

2022 Division of  
Revenue, Adjusted  
Appropriations and  
Special Appropriations  
9 November 2022

Budget  
Office



Parliamentary

Minister section  
fiscal reports year  
Bill

# Outline

## **Section 1: Division of revenue**

- 1.1 Equitable shares
- 1.2. DoR in context

## **Section 2: Adjusted Appropriations**

- 2.1 Amounts declared unspent
- 2.2 The Social Relief of Distress Grant and
- 2.3 Focus on shift between votes

## **Section 3: Special Appropriations**

- 3.1 Eskom
- 3.2 Transnet
- 3.3 SANRAL
- 3.4 Denel

# Introduction

- This presentation is on the Division of Revenue, National Adjustments Appropriation and the Special Appropriations
- It considers the allocations across spheres and finds that the decision to increase allocations to provinces and local government has not occurred and that in real terms it decreases
- We examine the changes to the Division of Revenue in context and show that there have been some important declines in health and education but that real per capita expenditure on these function groups declines
- Disaster spending, according to the AGSA, was too slow and inadequate.
- The 2022 MTBPS proposes R6 billion in disaster relief
- The Appropriations Adjustment to the main budget is R37 billion, the special appropriations is R 30 billion and Unforeseeable and unavoidable is R 6 billion
- With regard to shifts between votes, we focus on the underspending on the SRD grant
- Special Appropriations were made to DPE and DoT
- The MTBPS mentions the government's plan to take part of Eskom's debt onto their balance sheet but the MTBPS and other government plans do not adequately outline the government's long term plans for Eskom and the fiscal implications of such plans

# Section 1: Division of revenue

# 1.1 DoR and equitable shares

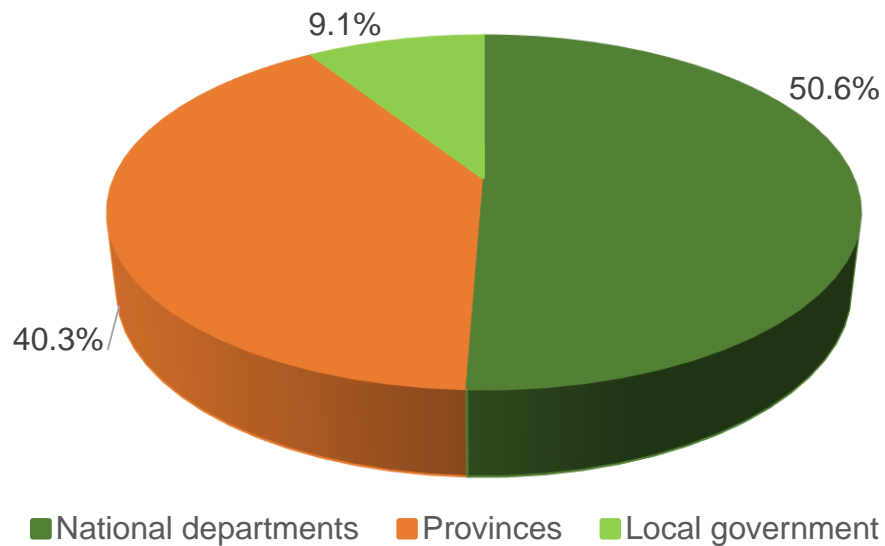
- 2022 Budget versus actual outcomes
- Provincial equitable share

# Division of Revenue

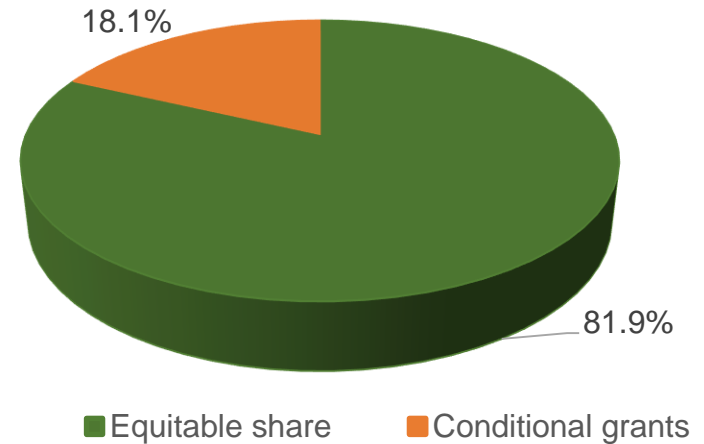
- The National Government is responsible for: (49.7% in 2022 Budget)
  - Providing leadership
  - Maintaining order
  - Providing public services
  - Providing national security
  - Providing economic security
  - Providing economic assistance
- Provinces are responsible for: (41.2% in 2022 Budget)
  - Basic education
  - Health services
  - Roads
  - Housing
  - Social development
  - Agriculture
- Municipalities (9.1% in 2022 Budget) provide basic services such as:
  - Water
  - Sanitation
  - Electricity reticulation
  - Roads
  - Community services
- The government continues to increase the proportions of total government spending to the provincial and local spheres of government

# Revised 2022/23 Division of Revenue Framework

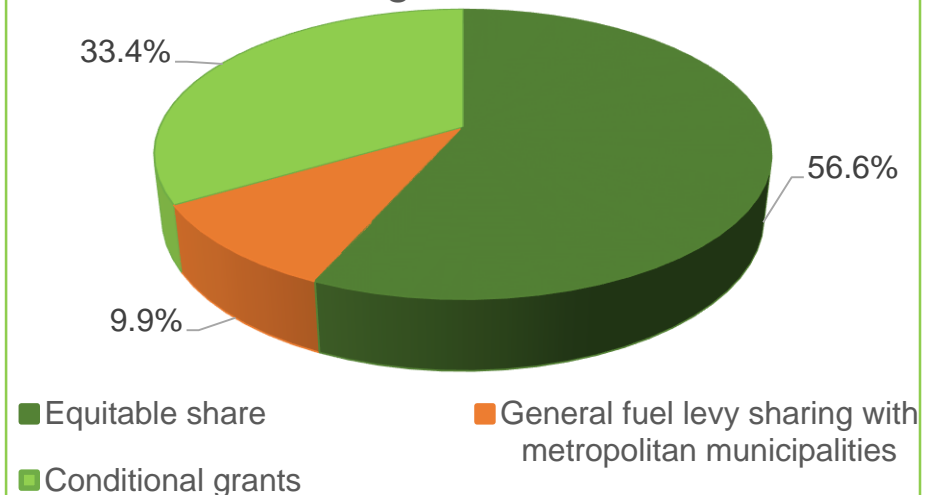
## Equitable shares



## Provinces



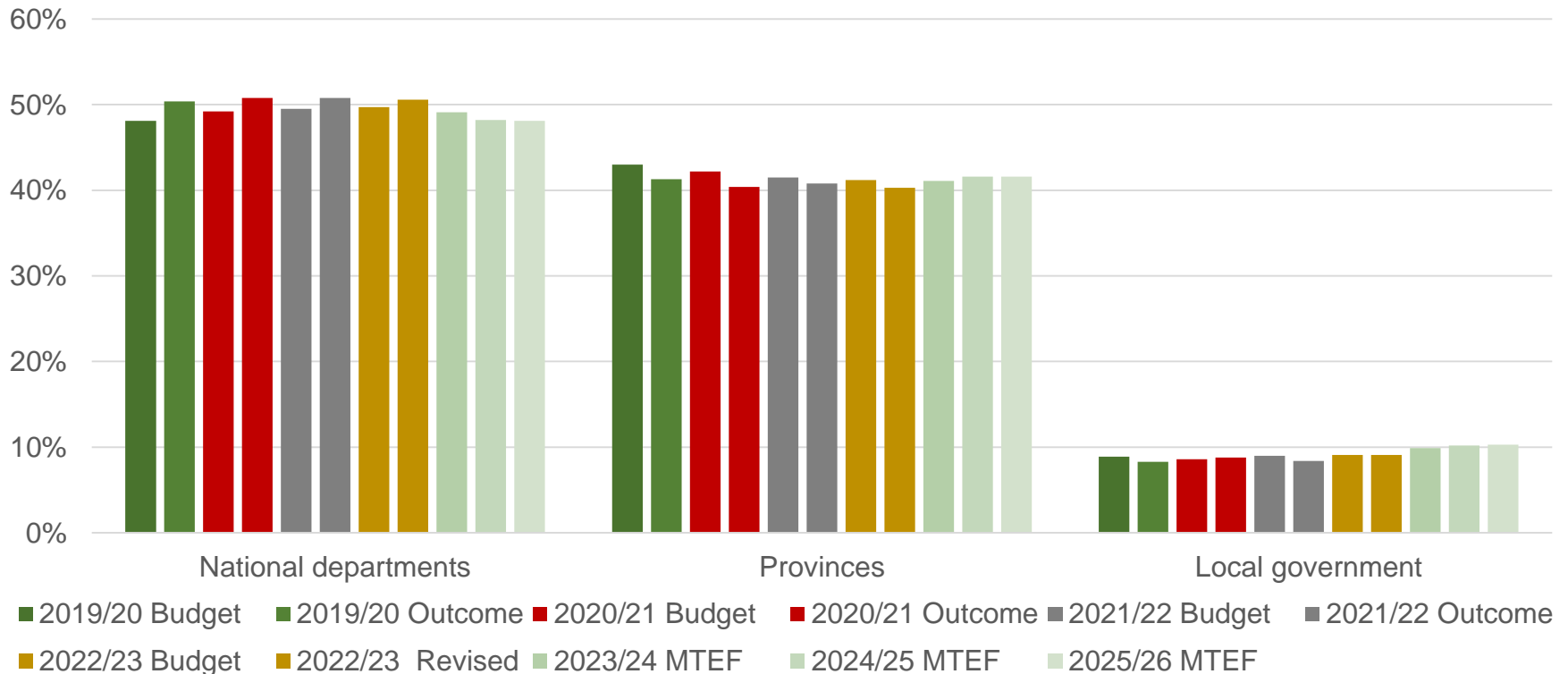
## Local government



# Division of Revenue trends of budget versus actual outcome

	2019/20	2019/20	2020/21	2020/21	2021/22	2021/22	2022/23	2022/23	2023/24	2024/25	2025/26
R billion	Budget	Outcome	Budget	Outcome	Budget	Outcome	Budget	Revised	Medium-term estimates		
<b>Division of available funds</b>											
<b>Main budget expenditure</b>	<b>1 658.7</b>	<b>1 691.0</b>	<b>1 766.0</b>	<b>1 789.0</b>	<b>1 834.3</b>	<b>1 887.5</b>	<b>1 975.3</b>	<b>2 018.2</b>	<b>2 041.6</b>	<b>2 144.5</b>	<b>2 263.2</b>
<i>Percentage shares</i>											
National departments	48.1%	50.4%	49.2%	50.8%	49.5%	50.8%	49.7%	50.6%	49.1%	48.2%	48.1%
Provinces	43.0%	41.3%	42.2%	40.4%	41.5%	40.8%	41.2%	40.3%	41.1%	41.6%	41.6%
Local government	8.9%	8.3%	8.6%	8.8%	9.0%	8.4%	9.1%	9.1%	9.9%	10.2%	10.3%

Source: National Treasury





# Changes to the Provincial Equitable Share

- In real terms, there will be a decline in spending over the MTEF
- Nominal budget 2022 allocations for 2023/24 increase from R543 billion to R556 billion
- The average annual nominal growth over the 2022 MTEF: was 1.0 per cent
- Over the 2023 MTEF: the annual average nominal growth is 2.4 per cent, which still is lower than the projected average CPI of 5.5 per cent
- KZN Department of Social Development receives R48.5 million in 2022/23 for the continued care and protection of flood victims

