

REPUBLIC OF SOUTH AFRICA

RESPONSIBLE SPENDING BILL

*(As introduced in the National Assembly (proposed section 76); explanatory summary of the Bill and prior notice of its introduction published in Government Gazette No. X of **INSERT DATE**)*

(The English text is the official text of the Bill)

(DR D GEORGE, MP)

[B_ - 2022]

BILL

To promote responsible spending by obligating the Republic of South Africa to reduce its debt levels and its exposure to debt; to introduce fiscal rules for the management of debt and government guarantees; to provide for the review of the fiscal rules; to provide for certain exemptions from the fiscal rules; to provide for reporting requirements; to increase transparency and fiscal responsibility; and to provide for matters connected therewith.

BE IT ENACTED by the Parliament of the Republic of South Africa, as follows: —

Definitions

1. In this Act, unless the context indicates otherwise—

“compensation of public servants” means the consolidated government expenditure on compensation of its employees, which—

- (a) includes salaries, wages and government funded benefits for employees; and
- (b) does not include capitalised compensation;

“financial year” means a 12-month period ending 31 March;

“fiscal rules” means the fiscal restrictions on budgeting and on the issuing of guarantees referred to in section 2;

“government guarantees” means combined assurances made in terms of the Public Finance Management Act, 1999 (Act No. 1 of 1999), the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003), and the Financial Management of Parliament and Provincial Legislatures Act, 2009 (Act No. 10 of 2009);

“gross domestic product” means the total value of all goods produced and services delivered within the borders of the Republic within a financial year;

“Minister” means the cabinet member responsible for finance;

“**National Assembly**” means the National Assembly referred to in section 42(1)(a) of the Constitution of the Republic of South Africa, 1996;

“**net loan debt**” means the total of all outstanding domestic and foreign debt of the state, less the cash balance of the National Revenue Fund; and

“**primary balance on the main budget**” means the difference between revenue accruing to government and non-interest expenditure that, if in deficit, must be financed by government.

Fiscal rules

2. The Minister must ensure that for the four financial years following the commencement of this Act—

(a) where net loan debt is under 55 per cent of the gross domestic product—

(i) the primary balance on the main budget is in surplus;

(ii) the surplus contemplated in subparagraph (i) is achieved by adjusting growth in government expenditure to equal to or below the previous year’s growth in gross domestic product; and

(iii) where negative or no growth in gross domestic product is experienced, government expenditure must not exceed the previous year’s expenditure;

(b) where the net loan debt is 55 per cent, or between 55 per cent and 60 per cent of the gross domestic product—

(i) the primary balance on the main budget is in surplus, and that the surplus is greater than in the previous financial year;

(ii) the surplus contemplated in subparagraph (i) is achieved by adjusting growth in government expenditure to equal to or below the previous year’s growth in gross domestic product;

(iii) compensation of public servants not covered by the occupation specific dispensation does not increase from the previous financial year; and

- (iv) where negative or no growth in gross domestic product is experienced, government expenditure must not exceed the previous year's expenditure;
- (c) where the net loan debt is 60 per cent, or greater than 60 per cent of the gross domestic product—
 - (i) the primary balance on the main budget is in surplus, and that the surplus is greater than in the previous financial year;
 - (ii) the surplus contemplated in subparagraph (i) is achieved by adjusting growth in government expenditure to equal to or below the previous year's growth in gross domestic product;
 - (iii) compensation of public servants not covered by the occupation specific dispensation is decreased by 5 per cent per year, from the previous financial year; and
 - (iv) where negative or no growth in gross domestic product is experienced, government expenditure must not exceed the previous year's expenditure; and
- (d) government guarantees do not, as a percentage of gross domestic product, exceed the total of government guarantees for the previous financial year.

Review of fiscal rules

- 3. (1) The Minister must—
 - (a) review the fiscal rules within four years from the commencement of this Act, and thereafter regularly, but at least every four years; and
 - (b) consult the Financial and Fiscal Commission, established by section 220 of the Constitution, when conducting a review contemplated in paragraph (a).
- (2) At least six months prior to the end of the period contemplated in subsection (1)(a), the Minister must table a report in the National Assembly setting out—
 - (a) statistics for the period under review related to compliance with the fiscal rules;

- (b) statistics for the period under review related to any exemptions that were applied for indicating whether such exemption was granted and whether the terms of the exemption were complied with;
 - (c) any other information that the Minister considered in the review contemplated in subsection (1)(a); and
 - (d) any amendments that the Minister proposes to the fiscal rules.
- (3) The National Assembly must—
- (a) facilitate the involvement of the public when considering the report contemplated in subsection (2); and
 - (b) at least one month prior to the end of the period contemplated in subsection (1)(a), approve an addition, amendment, renewal or repeal of one or more of the fiscal rules.
- (4) The Minister must, prior to the end of the period contemplated in subsection (1)(a), by notice in the *Gazette* publish the addition, amendment, renewal or repeal of the fiscal rules approved by the National Assembly.

