

Parliamentary

2021 Adjusted Budget 23 November 2021

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Bill

Outline

- Introduction
- Summary of the 2021/22 adjustments
- National allocations for COE: Realistic baselines
- Employment and Livelihood support programmes
- Roll-overs: Regulations versus requests
- Virements: [Sections 43 of the PFMA]
- In-year performance of National departments post adjustments
- Division of revenue
- In-year changes to the provincial equitable share
- In-year changes to the provincial and local government conditional grants
- Division of Revenue over the MTEF
- Changes to provincial and local government equitable share
- Changes to provincial and local government conditional grants
- Efficiency and effectiveness of expenditure on conditional grants
- Past performance by national votes
- In Summary

Introduction

- The focus of this presentation is on the National Adjustments Appropriation and the Adjusted Division of Revenue
- The purpose of this presentation is to stimulate discussion on the content of the adjustments budget, which provides for:
 - Unforeseen and unavoidable expenditure
 - The Appropriation of monies already announced during the tabling of the annual budget
 - The shifting of funds between and within votes where a function is transferred or the utilisation of savings (not exceeding 8% of appropriation for a programme)
 - The roll-over of unspent funds from the preceding financial year
- The revisions in the current year are mainly based on:
 - The allocation of the R11 billion provisionally allocated for the Presidential employment programme
 - Allocations to provide for the national and provincial government public sector salary adjustments
 - Roll-overs that could be the reason for slow spending estimates
 - Virements that are not in line with the provisions of the PFMA
- The presentation further aims to highlight points for discussion when Members consider the adjusted budget and the division of revenue

ADJUSTED ESTIMATES

Summary of the 2021/22 adjustments

Total estimated expenditure increases from R1 834.3 billion to R1 893.1 billion in 2021/22

The adjustments to vote appropriations are offset against the provisional allocations and contingency reserve and increases by R15 023.500 million, of which:

- Significant and unforeseeable economic and financial events: R5 833.495 million
- Unforeseeable and unavoidable expenditure: R102.600 million
- Expenditure earmarked in the 2021 Budget speech: R7 115.335 million
- Roll-overs: R2 847.096 million
- Self-financing expenditure: R1 077.899 million
- Declared unspent funds (reductions to vote allocations): (R1 952.925 million)

Adjustments to estimates of direct charges against the National Revenue Fund amounts to R26 936.284 million more than anticipated at the time of the main Budget, of which:

- Debt-service costs (reduction): (R507.139 million)
- Provincial equitable share: R21 148.560 million
- National Revenue Fund payments: R2 281.959 million
- PFMA section 70 payment: R2 923.000 million
- Skills levy, and sector education and training authorities: R1 119.904 million
- Magistrates' salaries (reduction): (R30.000 million)

Adjustments also include a contingency reserve of R2.961 billion and provisional allocations of R11 billion that have not been assigned to votes at the time of tabling the Adjustments Budget

National allocations for COE: Realistic baselines

Significant and unforeseeable economic and financial events: R5.8 billion

	Revised estimate	Reduction from 2020/21 MTEF	Adjusted budget	Change from revised estimate for 2020/21
R million	2020/21	2021/22	2021/22	2021/22
1 The Presidency	385.2	-10.2%	379.2	-1.5%
2 Parliament	1 413.3	-12.9%	1 396.1	-1.2%
3 Cooperative Governance	371.4	-14.9%	358.2	-3.6%
6 International Relations and Cooperation	2 881.6	-12.8%	2 852.0	-1.0%
8 National Treasury	797.9	-12.8%	862.8	8.1%
9 Planning, Monitoring and Evaluation	297.4	-14.1%	307.9	3.5%
10 Public Enterprises	149.2	-16.2%	176.0	17.9%
13 Public Works and Infrastructure	558.7	-8.0%	582.7	4.3%
14 Statistics South Africa	1 476.1	-12.3%	1 524.9	3.3%
15 Traditional Affairs	74.2	-6.8%	84.3	13.5%
16 Basic Education	548.0	-11.7%	549.2	0.2%
17 Higher Education and Training	9 556.7	-5.8%	10 311.6	7.9%
18 Health	928.3	-8.6%	876.1	-5.6%
22 Correctional Services	17 224.5	-10.4%	17 940.4	4.2%
23 Defence	30 984.9	-7.7%	30 659.6	-1.0%
24 Independent Police Investigative Directorate	243.1	-7.5%	239.2	-1.6%
25 Justice and Constitutional Development	11 679.6	-9.1%	12 560.3	7.5%
27 Office of the Chief Justice	1 755.3	-11.3%	1 768.8	0.8%
28 Police	76 147.0	-9.6%	78 168.3	2.7%
30 Communications and Digital Technologies	302.2	-18.0%	304.3	0.7%
31 Employment and Labour	1 334.6	-10.1%	1 428.4	7.0%
32 Environment, Forestry and Fisheries	1 933.9	-10.8%	1 956.3	1.2%
33 Human Settlements	397.3	-11.0%	410.9	3.4%
34 Mineral Resources and Energy	1 017.6	-12.9%	1 037.1	1.9%
36 Small Business Development	150.7	-10.2%	155.2	3.0%
40 Transport	496.8	-10.8%	542.6	9.2%
Total	176 653.8	-9.6%	180 876.8	2.4%

- The baselines for 2021/22 as estimated in the 2020 MTEF was between 3.3 per cent and 40.7 per cent higher than the 2020/21 revised estimate
- After the reductions in 2021 to the baseline most departments in the sample still show a positive change since the 2020/21 revised estimates
- The yellow highlights are those departments that did not request additional funding
- Three of these departments also declared COE funds unspent:
 - Public Enterprises: R17 million
 - Higher Education and Training: R85 million
 - Communications and Digital Technologies: R8.425 million
- These three department also increased their baselines for 2021/22 by 40.7, 14.6 and 22.8 per cent respectively, from the 2020/21 revised estimate
- The highlighted departments also show a positive change from the 2020/21 revised estimates, except for Parliament
- A positive value means that departments have fiscal space to increase personnel numbers or implement increases
- A negative value means that the department will have to reduce personnel numbers
- The negative value of 5.6 per cent in Health should be a concern for government

