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SAVE SOUTH AFRICA

FINANCIAL AND FISCAL COMMISSION

Briefing to the Standing Committee on Appropriations

Financial and Fiscal Commission

26 May 2020

For an Equitable Sharing of National Revenue

**Introduction

- The 2020 budget was formulated against the backdrop of a deteriorating economic environment-Growth had been on a constant slow downward trend since the 2009 financial crisis-the economy had effectively slipped into a recession by close of 2019
- The events post the 2020 February budget have made 2020 one of the most difficult years in South Africa's recent economic history.
  - First, the economy suffered immense setbacks as a result of the Covid-19 pandemic-which reached the shores of South Africa on March 5, 2020
  - Secondly, as the country was seized with containing the spread of Covid-19, Moody's downgraded South Africa's sovereign debt rating to junk status on 27 March 2020.
- The cost of losing the last investment grade rating, coupled with Covid-19 pandemic have weighed down all prospects for an economic turnaround in 2020
- Various forecasts are pointing to a bleak future- GDP growth in 2020 is expected to significantly slowdown –forecasts currently range from -5.4% to -20.4%
- The Covid-19 pandemic has caused unprecedented disruptions to the socio-economic landscape of South Africa-forcing Government to make difficult choices between protecting lives, livelihoods and economies
- The pandemic has turned the February 2020 budget upside down as the needs to deal with health challenges, deliver on essential services, protect households against wage and livelihood losses, and protect businesses against falling markets have amplified. The February 2020 budgetary changes have become unavoidable. And Minister of Finance has announced pending adjustment.

*BACKGROUND

- It is against this background and pending budget adjustments that the SCoA has requested FFC to brief it on the financial and fiscal implications of the Covid-19 pandemic.
- The Commission makes this submission in terms ofSubmission made in terms of S4(4c) of MBPARMA (Act 9 of 2009)
  - Requires Parliamentary Committees to consider any recommendations of FFC during deliberations on Money Bills
  - Also made in terms of Financial and Fiscal Commission Act (2003)as amended
  - Requires that FFC responds to any requests for recommendations by any organ of state on any financial and/or fiscal matter(s) relevant to its mandate

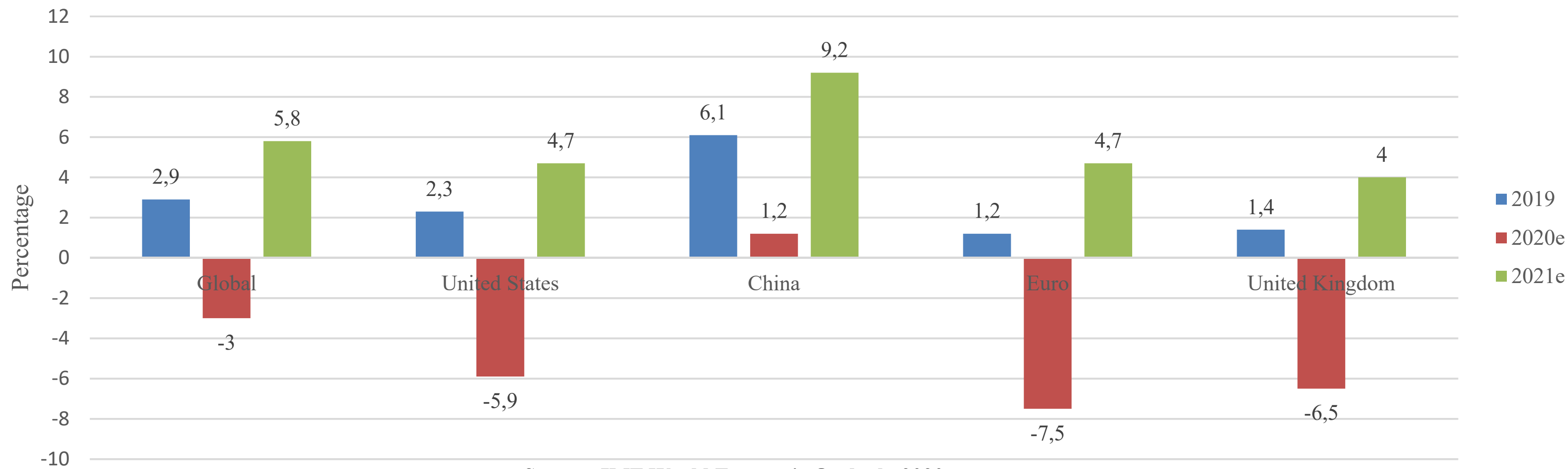
Presentation Outline

- In line with the request from the Standing Committee on Appropriations, this submission is focused on the following four areas:
  - Assessment of macroeconomic and fiscal outlook
  - Assessment of the revenue and expenditure proposals as contained in the 2020 Budget
  - Assessment of Government's fiscal and monetary responses to Covid-19 on growth and transformation
  - Reprioritisation for Covid-19 pandemic- An FFC perspective

BACKGROUND: MACROECONOMIC AND FISCAL POLICY OUTLOOK

* DEEP CONTRACTION FOR GLOBAL GROWTH

Economic Outlook Projections for the World, United States, China and Euro Area, and United Kingdom, 2019-2021



Source: IMF World Economic Outlook, 2020

- Global growth is expected to severely contract in 2020 because of COVID-19. Economic impact of COVID-19 will be widespread, and tilt global economy towards a recession in 2020. Rebound is expected in 2021. The precise size of the downturn and the strength of the recovery are both extremely uncertain.
- Implications for SA-1) Disruption in trade and value chains, affecting commodity export. 2) Foreign financing flows reduction-FDI.
- Massive monetary and fiscal responses have been deployed but aggressive containment measures, heightened uncertainty, financial market turmoil, and stringent cross-border travel restrictions expected to weaken global growth in the ST-MT.

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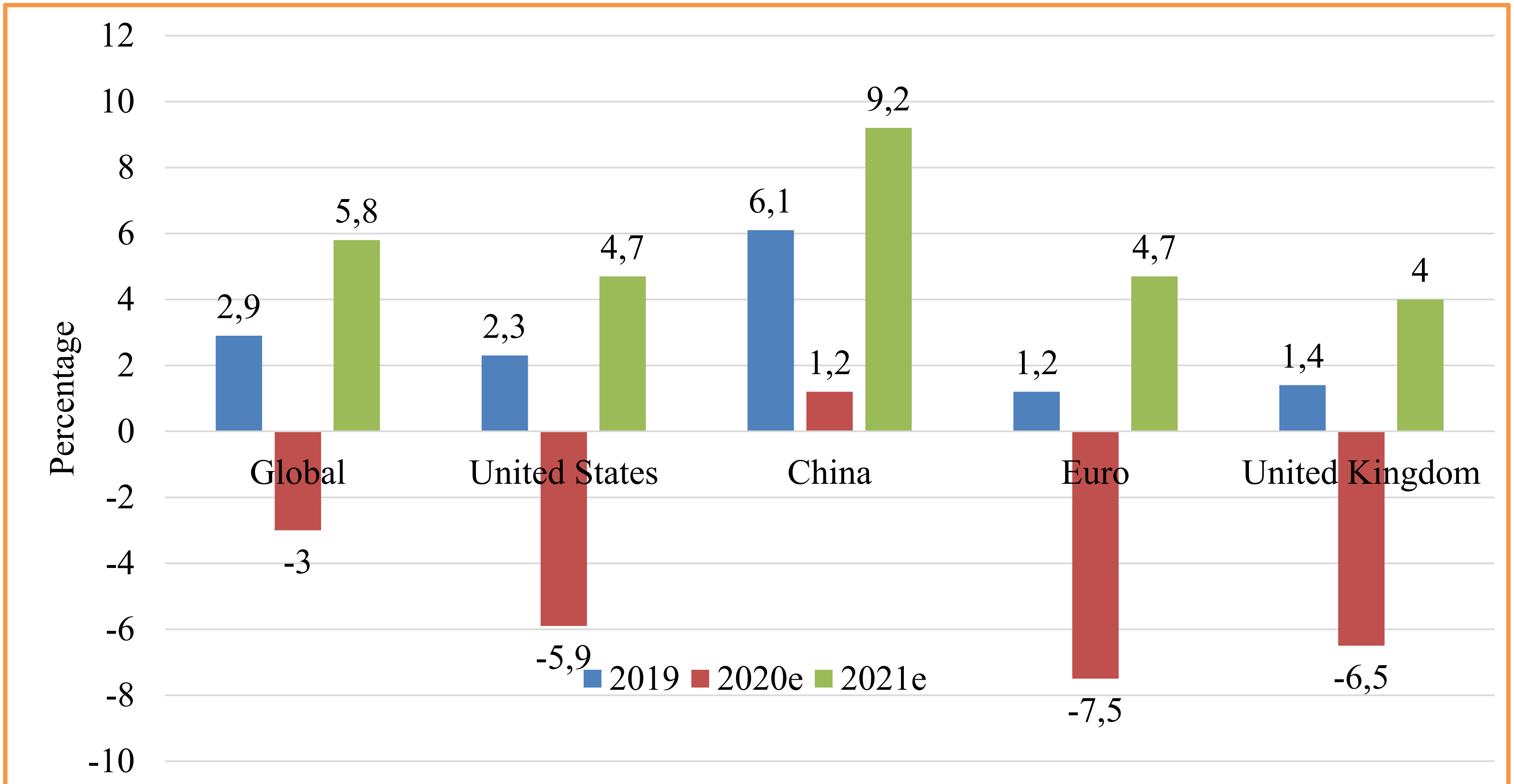
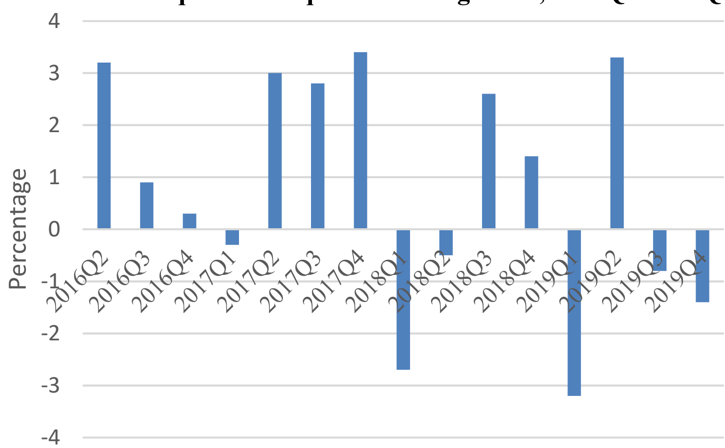


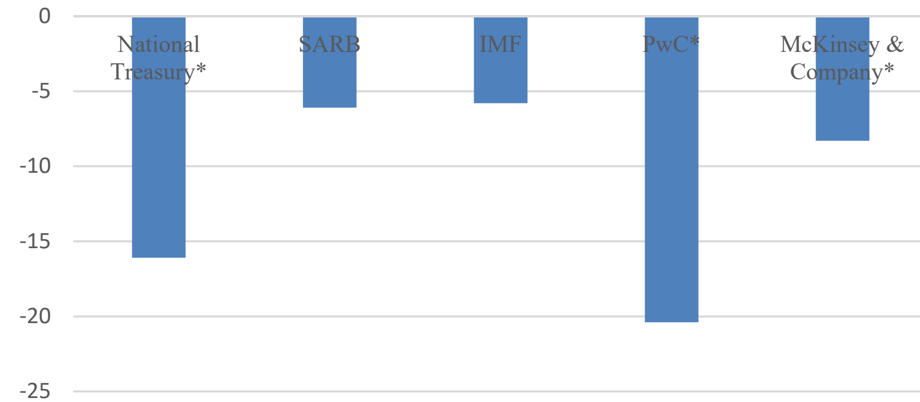
* * FRAGILE DOMESTIC ECONOMY HIT BY COVID-19

South Africa quarter-to-quarter GDP growth, 2016Q2-2019Q4



Source: Statistics South Africa, 2020

Projections for GDP growth in South Africa, 2020



Source: National Treasury, South African Reserve Bank, IMF, PwC, Mckinsey & Company NB *projection of worst-case scenario by institution

- SA economy grew by 0.2% in 2019.
- SA's economic performance reflects high levels of volatility anchored on a low trend-2nd technical recession in 2 years.
- SA economy was faltering before COVID-19 took hold. The impact of COVID-19 will push the country into a deep economic contraction this year.
- All projections and scenarios-SA is facing a likely deep economic contraction-because of disruptions in household and business spending on transport, food and beverages, and entertainment, as well as prolonged pressure on exports. SA's recent sovereign credit downgrade to exacerbate outlook.

