



PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Fiscal Brief – October 2022

***2022/23 Financial Year
Analysis (April - August 2022)***

Parliamentary

Budget
Office

Bill

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1. PURPOSE

The Fiscal Brief aims to provide Members of Parliament (MPs) with an update on the implementation of the 2022 national, provincial and 2021 municipal budgets. This brief draws on information from the Public Finance Management Act (PFMA) section 32 reports for national and provincial departments released on 30 September 2022. The section 32 reports provide an overview of expenditure on the first five months of the 2022/23 financial year. The brief also draws on information from the Municipal Finance Management Act (MFMA) Section 71 reports released on 2 September 2022. The 2 September section 71 reports provide the outcomes for the full 2021/22 financial year. This brief includes a special analysis on disaster relief spending related to the floods in KwaZulu Natal and the Eastern Cape.

2. NATIONAL GOVERNMENT

The national government provides services in terms of Central Government Administration; Justice & Protection Services; Financial & Administration Services; Economic Services & Infrastructure Development; and Social Services. This section provides an analysis of the progress of expenditure and revenue outcomes against the budget at the national level of government for 2022/23.

The 2022 Budget Review presented an estimate of gross tax revenue of R1 598.4 billion for the 2022/23 financial year. By the end of August 2022, R651.4 billion (40.8%) had been collected compared to R589.4 billion (43.2%) during the same period in 2021/22, against a gross tax revenue estimate of R1 365.1 billion. Year on year collection rate, the R651.4 billion is a slower collection rate 10.5 per cent compared with 13.6 during the 2021/2 financial years.

2.1. Revenue Overview

Table 2.1 compares tax revenue collection between the 2021/22 and 2022/23 financial years for the first five months.

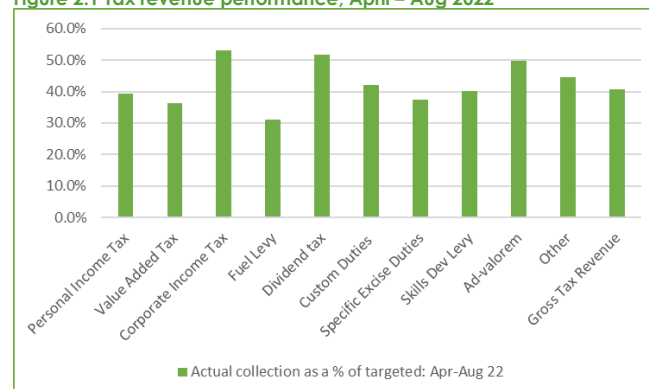
Table 2.1 Tax revenue, collection against budget, April - Aug 2022

| R million | 2022 BR Estimates | | Collection against target: Apr - Aug 22 | | | Collection against target: Apr - Aug 21 | | |
|------------------------|-------------------|-----------------|---|-------------------------|-----------------|---|-------------------------|-----------------|
| | R billion | Y-on-Y % change | R billion | YTD Collection rate (%) | Y-on-Y % change | R billion | YTD Collection rate (%) | Y-on-Y % change |
| Personal Income Tax | 587 907 | 13.9 | 230 581 | 39.2 | 8.4 | 212 665 | 41.2 | 2.4 |
| Value Added Tax | 439 681 | 18.8 | 159 700 | 36.3 | 11.9 | 142 722 | 38.6 | 10.4 |
| Corporate Income Tax | 269 931 | 26.6 | 142 938 | 53.0 | 14.7 | 124 583 | 58.5 | 58.8 |
| Fuel Levy | 89 113 | 7.2 | 27 643 | 31.0 | -24.8 | 36 777 | 44.2 | 16.1 |
| Dividend tax | 30 325 | 80.1 | 15 703 | 51.8 | 25.8 | 12 483 | 74.1 | 0.9 |
| Custom Duties | 62 505 | 15.8 | 26 276 | 42.0 | 42.6 | 18 430 | 34.2 | -8.5 |
| Specific Excise Duties | 51 864 | 18.6 | 19 380 | 37.4 | 32.4 | 14 634 | 33.5 | -11.9 |
| Skills Dev Levy | 20 619 | 15.8 | 8 283 | 40.2 | 8.5 | 7 634 | 42.9 | 5.2 |
| Ad-valorem | 4 406 | 24.6 | 2 196 | 49.8 | -13.3 | 2 533 | 71.6 | 21.9 |
| Other | 42 096 | -12.0 | 18 711 | 44.4 | 10.0 | 17 008 | 35.6 | 26.0 |
| Gross Tax Revenue | 1 598 448 | 17.1 | 651 411 | 40.8 | 10.5 | 589 468 | 43.2 | 13.6 |

Source: section 32 reports

The comparison generally shows slower revenue collection against the targets in 2022/23 compared to the 2021/22 financial year for all tax instruments in the same period. The exception is in specific excise duties and customs duties as they both saw better collection rate. Year-on-year comparison, shows that the fuel levy and ad-valorem collection rates regressed by 24.8 and 13.3 per cent, respectively over the same periods. And corporate income tax collection rate has also slowed significantly compare to prior year same period.