Employment and Livelihood support programmes

Expenditure earmarked in the in the 2021 budget speech: R11 billion

- The presidential employment initiative will support the creation of more than 440 000 short-term jobs until March 2022
- Other interventions are expected to catalyse growth and job creation
- The allocation for livelihood support covers income support for self-employed people in areas such as subsistence farming and micro-enterprises

Vote	R'000	Description of xpenditure
National government	7 115 335	
3 Cooperative Governance	284 000	Municipal Infrastructure Support Agent
8 National Treasury	841 000	Neighbourhood development partnership grant
17 Higher Education and Training	190 000	R100 000 to national skills fund and Higher education institutions R90 000 (graduate assistance)
18 Health	2 357 000	R2.342 billion for the purchase of vaccines and R15 million for the allocation to Port Health Services
19 Social Development	208 000	ECD conditional grant, and the National Development Agency's volunteer programme
20 Women, Youth and Persons with Disabilities	430 000	National youth agency for youth development
29 Agriculture, Land Reform and Rural Development	750 000	Food security
30 Communications and Digital Technologies	200 000	Broadband goods and services
31 Employment and Labour	258 000	Trasfers to GTAC: Jobs fund
32 Forestry, Fisheries and the Environment	318 000	EPWP
35 Science and Innovation	67 000	Duzi Umngeni Conservation Trust (enviro-champs), water graduate employment programme andfor the Council for Scientific and Industrial Research (experiential training programme)
36 Small Business Development	95 990	Blended finance
37 Sport, Arts and Culture	15 000	Museums
38 Tourism	108 000	Infrastructure maintenance
39 Trade, Industry and Competition	800 000	IDC social employment fund:community based economic activities
41 Water and Sanitation	193 345	Regional bulk infrastructure
Provincial government		
Equitable share	6 470 000	R6 billion for the basic education employment initiative, R120 million for the appointment of social workers, and R350 million for staff and assistant nurses as part of the presidential youth employment intervention
Total	13 585 335	

Roll-overs: Regulations versus requests

Treasury Regulations for departments, trading entities, constitutional institutions and public entities Issued in terms of the Public Finance Management Act, 1999 Section 6.4 Rollovers [Sections 30(2)(g) and 31(2)(g) of the PFMA] 6.4.1

- Funds appropriated but not spent in a particular financial year may be rolled over to a subsequent year subject to approval of the relevant treasury. Such approval will be guided by the following limitations:
 - Part 3: Planning and budgeting
 - (a) Payments for capital assets: Unspent funds on payments for capital assets may only be rolled over to finalise projects or asset acquisitions still in progress.
 - (b) Transfers and subsidies: Savings on **transfers and subsidies may not be rolled over for purposes other than originally voted for**
 - (c) Current payments: Savings on **compensation of employees may not** be rolled over.
 - **A maximum of five per cent of a department's payments for goods and services** may be rolled over
- 6.4.2 Requests for rollovers must be submitted to the relevant treasury on or before the last working day of April, in a format determined by the National Treasury and must include-
 - (a) the purpose for which the funds were appropriated
 - (b) the reasons why the funds were not spent
 - (c) proposed changes to the use of the funds
 - (d) a disbursement schedule indicating the month(s) in which the expenditure is expected to be incurred.
- 6.4.3 Funds for a specific purpose may not be rolled over for more than one financial year, unless approved in advance by the relevant treasury.

Roll-overs: Regulations versus requests

Vote and description of expenditure	R'000	Notes
1 Presidency:spent 37% R2.96 million for the implementation of action plans to address gender-based violence, and R2.243 million for compensation of employees	5 203	2019 Presidential summit declaration againsts gender-based violenceand femicide - No data available against the target of 36 additional courts designated for this purpose
3 Cooperative Governance: spent 40.4% Disaster assessment and evaluation services in KwaZulu-Natal	94 200	
6 International Relations and Cooperation:spent 44.7 spent Network connectivity (bandwidth)	33 000	
14 Statistics South Africa: spent 31.9% Census 2021 pilot project: R344.649 million to purchase tablet computers; R200 000 for leave gratuity payments; R54.68 million for external computer advisors, advertising, communications and minor assets; and R13.431 million to appoint contract staff	412 960	
16 Basic Education: spent 55.6% School infrastructure backlogs grant	210 000	
22 Correctional Services:46.7% R63.857 million for goods and services such as the procurement of uniforms, 9mm ammunitions, pepper sprays, filters, armour, leg irons, handcuffs, key bag pouches, holsters, shoulder straps and handheld metal detectors; and R38.855 million for the payment of outstanding invoices to the Department of Public Works and Infrastructure, and procurement of pistols	102 712	Not sure about the reasons of the delay
25 Justice and Constitutional Development:spent 42.2% State capture commission	56 695	
28 Police: spent 46.5% R12.25 million for the semi-automated DNA processing system, R342.965 million for the upgrading of wide area network ICT infrastructure, R3.49 million for the conversion of 10 forensic response vehicles, R75 million for the upgrading of storage and disaster recovery capabilities, and R566.831 million for a payment to Polmed medical scheme for injury on duty cases	1 000 536	
29 Agriculture, Land Reform and Rural Development: spent 35% Subsistence producers selected in phase 1 of the presidential youth employment intervention	243 000	Additional R750 million has been allocated in the adjustments budget
33 Human Settlements: 40.6% Transfer payment to UN Habitat to fund the Southern African Development Community strategy on informal settlements	14 100	
34 Mineral Resources and Energy:spent 44.3% R32.7 million for the non-grid electrification programme and R28 million for the solar water heater programme	60 700	
37 Sport, Arts and Culture: 44.9% R7.8 million for job creation projects funded through phase 1 of the presidential youth employment intervention and R23.99 million for the creation of jobs to monitor compliance with COVID-19 regulations at sport events	31 790	R7.8 million will be allocated to art practitioners to showcase their work. Additional R15 million has been allocated in the adjustment budget
41 Water and Sanitation:32.2% R582.2 million for operational payments for the Vaal River pollution remediation project	582 200	Regional bulk infrastructure grant

