



PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

PBO

**PARLIAMENTARY
BUDGET OFFICE**



PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Fiscal brief

2023/24 Financial year analysis
(April – December 2023)

February 2024

The Parliamentary Budget Office (PBO) has been established in terms of the Money Bills Amendment Procedure and Related Matters Act (Act 9 of 2009). The PBO provides independent, objective, and professional advice and analysis to Parliament on matters related to the budget and other money Bills. The PBO supports the implementation of the Act by undertaking research and analysis for the Finance and Appropriations Committees.

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Table of contents

1. Purpose.....	2
2. National.....	2
3. Provincial.....	4

1. Purpose

The Fiscal Brief aims to update Members of Parliament (MPs) on the implementation of the national and provincial budgets as at end December 2023. This brief draws on information from the Public Finance Management Act (PFMA) Section 32 reports for national and provincial departments released on 30 January 2024. The Section 32 reports provide an overview of expenditure in the first nine months of the 2023/24 financial year.

2. National

The services provided by national government are Central Government Administration; Justice & Protection Services; Financial & Administration Services; Economic Services & Infrastructure Development; and Social Services. This section reports on the progress made with the implementation of the 2022/23 revised budget estimates. Both expenditure and revenue are discussed.

2.1 Revenue Overview

The 2023 Budget Review presented an estimate of gross tax revenue of R1 787.4 billion for the 2023/24 financial year. The estimate was revised downwards to R1 730.6 billion during the Medium-Term Budget Policy Statement (MTBPS). The reason given by the NT for revenue being less than they had estimated was a decline in windfall tax receipts due to higher commodity prices and rising value-added tax (VAT) refund claims. By the end of December 2023, R1 251.6 billion (72.3 per cent) of the revised estimate had

been collected.

Table 1 compares tax revenue collection between the 2022/23 and 2023/24 financial years for the first nine months (April to December) of the respective financial years. Year-on-year, the Gross Tax revenue collection rate was 2.4 per cent (R1 251.6 billion), which is lower than in the previous period, which was 7.7 per cent (R1 226.6 billion). Personal Income Tax (PIT) was comparable to the previous period at a year-on-year collection rate increase of 8.3 per cent to R460.8 billion, compared to 8.7 per cent (R425.3 billion) in the previous period. Corporate Income Tax (CIT) shows a significantly negative year-on-year decline in collection rate of -14.3 per cent to R231.3 billion, significantly lower than the 7.1 per cent (R270 billion) in the previous period. As already noted, this is due to the decline in windfall taxes. There is a decrease in the VAT year-on-year collection rate from 8.3 per cent (R300 billion) to 6.0 per cent (R318.1 billion). Overall, tax revenue collection has slowed for the three largest tax instruments for the nine months of the financial year compared to prior year. Notably, there has been a significant year-on-year growth rate of 83.9 per cent (R5.7 billion) for Ad-valorem, compared to a negative growth rate of 11.3 per cent (R3.1 billion) attained in the previous period.

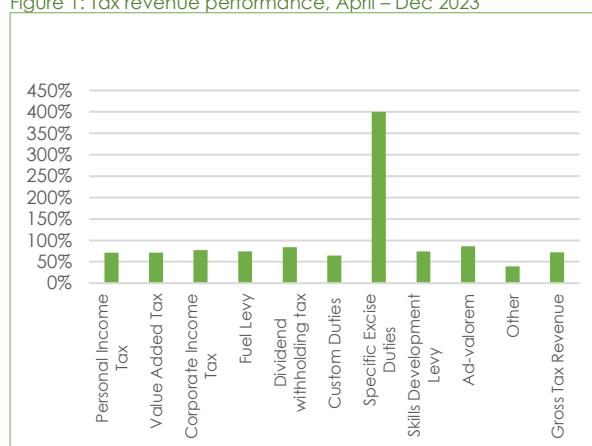
Table 1: Tax Revenue performance, Apr-Dec 2023