Figure 2.1 Tax revenue performance, April – Aug 2022



Source: section 32 reports

Figure 2.1 shows that by the end of August 2022, SARS had collected more than half of targeted revenue for corporate income tax (53%) and dividends withholding tax (51.8%). In contrast, the percentage of the general fuel levy (31%) collected relative to the target the was the lowest of all the tax instruments. This performance can be attributed to the reduction in the general fuel levy that was implemented from April 2022. The levy was reduced to provide short-term relief to households from rising fuel prices as a result of the Russia/Ukraine conflict. The fuel levy was reduced by R1.50 per litre from 6 April to 6 July 2022. The levy reduction was extended to 2 August 2022 but was revised to R0.75 per litre.

2.2. Expenditure Overview

In the 2022 Budget Review, the consolidated budget expenditure was revised upwards from R1 822.3 billion in 2021/22 (29.1 % of GDP) to R1 965.3 billion in 2022/23 (30.3% of GDP). The actual consolidated expenditure by the end of August 2022 was

R809.4 billion (41.2%) compared to R783.6 billion (43%) over the same period in the previous financial year.

Table 2.2. Consolidated government expenditure, April – Aug 2022

| | | Budget estimates | Exp (April - Aug) | % of total |
|---------|---------------------------------|----------------------|--------------------|-------------|
| 2022/23 | Appropriation by vote | 1 057 028 607 | 437 346 711 | 41.4 |
| | Direct charges against NRF | 902 658 438 | 372 100 997 | 41.2 |
| | Provisin not allocate to vote | 5 569 475 | - | - |
| | Consolidated Expenditure | 1 965 256 520 | 809 447 708 | 41.2 |
| 2021/22 | Appropriation by vote | 980 583 908 | 440 812 462 | 45.0 |
| | Direct charges against NRF | 830 023 039 | 342 795 895 | 41.3 |
| | Provisin not allocate to vote | 11 645 203 | - | - |
| | Consolidated Expenditure | 1 822 252 150 | 783 608 357 | 43.0 |

Source: section 32 reports

As shown in table 2.2 as of August 2022, the total expenditure by national departments was R437.4 billion (41.4% of the total budget). This total spend is R3.5 billion (1%) less than the previous financial year. The expenditure on direct charges against the National Revenue Fund (NRF) was R372.1 billion (41.2% of the budget) by the end of August 2022 which is slightly less (0.1%) than in the previous year.

Table 2.3 shows the departments that spent more than half of their budgets by the end of August 2022. Statistics South Africa (71.1%) spent the largest proportion of their total budget within the first five month of the financial year. This is to be expected, given that Stats SA's undertook a national census between February and March 2022. While spending in StatsSA was driven by current payments, the spending in the four other departments was driven by transfers and subsidies.

Table 2.3 Faster spending on national departments, April – Aug 2022

| Vote R'000 | Budget estimates | Exp (April - Aug) | % of total |
|--|------------------|-------------------|------------|
| Statistics South Africa | 2 758 546 | 1 961 926 | 71.1 |
| Higher Education and Training | 109 514 883 | 71 407 309 | 65.2 |
| Women, Youth and persons with Disabilities | 987 254 | 628 132 | 63.6 |
| Communications and Digital Technologies | 2 717 182 | 1 555 264 | 57.2 |
| Basic Education | 29 560 167 | 15 761 273 | 53.3 |

Source: section 32 reports

Table 2.4 Slower spending on national departments, April – Aug 2022

| Vote R'000 | Budget estimates | Exp (April - Aug) | % of total |
|------------------------------|------------------|-------------------|------------|
| Public Enterprises | 23 928 918 | 5 666 222 | 23.7 |
| Water and Sanitation | 18 539 669 | 4 932 296 | 26.6 |
| Mineral Resources and Energy | 10 345 671 | 2 987 985 | 28.9 |

Source: section 32 reports

Table 2.4 shows departments that spent less than 30 per cent of their 2022 budgets in the first five months of the 2022/23 financial year. The department of Public Enterprise had only spent 23.7 per cent (R5.7 billion) of its budget by the end of August 2022. This was due to slower spending on financial assets and liabilities, which account for 99 per cent of their annual budget. The slow spending in the Department of Water and Sanitation (26.6%) and Mineral Resource and Energy (28.9%) was due to slow spending on capital assets. Expenditure on capital assets was below 15 per cent in each department. Expenditure on transfers and subsidies was also below 28 per cent in each department.

