Pre-MTBPS
20 October 2020

Parliamentary Budget Office

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Mandate: Parliamentary Budget Office

- The Parliamentary Budget Office (PBO) was established in terms of Section 15 of the Money Bills and Related Matters Act 2009 as amended in 2018
- The PBO assists MPs with the implementation of the Money Bills and Related Matters Act; particularly the Finance and Appropriations Committees of both Houses of Parliament as well as other Committees subject to availability
- The PBO offers independent and objective advice and analysis to the Finance and Appropriations Committees in both Houses of Parliament on money bills and other bills presented by the Executive; and any other documentation or reports with fiscal implications

Outline

- Background
- Introduction
- Global and domestic macro situation
- Policy framework and plans
- Revenue and taxation issues
- Expenditure
- Provincial and Local government update
- Conclusion

Background

- The MTBPS is an update on the budget
- It sets out government's priorities over the MTEF
  - It could be used to introduce new government economic strategies
- It proposes allocations to departments, provinces and local government
- The MTBPS provides an update on government finances and the economic status of the country, such as:
  - The macroeconomic context
  - Changes to spending
  - Changes to revenue collection
- The MTBPS does not introduce new taxes
- Changes to the current financial year estimates will also be tabled to provide for:
  - Unforeseen
  - Emergency and
  - Reprioritised spending

Introduction

- The 2020 MTBPS is presented at a time of a crisis for society and the economy
- The global pandemic continues, vaccines are still being tested and countries in the northern hemisphere are experiencing a second wave of rising infections and new lockdowns
- Covid-19 has negatively affected an interlinked global economy in a way that constrains most countries' economic recoveries
- It has shown socio-economic fault lines in society and changed the way in which governments and markets are perceived
- Even with government efforts to address the impacts of Covid-19, hunger and hardship have increased while economic activity is much reduced in South Africa
- Government has developed plans for a recovery but we are still uncertain about health and social support still required
- Indications are that:
  - The 2021 MTEF Budget will implement fiscal consolidation to reduce public debt
  - The non-interest expenditure baselines for 2021/22 and 2022/23 have been revised downward
  - There will be no nominal baseline increases in 2023/24

Global and domestic macro situation

GLOBAL AND DOMESTIC MACRO SITUATION

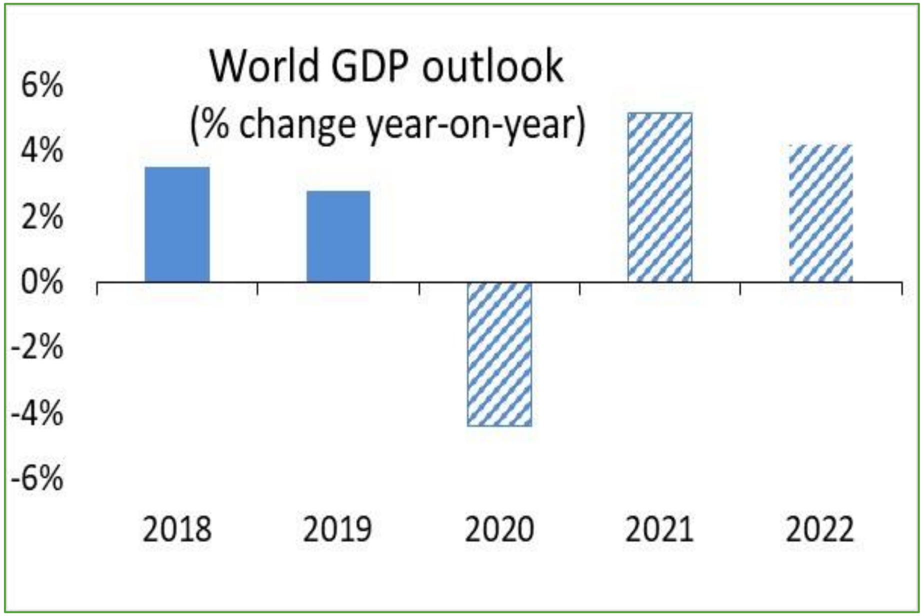
Global situation with regard to public finance

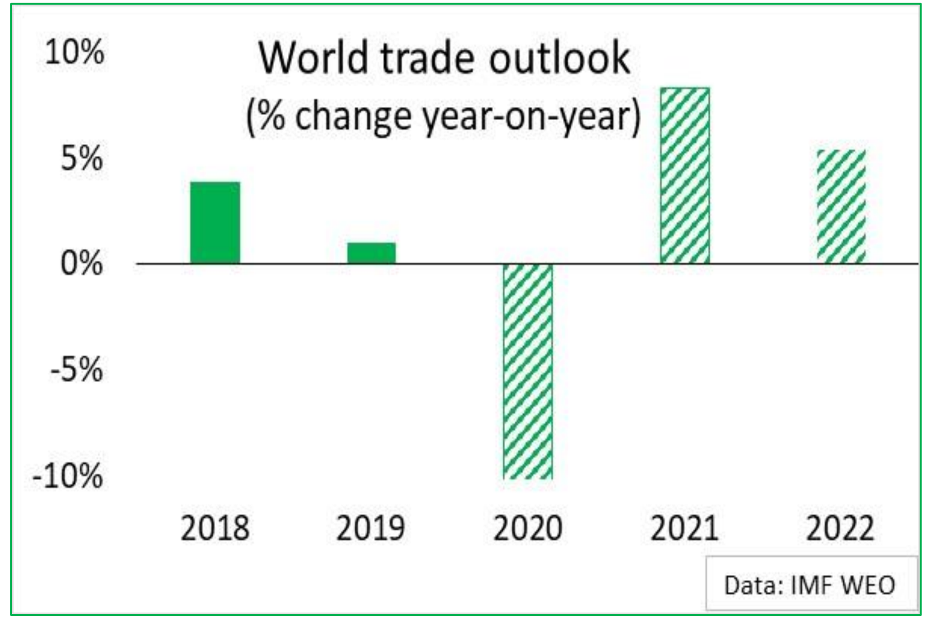
- The pandemic has wreaked havoc globally on the fight against poverty and efforts to achieve the UN's sustainable development goals (SDGs);
- A 2020 UN report shows that the pandemic would erase progress on human development made over the past 6 years
- A July 2020 UN report on the SDGs warned that 71 million people could be forced into poverty during 2020
- Governments around the world have considerably increased expenditure to reduce the socio-economic impacts of the pandemic
- The approach favoured was "to do whatever it takes" to reduce the spread of infections and to support employment and welfare
- Covid-19 globally is having a devastating impact on public finances:
  - government revenues have declined and expenditure increased
  - government deficits and debt have increased tremendously
  - Widespread downgrades of sovereign credit ratings
- At the same time, there is widespread anxiety globally that moving toward fiscal consolidation too early and too quickly will lead to slower recoveries and immense hardship for the poor

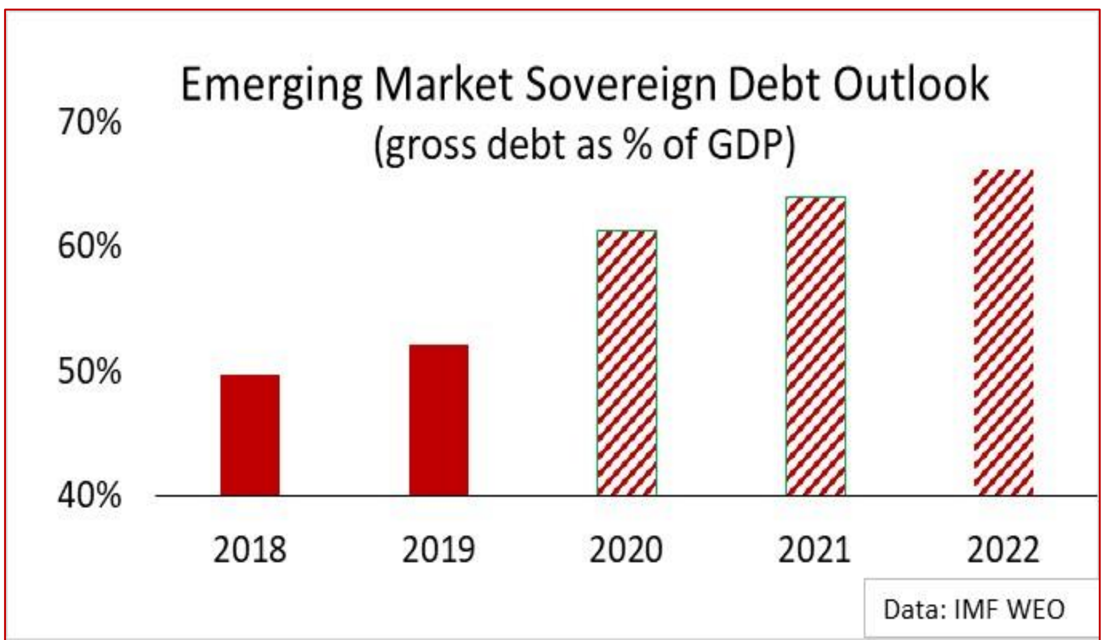
Global situation with regard to public finance

- Prominent economists, including those with the IMF, WB & UN, encourage countries to borrow even more to address the current crisis
- They call for debt relief and debt forgiveness for developing countries, particularly low income countries
- Use of expansionary fiscal policy around the globe is likely to grow and continue into future as countries face intensified disasters and risks linked to climate change
- Governments globally are examining measures to increase revenue and debt while reducing risks associated with increased debt
- Many countries borrowed from the IMF and used its special drawing rights
- Many governments (of developed and developing countries) have implemented quantitative easing where Central Banks increase their holding of government debt
- The general effect for both developed and developing countries that have used QE has been reduced borrowing costs and lower refinancing risks

