PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

2023 Budget and Division of Revenue Brief

Parliamentary Budget Office

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1. Executive summary

Some of the Presidential priorities for 2023 are carried over from 2022. Many of these priorities have already been funded in the baseline of departments or would require governance interventions rather than additional funding. The biggest spending pressures addressed in the 2023 Budget and over the 2023 MTEF are for:

- The public sector wage bill
- Infrastructure-related spending
- Security and corruption
- Service delivery
- Social grants

Despite the improved global growth forecasts, South Africa's growth prospects over the medium term remain poor due to serious risks, including electricity and water availability, which may very likely persist. The question is where will growth come from?

For the economy to grow, household consumption, which contributes about 60 per cent of GDP, has to grow, however, household demand and associated private sector investments are expected to remain low due to:

- Extraordinarily high levels of unemployment, poverty and inequality, market concentration, financialisation and misallocation of capital, and inadequate state capacity to deliver infrastructure projects, which all point toward continued poor investment and economic growth performance.
- Several major state-owned companies continue to rely on the government bailouts and dominate the government's loan guarantee portfolio.
- Crime statistics indicate that levels of crime in South Africa have been increasing in a worrying manner:
    - On average, crime has increased by 9.55 per cent (year-on-year) between December 2021 and December 2022.

Local government plays a critical role as a first line of interaction between citizens and the government. Over time, the government estimated that a larger proportion of the budget would be transferred to local government. This intention has, however, not been realised. Capacity weaknesses in local government has led to dissatisfaction with service delivery. It has often been cited as the reason for the increases in service delivery protests within South Africa.

Changes to the tax system, however, provide some relief. Budget 2023 proposes R13 billion in tax relief of which approximately 69 per cent is from renewable energy incentives. The non-adjustment to the fuel levy and the Road Accident Fund (RAF) will also provide significant relief in the context of high inflation and an exacerbated cost of living crisis.

2. Introduction

This report summarises the budget analysis and division of revenue presentations by the Parliamentary Budget Office, presented to the Standing and Select Committees of Finance and Appropriations. The focus of this briefing was mainly on the 2023 Budget Review, which includes a summary of the Estimates of National Expenditure and the Appropriations Bill.

The presentations included:

- The socio-economic background to the budget and division of revenue
- The flow from the Presidential policy priorities to the spending priorities of the government
- The implementation of the government's priorities
- A macroeconomic overview including possible initiative for economic growth
- Changes to the fiscal framework
- Matters relating to State Owned Enterprises and contingent liabilities

3. Background

A detailed situation analysis to contextualise Budget 2023 in the current socio-economic state of South Africa is provided as an annexure to this document. The section provides context by the different spheres (national, provincial and local) of government.

4. Policy priorities

According to the 2022 MTBPS, budget function groups have begun to reprioritise and reallocate their budgets to fund activities that have been experiencing cost pressures. The departments and entities are also reallocating funds, over the MTEF, towards urgent policy priorities.

In line with the 2022 MTBPS, the President indicated during the 2023 State of the Nation Address that the government is not presenting new plans for 2023, but is rather concentrating on those issues that concern South Africans the most. The most immediate task for the year is to dramatically reduce the severity of load shedding in the coming months and ultimately end load shedding altogether. The 2023 SONA provided the strategic direction for the Budget, which is framed by the three policy objectives set out in the 2022 MTBPS. These are to:

- Reduce the budget deficit and stabilise debt as a percentage of GDP
- Support economic growth by maintaining a prudent fiscal stance, directing resources towards infrastructure, and fighting crime and corruption
- Reduce fiscal and economic risks, including through the Eskom debt-free arrangement

The government's attempt to pursue higher growth in the 2023 Budget remains anchored on three pillars:

- Pursuing an ostensibly stable macroeconomic framework, which the government defines as achieving a primary budget surplus and reducing debt levels, through fiscal consolidation in the hope that lowering these fiscal variables may encourage more private sector savings and investment that may lead to higher economic growth,
- Implementing structural reforms, which the government hopes will improve performance and increase growth in key sectors, particularly in energy and transport, and
- Activities aimed at strengthening the capacity of the state to deliver quality public services, invest in infrastructure and fight crime and corruption

5. Alignment of the Presidential priorities with the 2019-2024 MTSF

The National Development Plan (NDP) remains the government's blueprint for the country aimed at addressing the triple challenges of unemployment, inequality and poverty in South Africa. The 2019-2024 Medium Term Strategic Framework (MTSF) is the 5-year implementation framework to advance the national development goals and objectives in line with the NDP, Vision 2030. The government expects that successful implementation of programmes and actions of the National Development Plan: Vision 2030, could:

- Grow the economy at a rate of 5.4 per cent
- Reduce the unemployment rate to 6 per cent
- Increase investment as a share of GDP to 30 per cent
- Reduce inequality as measured by the Gini Coefficient to 0.60
- Totally eradicate poverty

The attainment of Vision 2030 and these targets have been made more difficult by the COVID-19 crisis. In addition to the seven priorities of the 2019-2024 Medium Term Strategic Framework (MTSF), the Presidential Employment Stimulus and the Economic Reconstruction and Recovery Plan (ERRP) are two initiatives aimed at providing immediate responses to the severe economic impact of the coronavirus pandemic.

Table 1 provides the 7 priorities of the MTSF, and aligns them with the SONA (2022 & 2023) pronouncements and the budget's response to the pronouncements. The table does not indicate the degree of response of the budget to the pronouncements but an alignment of the budget announcements to the SONA pronouncements. The table indicates that there is no budget allocation to Priority 1: Building a capable, ethical and developmental state and Priority 7: A better Africa and World. The budget does, however, respond to priority 2, 3, 4, 5 and 6.

In terms of the midterm performance on the 2019-2024 MTSF (reflected in the second column), the government has reported progress on all of the policies and plans to address poverty inequality and unemployment, However, in most instances the government is unlikely to achieve the targets that have been set for 2030. The 2022 SONA identified actions to address the challenges that the country faces. The table provides a scorecard that utilises information from the President's office to show, which promises the government has delivered on and the promises they have not delivered on.

Table 1: Budget's response to SONA and alignment with the MTSF

MTSF Priorities	2022 SONA Pronouncements Review	2023 SONA Pronouncements	2023 Budget Response/Spending pressures
Priority 1: Building a capable, ethical and developmental state	• Identify SOEs to be retained, consolidated or disposed of	• Government restructuring to improve efficiency: Reducing Red tape/Improve the ease of doing business	
Priority 2: Economic transformation and job creation	• Continue the Presidential employment stimulus to reach 1 million participants ○ **Delivered**: Yes • Adding 6 800MW of additional renewable energy ○ **Delivered:** No • Request proposals for 3 000MW of gas power and 500MW of battery storage	**Unemployment** • The provision of R 800 million from the National Skills to develop skills in the digital and technology sector • Increase the number of students entering artisan training in TVET colleges from 17 000 to 30 000 in the 2023 academic year. The	**Economic growth and employment** • South African Revenue Service • South African Weather Service: operational funding **Infrastructure**

MTSF Priorities	2022 SONA Pronouncements Review	2023 SONA Pronouncements	2023 Budget Response/Spending pressures
	○ **Delivered:** No • Raise the amount of electricity independent producers are allowed to generate to 100MW ○ **Delivered:** Yes • Restart unbundling Eskom ○ **Delivered:** Yes • Reopen priority passenger rail corridors ○ **Delivered:** No • Initiate third-party access to the freight rail network ○ **Delivered:** Yes • Complete the spectrum auction ○ **Delivered:** Yes • Review the work visa system to attract skills and investment ○ **Delivered**: Yes • Provide bulk infrastructure to unlock identified private sector infrastructure projects ○ **Delivered:** No	aim is also place 20 000 students in employment in 2023 • The Social Employment Fund is recruiting 50 000 participants in its next phase to undertake work for the common good • The National Youth Service will create a further 36 000 opportunities through non-profit and community-based organisations • The Presidential Employment Stimulus is also supporting people to earn their own living • Undertake the just transition in a way that opens up the possibility of new investments, new industrialisation and that, above all, creates new jobs **Poverty** • Urgent measures to mitigate the impact of load shedding on food prices **Load shedding/energy generation** • Fix Eskom's coal-fired power stations and improve the availability of existing supply • Enable and accelerate private investment in generation capacity • Accelerate procurement of new capacity from renewables, gas and battery storage • Unleash businesses and households to invest in rooftop solar • Fundamentally transform the electricity sector to achieve long-term energy security	• Refurbishment of Parliament • SANRAL: strengthening and rehabilitation of non-toll network • Refurbishment backlog for provincial roads • SANParks infrastructure backlog • Budget Facility for Infrastructure project • SA connect phase 2
Priority 3: Education, skills and health		• The finalisation of the Comprehensive Student Funding Model for higher education, particularly for students who fall outside current NSFAS criteria; reaching those who are known as the 'missing middle'	**COE and Infrastructure** • Health • Basic education sector
Priority 4: Consolidating the social wage through reliable and quality basic services	• Implement the national strategic plan on gender-based violence ○ **Delivered:** Yes	• The continuation of the Social Relief of Distress Grant, which currently reaches around 7.8 million people • Existing social grants will be increased to cushion the poor against rising inflation • The streamlining of the requirements for ECD centres to access support and enable thousands more to receive subsidies from government	**Poverty and the rising cost of living** • COVID-19 social relief of distress grant • Social grants: increase in grant values
Priority 5: Spatial integration, human settlements and local government	• Finalise a just transition framework towards a low-carbon economy ○ **Delivered:** Yes • Move ahead with land reform ○ **Delivered:** No	• Expediting the provision of title deeds for subsidised houses to address the 1 million backlog	**Service delivery** • Local government equitable share

MTSF Priorities	2022 SONA Pronouncements Review	2023 SONA Pronouncements	2023 Budget Response/Spending pressures

	• Finalise the transfer of 14 000Ha of public land to the Housing Development Agency
	  ○ **Delivered:** No
	• Construct and maintain rural roads
	  ○ **Delivered:** Yes		

Priority 6: Social cohesion and safe communities	• Strengthen the NPA and Financial Intelligence Centre to combat complex corruption cases
	  ○ **Delivered**: Yes
	• Take the steps to protect whistle-blowers
	  ○ **Delivered**: No
	• Implement the national strategic plan on gender-based violence
	  ○ **Delivered**: Yes
	• Establish a multidisciplinary law enforcement unit to tackle economic sabotage, vandalism of infrastructure and construction mafias
	  ○ **Delivered**: Yes
		• More funding will be made available in the budget to strengthen the South African Police Service to prevent crime.
		• Additional funding will also be allocated to improve the capacity of the National Prosecuting Authority and courts to ensure perpetrators are brought to justice
			Crime and corruption
			• Additional 5 000 police trainees per year
			• Border Management Authority
			• Mozambique deployment, prime mission equipment and navy defence systems
			• State Capture Commission and Financial Action Task Force recommendations
			• Department of Home Affairs digitisation project

Priority 7: A better Africa and World			

6. Funding Priorities over the 2023 MTEF

Additional allocations within budget functional groups since the 2022 MTEF baseline mainly includes funding for:

- Social Development: Mainly for the Covid-19 SRD grant and nominal increases in social grant values
- Learning and Culture: Mainly for the Education infrastructure grant and the school nutrition programme
- Health: Increase in the Provincial Equitable Share of which R7 830.9 million is for CoE
- Economic Development: Mainly for Communication, SA connect phase 2, SANP, SA Radio Astronomy Observatory, SA National Space Agency and Provincial road maintenance
- Peace and Security: Defence: R3 068.6 million, Home Affairs for the border management authority and Police: R3 118.8 million mainly for COE
- Community Development: The Local Government Equitable Share of R2 459.7 million and Water and Sanitation for Regional bulk infrastructure R1 300 million
- General Public Service: Refurbishment of Parliament of R1 000 million

Other funding policy decisions made by the government are to:

- To reduce the proportion of the budget spent on COE
- To reprioritise expenditure from the national and provincial spheres of government to local government. The long-term trend of the division of revenue across the three spheres of government, however, shows that this objective has not been realised in the past. This is

important to note given that local government has not been able to collect revenue as envisioned in the White Paper on Local Government

7. Global outlook

Global growth forecasts have improved in early 2023 but there is much uncertainty. There is heightened global concern about the interrelatedness and cumulative impact of several serious risks. The 2023 Global Risk Report of the World Economic Forum (WEF) refers to the interaction of present and future risks with compounding effects that they refer to as a "poly-crisis". The WEF mentions energy supply crisis, food supply crisis, inflation crisis and cost of living crisis as examples of serious risks. The cumulative effects of crises have affected developing countries, including South Africa. The high likelihood of more crises points to greater hardships ahead.

