

Fiscal Brief

November 2021

The Parliamentary Budget Office (PBO) was established in accordance with the 2009 Money Bills Amendment Procedure and Related Matters Act, as amended (Act No. 9 of 2009). The main aim of the PBO is to provide independent, objective and professional analysis or advice to Parliament on matters relating to the Budget and other financial legislation. The PBO supports the implementation of the Act by undertaking research and analysis for the relevant Finance and Appropriations committees.

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1. Purpose

The fiscal brief provide Members of Parliament with an update on the progress with the implementation of the 2021 budget. In particular, this brief provides an overview of the first six months of the 2021/22 financial year until end September 2021 for expenditure, revenue and debt outcomes against the budget at both national and provincial levels. This brief is based both on the Public Finance Management Act (PFMA) section 32 reports for national and provincial departments released on 30 October 2021.

2. Revenue Overview

Tax revenue collection by September 2021

The 2021 Budget presented an estimate of gross tax revenue of R1 365 billion for the 2021/22 financial year. By the end of September 2021, R720.1 billion (52.7%) had been collected; a 5.9 percentage increase in collections when compared to the similar period in 2020/21, when it was 46.9 per cent. The 2020/21 slow tax revenue collection was due to the slow economic activities in 2020 as a result of government nation-wide lockdown to curb the spread of the corona virus pandemic.

Table 2.1 shows a comparison of the tax revenue collection rates between the 2020/21 and 2021/22 financial years for the first six months of the financial year. The comparison shows an improvement in revenue collection rates in 2021/22 from the 2020/21 financial year. In particular, the collection rate for Corporate Income Tax (CIT) (69.8%) and the Ad-valorem tax (71.6%) instruments collection increased from 51.8 and 38.5 per cent, respectively, in 2020. However, the collection rates for Value Added Tax (VAT) (47.5%), Custom Duties (43.3%) and Specific Excise Duties (41.4%) collection rates were still below 50 per cent of the budget estimates by end of September 2021.

Table 2.1 Tax Revenue collection against budget, April - September 2021

R million	2021/22				2020/21
	Budget Estimate	Collection: Apr-Sept 21	Collection as % of budget estimates	Contribution to total tax revenue (%)	Collection as %
Personal Income Tax	515 957	258 304	50.1	35.9	48.0
Value Added Tax	370 177	175 730	47.5	24.4	45.3
Corporate Income Tax	239 829	167 496	69.8	23.3	51.8
Fuel Levy	83 148	43 735	52.6	6.1	51.1
Dividend withholding tax	16 837	11 330	67.3	1.6	50.0
Custom Duties	53 967	23 394	43.3	3.2	40.1
Specific Excise Duties	43 734	18 113	41.4	2.5	17.4
Skills Development Levy	17 813	9 203	51.7	1.3	25.8
Ad-valorem	3 537	2 533	71.6	0.4	38.5
Other	20 125	10 261	51.0	1.4	73.0
Gross Tax Revenue	1 365 124	720 099	52.7		46.9

Source: NT, SARS and PBO

3. Expenditure Overview

Table 3.1 Faster spending on national votes, April - September 2021

Vote R'000	Main Appropriations	YTD - April to Sept	% YTD
Public Enterprises	36 291 819	35 854 400	98.8
Higher Education and Training	97 784 005	66 012 914	71.8
Trade, Industry and Competition	9 736 573	6 322 091	64.9
Women, Youth and persons with Disabilities	763 539	448 930	61.6
Small Business Development	2 538 288	1 377 745	59.7
Basic Education	27 018 078	14 059 978	56.0
Health	62 543 271	34 020 975	54.4
Social Development	205 226 920	107 262 745	52.3
Science and Innovation	8 933 315	4 605 985	51.6

Source – NT Section 32 report, ENE

The 2021 Budget presented main budget expenditure of R1.83 trillion for the 2021/22 financial year. The aggregate budget estimate for national departments was R980 billion. On aggregate, national departments spending was 51.4 per cent of the budget estimates by the end of September 2021 – 3.6 per cent higher than the same period in the previous financial year. In 2020/21 a supplementary budget provided for fiscal changes and reprioritisation of some sectors as a result of health pressures

due to Covid-19 pandemic. Nine of the forty-one national departments had spent more than 50 per cent of their 2021/22 budgets by the end of September 2021. The department of Public enterprises has already spent 98.8 per cent of the 2021/22 budget. This high expenditure is due to the high percentage of payment for capital assets that was appropriated specifically for Eskom and SAA. The department of Higher Education and Training has already spent 71.8 per cent of the its budget estimates. The department that has spent least of their budget was Military Veterans (25.7%) which had spent less than 30 per cent of their budget by the end of September 2021.

