PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

PBO
PARLIAMENTARY
BUDGET OFFICE

PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

GOVERNMENT UNDERSPENDING ANALYSIS 2011/12 - 2020/21:
The case studies of the departments of health and social development

March 2023

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

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Executive Summary

In September 2022, the Standing Committee on Appropriations (SCOA) raised concerns about the underspending of government budget. During this meeting, the National Treasury highlighted underspending across all government departments and state-owned entities when briefing the Committee about the fourth quarter expenditure report for the 2021/22 financial year. The actual expenditure at the end of the financial year by national departments was R1 011.4 billion which was a deviation from the allocated R1 026.3 billion. This equates to R14.9 billion or 1.5 per cent in underspending. SCOA stated that "apart from denying the citizens critical service delivery, underspending undermines the Economic Reconstruction and Recovery Plan, localisation and job creation".

This brief provides Members of Parliament (MPs), specifically the Finance and Appropriations Committees with an analysis of trends in government spending outcomes between 2011/12 to 2020/21. The brief analyses public finance official data and related information on government spending to provide MPs with evidence and the extent of underspending of government budgets.

The Parliamentary Budget Office adopted a mixed method approach, which constitutes of quantitative and qualitative analysis, to assess whether and the extent to which there has been underspending in government departments. The brief also sought to identify the reasons for underspending. This brief focuses on the departments of health and social development at the national and provincial levels. This analysis was undertaken, using data from the Estimates of National Expenditure (ENE) reports for national departments and Estimates of Provincial Revenue and Expenditure (EPRE) for provincial departments between 2011/12 to 2020/21. Reasons for underspending were drawn from national and provincial departmental annual reports. The PBO applied a two per cent threshold to the lower bound (underspend) as a reasonable deviation from the budget. The brief focused on underspending larger than two per cent of the budget allocation. The assumption here is that it is normal for government to have some level of underspending due to unforeseen circumstances. The PFMA also makes provision for a two per cent provision for over-expenditure in emergencies.

The brief highlights the following spending trends in national government departments

- On aggregate, national governments underspending has been recorded every year except for 2019/20. On aggregate, underspending of the national departments' budget has averaged two per cent over a ten-year trend.
- Disaggregating the data by economic classification shows that underspending in current payments has been largely driven by goods and services. Whereas underspending in buildings and other fixed structures and machinery, and equipment was more prevalent in payments for capital assets.
- Underspending in the Department of Health has been mainly driven by the lack of progress in National Health Insurance and Hospital Systems programmes. In 2013/14, these programmes accounted for 70 per cent of total underspent funds.
- All the conditional grants provided for by the National Department of Health recorded underspending between 2019/20 and 2020/21, except the Human Resources Capacitation (HRC) Grant, which recorded overspending, accompanied by over-performance in the financial year 2019/20.
- In the Department of Social Development, the Social Assistance programme (which takes more than ninety per cent of the department's budget) has been underspent by less than

two per cent for all other years except in 2019/20 where it overspent by 8.6 per cent (R15.1 billion). Consecutive years of underspending (by more than two per cent) were observed in the Welfare Services Policy Development and Implementation Support programme. The level of underspending was volatile in the earlier years of analysis and swiftly rose in 2018/19 (41.2%), 2019/20 (57.8%), and 2020/21 (29.9%).

The brief thus summarises the following key issues for further consideration in the effort to bolster oversight by Parliament:

- Government underspending is not unique to South Africa. The literature shows that other countries do struggle with budget underspending as well. The literature further shows that weaknesses in budget planning and execution processes and procedures are a critical contributor to the underspending of government budgets.
- Complex procurement processes (e.g. issues relating to non-compliance to SCM policy and regulations and inadequate monitoring and evaluation of SCM) have been cited by many government entities as reasons for underspending. Promoting procurement best practices of supply chain management systems should be prioritized within government departments and entities.
- Delays in payment of suppliers invoices or claims by government departments and entities, are one of the major reasons for underspending in government. This is despite Treasury Regulation which states that "[u]nless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, the date of settlement or court judgement".
- Unfilled vacancies in government departments and entities have contributed to delays in spending budgets. The compensation of employees' expenditure is linked to government service delivery. Therefore, failure to fill critical posts has a direct impact on government's ability to use the budget to deliver much-required government services. For instance, it would be difficult to complete a project without having appointed a project manager to run and oversee the project implementation.
- Interdepartmental systemic issues which drive inefficiencies in Interdepartmental projects, particularly infrastructure, need to be addressed.
- The failure to comply with conditional grant conditions has led to the grants and funds being returned to the national department.
- Inadequate needs assessment and project planning, ineffective monitoring of project milestones and contractors/ implementing agents have all led to underspending.