In 2023, the UN Secretary General advocated for developing country governments to embark on "bold, targeted and timely" fiscal expansion and support from developed countries to support their recovery and stimulus. However, the South African government continues austerity with the 2023 budget, which follows the same fiscal consolidation path of the past decade. Fiscal consolidation has affected the government's role in supporting aggregate economic demand and constrained growth, investment and employment. Lower growth over the decade caused a higher debt to GDP ratio.

Fiscal consolidation efforts continued at the height of the Covid-19 pandemic. The austerity mind-set meant that South African households have been facing higher levels of unemployment, poverty and inequality. These households have become less resilient and more vulnerable to serious, interrelated global and domestic risks. These risks can cause sudden large-scale economic damage. The July 2021 social unrest could be seen as a symptom of the cumulative impact of pre-existing economic hardships in South Africa and the economic impact of the pandemic.

The economic impact of the 2023 Budget

Table 2 shows the National Treasury's (NT) projections of GDP growth over the MTEF.

Table 2: Macroeconomic performance and projections

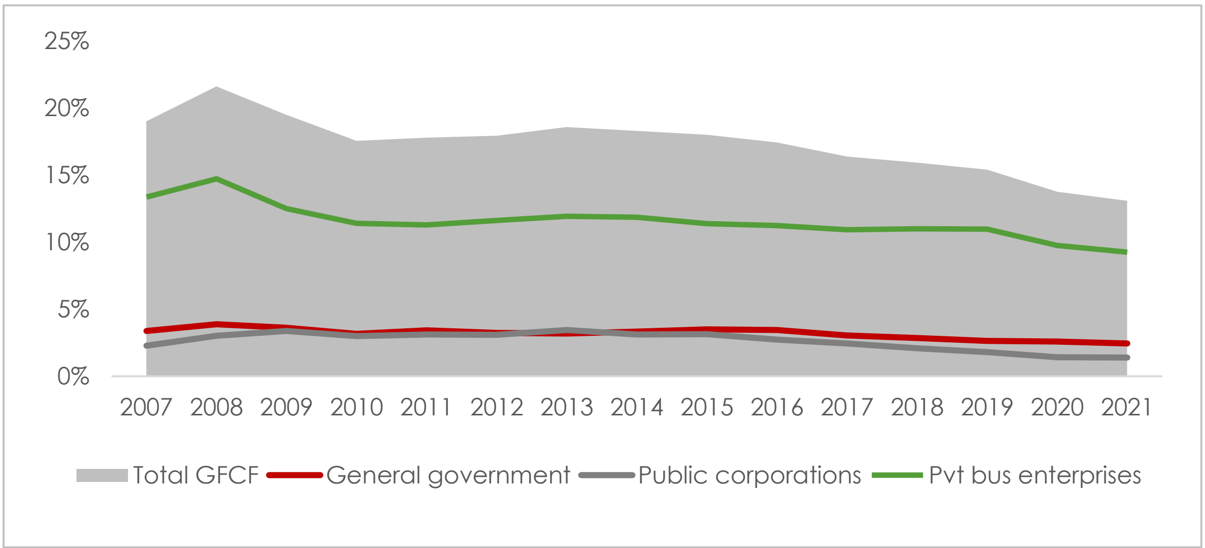
Percentage change	2019	2020	2021	2022	2023	2024	2025
	Actual			Estimate	Forecast		
Final household consumption	1.2	-5.9	5.6	2.8	1.0	1.5	1.8
Final government consumption	2.1	0.8	0.6	0.3	-2.2	0.4	0.0
Gross fixed-capital formation	-2.1	-14.6	0.2	4.2	1.3	3.8	3.5
Gross domestic expenditure	1.4	-8.0	4.8	3.8	0.9	1.5	1.8
Exports	-3.4	-11.9	10.0	8.8	1.0	2.2	2.9
Imports	0.4	-17.4	9.5	14.0	1.1	2.3	2.9
Real GDP growth	**0.3**	**-6.3**	**4.9**	**2.5**	**0.9**	**1.5**	**1.8**

Source: National Treasury

Projected government consumption expenditure, which is expected to decline by an average of 0.6 per cent annually over the MTEF, will make a negative contribution to forecast GDP growth. The NT's forecast for positive GDP growth over the MTEF depends on recovery in investment. However, the NT's investment projections have consistently been too high and again seem unjustifiably high in the 2023 Budget. The NT projects investment to grow at an average of nearly 3 per cent over the MTEF mainly driven by private sector energy projects. The NT hopes these energy projects will ease the energy constraint, improve overall business sentiment and stimulate fixed investment.

Figure 1 shows the gross fixed capital formation by General Government, Public Enterprises and Private Business Enterprises (% of GDP)

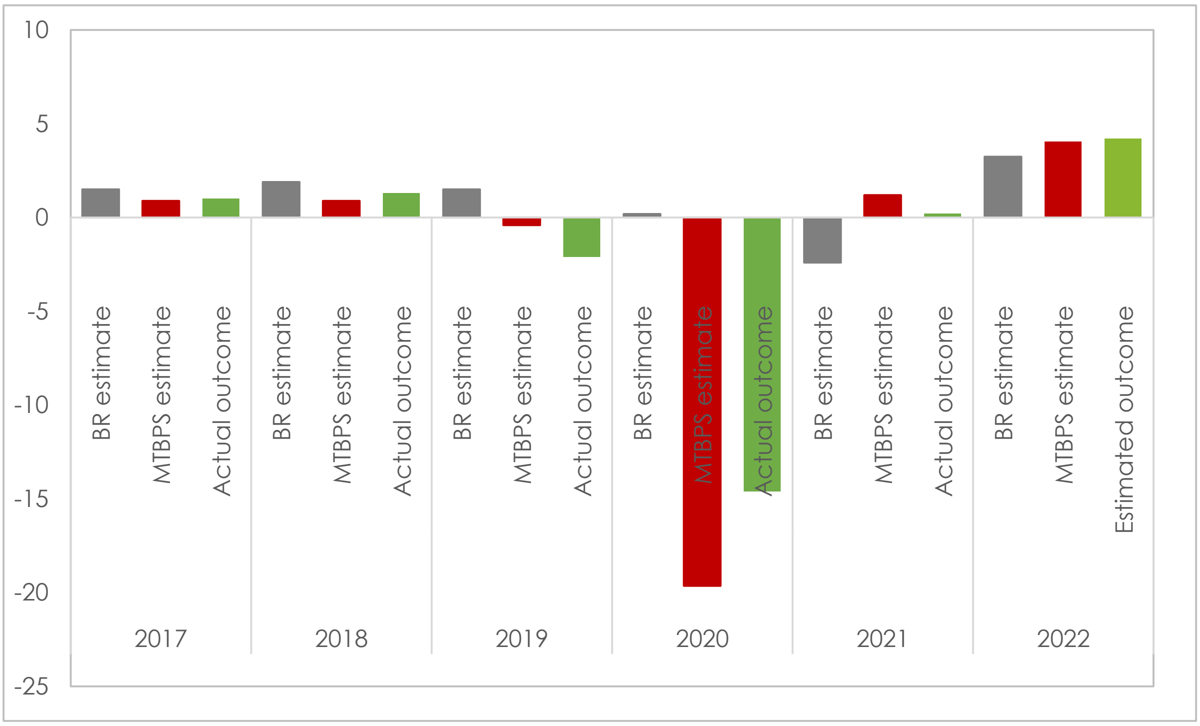
Figure 1: Gross fixed capital formation by General Government, Public Enterprises and Private Business Enterprises (% of GDP)



Source: National Treasury

SA's fixed investment track record has been poor since the global financial crisis of 2008. We do not expect private investment levels to improve much over the medium term because the structural reforms proposed by the NT do not fundamentally address the deeper structural challenges that hamper investment & growth in the economy. The extraordinarily high levels of unemployment, poverty and inequality, market concentration, financialisation and misallocation of capital, inadequate state capacity to deliver infrastructure projects and the negative impact of continued fiscal consolidation all point toward continued poor investment and economic growth. Figure 2 shows the actual outcomes of capital formation (GFCF) and the poor track record of the NT with regard to estimating gross fixed estimated in South Africa between 2017 and 2022.

Figure 2: Estimated vs Actual outcomes of gross fixed capital formation



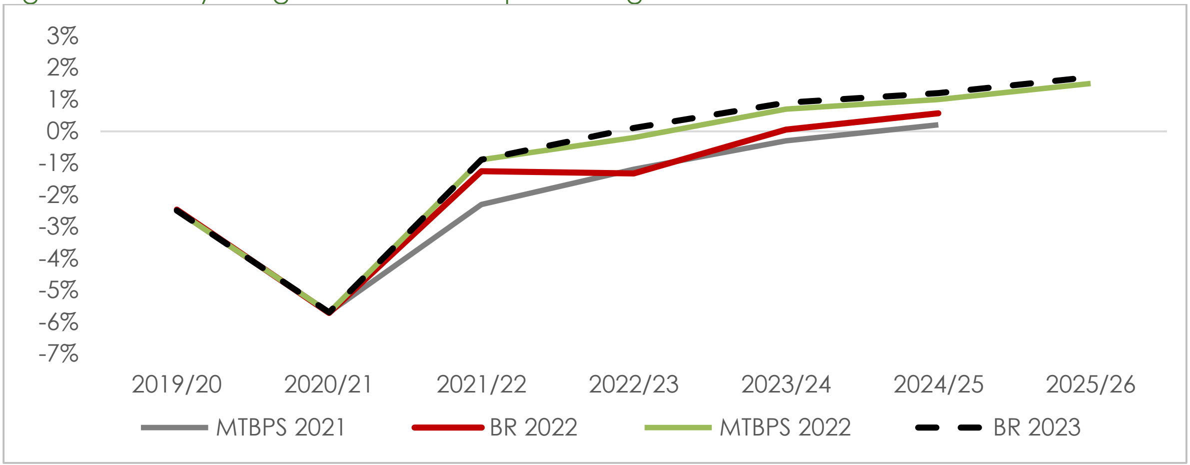
Source: National Treasury

For the economy to grow, household consumption, which contributes about 60 per cent of GDP, has to grow but household demand and associated private sector investments related to household consumption demand are expected to remain low. More government spending, particularly to support struggling households, service delivery and upgrading of services infrastructure could boost aggregate demand and increase associated private investment and employment. In this manner, the government spending on households and investment in infrastructure could form part of a realistic, home-spun developmental strategy for structural transformation of the economy based on decreasing unemployment, poverty and inequality and improving productivity, employment, welfare and resilience of households. At the same time, this transformational strategy will support and incentivise private sector domestic productive capacity to meet the growing demand from an increasing number of productive and better-off households.

8. The fiscal policy framework: A primary budget surplus but at what cost?

Figure 3 shows the primary budget balance as a percentage of GDP. The 2023 Budget maintains the government's long-standing fiscal consolidation stance through reducing government consumption spending. It pursues a primary fiscal surplus that the government is unlikely to achieve in the current fiscal year and over the MTEF. According to the NT, this "critical policy stance" to stabilise debt improves market sentiment. But, in reality it hurts the real economy, erodes the state's capacity to deliver services and risks higher debt. It means fewer resources for teachers, doctors, nurses and policing services to serve a growing population. The risks to the credibility of the fiscal policy framework listed by the NT far outweigh the potentially dangerous and destructive socio-economic risk of not adequately investing in society.

