

Parliamentary

Brief on 2023 Division of Revenue
Bill for Standing Committee on
Appropriation, 8 March 2023

Budget
Office



Outline

- Introduction
- Background
- Situational analysis
- Division of revenue
- Spending trends
- Underspending
- Budget Facility for Infrastructure
- Summary

Introduction

- The Parliamentary Budget Office is a juristic entity of Parliament and headed by a Director as an Accounting Officer. The Office was established in terms of the Money Bills and Related Matters Act 2009
- To support the implementation of the Money Bills and Related Matters Act of 2009; in particular support to Finance and Appropriations Committees in both Houses; but other Committees and Members of Parliament subject to available capacity
- The Money Bills and Related Matters Act guides the approval of money bills and related matters, including amending the budget
- The 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
- The purpose of this presentation is to provide an analysis of the Division of Revenue Bill and 2022 Second Adjustments Appropriation Bill to assist Members with their discussions on the Bill before adoption or recommendations
- The presentation focuses on:
 - The needs of societies
 - How the budget is divided between the three spheres of government
 - Underspending trends
 - The purpose of the Budget Facility for Infrastructure and how these funds were allocated over the MTEF
 - 2022 Second Adjustments Appropriation Bill
 - Summary

Background

Division of Revenue

Situational analysis

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
 - Conditional grants are designed to achieve specific objectives, and provinces and municipalities must meet certain criteria to receive grants and fulfil conditions when spending them
- The Explanatory Memorandum to the Division of Revenue Bill sets out the provincial and municipal allocations and details the equitable share formulas

Situational analysis

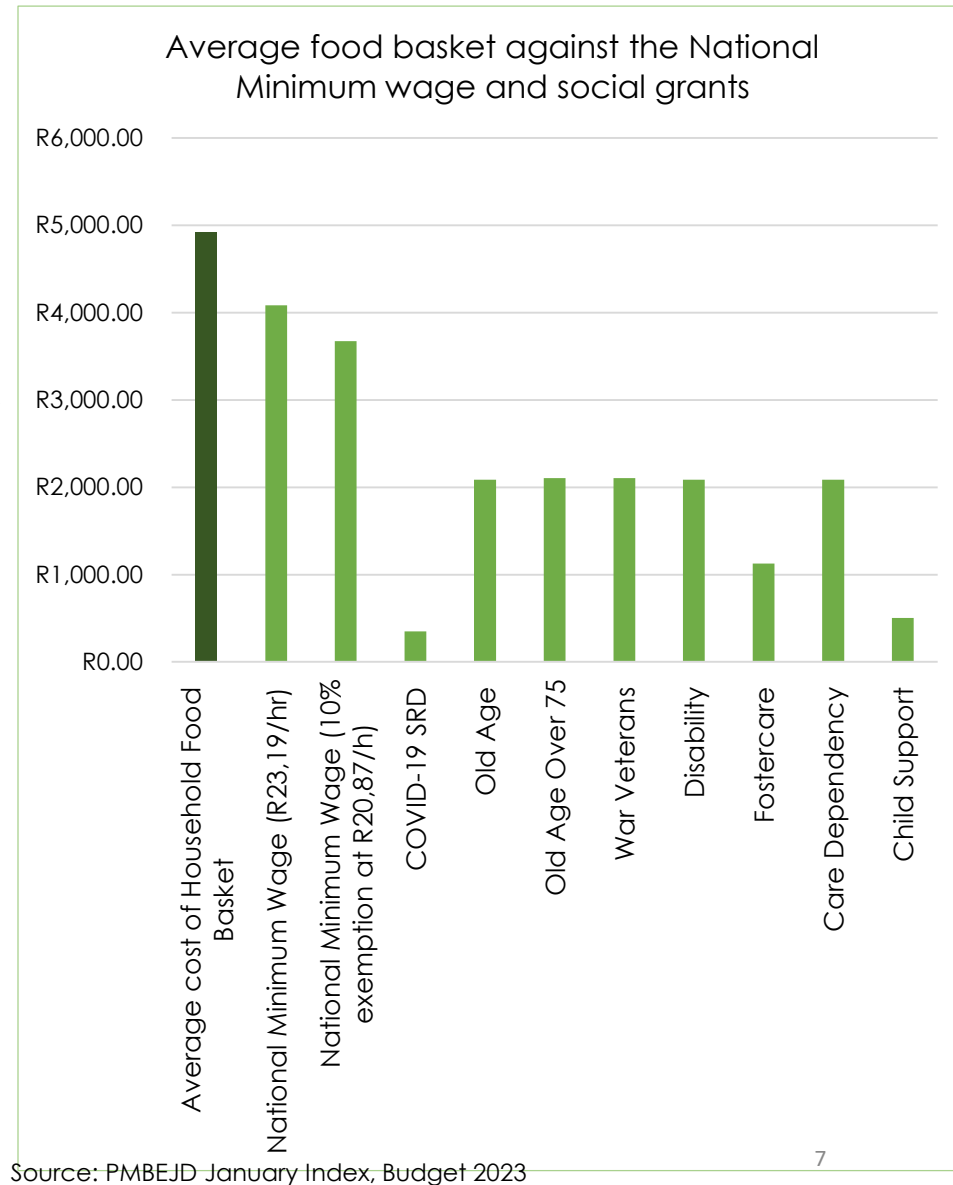
National

Provincial

Local

National sphere of government: Social protection

- Large proportions of the South African population are subject to debilitating poverty and unemployment and institutional support is inadequate
- President Cyril Ramaphosa: “African women are the face of poverty” –
- 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
- The extensions to the COVID-19 SRD grant have provided lifelines to millions of South Africans
- As of December 2022 the DSD had spent 48.2 per cent of the 2022 Budget
- The new eligibility criteria for qualifying for the grant has led to the exclusion of millions of needy people who fall below the upper-bound poverty line
- More than R9 billion of the estimated expenditure were not spent in 2022/23



National sphere of government: Justice & Protection Services

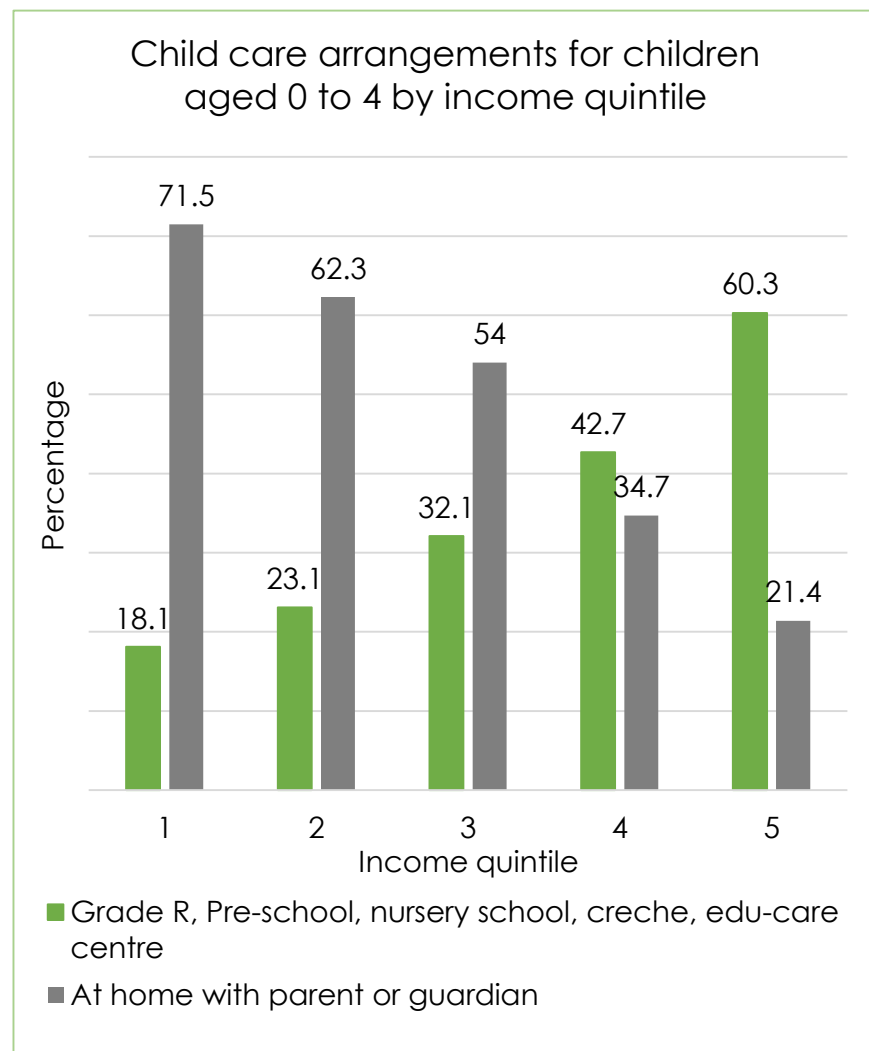
- The increases in crime reported in crime statistics is worrying
- On average, crime increased by 9.55 per cent (year-on-year) between December 2021 and December 2022
 - In 2022/23, the biggest crime category increases were attempted murder (24.3%), shoplifting (23.3%) and common robbery (21.2%)
 - Police Minister Bheki Cele has previously expressed concern about the high levels of gender-based violence in the country
- In 2020/21 there was one police officer – excluding administrative staff – for every 408 people
- Budget 2023:
 - Increased the Police budget by R7.8 billion to make provision for 5 000 police trainees each year over the next 3 years
 - The Budget is silent on funding to implement the National Strategic Plan on GBVF (NSP on GBVF)

