Parliamentary Budget Office

PARLIAMENT OF THE REPUBLIC OF SOUTH AFRICA

Fiscal Brief

February 2022

The Parliamentary Budget Office (PBO) was established in accordance with the 2009 Money Bills Amendment Procedure and Related Matters Act, as amended (Act No. 9 of 2009). The main aim of the PBO is to provide independent, objective and professional analysis or advice to Parliament on matters relating to the Budget and other financial legislation. The PBO supports the implementation of the Act by undertaking research and analysis for the relevant Finance and Appropriations committees.

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1. Purpose

The Fiscal Brief aims to provide Members of Parliament (MPs) with an update on the progress with the implementation of the 2021 Budget. In particular, this brief provides an overview of the nine months of the 2021/22 financial year until end of December 2021 (Q3) for public finance outcomes against the budget at national and provincial government levels. This brief is based on the Public Finance Management Act (PFMA) section 32 reports for national and provincial departments released on the 28th January 2022.

2. Revenue Overview

2.1. Tax revenue collection by December 2021

The 2021 Medium Term Budget Policy Statement (MTBPS)-Adjustments budget- revised estimated gross tax revenue collection for 2021/22 was revised to R1.49 trillion; R120.3 billion more than the 2021 Budget estimates. By the end of Q3 of 2021/22, R1.13 trillion (76.4%) had been collected. This collection rate is; 2.3 per cent decrease in collections compared to the similar period in 2020/21, where it was 78.7 per cent.

Relative to 2020 Adjustments budget estimates, all tax instruments targets were revised upward by R120.3 billion in the 2021 Adjustments budget except for specific excise duties were which saw a decline in the revised estimate. Of the revised amount, CIT contributed 63 per cent in revenue as a result of better than expected collection in the mining and quarrying, finance and manufacturing sectors. The improvement in tax revenue collection can largely be attributed to the boost in commodity prices. Year-on-year, there actual collection for all tax instruments by end of Q3 in 2021/22 financial year was better than expected when compared to the same period in 2020/21. In contrast, actual tax collection was less than expected in 2020 due to limited economic activities during the level five lockdown. Despite the upward revisions, tax revenue collection remains below the pre-pandemic projections.

Table 2.1 Tax Revenue performance, collection against budget

Tax Revenue Source	2021 BR Estimates		2021 Revised estimates		Actual Apr-Dec 21		Aactual Apr-Dec 20	
	R billion	Y-on-Y % change	R billion	Y-on-Y % change	R billion	Y-on-Y % change	R billion	Y-on-Y % change
Personal Income Tax	515.0	11.7	542.0	16.2	391.2	13.0	340.5	-10.0
Value Added Tax	370.2	18.6	373.6	23.0	276.8	15.7	233.3	-5.7
Corporate Income Tax	213.1	19.4	288.7	44.7	251.8	42.5	144.7	-11.8
Fuel Levy	83.2	24.0	89.6	23.7	66.7	17.4	55.1	-7.2
Dividend withholding tax	16.8	15.7	29.9	30.9	23.4	29.5	165.0	-31.1
Custom Duties	54.0	13.1	55.7	26.9	39.9	20.1	31.9	-28.3
Specific Excise Duties	43.7	17.0	42.3	20.1	33.1	41.2	19.5	-63.2
Skills Development Levy	17.8	36.6	18.9	46.3	14.1	46.7	7.5	-78.8
Ad-valorem	3.5	8.1	4.4	27.5	3.5	39.2	2.2	-50.6
Other	47.8	63.1	40.2	14.7	34.4	28.4	24.6	-7.3
Gross Tax Revenue	1365.1	17.9	1485.3	25.1	1134.9	22.8	1024.3	-11.8

Source: NT, SARS and PBO

3. Expenditure Overview

During the 2021 Adjustments budget period main budget expenditure was revised upwards from R1.83 trillion to R1.89 trillion[1]

Table 3.1 Total expenditure/ revised budget estimates

Year R billion	Adjustment budget	YTD	YTD %
2021/22	1885 417	1358 228	72.0
2020/21	1807 867	1301930	72.0

Source: NT Section 32 report

[1] Appropriation by national vote and total direct charges against the NRF.

