity and ensuring the better provision of services to the public. In addition, there is a suite of interventions both within Operation Vulindlela and broader government through the ERRP. NT emphasised that government policy and actions create an enabling environment for growth, as such higher long-run growth requires improved state capability. In this regard, NT explained that the government increased the public sector infrastructure budget to R903 billion over the medium term and allocated R711 billion to fight corruption and financial crimes.

On the fiscal stance, NT explained that the 2023 Budget supports the ERRP, with targeted expenditure injections, proposes no spending cuts, does not raise taxes, protects the social

wage, and controls the growth in debt and debt-service costs. NT said that the Budget does not support the damaging practice of incrementalism, and departs from straight-line, CPI-based growth of spending items. NT further proposed that the budget process should place greater emphasis on performance, waste, efficiency and strategic trade-offs. Amongst other support measures, there is additional spending of R227 billion proposed for extending the Covid-19 SRD grant until 31 March 2024 and investment in local and provincial government infrastructure was increased.

About the budget deficit, NT clarified that the deficit is not expected to improve to zero and will remain supportive of the economy. Furthermore, fiscal policy does not target a specific level for the primary surplus.

NT responded to key submissions made by the stakeholders concerning the tax-to-GDP ratio, increased taxation of the upper incomes, HPL, renewable energy tax incentive, diesel refunds, ETI, and widows benefit taxes.

In response to a comment suggesting that the tax-to-GDP ratio is not aligning with the Organisation for Economic Cooperation and Development (OECD) methodology and there is a lack of clarity on the target of the 25 per cent of the tax-to-GDP ratio, NT explained that there were multiple potential methodologies for tax-to-GDP and clarified that the Minister of Finance has not mentioned a particular target. However, this and previous budgets have highlighted research showing that tax increases are detrimental to growth, especially during economic downturns. While the ratio is expected to increase marginally over the medium term, aided by improvements in tax administration, the rise is limited by the tax relief measures implemented.

On the HPL, NT noted that for almost five years, there have been no increases to the HPL despite the evidence demonstrating that the HPL has been successful in reducing sugary drink purchasing, incentivizing reformulation; and that it has had a progressive impact on low-

income South Africans. It explained that the Minister's announcement regarding the postponement of the increase in the HPL recognises the structural reforms needed for the sector and the challenges the industry has recently faced, especially due to floods and the impact of public violence almost two years ago.

On comments regarding renewable energy tax incentives, NT emphasised that the focus was on solar panels as they will assist in maximising additional generation with limited government funds. It explained that while an inverter is required to use solar panels, inverters and batteries can be operated without solar panels, in which case they offer no additional generation to the system and would do little to reduce load-shedding. NT said that the cap of R15 000, limited to two years, was included due to both the limited fiscal space available and the desire to avoid undermining the progressive nature of the PIT system. Zero-rating of solar panels could not be applied as the government has no control over the prices faced by consumers after a product is zero-rated, and research on some instances of zero-rating has shown that prices did not adjust after zero-rating.

On the ETI and comments about the lack of credible evidence for its continuation, NT explained that two reviews through the National Economic Development and Labour Council (NEDLAC) (2016 and 2018) and independent research found that the incentive was partly successful. It explained that these findings were shared with the Committees, who agreed with NEDLAC partners that the incentive is extended from 2019 to 2029. NT however conceded that further research done on the ETI has been mixed, with some studies showing a positive benefit while others showing no impact.

NT explained that the diesel refunds were only extended to manufacturers and not retailers of foodstuff because the diesel refund system is administratively onerous, both for claimants and for SARS. It explained that the current refund is available for mining and agriculture and the approach was to extend the refund to the next point on the value chain, which is the



manufacturers, to help ease food prices. It would not have been possible to extend it along the entire value chain to every retailer in the country.

In response to the Widows Voice, NT explained that survivor benefits receive a full income tax deduction on contribution, with no tax on growth, and are then taxed on withdrawal. It further explained that all income an individual receives is included in gross income, with specific exclusions or thresholds to arrive at taxable income. NT and SARS explained that this ensures that people of similar circumstances are taxed the same. NT clarified that widows with survivor benefits are not the only taxpayers who have multiple sources of income; and that people with two jobs, people with more than one pension fund or people who are semi-retired are taxed similarly. To give retirees a way to make sure that the correct amount is withheld from the pension payment right from the start, the tax law was changed so that SARS can indicate the correct rate to the retirement fund. This spreads the payment over the year and avoids the build-up of tax debt.

On fiscal policy, NT covered several themes in its responses. These included the relationship between spending, debt and economic growth, the dangers of incremental budgeting, the SRD grants, and the public sector wage bill. NT asserted that historically there is a poor relationship between spending, debt and economic growth, highlighting that more spending does not necessarily lead to economic growth, but has historically led to unsustainable debt.

Regarding incremental budgeting, NT argued that it was a misguided assumption that spending items, including the wage bill, should simply grow by inflation. It explained other considerations when budgeting included the inability to spend where the government departments underspent their 2021/22 appropriations by R17.9 billion, value-for-money, poor outcomes, addressing waste and inefficiency, corruption and maladministration, political dysfunction causing crises and poor use of resources in municipalities, obsolete, non-performing or duplicative programmes embedded within departmental budgets, and strategic

trade-offs and prioritisation. NT recommended that public hearings on the budget should emphasize the same, rather than indiscriminate incremental, increases across the board.

NT further explained that while spending reviews were integrated into the budget process, these were not intended to result in budget cuts for departments that have identified savings. It noted however that some departments are not implementing the recommendations of the spending reviews for various reasons including an unwillingness to implement changes, weaknesses in management capacity, the difficulty in retrenching staff in government and changing legislation and, political interference.

NT explained that underspending was a cause for concern based on the preliminary indications that around R40 billion for 2022/23 budgets compared to the main budget allocations will be underspent. It said that the inability of departments to spend is caused by several reasons such as procurement difficulties, especially with infrastructure projects, non-compliance with legislation, unprocessed and/or disputed invoices, litigations, delays in finalising claims, and delays in filling in posts.

NT explained that the SRD grant was introduced as a result of the 2020/21 lockdowns and consequent inability to work and earn an income, but this is no longer the case. NT explained that the 2023 Budget makes big investments in infrastructure to help create jobs that young people need. NT refuted that it cannot be the policy of the government that economic hardship will be solved through higher grants rather than job creation. It argued that a strategic focus that is predicated mainly on grants is very difficult.

NT reported that an amount of R45.6 billion is allocated for the compensation of employees over the next three years to provide for the carry-through costs of the 2022/23 public-service wage increase. This includes the 3 per cent increase announced in 2022/23, a 1.5 per cent pay progression in the following financial years, and various other benefits included in budget baselines. NT explained further that the 2023 Budget also provides additional funding for

safety and security, education and health. NT reiterated that the budget does not pre-empt the outcomes of wage negotiations that have just commenced. Nevertheless, it said, this and future wage negotiations must strike a balance between fair pay, fiscal sustainability, and the need for additional staff in frontline services. NT explained further that perks, salaries and exorbitant remuneration, or public entity executive and managers' salaries need to be reduced, as well as some staffing establishments. New proposals are being developed and will require a cabinet decision.

NT further explained that South Africa's public-sector wage bill is higher than peer countries and is one of the highest among emerging markets. It stated that South Africa's public-sector wage bill is about 5 percentage points greater than the OECD average as a share of GDP. At the same time, NT said, public-sector employment as a percentage of total employment is significantly less than in countries such as Norway and Denmark.

NT responded that the Eskom debt relief arrangement will take the form of loan advances and that the Eskom Debt Relief Bill will give effect to the transaction. NT clarified that the loan will remain repayable to the government until strict conditions are met; only upon compliance with these conditions will Eskom be allowed to settle the loan to the government in the form of shares, otherwise in the form of cash with interest; the loan will not fund operational expenditure, nor will it fund the acquisition of assets, but capital and interest payments related to Eskom's financing activities; and the nature of the transaction is different from previous appropriations, which were not limited to financing, but was used by Eskom to pay interest on debt and finance operations. NT explained further that the debt relief arrangement does not improve the fiscal outlook, instead, it increases the government's gross borrowing requirement. NT said it is untrue that the accounting treatment of the relief improves the fiscal outlook, instead, the debt outlook, the gross borrowing requirements and debt-service costs are all higher than at the time of the 2022 MTBPS. NT also disputed that the primary surplus is dependent

on Eskom debt relief, stating that even if the previous Eskom bailout of R66 billion is added back to non-interest expenditure, there would still be a primary surplus of R44.1 billion in 2023/24, R71 billion in 2024/25 and R115.3 billion in 2025/26, and finance bills for debt relief have been tabled and passed by Parliament before.

NT clarified that SANRAL is not being loaned monies from the fiscus, but rather a revenue replacement, while Eskom is receiving a loan, which must be repaid if conditions are not met. NT explained that the approach to SOE bailouts has changed in recent years, as pre-conditionality is now included to ensure that conditions are met before any disbursement of funds is authorised. It said that a new framework for managing bailouts to SOEs is being finalised to reduce fiscal risks and promote long-overdue reforms and the preliminary framework will be published in March 2023 for consultation and will thereafter be submitted for Cabinet approval.

Regarding investing in SOE debt, NT explained that the Public Investment Corporation (PIC)/GEPF are already heavily invested in government and Eskom debt and the GEPF Board has to use its discretion within the investment policy to decide on this after weighing risks and possible returns to additional investments. It said that GEPF invests on behalf of fund members to meet retirement obligations and that the Minister of Finance is not legally empowered to participate in any investment evaluation process that determines the merits or demerits of any transaction. Moreover, the PIC is under the direct stewardship of the Minister of Finance as an executive authority and does not participate in any processes that involve the PIC's operations and investment activities. The PIC Board is responsible for its operations and investment activities, NT clarified.

On the greylisting of South Africa by FATF, NT explained that a multi-disciplinary effort under the leadership of the NT is heavily focused on addressing the greylisting. It said that maintaining the integrity of South Africa's financial system is critical to long-term growth and

that some of the initiatives being undertaken included reducing the risk and incidence of financial crime and corruption. NT explained that over the 2023 MTEF period, functions critical to the anti-money laundering regime, particularly in the law enforcement agencies and the Financial Intelligence Centre (FIC), will receive additional resources to carry out this work.

NT explained that the SACU revenue-sharing formula is published publicly in the 2002 SACU agreement (Part 7, Article 34). While technical, the formula is transparent to the public and can be explained if needed. It said that the formula for CMA seigniorage payments is published publicly in the Multilateral Monetary Agreement (MMA). Article 8 of MMA explicitly outlines how the payments are determined and the components of that formula.

On the proposal for Ministers and government officials to purchase locally manufactured vehicles, NT explained that it will refer this issue to the Department of Trade Industry and Competition (DTIC) and the Presidency.

On the issues raised around public participation, NT explained that South Africa remains among the top two countries with the most transparent budget processes in the world. It stated that the global transparency average is 45 out of 100, while South Africa scores the second best with 86 out of 100, a score which reflects South Africa's commitment to transparency.

## **COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS**

The Committee notes that the 2023 Budget strikes a reasonable balance between growing the economy, ensuring fiscal sustainability, maintaining expenditure over the medium term and providing tax relief to households and the economy.

## **Economic Outlook**

- 8.1.1 The Committee notes the upward revision of the GDP growth rate in 2022 to 2.5 per cent and the expected average growth rate of 1.4 per cent over the medium term, slightly lower than the 1.6 per cent average projected in the 2022 MTBPS. The Committee further notes that NT's medium term growth forecasts might still be optimistic given the current economic crises and that failure to realise these forecasts will affect the credibility of the fiscal framework. The Committee further notes that NT's forecasts have often been wrong in recent years. Moreover, there are significant differences between the NT forecasts and those of the SARB.
- 8.1.2 The Committee remains concerned that the economic growth rate is not sufficient to create much-needed jobs in the economy and that economic recovery is dependent on the timely and successful implementation of economic reforms. The Committee recommends that NT should report on progress made in implementing structural reforms, including the Master Plans of the Economic Reconstruction and Recovery Plan every quarter.
- 8.1.3 The Committee welcomes a slight improvement in the rate of unemployment from a peak of 34.9 per cent in the third quarter of 2021 to 32.7 per cent in the fourth quarter of 2022. How sustainable it is, is far from clear. The Committee remains concerned that almost 60 per cent of the 7.7 million people unemployed are youth and that despite the government's efforts to support job creation, the rate of unemployment remains high. This is evidenced by the expanded definition of unemployment which stands at 42.2%.
- 8.1.4 The Committee, moreover, observes that it will remain difficult for the labour market to absorb new entrants with the moderate projected average economic growth rate of 1.4 per cent over the next three years. The Committee recommends that NT should

regularly provide progress made on the targeted government employment creation initiatives, including the ETI and assess whether these programmes are effective in reducing unemployment.

