Joint Chair of Chairs Workshop, 27 to 28 March 2023

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Parliamentary Budget Office

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

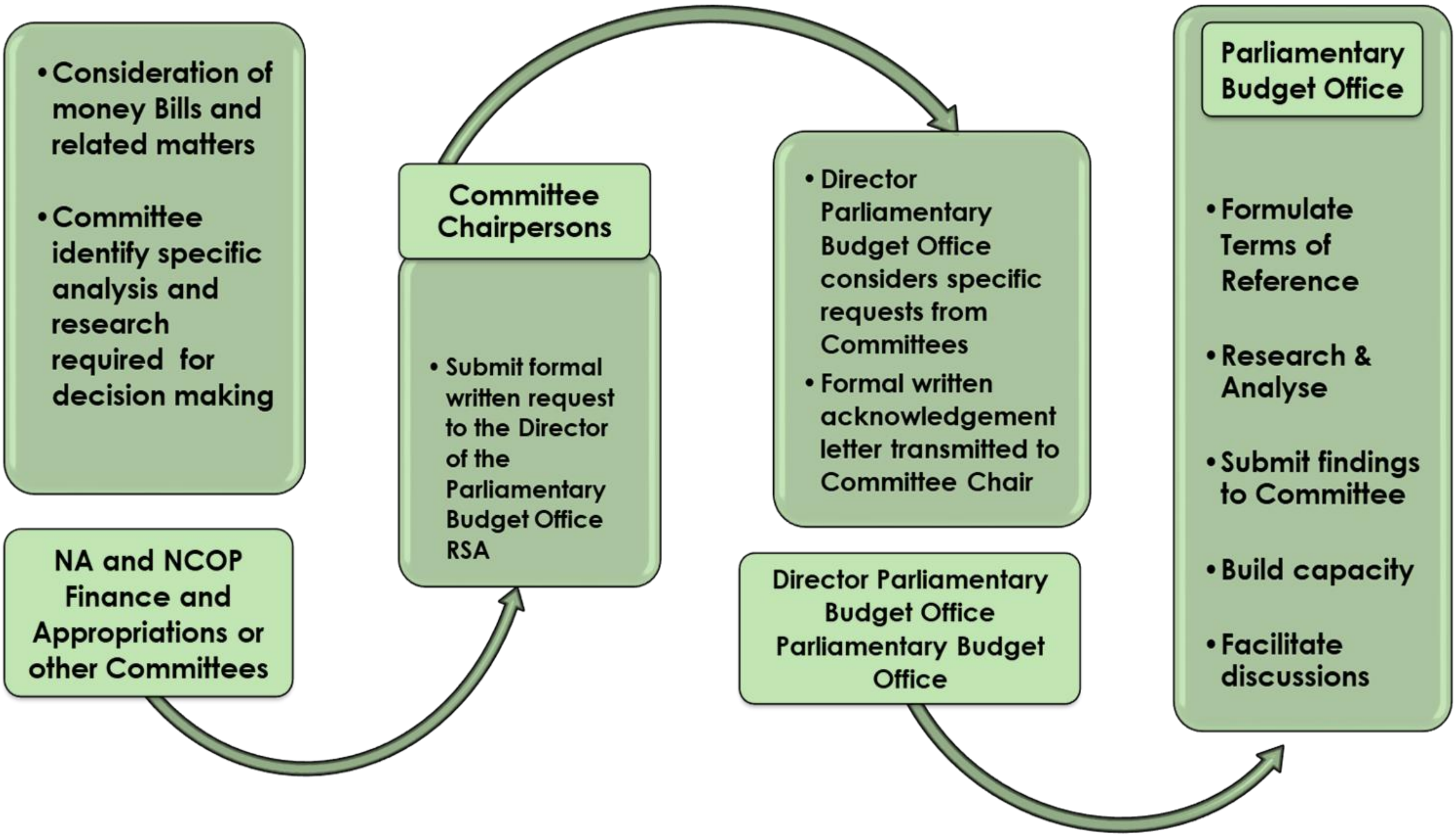
Outline

- Introduction
- Global and economic outlook
- DORA in context
- Budget trends in real terms
- Division of Revenue
- Underspending of government budget
- Summary

Introduction

- The Parliamentary Budget Office (PBO) 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 as amended in 2018
- 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 an 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 given overview of PBO role in support of oversight process and share the Office recent research and analysis at the 2023 Joint Chairs of Chairs workshop

Research and Analysis Requests Workflow Process

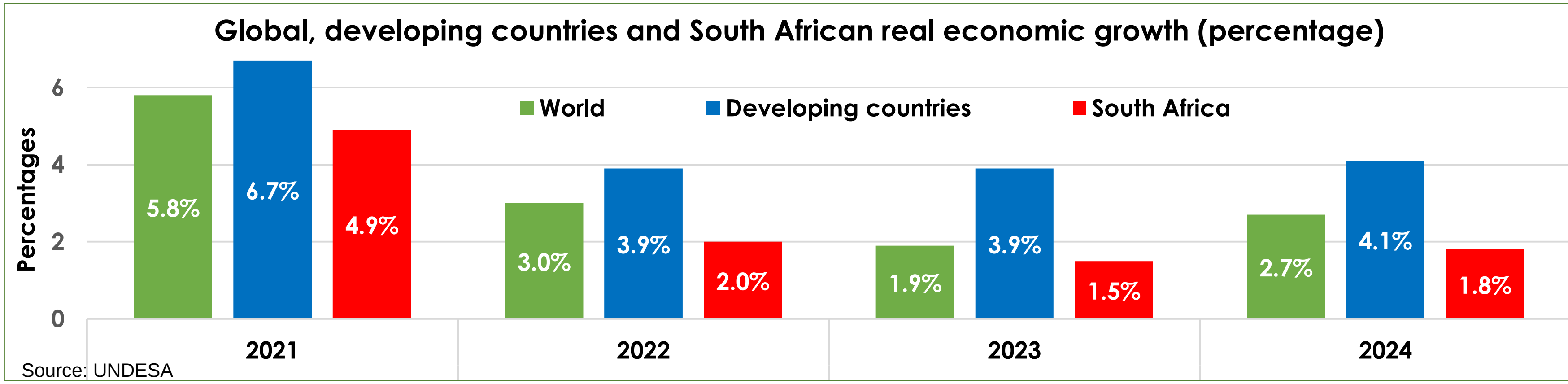


Research and Analysis	Description of the Research and Analysis
Pre-Budget and Pre-MTBPS briefs	Provide analysis to Parliament on the status of the economy and public finance and government performance before the presentation of the National Budget (February) and Medium Term Budge Policy State (October)
Budget and MTBPS analysis, Fiscal Framework, Division of Revenue and Appropriations Bill	Subsequent to the presentation by the Minister of Finance and before Parliament adopts or amend or reject the budget and MTBPS proposals, the PBO provides analysis on economic and fiscal issues to be take into account
Policy Analysis on National Development Plan (MTSF)- Policy Briefs	Several analysis on the implementation of the National Development Plan, vision 2030 (2019-2024 MTSF) in terms of content, context and progress made with the implementation
Quarterly Economic and Fiscal Briefs	Quarterly Economic Brief, the PBO provide parliament with an analysis of the economic outlook as the economic performance affects public finances outlook. Fiscal Brief appraise MPs on the status of the of government's performance in relation to the budget allocated, and these updates are given within six months (pre-MTBPS) of the financial year and just after the end of a financial year
In-year revenue forecast and Forecast Audits on government forecasts **Advanced internal economic modeling capability**	In-year revenue forecast, within the first six months of the financial year, PBO provides an estimate of whether government revenue targets for that year will be realised. The PBO estimates are based on historic trends and including first five months of the year's outcomes being forecasted. Forecast Audits, annually provide an analysis of the government growth estimates. This analysis gives indications of the likelihood of realising forecasted growth given historic performance of the forecasts
Briefs on Taxation and Revenue Matters	On request from finance committees, PBO provides an analysis of taxation proposals made during the budget reviews
Sector specific research and analysis requests from Committees	During the financial year Committees may request an analysis on a particular issue with public finance implication. E.g., Votes budget analysis, SOEs financial analysis, Electricity generation technology choices: Costs and considerations, Public Sector Wage Bill, Free Fee HE Costing Analysis, Business incentives for development, Underspending of budget
Costing Estimate Analysis	Traditional costing models have largely focused on the fiscal implications of the policy and have not sufficiently accounted for the macroeconomic, socioeconomic and environmental effects of policy. The Office costing model proposes a framework in which fiscal implications are considered in tandem with macroeconomic effects, socioeconomic implications and environmental considerations