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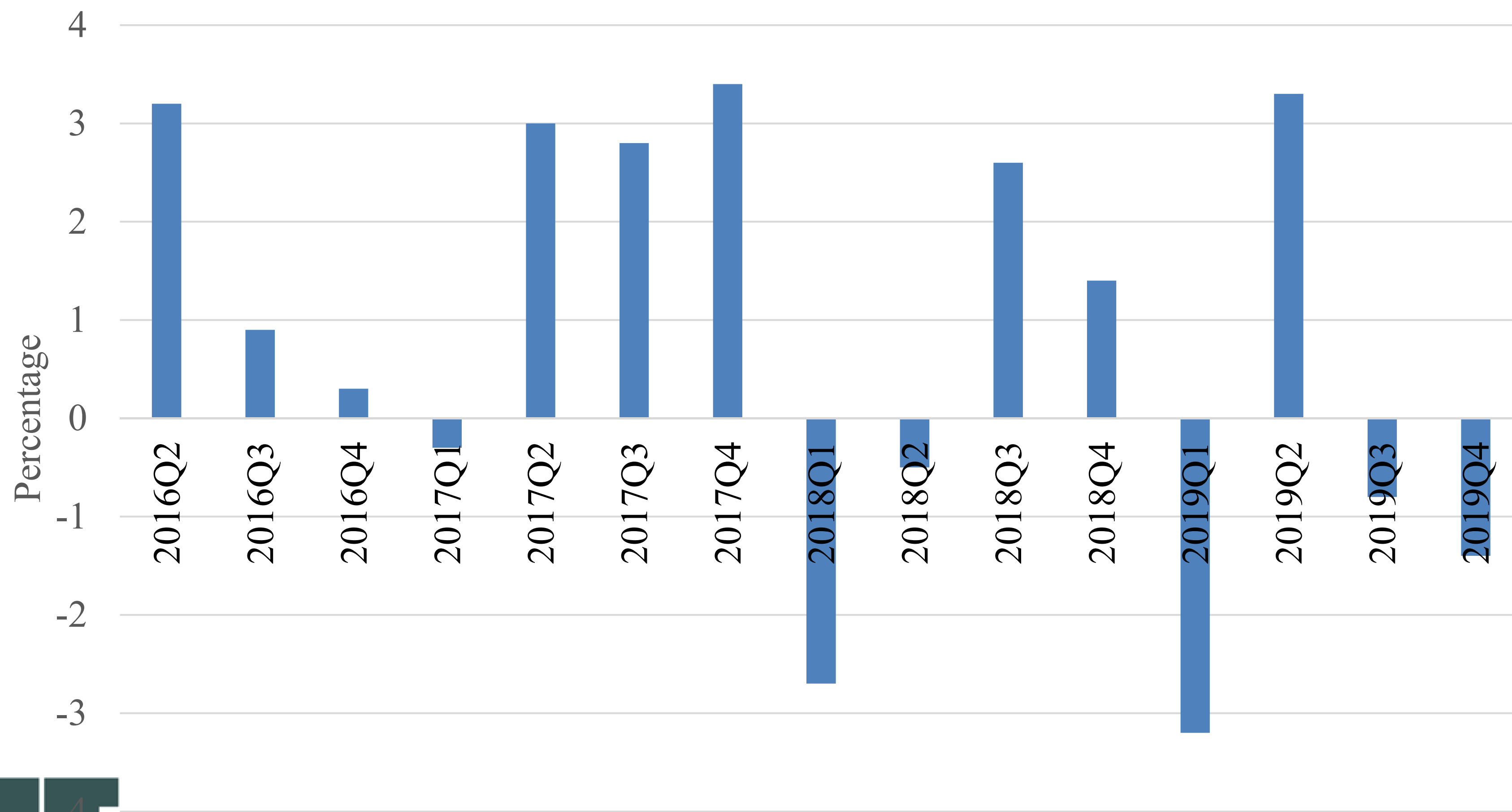
South Africa quarter-to-quarter GDP growth, 2016Q2-2019Q4



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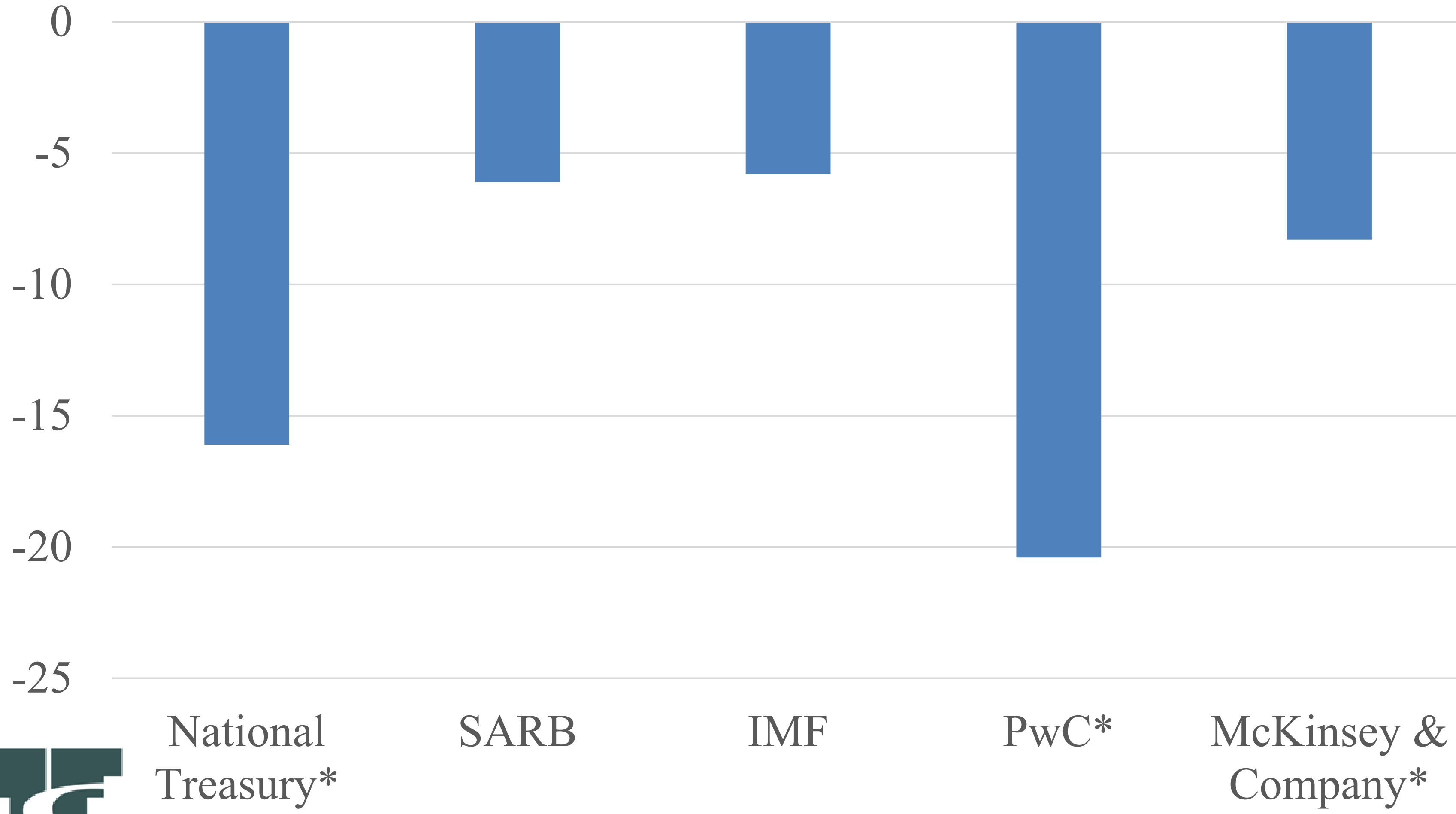
Projections for GDP growth in South Africa, 2020



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* SA'S SOVEREIGN CREDIT RATING HAS DETERIORATED

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

- Moody's Investor's Service downgraded South African local-currency sovereign credit rating from Baa3 to Ba1. This means SA lost its membership to the World Government Bond Index
- Deteriorating fiscal position and weak trend growth means the downgrade to sub-investment grade will increase the costs of borrowing and further worsen debt sustainability prospects.
- Fitch Ratings also downgraded South Africa's sovereign credit rating from BB+ to BB while maintaining the outlook at negative. The inability to halt the country's slide deeper into junk will have a much more severe impact on the country's economic future.

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SA's SOVEREIGN CREDIT RATING HAS DETERIORATED

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	B-	B3	B-	

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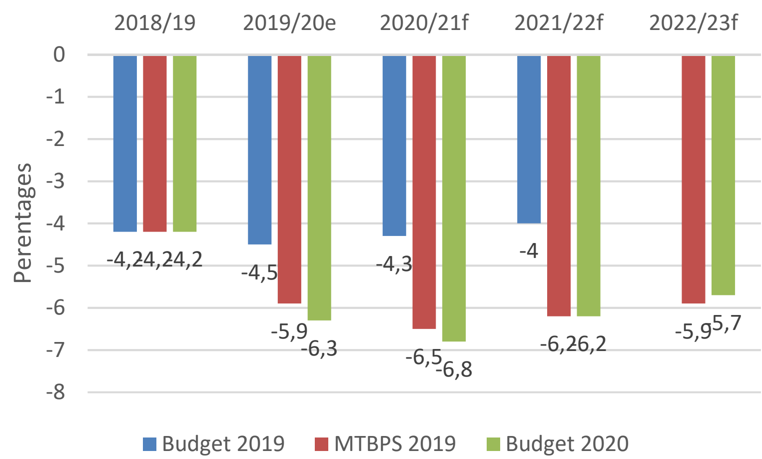
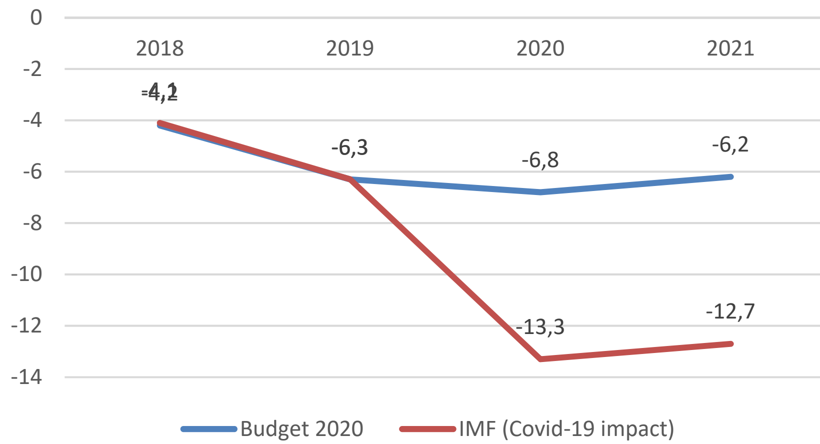
* BUDGET DEFICIT IS BALLOONING

Budget deficit as a percentage of GDP projections, 2018/19-2022/23



Source: National Treasury, 2019&2020

Budget deficit as percentage of GDP, 2018-2021



Source: National Treasury, 2020; IMF, 2020

- The fiscal deficit has widened to its largest point since 1990s, leaving SA with no fiscal space.
- Massive differences to budget deficit projections in the 2019 Budget, 2019 MTBPS and 2020 Budget demonstrate a substantial deterioration in fiscal metrics. This fiscal slippage has impacted negatively on South Africa's sovereign credit rating and resulted in severe economic consequences.
- The 2020 Budget projected the fiscal deficit to widen from -4.2 percent of GDP in 2018 to -6.8 percent of GDP in 2020, however IMF projects the fiscal deficit will widen from -4.1 percent of GDP in 2018 to -13.3 percent of GDP in 2020 because of the COVID-19 pandemic.

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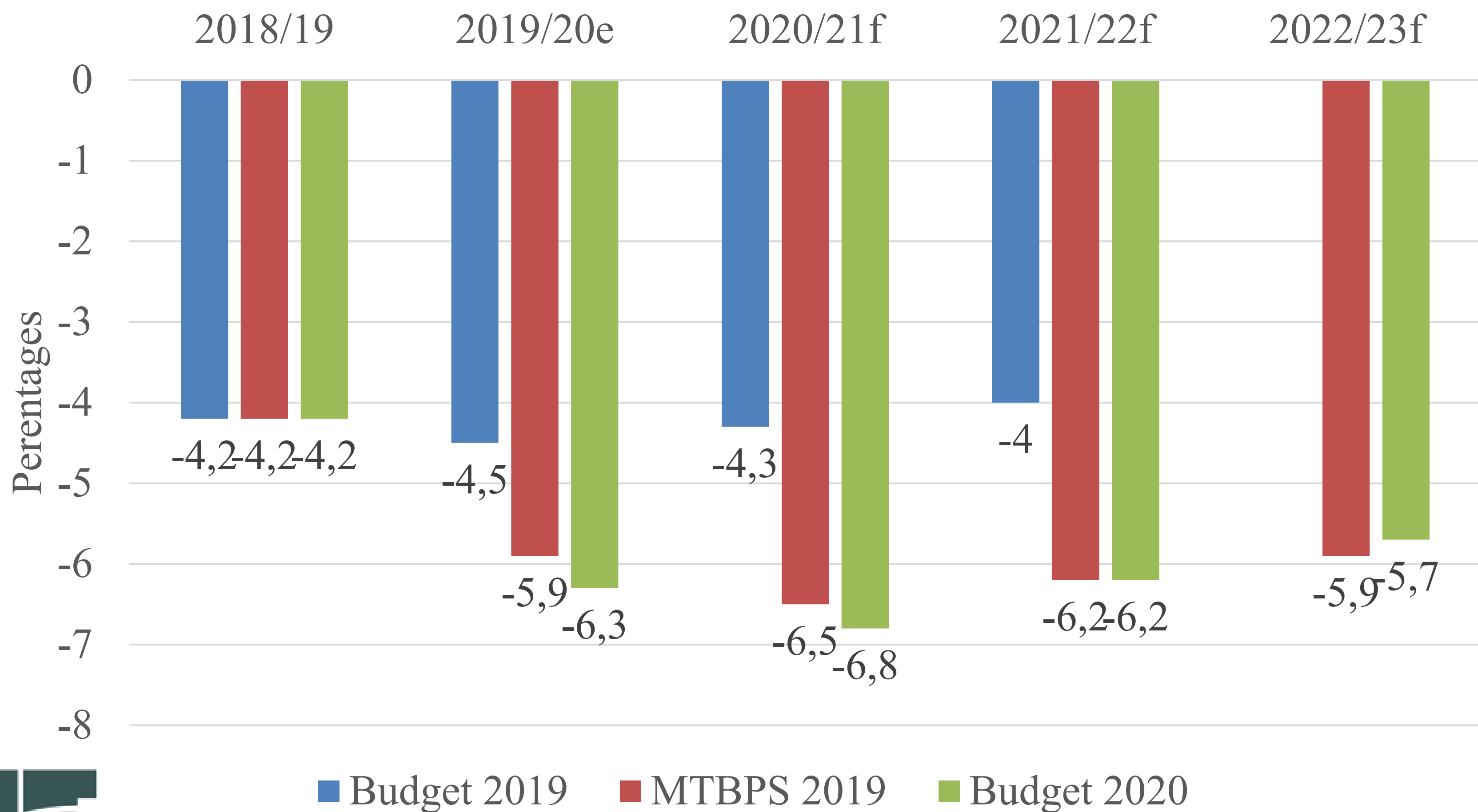
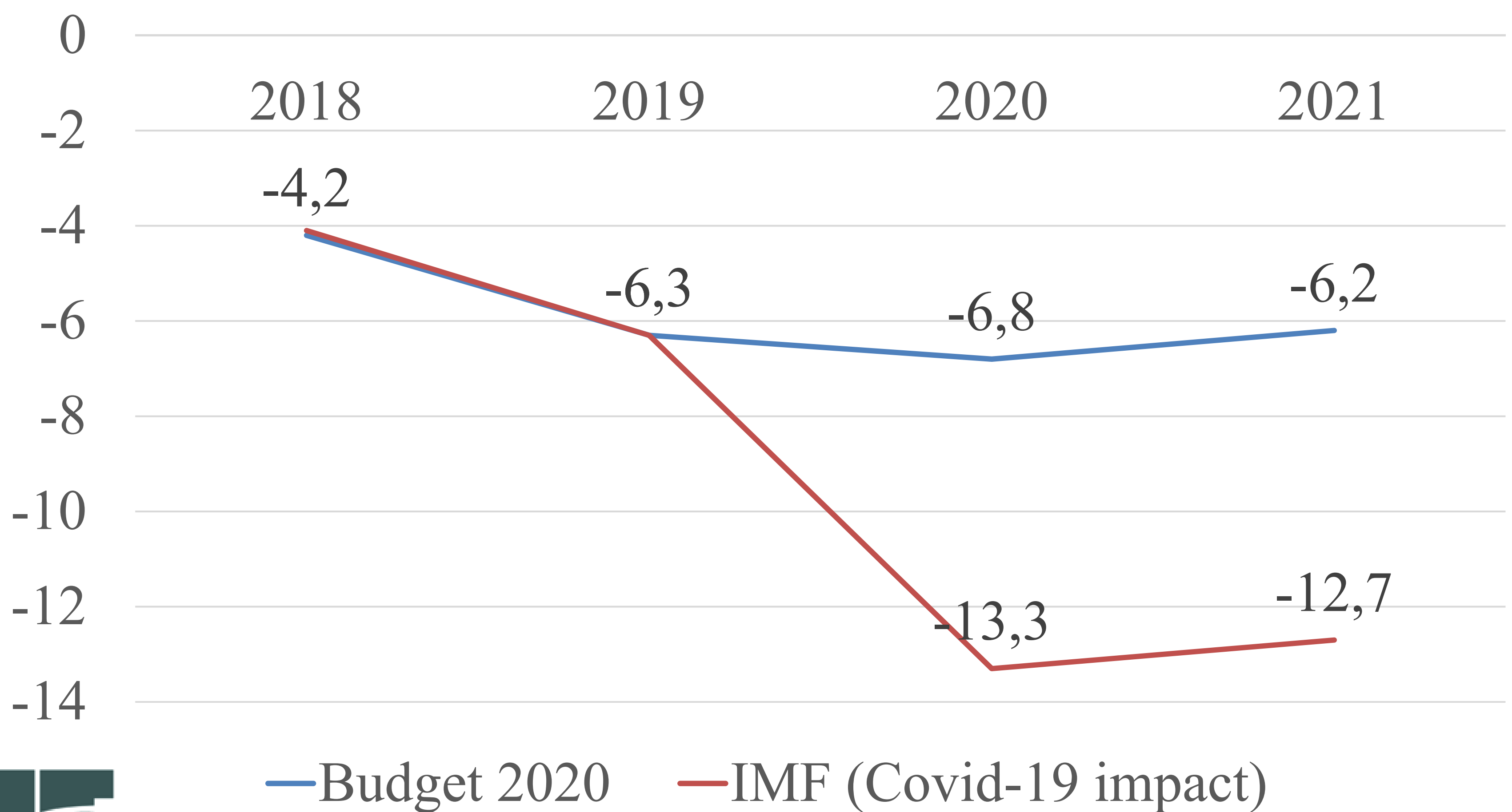
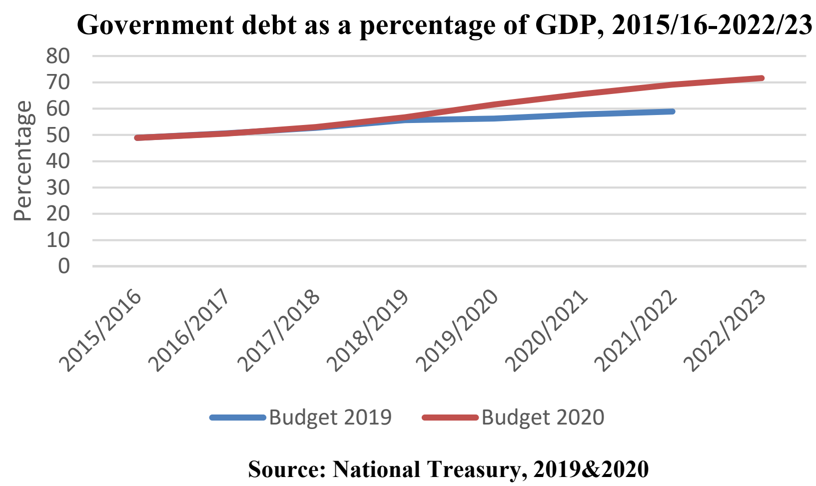
* BUDGET DEFICIT AS A PERCENTAGE OF GDP PROJECTIONS, 2018/19-2022/23

