2022 Pre-MTBPS

Parliamentary Budget Office

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Outline

- Introduction
- Progress on the implementation of the 2019-2024 MTSF
- Efficiency of government spending
- Extension of the SRD grant and the cost of living crisis
- Global and South African economy risks and outlook
- Fiscal policy position
- Expenditure trends
- Tax and revenue discussion
- SOEs and contingent liabilities
- Insufficient energy security
- Conclusion

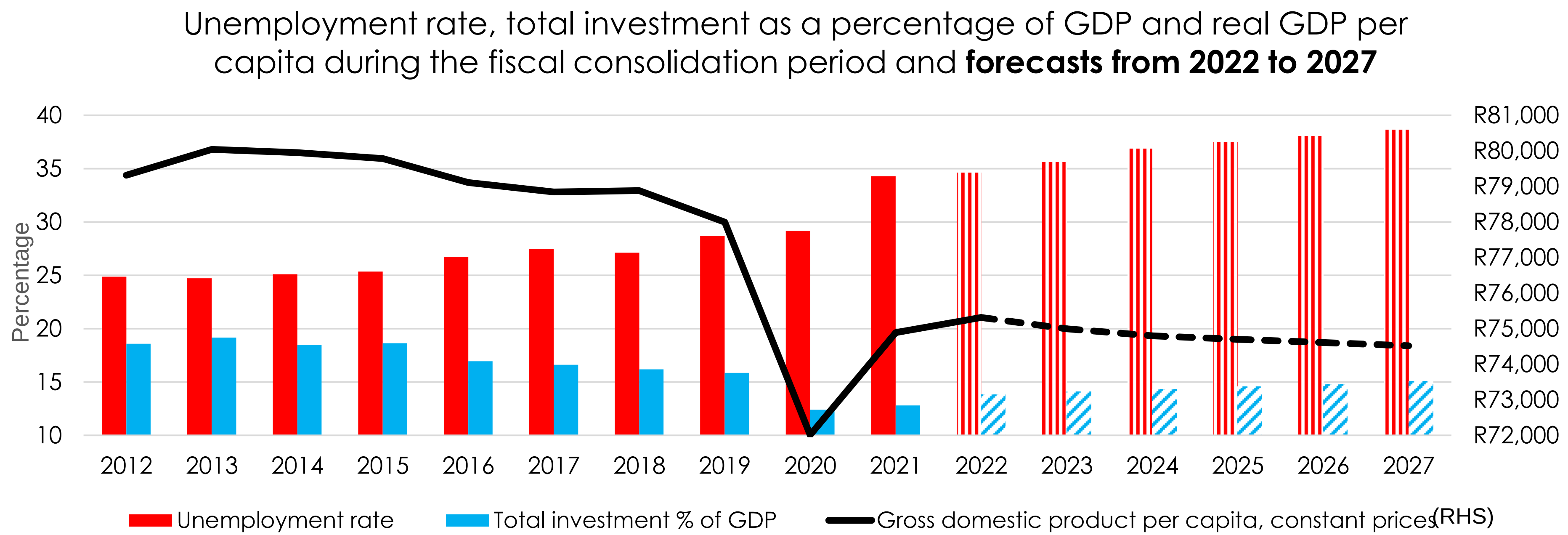
Introduction

- The Parliamentary Budget Office is a juristic entity of Parliament and headed by a Director as an Accounting Officer
- The Office is established in terms of section 15 of the Money Bills and Related Matters Act 2009 (Money Bills Act), as amended. To support the implementation of the Money Bills Act; in particular support to Finance and Appropriations Committees in both Houses; but other Committees and Members of Parliament (MPs) subject to the availability of capacity
- The purpose of this presentation is to provide Members of Parliament with the economic, social and public finance context and analysis for the 2022 Medium Term Budget Policy Statement (MTBPS)
- The presentation focuses on:
- The outlook for the global and South African economy that takes into account ongoing risks that threaten and destabilise economies, including the current global cost of living crisis
- Updates on the fiscal policy position and recent expenditure and revenue trends
- Progress on the implementation of the 2019-2024 Medium Term Strategic Framework accompanied by analysis of the efficiency of government spending

Introduction: building resilience to risk

- Over the past few years, the PBO has warned of severe global & domestic risks that should be assessed when developing the fiscal framework
- For e.g., Kristalina Georgieva, the IMF's managing director, warned of:
  "greater uncertainty, higher economic volatility, geopolitical confrontations, and more frequent and devastating natural disasters – a world in which any country can be thrown off course more easily and more often" (IMF & World Bank 2022 Annual meetings, 6 Oct. 2022)
- These risks have not amply been considered in fiscal frameworks of South Africa's long, unsuccessful fiscal consolidation experiment
- Fiscal consolidation has constrained economic activity through focusing on short-term fiscal and debt targets at the expense of longer-term goals
- Fiscal consolidation limits government's ability to give adequate support to millions of households in an economy with deep structural unemployment
- The ILO argues that fiscal policies must protect jobs and take account of the underlying reasons for structural unemployment
- All international agencies warn about growing debt in developing countries but have cautioned against premature moves towards budget surpluses
- The UN and ILO have gone beyond the IMF and World Bank by arguing for expansionary fiscal policies to build resilience to future risks

Introduction: Another 'lost decade'?



Source: World Bank, WEO

- The continued increases of interest rates around the world may cause economic turmoil in developing countries and a global recession
- When this scenario played out in the early-1980s it led to a global debt crisis and the imposition of structural adjustment programmes on African and developing countries
- The outcome was a 'lost decade' of poor growth, unemployment and hunger
- The graph shows that South Africa has already experienced a lost decade during the fiscal consolidation era and it is forecast to continue over the next 5 years
- The government's fiscal policy will have to change if we are to avoid another lost decade until 2031

Introduction: building resilience to risk

- The poor performance of the SA economy, which predates the Covid-19 crisis, is due to the interrelated structural weaknesses of the economy and extreme levels of unemployment poverty and inequality (UPI)
- A path towards fiscal sustainability should take into account these underlying dynamics of the economy and ensure resources for measures to transform the structure of the economy and to alleviate suffering associated with UPI
- The extension of the Social Relief of Distress Grant (SRD) has provided a lifeline to millions of South African households and has provided much needed if temporary relief in the absence of social protection for adults
- However, there was insufficient funding of the SRD and measures to exclude applicants and delays in payment added extra pain during a period when households have not yet recovered from the Covid-19 pandemic while being further impoverished by effects of the current global cost of living crisis
- The proposal of care-giver and job-seeker grants instead of a permanent SRD grant or a basic income grant will reopen the hole (in coverage of adults) in the social security net that the SRD grant temporarily closed. The consequences of such an action s should be seriously considered given the high level of suffering and risk in SA
- Relative to the 2022 Budget Review, the fiscal outlook has improved due to stronger-than-expected revenue collection in the five months of the 2022/23 financial year

Introduction: progress with the MTSF and efficiency of government spending

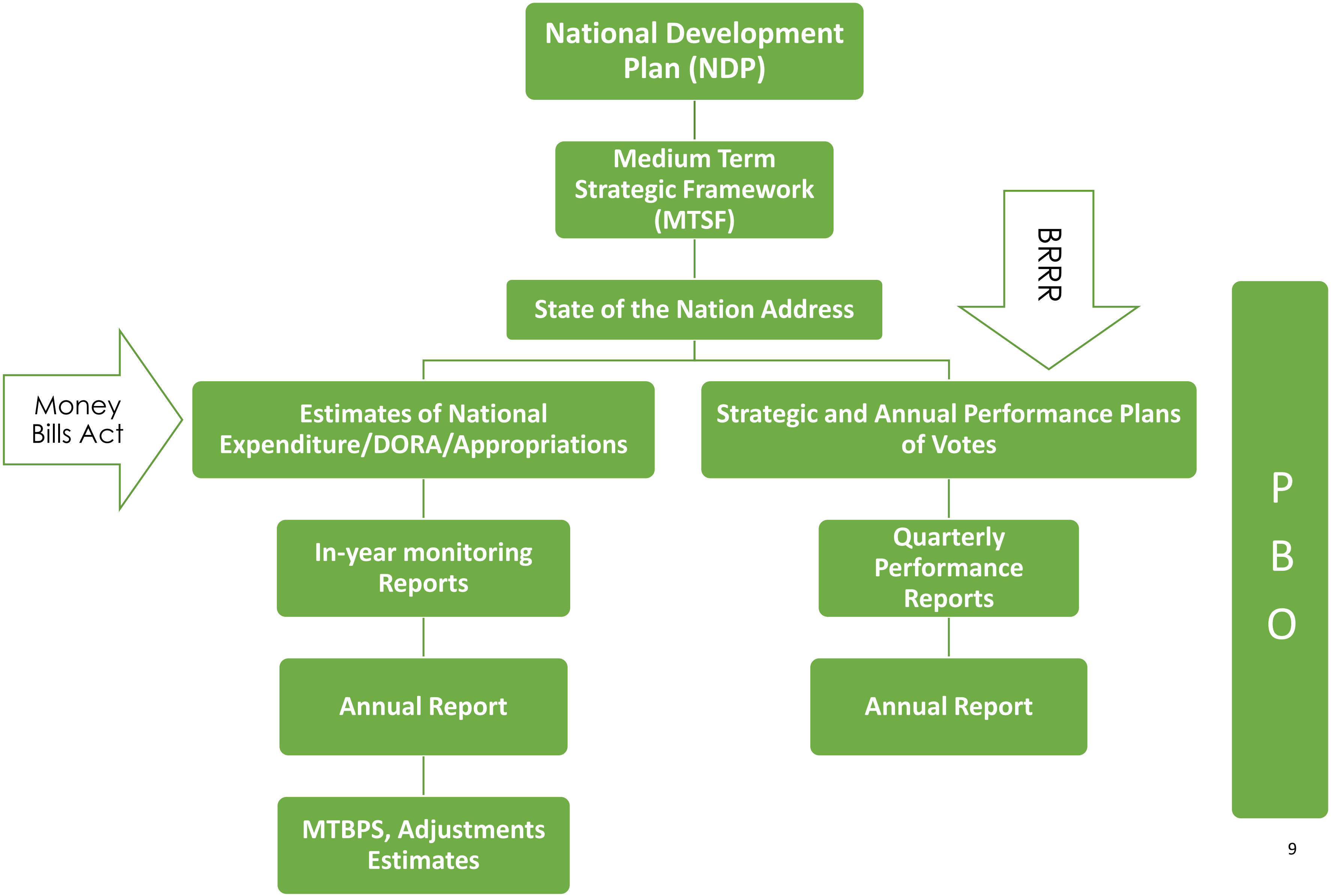
- The PBO has produced several briefs on the government's progress with implementing the National Development Plan, 2030 (NDP) and the MTSF that takes into account whether MTSF targets are included in annual performance plans (APPs), funded, monitored and evaluated
- We found that many targets were not included in APPs and that there was underperformance on many targets included in APPs
- We also highlight that the structure of the national budget provides for total transfers and subsidies of 68.8 per cent of the budget with 42.4 per cent to Provinces and municipalities and 22.2 per cent to departmental agencies and accounts and public corporation and private enterprises
- We ask whether there is effective monitoring of performance related to the MTSF in the agencies given the accumulative surpluses across many agencies and their high administrative costs
- Approved guarantees to state-owned companies decreased by R21.5 billion to R560.1 billion in March 2022, however, exposure rose by R32,1 billion R416.8 billion. Eskom accounts for 78.7 per cent of approved guarantees to SOEs and relies on government guarantees to finance its operations

Effectiveness of government: Progress on the implementation of the 2019-2024 MTSF

Tools to monitor effectiveness

Challenges to implement the 2019 to 2024 MTSF

Tools available to MPs to ensure effectiveness and efficiency



Progress on the implementation of the 2019-2024 MTSF

- Over the years the PBO produced a series of briefs on the implementation of the National Development Plan (NDP)
- Progress on the 2019-2024 MTSF implementation plans were assessed using the 2022 Departmental APPs and in some instances quarterly performance reports for 2021/22
- This assessment focused on five 2019-2024 MTSF priorities;
  - *Priority 2: Economic Transformation and Job Creation,*
  - *Priority 3: Education, skills and health,*
  - *Priority 4: Consolidating the social wage through reliable and quality basic services,*
  - *Priority 5: Spatial integration, human settlements and local government and*
  - *Priority 6: Social cohesion and safe communities.*
- The assumption is that, if performance indicators are included in departmental APPs they are automatically linked to a budget programme and therefore funded, monitored and audited through the standard government performance management system

Challenges identified with the implementation of the 2019-2024 MTSF

- In addition to under performance on targets
- Performance indicators to measure performance on the 2019-2024 MTSF are not presented in departmental APPs
  - Oversight bodies can therefore not determine the progress made on the priorities if regular reports are not available
  - If priority indicators are not reflected in APPs government funds may be allocated to outputs that are not prioritised
- If the MTSF indicators are not reflected in the APPs it will also not be audited
- Some departments also introduced several new indicators in the MTSF, which do not have historic information or systems in place to measure the outputs
- Reporting on specific indicators are not in line with the targets set
- Departments report that 'reports have been produced on specific targets'
  - These reports are submitted to Cabinet and are, however not published and available to the public or oversight bodies

Challenges identified with the implementation of the 2019-2024 MTSF

- Several departments are responsible for reporting on interventions that contribute to the same outcome
  - This could result in duplication
- Departments indicate that they've made progress with specific outcomes such as unity in diversity, job creation, ease of doing business in South Africa, etc.
  - This progress is not visible in the current macro-economic indicators measured on a quarterly basis
  - It is acknowledged that performance on specific interventions will not be visible in macro-economic indicators, but should improve the quality of living and access to services, such as the eradication of the bucket system
- One of the main concerns within the safety sector is the continuous increase in crime rates reported by the SAPS, despite the progress made on interventions identified as priorities for the sector
- In many instances annual targets have not been met

Challenges identified with the implementation of the 2019-2024 MTSF

- In many instances, the failure of Departments to include the 2019-2024 MTSF priorities in their APPs are visible in the environment, such as:
  - The failure to report on municipal capacity (adequate resources and infrastructure) for implementing climate change programmes to deal with disasters
- Many interventions required to implement the priorities of the MTSF are funded by transfers to other spheres of government or institutions
  - It should then be expected of the transferring department to coordinate and ensure the consolidation of the outputs for credible reporting
  - Conditional grants are in many instances allocated to fund the priorities of government, close monitoring of this source of funding is; therefore, required
- The transfer of funds to implement the priorities of government does not only have a role in ensuring the effectiveness of government but should also contribute to the efficiency of government spending
- A summary of the performance per priority is attached as additional slides, full reports on each priority will be circulated