The aggregate budget estimate for national departments is R1.03 trillion of which 74.1 per cent was spent by the end of December 2021. This percentage spent is 2.7 per cent higher than the same period in the previous financial year.

A notional benchmark for expenditure in three quarters of a financial year is 75 per cent. Seven of the forty-one national departments had spent more than 75 per cent of their 2021/22 revised budgets by the end of Q3. The top three fastest spending votes being Pubic Enterprises (99%), followed by Higher Education and Training (92.9%) and Small Business Development (83%)[2]. The fast spending in the department of Public enterprises is due to the high percentage of payments for financial assets that was appropriated specifically for Eskom and SAA and for the Department of Higher Education and Training for transfers and subsidies to the University Education programme. The two slowest spending departments were the Military Veterans (47.6%) and the National Treasury (44.4%) who had spent less than half of their adjusted budget by Q3.

Table 3.2 Q3 faster spending on national departments

Vote R'000	Adjusted Appropriations	YTD - April - Dec 2021	%YTD
Public Enterprises	36 274 819	35 920 194	99.0
Higher Education and Training	97 889 005	90 948 446	92.9
Small Business Development	2 637 063	2 189 793	83.0
Basic Education	27 239 260	22 177 727	81.4
Tourism	2 545 338	2 003 573	78.7
Health	64 771081	49 361223	76.2
Transport	65 425 538	49 541944	75.7

Source: NT Section 32 report, ENE

By the end of Q3, the aggregate spending for direct charges to the revenue fund was 72 per cent of the revised estimates – this is similar to expenditure reported in Q3 of the 2020/21 financial year.

3.1. Capital Expenditure

The capital expenditure budget is an allocation to be spent on assets that can be used for more than one year with the expectation of future economic benefits. Therefore, maximum spending of this allocation enhances the state capacity to deliver services. The revised capital expenditure allocation by national votes increased from a 1.19 per cent (R12 billion) share of the total national vote expenditure in 2020/21 to a 1.53 per cent (R15.8 billion) share in the 2021/22. By the end of December 2021, 44.4 per cent of the 2021/22 capital budget was spent by national departments. The proportion spent was lower than in the third quarter of the 2020/21 financial year (53.7%).

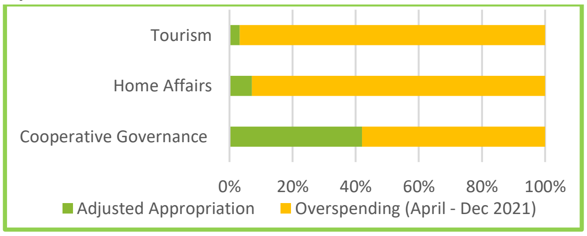
Table 3.3 Capital assets by national vote, April – December 2021

R billion	Budget Review	YTD	YTD %
2021/22	15 784 108	7 000 811	44.4%
2020/21	11 960 699	6 422 529	53.7%

Source: NT Section 32 report

The data in table 3.3 does not capture total government capital expenditure. The bulk of the national budget was allocated to transfers and subsidies (67.6%) which also include capital expenditure. The PBO is unable to directly provide analysis of such capital expenditure. While there was overall slow spending of the capital budget, three departments have incurred overspending as a result of unbudgeted expenditure on buildings and other fixed structures, machinery and equipment, software and other intangible assets[3]. Figure 3.1 illustrates that the department of Tourism spent R118.7 million on capital expenditure compared to an estimated amount of R4 million, Home Affairs spent R178.7 million compared to its R13.7 million capital budget and Cooperative Governance spent R30.5 compared to its capital budget of R22.1 million by the end of December 2021.

Figure 3.1 Departments with over 100% spent on Capital Budget, April – December 2021



Source: NT Section 32 report

In general, slow spending on capital assets is observed. The nature of the capital projects/assets procured, coupled with supply chain management regulations may have contributed to the rate of spending on capital assets over the years.