Table 2.2.4: Departments' expenditure by economic classification, April – Aug 2022

| | 2022 Budget Estimates | | Exp against target: Apr-Aug 22 | | |
|-------------------------|-----------------------|-----------------|--------------------------------|-------------|-----------------|
| R million | R'000 | Y-on-Y % change | R'000 | YTD Exp (%) | Y-on-Y % change |
| Current payments | 260 953 957 | 1.9 | 100 011 306 | 40.7 | 3.7 |
| Transfers and subsidies | 754 992 477 | 13.9 | 327 202 288 | 41.0 | 7.2 |
| Capital assets | 15 505 515 | 3.3 | 3 707 578 | 39.9 | 25.6 |
| Financial assets | 25 576 658 | -45.3 | 6 425 539 | 339.2 | -82.3 |
| TOTAL | 1 057 028 607 | 7.8 | 437 346 711 | 43.5 | -0.8 |

Source: section 32 reports

Expenditure by economic classification at a national level shows that more than R750 billion (71.4%) of the budget is allocated towards transfers and subsidies followed by current payments R261 billion (24.7%). Year-on-year, total budget by votes increased by 7.8 per cent and transfers and subsidies had the highest increase of 13.9 per cent between 2021 and 2022. Payments for financial assets were relatively higher than usual due to appropriation made to the Department of Public Enterprise for the settlement of government guaranteed debt for Eskom and South African Airways (SAA). The equity injection into the South African Special Risk Insurance Association (SASRIA) was also reflected as a payment for financial assets and liabilities in the National Treasury's budget.

2.3. National Government Analysis Summary

As at the end of August 2022, 40.8 per cent of the estimated tax revenue for 2022/23 was collected. The total collection of the CIT was better than expected. This is despite a decline in collection rated compared to 2021. The reason under collection of the fuel levy, amongst others, was the temporary fuel levy relief earlier in the year. There is reason to be concerned about the trajectory of the amount of tax revenue collected in the near future. South Africa's economic forecasted has been downward revised as was shown in the PBO Quarterly Economic Brief published in September 2022. Expenditure by some national votes have exceeded previous year spending patterns. E.g. Statistics South Africa had already spent above 70 per cent on their budget by the end of August 2022.

3. PROVINCIAL GOVERNMENT

The provincial government plays an important role in the provisioning of basic education, health services, roads, housing and social development. The provincial treasuries play an important role in implementing public financial management in a decentralised fiscal context as provided for by the Public Finance Management Act, 1 of 1999. Similar to the section on the national government, this section provides analysis of expenditure outcomes against the budget at provincial levels for the first five months of the 2022/23 financial year.

3.1. Provincial receipts

Over 97 per cent of receipts of provincial governments were allocated from the NRF. At the end of August 2022, provinces had received 42.6 per cent (R290.3 billion) of the budgeted receipts. In terms of own receipts, the provinces had on aggregate collected over 42.8 per cent (R8.9 billion) of their estimated budget.

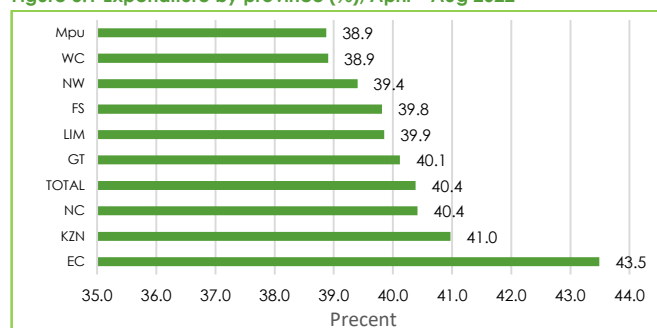
Table 3.1 Provincial receipts, April – Aug 2022

| Actual against budget receipts R'000 - April - Aug 2022 | | | |
|---|--------------------|--------------------|-------------|
| Receipts | Main Appropriation | Exp (April - Aug) | % of total |
| Equitable Share | 560 756 789 | 233 648 665 | 41.7 |
| Conditional Grants | 121 310 894 | 56 693 964 | 46.7 |
| Transfers from NRF | 682 067 683 | 290 342 629 | 42.6 |
| Tax Receipts | 15 546 732 | 5 552 136 | 35.7 |
| Sales of Goods and Services other than Capital Assets | 3 479 658 | 1 371 951 | 39.4 |
| Transfers Received | 26 793 | 552 666 | 2062.7 |
| Fines, Penalties and Forfeits | 298 503 | 241 792 | 81.0 |
| Interest, Dividends and Rent on land | 1 698 359 | 879 871 | 51.8 |
| Sale of Capital Assets | 71 943 | 33 151 | 46.1 |
| Financial Transactions in Assets and Liabilities | 301 058 | 316 525 | 105.1 |
| Provincial Own Receipts | 21 423 046 | 8 948 092 | 41.8 |
| TOTAL: RECEIPTS | 703 490 729 | 299 290 721 | 42.5 |