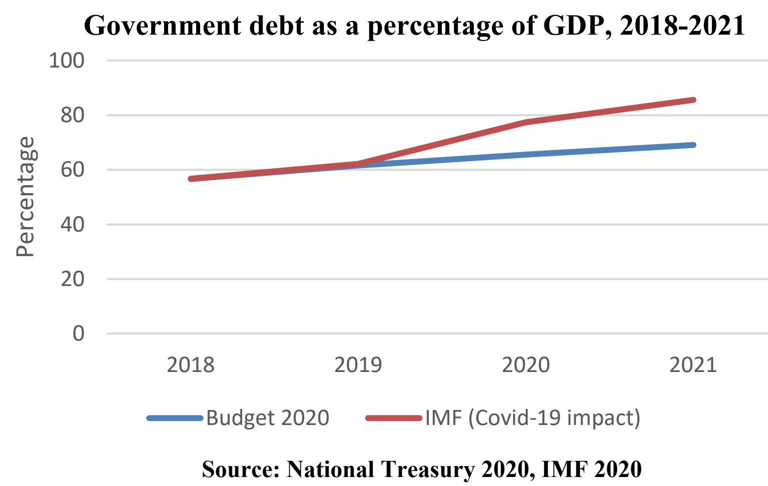


BUDGET DEFICIT AS PERCENTAGE OF GDP, 2018-2021



* GOVERNMENT DEBT IS INCREASING





- Government debt trajectory has critically worsened as a result of sustained weakening in the growth outlook and the materialization of contingent liabilities from SOEs. Government debt is expected to increase by R869 billion over the medium term. It is not expected to stabilise over the medium term as it is expected to increase to R4.38 trillion, or 71.6 per cent of GDP, by 2022/23
- The 2020 Budget projected government debt to increase from 56.7 percent of GDP in 2018 to 69.1 percent of GDP in 2021, IMF estimates that government debt will increase from 56.7 percent of GDP in 2018 to 85.6 percent of GDP in 2021 because of the impact of COVID-19.

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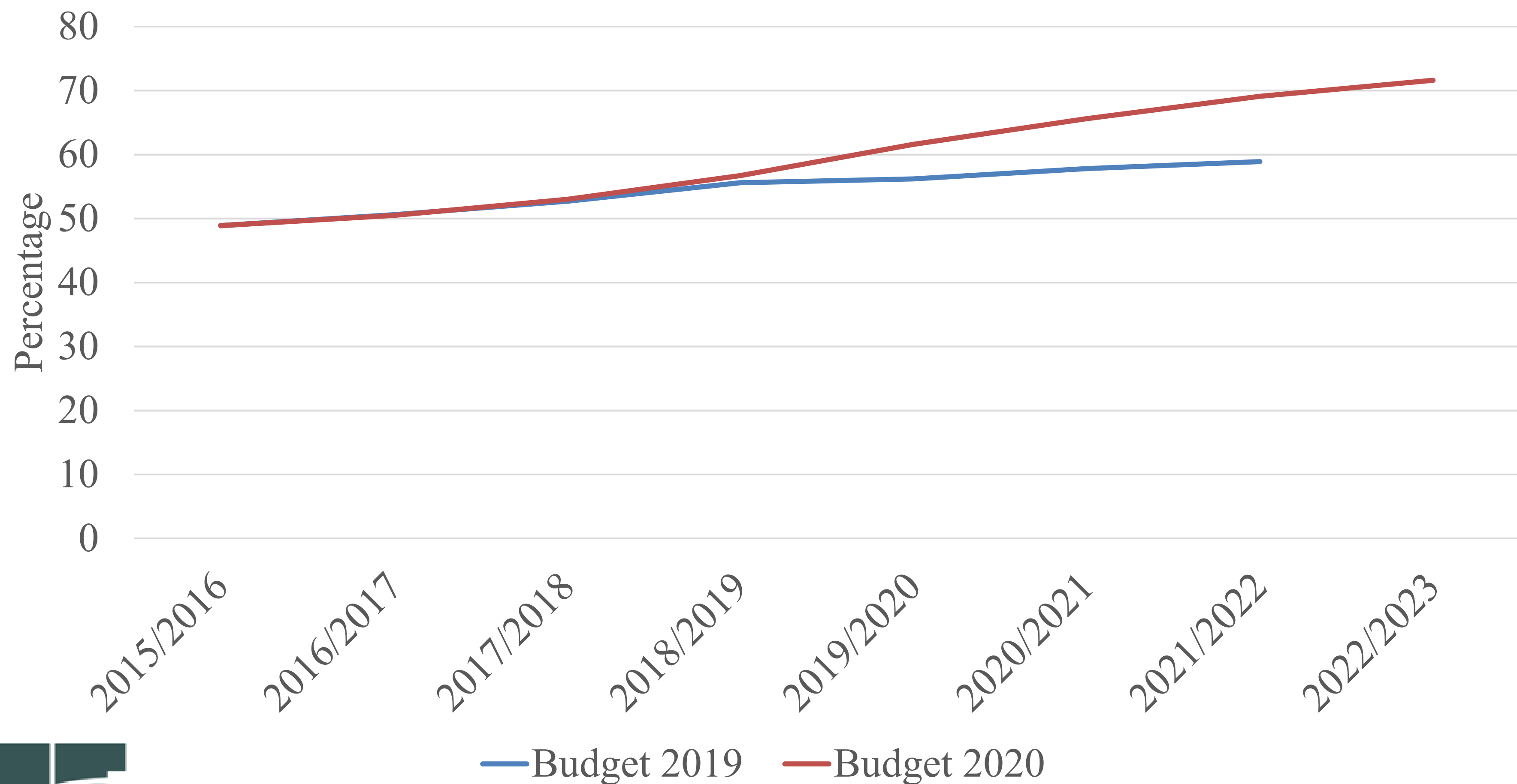
GOVERNMENT DEBT AS A PERCENTAGE OF GDP, 2015/16-2022/23



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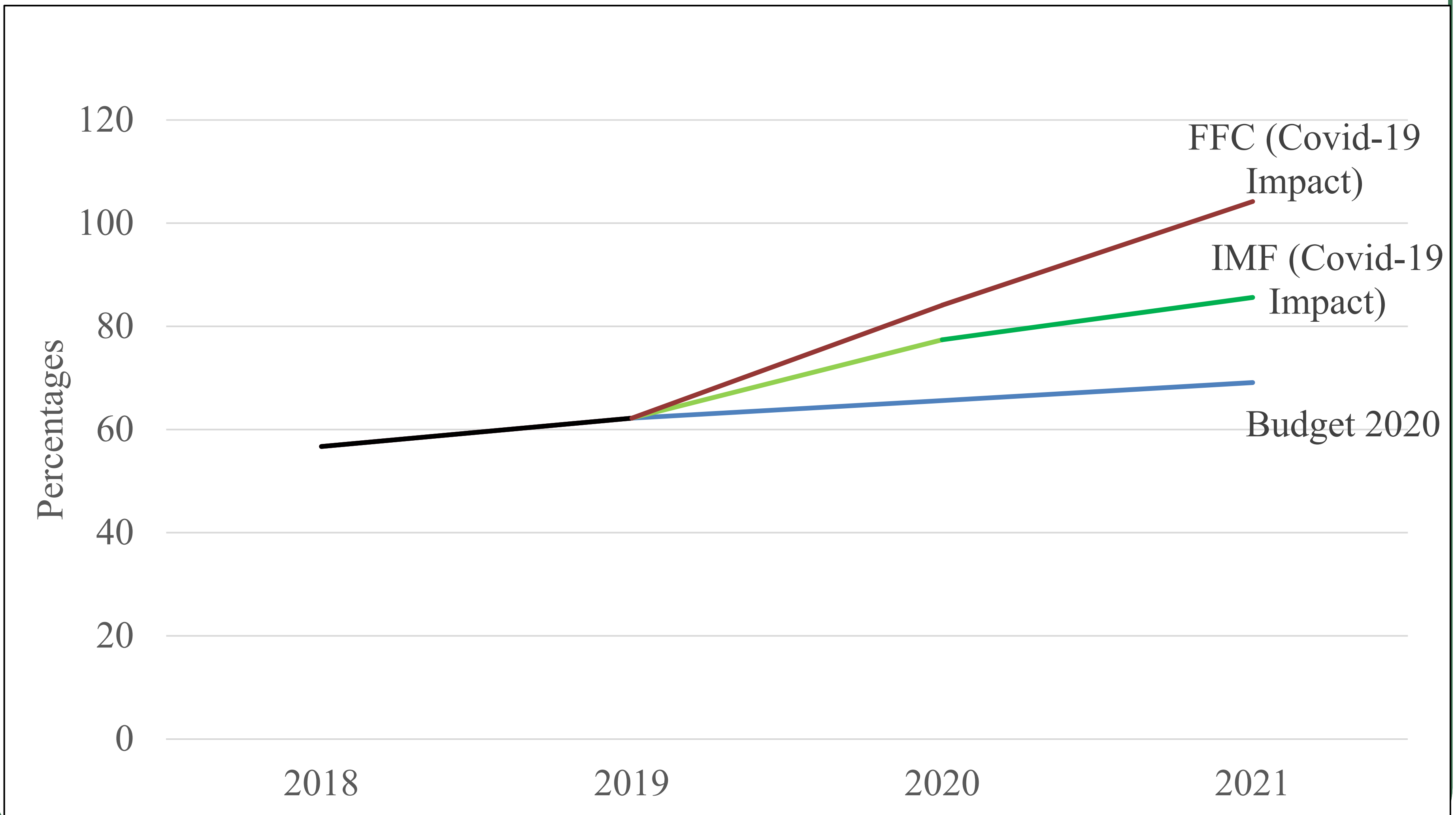
* GOVERNMENT DEBT AS A PERCENTAGE OF GDP, 2018/16-2021

