INSTITUTE FOR ECONOMIC JUSTICE
RESEARCH POLICY ADVOCACY

STATEMENT

Budget 2023: Taking from the poor with R162 billion in expenditure cuts while breaking the President's promises

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The 2023 National Budget proposes cuts to expenditure for poor and low-income households while offering tax relief to those earning higher incomes, thus redistributing money from the poorest 80% of the population to the richest 20%. This is despite a cost of living crisis that is disproportionately affecting poor and low-income households.

Over the next three years, the government will spend R162 billion less on service provision ("non-interest expenditure") than if allocations had risen in line with inflation. This is a real decrease of 2.65% over the medium term and comes on top of previous budget cuts. At the same time, income tax payers, the highest earning 20%, are not asked to pay any more. Certain tax benefits increase above inflation, for example, the tax-free amount that can be withdrawn at retirement increases by 10%. In addition, the government promises to pay the wealthy able to afford solar electricity systems up to R15,000 in installation costs.

On top of this, some of the decisions in the Budget run directly counter to promises made by the President in the State of the Nation Address (SONA). This is most glaring with regards to the Social Relief of Distress (SRD) grant and the road to basic income. The President said the SRD grant "will be used as a basis for the introduction of a system of basic income support" and that "all grants will be protected against inflation". The Budget does not protect the SRD grant from inflation, as the level remains R350, and it removes the SRD from the budget in 2024/25 and 2025/26. The Finance Minister appears to have gone rogue.

NON-INTEREST EXPENDITURE FOR PUBLIC SERVICES

This decline in expenditure can be seen across key public services (see Table 1). Compared to if the National Treasury had increased allocation in line with inflation, we see a R47 billion decrease in health, R39 billion less in basic education, and a R37 billion fall in social protection. Across the Budget there is no meaningful engagement with promoting women's rights and ensuring the Budget significantly advances economic inclusion for women, relieving disproportionate care burdens, and combating gender-based violence and femicide.

Table 1: Changes in consolidated government expenditure by function

Sector	Decrease over the medium term
Health	↓ R47 billion
Basic Education	↓ R39 billion
Social Protection	↓ R37 billion
General Public Services	↓ R12 billion
Industrialisation and Exports	↓ R5 billion
Job Creation and Labour Affairs	↓ R1 billion

Health and education

This has very real implications, seen, for example, in health and education. In the 2023/24 financial year:

- Health spending falls 4.9%. Spending for each user of the public health care system reduces from R5,028 in 2022/23 to R4,605 in 2023/24 (constant 2022/23 Rands). The direct national health insurance grant appears to have been exorcised.
- Basic education spending falls 2.4%. For each learner funding falls from R22 552 per learner in 2022/23 to R21 630 per learner in 2023/24 (constant 2022/23 Rands).

Amongst this bleak picture there are some positive proposals. In basic education, for example, early childhood education (ECD) receives an additional R1.6 billion over the medium term to enable more children to access ECD (with R30 million

more for improved oversight). This will ease the burden of unpaid care work, primarily undertaken by women. Similarly, the additional R20 billion to support shortfalls in compensation in basic education is welcome, but overall this will not address teacher-to-learner ratios, help fill vacant posts, nor improve educator's competence to support the quality of education.

Social grants

In the forthcoming year an increase of R30 billion means that social grants will keep pace with headline (overall) inflation. This is welcome. However, we know that food-price inflation and inflation experienced by the poor and low-income earners is higher than headline inflation, meaning a real erosion in spending power. In the context of rising hunger and food inflation reaching a nine-year high (13.4%), the government has reneged on its duty to provide for those who cannot support themselves.

Social Relief of Distress grant

Most egregious is the manner in which the budget deals with the lifeline SRD grant. This allocation has been decreased from 2022/23 by R8 billion (18%), from R44 billion to R36 billion. There is no allocation for the 2024/25 and 2025/26 financial years. The level of the grant itself remains unacceptably low at R350 amidst the high cost of living crisis. The previous budget cap was directly responsible for a fall in recipients due to the need to impose stringent eligibility requirements. In March 2022 the grant reached 10.4 million people, in January 2023 7.5 million applications were approved and only 6.3 million grants were actually paid! It is unacceptable that, despite the President's commitments to expand basic income support and the proven benefits, National Treasury has simply slashed expenditure and pitted the grant as a trade off against other social priorities.

Table 2: Number of SRD applicants approved and paid

	March 2022	January 2023
Approved applicants	10.9 million	7.5 million
Paid applicants	10.4 million	6.3 million
Percentage of applicants paid	95%	84%

JOB CREATION AND ECONOMIC DEVELOPMENT

Promises for support on job creation and economic development made by the President in the SONA are also undermined by the proposed Budget.

