

**Eastern Cape Provincial Legislature  
Budget Committee Workshop**

23 -24 May 2022

**Dr Dumisani Jantjies  
Director**



PARLIAMENT  
OF THE REPUBLIC OF SOUTH AFRICA

**Budget  
Office**

Parliamentary

# Outline

- Introduction
- Parliamentary Budget Office in Context
- Establishment of South African Office
- Office Strategy in Context

# Introduction

- The Parliamentary Budget Office was established in 2013 by Section 15 of the Money Bills and Related Matters Act 2009, as amended in 2019
- Established to support the implementation of the Money Bills and Related Matters Act; in particular support to Finance and Appropriations Committees in both Houses of Parliament; but other Committees and Members of Parliament (MPs) subject to the availability of capacity
- The Money Bills and Related Matters Act of 2009 guides the approval of money bills, including amending the budget
- The Parliamentary Budget Office offers independent and objective analysis and advice to Parliament on money bills and other bills presented by the Executive; and any other documentation or reports with fiscal implications

# Parliamentary Budget Office in Context

- The scale of capability or technical expertise or knowledge of Member of the Legislatures varies across the world. This is also affected by the level of economic and societal development
- On the other hand, governments require and possess skilled human capital and institutional capacity to deliver services and govern their countries
- To keep up with the legislative role of oversight, legislatures also require administrative capacity (human capital and institutions capacity)
- Many legislatures have enacted laws to ensure such capacity is in place, e.g. specialised research units or budget offices or fiscal advisory councils
- The establishment of Parliamentary Budget Office is one mechanism adopted by many countries to ensure better technical capacity to support MPs in their fiscal oversight
- The concept of Parliament Budget Office has been in existence since 1936 with Belgium having the oldest structure, and Uganda having the oldest PBO in the continent 2001

# Type legislature per role

- Level of human capital and institutional capacity requirement in legislatures is largely dependent on whether the legislature is budget making, budget influencing or budget approving

Role	Characteristics	Examples
Budget Making	Capacity to amend or reject the executive's budget proposal and capacity to formulate a budget of its own.	United States of America
Budget Influencing	Legislative authority to amend or reject the executive's budget proposal, but lacks capacity to formulate and substitute budget of its own.	Germany, Philippines, Poland, Hungary, India and South Africa
Budget Approving	Lacks capacity to amend or reject the executive's budget proposal or to formulate a budget of its own. Confines itself to assenting to the budget that is placed before it.	Israel, Namibia, United Kingdom, Canada

# Parliamentary Budget Office in context (cont.)

## Post 2008 Global Financial Crisis (GFC):

- Fiscal challenges emerged because governments had to address the economic, fiscal and socioeconomic difficulties
- Many Parliaments established PBOs or similar Institutions to provide much needed technical capacity, analysis and advice, more than 70% of them were established post-GFC
- Parliamentary Budget Offices enhance the role of Parliaments in holding governments accountable on budgets and service delivery post the crisis
- New Offices were also established on the African continent with Uganda (whose PBO was established in 2001) the oldest, many of them established post-GFC
- South African Parliamentary Budget Office was established in 2013, even though the Money Bills Act was promulgated in 2009 (the Act was further amended in 2019)

## **Global Covid-19 Pandemic PBOs support to their Parliaments include:**

- Provide rapid analysis and briefing to their legislatures on the socioeconomic, macroeconomic and fiscal impact of the pandemic
- Monitors the activation and implementation of government escape clause, as many governments suspended normal budget processes to urgently respond to Covid-19 economic and social impact
- Provided costing estimates analysis on government emergency policies or plans, to determine impact on economy, public finances and providing much needed social relief
- Promoting and ensure that the principles of transparency and accountability are adhered to during governments implementation of emergency procedures

# Parliamentary Budget Office in context (cont.)

## International common understanding of the Parliament Budget Office roles and functions?

- Entity set-up within their parliaments to provide members with independent analysis and advice as part of support to fiscal oversight
- Although some parliamentary budget offices are set-up as part of the research function in parliaments, international experiences shows that, most of the PBOs are set-up independently from the legislatures' administration services

PBOs functions in support of legislatures differ internationally	Operations of PBOs are affected by many dynamics	Inherent and Common issues confronting PBOs
<p>a. Provide an alternative budget to that of executive. e.g. CBO in USA</p> <p>b. Amend the budget proposals of the executive; e.g. Kenya and Uganda PBO</p> <p>c. Understand the budget proposed by the executive; e.g. rubber stamping</p> <p>d. Are an extension of the executive, yet report to both the executive and legislature. e.g. OBR in UK</p>	<p>a. Whether they are established by legislation or not</p> <p>b. Provide support to Committees or MPs or publishes its work</p> <p>c. Accountable to Administrators, or Legislature or both</p> <p>d. Publish its work, or share its work to other stakeholders</p>	<p>a. Lack of specific legislation (e.g. Source of mandate or protection from undue influence)</p> <p>b. Governance and reporting structures (Administration vs Parliament)</p> <p>c. Budget or funding of PBOs (direct transfer or not)</p> <p>d. Access to information needed for analysis</p> <p>e. Work flow arrangements and staffing</p> <p>f. Access to Human Capital</p> <p>g. Expectations Management</p>

# Establishment of the South African Parliamentary Budget Office

Established in terms of section 15 of the Money Bills and  
Related Matters Act 2009



# Money bills and related matters Act 2009

- Section 73 (2) of the Constitution of the Republic of South Africa about introduction of money Bills in National Assembly:
  - Only the Minister of Finance
- Section 77 (3) of the Constitution state that:
  - An Act of Parliament must provide for procedure to amend money bills before Parliament
- Money Bills Amendment Procedures and Related Matters Act of 2009 (Money Bills and Related Matters Act):
  - Guide Parliament's role in the budget process, the act came into effect in April 2009
  - It gives Parliament powers to amend the budget and other money bills before it
  - Each House must establish a committee on Finance and Appropriations to consider specific budget instruments
- Section 15 Act established a Parliamentary Budget Office to support the implementation of the Act

# Money bills and related matters Act 2009

- Preceded by national and international broader consultation process
- Established the Parliamentary Budget Office as a *juristic person* (*amended in 2019*)
- The Office provides research and analysis on the macroeconomic and fiscal policy and other policies in support of MPs to fulfil their oversight role over the Executive
- The Director is the Accounting Officer, and accountable to Parliament (defined in terms of Section 42 of the Constitution)
- The Director, in consultation with the Advisory Board determine the structure and conditions of service of the Office
- The transfer of funds to Office to fulfil its mandate from Parliament budget baseline, to prepare 3-year rolling budget
- In performing our mandate, the Office may obtain information from any organ of state or person that derives funds from the National Revenue Fund

# Money bills and related matters Act 2009 - core functions

- Undertaking research and analysis for the 4 committees (2 Finance and 2 Appropriations)
- Annually providing reviews and analysis of the documentation tabled in parliament by the Minister of Finance
- Providing advice and analysis on proposed amendments to the Fiscal Framework, Division of Revenue Bill and Money Bills and on policy proposals with budgetary implications
- Monitoring and synthesising matters and reports tabled and adopted in a House with budgetary implications, with particular emphasis on reports by other committees
- Keeping abreast of policy debates and developments in key expenditure and revenue areas
- Monitoring and reporting on potential unfunded mandates arising out of legislative, policy and budgetary proposals
- Undertaking any other work deemed necessary by the Director to support the implementation of the act

# Accountability line for the Director (Accounting Officer)

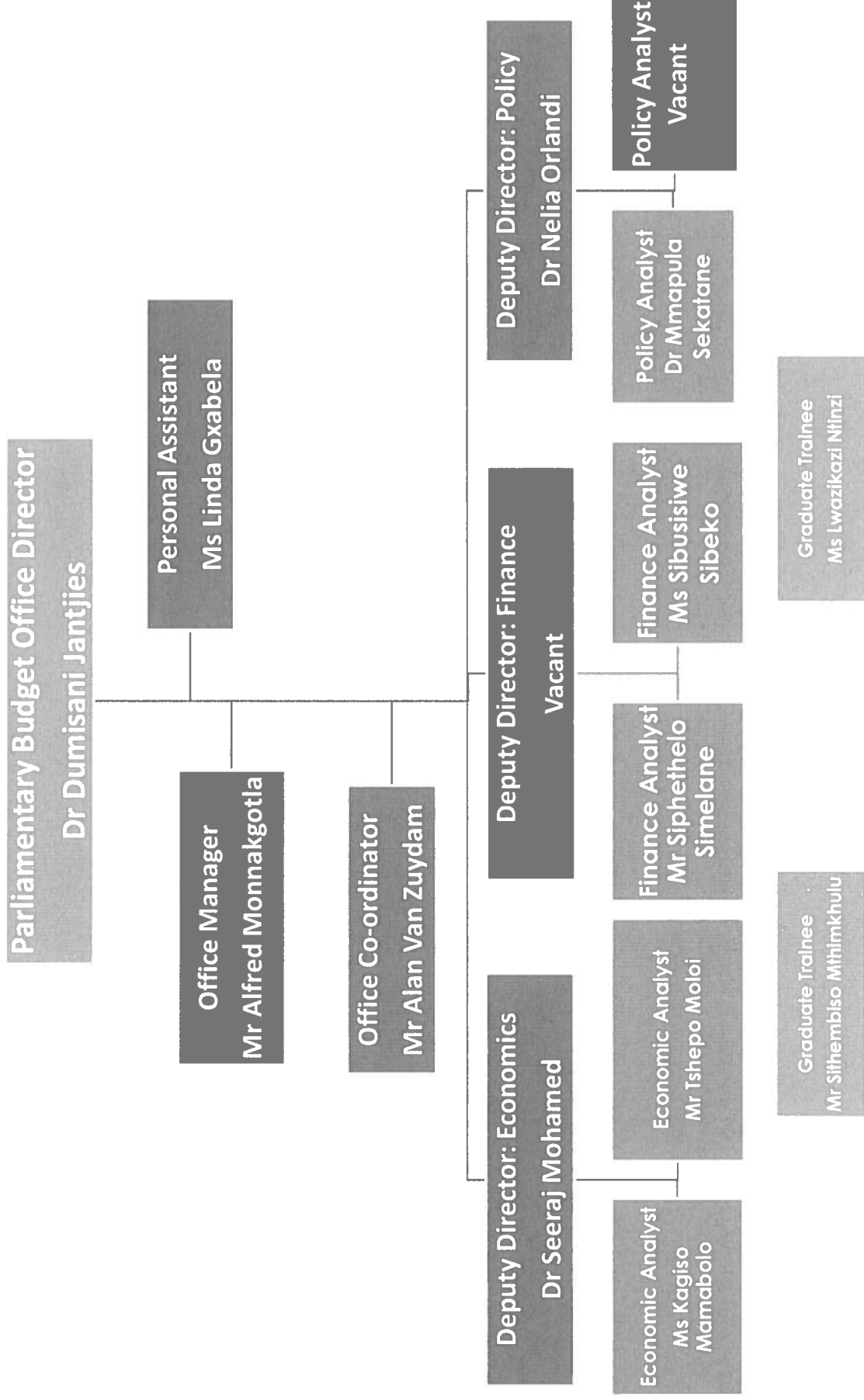
**Parliament Executive Authority**  
Speaker of the National Assembly, and  
Chairperson of the National Council of Provinces