- 8.1.5 The Committee notes that although at 6.9 per cent in 2022, the Headline CPI breached the set target range of 3-6 per cent, the SARB expects it to revert to the band over the medium term. The Committee further notes that a cumulative 375 basis points increase in interest rate from November 2021 to January 2023 does not bode well for economic growth.
- 8.1.6 At its next quarterly briefing, the Committee requires NT to provide a report on the results of the ETI and respond to suggestions that its claims of the degree of success are exaggerated.

## **8.2 Revenue estimates, tax incentives and tax proposals**

- 8.2.1 The Committee notes that despite intensified load-shedding and weaker global economic conditions, most major tax bases grew positively and as a result, the gross tax revenue estimate for 2022/23 is projected to be R93.7 billion higher than projected in the 2022 Budget and consolidated revenue is expected to reach R2.23 trillion in 2025/26.
- 8.2.2 The Committee notes the proposed R13 billion tax relief to support households and the economy. It further supports no increases to the general fuel levy in the 2023 Budget.
- 8.2.3 The Committee commends the progress made by SARS in the past few years, and welcomes the additional allocation of R4.5 billion to SARS to strengthen tax administration and combat illicit economy. The Committee recommends that SARS

should continue to intensify revenue enhancement initiatives to collect maximum revenue due to the government to enable it to deliver on its constitutional obligations.

8.2.4 The Committee notes conflicting views on the tax relief on solar panels proposed in the 2023 Budget. While the proposed relief might benefit businesses and better-off citizens, the majority of South African households and low-income informal businesses will not be eligible to benefit due to high levels of poverty, inequality and unemployment. Noting that indigent households get 55kw of electricity for free; and that SMMEs can claim through the 12B incentive, the Committee recommends that NT rigorously consults the public on this matter before tabling the 2023 Taxation Laws Amendment Bill (TLAB) before Parliament.

8.2.5 The Committee notes that while the tax relief is welcome and the fuel levy will not be increased this year, calls are being made to scrap it completely and consider a zero-rated VAT basket of goods consumed by poor households. The Committee further notes concerns raised about the ripple effect that the fuel levy has on the cost of living, the economy, businesses and households. The committee recommends that NT engages with the Standing Committee on Finance every six months

8.2.6 The Committee notes HEALA's concern and disappointment with the Minister's decision to postpone an increase in the HPL to a date later than April 2024, to allow the sugar industry to recover. The Committee has consistently supported HEALA's aims and many of its proposals; but believes that NT is balancing trade-offs, referred to in many reports of this Committee, under very difficult and unique economic conditions and accepts NT's decisions on this. The Committee recommends that as soon as conditions improve NT consider increasing the HPL, after taking into account all the relevant factors, including the decision not to increase the HPL this year. The



committee, taking into account the impact of the tax on the lives of some South Africans, welcomes NT's flexibility and its balanced approach.

### **8.3 Expenditure issues**

- 8.3.1 The Committee notes that consolidated expenditure as a percentage of GDP is expected to reach R2.48 trillion in 2025/26, now amounting to R7.08 trillion over the next three years, compared to R6.62 trillion projected during the 2022 Budget; and that the social wage will take up almost 60 per cent of total non-interest spending over this period.
- 8.3.2 The Committee notes COSATU's concerns that salary increases below the inflation rate might create unintended consequences of a brain drain in some sectors of the public service; and NT's response that wage negotiations must strike a balance between fair pay, fiscal sustainability, and the need for additional staff in frontline services. While the wage bill has an impact on the fiscal framework, this matter falls within the purview of the Appropriations Committees for further consideration. It also has relevance to the Public Service and Administration issue.
- 8.3.3 The Committee notes the concerns raised by the stakeholders (Amandla.mobi, Dr Muller and Budget Justice Coalition) that the SRD grant, while welcome and appreciated, has not been adjusted for inflation since its introduction, three years ago. While the Committee recognises the severe budgetary constraints; and notes the Minister of Finance's recommendation that comprehensive social security should rather be discussed, the Committee reiterates its previous position that NT and government should seriously consider a BIG after the necessary consultation with the relevant stakeholders. The Committee recommends that the information requested by the stakeholders supporting a BIG be made available to the Committee within 14 days. The Committee notes too that a review of the comprehensive social security has been taking

extremely long and the limited progress on this and recommends that this be finalised expeditiously. The Committee refers this matter to the Appropriations Committee to give further attention. The Committee notes the underspending on the SRD Grant was a big component of the 2nd Adjustment Appropriation Bill and that a review of the qualifying criteria needs to be undertaken.

8.3.4 The Committee notes the stakeholders opposing views on the introduction of the wealth tax. Some commentators (SAICA and FCSG) did not support a proposal to introduce a wealth tax or tax PIT further, arguing that it may not be the answer because if the government continues to tax the rich, the rich will leave the country and the middle-class taxpayers will end up bearing the brunt of such a wealth tax. While Amandla.mobi, BJC and IEJ support it. The Committee further notes Amandla.mobi's request that NT provides the information supporting the decision not to implement the wealth tax and recommends that NT should provide the information that Amandla.mobi requested to the Committee within 14 days.

8.3.5 Given the modest projected GDP growth of 1.4 per cent over the medium term, on average, and the fact that tax increases are constrained by slow economic recovery, the Committee recommends that NT should conduct far more effective oversight over government expenditure and ensure that allocated funds are spent efficiently, effectively and economically.

#### **8.4 Debt, deficit and borrowing issues**

8.4.1 The Committee notes that gross loan debt is now expected to stabilise three years later and at a higher level than projected in the 2022 MTBPS, at R5.8 trillion or 73.6 per cent of GDP in 2025/26 as a direct result of the transfer of Eskom's debt onto the national balance sheet. The debt level as a percentage of GDP remains high and it threatens the

sovereignty of the country and future generations. The Committee recommends that NT reports quarterly on the effectiveness of its debt management strategies that would ensure that the level of debt stabilises over the medium term as expected and that extra-budgetary costs do not increase the debt level further.

- 8.4.2 The Committee notes that the scale of the Eskom debt relief arrangement, R254 billion over the next three years, significantly increases government borrowing over the medium term and affects the fiscal framework. The Committee recommends that NT ensures that Eskom adheres to the debt relief conditions attached and quarterly monitors and reports progress made by the utility in addressing its structural operational challenges. Any additional debt incursion by Eskom should be avoided until such time as a comprehensive and workable restructure plan is approved by Parliament.
- 8.4.3 The Committee remains concerned that, although contingent liabilities are projected to decrease marginally from R1.07 trillion in 2022/23 to R904.1 billion in 2025/26; if these liabilities materialise, the debt-to-GDP ratio will likely not stabilise as expected. The Committee recommends that in light of the immediate risk posed to the fiscal framework, NT's efforts to bail out SOEs should be accompanied by strict conditions and the implementation of consequence management so that money allocated must reflect value for money.
- 8.4.4 The Committee notes that debt service costs will rise from R307.2 billion in 2022/23 to R397.1 billion in 2025/26 and remains concerned that rapidly increasing debt service costs crowd out social expenditure and delivery of services.
- 8.4.5 The Committee notes, with great concern, the significant risks to the fiscal framework, which include higher borrowing costs and contingent liabilities of SOEs. The

committee therefore recommends that a strong focus be placed on the removal of South Africa from the FATF's Grey List.

- 8.4.6 While the Committee recognises the severe constraints on the budget, and the need to ensure public participation, it believes that government should explore various forms of private sector involvement in SOEs without privatisation, particularly of SOEs providing basic services that are set out in the Constitution.

## **8.5 Other budget-related issues**

- 8.5.1 The Committee welcomes the additional allocations to the NPA, SARS and FIC over the medium term to support the implementation of the recommendations of the State Capture Commission and the outcomes of the FATF's evaluation of South Africa's framework for combating money laundering and terrorism financing.
- 8.5.2 The Committee notes that effective from 24 February 2023, FATF officially greylisted South Africa; NT and the relevant stakeholders made progress in reducing the number of recommendations made from 67 to eight; while the risk premium might be affected, the recommendations that still need to be implemented do not include the financial sector; and more work needs to be done by the security cluster. The Committee recommends that NT and the relevant institutions should intensify efforts to remove South Africa from the greylist as soon as possible and report progress made to the Committee quarterly. NT should compile a comprehensive response plan on how they plan to tackle the issues of FATF grey listing and report to the committees.
- 8.5.3 The Committee notes the FCSG's recommendation that for transparency, NT should publish the SACU and CMA calculations in the next Budget Review documents to enable the interested parties to scrutinise the figures. The Committee also notes NT's

clarification that the SACU formulas and calculations are overseen by the SACU Secretariat and that its role is to make medium term projections. The Committee recommends that NT provide the relevant information to the Committee within seven days.

- 8.5.4 The Committee recognises the need for NT to address the legal and other challenges affecting the Public Procurement Bill and recommends that the Public Procurement Bill should be brought to Parliament. The committee notes that the Minister committed to table the bill by March, and expects it by the end of this month.
- 8.5.5 The Committee notes the stakeholder's concern that failure by the government to address the water and sanitation crisis, associated with the inability of the relevant role players to spend on infrastructure will severely impact social and financial stability and ultimately, economic growth and revenue. Parliamentary committees with responsibility for water and sanitation should exercise rigorous oversight on the matter
- 8.5.6 As recommended in the 2022 fiscal framework report and many times before, "The Committee reiterates its position that the Presidency needs to encourage members of the executive and public office bearers to buy cars that are assembled in South Africa and where it concerns government fleet. The committee recognizes that not all models of a particular brand of cars assembled in South Africa are assembled here and that there are other related challenges. However, without being prescriptive, the executive should be encouraged to, as far as possible, buy cars assembled in the country. Public representatives generally and others who serve in public service should also be encouraged to do this. The Committee will raise this with the Portfolio Committee on

Trade, Industry and Competition to also take this matter forward as part of the “buy local” campaign”.

- 8.5.7 One of the Co-Chairpersons of the Committees on Finance wrote to the Presidency and engaged many times with the Parliamentary Counsellor of the Presidency on the above matter but with no progress. The matter was later referred to NT. NT has now referred the matter back to the Presidency. The Committee feels that this matter has, regrettably, been dragging on for 5 years now and has to be finalised. It is not a matter for the Committee to decide who should reply to it. This needs to be decided between the NT and the Presidency. The Committee recommends that NT or the Presidency, as negotiated by the NT, should respond within the next 14 days. Should this not happen, the Committee will decide on how to take the matter forward.
- 8.5.8 The Committee notes NT and SARS’ response to the Widows Voice submission that there is “no double taxation” on spousal pensions; NT had engagements with the Forum in Pretoria, Cape Town and Bisho between 2018 and 2019 and has responded to the concerns raised, after that, Income Tax Act 58 of 1962 was amended to allow SARS to deduct tax throughout the year; a list of Widows affected can be submitted to SARS for direct interactions, payment arrangements and compromises on an individual level; and the GEPF representatives also met with them. The Widows Voice has also met two Ministers of Finance, a former Speaker and the National Council of Provinces (NCOP) Chairperson and has been heard by a range of decision-makers. In view of the specifics relating to this matter, the Committee recommends that SARS arranges for the local tax offices to negotiate with the relevant taxpayer’s challenges, negotiate compromises with them in terms of the relevant regulations and intensify taxpayer education campaigns. The Committee recognises that the individual tax concerns cannot become public but recommends that NT and SARS provide a comprehensive report on their

previous engagements with the Widows Voice and a progress report on this matter from the date of the publication of this report until their next quarterly briefing.

Having considered the 2023 Fiscal Framework and Revenue Proposals, the Standing Committee on Finance recommends that the National Assembly adopts it.

The Democratic Alliance (DA) reserve their position.

Report to be considered.

# **1. REPORT OF THE SELECT COMMITTEE ON FINANCE ON THE 2023 FISCAL FRAMEWORK AND REVENUE PROPOSALS, DATED 07 MARCH 2023**

## **1. INTRODUCTION**

The Minister of Finance, (Minister) Mr Enoch Godongwana tabled the 2023 National Budget before Parliament on 22 February 2023 in terms of Section 27 of the Public Finance Management Act, Act No. 1 of 1999 (PFMA) and Section 7 (1) of the Money Bills Amendment Procedure and Related Matters Act, Act No. 9 of 2009 (Money Bills Act).

The Minister, the Deputy Minister, and senior officials from the National Treasury (NT) briefed the Committees on Finance on 23 and 28 February 2023. The Committees received post-Budget tabling input from the Parliamentary Budget Office (PBO) and the Financial and Fiscal Commission (FFC) on 28 February 2023.