	2023 BR Estimates		2023 Revised estimates		Actual Apr-Dec 23		Actual Apr-Dec 22	
	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	640,3	8,9	646,7	8,5	460,8	8,3	425,3	8,7
Value Added Tax	471,5	7,2	445,8	2,5	318,1	6,0	300,0	8,3
Corporate Income Tax	336,1	24,5	300,3	-9,7	231,3	-14,3	270,0	7,1
Fuel Levy	90,4	1,5	92,0	14,1	68,4	19,6	57,2	-14,2
Dividend withholding tax	39,8	31,4	36,1	0,0	30,4	2,7	29,6	26,6
Custom Duties	74,2	18,7	68,8	7,5	44,5	-0,4	44,7	12,1
Specific Excise	55,3	6,6	8,9	-84,0	35,7	-4,3	37,3	12,6
Skills Development Levy	0,002	-100,0	22,7	8,1	16,8	9,1	15,4	8,9
Ad-valorem	0,005	-99,9	6,6	37,5	5,7	83,9	3,1	-11,3
Other	79,8	89,5	102,6	83,2	39,8	-1,2	40,3	17,2
Gross Tax Revenue	1 787,4	11,8	1 730,5	2,9	1 251,5	2,4	1 222,6	7,7

Source: Section 32 reports

Figure 1 shows that by the end of December 2023, the per cent of the revised revenue amounts collected by SARS for PIT was 71 per cent, it was also 71 per cent for VAT, and it was 77 per cent for CIT. These three instruments constitute the largest share of tax revenue. The year-on-year changes on revised estimates were positive for all instruments, except for CIT and specific excise duties.

Figure 1: Tax revenue performance, April – Dec 2023



Source: section 32 reports

2.2 Expenditure Overview

In the 2023 Budget Review, the consolidated budget expenditure was revised upwards from R2 168.2 billion in 2022/23 (32.6 % of GDP) to R2 242.6 billion in 2023/24 (32.0% of GDP). In the MTBPS 2023, downward revisions of R2.9 billion were made to the estimated 2023/24 Budget values. The reason for the revisions are the projected underspending by national government of R797.3 million and the local government repayment to the NRF of R2.5 billion.

Table 2: Total expenditure/revised budget estimates, Apr-Dec 2023

		Revised estimates R billions	Actual Expenditure, April - Dec	% YTD
2022/23	Appropriation by vote	1,07	0,82	77,1
	Direct charges against NRF	0,98	0,70	70,9
	Provisin not allocate to vote	0,00	0,00	-
	Consolidated Expenditure	2,048	1,52	74,1
2021/22	Appropriation by vote	1,10	0,77	70,2
	Direct charges against NRF	0,92	0,64	69,4
	Provisin not allocate to vote	0,00	-	-
	Consolidated Expenditure	2,019	1,41	69,8

Source: Section 32 reports

As shown in Table 2, as, the total expenditure by national departments was R821.2 billion (77.1% of the total budget) at end December 2023. This amount is

R49.6 billion more than total expenditure in the previous financial year. By the end of December 2023, the expenditure on direct charges against the National Revenue Fund (NRF) was R696.9 billion (70.9%) of the budget estimate, which is slightly more (1.6%) than the previous financial year.

Table 3 shows the departments that had spent more than 80 per cent of their budgets by December 2023. Higher Education and Training spent the largest proportion (95%) of their total budget within the first nine months of the financial year.

Table 3: Fastest spending on national departments, Apr- Dec 2023

Vote R'000	Revised estimates	YTD - April - Dec 2023	% YTD
Higher Education and Training	107 830	102 867	95,4
Women, Youth and Persons with Disabilities	993	905	91,1
Basic Education	30 028	27 257	90,8
International Relations and Cooperation	6 830	5 475	80,2
Parliament	3 208	2 567	80,0
Statistics South Africa	2 643	2 113	79,9
Public Service Commission	288	230	79,9
Office of the Chief Justice	1 294	1 031	79,7

Source: Section 32 reports

Table 4 shows departments that spent less than 70 per cent of their 2023 budgets in the first nine months of the 2023/24 financial year. Military Veterans had spent only 40 per cent (R335.7 billion) of its budget by the end of December 2023. Slow spending for the Military Veterans department is recorded on current payment, transfers and subsidies as well as payments for capital assets. Planning, Monitoring and Evaluation, Public Service and Administration and National Treasury have spent just under 70 per cent of their revised budget allocations.