## **Parliamentary Budget Office Advisory Board:**

- 2 Houses Chairpersons (NCOP and NA)
- 2 Finance Committees Chairpersons (NCOP and NA)
- 2 Appropriations Committees Chairpersons (NCOP and NA)

**Parliamentary Budget Office Director  
(Accounting Officer)**

# Current positional structure



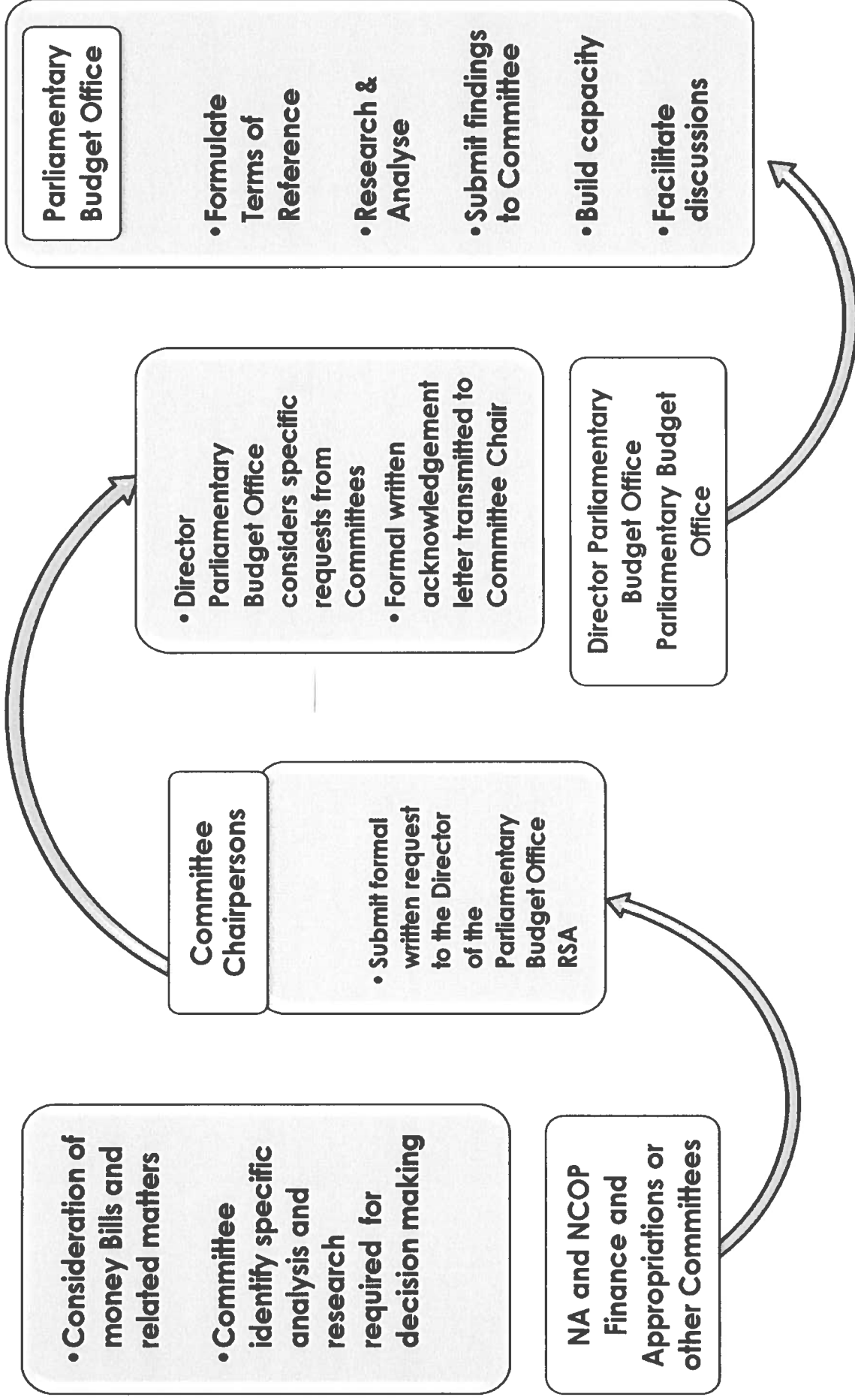
# Human capital and technical capability

- Globally, the need for heightened legislatures oversight with technical capabilities and capacity has grown over the years, hence many legislatures are establishing PBOs or IFIs or

## Research Units

- Therefore, the oversight models are required to guide legislatures on their oversight, including:
  - What is the role of the legislature in the oversight or what does it mean?
  - What kind of information (research or analysis) is required for the purpose of oversight?
  - What does the legislature do with the information once it has it?
- International experience shows that many legislatures strive to distinguish between the Administrations Researchers and Budget Offices; More African Parliaments are establishing separate Budget Offices within their legislatures
- In preparing budgets and related instruments, governments make use of various expertise; therefore to certain extent legislatures have to take these into account
- Globally Budget Offices or IFIs human capital comprise of researchers or experts with following background or expertise:
  - Trained Economists (Macroeconomists and Macroeconomists)
  - Finances Specialist, Public Finance Specialists
  - Public and Policy Specialises
  - Accountant and Auditors
  - Legal advisors, Engineers and
  - Content specialist, Educations, Health and etc
- Some of the research and analysis include, forecasting or economic performance and tax revenues, costing of legislations and policy, socio economic impact analysis, monitoring and evaluation of government programmes and expenditure and etc

# Research and analysis requests workflow process



# Continuous stakeholder engagement

- The Parliamentary Budget Office has a broader pool of stakeholders to keep abreast with socioeconomic issues, macroeconomic and fiscal policy developments, and strengthen the Office technical capabilities
- Regular engagements with other research units in various Parliaments, and with civil society during public hearings and other platforms
- Engagement with Provincial Legislatures, over the years we made contributions for consideration in Gauteng, KwaZulu-Natal, Eastern Cape and Western Cape considerations towards their Money Bills processes
- Regular engagement and use of the work of fellow governance supporting bodies including, AGSA, DPME, NT and other stakeholders
- Led the established African Network of Parliamentary Budget Offices (AN-PBO) at continental level
- Engagements with other PBOs through the Global Network of PBO and the OECD Network of PBOs and Independent Fiscal Institutions
- Further engagements with Multilateral Institutions involved in establishing and capacitating PBOs



# Strategy in context

# Strategic execution from conceptualisation

## National Level

Government Budget Addresses the Country's Socio Economic Developmental Needs that improve the quality of life- 2021 to 2024- The 2019-2024 Medium Term Strategic Framework has set-out seven Outcomes to be realized by 2024. Government will use the budget another policy instruments to realize these MTSF Outcome



## Parliament Level

Parliament' oversight process in terms of Money Bills and Related Matters Act assess how government' proposed budgets contribute to the realisation of national aspirations (Increase Government's responsiveness and accountability). During this budget oversight process Parliament is required to take into account inputs from various stakeholders



## Parliamentary Budget Office Role

Provide and advise based on research and analyses outputs to support Parliament's process of assessing the societal potential, economic and developmental impact of the budget. The PBO research and analyses outputs aim to provide relevant and necessary knowledge and insights that support and Empower MPs in their oversight role

# Research and analysis and parliament fiscal oversight

Office to remain a strong and independent voice within the budget process in support Parliament's role of fiscal oversight, to ensure four fundamentals are attained and maintained

1. Our research, analysis, reports and briefs are reported and presented in a form that is accessible (readable) or understandable by an average MP
2. Good balance between responding to Committees' or MPs research or analysis requests, and ability for the office to initiate own analysis or research
3. The Office has a fair, clear, transparent and practical workflow and analysis methodology in doing its analysis and research work
4. Office continues to be highly respected and remain independent, objective and professional; include the Director and the team members, in particular by the Executive and MPs

# Enkosi, Siyabulela!

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**Parliamentary**  
Eastern Cape Provincial Legislature –  
Budget Committee Workshop  
Money Bills Amendment Procedure

**NCOP Cycle  
23-24 May 2023  
Dr Dumisani Jantjies  
Director**



**PARLIAMENT**  
OF THE REPUBLIC OF SOUTH AFRICA

**Budget  
Office**

**Parliamentary**

Bill  
section  
Minister  
signature

## Outline

- Overview of major annual activities- NCOP
- DoR Bill- Six week cycle
- Legislative process and NCOP
- Processing of the Legislation

# Overview of major annual activities- NCOP

- First Term Jan-March (DoR Bill)
- Second Term April-June (Appropriation Bill)
- Third Term July-Sept (Financial and Fiscal Commission's Recommendations to DoR)
- Fourth Term October-December (Medium Term Budget Policy Statement)