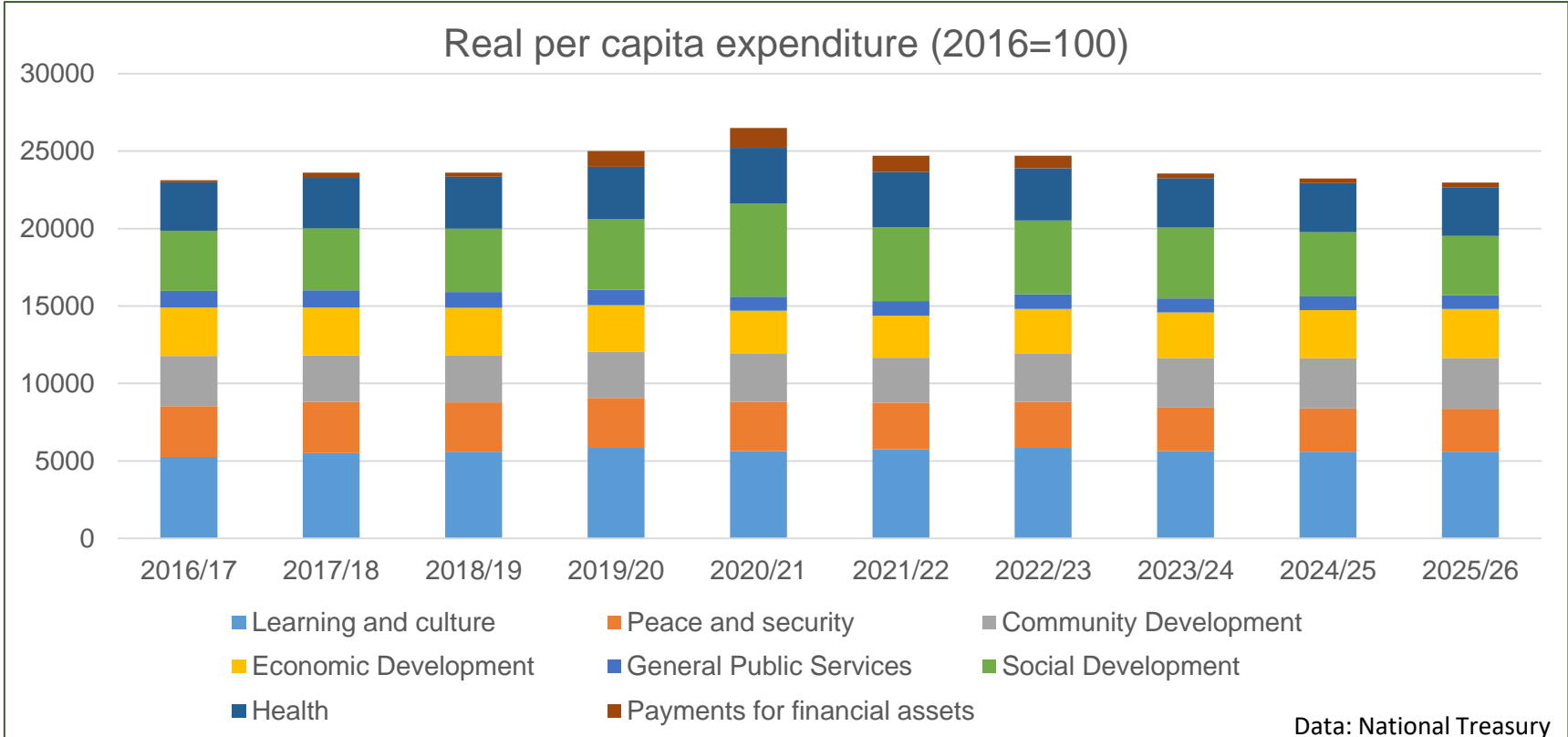
R million	2021/22	2022/23	2023/24 Budget estimate	2023/24	2024/25	2025/26	Average annual MTEF growth
				<b>MTEF</b>			
Eastern Cape	70,950	72,231	69,779	71,682	74,059	77,422	2.3%
Free State	30,342	31,107	30,109	30,815	31,798	33,157	2.1%
Gauteng	115,621	120,042	116,264	118,566	123,219	128,844	2.4%
KwaZulu-Natal	111,592	114,509	110,786	113,240	116,758	121,688	2.0%
KwaZulu-Natal		48,500					
Limpopo	62,556	64,056	62,073	64,175	66,774	70,276	3.1%
Mpumalanga	44,543	45,962	44,595	45,834	47,581	49,882	2.8%
Northern Cape	14,469	14,942	14,434	14,878	15,441	16,182	2.7%
North West	38,294	39,540	38,298	39,373	41,027	43,091	2.9%
Western Cape	56,467	58,367	56,810	57,822	59,844	62,359	2.2%
<b>Total</b>	<b>544,835</b>	<b>560,805</b>	<b>543,149</b>	<b>556,385</b>	<b>576,501</b>	<b>602,900</b>	<b>2.4%</b>

## 1.2 Division of revenue in context

- Provincial: education and health
- Disaster Spending outcomes from real time audit as of June 2022

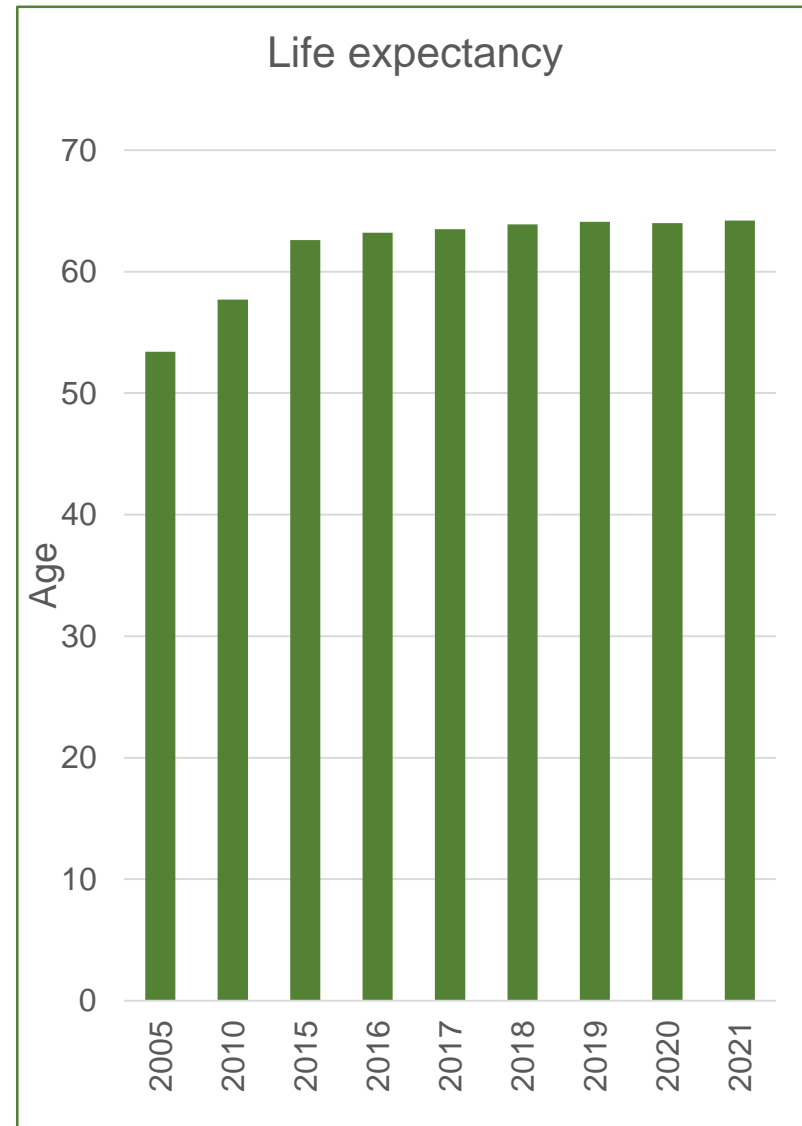
# Real per capita spending per function group

- Total real expenditure per capita expenditure declines in the medium term
- In 2016/17 total real expenditure per capita was R23 116, by 2025/26 this will decline to R22 964
- In the MTBPS speech, it is stated that the government is prioritising education and health, however, proposed real spending declines over the medium term for both areas



# Health statistics

- South Africa is facing a quadruple burden of disease and this strains the health care system
- COVID-19 slightly reduced life expectancy which has increased over time
- Preventative care remains challenging
- Primary Health Care (PHC) has deteriorated
  - The preliminary outcome for the number of public health facilities that qualified as 'ideal clinics' of 1 928 in 2021/22 was lower than the 2 035 clinics that achieved an ideal clinic status in 2019/20
- Health outcomes diverge along age, gender and the rural versus urban geographies
- The estimated overall HIV prevalence rate is approximately 13.7 per cent among the South African population
- The total number of people living with HIV (PLWHIV) is estimated at approximately 8.2 million in 2021.



Source: Statistics South Africa

# Trends in health

- We are regressing in achieving the MTSF target to decrease the infant mortality rate (IMR) to less than 20 deaths per 1 000 live births by 2024 and the under-5 mortality rate to less than 25 deaths per 1 000 live births by 2024.

The Infant Mortality Rate (IMR)

- 22.1 deaths per 1 000 live births in 2019
- 24.1 deaths per 1 000 live births 2021

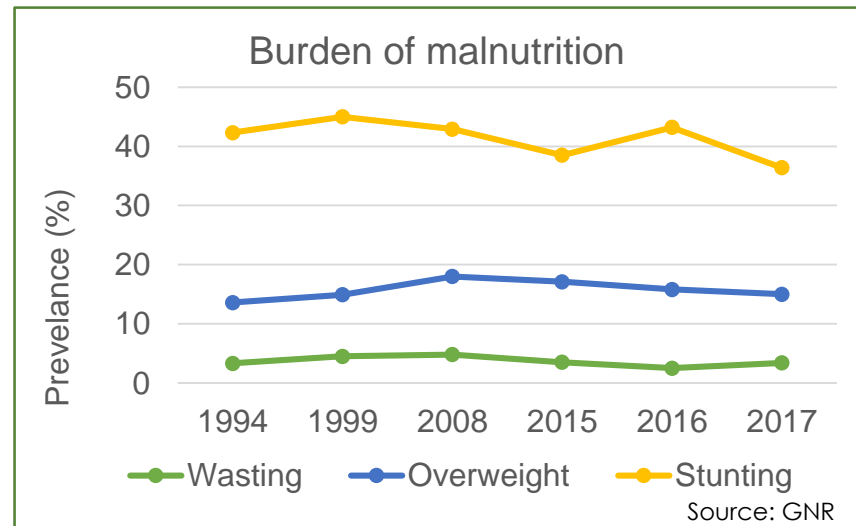
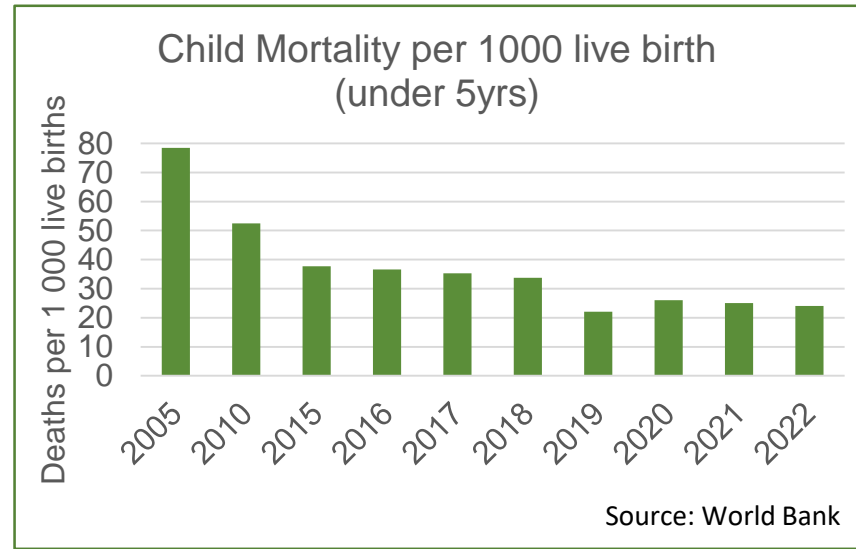
The under-5 mortality rate (U5MR):