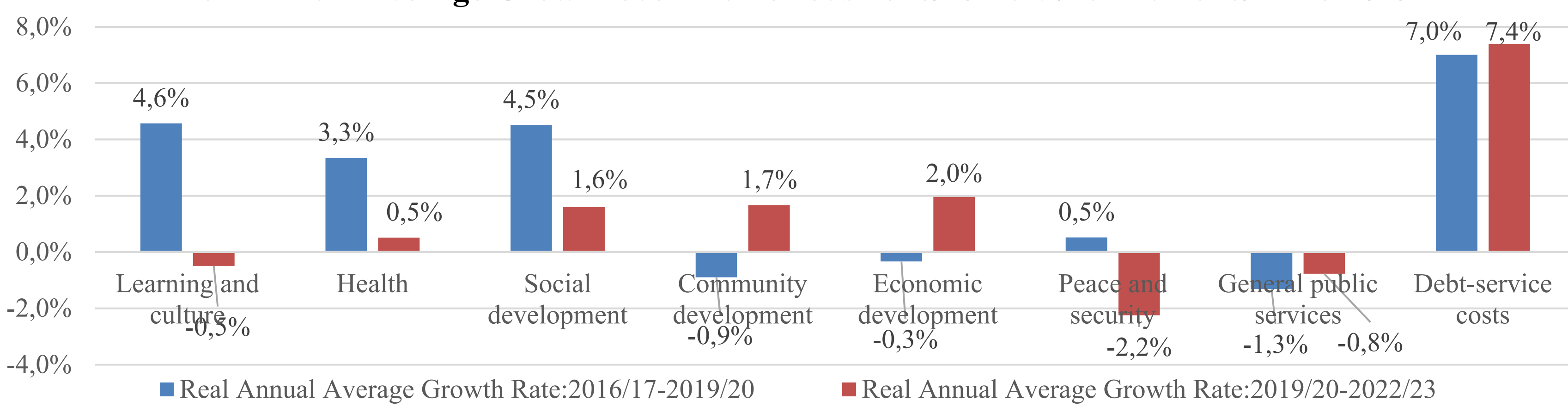


Overview of FFC response to revenue and expenditure proposals in the 2020 Budget

SPENDING BY FUNCTIONAL CLASSIFICATION: PROPOSALS IN BUDGET 2020

- Shift from 'social sector' to a focus on economic development, community development, social development – focus should be maintained and expanded to include spending on health care
- Peace and security (Defence and State Security and Home Affairs) and general public services (Public Administration and Fiscal Affairs) bear the brunt of reductions – distribution/extent of cuts will need to be rethought as some of the departments in these cluster are vital to combating Covid 19
- Unhealthy composition of spending: debt service costs fastest growing item and towards end of 2020 MTEF, will be larger than community development and health – may be unavoidable given need for additional borrowing as result of Covid 19

Real Annual Average Growth over the Periods 2016/17-2019/20 and 2020/21-2022/23



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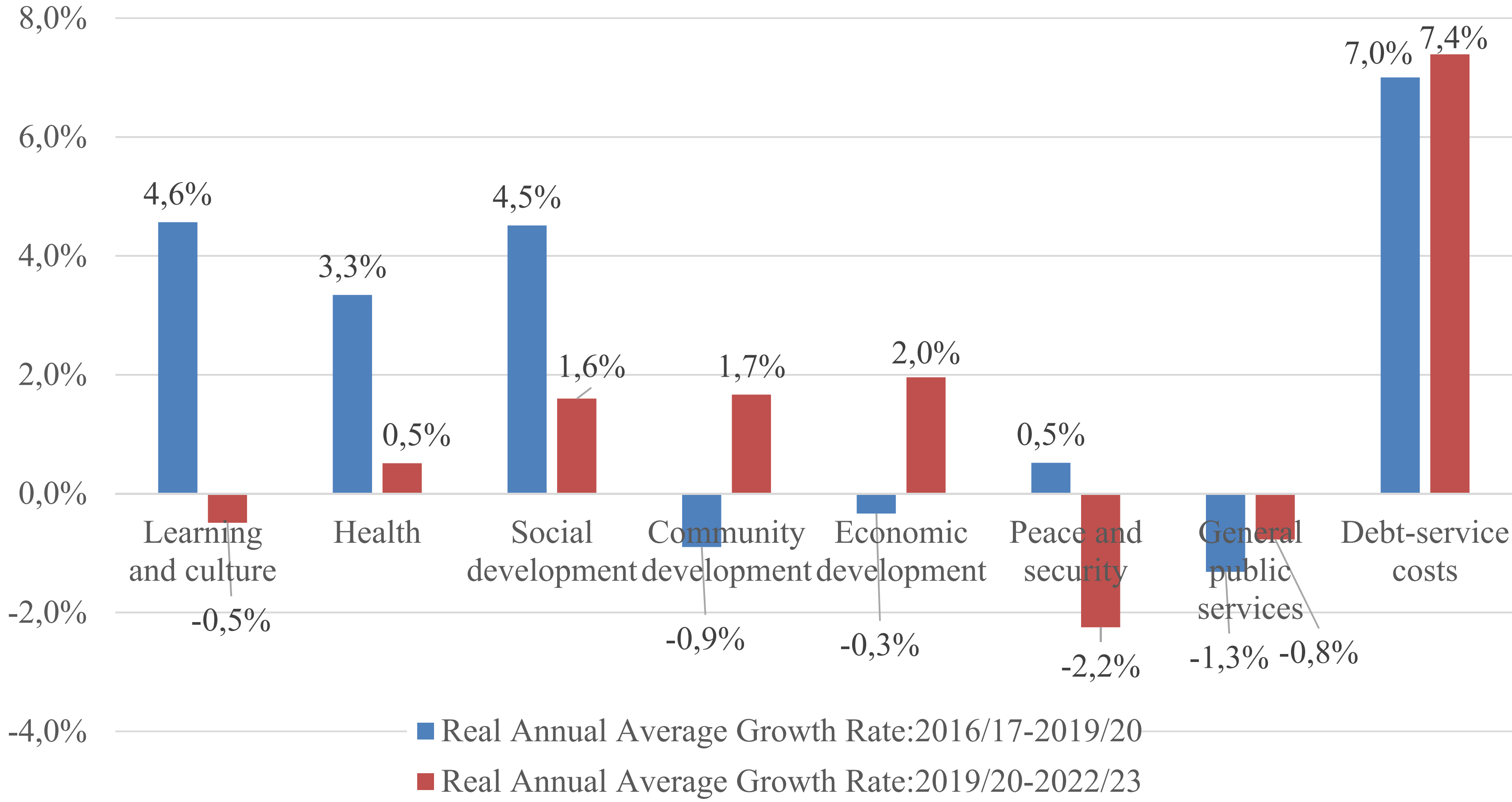


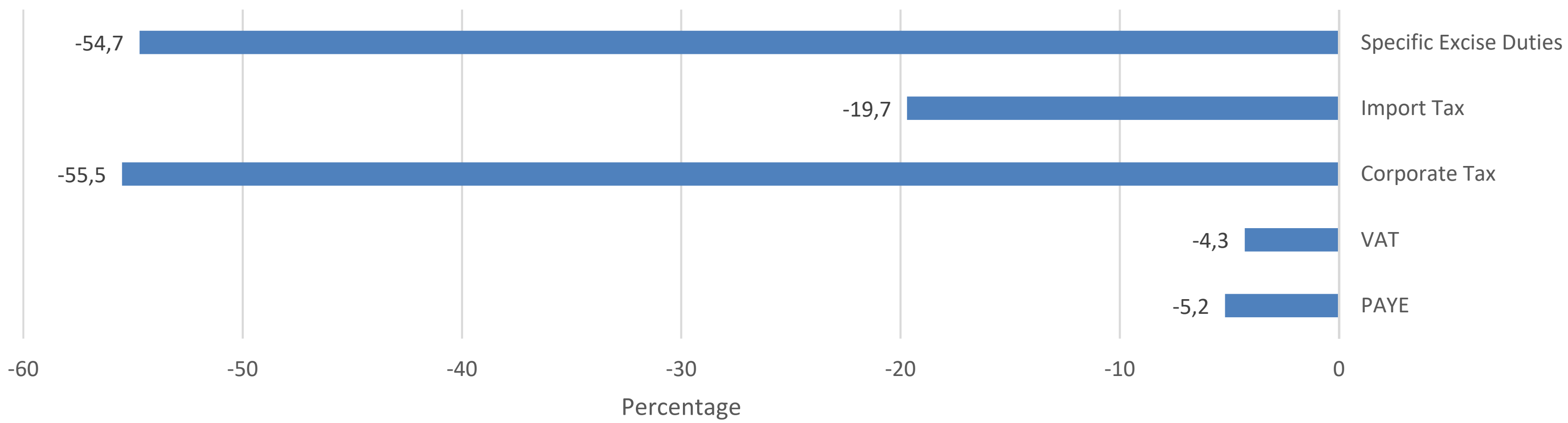
Spending by Economic Classification: Proposals in Budget 2020

R'billion	Audited Outcome 2016/17	Revised Estimate 2019/20	MTEF Estimate 2022/23	Real Annual Average Growth Rate - 2016/17--2019/20	Real Annual Average Growth Rate - 2019/20-2022/23
Current payments	**872.0**	**1,095.9**	**1,286.3**	**3.2%**	**0.9%**
Compensation of employees	510.3	629.2	697.1	2.6%	-1.0%
Goods and services	208.1	251.7	288.5	1.9%	0.1%
Interest and rent on land	153.6	215.0	300.7	7.0%	7.0%
of which: debt-service costs	146.5	205.0	290.1	7.0%	7.4%
Transfers and subsidies	472.9	599.7	713.4	3.5%	1.4%
Payments for capital assets	**93.6**	**82.8**	**109.0**	**-8.2%**	**4.8%**
Buildings and other capital assets	72.8	63.7	85.7	-8.5%	5.6%
Machinery and equipment	20.8	19.1	23.3	-7.1%	2.2%
Total	1,445.7	1,843.5	2,136.0	3.7%	0.5%
Contingency reserve	–	-	5.0		
Consolidated expenditure	**1,445.7**	**1,843.5**	**2,141.0**	**3.7%**	**0.5%**

- Over period 2016/17 to 2019/20, focus on compensation to employees – this is reversed over 2020 MTEF period and we see, as a result of potential wage savings, a shift in focus to capital
- As a result of Covid 19, this picture will change: for example growth in capital spending may be significantly moderated, debt services cost will increase
- On personnel:
  - Reform of the wage bill should be based on agreement on what the size and shape of the civil service should be
  - Should public servants (teachers, nurses, soldiers, prosecutors) bear the full burden of the need to reduce expenditure

TAX REVENUE IS UNDERPERFORMING

Tax Revenue under-recovery, April 2020



Source: SARS, 2020

- SARS has projected that revenue performance will be lower than the 2020 Budget announcement by between 15 percent and 20 percent, which translates into revenue under-recovery of R285 billion. Preliminary assessment by SARS show an under-recovery of around R9 billion for April 2020, reflecting a year-on-year decline of 8.8 percent.
- The cost of Covid-19 Tax Relief Measures is estimated at R70 billion.
- The Commission recommends that tax policy should prioritise fiscal support to ensure that the economy survive the pandemic because under the current circumstances increasing tax revenues is not a feasible policy option.

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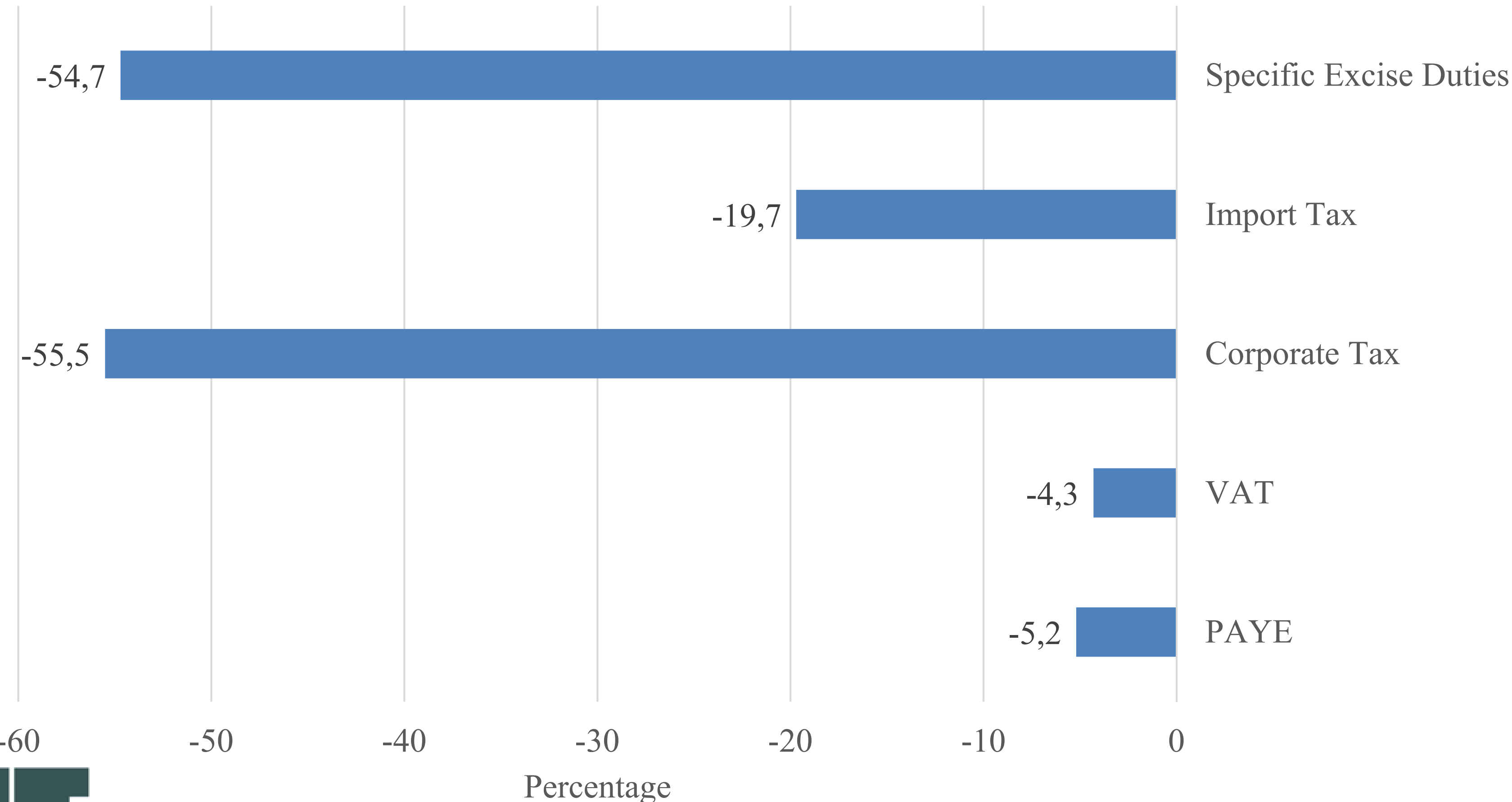
Tax Revenue under-recovery, April 2020



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* * REVENUE AND EXPENDITURE PROPOSALS-SUMMARY

- From a functional perspective, the Commission notes the shift from a purely "social sector" focus over the 2016/17 to 2019/20 period to greater emphasis on economic development, community development and social development over the next three years. The Commission welcomes this approach as it will ensure a combination of financing to ensure on the one hand, provision of a safety net to the poor (social security grants and basic services) alongside interventions to grow the economy;
- The rapid growth in debt service costs outstrips and crowds out spending on all aspects of government service delivery programmes. Projections indicate that by the end of the 2020 MTEF period, spending on debt service costs will exceed spending on health and community development;
- The assessment of spending by economic classification highlights government's attempts to rein in spending on personnel while at the same time increasing spending on capital. However the extent to which reductions in the wage bill can be effected and, if achieved, the effect it will have, especially within personnel intensive provincial departments like education and health, caused the Commission to raise the wage bill as a key risk within the 2020 Budget. In addition the Commission also raised the issue of fairness in terms of placing the burden of achieving consolidation solely on public servants;
- The analysis by vote highlights that there are certain votes which over the period reviewed can be categorised into those that are relatively protected versus those that seem to be under pressure (reductions). The current strained economic environment calls for careful prioritisation to ensure that all resources, big or small, are allocated in the best possible way.