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

- According to Stats SA, there was a decline from 36.8 per cent in 2019 to 28.5 per cent in 2021 in children aged 0 to 4 who attended Grade R and pre-school
- Children from poorer households are more likely to stay at home with parents or guardians than attend ECD centers
- 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
- 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)



Source: GHS 2021

Provincial sphere of government: Education

- The percentage of individuals aged 18 to 24 who are still attending secondary school was higher for households in poorer income groups than households in higher income groups
- 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
- 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
- For example: According to the South African Nursing Council, the current nurse-to-patient ratio is 1:218 patients while the ideal ratio is 1:16
- In March 2022, Health Minister Joe Phaahla revealed that there were 10 831 vacancies in state hospitals citing budget cuts as a significant challenge
- The Minister also highlighted that the doctor-to-patient ratio was 0.79 doctors per 1000 patients in 2019
- Primary Health Care (PHC) has deteriorated
- The preliminary outcome for the number of public health facilities that qualified as 'ideal clinics' of 1 928 in 2021/22 was lower than the 2 035 clinics that achieved an ideal clinic status in 2019/20

The Infant Mortality Rate (IMR)

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

The under-5 mortality rate (U5MR):

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

Burden of malnutrition 1994 - 2017

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

Source: Stats SA

Local government: Situation analysis

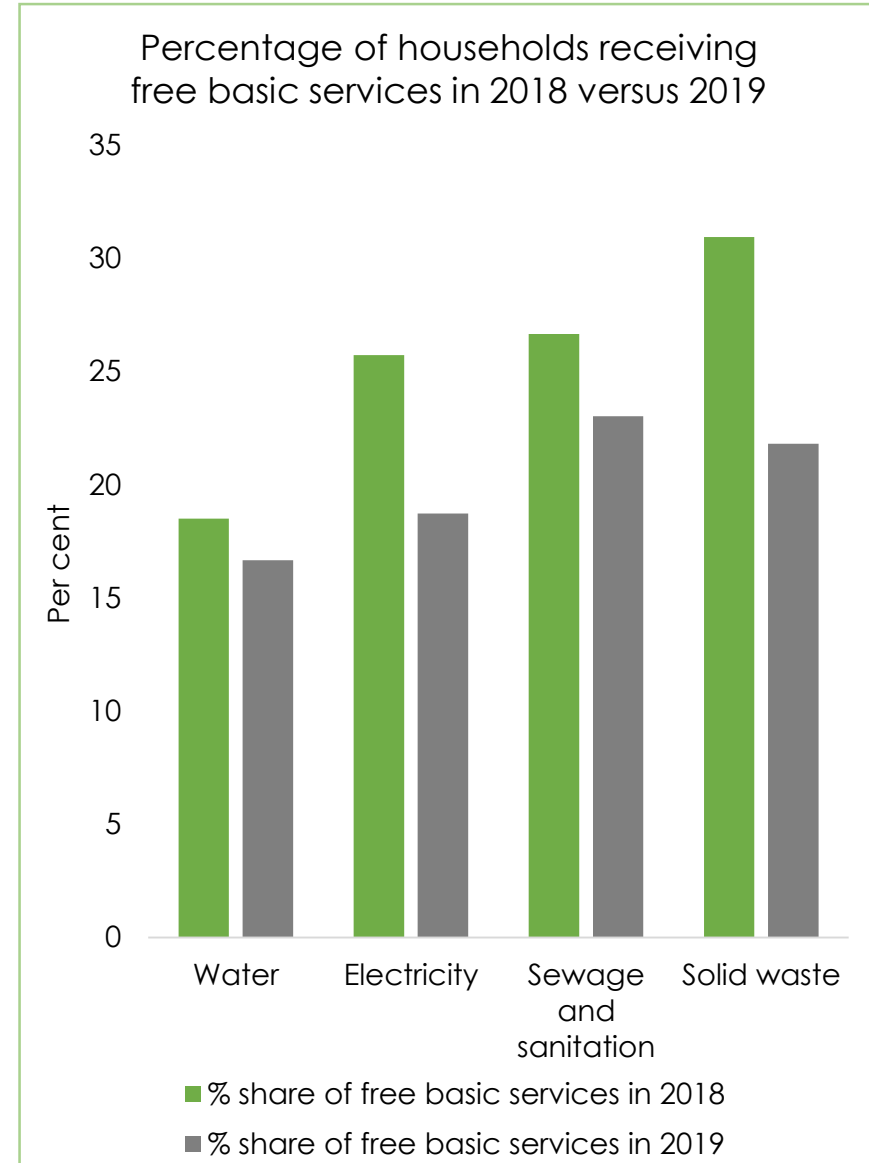
- Local government (LG) plays a critical role as a first line of interaction between citizens and government
- The business model for LGs is untenable for most LGs because it causes inadequate funding and means they provide inadequate levels and quality of free basic services
- Frustration with service 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
- Municipal IQ forecasts regular service delivery protests to continue in 2023 because of heightened frustration caused by load-shedding
- 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 GDP calculations. Insufficient and poor quality basic services mean that women and girls spend more time on these duties

Local government: Situation analysis

- The Non-financial Census of Municipalities (NFCS) 2022 reports that fewer consumer units received free basic services in 2019 than 2018:

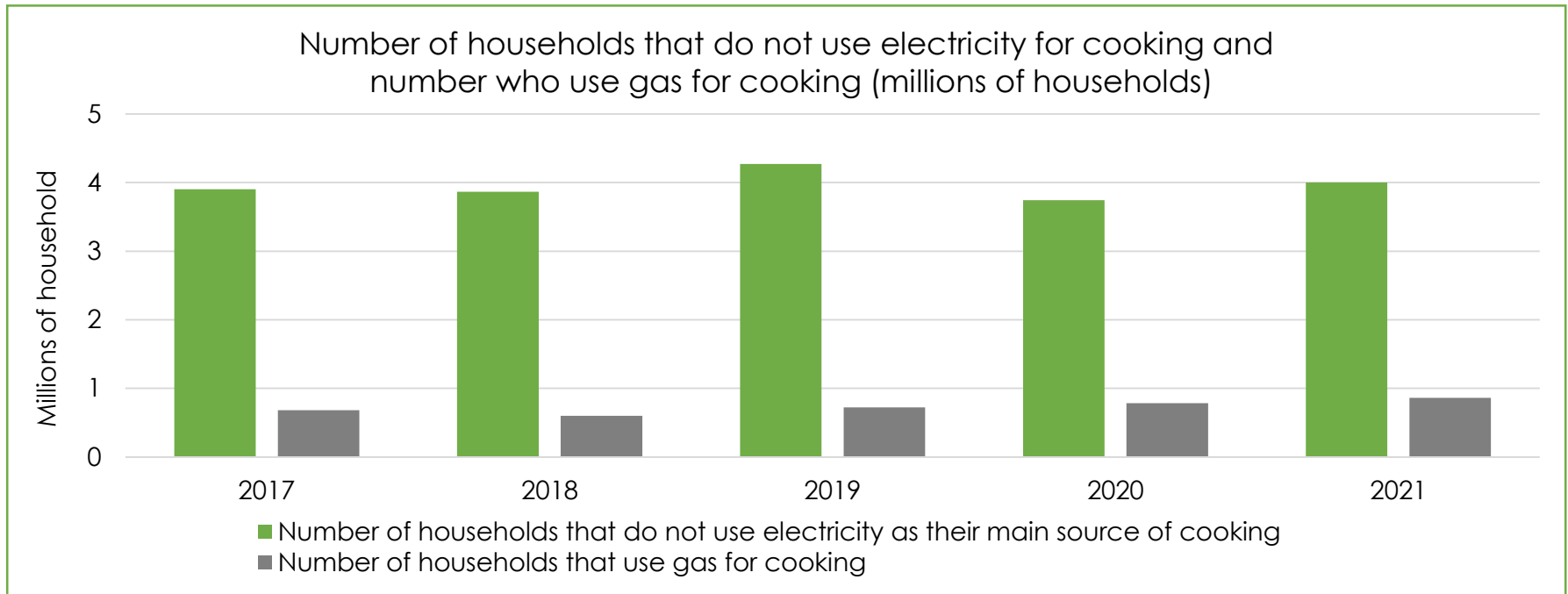
Free basic service	Decline in consumer units
Water	1 000 000
Sewerage and sanitation	645 866
Electricity	132 303