Source: section 32 reports

3.2. Provincial Expenditure

Figure 3.1 Expenditure by province (%), April – Aug 2022



Source: section 32 reports

Figure 3.1 shows the expenditure status by province. On average, the provinces had spent 40.4 per cent (R281.4 billion) of their budgets by the end of August 2022. Relative to other provinces, Eastern Cape (43.5%) had spent more on their budget while Mpumalanga and Western Cape had only spent 38.9 per cent, respectively.

Table 3.2. Provincial expenditure by economic classification, April – Aug 2022

| R million | 2022 Budget Estimates | | Exp against target: Apr-Aug 22 | | |
|-------------------------|-----------------------|-----------------|--------------------------------|-------------|-----------------|
| | R'000 | Y-on-Y % change | R'000 | YTD Exp (%) | Y-on-Y % change |
| Current payments | 571 350 804 | 6.0 | 232 662 408 | 40.7 | 5.2 |
| COE | 422 485 143 | 5.9 | 173 260 764 | 41.0 | 4.8 |
| Goods and | 148 858 369 | 6.4 | 59 376 907 | 39.9 | 6.5 |
| Interest & rent on land | 7 292 | 46.4 | 24 737 | 339.2 | 47.5 |
| Transfers and subsidies | 88 380 938 | 7.7 | 38 408 073 | 43.5 | 5.8 |
| Capital assets | 38 397 954 | 5.2 | 10 862 449 | 28.3 | -5.0 |
| Financial assets | 5 553 | -5.2 | 9 036 | 162.7 | 159.1 |
| TOTAL | 698 135 248 | 6.2 | 281 941 965 | 40.4 | 4.9 |

Source: section 32 reports

Table 3.2 shows the total provincial expenditure by economic classification. The total provincial expenditure allocation for the year 2022/23 was R698.1 billion. Of the total budget, current payments consist of R571.4 billion (81.7%) of the budget followed by transfers and subsidies at R88.4 billion (12.7%). It is also worth noting that Compensation of Employees (COE) accounted for about 75 per cent (R422.5 billion) of current payments or more than 60 per cent of the total provincial expenditure budget. This high proportion reflects the personnel dependent services provided by provincial departments (i.e.

health and education). Year-on-year, budget increased by 6.2 per cent between 2021 and 2022.

Goods and services accounted for more than a quarter of (R148.9 billion) of the current payments budget and more than 20 per cent of the total provincial expenditure budget. The provinces have on aggregate spent 40.7 per cent of their current expenditure budgets by the end of August 2022. Faster spending on interest and rent on land as well as financial assets and liabilities. Faster spending on interest and rent on land was driven by Northern Cape (R9.6 million), Eastern Cape (R4.7 million) and Free State (R2.2 million). It is a concern that Northern Cape (R286 thousand) and Free State (R247 thousand) spent significantly more on interest and rent on land than they budgeted for. More than half of spending on financial assets was recorded in Gauteng (R6.3 million) while KwaZulu Natal (R902 thousands) also spent on financial assets without budgeting for this expenditure item.

Table 3.3 Overall provincial payment for capital assets, April – Aug 2022

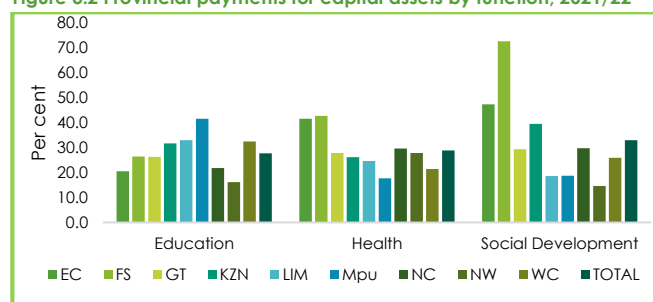
| R million | 2022 Budget Estimates | | Exp against target: Apr-Aug 22 | | |
|--------------------------------------|-----------------------|-----------------|--------------------------------|--------------|-----------------|
| | R'000 | Y-on-Y % change | R'000 | YTD Exp (%) | Y-on-Y % change |
| Buildings and other fixed structures | 29 573 859 | 2.9 | 8 147 359 | 40.7 | -2.5 |
| Machinery and equipment | 7 938 807 | 6.9 | 2 575 504 | 41.0 | -10.9 |
| Land and sub-soil assets | 619 053 | 439.4 | 20 034 | 39.9 | -32.7 |
| Software and other intangible assets | 243 559 | 20.2 | 111 857 | 339.2 | -31.2 |
| Biological assets | 16 676 | 3.8 | 4 638 | 43.5 | 1114.1 |
| Heritage assets | 6 000 | -60.5 | 3 057 | 28.3 | - |
| Payments for capital assets | 38 397 954 | 5.2 | 10 862 449 | 162.7 | -5.0 |