- 28.5 deaths per 1 000 live births in 2019
- 30.8 deaths per 1 000 live births in 2021

Burden of malnutrition 1994 - 2017

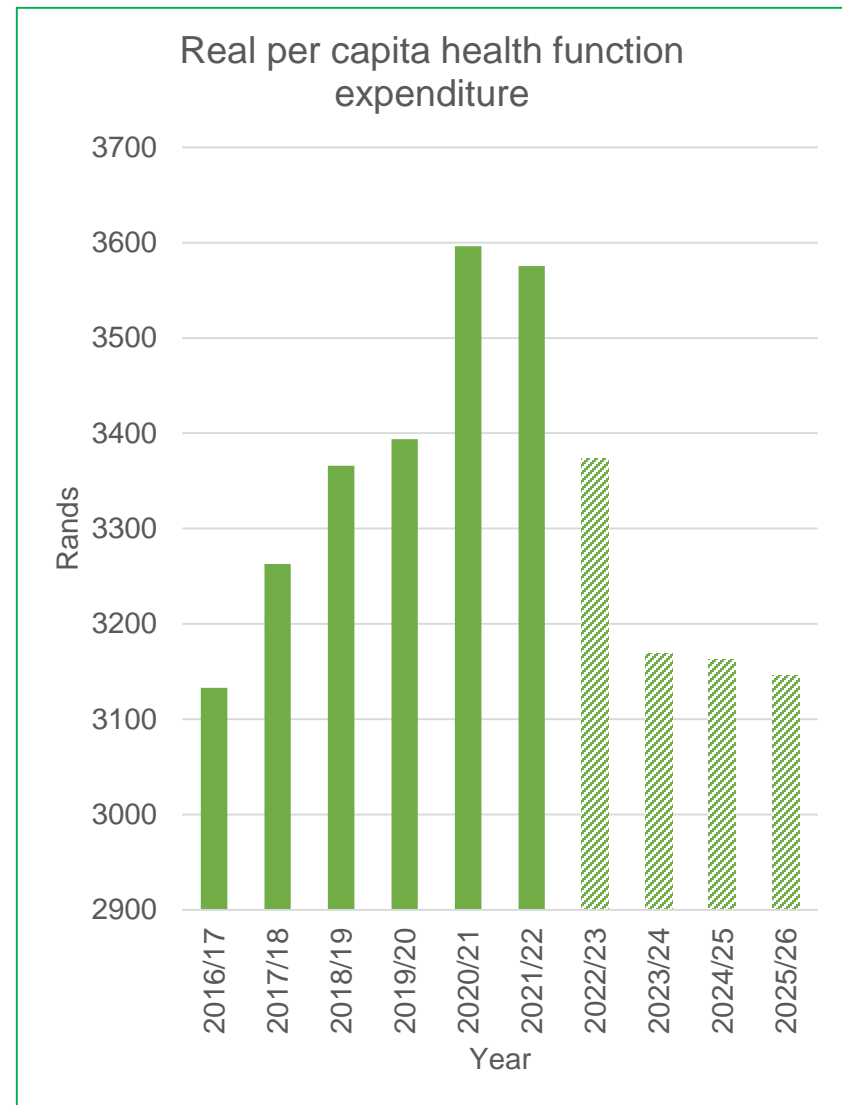
- Overweight worsened to 11.5 per cent
- Wasting rate worsened to 3.4 per cent

Sources Stats SA



# Trends health expenditure

- The public healthcare system remains overstretched and underfunded
- For example: According to the South African Nursing Council, the current nurse-to-patient ratio is 1:218 patients while the ideal ratio is 1:16
- In March 2022, Health Minister Joe Phaahla revealed that there are 10 831 vacancies in state hospitals citing budget cuts as a significant challenge
- The Minister also highlighted that the doctor to patient ratio was 0.79:1000 in 2019
- Despite these challenges, real per capita spending on the health function declines over the medium term period
- Real declines are likely higher given that medical price inflation is higher than CPI
- It must be asked how this spending could support the requirements for implementing NHI?

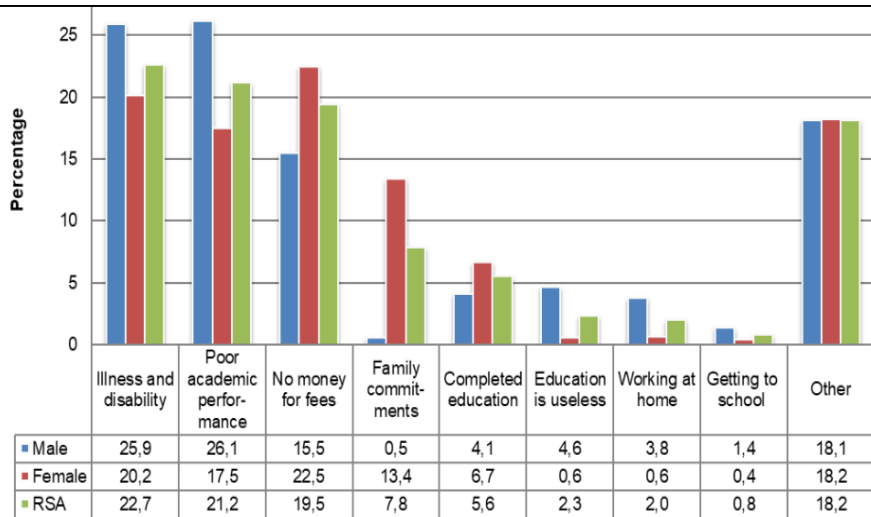


Source: PBO calculations based on National Treasury and Stats SA population data

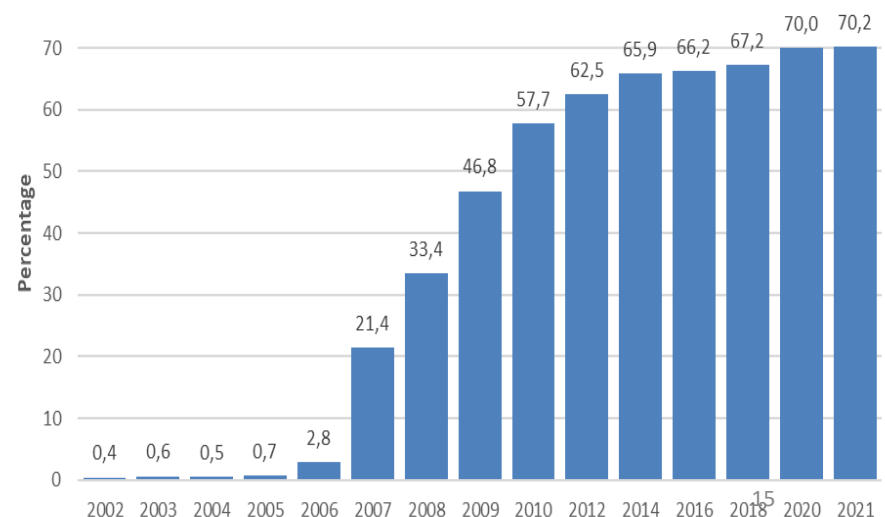
# The status of education

- Massive gains have been made in access to education
- However, concerns about dropout rates have increased because of the protracted and intensified cost of living crisis
- Households report that 22.5 per cent of females and 15.5 per cent of males between the ages of 7 and 18 state are not attending an educational institution because they do not have money for fees
- Of the 8 million unemployed individuals in Q2 2022, 40.1 per cent per cent had education levels below matric, 35 per cent had a matric, 10.3 per cent were graduates and 23.3 per cent had other tertiary