Quarter Economic Brief
Macroeconomic outlook

Global and local economic performance

Global economic performance

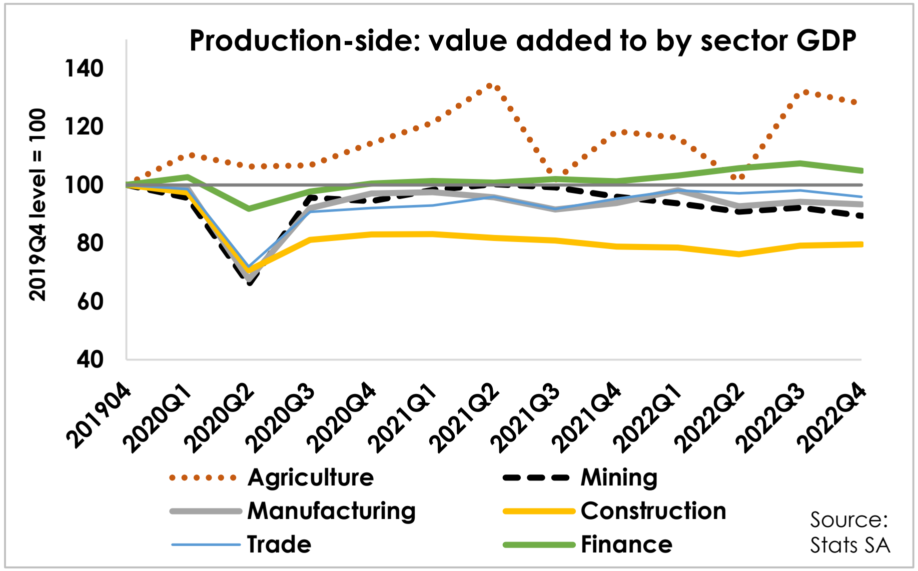


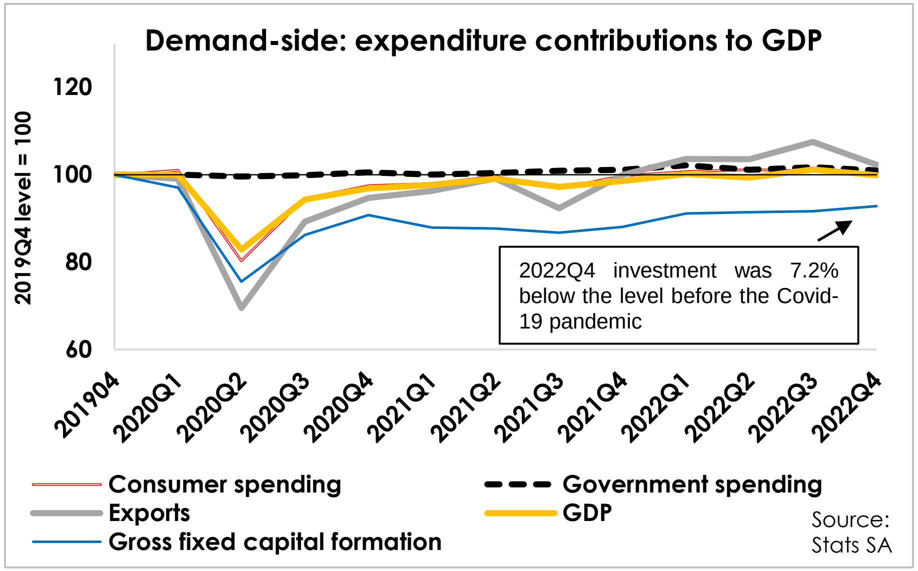
- Global growth forecasts have improved in early 2023, however there is much uncertainty related to (amongst others):
  - Positive impacts of China reopening, recovery in value chains and freight transport, and lower inflation
  - Negative impact of higher interest rates, environmental risks, war in Ukraine and other geopolitical risks
- According to the 2023 Global Risk Report of the World Economic Forum:
  - Present and future risks can interact with each other to form a 'polycrisis' – a cluster of related global risks with compounding effects, such that the overall impact exceeds the sum of each part
  - Examples are: energy supply crisis, food supply crisis, inflation crisis and cost of living crisis
- Developing countries, incl. South Africa, have been affected by the cumulative effects of crises. The high likelihood of more crises points to greater hardships ahead
- In 2023 the UN Secretary General advocated for developing country governments to embark on "bold, targeted and timely" fiscal expansion and support from developed countries to support their recovery and stimulus
- Even if global growth improves more than the forecast, South Africa's growth prospects over the medium term remain poor because serious risks, including electricity and water availability, will very likely persist and because government's fiscal policy framework is contractionary
- The IMF on 22 March 2023 adjusted their expected GDP growth for SA to be only 0.1 per cent in 2023

Global financial instability add to risks

- The increases in interest rates in the US and Europe since 2022 have caused money to flow out of developing countries and increased hardship around the world
- In early March 2023 the US Fed announced that they would continue to increase interest rates over a longer period
- The response in US bond markets was increased trade in bonds, which resulted in the yield on US Treasury Bonds increasing to over 5 per cent - the highest since 2007
- When bond yields rise the price of bonds fall
- US Bond yields rose because traders expect rising interest rates to trigger a recession
- The US Fed seemed to have failed to take into account the impact of their interest rate increases on the levels of risk in the US banking system
- Rising interest rates and bond yields led to a run on Silicon Valley Bank (SVB), the 16th largest US bank (based on assets on 31 Dec. 2022) that forced it to close on 10 March
- Rising bond yields reduced the value of the bonds held by SBV below the value of the deposits in the bank
- The run on the bank was by the nearly 90 per cent of SBV depositors who had deposits larger than the US$250 000 limit covered by the Federal Deposit Insurance Agency
- A large number of these depositors held money in SBV to be able to pay their workers
- It was the second largest bank failure in the history of the USA and the largest since the global financial crisis of 2008. The next day Signature Bank had a run and was closed
- More uncertainty of higher interest rates and financial instability increases global risks

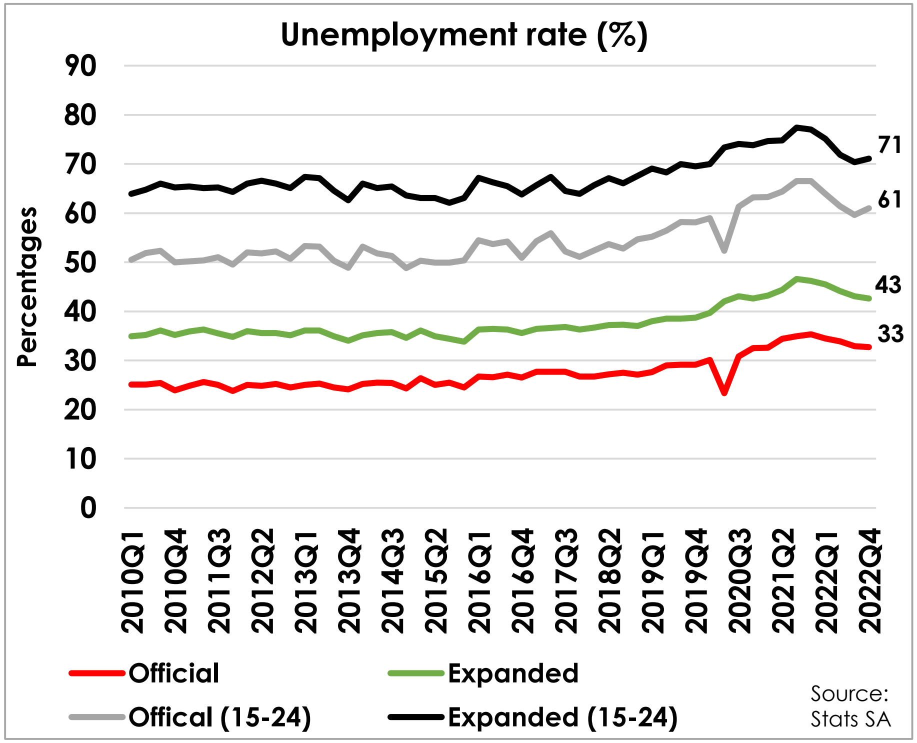
South African economic performance: Divergent economic performance across sectors





- The GDP growth rate for 2022 was 2 per cent compared to the rebound growth of 4.9 per cent achieved in 2021after the large Covid-19 induced recession during 2020
- Economic activity in 2022 was again constrained by fiscal consolidation, higher interest rates, the war in Ukraine, KZN floods, bottlenecks at Transnet's ports and lower global demand and growth
- Following the 1.3 per cent GDP decline in the fourth quarter of 2022, the level of real GDP dipped back to below the pre-COVID level (fourth quarter of 2019)
- Except for agriculture and finance, all other sectors remained below pre-pandemic levels in 4Q2022
- In terms of expenditure on GDP (demand-side), gross fixed capital formation rose by 4.7 per cent in 2022. Investment by private businesses grew by 7.3 per cent while capital expenditure by public corporations declined by 3.6 per cent
- Even after the growth in 2022, fixed investment remains 7.2 per cent below pre-pandemic levels

Employment– jobs lost/gained per sector



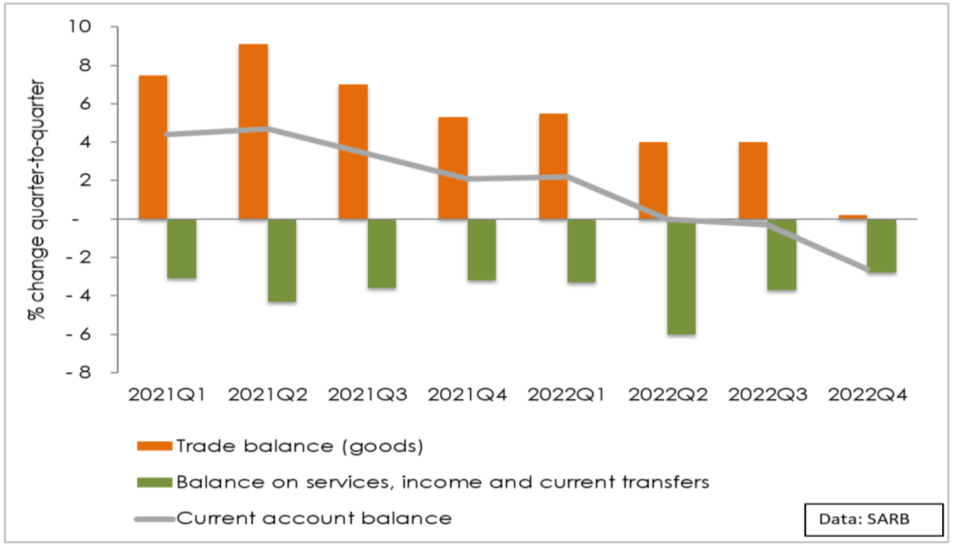
Change in employment since the pandemic ('000s)	4Q2022 vs 4Q2019
Total (formal & informal)	-317
Agriculture	-25
Mining	7
Manufacturing	-64
Utilities	4
Construction	-141
Trade	48
Transport	-29
Finance	-84
Community & social services	-65
Private households	-144

Source: Stats SA QLFS

- The official unemployment rate was 32.7 per cent in the 4th quarter of 2022
- A total of 317 000 formal and informal jobs were lost between 2019Q4 and 2022Q4
- Only mining, trade and utilities sectors fully recovered jobs lost during the pandemic
- The construction and private households sectors shed the most jobs
- Age and gender disparities persist in South Africa’s labour market with the unemployment rate of the youth (15-24 years) and females at 61 per cent and 46.6 per cent respectively – higher than the national average rate of 34.5 per cent

The current account, bond yields & inflation

Balance of the current account (as a percentage of GDP)



- South Africa's current account was in deficit by R174 billion (2.6 per cent of GDP) during the Q4 of 2022
- The current account had a small surplus of R3.1 billion in the Q3 2022
- The Q4 2022 deficit was not caused by the trade balance which was small but positive
- It was driven by net financial transfers on the current account, which have been negative over the past 2 decades

- The yield on SA's 10-year bond increased throughout much of 2022 and remained relatively high in early 2023 because of interest rate increases in developed countries in response to rising inflation
- Higher interest rates in developed countries often trigger capital outflows from developing countries
- Higher SA bond yields during 2022 may also have been caused by depreciation of the rand
- Headline consumer inflation (CPI) at a more-than-decade high of 6.9 per cent in 2022 and 7 per cent in Feb. 2023
- The largest contributors to higher inflation were transport and food prices due to the war in Ukraine, continued supply chain disruptions, higher crude oil prices and **profiteering by large corporations**
- Inflationary pressures may be due to **corporations passing on costs of load-shedding to consumers**
- An important strategy to kick start growth in the face of a cost of living crisis is to build household resilience by fiscal expansion through increasing services, grants and infrastructure investment
- Increased social support and infrastructure investment should boost aggregate demand & growth