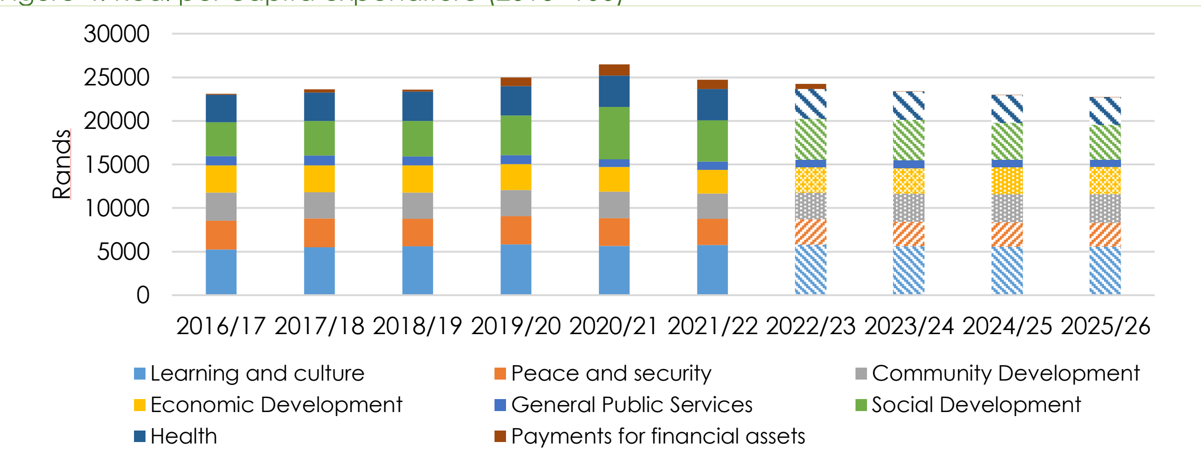
Figure 3: Primary budget balance as a percentage of GDP



Source: National Treasury

Figure 4 shows that total real per capita expenditure of the government declines over the medium term. Only expenditure on economic development and community development increase marginally in real terms. In 2016/17, total real expenditure per capita was R23 116, by 2025/26 this will decline to R22 747.

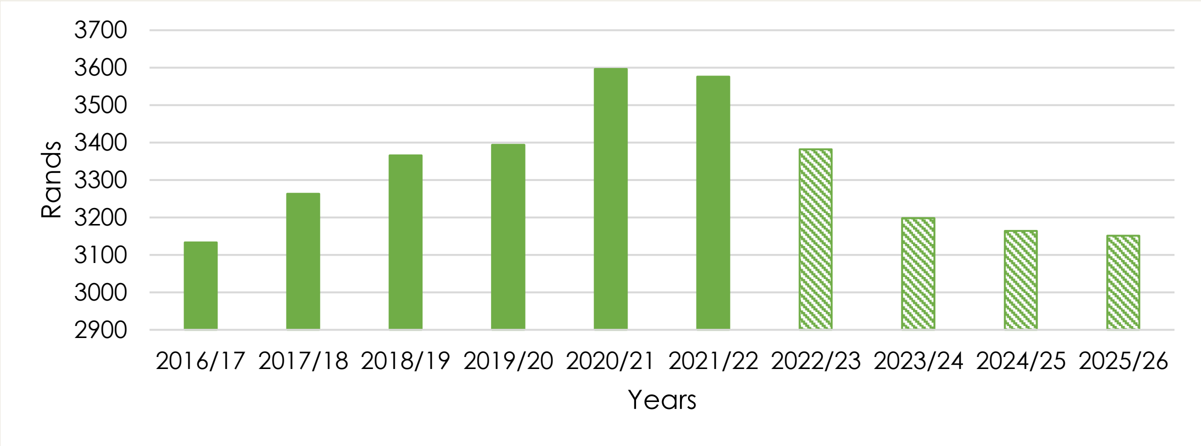
Figure 4: Real per capita expenditure (2016=100)



Source: PBO calculations using Budget 2023 and Stats SA population data

Total real per capita expenditure on health declines in the medium term. Expenditure has declined after the increases during 2020/21 and 2021/22. In 2016/17 total real expenditure per capita was R3 133, in 2025/26 it is estimated to be R3 151. The estimated decline over the MTEF means that the government will on average be spending less per person R243 (8per cent) in 2025/26 than it spent in 2019/20. In terms of households' buying power, the real declines are likely to be even larger given that medical price inflation is higher than consumer price inflation (CPI). The government's real disinvestments in health might have long-term socio-economic and fiscal implications for the state and society.

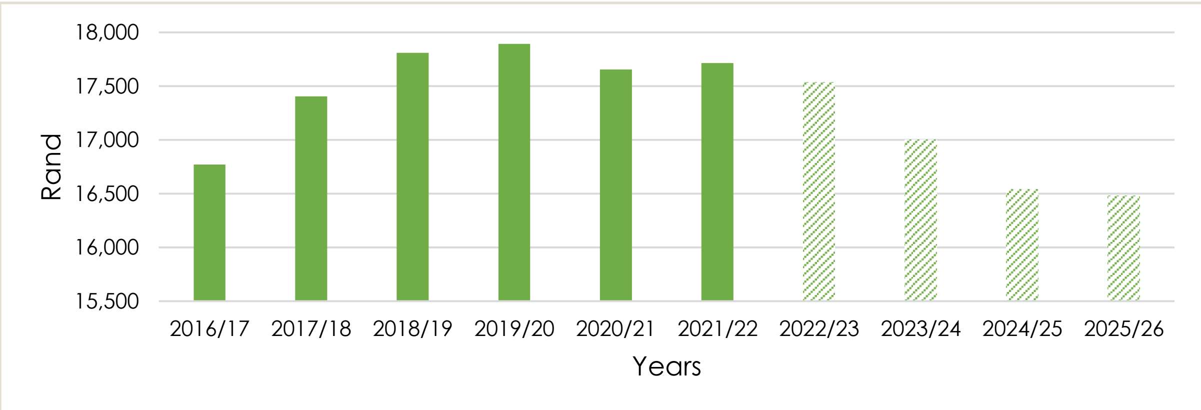
Figure 5: Real per capita health function expenditure (2016=100)



Source: PBO calculations using Budget 2023 and Stats SA population data

Total real per capita expenditure on basic education declines over the medium term. In real per capita terms, the government will be spending less per learner 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 R 16 471 (an increase from the R16 384 in the MTBPS).

Figure 6: Real per capita expenditure on basic education (2016=10)



Source: PBO calculations using Budget 2023 and DBE learner population data

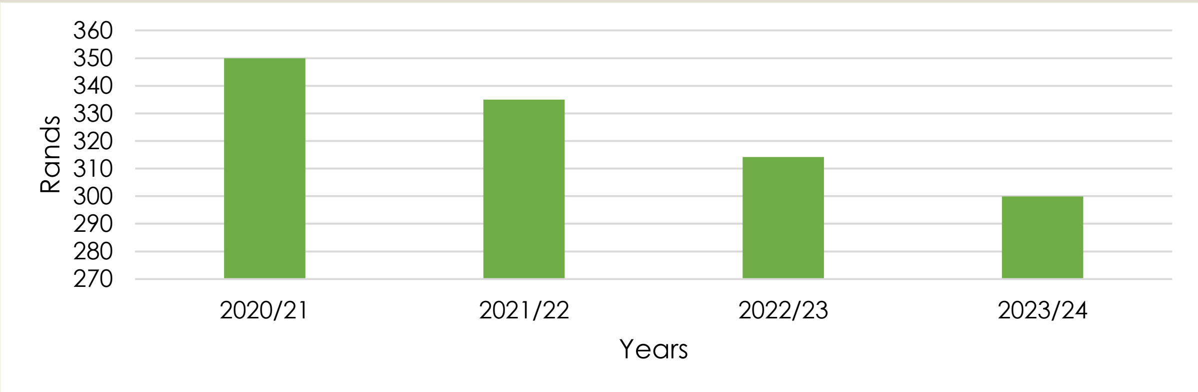
In the 2021 budget, the National Treasury acknowledged that the low growth in compensation along with early retirements "will reduce the number of available teachers". They added that this reduction in the number of teachers "coupled with a rising number of learners, implies larger class sizes, especially in no-fee schools, which is expected to negatively affect learning outcomes." This example demonstrates how budget decisions have disproportionate negative distributive impacts on particular groups.

Social grants are another area of great concern. In some years, grants have increased below inflation. The Children's Institute argues that in 2011/12, the Child Social Grant (CSG) would have covered 79 per cent of the cost of basic foodstuffs necessary to avoid hunger. By 2018/19 it covered only 71 per cent of the cost of these goods, a decline of 8 per cent. These reductions occurred despite evidence that shows the significance of grants for human development. Low investments in the short run, lead to greater costs in the future. The reductions in child support grants before the COVID-19 pandemic could very well have reduced household resilience to the health and economic impacts of the pandemic.

In 2023/24, social grants increased by 5 per cent on average, however, these increases are inadequate given that food price inflation was recorded at 13.4 per cent in January 2023 - the highest recorded since April 2009. The majority of grants fall above the upper-bound poverty line, except the foster care and child support grants According to PMBEJD, the Child Support Grant of R480 is 28 per cent below the Food Poverty Line of R663, and 43 per cent below the average cost to feed a child a basic nutritious diet (R843.47). Treasury estimates a 9.7 per cent decline in beneficiary numbers over the medium term, 7.5 per cent of which will be foster care grant beneficiaries.

Since its introduction in 2020, the COVID-19 SRD grant has not been adjusted for inflation. In 2023 the grant will be worth R300. Budget 2023 estimates the number of beneficiaries for 2023/24 to be 8.5 million. More than 13 million people applied for the grant in January 2023, however, since April 2022 and January 2023, the Department of Social Development (DSD) has only approved between 5 and 7.8 million recipients each month. The approval rates have been low and payments have been delayed. The new criteria mean that between 3.1 and 5.9 million people in the target group (of 10.9 million) identified by DSD in February 2022 will not qualify to receive the grant.

Figure 7: Value of the COVID-19 SRD in real terms (2020=100)

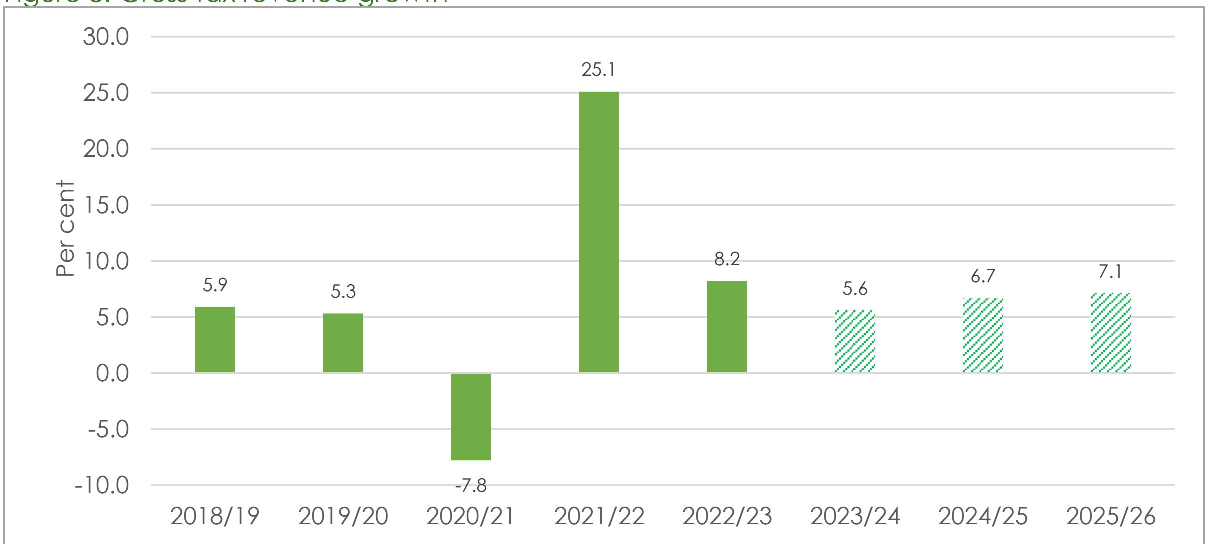


Source: PBO calculations using Budget 2023 data

Government Revenue

Government projects an average growth rate of 6.5 per cent in gross tax revenue over the medium term. Figure 8 shows the gross tax revenue growth between 2018/19 and 2025/26.