3.2. Expenditure Outlook – 2021/22

During the in-year Adjustments process, consolidated spending was revised to R1.89 trillion for the 2021/22 financial year. The primary focus of spending will continue to be on learning and culture, health and social development. The 2022 Budget Speech is expected to follow through on the set fiscal policy priorities and expand on proposed cost saving measures.

4. Debt Overview

4.1. Government debt

The actual outcome of net loan debt[4] for 2020/21 amounted to R3.60 trillion (64.7 per cent of GDP), with gross debt increasing to R3.94 trillion (70.7 per cent of GDP) from R3 17 trillion (60.8 per cent of GDP) in 2019/20. The gross loan debt for 2021/22 is estimated to reach R4.31 trillion (69.9 per cent of GDP) and net debt to be R4.01 trillion (66.2 per cent of GDP). The revised gross national debt is estimated to increase by R300.6 billion from R3 936 billion in 2020/21 to R4 314 billion in 2021/22. while net loan debt is estimated to reach R 4.1 trillion. Foreign debt makes up R470.1 billion or 10.9 per cent of the gross national debt stock, which amounts to 11.5 per cent of the net loan debt. The largest increase in loan

[2]See table 3.1
[3]ENE 2021

[4]Net government debt: Gross debt minus NRF bank balance

debt was between 2019/20 and 2020/21 when gross borrowing requirements increased by R767.3 billion to R3 935 billion from R3 167 billion, representing the largest increase in three years. It then increased by R378.3 billion to R4 314 billion in 2021/22.

Table 4.1 National Government Debt

	2019/20	2020/21	2021/22
R thousand	Outcome	Outcome	Revised Estimate
Domestic loans	2 849.0	3 543.3	3 843.9
Foreign loans	318.4	392.4	470.1
Gross loan debt	**3 167.4**	**3 935.7**	**4 314.0**
Less: National Revenue Fund bank balances	- 243.6	- 333.9	- 224.9
Net loan debt	**2 923.8**	**3 601.8**	**4 089.1**
As percentage of GDP:			
Gross loan debt	60.8	70.7	69.9
Net loan debt	56.1	64.7	66.2

Sources: MTBPS 2021 & NT

4.2. Government Borrowing Requirement

The budget deficit for the 2021/22 financial year was revised downwards to R409.9 billion (6.6 per cent of GDP) during the in-year adjustments process from the estimated amount of R500 billion (9.3 per cent of GDP). The borrowing requirement was R219.1 billion (53.5. Per cent) by the end of Q3[5], which was 7.7 per cent less than the amount reached by Q3 in the 2020/21 financial year.[6]

Table 4.2 Government borrowing requirement

	R million	Budget Review	MTBPS	Q3	%
2021/22	Main budget deficit	500.0	409.9	219.1	
	Percentage of GDP	9.3	6.6		53.5
2020/21	Main budget deficit	368.0	707.8	433.0	
	Percentage of GDP	6.8	14.6		61.2

Sources: MTBPS 2020 & 2021, Section 32

5. Provincial Overview

5.1. Provincial Receipts

This section provides progress on revenue collection rates for the first nine months of the 2021/22 financial year until end of December 2021.

Table 5.1 Provincial receipts government (April – Dec 21)

Actual against budget receipts R'000 - December 2021				
	Receipts	Adjusted Appropriaiton	Actual	%
FY 2020/21	NRF	627 797 839	484 728 531	77.2
	Own receipts	18 541 736	14 135 366	76.2
	Total Receipts	646 339 575	498 863 897	77.2
FY 2021/22	NRF	660 744 689	490 373 153	74.2
	Own receipts	20 724 984	14 886 988	71.8
	Total Receipts	681 469 673	505 260 141	74.1

Source: PBO, NT datasets 2020 & 2021

Provincial governments have their own revenue raising powers. However, more than 95 per cent of their receipts is allocated from the national revenue fund. By the end of Q3,[7] provinces had on aggregate collected 75 per cent of their 2021/22 (R14.9 billion) estimated receipts. This is 5.3 per cent (or R751 million) more than the collection rate experienced during the same period in the 2020/21 financial year.

5.2. Provincial Expenditure

Table 5.2 shows provincial governments' aggregate spending, as at the end of December in 2020/21 and 2021/22 against the adjusted budget. On aggregate, provinces had spent 72.1 per cent in 2020/21 (R476.7 billion) and 72.6 in 2021/22 (R501.6 billion).