**Reasons for individuals aged 7 to 18 years not attending an educational institution, by sex, 2021**

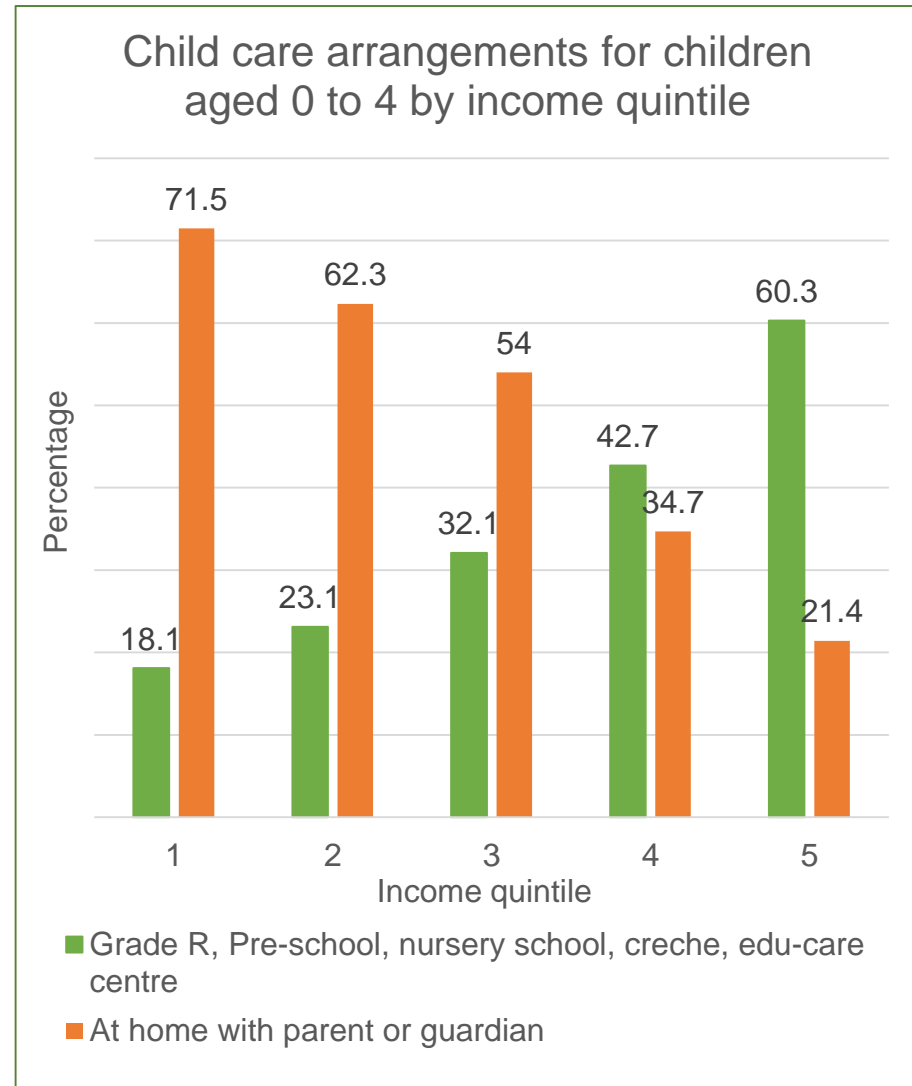


**Percentage of individuals aged 5 years and older who attended schools and who do not pay tuition fees, 2002–2021**



# Trends in education

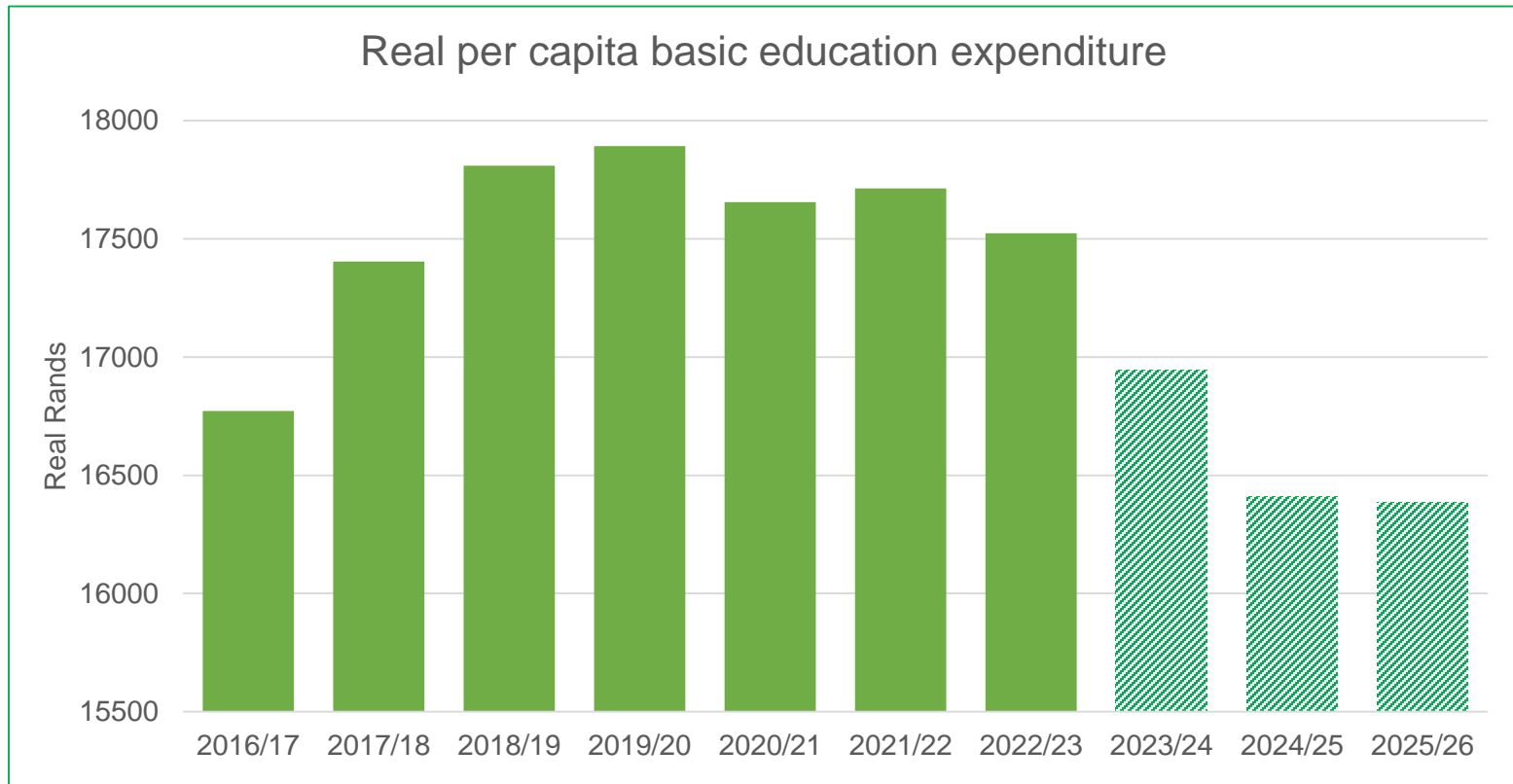
- According to Stats SA, there was a decline from 36.8 per cent in 2019 to 28.5 per cent in 2021 in children aged 0 to 4 who attended Grade R and pre-school
- Children from poorer households are more likely to stay at home with parents or guardians than attending ECD centers
- Socioeconomic status is still a determinant of education
- The percentage of individuals aged 18 to 24 who are still attending secondary school was higher for households in poorer income groups than households in higher income groups
- Youth aged 18 to 24 from the highest income households are more likely to attend university than those in lower quintile groups





# Trends in the learning and culture function expenditure

- In real per capita terms, the government will be spending less per student in 2025/26 than it did in 2016/17
- In 2016/17, the government spent R16 772 per learner. Projected spend per learner in 2025/26 is R16 384



Source: PBO calculations based on National Treasury and Department of Education population statistics

# Disaster Response

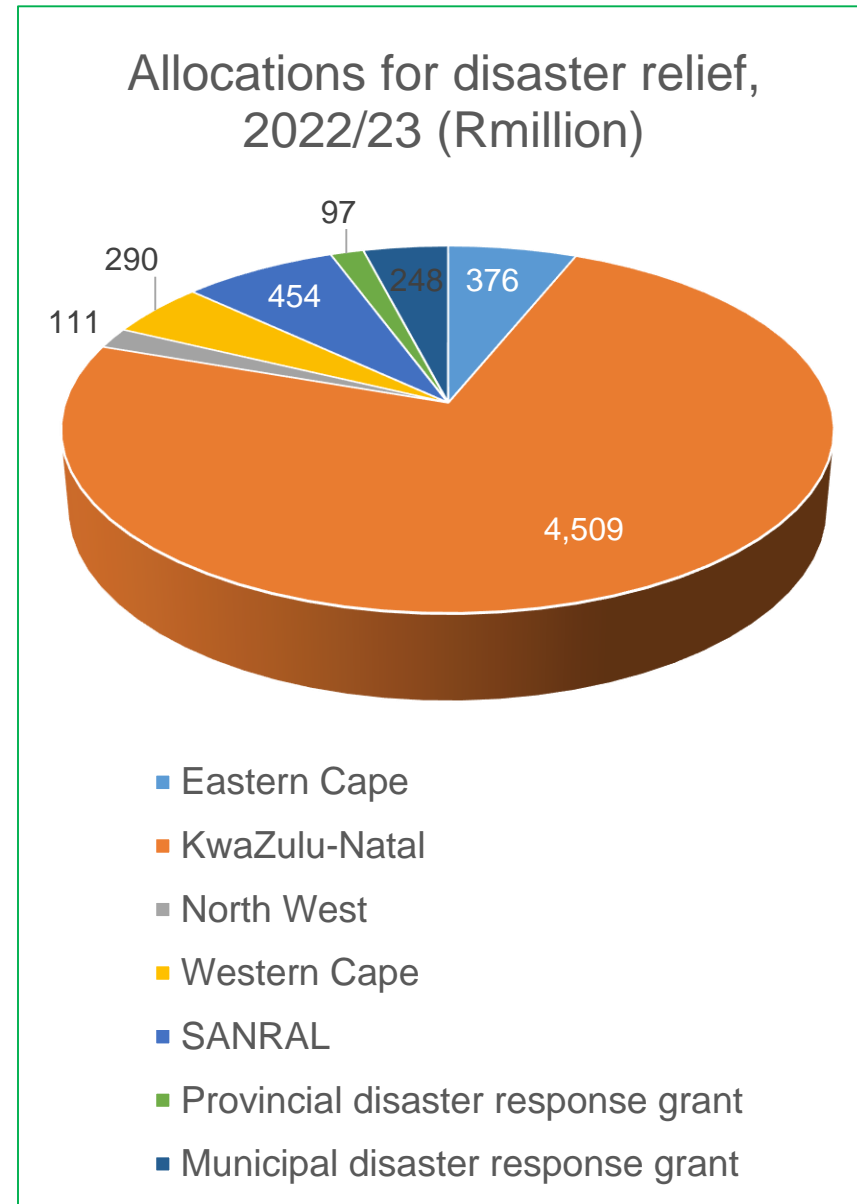
- For adequate response to the April 2022 floods, funding was shifted between disaster grants:
  - R145 million was shifted from the provincial disaster response grant to the municipal disaster response grant
  - R120 million was shifted from the municipal emergency housing grant to the provincial emergency housing grant
- To enable response if a disaster occurs in the remaining months of the current financial year, additional funding is added to disaster grants:
  - R97 million is added to the provincial disaster response grant and R248 million is added to the municipal disaster response grant to enable provinces and municipalities to respond should a disaster occur
  - To enable response to a housing emergency as a result of a disaster occurring, R350 million is added to replenish the provincial emergency housing grant
- R117 million is added to the education infrastructure grant
  - For reconstruction and rehabilitation of schools damaged by floods in December 2021 and April 2022 in the Eastern Cape and KwaZulu-Natal provinces
- R1 billion is added to the provincial roads maintenance grant for the Eastern Cape, KwaZulu-Natal and North West provinces for the repair of provincial roads damaged by the April 2022 floods

# Disaster Response

- R3.3 billion is added to the municipal disaster recovery grant for the reconstruction and rehabilitation of municipal infrastructure damaged by flash floods in:
  - The Western Cape (Overberg, Cape Winelands and Garden Route District Municipalities) in December 2021, and
  - The April 2022 floods in the Eastern Cape (Winnie Madikizela-Mandela Local Municipality) and KwaZulu-Natal (eThekweni Metropolitan Municipality, uMhlathuze Local Municipality and uThukela, uMgungundlovu & iLembe District Municipalities)
- R92 million is added to the informal settlements upgrading partnership grant
  - Municipalities for eThekweni Metropolitan Municipality for the purchase of land identified for the relocation of flood victims who were previously residing in informal settlements that were washed away by April 2022 floods
- R49 million is added to the provincial equitable share to continue with care and protection of April 2022 flood victims placed in shelters in KwaZulu-Natal
  - For provision of formula and disposable nappies for babies, provision of meals for people in the shelters, payment of shelter-based social workers and social worker supervisors and for payment of the system used by shelters to track progress of people within the shelters

# Disaster spending and allocations

- Emergency response and relief spending is critical for the protection of human rights and mitigating against economic scarring, i.e., long term impacts on individuals and the economy
- In May 2022, the government announced that R1 billion would be allocated to the disaster responses in KwaZulu Natal and the Eastern Cape
- The National Treasury reported that in the first quarter of the fiscal year, approximately R359 million had been spent in response to the disasters
- 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
- The 2022 MTBPS proposes R6.1 billion in disaster relief



# Disaster spending: “too slow and inadequate”- Auditor General SA

Provision of mobile classrooms and kitchens to severely damaged schools	<ul style="list-style-type: none"><li>• 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</li></ul>
Provision of temporary residential units for residents	<ul style="list-style-type: none"><li>• 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</li></ul>
Water tank services	<ul style="list-style-type: none"><li>• 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</li></ul>
Repairs to government properties	<ul style="list-style-type: none"><li>• 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</li></ul>
Social relief efforts	<ul style="list-style-type: none"><li>• 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</li></ul>