The Committees held public hearings on 01 March 2023 and received 15 written and oral submissions from the Congress of South African Trade Unions (COSATU), Fiscal Cliff Study Group (FCSG), South African Institute of Chartered Accountants (SAICA), the South African Institute of Tax Professionals (SAIT), PriceWaterhouseCoopers (PwC), the Healthy Living Alliance (HEALA), Institute for Economic Justice (IEJ), Amandla.mobi, Dr Sean Muller of the Johannesburg Institute for Advanced Study (JIAS) at the University of Johannesburg, Mr Benjamin Cronin of the University of Cape Town, the Widows Voice of South Africa, Budget Justice Coalition (BJC), Public Economy Project (PEP), South African Sugar Association (SASA), and Baker Kharva Chartered Accountants (BKCA).

NT and South African Revenue Service (SARS) responded to the issues raised during the public hearings and engaged with the Committee and stakeholders on 03 March 2023.

## **2. NATIONAL TREASURY'S OVERVIEW OF THE 2023 BUDGET**

During the Minister's briefing with the Committees on Finance, NT provided an overview of the 2023 Budget. NT expects the South African economy to slow in 2023 and over the medium term, in line with weaker economic activity globally. Real Gross Domestic Product (GDP) growth is now projected to average 1.4 per cent from 2023 to 2025, compared with an average of 1.6 per cent projected in the 2022 Medium Term Budget Policy Statement (MTBPS). Emphasis was made that the risks to the economic outlook remain elevated.



NT presented that, to enhance economic growth, the government continues to provide a stable macroeconomic policy framework, implement various reforms through Operation Vulindlela and the Economic Reconstruction and Recovery Plan (ERRP), implement urgent measures in the energy sector to reduce load-shedding, supports recovery in the transport sector and makes budget provision for infrastructure and prevention of crime and corruption.

NT explained that the government's medium term fiscal strategy aims to achieve fiscal sustainability by narrowing the budget deficit and stabilising debt and supporting economic growth. The strategy also reduces fiscal and economic risks, avoids tax rate increases and protects the social wage.

NT expects to achieve a primary surplus in 2022/23 and the consolidated deficit to narrow at a faster rate than previously estimated. Government debt is now projected to stabilise at 73.6 per cent of GDP in 2025/26, three years later and at a higher level than projected in the 2022 MTBPS estimate, due to the scale of Eskom debt relief arrangement.

NT attributed higher-than-expected revenue to positive growth in most major tax bases despite intensified load-shedding and weaker global economic conditions. As a result, the gross tax revenue estimate for 2022/23 is projected to be R93.7 billion higher than projected in the 2022 Budget, partly supported by improved tax compliance and tax administration. The medium term revenue estimates are also expected to be marginally better than projected previously.

As reported, the 2023 Budget proposes a total tax relief of R13 billion; supports the clean energy transition, increases the electricity supply and cushions the impact of consistently high fuel prices. The 2023 Budget also includes several tax proposals designed to support businesses and individuals given the higher cost of living and to promote private investments in green energy.

In terms of government expenditure, NT reported that the social wage will constitute an average of 60.2 per cent of total non-interest spending over the next three years; while spending across functions supports the implementation of new and existing policy priorities.

Some of the proposed in-year allocations include R1 billion to South African Airways (SAA) to assist the business rescue process, R2.4 billion to the South African Post Office (SAPO) to implement its turnaround plan, and R5 billion towards the Land Bank. Over the medium term, an additional R227 billion will be allocated to address a range of spending pressures. According to NT, an Eskom Debt Relief Bill amounting to R254 billion over the medium term; was tabled to strengthen the utility's balance sheet, enabling it to restructure and undertake the investment and maintenance needed to support the security of electricity supply.

To fight crime and corruption, NT reported that the government allocated additional funds (R711 billion) over the medium term to the National Prosecuting Authority (NPA), Special Investigating Unit (SIU), South African Police Service (SAPS), and the Department of Defence. SARS gets an allocation of R4.5 billion to strengthen tax administration and collection and combat illicit economy.

The major fiscal risks outlined by NT include low or no economic growth, leading to lower tax revenues and simultaneous requests for fiscal support; rising borrowing costs due to inflation and higher interest rates; and unaffordable spending pressures such as the wage bill.

### 3. OVERVIEW OF THE 2023 FISCAL FRAMEWORK AND REVENUE PROPOSALS

#### 3.1. Economic Outlook

The South African economy is expected to decelerate from 4.9 per cent in 2021 to 2.5 per cent in 2022. NT expects the GDP growth to average 1.4 per cent over the next three years, as a result of persistent structural constraints especially power cuts, and a less supportive global environment (2023 Budget Review).

NT predicted GDP growth of 0.9 per cent in 2023, which is three times higher than the South African Reserve Bank's forecast of 0.3 per cent, attributed to extensive load-shedding and other logistical constraints. NT expects the economy to grow by 1.5 per cent in 2024 and 1.8 per cent in 2025, while the South African Reserve Bank (SARB) revised its projections downwards to 0.7 per cent and 1.0 per cent, respectively, assuming ongoing high levels of load-shedding, modest household spending and investment growth.

**Table 1: Macroeconomic performance and projections**

Percentage change	2019	2020	2021	2022	2023	2024	2025
	Actual			Estimate	Forecast		
Household consumption	1.2	-5.9	5.6	2.8	1.0	1.5	1.8
Government consumption	2.1	0.8	0.6	0.3	-2.2	0.4	0.0
Gross fixed-capital formation	-2.1	-14.6	0.2	4.2	1.3	3.8	3.5
Gross domestic expenditure	1.4	-8.0	4.8	3.8	0.9	1.5	1.8
Exports	-3.4	-11.9	10.0	8.8	1.0	2.2	2.9
Imports	0.4	-17.4	9.5	14.0	1.1	2.3	2.9
<b>Real GDP growth</b>	<b>0.3</b>	<b>-6.3</b>	<b>4.9</b>	<b>2.5</b>	<b>0.9</b>	<b>1.5</b>	<b>1.8</b>
CPI Inflation	4.1	3.3	4.5	6.9	5.3	4.9	4.7
Current account balance (%GDP)	-2.6	2.0	3.7	-0.4	-1.8	-2.0	-2.1

Source: National Treasury, South African Reserve Bank, Statistics South Africa

Risks to the economic outlook include weaker global growth; the impact of continued war between Russia and Ukraine and continued electricity supply constraints; low implementation of structural reforms; and deterioration of the fiscal outlook due to unfunded spending pressures.

Table 1 above shows that the inflation rate is expected to revert to the set target range of 3-6 per cent over the medium term. Headline Consumer Price Inflation (CPI) breached the target range in 2022 averaging 6.9 per cent. Headline CPI is largely driven by increases in the prices of food, oil, electricity and other administered prices. The SARB assessed the risks to the inflation outlook to be on the upside and continued to tighten monetary policy, increasing the repurchase rate by a cumulative 375 basis points to 7.25 per cent (from 3.5 per cent), between November 2021 and January 2023.

The 2022 fourth Quarterly Labour Force Survey (QLFS) from Statistics South Africa shows that the number of employed persons increased by 169 000 to 15.9 million. The rate of unemployment measured at 32.7 per cent (7.75 million unemployed people) compared to a peak of 34.9 per cent in the third quarter of 2021.

### 3.2. The 2023 fiscal framework and revenue proposals

Table 2 below shows that the consolidated revenue is expected to increase from R1.89 trillion in 2022/23 to R2.23 trillion in 2025/26. A more broad-based corporate tax recovery; improved tax compliance and tax administration improve the near-term revenue outlook, despite intensifying load-shedding and weaker global economic conditions. Most major tax bases grew positively, as income and profits proved more resilient than anticipated, while there are no tax proposals to raise additional revenue in the revenue estimates.

Over the Medium term Expenditure Framework (MTEF), consolidated government expenditure will total R7.08 trillion. The consolidated expenditure in 2022/23 is now estimated at R2.17 trillion, R2.24 trillion in 2023/24 and almost R2.5 trillion in 2025/26. The government proposes an additional R227 billion to the main budget non-interest spending over the medium term while in-year non-interest expenditure increases by a net R23.4 billion.

The consolidated budget deficit is now projected to narrow from 4.2 per cent of GDP in 2022/23 to 3.2 per cent of GDP in 2025/26. NT expects to achieve a primary budget surplus in 2022/23.

### **Table 2: 2023 Consolidated fiscal framework**

R billion/percentage of GDP	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Outcome			Revised estimate	Medium-term estimates		
Revenue	<b>1 519.6</b>	<b>1 409.2</b>	<b>1 750.6</b>	<b>1 892.7</b>	<b>1 958.9</b>	<b>2 077.8</b>	<b>2 225.3</b>
	26.7%	25.1%	27.8%	28.5%	28.0%	27.9%	28.0%
Expenditure	<b>1 807.1</b>	<b>1 964.4</b>	<b>2 042.9</b>	<b>2 168.8</b>	<b>2 242.6</b>	<b>2 359.7</b>	<b>2 477.4</b>
	31.7%	35.0%	32.5%	32.6%	32.0%	31.7%	31.2%
Budget balance	<b>-287.5</b>	<b>-555.1</b>	<b>-292.3</b>	<b>-276.1</b>	<b>-283.7</b>	<b>-282.0</b>	<b>-252.1</b>
	-5.0%	-9.9%	-4.6%	-4.2%	-4.0%	-3.8%	-3.2%
Gross loan debt	<b>3 261.3</b>	<b>3 935.7</b>	<b>4 277.5</b>	<b>4 727.4</b>	<b>5 060.2</b>	<b>5 423.7</b>	<b>5 843.0</b>
	63.3%	<b>70.7%</b>	68.0%	71.1%	72.2%	72.8%	73.6%
Net loan debt	<b>2 997.7</b>	<b>3 601.8</b>	<b>4 011.1</b>	<b>4 483.0</b>	<b>4 912.8</b>	<b>5 323.5</b>	<b>5 757.0</b>
	58.2%	<b>64.7%</b>	63.8%	67.4%	70.1%	71.4%	72.5%

Source: National Treasury

NT expects gross loan debt to stabilise three years later and at a higher level than projected in the 2022 MTBPS, at 73.6 per cent of GDP in 2025/26, due to the scale of Eskom debt relief arrangement, which increases government borrowing. Debt-service costs will rise from R307.2 billion in 2022/23 to R397.1 billion in 2025/26.

The 2023 Budget proposes R13 billion in tax relief to support households and the economy, support the clean energy transition, increase the electricity supply and cushion the impact of consistently high fuel prices. The main tax proposals for 2022/23 include an adjustment in the Personal Income Tax (PIT) brackets and rebates; an expansion of section 12B renewable energy incentive; not adjusting the general fuel levy and increasing specific excise duties.

Key significant risks to the fiscal framework include weaker-than-projected GDP growth and higher interest rates, worsening global financial conditions, weak financial conditions of several state-owned companies, a public-service wage agreement that exceeds the rate of growth of the compensation budget and additional spending pressures such as new, unfunded social spending programmes or the realisation of contingent liabilities, which would affect the sustainability of the public finances.

#### **4. KEY ISSUES RAISED DURING THE PUBLIC PARTICIPATION PROCESS**

The Committee received input on the 2023 fiscal framework and revenue proposals from civil society organisations, tax institutions, constitutional and statutory institutions and individual members of society. Key comments focused mainly on economic policy, tax policy and tax proposals, revenue and expenditure issues and other budget-related matters.

Specific comments were made on the wage bill, a proposal of increasing social grants, particularly the Social Relief of Distress (SRD) grant, the proposal of a universal Basic Income Grant (BIG), the introduction of the wealth tax, the impact of the Eskom debt relief arrangement, the decision to postpone the implementation of the Health Promotion Levy (HPL) to a later date, the renewable energy tax incentives, Employment Tax Incentive (ETI) and other tax proposals.

#### 4.1. Economic policy

The stakeholder's views included that the current macroeconomic framework is not consistent with the Constitutional obligations of the government to protect and advance human rights; the continued policy of austerity has undermined the levels of public and private investment and failed to grow the economy; and there is notable uncertainty on the policy issues critical for proper fiscal planning.

Concerns were raised that the 2023 Budget is anti-poor because it is based on a macroeconomic framework that has prioritised debt stabilisation at the expense of service provision. While some commentators believe that the government's proposal to reduce its consumption spending over the medium term might assist with fiscal consolidation to stabilise debt, others asserted that debt is unlikely to stabilise over the medium term and aggregate demand growth will be reduced, instead.