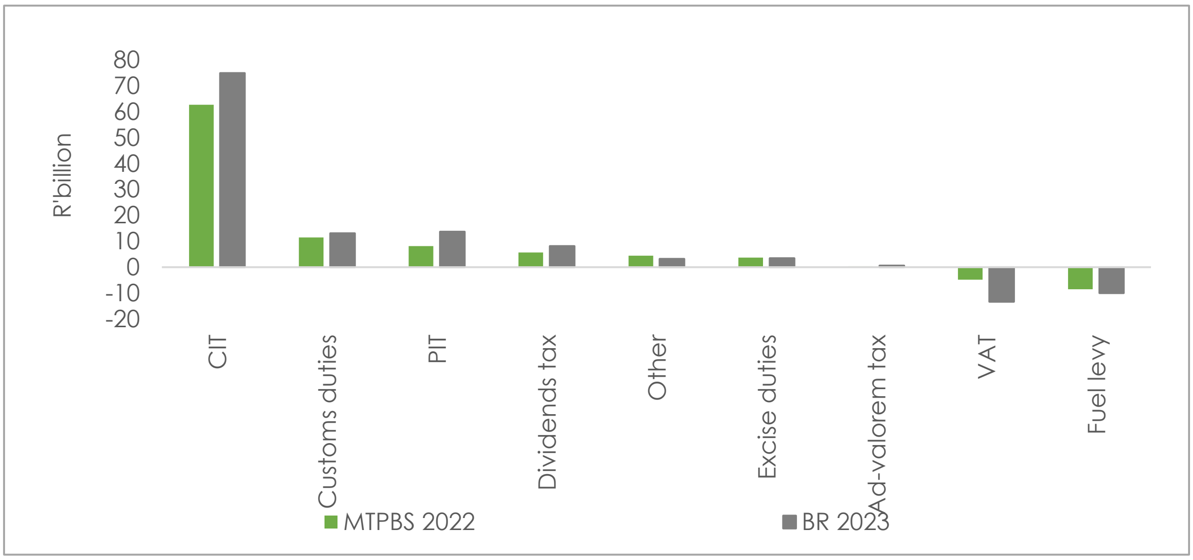
Figure 8: Gross tax revenue growth



Source: Budget 2023

The gross tax revenue collection estimate for 2022/23 is R10.3 billion higher than the MTBPS 2022 estimate, and R93.7 billion more than the Budget 2022 estimate. All other tax instruments have been revised upward relative to Budget 2022, except for VAT, General Fuel levy and Excise duties. Figure 9 shows the deviation in tax collection (estimates for 2022/23) per tax instrument.

Figure 9: Deviation in tax collection (estimates for 2022/23) per tax instrument



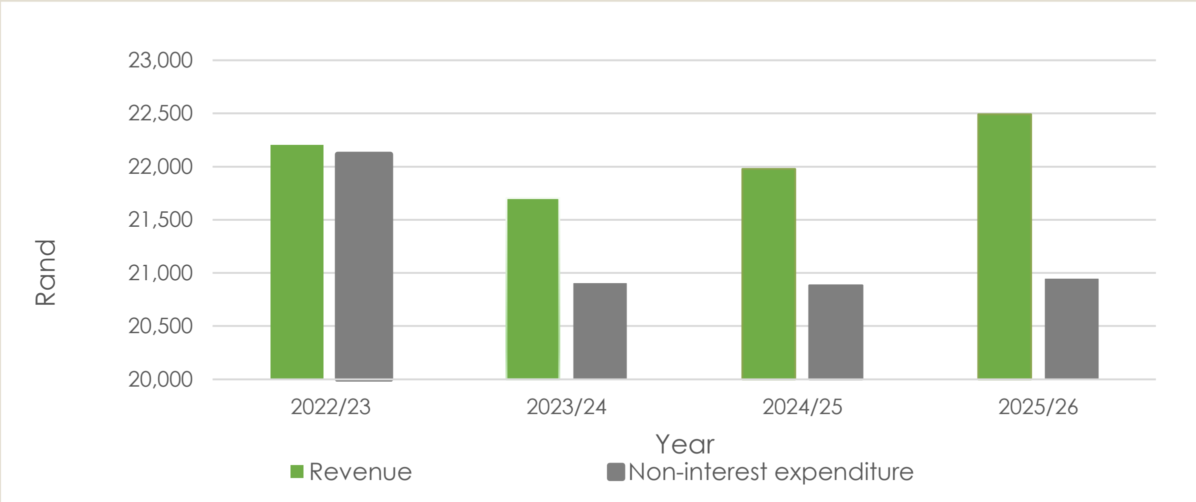
Source: Budget 2023

Budget 2023 proposes R13 billion in tax relief which disproportionately benefits middle and upper-income households. The non-adjustment to the fuel levy and the Road Accident Fund (RAF) will provide significant relief in the context of high inflation and an exacerbated cost of living crisis.

Approximately 69 per cent of the proposed tax relief is from renewable energy incentives. Studies show that clean energy subsidies disproportionately go to higher-income and wealthier people. The bottom 50 per cent of the South African population has negative wealth, which the NT acknowledged its response to the public hearings. Similarly, with businesses, it is likely that the businesses with greater access to capital will be able to take greater advantage of the incentive than small and micro businesses.

Fiscal policy is an important tool for the redistribution of income and wealth, which becomes even more important when there is extreme structural inequality. Revenue is expected to exceed non-interest expenditure, yet at the same time, there will be declines in per capita spending. Figure 9 shows the real per capita estimates for revenue versus non-interest expenditure (2016-100)

Figure 9: Real per capita estimates for revenue versus non-interest expenditure (2016-100)



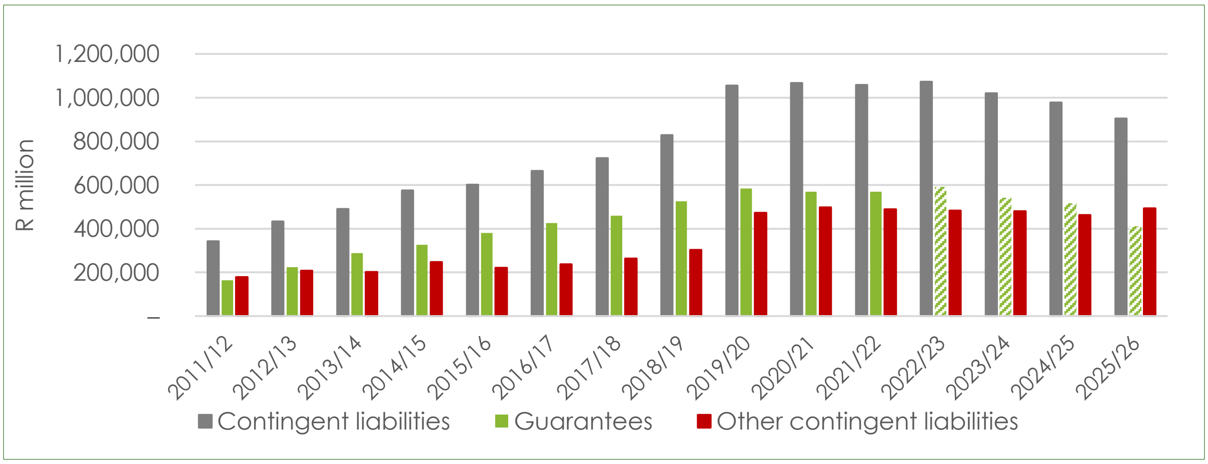
Source: PBO calculations using Budget 2023 data

Fiscal consolidation has significant distributional impacts which the PBO has continuously highlighted. It threatens to deepen inequality and erode the fiscal legitimacy of the state. The continued disinvestment in the expenditure of public goods and services threatens to erode the fiscal legitimacy of the state – where fiscal legitimacy refers to the social contract between the state and its citizens. According to a 2021 Afro-barometer survey, only 52.9 per cent of respondents agreed that "The government usually uses the tax revenues it collects for the well-being of citizens".

9. Pressures on government finances: State Owned Enterprises (SOEs)

Budget 2023 shows that the contingent liabilities have increased above R1 trillion in 2019/20 and are set to decline to R904.1 billion in 2025/26. The total amount of approved guarantees to public institutions is expected to decrease by R81.4 billion to R478.5 billion by 31 March 2023 whilst, the total exposure is expected to increase by about R800 million to R396.1 billion. The Eskom guarantee is projected to decline by R118.9 billion by the end of 2025/26 and its exposure increased as the utility drew down on its guarantees and Eskom accounts for 85.3 per cent of total exposure.

Figure 10: Contingent liabilities are set to decline over the MTEF



Source: PBO calculations using Budget 2023 data

Many state-owned companies remain unable to adequately fund their operations and debt obligations, and are even less able to optimally invest in infrastructure. There is much frustration and concern about corruption, inefficiency, large debts and contingent liabilities, and bailouts of state owned enterprises (SOEs). Poor performance and inefficiencies of SOEs have real economic and quality of life implications for households and businesses. According to the 2023 budget the two largest SOEs, namely:

- Eskom remains reliant on continued state support to operate and meet its financial commitments
- Transnet, port and rail infrastructure requires large-scale investment due to historical underinvestment

As listed under Schedule 2 of the Public Finance Management Act (1999) major public entities are required to operate as sustainable profit-generating businesses that borrow on the strength of their balance sheets. The National Treasury is concerned that debt and bailouts of SOEs pose risks to the fiscal framework. Thus, the National Treasury has been developing a new framework for managing bailouts to SOEs to reduce fiscal risks and promote long-overdue reforms.

These developments raise important questions, particularly in light of concerns of the negative implications of an austerity mind-set on broader socio-economic outcomes.

- Should the term credible be applied to a fiscal policy framework that may be biased toward achieving a surplus and debt reduction in the short-term even if that fiscal framework means that the government does not provide enough resources for key SOEs to avoid large-scale economic damage in the short-term and their long-term viability?
- The experience of Eskom raises the questions whether larger targeted and conditional financial support to Eskom by the government several years ago could have prevented prolonged load shedding and the need for the current large debt relief
- Should the PFMA requirement that Schedule 2 public entities operate as sustainable profit-generating businesses that borrow on the strength of their balance sheets be reconsidered given the state of key SOEs and socio-economic costs of their poor performance and high debt
- Does the National Treasury have the specialised expertise to assess the unique, detailed operations of different SOEs to fulfil the important tasks of providing detailed requirements for SOEs to improve business efficiencies and finances?

10. Government's ability to spend

On a request from Members, the Parliamentary Budget Office commenced with an analysis on underspending trends within government. Table 3 shows expenditure outcomes against adjusted budgets between 2011/12 and 2020/21. On aggregate underspending has been recorded every year except in 2019/20. Underspending by vote was 2.3 per cent in in 2011/12 and 2.0 per cent in 2020/21. All other years were below the two per cent thresholds. Overall, total government underspending has been below two per cent for all the years under consideration.

Table 3: Deviation in adjusted versus audited spending outcomes of national government, (2011/12 - 2020/21)

R million	Total appropriation by vote		Total direct charges against the National Revenue Fund		Total government	
Year	Under/(Over) Spending	Per cent	Under/(Over) Spending	Per cent	Under/(Over) Spending	Per cent
2011/12	11 599	2.3%	(354)	-0.1%	11 245	1.2%
2012/13	7 793	1.4%	(1 825)	-0.4%	5 968	0.6%
2013/14	3 865	0.7%	1 964	0.4%	5 830	0.6%
2014/15	10 382	1.6%	(1 929)	-0.4%	8 453	0.7%
2015/16	6 599	0.9%	(92)	0.0%	6 507	0.5%
2016/17	6 299	0.9%	1 140	0.2%	7 440	0.6%
2017/18	12 691	1.6%	(77)	0.0%	12 615	0.9%
2018/19	10 874	1.3%	(851)	-0.1%	10 023	0.7%
2019/20	(3 751)	-0.4%	(635)	-0.1%	(4 387)	-0.3%
2020/21	20 922	2.0%	(2 051)	-0.3%	18 871	1.0%

Source: PBO calculations using National Treasury ENE data
Note: Per cent denotes underspending as a proportion of total adjusted budget
Note: Total government includes total appropriation by vote and total direct charges against the National Revenue Fund

Table 4 shows that underspending in Current Payments was above two per cent in 2011/12 (2.8%), 2012/13 (2.5%) and 2020/21 (3.5%). Current payment underspending was largely driven by Goods and Services where there has been underspending over the past 10 years. While there has not been underspending of more than two per cent on Transfers and Subsidies, there was underspending of more than ten per cent in Payment for Capital Assets in the latter three years of the analysis (2018/19 – 2020/21). Underspending in Payment for Capital Assets was largely driven by underspending in Buildings and Other Fixed Structures and Machinery and Equipment.