South Africa’s Greylisting in February 2023

- On 24 February 2023, South Africa was greylisted by the Financial Action Task Force (FATF). Being on the greylist means that South Africa is “under increased monitoring” as it actively works with the FATF to address its strategic deficiencies in its regime
- The extent to which the greylisting will impact South Africa is unknown. The mainstream analysis suggests that the greylisting will have significant and negative implications for the country
- Large negative impacts on economic growth in the medium to long term would exacerbate the high unemployment, poverty and inequality
- However, the FAFT decision to greylist South Africa was anticipated by the markets, which means that markets may have already adjusted risk assessments of South Africa prior to the rating
- The calls for financial sector reform are not new in South Africa. For years, organisations such as the Alternative Information and Development Centre, and others, have called for the government to prioritise the tackling of illicit financial flows (IFFs)
- Since the risk of greylisting, Parliament passed two laws to FAFT recommendations. The SARB has indicated that it plans to monitor its financial jurisdiction with a more risk-based approach. The government has actively engaged in measures to curb money laundering and other illicit transactions

2023 DORA in Context

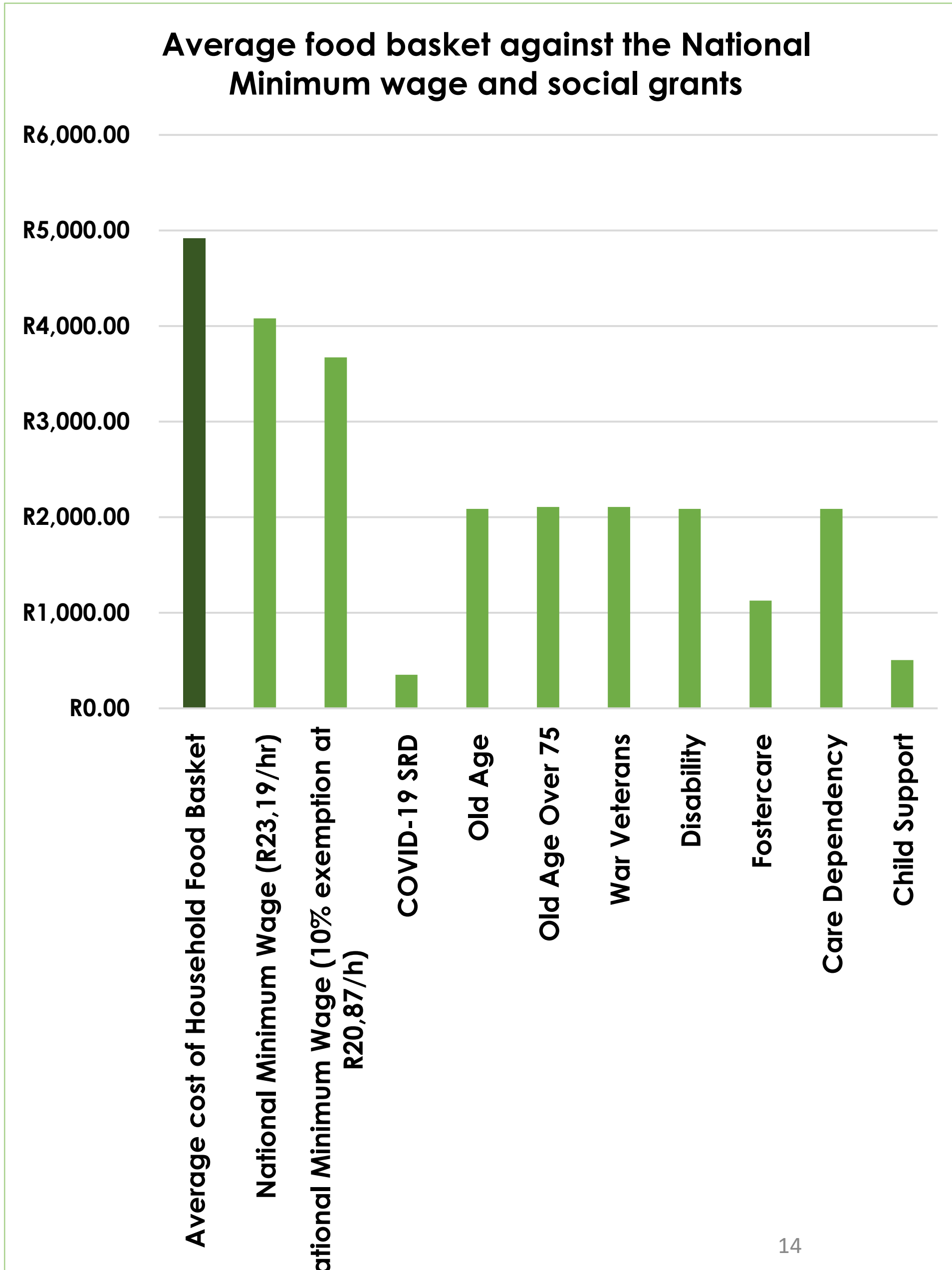
National Situational Analysis

Provincial Situational Analysis

Local Situational Analysis

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



Source: PMBEJD January Index, Budget 2023

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)

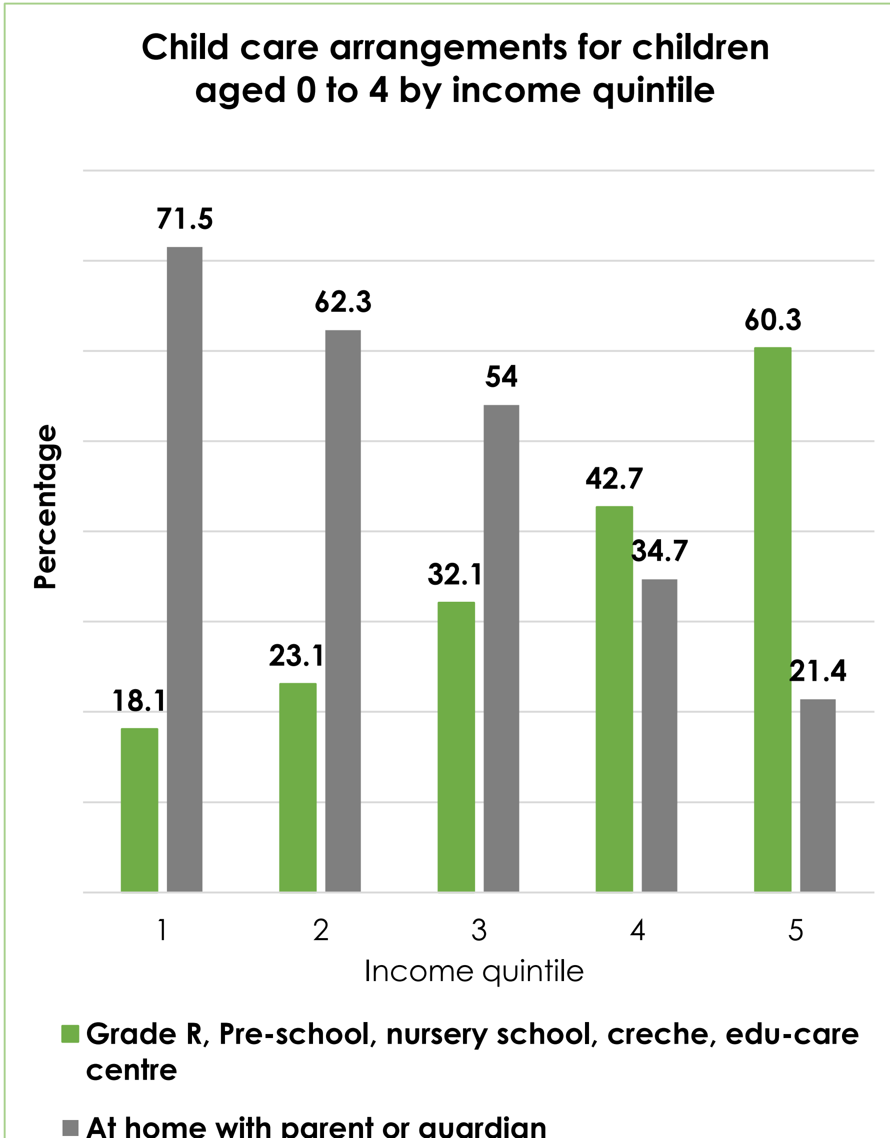
SA crime statistiques: Q3 2021/22 vs Q3 2022/23

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

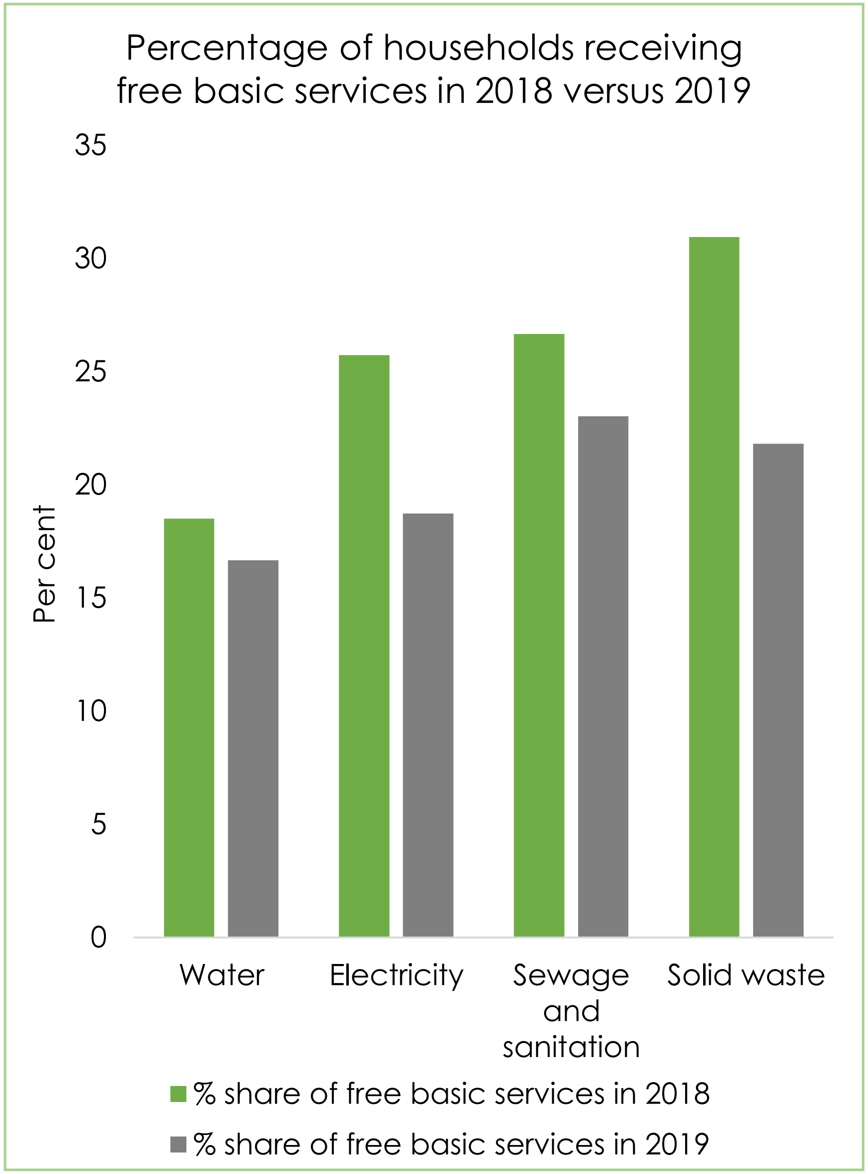
Source: Stats SA

Local government: Situation analysis

- 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

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

- 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 government to operate properly