Overall, our analysis does not show significant levels of underspending. The reasons for the underspending that exists highlight some systemic issues in the public financial management system that need to be tackled. The adequacy of budgets is also an important consideration. 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 significantly more spending by departments.

1. INTRODUCTION

The annual budget is a key policy tool used by government to implement strategies, policies, and programmes. Adherence to planned budgets is an important indicator of the overall ability of the government to deliver on the programmes as per commitments. Over the years, government underspending has been highlighted as a weakness in government spending, however, the extent of underspending by government is understudied in the South African context. The National Treasury, in its fourth quarter expenditure report for the 2021/22 financial year, highlighted underspending across all national government departments[1]. The actual expenditure at the end of that financial year by departments was R1 011.4 billion, a deviation from the budgeted expenditure of R1 026.3 billion. This means R14.9 billion or 1.5 per cent was not spent. Although the overall underspending amount was within the reasonable two per cent, some departments continuously underspend by significant amounts and thus require more attention. This brief provides an analysis of government spending to explore and understand spending trends in the departments of health and social development, as well as the reasons for the underspending. This is the first of a series of PBO briefs examining concerns about underspending. Subsequent briefs will provide analyses of other votes.

2. UNDERSPENDING IN SOUTH AFRICAN GOVERNMENT

In September 2022, the Standing Committee on Appropriations (SCOA) raised concerns about underspending during a committee meeting with the National Treasury. At this meeting, the NT had projected underspending across all government departments and state-owned entities in it its fourth-quarter expenditure report for the 2021/22 financial year. The following departments were identified as being slow spenders;

- Cooperative governance R2.8 billion
- Water and sanitation R2.5 billion
- Environment, forestry and fisheries R1.6 billion
- Basic education R1.3 billion
- Agriculture, land reform and rural development R1.1 billion
- Police R878.4 million

Using economic classification analysis, most of the underspent funds were in the following categories:

- Current payments (R9.4 billion)
- Payments for capital assets (R2.6 billion)
- Transfers and subsidies R2.1 billion), and
- Payments for capital assets R600.2 million

In the meeting with the NT, the Committee raised concerns that "apart from denying the citizens access to critical public services, underspending government budget undermines the Economic Reconstruction and Recovery Plan, localisation and job creation".

The Committee further raised concerns about the lack of filling vacant and critical posts, particularly in the Department of Public Works and Infrastructure. In areas like infrastructure, underspending has been continuously flagged over the years. According to the National Infrastructure Plan 2050 (NIP 2050) Phase 1 – Document 2022, government states that there had been "significant underspending against annual budgets, resulting in the five-year

[1]National Treasury, 2022. The 2021/22 quarter 4 Spending outcomes presentation to Standing Committee on Appropriations (SCOA)

spending trajectory having been adjusted downwards every year since 2017". This is one example of reported chronic underspending which has led to a lower budget allocation in the long run (we return to this later in this section).

Underspending, in some cases, is not inherently bad, for example, Pearson (2020) argues that "declared underspending is good if departments have increased efficiencies to spend less money". [2] However, there are a number of reasons for underspending which require greater Parliament oversight. A study by Zweni (2017)[3], reveals a number of factors that hinder budget execution particularly, in the Western Cape provincial government. Zweni (2017) posits that the following issues impact budget execution:

- Budgeting is done by executive management and passed down to middle and lower managers to implement a top-down approach
- Political interference impacts negatively on the implementation of budgets
- The budget approved by the executive is unrealistic
- Some aspects of the strategic plan are ignored because of budget shortages
- Legislation restricts managers from implementing projects because legislation plays a significant role in managing budgets
- There is a disjuncture between plan demands and the provision of the legislation.