Table 4: Deviation in adjusted versus audited spending outcomes of national government by economic classification, (2011/12 - 2020/21)

R million	Current payments		Transfers and subsidies		Payments for capital assets		Payments for financial assets		Total government	
Year	Under/(Over) spending	Per cent	Under/(Over) spending	Per cent	Under/(Over) spending	Per cent	Under/(Over) spending	Per cent	Under/(Over) spending	Per cent
2011/12	6 280.1	2.8%	5 129.5	0.8%	251.4	2.0%	(415.9)	-55.4%	11 245.1	1.2%
2012/13	6 261.6	2.5%	2 440.6	0.3%	438.9	3.0%	(3 173.4)	-218.7%	5 967.8	0.6%
2013/14	(3 591.6)	-1.3%	9 450.0	1.2%	277.9	1.9%	(306.7)	-8.5%	5 829.5	0.6%
2014/15	3 839.7	1.3%	5 505.9	0.7%	435.7	2.6%	(1 328.8)	-33.6%	8 452.6	0.7%
2015/16	2 310.9	0.7%	5 694.2	0.6%	(1 074.8)	-6.2%	(423.2)	-1.4%	6 507.1	0.5%
2016/17	5 601.3	1.5%	3 551.5	0.4%	(1 051.0)	-7.2%	(662.2)	-11.1%	7 439.6	0.6%
2017/18	1 550.0	0.4%	10 221.3	1.0%	504.9	3.2%	338.4	1.7%	12 614.6	0.9%
2018/19	3 276.3	0.8%	5 704.7	0.5%	1 786.1	11.0%	(743.6)	-5.4%	10 023.5	0.7%
2019/20	1 935.1	0.4%	(9 179.2)	-0.8%	2 634.1	17.9%	223.2	0.3%	(4 386.8)	-0.3%
2020/21	17 014.2	3.5%	584.5	0.0%	2 875.7	19.4%	(1 603.5)	-1.8%	18 870.8	1.0%

Source: PBO calculations using National Treasury ENE data
Note: Per cent denotes underspending as a proportion of total adjusted budget
Note: Total government includes total appropriation by vote and total direct charges against the National Revenue Fund

Underspending on government budgets are not unique to South Africa. The literature shows that other countries also struggle with underspending due to weaknesses in budget planning and execution processes and procedures. The following are a few reasons provided for underspending on specific programmes:

- Complex procurement processes (e.g. issues relating non-compliance to SCM policy and regulations and inadequate monitoring and evaluation of SCM) have been cited by many government institutions as reasons for underspending.

- Delays in payment of supplier invoices or claims by government departments and entities, is one of the major reasons for underspending in government.
- Delays in the filling of critical vacant positions in government departments contribute to underspending in compensation of employees. The failure to fill critical posts also has a direct impact in government's ability to use the budget to delivery much required government services.
- Interdepartmental systemic issues which drive inefficiencies in interdepartmental projects, particularly infrastructure.
- In some instances, the failing to comply to conditional grant conditions, could lead to the withholding of funds by transferring departments.

11. Situational analysis

The purpose of this section is give government service delivery context from which the Budget 2023 was presented. The section provides context by the different spheres (national, provincial and local) of government.

National sphere of government: Social protection

South Africans are experiencing a heightened cost of living crisis. Large proportions of the South African population are subject to debilitating poverty and unemployment and institutional support is inadequate. According to Stats SA General Household Survey, the percentage of households that had limited access to food has increased from 17.8 per cent in 2019 to 20.9 per cent in 2021. The percentage of persons with more limited access to food increased from 19.5 per cent in 2019 to 23.8 per cent in 2021. Vulnerability to poverty in South Africa is gendered, racial and geographic. In 2022, President Cyril Ramaphosa highlighted that "African women are the face of poverty". [1]According to Stats SA, in 2021 the profile of a subjectively-poor household in South Africa is one typically :[2]

- headed by a black African female who is younger than 35,
- residing in a rural area that is located in a rural-based province and has lower levels of education
- In these households it is more likely that all economically active individuals (age 15 years and above) are unemployed. On the income distribution, this household is located in the lower quintiles.

The extensions to the COVID-19 SRD grant have provided lifelines to millions of South Africans. As of December 2022, the Department of Social Development had spent 48.2 per cent of the 2022 Budget. The new eligibility criteria for qualifying for the grant have led to the exclusion of millions of needy people who fall below the upper-bound poverty line. In the 2022 MTBPS, DSD declared unspent funds and projected underspending of R1.8 billion. A further R3.7 billion was shifted away from DSD. More than R9 billion of the estimated expenditure were not spent in 2022/23.

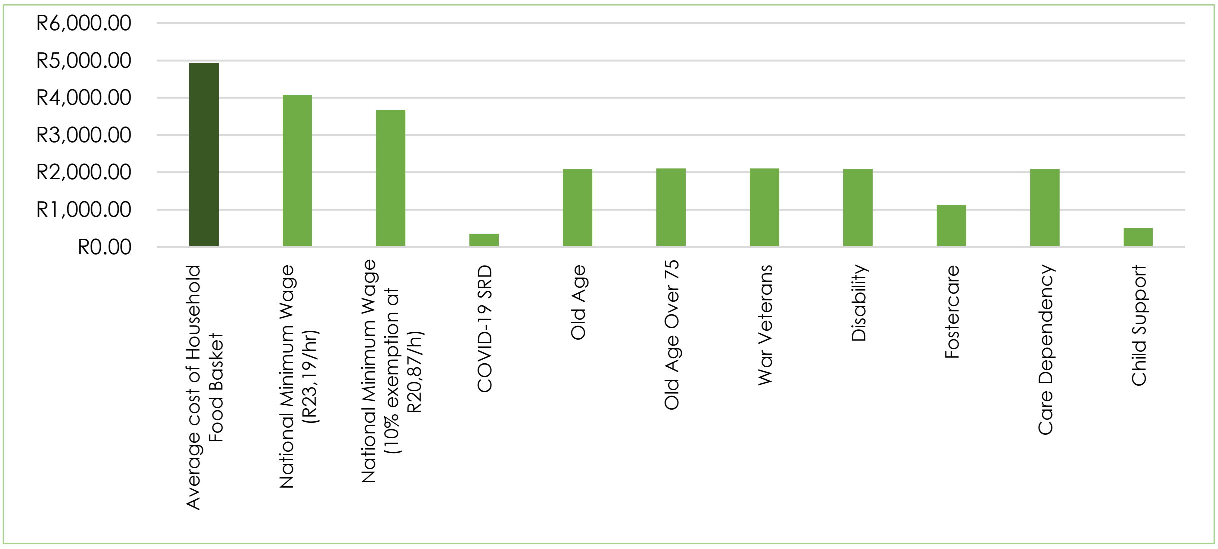
Figure 111 shows grant levels and the national minimum wage relative to the average cost of a food basket in South Africa as calculated by the Pietermaritzburg Economic Justice & Dignity

[1]Presidency. (2022). Remarks by President Cyril Ramaphosa at the 2nd Women Economic Assembly, OR Tambo Building, Tshwane. Available at https://www.thepresidency.gov.za/speeches/remarks-president-cyril-ramaphosa-2nd-women-economic-assembly%2C-or-tambo-building%2C-tshwane

[2] Stats SA, General Household Survey 2021

Group. The Household Food Basket in the Household Affordability Index has been designed together with women living on low incomes in Johannesburg, Durban, Springbok, Cape Town and Pietermaritzburg. The basket includes the foods and the volumes of these foods which are women living in a family of seven members (an average low-income household size). The average Household Food Basket falls below the minimum wage (R4 917,40, 44 a month). With an average of one waged worker in a household of 4,4, individuals within that household fall below the upper-bound poverty line (R1, 335).

Figure 11: Average food basket against the National Minimum wage and social grants



Source: PMBEJD January Index, Budget 2023

Grants have been shown to have made a significant impact on poverty and hunger in South Africa. A study by Bhorat and Kohler (2021) on the fiscal incidence of the COVID-19 SRD grant suggests the grant reduced poverty by 5.3% amongst the poorest households, and household income inequality by 1.3% - 6.3% depending on the measure in 2020. While not even reaching the food poverty line (R663.00), the SRD grant has made an impact on household consumption.

National sphere of government: Justice & Protection Services

The increases in crime reported in crime statistics are worrying. On average, crime increased by 9.55 per cent (year-on-year) between December 2021 and December 2022 (as shown in table 5). In 2022/23, the biggest crime category increases were attempted murder (24.3%), shoplifting (23.3%) and common robbery (21.2%). Police Minister Bheki Cele has previously expressed concern about the high levels of gender-based violence in the country. Budget 2023 proposes an increase in the police budget by R7.8 billion to make provision for 5 000 police trainees each year over the next 3 years. However, the Budget is silent on funding to implement the National Strategic Plan on GBVF (NSP on GBVF).

Table 5: SA crime statistics (Q3 2021/22 vs Q3 2022/23)

2021/22 vs 2022/23	Oct-Dec 2021	Oct-Dec 2022	Y-on-Y Change
Contact Crimes	164 953	184 020	11.6%
Contact-related Crimes	31 621	32 187	1.8%

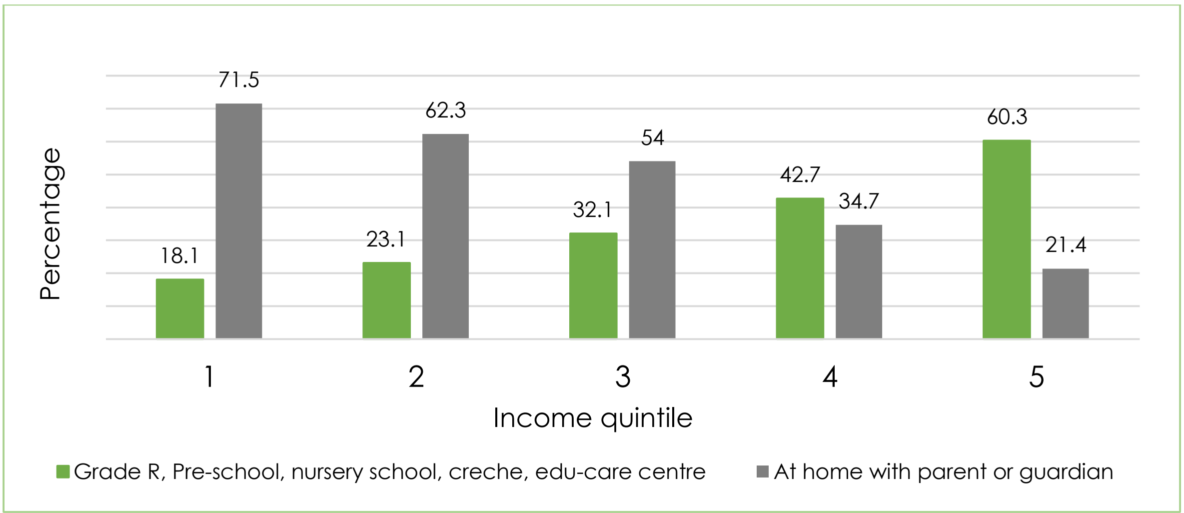
Property-related Crimes	91 450	98 004	7.2%
Other Serious Crimes	101 820	112 580	10.6%
Crime detected as a result of police action	54 608	60 169	10.2%
Total	444 452	486 960	9.6%

Source: 2022 Quarter 3 Crime statistics

Provincial sphere of government: Education

Socioeconomic indicators are still a significant determinant of educational attainment in South Africa. Children from poorer households are more likely to stay at home with parents or guardians than attend ECD centers. 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 preschool (as shown in Figure 12).

Figure 12: Childcare arrangements for children aged 0 to 4 by income quintile



Source: Stats SA GHS 2021

The quality of education remains a significant challenge. New data published by Oxford University Press on early grade reading in South Africa report that fewer than 50 per cent of Grade 1 children learn the letters of the alphabet by the end of Grade 1.[3] Progress in International Reading Literacy Study (PIRLS) estimates that the number of Grade 4 children that cannot read for meaning will increase from 78 per cent pre-pandemic (2016) to an estimated 82 per cent in 2021 (final results to be published in May 2023).[4]

Massive gains have been made in the number of people accessing basic education since 1994. Stats SA data shows that the percentage of individuals aged 5 years and older who attended schools and who did not pay tuition fees has significantly increased from 0.4 per cent in 2002 to 70.2 per cent in 2021. Although the percentage of individuals attending no-fee-paying schools has increased, socioeconomic background remains a significant determinant of education attainment. According to Stats SA, in 2021, the percentage of individuals aged

[3] Oxford University Press. (2022). Early Grade Interventions in South Africa: Reading and Mathematics. https://resourcehub.oxford.co.za/higher-education/resources-higher-education/early-grade-interventions/

[4] 2030 Reading Panel. (2023). 2023 Reading Panel background report. https://www.readingpanel.co.za/resources

18 to 24 who are still attending secondary school was higher for households in poorer income groups than households in higher income groups. Approximately 22.5 per cent of females and 15.5 per cent of males between the ages of 7 and 18 state that they are not attending an educational institution because they do not have money for fees. Youth aged 18 to 24 from the highest income households are more likely to attend university than those in lower quintile groups.