Table 3.2 Total spending estimates and April to September 2021

R million	Main budget	YTD	YTD %
2021/22	1 822 252 150	923 969 642	50.7
2020/21	1 804 175 080	877 028 969	48.6

Source – NT Section 32 report

By the end of September 2021, the aggregate spending for direct charges to the revenue fund was 50.7 per cent of the budget estimates. This is 2.1 percentage more compared to 48.6 per cent spending in 2020/21 during the same period.

3.1. Capital Expenditure

The capital expenditure budget is an allocation to be spent on assets that can be used for more than one year with the expectation of future economic benefits. Therefore, maximum spending of this allocation enhances the state capacity to deliver services. The allocation to capital expenditure by national vote in the 2021 budget decreased from 1.57 per cent (R15.5 billion) to only 1.53 per cent (R15 billion) share of the total expenditure by national vote from the 2020 budget. By the end of September 2021, 25.4 per cent of the capital budget was spent by national departments.

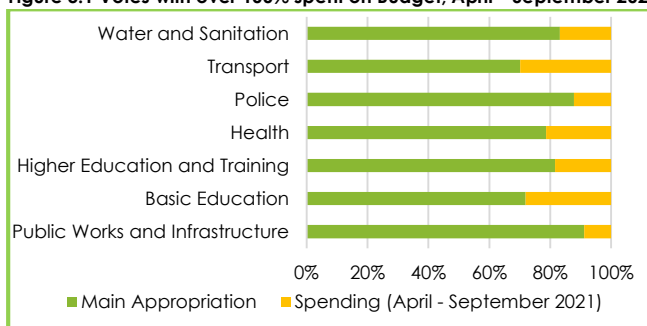
Table 3.3 Capital assets by national vote, April – September 2021

R billion	Budget Review	YTD	YTD %
2021/22	15 004 084	3 812 125	25.4
2020/21	15 484 983	3 493 071	22.6

Source – NT Section 32 report

The bulk of the national budget is allocated to transfers and subsidies, 67.6 per cent. However, the transfers and subsidies may include capital budgets, and in that case Parliament is unable to do oversight of such capital expenditure directly.

Figure 3.1 Votes with over 100% spent on Budget, April – September 2021



Source – NT Section 32 report

Figure 3.1 illustrates the extent to which capital spending exceeds budget allocations for those specific departments. The nature of the capital projects/assets procured, coupled with their spending requirements may have contributed to the rate of spending on capital assets over the years. The department of cooperative governance (295.7%), home affairs (827.3%) and tourism (258.6%) has spent more than 100 per cent of their capital budget by the end of September 2021.

3.2. Expenditure Outlook – 2021/22

The 2021 Budget review made provision for consolidated spending of R1.82 trillion for the 2021/22 financial year. The primary focus of spending will continue to be on learning and culture, health and social development. Relative to other votes, the department of social development (20.9%), corporative governance (10.3%) and police (9.8%) receives a large proportion of budget allocation.

4. Debt Overview

Government debt

In the 2021 Budget review, the government net government debt for 2020/21 to reach R3.67 trillion (74.3 per of GDP), with gross debt expected to be R3.95 trillion (80.3 per of GDP) over the same period. Gross government debt for 2021/22 is estimated to reach be R4.4 trillion (81.9% of GDP) and net debt is estimated to reach R4.2 trillion (78.5% of GDP).

Table 4.1 National Government Debt

	2019/20	2020/21	2021/22
R billion	Outcome	Outcome	Budget Estimate
Domestic loans	2 849.0	3 529.1	3 916.7
Foreign loans	318.4	420.6	466.1
Gross loan debt	3 167.4	3 949.7	4 382.8
Less: National Revenue Fund bank balances	-243.6	-292.0	- 180.3
Net loan debt	2 923.8	3 657.7	4 202.5
As percentage of GDP:			
Gross loan debt	60.8	80.3	81.9
Net loan debt	56.1	74.3	78.5

Sources: Budget 2020; 2021 & NT

Gross national debt increased by R433.1 billion in 2021/22 from R3 950 billion in 2020/21 to R4 383 billion in 2021/22. while net debt is estimated to reach R 4.2 trillion. Foreign debt makes up R466.1 billion or 11.3 per cent of the gross national debt stock, which amounts to about 8.7 per cent of the net debt. The 2019/20 gross national debt increased by R379.4 billion to R2 923.8 billion from R2 545 billion in 2018/19. It then increased by R733.9 billion to R3 657.7 billion in 2020/21, representing the largest increase in three years of analysis. The 2021/22 gross national debt increased by R544.8 billion to R4 202.5 billion. It may be understood that this increase was linked to the impact of Covid-19.