Some of the recommendations made include that the Committee should request a macroeconomic framework that targets a reduction in unemployment, poverty, and inequality; NT must publish assessments of the implications of all budget policies and then work to reduce inequality and any negative and regressive budgetary impacts; fiscal consolidation must not be prioritised above all else, and policymaking must align with evidence and the Constitution; and whilst it is important to reduce the debt trajectory, that should not be at the expense of growing the economy and rebuilding the public services society requires.

#### 4.2. Revenue issues

The stakeholders observed a short-term improvement in the fiscal position and improvements in revenue projections over the medium, due to strong collections of the PIT and Corporate Income Tax (CIT), and cautioned that various significant risks such as real economic stagnation

mean continued fiscal weakness over the medium term and that will impact the financial position and outlook and the credibility of the future budget.

Concern was also raised that while NT reports an improvement in the budget deficit, suggesting a stronger fiscal footing, these improvements reflect the exclusion of likely expenditures from the framework; and a change in accounting practice that wrongly excludes Eskom bailouts from spending and the deficit. A suggestion was made that the fiscal space created by revenue overruns should be used to protect essential public services from funding cuts.

#### 4.3. Tax policy, tax incentives and tax proposals

There appeared to be general support for the government's policy commitment in the 2023 Budget to avoid tax rate increases while the economy is recovering from recent shocks; the fuel levy relief; the allocation of additional funding to SARS to further strengthen efficient revenue collection; and that tax policy has been anchored on protecting the tax base and efficiency-based reforms. A proposal was made that the government should table the Road Accident Fund (RAF) and Road Accident Benefit Scheme (RABS) Bills in Parliament.

While most stakeholders supported the introduction of rooftop solar incentives, concerns were raised about the exclusion of other components such as solar batteries and that the maximum rebate of R15 000 is inadequate and will severely limit the impact of this tax incentive. The stakeholders further cautioned that in its current form, the incentive may have minimal effect in encouraging individuals to migrate to renewable energy; creating a potential for abuse, which might increase the administrative burden on SARS; the timing within which big businesses should use the incentive is impractical given the size of projects in those industries; and that the incentive has the potential to channel R9 billion to wealthier individuals and better-resourced businesses for little public benefit, thereby increasing inequality.

Some of the proposals made include that the rooftop solar energy tax incentive should be zero-rated for Value Added Tax (VAT) purposes and that to increase its effectiveness, consideration should be given to complementing the tax incentive with other instruments directed at the same objective, such as the introduction of regulations requiring new residential developments to have solar systems installed and phasing out electric geysers.

On the ETI, one stakeholder presented that the amount of tax revenue foregone is likely to exceed R40 billion and there is no credible evidence that the ETI has led to new job creation. Concern was also raised that the ETI inflated company profits rather than benefitting the poor

and unemployed and that continuation and expansion of the incentive discredit claims about the government's evidence-based policy and developmental state.

The stakeholders expressed opposing views on PIT and wealth tax. While concerns were raised that there is very limited room to tax individuals further as PIT contributes the largest component of total taxes contributing more than 55 per cent, one of the proposals made was that the government should increase PIT for individuals earning over R1 million annually. The government was cautioned that this tax base is mobile and can emigrate. Some commentators did not support a proposal to introduce a wealth tax, arguing that it may not be the answer because if the government continues to tax the rich, the rich will leave the country and the middle-class taxpayers will end up bearing the brunt of such a wealth tax.

A wide range of tax proposals made in the 2023 Budget includes an immediate reversal of the CIT rate to 28 per cent; removing tax breaks from pension and medical aid rebates for higher-income earners, raising tax rates on estate duties and dividend taxes; reversal of tax relief to individuals with an annual income of more than R500 000 per annum; implementation of effective controls to limit capital outflows; expansion of the tax base within reasonable limits because South African taxpayers are already at the fiscal cliff; ensuring that the rich people declare their wealth; prioritising additional measures to address tax evasion and illicit financial flows by individuals and companies; a review of tax incentives such as the ETI; a commitment to not increase VAT other than luxury goods; and ensuring that there is no increase in the PIT for individuals earning below the R1 million threshold per year.

Further opposing views were observed on the decision to postpone the HPL to a date later than April 2023 to allow the sugar industry to recover from the losses, amongst other reasons. The sugar industry welcomed the decision much to the healthy food activists' disappointment. A recommendation was made that NT should reconsider the decision to side with the sugar industry and increase the HPL in 2023/24 as initially promised and commit to the public consultation process time frame for expanding the HPL to include fruit juices and non-sugar sweetener beverages.

#### 4.4. Expenditure issues

Concerns were raised that the South African government is all too good at raising and allocating money, but it is not good at adequately spending money, and that too much focus is being placed on expenditure at the national level while poor and inefficient financial performance of State Owned Entities (SOEs) in particular, also continues to put pressure on public expenditure. It

was recommended that to turn the economic situation around, other government departments need to be held accountable for ensuring effective expenditure.

Comments on the Eskom debt relief are that, while the allocation of R254 billion in cash is welcome and may assist in overcoming Eskom's bankruptcy, based on past experiences, it is doubtful that adopting the same approach, such as special appropriations, even with conditions, to address the structural issues at Eskom would yield a different outcome in 2023. Others argued that the restructuring and turnaround plan may prove challenging to implement, and the increase in fiscal transfers to Eskom could indicate the permanent subsidization of coal-fired electricity supply out of general taxation. Two commentators are against the conditions attached to the debt relief, citing that these conditions will only accelerate privatisation and be a key obstacle for Eskom to address the load-shedding crisis.

Some commentators see the wage bill as a significant contributor to fiscal pressure and recommended that the growth restraint announced in earlier Budgets should be applied in practice because the whole budget rests on maintaining this budget position. NT was commended for a strong effort in reducing the impact of the public sector wage bill on overall expenditure. In contrast, the trade union argues that the wage bill has been stable at 35 per cent of the budget since 2008 and that the cause of the fiscal crises are the billions lost to corruption, wasteful expenditure, and the mismanagement of the state and SOEs. The government was cautioned that denying public servants CPI increases to protect their wages fuels the brain drain of skilled public servants to better-paying jobs.

Several stakeholders advocated for an increase and extension of the SRD grant beyond 2024 and the implementation of a universal BIG. It was said that there is a lot of scholarship, evidence and credible argument to support the expansion of the social security net through a BIG-like mechanism. A suggestion was made to scrap rent-seeking schemes like ETI to fund it. Some commentators see social grants as the main means of survival for millions of households in South Africa.

#### 4.5. Other budget-related issues

The other issues raised by the stakeholders include a timeous adoption of the Public Procurement Bill, considering public comments; an assertion that "water-shedding" will be far more devastating and far-reaching than load-shedding while Parliament appears to be silent on this matter; reconsideration of the timing of the interventions and effective dates to ensure



proper and fair implementation of the Financial Action Task Force (FATF) greylisting requirements.

## **5. SUMMARY OF SUBMISSIONS MADE BY STATUTORY INSTITUTIONS**

### **5.1. Parliamentary Budget Office**

The PBO commented on the economic impact of the 2023 Budget, the fiscal policy framework, government revenue and SOEs.

PBO submits that NT projections of GDP growth over the medium term illustrate how fiscal consolidation hinders GDP growth and that projected government consumption expenditure, which is expected to decline by an average of 0.6 per cent annually over the medium term, will make a negative contribution to the GDP growth predicted. PBO's view is that the forecasts depend on recovery in investment and that NT's investment projections have consistently been too high and again seem unjustifiably high in the 2023 Budget. PBO does not expect private investment levels to improve much over the medium term because the structural reforms proposed by the NT do not fundamentally address the deeper structural challenges that hamper investment and growth in the economy. Also, the extraordinarily high levels of unemployment, poverty and inequality, market concentration, inadequate state capacity to deliver infrastructure projects and the negative impact of continued fiscal consolidation all point toward continued poor investment and economic growth.

On the fiscal policy framework, the PBO notes that the 2023 Budget maintains the government's long-standing fiscal consolidation stance by reducing government consumption spending and pursuing a primary fiscal surplus that the government is unlikely to achieve in the current financial year and over the medium term. According to the PBO, this hurts the real economy, erodes the state's capacity to deliver services and risks higher debt and it means fewer resources for teachers, doctors, nurses and police to serve a growing population.

The PBO commented that the non-adjustment to the fuel levy and the RAF will provide significant relief in the context of high inflation and an exacerbated cost of living crisis. Since rich people spend so much more on consumption relative to poor people, they again benefit more than everyone else. Also, the extension of RAF to food manufacturers and the extension of the general fuel levy relief will ease potential price pressures on households.

The PBO notes that approximately 69 per cent of the proposed tax relief is from renewable energy incentives and the studies have shown that clean energy subsidies disproportionately go

to higher-income and wealthier people. The PBO asked whether the government should be incurring substantial expenditure to persuade consumers who would have chosen to spend on renewable energy anyway. While NT states that the incentive cap for households is due to limited fiscal space, the PBO sees no limit for businesses, which is contradictory.

On SOEs and public finances, PBO notes that the 2023 Budget shows that the contingent liabilities are now expected to decline to R904.1 billion in 2025/26. However, many SOEs remain unable to adequately fund their operations and debt obligations; and are even less able to optimally invest in infrastructure. According to the PBO, poor performance and inefficiencies of SOEs have real economic and quality-of-life implications for households and businesses. PBO further noted that NT has been developing a new framework for managing bailouts to SOEs to reduce fiscal risks and promote long-overdue reforms. The PBO asked whether the term credible should be applied to a fiscal policy framework that may be biased toward achieving a surplus and debt reduction in the short term even if that fiscal framework means that government does not provide enough resources for key SOEs to avoid large-scale economic damage in the short term and long-term viability.

## 5.2. Financial and Fiscal Commission

FFC acknowledges and appreciates the multitudes of internal and external constraints and challenges under which the 2023 Budget was crafted, and submits that certain aspects of the legislation may be inconsistent with the principles of fiscal discipline and credibility.

The FFC notes that the 2023 budget presents improvements in fiscal projections due to strong collections of the PIT and CIT. The FFC submits that various pressures over the medium term will impact the fiscal position; the poor and inefficient financial performance of SOEs continues to put pressure on public expenditure; tax policy has been anchored on protecting the tax base and efficiency-based reforms; and tax incentives to enhance clean energy targeted only solar panels with excluded solar batteries means that individuals can only claim a rebate to the value of 25 per cent, capped at a maximum of R15 000 per individual and these two factors severely limit the impact of this tax incentive and mean that it will only have minimal effect in encouraging individuals to migrate to renewable energy initiatives.

The Commission appreciates the adoption of its recommendation made in the previous budget submissions to lower and maintains policy consistency in the PIT and CIT regimes. This is to allow households and businesses battered by the Covid-19 pandemic, civil unrest, natural

disasters, and load-shedding, as well as the system of tax collection and administration at the SARS, to recover and improve efficiency.

The Commission cautioned that in 2019, the government had made an R23 billion provisional allocation per year to Eskom to service its debts and meet its redemption requirements (2019 Budget Review). In addition, a special appropriation with conditions responsible by the Department of Public Enterprises (DPE) at R59 billion was allocated to assist Eskom with its financial obligations over the medium term. These experiences raise doubts that adopting the same approach, such as special appropriations, even with conditions, to address the structural issues at Eskom would yield a different outcome in 2023.

## **6. SUMMARY OF SUBMISSIONS MADE BY THE STAKEHOLDERS**

### **6.1. Fiscal Cliff Study Group**

The FCSG notes that the 2021 to 2023 Budgets show continued improvement, as the ratio decreased from 91.0 per cent in 2021 to 73.6 per cent in 2023. While the FCSG welcomes this development, it notes that a major reason for the improvement is the revenue windfalls during 2021/22 and 2022/23. According to FCSG, the risk remains that these were once-off events and their projections indicate likely deterioration in the fiscal cliff barometer, following the MTEF budget estimates.

The FCSG submits that civil service remuneration is a significant contributor to fiscal pressure. The 2023 Budget indicates a rise of 3.3 per cent per annum over the medium term, a significant increase over the 1.8 per cent rise budgeted for in 2022. They note that previous cuts of around R60 billion announced during the 2021 Budget, have been re-introduced as expenditures in the 2022 and 2023 Budgets. They therefore; recommend that the growth restraint announced in earlier Budgets should be applied in practice. Their view is that the whole budget rests on maintaining this budget position in respect of civil service remuneration. According to the FCSG, if this position slips, the budget falls apart.

FCSG notes that PIT contributes the largest component of total taxes, making it an important item to analyse as far as fiscal sustainability is concerned. In the 2023/24 tax year, some 761 000 individual taxpayers fell into the top three income tax brackets. These taxpayers alone contributed more than 55.0 per cent to PIT and some 20 per cent of all taxes collected, indicating very limited room to tax them further. According to the FSCG, this tax base is mobile and can emigrate.