# Disaster management

- Extreme weather events associated with climate change, such as floods and droughts, have become more frequent and intense
- Therefore, it is important for the government to invest in disaster preparedness and responsiveness to prevent humanitarian crises
- According to the Country Climate and Development Report of the World Bank:
  - “Climate change negatively affects SA’s infrastructure, productivity, human capital, and scarce water resources. The country is vulnerable to rising temperatures and variable precipitation that result in droughts, floods, and heatwaves.”
- South Africa declared three national states of disaster for drought between 2017 and 2021; there were major droughts in 2020 and 2022
- The government has to shift from being reactive to being proactive
- The AGSA highlighted the need for robust needs assessments
- A systemic review of past disaster spending and outcomes should be undertaken
- Backlogs should be addressed
- Failure to adequately prepare for and address disasters leads to cumulative build up of burdens for communities that render them increasingly vulnerable to future events
- Improved social security and services builds societal resilience to disasters
- Enhanced social security acts as automatic economic stabilisers during economic downturns and disasters because households have money to keep spending

## **Section 2: Adjusted Appropriations**

# ADJUSTED ESTIMATES

- Declared unspent
- SRD and how it is allocated
- Focus on shift between votes



# Summary of the 2022/23 adjustments

- Adjustments to the main budget : R37 billion
- The special appropriations : R 30 billion
- Unforeseeable and unavoidable : R 6 billion mainly funded by conditional grants
- Shifts between votes

R million	Appropriation (ENE) 2022 Budget	Adjustments appropriation (AENE)	Special appropriation	Revised
<b>Allocated expenditure</b>	<b>1,657,881</b>	<b>2,842</b>	<b>30,014</b>	<b>1,690,737</b>
Provisional allocations not assigned to votes	1,372	13,380		14,752
Contingency reserve	10,000	-5,000		5,000
Infrastructure Fund not assigned to votes	4,197	-4,197		–
<b>Adjustments</b>		<b>10,722</b>	<b>30,014</b>	
Special appropriation				
Transnet			2,900	
SANRAL			23,736	
Denel			3,378	
Rollovers		990		
Unforeseeable and unavoidable expenditure		6,395		
Expenditure earmarked in the 2022 Budget speech for future allocation		500		
Self-financing expenditure		1,580		
Direct charges adjustments <sup>1</sup>				
Land Bank section 70 payment		102		
Denel section 70 payment <sup>2</sup>		205		
Skills development levy		619		
Judges' salaries		125		
National Revenue Fund payments adjustments		207		
<b>Other adjustments</b>		<b>-7,881</b>		
Declared unspent funds		-1,963		
National government projected underspending		-3,917		
Local government repayment to the National Revenue Fund		-2,000		
<b>Main budget non-interest expenditure</b>	<b>1,673,450</b>	<b>7,024</b>	<b>30,014</b>	<b>1,710,489</b>
In-year adjustments to the main budget non-interest expenditure since 2022 Budget				37,039

# In-year adjustments: Transfers and subsidies to Provinces and Municipalities

- National Disaster Management Centre: R3 637 million
- Basic Education : R116.8 million
- Human Settlements : R442.106 million
- Transport : R1 409 million

	Budget 2022 Appropriations	Adjusted Appropriations	Differences
<b>R thousand</b>			
Transfers and subsidies to Provinces and municipalities			
<b>03. Cooperative Governance</b>	<b>18 470 140</b>	<b>22 107 359</b>	<b>3 637 219</b>
National Disaster Management Centre	542 771	4 179 990	3 637 219
<b>08. National Treasury</b>	<b>2 479 601</b>	<b>2 379 601</b>	<b>-100 000</b>
Public Finance and Budget Management	2 479 601	2 379 601	-100 000
<b>16. Basic Education</b>	<b>23 007 677</b>	<b>23 124 443</b>	<b>116 766</b>
Education Infrastructure	12 384 085	12 500 851	116 766
<b>33. Human Settlements</b>	<b>30 410 678</b>	<b>30 852 784</b>	<b>442 106</b>
Informal Settlements and emergency housing	8 802 795	9 244 901	442 106
<b>34. Mineral Resources and Energy</b>	<b>2 341 872</b>	<b>2 342 872</b>	<b>1 000</b>
Mineral and Energy Resources Programmes and Projects	2 341 872	2 342 872	1 000
<b>40. Transport</b>	<b>24 474 475</b>	<b>25 883 785</b>	<b>1 409 310</b>
Road maintenance	11 371 151	12 780 461	1 409 310
<b>Total</b>	<b>169 765 232</b>	<b>175 271 633</b>	<b>5 506 401</b>

# Shifting of funds between votes

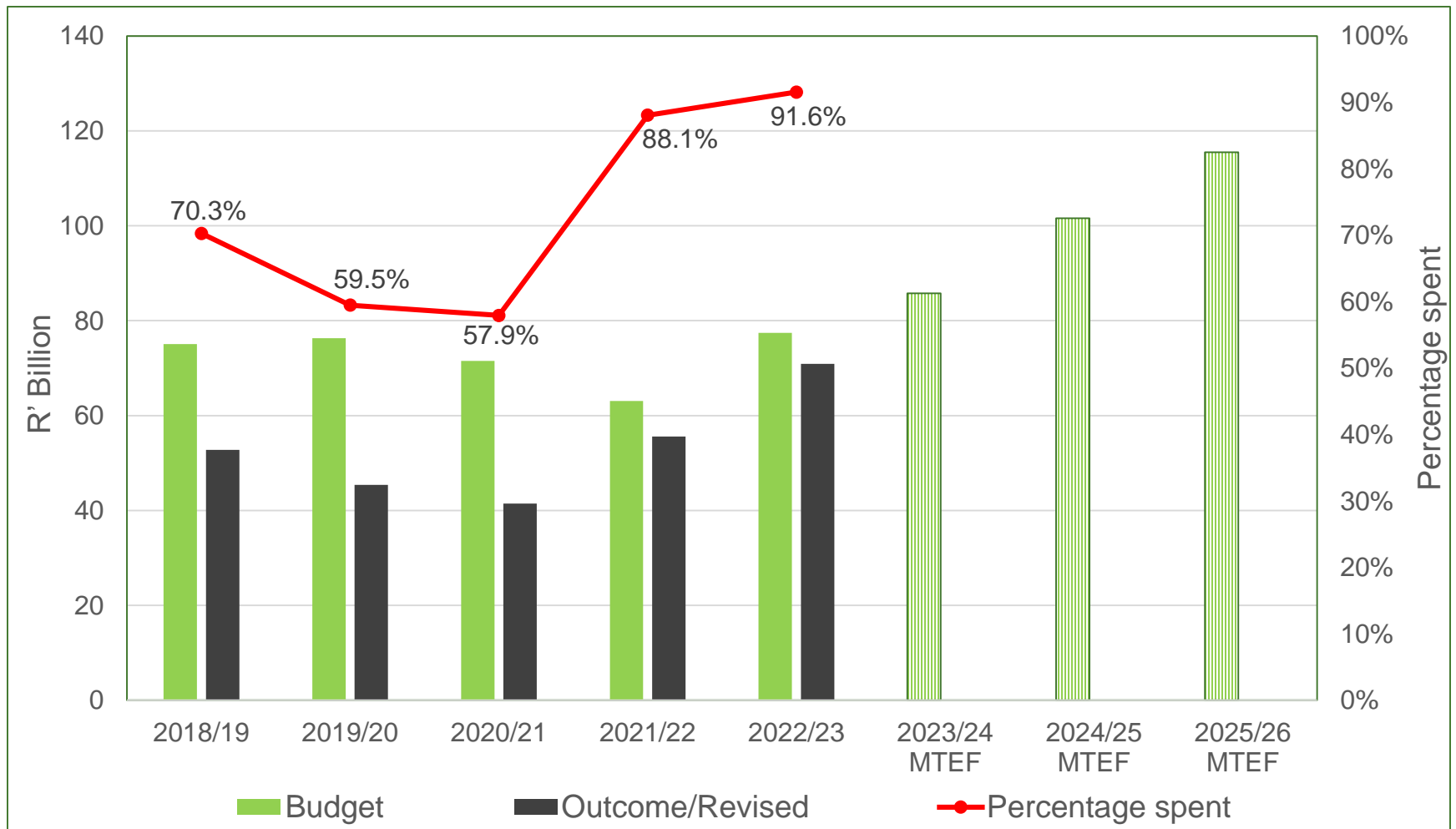
Vote and description of expenditure	R thousand
<b>10 Public Enterprises</b> Funds shifted from the Social Development for Transnet to repair flood-damaged infrastructure	2 937 000
<b>13 Public Works and Infrastructure</b> Declared unspent funds of R388.91 million shifted to Transport to construct 24 bridges in Eastern Cape and Limpopo	( 388 910 )
<b>19 Social Development (R6 billion unspent)</b> R755.303 million shifted to Defence and R2.937 billion shifted to Public Enterprises to Transnet	( 3 692 303 )
<b>23 Defence</b> Funds shifted from Social Development to cover a budget shortfall due to the extended deployment of the South African National Defence Force as part of Operation VIKELA in Mozambique	755 303
<b>25 Justice and Constitutional Development</b> Funds shifted from Agriculture, Land Reform and Rural Development to provide for the legal representation function performed by Legal Aid South Africa	89 603
<b>29 Agriculture, Land Reform and Rural Development</b> Funds shifted to Justice and Constitutional Development to provide for the legal representation function being performed by Legal Aid South Africa	( 89 603 )
<b>31 Employment and Labour</b> Funds shifted from Forestry Fisheries and the Environment for the secretariat of the presidential climate commission and its associated responsibilities	9 995
<b>32 Forestry Fisheries and the Environment</b> Funds shifted to Employment and Labour for the secretariat of the presidential climate commission and its associated responsibilities	( 9 995 )
<b>40 Transport</b> Funds shifted from Public Works and Infrastructure to the provincial roads maintenance grant to construct 24 bridges as part of the Welisizwe rural bridges programme	388 910

# Expenditure by vote

	2022/23					
	Main budget	Special appropriation	Adjustments appropriation	Adjusted appropriation	Actual spending April to September	% Spent April to September
<b>R million</b>						
2 Parliament <sup>2</sup>	2 212	–	118	2 330	–	
3 Cooperative Governance	111 365	–	3 650	115 015	42 181	37.9%
5 Home Affairs	9 406	–	1 298	10 704	4 479	47.6%
6 International Relations and Cooperation	6 601	–	102	6 703	3 217	48.7%
8 National Treasury	33 939	–	-102	33 838	15 442	45.5%
10 Public Enterprises	23 929	6 278	<b>2 933</b>	33 140	5 684	23.8%
13 Public Works and Infrastructure	8 547	–	<b>-410</b>	8 137	3 931	46.0%
14 Statistics South Africa	2 759	–	194	2 953	2 216	80.3%
16 Basic Education	29 560	–	117	29 677	16 736	56.6%
17 Higher Education and Training	109 515	–	–	109 515	75 716	69.1%
18 Health	64 531	–	–	64 531	30 540	47.3%
19 Social Development	257 001	–	<b>-5 462</b>	251 539	115 080	44.8%
23 Defence	49 090	–	<b>1 709</b>	50 799	24 238	49.4%
25 Justice and Constitutional Development	20 022	–	<b>90</b>	20 112	9 056	45.2%
27 Office of the Chief Justice	1 266	–	27	1 292	598	47.3%
28 Police	100 695	–	-32	100 664	47 642	47.3%
29 Agriculture, Land Reform and Rural Development	17 288	–	<b>141</b>	17 429	7 125	41.2%
30 Communications and Digital Technologies	2 717	–	200	2 917	1 621	59.7%
31 Employment and Labour	3 956	–	<b>118</b>	4 074	1 865	47.1%
32 Forestry, Fisheries and the Environment	8 948	–	<b>-10</b>	8 938	4 151	46.4%
33 Human Settlements	33 025	–	442	33 467	14 137	42.8%
34 Mineral Resources and Energy	10 346	–	73	10 419	4 060	39.2%
35 Science and Innovation	9 133	–	–	9 133	4 562	49.9%
36 Small Business Development	2 563	–	-35	2 528	1 300	50.7%
39 Trade, Industry and Competition	10 859	–	20	10 879	5 604	51.6%
40 Transport	69 126	23 736	<b>2 256</b>	95 118	34 254	49.6%
41 Water and Sanitation	18 540	–	15	18 555	7 010	37.8%
<b>Total appropriation by vote</b>	<b>1 057 029</b>	<b>30 014</b>	<b>7 454</b>	<b>1 094 497</b>	<b>501 499</b>	<b>47.4%</b>