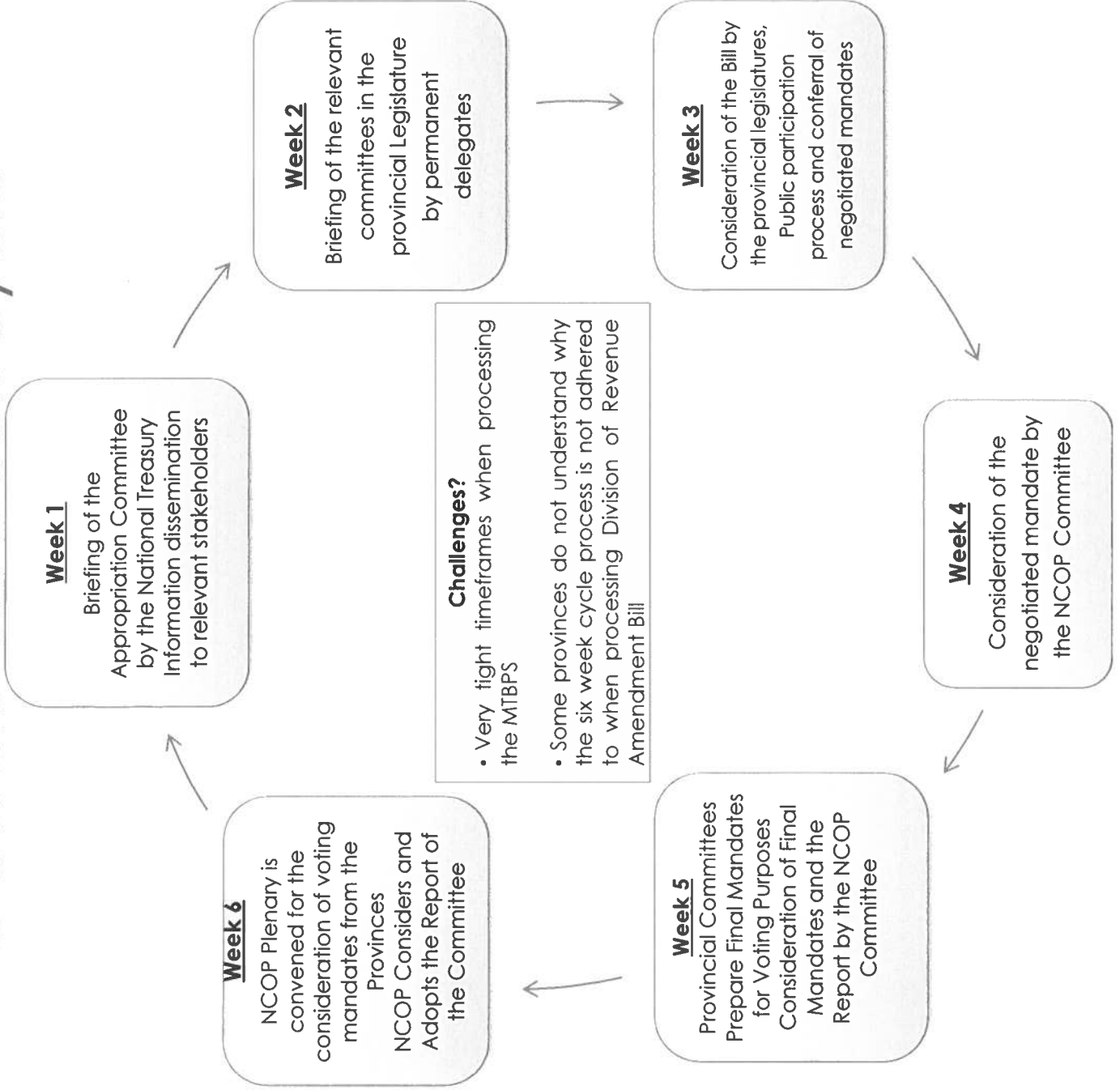
# Overview of major annual activities- NCOP

## BUDGET PROCESS AND BILLS

- DoR Bill- within a Six week cycle
- Appropriation Bill
- Medium Term Budget Policy Statement
- DoR Amendment Bill
- Adjustment Appropriation Bill
- Reports on Bills



# DOR Bill- Six week cycle



# Legislative process and NCOP

The Constitution of the Republic of South Africa (RSA), 1996 –

Section 42(1) of the Constitution speaks to the composition of Parliament  
“Parliament consists of-

(a) the National Assembly; and

(b) the National Council of Provinces”

Section 42(3) of the Constitution speaks to the role and function of the  
NA

Section 42(4) of the Constitution speaks to the role and function of the  
NCOP

Section 44 of the Constitution vests the national legislative authority in  
Parliament

Section 44(1)(a) confers specific powers on the NA

Section 44 (1)(b) confers specific powers on the NCOP

# Legislative process and NCOP

## Section 68 – Powers of the NCOP

In exercising its legislative power, the National Council of Provinces **may-**

**(a) consider, pass, amend, propose amendments to or reject any legislation before the Council**, in accordance with this Chapter; and

(a) initiate or prepare legislation falling within a functional area listed in Schedule 4 or other legislation referred to in section 76 (3), **but may not initiate or prepare money Bills**

Section 70 (NCOP) of the Constitution speaks to the right of each House of Parliament to determine its own internal arrangements, proceedings and procedures

The NCOP may make rules and orders concerning its business and provide for the establishment, composition, powers, functions, procedures and duration of its committees

Joint committees and subcommittees are established in terms of Joint Rules 15 and 16

# Legislative process and NCOP

## **NCOP Rule 86 – List of Council committees**

86 (1) The Council has various committees including:

- the Committee on Petitions and Members' Legislative Proposals;
- the Select Committees in terms of Rule 151;
- any *ad hoc* committees; and
- any other committees established by the Council by resolution.

## **NCOP Rule 87 – Subcommittees**

NCOP Rule 87(1) and (2) - Provide for the right of a committee to establish a subcommittee into the applicable rules

NCOP Rules 89 – 114 are the Rules applicable to committees and subcommittees generally

## **NCOP Rule 154**

154 - The membership of a select committee must be composed so as to deal both with matters falling under section 75 of the Constitution and with other matters as follows:

- (a) Each province is entitled to an equal number of permanent members nominated by its delegation head.
- (b) Each party represented in the Council is entitled to proportional representation or, if proportional representation is not possible on account of the party's size, to one representative on the committee.
- (c) Each delegation head may whenever necessary authorise one or two special members to attend a committee meeting.

# Legislative process and NCOP

## NCOP Rule 103 - General powers – National Council of Provinces Committees

**103.** (1) For the purposes of performing its functions a committee may - subject to the Constitution, legislation, the other provisions of these Rules and resolutions of the Council –

- (a) summon any person to appear before it to give evidence on oath or affirmation, or to produce documents;
- (b) receive petitions, representations or submissions from interested persons or institutions;
- (c) conduct public hearings;
- (d) permit oral evidence, representations and submissions;
- (e) determine its own procedure;
- (f) meet at a venue determined by it, which may be a venue beyond the seat of Parliament if the Council is not in session;

Measures to facilitate fiscal oversight and improve governance across the three spheres of government

- Budget structures, reforms, legislation, Chapter 9 institutions (e.g. **AGSA**,)
  - Continuous assessment of AGSA reports (provinces, LG & public entities)
  - PFMA introduced in 1999, to improve financial management in the public sector.
  - In 2003, the MFMA was introduced to “ensure sound and sustainable management of the financial affairs of municipalities and other institutions in the local sphere of government”.
  - In 2009, the “Money Bills Act” was introduced, to give effect to Section 77 of the Constitution. The Act saw an establishment of the Committees on Finance and Appropriations and the Parliamentary Budget Office.
  - In 2018, Public Audit Bill was amended, given evident lack of compliance with financial management laws; a disregard for audit recommendations; a continuing rise of unauthorised, irregular, fruitless and wasteful expenditure and a need to restore prudent financial management (AGSA)
- Financial management has improved over time, Committee need to ensure efficiency, effectiveness and value for money in service delivery
- Committee ensure compliance with this legislation and improve good governance, consequences for financial misconduct

# Processing of the Legislation and NCOP

# Processing of the Legislation

## **NCOP Rules 169, 193, 210 (1)**

The Select committee or other Council committee to which a Bill is referred –

- (a) must enquire into the subject of the Bill; and
- (b) if it is a Bill amending provisions of an Act, may seek the permission of the Council to enquire into amending other provisions of that Act;
- (c) may, or if ordered by the Chairperson of the Council must, consult any other committee that has a direct interest in the substance of the Bill;
- (d) may consult the person in charge of the Bill;
- (e) may require any suitable person to brief the committee on the objects and substance of the Bill;
- (f) may consult the appropriate Assembly portfolio committee or chairperson of that committee;
- (g) may recommend that the time limit for the Council's consideration of the Bill as may have been set in terms of the Joint Rules, be extended;



# Processing of Legislation

- (h) may consult on whether any amendments to the Bill proposed in the committee –
  - (i) may affect the classification of the Bill; or
  - (ii) may render the Bill constitutionally or procedurally out of order within the meaning of joint rule 161;
- (i) may not propose an amendment that –
  - (i) changes the classification of the Bill; or
  - (ii) renders the Bill constitutionally or procedurally out of order within the meaning of joint rule 161;
- (j) may recommend approval or rejection of the Bill or present an amendment Bill; and
- (k) must report to the Council in accordance with rule 171.

# Processing of Legislation

## **NCOP Rule 240 (six week cycle) S76(1) and (2), 74(1).(2) and (3)**

(1) All section 76 or 74(1).(2) and (3) Bills should be dealt with in a manner that will ensure that provinces have sufficient time to consider the Bill and confer mandates.

(2) Depending on the substance of the Bill, the period may not exceed six weeks.

**(3) In the event that the substance of the Bill requires sufficient time beyond the six-week period, the cycle may be extended with the approval of the Chairperson of the Council.**

The procedure set out in the Mandating Procedures of Provinces Act, Act

No 52 of 2008 governs the process to follow when dealing with S76(1) and (2), 74(1).(2) and (3) Bills.

## Processing of Legislation

The NCOP may amend Section 76 Bills but may only propose amendments to S75 and S77 Bills

[The processing of section 77 Bills follows the same procedure as that of section 75 Bills}

### **Mediation** (NCOP Rule 205 and 206)

If the Assembly rejects the Bill, or if the Council refuses to pass an amended Bill referred to it in terms of paragraph (c), the Bill and, where applicable, also the amended Bill must be referred to the Mediation Committee, which may agree on-

- (i) the Bill as passed by the Council;
- (ii) the amended Bill as passed by the Assembly; or
- (iii) another version of the Bill.

# Processing of Legislation

If the Mediation Committee is unable to agree within 30 days of the Bill's referral to it, the Bill lapses.

If the Mediation Committee agrees on the Bill as passed by the Council, the Bill must be referred to the Assembly, and if the Assembly passes the Bill, the Bill must be submitted to the President for assent.

If the Mediation Committee agrees on the amended Bill as passed by the Assembly, the Bill must be referred to the Council, and if it is passed by the Council it must be submitted to the President for assent

## **Public involvement**

### **Section 72 of the Constitution and NCOP Rule 5 Public participation**

5. (1) Members of the public may participate in the proceedings of the Council by –
  - (a) attending sittings of the Council or meetings of Council committees;
  - (b) submitting petitions to the Council on any matter within the Council's competence;
  - (c) responding to public or specific invitations–
    - (i) to comment in writing on Bills or other matters before, or which are due to come before, the Council;
    - (ii) to make representations or recommendations in writing on such Bills or other matters; or
    - (iii) to give evidence or to make representations or recommendations before Council committees on such Bills or other matters, either in person or through a representative.