Budget trends in real terms

Real per capita spending per function group

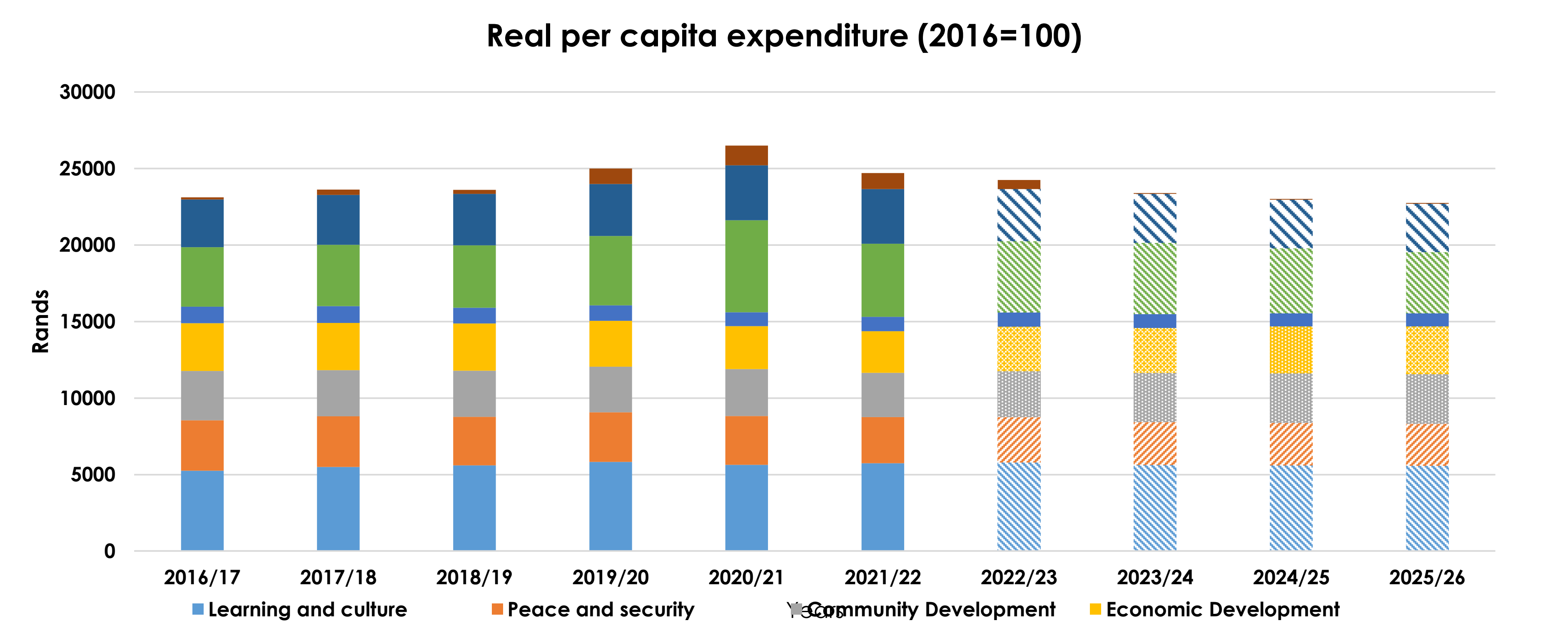
Education

Health

Grants

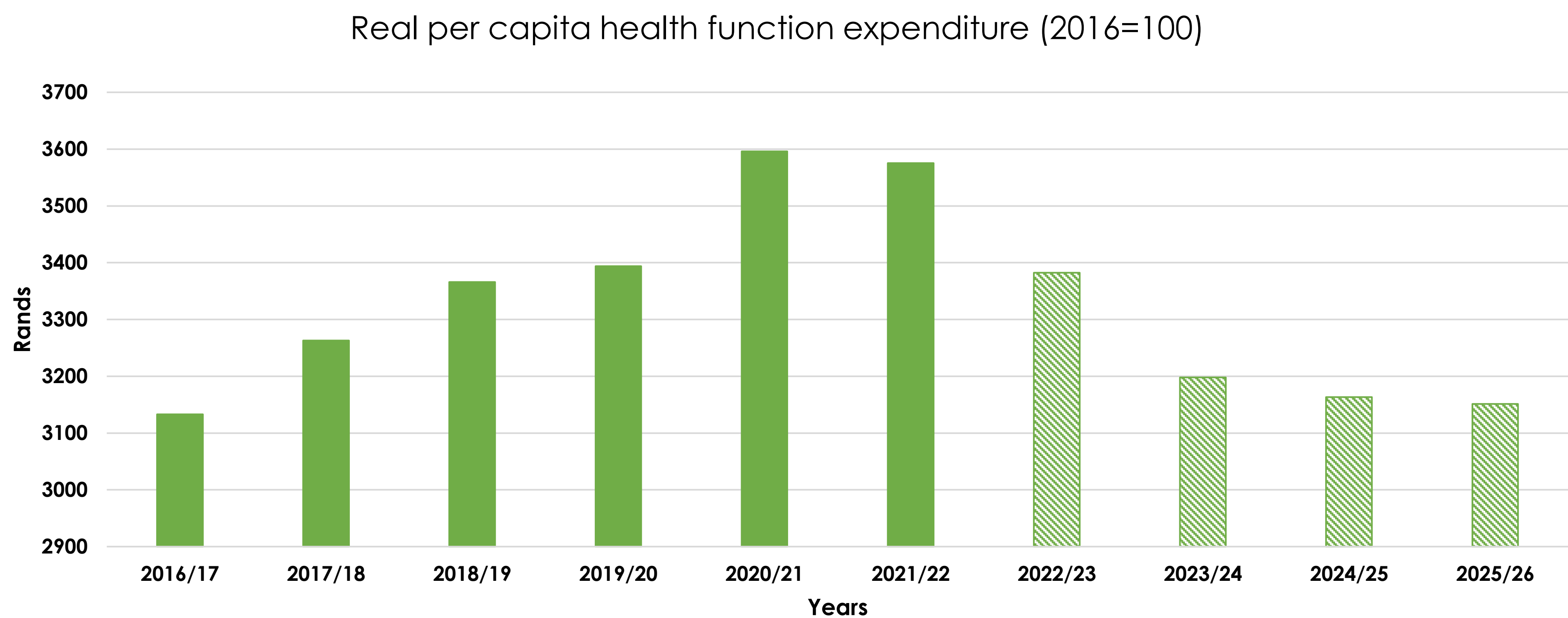
Real per capita spending per function group

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



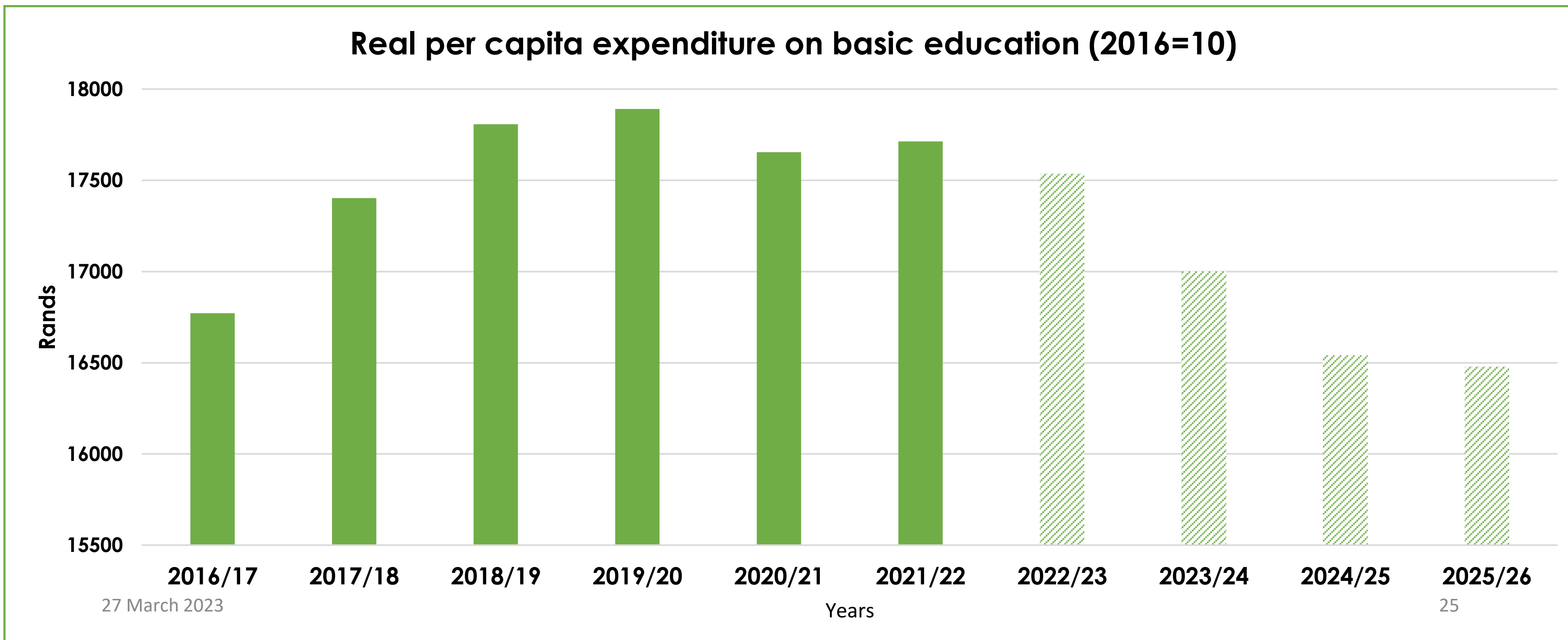
Real per capita spending in health

- Expenditure has declined after the increases during 2020/21 and 2021/22
- Total real per capita expenditure on health declines in the medium term
- In 2016/17 total real expenditure per capita was R3 133, in 2025/26 it is estimated to be R3 151
- The estimated decline over the MTEF means that the government will on average be spending less per person R243 (8%) less in 2025/26 than it spent in 2019/20
- Reductions in health expenditure are likely to be more pronounced, given that medical inflation tends to be higher than CPI