Covid-19 Fiscal and Monetary Response for Transformation and Growth

* Covid-19 Reinforces the Cyclical Downturn

- The Covid-19 crises hit the SA economy when it was already on a cyclical downward
- The 2020/21 budget provided little impetus for growth with expenditure growing at a negative rate in real terms

R billion	2019/20	2020/21	2021/22	2022/23	Real average growth
	Revised estimate	Medium-term estimates			
Revenue	1 517.00	1 583.90	1 682.80	1 791.30	-0.0031%
% of GDP	29.40%	29.20%	29.20%	29.20%	
Expenditure	1 843.50	1 954.40	2 040.30	2 141.00	-0.0141%
% of GDP	35.70%	36.00%	35.40%	34.90%	
Budget balance	-326.6	-370.5	-357.5	-349.7	-0.0641%
% of GDP	-6.30%	-6.80%	-6.20%	-5.70%	
Real GDP growth	0.3%	0.9%	1.3%	1.6%	

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* 2020/21 Fiscal Framework is at Risk

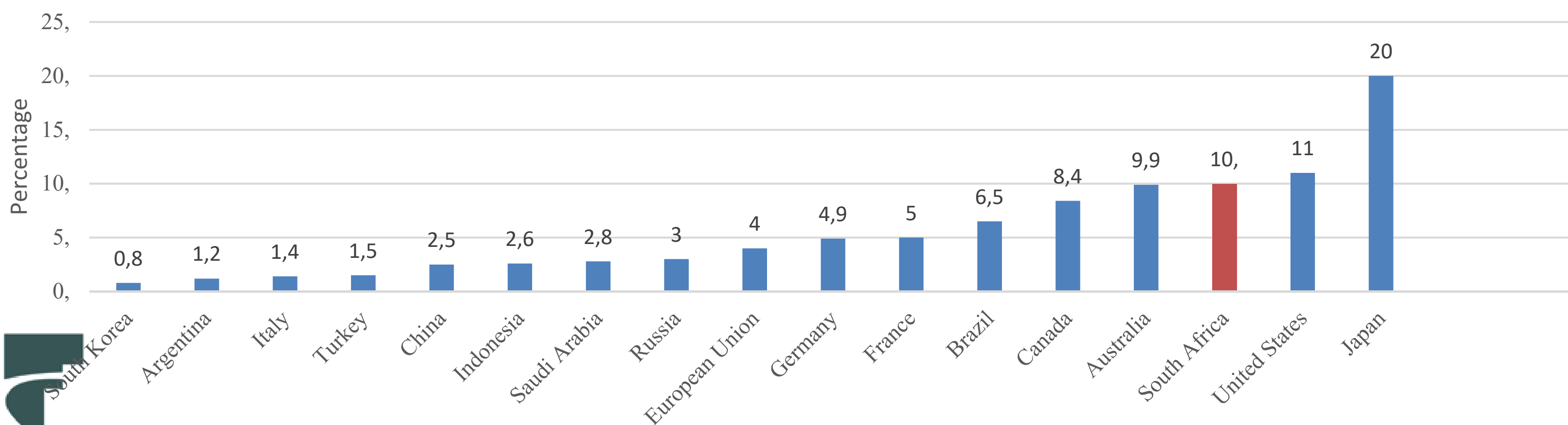
- The fiscal framework tabled in February is no longer attainable due to the Covid-19 induced economic shutdown and slump
- Estimates indicates that the economy is likely to contract by 6 to 16 percent depending on the longevity and severity of the economic shutdown

R' billion	2020/21 Budget	Revised GDP contraction estimates		
		6%	12%	16%
GDP	R 5 428	R 5 151	R 4 776	R 4 559
Main budget revenue	R 1 398	R 1 315	R 1 232	R 1 176
Revenue as % of GDP	25.80%	25.80%	25.80%	25.80%
Revenue shortfall		R -83	R -165.63	R -222
Main budget expenditure	R 1 766	R 1 766	R 1 766	R 1 766
Main budget balance deficit	R -368	R -451	R -534	R -590

COMMISSION

* * SA Government Economic Response to Covid-19

- Government has introduced a combined fiscal and monetary response amounting to R1 trillion
  - R500 billion comprises of fiscal support
  - Another R500 billion is made up of monetary and financial market interventions
- The fiscal is purportedly equivalent to 10% of GDP (18% when monetary response is taken into account)



Source: International Monetary Fund

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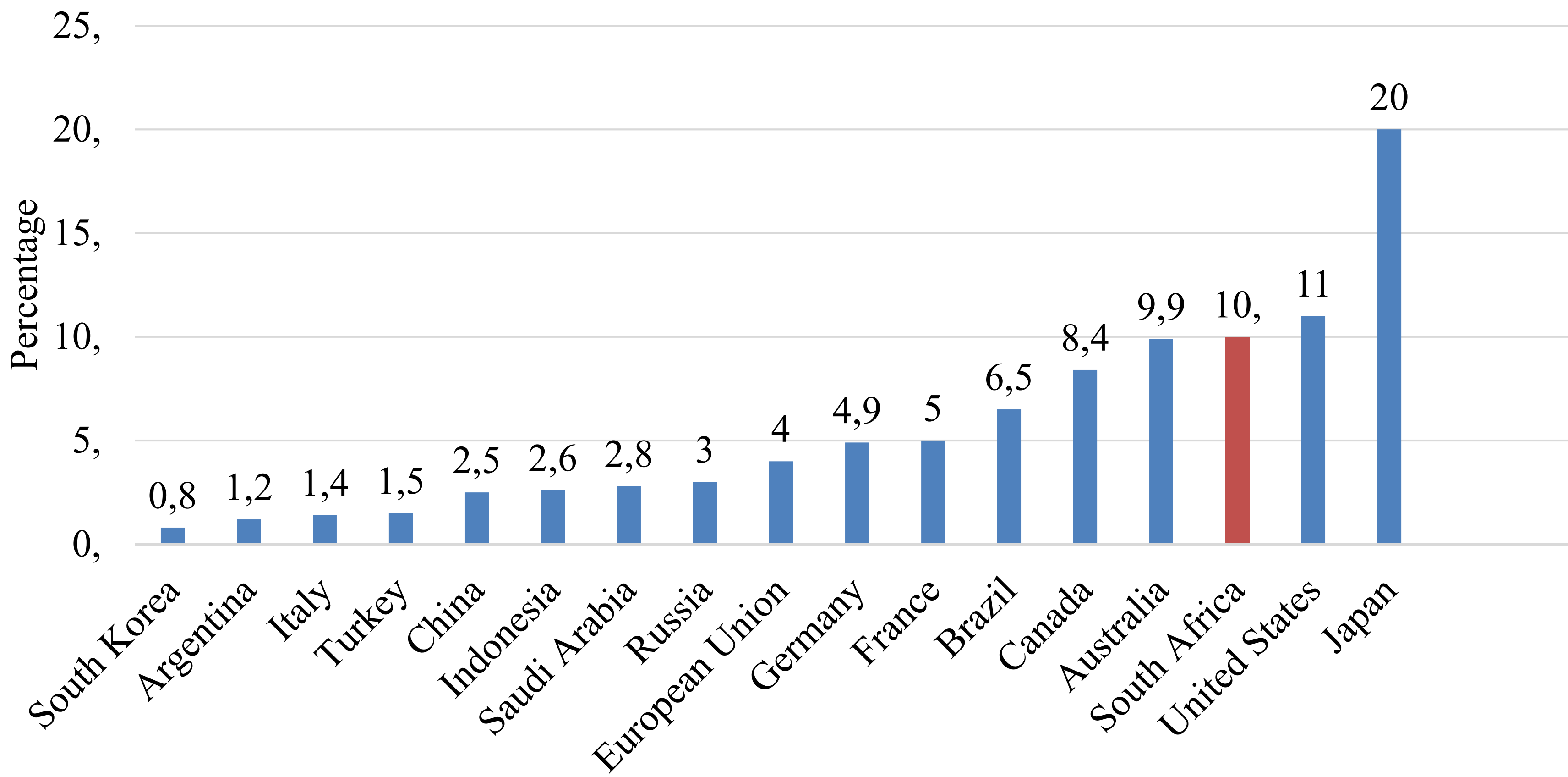
* SA GOVERNMENT ECONOMIC RESPONSE TO COVID-19



Source: International Monetary Fund

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POLICY INTERVENTIONS FOR EFFECTIVE STIMULUS

- Extended unemployment insurance benefits
- Nutritional support to poor households and unemployed
- Fiscal relief for subnational governments
- Direct cash transfers for vulnerable people to meet basic need
- Public employment program/Subsidised job opportunities for the unemployed
- Housing assistance to reduce evictions and homelessness

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* * Breakdown of Fiscal and Monetary Responses

Expenditure	Amount (R' billion)
Health – Covid-19 intervention	R20
Municipal allocation	R20
Social and basic income grant	R50
Job creation and support for SMEs and Informal sector	R100
Salary income support (UIF)	R40
Tax relief	R70
Business loan guarantee scheme	R200
Total	**R500**

- Monetary response package include:
  - 225 basis point interest reduction
  - Relaxation of credit extension regulations
  - Repurchasing of bonds in the secondary market
  - Discretionary credit payment holidays

* * Funding Sources for Covid-19 Fiscal Response

- Government has been vigilant to call its response a stimulus
- Only R95 billion of the total fiscal package constitute new injection into the economy
  - The debt is intended for business support and jobs protection
- There is no discernable baseline increase to the R1.95 trillion budget tabled in February arising from the R500 billion fiscal package

Source	Amount R' billion
Credit guarantee scheme	R200
Budget reprioritisation	R130
Borrowing from multilateral finance institutions for business support	R95
Transfers and subsidies from social security funds	R60
2020/21 Social development baseline budget	R15
Total	R500

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* Tax Policy Measures

Impact of COVID-19 tax measures	Liquidity/Interest free loan (R billion)	Revenue cost (R billion)
Expansion of employment tax incentive to pay up to R750 to all employees with an income below R6,500 per month		15
Deferral of 35 per cent of PAYE liability for four months for businesses with expected gross income of less than R100 million	19	2
Deferral of 35 per cent of provisional tax payments for the next six months for businesses and the self-employed with expected gross income of less than R100 million	12	3
Skills development levy holiday for four months		6
A 90-day deferral for alcohol and tobacco excise duty due to be paid in May and June 6	6	
Three-month deferral for filing and payment date of carbon tax 2	2	
Case-by-case application for deferral 5	4	
Total	44	26
Grand Total		**70**

* * RELIEF OR STIMULUS

- The fiscal and monetary response in its totality represent a "gap filling" or relief measure rather than a stimulus
  - Budget reprioritisation and tax deferral are likely to have a neutral effect on aggregate expenditure and revenue
  - The R200 billion business loan guarantees is a contingent liability that will increase government guarantee exposure from the current R484 to R684 billion
- The impact of monetary policy depends on several intervening variables
  - Household debt to income ratio
  - Eligibility criteria for loan guarantee scheme and payment holidays
- High indebtedness levels are likely to neutralise the mitigating effects of monetary responses to the crises.

* * Towards a Bolder Stimulus

- GDP growth in 2020 will contract significantly (between -5.4 per cent to -20.4 per cent). Fiscal and monetary support warranted must be commensurate with the magnitude of the forecasted economic contraction.
- A more aggressive bond purchase programme by SARB is feasible and warranted would substantially strengthen liquidity in the markets.
- Government should consider its total balance sheet: Assets from PIC, GEPF UIF, National Revenue Fund, and SARB foreign exchange reserves.
- Only R95 billion could be considered a fiscal stimulus. This means that the Covid-19 stimulus falls far too short of the expected shock to the economy.