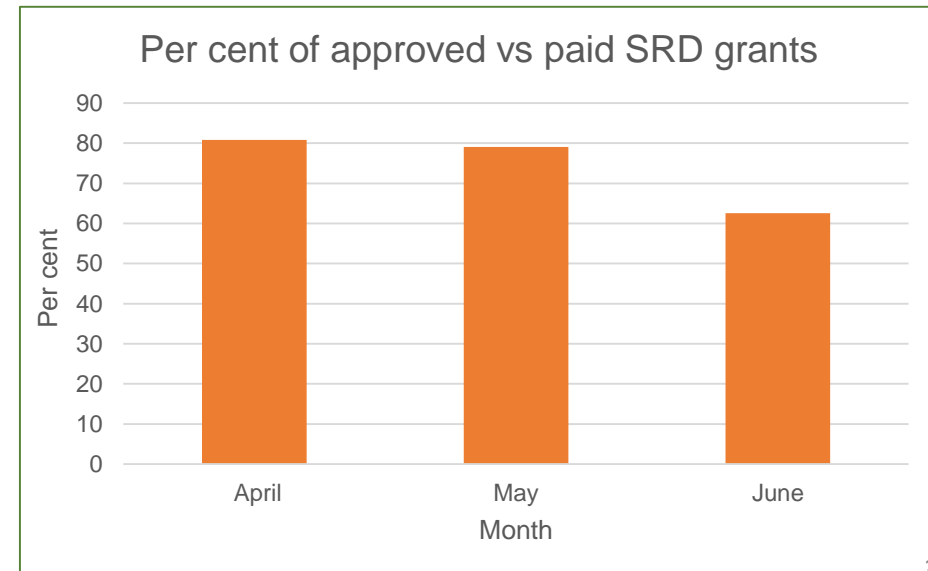
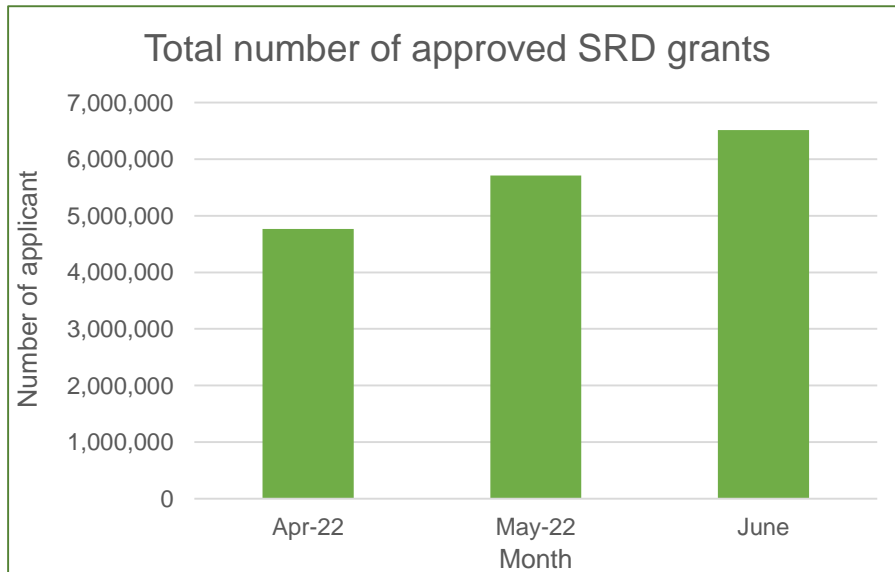
# Infrastructure spending: Budget versus outcome

- Actual spending was below 70 per cent between 2018/19 and 2020/21
- Revised estimate for 2022/23: 91.6 Per cent



# The 2022/23 extension of the SRD grant

- In Budget 2022, R44 billion has been allocated to serve 10.5 million people until the end of March 2023.
- The allocation was not enough for the 10.9 million people who were identified as potential beneficiaries for the grant
- The Department of Social Development introduced additional qualifying criteria for the grant so that the department could remain within the budget allocation:
  - The means test threshold was initially R350
  - Renewal of application every three months plus means testing
  - Low levels of approved payments (or low uptake) and payment delays



# August 2022 amendments to the SRD regulations

- On 16 August 2022 the DSD published amended regulations for the SRD grant
- Notably, the means test threshold was increased from R350 to R624. The new level is in line with the estimated Food Poverty Line for 2022
- In August 2022, the DSD reported that 7.5 million people were receiving the benefit on a monthly basis
- Even with these amendments, it was clear that the DSD was likely to underspend

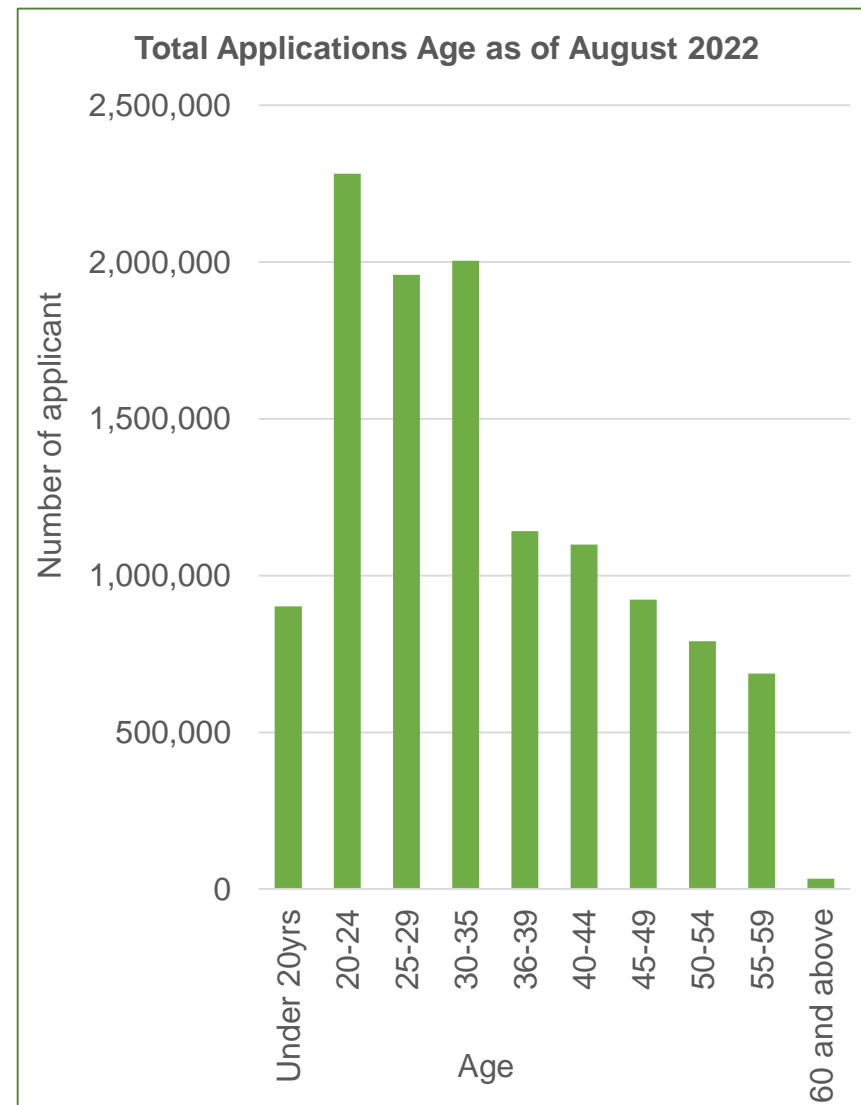
## Projected SRD grant expenditure against the February 2022 Budget allocation

Budget allocation (R44 billion)	Amount	Per cent of total budget allocation
Approved (as of 2 August 2022)	R4,76 billion	10,8%
Paid (As of 2 August 2022)	R4,36 billion	9,9%
Projected spend total spend (assuming 7.5 million beneficiaries going forward)	R27,99 billion	63,6%

Source: PBO calculations using Department of Social Development data

# Why the SRD Grant is important?

- “[E]veryone has the right to have access to social security, including, if they are unable to support themselves and their dependants” (SA Constitution, Chapter 2)
- The extensions of the SRD grant have provided a lifeline to many people in South Africa
- The grants have been shown to have made a significant impact on poverty and hunger
- A study by Borat and Kohler (2021) on the fiscal incidence of the COVID-19 grant estimates that in 2020 the grant reduced :
  - poverty by 5.3 per cent amongst the poorest households, and
  - household income inequality by 1.3 per cent to 6.3 per cent depending on the measure
- The grant has partially addressed the long-standing gap in social protection for the 18 to 59 age group in the context of high structural UPI



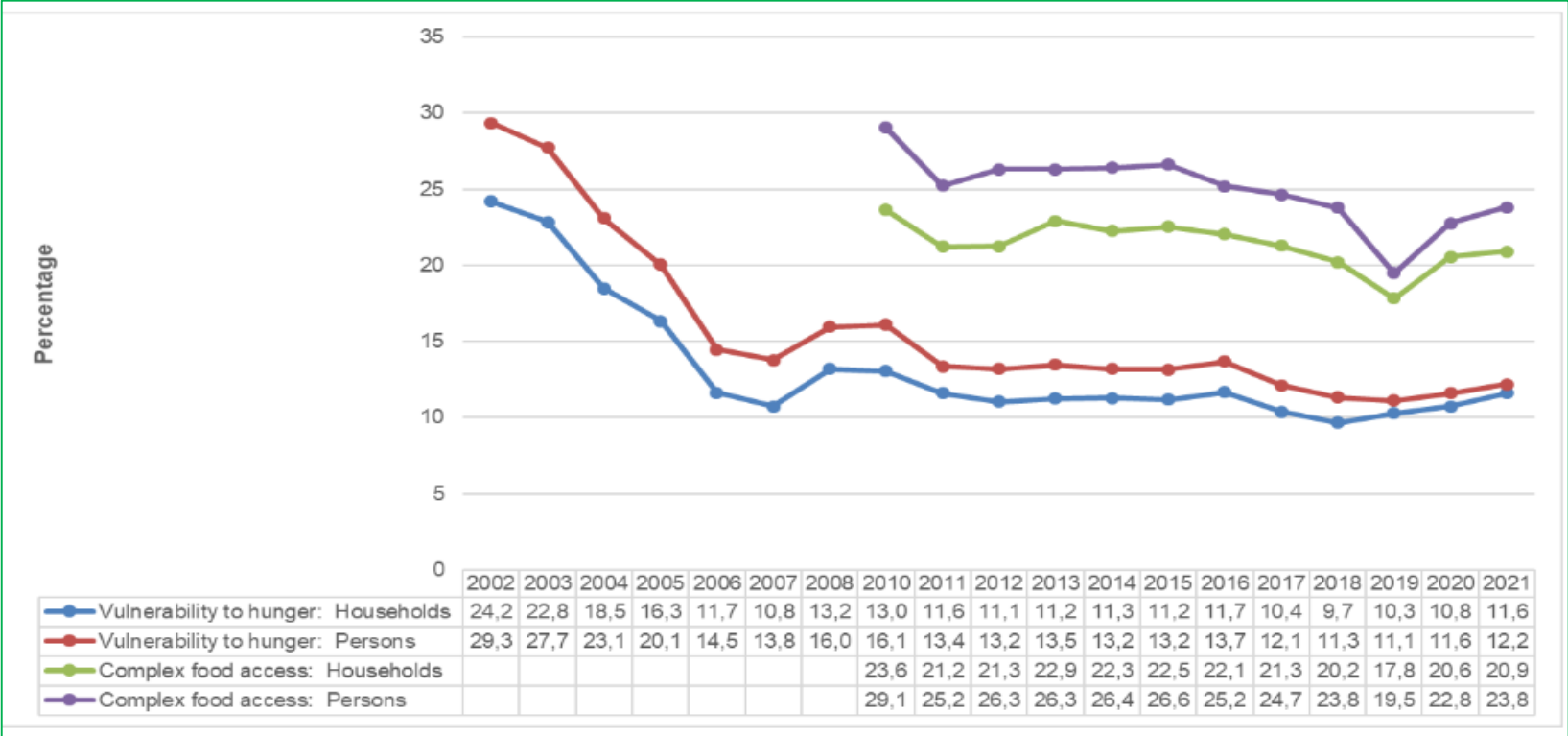
Source: Department of Social Development