Source: section 32 reports

Provincial payments for capital assets for 2022/23 increased by 5.2 per cent (R1.5 billion) from R36.9 billion in 2021/22 to R38.4 billion. Provinces had spent 28.3 per cent (R10.9 billion) of their estimated capital assets budget by the end of August 2022. More than 75 per cent (R29.6 billion) of the capital assets budget was allocated for buildings and other fixed structures. Machinery and equipment was allocated just below a quarter (20.7% or R7.9 billion) in the year 2022/23.

3.3. Provincial budget analysis by sector

Figure 3.2 Provincial payments for capital assets by function, 2021/22



Source: section 32 reports

Overall payment for capital assets by function shows that only social development had spent more than 30 per cent of their capital assets budget. There were outliers within the social development function, e.g. Free State had spent more than 70 per cent of their budget by the end of August 2022 followed by Eastern Cape (47.3%) which had spent about half of their budget. North West (14.6%) was the slowest spender in capital assets budget within the social development function. Mpumalanga was the slowest spender in health with only 17.7

per cent of their budget spent by the end of August 2022. While within the Education function, North West (16.2%) had spent the least of their budget relative to the other provinces.

3.4. Provincial Government Analysis Summary

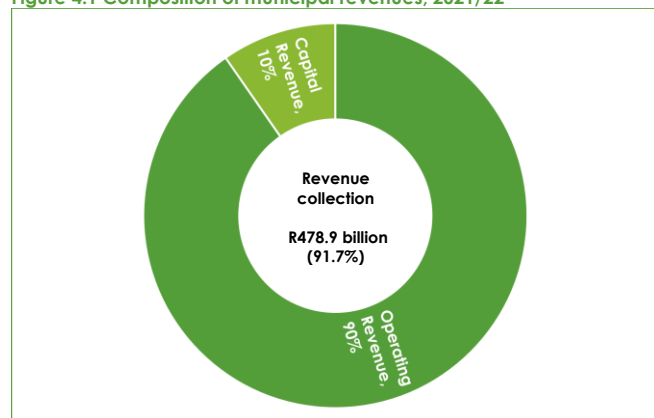
Provinces have generally spent close to 40 per cent of their budgets by the end of August 2022. Faster spending and expenditure on unbudgeted expenditure items remains concerns. For example, provinces spent more than three times the interest & rent on land budget by the end of August 2022. On the other hand, provinces had spent less than 30 per cent on their capital assets budget. Spending on capital assets may yield much needed returns in terms of development and growth. Infrastructure development in the provincial health and education sectors, amongst others, may be delayed by the slow spending on capital assets.

4. LOCAL GOVERNMENT

Local government (municipalities) is the primary level of government for the delivery of services in South Africa. The core function of local governments is to provide clean drinking water, sanitation, electricity, shelter, waste removal and roads. These services are basic human rights, essential components of the right to dignity enshrined in our Constitution and Bill of Rights. As per the 1998 Local Government White Paper, municipalities render services at a charge to citizens to generate revenue unlike the national and provincial government. This section on local government provides the preliminary expenditure outcomes for the 2021/22 financial year. The municipal financial year, which runs from 1 July to 30 June of the following year, is different to that of the national and provincial levels.

4.1. Municipal revenues, 2021/22

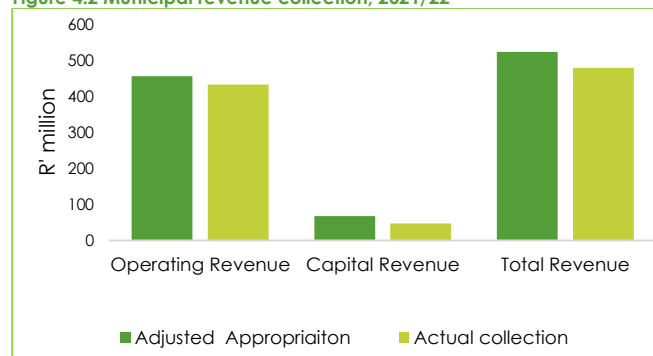
Figure 4.1 Composition of municipal revenues, 2021/22



Source: Section 71 reports

Figure 4.1 shows that the composition of municipal revenue. Of the annual collected revenue, more than 90 per cent was collected from operating revenue whilst the balance of 9.7 per cent was capital revenue. On aggregate the preliminary revenue collection for 2021/22 amounted to R478.9 billion (91.7%) compared to the R522.5 adjusted estimate. This was R17.7 billion more than in the same period in 2020/21. As a percentage of the target, the revenue collection for 2021/22 is lower than the 95.6 per cent in previous year. The below target revenue collection suggest that municipalities continue to struggle in meeting their revenue targets.