5. Provincial Overview

5.1. Provincial Receipts

Unlike the national section above, the provincial section provides an update for the first five months of the 2021/22 financial year until end August 2021 for expenditure outcomes against the budget at national levels. The provincial governments have very limited revenue raising capabilities. However, more than 97 per cent of their receipts is allocated from national budget. By the end of August 2021, provinces had on aggregate collected more than 34 per cent of their 2021/22 (R7.1 billion) targeted own receipts. This is 35.4 per cent (or R1.8 billion) higher than 2020/21 collection around the same period.

Table 5.1 Provincial receipts government (April – August 2021)

Actual against budget receipts R'000				
	Receipts	Budget	Actual	%
FY 2020/21	NRF	648 822 906	275 525 321	42.5
	Own receipts	18 842 206	5 212 511	27.7
	Total Receipts	667 665 112	280 737 832	42.0
FY 2021/22	NRF	639 017 482	269 903 856	42.2
	Own receipts	20 790 256	7 059 606	34.0
	Total Receipts	659 807 738	276 963 462	42.0

Source: PBO, NT datasets 2020 & 2021

5.2. Provincial Expenditure

Table 6.2 shows provincial governments' aggregate spending of the two financial years against budget. On aggregate, provinces had spent more than 36 per cent in 2020/21 (R244.7 billion) and 2021/22 (R268.9 billion) of combined revised budgets by end of August. The R268.9 billion aggregate spending in 2021/22 represents 9.9 per cent or R24.2 billion increase compared to same period last year, 2020/21.

Table 5.2 Provincial gov. expenditure (April – August 2021)

Provincial Government Payments R'000 - August 2021			
Expenditure	Budget	Actual	%
FY 2020/21	672 298 237	244 662 922	36.4
FY 2021/22	657 435 711	268 876 653	40.9

Source: PBO, NT datasets 2020 & 2021

a) Current Expenditure

Table 6.3 shows the total provincial expenditure by economic classification. On aggregate, expenditure allocation for provinces the current year, 2020/21, is R657.4 billion. Of the total budget, current expenditure takes more than 80 per cent (R538.8 billion) of the budget followed by transfers and subsidies with 12.5 per cent (R82.1 billion). It is also worth noting that Compensation of Employees (COE) accounts for about 75 per cent (R398.9 billion) of current expenditure budget and more than 60 per cent of the total provincial expenditure budget.

Table 5.3 Provinces current expenditure, 2021/2022

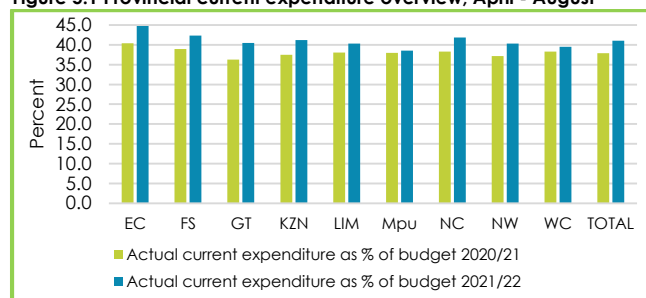
Current Expenditure by economic classification R'000 (Apr - August)		
Economic class	Budget	Expenditure%
Current payments	538 829 711	221 119 656
COE	398 921 476	165 367 349
Goods and service	139 903 253	55 735 538
Interest & rent on land	4 982	16 769
Transfers and subsidies	82 090 836	36 318 727
Capital assets	36 509 305	11 434 781
Financial assets	5 859	3 488
TOTAL	657 435 711	268 876 653

Source: PBO, NT datasets 2021/22

Goods and services (R139.9 billion) accounts for more than 25 per cent of the current expenditure budget and more than 20 per cent of the total provincial expenditure budget. Provinces have on aggregate spent just 40 per cent of current expenditure budget by end of August 2021/22 compared to 39.7 per cent in 2020/21 around same time.

Figure 5.1 compares provincial current expenditure outcomes as a percentage of estimated budgets by the end of August 2020/21 and 2021/22. Mpumalanga (38.5%) and the Western Cape (39.5%) have spent just below 40 per cent of their 2021/22 current expenditure budget while the Eastern Cape spent just about 45 per cent. On aggregate, provinces have spent just above 40 per cent of their estimated budgets in the first five months of the respective financial years.