Virements: [Sections 43 of the PFMA]

(1) An accounting officer for a department may utilise a saving in the amount appropriated under a main division within a vote towards the defrayment of excess expenditure under another main division within the same vote, unless the treasury directs otherwise.

- (2) The amount of a saving under a main division of a vote that may be utilised in terms of subsection (1), may not exceed **eight per cent** of the amount appropriated under that main division.
- (4) This section does not authorise the utilisation of a saving in:
 - (a) an amount specifically and exclusively appropriated for a purpose mentioned under a main division within a vote (such as compensation of employees except for transfers and subsidies for the payment of severance/exit packages)
 - (b) an amount appropriated for transfer to another institution; (excluding transfers and subsidies to other levels of government for purposes of paying levies and taxes imposed by legislation, may not be increased without approval of the relevant treasury)
 - (c) an amount appropriated for capital expenditure in order to defray current expenditure.
- (5) A utilisation of a saving in terms of subsection (1) is a direct charge against the Revenue Fund.

Virements

Votes	From	To	More than 8%
Vote 16: Basic Education	School infrastructure backlogs grant operational budget ²	Workbooks	
Vote 17: Higher Education and Training	Vacant posts ²	National Student Financial Aid Scheme (administration) ¹	
Vote 18: Health	National health insurance indirect grant (contractors) ¹	Other grants	23.20%
Vote 20: Women, Youth and Persons with Disabilities	Consultants ¹	Compensation	
Vote 25: Justice and Constitutional Development			12.8%²
Vote 28: Police	Construction and upgrading of police stations ¹	Overtime payments ¹	
Vote 30: Communication and Digital Technologies			12.60%
Vote 32: Department of Environment, Forestry and Fisheries	Expanded public works programme capital grant ²	South African Weather Service operations ² and South African National Parks operations ²	
Vote 34: Mineral, Resources and Energy	Transfers	For other purposes	
Vote 36: Small Business Development	Transfers	For other purposes	11.20%
Vote 38: Tourism	Transfers	For other purposes	11.90%
Vote 39: Trade, Industry and Competition	Current	Transfers	12.70%

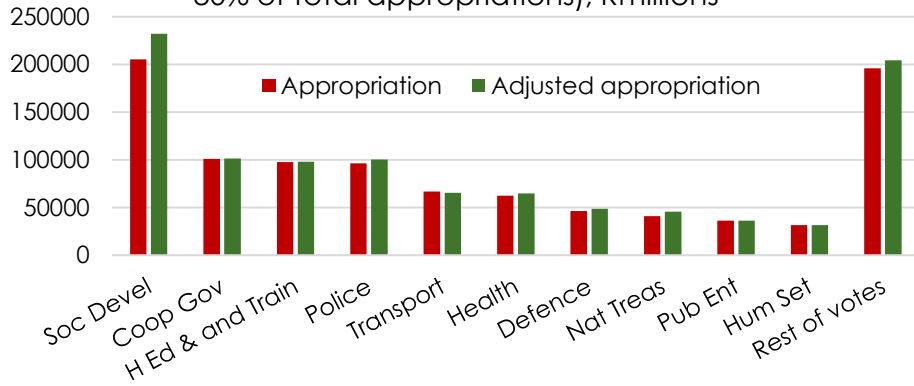
In-year performance of National departments post adjustments

- National departments with expenditure less than 40 per cent and more than 60 per cent of the adjustments budget in the first six months of the 2021/22 financial year
- Slowest spending: Military Veterans at 27.7 per cent despite a reduction in the budget

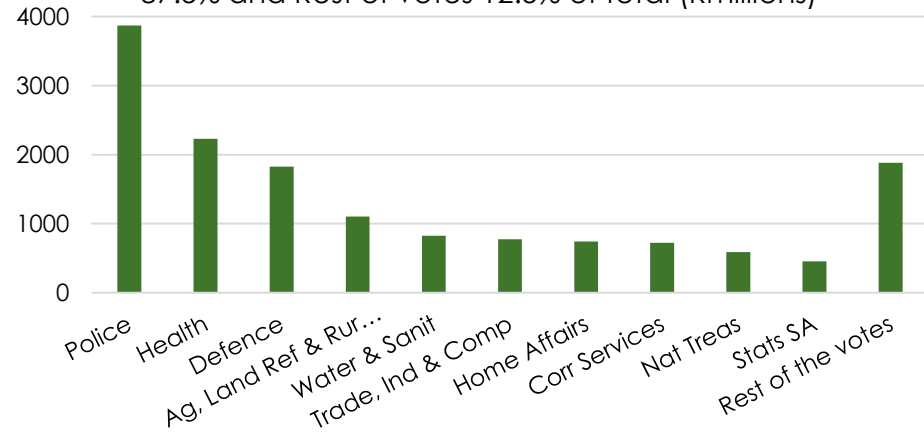
Vote number and title		2021/22				
		Adjusted appropriation	Adjustment	Actual expenditure		
Apr 21 - Sep 21	% of adjusted appropriation					
R thousand	Appropriation			Apr 21 - Sep 21		
1	The Presidency	592 321	604 579	12 258	223 553	37.0
3	Cooperative Governance	100 875 870	101 259 931	384 061	40 929 734	40.4
8	National Treasury	41 055 707	45 546 707	4 491 000	14 464 520	31.8
9	Planning, Monitoring and Evaluation	453 950	459 213	5 263	173 858	37.9
10	Public Enterprises	36 291 819	36 274 819	(17 000)	35 870 920	98.9
14	Statistics South Africa	4 474 590	4 931 640	457 050	1 570 804	31.9
15	Traditional Affairs	171 392	172 690	1 298	67 679	39.2
17	Higher Education and Training	97 784 005	97 889 005	105 000	70 251 836	71.8
20	Women, Youth and Persons with Disabilities	763 539	1 195 508	431 969	469 965	39.3
26	Military Veterans	654 367	607 388	(46 979)	168 499	27.7
29	Agriculture, Land Reform and Rural	16 920 399	18 023 260	1 102 861	6 313 926	35.0
30	Communications and Digital	3 692 881	3 884 456	191 575	1 444 943	37.2
32	Forestry, Fisheries and the Environment	8 716 848	9 099 737	382 889	3 079 978	33.8
38	Tourism	2 429 627	2 545 338	115 711	864 943	34.0
41	Water and Sanitation	16 910 080	17 735 057	824 977	5 710 343	32.2
Total		980 583 908	1 028 457 408	47 873 500	503 296 942	48.9