- **Presidential Employment Stimulus (PES):** No allocations for the "flagship" PES appear in the second and third year of the MTEF. In 2023/24 only R9 billion is allocated for the third phase of its roll out, embedded within national departments. The future of the programme beyond this is unclear. The IEJ has been calling for the programmes to be scaled up in order to support long-term skill transfer and clear career pathways for young people. If this programme is being phased out, there is no clear plan for publicly-driven job creation.
- **Infrastructure**: Infrastructure receives a significant increase in budget allocation. More worryingly, public-private partnerships and blended finance are promoted as a primary strategy for closing the large infrastructure gap faced. Infrastructure for social services is worryingly weak, with health infrastructure, for example, remaining flat at R14 billion (already below the R16.4 billion in 2021/22) amounting to a R15 billion cumulative real decline over the three years.
- **Industrialisation**: Despite the desperate need to expand industrial capacity and the much touted Masterplans, industrialisation and export promotion sees a decline of R5 billion over the three-year period.
- **Job creation and rural development, job creation and labour affairs, and innovation, science and technology** all see real term declines in their budgets.

ESKOM

Financial assistance to Eskom is welcome. However, highly concerning are the strings attached and the attempt by the Treasury to have a veto over Eskom's future actions.

The conditional debt deal

The Budget proposes that Eskom will be relieved of two thirds of its debt (R254 of R423 billion) - R168 and R86 billion for capital and interest payments respectively over the next three years. While we welcome this debt relief, the conditionalities are concerning. First, Eskom is not allowed to invest in new capacity only in transmission and distribution. This is underpinned by the idea that new capacity will

be driven by the private sector. This will have a negative impact on the affordability of energy as private profit margins drive up prices. Moreover, there is a risk that IPPs will not deliver the capacity necessary to address the load shedding crisis and widespread energy poverty. Second, the building of transmission and distribution infrastructure to facilitate private sector participation will burden Eskom with additional "wheeling" costs and undermine the debt relief. At the same time, this limitation creates the necessary conditions for the privatisation of Eskom through the backdoor.

We are equally concerned that the Minister has insisted on municipalities undertaking a range of regressive and anti-poor measures to reduce non-payment, including the installation of pre-paid metres. These cut off access to basic services for impoverished households and result in poor households having to pay a higher tariff rate (as prepaid electricity is often provided at a higher tariff rate). The additional R1.1 billion to offset the Eskom tariff increase for free basic electricity recipients is welcome but will not expand the availability of free basic electricity, as is much needed.

The taking over of debt by the fiscus should be only one part of a wider debt restructuring that should include a reduction in repayments to private debt holders ("haircuts") and the over capitalised Government Employees Pension Fund (GEPF) writing off its share of Eskom's debt.

Subsidies for rooftop solar and embedded generation

The Budget includes substantial subsidies for private renewable investment - a rebate of 125% (with no cap) for businesses and 25% for households (capped at R15,000). This will benefit wealthy households and large businesses able to afford the investment. These funds could have been spent on publicly-owned renewable capacity. Further, encouraging wealthier households off the grid jeopardises Eskom's future revenue and reduces the ability to subsidise poor households. This will likely worsen existing energy inequality and energy poverty.

Energy costs

The Budget is also notable for what it does not address. Input costs, for example for diesel, coal, and the energy bought from IPPs, were the biggest justification for Eskom's tariff increases, which entrenches energy poverty. Yet, no plans have been announced to reduce Eskom's energy costs, for example, by allowing Eskom to

purchase diesel from wholesalers instead of retailers, buying coal cheaply, and renegotiating the expensive, yet under-delivering, REIPP contracts.

REVENUE

On the revenue side, the Budget accelerates its debt stabilisation efforts and provides some relief to the highest earning 20% and corporations.

In 2022/23, the government took in R94 billion more than expected. The majority of this is to be used to reduce debt, rather than expanding social support, or supporting the expansion of employment programmes, and the Budget proposes to achieve even higher primary budget surpluses than previously projected. Personal income tax brackets, medical aid credits, and sin taxes have been adjusted for inflation. Certain tax benefits increase above inflation, for example the tax-free portion of (lumpsum) retirement benefit withdrawals and transfer duties increase by 10%, benefits enjoyed by a small minority. In addition, the Budget proposes to pay the wealthy able to afford solar panels up to R15,000 in installation costs. For the year ending March 2023, the corporate income tax rate will fall to 27%. No increase to the fuel levy is welcome.

There are no short- or medium-term tax proposals to raise resources from progressive tax, such as via a wealth tax. In the face of huge budget cuts that will slow growth and devastate livelihoods, the failure to raise additional revenue is ill-advised.

VERDICT

Despite the defensive assertions by Minister Godongwana that this is not an austerity budget, it surely is. In fact, it goes further, with cuts to expenditure for the majority while giving a helping hand to those with higher incomes. This anti-poor budget violates promises by the President and the state's constitutional obligation to advance the realisation of rights. It must be challenged.

[ENDS]

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