School attainment levels have increased, however, they remain low and unequal. The percentage of individuals aged 20 years and older who have attained at least Grade 12 has increased from 30,5 per cent in 2002 to 50,5 per cent in 2021. The percentage of individuals without any schooling decreased from 11,4 per cent to 3,2 per over the same period The percentage of individuals with some post-school education increased from 9,2 per cent in 2002 to 14,6 per cent in 2021. Stats SA shows that "[e]ven though most students are black African, the education participation rate of this population group remained proportionally low in comparison with the Indian/Asian and white population groups". School attainment levels have a direct impact on employment. Of the 7.8 million unemployed individuals in Q4 2022, 40,1 per cent had education levels below matric, 34.4 per cent had a matric, 10,6 per cent were graduates and 21 per cent had other tertiary.

Provincial sphere of government: Health

The public healthcare system remains overstretched and underfunded. 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 were 10 831 vacancies in state hospitals citing budget cuts as a significant challenge.[5] The Minister also highlighted that the doctor-to-patient ratio was 0.79 doctors per 1000 patients in 2019.

According to StatsSA data, South Africa's average Life Expectancy (LE) at birth was 65.5 years, in 2020, against the MTSF target of at least 70 years by 2030. South Africa's Infant Mortality Rate (IMR) was 24.1n in 2021 compared to 22.1 per 1 000 in 2019. The infant mortality irate increased from 23.6 deaths per 1 000 live births in 2020. The under-5 mortality rate (U5MR) was estimated at 30.8 deaths per 1 000 live births in 2021, while the country's U5MR was 28.5 per 1 000 in 2019. This is an improvement from 34.1 deaths per 1 000 live births in 2020. The MTSF target is to decrease the 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.

Primary Health Care (PHC) has also 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. Primary health care is the foundation of a health care system and the failure to provide quality and accessible primary health has long term ramifications, including fiscal.

Local sphere of government

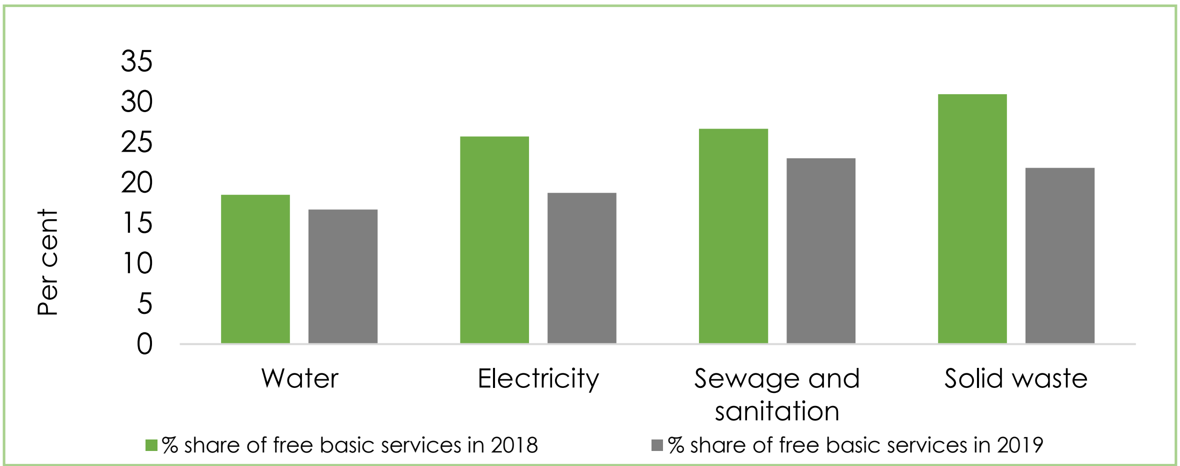
Local government (LG) plays a critical role as a first line of interaction between citizens and government. The business model for LGs is untenable for most LGs because it causes inadequate funding and means they provide inadequate levels and quality of free basic

[5] Maqhina, M. (2022). Public hospitals have shortage of more than 10 000 nurses and 1300 doctors. *IOL*. https://www.iol.co.za/news/politics/public-hospitals-have-shortage-of-more-than-10-000-nurses-and-1300-doctors-474f9729-2363-480a-b54c-72c1509760b4

services. Frustration with service delivery is often cited as a crucial reason for the high number of service delivery protests in South Africa. According to Municipal IQ, service delivery protests are back to pre-Covid-19 levels, with 193 protests recorded nationwide in 2022.[6] Municipal IQ forecasts regular service delivery protests to continue in 2023 because of heightened frustration caused by load-shedding.

The Non-Financial Census of Municipalities (NFCS) 2022 report shows that fewer consumer units received free basic services in 2019 than 2018. In 2019, a million fewer people received free basic water, 645 866 fewer received free sewerage and sanitation, and 132 303 fewer received free electricity. Figure 13 shows the declines in the percentages of households receiving free basic services.

Figure 13: Percentage of households receiving free basic services in 2018 versus 2019



Source: Stats SA

Millions of households that are eligible for free services do not get them due to a dysfunctional system for the registration of indigent households, therefore, millions of households are forced to choose between feeding their children and paying for municipal services. According to research by the Public Affairs Research Institute, LGs have been unable to fulfil the conflicting objectives of financial viability through self-financing and service delivery. Their efficacy and financial viability have suffered because of these conflicting goals.

Table 6 shows the difference in the number of households that are funded for free basic services versus the number of households that actually receive these services. It also shows the total value difference in funding.

Table 6: Difference (funded – actual recipients) and total value of difference

Service	Households funded for the free service (2019/20)	Households receiving the free service (2019)	Difference (funded – actual recipients	Total value of difference (R'billions)
Electricity	10 109 607	1 890 691	8 218 916	R8.63
Water	10 109 607	2 163 082	7 946 525	R12.86

[6] Municiple IQ. (2023). https://www.municipaliq.co.za/index.php?site_page=press.php

Sanitation	10 109 607	1 537 749	8 571 858	R10.42
Refuse	10 109,607	1 991 925	8 117 682	R8.27
TOTAL				R40.18

Source: Tracy Ledger (2021) Access to Basic Services, PARI Working Paper

Access to basic services should also be considered in terms of availability and affordability. Estimates are that as much as 80 per cent of South Africans cannot afford services like electricity and water. According to the South African Reserve Bank, there were huge increases in municipal services costs from 2010 to 2020:

- Rates and taxes increased by 118 per cent
- Electricity tariffs increased by 177 per cent
- Water tariffs increased by 213 per cent

Free utilities available to households are insufficient to meet basic needs. An average household needs around 200 kWh of electricity – the free quota is 50 kWh. The 10 Kl of free water is only around two-thirds of what is required.

Poor service delivery has disproportional impacts on different households (along racial, gendered and geographic lines) because it is predicated upon a set of distributive relations across different social groups. COVID-19 has highlighted the centrality of (social) reproduction and the gendered nature of household duties such as cooking, cleaning, water and fuel collection, child care and elder care. Women and girls undertake unpaid on work these vital household duties, which is not recognised in Gross Domestic Product (GDP) calculations. Insufficient and poor quality basic services mean that women and girls spend more time on these duties.

The social wage and actual access to services

The National Development Plan 2030 aims to eliminate poverty and reduce inequality by 2030. According to the NDP:

- "Part of our approach to social protection is through a social wage, which includes no-fee schools, free basic services and subsidised public transport" (p.43)
- "To promote sustainable livelihoods, it is important that individuals or families, irrespective of income, can access services" (p. 31)
- One of SA's nine primary challenges is "public services are uneven and often of poor quality" and adds that "Citizens have the right to expect government to deliver certain basic services" (p.15, Exec. Summary)

The 2023 Budget Review claims that, even though, it follows a fiscal consolidation framework the social wage is protected. It reports that 51 per cent of the Budget over the MTEF will be on the social wage. However, the level of spending on the social wage for the entire country seems to have been quite inadequate during the past and also in this 2023 Budget because unemployment poverty and inequality have increased since the NDP was published. Continued backlogs and "uneven and poor quality" of services remain primary challenges. The problem has not been "incrementalism" in budgets as claimed by the National Treasury but that budget provisions over many years have been insufficient for local governments to operate properly.

Government's efforts to improve access to services fail because they do not provide ample free services and most households cannot afford them. Even with increased electrification, the majority of households have had much more to worry about than load shedding. Households have been forced to choose between buying food and paying for water and electricity. Service non-payment, for a significant number of households, is due to poverty and not an unwillingness to pay. Local governments are forced to increase utility costs, even though they are aware that households can't afford services because their business model depends on raising tariffs and not increasing levels of free services. The principal sources of local government revenue are property rates, taxes, and services, such as electricity and water. These revenues are meant to fund nearly three-quarters of all operating expenditure requirements, which means that tariffs have to be increased.

12. Division of revenue

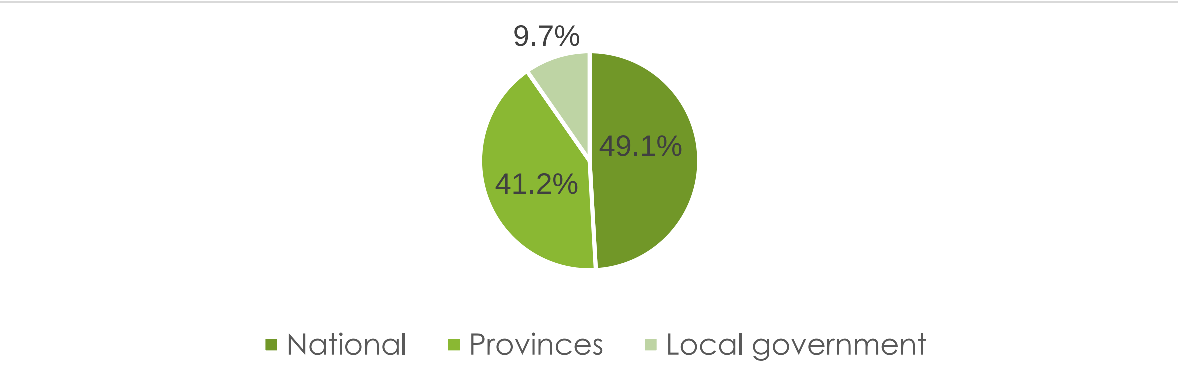
Provinces are responsible for basic education, health, roads, human settlements, social development and agriculture, while Municipalities provide basic services such as water, sanitation, electricity reticulation, roads and community services.

Transfers to Provinces and local government are made through:

- Equitable shares: Determined by formulas that take into account demographic and developmental factors
- Conditional grants that are designed to achieve specific objectives, and provinces and municipalities must meet certain criteria to receive grants and fulfil conditions when spending them

The object of the 2023 Division of Revenue (DOR) Bill is to provide for the equitable division of nationally raised revenue between the national, provincial and local spheres of government for the 2023/24 financial year. In 2023/24, 49.1 per cent is allocated to the national sphere, 41.2 per cent to the provincial sphere and 9.7 per cent is allocated to support local government.

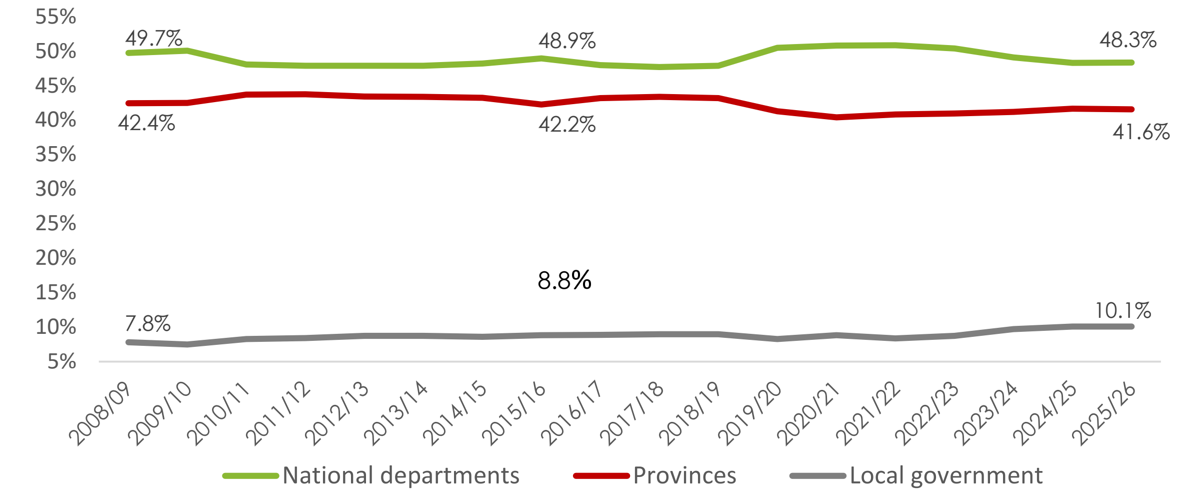
Figure 14: Division of nationally raised revenue



Source: National Treasury

Figure 15 shows the aim of the 2023 MTEF to reprioritise expenditure from national and provinces spheres to local government. However, the long term trend of the DOR across the three spheres of government shows that this objective has not been realised in the past. This failure is important to note given that local government has been unable to collect revenue to the extent envisioned in the 1998 White Paper on Local Government.