# Processing of Legislation

## **Public involvement**

- (2) Public participation in terms of subrule (1) is subject to, and must be exercised in accordance with, the applicable provisions of these Rules.
- (3) The public has access to all official notices to members and to all documents tabled in the Council, subject to reasonable measures taken by the Chairperson of the Council to regulate such access, in a manner consistent with national laws.

## **Closed meetings**

NCOP Rule 110, 111, 112 and 113 details the process to regulate closed meetings.

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[http://www.parliament.gov.za/live/content.php?Item\\_ID=7207](http://www.parliament.gov.za/live/content.php?Item_ID=7207)

**The National Fiscal Framework and the  
Division of Revenue Bill - Eastern Cape  
Legislature**

**National Fiscal Framework and DORA**

**National Fiscal Framework and DORA  
23 -24 May 2022**

**Dr Dumisani Jantjies**



**PARLIAMENT  
OF THE REPUBLIC OF SOUTH AFRICA**

**Director  
Budget  
Office**

**Parliamentary**

**Bill**  
legislature  
Minister section  
fiscal

# Outline

- Introduction
- Central role of the budget framework
- Budget deficits and surpluses
- Economic reasons for running a deficit
- The budget balance
- Sources of government revenue
- 2023 Budget Proposals
- Division of Revenue Bill
- Division of Revenue Bill and the Parliamentary processes
- The Division of Revenue Bill and the Intergovernmental system
- 2023 Division of Revenue
- Legislative mandate of the three spheres of government
- Equitable share formula
- Developmental Indicators: Eastern Cape



# Introduction

- The Parliamentary Budget Office was established in 2013 by Section 15 of the Money Bills and Related Matters Act 2009, as amended in 2018
- Established to support the implementation of the Money Bills and Related Matters Act; in particular support to Finance and Appropriations Committees in both Houses of Parliament; but other Committees and Members of Parliament (MPs) subject to the availability of capacity
- The Money Bills and Related Matters Act of 2009 guides the approval of money bills, including amending the budget
- The Parliamentary Budget Office offers independent and objective analysis and advice to Parliament on money bills and other bills presented by the Executive; and any other documentation or reports with fiscal implications

# Introduction

- An important component of the Money Bills Amendment Procedure and Related Matters Act is the **Fiscal Framework**, which must be scrutinised when Parliament considers whether or not to amend a money Bill
  - Section 8 of the Act provides, amongst others, for the adoption of the fiscal framework in accordance with stipulated principles
- The fiscal framework serves as an important guide to the whole budget process by providing the foundation upon which detailed budget decision-making depends
- It represents a way of shaping the financial, social and economic landscape of a country through the budget process
- Through clearly laid down rules, the fiscal framework assist in setting target levels for the funding available for a variety of social and economic objectives the government wishes to pursue
- The fiscal framework is reviewed periodically in light of changing circumstances and budgetary decisions

# Central role of the budget framework

- The fiscal framework refers to the broad budgetary aggregates of total revenue, expenditure and borrowing for a given year
- The interaction of these variables, and their impact on the broader economy, make up fiscal policy
- The fiscal policy objectives translate into the budget framework, which in its various forms presents a comprehensive and transparent aggregate picture of all revenue and all expenditure in general government at national and provincial level
- All allocations at national level are made from the available expenditure envelope in the budget framework, including funding the national departments and the unconditional and conditional grants to the provincial and local spheres of government
- The nine provincial budget frameworks, therefore, reflect the national framework, with any differences being a function of provincial own revenue

## Government's contribution to gross domestic product (GDP)

- The scope of a government's regulatory influence is complex to measure, for e.g. the extent of incentives like tax breaks
- It's easier to determine the scope of government's narrower role as a provider of goods and services in line with development objectives
- This is usually given as a share of the total output in the economy, that is, as a share of GDP
- GDP is the total value of goods produced and services provided in a country during one year
- National Treasury expects real GDP to grow by 0.9 per cent in 2023 and average 1.5 per cent over the medium term
- According to government, a more rapid implementation of economic reforms, complemented by fiscal consolidation will ease investor concerns and support faster recovery and higher levels of economic growth over the long term

## Government's contribution to GDP (cont.)

- An important strategy to kick start growth in the face of a cost of living crisis is to build household resilience by fiscal expansion through increasing services, grants and infrastructure investment
- Increased social support and infrastructure investment should boost aggregate demand & growth
- However, government and state corporation are also required to invest in the economy to create jobs and support the economy
- The reduction of regulatory constraints, providing effective services, and coordinating and sequencing economic interventions will bolster public and private investment, which will increase resilience and support economic transformation
- Significant risks to the economic outlook include:
  - Intensified load-shedding
  - Continued fiscal consolidation
  - Higher interest rates and rising inflation
  - Bottlenecks at Transnet's ports
  - Weakening growth outlook in some of the country's major export markets
  - Lack of investment by both government and private sector
  - Continue climate change impacts or changes in weather patterns

# Economic reasons for running a deficit

- Governments may run deficits for many reasons, but there are two main economic reasons for doing this:
- **Macroeconomic stabilisation:** Governments can spend more or less at different times to help moderate fluctuations and stabilise aggregate demand in the economy
  - This means higher deficits in recessionary periods and lower deficits, or even surpluses, in expansionary periods
- A budget deficit increases debt and the costs of servicing that debt, which may change because of interest rate changes
  - This will need to be taken into account in future budgets
- **Inter-generational equity:** Government spending tends to generate benefits for many generations of people
- Debt-financed infrastructure, repaid through taxes, is one way of doing this, especially if there is a significant drive for infrastructure

# Sources of government revenue

- There are four main sources of government revenue; taxes, service charges, grants and loans (*borrowing*)
- In South Africa, taxes are by far the largest part of total government revenue ( more than 80% of revenue)
- Service charges are paid mainly to local governments for utilities such as water and electricity
- All taxes collected by the national government, through the South African Revenue Service, are paid into the National Revenue Fund
- A tax is generally defined by; its rate, in percentage terms and its base (what is actually being taxed)
- Direct taxes are taxes on income and wealth, and indirect taxes are typically taxes on activities, such as consumption
- South Africa' three largest sources of national tax revenue are:
  - Personal income tax (PIT)
  - Corporate income tax (CIT)
  - Value added tax (VAT)

# 2023 Budget Proposals

- The 2023 Budget is framed by the three policy objectives set out in the 2022 MTBPS, which 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 pursuit of higher growth in the 2023 Budget remains anchored on three pillars:
  - Ensuring a stable macroeconomic framework to create a conducive environment for savings, investment and growth
  - Implementing growth-enhancing reforms in key sectors, particularly in energy and transport
  - Strengthening the capacity of the state to deliver quality public services, invest in infrastructure and fight crime and corruption
- These pillars also link to the Presidential priority to:
  - Restructure government to improve efficiency: Reducing Red tape/Improve the ease of doing business
- The PBO, has previously raised concern about a lack of evidence that the government's approach of fiscal consolidation and structural reform can actually support economic growth and create an environment conducive to investment and employment creation



# Spending priorities over the 2023 MTEF continues from the 2022 MTEF

## 2022 MTEF: 2022/23-2024/25

Wage increases adjusted

### Social welfare interventions and free basic services

(R87 billion over the MTEF)

#### Health

(R21 billion over MTEF)

#### Education

(R57 billion over MTEF)

### Infrastructure investments and employment

(R27 billion over MTEF)

### Peace and security

(R7.4 billion over MTEF)

## 2023 MTEF: 2023/24-2025/26

Carry-through from 2022/23 public service wage increase (R45.6 billion)

### Poverty and the rising cost of living

- COVID-19 social relief of distress grant (R36 billion in 2023/24)
- Social grants: increase in grant values (R29.6 billion)
- Local government equitable share: free basic services (R8.1 billion)

#### Service delivery

- Health (R23.5 billion)

#### Service delivery

- Basic education sector (R22.4 billion)

### Infrastructure-related spending

(R42.8 billion)

### Crime and corruption (R14.4 billion)

- 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

### Economic growth and employment

- South African Revenue Service (R1.5 billion)
- South African Weather Service: operational funding (R244 million)
- Department of Home Affairs digitisation project (R840 million)

### Other priorities

(R26.3 billion over MTEF)

### Other

(R2.1 billion)

# Division of Revenue Bill (DoRB)

# Division of Revenue Bill

- Section 214 of the Constitution of the Republic of South Africa requires an Act of Parliament that ensures a transparent and equitable system to divide the revenue raised nationally between the three spheres of government
- After the adoption of the fiscal framework, the Division of Revenue Bill must be referred to the two Committees on Appropriations within each House for consideration and report as per Section 9 of the Money Bills Amendment Procedure and Related Matters Act (No. 9 of 2009)
- The Division of Revenue Bill is not strictly a money bill, as it does not collect money, impose taxes, abolish or reduce grants, or authorise charges (Section 77 of the constitution)
- It is tabled before Parliament at the same time as the money bills as it is directly related to them
- The Division of Revenue Bill should give effect to the priorities articulated by the President in the State of the Nation Address

## Division of Revenue Bill (cont.)

- The annual Division of Revenue Bill and its underlying allocations are the results of extensive consultation processes between national, provincial and local government
- By setting out three-year allocations for the equitable share and conditional grants for provinces and local government;
  - the Division of Revenue Bill entrenches the transparency and accountability of the intergovernmental fiscal system
- It allows all spheres of government to plan ahead and to improve service delivery to the people
- The Division of Revenue Bill contains details on each grant, its purpose, criteria for allocating the grant and an account of the performance of each grant
- This information contributes towards deepening Parliamentary oversight over the Executive

# Division of Revenue Bill and the Parliamentary processes

- The Division of Revenue Bill must be passed no later than 35 days after the adoption of the fiscal framework by Parliament
- Any amendment to the Division of Revenue Bill must be consistent with the fiscal framework and Section 214 of the Constitution
- In the instance of proposed amendments to the Division of Revenue Bill, the standing rules provide for:
  - Participation by chairpersons of other Committees
  - Public hearings
  - Affected Cabinet member, provinces and local governments to respond to any proposed amendments

# Division of Revenue Bill and the Parliamentary processes (cont.)

- The standing rules also requires that each respective Committee on Appropriations prepare a report that indicates that:
  - Proposed amendments are consistent with the adopted fiscal framework
  - Motivates amendments in terms of service delivery improvements
  - Demonstrates that the impact of the proposed amendments on the service delivery obligations of affected departments, provinces and local government have been considered
- The Committees on Appropriations must also:
  - Consult the Financial and Fiscal Commission
  - Allow the Minister of Finance the opportunity to respond to any proposed amendment at least three days prior to the submission of the report to the relevant House
- The report submitted by the Committees on Appropriations to the respective Houses must contain the response by the Minister to any proposed amendments