Figure 5.1 Provincial current expenditure overview, April - August

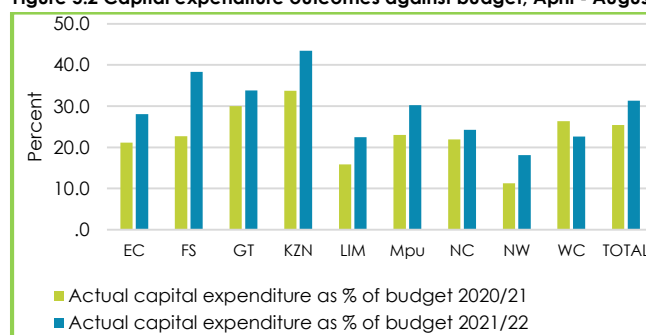


Source: PBO, NT datasets 2020 & 2021

b) Capital Expenditure

The total provincial capital budget for 2021/22 was increased by more than 2.1 per cent from R35.8 billion in 2020/21 to R36.5 billion in 2021/22. Despite an overall increase in the capital budget, the Eastern Cape, Gauteng and North West had their capital budgets reduced in 2021/22 financial year. Provinces have on aggregate spent more than 30 per cent (or R11.4 billion) of their capital expenditure budget by the end of August 2021/22 compared with 25.4 per cent (or R 9.1 billion) in the same period in 2020/21. KwaZulu Natal has spent more than 40 per cent of its budget of the provincial budget, whilst the North West is the only province to have spent less than 20 per cent (18.1%) of the capital budget over in the same period in 2021/22.

Figure 5.2 Capital expenditure outcomes against budget, April - August



Source: PBO, NT datasets 2020 & 2021

On aggregate, more than a quarter of capital budget expenditure on social sector functions have spent by the end of August 2021/22. The in Free State (45.5%) and KwaZulu Natal (40.9%) were the only provinces that had spent more than two-third of their budget on education by end of August 2021/22. By the end of August, the KwaZulu Natal (56.2%) was the only province that had spent more than half of their health function capital budget. The Free State (46.6%) had already spend more than two-thirds of their social development function capital budget while Mpumalanga (7.6%) and the North West (8.2%) had spent less than 10 per cent of their capital budget by the end of August 2021.

Slow and erratic spending of capital budgets does not suggest underspending nor does it suggest spending below par because capital expenditure usually follows a zero-based approach. It is dependent on specific activities. However, slow spending could provide an indication of areas that may require further oversight.

Table 5.4 Capital expenditure outcomes against budget, April – August

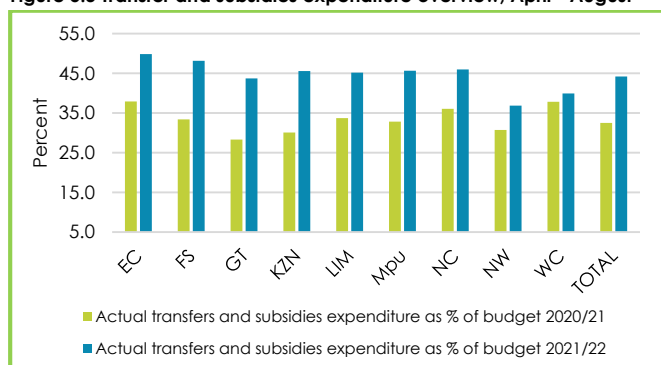
	Education %		Health %		Social Dev %	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22
EC	15.6	17.0	25.1	41.0	26.2	35.8
FS	30.1	45.5	20.1	37.8	44.7	46.6
GT	21.4	28.1	43.1	39.6	11.2	36.1
KZN	26.9	40.9	89.8	56.2	11.0	38.3
LIM	14.0	22.7	17.1	24.8	42.2	20.8
Mpu	40.4	30.7	16.2	26.9	18.1	7.6
NW	19.9	15.6	13.1	29.8	37.7	26.3
NC	10.2	10.6	16.0	26.7	16.4	8.2
WC	23.6	14.2	49.6	20.9	28.0	23.6
Total	21.1	26.2	39.1	37.0	20.6	26.4

Source: PBO, NT datasets 2020 & 2021

c) Transfers and Subsidies Expenditure

Provincial governments had on aggregate spent more than 44 per cent of their transfers and subsidy budgets by end of August 2021 compared to 32.5 per cent in the same period in 2020.

Figure 5.3 Transfer and subsidies expenditure overview, April - August



Source: PBO using NT datasets 2020 & 2021

6. Conclusion

The first six months of the 2021/22 financial year has seen a continuation of improvement in GDP growth. As a result, the government tax revenue collection targets has improved. However, expenditure by some national votes is alarming which may worsen the government's borrowing requirement outcomes. Capital expenditures were within targets by the end of August 2021. A detailed update on fiscal framework will be tabled by the Minister of Finance in the Medium-Term Budget Policy Statement (MTBPS) on the 11 November 2021.