FCSG submits that the Southern African Customs Union (SACU) payments increased sharply over the past two decades. Also, South Africa has a seigniorage sharing agreement in the Common Monetary Area (CMA). In the 2023/24 financial year, the CMA seigniorage sharing payment is budgeted at R1.4 million and it amounted to R654 million in the 2013/14 fiscal year, which means that these payments more than doubled during the last decade.

The FCSG recommends that in future Budgets, NT should report SACU payments as separate line items for customs, excise, and development components, publish the full details and calculations of the seigniorage sharing agreement in the CMA as an annexure in the next budgets, clarify what the impact of greylisting will be on SACU and CMA partners and payments and the government at all levels, including Cabinet, should only purchase vehicles manufactured in South Africa.

## 6.2. Public Economy Project

The PEP notes the short-term improvement in the fiscal position on the back of a nominal boom and that real economic stagnation means continued fiscal weakness ahead.

PEP acknowledges that the 2023 Budget was presented in the context of multiple crises facing South Africa. In particular, the growth outlook has deteriorated since the tabling of the 2022 MTBPS, with load shedding, rail export constraints, and the operational crisis of local government all playing a role in constraining South Africa's growth prospects, in a context of global uncertainty. PEP highlights that there is notable uncertainty on the policy issues critical for proper fiscal planning. In particular, political incoherence at the centre of government makes effective planning, budgeting and oversight nearly impossible, which is taking an increasing toll on the quality of budget institutions and reporting.

PEP submits that the government's proposal to reduce its consumption spending further over the medium term will assist with fiscal consolidation to stabilise debt, but also reduce aggregate demand growth through an unprecedented negative shock to government consumption spending. Resources for core government services, namely basic education, healthcare and criminal justice will be reduced, which will hurt the incomes of lower middle-income citizens, and reduce the consumption basket of the poorest. PEP is of the view that these effects might be somewhat offset by rising transfers for Early Childhood Development (ECDs), public employment programs and social grants, which are only partially included in the budget. However, the size of the proposed contraction to government consumption will overwhelm these measures over the medium term.

PEP submits that the allocation of R254 billion in cash will overcome Eskom's bankruptcy, creating a strong financial platform to address load-shedding, and invest in the infrastructure necessary for electricity sector structural reforms to succeed in the context of a just energy transition. While the economics of the plan is sound, as electricity is a binding constraint on growth, PEP argues that the restructuring and turnaround plan may prove challenging to implement, and the increase in fiscal transfers to Eskom could indicate the permanent subsidization of coal-fired electricity supply out of general taxation.

PEP notes that, aside from the Eskom bailout, fiscal measures that respond to the electricity supply disaster are few and paltry and cautioned that significant additional spending pressures may emerge during the year. PEP further notes that NT reports an improvement in the budget deficit, suggesting a stronger fiscal footing, however, these improvements reflect the exclusion of likely expenditures from the framework; and a change in accounting practice that wrongly excludes Eskom bailouts from spending and the deficit. Once these factors are accounted for, the expectation of an improved fiscal outlook is more apparent than real. According to PEP, debt is unlikely to stabilise over the medium term.

### 6.3. Institute for Economic Justice

The IEJ submits that the current macroeconomic framework is economic suicide and inconsistent with the Constitutional obligations of the government to protect and advance human rights. The IEJ urges the Committee to call for a macroeconomic framework that targets the reduction of unemployment, poverty, and inequality.

The Institute notes that the Budget prioritises debt stabilisation through a rush to reach a primary budget surplus. As a result, cuts have been made to public goods such as public services while tax windfalls have been used to pay down debt. Also, the 2023 Budget proposes a real reduction in non-interest expenditure of R162 billion over the medium term. This is a real decrease of 2.65 per cent and exceeds previous budget cuts.

While the NT has argued that this is not an austerity budget, in its response to civil society, it has argued that cuts are necessary due to underperformance by some government departments. The NT however fails to state what measures are put in place for it to undertake the human rights impact assessment of these cuts. The IEJ, therefore, submits that NT must publish assessments of the implications of all budget policies and then work to reduce inequality and any negative and regressive budgetary impacts. IEJ's view is that the 2023 Budget has not accounted for how women, especially in rural areas, are impacted by its austerity measure. The

IEJ further submits that the cuts to actual non-interest expenditures continue to undermine the provision of public services and reduction in allocation to the SRD grant.

The IEJ agrees with the NT that there are structural constraints but argues that fiscal policy has a fundamental role to play. NT fundamentally views fiscal expenditure as full of waste and inefficiency. Ultimately, the government must expand carefully-selected public expenditure, coordinated with monetary and industrial policy, to address the country's biggest and most immediate challenges and mobilise financing for developmental reindustrialisation. Fiscal consolidation must not be prioritised above all else, and policymaking must align with evidence and the Constitution.

The IEJ welcomes the debt relief extended to Eskom, however, the conditions attached to it will only accelerate privatisation and be a key obstacle for Eskom to address the load-shedding crisis. They argue that private profit margins of Independent Power Producers (IPPs) will drive up prices, resulting in the majority of poor people not being able to afford electricity; and IPPs do not have sufficient capacity to tackle the scale of load shedding. They submit that unconditional debt relief should be only one part of a wider debt restructuring process and should include a reduction in repayments to private debt holders and the overcapitalised Government Employees Pension Fund (GEPF) writing off its share of Eskom's debt.

On tax proposals, in the context of widespread social need, attempts to raise additional revenue have not been made. At the same time, several tax relief measures accrue to the well-off. The IEJ proposes that progressive taxation should be used to create fiscal space, redistribute income, and invest in public services and social protection. This should include, an immediate reversal of the CIT rate to 28 per cent, introducing a wealth tax, raising funds for BIG through social security, reducing, or removing, tax breaks through pension and medical aid rebates for higher-income earners, raising tax rates on income from wealth, through estate duty and dividend taxes, and interrogating the implications of the introduction of the global minimum tax on Multinational Corporations (MNCs).

The IEJ reiterates that the 2023 Budget is anti-poor because it is based on a macroeconomic framework that has prioritised debt stabilisation at the expense of service provision. The continued policy of austerity has also undermined levels of public and private investment and failed to grow the economy.

#### 6.4. Budget Justice Coalition

BJC submits that the fiscal space created by revenue overruns should be used to protect essential public services from funding cuts; the government should use the GEPF accumulated reserves to resolve Eskom's debt crisis but cautions against the imposition of conditions on Eskom without meaningful public consultation. BJC welcomes the R254 billion in Eskom's balance sheet but notes it may be insufficient and raised concerns that the impact of the Disaster Management Act regulation exempting energy projects from environmental regulation may be costly in the long term.

On tax proposals, BJC recommends that the government should reverse tax relief to individuals with an annual income of more than R500 000 per annum, and stipulate a plan and timeline to introduce a progressive net wealth tax and implementation of effective controls to limit capital outflows.

The BJC notes some progress made on Gender Responsive Budgeting (GRB), welcomes promises to complete the development of GRB guidelines, proposes a civil society consultation on these guidelines, requests clearer information on the GRB roadmap and stresses the need for continued public participation in processes including the GRB and Fiscal Openness Acceleration (FOA) processes.

The BJC proposes the timeous adoption of the Public Procurement Bill, considering public comments. The BJC further called for increases in allocations for health and education by CPI inflation plus 2.2 per cent and an increase of the R350 to the food poverty line to account for food price inflation of the past three years and an extension of the SRD grant beyond 2024 and the implementation of a universal BIG.

#### 6.5. Congress of South African Trade Unions

COSATU submits its concern that the 2023 Budget is not sufficiently bold to stimulate an economy struggling to emerge from a recession and global pandemic; reduce an unemployment rate of 42.6 per cent; and rebuild a state weakened by state capture, corruption and austerity budget cuts. Whilst it is important to reduce the debt trajectory, COSATU cautions that it should not be at the expense of growing the economy and rebuilding the public services society requires.

COSATU urges the government that if it wants to deliver on its commitments, it needs to fix its relationship with public servants. It noted that the wage bill has been stable at 35 per cent of the budget since 2008 and that the cause of the fiscal crises are the billions lost to corruption,

wasteful expenditure, and the mismanagement of the state and SOEs; and that these must be fixed. COSATU cautions that denying public servants CPI increases to protect their wages fuels the brain drain of skilled public servants to better-paying jobs. COSATU recommends that the government needs to engage on the wage bill at the Public Service Coordinating Bargaining Council (PSCBC) to find a win-win resolution.

COSATU welcomes many of the relief measures provided for in the 2023 Budget; but is aggrieved that despite high levels of youth unemployment, NT cut the Presidential Employment Initiative from R24 billion to R9 billion. It further said that it is scandalous to allocate a 4.5 per cent salary increase for Parliamentarians, but no increase in the SRD Grant, which has been R350 since 2020. These callous budgetary cuts to these progressive programmes need to be reversed by Parliament.

COSATU also welcomes the R4 billion fuel tax relief for commuters. It proposes that the government should table the RAF and RABS Bills in Parliament and reduce fuel tax increases. Whilst COSATU welcomes the support for renewable energy investments, the government's Reconstruction and Development Programme (RDP) homes' solar panel programme needs to be revived. COSATU is pleased with the progress made in legislation enabling struggling workers limited early access to their pensions and recommends that it comes into effect by 1 March 2024.

COSATU further welcomes the additional 15 000 SAPS members; increased allocations to fund infrastructure investments, particularly, transport, water, National Student Financial Aid Scheme (NSFAS) and SARS; and the R254 billion Eskom debt relief. It expressed disappointment with the below-inflation increases for basic education, home affairs, police and the judiciary.

COSATU recommends that more should be done to reinforce the SAPS, NPA, SARS and courts to win the war on crime and corruption, including SARS conducting lifestyle audits of the wealthy and addressing tax evasion; and Eskom should ramp up maintenance, investing in new generation capacity and end the load-shedding.

Whilst appreciating the additional funds for Transnet and Passenger Rail Agency of South Africa (PRASA), COSATU believes that these funds should be accompanied by law enforcement support to address cable theft and vandalism. COSATU is aggrieved by an absence of clear turnaround plans to rebuild Denel, the Post Office of South Africa (POSA) and municipalities struggling to provide basic services and with 20 routinely failing to pay their



employees. The pending retrenchments of 4000 postal employees and reducing the remaining 9 000 staff's wages by 40 per cent must be stopped.

#### 6.6. South African Institute of Chartered Accountants

SAICA asserts that the culture within the government is the single biggest impediment to economic and fiscal policy implementation in the country. They also submit that Parliament makes the final determination on the Budget, not NT and Parliament have to account for its reasonableness. SAICA notes various discrepancies in the "completeness" of the Budget and as such asks Parliament if it is confident it has created a culture of oversight and complied with its duty in section 214(2) if Parliament has never amended the Budget notwithstanding all the material concerns and challenges raised by civil society.

SAICA commends NT for having a good record for transparency of financial information but needs to improve in certain areas such as capital expenditure funding. They further note that the quality of information is wholly dependent on the standards applied to compile it and its usefulness impact by its timeline. In that regard, SAICA questions whether Parliament is satisfied with the quality of information it was receiving to perform oversight, especially with the different reporting methods of Cash Accounting Standard used by Parliament versus the Generally Recognised Accounting Practice (GRAP).

SAICA asserts that "water-shedding" will be far more devastating and far-reaching than load-shedding and expressed its concern that Parliament has been silent on this matter. SAICA further asks whether the Minister of Finance is meeting his Constitutional mandate to avert the looming disaster by using the budget allocations and Treasury controls and whether Parliament knows the real funding requirement for renewal, maintenance and expansion at all three spheres of government, for effective oversight.

SAICA notes that greylisting has happened and NT tried to avoid it through legislative measures. SAICA suggested that NT should amend and reconsider the timing of the interventions and effective dates to ensure proper and fair implementation. SAICA asked whether Parliament has sufficient monitoring processes and whether the relevant state agencies and civil society can effectively implement the legislative changes by 1 April 2023.

#### 6.7. South African Institute of Tax

SAIT agrees with the 2023 Budget and applauds NT for its continued efforts. SAIT raises a concern that the South African government is all too good at raising and allocating money, but

it is not good at adequately spending money. SAIT submitted that too much focus is being placed on expenditure at the national level, however, to turn the economic situation around, other government departments need to be held accountable for ensuring effective expenditure.

SAIT submits that the tax base should be expanded, within reasonable limits because South African taxpayers are already at the “fiscal cliff”. SAICA argues that a wealth tax may not be the answer because if the government continues to tax the rich, the rich will leave the country and the middle-class taxpayers will end up bearing the brunt of such a wealth tax.