Table 4: Slowest spending on national departments, Apr-Dec 2023

Vote R'000	Revised estimates	YTD - April - Dec 2023	% YTD
Military Veterans	107 830	102 867	95,4
Planning, Monitoring and Evaluation	846	335	39,6
Public Service and Administration	465	315	67,7
National Treasury	541	369	68,2

Source: Section 32 reports

Revised expenditure by economic classification at a national level show that more than R779.4 billion (73.2%) of the budget is allocated towards transfers and subsidies followed by current payments of R266.9 billion (25.1%). Year-on-year, the total budget by vote decreased by 3.1 per cent and transfers and financial assets had the highest increase of 3.19 per cent between 2022 and 2023. The allocation for payment of financial assets decreased drastically by 97.5 per cent, from R59.2 billion in 2022/23 to R1.48 billion in 2023/24. The decrease in payment of financial assets was due to special allocations in 2022/23 towards debt stabilization initiatives of SOEs. Capital assets increased by only 1.8 per cent during the period.

Table 5: National Department's expenditure by economic classification, Apr-Dec 2023

R million	2023 Budget Estimates		Exp against target: Apr-Dec 23		
	R'000	Y-on-Y % change	R'000	YTD Collection rate (%)	Y-on-Y % change
Current payments	266 954	-0,2	201 733	75,6	6,6
Transfers and subsidies	779 433	3,2	606 682	77,8	8,4
Capital assets	17 174	1,8	11 871	69,1	29,3
Financial assets	1 479	-97,5	929	62,8	-93,1
TOTAL	1 065 041	-3,1	821 217	77,1	6,4

Source: Section 32 reports

As at 31 December 2023, expenditure on capital assets were 69.1 per cent of the revised estimates. The 69.1 per cent outcome was 29.3 per cent higher than in December 2022.

Table 6: Capital assets by national vote, Apr-Dec 2023

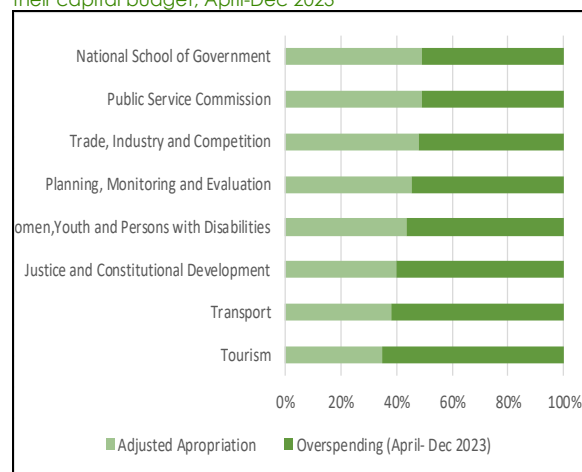
R'000	Revised estimates	YTD - April - Dec 2023	% YTD
2022/23	17 174	11 871	69,1
2021/22	15 784	7 000	44,4
2020/21	11 960	6 422	53,7

Source: Section 32 reports

As at the end of December 2023, spending on capital assets was at 69.1 per cent, which is an improvement from 44.4 per cent and 53.7 per cent from 2021/22 and 2022/23 financial years, respectively.

However, some departments expenditures are higher than their revised appropriations estimates. Figure 2 displays some of these departments and shows how much (as a percentage) of their spending is above their adjusted appropriations.

Figure 2: Departments with overestimated overspending on their capital budget, April-Dec 2023



Source: Section 32 reports

Underspending and overspending are generally caused by poor budget planning and execution. Although some departments have overspent on capital assets, the overspending is covered by underspending in other expenditure areas.

2.3 Summary: National Government

As the end of December 2023, 72.3 per cent of the estimated tax revenue for 2023/24 was collected. In terms of expenditure, 74.2 per cent of the consolidated budget had been spent by the end of December 2023.

3. Provincial

The provincial government plays an important role in the provisioning of basic education, health services, roads, housing, and social development. The provincial treasuries play an important role in implementing public financial management in a decentralised fiscal context as provided for by the Public Finance Management Act, 1 of 1999. Similar to the section on the national government, this section provides an analysis of expenditure outcomes against the budget at provincial levels for the first nine months of the 2023/24 financial year.