- Millions of households that are eligible for free services do not get them due to a dysfunctional system for 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 has suffered because of these conflicting goals



Source: Stats SA

Millions of households cannot use electricity to cook



Source: PBO calculations using GHS 2021

- The ability to use electricity and gas for cooking makes a huge difference to household quality of life and time for other important household tasks
- Most South African households suffer from load shedding, which has affected their ability to cook with electricity
- Millions of households have been experiencing an even worse situation than load shedding because they are too poor (including, around 10 per cent of total households in 2021 who were not connected to mains)

Challenges to service delivery

- The financial and operational challenges that hinder local government from delivering basic services are often closely related
- Failure to adequately address these challenges cause immense hardship and detrimentally affect social and economic development
- According to literature poor performance of LGs is due to a combination of:
 - capacity constraints
 - poor planning and ineffective financial management
 - inadequate monitoring and evaluation in the context of poor governance,
 - convoluted political processes
 - corruption
- Lack of up to date data exacerbates poor performance. In 2021, StatsSA suspended the detailed General Household Survey due to budget cuts. Without this critical information, data driven policy making is undermined
- Performance and financial audits by the AGSA point to serious widespread problems within local government. They reported that:
 - Only 28 per cent of municipalities submitted credible financial statements for audit in the 2019/20 financial year
 - The number of municipalities in financial distress increased from 86 in 2013/14 to 175 in 2019/20, and 123 municipalities passed unfunded budgets

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 has 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 NT but that budgets provisions over many years have been insufficient for LGs to operate properly

The social wage and actual access to services

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
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

- One cannot talk about access to important services, such as electricity and water, without taking into account both 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
- Millions of households that are eligible for free services do not get them due to a dysfunctional system for the registration of indigent household

The social wage and actual access to services

- 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
- They have been forced to choose between buying food and paying for water and electricity
- Much services non-payment is due to poverty not unwillingness to pay
- Local governments are forced to increase utility costs, even though they are aware that household 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

Division of Revenue

National

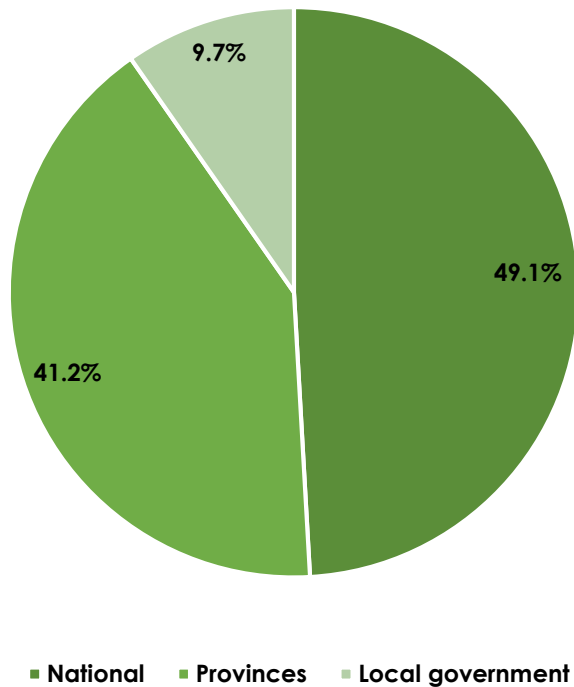
Provincial

Local

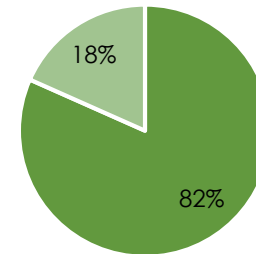
Object of the Division of Revenue Bill

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

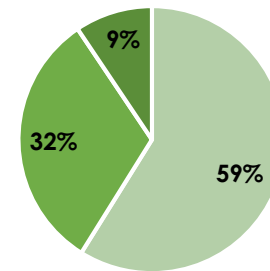


Provinces



■ Equitable share ■ Conditional grants

Local government



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

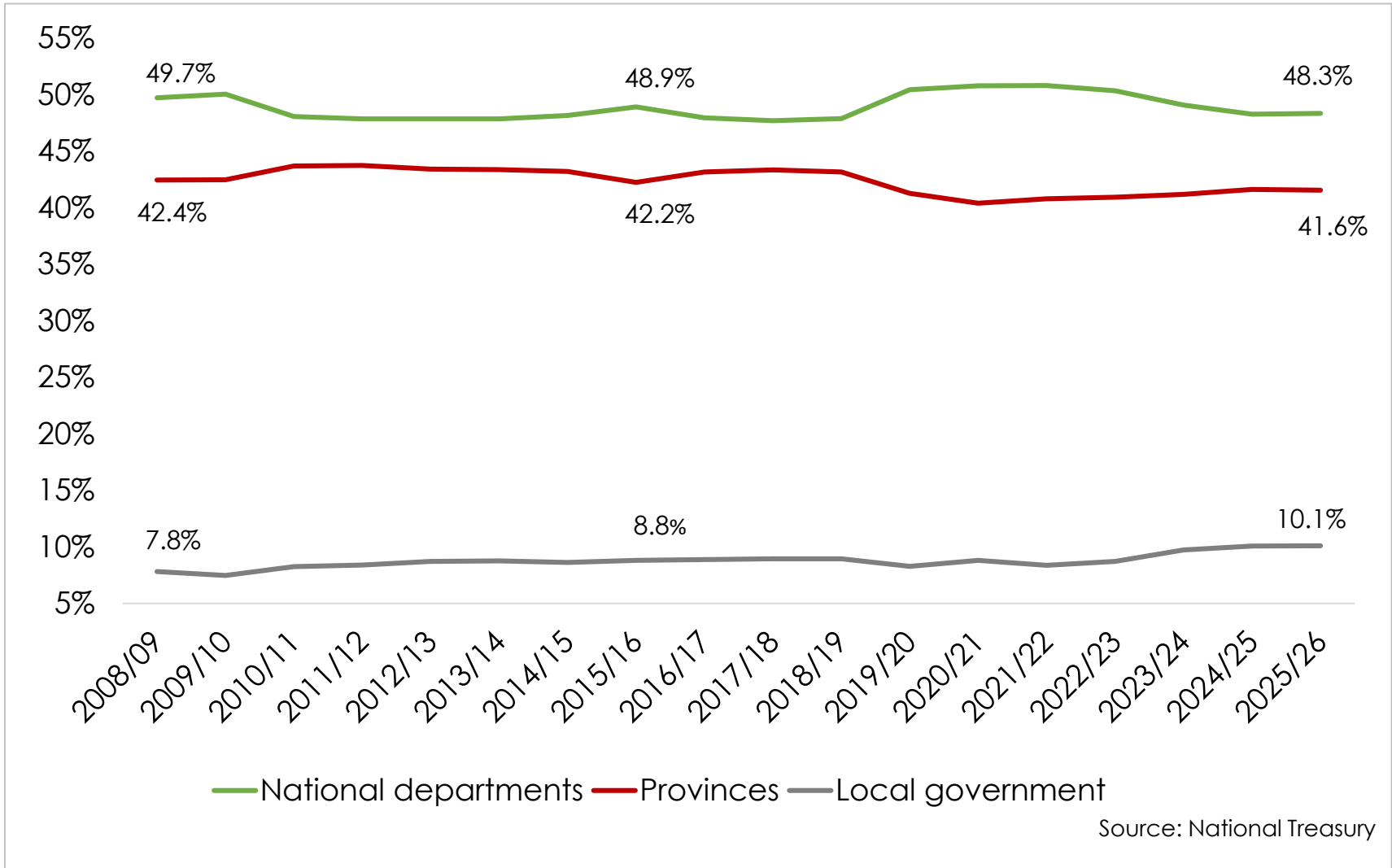
Division of Revenue

R billion	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	Average annual MTEF
	Outcome			Revised estimate	Medium-term estimates			
Division of available funds								
National departments	749.8	790.5	823.0	854.4	828.6	835.7	877.9	0.9%
<i>of which:</i>								
<i>Indirect transfers to provinces</i>	2.9	2.9	3.7	4.6	4.2	4.4	4.8	1.1%
<i>Indirect transfers to local government</i>	5.6	4.1	5.7	7.2	8.5	8.9	9.3	8.9%
Provinces	613.5	628.8	660.8	694.6	695.1	720.5	754.7	2.8%
Equitable share	505.6	520.7	544.8	570.9	567.5	587.5	614.3	2.5%
Conditional grants	107.9	108.1	116.0	123.7	127.5	133.0	140.4	4.3%
Local government	123.0	137.1	135.6	147.8	164.0	174.4	183.3	7.4%
Equitable share	65.6	83.1	76.2	83.7	96.5	103.8	109.4	9.3%
Conditional grants	44.2	40.0	44.8	48.7	52.0	54.5	57.1	5.4%
General fuel levy	13.2	14.0	14.6	15.3	15.4	16.1	16.8	3.2%
Non-interest allocations	1 486.2	1 556.4	1 619.4	1 696.8	1 689.1	1 734.4	1 819.9	2.4%
Debt-service costs	204.8	232.6	268.1	307.2	340.5	362.8	397.1	8.9%
Main budget expenditure	1 691.0	1 789.0	1 887.5	2 004.0	2 034.6	2 137.9	2 266.5	4.2%
<i>Percentage shares</i>								
<i>National</i>	50.4%	50.8%	50.8%	50.4%	49.1%	48.3%	48.3%	
<i>Provinces</i>	41.3%	40.4%	40.8%	40.9%	41.2%	41.6%	41.6%	
<i>Local government</i>	8.3%	8.8%	8.4%	8.7%	9.7%	10.1%	10.1%	