Global economic outlook





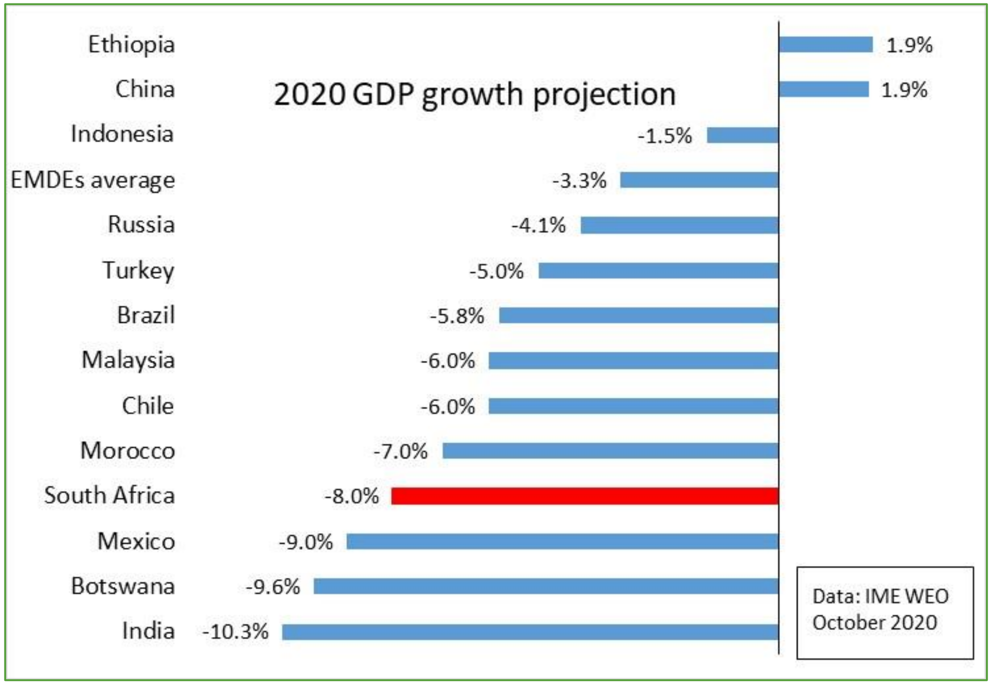


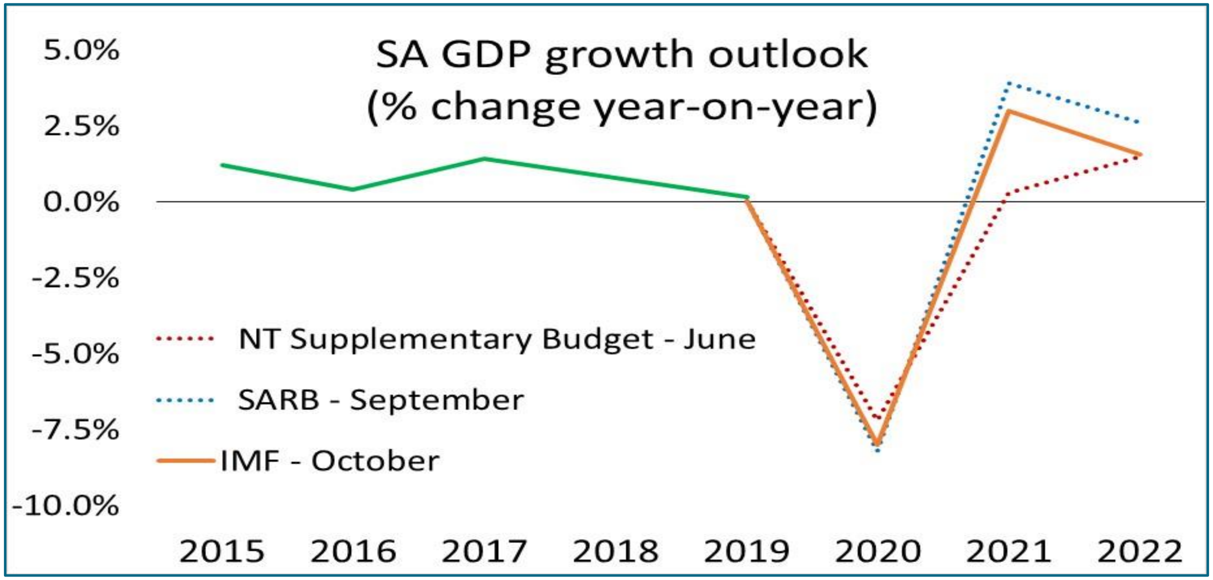
Outlook for the South African economy

Real GDP growth outlook - calender year*	2020	2021	2022
NT- Budget 2020	0.9%	1.3%	1.6%
NT- Suppletmentary Budget	-7.2%	0.3%	1.5%
SARB- September 2020	-8.2%	3.9%	2.6%
IMF - WEO - October 2020	-8.0%	3.0%	1.5%

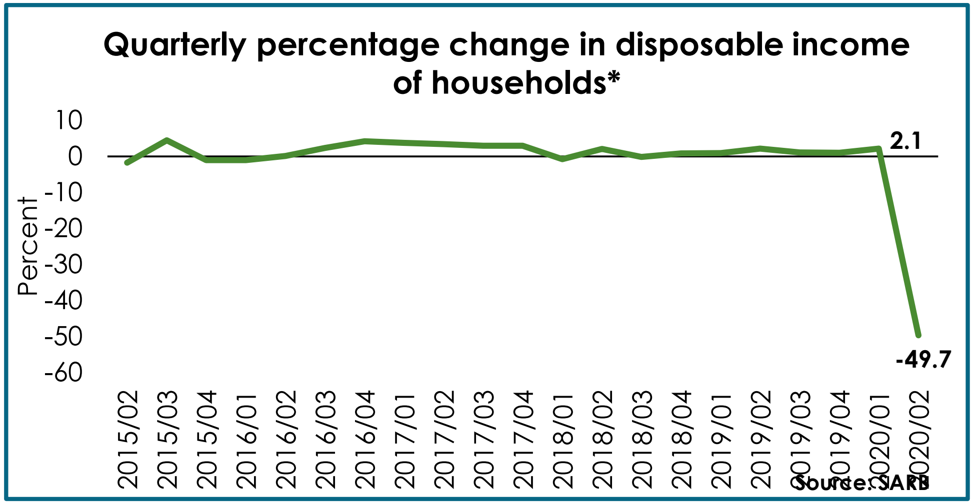
Nominal GDP growth outlook - fiscal year*	20/21	21/22	22/23
NT - Budget 2020	5.3%	6.1%	6.4%
NT- Suppletmentary Budget	-5.3%	9.4%	5.6%
IMF - WEO - October 2020	-5.9%	7.0%	5.9%

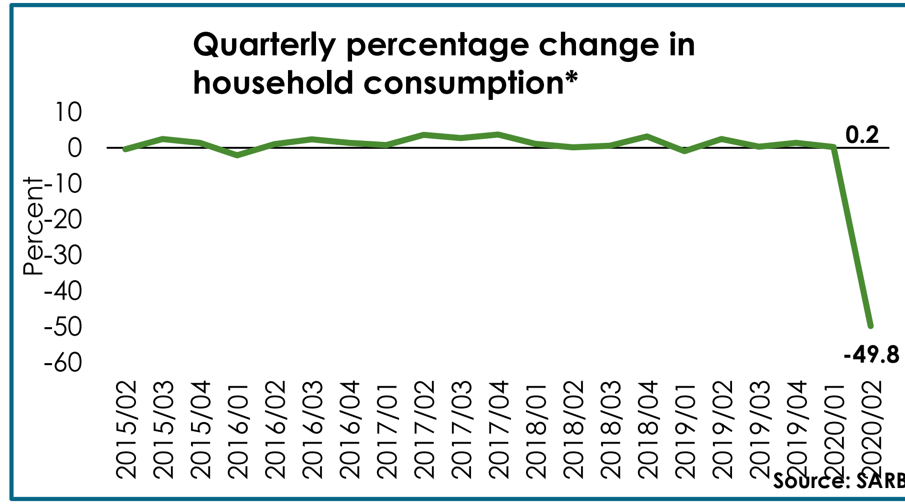
*Growth projections correspond to publication date and not forecast date





Latest trends in Household Consumption

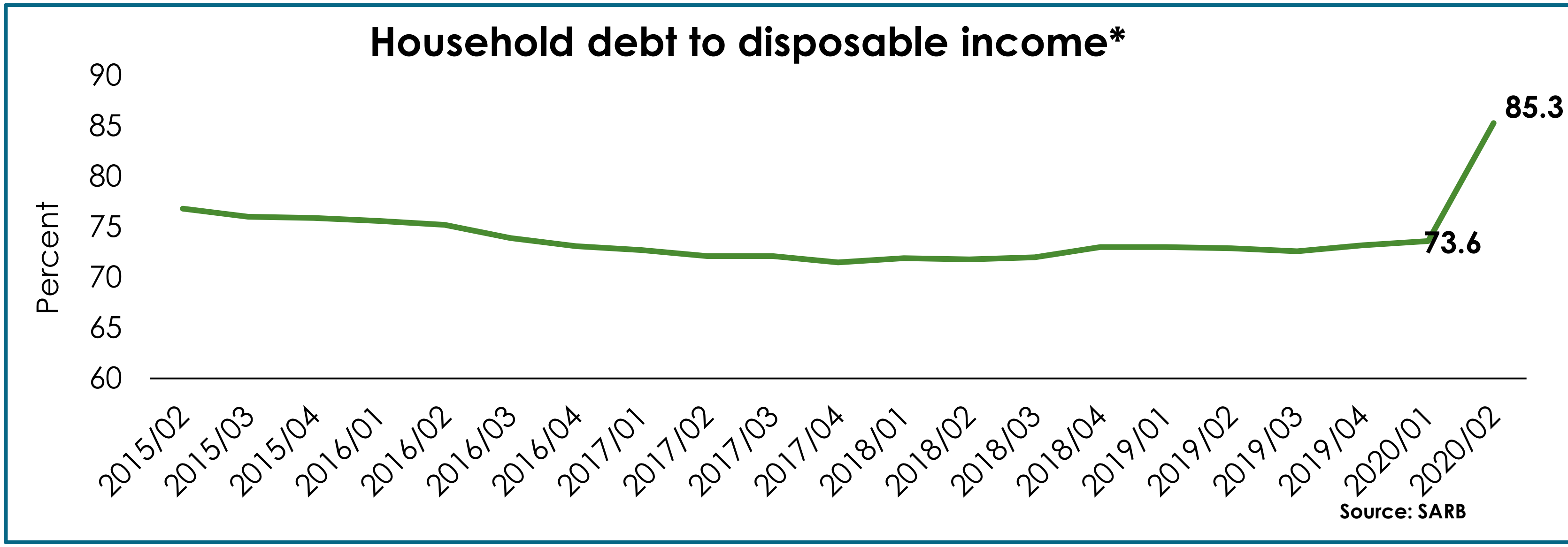




*** Both graphs reflect percentage changes from quarter to quarter, seasonally adjusted and annualized.**

- The real disposable income of households contracted by 49.7% in the second quarter of 2020 (after an increase of 2.1 % in first quarter of 2020)
- Household consumption dropped markedly by 49.8% in the second quarter of 2020, following a marginal increase of 0.2% in the first quarter
- The sharp decline reflected reduced outlays on all categories of goods
- Spending on durable and semi-durable goods contracted the most because most were classified as non-essential during the lockdown
- Overall, consumer spending by households contracted by 7.5% from the first half of 2019 to the first half of 2020
- This decline was consistent with the decline in both consumer confidence and credit extension to households

Latest trend in Household Debt



* **Graph reflects percentage change from quarter to quarter, seasonally adjusted and annualized.**

- The ratio of household debt to disposable income increased significantly from 73.6% in the first quarter of 2020 to 85.3% in the second quarter
- Household debt declined in the second quarter of 2020 – its first decline since the third quarter of 2002
- The quarter-to-quarter decline in nominal disposable income exceeded the decline in household debt
- The outstanding balances of most categories of credit extended to households decreased during the national lockdown
- This decline in credit extension was probably due to socioeconomic uncertainty about household saving and spending patterns