Summary picture of appropriations adjustments 2021/22

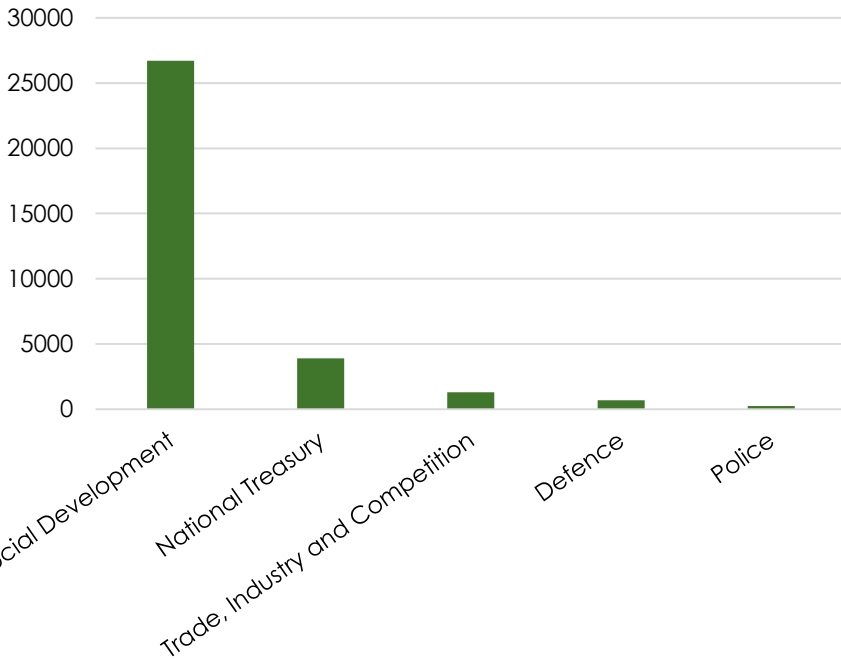
Comparing appropriations and Adjusted appropriations (Top 10 appropriations account for 80% of total appropriations), Rmillions



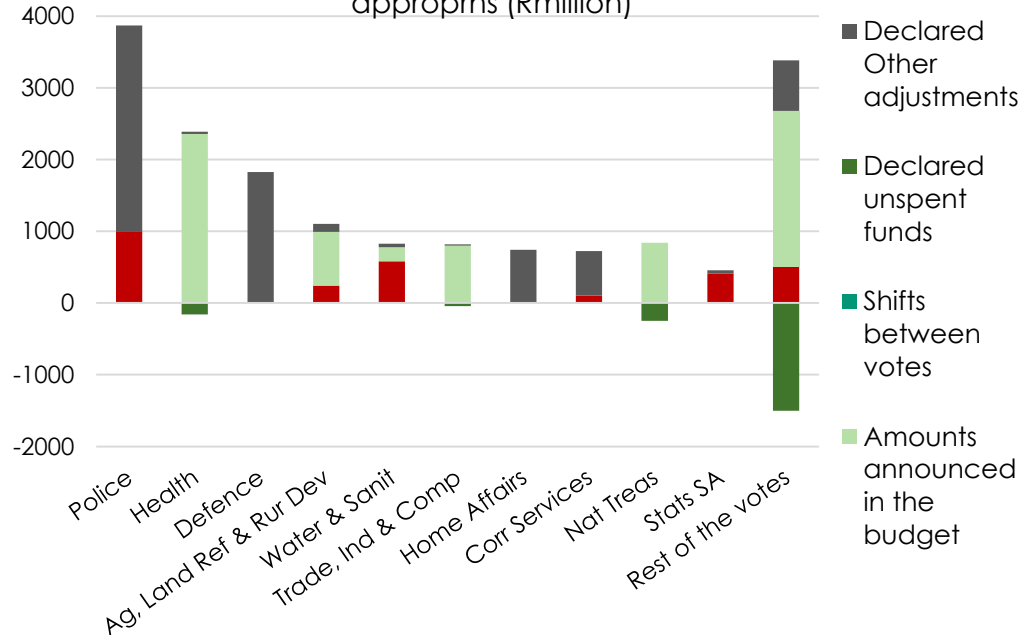
Total adjustments appropriations: Top 10 make up 87.5% and Rest of votes 12.5% of total (Rmillions)



Special appropriations (Rmillions)



