national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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Dear Dr Gamede

COST CONTAINMENT MEASURES TO ASSIST NATIONAL DEPARTMENTS, PUBLIC ENTITIES AND PROVINCES TO CLOSE FISCAL GAP

At its 15 August 2023 meeting, Cabinet noted that the economic growth outlook has worsened significantly relative to expectations outlined in the 2023 Budget, given the impact of more intense loadshedding and freight and port logistical constraints, amongst other factors. In addition, the fiscal outlook was negatively affected by the higher-than anticipated wage settlement.

In briefings to Cabinet, the Ministers' Committee on the Budget (MINCOMBUD), the Forum of South African Directors-General (FOSAD) and the Budget Council, the National Treasury outlined how low economic growth has resulted in deteriorating revenue collection and funding conditions since the tabling of the 2023 Budget. To date, tax revenue under-collection has worsened, already resulting in a lower projection of the revenue estimate for 2023/24. Funding performance through the debt markets has also been poorer than anticipated over the past few months. As a result, we face unprecedented challenges for the current 2023/24 financial year, even as we hope conditions will improve over the medium-term, once the underlying factors like loadshedding and logistical constraints are addressed.

These lower funding collections require an urgent conversation in government on how to restore the public finances to a sustainable path, both for the current 2023/24 financial year, as well as for the coming 2024/25 medium-term expenditure framework (MTEF). Cabinet resolved that the National Treasury should work with all departments and relevant stakeholders in national government, as well as with provinces, to identify immediate measures to reduce the level of government spending to improve spending efficiency and maintain a sustainable fiscal framework. Despite subsequent discussions in FOSAD and the Budget Council, we are yet to obtain proposals from accounting officers and provincial treasuries on potential savings for 2023/24 within specific government programmes, or to identify programmes that can be postponed or cancelled.

Given the need for urgent action, the National Treasury is left with little choice but to propose stringent measures to Cabinet in respect of budget implementation and budget adjustments, for the

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Medium-Term Budget Policy Statement. In the meantime, heads of national departments should implement the following cost containment measures:

(a) Freeze the hiring of new employees except if

(i) an employment offer has been made, or

(ii) approved by the National Treasury together with the Department of Public Service and Administration, after considering the submission of the relevant head of department that it is a critical post.

(b) Freeze the process of advertising new procurement contracts for all infrastructure projects, unless approved otherwise by the National Treasury.

(c) Drastically reduce spending on travel by freezing all non-essential travel unless wholly or partially funded by non-governmental resources (such as multilateral institutions or donor agencies).

i. Each head of department should provide the National Treasury a list of essential travel planned for the 2023/24 fiscal year by 15 September 2023.
ii. Essential travel could include, for example, parliamentary responsibilities for the executive and accounting officers and authorities or their representatives.
iii. Routine travel costs for operational reasons involving no overnight stay, are excluded.

(d) Freeze spending on catering, conferences, workshops and other related goods and services that have not yet been contracted.

(e) Ensure that recommendations from the spending reviews are fully implemented by 31 March 2024, unless otherwise agreed with the National Treasury.

Paragraphs (a), (b), (c) and (d) also apply to all national public entities that receive transfers from the National Revenue Fund, unless specifically exempted by the National Treasury. In addition, all public entities that receive transfers from the National Revenue Fund, are advised to maintain salary levels at current levels for the 2023/24 financial year.

Provinces are advised to introduce the same measures for their departments and public entities. National Treasury will soon engage with the South African Local Government Association (SALGA) and municipalities, to implement similar measures.

These measures alone will not by themselves fully restore fiscal sustainability. The National Treasury will work with all national departments and public entities, as part of the coming adjustments budget process, to identify further measures to consolidate budgets, which will be announced at the time of the MTBPS. In the case of provincial departments and public entities, the relevant provincial treasury is being requested to assist in identifying further measures to consolidate budgets.

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The National Treasury would also like to clarify that no additional funds have been identified for the 2023 Public Service Co-ordinating Bargaining Council wage settlement. In this regard, the relevant forums – including the Budget Council, the Committee of Ministers on the wage bill, and the MINCOMBUD – have been advised that departments and public entities that receive transfers from the National Revenue Fund must absorb the cost of the 2023 wage agreement within departmental baselines. We appreciate that these measures will be especially challenging for personnel-intensive departments and will engage with such departments and provinces.

These measures can be relaxed as soon as economic and fiscal conditions improve. However, given the fiscal conditions, we have little choice but to request all affected institutions to implement these measures from 15 September 2023.

All queries or requests for approval and exemptions by national departments and national public entities should be directed to Budgetmeasures@treasury.gov.za.

Your cooperation is greatly appreciated.

Yours sincerely

ISMAIL MOMONIAT
ACTING DIRECTOR-GENERAL
DATE: 31/8/2023