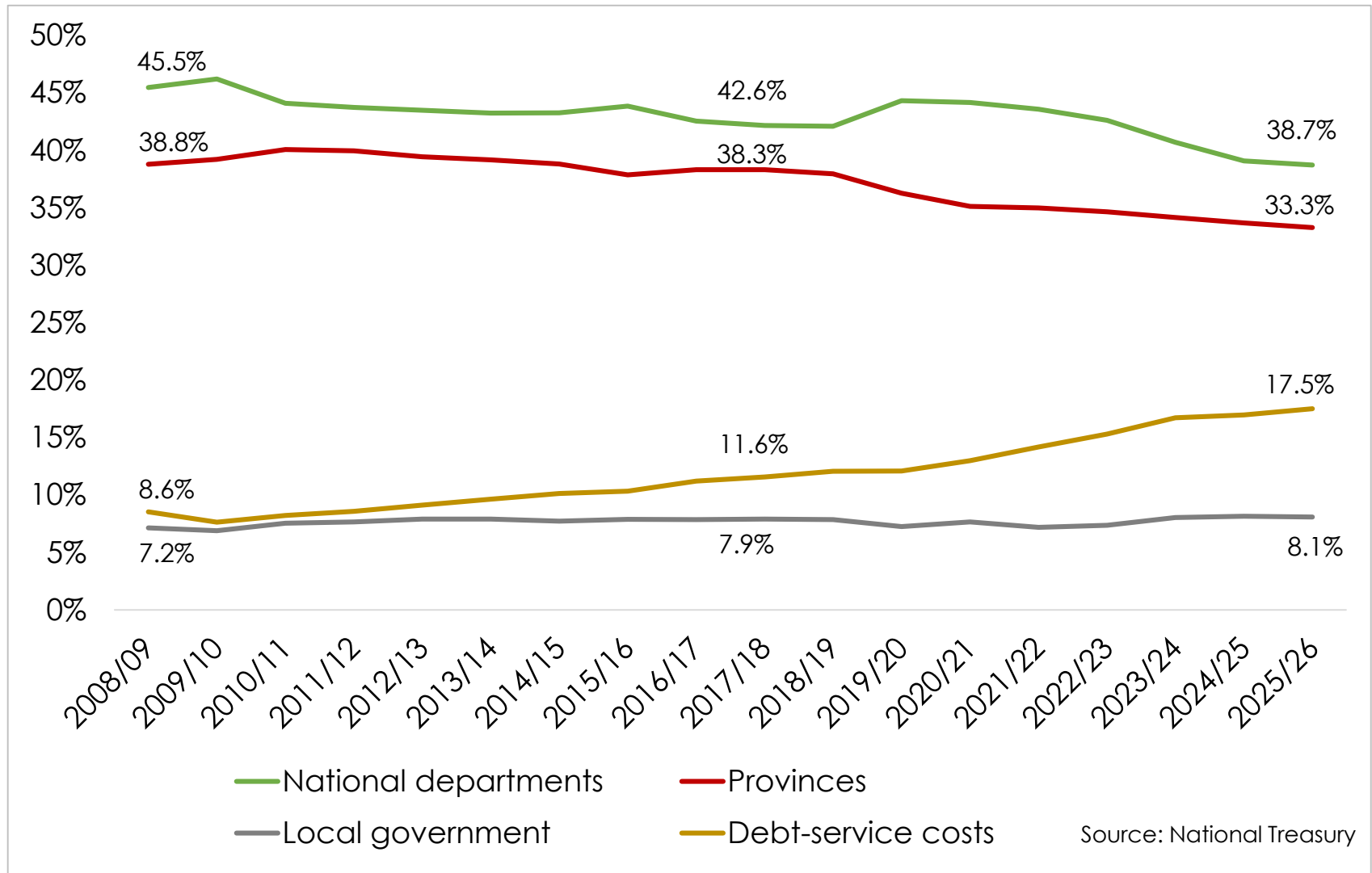
1. Includes amounts for Budget Facility for Infrastructure projects and other provisional allocations

Source: National Treasury

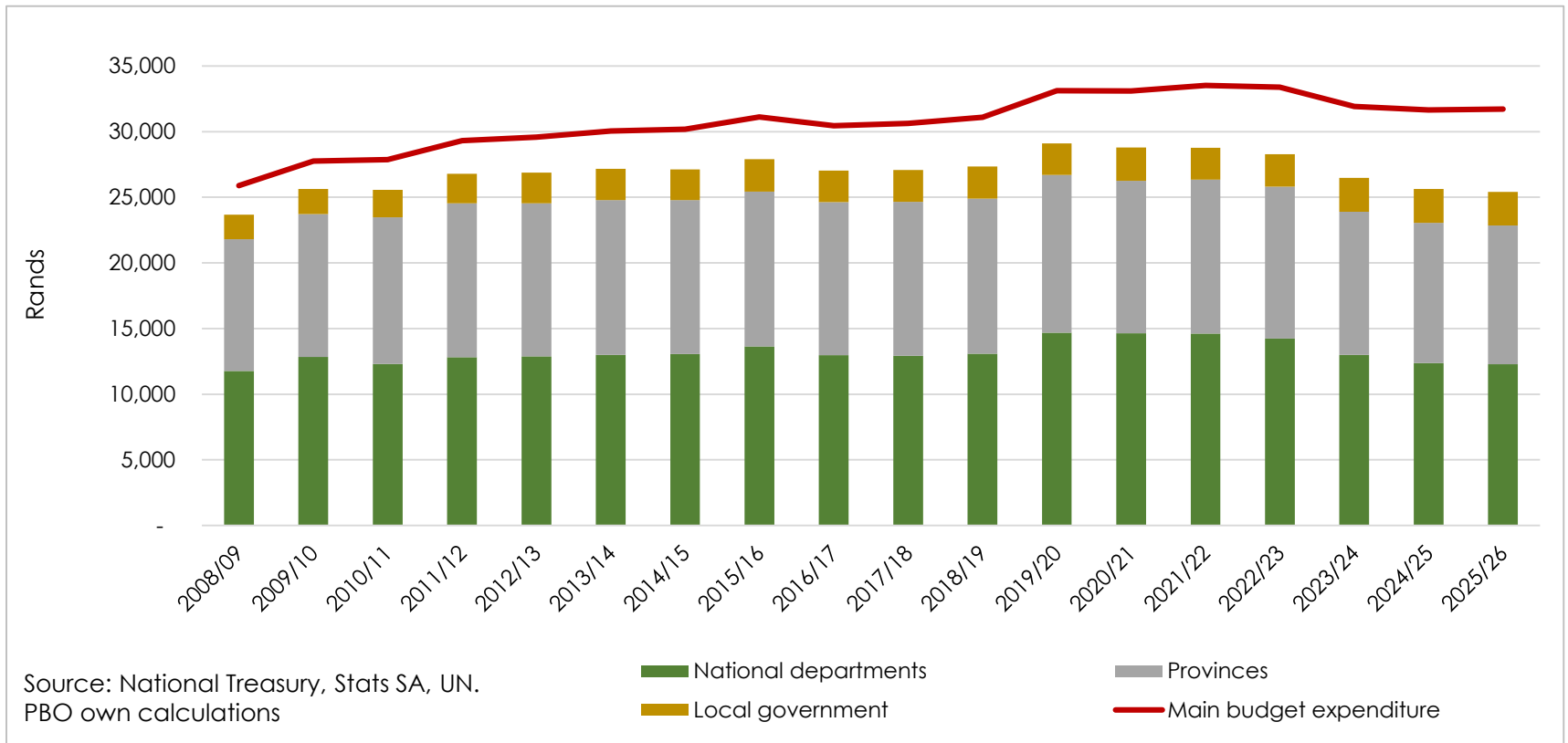
Changing shares of Division of Revenue from 2008/09



Changing shares of Division of Revenue from 2008/09 – including debt-service costs



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%
Main budget ex.	2.0%	-1.7%