# The Division of Revenue Bill and the Intergovernmental system

- The Division of Revenue Bill details the respective shares of the three spheres of government in nationally raised revenue;
  - and, together with the Intergovernmental Fiscal Review, is the key public document in the intergovernmental system
- It sets out how the provincial and municipal shares are to be divided horizontally
- Details conditional grants to the two subnational spheres
- Provides for various procedural matters regarding the management of intergovernmental finances and the responsibilities of Treasuries, accounting officers (individuals responsible for financial management in government departments and public entities) and the Auditor General
- It determines sanctions and consequences for individuals if the provisions of the bill are not met

# 2023-24 Division of Revenue

National

Provincial

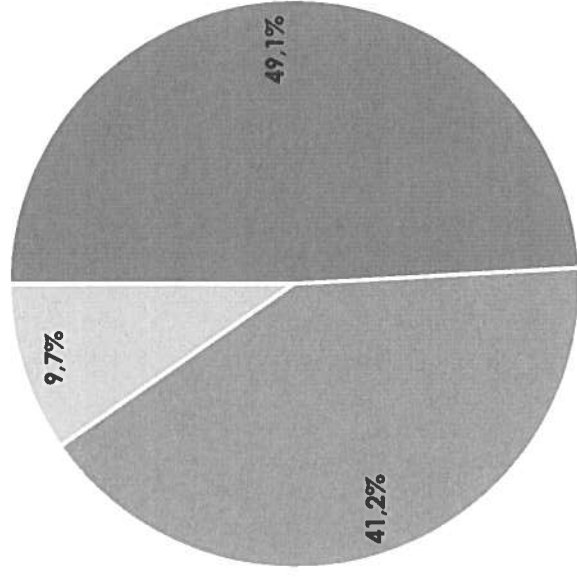
Local



# Object of the Division of Revenue Bill

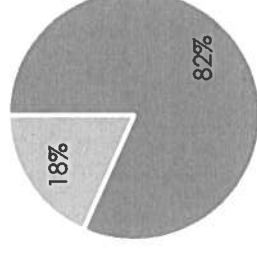
To, amongst others, provide for the equitable division of nationally raised revenue between the national, provincial and local spheres of government for the 2023/24 financial year

**Division of available funds**



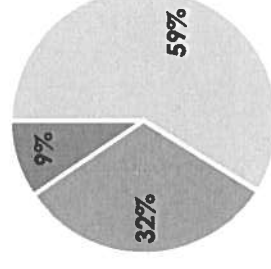
■ National ■ Provinces ■ Local government

**Provinces**



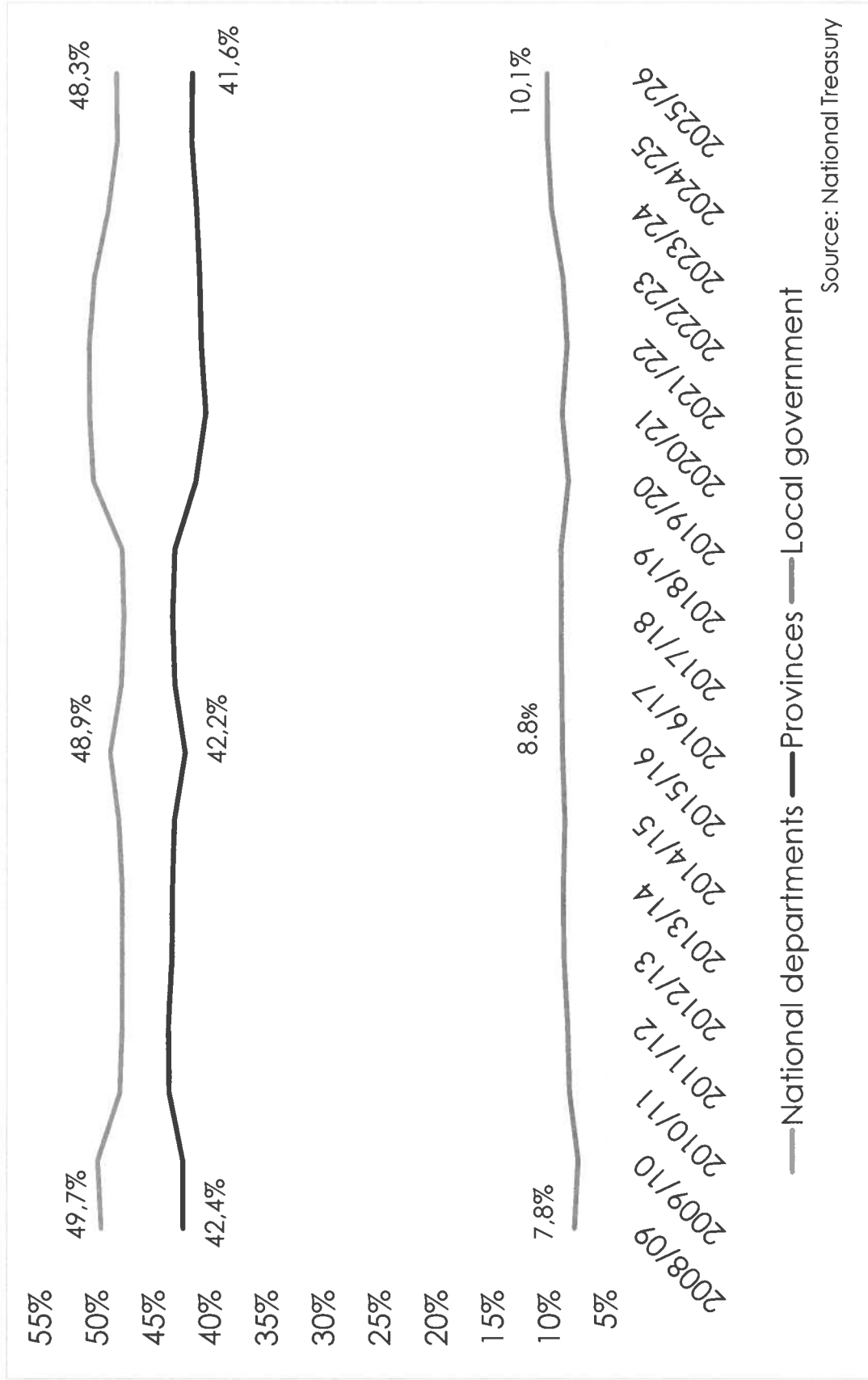
■ Equitable share ■ Conditional grants

**Local government**

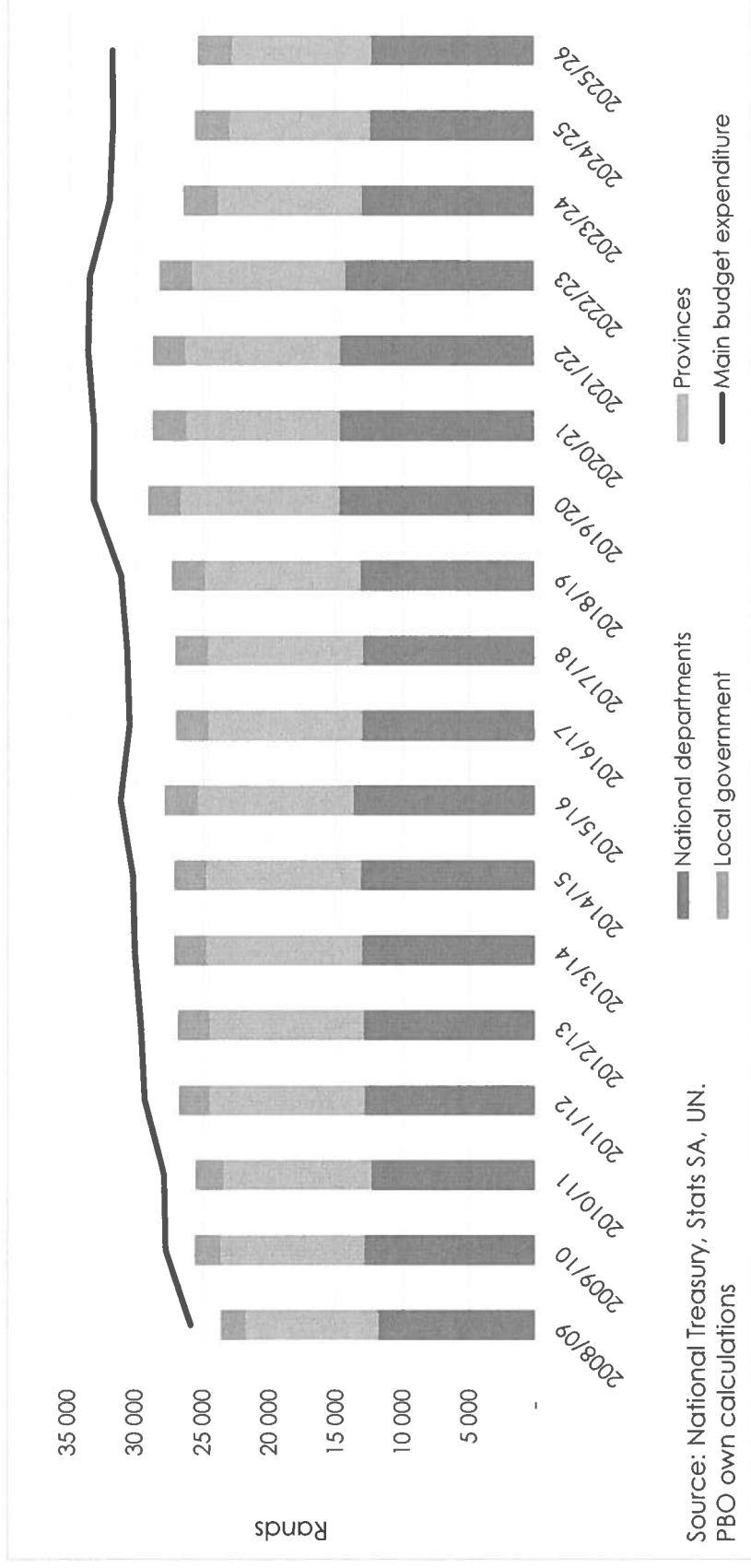


■ Equitable share ■ Conditional grants ■ General fuel levy sharing with metros

# Changing shares of Division of Revenue from 2008/09



# 2022 Division of Revenue – real per capita



## Growth in real per capita expenditure

	2008/09 - 2022/23	2022/23 - 2025/26
National depts.	1.5%	-3.6%
Provinces	1.1%	-2.3%
Local government	2.2%	1.0%
Debt service costs	1.4%	2.8%
<b>Main budget ex.</b>	<b>2.0%</b>	<b>-1.7%</b>