# People are experiencing an ongoing, intense long-term cost of living crisis

- Failure to address unemployment combined with inadequate social provision has caused persistence of poverty and inequality (UPI)
- The result has been long term, cumulative negative impacts on households, communities and society. The majority of South Africans live in poverty

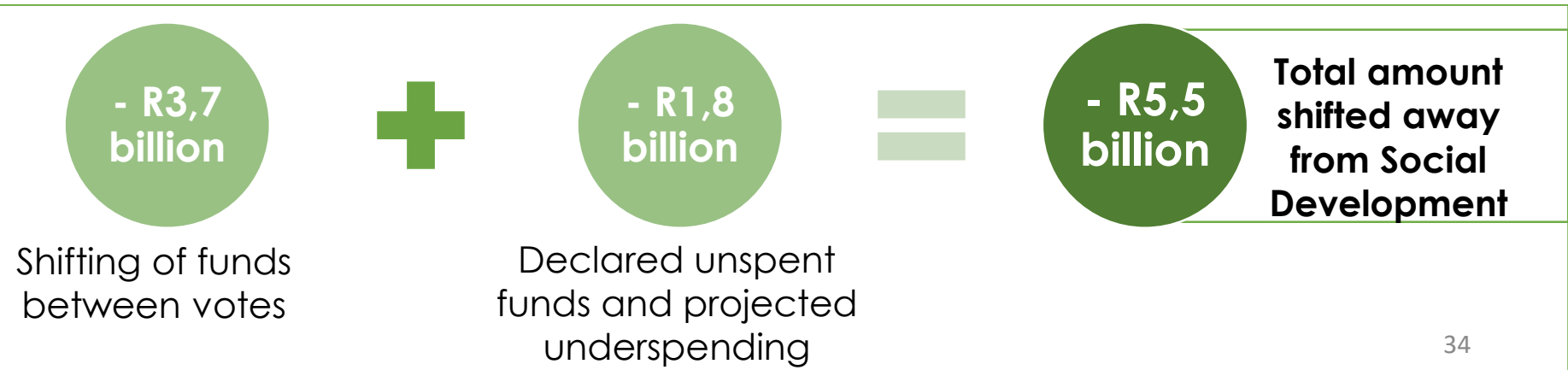
**Vulnerability to hunger, 2021**



# Can we afford not to spend more to address ongoing risks to livelihoods & the economy at large?

- The Cost of Living crisis threatens to plunge more people into poverty
- The current SRD is only 25 per cent of the amount needed for individuals to be at the upper-bound poverty line
- The exclusion criteria means that 3 million people in the target group identified by the DSD in February 2022 are not receiving the grant
- Nominal wages have been declining since 2010
- Even for those who are employed, overall, wages in South Africa are not increasing fast enough to support households

## MTBPS 2022 Summary of adjustments: Social Development



# Replacement of the COVID-19 SRD grant

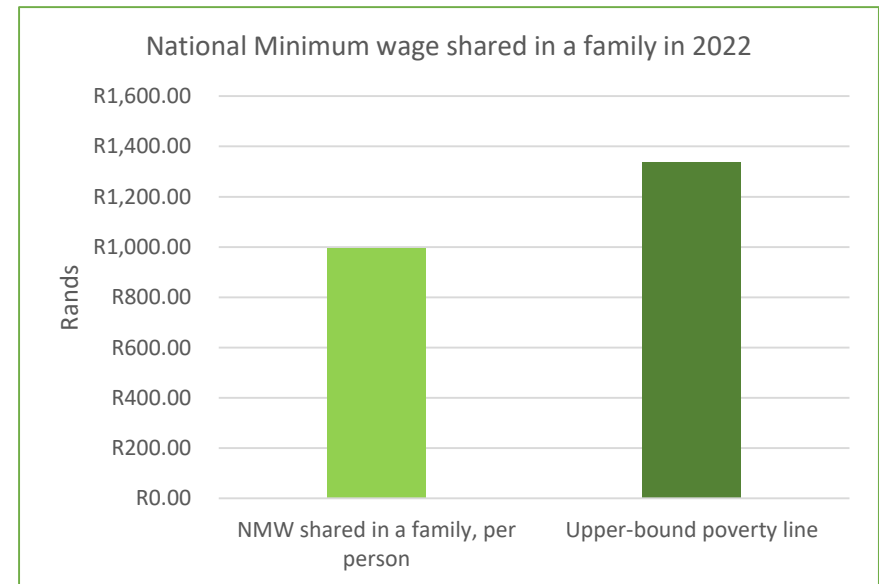
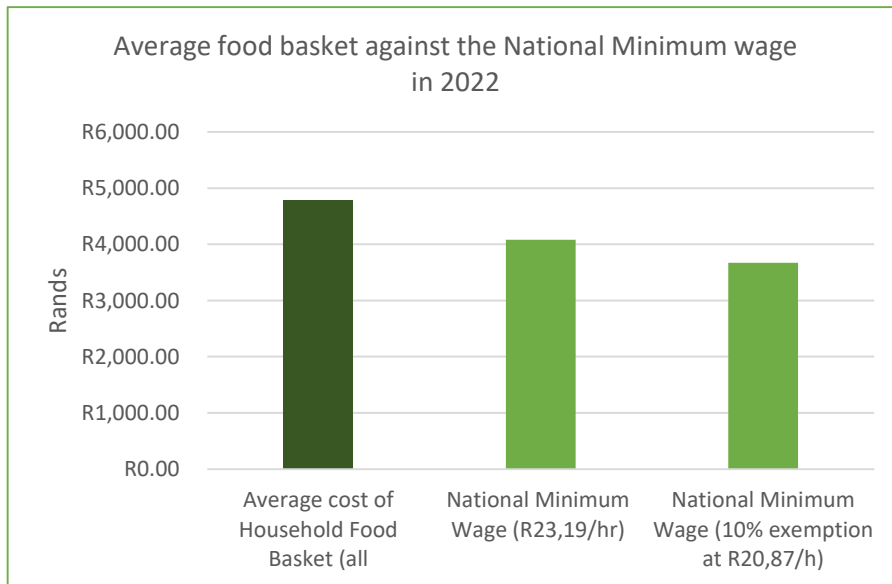
- The current COVID-19 SRD was expected to end in March 2023. It has been extended to March 2024
- The National Treasury initially indicated that “Although BIG or permanent SRD-350 is the preferred option for DSD, option 3 in Presidency Paper: SRD-Job-seeker grant and SRD-caregiver grant might be an acceptable compromise”
- The discussion on social security must continue
- The following questions should be asked taking into consideration the impact of long-term structural unemployment:
  - What will happen to the millions who will remain vulnerable to poverty and hunger after 2024?
  - What will happen to those who are being excluded from the current grant?
  - How hard and destabilising will it be to stop supporting adults who have been receiving the grant
  - Have the socioeconomic risks been adequately considered and addressed?
  - Beyond cost, on what basis are the caregiver and job-seeker grants better alternatives to UBIG or other forms of grants?
  - Has substantive research been conducted on the success/failures of the grants initially proposed?
  - What measures need to be in place to progressively realise the Constitutional obligations of the state to provide social security for all?

# The majority of South Africans live in poverty and the social fabric is further eroding

- President Cyril Ramaphosa recently said:
  - “African women are the face of poverty”
  - “Between the 1st quarter of 2021 and the 1<sup>st</sup> quarter of 2022 there was a 52 per cent increase in the murder of women and 46 per cent increase in the number of children murdered”
- According to Stats SA (2021), the profile of a subjectively-poor household in South Africa is one typically
  - located in the lower quintiles of the income distribution
  - in a rural area located in a rural-based province and who has lower levels of education
  - headed by a black African female younger than 35 who has been provided with low levels of education
  - where the general health status of the household head is poor
  - Where it is more than likely that all economically active individuals (age 15 years and above) are unemployed
  - less happy than they were 10 years ago
- 55 per cent of people in South Africa lived below the Upper Bound Poverty line
- Between 2011 and 2015, 3 million people were pushed into poverty
- 25.5 per cent of the population lived in ‘extreme poverty’, unable to afford enough food to meet their basic physical needs

# The Household Affordability Index (HAI) shows that many households cannot afford basic needs

- Women who struggle with living on low incomes in Johannesburg, Durban, Springbok, Cape Town and Pietermaritzburg contributed to the development of the Household Affordability Index by giving input on the Household Food Basket used in the index
- The index includes the foods and the volumes of these foods required by women living in a family of seven members (an average low-income household size)
- The average Household Food Basket costs more than the minimum wage (R4081 a month) in 2022
- It has increased by 12,6 per cent from the previous year
- With an average of one waged worker in a household of 4,4, individuals within that household fall below the upper-bound poverty line???