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

	Appropriated (including direct charges)	Current payments	Transfers and subsidies	Percentage to be transferred	Payments for capital assets	Payments for financial assets	To be appropriated	Increase/ Decrease ¹
R thousand	2022/23				2023/24			
3 Cooperative Governance	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 Infrastruc	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 Trai	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 Constitutiona	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 Reform &	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

Conditional grants transferred from national departments

	To Provinces			Revised estimate	Medium-term expenditure estimates			Annual Average increase since 2019/20
	Audited outcome							
R million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	
3 Cooperative Governance	466	138	48	97	146	152	159	-16.4%
13 Public Works and Infrastructure	868	832	835	858	861	900	940	1.3%
16 Basic Education	19 079	19 238	21 936	23 124	25 329	26 485	28 093	6.7%
18 Health	45 863	52 082	52 462	56 252	54 183	56 171	58 687	4.2%
29 Agriculture, Land Reform and Rural D	2 158	1 688	2 235	2 294	2 333	2 516	2 596	3.1%
33 Human Settlements	19 572	15 343	17 303	19 172	19 246	19 614	20 493	0.8%
37 Sport, Arts and Culture	2 121	1 521	2 087	2 176	2 175	2 272	2 374	1.9%
40 Transport	17 768	17 217	19 057	19 756	23 270	24 853	27 058	7.3%
Total	107 896	108 060	115 964	123 730	127 544	132 963	140 402	4.5%

	To Municipalities			Revised estimate	Medium-term expenditure estimates			Annual Average increase since 2019/20
	Audited outcome							
R million	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	
3 Cooperative Governance	15 806	15 578	16 932	20 082	19 411	19 948	20 841	4.7%
8 National Treasury	1 584	1 482	2 366	2 380	2 580	1 802	1 883	2.9%
13 Public Works and Infrastructure	730	748	759	778	781	816	853	2.6%
33 Human Settlements	11 803	10 738	11 417	11 680	12 514	13 354	14 109	3.0%
34 Mineral Resources and Energy	2 087	1 551	2 223	2 343	2 436	2 554	2 668	4.2%
40 Transport	6 484	4 498	5 284	6 128	6 910	7 873	8 495	4.6%
41 Water and Sanitation	5 698	5 373	5 858	5 348	7 360	8 137	8 264	6.4%
Total	44 191	39 969	44 839	48 740	51 992	54 484	57 113	4.4%

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%
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

- 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 estimates			
Direct conditional grants				Difference		
Comprehensive agricultural support programme	1 558	1 599	1 626	27	1 777	1 825
Ilima/Letsema projects	597	610	620	10	648	677
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
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
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
Health facility revitalisation	6 435	6 780	7 120	340	7 361	7 691
Human resources and training grant	4 298	5 449	5 479	30	5 367	5 607
National health insurance grant		694	695	1	717	749
National tertiary services	13 708	14 306	14 024	-282	14 654	15 310
Human settlements development	13 403	14 256	14 944	688	15 118	15 796
Informal settlements upgrading partnership	3 890	4 121	4 303	182	4 496	4 697
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
Indirect transfers	3 954	4 612	4 178	-434	4 447	4 763
School infrastructure backlogs	2 397	2 403	2 079	-324	2 172	2 269
National health insurance indirect	1 557	2 209	2 099	-110	2 275	2 494

- 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		
Equitable share and related	77 999	87 311	96 546	103 772	109 368
General fuel levy sharing with metros	14 617	15 335	15 433	16 127	16 849
Direct conditional grants	44 969	51 542	51 992	54 484	57 113
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				
Total direct transfers	137 585	154 188	163 972	174 382	183 330
Indirect transfers	7 727	8 171	8 481	8 862	9 259
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

Spending trends

2022/23 Q3 spending analysis

National

Provincial

Local government

2022/23 Q3 spending analysis

Vote R'000	Revised estimates	YTD - April - Dec 2022	% YTD
Statistics South Africa	2 999 427	2 942 673	98.1
Higher Education and Training	109 737 633	101 060 216	92.1
Women, Youth and Persons with Disabilities	991 714	862 594	87.0
Basic Education	29 693 160	23 795 689	80.1
Small Business Development	2 532 889	2 005 058	79.2
Employment and Labour	4 107 776	3 227 228	78.6
Science and Innovation	9 145 262	7 048 191	77.1
Public Works and Infrastructure	8 152 729	6 187 639	75.9

Fastest spending on national departments, April – Dec 2022:

- Statistics South Africa spent the largest proportion (98.1%) of their total budget within the first nine months of the financial year
 - About 90 per cent of the budget is allocated to Current payment and they had spent 101 per cent by Dec 2022
 - Census 2022 collection date was extended from 28 February to 14 May 2022 to cater for over 600 000 households in Western Cape province
- Faster spending in DHET, DBE, and DWYPD was driven by Transfers and Subsidies which account for more than 80 per cent of their allocations

Slowest spending on national departments, April – Dec 2022:

- The Department of Public Enterprise had spent only 38.4 per cent (R12.7 billion) of its budget by the end of December 2022, due to slower than planned disbursement of funds to Eskom, as the funds are disbursed in terms of the liquidity needs of the entity
- Transport and Military Veterans spent slightly more than half of their budgets

Vote R'000	Revised estimates	YTD - April - Dec 2022	% YTD
Public Enterprises	33 145 398	12 742 051	38.4
Transport	95 134 237	50 269 904	52.8
Military Veterans	670 032	383 597	57.3
The Presidency	618 283	377 666	61.1
Water and Sanitation	18 555 010	11 399 559	61.4
Home Affairs	10 796 232	6 871 875	63.7
Mineral Resources and Energy	10 447 537	6 662 995	63.8
Agriculture, Land Reform and Rural Development	17 533 643	11 295 911	64.4

Statement of provincial receipts and payments as at 31 December 2022

	Budget			Receipts/Payments to Date	
	Main Budget	Adjustments	Adjusted Budget ¹	Actual Receipts/Payments	Actual Receipts/Payments
	R'000	R'000	R'000	R'000	%
Receipts					
Transfers from National Revenue Fund	682 067 683	11 966 293	694 033 976	515 311 977	74.2%
Equitable share of revenue	560 756 789	10 111 417	570 868 206	420 567 597	73.7%
Conditional grants	121 310 894	1 854 876	123 165 770	94 744 380	76.9%
Provincial own receipts	21 423 085	978 683	22 401 768	17 654 660	78.8%
Total receipts	703 490 768	12 944 976	716 435 744	532 966 637	74.4%
Payments by provincial departments	-				
Education	289 837 704	7 300 111	297 137 815	221 753 458	74.6%
Health	238 834 217	7 118 246	245 952 463	182 555 675	74.2%
Social Development and Special Programmes	20 956 158	438 952	21 395 110	15 827 653	74.0%
Other	148 507 170	6 467 610	154 974 780	106 494 186	68.7%
Total payments	698 135 248	21 324 919	719 460 167	526 630 972	73.2%
Payments by economic classification					
Current payments	571 352 434	16 630 523	587 982 956	432 644 453	73.6%
Compensation of employees	422 485 723	9 049 642	431 535 365	321 428 459	74.5%
Goods and services	148 860 419	7 546 634	156 407 052	111 144 248	71.1%
Transfers and subsidies	88 379 358	5 072 804	93 452 162	70 063 074	75.0%
Provinces and municipalities	10 824 401	(1 644 204)	9 180 197	7 257 523	79.1%
Departmental agencies and accounts	12 073 025	1 018 062	13 091 087	10 288 258	78.6%
Public corporations and private enterprises	9 994 377	(25 575)	9 968 802	7 105 506	71.3%
Non profit institutions	36 310 580	808 363	37 118 943	30 833 123	83.1%
Households	19 008 366	4 937 235	23 945 601	14 494 788	60.5%
Payments for capital assets	38 397 904	(389 872)	38 008 032	23 880 169	62.8%
Total payments	698 135 248	21 324 919	719 460 167	526 630 971	73.2%

Provincial Conditional Grants transferred and actual payments as at 31 December 2022