Zweni (2017) concludes that "the findings imply a need for extensive training as well as empowerment of the budget practitioners to be able to create congruence between budgets, budgeting processes, project implementation and envisage delivery to the citizens". Pearson also raises the issue of human and institutional capacity, adding that there are other factors such as strategic changes to policies and systemic issues in inter-departmental programmes (i.e. IPID and SAPS).

Members of Parliament may have to consider what are some of the intersections of fiscal consolidation policy stance and the direct and indirect impacts on budget efficiency. Pearson (2020) asks "to what extent are government departments possibly and purposely holding off on spending during the first half of the year then declaring money unspent, so that the extent of austerity budget measures escapes the notice of the public?" The National Treasury (NT) has admitted that its fiscal consolidation approach could be driving inefficiency in programmes. In their document, *A framework for achieving spending efficiency in a fiscally constrained environment*, Treasury notes that "since then government has been reducing the growth of spending by focusing on underspending programmes and those which are growing much faster than consumer price inflation"4. The NT's approach in the recent round of budget reductions was to decrease allocation across the board for all programmes. The most significant disadvantage of this approach is that some programmes become inefficient because of large reductions in allocated budgets. This inefficiency necessitated the conversation on conducting spending reviews[4].

3. INTERNATIONAL BENCHMARKING

Government underspending is not unique to South Africa, as the literature shows that other countries do struggle with budget underspending. The underspending of government budgets

[2]Pearson, K. 2020. Budget underspending: A case of austerity by stealth? [Online]. Available from: https://www.dailymaverick.co.za/article/2020-02-23-budget-underspending-a-case-of-austerity-by-stealth/

[3] Zweni, A. 2017. Factors affecting management of budgets at a department in the Western Cape Government, South Africa. [Online]. Available from: https://core.ac.uk/download/pdf/156958955.pdf

[4] National Treasury. A framework for achieving spending efficiency in a fiscally constrained environment. [Online]. Available from: https://www.treasury.gov.za/publications/guidelines/ZBB%20framework%20-%20consolidated%20(2).pdf

is more pronounced in lower-income countries[5]. Lower-income countries are more likely to suffer from budget credibility problems, with larger underspending and broader variation. Weaknesses in budget planning and execution processes and procedures are a main contributor to underspending.

There were major deviations in budgets during the COVID-19 pandemic as many countries were unprepared for the shocks, which disrupted government budgets. Many countries had to draw on a wide range of resources to finance emergency spending. Additional investments through the budget or special funding arrangements were required to address the pandemic's impact. The average deviations between actual and planned budgets in East Asia, Pacific, Europe & Central Asia were higher in 2020 and 2021 than in previous years, indicating that the pandemic had an impact on aggregate spending.

A 2022 UN Women report showed that fragile and conflict-affected countries have tended to spend relatively more on defence leaving fewer resources for social protection[6]. For instance, the report shows that in Afghanistan military spending has exceeded one-third of total government spending since 2010, whereas less than 4 per cent of government spending has gone toward social protection. The report further highlights that the health and education sectors suffer from underspending, particularly when it comes to vaccines and infrastructural improvements. These deviations tend to be greater in poorer countries as opposed to high and upper-middle countries. In contrast, in countries that are not classified as fragile or conflict-affected, the proportion of state spending going to social protection has been over 25 per cent on average since 2010, with less than six per cent of spending going to the military in any given year. Save the Children (2021) report showed that systematic issues with the country's procurement systems and other Public Financial Management practices were cited as a reason for underspending in development budget allocation in Nyeri and a concern across Kenyan regions.

Further research is required on what can learnt from other countries on how they perceive and manage budget deviations.

4. METHODOLOGY

The Parliamentary Budget Office adopted a mixed method approach, which constitutes quantitative and qualitative analysis, to assess whether and the extent to which there has been underspending in government departments. The Office also sought to identify the reasons for underspending.

This brief focuses on the departments of health and social development at the national and provincial levels. This analysis was undertaken, using data from the Estimates of National Expenditure (ENE) reports for national departments and Estimates of Provincial Revenue and Expenditure (EPRE) for provincial departments between 2011/12 to 2020/21. It also draws information from national and provincial departmental annual reports.