3.1. Provincial receipts

Approximately 96.8 per cent of receipts of provincial governments were allocated from direct charges to the National Revenue Fund (NRF). Table 7 shows that at the end of December 2023, provinces had received 76.8 per cent (R542.6 billion) of the budgeted receipts. In terms of own receipts, the provinces collected over 83.8 per cent (R19.4 billion) of their estimated budgets.

Table 7: Provincial receipts, Apr-Dec 2023

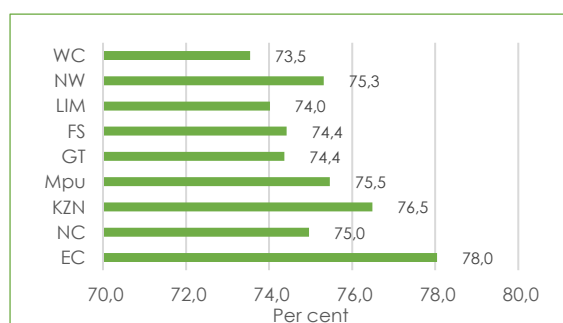
Receipts	Adjusted Appropriation (R billion)	Exp (Apr-Dec 2023) (R billion)	% of total
Equitable Share	585.0	445.5	76.2
Conditional Grants	121.1	97.0	80.1
Transfers from NRF	706.2	542.5	76.8
Tax Receipts	16.9	12.4	73.1
Sales of Goods and Services other than Capital Assets	3.3	2.4	70.8
Transfers Received	0.041	0.048	117.1
Fines, Penalties and Forfeits	0.307	0.214	69.6
Interest, Dividends and rent on land	1.9	3.5	177.8
Sale of Capital Assets	0.103	0.122	118.6
Financial Transactions in Assets and Liabilities	0.341	700.2	204.9
Provincial Own Receipts	23.1	19.4	83.8
TOTAL: RECEIPTS	729.4	561.9	77.0

Source: Section 32 reports

3.2. Provincial expenditure

Figure 3 shows the expenditure status by province. On average, the provinces had spent over 70 per cent of their budgets by the end of December 2023. Relative to other provinces, the Eastern Cape (78%), Northwest (75.3%), Mpumalanga (75.5%) and KwaZulu Natal (76.5%) had spent more than the notional benchmark of 75 per cent in the first nine months of the financial year, while Western Cape had the lowest expenditure rate of 73.5 per cent.

Figure 3: Actual Expenditure by province (%) against budgets, Apr-Dec 2023



Source: Section 32 reports

Table 8 shows the total provincial expenditure by economic classification. The total provincial

expenditure allocation for the year 2023/24 was revised to R747.2 billion (up from R719.4 billion in 2022). Of the total budget, current payments consist of R611.4 billion (81.8%) of the budget followed by transfers and subsidies at R95.7 billion (12.8%). It is also worth noting that Compensation of Employees (COE) accounted for 75.4 per cent (R460.7 billion) of current payments or more than 60 per cent of the total provincial expenditure budgets. This high proportion reflects the personnel-dependent services provided by provincial departments (i.e., Health and education).

Year-on-year, the budget increased by 3.9 per cent between 2022 and 2023. The highest year-on-year (10.6%) increase is observed in the goods and services category. Expenditure on interest and rent on land was R63.9 million which was significantly above (186.8%) the revised budget.

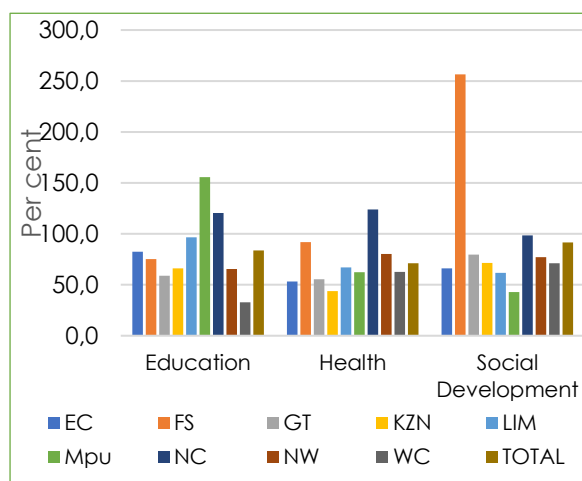
Table 8: Provincial expenditure by economic classification, Apr-Dec 2023