National departments administering conditional grants	National Allocation after adjustments	Provincial roll-overs	Total Available	Transferred from National to Province	Actual Payments to date
	R'000	R'000	R'000	R'000	%
Schedule 5, Part A Grants²					
Agriculture, Land Reform and Rural Development (Vote 29)	2 294 412	110 273	2 404 685	1 978 357	60.2%
(a) Comprehensive Agricultural Support Programme Grant	1 599 214	81 022	1 680 236	1 381 305	56.4%
(b) Ilima/Letsema Projects Grant	610 278	25 946	636 224	529 112	70.1%
(c) Land Care Programme Grant: Poverty Relief and Infrastructure Development	84 920	3 305	88 225	67 940	62.3%
Sports, Arts and Culture (Vote 37)	1 572 550	68 450	1 641 000	1 238 594	65.5%
Community Library Services Grant	1 572 550	68 450	1 641 000	1 238 594	65.5%
Basic Education (Vote 16)	10 623 592	374 701	10 998 293	8 796 546	73.1%
(a) Early Childhood Development Grant	1 192 682	190 613	1 383 295	894 513	62.3%
(b) HIV and AIDS (Life Skills Education) Grant	242 275	4 897	247 172	193 823	77.2%
(c) Learners with Profound Intellectual Disabilities Grant	255 521	22 835	278 356	188 521	61.0%
(d) Maths, Science and Technology Grant	424 793	40 886	465 679	357 955	68.8%
(e) National School Nutrition Programme Grant	8 508 321	115 470	8 623 791	7 161 734	75.3%
Health (Vote 18)	41 948 513	1 080 165	43 028 678	31 582 015	67.5%
(a) District Health Programmes Grant	29 023 118	351 823	29 374 941	21 920 355	68.0%
(b) Health Facility Revitalisation Grant	6 779 546	627 178	7 406 724	5 054 641	60.6%
(c) Human Resources and Training Grant	5 449 066	21 305	5 470 371	4 086 720	76.3%
(d) National Health Insurance Grant	696 783	79 859	776 642	520 299	51.5%
Human Settlements (Vote 33)	18 376 699	638 211	19 014 910	13 871 983	62.9%
(a) Human Settlements Development Grant	14 255 610	315 138	14 570 748	10 843 835	64.1%
(b) Informal Settlements Upgrading Partnership Grant: Provinces	4 121 089	323 073	4 444 162	3 028 148	59.1%

Provincial Conditional Grants transferred and actual payments as at 31 December 2022 (cont.)

National departments administering conditional grants	National Allocation after adjustments	Provincial roll-overs	Total Available	Transferred from National to Province	Actual Payments to date
	R'000	R'000	R'000	R'000	%
Public Works and Infrastructure (Vote 13)	857 946	2 958	860 904	763 904	70.5%
(a) Expanded Public Works Programme Integrated Grant for	433 098	2 838	435 936	349 722	71.8%
(b) Social Sector Expanded Public Works Programme Incentive	424 848	120	424 968	414 182	69.1%
Sports, Arts and Culture (Vote 37)	603 511	3 569	607 080	482 809	79.0%
Mass Participation and Sport Development Grant	603 511	3 569	607 080	482 809	79.0%
Sub-Total	76 277 223	2 278 327	78 555 550	58 714 208	67.0%
Schedule 4, Part A Grants¹:	-	-	-	-	
Basic Education (Vote 16)	12 500 851	543 290	13 044 141	10 524 131	
Education Infrastructure Grant	12 500 851	543 290	13 044 141	10 524 131	
Health (Vote 18)	14 306 059	369 588	14 675 647	10 729 503	
National Tertiary Services Grant	14 306 059	369 588	14 675 647	10 729 503	
Transport (Vote 40)	19 755 873	1 074 677	20 830 550	14 809 780	
(a) Provincial Roads Maintenance Grant	12 665 441	1 074 677	13 740 118	9 567 712	
(b) Public Transport Operations Grant	7 090 432	-	7 090 432	5 242 068	
Sub-Total	46 562 783	1 987 555	48 550 338	36 063 414	
Total	123 165 770	4 286 123	127 451 894	94 917 625	

Schedule 4, Part A grants specifying allocations to provinces to supplement the funding of programmes or functions funded from provincial budget

Schedule 5, Part A grants specifying specific-purpose allocations to provinces.

Schedule 7, Part A grants specifying unallocated provisions for provinces for disaster response.

Note: Numbers in red were adjusted

Efficiency and effectiveness of expenditure on conditional grants

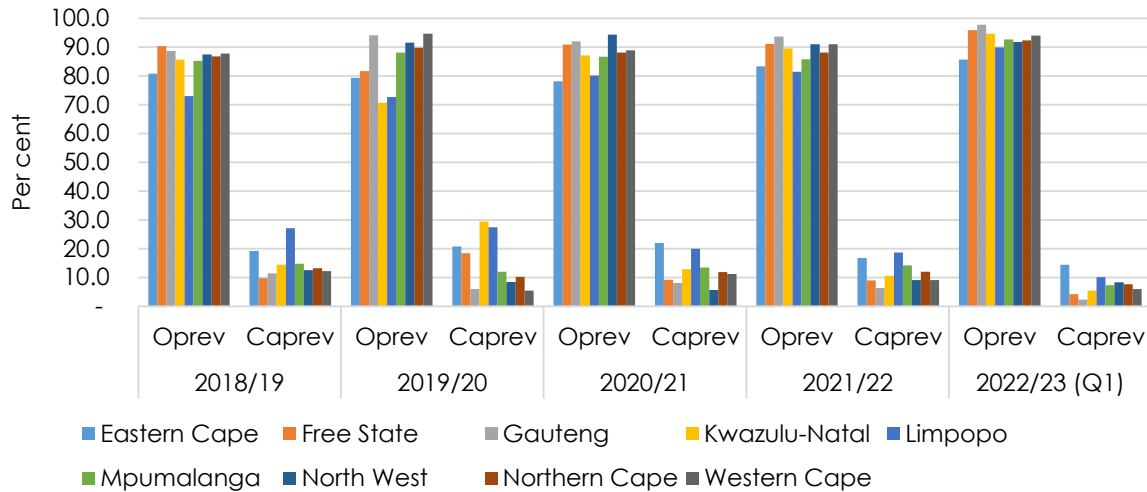
- The performance of Basic Education, Health, Human Settlements, Agriculture and Transport Conditional Grants were assessed for the 2020/21 financial year
- Performance data on conditional grants are not published quarterly
 - The PBO assessed the information available in the schedules to the 2020 Division of Revenue Act (DORA)
- The assessments showed that:
 - The information provided in the DORA schedules is neither relevant nor adequate to determine efficiency and effectiveness of expenditure
 - There is a two-year time lag between current year and actual performance data that is reported in the schedules
- The PBO evaluated the performance information reflected in government departments' Annual Reports

Analysis of the information on the conditional grants assessed showed

- Performance outputs/indicators were not well defined
- There was duplication of indicators/outputs
- There was poor or no reporting on actual non-financial information
- In some instances, no targets were set for outputs
- Overspending on some of the grants, has been accompanied by underperformance
- Underspending that has been accompanied by over performance
- Reporting on the performance was not measured against set targets
- There was incomplete performance information
- The lack of proper performance information on conditional grants in the Annual Reports of departments makes it difficult to determine the effectiveness of expenditure and impact of the outputs delivered by provincial departments

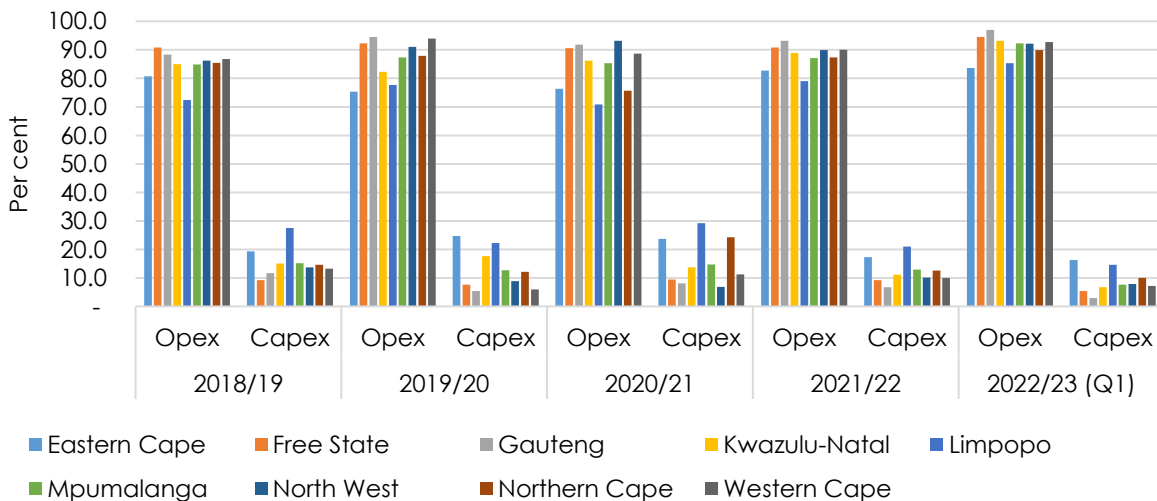
LG: revenue and expenditure trends

Capital and operating revenue



- LG are self-financing with operating revenue, accounting for more than 85 per cent of total budget on average
- Service charges and property rates are the two largest sources of operating revenue
- Poor revenue management and inability to efficiently raise own revenue are some of the biggest causes of financial distress to local government

Capital and operating expenditure



- A number of municipalities fail to deliver services effectively due to poor governance, financial mismanagement and insufficient capacity
- Key issues in municipal budgets
 - Growing grant dependence
 - Inadequate maintenance expenditure
 - Outstanding consumer debts
 - Under-pricing of services ³⁷