Figure 4.2 Municipal revenue collection, 2021/22



Source: section 32 reports

By the end of the 2021/22 financial year, municipalities had collected 94.5 per cent (R432.5 billion) of their annual estimated operating revenue. This is lower than the previous financial year when municipalities had collected 98.7 per cent (R408.9 billion). As at the end of the financial year, municipalities collected 69.4 per cent (R46.4 billion) of their estimated capital revenue. This was lower than the previous year where 76.9 per cent of capital revenue was collected. The lower than expected revenue collection rate highlights challenges of local governments' abilities to collect revenue within their revenue management value chains.

4.2. Operating revenue

Table 4.1 Composition of operating revenues, 2021/22

| Actual against budget revenue R'000 - 2022/23 | | | | |
|---|-------------------------|--------------------|-------------|--------------|
| Source | Aadjusted Appropriation | Exp (April - Aug) | % of total | % Share |
| Service charges | 225 338 792 | 213 550 937 | 94.8 | 49.4 |
| Transfers and subsidies | 95 264 187 | 91 851 164 | 96.4 | 21.2 |
| Property rates | 81 660 191 | 76 784 504 | 94.0 | 17.8 |
| Other revenue | 22 856 716 | 23 892 570 | 104.5 | 5.5 |
| Interest earned | 13 163 717 | 13 541 285 | 102.9 | 3.1 |
| Gains | 5 932 387 | 4 145 643 | 69.9 | 1.0 |
| Fines, penalties and forfeits | 5 479 490 | 3 563 286 | 65.0 | 0.8 |
| Rental of facilities and equipment | 2 734 940 | 2 358 735 | 86.2 | 0.5 |
| Agency services | 2 144 288 | 1 895 435 | 88.4 | 0.4 |
| Licences and permits | 1 053 369 | 916 760 | 87.0 | 0.2 |
| Dividends received | 6 702 | 15 041 | 224.4 | 0.0 |
| Operating Revenue | 455 634 779 | 432 515 360 | 94.9 | 100.0 |

Source: Section 71 reports

Table 4.1 shows the composition of operating revenue. Almost 50 per cent of the aggregated operating revenue was generated from municipal service charges (49.4% or 213.6 billion), followed by transfers and subsidies (21.2% or R91.9 billion), and property rates (17.8% or R76.8 billion). These are the three main sources of municipal operating revenue, which constitute more than 88 per cent of total operating revenue. Dividends received (228.4%), Interest earned (102.9%) and Other revenues (104.5%) over-performed in revenue collection while fines, penalties and forfeits (65%) and gains (69.9%) collected were less than 70 per cent of the annual estimates.

4.3. Capital revenue

Table 4.2 Composition of capital revenue, 2021/22

| Actual against budget revenue R'000 - 2022/23 | | | | |
|---|-------------------|-------------------|-------------|--------------|
| Source | Adjusted Budget | Exp (April - Aug) | % of total | % Share |
| Transfers recognised | 41 874 750 | 31 241 703 | 74.6 | 67.3 |
| Borrowing | 18 027 723 | 9 291 410 | 51.5 | 20.0 |
| Internally generated | 7 043 196 | 5 905 562 | 83.8 | 12.7 |
| Capital revenue | 66 945 669 | 46 438 675 | 69.4 | 100.0 |

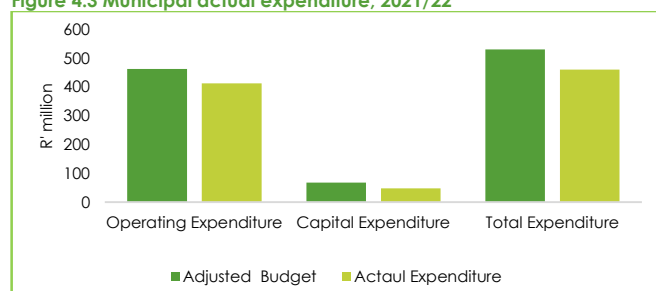
Source: section 71 reports

More than two-thirds of the collected aggregate capital revenue comes from government transfers (67.3% or R31.2 billion), followed by borrowing (20% or R9.3 billion) and internally generated revenue (12.7% or R5.9 billion). On aggregate municipalities borrowed less than they estimated for the year with only R9.3 billion compared to adjusted estimate of R18 billion.