4.1. Sample selection

This brief assesses the spending by all national government departments and specifically focuses on Department of Health and Department of Social Development. The two departments were prioritised because they constitute a considerable share of the budget and

[5] De Renzio, P., Lakin, J., & Cho, C. (2019). Budget credibility across countries: how deviations are affecting spending on social priorities.
[6] UN Woman. (2022). Comparing Military and Human Security Spending: Key Findings and Methodological Notes. [Online]. Available from: https://www.unwomen.org/sites/default/files/2022-08/Comparing-military-and-human-security-spending-en.pdf

are critical departments in the advancement of socioeconomic rights (as outlined in Section 27 of the Constitution).

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 for health and three for social development. These were chosen on the basis that they reflect the rural/urban divide as well as the diversity in the equitable share distribution amongst provinces in South Africa. These provinces were also chosen to take into account the non-homogeneity in budget and performance outcomes across provinces.

4.2. Quantitative analysis

National government departments' data was collected at the programme and economic classification level from the Estimates of National Expenditure (ENE) published by the National Treasury. The data was collected. The brief calculated the budget deviation by comparing the adjusted appropriations to the audited expenditure outcomes between 2011/12 and 2020/21. The adjusted appropriations take into account virements, rollovers, unspent funds and unforeseen and unavoidable expenditure, hence the brief used the revised budgets. The budget deviations are calculated as a percentage of the total adjusted appropriation to assess the level of under-expenditure.

For Provinces, budget and expenditure data was only available from 2013/14 to 2020/21. The same exercise in determining percentage deviation (outlined above) was conducted. The brief focused on underspending larger than two per cent of the budget allocation. The assumption here is that it is normal for government to have some level of underspending due to unforeseen circumstances - in the same way in which provisioning is made for over-expenditure. Section 16 of the PFMA on the use of funds for emergencies states that

> "(1) The Minister may authorise the use of funds from the National Revenue Fund to defray expenditure of an exceptional nature which is currently not provided for and which cannot, without serious prejudice to the public interest, be postponed to a future parliamentary appropriation of funds.
>
> (2) The combined amount of any authorisations in terms of subsection (1), may not exceed two per cent of the total amount appropriated in the annual national budget for the current financial year."

The brief applies the two per cent threshold to the lower bound (underspend) which we consider a reasonable deviation.

4.3. Qualitative analysis

In the brief qualitative analysis, departmental annual reports were analysed to collate information on reasons for underspending at the national and provincial levels. This approach was also used to assess whether the annual reports correspond with the data in section 5.2 The underspending reasons at the national level, were collected at both programme and economic classification levels. At the provincial level, the brief only highlighted where departments identified underspending in their reporting. Provincial reports vary from year to year, and amongst provinces, therefore the PBO was unable to systematically review underspending at the programme level. The brief provides a summary of the most frequently occurring reasons for underspending, as well as highlights the years in which underspending was significant as shown by the data.

5. TRENDS IN NATIONAL GOVERNMENT

Table 1 shows expenditure outcomes against adjusted budgets between 2011/12 and 2020/21.

Table 1: Deviation in adjusted versus audited spending outcomes of national government (2011/12 - 2020/21)

Year	Total appropriation by vote		Total direct charges against the National Revenue Fund		Total government	
R million	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%

Note: Per cent denotes underspending as a proportion of total adjusted budget
Note: Total government includes total appropriation by vote and total direct charges against the National Revenue Fund
Source: PBO calculations using National Treasury ENE data

Underspending by vote was 2.3 per cent in 2011/12 and 2.0 per cent in 2020/21. All other years were below the two per cent threshold. On aggregate, total government was below two per cent for all the years under consideration. Underspending has been recorded every year except in 2019/20.

Table 2: Deviation in adjusted versus audited spending outcomes of national government by economic classification (2011/12 - 2020/21)

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

Note: Per cent denotes underspending as a proportion of total adjusted budget
Note: Total government includes total appropriation by vote and total direct charges against the National Revenue Fund
Source: PBO calculations using National Treasury ENE data

Table 2 shows that underspending in Current Payments was above two per cent in 2011/12 (2.8%), 2012/13 (2.5%) and 2020/21 (3.5%). Current payment underspending was largely driven by Goods and Services where there has been underspending over the past 10 years. While there has not been underspending of more than two per cent on Transfers and Subsidies, there was underspending of more than ten per cent in Payment for Capital Assets in the latter three years of the analysis (2018/19 – 2020/21). Underspending in Payment for Capital Assets was largely driven by underspending in Buildings and Other Fixed Structures and Machinery and Equipment.