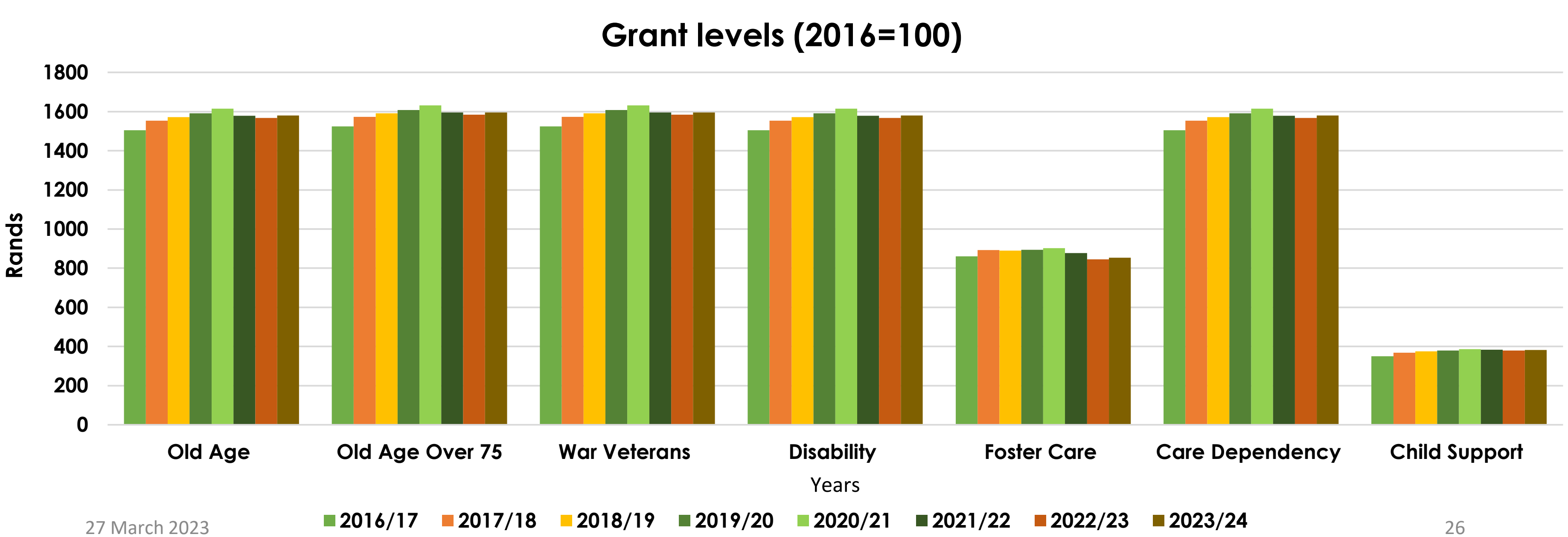
Real per capita spending in education

- Total real per capita expenditure on basic education declines in the medium term
- In real per capita terms, government will be spending less per student in 2025/26 than it did in 2016/17
- In 2016/17, government spent R16 772 per learner. Projected spend per learner in 2025/26 is R 16 471 (an increase from the R16 384 in the MTBPS)
- In the 2021 Budget, NT acknowledged that budget reductions would disproportionately impact no fee-paying schools. The impacts of this budget should be queried



Social Grants levels in real terms

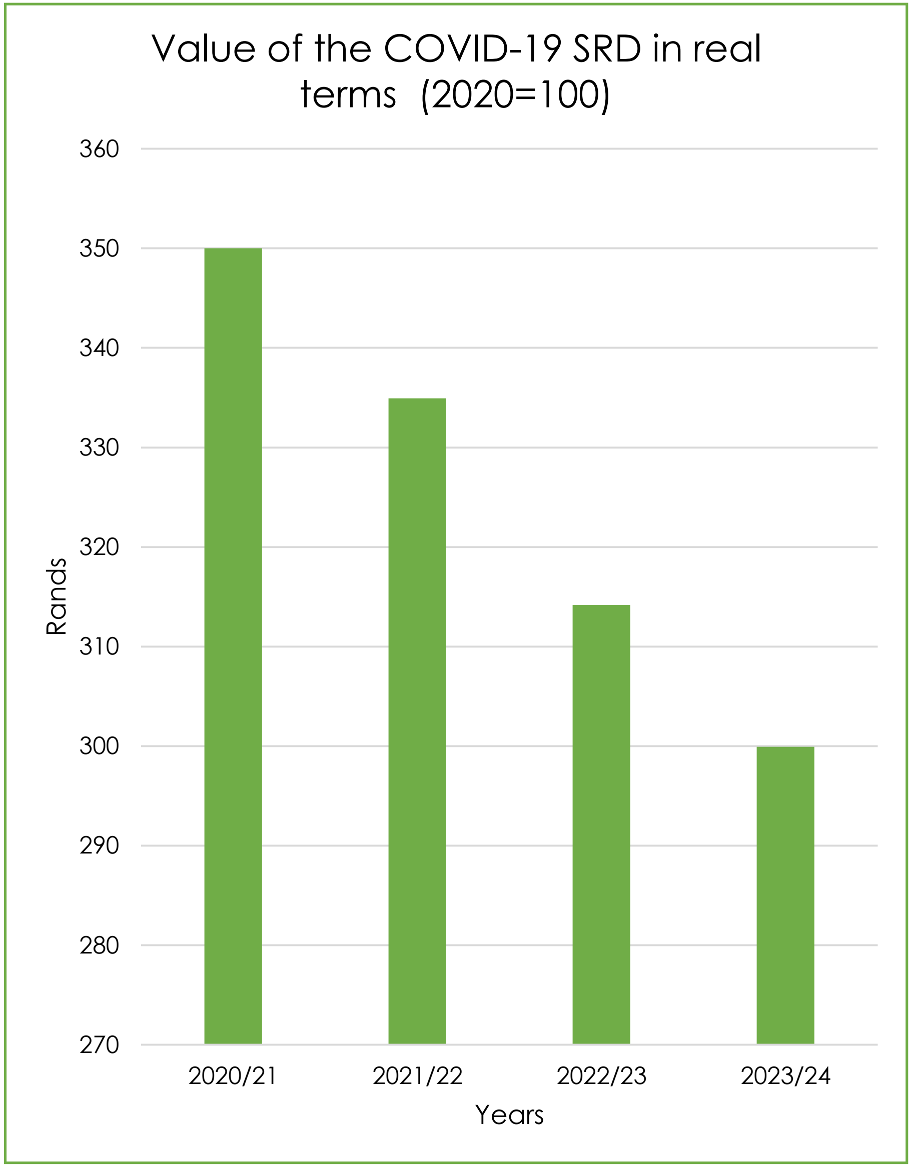
- In 2023/24, social grants levels increase by 5 per cent on average, however these increases are inadequate given that food price inflation was recorded at 13.4 per cent in January 2023 - the highest recorded since April 2009
- The majority of grants fall above the upper-bound poverty line, except the foster care and child support grants
- According to PMBEJD, the Child Support Grant of R480 is 28 per cent below the Food Poverty Line of R663, and 43 per cent below the average cost to feed a child a basic nutritious diet (R843,47)
- Treasury estimates a 9.7 per cent decline in beneficiary numbers over the medium term, 7.5 per cent of which will be foster care grant beneficiaries



Source: PBO calculations based on National Treasury and Stats SA population data

The COVID-19 SRD grant

- Since its introduction in 2020, the COVID-19 SRD grant has not been adjusted for inflation
- In 2023 the grant will be worth R300 (R289 when deflated by GDP)
- Budget 2023 estimates the number of beneficiaries for 2023/24 to be 8.5 million
- Approvals for the grant remain low and payments continue to be delayed
- More than 13 million people applied for the grant in January 2023
- Since April 2022 and January 2023, DSD has approved between 5 and 7.8 million recipients each month
- The approval rates have been low and payments have been delayed
- The exclusion criteria mean that between 3.1 and 5.9 million people in the target group (of 10.9 million) identified by DSD in February 2022 are not receiving the grant