Labour market trends and unemployment

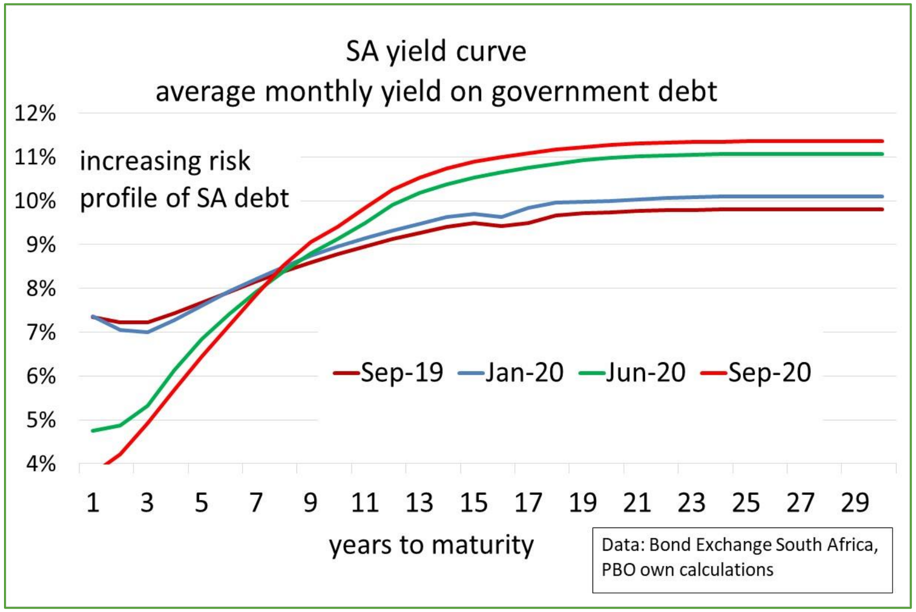
	Apr-Jun 2019	Jan-Mar 2020	Apr-Jun 2020	Qtr-to-qtr change	Year-on-year change
	Thousands			Per cent	
Labour force	22 968	23 452	18 443	-21,4	-19,7
Employed	16 313	16 383	14 148	-13,6	-13,3
Unemployed	6 655	7 070	4 295	-39,2	-35,5
Not economically active:	15 465	15 422	20 578	33,4	33,1
Discouraged work-seekers	2 749	2 918	2 471	-15,3	-10,1
Other (not economically active)	**12 716**	**12 504**	**18 107**	**44,8**	**42,4**
Rates (%):					
Official Unemployment rate	29,0	30,1	23,3	-6,8	-5,7
Broad unemployment rate	52,0	53,8	55,2	2,6	6,2
Employed/population ratio (absorption)	42,4	42,1	36,3	-5,8	-6,1
Labour force participation rate	**59,8**	**60,3**	**47,3**	**-13,0**	**-12,5**

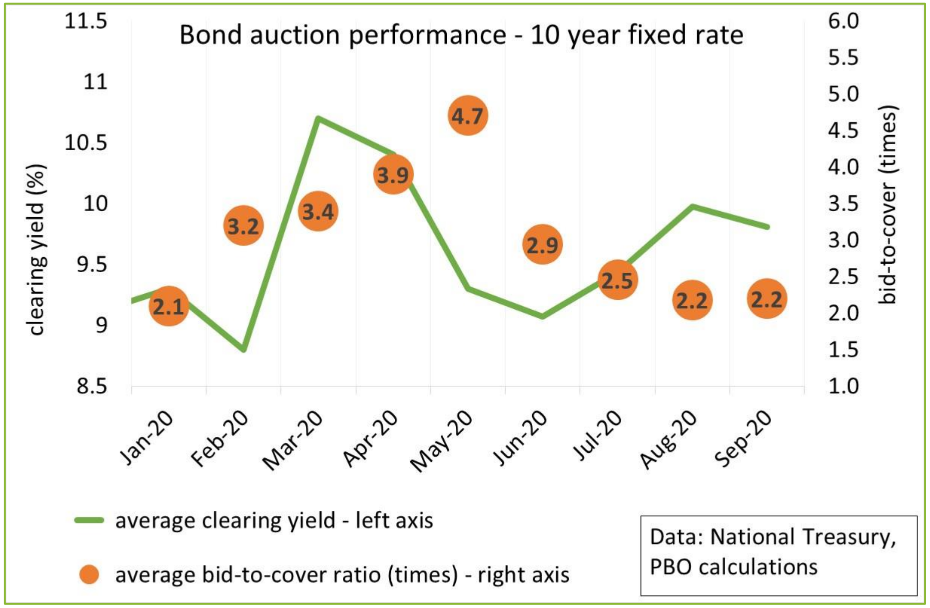
- 2.2 million people lost their jobs in the second quarter of 2020
- The number of people in the labour force declined by 5 million (21.4%)
- The number of people who were not economically active for reasons other than discouragement increased by 5.6 million between the two quarters
- The non-economically active population had a net increase of 5.2 million
- The official rate of unemployment declined very much from 30.1% to 23.3%
- The labour force participation rate was lower in quarter two of 2020 compared to the first quarter of 2020 – decreasing 13% to 47.3%

NIDS-CRAM survey on the impact of social grants and changes in employment

- The NIDS-CRAM Wave 2 report finds that:
  - Additional government spending on grants was relatively well-targeted to lower-income households
  - Spending on the Child Support Grant (CSG) was particularly pro-poor
  - Only 40% of the 11.33 million individual grant applicants were successful at the time of the survey
- The NIDS-CRAM wave 1 survey found that 3-million jobs were lost between February and April 2020
- The wave 2 survey shows that these jobs had not returned by June even with easing of the lockdown and are concerned that these losses may be long lasting
- Excluding changes in temporary non-employment, the percentage decline in employment between February and June was ten times higher for the poorest 50% of workers (31% net decline) compared to the richest 25% of workers (3% net decline)

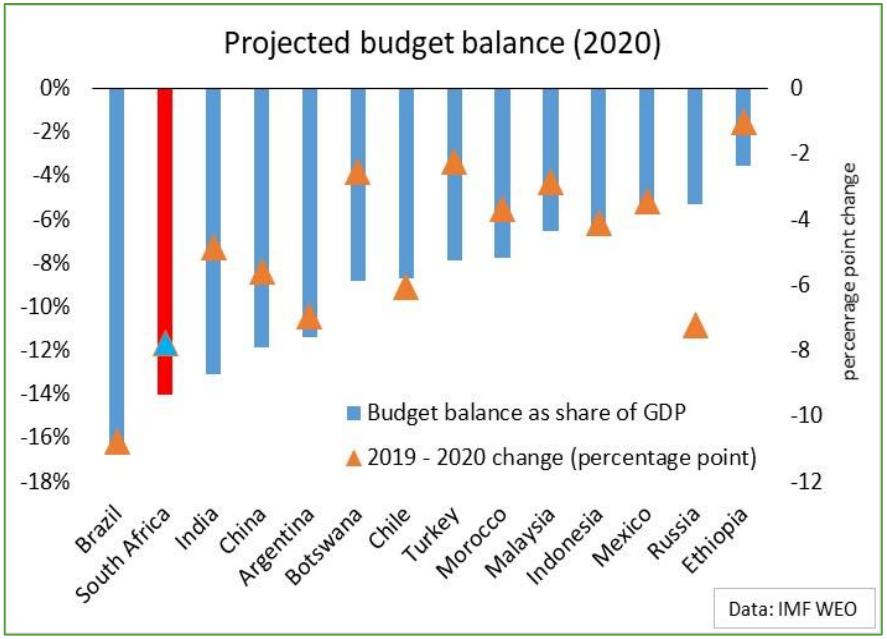
Increasing risk perception and borrowing costs of South African sovereign debt

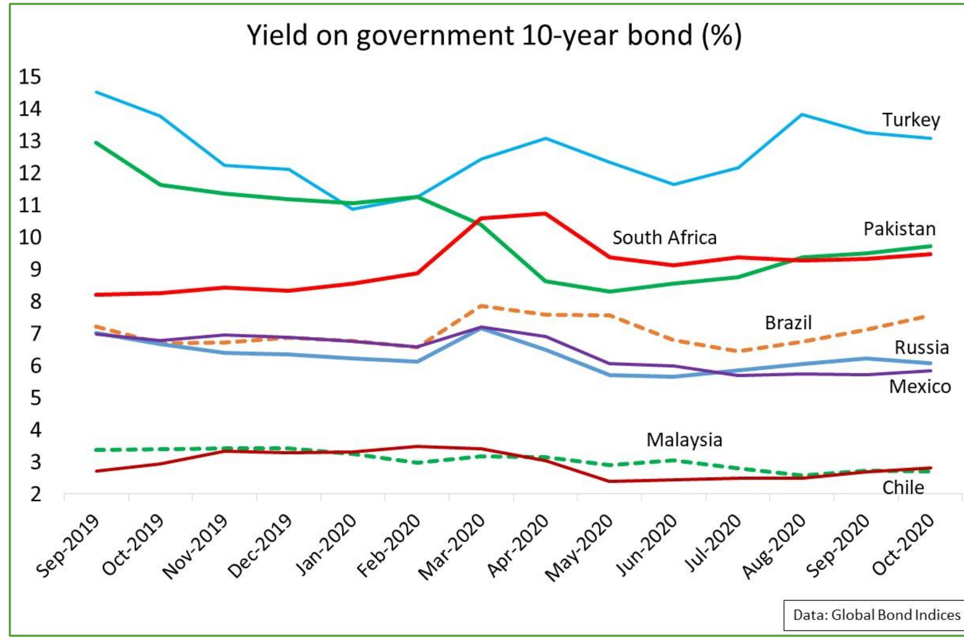


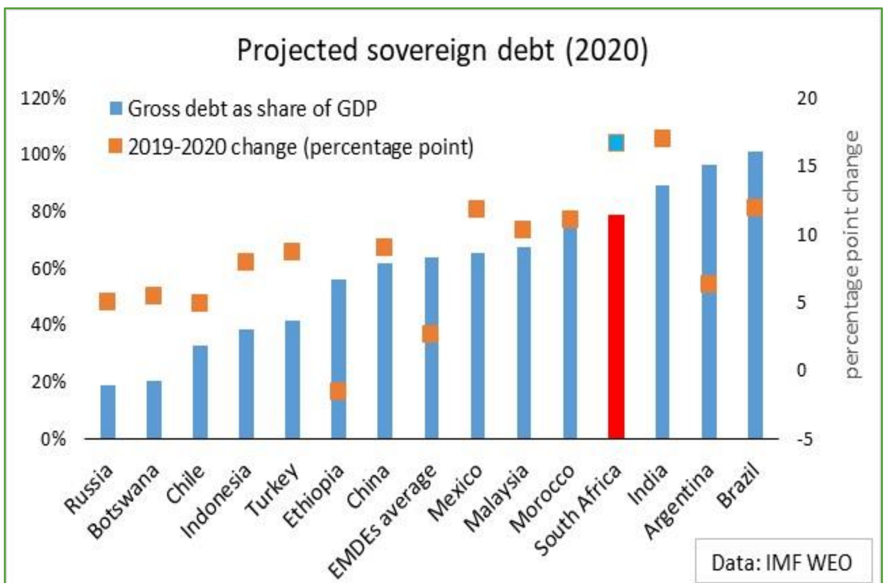


- The June Supplementary budget showed a substantial increase (79% : R344.2 bn) in the borrowing requirement for the 2020/21 fiscal year
- Government borrowing costs have been on a continued upward trajectory over the last 18 months, indicating higher risk perception
- Appetite for government debt has moderated
- Interest expenditure increased as a share of total expenditure
- April – August 2020: 24 cents of every R1 collected in revenue went to debt repayment, compared with 16 cents in 2019/20