Composition of Total adjustment appropriations: top ten votes for adj appropsns make up 87.5% of total adj appropsns (Rmillion)



DIVISION OF REVENUE

Division of Revenue

R'000	2021/22 Main Allocation	Adjustment	2021/22 Adjusted Allocation
National	1 232 566 664	43 977 021	1 276 543 685
Provincial	523 686 351	21 148 560	544 834 911
Local	77 999 135		77 999 135
TOTAL	1 834 252 150	65 125 581	1 899 377 731

- National share includes:
 - *Conditional allocations to provincial and local spheres*
 - *General fuel levy sharing with metropolitan municipalities*
 - *Debt-service costs*
 - *The contingency reserve*
 - *Provisional allocations*
- The direct charges for the provincial equitable share are netted out
- Adjustment for national share includes money added in the Second Special Appropriations Bill
- The 2021 Division of Revenue Amendment Bill provides for an increase in expenditure of 3.6 per cent for the current financial year
- No additional allocation for local government through the DOR
- Reflects governments attempt to further support the economy and pursue fiscal consolidation with projected revenue larger than estimated

In-year changes to the provincial equitable share

- Additional allocations of R14.7 billion are added to the provincial equitable share for the wage agreement
- Additional funds of R6.47 billion are added to the PES for the Presidential youth employment initiative

R thousands	Presidential Youth Employment Initiative			Public Service wage bill	Total Change
	Education school assistants	nurses	Social Development social workers		
Eastern Cape	841 591	45 460	11 040	1 991 122	2 889 213
Free State	334 412	19 403	12 000	921 983	1 287 798
Gauteng	1 060 793	74 559	43 680	3 012 655	4 191 687
KwaZulu-Natal	1 338 452	71 615	23 220	3 032 076	4 465 363
Limpopo	802 210	40 097	11 400	1 674 991	2 528 698
Mpumalanga	512 859	28 615	8 280	1 165 184	1 714 938
Northern Cape	141 811	9 271	5 160	393 874	550 116
North West	401 242	24 576	5 220	1 070 505	1 501 543
Western Cape	566 630	36 404	–	1 416 170	2 019 204
Total	6 000 000	350 000	120 000	14 678 560	21 148 560

Changes to the provincial and local government conditional grants

- R81 million is added to the direct regional bulk infrastructure grant for George Local Municipality for the implementation of the portable water security and remedial works project
- R150 million is reduced from the national health insurance indirect grant for the Limpopo Academic Hospital due to delays experienced in the project
- R10 million is reduced from the health facility revitalisation grant for Western Cape for Klipfontein Hospital due to delays in the appointment of professional service providers for building design
- R1.3 billion is reduced from the public transport network grant for the City of Cape Town to align to its revised implementation plan of myCiti phase 2A
- R210 million is rolled over for the *school infrastructure backlogs grant* to complete projects that are part of the Sanitation Appropriate for Education initiative, which deals with the replacement and removal of inappropriate and unsuitable sanitation, including pit toilets at schools. The funds are for schools in Eastern Cape, Free State, KwaZulu-Natal and Limpopo

Changes to the provincial and local government conditional grants (cont.)

- R97 million of the *school infrastructure backlogs grant* is reprioritised from the goods and services portion allocated to the Department of Basic Education for planning and oversight of the grant. The Department of Basic Education will use these funds to fund a shortfall in the workbooks project
- R243 million is reprioritised from various components of the *national health insurance indirect grant* to the *human resources and training grant*. This will provide for the statutory obligation to place medical interns upon completion of their studies
- R582 million is rolled over in the indirect regional bulk infrastructure grant to fund the operational payments for the Vaal River pollution remediation project in Emfuleni Local Municipality
- R90 million is shifted from the direct component of the neighbourhood development partnership grant to the indirect component of the grant, to fund project preparation, planning and implementation for municipalities facing implementation challenges

Division of revenue over the MTEF

- Provinces are responsible for:
 - basic education and
 - health services,
 - roads,
 - housing,
 - social development, and
 - agriculture
- Municipalities provide basic services such as:
 - water,
 - sanitation,
 - electricity reticulation,
 - roads
 - community services
- Provincial and municipal governments face multiple pressures over the medium term as government reduces spending growth and poor economic performance affects other revenue and funding sources
- Over the 2022 MTEF period, transfers to provinces and municipalities in the form of an equitable share and conditional grants is estimated to grow below inflation
- Over the next three years, government proposes to allocate 48.4 per cent of available non-interest expenditure to national departments, 42 per cent to provinces and 9.6 per cent to local government

Changes to provincial and local government equitable share

- The provincial equitable share formula is updated annually to reflect demographic changes and demand for services based on need
- Between 2022/23 and 2024/25, additional changes will be phased into the health component – which accounts for 27 per cent of the formula
- Changes in the health component of the provincial equitable share include:
 - An updated the risk-adjusted capitation index (healthcare costs per person that accounts for 75 per cent of the component – by assessing the factors and weights used to compose the index)
 - The HIV variable will be integrated into other variables
 - Three variables will be added:
 - Premature mortality, which uses deaths below the age of 65 as a proxy for the burden of disease
 - A multiple deprivation index, which adjusts for differences in the social determinants of health (such as education and sanitation)
 - Sparsity, which accounts for the higher cost of delivering healthcare in remote and low-density areas
- The local government equitable share formula will be updated to account for projected household growth, inflation and estimated increases in bulk water and electricity costs over the MTEF period

Changes to provincial and local government conditional grants over the medium term

Changes to the structure of provincial conditional grants

HIV, TB, malaria and community outreach grant

- From 2022/23, the grant will consist of only:
- A comprehensive HIV/AIDS component, funding HIV/AIDS- and tuberculosis-related services; and a district health component, funding community outreach services and services related to COVID-19, human papillomavirus and malaria
- The grant will be renamed the district health programme grant
- The mental health and oncology components introduced in this grant in the 2021 MTEF will be shifted to the direct national health insurance grant