SAIT cautions that while international tax continues to place a significant emphasis on attacking cross-border activity, South Africa needs to be aware that anti-avoidance measures often result in double taxation which makes it hard for multi-national entities to compete and do business in South Africa. The excessive imposition of anti-avoidance measures will drive businesses offshore.

SAIT notes that tax administration in South Africa has become more effective, attributed to SARS’ improved performance, however, the tax administration system is still imbalanced. SAIT believes that the government needs to develop a simple method to resolve common errors made in good faith because minor errors should not attract penalties.

SAIT welcomes the introduction of energy incentives but cautioned that the timing within which big businesses should use the incentive is impractical given the size of projects in those industries. While batteries and inverters are not incentivised, SAIT proposes that the rooftop solar energy tax incentive should be zero-rated for VAT purposes. SAIT further recommended that the government needs to consider operating on a cash basis for income tax and VAT and that small businesses should not be taxed on an accrual basis as they largely operate on a cash basis.

#### 6.8. PriceWaterhouseCoopers

PwC commends NT for a strong effort in reducing the impact of the public sector wage bill on overall expenditure, as the share of compensation of employees to total consolidated expenditure has decreased from 34.5 per cent in 2019/20 to 31.6 per cent in 2022/23. PwC cautions that the realisation of significant risks will impact the fiscal outlook and implications for the credibility of the future budget.

PwC notes the upward payments to SACU to R79 billion in 2023/24 and R86 billion in 2024/25 and raised a concern that the SACU revenue sharing formula is weighted heavily against South Africa, in favour of the other member countries, particularly, the sharing of customs duties.

PwC highlights that no progress has been made to date to renegotiate the revenue-sharing formula.

PwC welcomes and fully supports the government's continued policy commitment to avoid tax rate increases while the economy is recovering from recent shocks; the fuel levies relief; and the allocation of additional funding to SARS to further strengthen efficient revenue collection.

PwC highlights that the fiscal drag relief provided to individuals uses a 4.9 per cent forward-looking inflation rate which will likely result in fairly significant fiscal drag in 2023/24; the 10 per cent adjustments to the retirement lump sum tax tables and transfer duties also do not provide full fiscal drag relief, resulting in an effective tax increase; and not all the monetary amounts, thresholds and tax tables were adjusted for the effects of inflation and these should be explicitly addressed in the budget on an annual basis.

PwC supports the introduction of rooftop solar incentive but is concerned that only the solar panels qualify for the rebate; the exclusion of other components and the maximum rebate of R15 000 is inadequate; limiting it to solar panels only creates a potential for abuse which might increase the administrative burden on SARS. PwC suggests that to increase its effectiveness, consideration should be given to complementing the tax incentive with other instruments directed at the same objective, such as the introduction of regulations requiring new residential developments to have solar systems installed and phasing out electric geysers.

PwC requests clarification on diesel refunds on various terms to avoid disputes in the future. They also note that relief is limited to only the RAF levy and not the general fuel levy and no reason was provided for this policy decision.

#### 6.9. Dr Sean Muller of the Johannesburg Institute for Advanced Study

On the political economy of Eskom debt restructuring, Dr Muller submits that the fundamental issue is about shifting the costs of the just transition onto the less wealthy and less powerful, globally and locally. He highlights that the Conference of the Parties (COP26) deal intended to manipulate the South African transition to favour such interests through conditional loans. That, according to Dr Muller stalled so that Eskom debt relief could be used for the same agenda, which is an overly rapid, overly decentralised, globally and locally unjust transition. He is of the view that changing the Minister and the Deputy Director General (DDG) of Assets and Liabilities appears to have facilitated this and highlighted that the powers given to the Minister violate the principles of accountability and legislative oversight, and are outside Finance and Treasury mandates.

Dr Muller further submits that the power utility ‘death spiral’ is caused primarily by the ‘grid defection’ of customers that are better able to pay. The renewable energy tax incentives, therefore fuel the death spiral. Dr Muller argues whether the cost is worth the benefit but the problem is that for many years the cost has simply not been acknowledged by NT or many others. While NT does not appear to have provided any detailed justification for these incentives or means by which to evaluate them, Dr Muller believes that legislative oversight ought to require both. He further submitted that these incentives have the potential to channel R9 billion to wealthier individuals and better-resourced businesses for little public benefit, thereby increasing inequality and further hastening Eskom’s death spiral.

On the ETI, Dr Muller submits that the amount of tax revenue foregone is likely to exceed R40 billion and there is no credible evidence that the ETI has led to new job creation. This according to Dr Muller means that it inflated company profits rather than benefitting the poor and unemployed and that continuation and expansion of the incentive discredit claims about ‘evidence-based policy’ and a ‘developmental state’. This reflects poorly on the Presidency, NT, the media, and Parliament. Dr Muller believes that the FFC’s endorsement in the 2022/23 submission was based on overlooking all critical scholarship, which raises serious questions about competence, credibility and impartiality.

On developments in civil society, Dr Muller submits that the composition and democratic mandate of supposed Civil Society Organisations (CSOs) has come up in the past in these and other committees. Members of Parliament are cautioned that a very good CSO, the Women and Democracy Initiative (WDI), doing public finance and legislature-related work had to close down due to lack of funding. However, some CSOs like IEJ with less experience, and less objective credibility are overflowing with donor money for very similar and ‘feminist’ work. Therefore, important lessons need to be learned and caution in the credence should be given to individuals and organisations based on their self-promotion.

Regarding the SRD grant, Dr Muller said that there is a lot of scholarship, evidence and credible argument to support the expansion of the social security net through a BIG-like mechanism. Given that the current Covid relief grant provides an obvious basis and opportunity, a suggestion was made to scrap rent-seeking schemes like ETI to fund it. Also, the intention to end the grant weeks before the 2024 election appears designed to negatively affect the party taking that decision and it speaks to the particular complexities of South Africa that a majority party Minister and NT he oversees would do this. This raises serious concerns about indirect electoral manipulation.

#### 6.10. South African Sugar Association

SASA welcomes the decision by NT to keep the HPL unchanged for the following two fiscal years as this decision allows the sugar industry to recover from its losses and actively participate in the South African Sugarcane Value Chain Master Plan to 2030. It also allows the industry to focus on its diversification plans to move from a sugar-only industry to a sugarcane-based industry.

SASA highlighted that the sugar cane industry is the backbone of many of the rural economies of KwaZulu-Natal (KZN) and Mpumalanga. Amongst other things, at least one million livelihoods are dependent on the sugarcane growing and milling activities of the industry, the industry is among the most transformed commodities in the agricultural sector, with 21 per cent of sugarcane growing areas being transferred to black ownership, and in 2019, the industry put in place the R1 billion five-year transformation plan, which focuses on interventions aimed at remedying inequalities affecting the small-scale black sugarcane farmers as well as other capacity building grants for emerging black sugarcane farming organisations, increased funding for skills upliftment of black stakeholders, and enterprise development projects for black youth and women.

SASA is of the view that their diversification efforts hold great potential as they would take the sector a long way in reducing the negative impact of HPL into a new era of sustainable development.

#### 6.11. Healthy Alliance

HEALA submits that inflation adjustments to the HPL are urgently needed and the HPL should be expanded to include fruit juices and non-sugar sweeteners.

HEALA expressed disappointment that whereas in the 2022 February budget speech, the Minister of Finance announced that there would be an inflationary increase to the HPL effective from April 2022, the 2023 February Budget speech announced that the HPL will not be increased for the next two financial years.

HEALA further submits that the HPL currently excludes 100 per cent fruit juices and falsely creates the impression that juices are healthier. The sugar content of 100 per cent fruit juice and Sugar-Sweetened Beverages (SSBs) is similar, and in some cases, 100 per cent fruit juice products contain more sugar than other SSBs. According to HEALA, studies have shown that consumption of fruit juice among children can increase the Body Mass Index (BMI) percentile and high consumption of fruit juice can increase the risk of diabetes prevalence. Also, the 2023

draft regulations on food labelling contain information on artificial sweeteners and state that products containing ingredients from the list in Section 35(1), of the document, will be labelled. Currently, beverages containing Non-Nutritive Sweeteners (NNS) are not taxed in the HPL. HEALA recommends that these beverages also be taxed to reduce consumption of these products

HEALA recommends that NT should re-consider the decision to side with the sugar industry and proposes that the HPL will be increased with the 2023/2024 financial year, in April 2023, as promised last year, NT should commit to the public consultation process time frame for expanding the HPL to include fruit juices and non-sugar sweetener beverages and this process must be finalised before the mid-term budget in October 2023, by the 2023 MTBPS budget speech, there needs to be a public consultation on the expansion of the HPL, with the document circulated and the process concluded, and NT should better incentivize access to healthy food and discourage consumption of unhealthy foods.

#### 6.12. Amandla.mobi

Amandla.mobi submits that social grants are the main means of survival for millions of households in South Africa and recommend that all social grants should be increased by R500 in the 2023 Budget, as the low economic growth, rising inflation and lack of income opportunities have left millions in poverty. Furthermore, the government should allocate funds for the implementation of the BIG by April 2024.

Amandla.mobi highlighted that the R350 SRD grant budget was decreased from R44 Billion to R35.7 billion, meaning even fewer people will get the grant; and that over 716 000 graduates have applied for this grant. Concerns were raised that the tabled budgets have continuously provided more relief for rich people and big businesses.

Amandla.mobi recommends that, given the high costs of living, the government should implement an annual wealth tax to raise grants; stop budget cuts; increase PIT for individuals earning over R1 million annually; ensure that the rich people declare their wealth; and prioritise additional measures to address tax evasion and illicit financial flows by individuals and companies.

Amandla.mobi further calls for pro-poor interventions such as dramatically reducing the medical aid rebate and eliminating retirement fund contributions rebates for individuals earning over R1 million a year; review of tax incentives such as the ETI; committing to no increase in VAT other than luxury goods; ensure that there is no increase in the PIT for individuals earning

below the R1 million threshold per year. Beyond the proposed tax commitments, Amandla.mobi calls for the reallocation of public expenditure and the reduction of government irregular expenditure.

#### 6.13. The Widows Voice of South Africa

The Widows Voice outlined the steps taken towards voicing their pains and ill-treatment at the hands of the SARS from 2015 to date. The Widows did not only meet with the SARS NT but have also written to the Human Rights Commission (HRC) and met several Cabinet Ministers, Speakers of Parliament, the Committees and various senior government officials.

The Widows Voice submits that the monthly stipend that they received from the GEPF as surviving spouse's beneficiaries called a "spousal pension" is below the tax threshold but it is then added to their salaries incurring high tax bracket increases. As a result, they end up owing SARS thousands of Rands which they are unable to repay.

The Widows Voice's list of recommendations includes that the spousal pension should be treated as a grant; the tax law should be amended in favour of the widows; SARS must not treat spousal pension as a second income; provision of amnesty to the debts owed; refrain from docking salaries, investments and property repossessions; write-off debt with no option of a compromise; and place a moratorium while amending the tax law.

#### 6.14. UCT Mr Benjamin Cronin

Mr Cronin submits that (1) the fiscal framework constitutes neither primary nor secondary legislation and is not binding upon Parliament were it to seek to amend an appropriation, division of revenue or other forms of money Bill, it is a non-binding report that Parliament is only required to acknowledge when amending a money Bill, (2) it is imperative that Parliament, in the wording of its resolution regarding the fiscal framework, avoid the risk of any misinterpretation of the status of the fiscal framework, and (3) Parliament should indicate in its resolution that the fiscal framework is not binding and cannot be interpreted to fetter the open discretion afforded to Parliament to amend the money Bills presented to it.

Mr Cronin recommends that it would be prudent for Parliament, when adopting the fiscal framework, to record in its resolution that the fiscal framework is not binding on Parliament; the resolution is not envisaged to grant the fiscal framework the status of law; and Parliament is committed to meeting all of its Constitutional obligations when considering amendments to money Bills.

### 6.15. Baker Kharva Chartered Accountants

BKCA submits that the R130 billion should have been reprioritised within the existing budget, and there was no need to incur further interest-bearing borrowings from other banks and financial institutions. BKSA notes that there is rampant corruption and looting of state coffers which stems from the tender system. They recommend that stringent austerity measures should be implemented with the cutting out of all the unnecessary fringe benefits for government employees and that prudent management and monitoring of government expenditure could lead to more savings.

BKSA submits that the risks to inflation are now benign due to sharp decreases in international oil and fuel prices. BKSA argues that if the President and the SARB care about the poor then interest rates should be cut and government should not bow to the demands of commercial banks. BKCA proposes a maximum cap of 12 per cent per annum on all types of interest rates to alleviate the plight of all hard-pressed people. They see this as an alternative to interest-bearing borrowing from the IMF and other financial institutions.