South Africa's debt and borrowing costs have increased

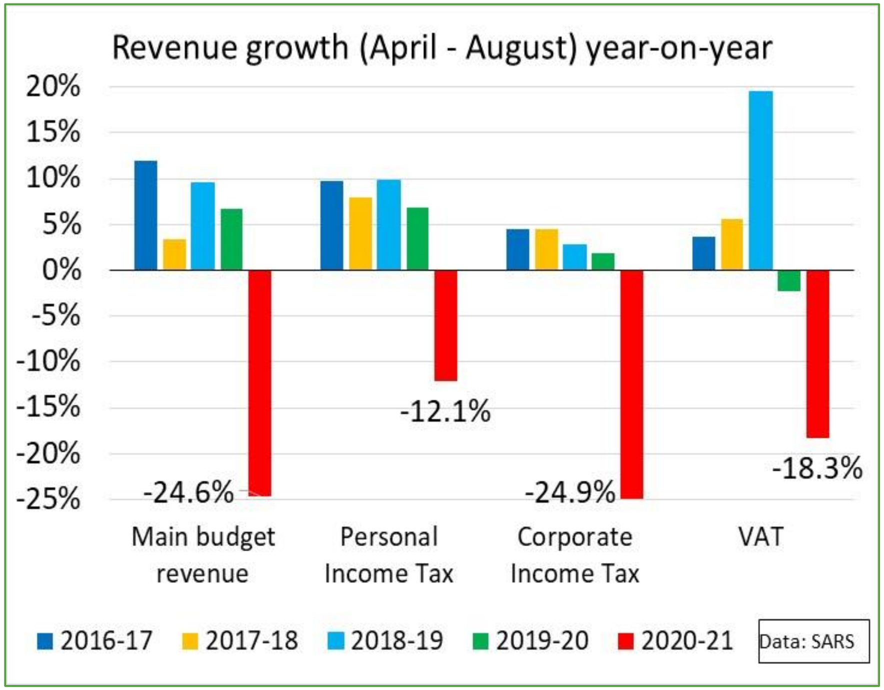


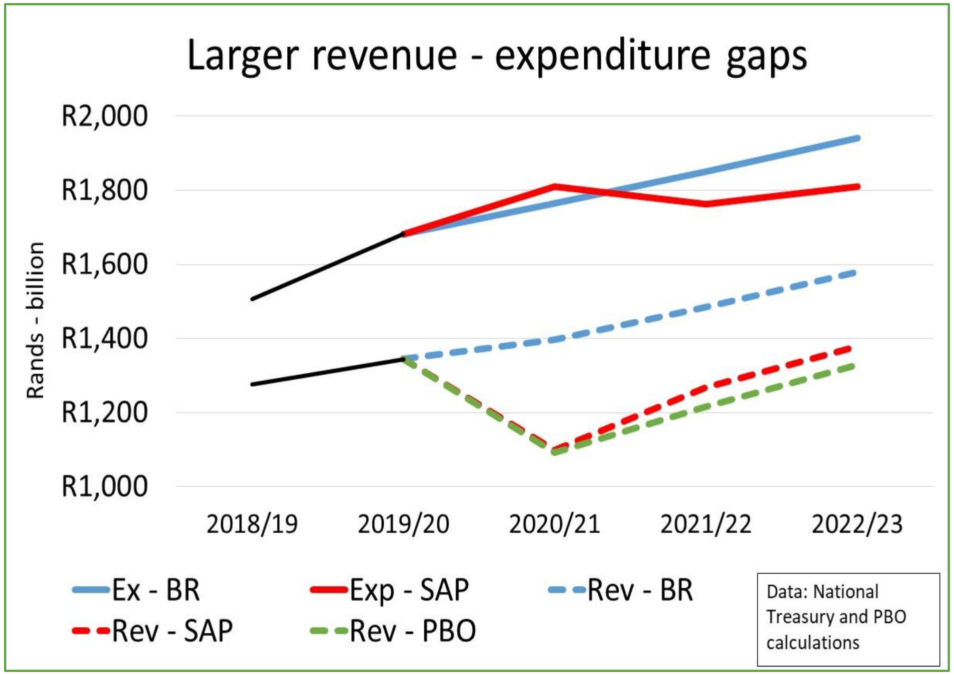




- Most countries have experienced large budget deficits, higher debt levels and higher borrowing costs
- SA's projected budget deficit, debt and borrowing costs are higher than peers
- Heightened fiscal risks underscore importance of effective and efficient spending to support growth, and ensure sustainability of public finances.

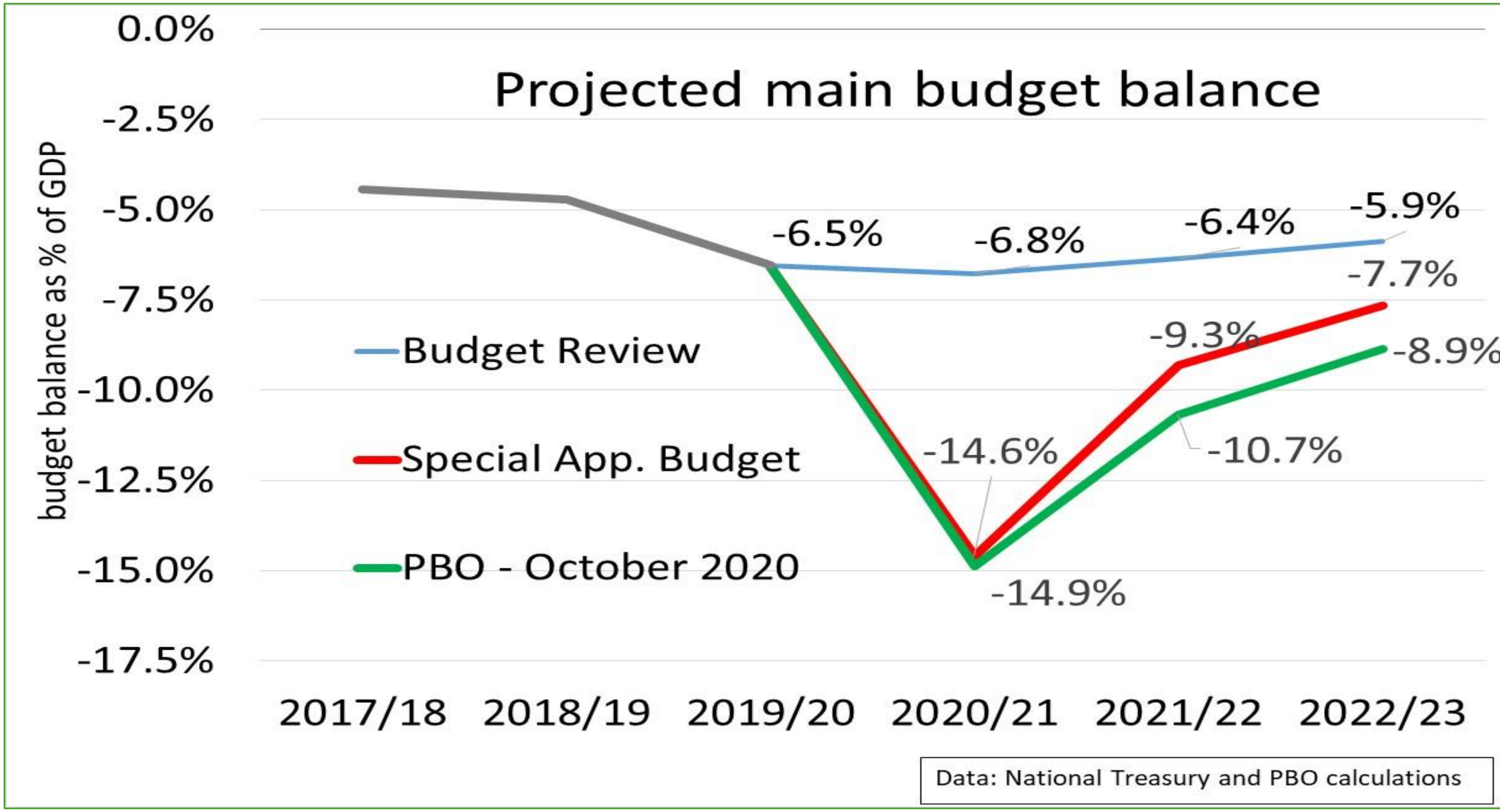
Fiscal Framework outlook





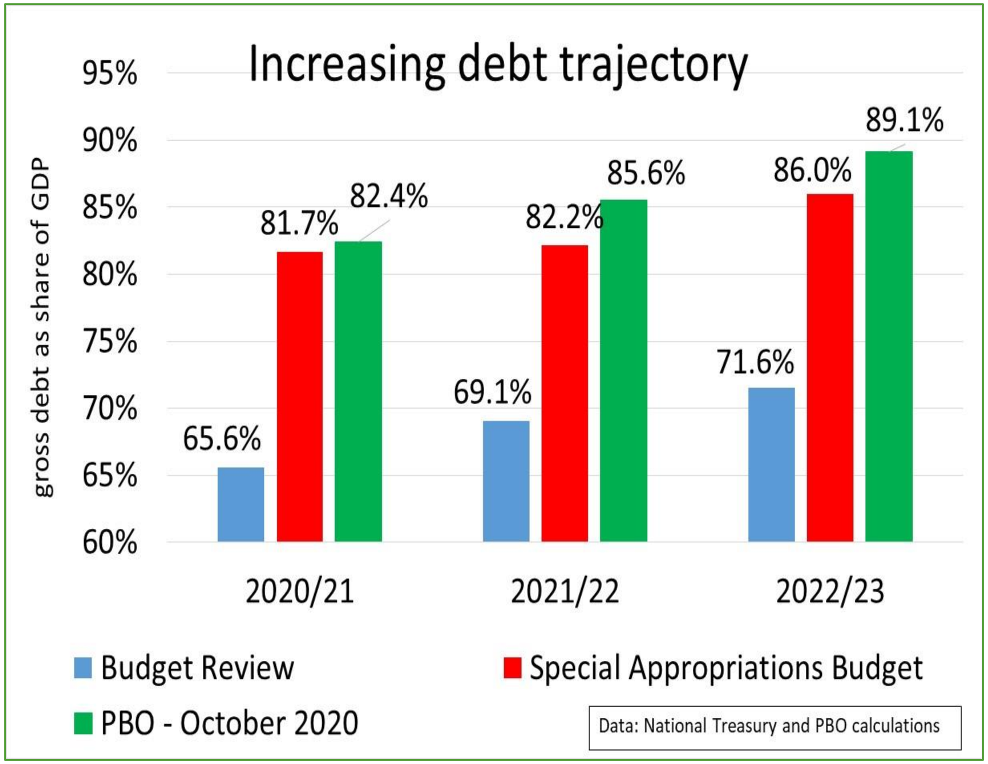
- Supplementary Budget
  - Downwardly revised-revenue projections for the current fiscal year (R298 bn) and across the MTEF (R716 bn)
  - Reduced expenditure allocation by R174 bn across the MTEF
- Year-to-date revenue has plummeted
- PBO estimates a wider revenue-expenditure gap for the current year and over the MTEF (non-policy adjusted estimates)