	2023 Revised Estimates		Exp against estimates: Apr-Dec 23		
	R billion	Y-on-Y % change	R billion	YTD Exp (%)	Y-on-Y % change
Current payments	611.4	4.0	460.7	75.4	6.5
COE	450.5	4.4	337.8	75.0	5.1
Goods and Services	160.8	2.8	122.2	76.4	10.6
Interest and rent on Land	0.034	-15.5	0.063	186.8	-10.8
Transfers and Subsidies	95.7	2.5	75.8	79.2	8.2
Capital assets	40.0	5.4	26.0	64.9	8.9
Financial assets	0.033	94.8	0.037	114.6	-12.3
TOTAL	747.2	3.9	562.6	75.3	6.8

Source: Section 32 reports

3.3. Estimates on Provincial Capital Expenditure

Figure 4: Provincial payments for capital assets by sector 2023/24



Source: Section 32 reports

Overall payment for capital assets by sector shows that education (83.8%) and health (71.2%) have capital expenditure below 90%. The Mpumalanga Department of Social Development has spent the least (42.9%) on capital assets as at December 2023. In the education function, the Western Cape Department of Education had the lowest (32.7%) level of payments made on capital assets. In the health function, the KwaZulu Natal (43.8%) and Eastern Cape (53.1%) provincial departments spent the lowest.

Table 9: Overall Provincial payments for capital assets, Apr-Dec 2023

	2023 Revised Estimates		Exp against estimates: Apr-Dec 23		
	R billion	Y-on-Y % change	R billion	YTD Exp (%)	Y-on-Y % change
Buildings and other fixed structures	29.7	6.5	20.4	64.3	11.1
Machinery and equipment	9.7	6.2	5.2	61.9	5.0
Land and sub-soil assets	0.027	-50.9	0.01	5.8	-93.0
Software and other intangible assets	0.026	-14.1	0.019	95.8	22.1
Biological assets	0.013	34.3	0.07	6.0	47.6
Heritage assets	0.01	-86.6	0.02	98.1	-
Payments for capital assets	40.0	4.3	26.0	63.6	8.9

Provincial payments for capital assets for 2023/24 increased by 4.3 per cent, on a year-to-year.

Provinces had spent 63.6 per cent (R26.0 billion) of their estimated capital budget by the end of December 2023.

3.4. Provincial Government Analysis Summary

Provinces have generally spent more than 70 per cent of their budgets by the end of December 2023. Slow spending on capital assets by provincial departments raises some concerns about underspending on this item by the end of the year.

Highlighting the PBO's recent work on local government underspending analysis

Since 2023, the PBO has undertaken underspending analysis at the national, provincial, and local government levels to understand the extent of underspending and the reasons driving underspending. The PBO conducted this analysis using a mixed methodological approach, encompassing both quantitative (budget data) and qualitative (annual reports) analysis. We note that the analysis did not include conditional grants.

Below we highlight the key takeaways from our recent underspending analysis on metropolitans.

Findings on local government

Overall, the PBO analysis did not show significant levels (more than 2%) of underspending in metropolitan municipalities between 2012/13 and 2021/22.

The general reasons for underspending for the metros include; delays in project implementation/completion, inconsistencies, lack of capacity in implementing supply chain management and procurement process, unexpected savings or poor budgeting controls, vacant critical posts and delays in filling the roles. There is a notable underspending in the infrastructure and capital projects within the local government spending.

Overall takeaway

The key reasons for the underspending at metros highlight some the systemic issues in the public financial management system requiring more and consistent oversight. There have been continued debates as to whether municipalities receive adequate budgets to fulfil their mandate. We find that in certain instances the local government budgets maybe inadequate to fulfil their mandates. While the PBO brief provides evidence for some underspending of metro budgets, it is important to understand the context, extent and root causes.

The full brief is available online at:

<https://www.parliament.gov.za/parliamentary-budget-office>