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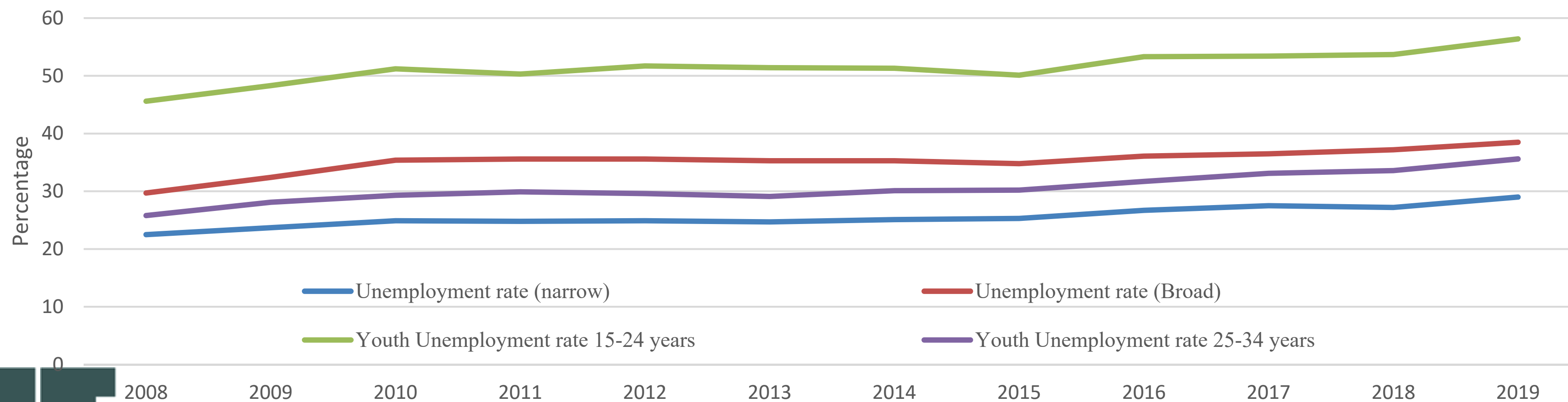
* * TOWARDS A BOLDER STIMULUS

- The R95 billion earmarked for business support, job creation and protection is not adequate given the scale of projected job losses.
- Pre-COVID-19, the economy was already plagued by a very high unemployment rate.
- More than half (56.4 per cent) of young people aged 15-24 years are unemployed



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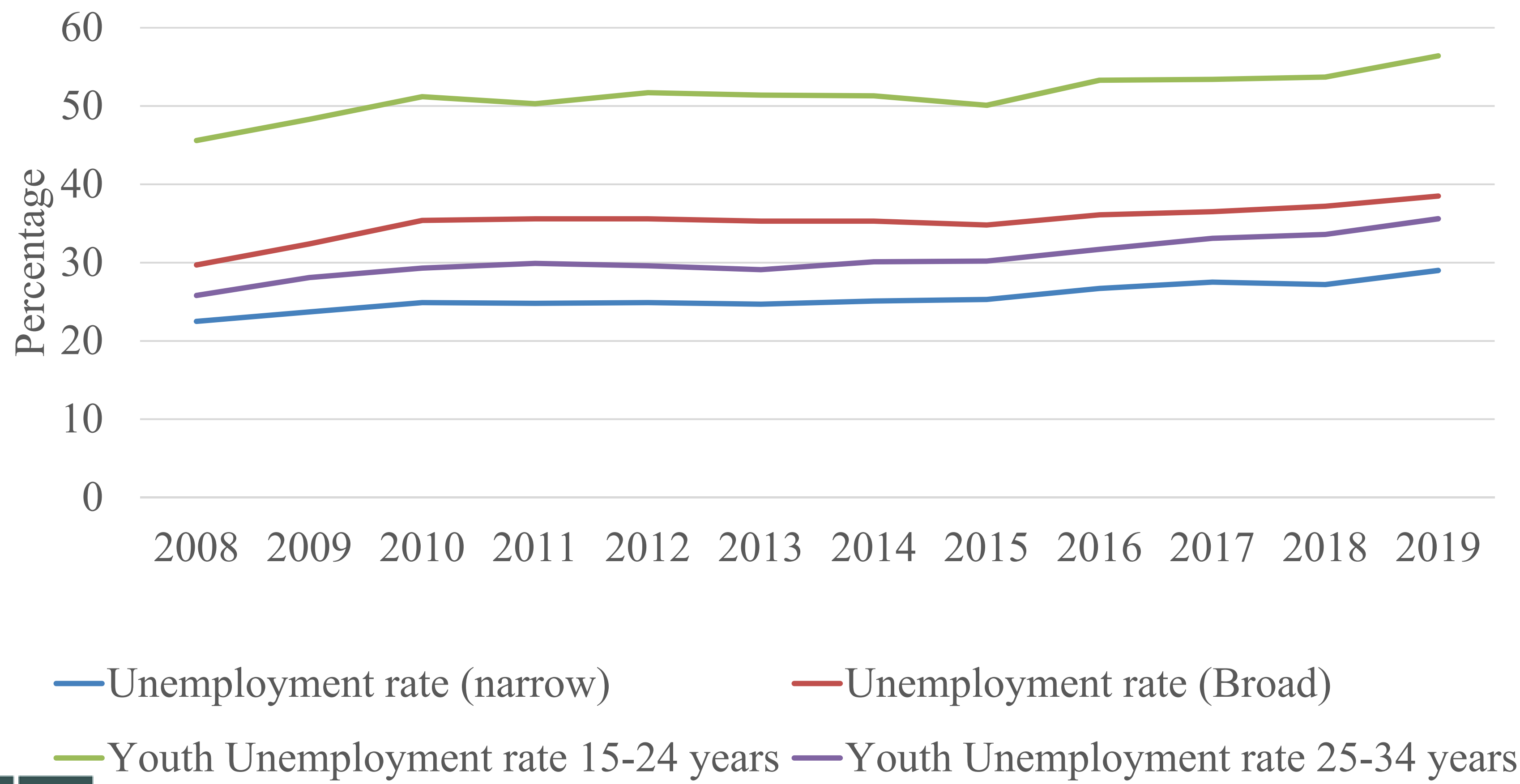
UNEMPLOYMENT (%)



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* * OVERALL ASSESSMENT OF FISCAL AND MONETARY RESPONSE

- The Commission is of the view that government's fiscal and monetary responses are targeted at policy areas proven to reduce economic distress
  - The scale of certain program need to be increased for maximum impact
- The Commission commends the immediate response to cushion businesses and households from the impact of the lockdown
- It is imperative that both the fiscal and monetary responses embraces distributional equity principles outlined in section 214 (a-j) of the constitution

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* * Towards a Broader Reform Agenda

- The Commission welcomes the reforms advocated by government in the National Treasury paper: "Economic transformation, inclusive growth, and competitiveness: Towards an Economic Strategy for South Africa".
- It is the view of the Commission that the reforms are relevant to the current economic situation because they are broadly pro-growth and they support, among other things, competitiveness and higher productivity.
- However, implementing these reforms will compete with other initiatives such as land expropriation without compensation, establishment of the national health insurance (NHI) and extension of tax incentives to selected industries, highlighting the importance of prioritisation and sequence of the reforms.
- The Commission recommends that the cycle of low growth and high inequality must be broken through bold actions aimed at giving poor South Africans better access to good jobs so that they can fully participate in the economy. It is the only way to strengthen its social contract, where the political rights gained with democracy are met with people sharing in the nation's wealth.
- Reform agenda should include:

* * Towards a Broader Reform Agenda cont'

Reform Agenda	Proposed Interventions
Improving governance and fighting corruption:	• State capture has weakened institutions and increased inefficiencies by distorting the playing field for investors, reduced tax revenue, and created incentives to circumvent regulations to deviate from good public procurement practices. There is an urgent need to rebuild institutional frameworks and institutional capacity and sustained efforts at establishing credible deterrent mechanisms
Limiting tertiary education subsidies to only poor households:	• Shifts in education spending towards additional tertiary education subsidies have been ongoing since 2016. However, international evidence shows that tertiary education spending is regressive and benefits non poor households disproportionately. • The weaker educational backgrounds of poor students disincentivises them from pursuing tertiary education than non-poor students
Exposing SA's large Co. to foreign competition	• Several economic sectors, including manufacturing and banking, are dominated by a handful of big players with significant market power. High concentration has inhibited the emergence of smaller firms- known powerful job creators. • There is a need for more competition to allow SMEs to enter mainstream economy.
Land Reform and agriculture for food security:	• In line with best international experiences, land reform should focus on enhancing agricultural productivity, improving land administration to strengthen security of tenure, and reduce poverty. • There is also a need to mitigate any potential negative effects of land reform on the agricultural base and the financial spill overs from changes in the value of land as collateral. • The Commission reiterates its 2018 Budget recommendation that government consolidate grants aimed at assisting land into one funding programme for emerging land reform farmers

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* * Towards a Broader Reform Agenda cont'

Reform Agenda	Proposed Interventions
Reducing the cost of broadband and assignment of high-demand spectrum:	• South Africa has slower internet speeds and higher data prices than most comparators. • There is a need to expedite the allocation of broadband spectrum through auctions and leveraging private sector capabilities. • A more cost-efficient network would foster technology adoption and innovation, • Enable shift towards e-learning, e-health, etc, and readiness for 4IR.
Strengthening capacity of state:	• To strengthen the capacity of state, it is important that state machinery is reorganised to minimise duplication, sharpen coordination and adopt new technologies to improve efficiencies. • It is also important for the state to invest in its key resource: frontline staff such as nurses, doctors, police officers, soldiers, refuse removal workers, and research and innovation for a data/information/evidence based decision making. Covid-19 has amplified the need for such investment – in building a capable state
Review of "means tests":	• Covid-19 has amplified challenges with "means testing"- many people have found themselves in abject poverty, with no incomes, unemployed and highly indebted and neither able to sustain themselves nor invest in their future. • Commission underscores the need for a comprehensive and consultative review of various "means tests": e.g. financial eligibility for various forms of grants or relief, student support, or even basic services in municipalities.

Where will the money come from? Reprioritisation in response to Covid-19

* * Basis for Reprioritisation

- The Commission's decisions to reprioritise away or not, was informed by the following factors:
  - **Rights based approach**: Protecting spending that caters for the basic rights of people (e.g. spending on basic services: water and sanitation, refuse removal);
  - **Equity and fairness**: Balancing rural vs urban (spatial equity), formal vs informal. For example, a grant dedicated to urban areas may be a better candidate for reprioritisation than a grant focussing on rural areas;
  - **Spending performance**: Reprioritising spending that exhibits consistent underspending, irregular or wasteful spending;
  - **Impact:** Reprioritising spending that would have the least impact on livelihoods and the economy e.g. include travel, subsistence allowances, training and catering;
  - **Spending composition**: The Commission looked at whether spending is for capacity building or infrastructure; new or existing infrastructure; spending on social relief to the poor or not; is critical to kick-starting the economy or not; Covid-19 related or not.
  - **High perennial growth:** The Commission looked at historical growth in allocations. In the Commission's view, where growth was excessive in the past, the concerned spending item becomes a good candidate for moderation.

* * Overview of Potential Areas for Reprioritisation

- In determining where to prioritise, decision makers need to distinguish between essential departments or items of spending relative to non-essential
- Essential classified as those departments/items of spending that:
  - Relate directly to fighting Covid-19
  - Secondly those departments/items of spending that assist in providing social relief to poor and vulnerable households
  - Third, are those department/items of spending that are essential to kick-starting the economy and directing government coordination, planning and spending during this time
- Non-essential departments/items of spending should be subjected to relatively more aggressive reprioritisation
- Even within priority departments/items of spending, there may be further space to reprioritise/refocus spending

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* OVERVIEW OF POTENTIAL AREAS FOR REPRIORITISATION

- Three pronged approach to reprioritisation:
  1. By department
  2. Cross cutting areas that all departments are involved in and which present opportunities for reprioritisation:
     - Compensation of employees
     - Goods and Services
       – Travel and subsistence
       – Training and development
       – Catering
       – Other (entertainment, consumables- stationery, printing, office supplies)
     - Infrastructure
       – New infrastructure
       – Existing infrastructure
  3. Conditional grants
     - Conditional grants to provinces
     - Conditional grants to municipalities

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* * Reprioritisation by Department

- Essential vs non-essential:
  - In terms of providing direct response to Covid 19 and social relief - health, social development, water and sanitation – automatically priority departments
  - In terms of assisting with effects of Covid and lockdown, departments of police and defence are key in ensuring compliance with lockdown regulations
  - Departments that are essential to kick-start the economy - transport, energy, agriculture
  - New priority departments due to the changing nature of the world we live in –departments like Communication and Digital Technologies, StatsSA and Science and Innovation

Functional Category	**Departments Directly Involved in Fighting Covid-19 and associated impacts**
Learning and Culture	Departments of Basic Education and Higher Education and Training
Health	Department of Health
Social Development	Department of Social Development
Community Services	Departments of Human Settlements, Cooperative Governance and Water and Sanitation
Economic Development	Departments of: Environment Forestry and Fisheries, Agriculture, Land Reform and Rural Development, Communication and Digital Technologies, Transport, Trade, Industry and Competition, Tourism, Small Business Development, Public Works , Employment and Labour, National Treasury, Science and Innovation and Mineral Resources and Energy
Peace and Security	Defence, Police, Home Affairs
General Public Services	Presidency, Parliament, Departments of Public Enterprises and Public Service and Administration and STATSSA, GCIS

* * Overview of Potential Areas for Reprioritisation

- Table indicates pockets of funding where reprioritisation can effected

Item of Spending (R'million)	2020/21	2021/22	2022/23	Total over MTEF period: 2020/21-2022/23
Compensation of Employees by National Departments	**187,668.1**	**200,116.5**	**208,736.4**	**596,521.0**
Goods and Services Spending by National Departments	**77,891.4**	**83,642.8**	**84,630.8**	**246,165.0**
of which:				
Travel and subsistence	6,156.0	6,476.0	6,574.4	19,206.4
Training and development	1,158.2	1,121.4	1,137.7	3,417.3
Catering	295.3	423.9	328.9	1,048.0
Total Infrastructure Spending by National Departments	**136,096.3**	**145,126.1**	**152,187.6**	**433,409.9**
of which:				
New Infrastructure by National Departments	4,930.1	6,196.6	6,828.9	17,955.6
Existing Infrastrastructure by National Departments	6,356.9	5,670.8	5,185.0	17,212.7
Total Conditional Grants Spending	154,603.3	164,159.3	171,283.8	490,046.4
of which:				
Conditional grants to Provinces	110,784.8	117,961.5	123,136.7	351,883.0
Conditional grants to Municipalities	43,818.6	46,197.7	48,147.1	138,163.4

* REPRIORITISATION BY CROSS-CUTTING THEME: **COMPENSATION OF EMPLOYEES**

- Compensation is the biggest driver of spending across most departments
- Public servants are the engine in implementing governments programmes
- Given the multiple constraints facing South Africa, the Commission recommends that government interrogates the possibility of moderating spending in this regard
- Departments in the peace and security cluster responsible for 80% of compensation spending, particularly police and defence departments

Spending on Compensation of Employees by National Departments, 2020/21-2022/23

	Medium-term expenditure estimates			**Total Over 2020 MTEF**	**% of MTEF Total**
Category (R'mil)	**2020/21**	**2021/22**	**2022/23**	**2021/22-2022/23**	
Learning and culture	11,273.08	12,003.13	12,522.19	35,798.39	6.0%
Health	905.8	958.7	991.2	2,855.67	0.5%
Social development	659.04	702.52	733.61	2,095.18	0.4%
Community development	2,817.04	2,999.28	3,129.05	8,945.38	1.5%
Economic development	13,670.30	14,551.02	15,185.08	43,406.40	7.3%
Peace and security	150,219.23	160,221.46	167,135.21	477,575.91	80.1%
General public services	8,123.67	8,680.34	9,040.09	25,844.10	4.3%
Total	**187,668.1**	**200,116.5**	**208,736.4**	**596,521.02**	**100.0%**

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* Reprioritisation by Cross-Cutting Theme: Goods and Services

- Over the 2020 MTEF period, government is projecting to spend a total of R835 billion on goods and services – of this amount, the 41 national departments are projected to spend R246 billion (over the next three years)
- Departments in peace and security, economic development functional categories are responsible for the largest share of spending on goods and services, implying that there may be room for reprioritisation within these departments

Spending on Goods and Services expenditure by National Departments, 2020/21-2022/23