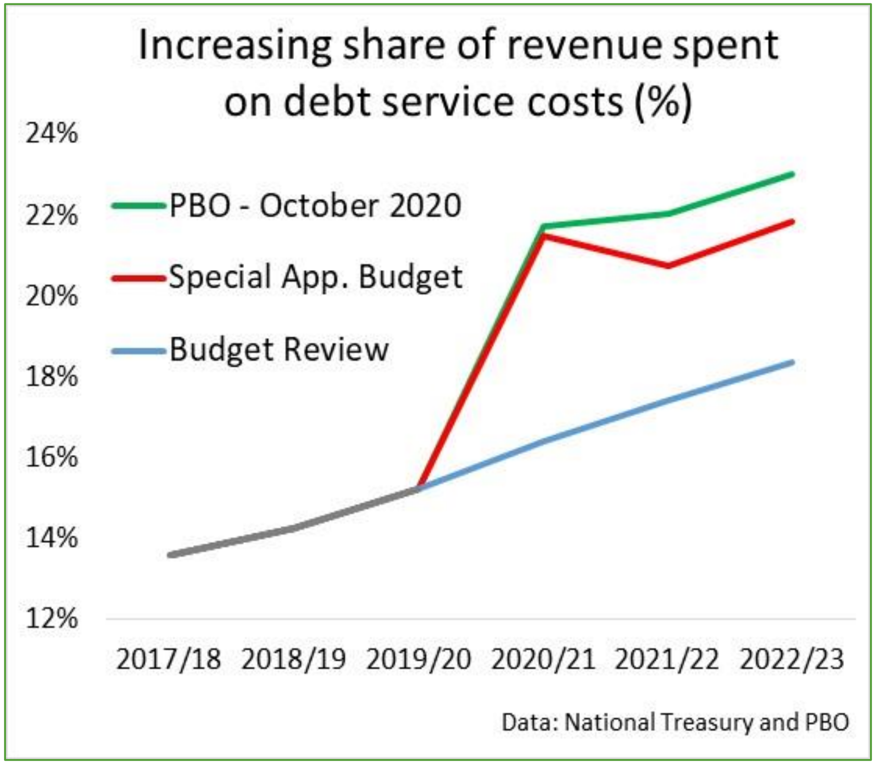
Fiscal Framework outlook - budget balance



The estimate of a larger revenue – expenditure gap, combined with higher borrowings costs and estimates of lower nominal GDP over the medium-term, translate into a larger budget deficit as a share of GDP over the MTEF

Fiscal Framework outlook – debt





- Larger budget deficits over the medium term have required and will continue to require the issuance of additional debt
- Increased debt issuance will result in higher debt levels over the medium term in the absence of policy adjustment
- Higher debt levels, slower revenue growth and higher borrowing costs result in debt service costs consuming a larger share of revenue over the MTEF

National Policy Framework

Policy implementation framework

Policy implementation success

POLICY FRAMEWORK AND PLANS

Revised targets

Measures	Baselines[1]	Target 2024	Target NDP 2030
GDP growth	0.8%	2% - 3%	5.4%
Unemployment Formal rate	27.6%	20%-24%	6.0%
Number employed	16.3 million	18.3 – 19.3 million	23.8 million
Investment % of GDP	18%	23%	30%
Inequality: Gini coefficient	0.68	0.66	0.60
Food poverty	24.7%	20%	0.0%
Violent crime to be halved Total Contact Crimes (Crimes Against a Person)	621 282 (SAPS, 2019/20)	310 641 (6.7% per annum)	
Every 10-year-old being able to read for meaning	new	TBD after first assessments	

Source: NDP 2030 and Stats SA
Notes: 1. Baselines are as follows: unemployment Q1:2019; growth 2018; inequality and poverty 2015/16

Planning: Policy alignment to International agreements

NDP Outcomes 2030	Sustainable Development Goals	Agenda 2063: First 10 Years' Aspirations
Outcome 12 Public Service	16. Peace, justice and strong institution	A3: An Africa of good governance, democracy, respect for human rights, justice and the rule of Law A5: Africa with a strong cultural identity, common heritage, values and ethics
Outcome 4 Economy **Outcome 6 Infrastructure** **Outcome 10 Environment**	7. Affordable and clean energy 8. Decent work and economic growth 9. Industry, innovation and infrastructure, 13. Climate action, 14. Life below water, 15. Life on land	A1: A prosperous Africa based on inclusive growth and sustainable development
Outcome 1 Quality basic education **Outcome 2 Health** **Outcome 5 Skills**	4. Quality education 3. Good health and well-being	
Outcome 7 Rural Development **Outcome 9 Local Government** **Outcome 13 Social Protection**	6. Clean water and sanitation	
Outcome 8 Human Settlements **Outcome 9 Local Government**	11. Sustainable cities and communities	A2: An integrated continent politically united and based on the ideals of Pan Africanism and the vision for Africa's Renaissance
Outcome 3 Safety		4A: Peaceful & secure Africa
Outcome 14 Nation Building	5. Gender equality	A6: Africa whose development is people driven, relying on the potential offered by African people, especially its Youth and Women, and caring for children
Outcome 11 A better SA, Africa and World	1.No poverty 2. Zero hunger 10. Reduced inequality 12. Responsible consumption & production. 17. Partnership for the goals	A7: Africa as a strong, united, resilient and influential global partner and player

Planning: Policy alignment to other initiatives

NDP Outcomes 2030	2019-2024 MTSF priorities	District Development Model: Objectives and **National Spatial Development Framework informs infrastructure planning**
Outcome 12 Public Service	A capable, ethical and developmental state	Build government capacity Foster a practical intergovernmental relations mechanism Oversight over budgets and projects
Outcome 4 Economy **Outcome 6 Infrastructure** **Outcome 10 Environment**	Economic transformation and job creation/**The SA Economic Reconstruction and Recovery Plan**	Sub-Frame Three: National Resource Economic Regions Sub-Frame Five: National Ecological Infrastructure & Natural Resource System
Outcome 1 Quality basic education **Outcome 2 Health** **Outcome 5 Skills**	Education, skills and health	
Outcome 7 Rural Development **Outcome 9 Local Government** **Outcome 13 Social Protection**	Consolidating the social wage through reliable and quality basic services	
Outcome 8 Human Settlements **Outcome 9 Local Government**	Spatial integration, human settlements and local government	Sub-Frame Two: National System of Nodes & Corridors Sub-Frame Four: National Movement & Connectivity Infrastructure System
Outcome 3 Safety	Social cohesion and safe communities	
Outcome 14 Nation Building	Social cohesion and safe communities	Ensure inclusivity by gender budgeting Coordinate government response to poverty, unemployment & inequality
Outcome 11 A better SA, Africa and World	A better Africa and World	Sub-Frame One: Inter-Regional Connectivity

Planning: Policy implementation over the medium term

National Development Plan	MTSF 2014-2019	MTSF 2019-2024	Implementation Programmes	Strategic and Annual Performance Plans
• 14 National outcomes • Targets	• 14 Outcomes • Goals • Sub-outcomes • Actions • Performance indicators • Baselines and targets	• 7 Priorities • 5 Goals • Impacts • **81 Outcomes** • **Sub-outcomes** • Outcome indicators • 337 Interventions • **561 Intervention indicators** • Baselines and targets • Resourcing (MTEF budget allocation of Lead departments)		• Vision • Mission • Programme purpose • Outcome • Programme output • Output Indicator • Baselines and targets • Programme resource considerations

Planning: Policy implementation over the medium term

- Revised Framework for Strategic and Annual Performance Plans identifies, amongst others:
  - The development of Implementation Programmes that need:
    - To address a specific challenge
    - To act as a strategic intervention within an institution or sector and/or
    - To improve implementation of existing or new programmes
  - Information on public entities, infrastructure projects and service delivery projects per district and conditional grant indicators and targets
- To succeed, with the implementation of policies and plans regulations, guidelines and frameworks needs to be implemented, specifically:
  - Information about an implementation programme's output must be reflected in the Annual Performance Plan (APP)
  - Monitoring of all performance information

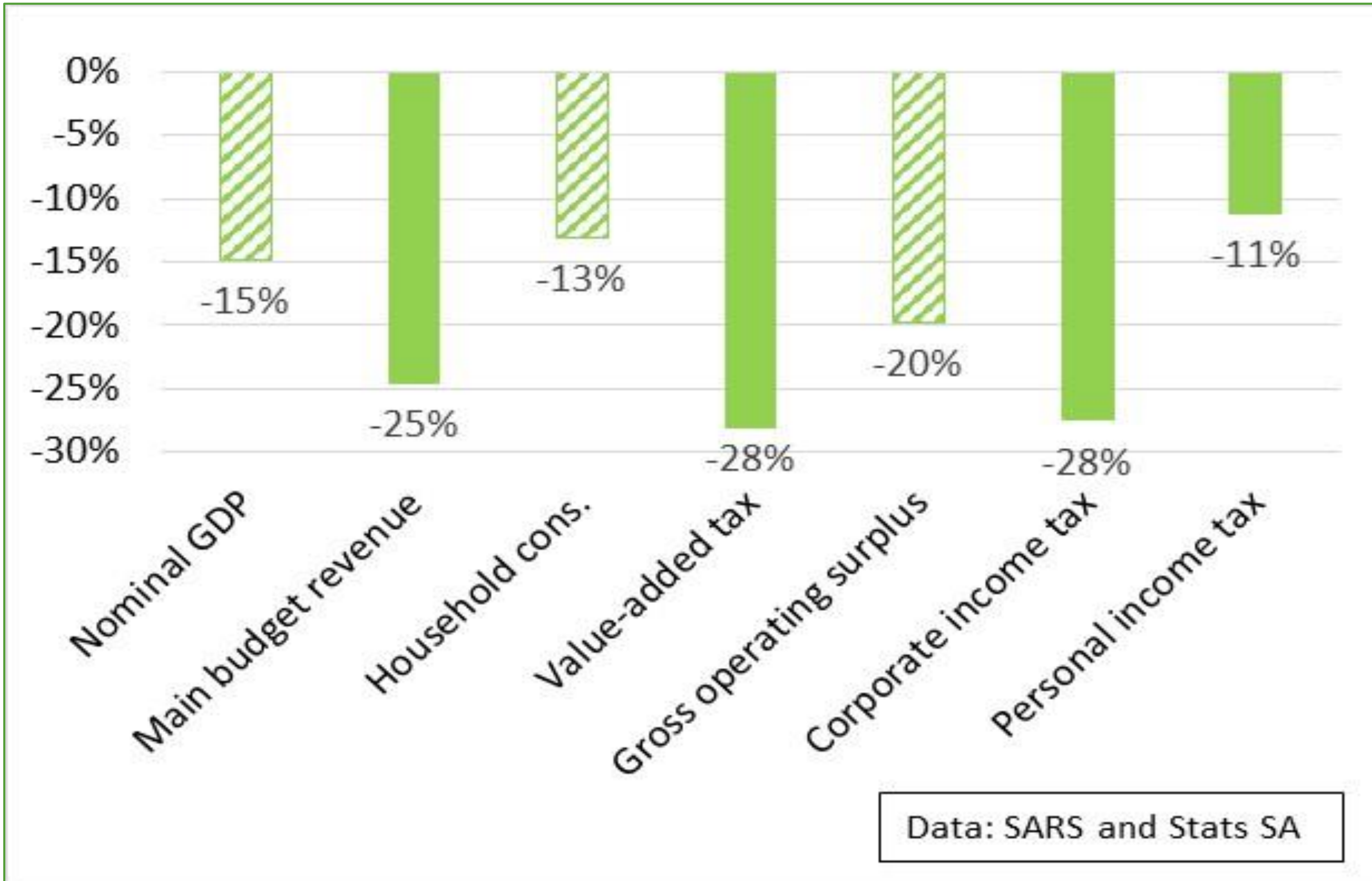
Planning: Alignment of priorities with Budget function groups