Source: PBO calculations based on National Treasury and Stats SA population data

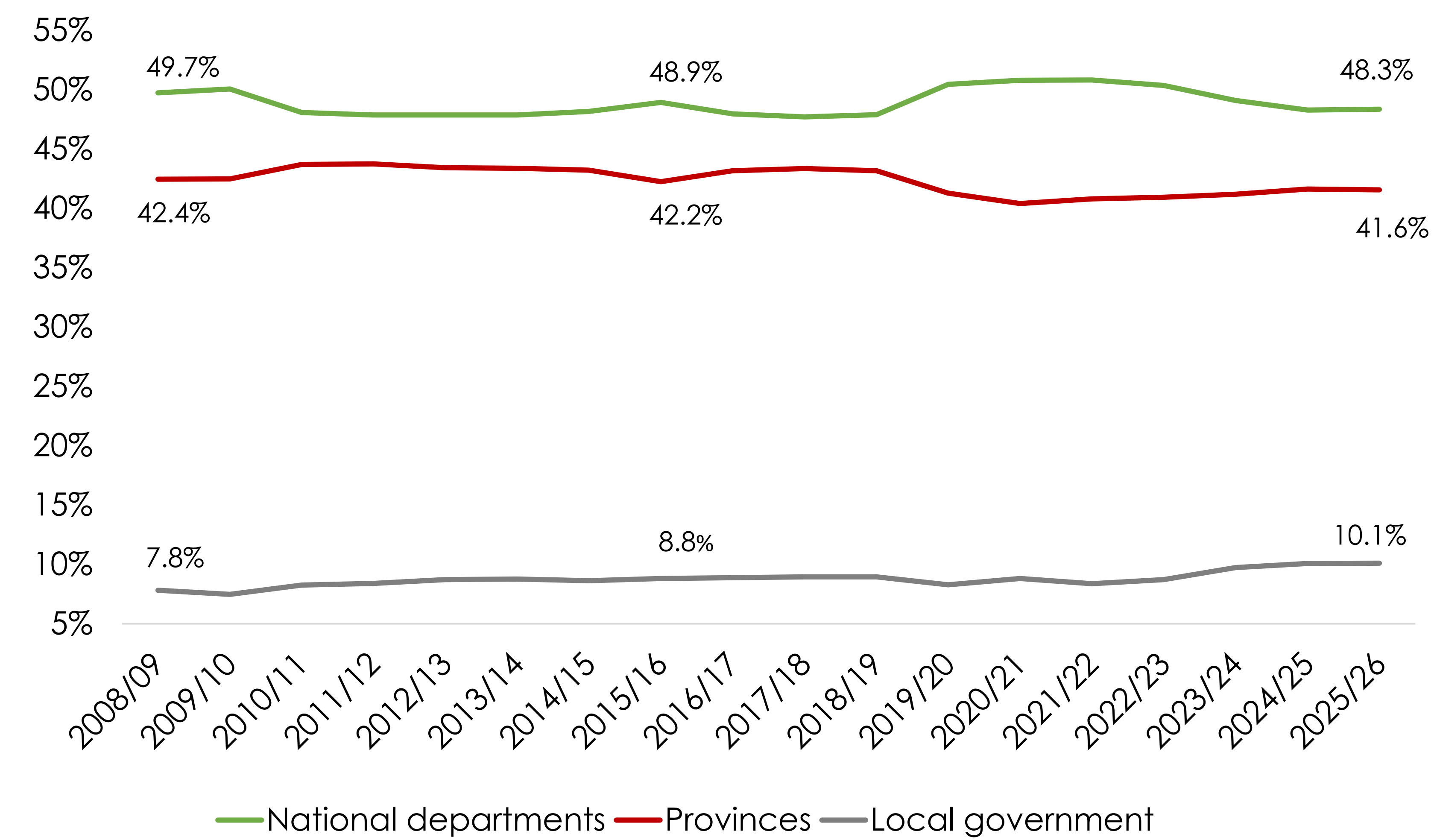
2023 Division of Revenue Bill

National

Provincial

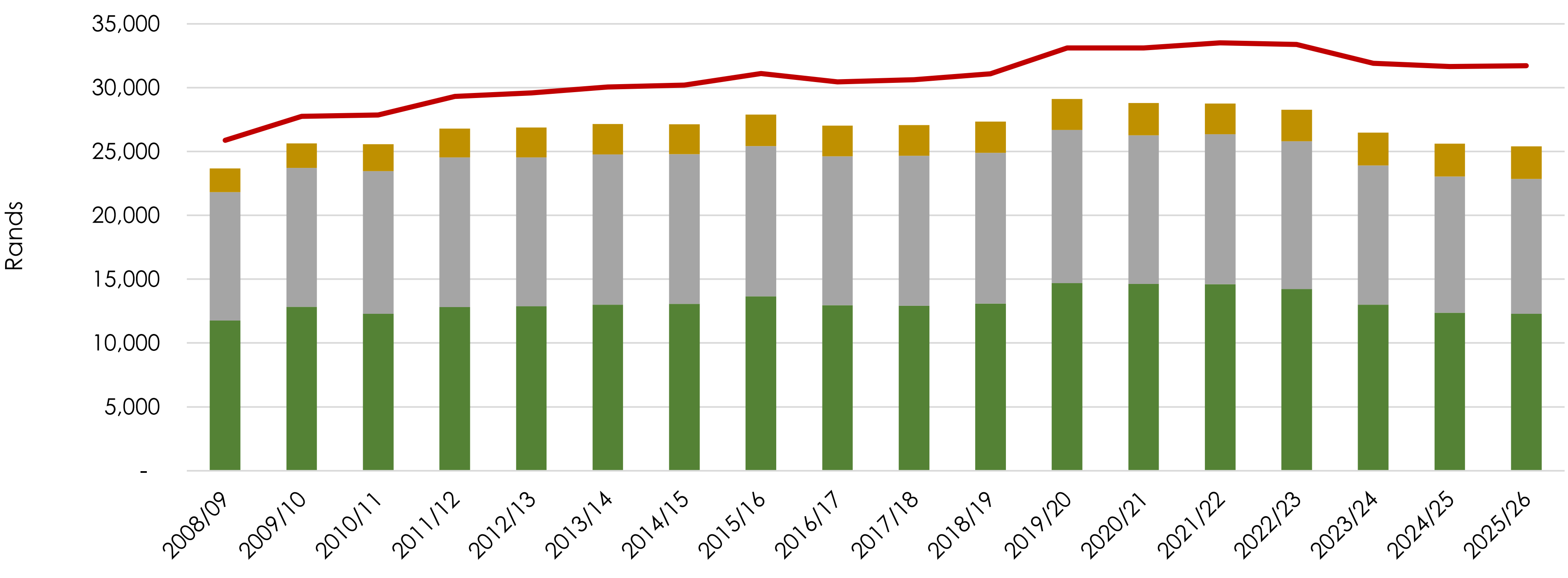
Local

Changing shares of Division of Revenue from 2008/09



Source: National Treasury

2022 Division of Revenue – real per capita



Source: National Treasury, Stats SA, UN.
PBO own calculations

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%**

Conditional Grants to Provinces

R million	2021/22 Revised estimate	2022/23 Revised estimate	2023/24 Medium-term estimates	Difference	2024/25	2025/26
Direct conditional grants						
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

Source: National Treasury

- Most of the CG increase in 2023/24 since the revised estimates in 2022/23
- The District health programme grant decreases by R2 157 million
- The National tertiary services grant decreases by R282 million
- Education infrastructure grant increases by R1 372 million
- Human Settlement Development increases by R688 million
- Provincial Roads Maintenance increases by R3 202 million

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 in nominal terms
- 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

Transfers to Local Government

R million	2021/22 Adjusted Budget	2022/23 Adjusted Budget	2023/24	2024/25	2025/26
			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 electricification 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 electricification 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				

Source: National Treasury

- 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

Underspending of Government Budget

Historic spending analysis

Reasons for underspending

Research and Analysis

- Used mixed method approach, which constitutes quantitative and qualitative analysis, to assess whether and the extent to which there has been underspending in government departments
- National and Provincial government departments data at the programme and economic classification level, the Estimates of National Expenditure
- Calculated the budget deviations by comparing the adjusted appropriations to the audited expenditure outcomes between 2011/12 and 2020/21
- Departmental annual reports were analysed to collate information on reasons for underspending at the national and provincial level
- At the provincial level, the brief assessed the Eastern Cape, Free State, Gauteng and Western Cape. The sample size constitutes four out of the nine provinces in reflects the rural/urban divide as well as the diversity in the equitable share distribution amongst provinces
- These provinces were also chosen to take into account the non-homogeneity in budget and performance outcomes across provinces
- The analyses do not reflect quality of spending or compliance standards
- On aggregate, national government underspent its budget except in 2019/20. On aggregate, underspending of the national departments budget has average 2 per cent over a ten-year trend
- Underspending in current payments was largely driven by goods and services. Whereas underspending in buildings and other fixed structures and machinery and equipment were more prevalent in payments for capital assets

Underspending: On aggregate historical trends

Year R million	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
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 R million	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
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 underspend: Health

Between 2011/12 and 2020/21, the NDoH underspent its budget by an average of 0.9 per cent annually. Underspending was higher than two per cent only in 2013/14 and 2014/15. National Health Insurance and Hospital Systems programmes accounted for 70 %

- **Supply chain management problems:** In particular, delays in project completion/ implementation
- **Process delays:** for example the NHI funding received in 2011/12 as the legislative processes delayed the consultation processes
- **Compensation of employees.:** Vacant posts not being filled in multiple programmes.
- **Non-implementation:** For example, the Diagnostic Related Grouping that could not be implemented in all the central hospitals
- **New programme implementation:** For example, the Human papillomavirus (HPV) grant and the Medicine Stock System
- **Transfer issues:** For example, Transfer payments to NPOs could not be made due to Service Level Agreements not concluded before the end of the financial year in some years
- **Funding hurdles:** For example, There were delays in negotiating additional funds for the South Africa Demographic and Health Survey

At the provincial level underspending generally falls below two per cent within our sample

- **Medico-legal claims:** particularly in the Eastern Cape, have led to underspend in a number of programmes from 2017/18
- **Cash flow problems:** Non processing of payments
- **Increased efficiency:** In the Free State and Western Cape the department reports that underspending can be attributed to the implementation of efficiency and cost-containment measures to curtail excess expenditure.
- **Interdepartmental projects**: The Health Infrastructure Grant appears a number of times across all provinces. In the Western Cape, they note that "areas of under-spending, such as infrastructure, remain a concern and are being addressed together with the Department of Transport and Public Works".

Contrary to the conventional wisdom that there is large-scale underspending in government, the reality is that on a per capita basis the government is not spending enough and resources are overstretched. If the resources were made available there could be significant more much needed spending on health.