# Conditional grants transferred from national departments

R million	To Provinces				Revised estimate	Medium-term expenditure estimates				Annual Average increase since 2019/20
	Audited outcome									
	2019/20	2020/21	2021/22	2022/23		2023/24	2024/25	2025/26		
3	466	138	48	97	146	152	159		-16.4%	
13	868	832	835	858	861	900	940		1.3%	
16	19 079	19 238	21 936	23 124	25 329	26 485	28 093		6.7%	
18	45 863	52 082	52 462	56 252	54 183	56 171	58 687		4.2%	
29	2 158	1 688	2 235	2 294	2 333	2 516	2 596		3.1%	
33	19 572	15 343	17 303	19 172	19 246	19 614	20 493		0.8%	
37	2 121	1 521	2 087	2 176	2 175	2 272	2 374		1.9%	
40	17 768	17 217	19 057	19 756	23 270	24 853	27 058		7.3%	
<b>Total</b>	<b>107 896</b>	<b>108 060</b>	<b>115 964</b>	<b>123 730</b>	<b>127 544</b>	<b>132 963</b>	<b>140 402</b>		<b>4.5%</b>	
R million	To Municipalities				Revised estimate	Medium-term expenditure estimates				Annual Average increase since 2019/20
	Audited outcome									
	2019/20	2020/21	2021/22	2022/23		2023/24	2024/25	2025/26		
3	15 806	15 578	16 932	20 082	19 411	19 948	20 841		4.7%	
8	1 584	1 482	2 366	2 380	2 580	1 802	1 883		2.9%	
13	730	748	759	778	781	816	853		2.6%	
33	11 803	10 738	11 417	11 680	12 514	13 354	14 109		3.0%	
34	2 087	1 551	2 223	2 343	2 436	2 554	2 668		4.2%	
40	6 484	4 498	5 284	6 128	6 910	7 873	8 495		4.6%	
41	5 698	5 373	5 858	5 348	7 360	8 137	8 264		6.4%	
<b>Total</b>	<b>44 191</b>	<b>39 969</b>	<b>44 839</b>	<b>48 740</b>	<b>51 992</b>	<b>54 484</b>	<b>57 113</b>		<b>4.4%</b>	

1. Details are provided in the 2023 Division of Revenue Bill.

Source: National Treasury

# Provincial Equitable Share

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%
<b>Total</b>	<b>544 835</b>	<b>560 757</b>	<b>570 868</b>	<b>567 528</b>	<b>587 500</b>	<b>614 271</b>	<b>2.5%</b>
<b>2022 MTBPS</b>			<b>560 805</b>	<b>556 385</b>	<b>576 501</b>	<b>602 900</b>	
<b>Difference</b>			<b>10 063</b>	<b>11 143</b>	<b>10 999</b>	<b>11 371</b>	

Source: National Treasury

- 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 of increases are between R10 063 million and R11 371 million 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

# Conditional Grants to Provinces

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

Source: National Treasury

- Most of the CG 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

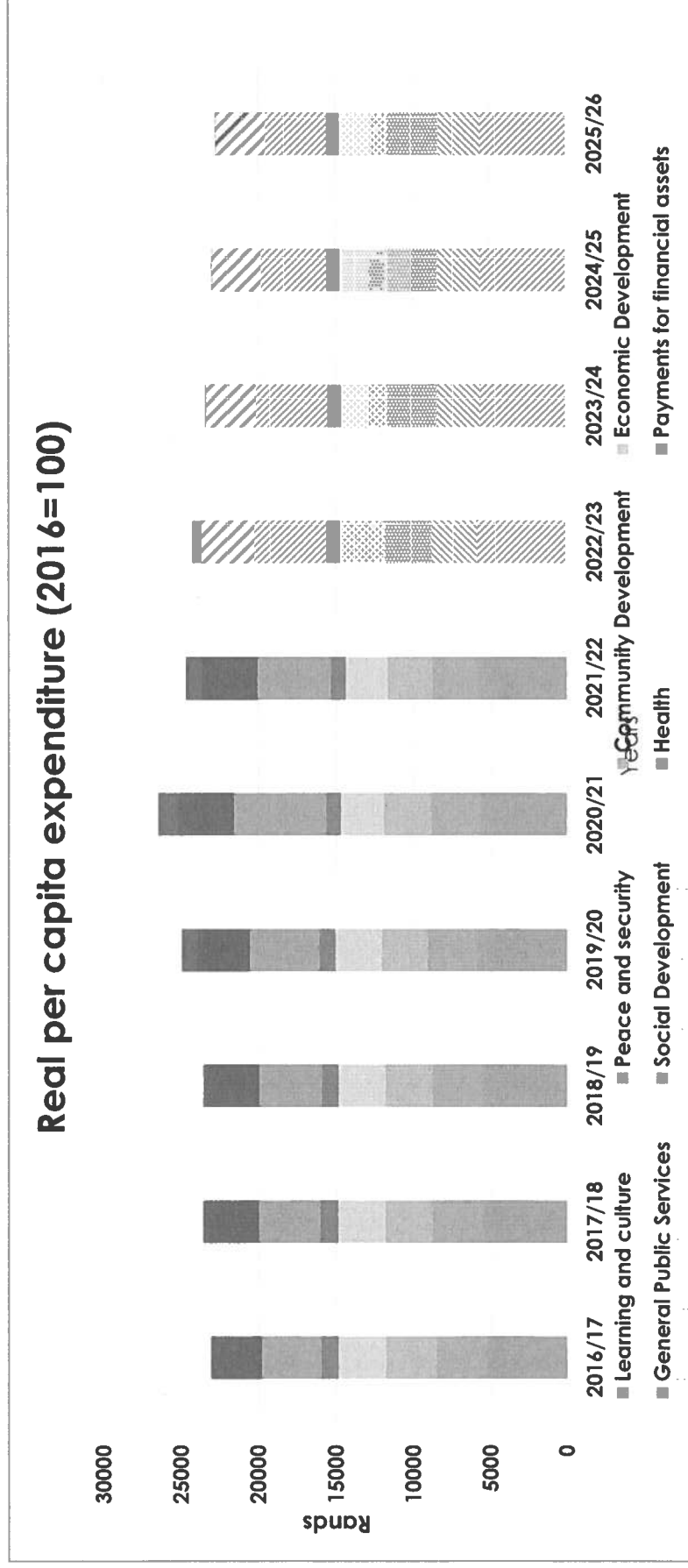
# Transfers to Local Government

R million	2021/22	2022/23	2023/24	2024/25	2025/26
	Adjusted Budget	Adjusted Budget	Medium-term estimates		
<b>Equitable share and related</b>	<b>77 999</b>	<b>87 311</b>	<b>96 546</b>	<b>103 772</b>	<b>109 368</b>
<b>General fuel levy sharing with metros</b>	<b>14 617</b>	<b>15 335</b>	<b>15 433</b>	<b>16 127</b>	<b>16 849</b>
<b>Direct conditional grants</b>	<b>44 969</b>	<b>51 542</b>	<b>51 992</b>	<b>54 484</b>	<b>57 113</b>
Integrated urban development	1 009	1 085	1 172	1 227	1 284
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
Energy efficiency and demand-side management		223	224	243	253
Integrated national electrification programme	2 003	2 120	2 212	2 311	2 415
Informal settlements upgrading partnership	3 945	4 273	4 365	4 561	4 765
Municipal emergency housing		55	-	-	-
Urban settlements development	7 405	7 352	8 149	8 793	9 343
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
Rural roads asset management systems		115	115	121	126
Regional bulk infrastructure	2 237	2 521	3 496	4 099	4 045
Water services infrastructure	3 620	3 701	3 864	4 038	4 219
Other	3 982				
<b>Total direct transfers</b>	<b>137 585</b>	<b>154 188</b>	<b>163 972</b>	<b>174 382</b>	<b>183 330</b>
<b>Indirect transfers</b>	<b>7 727</b>	<b>8 171</b>	<b>8 481</b>	<b>8 862</b>	<b>9 259</b>
Municipal systems improvement		140	147	153	160
Integrated national electrification programme	2 824	3 588	3 821	3 993	4 172
Neighbourhood development partnership		201	101	105	110
Regional bulk infrastructure	3 857	3 470	3 607	3 769	3 938
Water services infrastructure		771	805	841	879
Other indirect grants	1 046				

- 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, government is funding free basic services to 11.2 million households at a cost of R70.9 billion

# Real per capita spending per function group

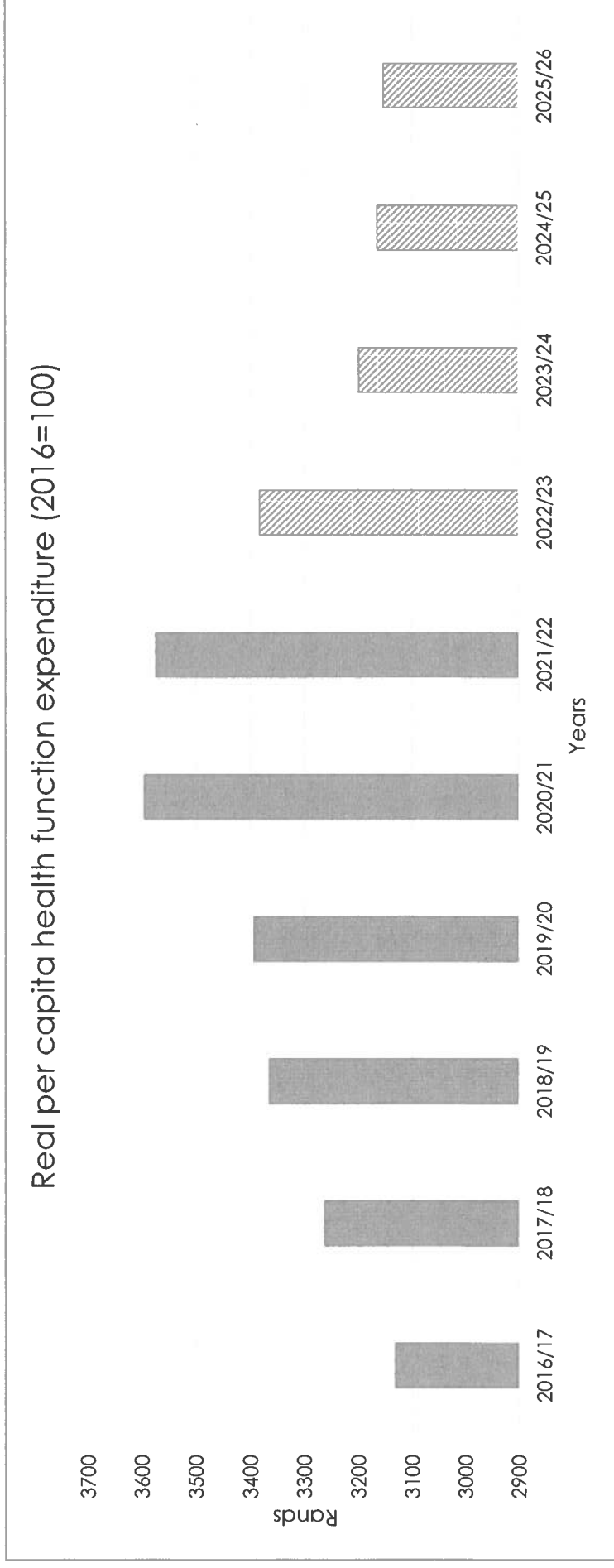
- Total real per capita expenditure declines in the medium term
- Only expenditure on economic development and community development increase marginally in real terms
- In 2016/17 total real expenditure per capita was R23 116, by 2025/26 this will decline to R22 747
- In 2023/24, total real per capita spend is R23 402, a decline from the projected R24 255 in 2022/23