NDP: 2014-2019 MTSF	2019-2024 MTSF priorities	Budget function groups
Outcome 12 Public Service	**A capable, ethical and developmental state**	7. General public service
Outcome 4 Economy Outcome 6 Infrastructure Outcome 10 Environment	**Economic transformation and job creation**	5. Economic development
Outcome 1 Quality basic education Outcome 2 Health Outcome 5 Skills	**Education, skills and health**	1. Learning and culture 2. Health
Outcome 7 Rural Development Outcome 9 Local Government Outcome 13 Social Protection	**Consolidating the social wage through reliable and quality basic services**	4. Community development
Outcome 8 Human Settlements Outcome 9 Local Government	**Spatial integration, human settlements and local government**	4. Community development
Outcome 3 Safety Outcome 14 Nation Building	**Social cohesion and safe communities**	3. Social development 6. Peace and security
Outcome 11 A better SA, Africa and World	**A better Africa and World**	7. General public service

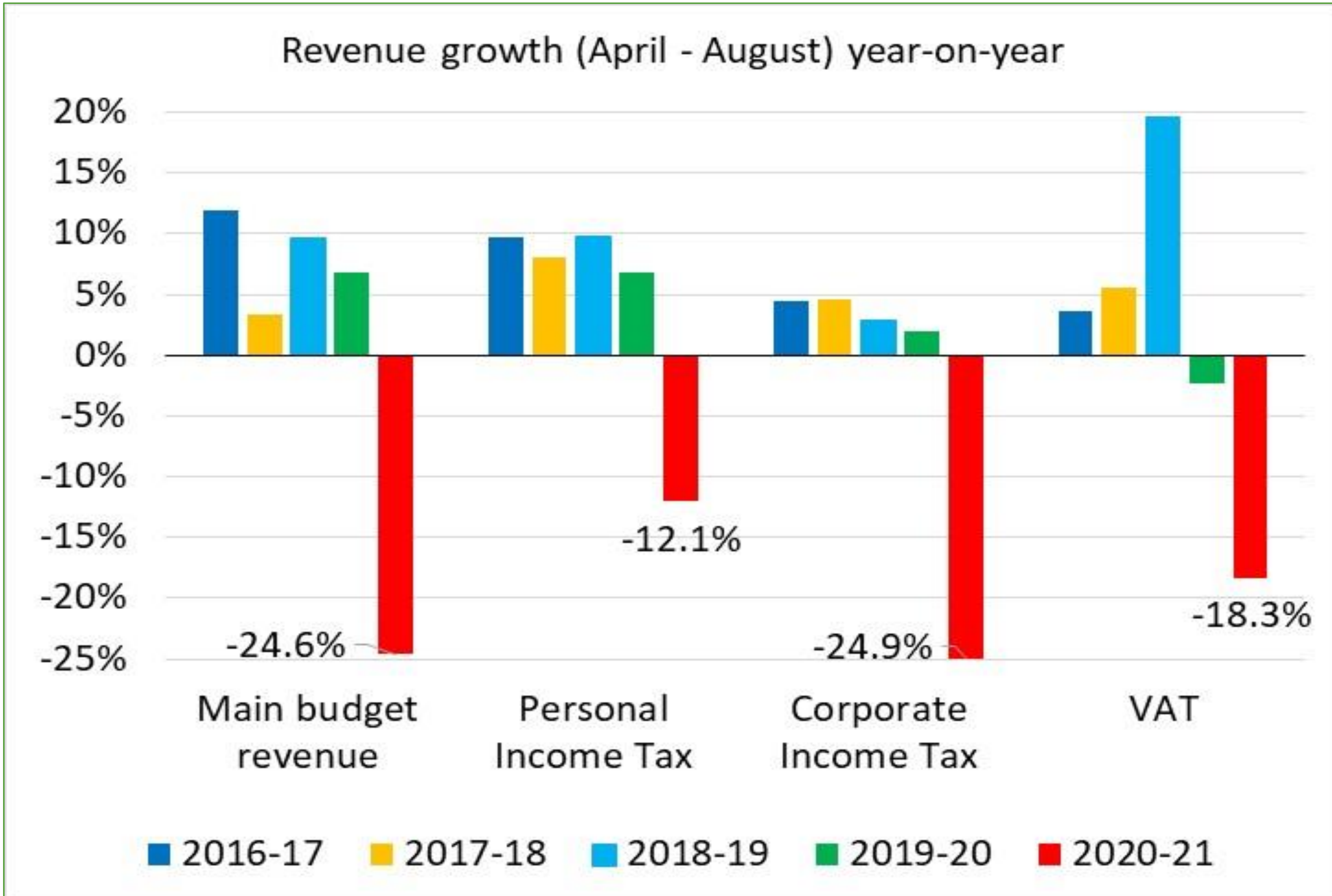
Revenue and taxation issues

REVENUE AND TAXATION MATTERS

First quarter revenue and economic performance



Revenue performance (year-to-date)



Tax revenue developments

- The cost-of-revenue collection ratio continued to decline from 0.97 in 2014/15 to 0.78 in 2019/2020
- Tax revenue revised estimates for 2020/21 is:
  - R238 billion (18%) lower than 2019/20 actual tax revenue collected
  - R304 billion (21%) lower than the budget review estimates in February 2020; (including Covid19 tax relief)
- Covid-19 economic conditions together with continued digitalisation of business activities and continued base erosion and profit shifting will negatively affect all of these tax revenue sources
- Covid-19 tax relief measures to supports businesses and individuals results in forgone tax revenue
- Government considering discretionary tax measures to raise additional revenue over the medium term
- Therefore, it is necessary to monitor the socioeconomic impact of the implementation on these relief

Tax revenue and expenditure developments

- Government provides tax incentives to support economic recovery, ensure companies maintain and create employment, and encourage investment
- Government has, over the years, planned to review some of the tax incentives to ensure efficacy and relevance:
  - Well-targeted tax incentives may promote investment and growth but can erode the tax base and reduce tax revenue
  - Studies show that investors do not consider tax incentives to be a decisive factor when considering investments in developing countries
  - Some tax incentives were found to be redundant, meaning that investment would have taken place without them
- Tax expenditures can undermine principles of equity & simplicity as they target specific taxpayers & often require complicated rules to prevent abuse
- Monitoring to ensure that SMMEs and the informal sector can access and benefit from tax incentives

Other tax developments: digital economy and tax reforms

- Rapid growth in digitalisation of economies and the global Covid-19 economic decline resulted in loss of government tax revenues globally;
- Global suggestions for reforming tax measures (UN, OECD, TJN & others):
  - Higher corporate tax rate for MNEs in oligopoly sectors
  - Set minimum effective (corporate) tax rate at 25%
  - Taxation of capital gains at ordinary income tax rates not low inclusion rates
  - Sharing of international tax information amongst jurisdictions to combat BEPS; and consideration for unitary taxation
- Physical presence test are largely obsolete for digital economy activities
- The global discourses to rethink allocation of taxation rights has intensified
- RSA taxes consumption (VAT) but not income of digital economic activities
- Many jurisdictions opted for a unilateral approach to tax digital commerce
- International alternatives for additional tax revenue from digital economy:
  - Withholding tax on digital transactions
  - The UN proposed an alternative focusing on developing countries
  - The EU is preparing its own digital tax framework
  - African Tax Administration Forum warns African countries against a "wait and see" approach for taxing digital economic activities

Progress with Budget 2020/21
Adjustments to Budget 2020/21
New rules for Budget 2021/22

EXPENDITURE

Budget implementation: Progress

R thousand	Revised estimates	Current payment	Transfers and subsidies	Capital assets	% spent	% of org. budget
3 Cooperative Governance	107 188 495	27.7%	36.3%	21.5%	35.9%	**40.0%**
9 Planning, Monitoring and Evaluation	399 974	34.4%		92.0%	34.8%	**27.9%**
10 Public Enterprises	37 787 484	39.8%		55.9%	26.3%	**26.3%**
13 Public Works and Infrastructure	8 070 796	25.7%	44.4%	4.5%	41.9%	**41.9%**
14 Statistics South Africa	3 252 173	25.4%		36.9%	26.7%	**25.2%**
15 Traditional Affairs	170 399	27.1%	50.0%	9.6%	33.2%	**32.6%**
16 Basic Education	23 233 034	16.7%	60.3%	2.3%	50.7%	**46.5%**
17 Higher Education and Training	95 709 600	33.7%	67.8%	21.0%	64.0%	**52.4%**
18 Health	58 429 523	29.5%	40.7%	37.9%	40.0%	**42.1%**
19 Social Development	223 192 157	29.7%	40.5%	21.3%	40.4%	**45.6%**
25 Justice and Constitutional Developme	19 444 621	31.2%	41.6%	27.8%	32.7%	**28.4%**
26 Military Veterans	546 073	19.4%	10.5%	4.6%	16.2%	**12.9%**
28 Police	105 411 033	37.2%	43.4%	12.0%	36.7%	**38.0%**
29 Agriculture, Land Reform and Rural	14 416 312	29.3%	29.1%	33.4%	29.3%	**25.1%**
30 Communications and Digital Technolo	3 283 106	22.8%	39.9%	24.8%	35.8%	**34.7%**
32 Environment, Forestry and Fisheries	8 188 499	34.7%	35.3%	36.1%	34.9%	**31.9%**
33 Human Settlements	29 063 977	21.3%	31.1%	32.6%	30.7%	**28.5%**
34 Mineral Resources and Energy	7 763 001	31.8%	48.8%	19.4%	45.1%	**37.5%**
35 Science and Innovation	7 361 893	29.5%	47.6%	44.0%	46.3%	**38.8%**
36 Small Business Development	2 339 783	29.5%	70.1%	32.7%	66.1%	**64.3%**
38 Tourism	1 480 984	23.2%	54.5%		34.2%	**20.4%**
39 Trade, Industry and Competition	9 310 710	32.1%	38.2%	32.0%	36.9%	**31.0%**
40 Transport	57 395 828	27.7%	44.1%	13.4%	43.7%	**40.4%**
41 Water and Sanitation	16 959 227	34.1%	29.3%	11.5%	25.4%	**25.1%**
Total appropriation by vote	**987 653 947**	35.6%	43.9%	17.0%	40.3%	**41.3%**

Budget implementation: Provisional allocations

R million	2020/21	2021/22	2022/23	MTEF total
Public entity: South African Social Security Agency	–	500	524	1 024
South African Airways	6 502	–	–	6 502
Provision for disaster recovery efforts	500	–	–	500
Competition Commission	–	125	131	256
Broadband (SA Connect Phase 2)	–	–	1 289	1 289
Roads asset management for the secondary and strategic road network	–	800	1 048	1 848
Construction of the Tygerberg hospital	–	180	235	415
Construction of the Klipfontein hospital	–	130	200	330
Provisional allocation for contingencies not assigned to votes	7 021			
Provisional allocations for COVID-19 fiscal relief package	19 575			
Eskom	23 000			
Compensation of Employees	-37 807			
Contingency Reserve	5 000			
Other[1]	19	118	147	283
Economic reconstruction and recovery plan:				
Public transport	2 250			
Road rehabilitation	713			
Communication: digital migration	4 100			
Presidency: Unlock sector investment	23 000			
Total	**53 873**	**1 853**	**3 573**	**12 447**