Reasons for underspend: Social protection

Between 2011/12 and 2020/21, the department has been underspending by less than two per cent for all other years except in 2019/20 where they incurred overspending of 7.8 per cent

- **Supply chain management problems:** For example, delays in the appointment of service providers
- **Procurement processes:** For example, the delay in the procurement of white doors in provincial and district areas before end of March 2018
- **Delays in project completion:** For example delays in delivering of services and infrastructure, and suppliers not being able to deliver
- **Delays in invoices:** For example, invoices not received for office accommodation before end March 2014
- **Compensation of employees:** Vacant posts not being filled in multiple programmes
- **Reprioritisation of funds:** For example, in 2018/19 R92 million was reprioritised and a portion of this amount was allocated towards funding 200 Social Workers
- **Challenges with new programmes:** For example, the Early Childhood Development programme

At the provincial level underspending generally falls below two per cent within our sample. Provinces recorded the highest levels of underspending in between 2018/19 to 2020/21

- **Procurement processes and timelines:** For example, contractors performing below par and late submission of invoices and new contractors
- **Compensation of employees:** Vacant posts not being filled in multiple programmes
- **Challenges with new programmes**
- **Delays in transfers:** For example, the EPWP Integrated Grants

Findings on underspending – Basic Education

- Non-compliant of Independent schools due to late submission of quarterly reports (AFS) and also to underperforming schools resulted in underspending as department withhold funds
- Delays in finalising and filling up vacant posts has been the main driver of underspending. Also provincial COE budgets being reduced as part of the response to national fiscal consolidation (e.g. EC 2020/21)
- Underspending on the conditional grant is a continued concern as almost all the conditional grants transferred by the department are underspent due failure to comply with conditions
- Provincial education budgets are chronically under-spent due to a number of reasons including;
  - cash flow problems that emanate from wage pressures,
  - reduced spending baselines that are part of the fiscal consolidation programme, and
  - under-spending of school infrastructure funding
- Eradicating underspending is a complex problem which requires internal work to be done within the DBE, PEDs and grant structures in order to build capacity for planning and the implementation of projects
- Our preliminary findings suggest that underspending should not only be considered in terms of capacity to spend. It suggests that there are serious structural problems in education financing that render provincial education accounts less reliable

Findings on underspending – Higher Education (DHET)

- Supply chain management processes, including procurement processes and delays in invoices settlement attributed to underspending
- Compensation of employees contributed to underspending between 2015/16 and 2019/20 as the department was slow in filling of vacant posts in multiple programs due to large volumes of applications
- Failure to Implement Projects/Programmes was another factor as it resulted in underspending due to the amount of consultation time required as a result of the nature of the project in 2011/12
- Process delays was noted as a contributor to underspending. For instance;
  - Skills infrastructure programmes requiring detailed planning and costing before funds could be committed
  - Delays in finalising capacity building projects
  - Funds set aside to do a feasibility studies not being claimed as planned
- Legal and legislative fees for claims not received for court cases
- Operational costs and cost containment measures put in place to ensure that the Department would not overspend its budget

In summary

- The country' socioeconomic challenges shows 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 continues 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 have seen decline of the recent years
- Progress in International Reading Literacy Study (PIRLS) estimates that the number 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
- In 2023/24, grant levels increase by 5 per cent on average, however these increases are inadequate given that food price inflation was recorded at 13.4 per cent in January 2023 - the highest recorded since April 2009
- 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

- Public Procurement Bill – reform? Minister of Finance to table by March 2023
  - Proposed bill will hinder government goal of social and economic transformation of the economy
  - Localisation, local content, national framework of procurement, BBEEE weighted- all these must be retained in any national procurement bill
  - Localisation policies to gradually reduce import dependency ratios of some sectors by setting targets for a particular period
  - Local content requirements to provide clarity on the extent of local ownership, market structure, and requirements to build technology capabilities
- Macroeconomic Policy Review -- ?
  - Fiscal Policy –
    - How has has fiscal strategy (consolidation) supported the realization of the 2019-2024 MTSF goals?
    - Government and public corporations increase their investment in economic infrastructure, social infrastructure and economic services in line with the NDP targets

Key policies and legislative consideration- 6th Parliament Legacy Report

- Macroeconomic Policy Review or reform-- ?
  - Monetary Policy –
    - Reserve Bank revert back to its "flexible inflation targeting" regime and upgraded to a dual mandate of both targeting inflation and economic growth at 6%
    - Adopt necessary measures to raise the annual growth of credit extension to the private sector productive sectors and SMME at a consistent rate annually
    - Divert money to SMMEs and entrepreneurs willing to help diversify and transform the economy and to creating jobs
- Service delivery status-?
    - How to ensure District Development Model implementation is streamlined
    - Spending of core functions (education, healthcare, social development, human settlement, economic development, community development) must be protected from cuts, grow with inflation at least

-Grey-listing by FATF- 24 February 2023
    - Parliament to consider government action plan to address concerns raised
    - Regular or quarterly updates or monitoring on the progress to address concerns

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Thank you

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Additional Slides

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

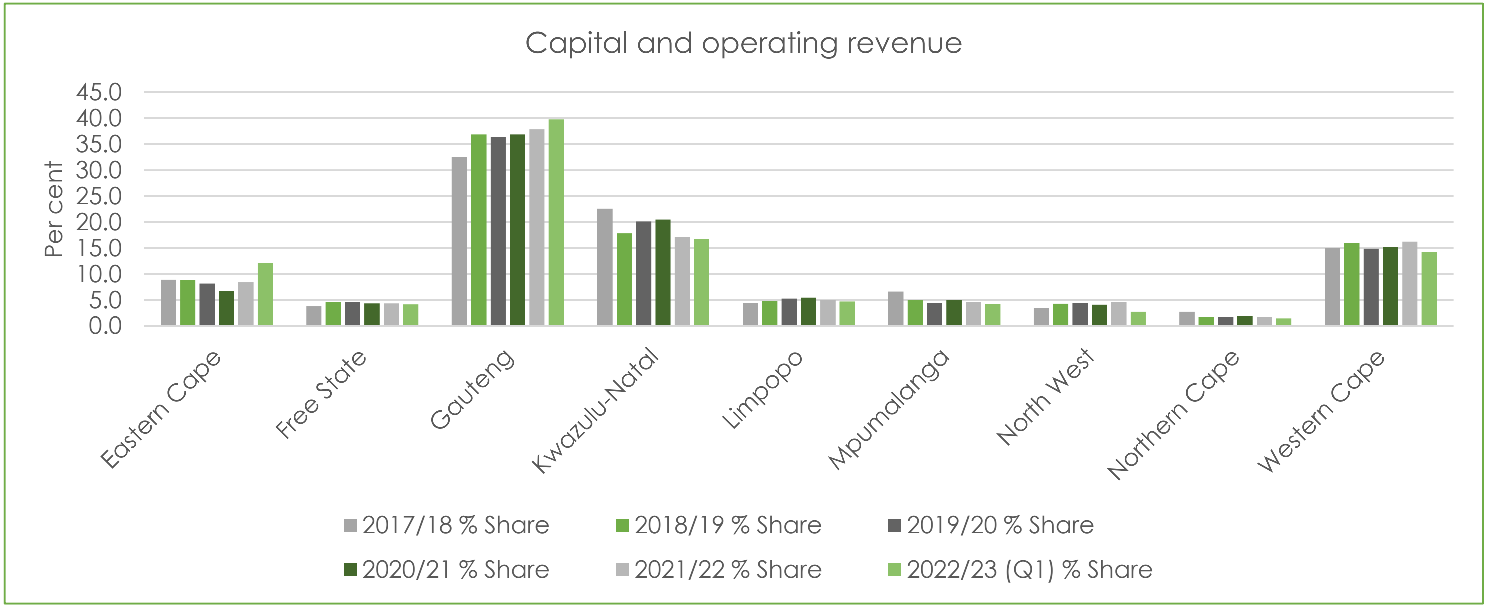
The provincial equitable share (PES)

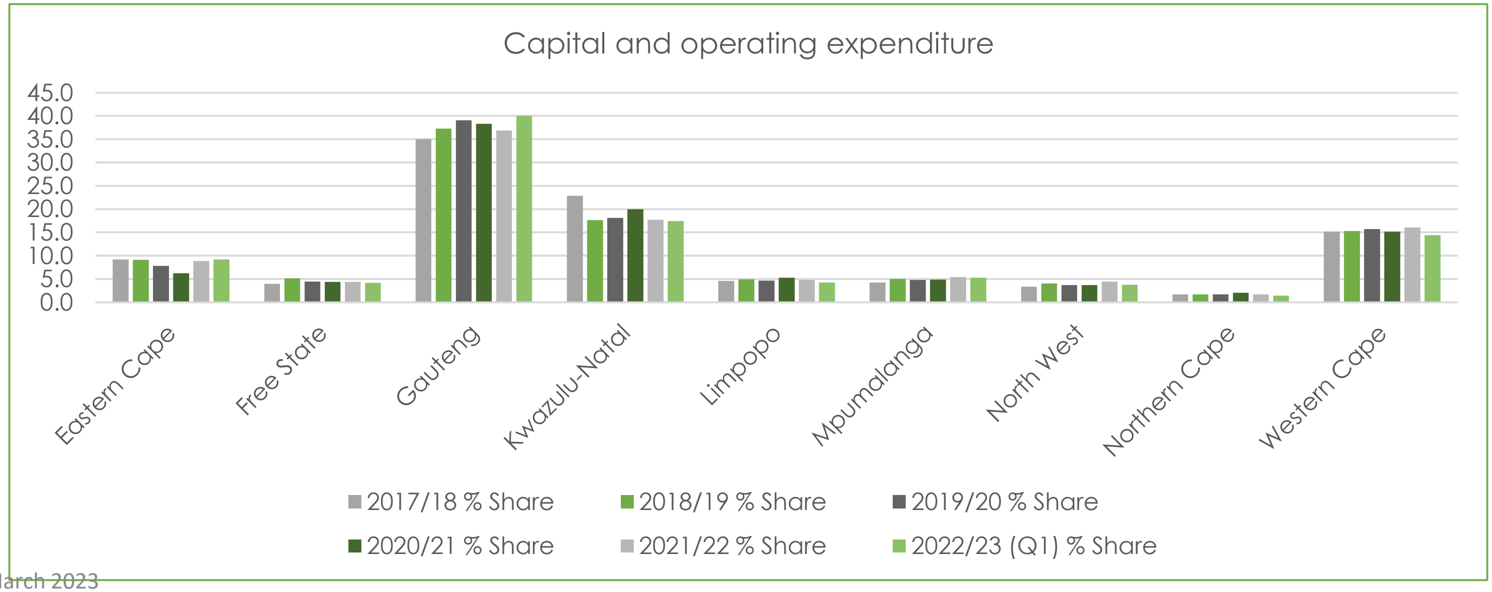
- The equitable share is the main source of revenue through which provinces are able to meet their expenditure responsibilities. For each year of the 2021 MTEF, provincial equitable shares amount to: R523.7 billion, R524.1 billion and R525.3 billion
- The current PES is allocated through a formula using 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)