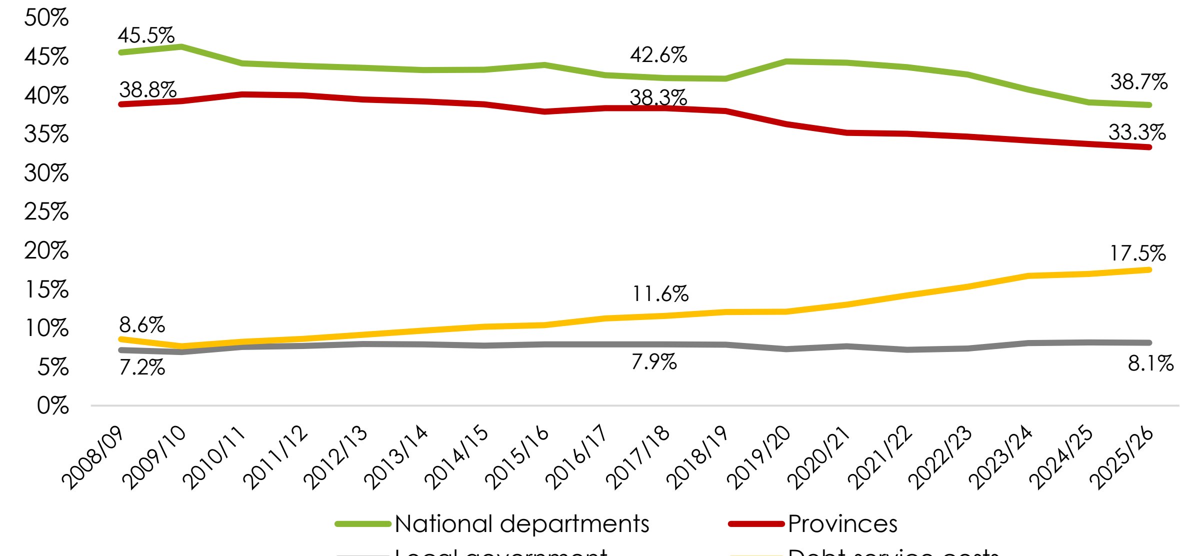
Figure15: The Changing shares of Division of Revenue from 2008/09 and estimates over the 2023 MTEF



Source: National Treasury

Figure 16 shows that rising debt service costs as a share of expenditure have more than double since the global financial crisis.

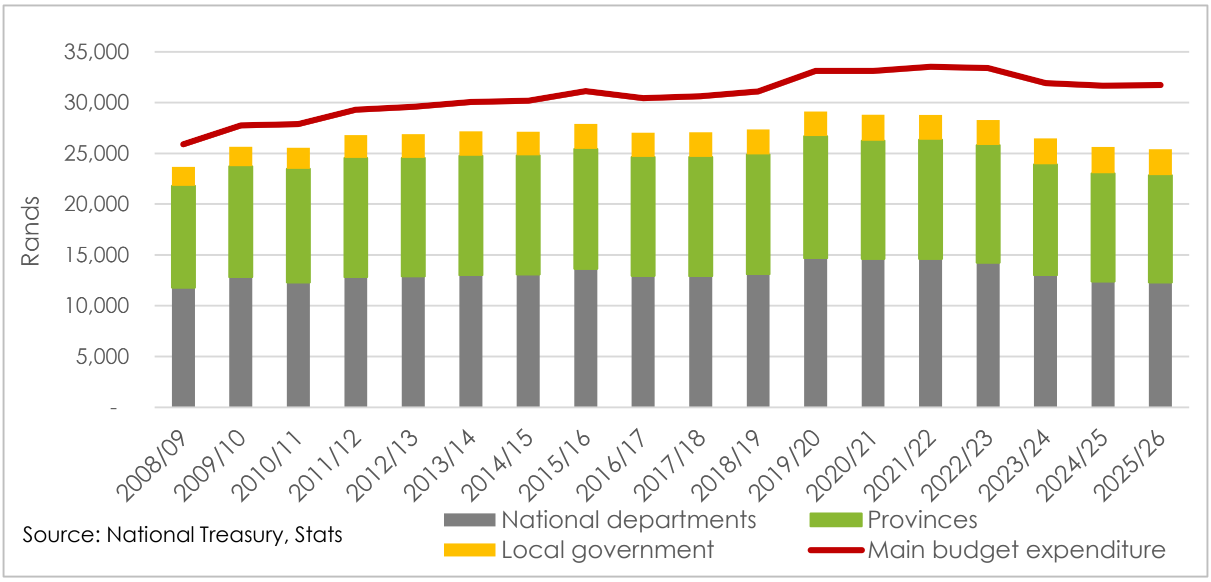
Figure 16: The Changing shares of Division of Revenue from 2008/09 and estimates over the 2023 MTEF



Source: National Treasury

Figure 17 shows that, when accounting for inflation and population growth, the allocations across the three spheres decline over the MTEF, reflecting the government's continued fiscal consolidation stance which curbs growth in expenditure over the MTEF.

Figure 17: The Changing shares of Division of Revenue from 2008/09 and estimates over the 2023 MTEF



Source: National Treasury, Stats

Table 7 shows the amounts to be appropriated from the revenue fund for a selection of national departments. The last column shows the increases and decreases since the 2022 appropriations.

The green column shows the percentage that national departments transfer to other spheres of government or institutions that deliver services on their behalf.

Table 7: Appropriations of a selection of national departments for 2023/24

R thousand	Appropriated (including direct charges) 2022/23	Current payments	Transfers and subsidies	Percentage to be transferred	Payments for capital assets	Payments for financial assets	To be appropriated	Increase/ Decrease[1]
		2023/24						
3 Cooperative Governar	**111 364 861**	5 092 057	116 582 750	95.8%	23 444	–	**121 698 251**	10 333 390
8 National Treasury	**911 965 823**	343 481 129	612 872 530	63.9%	163 151	1 967 648	**958 484 458**	46 518 635
13 Public Works and Infras	**8 547 267**	1 282 567	7 490 793	85.3%	8 745	–	**8 782 105**	234 838
16 Basic Education	**29 560 167**	3 054 709	26 990 726	84.9%	1 737 278	–	**31 782 713**	2 222 546
17 Higher Education and T	**130 134 198**	11 852 217	121 651 029	90.9%	305 298	–	**133 808 544**	3 674 346
18 Health	**64 530 977**	2 553 033	56 251 340	93.6%	1 307 061	–	**60 111 434**	-4 419 543
19 Social Development	**257 001 361**	929 497	262 085 938	99.6%	13 764	–	**263 029 199**	6 027 838
22 Correctional Services	**26 108 720**	24 469 348	724 740	2.8%	832 584	–	**26 026 672**	-82 048
23 Defence	**49 090 089**	44 552 822	5 721 088	11.2%	850 519	–	**51 124 429**	2 034 340
25 Justice and Constitutio	**22 420 451**	18 990 590	3 413 303	14.7%	788 757	–	**23 192 650**	772 199
28 Police	**100 695 315**	97 135 597	1 267 160	1.2%	3 734 899	–	**102 137 656**	1 442 341
29 Agriculture, Land Refor	**17 287 698**	7 426 141	9 314 498	54.0%	513 709	–	**17 254 348**	-33 350
33 Human Settlements	**33 024 716**	954 376	33 460 598	95.8%	527 427	–	**34 942 401**	1 917 685
37 Sport, Arts and Culture	**6 295 128**	998 953	5 072 729	79.8%	286 001	–	**6 357 683**	62 555
40 Transport	**69 137 929**	1 664 068	77 894 899	97.9%	6 044	–	**79 565 011**	10 427 082
41 Water and Sanitation	**18 539 669**	3 545 317	14 061 490	63.2%	4 650 499	–	**22 257 306**	3 717 637
Total	**1 959 687 045**	**607 535 879**	**1 400 170 713**	**69.0%**	**18 401 162**	**1 967 648**	**2 028 075 402**	**68 388 357**

Source: National Treasury

On a national level, 69 per cent of the appropriations are transferred to other spheres of government, in the form of an equitable share or conditional grants, or to institutions to provide services on behalf of the national sphere. Total appropriations to the national sphere of government increases by 3.5 per cent in 2023/24 from the R1 960 billion in 2022/23.

Table 8 shows the Provincial Equitable Share allocations between 2021/22 and estimates over the 2023 MTEF. It further shows that:

Total average annual MTEF increase is 2.5 per cent

The largest average annual increase is in Limpopo of 3.1 per cent

- The estimated total increases are between R10 063 million and R11 371 million. These increases are mainly to provide for the carry-through effect of the 2022/23 public- service wage increase
- To note is the decrease in the total allocation in 2023/24 from the 2022/23 estimate

Table 8: Provincial Equitable Share allocations

R million	2021/22	2022/23	2022/23	2023/24	2024/25	2025/26	Average annual MTEF growth
	Actual	Estimate in 2022 Budget	Estimate in the 2023 Budget	Medium-term estimates			
Eastern Cape	70 950	72 231	73 593	73 292	76 022	79 620	2.7%
Free State	30 342	31 107	31 727	31 380	32 369	33 735	2.1%
Gauteng	115 621	120 042	122 060	120 752	125 438	131 095	2.4%
KwaZulu-Natal	111 592	114 509	116 697	115 948	118 858	123 812	2.0%
Limpopo	62 556	64 056	65 241	65 349	67 974	71 502	3.1%
Mpumalanga	44 543	45 962	46 754	46 674	48 437	50 752	2.8%
Northern Cape	14 469	14 942	15 219	15 150	15 718	16 463	2.7%
North West	38 294	39 540	40 255	40 096	41 765	43 843	2.9%
Western Cape	56 467	58 367	59 322	58 886	60 920	63 448	2.3%
Total	**544 835**	**560 757**	**570 868**	**567 528**	**587 500**	**614 271**	**2.5%**
2022 MTBPS			**560 805**	**556 385**	**576 501**	**602 900**	
Difference			**10 063**	**11 143**	**10 999**	**11 371**	

Source: National Treasury

Table 9 shows the Conditional Grants (CG) to the provincial sphere of government, including the annual average increase since 2021/22. Most of the CGs increase in 2023/24 since the revised estimates in 2022/23:

- The District health programme grant decreases by R2 157 million
- The National tertiary services grant decreases by R282 million
- Education infrastructure grant increases by R1 372 million
- Human Settlement Development increases by R688 million
- Provincial Roads Maintenance increases by R3 202 million