Efficiency of government spending

National

Provincial

Structure of the National Budget

- Total transfers and subsidies: 68.8 per cent, of which transfers to
  - Provinces and municipalities:42.4 per cent
  - Household:13.5 per cent
- Departmental agencies and accounts as well as public corporations and private enterprises receive 22.2 per cent of the total expenditure excluding transfers to provinces and municipalities and households

R million	Revised estimates 2021/22	Medium-term expenditure estimates 2022/23	Proportion of total 2022/23	2023/24	2024/25
Current payments					
Compensation of employees	180 793	182 821	9.3%	178 115	186 992
Goods and services	87 029	81 730	4.2%	80 672	84 361
Interest and rent on land	268 504	302 020	15.4%	335 199	363 743
Total current payments	536 326	566 571	28.8%	593 985	635 096
Transfers and subsidies to:					
Provinces and municipalities	796 709	833 462	42.4%	827 994	860 476
Departmental agencies and accounts	146 924	154 579	7.9%	164 611	173 191
Higher education institutions	48 354	52 982	2.7%	52 905	54 863
Public corporations and private enterprise	37 181	40 115	2.0%	41 305	42 090
Households	239 365	264 472	13.5%	228 479	239 909
Total transfers and subsidies	1 275 181	1 351 978	68.8%	1 321 686	1 377 469
Total	1 900 217	1 965 257	100.0%	1 987 007	2 091 559

Transfers to Departmental agencies and accounts and Public corporation

- 4 National Department transfer to 28 entities
- Most entities have accumulative surpluses
- Departments and entities spend on Administration and CoE
- CoE unit cost is higher in entities

Department	Number of Public entities	% Transfer	Admin Cost	Number of staff	Unit of Cost
Human Settlements	7	Total: 97.1% Provinces and Municipalities: 92.1% Public Entities: 5.0%	R508.8 million	623	R0.7 million
Public works and Infrastructure	5	Total: 87.2% Provinces and Municipalities: 19.0% Public Entities: 54.2%	R512. 2 million	780	R0.7 million
Entities	**Accumulated surplus**	**Transfers from Department**	**Administration cost**	**Number of staff**	**Unit Cost**
Human Settlements Entities	7	4	R1.3 billion (between 7% and 100% in total)	1 500	Between R0.6 million and R1.2 million
Public works and Infrastructure Entities	4	5	R1.3 billion (between 5% and 85% in total)	5 633	Between R0.4 million and R0.9 million

Transfers from National Departments to Public Entities

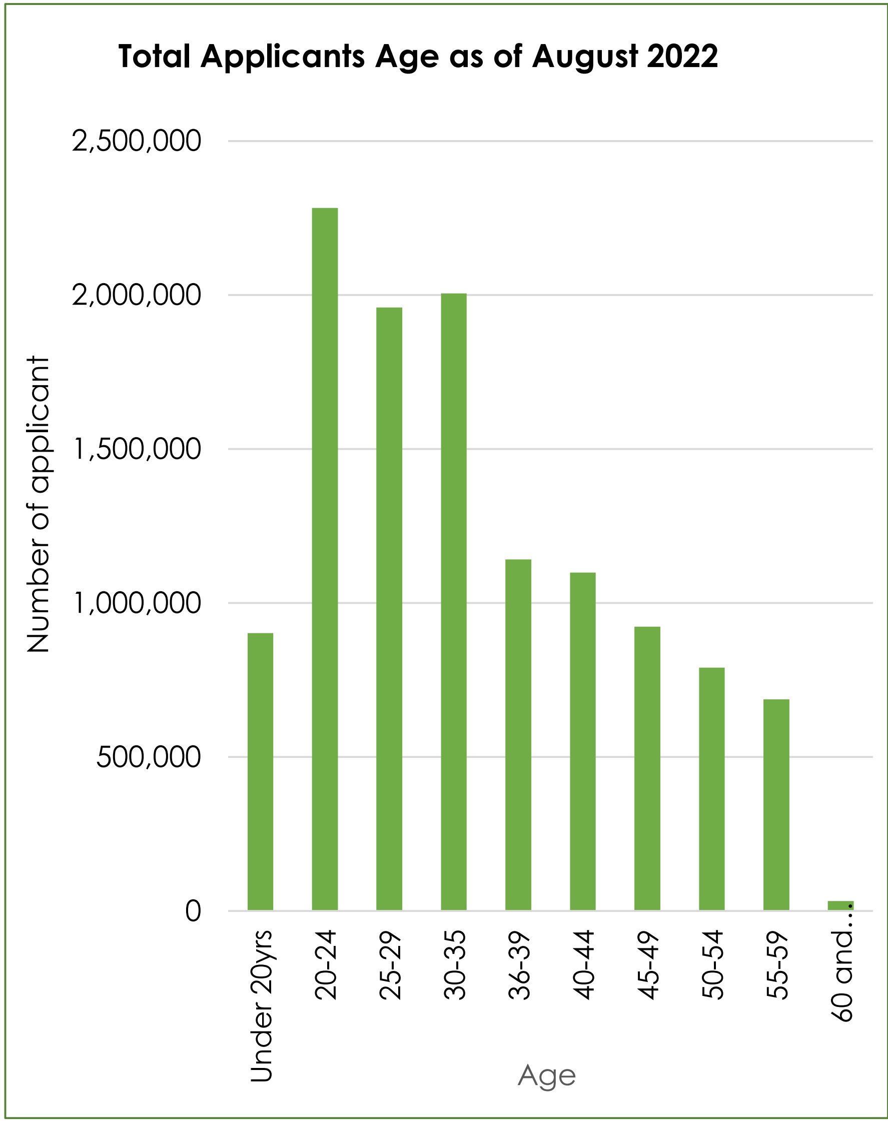
Department	Number of Public entities	% Transfer	Admin Cost	Number of staff	Unit of Cost
Water and Sanitation	8	Total: 56.8% Provinces and municipalities: 33.6% Departmental agencies: 14.1% Public corporations and private enterprises: 7.6%	R2.0 billion	3 631	R0.5 million
Agriculture and Land Reform	8	Total: 52.9% Provinces and municipalities: 14.6% (Conditional grants) Departmental agencies: 13.5% Households: 21.9%	R3.6 billion (16%)	6 672	R0.6 million
Entities	**Accumulated surplus**	**Transfers from Department**	**Administration cost**	**Number of staff**	**Unit Cost**
Water and Sanitation	8	4	R18.8 billion (between 7% and 63%)	17 021	Between R0.5 million and R1.5 million
Agriculture and Land Reform	7	5	R1.78 billion (between 11% and 100%)	4 641	Between 0.3 million and R0.8 million

The extension of COVID-19 SRD grant and the cost of living crisis

Extension of the COVID-19 SRD has provided a lifeline to many people
Insufficient budget and low level of approvals in allocation for the SRD
The proposed 'caregiver grant' will not be sufficient to close the social support gap

The extension of COVID-19 SRD grant

- The extension of the COVID-19 SRD has provided a lifeline to many people
- Grants have made a significant impact to reduce poverty and hunger
  - A study by Bhorat and Kohler (2021) on the fiscal incidence of the COVID-19 grant indicates that the grant reduced poverty by 5.3 per cent for the poorest households, and reduced household income inequality by 1.3 per cent to 6.3 per cent in 2022 (depending on the measure used)
- The grant has partially addressed the long-standing gap in social protection for the 18-59 group There were 12 million applicants as of August 2022
- The age distribution reflects unemployment trends. Youth have the highest rates of unemployment
- 57 per cent of applicants were female and 43 per cent male. There is disproportionate unemployment by gender in the country



Source: Department of Social Development

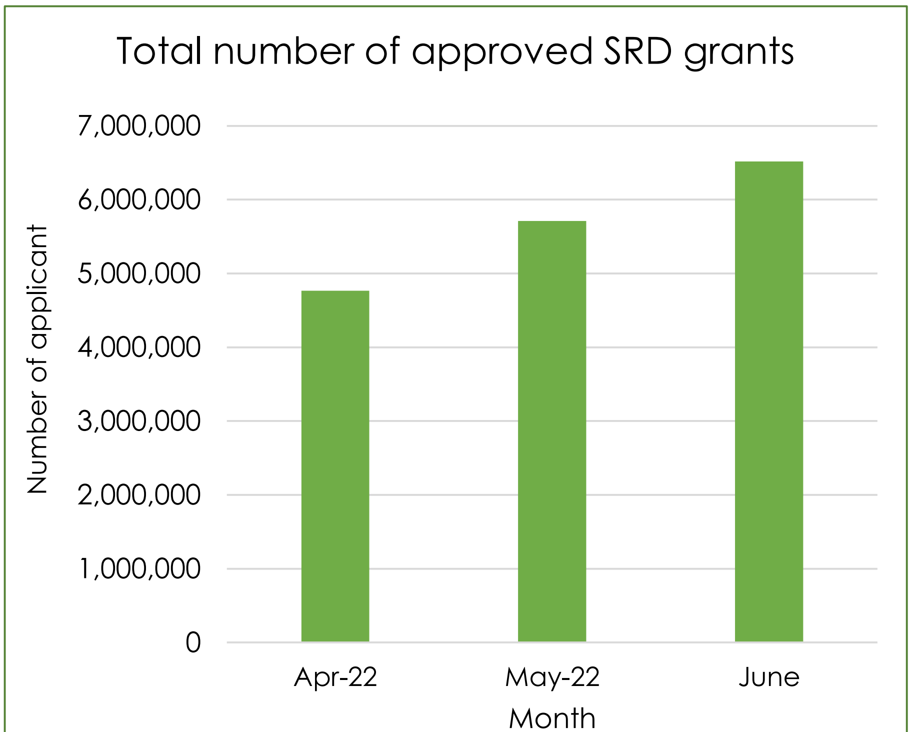
Insufficient budget allocation for social assistance

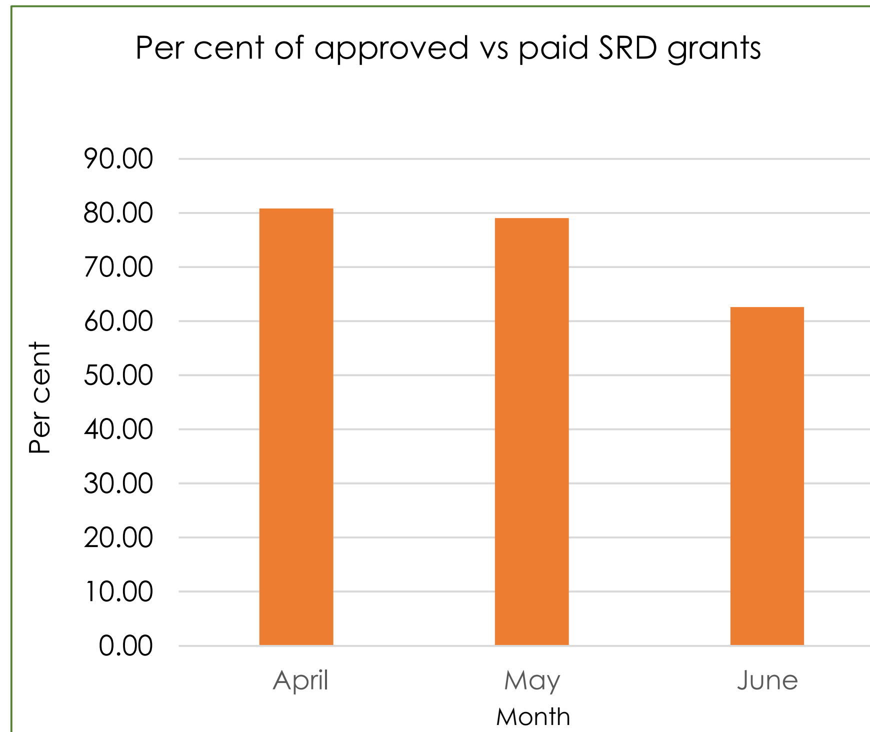
- In Budget 2022, only R44 billion was been allocated to serve 10.5 million people until the end of March 2023
- The allocation is insufficient for 10.9 million people who qualify for the grant
- The current cost of living crisis means the grant will not meet the needs of those who are likely to be pushed into distress
- To remain within its budget allocation the Department of Social Development introduced more qualifying criteria for to exclude applicants:
  - The means test was increased from R350 to R624, which is the estimated food poverty line for 2022 as agreed upon by the Minister of Finance.
  - This has resulted in a low uptake of the grants
- This rescinds on government's Constitutional obligations
  - "[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 socio-economic rights enshrined in the South African Constitution impose obligations on the state to take reasonable legislative and other measures within its available resources to ensure their progressive realisation

Low levels of approved payments and payment delays

- Only 6.5 million applications were approved in June 2022
- This significantly lower than the 13.6 million people are classified as not economically active and 18.3 million live below the poverty line

- Payments to approved applicants declined between April and June 2022
- As of August 2022, only 63 per cent of approved payments had been made to beneficiaries





Source: Department of Social Development

Without further amendments, DSD is likely to underspend on its allocation

- Tuesday, 16 Aug. 2022, 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
- DSD reports that 7.5 million people are receiving the benefit monthly
- At this rate, DSD will still underspend on its allocation
- DSD has indicated that "the unspent money must be returned to National Treasury"

SRD grant expenditure against the 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

This, while people experience ongoing, intense and long-term cost of living crisis

- South Africa has suffered an ongoing, intense cost of living crisis since before 1994
- 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
- Society has high levels of poverty and obscene levels of inequality
- Most people are unable to fulfill their enormous potential
- The current cost of living crisis is a global phenomenon
- It was caused by many ongoing and potentially escalating global risks
- It has worsened South Africa’s ongoing, intense cost of living crisis
- It affects all of South African society and weakens its resilience to these global risks