Budget formulation: Vote reforms

Some of the main interventions in the budget process include:

- Any additional revenue due to public institutions may NOT be used to increase spending
- Special attention will be placed on assessing Public Institutions
- Explanations from departments that have transfers above 50 per cent of their total vote should explain:
  - Functions performed by the department with the remaining budget
  - Their role into the public institutions such as oversight functions, shareholder compacts and direction setting through strategic plans
- Public institutions that receive more than 20 per cent of their funds from government are to motivate:
  - The rationale for their creation and mandate
  - Indicate the current policy relevance of their existence
  - Indicate the implications of redrafting inception legislation
  - Consideration should be given to closing down some public institutions or transferring their functions back into their designated national departments

Budget formulation: Vote reforms

R thousand	Voted (Main appropriation)	Transfers and subsidies	Percentage share	Percentage share of Adjusted budget
Agriculture, Land Reform and Rural Development	16 810 056	8 411 043	**50.0%**	45.9%
Basic Education	25 328 232	21 150 175	**83.5%**	80.9%
Communications and Digital Technologie	3 394 537	2 582 803	**76.1%**	76.3%
Cooperative Governance	96 233 988	91 272 773	**94.8%**	95.4%
Health	55 515 997	51 271 899	**92.4%**	92.8%
Higher Education and Training	116 856 889	105 851 184	**90.6%**	90.0%
Human Settlements	31 324 916	30 373 603	**97.0%**	96.8%
Mineral Resources and Energy	9 337 028	7 634 620	**81.8%**	78.6%
National School of Government	206 593	93 703	**45.4%**	49.2%
Public Works and Infrastructure	8 070 796	6 996 074	**86.7%**	86.7%
Science and Innovation	8 797 393	8 162 158	**92.8%**	92.6%
Small Business Development	2 406 783	2 151 096	**89.4%**	90.3%
Social Development	197 718 275	196 766 757	**99.5%**	99.6%
Sports, Arts and Culture	5 720 164	4 492 149	**78.5%**	78.5%
Trade, Industry and Competition	11 082 138	9 071 370	**81.9%**	79.0%
Transport	62 047 249	60 591 586	**97.7%**	97.6%
Water and Sanitation	17 216 227	8 974 139	**52.1%**	52.9%
Women, Youth and Persons with Disabilitie	778 490	568 781	**73.1%**	71.5%

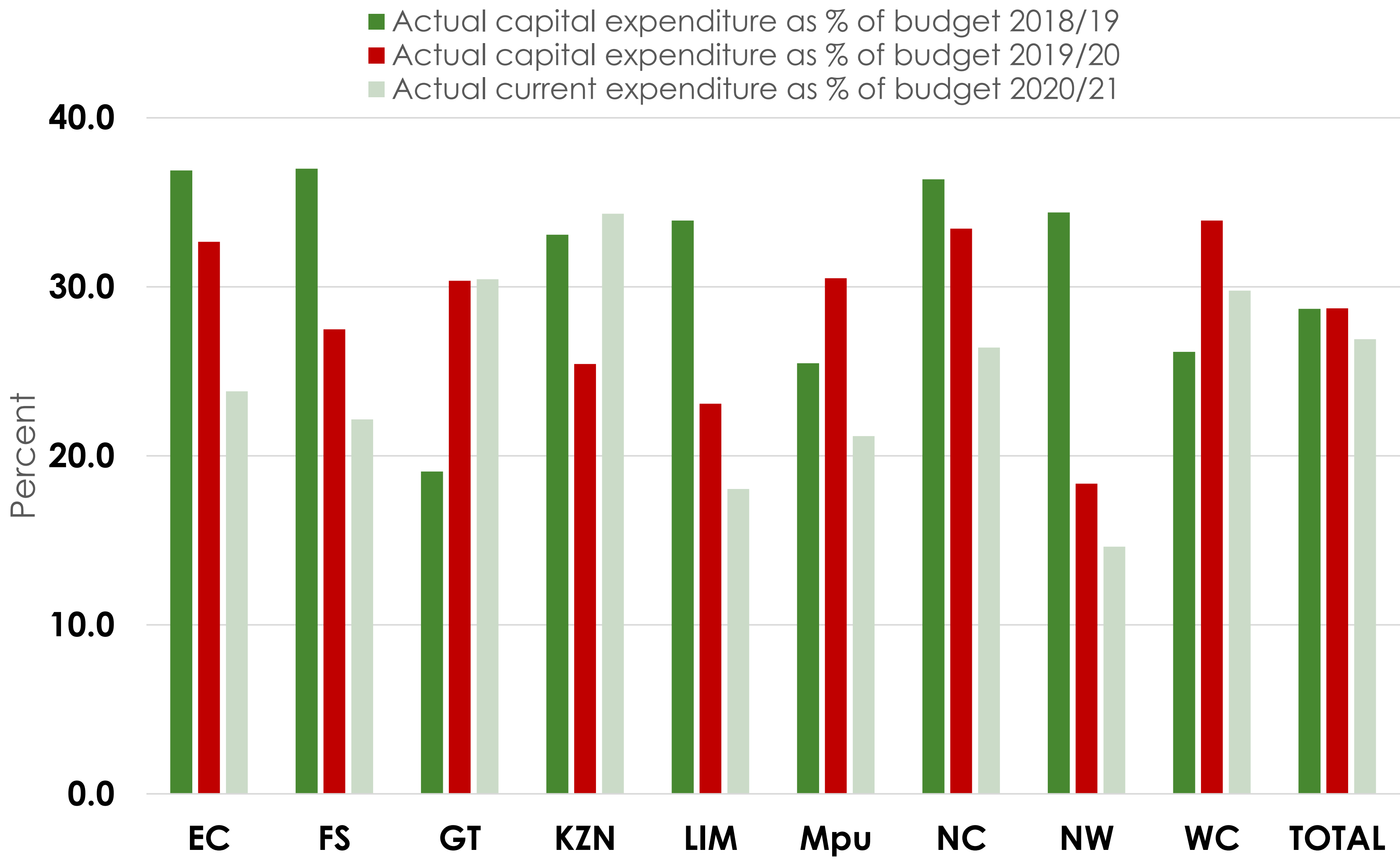
Provincial expenditure first 5 months of 2020/21
Provincial expenditure: Capital expenditure
Local government 2019/20 preliminary outcomes

PROVINCIAL AND LOCAL GOVERNMENT UPDATE

Provincial expenditure: Outcome of the first 5 months of 2020/21

Current Expenditure by economic classification R'000 (April - August)			
Economic class	Budget	Expenditure	%
Current payments	559 648 598	209 014 730	37.3
COE	416 415 454	160 255 267	38.5
Goods and	143 215 952	48 748 692	34.0
Interest & rent on land	17 192	10 772	62.7
Transfers and subsidies	78 957 697	26 535 774	33.6
Capital assets	33 685 110	9 064 588	26.9
Financial assets and liabilities	6 832	47 830	700.1
TOTAL	672 298 237	244 662 922	36.4

Provincial expenditure: Capital expenditure (first 5 months of 2020/21)



Municipalities and Metros revenues, 2019/20

Municipal outcome against budget R'000 - 2019/20			
Financial year	**Revenue Budget**	**Preliminary outcome**	**%**
2017/18	410 468 196 840	413 077 280 835	100.6
2018/19	439 460 235 047	404 718 319 959	92.1
2019/20	481 379 368 288	427 527 439 562	88.8

Metros outcome against budget expenditure R'000 - 2019/20			
Financial year	**Revenue Budget**	**Preliminary outcome**	**%**
2017/18	239 933 107 573	224 104 217 476	93.4
2018/19	259 044 108 684	245 495 475 632	94.8
2019/20	288 571 850 757	243 309 221 340	84.3

Municipalities and Metros expenditure, 2019/20

Municipal outcome against budget expenditure R'000 – 2019/20			
Financial year	**Expenditure Budget**	**Preliminary outcome**	**%**
2017/18	417 988 033 968	373 781 071 900	89.4
2018/19	445 727 739 465	391 766 699 256	87.9
2019/20	481 193 402 082	384 275 583 509	79.9

Metros outcome against budget expenditure R'000 - 2019/20			
Financial year	**Budget**	**Preliminary outcome**	**%**
2017/18	239 162 492 699	213 386 180 554	89.2
2018/19	256 090 103 058	235 518 022 485	92.0
2019/20	277 249 644 388	233 955 261 146	84.4

Audit outcomes: Local municipalities 2018/19

Financial statements of 229 completed audits

- Overall, the audit outcomes for 2018/19 regressed
- 46 municipalities regressed while 33 improved in 2018/19
- 8% of municipalities received clean audit, an improvement from 7% in the previous financial year 2017/18
- Costs of consultants to assist in financial statements preparation amounts to R1.26 billion
- Irregular expenditure increased to R32.1 billion in 2018/19 from 24.4 billion in 2017/18
- Quality of financial statements regressed from 52% in 2017/18 to 48% in 2018/19

Conclusion

- The MTBPS is presented at a time when the pandemic is still raging and even intensifying in some parts of the world
- There is much uncertainty about global economic recovery
- In South Africa, measures to address the crisis had an impact but overall there were large increases in hunger and hardship
- Government has put forward a recovery plan
- Government's deficit, debt and cost of debt have increased
- However, recovery could be hampered by a fiscal policy framework focused on fiscal consolidation and over-ambitious debt reduction
- Support to struggling households and job creations should continue
- Government provides tax measures to support economic recovery:
  - the socioeconomic impact of the implementation of these relief measures should be monitored, particularly to ensure that SMMEs benefit
- Global debates about need to reform international tax rules to ensure equity in allocation of taxing rights
- National Treasury as the custodians of the PFMA shows commitment to ensure efficiency and effectiveness for policy implementation and the budget. Support to oversight bodies and Parliament is of great importance