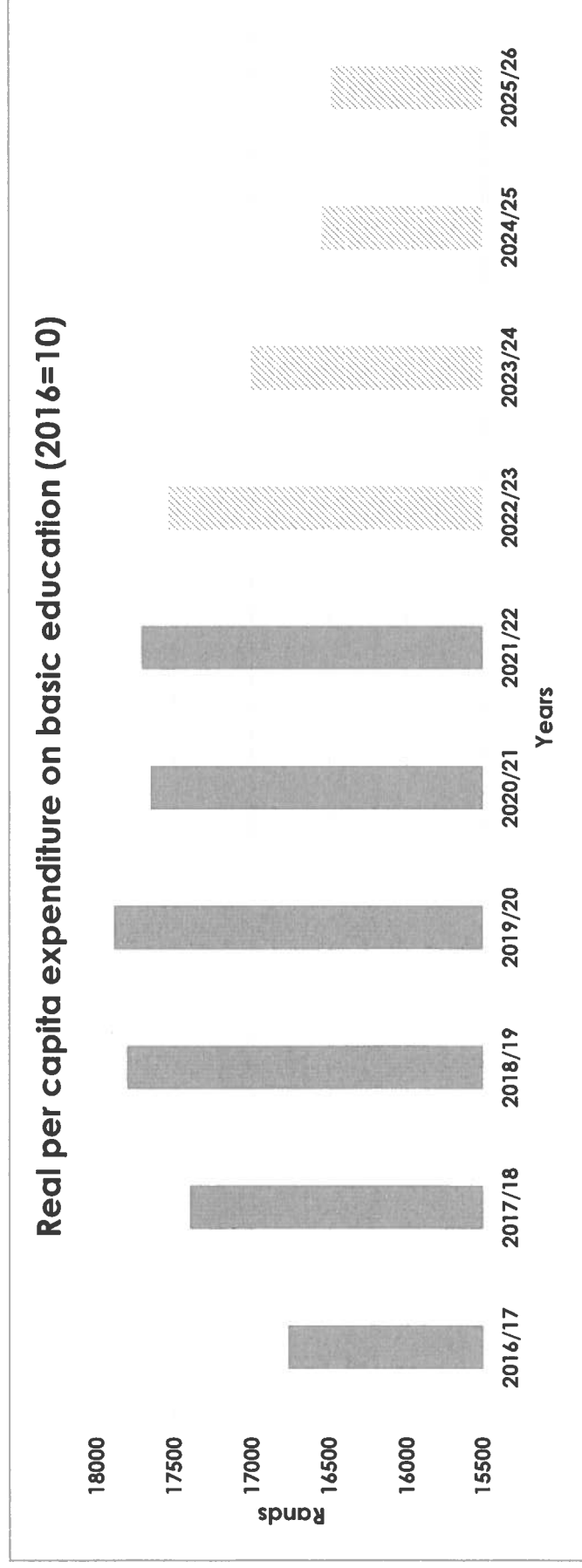
# Real per capita spending in health

- Expenditure has declined after the increases during 2020/21 and 2021/22
- Total real per capita expenditure on health declines in the medium term
- 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 (8%) less in 2025/26 than it spent in 2019/20
- Reductions in health expenditure are likely to be more pronounced, given that medical inflation tends to be higher than CPI



# Real per capita spending in education

- Total real per capita expenditure on basic education declines in the medium term
- In real per capita terms, government will be spending less per student in 2025/26 than it did in 2016/17
- In 2016/17, 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)
- In the 2021 Budget, NT acknowledged that budget reductions would disproportionately impact no fee-paying schools. The impacts of this budget should be queried



# Eastern Cape Provincial Context

# Eastern Cape situational analysis

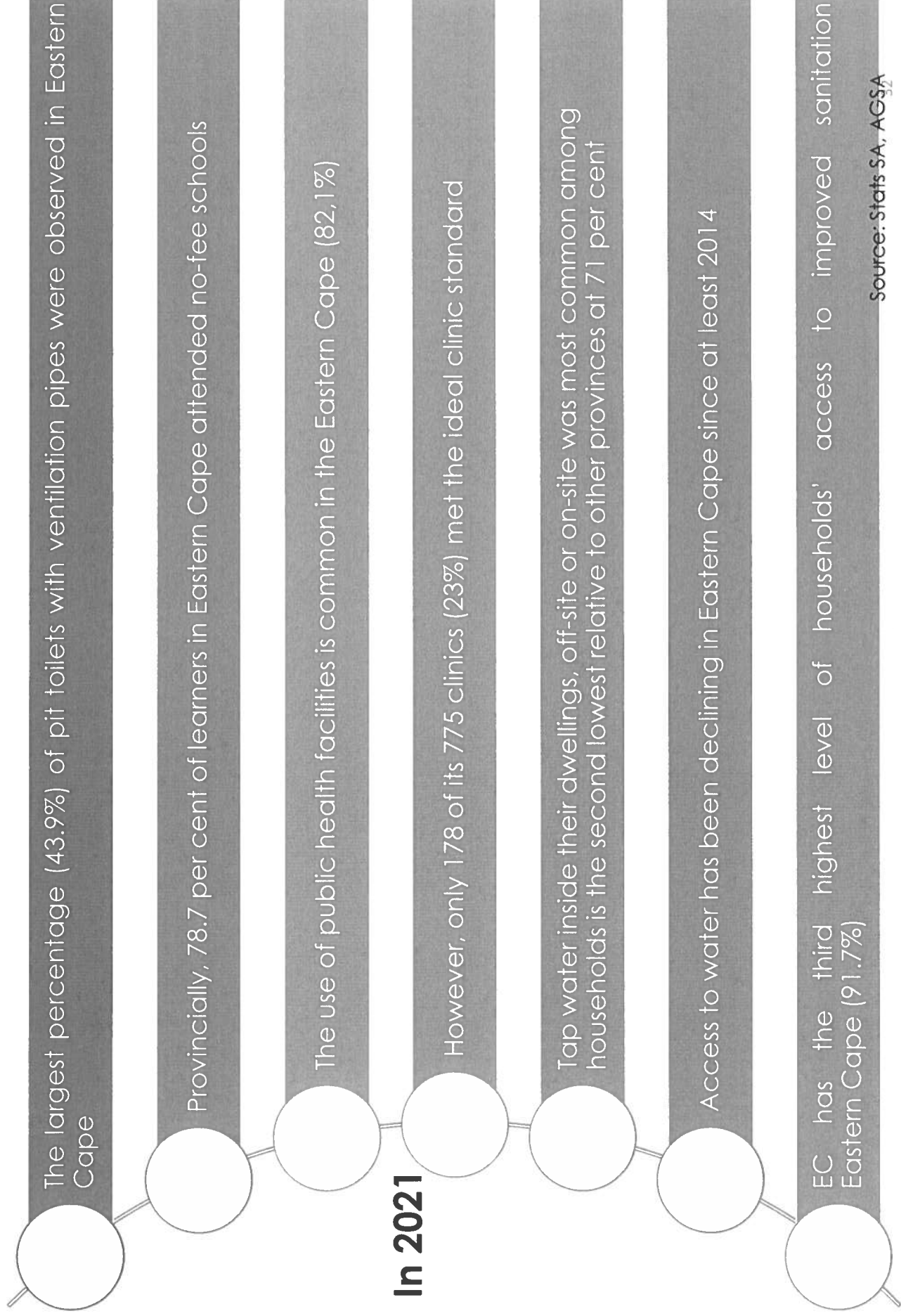
Indicator	Eastern Cape	National
Population (2022)	6.7 million	60.6 million
Human Development Index (2019)	0.671	0.709
Health Dimension		
Health index	0.646	0.678
Life Expectancy (2019)	62 years	64.10 years
Education Dimension		
Knowledge index	0.685	0.723
Expected years of schooling (2019)	13.7 years	13.8 years
Income Dimension		
Mean years schooling	9.1 years	10.2
Income index	0.683	0.725
GNI per capita in thousands of US\$ (2011 PPP)	9.1	9.4

Source: Stats SA, UNDP<sup>30</sup>

# Eastern Cape situational analysis

- The Eastern Cape has the highest unemployment rate at 40 per cent as of Q1 2023 (Expanded definition: 45.%)
- The unemployment rate has dropped drastically from 47.9 per cent in Q4 of 2020 to 42.1 per cent. However it still remains the highest in the country under the crippling economy, and it is above the national level of 32.9 per cent
- In 2021, a larger percentage of households received grants compared to salaries as a source of income in Eastern Cape (63.7% versus 46.2%)
- As of 2021, grants were most important as a main source of income for households in Eastern Cape (42.0%)
- EC is in the top three provinces that experience the largest number of outflow of migrants
- EC is one of the provinces with the highest proportions of persons younger than 15 (32.7%) and proportions of elderly persons aged 60 and above (11.5%) compared to other provinces
- Female-headed households were most common in provinces with large rural areas such as Eastern Cape (50.6%)
- This demographic distribution phenomenon has implications for the pressure on service provisioning for these vulnerable groups