Source: Pietermaritzburg Economic Justice & Dignity Group (PMBEJD)

# Section 3: Special Appropriations

# 2022 Special Appropriations Bill

SANRAL

Transnet

Denel

Eskom

# 2022 Special Appropriation Bill

- Purpose of the bill: To appropriate an additional amount of money for the requirements of the votes of Public Enterprises and Transport for the 2022/23 financial year; and to provide for matters connected therewith
- These appropriations of additional money is drawn from the National Revenue Fund for the requirements of these votes
- Appropriation of money to the vote of Public Enterprises
  - An amount of R3.4 billion is appropriated to Denel for implementation of a turnaround strategy
  - An amount of R2.9 billion is appropriated to Transnet for acceleration of repair and maintenance of locomotives
- Appropriation of money to the vote of Transport
  - An amount of R23.7 billion is appropriated to South African National Roads Agency Limited for debt redemption fund



# SANRAL

- The 2022 Budget reveals that SANRAL's debt guarantee exposure increased by R11.7 billion to R49.1 billion by end of 2021/22
- This increase was due to accrued interest and revaluation of inflation-linked bonds
- R47 billion of SANRAL's debt will be shared between the Gauteng provincial government and the national government
- There will be a in a 30 per cent to 70 per cent split (Gauteng/national) to unblock the impasse surrounding the Gauteng Freeway Improvement Project (GFIP)
- R23.7 billion of the R47 billion debt will be maturing very soon and will be paid by the national government
- This payment is conditional on implementation of a solution to Phase 1 of the GFIP

# SANRAL

## **The Gauteng Freeway Improvement Project (GFIP) – 15 years later**

- The GFIP was meant to address traffic congestion issues in Gauteng
- Gauteng's road infrastructure had been stretched beyond its limits
- The result was traffic congestion and increased travel times that negatively affected productivity
- The GFIP plan was supposed to be executed in three phases with SANRAL and DoT investment of R55 billion
- However, costs related to the project escalated overtime
- SANRAL is unable to meet its GFIP payment obligations because, amongst other reasons, of poor revenue collection (resistance to the e-toll system), overspending and uncertainty about the future
- Sanral noted in October 2022 at its appearing before Portfolio Committee on Transport that the e-toll system has become a burden on its entire toll portfolio
- Over the years, Sanral has tried several tactics to get road users to pay – from payment holidays and discounts to motorists – but these have proven ineffective

# SANRAL

## **The Gauteng Freeway Improvement Project (GFIP) – 15 years later**

- Due to under-collection of e-tolls on the GFIP, government assistance has become a significant supplementary source of funding for the toll portfolio over the past three financial years
- In the 2021/22 financial year, Sanral was given R3.85 billion in the form of a GFIP grant, up from the R2.72 billion grant in 2020/21
- The Gauteng government has resolved to set up task teams that will look at:
  - sources of funding for their 30 per cent share of the GFIP debt, and
  - to investigate how the entire e-toll infrastructure can be repurposed to deal with crime issues
- The Gauteng government has indicated that it wishes to stagger repayment of its 30 per cent share of GFIP's debt over 20 year to avoid pressure on the province's finances, delivery on social services and other obligations

# Transnet

- The national government's guarantees to Transnet decreased from R20.4 billion in 2004/05 to R3.7 billion in 2012/13
- It remained relatively unchanged until 2021/22
- Transnet is expected to receive its first cash injection from the fiscus in decades
- This cash injection is for R5.8 billion (R2.9 billion is shifted fund from the Department of Social Development's allocation), of which:
  - R2.9 billion is allocated towards repairing infrastructure damaged by the recent floods
  - An additional R2.9 billion is allocated towards the procurement of spare parts and new locomotives
- The funds are earmarked to help the SOC recover from:
  - flood damage, and
  - a shortage of locomotives due to previous contractual problems with manufacturers

# Transnet

- Transnet's operational and financial performance for the 2021/22 financial year was below target
- Transnet said the main reasons for the underperformance was:
  - security problems,
  - constraints on locomotive availability, and
  - subdued economic trading conditions
- The volume of goods transported in South Africa decreased by 20 per cent between 2018/19 and 2021/2022
- The cash injection will assist Transnet Freight Rail to address declining volumes and revenue since 2018
- With the help of this state support, Transnet should be able to improve its revenue flows and liquidity position by:
  - improving its operational efficiency, and
  - leveraging its balance sheet

# Denel

- Denel's guarantee facilities and debt declined to R3.4 billion in 2021/22 after R2.5 billion lapsed following the cancellation of the Egyptian missile contract and maturity of R1 billion debt
- In the 2022 Budget, Denel was allocated R3 billion to cover capital and interest payments on guaranteed debt that reduced its debt to R290 million
- Denel's financial woes caused it to:
  - struggle to pay salaries during the pandemic and
  - fail to submit financial results within the required time frame, which led to the JSE suspending trading of its bonds earlier this year after it
- As a result of the suspension, Denel is unable to sell more debt on the primary market and its bonds cannot be traded on the JSE's secondary market
- Denel will receive R3.4 billion to support recent progress made to stabilise the arms manufacturer

# Eskom

- According to the 2022 MTBPS, “Eskom is the largest long-term risk to the economy, given its high debt levels and unsustainable business model”
- In 2019, the government announced a R230 billion 10-year support package for Eskom to remain financially viable
- To date, R140 billion of this package has been disbursed
- In addition, Eskom had used R323.9 billion of its R350 billion government guarantee facility as at 30 June 2022
- Since then Eskom's guarantee exposure has increased to R327.9 billion due to additional drawdowns
- The 2022 fiscal framework assumptions for long-term main budget baseline has financial support for Eskom amounting to R224.6 billion from 2019/20 until 2025/26
- PBO work on Priority 2 found that while the DPE produces progress reports on the legal separation and the Eskom roadmap for a reformed electricity supply industry. The specific status of the unbundling process has not been presented in the quarterly performance report on the APP

# The national Treasury and Eskom's debt relief

- The MTBPS and other government plans do not adequately explain government's long term plans for Eskom and the fiscal implication
- Much of the details of the programme have not been communicated and still are to be finalised in consultations and negotiations with stakeholders and conditions will be informed by an independent review of Eskom's operations
- According to the 2022 MTBPS:
  - The National Treasury is leading a process to finalise a debt relief programme designed to restore Eskom to efficiency and financial sustainability
  - The specifics of the programme, including the selection of the relevant debt instruments and the method of effecting the relief, are still being finalised
  - The programme will include strict conditions required of Eskom and other stakeholders before and during the debt transfer
  - These conditions will address Eskom's structural challenges by managing its costs, addressing arrears due to the utility, and providing greater clarity and transparency in tariff pricing
  - In addition, the conditions will be informed by an independent review of Eskom's operations
  - Further details of the programme, which will be finalised following consultations with all relevant stakeholders, will be announced in the 2023 Budget



# Conclusion

## Sections 1: Division of Revenue

- The decision to allocate a larger proportion of the budget to the local and provincial spheres of government has not occurred
- An upward adjustment has been made to the percentage share of national departments by 0.9%
- The provinces' percentage share decreases from 41.2% to 42.3%
- The local government share is relatively unchanged
- The nominal budget 2022 allocations to the provinces for 2023/24 increases from R543 billion to R556 billion but given the projected inflation rate in real terms there will be a real decline in spending over the MTEF
- An examination of the DoR in context shows that while need has grown there have been decline in health and education services while the real per capita expenditure proposed over the MTEF declines
- Funding was shifted between disaster grants to respond to the April 2022 floods,
- However, the AGSA asserted that disaster spending has been too slow and inadequate
- The 2022 MTBPS proposes R6.1 billion in disaster relief but the government has to work on its preparedness and responsiveness

# Conclusion

## Section 2: Adjusted appropriations

- The adjustments to the main budget is R37 billion, the special appropriations amounts to R 30 billion and to Unforeseeable and Unavoidable is R 6 billion
- With regard to shifts between votes, we focus on the underspending on the SRD grant
- The cost of living crisis plunges more people into destitution and comes on top of the shock caused by the Covid-19 pandemic
- Can we afford not to spend more to address ongoing risks to livelihoods and the economy at large?

# Conclusion

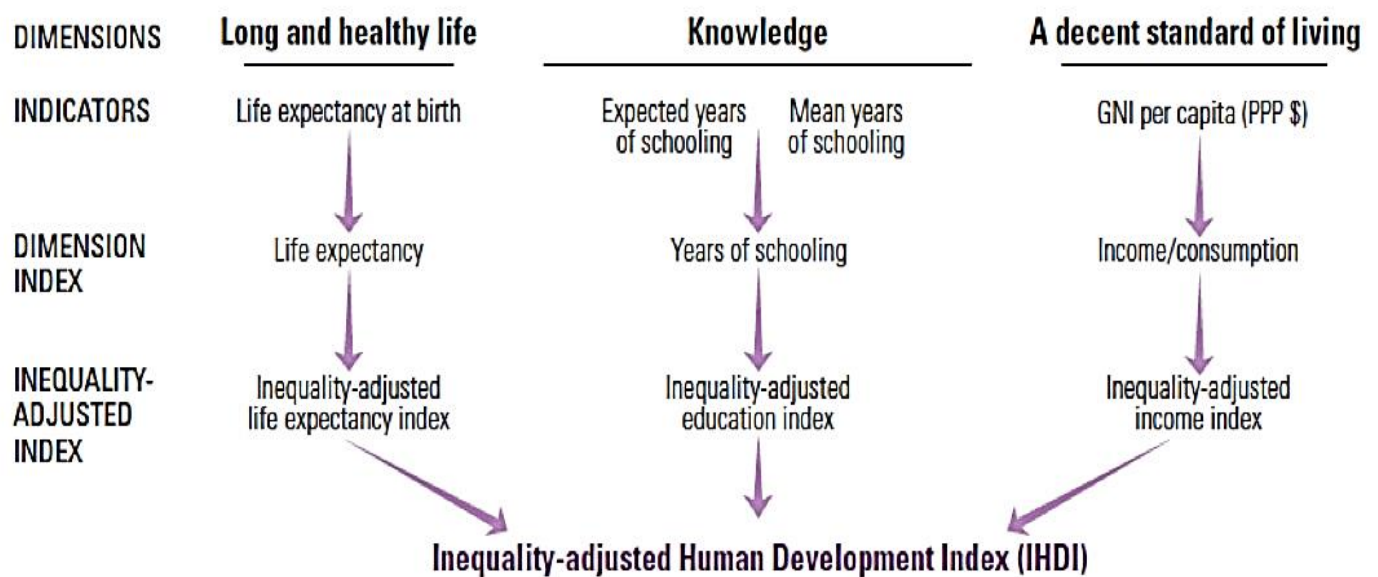
## Section 3: Special appropriations

- Section 3: Appropriation of money to the vote of Public Enterprises:
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- Appropriation of money to the vote of Transport
  - An amount of R23.7 billion is appropriated to South African National Roads Agency Limited for debt redemption fund
- The government plans to take part of Eskom's debt onto their balance sheet
- However, the MTBPS and other government plans do not adequately outline the government's long term plans for Eskom and the fiscal implications of such plans

# Annexure

# The Human Development Index (HDI)

Inequality-adjusted Human Development Index (IHDI)



## As of 2019

- South Africa's HDI was 0.709
- **However, SA's IHDI was only 0.468**
- SA's HDI was ranked 114 out of 189 countries
- Between 1990 and 2019:
  - South Africa's HDI value increased from 0.627 to 0.709
  - Life expectancy at birth increased from 63.3 to 64.1 years
  - Expected years of schooling increased from 11.4 to 13.4
  - Mean years of schooling increased from 6.5 to 10.2
  - GNI per capita (2017 PPP\$) increased \$9,975 to \$12,129

# Poverty and inequality measures

Inequality Indices	What is measured by the index	SA's index	Comment
<b>Inequality HDI (IHDI)</b>	It takes into account the distribution of the HDI in a country	0.47	Inequality causes a staggering 34 per cent decline from the HDI to the IHDI in 2019
<b>Gender Inequality Index (GII)</b>	Reflects gender-based inequalities in 3 dimensions: reproductive health, empowerment & economic activity	0.41	SA by GII was ranked 93 out of 162 countries in 2019
<b>Multidimensional Poverty Index</b>	Identifies multiple overlapping deprivations suffered by individuals in 3 dimensions: health, education and standard of living	-	In 2016, 6.3 per cent (3.6 million people) were multidimensionally poor and an additional 12.2 per cent (7 million people) were vulnerable to it

Source: PBO compilation based on UNDP data

# Health: Conditional allocations to provinces

## Conditional allocations to Provinces