Table 5.2 Provincial government expenditure (April – Dec 21)

Provincial Government Payments R'000 - December 2021			
Expenditure	Adjusted Appropriation	Actual	%
FY 2020/21	661 364 082	476 705 079	72.1
FY 2021/22	690 606 448	501 620 121	72.6

Source: PBO, NT datasets 2020 & 2021

The R501.6 billion aggregate spending represents 5.2 per cent or a R24.9 billion increase compared to the same period in 2020/21. Table 5.3 shows total provincial expenditure by economic classification. On aggregate, provincial expenditure allocation for the current year, 2021/22, is R690.6 billion. Of the total budget, current payments consist of more than 80 per cent (R560 billion) of the budget followed by transfers and subsidies at 13.2 per cent (R90.9 billion).

Table 5.3 Provincial government expenditure, April – Dec 2021

Provincial expenditure by economic classification R'000			
Economic class	Adjusted Budget	Expenditure	% share
Current payments	562 985 148	413 583 040	81.5
COE	*417 289 662*	*311 768 881*	*60.4*
Goods and	*145 681 325*	*101 791 422*	*21.1*
Interest & rent on land	*14 161*	*22 737*	*0.0*
Transfers and subsidies	90 924 713	66 931 137	13.2
Capital assets	36 676 984	21 076 687	5.3
Financial assets	19 603	29 256	0.0
TOTAL	690 606 448	501 620 121	100.0

Source: PBO, NT datasets 2021

It is also worth noting that Compensation of Employees (COE) accounts for about 75 per cent (R417.3 billion) of current payments and more than 60 per cent of the total provincial current expenditure budget. Goods and services accounts for about 26 per cent (R145.7 billion) of the current payments budget and more than 20 per cent of the total provincial expenditure budget. Provinces have on aggregate spent just about 73 per cent of their current expenditure budgets in Q3 of 2021/22 compared to 71.2 per cent around same time in 2020/21.

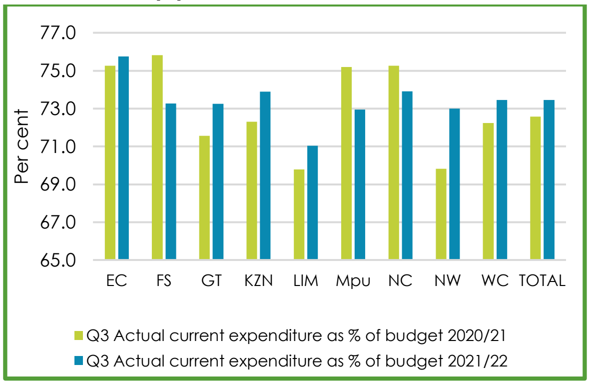
[5] 2021 MTBPS, Sec 32 Reports
[6] 2020 MTBPS, Sec 32 Reports,

[7] Q3: In this brief provincial analysis focus on financial information available for period ended on 31 December 2021

a) Current Expenditure per province

Figure 5.1 shows actual provincial current payments, as at end of December, as a percentage of the budget for 2020/21 and 2021/22. On aggregate, provinces have spent 73.5 per cent of their current payments budget by the end of Q3. The Eastern Cape has spent 75.7 per cent of their 2021/22 current payments budget while Limpopo Province spent just over 71 per cent. Compared to the same period last year, Limpopo (69.8%) and the North West (69.8%) have spent less than 70 per cent of their current payments budget.