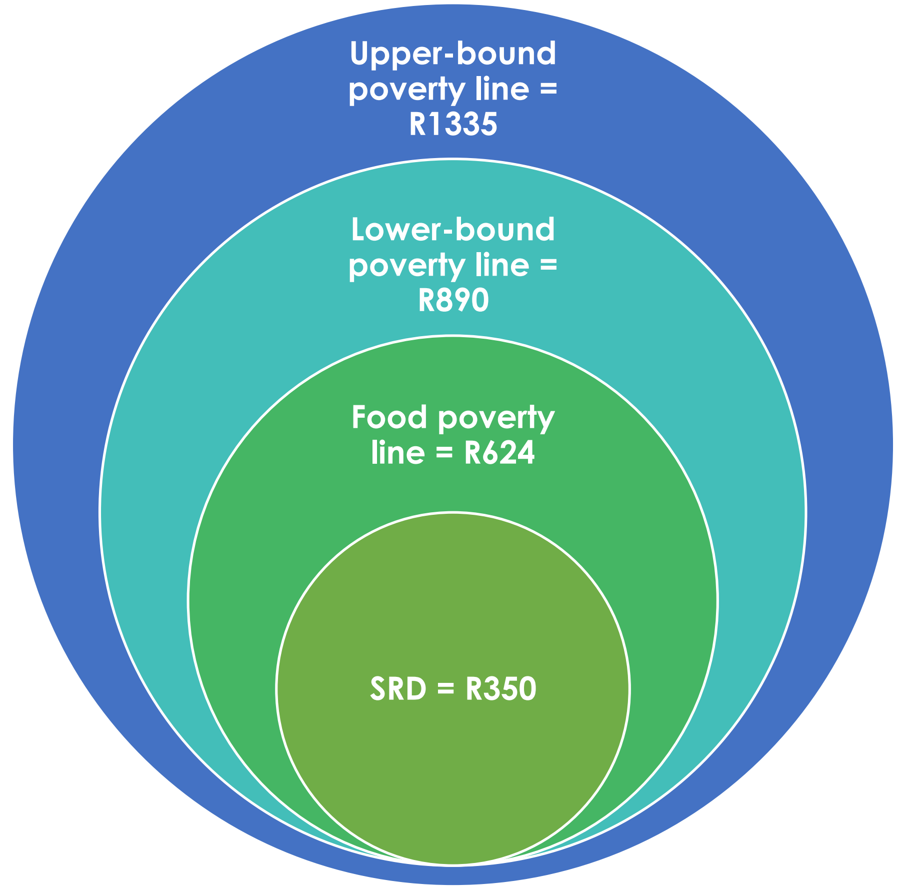
“African women are the face of poverty” – President Cyril Ramaphosa

- According to Stats SA (2021), the profile of a subjectively-poor household in South Africa is typically:
  - Headed by a black African female who is younger than 35 and resides in a rural area located in a rural-based province and has received relatively lower levels of education
  - When taking the happiness status of this household into account, they tend to be less happy than they were 10 years ago, with
  - The general health status of the household head is reported as poor
  - It is more than likely that all economically active individuals (age 15 years and above) are unemployed in this household.
  - This household is located in the lower quintiles of the income distribution
- 55 per cent of South Africa live below the Upper Bound Poverty line
- Vulnerability to hunger is increasing:
  - The percentage of households with limited access to food decreased from 17,8 per cent in 2019 and increased to 20,9 per cent in 2021
  - Persons with limited access to food increased from 19,5 per cent in 2019 to 23,8 per cent in 2021

The current SRD grant is not enough

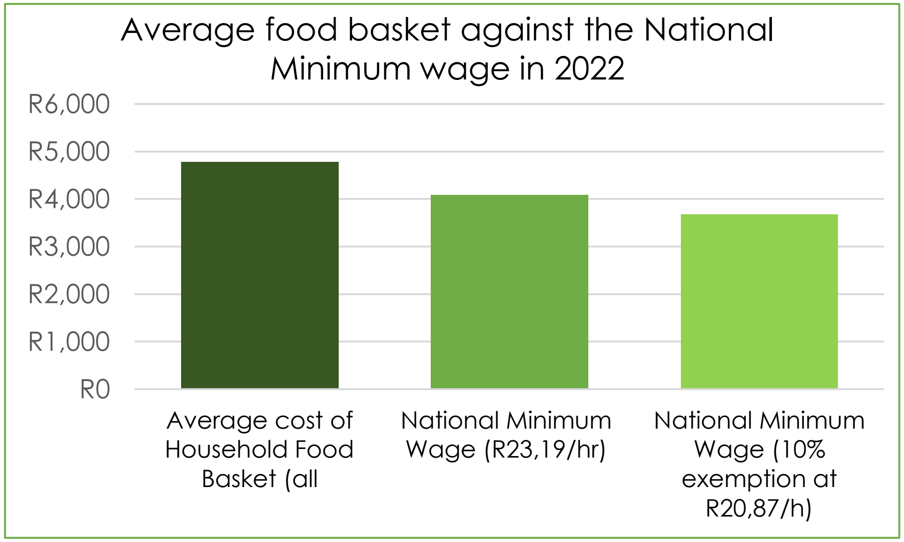
- The Cost of Living crisis threatens to plunge more people into poverty
- The current SRD is only 26 per cent of the money needed for individuals to be at the upper-bound poverty line
- The exclusion criteria omits a vast number of people who fall below the upper-bound poverty line
- Even for those who are employed, overall, wages in South Africa are not increasing at a rate fast enough to support households
- Nominal wages have been declining since 2010
- In 2022 the minimum wage was R23.19 per hour (R4081 per month)
- Over the last 5 years, household real disposable income growth has averaged only 0.2 per cent

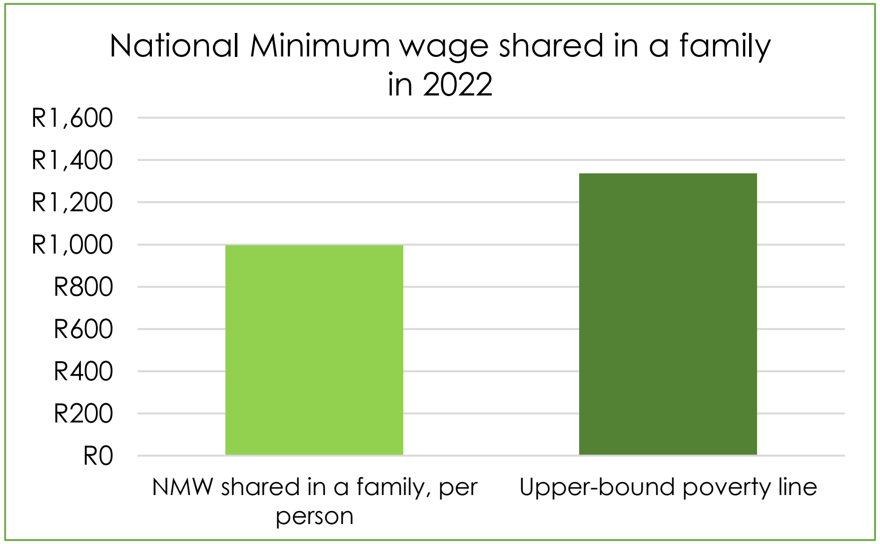
2022 National poverty lines and the SRD level



The Household Affordability Index indicates that many households cannot meet their basic needs

- The Household Food Basket in the Household Affordability Index has been designed together with women living on low incomes in Johannesburg, Durban, and Springbok, Cape Town and Pietermaritzburg
- It includes the foods and the volumes of these foods which women living in a family of seven members (an average low-income household size)
- The average Household Food Basket falls below the minimum wage (R4081, 44 a month) and 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)

Replacement of the COVID-19 SRD grant

- The current COVID-19 SRD is expected to end in March 2023
- National Treasury has indicated that "Although BIG or permanent SRD-350 is preferred option for DSD, option 3 in Presidency Paper: SRD-Job-seeker grant and SRD-caregiver grant might be an acceptable compromise"
- However, they have raised concerns about the readiness to implement this option by 1 April 2022
- While a caregiver and job-seeker grant are welcome initiatives, the gap in social security will re-open. The following questions should also be raised:
  - Can we afford not to spend more to address the ongoing risks to livelihoods and the economy at large?
  - What will happen to the millions who will remain vulnerable to poverty and hunger, particularly African women?
  - Have the socioeconomic risks been adequately considered and addressed?
  - Beyond cost, on what basis is this a better alternative to UBIG or other forms of grants? Has substantive research been conducted on the success/failures of the proposed grants?
  - How do these measures progressively realise the Constitutional obligations of the state to provide social security for all?

Global and South African economy risks and outlook

Severe global and economic risks

Poor global and domestic economic outlook

How to get SA to fiscal sustainability

Global risk	Domestic risks, incl., risks worsened by the current cost of living crisis
• Intensifying geopolitical tensions and conflicts	• Increased social & political instability due to poor service delivery and impact of severe unemployment, poverty & inequality, including possibility of a recurrence of the July 2021 social unrest • Further unravelling of the social fabric that increases violence against women and children, crime, drug abuse, and gangsterism
• Climate related severe weather events & disasters	• Impact of climate change events, such as droughts and floods, on health & safety, loss of property, food security, economic activity and economic growth and development
• Ongoing Covid-19 and risk of future pandemics	• Ongoing health challenges, such as HIV/AIDS, TB & Covid-19 plus health problems that persist because of severely unequal access to healthcare and delays in provision of universal health coverage
• Economic growth stagnation & possibly of recession due to interest rate increases & austerity	• Erosion in consumer spending power due to weaker labour mkts, public sector wage freezes, higher inflation and interest rates • Long run costs to government (particularly in health and education) and consequences for future economic growth and development due to more malnutrition, stunting and other physical and mental health effects, particularly on children.
• Possibility of financial crises & contagion	• Financial and economic downturn due to contagion
• Supply chain disruptions & higher fuel & food prices	• Load shedding will cause ongoing disruption in households, communities, businesses and government and cause further decline in economic activity, investment and employment

Global outlook: A negative combination of fiscal and monetary austerity

- The world economy is suffering a downturn caused by simultaneous interest rate increases and fiscal austerity budgets across many countries
- These constraints on growth are in addition to the ongoing problems caused by the continued Covid-19 pandemic, the ongoing war in Ukraine, global supply chain problems and high energy, freight and fertilizer costs
- There has been widespread implementation of higher interest rates to fight inflation by curbing demand and increasing unemployment
- At the same time there has also been a widespread return to fiscal austerity across the globe
    - Ortiz & Cummins (2021) warn of an emerging post-pandemic fiscal austerity shock more premature and severe than the one after the global financial crisis of 2008
    - The stimulus after Covid-19 had a smaller global impact than expected because of the rapid return to fiscal consolidation

Global outlook: A negative combination of fiscal and monetary austerity

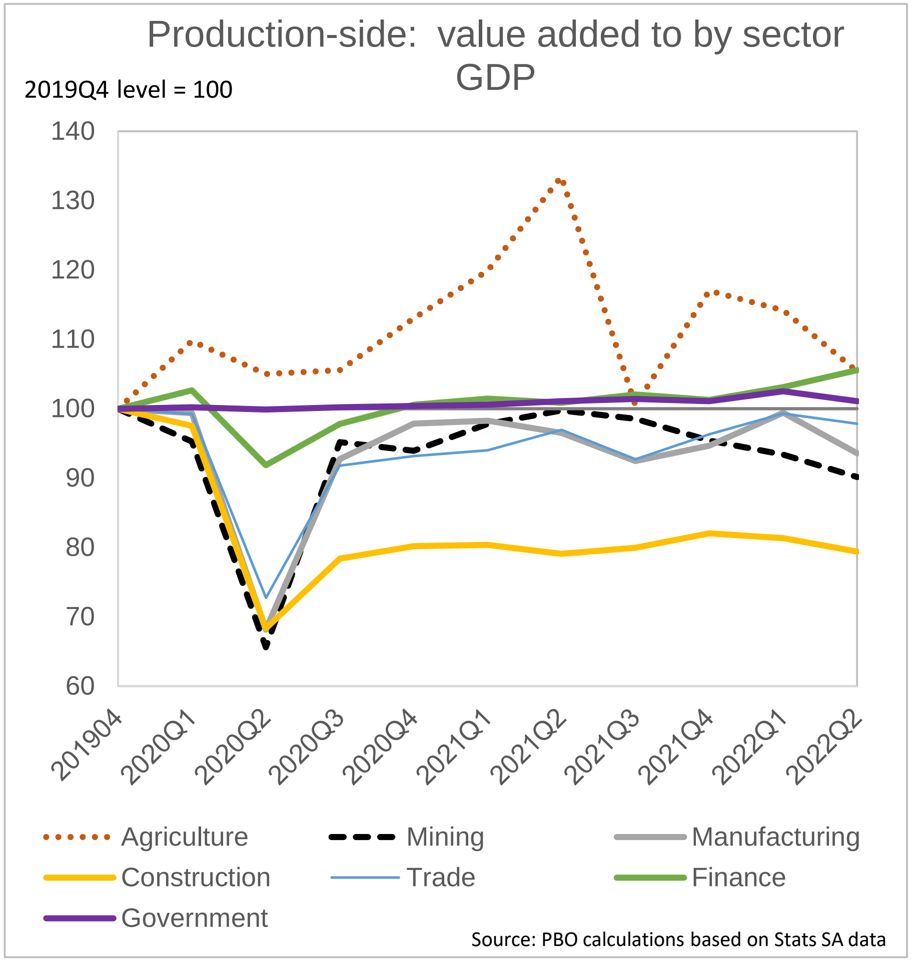
- Revised global growth estimates:
  - UN agencies revised their estimate for global growth in October 2022 at 2.5 per cent – down from 3.5 per cent in January 2022.
  - The OECD projects 3.0 per cent global growth in 2022 and 2.25 per cent in 2023
  - IMF revised their outlook to 3.2 per cent for 2022 and 2.9 per cent in July 2022
- The poor global growth will affect South Africa's growth prospects in 2023 and 2024
- The impact of climate change events and disasters has caused increasingly severe economic distress in both developed and developing countries
- Across the globe, the cost of living crisis, which is worsened by higher interest rates and austerity, is contributing to increased domestic unrest and instability