Table 9: Conditional Grants to Provinces

R million	2021/22	2022/23	2023/24		2024/25	2025/26	
	Revised estimate	Revised estimate	Medium-term estimates				Annual Average increase
Direct conditional grants				Difference			
Comprehensive agricultural support programme	1 558	1 599	1 626	27	1 777	1 825	4.0%
Ilima/Letsema projects	597	610	620	10	648	677	3.2%
Land care programme grant: poverty relief and infrastructure development		85	86	1	90	94	
Early childhood development grant		1 193	1 242	50	1 885	2 341	
Education infrastructure	11 689	12 501	13 872	1 372	13 845	14 438	5.4%
HIV and AIDS (life skills education) grant		242	242	-1	253	264	
Learners with profound intellectual disabilities grant		256	260	5	272	284	
Maths, science and technology grant		425	433	8	453	473	
National school nutrition programme	8 115	8 508	9 279	771	9 778	10 293	6.1%
Provincial disaster response grant		97	146	49	152	159	
District health programmes grant	27 753	29 023	26 866	-2 157	28 072	29 330	1.4%
Health facility revitalisation	6 435	6 780	7 120	340	7 361	7 691	4.6%
Human resources and training grant	4 298	5 449	5 479	30	5 367	5 607	6.9%
National health insurance grant		694	695	1	717	749	
National tertiary services	13 708	14 306	14 024	-282	14 654	15 310	2.8%
Human settlements development	13 403	14 256	14 944	688	15 118	15 796	4.2%
Informal settlements upgrading partnership	3 890	4 121	4 303	182	4 496	4 697	4.8%
Provincial emergency housing grant		796	–	-796	–	–	
Mass participation and sport development grant		604	604	0	631	659	
Expanded public works programme integrated grant for provinces		433	435	2	454	475	
Social sector expanded public works programme incentive grant for provinces		425	426	2	446	466	
Community library services		1 573	1 571	-2	1 641	1 715	
Provincial roads maintenance		12 665	15 867	3 202	17 117	18 976	
Public transport operations		7 090	7 403	313	7 735	8 082	
Other direct grants	4 363						
Total direct conditional grants	**116 361**	**123 730**	**127 544**	**3 814**	**132 963**	**140 402**	**4.8%**
Indirect transfers	**3 954**	**4 612**	**4 178**	**-434**	**4 447**	**4 763**	**4.8%**
School infrastructure backlogs	2 397	2 403	2 079	**-324**	2 172	2 269	-1.4%
National health insurance indirect	1 557	2 209	2 099	**-110**	2 275	2 494	12.5%

Source: National Treasury

Table 10 shows the transfers to Local Government and the annual average increase since the 2021/22 adjusted budget:

- In 2023/24, R164 billion is allocated as direct transfers to local government, while a further R8.5 billion is allocated to be spent by national departments on behalf of municipalities
- Of the direct transfers, 68.3 per cent will be transferred as unconditional funds for municipalities to use according to the priorities determined by their councils through their budget processes
- The remaining 31.7 per cent will be transferred through conditional grants
- In 2023/24, the government is funding free basic services to 11.2 million households at a cost of R70.9 billion

Table 10: Transfers to Local Government

R million	2021/22	2022/23	2023/24	2024/25	2025/26	
	Adjusted Budget	Adjusted Budget	Medium-term estimates			Annual average increase
Equitable share and related	**77 999**	**87 311**	**96 546**	**103 772**	**109 368**	**8.8%**
General fuel levy sharing with metros	**14 617**	**15 335**	**15 433**	**16 127**	**16 849**	**3.6%**
Direct conditional grants	**44 969**	**51 542**	**51 992**	**54 484**	**57 113**	**6.2%**
Integrated urban development	1 009	1 085	1 172	1 227	1 284	6.2%
Municipal disaster recovery		3 319	321	–	–	
Municipal disaster response		764	373	389	407	
Municipal infrastructure	15 593	16 842	17 545	18 331	19 150	5.3%
Energy efficiency and demand-side management		223	224	243	253	
Integrated national electricification programme	2 003	2 120	2 212	2 311	2 415	4.8%
Informal settlements upgrading partnership	3 945	4 273	4 365	4 561	4 765	4.8%
Municipal emergency housing		55	–	–	–	
Urban settlements development	7 405	7 352	8 149	8 793	9 343	6.0%
Infrastructure skills development		159	160	167	175	
Local government financial management		566	569	594	621	
Neighbourhood development partnership		1 293	1 475	647	676	
Programme and project preparation support		361	377	394	411	
Expanded public works programme intergrated		778	781	816	853	
Public transport network	5 175	6 013	6 794	7 752	8 369	12.8%
Rural roads asset management systems		115	115	121	126	
Regional bulk infrastructure	2 237	2 521	3 496	4 099	4 045	16.0%
Water services infrastructure	3 620	3 701	3 864	4 038	4 219	3.9%
Other	3 982					
Total direct transfers	**137 585**	**154 188**	**163 972**	**174 382**	**183 330**	**7.4%**
Indirect transfers	**7 727**	**8 171**	**8 481**	**8 862**	**9 259**	**4.6%**
Municipal systems improvement		140	147	153	160	
Integrated national electricification programme	2 824	3 588	3 821	3 993	4 172	10.2%
Neighbourhood development partnership		201	101	105	110	
Regional bulk infrastructure	3 857	3 470	3 607	3 769	3 938	0.5%
Water services infrastructure		771	805	841	879	
Other indirect grants	1 046					

Source: National Treasury

Box 1: Government Underspending Analysis update-

In September 2022, Parliament raise concerns about underspending of government budget. The National Treasury had during this meeting identified underspending across all government departments and state-owned entities when briefing the Committee about the fourth quarter expenditure report for the 2021/22 financial year. The actual expenditure at the end of financial year by national departments was R1 011.4 billion from the projected expenditure of R1 026.3 billion. This means R14.9 billion or 1.5 per cent underspending compared to budget. Parliament Committee stated that "apart from denying the citizens critical service delivery, underspending undermines the Economic Reconstruction and Recovery Plan, localisation and job creation".

This section provides a summary of findings from the Office analyses of trends in government underspending between 2011/12 to 2020/21. The brief analyses public finance official data and related information on government spending to provide MPs with an evidence and the extent of underspending of government budgets.

The annual budget is a key policy tool used by government to implement strategies, policies, and programmes. Adherence to planned budgets is an important indicator of the overall ability of the government to deliver on the programmes as per commitments. Over the years, government underspending of the budget has been highlighted as a weakness in government spending However, the extent of underspending by government is understudied in South African context. The National Treasury, in its fourth quarter expenditure report for the 2021/22 financial year, identified underspending across all national government departments1. The actual expenditure at the end of that financial year by departments was R1 011.4 billion on aggregate from the budgeted expenditure of R1 026.3 billion. This means R14.9 billion or 1.5 per cent was under expenditure compared to budget. Although the overall underspending amount was within the reasonable two per cent, some departments continuously underspend by more than the two per cent. This brief provides analysis of government spending to explore and understand spending trends in the departments of health and social development, as well as the reasons for the underspending. This is the first of a series of PBO briefs examining concerns about underspending. Subsequent briefs will provide analyses on other votes.

Table 1 shows expenditure outcomes against adjusted budgets between 2011/12 and 2020/21. On aggregate underspending has been recorded every year except in 2019/20. Underspending by vote was 2.3 per cent in in 2011/12 and 2.0 per cent in 2020/21. All other years were below the two per cent thresholds. Overall, total government underspending has been below two per cent for all the years under consideration.

Table 1: Deviation in adjusted versus audited spending outcomes of national government, (2011/12 - 2020/21)

R million	Total appropriation by vote		Total direct charges against the National Revenue Fund		Total government	
Year	Under/(Over) Spending	Per cent	Under/(Over) Spending	Per cent	Under/(Over) Spending	Per cent
2011/12	11 599	2.3%	(354)	-0.1%	11 245	1.2%
2012/13	7 793	1.4%	(1 825)	-0.4%	5 968	0.6%
2013/14	3 865	0.7%	1 964	0.4%	5 830	0.6%
2014/15	10 382	1.6%	(1 929)	-0.4%	8 453	0.7%
2015/16	6 599	0.9%	(92)	0.0%	6 507	0.5%
2016/17	6 299	0.9%	1 140	0.2%	7 440	0.6%
2017/18	12 691	1.6%	(77)	0.0%	12 615	0.9%
2018/19	10 874	1.3%	(851)	-0.1%	10 023	0.7%
2019/20	(3 751)	-0.4%	(635)	-0.1%	(4 387)	-0.3%
2020/21	20 922	2.0%	(2 051)	-0.3%	18 871	1.0%

Note: Per cent denotes underspending as a proportion of total adjusted budget
Note: Total government includes total appropriation by vote and total direct charges against the National Revenue Fund
Source: PBO calculations using National Treasury ENE data

Table 2 shows that underspending in Current Payments was above two per cent in 2011/12 (2.8%), 2012/13 (2.5%) and 2020/21 (3.5%). Current payment underspending was largely driven by Goods and Services where there has been underspending over the past 10 years.

While there has not been underspending of more than two per cent on Transfers and Subsidies, there was underspending of more than ten per cent in Payment for Capital Assets in the latter three years of the analysis (2018/19 – 2020/21). Underspending in Payment for Capital Assets was largely driven by underspending in Buildings and Other Fixed Structures and Machinery and Equipment.

Table 2: Deviation in adjusted versus audited spending outcomes of national government by economic classification, (2011/12 - 2020/21)

R million	Current payments		Transfers and subsidies		Payments for capital assets		Payments for financial assets		Total government	
Year	Under/(Over) spending	Per cent	Under/(Over) spending	Per cent	Under/(Over) spending	Per cent	Under/(Over) spending	Per cent	Under/(Over) spending	Per cent
2011/12	6 280.1	2.8%	5 129.5	0.8%	251.4	2.0%	(415.9)	-55.4%	11 245.1	1.2%
2012/13	6 261.6	2.5%	2 440.6	0.3%	438.9	3.0%	(3 173.4)	-218.7%	5 967.8	0.6%
2013/14	(3 591.6)	-1.3%	9 450.0	1.2%	277.9	1.9%	(306.7)	-8.5%	5 829.5	0.6%
2014/15	3 839.7	1.3%	5 505.9	0.7%	435.7	2.6%	(1 328.8)	-33.6%	8 452.6	0.7%
2015/16	2 310.9	0.7%	5 694.2	0.6%	(1 074.8)	-6.2%	(423.2)	-1.4%	6 507.1	0.5%
2016/17	5 601.3	1.5%	3 551.5	0.4%	(1 051.0)	-7.2%	(662.2)	-11.1%	7 439.6	0.6%
2017/18	1 550.0	0.4%	10 221.3	1.0%	504.9	3.2%	338.4	1.7%	12 614.6	0.9%
2018/19	3 276.3	0.8%	5 704.7	0.5%	1 786.1	11.0%	(743.6)	-5.4%	10 023.5	0.7%
2019/20	1 935.1	0.4%	(9 179.2)	-0.8%	2 634.1	17.9%	223.2	0.3%	(4 386.8)	-0.3%
2020/21	17 014.2	3.5%	584.5	0.0%	2 875.7	19.4%	(1 603.5)	-1.8%	18 870.8	1.0%

Note: Per cent denotes underspending as a proportion of total adjusted budget

key issues for further considerations for oversight purposes by Parliament:

- Underspending of government budget phenomenon is not unique to South Africa, as literature shows that other countries do struggle with budget underspending as well. The literature further shows that, weaknesses in budget planning and execution processes and procedures are a critical contributor to underspending government budget.
- Complex procurement processes (e.g. issues relating non-compliance to SCM policy and regulations and inadequate monitoring and evaluation of SCM) have been cited by many government entities as reasons for underspending. Promoting procurement best practices of supply chain management system should be prioritized within government departments and entities.
- Delays in payment of suppliers invoices or claims by government departments and entities, is one of the major reasons for underspending in government. It is therefore worth highlighting that, delays in invoices payment is in breach on Treasury Regulation which states that “Unless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, the date of settlement or court judgement”.
- Vacancies in critical posts in government departments and entities has contributed to delays in spending budgets. Compensation of employees’ expenditure is linked to government service delivery. Therefore, failure to fill critical posts has direct impact in government’ ability to use the budget to delivery much required government services. For instance, it would be difficult to complete a project without having appointed a project manager to run and oversee the project implementation.
- Interdepartmental systemic issues which drive inefficiencies in Interdepartmental projects, particularly infrastructure, need to be addressed.
- Failing to comply to conditional grants conditions, leads underspending of the grant and funds being returned back to national department. Therefore, it is important to always link the conditional grants budget to specific service delivery goals.
- Inadequate needs assessment and project planning, ineffective monitoring of project milestones and contractors/ implementing agents have all led to underspending budget in government departments and entities.

Our analyses raise the important question that if we are not able to show significant levels of underspending as a problem should we not be raising more questions about budget adequacy, quality of expenditure and performance outcomes. Particularly in light of the government’s choices with regard to reducing the growth of spending.

13. Conclusion

Additional allocations in the 2023 Budget are focused on funding short-term policy priorities and improving growth-enhancing investment. These funding priorities include targeted allocations to provinces and municipalities, with an emphasis on key basic services. Subnational governments are currently not able to optimise resource use and improve service delivery. The government's priority to build strong capable institutions and spending more effectively to fulfil mandates, however, requires political will, good governance and better financial controls.