Comprehensive agricultural support programme grant

- The colleges of agriculture have been shifted to the national government, as will the funding provided through this grant

The early childhood development grant

- Will be moved from the Department of Social Development to the Department of Basic Education from 2022/23

The provincial roads maintenance grant

- In the 2021 Budget, an incentive component allocated based on provincial performance was allocated using the main formula of the conditional grant
- Due to delays in developing objective allocation criteria, the incentive component will be removed from the grant baseline for 2022/23
- The National Treasury will continue to work with the Department of Transport to develop objective criteria for the incentive component

Changes to the structure of local government conditional grants

Municipal infrastructure grant

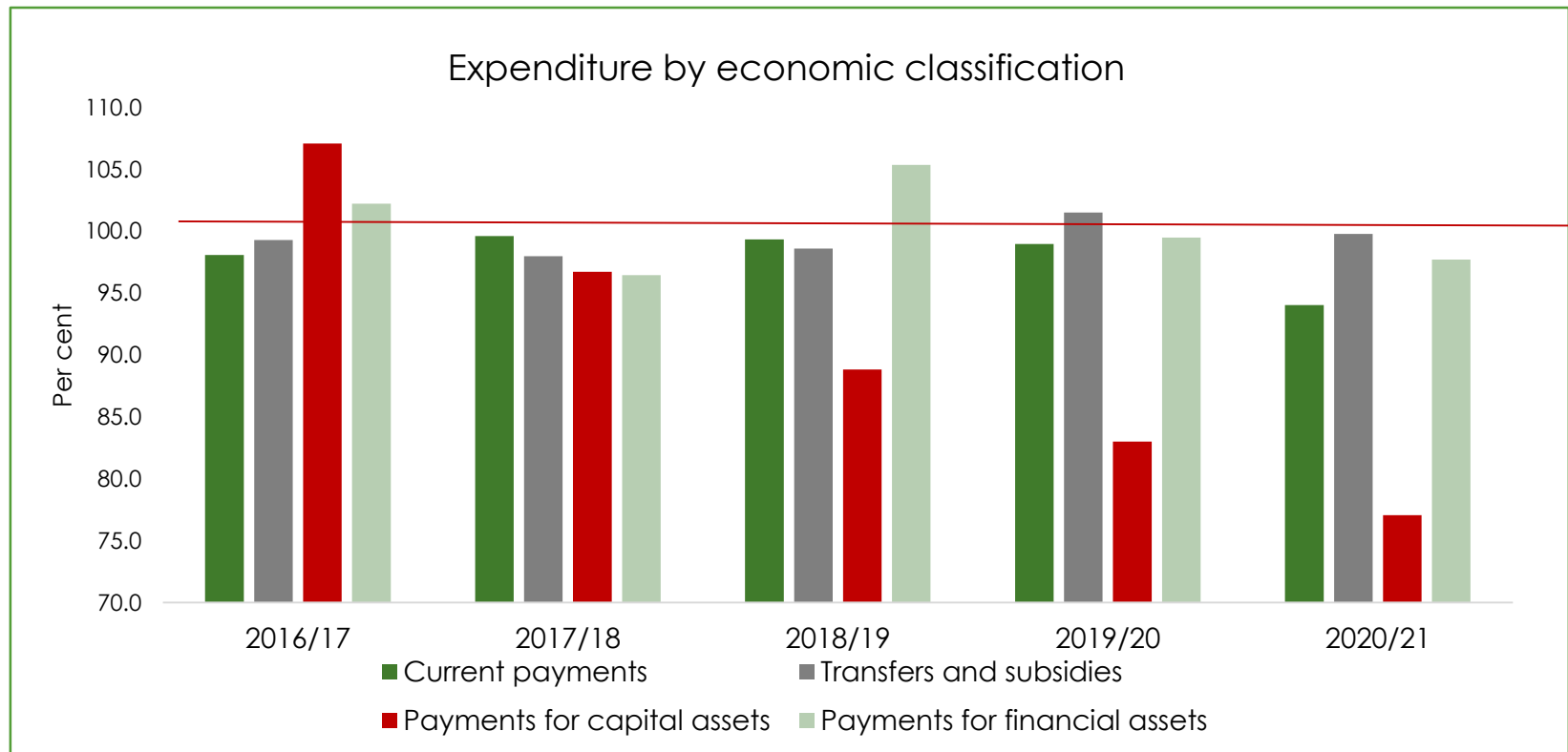
- The expansion of the scope of the grant, to help municipalities improve their asset management practices, has been delayed, so funds will not be allocated to a new indirect component of the grant at the beginning of 2022/23
- Funds may be transferred during the year if the Department of Cooperative Governance and Traditional Affairs does the work required to identify municipalities that need this intervention

Efficiency and effectiveness of expenditure on conditional grants

- In addition to the changes proposed by the 2021 MTBPS the PBO assessed the content and performance of Basic Education, Health, Human Settlements, Agriculture and Transport Conditional Grants as reflected in the schedules to the DORA and reported on in the 2019/20 annual reports of administering departments
- The analysis showed that:
 - Performance outputs/indicators were not well defined
 - There was a mismatch between expected outputs and actual outputs
 - There was duplication of indicators/outputs
 - There was inconsistent or no reporting on actual non-financial information
 - In some instances, no targets were set for outputs
 - Overspending on some of the grants, accompanied by underperformance
 - Underspending that is accompanied by over performance
 - Reporting on the performance was not measured against set targets
 - There was incomplete performance information
 - The lack of proper performance information on conditional grants in the Annual Reports of departments makes it difficult to determine the effectiveness of expenditure and impact of the outputs delivered by government