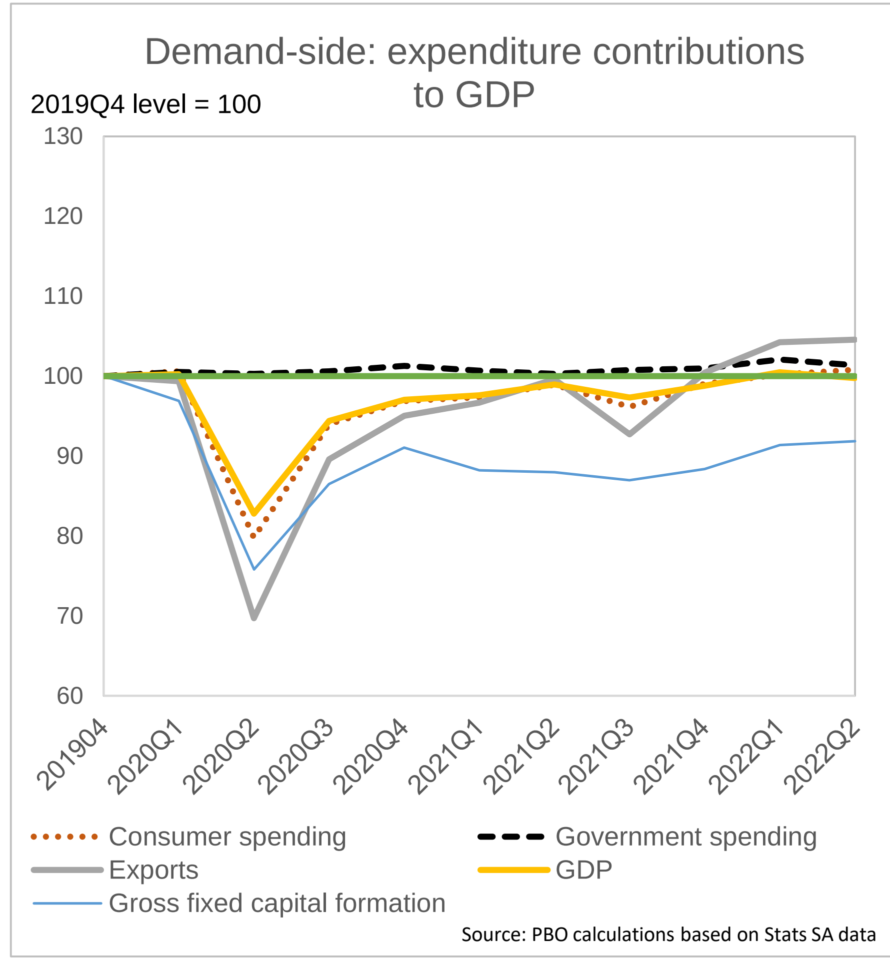
South African growth forecasts

GDP growth outlook - calender year*	2022	2023	2024
National Treasury - Budget 2022	2.1%	1.6%	1.7%
South African Reserve Bank - January 2022	1.7%	1.8%	2.0%
South African Reserve Bank - July 2022	2.0%	1.3%	1.5%
IMF - World Economic Outlook - January 2022	1.9%	1.4%	-
IMF - World Economic Outlook - July 2022	2.3%	1.4%	
Reuters Consensus Forecast - January 2022	2.0%	1.8%	2.0%
Reuters Consensus Forecast - August 2022	2.0%	1.5%	1.8%
*Growth projections correspond to publication date and not forecast date			
Data: National Treasury, South African Reserve Bank, IMF, Reuters			

- The outlook for South Africa's economic performance over the medium term is poor, even though, markets have 'priced in' government's structural reforms
- Econ. structure will remain highly concentrated and inadequately diversified
- There is little support for higher real sector investment and employment
- Aggregate demand will in all likelihood remain severely constrained
- Therefore, efforts to fight inflation and reduce government debt levels will likely hurt small businesses and the poorest households much more than they help

South African economic performance: Divergent economic performance across sectors

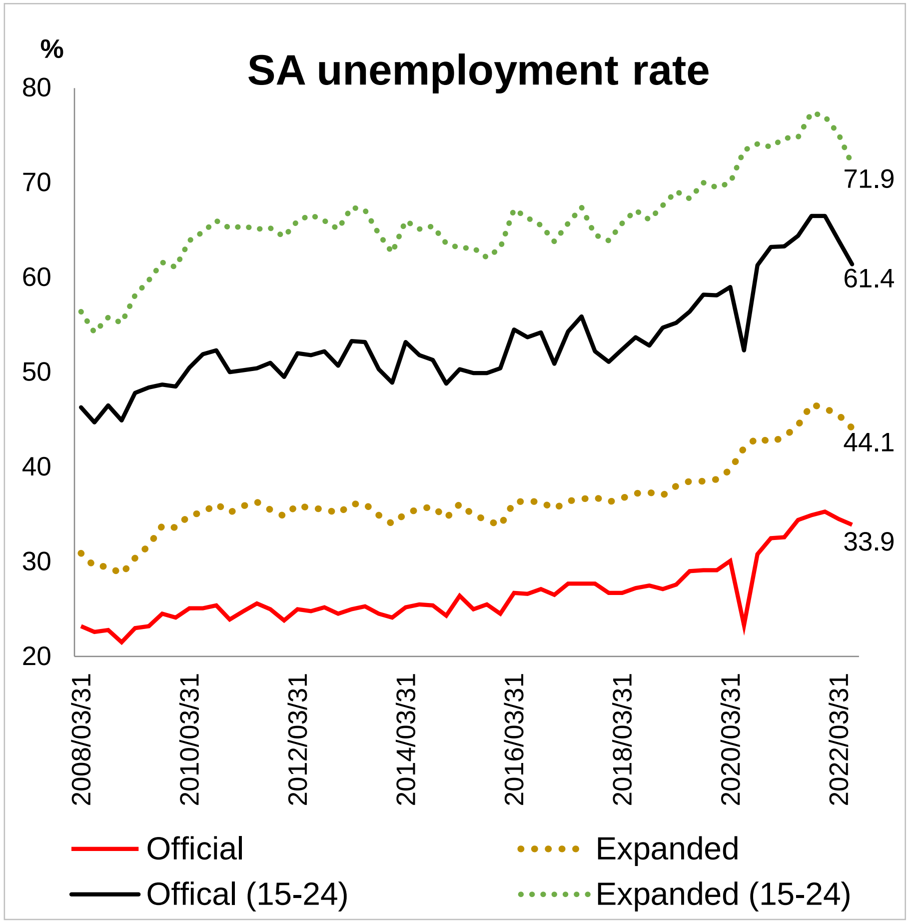




- Except for agriculture, finance and government spending, all other sectors remain below pre-pandemic levels
- In terms of expenditure on GDP (demand-side), gross fixed capital formation remains 10 per cent below pre-pandemic levels

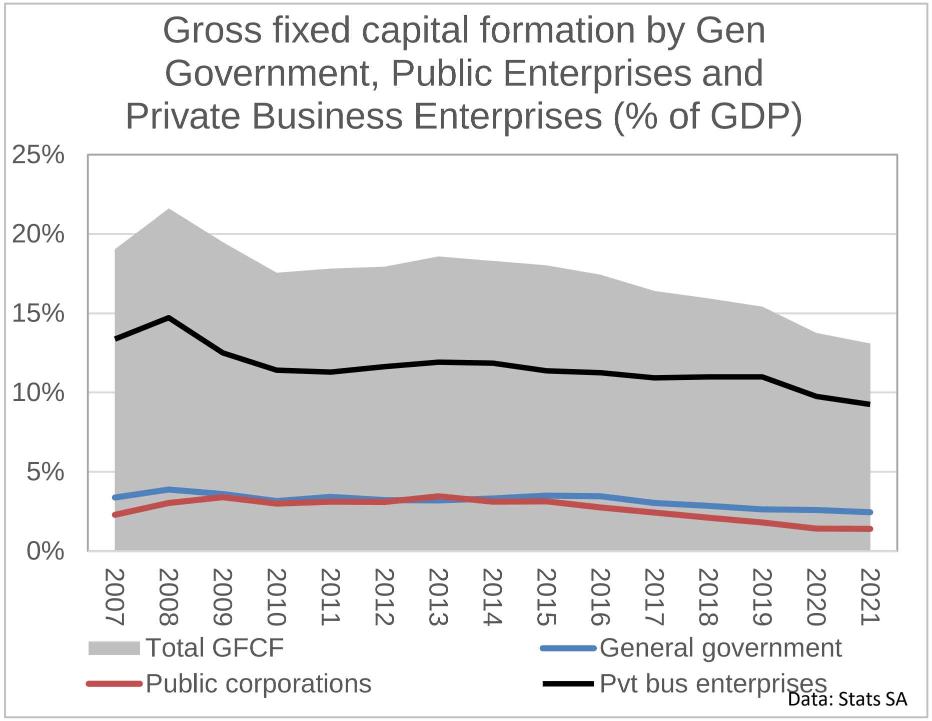
Labour market – jobs lost/gained per sector

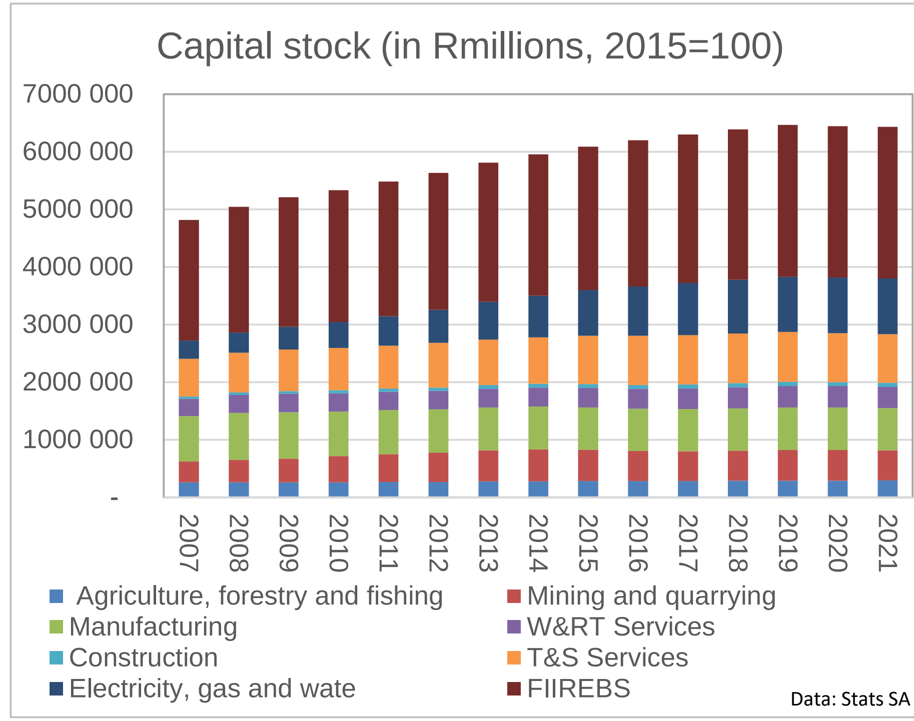
('000s)	21Q2 vs 19Q4	22Q2 vs 19Q4
Total (formal & informal)	*-1 363*	*-685*
Agriculture	*-24*	*-11*
Mining	*-31*	*-22*
Manufacturing	*-306*	*-213*
Utilities	*-1*	*-16*
Construction	*-128*	*-174*
Trade	*-162*	*-86*
Transport	*-43*	*-105*
Finance	*-319*	*-108*
Community & social services	*-391*	*29*
Private households	*-92*	*-162*



- 685 000 jobs were lost between 2019Q4 and 2022Q2
- None of the economic sectors, except for community & social services, have fully recovered the jobs lost during the pandemic
- The construction and transport sectors continue to shred jobs despite the economy operating without any trade restrictions

Investment and accumulation in South Africa

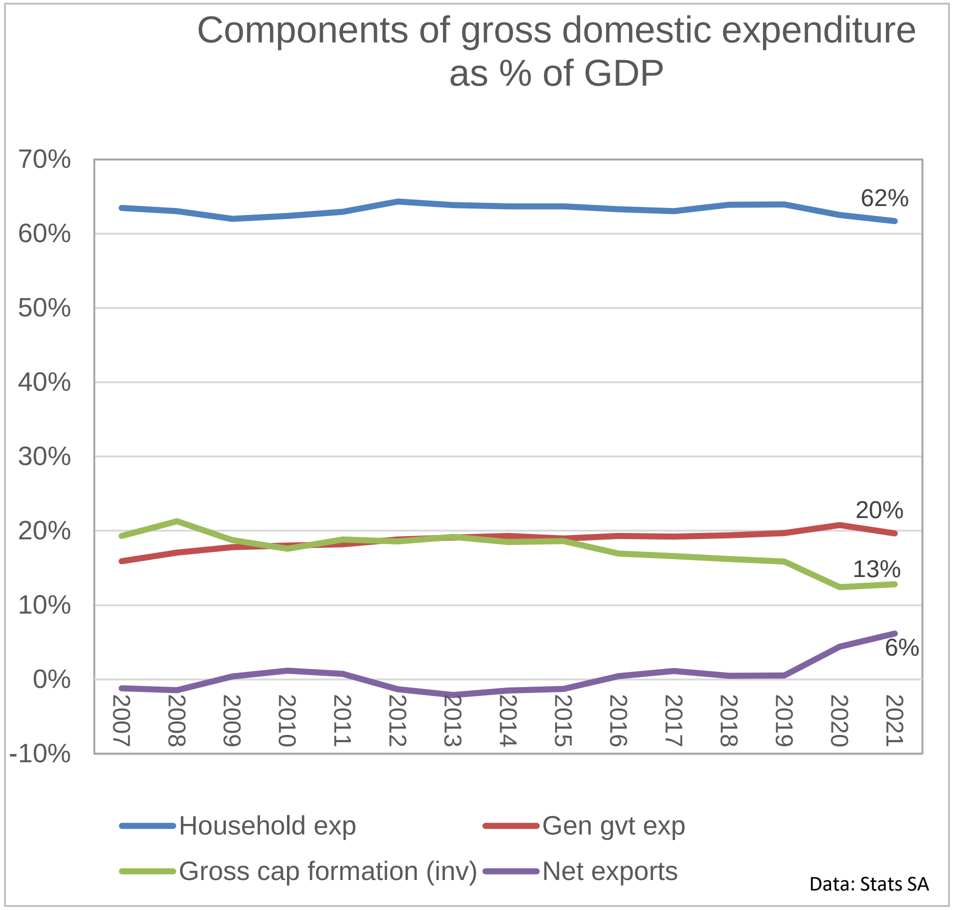


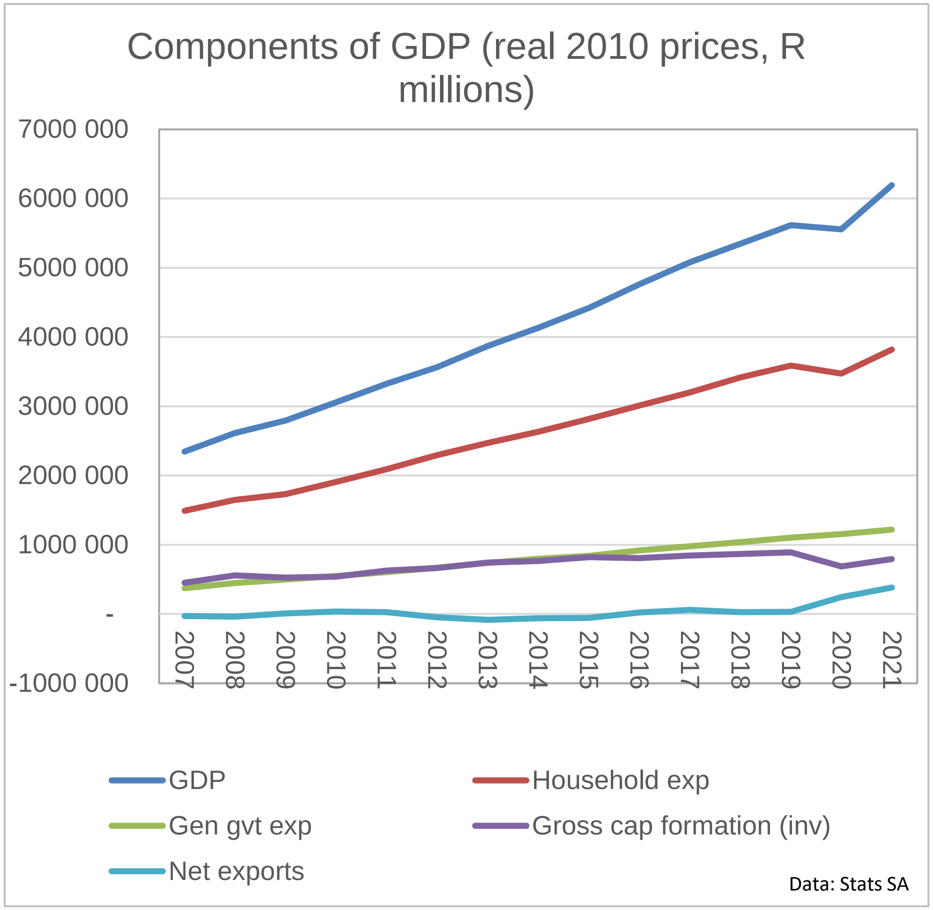


- Public investment remains poor at below 5 per cent each for general government and public enterprises
- Private investment declined at the height of the pandemic and the outlook remains bleak amid low business confidence levels
- Structural economic problems persist