## **7. NATIONAL TREASURY RESPONSES ON ISSUES RAISED BY STAKEHOLDERS**

NT's responses were categorised into the economic strategy underpinning the fiscal framework, the fiscal stance of the 2023 Budget, tax policy, fiscal policy, Eskom debt relief, and other matters.

On economic strategy, NT explained that South Africa needs much higher economic growth to address unemployment and poverty and that this requires a continued commitment to a macroeconomic framework that encourages investment, accelerated progress on reforms, and improved state capability. NT said that the focus is currently on the binding constraints of electricity and logistics, which are critical to support economic activity and ensuring the better provision of services to the public. In addition, there is a suite of interventions both within Operation Vulindlela and broader government through the ERRP. NT emphasised that government policy and actions create an enabling environment for growth, as such higher long-run growth requires improved state capability. In this regard, NT explained that the government increased the public sector infrastructure budget to R903 billion over the medium term and allocated R711 billion to fight corruption and financial crimes.

On the fiscal stance, NT explained that the 2023 Budget supports the ERRP, with targeted expenditure injections, proposes no spending cuts, does not raise taxes, protects the social wage,



and controls the growth in debt and debt-service costs. NT said that the Budget does not support the damaging practice of incrementalism, and departs from straight-line, CPI-based growth of spending items. NT further proposed that the budget process should place greater emphasis on performance, waste, efficiency and strategic trade-offs. Amongst other support measures, there is additional spending of R227 billion proposed for extending the Covid-19 SRD grant until 31 March 2024 and investment in local and provincial government infrastructure was increased.

About the budget deficit, NT clarified that the deficit is not expected to improve to zero and will remain supportive of the economy. Furthermore, fiscal policy does not target a specific level for the primary surplus.

NT responded to key submissions made by the stakeholders concerning the tax-to-GDP ratio, increased taxation of the upper incomes, HPL, renewable energy tax incentive, diesel refunds, ETI, and widows benefit taxes.

In response to a comment suggesting that the tax-to-GDP ratio is not aligning with the Organisation for Economic Cooperation and Development (OECD) methodology and there is a lack of clarity on the target of the 25 per cent of the tax-to-GDP ratio, NT explained that there were multiple potential methodologies for tax-to-GDP and clarified that the Minister of Finance has not mentioned a particular target. However, this and previous budgets have highlighted research showing that tax increases are detrimental to growth, especially during economic downturns. While the ratio is expected to increase marginally over the medium term, aided by improvements in tax administration, the rise is limited by the tax relief measures implemented.

On the HPL, NT noted that for almost five years, there have been no increases to the HPL despite the evidence demonstrating that the HPL has been successful in reducing sugary drink purchasing, incentivizing reformulation; and that it has had a progressive impact on low-income South Africans. It explained that the Minister's announcement regarding the postponement of the increase in the HPL recognises the structural reforms needed for the sector and the challenges the industry has recently faced, especially due to floods and the impact of public violence almost two years ago.

On comments regarding renewable energy tax incentives, NT emphasised that the focus was on solar panels as they will assist in maximising additional generation with limited government funds. It explained that while an inverter is required to use solar panels, inverters and batteries can be operated without solar panels, in which case they offer no additional generation to the system and would do little to reduce load-shedding. NT said that the cap of R15 000, limited to

two years, was included due to both the limited fiscal space available and the desire to avoid undermining the progressive nature of the PIT system. Zero-rating of solar panels could not be applied as the government has no control over the prices faced by consumers after a product is zero-rated, and research on some instances of zero-rating has shown that prices did not adjust after zero-rating.

On the ETI and comments about the lack of credible evidence for its continuation, NT explained that two reviews through the National Economic Development and Labour Council (NEDLAC) (2016 and 2018) and independent research found that the incentive was partly successful. It explained that these findings were shared with the Committees, who agreed with NEDLAC partners that the incentive is extended from 2019 to 2029. NT however conceded that further research done on the ETI has been mixed, with some studies showing a positive benefit while others showing no impact.

NT explained that the diesel refunds were only extended to manufacturers and not retailers of foodstuff because the diesel refund system is administratively onerous, both for claimants and for SARS. It explained that the current refund is available for mining and agriculture and the approach was to extend the refund to the next point on the value chain, which is the manufacturers, to help ease food prices. It would not have been possible to extend it along the entire value chain to every retailer in the country.

In response to the Widows Voice, NT explained that survivor benefits receive a full income tax deduction on contribution, with no tax on growth, and are then taxed on withdrawal. It further explained that all income an individual receives is included in gross income, with specific exclusions or thresholds to arrive at taxable income. NT and SARS explained that this ensures that people of similar circumstances are taxed the same. NT clarified that widows with survivor benefits are not the only taxpayers who have multiple sources of income; and that people with two jobs, people with more than one pension fund or people who are semi-retired are taxed similarly. To give retirees a way to make sure that the correct amount is withheld from the pension payment right from the start, the tax law was changed so that SARS can indicate the correct rate to the retirement fund. This spreads the payment over the year and avoids the build-up of tax debt.

On fiscal policy, NT covered several themes in its responses. These included the relationship between spending, debt and economic growth, the dangers of incremental budgeting, the SRD grants, and the public sector wage bill. NT asserted that historically there is a poor relationship

between spending, debt and economic growth, highlighting that more spending does not necessarily lead to economic growth, but has historically led to unsustainable debt.

Regarding incremental budgeting, NT argued that it was a misguided assumption that spending items, including the wage bill, should simply grow by inflation. It explained other considerations when budgeting included the inability to spend where the government departments underspent their 2021/22 appropriations by R17.9 billion, value-for-money, poor outcomes, addressing waste and inefficiency, corruption and maladministration, political dysfunction causing crises and poor use of resources in municipalities, obsolete, non-performing or duplicative programmes embedded within departmental budgets, and strategic trade-offs and prioritisation. NT recommended that public hearings on the budget should emphasize the same, rather than indiscriminate incremental, increases across the board.

NT further explained that while spending reviews were integrated into the budget process, these were not intended to result in budget cuts for departments that have identified savings. It noted however that some departments are not implementing the recommendations of the spending reviews for various reasons including an unwillingness to implement changes, weaknesses in management capacity, the difficulty in retrenching staff in government and changing legislation and, political interference.

NT explained that underspending was a cause for concern based on the preliminary indications that around R40 billion for 2022/23 budgets compared to the main budget allocations will be underspent. It said that the inability of departments to spend is caused by several reasons such as procurement difficulties, especially with infrastructure projects, non-compliance with legislation, unprocessed and/or disputed invoices, litigations, delays in finalising claims, and delays in filling in posts.

NT explained that the SRD grant was introduced as a result of the 2020/21 lockdowns and consequent inability to work and earn an income, but this is no longer the case. NT explained that the 2023 Budget makes big investments in infrastructure to help create jobs that young people need. NT refuted that it cannot be the policy of the government that economic hardship will be solved through higher grants rather than job creation. It argued that a strategic focus that is predicated mainly on grants is very difficult.

NT reported that an amount of R45.6 billion is allocated for the compensation of employees over the next three years to provide for the carry-through costs of the 2022/23 public-service wage increase. This includes the 3 per cent increase announced in 2022/23, a 1.5 per cent pay

progression in the following financial years, and various other benefits included in budget baselines. NT explained further that the 2023 Budget also provides additional funding for safety and security, education and health. NT reiterated that the budget does not pre-empt the outcomes of wage negotiations that have just commenced. Nevertheless, it said, this and future wage negotiations must strike a balance between fair pay, fiscal sustainability, and the need for additional staff in frontline services. NT explained further that perks, salaries and exorbitant remuneration, or public entity executive and managers' salaries need to be reduced, as well as some staffing establishments. New proposals are being developed and will require a cabinet decision.

NT further explained that South Africa's public-sector wage bill is higher than peer countries and is one of the highest among emerging markets. It stated that South Africa's public-sector wage bill is about 5 percentage points greater than the OECD average as a share of GDP. At the same time, NT said, public-sector employment as a percentage of total employment is significantly less than in countries such as Norway and Denmark.

NT responded that the Eskom debt relief arrangement will take the form of loan advances and that the Eskom Debt Relief Bill will give effect to the transaction. NT clarified that the loan will remain repayable to the government until strict conditions are met; only upon compliance with these conditions will Eskom be allowed to settle the loan to the government in the form of shares, otherwise in the form of cash with interest; the loan will not fund operational expenditure, nor will it fund the acquisition of assets, but capital and interest payments related to Eskom's financing activities; and the nature of the transaction is different from previous appropriations, which were not limited to financing, but was used by Eskom to pay interest on debt and finance operations. NT explained further that the debt relief arrangement does not improve the fiscal outlook, instead, it increases the government's gross borrowing requirement.

NT said it is untrue that the accounting treatment of the relief improves the fiscal outlook, instead, the debt outlook, the gross borrowing requirements and debt-service costs are all higher than at the time of the 2022 MTBPS. NT also disputed that the primary surplus is dependent on Eskom debt relief, stating that even if the previous Eskom bailout of R66 billion is added back to non-interest expenditure, there would still be a primary surplus of R44.1 billion in 2023/24, R71 billion in 2024/25 and R115.3 billion in 2025/26, and finance bills for debt relief have been tabled and passed by Parliament before.

NT clarified that SANRAL is not being loaned monies from the fiscus, but rather a revenue replacement, while Eskom is receiving a loan, which must be repaid if conditions are not met.

NT explained that the approach to SOE bailouts has changed in recent years, as pre-conditionality is now included to ensure that conditions are met before any disbursement of funds is authorised. It said that a new framework for managing bailouts to SOEs is being finalised to reduce fiscal risks and promote long-overdue reforms and the preliminary framework will be published in March 2023 for consultation and will thereafter be submitted for Cabinet approval.

Regarding investing in SOE debt, NT explained that the Public Investment Corporation (PIC)/GEPF are already heavily invested in government and Eskom debt and the GEPF Board has to use its discretion within the investment policy to decide on this after weighing risks and possible returns to additional investments. It said that GEPF invests on behalf of fund members to meet retirement obligations and that the Minister of Finance is not legally empowered to participate in any investment evaluation process that determines the merits or demerits of any transaction. Moreover, the PIC is under the direct stewardship of the Minister of Finance as an executive authority and does not participate in any processes that involve the PIC's operations and investment activities. The PIC Board is responsible for its operations and investment activities, NT clarified.

On the greylisting of South Africa by FATF, NT explained that a multi-disciplinary effort under the leadership of the NT is heavily focused on addressing the greylisting. It said that maintaining the integrity of South Africa's financial system is critical to long-term growth and that some of the initiatives being undertaken included reducing the risk and incidence of financial crime and corruption. NT explained that over the 2023 MTEF period, functions critical to the anti-money laundering regime, particularly in the law enforcement agencies and the Financial Intelligence Centre (FIC), will receive additional resources to carry out this work.

NT explained that the SACU revenue-sharing formula is published publicly in the 2002 SACU agreement (Part 7, Article 34). While technical, the formula is transparent to the public and can be explained if needed. It said that the formula for CMA seigniorage payments is published publicly in the Multilateral Monetary Agreement (MMA). Article 8 of MMA explicitly outlines how the payments are determined and the components of that formula.

On the proposal for Ministers and government officials to purchase locally manufactured vehicles, NT explained that it will refer this issue to the Department of Trade Industry and Competition (DTIC) and the Presidency.

On the issues raised around public participation, NT explained that South Africa remains among the top two countries with the most transparent budget processes in the world. It stated that the global transparency average is 45 out of 100, while South Africa scores the second best with 86 out of 100, a score which reflects South Africa's commitment to transparency.

## **8. COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS**

The Committee notes that the 2023 Budget strikes a reasonable balance between growing the economy, ensuring fiscal sustainability, maintaining expenditure over the medium term and providing tax relief to households and the economy.

### **8.1. Economic Outlook**

8.1.1 The Committee notes the upward revision of the GDP growth rate in 2022 to 2.5 per cent and the expected average growth rate of 1.4 per cent over the medium term, slightly lower than the 1.6 per cent average projected in the 2022 MTBPS. The Committee further notes that NT's medium term growth forecasts might still be optimistic given the current economic crises and that failure to realise these forecasts will affect the credibility of the fiscal framework. The Committee further notes that NT's forecasts have often been wrong in recent years. Moreover there are significant differences between the NT forecasts and those of the SARB.

8.1.2 The Committee remains concerned that the economic growth rate is not sufficient to create much-needed jobs in the economy and that economic recovery is dependent on the timely and successful implementation of economic reforms. The Committee recommends that NT should report on progress made in implementing structural reforms, including the Master Plans of the Economic Reconstruction and Recovery Plan every quarter.