Underspending Analysis

Historic spending analysis

Reasons for underspending

Underspending: historical trends

Year	Total appropriation by vote		Total direct charges against the National Revenue Fund		Total government	
	Under/(Over) Spending	Per cent	Under/(Over) Spending	Per cent	Under/(Over) Spending	Per cent
R million						
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%

Year	Current payments		Transfers and subsidies		Payments for capital assets		Payments for financial assets		Total government	
	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
R million										
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%

Reasons for underspending

- The phenomenon of underspending of government's budget is not unique to South Africa
- Weaknesses in budget planning and execution processes and procedures are a critical contributors to underspending of government budgets
- Complex procurement processes have been cited by many government entities as reasons for underspending
- Delays in payment of suppliers invoices or claims by government departments and entities, is one of the major reasons for underspending in government
- Vacancies in critical posts in government departments and entities contributed to delays in expenditure
- Interdepartmental systemic issues which drive inefficiencies in Interdepartmental projects, particularly infrastructure, need to be addressed
- Failing to comply with conditional grant conditions, leads to underspending of the grant and funds being returned to national departments
- Inadequate needs assessment and project planning, ineffective monitoring of project milestones and contractors/ implementing agents have all led to underspending in government

Budget Facility for Infrastructure (BFI)

Budget facility for Infrastructure

- The Budget Facility for Infrastructure (BFI) is a multidisciplinary facility that brings together varied government expertise to provide recommendations on the technical feasibility and readiness of infrastructure projects
- The purpose of this facility is to:
 - Support quality public investment by improving the planning, technical assessment, budgeting, and execution of large infrastructure
 - Assist in building a pipeline of projects through rigorous technical analysis, budgeting, and funding commitments
- Six BFI windows have been established since its inception to support large infrastructure projects
- The Facility considers the use of blended or hybrid financial solutions that include a combination of grants, debt, and equity sources from both public and private institutions, and concessional loans from multilateral development banks
- R2.5 billion was approved for project funding through the BFI processes in the 2022 adjustment budget process, while R24 billion was approved in the 2023 MTEF period

Budget facility for Infrastructure

- The Budget Facility for Infrastructure approved R21.7 billion (44.4%) of aggregated capital cost for 13 projects. The status of human settlements, water and sanitation, and student housing infrastructure projects approved through BFI is as follows:
 - Three infrastructure projects are under construction
 - Two infrastructure projects under due diligence
 - Four infrastructure projects in the procurement process
 - Four infrastructure projects are awaiting ministerial approval
- **Projects approved through the BFI as per the 2023 Budget over the MTEF:**
 - Coega SEZ: R1.8 billion over the MTEF. Previous through DTIC now through the PES
 - Comprehensive Agricultural Support Programme Grant for Agri-hubs in KZN: R153 million over the MTEF
 - Public Transport Network Grant: R461 million over the MTEF for the City of Cape Town MyCiTi public transport network project rescheduled
 - George local municipality potable water security and remedial works project: R136 million over the MTEF rescheduled
 - New projects include:
 - eThekweni Metro: Avoca Node
 - City of Johannesburg: Lufhereng mixed use development programme
 - Sol Plaatjie Local Municipality: Old water supply infrastructure
 - Drakenstein Local Municipality: upgrade of sanitation infrastructure
 - Nelson Mandela Bay: Water supply crisis due to ongoing droughts

2022 Second Adjustments Appropriation Bill

Revisions to the non-interest expenditure

Revisions to the non-interest expenditure

R million	2022/23
Non-interest expenditure (2022 Budget)	1 673 450
Upward expenditure adjustments	77 419
2022 MTBPS	54 117
Special appropriation	30 014
Other allocations in the AENE	24 102
Second adjustments appropriation	23 302
2022/23 public-service wage increase	14 602
South African Airways	1 000
South African Post Office	2 400
Political parties fund	300
Land Bank section 6 provision	5 000
Downward expenditure adjustments	-54 039
Projected underspending	-19 427
Other downward adjustments	-34 613
Revised non-interest expenditure (2023 Budget)	1 696 829
Change in non-interest expenditure from 2022 Budget	23 379

- **Public-service wage bill** increases by R14.6 billion
 - Increases are between R3 million and R1.9 billion depending on the size of the national department
- **SAA:** R1 billion to assist with outstanding historical debt
 - All government guarantees to SAA will be cancelled
 - Proof of funds for the strategic equity partner transaction needs to be provided
 - NT will review the SEP agreement to prevent future fiscal obligations
- **SAPO:** R2.4 billion equity injection
 - Several conditions apply including the placement of the entity under administration
- **Land Bank:** R5 billion, R3 billion for the blended finance programme and R2 billion to remedy its default position
 - Several conditions apply

In summary

- The country's socioeconomic challenges show that government spending on social protection is an important policy intervention. However, given poverty- unemployment and inequality levels, government MTEF spending to address these challenges is inadequate
- Crime statistics in South Africa are showing worrying increases:
 - On average, crime has increased by 9.55 per cent (year-on-year) between December 2021 and December 2022
 - Government spending of justice and protection services has to be better aligned given that crimes continue to grow and it takes longer to resolve crime cases despite more funds allocation
- Government has made slow progress in realising education outcomes set out in the 2019-2024 MTSF, with access to ECD by poorer households having seen a decline in the recent years
- 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
- 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
- The public healthcare system remains overstretched and underfunded
 - For example: According to the South African Nursing Council, the current nurse-to-patient ratio is 1:218 patients while the ideal ratio is 1:16

In summary

- Local government plays a critical role as a first line of interaction between citizens and government
- Dissatisfaction with service delivery has often been cited as the reason for the increase in service delivery protests within South Africa
- Total consolidated government spending is expected to grow at an average annual rate of 4.5 per cent, from R2.17 trillion in 2022/23 to R2.48 trillion in 2025/26
- Provincial equitable share increases by 2.5 per cent on average over the 2023 MTEF
- Most of the provincial CG increase in 2023/24 since the revised estimates in 2022/23
- 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
- Underspending is a concern for Members and several reasons have been identified over years
- Despite several interventions to address the causes of underspending it remains a concern
- A Budget Facility for Infrastructure has been established to improving the planning, technical assessment, budgeting, and execution of large infrastructure projects
- The performance of the BFI should be monitored to determine its value-addition and improvement of outcomes