# Eastern Cape situational analysis



# Financial management & Auditor General findings: Eastern Cape

- The Province have shown significant improvement, however, “Decisive action is still required by leadership to meaningfully improve service delivery” –AGSA
- In 2021/22, there were 11 clean audits (52%), which is the highest number of clean audits in the history of the province
- Due largely to the provincial transport department's prior period adjustment of R2.1 billion in the previous year due to non-compliance in procuring bus services, the province's irregular expenditure decreased from R3,03 billion in the previous year to R1.35 billion in 2021/22
- Most (79%) of the irregular expenditure in 2021/22 related to non-compliance with the supply chain management requirements of competitiveness and transparency.
- The irregular expenditure closing balance increased from R6,5 billion in the previous year to R7.5 billion in 2021/22
- Some departments are not delivering on all of their performance targets, which put the province at risk of falling behind on its plans to meet the objectives of the MTSF
  - For example: According to the AGSA “in 2021-22 the department achieved only 15% of its planned targets relating to public ordinary school education. In its annual performance report, the department reported that 22% of schools did not receive learner material for maths and languages”
- Poor financial and performance management in the key service delivery departments means that citizens are denied critical services that can help sustain and improve their

# Underspending Analysis

EC Education function

EC Health function

EC Social Development function



# Underspending Analysis

- The Office has embarked on producing a series of analysis on government underspending of the budget over a ten year trend
- We looked at quantitative and qualitative analysis, to assess whether and the extent to which there has been underspending in government department
- Provincial government departments data is compiled by function from the Estimates of Provincial Revenue and Expenditure (ENE) published by the National Treasury
- We covered various government functions at both National and Provincial level
- Including Provincial Education Department (PED), Department of Health (PDOH) and Social Development (PDSD)
- We calculated the budget deviation by comparing the adjusted appropriations to the audited expenditure outcomes between 2013/14 and 2020/21
- The Office also sought to identify the reasons for underspending
- Departmental annual reports are analysed to collate information on reasons for underspending
- Limitation: the analyses contained in do not reflect quality of spending or compliance standards.
- The AGSA has continuously highlighted the issue of clean audit

# Underspending in the Eastern Cape

Year	Education		Health		Social Development	
	Under/(Over) spend	Per cent	Under/(Over) spend	Per cent	Under/(Over) spend	Per cent
<b>R million</b>						
<b>2013/14</b>	759 516	2.8%	135 291	0.8%	115 031	5.6%
<b>2014/15</b>	613 779	2.2%	129 189	0.7%	22 482	1.0%
<b>2015/16</b>	1 265 579	4.3%	79 758	0.4%	7 813	0.3%
<b>2016/17</b>	15 684	0.1%	142 090	0.7%	43 308	1.8%
<b>2017/18</b>	213 424	0.6%	63 902	0.3%	125 563	4.8%
<b>2018/19</b>	-133 651	-0.4%	-446 794	-1.9%	136 948	4.8%
<b>2019/20</b>	553 896	1.5%	-434 113	-1.7%	191 744	6.3%
<b>2020/21</b>	-1 273 739	-3.6%	-610 392	-2.2%	520 345	16.7%

Source: PBO calculations using National Treasury EPRE data

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

Note: Underspending equal or above two per cent are highlighted in red font

- Provincial departments of education (PED) generally underspent, even though there were years when departments recorded overspending in their budget
- In the provincial health department, underspending generally falls below two per cent and had occurred between 2013/14 to 2017/18 before the department overspent its budgets
- Social development recorded underspending for all years of analysis. In most years, underspending was above two per cent reaching highest level of 16,7 per cent in 2020/21

# Reasons for underspending: Eastern Cape

## Basic Education

- **Compensation of employees:** mainly due to the attrition rate, slow filling of posts, slow payment processes for educator and non-educator posts in Public schools
- **Supply chain management problems:** for example, procurement processes and delays in invoices
- **Non-Implementation of Projects/Programmes:** due to challenges of outstanding land issue for projects or slow implementation of the service delivery model
- **Cash flow problems:** due system closure and due to overall challenges of cash flow
- **Process Delays:** Stringent verifications and reconciliation processes
- **Operational Costs and Cost Containment Measures:** implementation of Austerity Measures
- **Reprioritization of funds:** budgets were reprioritized to cover other budget pressures in other areas

## Health

- **Compensation of employees:** Vacant posts not being filled in multiple programmes
- **Non-compliance with prescripts:** several Community Based Organisations not complying
- **Process Delays:** NGOs payments could not be made due to Service Level Agreements not delays
- **Medico-legal claims:** have led to underspend in several programmes from 2017/18
- **Cash flow problems:** Non processing of payments
- **Increased efficiency:** In the Free State and Western Cape the department reports that underspending can be attributed to the implementation of efficiency and cost-containment measures to curtail excess expenditure.
- **Interdepartmental projects:** The Health Infrastructure Grant that involve the Department of Transport and Public Works".

## Social Development

- **Compensation of employees:** Vacant posts not being filled in multiple programmes
- **Procurement processes and timelines:** For example, contractors performing below par and late submission of invoices and new contractors
- **Capacity challenges:** delays within the department due to capacity constraints for administering the grant.
- **Process Delays:** Stringent verifications and reconciliation processes led to delay in of allocations
- **Covid-related restriction:** level 4 and 5 restrictions resulted in no intake on Childrens in ECDs
- **Delays in transfers:** For example, the EPWP Integrated Grants
- **Operations costs:** as a result of non-delivery of subsidized vehicles led to underspending

Thank you

# Personal income tax (PIT)

- PIT has a progressive rate structure to contribute to greater equity
  - This means that taxable income is taxed at different rates
  - Higher income is taxed at higher rates
- **The difference between marginal and average personal income tax rates:**
  - To balance the need for revenue with people's ability to pay taxes, governments may choose not to tax some parts of a person's income
  - Or, it may tax them at different rates – this is known as marginal income taxation
  - As a result, the average tax rate will differ from the marginal tax rates in the PIT schedule
- **2022 budget proposal:**
  - The personal income tax brackets and rebates is adjusted by 4.5 percent, in line with inflation
  - The adjustments mean that the annual tax-free threshold for a person under the age of 65, will increase from R87 300 to R91 250

# Corporate income tax (CIT)

- CIT is a tax on profit (that is, revenue less expenditure)
- It is currently set at 27%; however, the actual tax rate paid (effective tax rate) by corporates in South Africa varies by sector but generally lower than 27%, @ 15%
- This is because there are tax incentives aimed at enabling corporate investment, profitability and labour demand
- In South Africa, the CIT over the ten years has proven to be particularly elastic with respect to growth
- In other words, high economic growth generated even higher profits that could be taxed, while CIT declined significantly after the global economic crisis

# Value added tax (VAT)

- South Africa's VAT is imposed at a rate of 15%
- The tax is imposed on consumption and is collected and handed over by VAT vendors
- Some VAT goods and services qualify for zero ratings and exemptions
- Some basic food and related items are zero rated in order to reduce the inequity of the VAT
  - Since poorer households tend to spend a larger share of their income on consumption, a VAT without zero ratings would in effect be imposed at a higher rate on poor households when compared to rich households

# The Division of Revenue Bill and the Intergovernmental system (cont.)

- It also legislates a number of rules of co-operative governance, including:
  - What must happen if actual revenue falls short of anticipated revenue,
  - Under which circumstances allocations to sub-national governments may be withheld or delayed or a payment schedule changed
  - Under which circumstances, and how, funds may be reallocated from one horizontal unit of government to another
- It determines sanctions and consequences for individuals if the provisions of the bill are not met
- The annexes to the bill include a framework analysis of each conditional grant, detailing its conditions, rationale, criteria for allocation, monitoring mechanisms, past performance, allocations, projected life and payment schedule



## The Division of Revenue Bill and the Intergovernmental system (cont.)

- The framework is published to provide clarity and certainty on the complex system of conditional grants to stakeholders, and for budget implementation and monitoring purposes
- Departments are expected to report against the Division of Revenue Bill and its schedules, covering both financial and non-financial performance
- The Auditor General audits compliance with the bill, in both the transferring national departments and the receiving provincial departments and municipalities
- In the intergovernmental system, the Division of Revenue Bill is supported by the annual Intergovernmental Fiscal Review, first published in 1999
- Intergovernmental Fiscal Review is a compilation of expenditure and service delivery trends and financial issues in the nine provincial governments and local government

# The Division of Revenue Bill and the Intergovernmental system (cont.)

- The Review provides invaluable holistic information on provincial service delivery achievements and obstacles
- The Review is an annual feature in the budget cycle, thereby contributing to a high and continuing level of transparency in a very complex system
- Actual spending information is published in-year on a monthly basis for all national departments by the National Treasury, and on a quarterly basis across national and provincial governments, providing vital information to Parliament and other stakeholders to monitor budget implementation
- The information is submitted to the Treasury under the statutory reporting requirements of spending departments;
  - and forms part of the “early warning system” whereby deviation from spending plans can be detected early and addressed by the

Treasuries

# Amounts to be appropriated from the revenue fund to the National sphere

R thousand	Appropriated (including direct charges)	Current payments	Transfers and subsidies	Percentage to be transferred	Payments		Increase/ Decrease <sup>1</sup>
					for capital or financial assets	assets appropriated	
	2022/23				2023/24		
3	Cooperative Governance	5 092 057	1 16 582 750	95.8%	23 444	121 698 251	10 333 390
8	National Treasury	343 481 129	612 872 530	63.9%	1 63 151	958 484 458	46 518 635
13	Public Works and Infrastructure	1 282 567	7 490 793	85.3%	8 745	8 782 105	234 838
16	Basic Education	3 054 709	26 990 726	84.9%	1 737 278	31 782 713	2 222 546
17	Higher Education and Training	11 852 217	121 651 029	90.9%	305 298	133 808 544	3 674 346
18	Health	2 553 033	56 251 340	93.6%	1 307 061	60 111 434	-4 419 543
19	Social Development	929 497	262 085 938	99.6%	13 764	263 029 199	6 027 838
22	Correctional Services	24 469 348	724 740	2.8%	832 584	26 026 672	-82 048
23	Defence	44 552 822	5 721 088	11.2%	850 519	51 124 429	2 034 340
25	Justice and Constitutional Development	18 990 590	3 413 303	14.7%	788 757	23 192 650	772 199
28	Police	97 135 597	1 267 160	1.2%	3 734 899	102 137 656	1 442 341
29	Agriculture, Land Reform and Rural Development	7 426 141	9 314 498	54.0%	513 709	17 254 348	-33 350
33	Human Settlements	954 376	33 460 598	95.8%	527 427	34 942 401	1 917 685
37	Sport, Arts and Culture	998 953	5 072 729	79.8%	286 001	6 357 683	62 555
40	Transport	1 664 068	77 894 899	97.9%	6 044	79 565 011	10 427 082
41	Water and Sanitation	3 545 317	14 061 490	63.2%	4 650 499	22 257 306	3 717 637
<b>Total</b>		<b>607 535 879</b>	<b>1 400 170 713</b>	<b>69.0%</b>	<b>18 401 162</b>	<b>2 028 075 402</b>	<b>68 388 357</b>