- Changes in capital stock remain largely due to finance, intermediation, insurance, real estate and business services sector
- The levels of capital stock indicate that the economic structure of the economy remains geared toward poor economic growth and continued high levels of inequality and unemployment

GDP growth requires government support





- Expanded government expenditure in support of struggling poor households, improving service delivery and upgrading services infrastructure can support structural economic transformation and increase growth

How to get SA back to fiscal sustainability

- Years of fiscal consolidation have eroded fiscal sustainability through
  - Constraining economic growth
  - Hurting households and exacerbating aggregate demand weaknesses
- The current economic growth path is built on a capital and energy intensive economic structure and financial and non-productive services incapable of generating adequate levels of investment and employment
- The economy is highly concentrated and financialised. There is a need for budgeting that is redistributive to support a growth path that reduces inequality and builds resilience
- A new growth path that is inclusive, employment creating and grows through addressing the backlogs and meeting the needs of the majority of struggling households is required
- We can only get back to fiscal sustainability by financially supporting social, services and infrastructure spending to realise a new growth path led by households able to acquire food, water and sanitation, healthcare, education, housing, greater opportunities for decent work, transport to find work and go to work etc

How to get SA back to fiscal sustainability:

building resilience through structural economic transformation

- Budgeting and economic policies to reduce unemployment, poverty and inequality are key to building resilience to the many intensifying risks facing households, communities, nations and regions and the globe
- There are very large costs associated with UPI and not having greater resilience to domestic social and political instability, climate change events, the lasting effects of covid-19 and possible future pandemic, geopolitical conflicts, and economic and financial instability
- Many risks relate to disasters and heightened social and political instability that not only undermine credibility of fiscal frameworks but also democratic institutions
- The related political and social instability and potential for disasters has the potential to cause large economic losses in very short periods of time
- Building resilience through improved social security and services will provide the economy with an automatic stabilizer that supports long-run fiscal sustainability

Fiscal policy position

Revenue collection beats estimates

Fiscal outlook better than 2022 Budget estimates

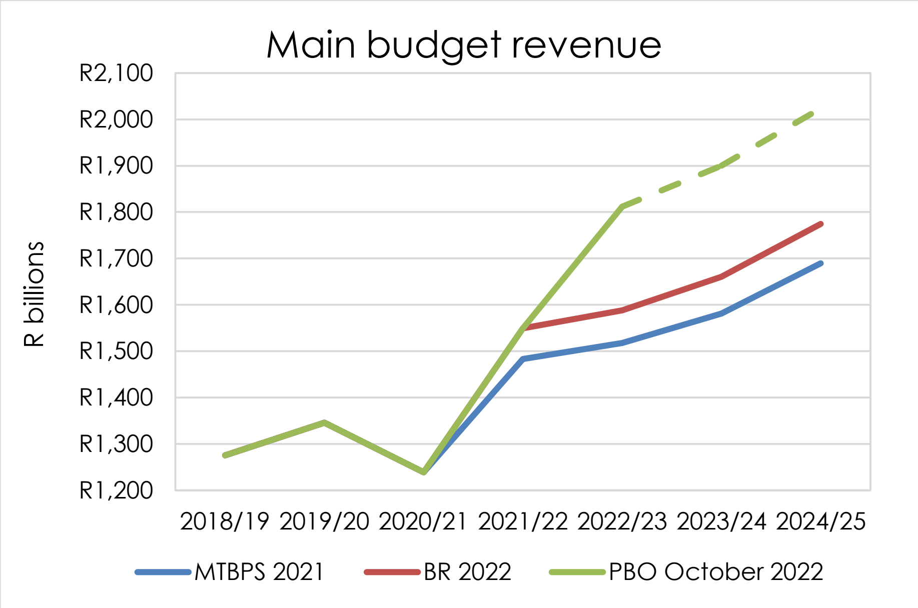
Revenue collection may exceed the 2022 Budget Review estimates

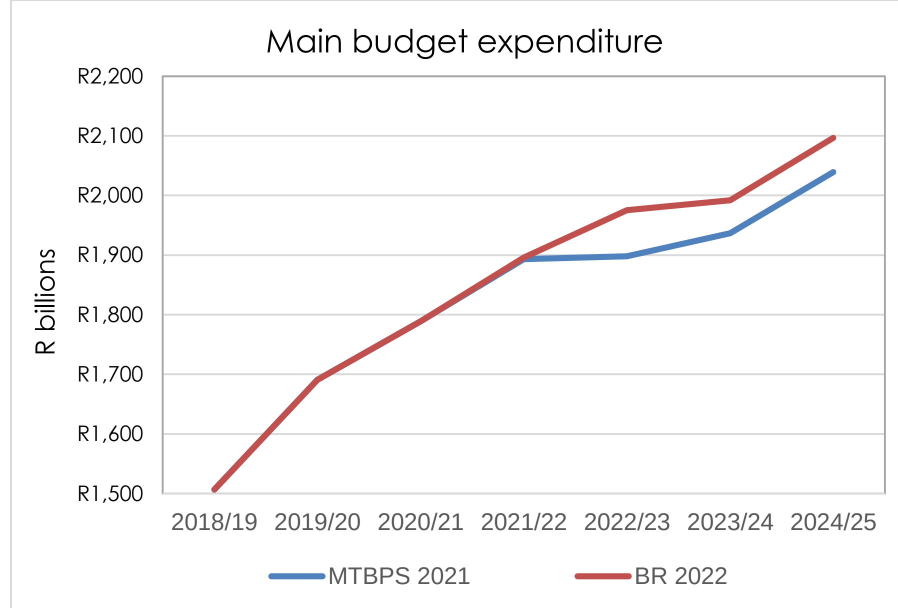
R million	NT Budget Review 2022	PBO Pre-MTBPS Projections 2022[1,2]	Surplus (shortfall) compared to NT BR projections	
Personal income tax	587 907	597 868	9 961	1,7%
Corporate income tax	269 931	406 884	136 953	50,7%
Skills development levy	20 619	21 515	895	4,3%
VAT	439 681	512 004	72 324	16,4%
Other tax revenue	280 309	283 625	3 316	1,2%
Gross tax revenue	**1 598 447**	**1 821 896**	**223 448**	14,0%
SACU payments	-43 683	-43 683	0	0,0%
Main budget revenue	**1 588 044**	**1 811 492**	**223 448**	14,1%
Main budget expenditure	**1 975 257**	**1 975 257**	**0**	0,0%
Main budget balance	**(387 213)**	**(163 765)**	**223 448**	-57,7%
Main budget balance (% of GDP)	**-6,0%**	**-2,5%**	**-**	**3,5%**
Gross loan debt (% of GDP)	**72,8%**	**70,0%**	**-**	**-2,8%**

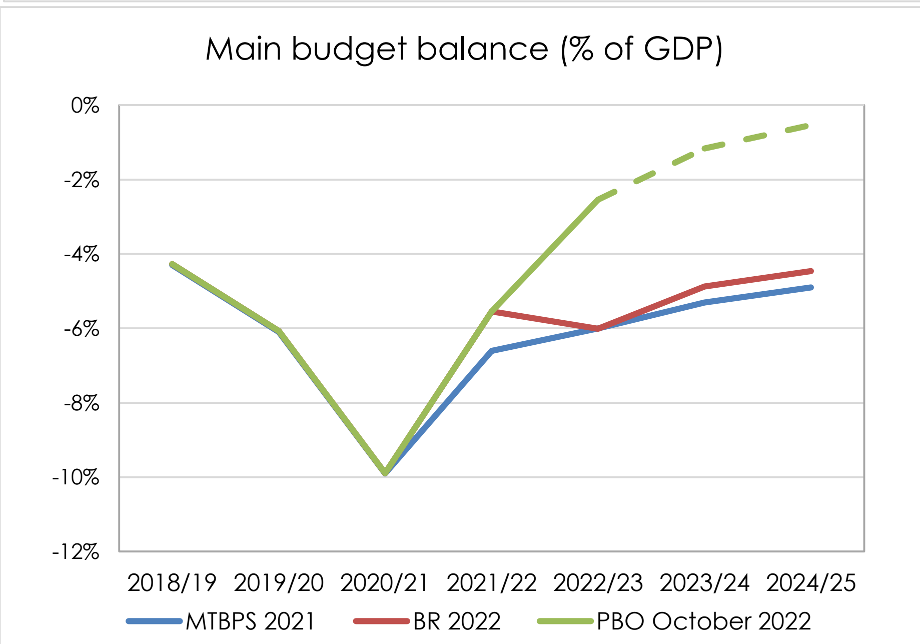
1. Monthly revenue and expenditure generally do not follow a smooth profile, therefore year-to-date growth rates are not reliable predictors of annual growth rates.

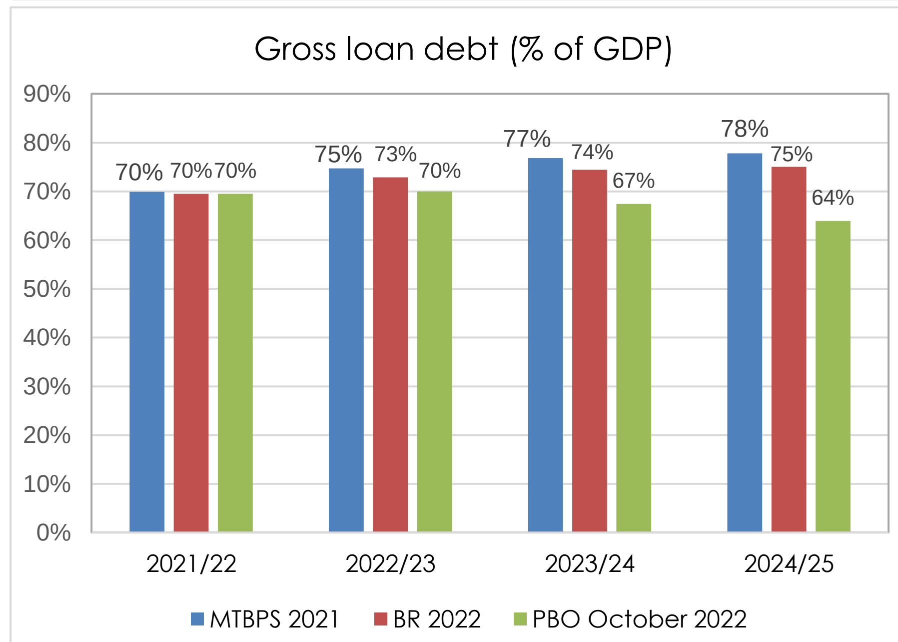
2. Projections are from PBO's in-year revenue and expenditure model. PBO uses historical monthly profiles of revenue data available in Section 32 reports to project full-year main budget outcomes. PBO's model is based on methodologies employed by other independent fiscal institutions.