Exemption from fiscal rules

4. (1) The Minister may request to be exempted from complying with the fiscal rules.
- (2) A request in terms of subsection (1) must—
- (a) be tabled in the National Assembly;
 - (b) specify the financial year in respect of which the exemption is sought; and
 - (c) provide reasons for the request.
- (3) The National Assembly must—
- (a) consider the request for exemption within a reasonable period;
 - (b) resolve whether or not the request should be granted, subject to such conditions as the National Assembly may resolve to impose;

- (c) include the reasons for the decision contemplated in paragraph (b) in its resolution;
and
- (d) prioritise the vote on the resolution contemplated in paragraph (b).

Report on compliance

5. The Minister must, on an annual basis concurrently with the tabling of the national budget, table a report before the National Assembly indicating whether the fiscal rules were complied with or not in the relevant period, together with reasons for those outcomes, and recovery plans in the event of a failure to comply with the fiscal rules.

Short title

- 6. This Act is called the Responsible Spending Act, 2022.

MEMORANDUM ON THE OBJECTS OF THE RESPONSIBLE SPENDING BILL, 2022

1. INTRODUCTION

Government's debt burden rose from 27% of GDP in 2008 to 69.5% (R 4.35 trillion) in 2021/22 and was expected by the 2022 Budget to stabilise at 75.1% in 2024/25; the February 2022 budget estimated that over the medium-term debt-service costs are expected to average R 333.4 billion a year. Debt-service costs have been the fastest growing item on the Budget while consuming an increasing share of GDP and revenue for the past two decades, and today on average, 20 cents of every Rand collected in revenue every year will be needed to pay debt-service costs. As a consequence, interest payments on accumulated debt have crowded out spending on essential public services that include policing, public health, and basic education among others.

Until steps are taken to bring South Africa's debt levels under control in relation to our GDP, South Africa will never be able to allocate funding to areas most in need of support, including basic and higher education, social grants and health care. South Africa must commit itself to sustainable control over the fiscus.

2. OBJECTS OF THE BILL

This Bill introduces statutory fiscal rules aimed at containing national debt and debt service costs in South Africa. These rules will be binding on government and will ensure that our macro-economic outlook improves but will be flexible in order to permit the National Treasury to opt for a strategy that is most attainable and maintained in the long run.

This Bill also seeks to ensure that control over the fiscus is the subject of parliamentary oversight, and as such is transparent and reviewable.

3. CONTENTS OF THE BILL

3.1 Clause 1 deals with definitions used in the Bill;

3.2 Clause 2 creates fiscal rules related to net loan debt expressed as a percentage of gross domestic product and one rule related to government guarantees;

- 3.3 Clause 3 requires a review of the fiscal rules at least every four years, and sets out the process to be followed in this regard;
- 3.4 Clause 4 deals with the process to be followed by the Minister in applying for an exemption from the fiscal rules for any given year;
- 3.5 Clause 5 requires the Minister to table an annual report on compliance with the fiscal rules and their implementation, in the National Assembly; and
- 3.6 Clause 6 provides for the short title.

4. FINANCIAL IMPLICATIONS FOR THE STATE

None

5. DEPARTMENTS, BODIES OR PERSONS CONSULTED

The National Economic Development and Labour Council was consulted on the content of the Bill.

6. PARLIAMENTARY PROCEDURE

- 6.1 The Member proposes that the Bill must be dealt with in accordance with the procedure established by section 76 of the Constitution since its content provides for the effective financial management of the economy and especially debt, as is provided for in section 215(1) of the Constitution. Section 76(4)(b) thus requires that the Bill follow a section 76 process as it deals with legislation envisaged in chapter 13 of the Constitution, which legislation also affects the financial interests of a province.
- 6.2 The Member is of the opinion that it is not necessary to refer this Bill to the National House of Traditional and Khoi-San Leaders in terms of 39(1)(a) of the Traditional and Khoi-San Leadership Act, 2019 (Act No. 3 of 2019), as it does not contain any provisions pertaining to customary law or customs of traditional or Khoi-San communities, nor does it contain any provisions pertaining to any matter referred to in section 154(2) of the Constitution.