	Medium-term expenditure estimates			Total Over MTEF	% of MTEF Total
Category (Rmil)	**2020/21**	**2021/22**	**2022/23**	**2021/22-2022/23**	
Learning and culture	3,361.45	3,549.27	3,787.84	10,699	4.3%
Health	2,102.9	2,268.9	2,290.32	6,662	2.7%
Social development	486.58	522.71	541.49	1,551	0.6%
Community development	6,722.29	7,068.45	7,360.06	21,151	8.6%
Economic development	15,242.26	16,153.59	16,630.70	48,027	19.5%
Peace and security	44,400.32	46,971.50	48,796.14	140,168	56.9%
General public services	5,575.50	7,108.39	5,224.29	17,908	7.3%
Total	**77,891.4**	**83,642.8**	**84,630.8**	**246,165**	**100.0%**

* REPRIORITISATION OF GOODS AND SERVICES ITEM: **TRAVEL AND SUBSISTENCE**

- Travel and subsistence spending by national departments is projected at R19.2 billion over the next three years – peace and security cluster
  - There is room for reprioritizing from this spending item because travelling will be restricted in line with the restriction to fight covid-19

Travel and Subsistence Spending by National Departments over the 2020 MTEF period

Category (R'mil)	Medium-term expenditure estimates			Total Over MTEF	% of MTEF Total
	2020/21	2021/22	2022/23	2021/22-2022/23	
Learning and culture	410.08	420.25	433.67	1,263.99	6.6%
Health	113.3	122.4	124.30	360.01	1.9%
Social development	97.77	108.90	110.74	317.40	1.7%
Community development	277.87	291.49	303.78	873.13	4.5%
Economic development	1,276.93	1,351.76	1,407.87	4,036.56	21.0%
Peace and security	3,037.68	2,987.47	3,152.74	9,177.89	47.8%
General public services	942.34	1,193.69	1,041.34	3,177.37	16.5%
Total	**6,156.0**	**6,476.0**	**6,574.4**	**19,206.35**	**100.0%**

* Reprioritisation of Goods and Services Item: Training and Development

- Projections show that on aggregate, the 41 national departments will spend R3.4 billion on training over the next three years (R1.2 billion in 2020/21, R1.1 billion in 2021/22 and R1.1 billion in 2022/23) –mostly peace and security and economic development departments
- This spending presents a good opportunity for reprioritisation - where planned training is not essential, the funds should be diverted to fighting Covid-19

Proposed Spending on Training and Development by Functional Category over the 2020 MTEF

Category (R'mil)	Medium-term expenditure estimates			Total Over MTEF	% of MTEF Total
	2020/21	2021/22	2022/23	2021/22-2022/23	
Learning and culture	58.85	59.54	62.20	180.58	5.3%
Health	23.0	27.4	28.4	78.75	2.3%
Social development	8.89	9.28	9.64	27.80	0.8%
Community development	141.41	149.72	155.67	446.80	13.1%
Economic development	392.50	362.72	377.19	1,132.40	33.1%
Peace and security	468.39	455.44	442.25	1,366.08	40.0%
General public services	65.17	57.33	62.41	184.91	5.4%
Total	**1,158.2**	**1,121.4**	**1,137.7**	**3,417.32**	**100.0%**

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* Reprioritisation of Goods and Services Item: **Catering**

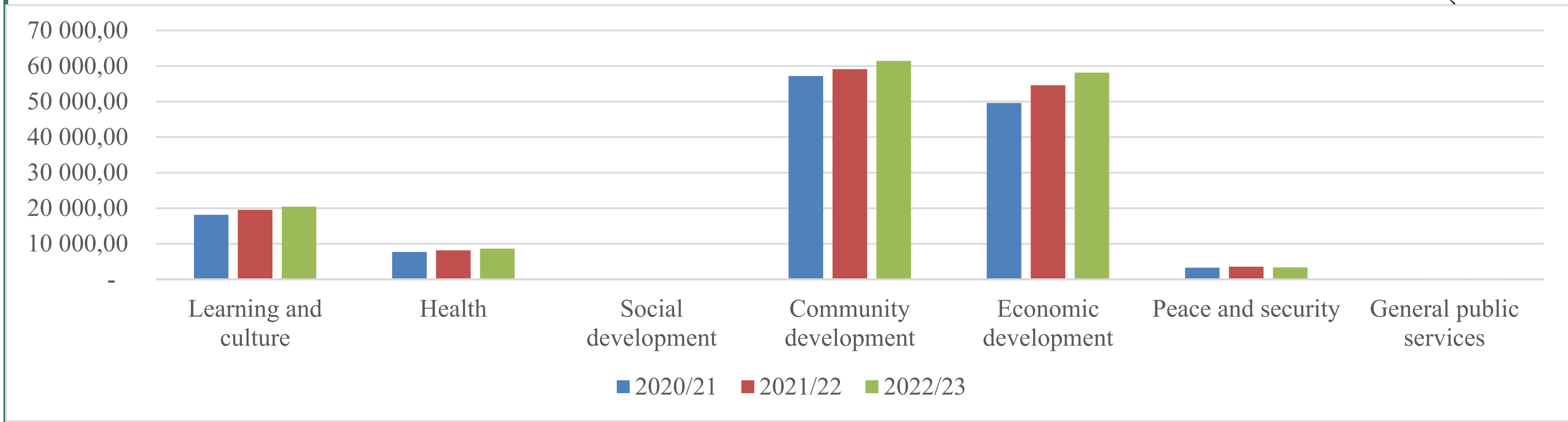
- National departments plan to spend R1 billion on catering over the next 3 years (R295 million 2020/21, R424 million in 2021/22 and R329 million in 2022/23) – bulk of spending by departments in peace and security and general public services clusters
- This non-essential item of spending should be reprioritised

National Departments' Spending on Catering over the 2020 MTEF period

Category (R'mil)	Medium-term expenditure estimates			Total Over MTEF	% of MTEF Total
	2020/21	2021/22	2022/23	2021/22-2022/23	
Learning and culture	40.16	43.24	44.58	127.97	12%
Health	4.0	4.7	4.8	13.51	1%
Social development	10.51	11.16	11.66	33.33	3%
Community development	24.54	25.92	27.21	77.67	7%
Economic development	60.61	63.98	66.14	190.72	18%
Peace and security	105.56	111.93	114.69	332.18	32%
General public services	49.89	162.99	59.76	272.63	26%
Total	**295.3**	**423.9**	**328.9**	**1,048.02**	**100%**

* Reprioritisation of New & Existing Infrastructure

- The total 2020 MTEF public infrastructure spending amounts to R815 billion
- National departments are planning to spend R433 billion of this amount (R136.1 billion in 2020/21, R145.1 billion in 2021/22 and 152.2 billion in 2022/23)



Infrastructure spending has traditionally been utilised as a lever for promoting growth.

- Government committed R100 billion (the R 100 million is under provisional allocations not assigned to votes), including R10 billion over the next three years, to the infrastructure fund.
- The fund includes new funding, new guarantees and repackaging of existing projects. The fund focuses on blended-finance projects and aims to increase private sector investment in public infrastructure. Projects to be funded vary from student accommodation, social housing, rail freight branch lines, embedded electricity generation, municipal bulk infrastructure, provincial road infrastructure and upgrades of national roads and broadband rollout. Government may need to rethink the quantum of funding committed to this fund and perhaps moderate it and redirect funds towards fighting Covid-19/ programmes

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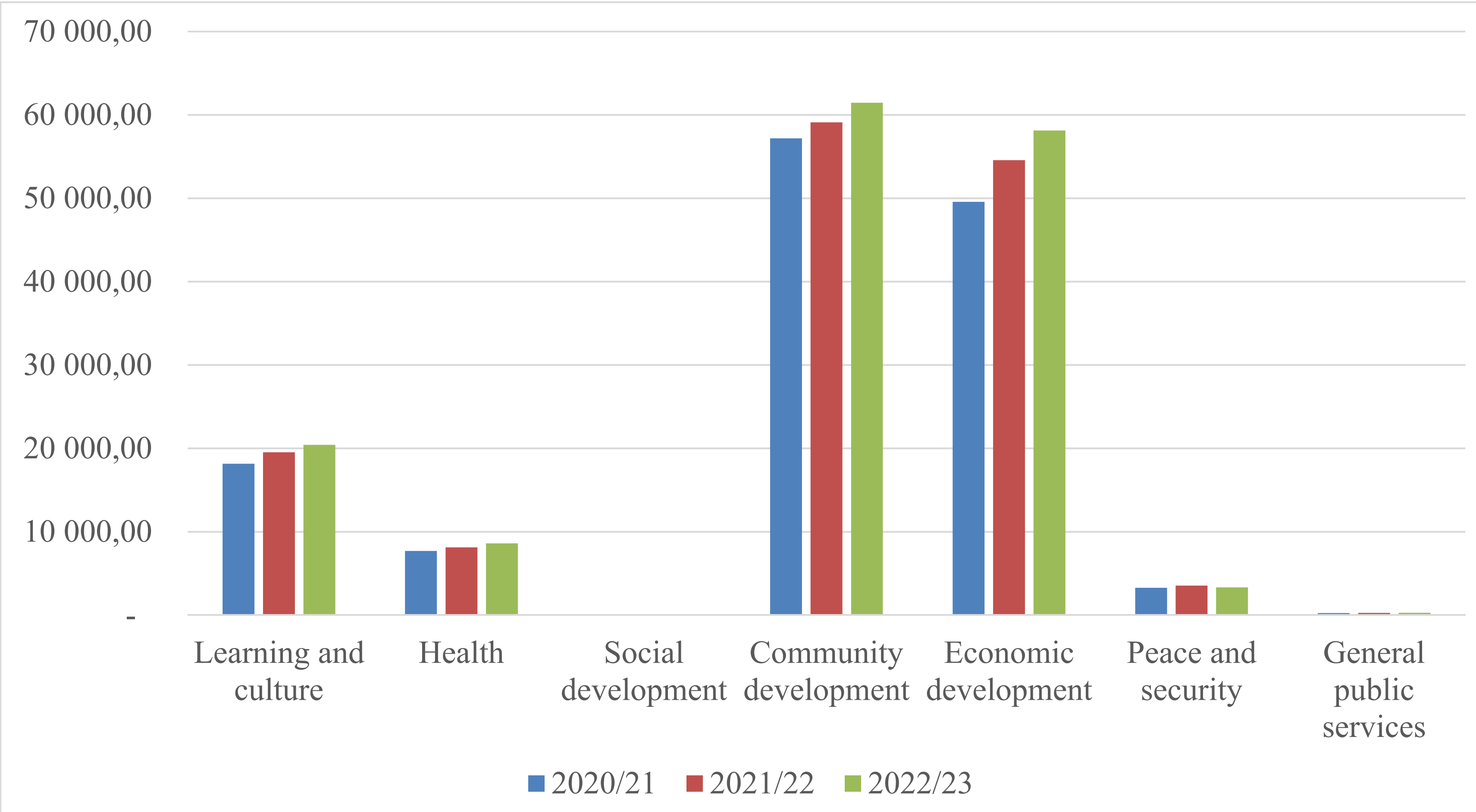
Reprioritisation of New & Existing Infrastructure



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* * Reprioritisation of New & Existing Infrastructure

- *Suspension/deferral of new projects* where such infrastructure in not essential to fighting Covid-19
  – R18 billion budgeted for new infrastructure over the next 3 years
  – What is required is an assessment of which of the new infrastructure projects can be deemed non-essential and therefore deferred and funding reprioritised
- *Deferral of spending on existing infrastructure:* non essential repairs/maintenance, upgrading or rehabilitation
  – National departments set to spend R17.2 billion on existing infrastructure projects over 2020 MTEF
  – Commission advises caution if reducing spending on existing infrastructure. If this option is pursued decisions must be based on facility condition assessments or asset lifecycle data so as to determine whether maintenance can be delayed or not

Planned Infrastructure Spending by National Department over the 2020 MTEF

R'million	MTEF Estimates			Total over MTEF
	2020/21	2021/22	2022/23	
New infrastructure assets	**4,930.1**	**6,196.6**	**6,828.9**	**17,955.6**
Existing infrastructure assets	**6,356.9**	**5,670.8**	**5,185.0**	**17,212.7**
of which				
Upgrading and additions	4,164.5	4,309.6	4,050.8	12,524.9
Rehabilitation, renovations and refurbishment	1,519.6	737.2	864.2	3,121.0
Maintenance and repairs	672.8	624.0	269.9	1,566.7

* * Summary of Conditional Grants Recommended for Reprioritisation

Department	Grant	MTEF Allocations (R'000)			Proposed Allocation over 2020 MTEF
		2020/21	2021/22	2022/23	
Sports, Art and Culture	Community Library Services Grant	1,479,093	1,584,073	1,667,002	4,730,168
	Mass Participation and Sport Development Grant	596,617	620,807	640,472	1,857,896
Basic Education	National School Nutrition Programme	7,665,887	8,125,341	8,516,464	24,307,692
	HIV/AIDS	246,699	258,542	262,204	767,445
	Maths Science and Technology	400,862	422,909	438,488	1,262,259
	Education Infrastructure Grant	11,007,967	11,710,298	12,255,026	34,973,291
	School Infrastructure Backlogs Grant	1,736,413	2,295,101	2,424,189	6,455,703
Human Settlements	Urban Settlements Development Grant	11,281,871	7,404,711	7,352,723	26,039,305
	Human Settlements Development Grant	16,620,732	13,413,593	13,870,574	43,904,899
	Title Deeds Restoration Grant	577,823	_	_	577,823
Cooperative Governance	Municipal infrastructure grant	14,671,101	15,936,791	16,852,001	47,459,893
Water and Sanitation	Regional bulk infrastructure grant	2,005,605	2,156,025	2,280,772	6,442,402
	Water services infrastructure grant	3,445,165	3,620,327	3,701,019	10,766,511
Health	National Tertiary Services grant	14,068,863	14,694,223	15,293,501	44,056,587
	Health Facility Revitalisation Grant	6,367,652	6,658,028	7,033,913	20,059,593
	NHI Indirect Grant	740,400	727,328	734,350	2,202,078
Agri, Land Reform & Rural Development	Comprehensive Agricultural Support Grant	1,522,190	1,619,895	1,671,590	4,813,675
Transport	Provincial Roads Maintenance Grant	11,593,174	11,937,511	12,506,785	36,037,470
	Public Transport Operations Grant	6,749,581	7,120,808	7,090,432	20,960,821
	Public Transport Network Grant	6,445,848	6,796,572	7,119,154	20,361,574
National Treasury	Integrated City Development Grant	317,499	341,312	360,886	1,019,697
	Neighbourhood Development Partnership Grant	559,442	566,611	593,074	1,719,127
	Financial Management Grant	544,862	574,829	596,005	1,715,696
Public Works & Infrastructure	EWP Integrated Grant for Municipalities	748,039	789,982	819,088	2,357,109