Improved fiscal outlook relative to BR 2022









Data: National Treasury, Stats SA, PBO estimates based on Reuters Sept 2022 poll

Expenditure trends

National
Provincial and
Local government

National government expenditure on some votes by at the end August 2022

Vote	R thousands	2022/23 Budget estimates	2022/23 Year to date (YTD)	2022/23 YTD (%)	2021/22 YTD (%)
2	Parliament	2 212 243	951 182	43.0	0.2
3	Cooperative Governance	111 364 861	40 480 896	36.3	10.5
10	Public Enterprises	23 928 918	5 666 222	23.7	98.8
14	Statistics South Africa	2 758 546	1 961 926	71.1	23.5
16	Basic Education	29 560 167	15 761 273	53.3	52.0
17	Higher Education and Training	109 514 883	71 407 309	65.2	67.5
18	Health	64 530 977	26 008 996	40.3	6.1
19	Social Development	257 001 361	93 588 621	36.4	24.3
20	Women,Youth and persons with Disabilities	987 254	628 132	63.6	58.8
22	Correctional Services	26 108 720	10 546 044	40.4	2.5
23	Defence	49 090 089	20 270 664	41.3	4.6
28	Police	100 695 315	39 142 106	38.9	9.5
30	Communications and Digital Technologies	2 717 182	1 555 264	57.2	36.9
33	Human Settlements	33 024 716	12 227 765	37.0	3.1
34	Mineral Resources and Energy	10 345 671	2 987 985	28.9	40.6
40	Transport	69 125 895	32 653 645	47.2	6.5
41	Water and Sanitation	18 539 669	4 932 296	26.6	26.5
Total appropriation by vote		**1 057 028 607**	**437 346 711**	**41.4**	**45.0**

Provincial allocations and expenditure trends

- Main income: Equitable Share and Conditional grants: 97 per cent
- Largest share of the budget is allocated to Education and Health
- Biggest cost driver is compensation of employees: 60.5 per cent

Provincial departments	2021/22	Reciepts/Payments to date, April - Aug 2022		
	Actual Payments %	Main appropriation	Actual Recipts/Payments R'000	Actual Recipts/Payments %
Reciepts				
Transfers from National	**100.00%**	**682 067 683**	**290 342 629**	**42.6%**
Equitable Share	100.00%	560 756 789	233 648 665	41.7%
Conditional Grants	100.00%	121 310 894	56 693 964	46.7%
Provincial own receipts	99.70%	**21 423 046**	**8 948 092**	**41.8%**
Total reciepts	**100.00%**	**703 490 729**	**299 290 721**	**42.5%**
Payments by provincial departments				
Education	99.90%	289 837 704	118 813 661	41.0%
Health	98.20%	238 834 217	99 946 349	41.8%
Social Development and Special programmes	97.20%	20 956 158	8 770 559	41.9%
Total payments	**98.30%**	**698 135 248**	**281 941 965**	**40.4%**
Payments by economic classification				
Current payments	**99.00%**	**571 350 804**	**232 662 408**	40.7%
Compensation of employees	*99.90%*	422 485 143	173 260 764	41.0%
Goods and services	*96.30%*	148 858 369	59 376 907	39.9%
Total Transfers and subsidies	**97.00%**	**88 380 938**	**38 408 073**	**43.5%**
Provinces and municipalities	*97.90%*	10 824 401	2 977 307	27.5%
Departmental agencies and accounts	*100.90%*	12 073 025	5 927 109	49.1%
Public corporations and private enterprises	*93.70%*	9 994 377	3 704 755	37.1%
Non profit institutions	*97.80%*	36 310 580	18 242 296	50.2%
Households	*94.60%*	19 009 946	7 512 701	39.5%
Payments for capital assets	**91.90%**	**38 397 954**	**10 862 449**	**28.3%**
Buildings and other fixed structures	*92.20%*	29 573 859	8 147 359	27.5%
Total payments	**98.30%**	**698 135 248**	**281 941 965**	**40.4%**

Provincial expenditure trends 2021/22

- 97.3 per cent of total available conditional grants was transferred to provinces
- 93.8 per cent of the available amounts was spent
- 2.7 per cent of the available amounts was roll-overs from the previous financial year
- Social Development and Agriculture are the two worst performing sectors

National departments administering conditional grants R'000	2021/22						
	Total National Allocation	Provincial roll-overs approved by National Treasury	% of total available rolled over from the previous	Total Available	% of total available transferred	Actual Payments	% Actual Payments of total available
Schedule 5, Part A Grants[2.]							
Agriculture, Land Reform and Rural Development (Vote 29)	**2 238 023**	**94 435**	**4.0%**	**2 332 458**	**95.8%**	**1 984 995**	**85.1%**
Sport, Arts and Culture (Vote 37):	**1 495 836**	**51 840**	**3.3%**	**1 547 676**	**96.7%**	**1 379 830**	**89.2%**
Community Library Services Grant	**1 495 836**	**51 840**	**3.3%**	**1 547 676**	**96.7%**	**1 379 830**	89.2%
Basic Education (Vote 16)	**9 012 077**	**328 697**	**3.5%**	**9 340 774**	**96.5%**	**9 099 391**	**97.4%**
(d) National School Nutrition Programme Grant	**8 115 269**	**265 781**	**3.2%**	**8 381 050**	**96.8%**	**8 233 895**	98.2%
Health (Vote 18)	**38 754 422**	**616 318**	**1.6%**	**39 370 740**	**98.4%**	**37 058 610**	**94.1%**
Human Settlements (Vote 33)	**17 292 679**	**526 568**	**3.0%**	**17 819 247**	**97.0%**	**16 891 349**	**94.8%**
Public Works and Infrastructure (Vote 13)	**836 930**	**3 307**	**0.4%**	**840 237**	**99.4%**	**802 611**	**95.5%**
Social Development (Vote 19)	**1 234 661**	**365 754**	**22.9%**	**1 600 415**	**77.1%**	**1 161 067**	**72.5%**
Early Childhood Development Grant	1 234 661	365 754	22.9%	1 600 415	77.1%	1 161 067	72.5%
Sport, Arts and Culture (Vote 37)	**591 049**	**4 795**	**0.8%**	**595 844**	**99.2%**	**538 215**	**90.3%**
Mass Participation and Sport Development Grant	591 049	4 795	0.8%	595 844	99.2%	538 215	90.3%
Sub-Total	**71 455 677**	**1 991 714**	**2.7%**	**73 447 391**	**97.3%**	**68 916 069**	**93.8%**

Local government 2021/22 preliminary outcomes

Municipalities	Reciepts/Expenditure outcomes, 2021/22			
	Main budget (MB) R'000	Adjustment Budget (AB) R' 000	Outcomes R' 000	As % of AB
Revenue				
Service charges	223 711 704	225 338 792	213 550 937	94.8%
Transfers and subsidies	93 326 151	95 264 188	91 851 164	96.4%
Property rates	80 591 655	81 660 192	76 784 504	94.0%
Other revenue	50 245 331	53 371 610	50 328 755	94.3%
Operating revenue	**447 874 841**	**455 634 782**	**432 515 360**	**94.9%**
Transfers recognised	41 143 185	41 874 750	31 241 703	74.6%
Internally generated fund	11 927 324	7 043 196	5 905 562	83.8%
Borrowing	15 788 032	18 027 723	9 291 410	51.5%
Capital revenue	**68 858 541**	**66 945 669**	**46 438 676**	**69.4%**
Total revenue	**516 733 382**	**522 580 451**	**478 954 036**	**91.7%**
Expenditure				
Employee related costs	133 118 587	132 670 663	125 853 340	94.9%
Bulk purchases	107 659 149	108 402 725	101 023 398	93.2%
Contracted services	50 682 356	56 405 525	46 804 799	83.0%
Other	160 653 391	165 422 900	139 088 293	84.1%
Operating Expenditure	**452 113 483**	**462 901 813**	**412 769 830**	**89.2%**
Trading Services	32 372 474	32 397 724	23 353 478	72.1%
Economic and Environm	18 907 282	17 386 677	12 736 380	73.3%
Other	17 736 418	17 573 843	11 575 284	65.9%
Capital Expenditure	**69 016 174**	**67 358 244**	**47 665 142**	**70.8%**
Total Expenditure	**521 129 657**	**530 260 057**	**460 434 972**	**86.8%**

Tax and revenue discussion

Tax and other revenue proposal are not presented in the MTBPS; but

Parliament is currently processing the 2022 tax and revenue proposals

Provide for mid-year update on major tax revenue outcomes

2022/23 first five months tax revenue outcomes

	2022 BR Estimates		Collection against target: Apr - Aug 22			Collection against target: Apr - Aug 21		
R million	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**

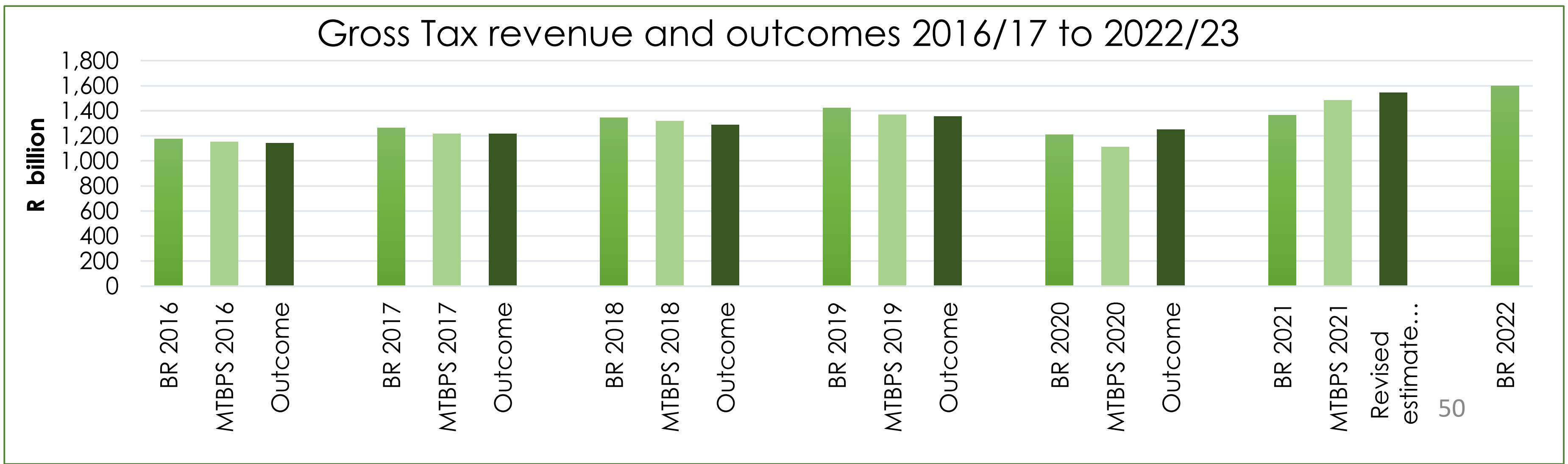
- The 2022/23 gross tax revenue estimates were R233.3 billion (17.1%) higher than the 2021 BR estimates
- By the end of August 2022, tax collection rate was slower than in 2021 but R61.9 billion higher in nominal values
- CIT, Dividend withholding tax and Ad-valorem taxes collections was half or more than their BR targets;
- CIT revenue proportion on total tax revenue continue to increase in 2022 after it was declining in the past years.
- Tax revenue is likely to exceed that expected in the 2022 BR

Summary: National revenue, expenditure and borrowing as at end August 2022

R thousand	2022/23 Budget estimate	2022/23 Year to date	2022/23 Year to date %
Revenue	**1 588 043 681**	**648 758 345**	**40.9%**
Expenditure	**1 975 256 520**	**809 447 707**	**41.0%**
Appropriation by vote	**1 057 028 607**	**437 346 711**	**41.4%**
Direct charges against the NRF	**902 658 438**	**372 100 996**	**41.2%**
Debt-service costs	*301 806 272*	*122 836 984*	40.7%
Provincial equitable share	*560 756 789*	*233 648 665*	41.7%
General fuel levy sharing with metropolitan municipalitie	*15 334 823*	*5 111 607*	33.3%
Skill Levy and SETAs	*20 619 315*	*8 483 427*	41.1%
Other costs	*4 141 239*	*2 015 121*	48.7%
Payments in terms of Section 70 of the PFMA	-	5 192	-
Denel (Public Enterprises)	-	*5 192*	-
Provisional allocations not assigned to votes	1 372 123	-	0.0%
Infrastructure Fund not assigned to votes	4 197 352	-	0.0%
Contingency reserve	10 000 000	-	0.0%
Main budget balance	**(387 212 839)**	**(160 689 361)**	**41.5%**
Domestic short-term loans (net)	**-**	**2 433 800**	**-**
Domestic long-term loans (net)	**249 108 000**	**144 308 430**	**57.9%**
Foreign loans (net)	**31 920 000**	**30 864 820**	**96.7%**
Change in cash and other balances1	**106 184 839**	**(16 917 689)**	**-15.9%**
Total financing (net)	**387 212 839**	**160 689 361**	**41.5%**

Trends in tax revenue projections and outcomes

- If the BR 2022 target were to be met, South Africa's gross revenue since 2016 should increase by nearly 40%
- However, domestic resource mobilization in South Africa can be increased even more
- Maximising this resource mobilisation should be the focus of tax policy as the government works to address the developmental needs of the country
- IFFs are particularly harmful to South Africa because they erode public finances available for addressing developmental needs
- According to OECD estimates, between USD 3.5 and USD 5 billion (R62 billion to R89 billion) in illicit financial flows (IFFs) flee South Africa every year
- Tax is an important tool for the redistribution of income and wealth. Issues around the "narrowing" tax base cannot be resolved without resolving the issue of UPI



SOEs and Contingency liabilities

Contingent liabilities
Risk to SOEs financing

Contingent liabilities and guarantees

Government guarantees

- Total contingent liabilities are expected to exceed R1.2 trillion by 2023/24
- Approved guarantees to state-owned companies decreased by R215 billion to R560,1 billion in March 2022, however, exposure rose by R32.1 billion R416.8 billion
- Eskom accounts for 78.7 per cent of approved guarantees to SOEs
- Eskom continues to pose a significant risk to the public finances, as it relies on government guarantees to finance its operations
- R5,2 billion was paid to Denel in July 2022 where as their government guarantee facility was R3.4 billion by end of 2021/22

Other guarantees

- Contingent liability risks for independent power producers represent a low risk to the fiscus
- Government has committed to procure up to R208.5 billion in renewable energy from the Renewable Energy Independent Power Producer Procurement (REIPPP)
- In 2021/22, government exposure to public-private partnerships amounts to R7.9 billion. It is expected to decrease to R4.3 billion in 2024/25

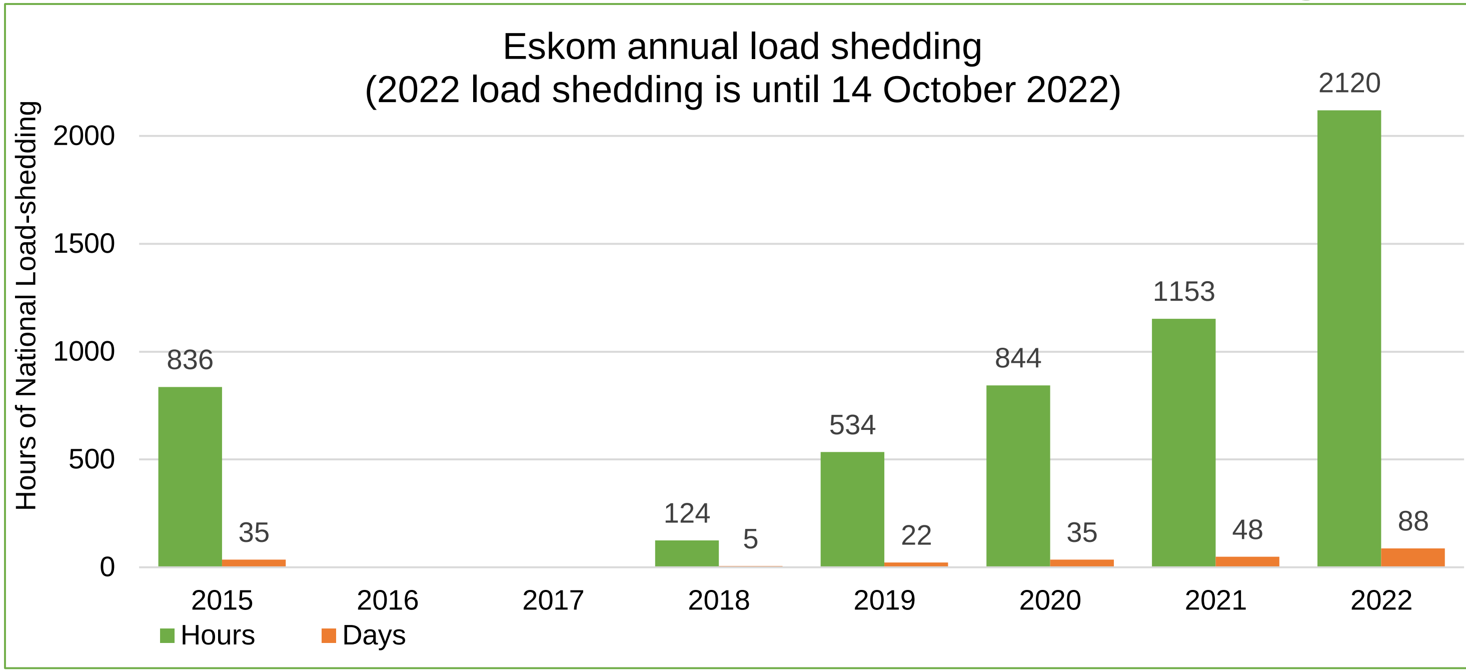
Risks to SOEs financing strategy

- Access to capital markets has become more restricted for state-owned companies as a result of
  - Weak revenue growth,
  - Poor operating performance, and
  - Mounting debt-service costs
- Contingent liabilities are a rating weakness for South Africa, because of
  - their relatively large size, and
  - the high risk that they could migrate onto the sovereign's balance sheet
- Rising inflation and expectations of higher interest rates could increase borrowing costs
- Lower-than-expected GDP growth and materialisation of contingent liabilities at state-owned companies could increase funding costs