4.4. Municipal expenditure

Almost 90 per cent of municipalities' expenditure is operating expenditure while capital expenditure is just about 10 per cent. By the end of the year, municipalities were able to spend 86.8 per cent (or R460.5 billion) of their total budgeted expenditure of R530.3 billion. This spending was lower than the 91.9 per cent spent in the previous year.

Figure 4.3 Municipal actual expenditure, 2021/22



Source: section 71 reports

4.5. Operating expenditure

Table 4.3 Composition of operating expenditure, 2021/22

| Actual against budget Expenditure R'000 - 2022/23 | | | | |
|---|--------------------|--------------------|-------------|--------------|
| Expenditure | Adjusted Budget | Exp (April - Aug) | % of total | % Share |
| Employee related costs | 132 670 663 | 125 853 340 | 94.9 | 30.5 |
| Bulk purchases | 108 402 725 | 101 023 398 | 93.2 | 24.5 |
| Contracted services | 56 405 525 | 46 804 799 | 83.0 | 11.3 |
| Other Materials | 40 639 545 | 37 568 930 | 92.4 | 9.1 |
| Debt impairment | 35 956 978 | 21 980 806 | 61.1 | 5.3 |
| Depreciation and asset impairment | 34 421 879 | 25 035 691 | 72.7 | 6.1 |
| Other expenditure | 32 746 047 | 31 119 789 | 95.0 | 7.5 |
| Finance charges | 10 139 196 | 9 071 402 | 89.5 | 2.2 |
| Remuneration of councillors | 4 717 986 | 4 178 950 | 88.6 | 1.0 |
| Transfers and subsidies | 3 879 313 | 8 281 952 | 213.5 | 2.0 |
| Losses | 2 921 956 | 1 850 774 | 63.3 | 0.4 |
| Operating Expenditure | 462 901 813 | 412 769 831 | 89.2 | 100.0 |

Source: section 71 reports

The drivers of operating expenditure at a municipal level, which constitute two-thirds of the total, are compensation of employees (30.5% or R125.9 billion) and bulk purchases (24.5% or R101 billion). Contracted services (11.3% or R46.8 billion) was the third highest expenditure item. Municipalities had spent 89.2

per cent of their operating expenditure by the end of the financial year, which was lower than the 93.9 per cent in the previous financial year. There was significant overspend on transfers and subsidies (213.5%), while less than estimated was spent on debt impairment (61.1%) and losses (63.3%).

4.6. Capital expenditure

Table 4.4 Composition of capital expenditure, 2021/22

| Actual against budget Expenditure R'00 - 2022/23 | | | | |
|--|-------------------|-------------------|-------------|--------------|
| Expenditure | Adjusted Budget | Exp (April - Aug) | % of total | % Share |
| Trading Services | 32 397 724 | 23 353 478 | 72.1 | 49.0 |
| Economic and Environmental Services | 17 386 677 | 12 736 380 | 73.3 | 26.7 |
| Community and Public Safety | 10 493 589 | 6 663 737 | 63.5 | 14.0 |
| Municipal governance and administration | 6 460 334 | 4 260 769 | 66.0 | 8.9 |
| Other | 619 920 | 650 778 | 105.0 | 1.4 |
| Capital Expenditure | 67 358 244 | 47 665 142 | 70.8 | 100.0 |

Source: section 71 reports

Municipalities have spent 70.8 per cent (R47.7 billion) of the R67.4 billion adjusted capital expenditure budget for 2021/22 by the end of the financial year. About half of the capital expenditure budget was spent on trading services (49% or R23.5 billion) followed by economic and environmental services (26.7% or R12.7 billion).

4.7. Local Government Analysis Summary

Municipal services are intended to be a tool to address poverty and inequality issues, raise living standards and facilitate economic opportunities¹. The PBO findings shows that local government requires support in order to increase their revenue collection capabilities and to fulfil its service delivery mandate. From the estimated revenue collection of R522.5 billion, municipalities were able to collect only 91.7 per cent. Municipalities could spend only 86.6 per cent of the estimated budget of R530.3 billion. Municipalities continue to face financial and operational challenges that hinder local government from delivering basic services. As the AGSA notes, basic discipline and processes should be in place to address these challenges. These measures include procuring at the best price, paying only for what was received, making payments on time, recovering the revenue owed to the state, and safeguarding assets.