**REPRIORITISATION OF CONDITIONAL GRANTS

Conditional Grant	Proposal
Community Library Services Grant **	The grants focuses on different types of infrastructure (building new libraries, maintenance and upgrading of existing libraries) as well as capacity building. There are also funds earmarked within this grant for assisting with shifting of function from provinces to municipalities. Given the focus on infrastructure and the fact that due to restrictions on movement and group activities, libraries are/will not be operating at full capacity, funding under this conditional grant should be considered for reprioritisation. Whilst construction of new libraries can be delayed, an assessment of urgent maintenance/rehabilitation needs should be undertaken and those funds should not be reprioritised.
Mass Participation and Sport Development Grant**	Deemed relatively non-essential and recommended that funding in respect of this grant be largely reprioritised. In deciding on the extent to which to reprioritise government should consider that this grant allows for the hiring of staff on a 3 year basis. This provision is allowed for under the management component of the grant and therefore to assist provinces with these staff costs, the 8% allocated in respect of the management component could be protected
National School Nutrition Programme	Given that a phased approach will be taken to the reopening of schools it implies that this programme (and funding) will also restart slowly, focussing on Grades 12 and 7 and then pick up steam as more grades/learners return. In relation to the 1577 cases of schools burglaries, the DBE has indicated that common targets within these schools have been nutrition centres, specifically food items. Recommended that in the short term when schools are not operating at full capacity, a portion of the funding from this grant be used for assisting those schools that have been affected by these burglaries. Efforts could focus on replenishing food items and providing assistance where kitchen utensils/equipment/facilities have been affected which are components that the grant does cover

Reprioritisation of Conditional Grants

Conditional Grant	Proposal
HIV/AIDS	Whilst this is the smallest grant in the sector, there are potential aspects that could be halted and the related funding reprioritised. One example includes: the grant guidelines indicate that 20% of the allocation be used for advocacy and social mobilisation through the hosting of events. Given the current restriction on social distancing and group gatherings, spending on this element of the grant can be cut and redirected to more essential spending.
Maths Science and Technology	Whilst this is one of the smaller grants within the sector, slight reductions are possible and should be considered. For example with respect to funding for the teacher support component, aspects of the funding are related to training and can thus be deferred and the funding reprioritised. In respect of learner support – this entails allocations to fund the participation of learners in olympiads/fairs/expos/learner camps. For now, the funding of these activities should be halted and funding reprioritised to where needed
Education Infrastructure Grant	Grant be adjusted to focus on: essential maintenance, upgrading and rehabilitation within schools, especially where related to water and sanitation. Secondly that funds be used to assist provincial education departments to address the most pressing areas of damage, caused by the 1577 school burglaries, especially damages that threaten the safety and hygiene of learners and schools staff as schools reopen
School Infrastructure Backlogs Grant	It is proposed that the bulk of this grant be refocused on ensuring provision of water and sanitation in schools. Ensuring proper hygiene is key in fighting Covid 19 therefore provision of water and sanitation is essential as schools begin phased reopening. Funding in this regard should be specifically focussed on those provinces where backlogs in school water and sanitation are most severe

Reprioritisation of Conditional Grants

Conditional Grant	Proposal
Municipal Infrastructure Grant	Given that the formula for this grant prioritizes water and sanitation, and the possibility that all non-metropolitan municipalities have water and sanitation related projects in their IDPs and MIG implementation plans. It is therefore proposed that the Department of Cooperative Governance, Department of Water and Sanitation, and National Treasury consider allowing municipalities to fast-track the implementation of water and sanitation projects for the 2020 MTEF, and make alteration on the descriptions of planned projects to support government covid_19 responses. It is also proposed that the Department of Cooperative Governance together with the National Disaster Management Centre should apply for reallocation of funds within in this grant in terms of clause 6(a)- (e) of the division of revenue bill
Water Services Infrastructure Grant and Regional Bulk Infrastructure Grant	Given that the conditions of these grants allow for the direct components to be used to fund drought relief interventions. It is proposed that municipalities are allowed to apply to DWS to use the funds in the drought relief allowance for Covid_19 responses
Human Settlements Development Grant	Improving housing living conditions is essential to reduce the spread of coronavirus therefore if there is a likelihood for underspending on this grant as a result of the lockdown that has slowed activities in the construction sector, it is proposed that some funding be rerouted to urgent needs within the sector such as the provision of emergency housing
Title Deeds Restoration Grant	This grant is for title deeds restoration and while it is important to reduce title deeds backlog and ensure that households who are beneficiaries receive confirmation of ownership, this process can be deferred. It is proposed that funding be rerouted to address demands of the Covid-19 within the human settlements sector, for example increasing municipal emergency housing resources

Reprioritisation of Conditional Grants

Conditional Grant	Proposal
National tertiary services grant	The national tertiary services grant is aimed at enabling provinces to plan, modernize and transform tertiary hospital service delivery in accordance with national policy objectives. This grant funds medical specialists, equipment and advanced medical investigation and treatment across all nine provinces. Given the ongoing health crisis and the demands its placing on all provincial health facilities, significant reprioritization of the grant towards Covid-19 related services can be considered.
The health facility revitalization grant	The purpose of the health facility revitalization grant is to fund the construction and maintenance of health infrastructure. This includes large projects to modernize hospital infrastructure and equipment, general maintenance and infrastructure project in smaller hospitals. Large hospital infrastructure spending can be delayed for funding Covid-19 health interventions. Expenditure on things such as refurbishment and upgrading of nursing collage and schools can also be deferred to allow for Covid-19 related expenditure.
National health insurance indirect grant	The purpose of the National Health Insurance indirect grant: health facility revitalization component is to ensure appropriate health infrastructure that is in line with national and provincial objectives. This includes upgrading, refurbishing and new infrastructure in line with the objective of the National Health Insurance (NHI). The health facility revitalization component of the grant can be reprioritized towards Covid-19 health related spending. For example, spending on upgrading and refurbishing of health facilities can be reprioritized towards ensuring preparedness for a potential surge of Covid-19 patients.

Reprioritisation of Conditional Grants

Conditional Grant	Proposal
Compréhensive agricultural support programme Grant	The comprehensive agricultural support programme grant supports newly established and emerging farmers with focus on subsistence, smallholder and previously disadvantaged farmers. Subsistence and smallholder farming play an important role in poverty alleviations especially in rural areas. This grant can be more targeted to ensure enough support for smallholder and Subsistence farmers to stay afloat and can meet their liquidity requirements. Mitigating the effects of Covid-19 lockdown of smallholder farmers' access to markets and value chains.
Provincial roads maintenance grant	The purpose of the provincial roads' maintenance grant support for the cost of maintaining provincial roads. The grant is specifically for cost of maintenance (not construction) which includes upgrading existing roads. The maintenance of existing roads remaining important, however, upgrading of existing roads can be deferred. The upgrading of existing infrastructure may not be urgent during this pandemic. The grant allocation can be cut so that funds intended for upgrading of existing road infrastructure can be reallocated towards support public transport covid-19 interventions
Public transport operations grant	The purpose of the public transport operations grant is to subsidy commuter bus service so that provinces can provide public transport services. This conditional grant, which is supplementary, is a national contribution to subsidised service contracts entered by the provincial departments of transport and public transport operators for the provision of affordable subsidised transport services. While public transport subsidies are important in reducing the cost of transport for poor commuters, there is an opportunity for slight cuts given the travel restriction which are likely to be in place for a considerable time. The cuts are can reallocated for ensuring public transport is complies with transport sanitization requirements.

Reprioritisation of Conditional Grants

Conditional Grant	Proposal
Public Transport Network	The purpose of the public transport network grant is to fund the infrastructure and operations of integrated public transport networks in 13 cities across South Africa. There is an opportunity for significant reprioritization of this grant. The construction of the new bus routes can be delayed, and the funds reprioritized towards the fight the Covid-19
Integrated city development grant	This is a supplementary grant for infrastructure. Its purpose is to financially incentivize metropolitan municipalities to address compact urban spatial programmes. The grant has conditions which include allocations for programme and project preparations. Thus municipalities who have plans and not started with planning, that can be delayed so that the portion of the grant can be reprioritised for infrastructure related to Covid-19 in the municipalities, whilst those municipalities who have started with planning activities can continue.
Neighbourhood development partnership grant	This supports municipalities in developing and implementing urban network plans. The grant funds the upgrading of identified precincts in order to stimulate third-party public and private investment. The grant also has a portion to fund new projects in non-metropolitan municipalities- this portion of funding can be redirected for Covid-19 activities with the municipalities
Local government financial management grant- capacity conditional grant	This funds the placement of financial management interns in municipalities and the modernisation of financial management systems. The grant does a critical role in making sure of municipalities finances are in line with MFMA whilst also recruiting graduates in the process to assist. Priority can be exercise in this grant to municipalities with challenges in their financial management processes or those with disclaimers so as to channel other funding to Covid-9

Reprioritisation of Conditional Grants

Conditional Grant	Proposal
The EPWP integrated grant for municipalities	The purpose of the grant is to incentives municipalities to create jobs by using labour intensive methods. Some components of the grant can be reprioritised such as tourism and cultural services given the restrictions / regulation towards movement of people and social gatherings and more so reprioritised to the essential services of water and sanitation reticulation for hygiene as per the requirements of the Covid-19 including refocus on awareness campaigns to the impact of Covid-19.

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* * Other Opportunities for Cost-Saving/Efficiencies

- Key to stimulating cost efficiencies/savings is instilling a culture that is intolerant to waste and corruption amongst all workers and across all organs of state.
- There is much room to ensure more efficient and effective government spending. High incidences of wasteful, irregular and unauthorised expenditure remain a major challenge in the public sector (particularly within municipalities) and is reported on annually by the Auditor General. Related to this is poor consequence management - municipalities are not taking sufficient steps to recover, write off, approve or condone unauthorised, irregular and fruitless and wasteful expenditure
- Covid-19 has spurred the adoption of new technologies and business models- forced us to embrace digital technology -remote working, e-delivery of education: this should continue to realise more savings
- Reorganisation of the state through restructuring programmes found with irregularities, fraud and corruption

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Concluding Remarks

* * On the Economy

The Commission recommends that:

- Government reconsider the fiscal consolidation stance on condition that the spending increase is directed at social relief in the short run and growth inducing activities in the long run. The relaxation of the fiscal consolidation must be accompanied by robust reform focusing on the following:
    - Digital education, land reform and agriculture for food security, improving governance and fighting corruption and reviewing the subsidy framework for social programs
- **Reprioritise** public sector functions by **Reorganising** the State.
    - Restructure programmes found with irregularities, fraud and corruption.
    - Inefficiencies in essential services delivery (i.e. health) must be addressed.
    - Non-essential public service functions must be reviewed and rationalised with resources diverted to essential services.
- **Reprioritise** economic development by **Reorganising** market industries
    - Certain industries will not become viable (e.g. aviation, tourism)
    - Identify potential markets from a local economic value chain perspective
    - Set up state factories and manufacturing plants to fill in gaps in the product value chain.
    - Prioritise local government basic services and infrastructure: water, electricity and refuse.
- **Reprioritise** market productivity by **Reorganising** incentives
    - Deregulate market rigidities to bolster agility, capabilities and innovation.
    - Regulate missing markets to expand the tax base while managing moral hazard.
    - Breakup market concentration, collusion and cartelisation.
    - This includes resolving the inherent inequalities between private and public healthcare markets and therefore, inefficiencies of our healthcare system by taking cogent strides towards a universal healthcare system of the National Health Insurance (NHI).

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* * On the Reform Agenda

- To turnaround the economy, reduce poverty and inequalities, the Commission notes a bigger reform agenda for government that includes:
  - Fighting corruption and improving governance;
  - Limiting tertiary education subsidies to only poor households;
  - Reducing high levels of concentration in the economy;
  - Improving land reform and agriculture for food security;
  - Reducing the cost of broadband and assignment of high-demand spectrum;
  - Strengthening capacity of State;
  - Reviewing of "means tests" across the board.

* * On Expenditure and Revenue Proposals

- From a functional perspective, the Commission notes the shift from a purely "social sector" focus over the 2016/17 to 2019/20 period to greater emphasis on economic development, community development and social development over the next three years. The Commission welcomes this approach as it will ensure a combination of financing to ensure on the one hand, provision of a safety net to the poor (social security grants and basic services) alongside interventions to grow the economy;
- The analysis by vote highlights that there are certain votes which over the period reviewed can be categorised into those that are relatively protected versus those that seem to be under consistent pressure (reductions). The current strained economic environment calls for careful prioritisation to ensure that all resources, big or small, are allocated in the best possible way and towards Covid-19
- The Commission thus proposes that government fiscal response to Covid-19 should be guided by the following sequencing principle:
  - Short term- Support stability of the health care system and reimburse provinces for additional cost burden
  - Medium term - focus on preventing socio-economic hardships, ensuring food security and preserving livelihood strategies for the poor, unemployed and the vulnerable households (child headed households and the elderly)
  - Long term - implement a bolder fiscal stimulus packages to boost the economy through consumption and investment

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* * On Relief Spending and Prioritisation

- The Commission also recommends the fiscal and monetary must be distributed equitably across subnational governments and business sectors
  - The health and municipal allocations should be distributed equitably across provinces and municipalities, using either the respective equitable share formulae or temporary conditional grant allocations on the basis of Covid-19 case load.
  - Government must also consider standardising the application requirements for the loan guarantee scheme and earmark the proportional benefit share for each province to ensure regional/spatial equity
- In terms of reprioritisation, the Commission noted that the following areas present opportunities for reprioritisation:
  - Government needs to reprioritise public sector infrastructure spending by postponing infrastructure projects that are still at a pre-feasibility stage or new infrastructure that is not directly related to Covid-19 but with caution, as delaying the implementation of some of the infrastructure projects will result in an increase in service delivery backlogs and future costs. So careful analysis is required.
  - Expenditure on goods and services that are not critical for service delivery and Covid-19 fight provides more room for reprioritisation - training and development, travel, subsistence and catering
  - On conditional grants, and following the criteria provided by the Commission, FFC has identified 23 grants where there is room for reprioritisation away from. These grants cut across all functional categories and across the provincial and local spheres.
- Finally, the Commission advises that the adjustments budget once tabled, be passed as soon as is possible, in order to give government institutions certainty regarding their budget baselines and for them to be able to plan accordingly for service delivery against both decreases and increases in spending areas.

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