8.1.3 The Committee welcomes a slight improvement in the rate of unemployment from a peak of 34.9 per cent in the third quarter of 2021 to 32.7 per cent in the fourth quarter of 2022. How sustainable it is, is far from clear. The Committee remains concerned that almost 60 per cent of the 7.7 million people unemployed are youth and that despite the

government's efforts to support job creation, the rate of unemployment remains high. This is evidenced by the expanded definition of unemployment which stands at 42.2%.

- 8.1.4 The Committee, moreover, observes that it will remain difficult for the labour market to absorb new entrants with the moderate projected average economic growth rate of 1.4 per cent over the next three years. The Committee recommends that NT should regularly provide progress made on the targeted government employment creation initiatives, including the ETI and assess whether these programmes are effective in reducing unemployment.
- 8.1.5 The Committee notes that although at 6.9 per cent in 2022, the Headline CPI breached the set target range of 3-6 per cent, the SARB expects it to revert to the band over the medium term. The Committee further notes that a cumulative 375 basis points increase in interest rate from November 2021 to January 2023 does not bode well for economic growth.
- 8.1.6 At its next quarterly briefing, the Committee requires NT to provide a report on the results of the ETI and respond to suggestions that its claims of the degree of success are exaggerated.

## **8.2 Revenue estimates, tax incentives and tax proposals**

- 8.2.1 The Committee notes that despite intensified load-shedding and weaker global economic conditions, most major tax bases grew positively and as a result, the gross tax revenue estimate for 2022/23 is projected to be R93.7 billion higher than projected in the 2022 Budget and consolidated revenue is expected to reach R2.23 trillion in 2025/26.
- 8.2.2 The Committee notes the proposed R13 billion tax relief to support households and the economy. It further supports no increases to the general fuel levy in the 2023 Budget.
- 8.2.3 The Committee commends the progress made by SARS in the past few years, and welcomes the additional allocation of R4.5 billion to SARS to strengthen tax administration and combat illicit economy. The Committee recommends that SARS

should continue to intensify revenue enhancement initiatives to collect maximum revenue due to the government to enable it to deliver on its constitutional obligations.

- 8.2.4 The Committee notes conflicting views on the tax relief on solar panels proposed in the 2023 Budget. While the proposed relief might benefit businesses and better-off citizens, the majority of South African households and low-income informal businesses will not be eligible to benefit due to high levels of poverty, inequality and unemployment. Noting that indigent households get 55kw of electricity for free; and that SMMEs can claim through the 12B incentive, the Committee recommends that NT rigorously consults the public on this matter before tabling the 2023 Taxation Laws Amendment Bill (TLAB) before Parliament.
- 8.2.5 The Committee notes that while the tax relief is welcome and the fuel levy will not be increased this year, calls are being made to scrap it completely and consider a zero-rated VAT basket of goods consumed by poor households. The Committee further notes concerns raised about the ripple effect that the fuel levy has on the cost of living, the economy, businesses and households. The committee recommends that NT engages with the Standing Committee on Finance every six months
- 8.2.6 The Committee notes HEALA's concern and disappointment with the Minister's decision to postpone an increase in the HPL to a date later than April 2024, to allow the sugar industry to recover. The Committee has consistently supported HEALA's aims and many of its proposals; but believes that NT is balancing trade-offs, referred to in many reports of this Committee, under very difficult and unique economic conditions and accepts NT's decisions on this. The Committee recommends that as soon as conditions improve NT consider increasing the HPL, after taking into account all the relevant factors, including the decision not to increase the HPL this year. The committee, taking into account the impact of the tax on the lives of some South Africans, welcomes NT's flexibility and its balanced approach.

### **8.3 Expenditure issues**

- 8.3.1 The Committee notes that consolidated expenditure as a percentage of GDP is expected to reach R2.48 trillion in 2025/26, now amounting to R7.08 trillion over the next three



years, compared to R6.62 trillion projected during the 2022 Budget; and that the social wage will take up almost 60 per cent of total non-interest spending over this period.

- 8.3.2 The Committee notes COSATU's concerns that salary increases below the inflation rate might create unintended consequences of a brain drain in some sectors of the public service; and NT's response that wage negotiations must strike a balance between fair pay, fiscal sustainability, and the need for additional staff in frontline services. While the wage bill has an impact on the fiscal framework, this matter falls within the purview of the Appropriations Committees for further consideration. It also has relevance to the Public Service and Administration issue.
- 8.3.3 The Committee notes the concerns raised by the stakeholders (Amandla.mobi, Dr Muller and Budget Justice Coalition) that the SRD grant, while welcome and appreciated, has not been adjusted for inflation since its introduction, three years ago. While the Committee recognises the severe budgetary constraints; and notes the Minister of Finance's recommendation that comprehensive social security should rather be discussed, the Committee reiterates its previous position that NT and government should seriously consider a BIG after the necessary consultation with the relevant stakeholders. The Committee recommends that the information requested by the stakeholders supporting a BIG be made available to the Committee within 14 days. The Committee notes too that a review of the comprehensive social security has been taking extremely long and the limited progress on this and recommends that this be finalised expeditiously. The Committee refers this matter to the Appropriations Committee to give further attention. The Committee notes the underspending on the SRD Grant was a big component of the 2nd Adjustment Appropriation Bill and that a review of the qualifying criteria needs to be undertaken.
- 8.3.4 The Committee notes the stakeholders opposing views on the introduction of the wealth tax. Some commentators (SAICA and FCSG) did not support a proposal to introduce a wealth tax or tax PIT further, arguing that it may not be the answer because if the government continues to tax the rich, the rich will leave the country and the middle-class taxpayers will end up bearing the brunt of such a wealth tax. While Amandla.mobi, BJC and IEJ support it. The Committee further notes Amandla.mobi's request that NT provides the information supporting the decision not to implement the

wealth tax and recommends that NT should provide the information that Amandla.mobi requested to the Committee within 14 days.

- 8.3.5 Given the modest projected GDP growth of 1.4 per cent over the medium term, on average, and the fact that tax increases are constrained by slow economic recovery, the Committee recommends that NT should conduct far more effective oversight over government expenditure and ensure that allocated funds are spent efficiently, effectively and economically.

#### **8.4 Debt, deficit and borrowing issues**

- 8.4.1 The Committee notes that gross loan debt is now expected to stabilise three years later and at a higher level than projected in the 2022 MTBPS, at R5.8 trillion or 73.6 per cent of GDP in 2025/26 as a direct result of the transfer of Eskom's debt onto the national balance sheet. The debt level as a percentage of GDP remains high and it threatens the sovereignty of the country and future generations. The Committee recommends that NT reports quarterly on the effectiveness of its debt management strategies that would ensure that the level of debt stabilises over the medium term as expected and that extra-budgetary costs do not increase the debt level further.
- 8.4.2 The Committee notes that the scale of the Eskom debt relief arrangement, R254 billion over the next three years, significantly increases government borrowing over the medium term and affects the fiscal framework. The Committee recommends that NT ensures that Eskom adheres to the debt relief conditions attached and quarterly monitors and reports progress made by the utility in addressing its structural operational challenges. Any additional debt incursion by Eskom should be avoided until such time as a comprehensive and workable restructure plan is approved by Parliament.
- 8.4.3 The Committee remains concerned that, although contingent liabilities are projected to decrease marginally from R1.07 trillion in 2022/23 to R904.1 billion in 2025/26; if these liabilities materialise, the debt-to-GDP ratio will likely not stabilise as expected. The Committee recommends that in light of the immediate risk posed to the fiscal framework, NT's efforts to bail out SOEs should be accompanied by strict conditions

and the implementation of consequence management so that money allocated must reflect value for money.

- 8.4.4 The Committee notes that debt service costs will rise from R307.2 billion in 2022/23 to R397.1 billion in 2025/26 and remains concerned that rapidly increasing debt service costs crowd out social expenditure and delivery of services.
- 8.4.5 The Committee notes, with great concern, the significant risks to the fiscal framework, which include higher borrowing costs and contingent liabilities of SOEs. The committee therefore recommends that a strong focus be placed on the removal of South Africa from the FATF's Grey List.
- 8.4.6 While the Committee recognises the severe constraints on the budget, and the need to ensure public participation, it believes that government should explore various forms of private sector involvement in SOEs without privatisation, particularly of SOEs providing basic services that are set out in the Constitution.

## **8.5 Other budget-related issues**

- 8.5.1 The Committee welcomes the additional allocations to the NPA, SARS and FIC over the medium term to support the implementation of the recommendations of the State Capture Commission and the outcomes of the FATF's evaluation of South Africa's framework for combating money laundering and terrorism financing.
- 8.5.2 The Committee notes that effective from 24 February 2023, FATF officially greylisted South Africa; NT and the relevant stakeholders made progress in reducing the number of recommendations made from 67 to eight; while the risk premium might be affected, the recommendations that still need to be implemented do not include the financial sector; and more work needs to be done by the security cluster. The Committee recommends that NT and the relevant institutions should intensify efforts to remove South Africa from the greylist as soon as possible and report progress made to the Committee quarterly. NT should compile a comprehensive response plan on how they plan to tackle the issues of FATF grey listing and report to the committees.
- 8.5.3 The Committee notes the FCSG's recommendation that for transparency, NT should publish the SACU and CMA calculations in the next Budget Review documents to enable the interested parties to scrutinise the figures. The Committee also notes NT's

clarification that the SACU formulas and calculations are overseen by the SACU Secretariat and that its role is to make medium term projections. The Committee recommends that NT provide the relevant information to the Committee within seven days.

- 8.5.4 The Committee recognises the need for NT to address the legal and other challenges affecting the Public Procurement Bill and recommends that the Public Procurement Bill should be brought to Parliament. The committee notes that the Minister committed to table the bill by March, and expects it by the end of this month.
- 8.5.5 The Committee notes the stakeholder’s concern that failure by the government to address the water and sanitation crisis, associated with the inability of the relevant role players to spend on infrastructure will severely impact social and financial stability and ultimately, economic growth and revenue. Parliamentary committees with responsibility for water and sanitation should exercise rigorous oversight on the matter
- 8.5.6 As recommended in the 2022 fiscal framework report and many times before, “The Committee reiterates its position that the Presidency needs to encourage members of the executive and public office bearers to buy cars that are assembled in South Africa and where it concerns government fleet. The committee recognizes that not all models of a particular brand of cars assembled in South Africa are assembled here and that there are other related challenges. However, without being prescriptive, the executive should be encouraged to, as far as possible, buy cars assembled in the country. Public representatives generally and others who serve in public service should also be encouraged to do this. The Committee will raise this with the Portfolio Committee on Trade, Industry and Competition to also take this matter forward as part of the “buy local” campaign”.
- 8.5.7 One of the Co-Chairpersons of the Committees on Finance wrote to the Presidency and engaged many times with the Parliamentary Counsellor of the Presidency on the above matter but with no progress. The matter was later referred to NT. NT has now referred the matter back to the Presidency. The Committee feels that this matter has, regrettably, been dragging on for 5 years now and has to be finalised. It is not a matter for the Committee to decide who should reply to it. This needs to be decided between the NT and the Presidency The Committee recommends that NT or the Presidency, as

negotiated by the NT, should respond within the next 14 days. Should this not happen, the Committee will decide on how to take the matter forward.

- 8.5.8 The Committee notes NT and SARS' response to the Widows Voice submission that there is "no double taxation" on spousal pensions; NT had engagements with the Forum in Pretoria, Cape Town and Bisho between 2018 and 2019 and has responded to the concerns raised, after that, Income Tax Act 58 of 1962 was amended to allow SARS to deduct tax throughout the year; a list of Widows affected can be submitted to SARS for direct interactions, payment arrangements and compromises on an individual level; and the GEPP representatives also met with them. The Widows Voice has also met two Ministers of Finance, a former Speaker and the National Council of Provinces (NCOP) Chairperson and has been heard by a range of decision-makers. In view of the specifics relating to this matter, the Committee recommends that SARS arranges for the local tax offices to negotiate with the relevant taxpayer's challenges, negotiate compromises with them in terms of the relevant regulations and intensify taxpayer education campaigns. The Committee recognises that the individual tax concerns cannot become public but recommends that NT and SARS provide a comprehensive report on their previous engagements with the Widows Voice and a progress report on this matter from the date of the publication of this report until their next quarterly briefing.

Having considered the 2023 Fiscal Framework and Revenue Proposals, the Select Committee on Finance approve the 2023 Fiscal Framework and Revenue Proposals as presented, with the above recommendations.

The DA reserves its right on the report

The EFF reserves its position on the report

Report to be considered.