5. DISASTER SPENDING – KZN and Eastern Cape

In April 2022, parts of KwaZulu-Natal and the Eastern Cape were ravaged by natural disaster floods. The President Ramaphosa announced three phases to respond to the disaster as follows; 1) Immediate humanitarian relief to ensure that all affected persons are safe and that their basic needs are met, 2) Stabilisation and recovery, rehousing people who have lost homes and restoring the provision of services, and 3) Reconstruction and rebuilding.

The National Treasury announced that R1 billion would be allocated to the response outlined by the President. According to the Auditor General of South Africa (AGSA), total allocations dedicated to disaster relief are close to R2 billion when taking

¹ Public Affairs Research Institute (PARI), 2021. Access to basic services report

into account disaster relief, reprioritised budgets, grants, and existing budgets.

Table 5.2 Summary of disaster spending in quarter one of 2022/23

| | Disaster relief grant | R' million |
|------------------------|------------------------------------|--------------|
| Cooperative governance | Provincial disaster grant | 135 |
| | Municipal disaster grant | 372 |
| Human settlements | Provincial emergency housing grant | 326 |
| | Municipal emergency housing grant | 175 |
| Total | | 1 008 |

Source: National Treasury 2022

Table 5.1 Disaster relief grant allocations

| Expenditure (Rands) | |
|-------------------------------------|--------------------|
| KwaZulu Natal | |
| Agriculture and Rural Development | 26 200 |
| Provincial Treasury | 9 745 |
| Health | 2 631 892 |
| Cooperative Governance and Traditio | 2 488 890 |
| Transport | 153 000 000 |
| National departments | |
| Home Affairs | 1 169 554 |
| Human Settlements | 140 003 000 |
| Small Business Development | 60 000 000 |
| Grand total | 359 329 281 |

Source: AGSA 2022

According to the National Treasury, approximately R359 million was spent in response to the disasters in the first quarter of the financial year. Table 5.1 shows expenditure by vote.

Emergency response and relief spending is critical for the protection of human rights and for mitigating against economic scarring that could have long term impacts on individuals and the economy. The AGSA has criticised the overall response to the disaster, stating that it was too slow and inadequate. A high level summary of the various disaster areas audited by the AGSA and the status of the responses shows that;

- **Provision of mobile classrooms and kitchens to severely damaged schools in KwaZulu Natal:** The floods caused damage to 356 schools in the province. The provincial education department estimated that the repairs would cost R235.38 million. The repairs are planned to commence in September 2022 for completion by March 2023.
- **Provision of temporary residential units for residents who lost their homes in the floods:** In KwaZulu Natal, only 736 of the 1 810 temporary residential units had been completed and were in use. In the Eastern Cape, only 45 of the 4 799 temporary residential units had been completed and some of these were not in use as they had not yet been handed over to beneficiaries by 31 July 2022.
- **Water tank services in eThekweni Metro where damage to water infrastructure affected water supply:** 198 water tanks were secured to ensure water services to eThekweni communities. During the AGSA's site visits from 13 May to 27 May 2022, 83 per cent of communities in the metropolitan area indicated that they had not received water for at least one day and 57 per cent for more than three days.
- **Repairs to government properties:** The Property Management Trading Entity (PMTE) determined that 65 properties (48

projects), which included state-owned properties leased to user departments, suffered damage to roofs, ceilings, gutters and structures. The AGSA selected 20 KwaZulu-Natal projects for testing. Their findings show that 17 were still in progress and three had been completed as at 19 May 2022.

- **Social relief efforts in KwaZulu-Natal and the Eastern Cape:** SASSA provided social relief to flood victims by 31 July 2022 in the form of approximately 99 500 hot meals and 10 894 food vouchers for groceries in KwaZulu-Natal. In addition, 2 637 items of humanitarian goods were delivered, 4 159 cash distributions were paid directly into bank accounts, and 816 school uniforms were provided in KwaZulu Natal and the Eastern Cape.

This summary of AGSA findings exposes the government's inadequate response to the crisis and that systemic failures have occurred. The AGSA has highlighted that damage assessments were omitted for the four previous disasters. This omission raises a critical issue of backlogs and disaster response preparedness. As of 12 August 2022, KwaZulu Natal had submitted a request for more than R2.9 billion for reconstruction and rehabilitation interventions. The Eastern Cape had requested R50 million.

Lack of adequate planning and coordination should be addressed to bolster the government's responses to the most recent disaster and future disasters. With global reports indicating that extreme weather events such as floods and drought are likely to become more frequent or more intense it is important that the government invest in disaster preparedness and responses to prevent humanitarian crises. This should be coupled with medium to long-term plans to build household resilience and socioeconomic development to buffer society at large against these shocks.