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Thank you

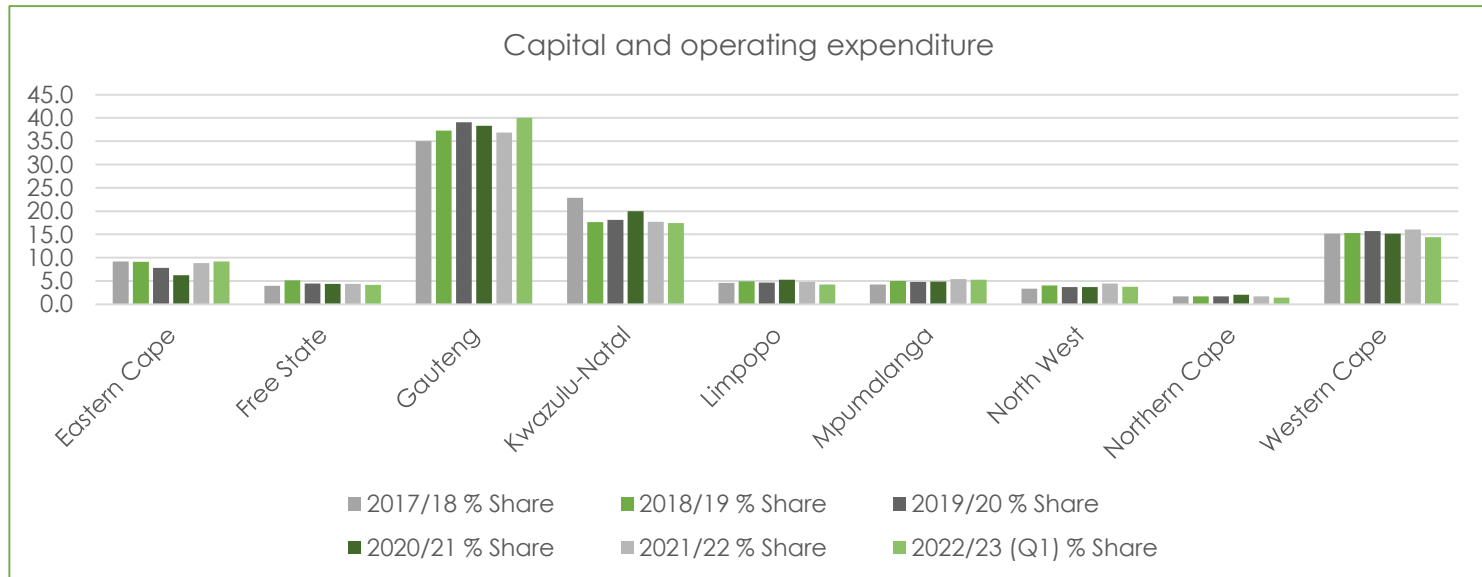
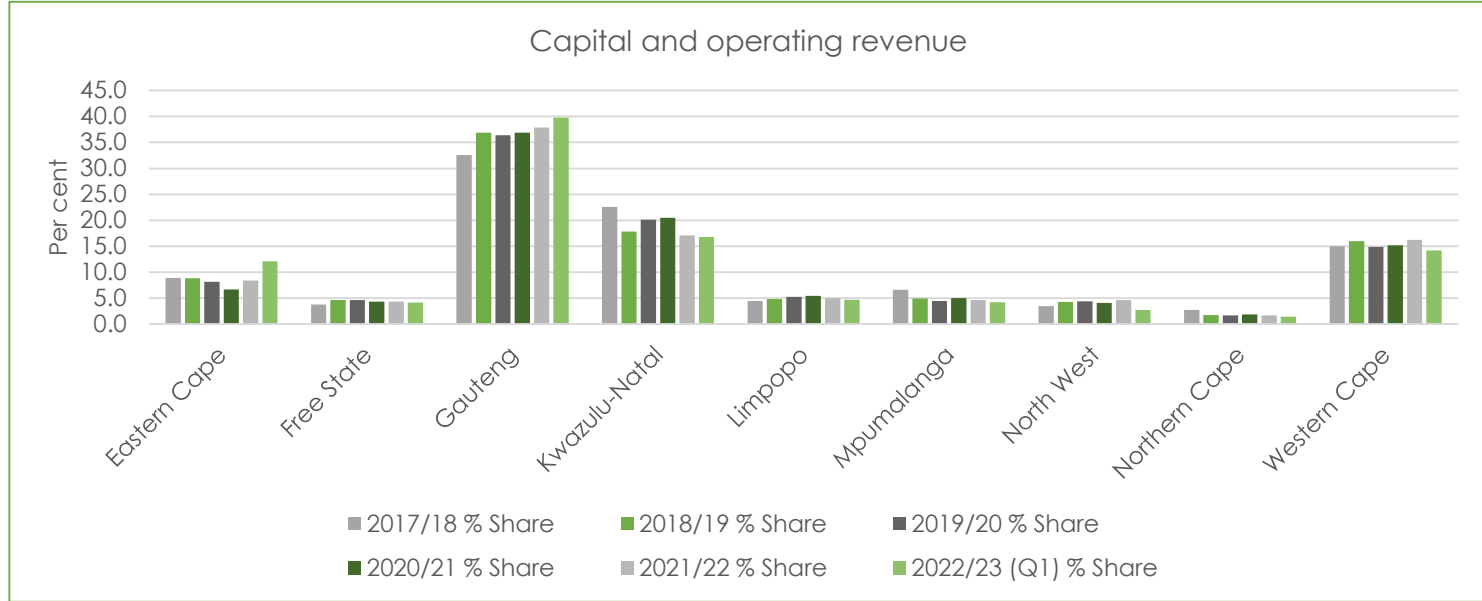
The provincial equitable share (PES)

- The equitable share is the main source of revenue through which provinces are able to meet their expenditure responsibilities. For each year of the 2021 MTEF, provincial equitable shares amount to: R523.7 billion, R524.1 billion and R525.3 billion
- The current PES is allocated through a formula using objective data to reflect the demand for services across all nine provinces
- It consists of six components that account for the relative demand for services and take into consideration the change of demographics in each of the provinces. The formula components are: (DORB p.75-90)
 - An education component (48 per cent), based on the size of the school-age population (ages five to 17) and the number of learners (Grades R to 12) enrolled in public ordinary schools
 - A health component (27 per cent), based on each province's risk profile and health system caseload
 - A basic component (16 per cent), derived from each province's share of the national population
 - An institutional component (5 per cent), divided equally between the provinces.
 - A poverty component (3 per cent), based on income data. This component reinforces the redistributive bias of the formula
 - An economic activity component (1 per cent), based on regional GDP

The local government equitable share (LGES)

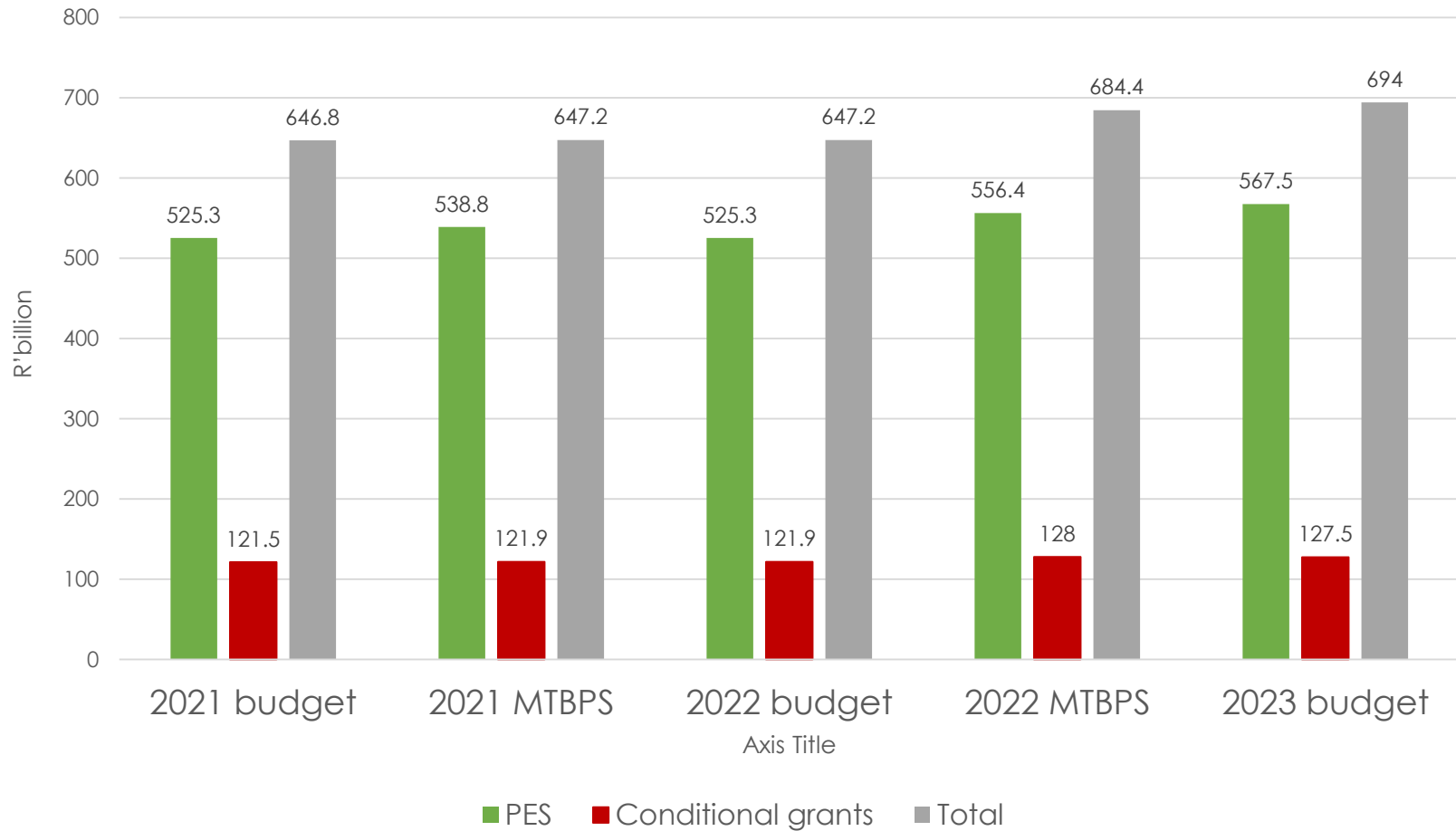
- The local government fiscal framework responds to the constitutional assignment of powers and functions to this sphere of government
- The framework refers to all resources available to municipalities to meet their expenditure responsibilities
- National transfers account for a relatively small proportion of the local government fiscal framework, with the majority of local government revenues being raised by municipalities themselves through their substantial revenue-raising powers
 - Poor rural municipalities, however, receive most of their revenue from transfers, while urban municipalities, although not always effective, raise the majority of their own revenues
- Funds raised by national government are transferred to municipalities through conditional and unconditional grants
- Over the 2021 MTEF period, R432.6 billion will be transferred directly to local government and a further R23.7 billion has been allocated to indirect grants.
- Direct transfers to local government over the medium term account for 9.4 per cent of national government's non-interest expenditure
- When indirect transfers are added to this, total spending on local government increases to 10 per cent of national non-interest expenditure

LG: Capital and operating revenue trends



The provincial fiscal framework

Provincial fiscal framework trajectory from 2021-Conditional grant and PES



Local Government

Allocation to Local Government