Insufficient energy security;

2022 has had the longest uninterrupted streak of load-shedding

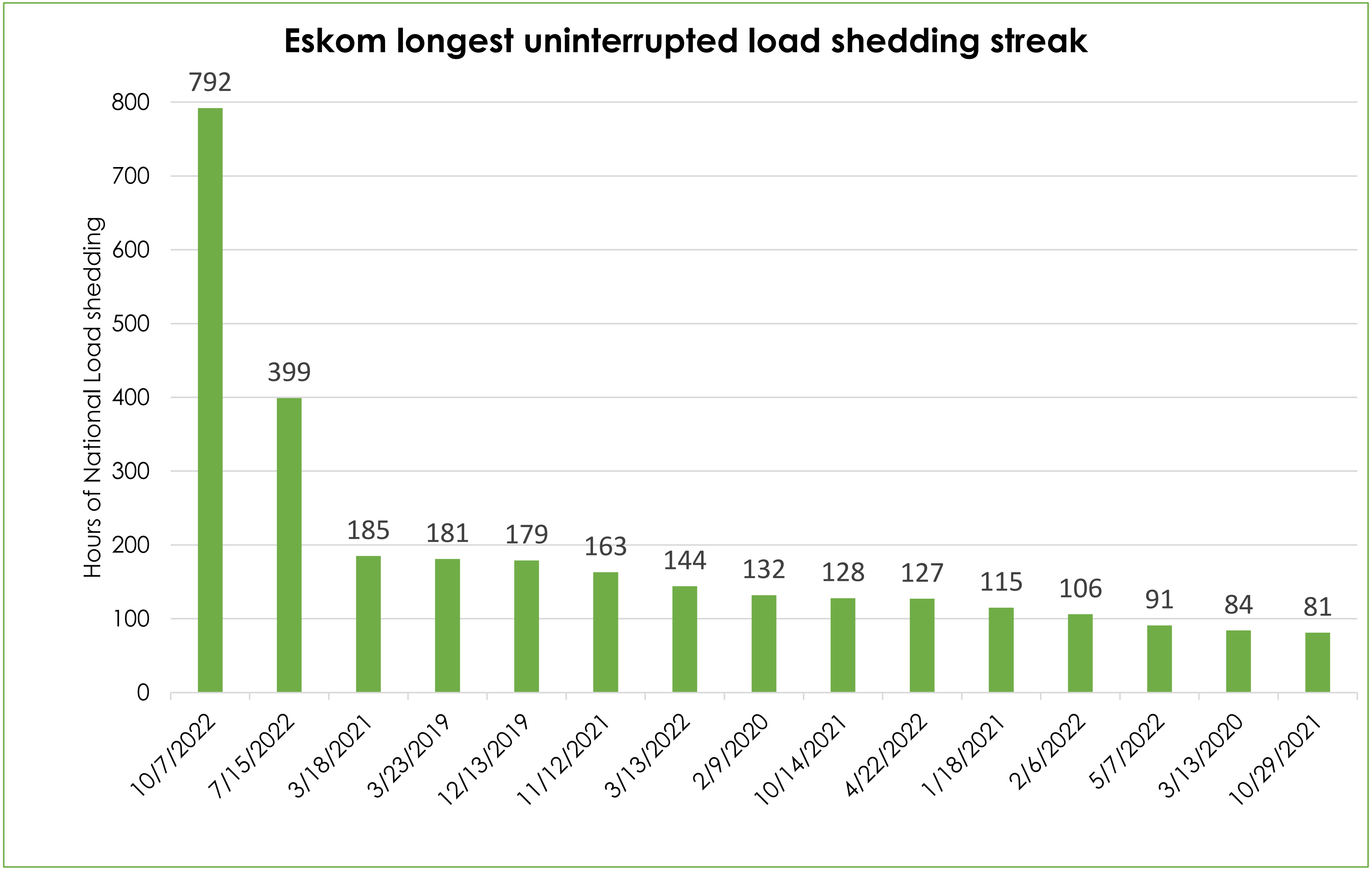
Continued & severer load-shedding in 2022



Source: EskomSePush, 14 October 2022

- Eskom has implemented its longest uninterrupted streak of load-shedding since it first started rotational power cuts in 2008
- Eskom's longest uninterrupted load-shedding streak was from 5 Sep. 2022 to 7 Oct. 2022
- This translates to 33 days or 792 hours of uninterrupted load-shedding in a single year
- As of 14 Oct 2022, there has been 2 120 hours (88 days) of load-shedding in 2022 compared to 1 153 hours (48 days) for the entire year in 2021
- Eskom has warned of stage 15 load shedding and said it would cost hundreds of jobs
- Eskom has applied to the National Energy Regulator of South Africa (Nersa for a 32 per cent electricity price hike from 1 April 2023

Longest uninterrupted streak of load-shedding



Source: EskomSePush, 7 Oct 2022

Impact of extended load-shedding

- Continued load shedding is an important risks to SA's economic outlook on top of the many other serious risks we discuss in the next section
- The intensity of the current power cuts hampers the potential recovery of GDP from the 0.7 per cent contraction experienced in 2022 Q2 (StatsSA, 2Q2022).
- Effects of load-shedding on the business sector is that it :
  - Causes disruptions in business operations and schedules
  - Increases overall risk and creates more uncertainties for businesses
  - Constrains production because it raises operating costs;
  - Constrains investment and productivity improvements
  - Many SMMEs cannot afford backups in the form of conventional generators or renewable energy
  - Security risks increase, particularly for small businesses

Conclusion

- The global & domestic economic outlook is poor and possibly deteriorating
- The global cost of living crisis comes on top of the suffering caused by the Covid-19 pandemic and the poor recovery after the global financial crisis
- As a result, SA households require support to cope with ongoing structural unemployment and the increasing cost of living
- The extension of the SRD grant has temporarily closed the hole related to adult coverage in the social security safety net but funding for the grant has been insufficient and qualifying criteria deliberately excluded applicants
- The path to fiscal sustainability has to take into account the underlying economic dynamics related to weak industrial structure, market concentration and the interrelated economic weaknesses caused by household and individuals excluded from economic opportunities because of structural UPI
- Therefore, in South Africa building resilience of households and communities to the multitude of domestic and global risks that threaten economic and political instability should be part of an overall plan to transform the economy and the path to greater fiscal sustainability

Conclusion

- The fiscal outlook has improved relative to the forecast in the 2022 Budget Review due to stronger-than-expected revenue collection in the first five months of the 2022/23 financial year
- The PBO found that progress with the MTSF has been uneven with many departments reporting slow progress on annual targets set and targets set for 2024
- In many instances departments did not include the MTSF performance indicators in their APPs
- The PBO is concerned that assessment of the efficiency of government spending does not sufficiently assess the efficacy of spending related to transfers, specifically to public entities
- For example, entities receive transfers, while reporting accumulated surpluses, the high administrative costs and unit cost of staff raise red flags with regard to efficiency of government spending
- Government's contingent liabilities and exposure to poorly performing state enterprises requires ongoing examination

Additional slides

Budget amendments procedure

Committees table BRRR in the NA

Minister of Finance: National Treasury tables money Bills

Budget Review and Recommendations Report

Adjusted: Current Budget/Appropriations/ DORA

MTBPS: new MTEF

National Budget:

Appropriations Bill

DOR Bill

Revenue Bills

National Assembly approves

a House or committee may consider an amendment to a money Bill proposed by the Minister in order to make **technical corrections** to the Bill

Research:

-must provide an assessment of the department's service delivery performance given available resources;

-must provide an assessment on the effectiveness and efficiency of the departments use and forward allocation of available resources; and

-may include recommendations on the forward use of resources

Finance Committees Consider and Report:

-the national macroeconomic and fiscal policy;

-the fiscal framework, revised fiscal framework and

-revenue proposals and Bills and amendments thereto;

-actual revenue published by the National Treasury; and

-any other related matter set out in this Act.

Appropriations Committees consider and report on:

-the Division of Revenue Bill, the Appropriation Bill, Supplementary Appropriations Bills and the Adjustments Appropriation Bill and amendments thereto;

-recommendations of the Financial and Fiscal Commission, including those referred to in the Intergovernmental Fiscal Relations Act, 1997 (Act No. 97 of 1997);

-reports on actual expenditure published by the National Treasury; and

-any other related matter set out in this Act.

After the approval of the Appropriations Bill and before the tabling of the MTBPS

Three months before the tabling of the Budget October/November

February/March

Priority 2: Economic Transformation and Job Creation

- The Departments of Employment and Labour, Planning, Monitoring and Evaluation and Public Works and Infrastructure are responsible for reporting on job creation
  - Performance measures on the implementation of interventions such as the Jobs Summit, the Mass Employment Stimulus Programme (MESP) and Operation Phakisa has not been included in the relevant departmental APPs
  - The Department of Public Works and Infrastructure plans to create 5 million work opportunities by 2024. Between 2019/20 and 2021/22, 2.95 million work opportunities have been created through the Expanded Public Works Programme
- To report progress on investments for accelerated growth the Department of Trade, Industry and Competition (DTIC) mainly produced progress reports on their interventions, without showing progress on the targets set for the planned outputs
  - Indications are that there has been notable progress in improving the ease of doing business based on reports from the Companies and Intellectual Property Commission (CIPC) in line with the World Bank's Ease of Doing Business report

Priority 2: Economic Transformation and Job Creation

- To Improve competitiveness through ICT adoption, research and innovation
  - The Department of Communications and Digital Technologies (DCDT) focuses on fast tracking the Broadcasting Digital Migration
  - Funding has been allocated to establish a broadband access fund for household connectivity, but Progress to ensure that 80 per cent of the population would have access to the internet by 2024 or the competitive reduction in data costs have not been reported on in the APP.
- To reduce concentration and monopolies and expanded small business sector the Department of Small Business Development reported that:
  - Township and rural enterprises were supported to the value of R694 million in 2021/22
  - Separate reports are produced on the support to SMMEs and Co-operatives
  - The Department supported 6 315 start-up youth businesses financially and non-financially in 2021/22 against a target of 10 000 per year over the MTSF
  - A Localisation Policy Framework including the listing of product brands produced by SMMEs and Cooperatives has also been developed

Priority 2: Economic Transformation and Job Creation

- The Departments of Public Enterprises (DPE) and Mineral Resources and Energy (DMRE) are both responsible for the outcome to secure the supply of energy
  - 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 focus of the DMRE is to increase energy availability including alternative energy sources and the reserve margin
  - Current progress shows that a renewable energy sector master plan report is under review, the gas master plan is undergoing stakeholder consultation and the completion of an Integrated Energy Plan is estimated to be completed in 2023/24
- DoT and DPE are responsible for increasing access to affordable and reliable transport
  - The two main outputs identified are the Private Sector Participation (PSP) Framework to identify 13 PSP transactions in ports and freight and the Economic Regulation of Transport (ERT) Bill, which still needs approval
- To ensure water security the DWS updates the National Water and Sanitation Masterplan (NWSMP) annually, and produce progress reports on different programmes including the ground water programme

Priority 3: Education, skills and health

- Department of Basic Education (DBE):
  - In many instances the DBE produces reports on specific interventions as outputs, which are not published. To ensure transparency and access to performance information these reports should be published with the quarterly performance reports on the website of the national Department
- Department of Health (DoH):
  - To be able to provide universal health coverage for all South Africans by 2030 the DoH aims to maintain the ideal clinic status in 3 467 PHC facilities. In 2021/22, 1 928 clinics achieved ideal clinic status
  - The MTSF targets set to establish nursing colleges in all nine provinces has been achieved
  - Slow progress has been made with the establishment of the NHI Fund. The strategic purchasing platform for primary healthcare providers are still funded by the NHI conditional grant
  - The APP of the Department does not reflect an indicator to be able to determine whether the 2020/21-2024/25 Human Resource Health strategy has been completed
  - Majority of the outputs used to measure performance on the life expectancy rate are statistical data that are not included in the APP of the department

Priority 4: Consolidating the social wage through reliable and quality basic services

- The Department of Social Development is the lead department responsible for implementing a transformed developmental social welfare programme
  - A draft sector strategy for the employment of social service professionals has been developed
  - The department indicated that about 20 per cent of the sector workforce has been capacitated on the Children's Act
  - The aim is to capacitate 80 per cent of the workforce by 2024
  - It is unfortunate that the Department did not include the data on the number of people affected by substance abuse and violence against woman who accessed support programmes. Therefore, we could not determine whether the programme has contributed to the decline in incidences of substance abuse or gender based violence (GBV) from the baseline
- To be able to provide social protection to children, the Department aims to Increase access to quality Early Childhood Development (ECD) services and support:
  - An additional number of 1.44 million children (0-4years) had access to quality ECD services during the 2021/22 financial year. The aim is to ensure that 2.98 million children have access to ECD services by 2024