Figure 5.1 Provincial current payments per province as at end December 2021 (%)

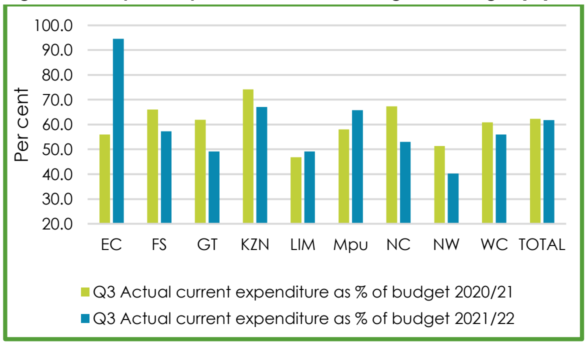


Source: PBO, NT datasets 2020 & 2021

b) Capital Expenditure per province

The 2021/22 total provincial capital budget was slightly increased by just 1.7 per cent from R36.3 billion in 2020/21 to R36.9 billion in 2021/22. All provinces received a capital budget injection except for Gauteng and the Free State who had their budgets reduced in the 2021/22 financial year. Provinces have on aggregate spent more than 60 per cent (or R22.8 billion) of their capital expenditure budgets by the end of Q3 in 2021/22 compared to 62.3 per cent (or R 22.6 billion) for the same period in 2020/21.

Figure 5.2 Capital expenditure outcomes against budget (%)

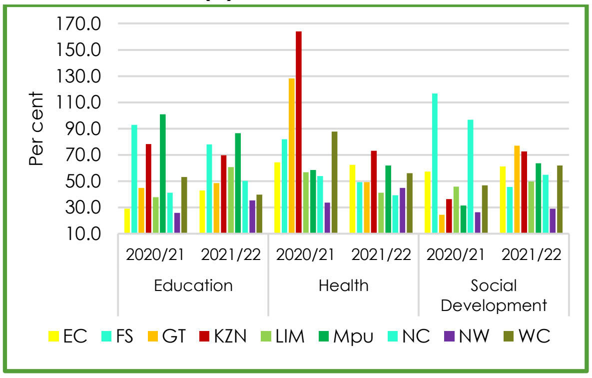


Source: PBO, NT datasets 2020 & 2021

More noticeably, the Eastern Cape (94.5%) is the only province that had nearly exhausted all of the allocated capital budget by the third quarter of 2021/22. On the other end, North West (40.3%), Limpopo (49.1%) and Gauteng (49.2%) were the only provinces that had spent less than half of their capital budgets in the same period, 2021/22. This is concerning given the importance of capital expenditure for economic development.

On aggregate, the social sector had spent just over 50 per cent of its capital budget by the end of Q3 in 2021/22. Figure 5.3 shows there has been some higher than usual spending in 2020/21 FY, especially in the health functions. This higher than usual spending could be due to the building of emergency infrastructure required for the response to the Covid-19 pandemic. Slow spending in the capital budget does not suggest underspending nor spending below par as capital expenditure. However, slow spending could provide indication of areas that require further oversight.

Figure 5.3 Capital expenditure outcomes against budget as at the end of December (%)

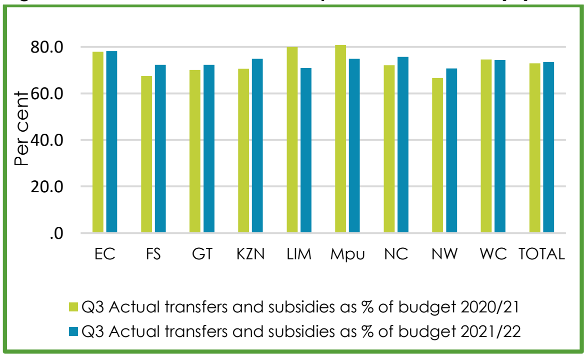


Source: PBO, NT datasets 2020 & 2021

c) Transfers and Subsidies Expenditure

Provincial governments had on aggregate transferred more than 73 per cent of their transfers and subsidy budgets in the third quarters of both 2020/21 and 2021/22 FY.

Figure 5.3 Transfer and subsidies expenditure overview (%)



Source: PBO using NT datasets 2020 & 2021

6. Conclusion

The first nine months of the 2021/22 financial year has seen an improvement in GDP growth. As a result, the government's tax revenue collection has improved especially in the mining and quarrying, finance and manufacturing sectors. However, expenditure by some national votes have exceeded prior year spending patterns which may increase the government's borrowing requirement. On aggregate, capital expenditure was within target by the end of December 2021. A detailed update on the fiscal framework will be tabled by the Minister of Finance in the Budget Review (BR) on the 23 February 2022.