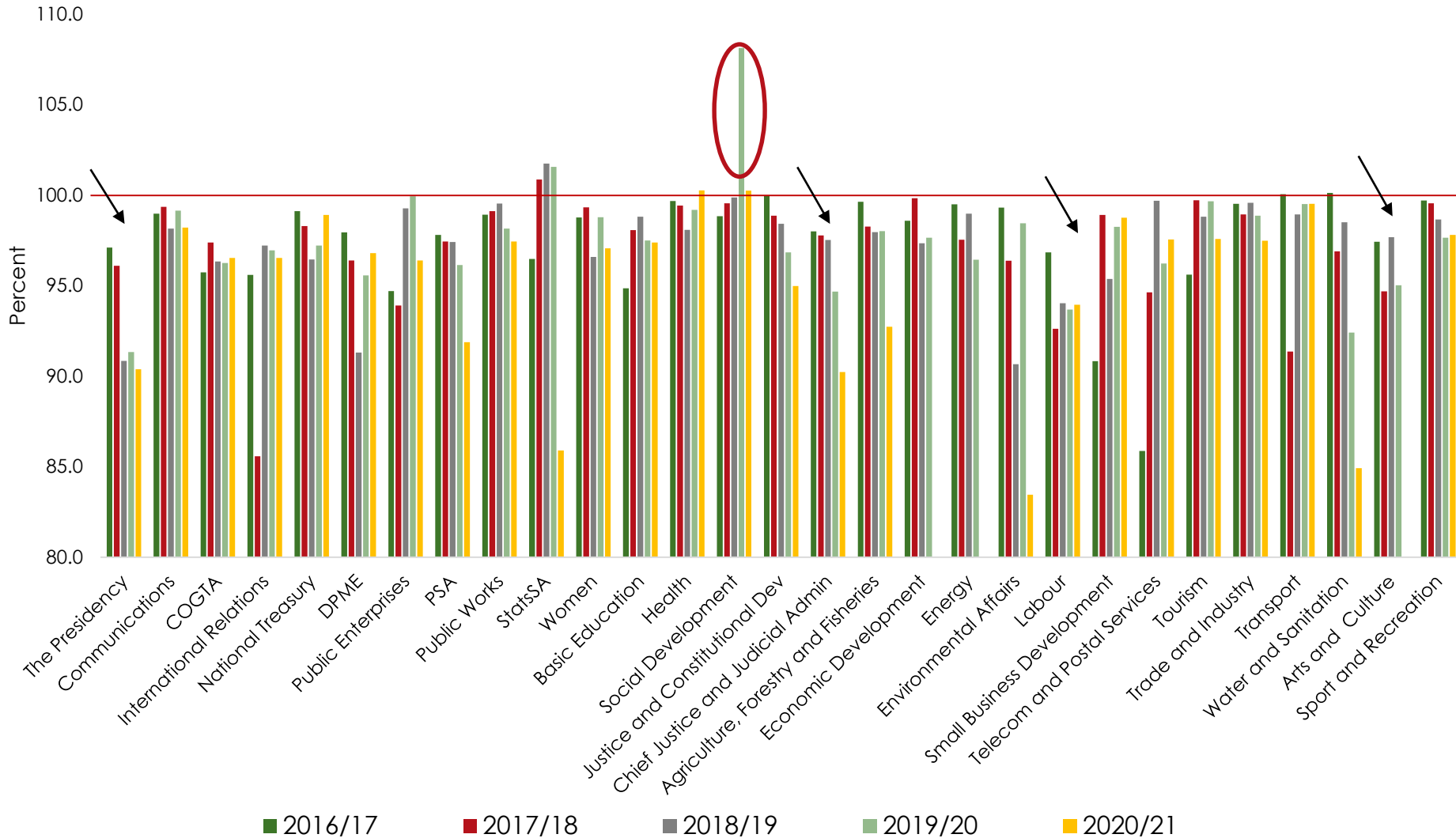
Past performance by national votes

- National departments have a history of underspending (diagram in annexure)
- Under spending of capital budgets for four consecutive years since 2017/18
- According to the AGSA's 2019/20 PFMA report, the number of departments incurring unauthorised expenditure increased from 20 to 22, with unauthorised expenditure increasing from R1.65 billion to R18.12 billion between 2018/19 and 2019/20
- Social development, health and education were responsible for 96 per cent of the overall reported unauthorised expenditure



Expenditure by national votes

Expenditure by national votes



In summary

- Total estimated expenditure increases from R1 834.3 billion to R1 893.1 billion in 2021/22
- The adjustments to vote appropriations are offset against the provisional allocations and contingency reserve and increase by R15 023.50 million
- Adjustments to estimates of direct charges against the National Revenue Fund amounts to R26 936.28 million more than anticipated at the time of the main Budget
- Adjustments also include a contingency reserve of R2.961 billion and provisional allocations of R11 billion that have not been assigned to votes at the time of tabling the Adjustments Budget
- An analysis of the baselines for 2021/22 as estimated in the 2020 MTEF showed that compensation of employees increases by between 3.3 per cent and 40.7 per cent from the 2020/21 revised estimate
- The presidential employment initiative will not only support the creation of more than 440 000 short-term jobs, but also aims to catalyse growth and job creation and provides support for self-employed people
- Many roll-over and virement requests can only be approved by Parliament due to the legislation requirements not adhered to

In summary

- Provincial and municipal governments face multiple pressures over the medium term because of government reductions in spending growth and poor economic performance that affects other revenue and funding sources
- Changes to provincial and local government equitable share formulas aim to improve the equal division of revenue
- Changes to conditional grant structures will also be implemented in 2022/23. These changes are mainly in:
 - Health
 - Agriculture
 - Social Development and Education
 - Provincial Roads
 - Municipal infrastructure grants
- The PBO analysis of conditional grants also suggests improved administration of conditional grants including:
 - Content
 - Context (process and reporting)
 - Control (monitoring)