Priority 5: Spatial integration, human settlements and local government

- The Department of Cooperative Governance made progress towards the redesign and refurbishment of cities as smart cities and the development of One Plans
  - The implementation of these plans should be monitored to ensure that they make an impact on spatial integration
- Performance on climate change and ecological infrastructure over the 2019-2024 MTSF is not clear due to the failure to report on municipal capacity (adequate resources and infrastructure) for implementing climate change programmes to deal with disasters
- Performance on the redistribution or land acquired for agrarian transformation by the Department of Agriculture, Land Reform and Rural Development is not sufficient to make an impact on the rural economy
- The Department of Mineral Resource and Energy made progress by providing electricity to connections for households
- It is however not possible to measure progress with the maintenance and refurbishment of the municipal electricity network without reports on the targets set in the MTSF

Priority 5: Spatial integration, human settlements and local government

- Department of Water and Sanitation made progress with the eradication of the bucket system and the targets for 2024 should be achieved
  - A National Sanitation Integrated Plan has been drafted, but implementation has not been monitored
- It was not possible to measure progress on the performance on the implementation of Provincial Integrated Water Resource Plans, the rehabilitation of dams or the feasibility study on the building of new dams
- Progress on the planned 52 projects to identify new water resources has also not been reported on in the APP of the Department of Cooperative Governance
- Progress has been made with the implementation of the Bus Rapid Transit system and the Integrated Public Transport Network (IPTN) Programme
  - The aim is to reach 100 per cent compliance with the spatial referencing of the IPTN programme in 2024. Current performance is at 25 per cent
- An annual progress report by PRASA indicates that more stations have been modernised than what was planned
- Only 40 new trains were procured against a target of 218 new trains at 2024 to upgrade the Metrorail fleet

Priority 6: Social cohesion and safe communities

- Despite the achievement of most of the outputs reported by Cultural Affairs and Sport between 2019/20 and 2021/22, unity in diversity has not been achieved
- Although it is not the purpose of this analysis to determine the relevance of the outputs, it might be one of the reasons for not making an impact on the creation of a diverse socially cohesive society with a common national identity
- Another reason might be linked to the non-implementation of a social compact, which includes an implicit agreement among the members of society to cooperate for social benefits and to change behaviour
- Several interventions identified by departments and other institutions, contributing to social cohesion, relate to awareness campaigns, which creates a perception of duplication
- One of the main concerns within this safety sector is the continuous increase in crime rates reported by the SAPS, despite the progress made on interventions identified as priorities for the sector
- Another concern is the availability of data on the conviction rate for serious corruption in the public sector
- The SAPS only reported on the percentage of trial-ready case dockets for serious corruption within the public sector

Transfers from National Departments to Public Entities

- Department of Human Settlements: 7 Public Entities
  - Transfers and subsidies: 97.1 per cent
    - Provinces and Municipalities: 92.1 per cent (Conditional grants)
    - Public Entities: 5.0 per cent
  - Amount spend on administration cost: R508.8 million
  - Number of staff: 623
  - Average unit cost of Compensation of Employees: R0.7 million
- All these entities has accumulated surpluses
- Four receive transfers from the Department
- Structure of Public Entities:
  - Amount spend on Administration: R1.3 billion (Between 7 % and 100 % of total)
  - Number of staff: 1 500
  - Average unit cost of Compensation: Between R0.6 million and R1.2 million

Transfers from National Departments to Public Entities

- Department of Public Works and Infrastructure: 5 Public Entities
  - Transfers 87.2 per cent to Provinces and Municipalities (19.0) and Public Entities (54.2%)
  - Amount spend on administration cost: R512.2 million
  - Number of staff: 780
  - Average unit cost of Compensation of Employees: R0.7 million
- Four of these entities has accumulated surpluses
- All five receive transfers from the Department
- Structure of Public Entities:
  - Amount spend on Administration: R1.3 billion (Between 5 % and 85% of total)
  - Number of staff: 5 633
  - Average unit cost of Compensation: Between R0.4 million and R0.9 million

Transfers from National Departments to Public Entities

- Department of Water and Sanitation: 8 Public Entities
  - Transfers and subsidies: 56.8 per cent of the total budget
    - Provinces and municipalities: 33.6 per cent (Conditional grants)
    - Departmental agencies: 14.1 per cent
    - Public corporations and private enterprises: 7.6 per cent
  - Administration costs: R2 012.5 million/10.9 per cent
  - Number of staff: 3 631
  - Average unit cost of Compensation of Employees: R0.5 million
- All public entities has accumulated surplus
- Four receive transfers from the Department
- Structure of the Public Entities:
  - Amount spend on Administration: R18 793.70 million (Between 7 % and 63%)
  - Number of staff: 17 021
  - Average unit cost of Compensation: R0.4 million and R1.3 million

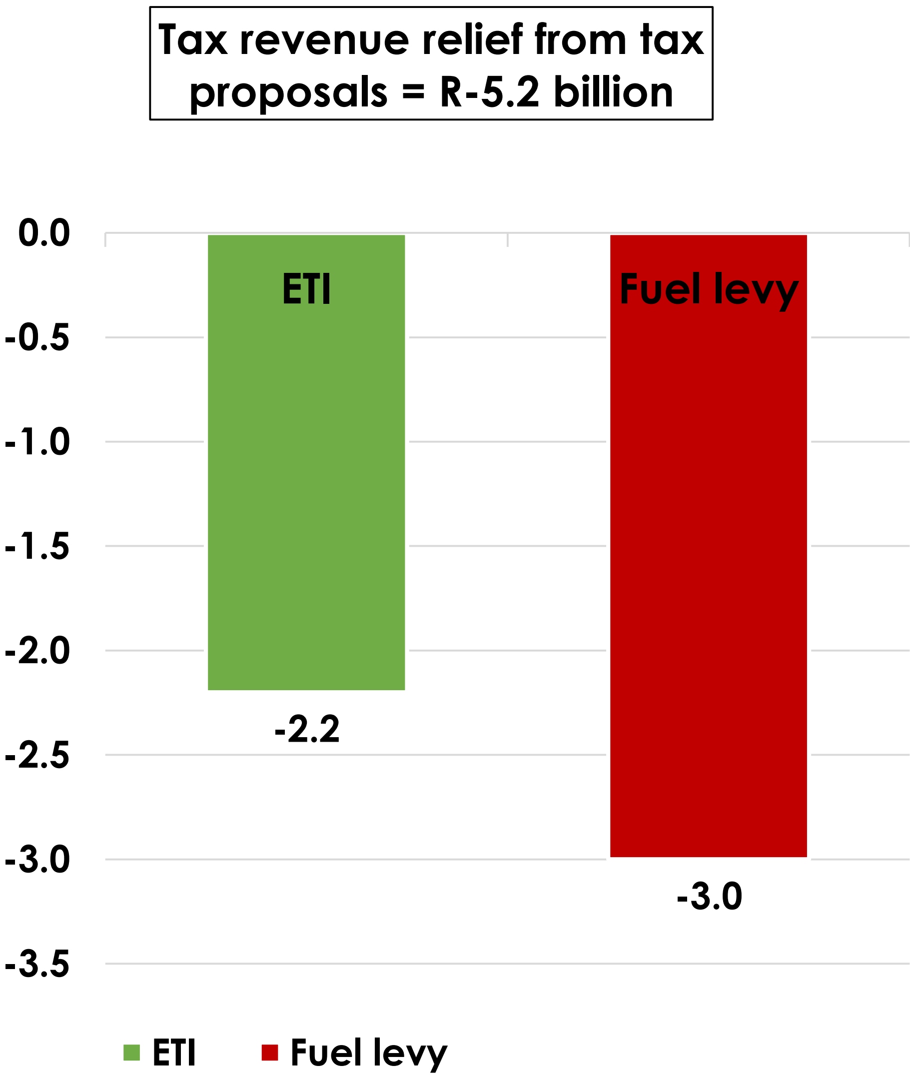
Transfers from National Departments to Public Entities

- Department of Agriculture and Land Reform: 8 Public Entities
  - Transfers and subsidies: 52.9 per cent of the total budget
    - Provinces and municipalities: 14.6 per cent (Conditional grants)
    - Departmental agencies: 13.5 per cent
    - Households: 21.9 per cent
  - Administration costs: R3 562.4 million/16.6 per cent
  - Number of staff: 6 672
  - Average unit cost of Compensation of Employees: R0.6 million
- Seven public entities has accumulated surplus
- Five receive transfers from the Department
- Structure of the Public Entities:
  - Amount spend on Administration: R1 784.6 million (Between 11 % and 100%)
  - Number of staff: 4 641
  - Average unit cost of Compensation: R0.3 million and R0.8 million

Provincial expenditure trends 2021/22

National departments administering conditional grants R'000	2021/22						
	Total National Allocation	Provincial roll-overs approved by National Treasury	% of total available rolled over from the previous financial year	Total Available	% of total available transferred	Actual Payments	% Actual Payments of total available
<u>Schedule 5, Part A Grants</u>[2.]							
Agriculture, Land Reform and Rural Development (Vote 2	**2 238 023**	**94 435**	**4.0%**	**2 332 458**	**95.8%**	**1 984 995**	**85.1%**
(a) Comprehensive Agricultural Support Programme Grant	1 557 560	75 078	4.6%	1 632 638	95.4%	1 382 672	84.7%
(b) Ilima/Letsema Projects Grant	597 126	12 836	2.1%	609 962	97.9%	528 069	86.6%
(c) Land Care Programme Grant: Poverty Relief and Infrastructure Development	83 337	6 521	7.3%	89 858	89.7%	74 254	82.6%
Sport, Arts and Culture (Vote 37):	**1 495 836**	**51 840**	**3.3%**	**1 547 676**	**96.7%**	**1 379 830**	**89.2%**
Community Library Services Grant	**1 495 836**	**51 840**	**3.3%**	**1 547 676**	**96.7%**	**1 379 830**	89.2%
Basic Education (Vote 16)	**9 012 077**	**328 697**	**3.5%**	**9 340 774**	**96.5%**	**9 099 391**	**97.4%**
(a) HIV and AIDS (Life Skills Education) Grant	**241 914**	**8 733**	**3.5%**	**250 647**	**96.5%**	**239 664**	95.6%
(b) Learners with Profound Intellectual Disabilities Grant	**242 760**	**14 611**	**5.7%**	**257 371**	**94.3%**	**224 731**	87.3%
(c) Maths, Science and Technology Grant	**412 134**	**39 572**	**8.8%**	**451 706**	**91.2%**	**401 101**	88.8%
(d) National School Nutrition Programme Grant	**8 115 269**	**265 781**	**3.2%**	**8 381 050**	**96.8%**	**8 233 895**	98.2%
Health (Vote 18)	**38 754 422**	**616 318**	**1.6%**	**39 370 740**	**98.4%**	**37 058 610**	**94.1%**
(a) HIV, TB, Malaria and Community Outreach Grant	27 752 876	101 959	0.4%	27 854 835	99.6%	26 380 496	94.7%
(b) Health Facility Revitalisation Grant	6 435 188	463 046	6.7%	6 898 234	93.3%	6 168 513	89.4%
(c) Human Resources and Training Grant	4 297 681	51 313	1.2%	4 348 994	98.8%	4 262 631	98.0%
(d) National Health Insurance Grant	268 677	-	0.0%	268 677	100.0%	246 970	91.9%
Human Settlements (Vote 33)	**17 292 679**	**526 568**	**3.0%**	**17 819 247**	**97.0%**	**16 891 349**	**94.8%**
(a) Human Settlements Development Grant	13 402 961	443 797	3.2%	13 846 758	96.8%	13 329 866	96.3%
(b) Informal Settlements Upgrading Partnership Grant	3 889 718	61 264	1.6%	3 950 982	98.4%	3 551 093	89.9%
(c) Title Deeds Restoration Grants	-	21 507	100.0%	21 507	0.0%	10 391	48.3%
Public Works and Infrastructure (Vote 13)	**836 930**	**3 307**	**0.4%**	**840 237**	**99.4%**	**802 611**	**95.5%**
(a) Expanded Public Works Programme Integrated Grant fo	422 486	1 472	0.3%	423 958	99.3%	390 004	92.0%
(b) Social Sector Expanded Public Works Programme Incentive Grant for Provinces	414 444	1 835	0.4%	416 279	99.6%	412 608	99.1%
Social Development (Vote 19)	**1 234 661**	**365 754**	**22.9%**	**1 600 415**	**77.1%**	**1 161 067**	**72.5%**
Early Childhood Development Grant	1 234 661	365 754	22.9%	1 600 415	77.1%	1 161 067	72.5%
Sport, Arts and Culture (Vote 37)	**591 049**	**4 795**	**0.8%**	**595 844**	**99.2%**	**538 215**	**90.3%**
Mass Participation and Sport Development Grant	591 049	4 795	0.8%	595 844	99.2%	538 215	90.3%
Sub-Total	**71 455 677**	**1 991 714**	**2.7%**	**73 447 391**	**97.3%**	**68 916 069**	**93.8%**

2022/23 Tax and other revenue proposal



- 2021/22 Tax revenue collection exceeded target by R78,3 billion (5%) against revised estimates or R198,6 billion (14,6%) against the 2021 Budget estimates;
- Net collections of R1 563.8 billion represented a surplus of R314 billion (25.1%) against the prior year 2020/21 outcomes.
- Strong economic recovery boosted by elevated commodity prices for much of the reporting period boosted revenue collections
- 2022/23 Tax revenue proposals provides relief of R5.2 billion:
    - Corporate income tax reduction
    - Employment Tax Incentives (ETI) – R2.2 billion
    - Fuel Levy – R3 billion
    - Inflationary relief through a 4.5 per cent adjustment on PIT
    - Increases of between 4.5 per cent and 6.5 per cent in excise duties on alcohol and tobacco
- Indications are that government is on par to reach 2022/23 revenue target; MTBPS to provide more details

Tools to support Parliament in the Budget Process

- Several tools are available to Members of Parliament to assist them with their oversight role to ensure the efficiency and effectiveness of government spending:
  - The Money Bills Amendment Procedure and Related Matters Act including
    - The Parliamentary Budget Office
    - Budget Review and Recommendations Reports (BRRR)
- The Money Bills Act provides for:
  - The roles of the finance and appropriations committees
  - The Minister of Finance: National Treasury to table money Bills:
    - Adjusted: Current Budget, Appropriations and DORA
    - MTBPS: new MTEF
    - National Budget: Appropriations Bill, DOR Bill and Revenue Bills
  - A House or committee may consider an amendment to a money Bill proposed by the Minister in order to make technical corrections to the Bill
  - National Assembly approves BRRR