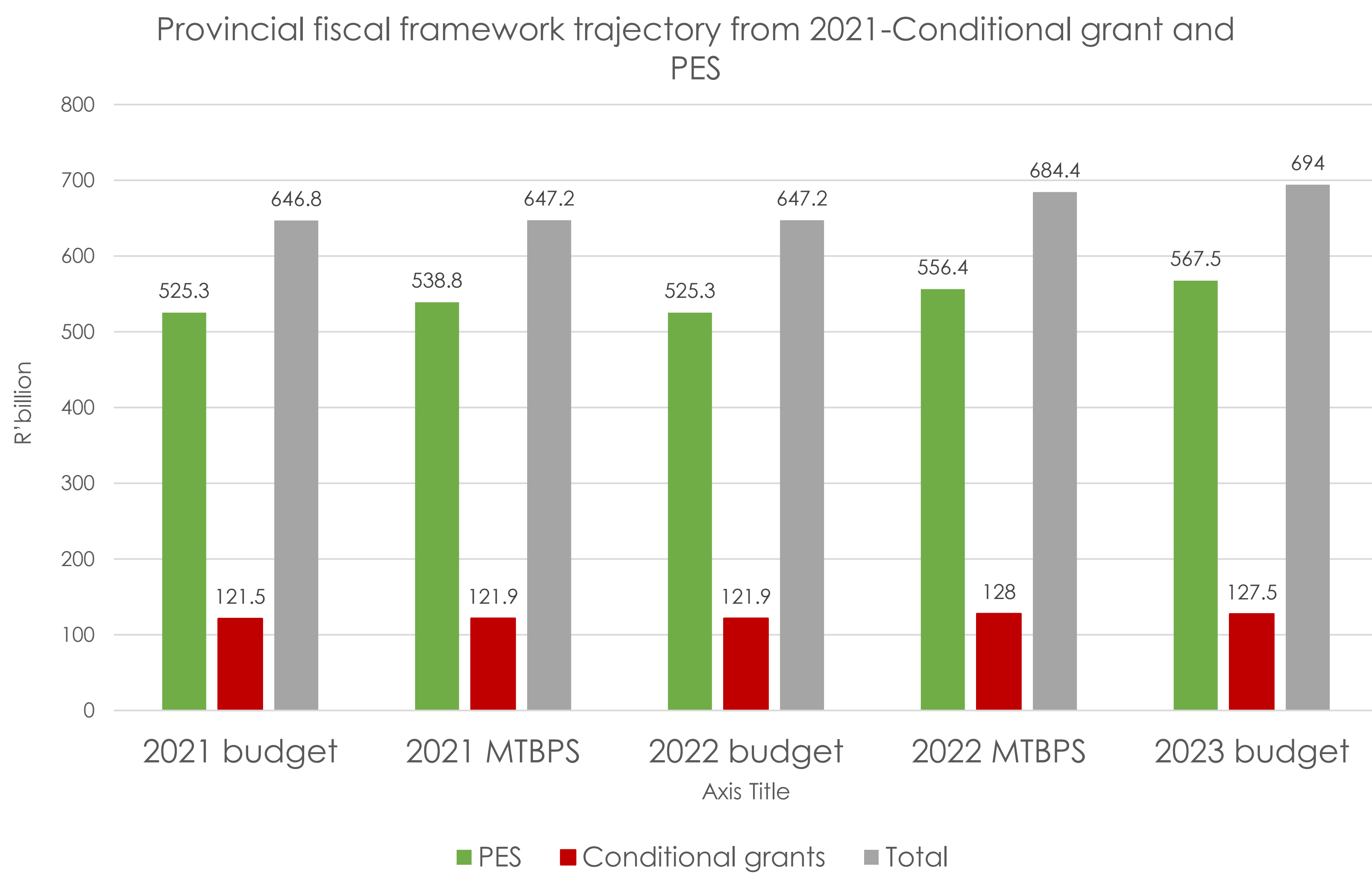
- The local government fiscal framework responds to the constitutional assignment of powers and functions to this sphere of government
- The framework refers to all resources available to municipalities to meet their expenditure responsibilities
- National transfers account for a relatively small proportion 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

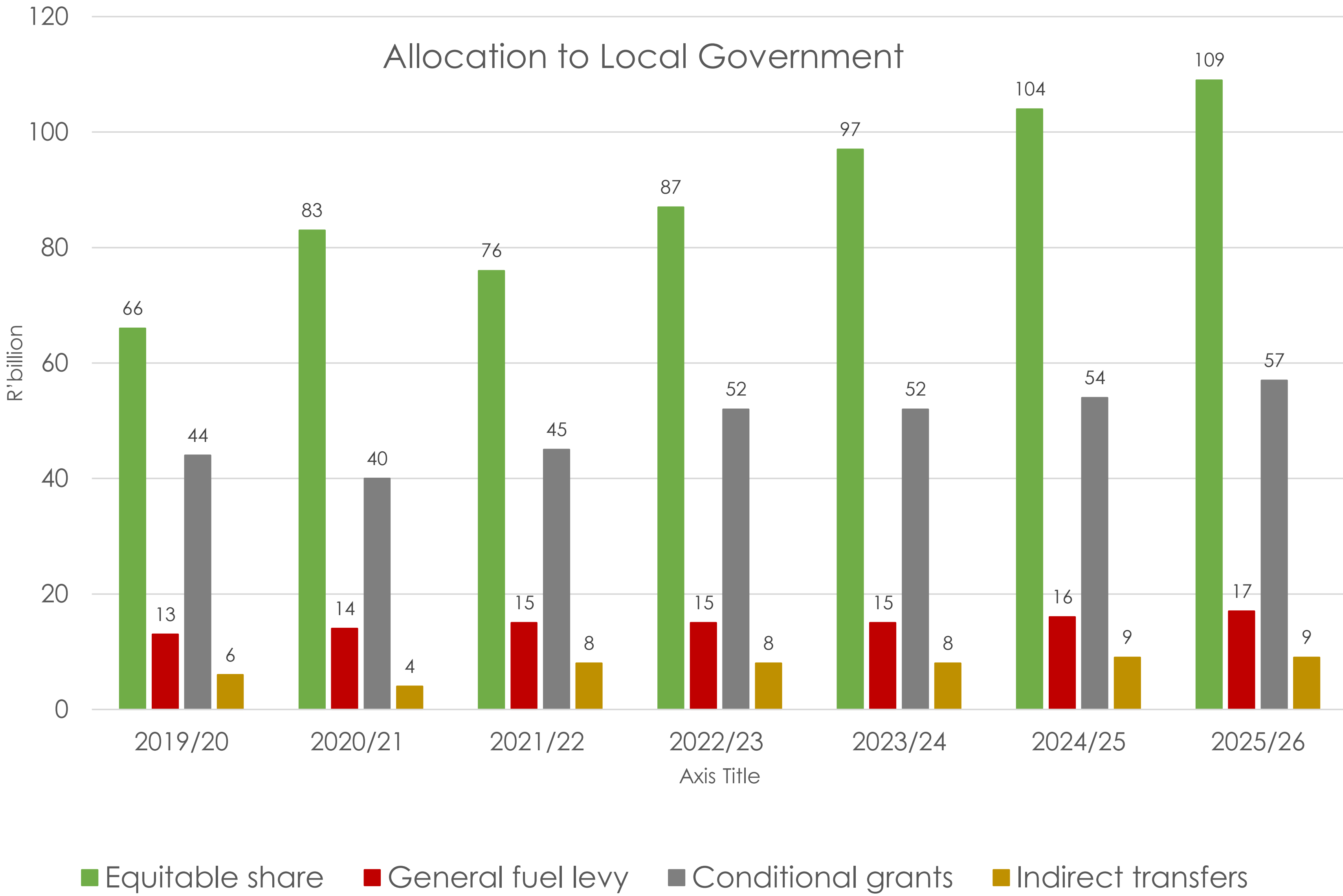




The provincial fiscal framework



Local Government



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

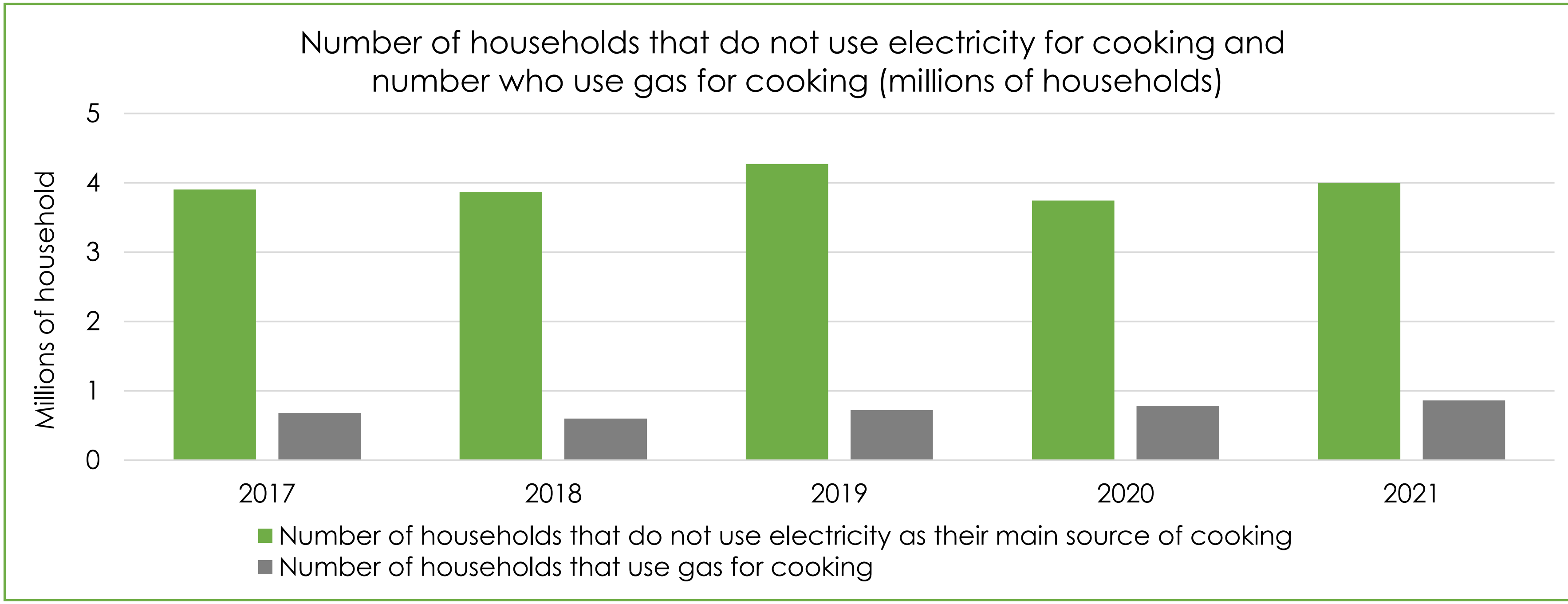
Budget facility for Infrastructure

- 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:
    - eThekwini 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

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

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)

Strategy in Context


PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Business Plan and Budget Estimates 2019-2024

Independent Budgetary Analysis and Advise for Stronger Fiscal oversight

Parliamentary Budget Office

Strategic Execution from Conceptualization

National Level

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

Parliament Level

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

Parliamentary Budget Office Role

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

Research and Analysis and Parliament Fiscal Oversight

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

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