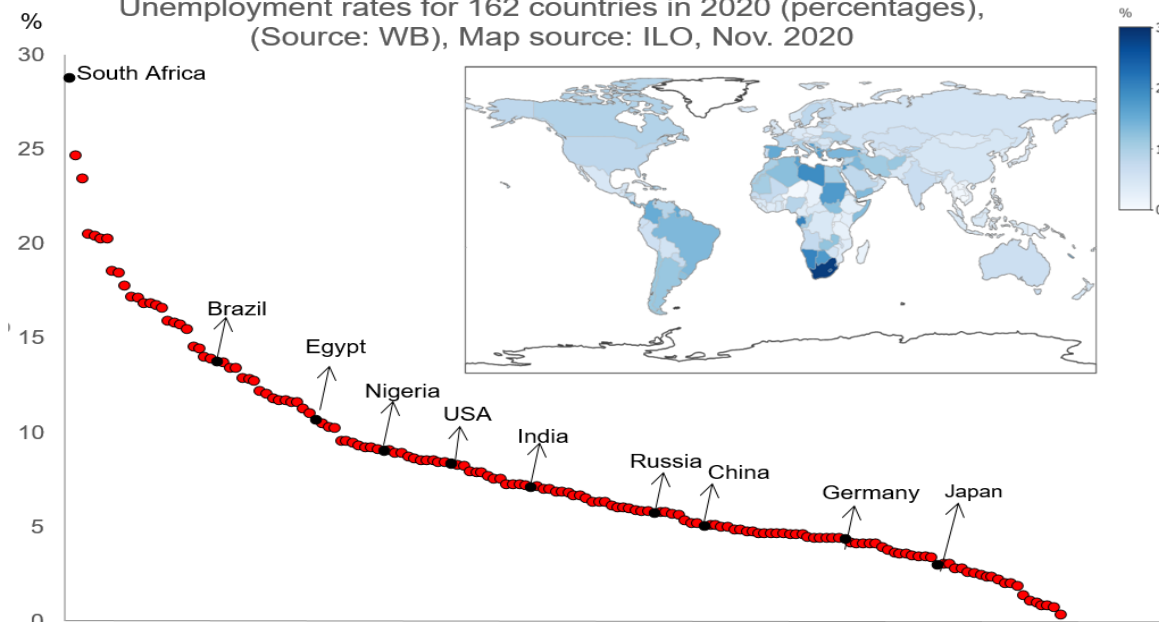
Annexure

Summary of the 2021/22 adjustments

R thousand	Appropriation (ENE)	Adjustments appropriation (AENE)	Adjusted appropriation
Appropriation by vote	980 583 908	15 023 500	995 607 408
Significant and unforeseeable economic and financial events		5 833 495	
Unforeseeable and unavoidable expenditure		102 600	
Expenditure earmarked in the 2021 Budget speech for future allocation		7 115 335	
Roll-overs		2 847 096	
Self-financing expenditure		1 077 899	
Declared unspent funds		(1 952 925)	
Direct charges against the National Revenue Fund	830 023 039	26 936 284	856 959 323
<i>Of which:</i>			
Debt-service costs	269 741 139	(507 139)	269 234 000
Provincial equitable share:	523 686 351	21 148 560	544 834 911
<i>Public sector salary adjustment</i>	–	14 678 560	14 678 560
<i>Expenditure earmarked in the 2021 Budget speech for future allocation</i>	–	6 470 000	6 470 000
Subtotal	1 810 606 947	41 959 784	1 852 566 731
Provisional reduction to fund Land Bank allocation	(5 000 000)	5 000 000	–
Provisional allocations not assigned to votes	12 645 203	(1 645 203)	11 000 000
Infrastructure Fund not assigned to votes	4 000 000	(4 000 000)	–
Contingency reserve	12 000 000	(9 039 000)	2 961 000
Total adjustments expenditure estimate	1 834 252 150	26 000 581	1 860 252 731
Second Special Appropriation Bill, 2021	32 850 000		32 850 000
Total estimate expenditure	1 867 102 150	26 000 581	1 893 102 731
Main budget revenue	1 351 672 124	131 529 184	1 483 201 308
Budget balance	(515 430 026)	105 528 603	(409 901 423)

The cost of unemployment, poverty and inequality

Unemployment rates for 162 countries in 2020 (percentages),
(Source: WB), Map source: ILO, Nov. 2020



- South Africa has extreme levels of structural unemployment, poverty and inequality (UPI)
- They are a huge burden on social, economic and political stability
- They have affected resilience to the Covid-19 pandemic and other risks
- They impose large costs on public finances that are not usually reported in government's accounts

- Therefore, while much attention is paid to the size of debt repayments to GDP; the costs to the government associated with UPI are not reported
- Further, the impact of UPI on the efficacy and impact of government spending and programmes is not adequately considered
- E.g., crowding, poor infrastructure & equipment, lack of books plus malnutrition and poor living conditions lead to high rates of repetition and dropping out
- NIDS-CRAM reports that school dropout has tripled from 230,000 pre-pandemic to 750,000 in May 2021



Pit latrines at an E. Cape school

Source: Infrastructure News

Consensus that fiscal measures to reduce inequality can support growth

- The IMF: “High inequality can be detrimental for macroeconomic stability and for sustained long-term growth.”
- At the top of the income distribution, our research shows that marginal tax rates can be raised without sacrificing economic growth ([Kristalina Georgieva](#))
- The OECD says, “... tax policy has a particularly important role in addressing inequality and boosting economic growth.”
- The UN: “Highly unequal societies are less effective at reducing poverty than those with low levels of inequality. They also grow more slowly and are less successful at sustaining economic growth.”