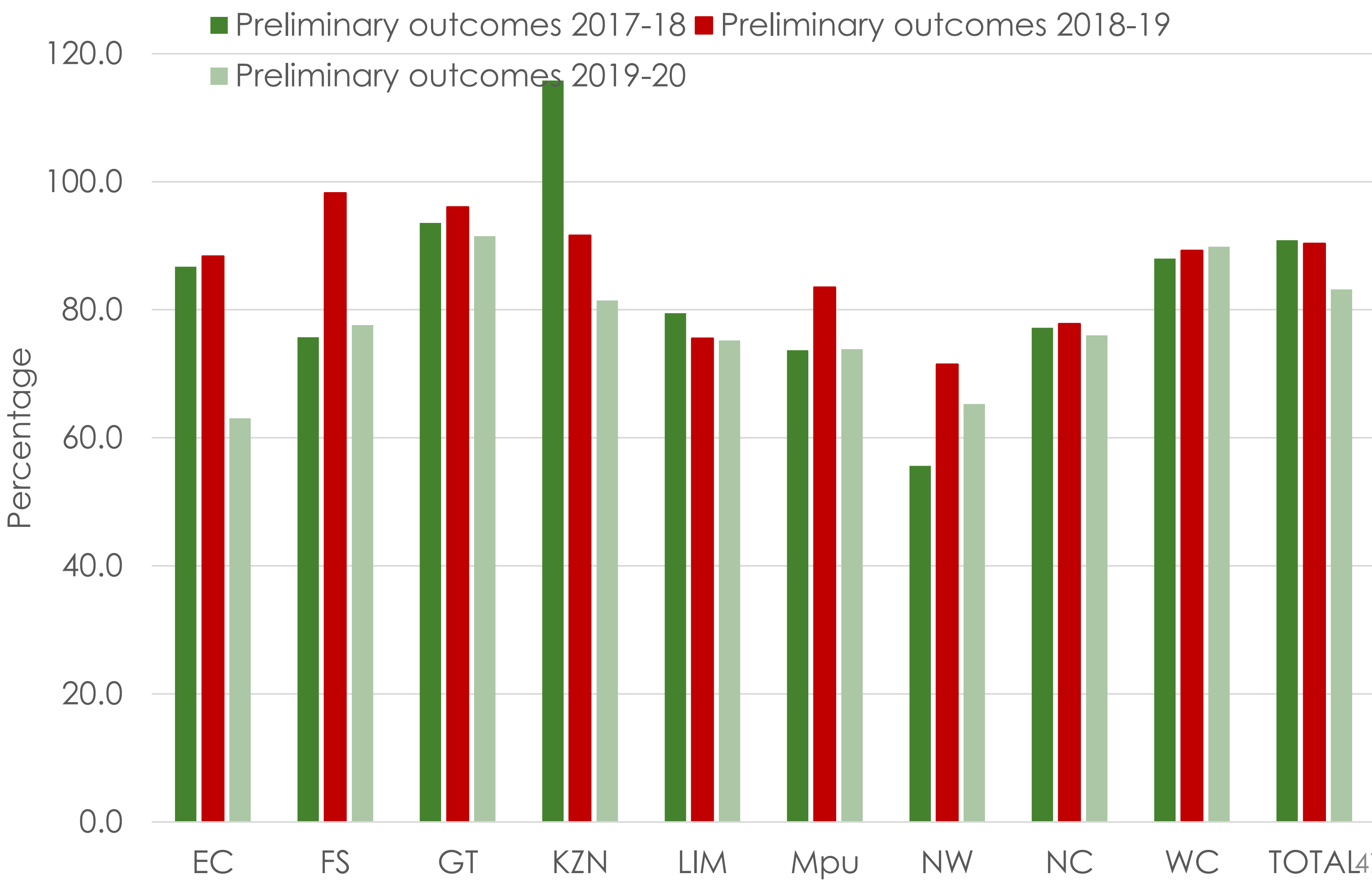
ADDITIONAL SLIDES

Tax revenue: Outcomes first five months of 2020/21

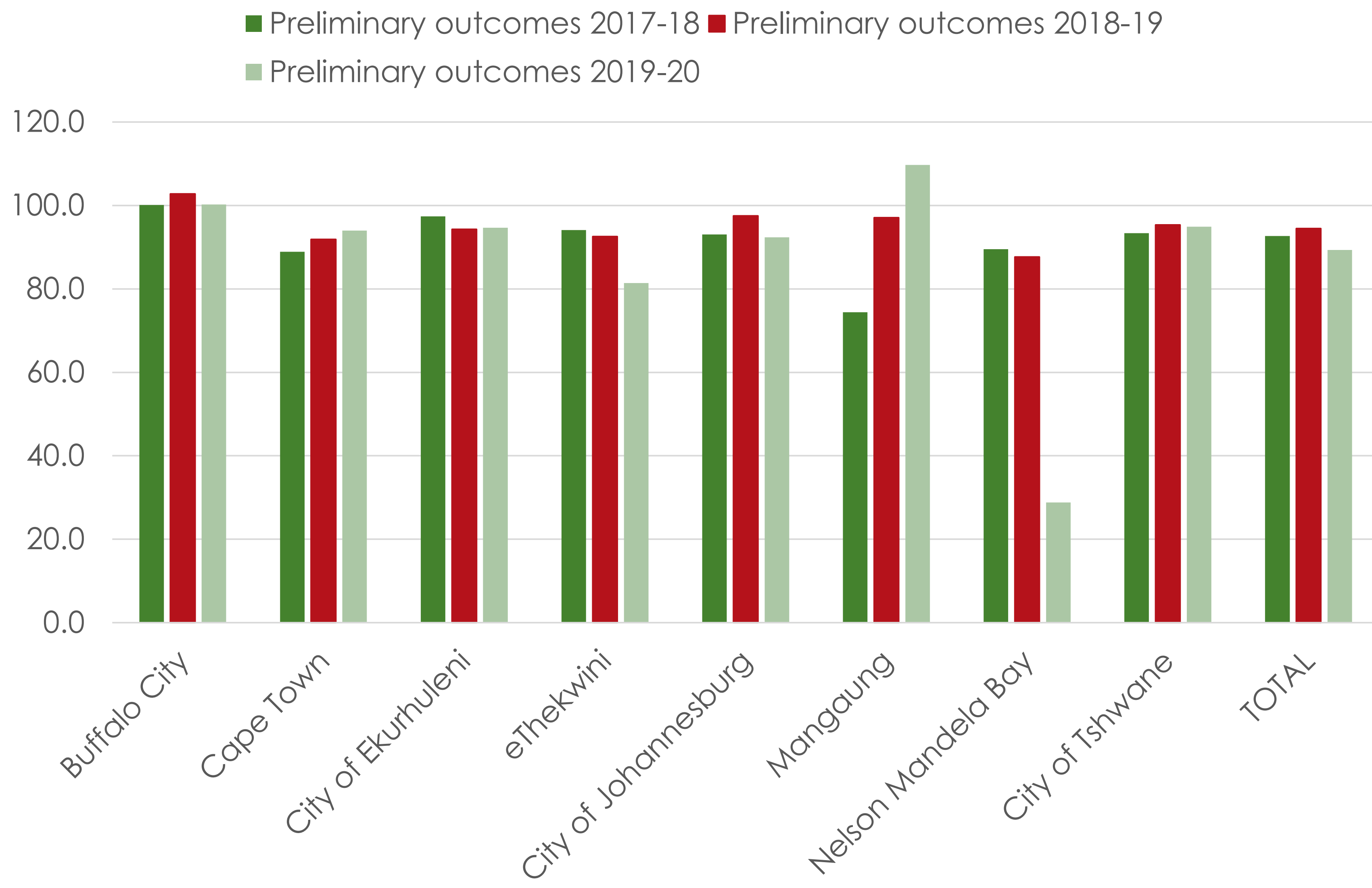
Tax revenue is largely dependent on, the level of employment (PIT), profitability of businesses (CIT) and consumption of goods and services (VAT)

	2020/21			2019/20
R million	**Revised Estimate**	**Collection: Apr- Aug 20**	**Collection as % of Estimates**	**Collection as % Estimates**
PIT	455,493	182,730	40.1%	37.60%
VAT	301,323	105,592	35.0%	35.90%
CIT	154,551	58,894	38.1%	34.20%
Fuel Levy	63,188	22,762	36.0%	38.20%
Dividend withholding	16,648	10,205	61.3%	38.90%
Custom Duties	40,733	12,666	31.1%	32.80%
Specific Excise Duties	36,287	5,305	14.6%	39.20%
SDL	11,291	2,741	24.3%	38.70%
Ad-valorem	3,253	1,251	38.5%	46.70%
Other	38,560	13,420	34.8%	35.50%

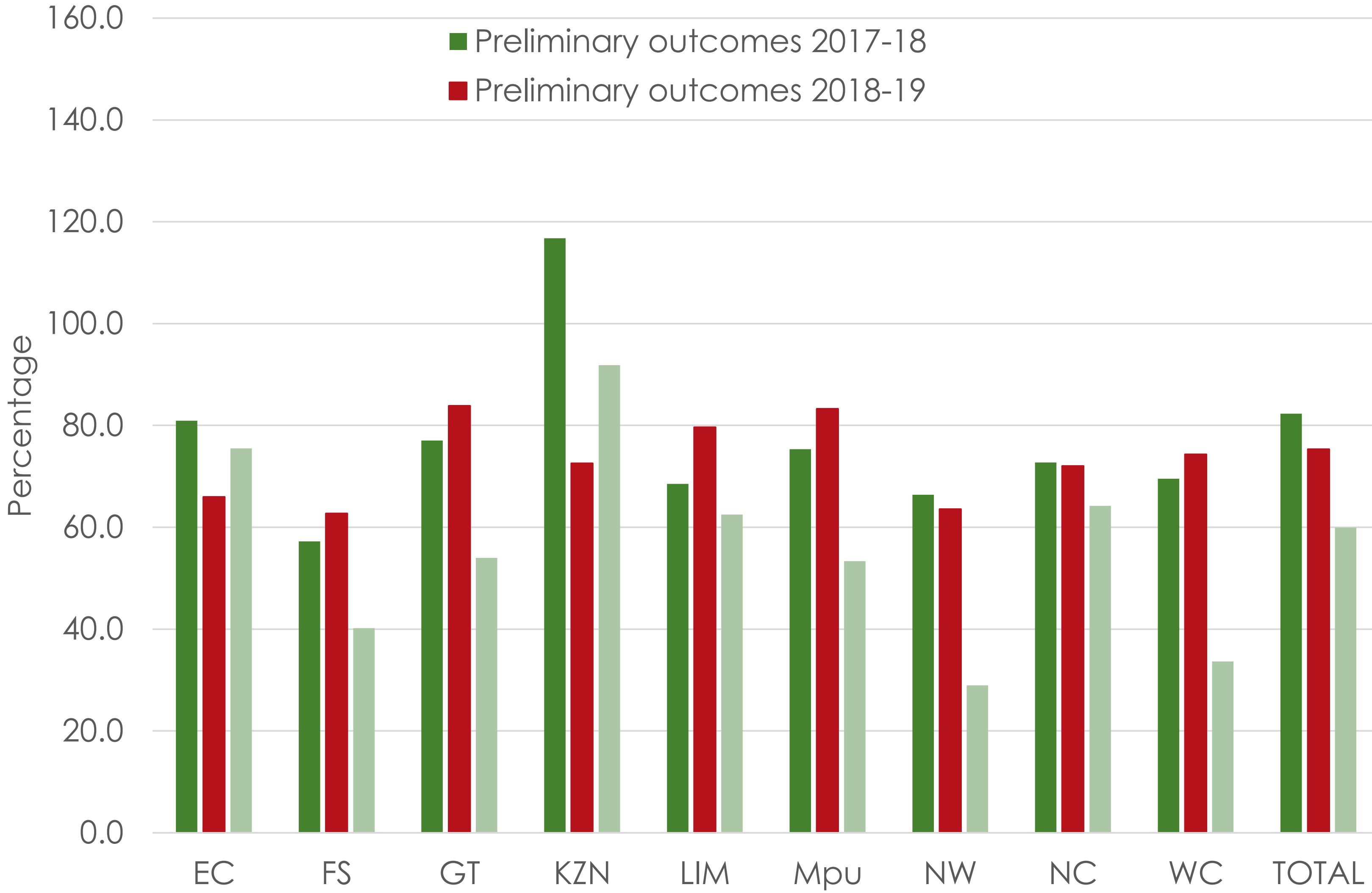
Aggregated municipal current expenditure outcome – 2019/20



Aggregated metros current expenditure outcome – 2019/20



Aggregated municipal capital expenditure outcome – 2019/20



Aggregated metros capital expenditure outcome – 2019/20