6. TRENDS IN THE DEPARTMENT OF HEALTH

6.1. Overview: Health

Despite the gains made since 1994, the healthcare system in South Africa is overstretched and severely underfunded. South Africa is facing a quadruple burden of disease and this strains the health care system: i. HIV/AIDS and related diseases such as tuberculosis (TB), and sexually transmitted infections (STI); ii. Maternal and child morbidity and mortality; iii. Non-communicable diseases (NCDs); iv. Violence, injuries and trauma, and these put a burden on healthcare services. While the public healthcare system caters to 84 per cent of the population that does not have medical aid, as a percentage of GDP, government spends the same amount equivalent to the private sector spends on 16 per cent of the population that has medical aid. In 2022/23, healthcare expenditure constituted 12 per cent of the budget expenditure, a slow increase from 11.5 per cent in 2011/12. South Africa has failed to realise the government's 2001 commitment in the Abuja Declaration, which is allocating 15 per cent of budget expenditure to health function[7].

Universal access to healthcare is a fundamental right provided for in section 27(1)(a) of the Constitution of South Africa which states that "Everyone has the right to have access to health care services, including reproductive health care..." Section 27(1)(b) provides for the State to "take reasonable legislative and other measures, within its available resources to achieve the progressive realisation of the right." Thus government must demonstrate progress when allocating available resources to progressively realise this right. This brief particularly focuses on whether departments are utilising their full allocations to progressively realise the right to health. In other reports, the PBO has highlighted trends in allocations as well as performance.

6.2. Health funding and programmes

Public health services are provided mainly by the provincial sphere of government and funded through the Provincial Equitable Share (PES), which is allocated to the equitable share formula. They are also funded by transfers from the National Department of Health in the form of conditional grants.

The National Department of Health has six programmes: administration, National Health Insurance, Communicable and Non-Communicable Diseases, Primary Health Care, Hospital Systems and Health System Governance and Human Resources. At the provincial level, health consists of eight programmes: Administration, District Health Services, Emergency Medical Services, Provincial Hospital Services, Central Hospital Services, Health Sciences Training, Health Care Support Services and Health Facilities Management.

6.3. Spending trends

Table 3 shows that 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. At the programme level, underspending in these years was driven mainly by National Health Insurance and Hospital Systems. In 2013/14, these programmes accounted for 70 per cent of total underspent funds. Whilst in 2014/15, these programmes accounted for 88 per cent of underspent funds. In 2015/16 and 2016/17, underspending in Hospital Systems was considerably higher. In 2015/16 underspending in Hospital Systems was 6.9 per cent as a proportion of the total appropriated budget, and increased to 7.1 per cent in 2016/17.

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[7] World Health Organization – Abuja Declaration 2001. [Online]. Available from: https://www.who.int/healthsystems/publications/Abuja10.pdf

Table 3: Deviation in adjusted versus audited spending outcomes by programme for health, (2011/12 - 2020/21)

Year	Administration		National Health Insurance		Communicable and Non-communicable		Primary Health Care		Hospital Systems		Health System Governance and Human Resources		Total	
R million	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	Under/(Over) spending	Per cent	Under/(Over) spending	Per cent
2011/12	36.2	0.1%	(5.8)	0.0%	86.4	0.3%	(72.2)	-0.3%	174.8	0.7%	35.6	0.1%	255.1	1.0%
2012/13	30.4	0.1%	(0.3)	0.0%	95.6	0.3%	18.6	0.1%	(30.6)	-0.1%	62.6	0.2%	176.3	0.6%
2013/14	58.4	0.2%	269.3	0.9%	79.3	0.3%	23.8	0.1%	222.1	0.7%	47.3	0.2%	700.1	2.3%
2014/15	3.2	0.0%	320.7	0.9%	22.0	0.1%	9.8	0.0%	367.9	1.1%	62.4	0.2%	786.1	2.3%
2015/16	(69.4)	-0.2%	200.2	0.6%	(10.6)	0.0%	66.3	0.2%	2 484.3	6.9%	(2 401.7)	-6.6%	269.1	0.7%
2016/17	(53.5)	-0.1%	80.3	0.2%	(20.3)	-0.1%	73.6	0.2%	2 739.6	7.1%	(2 718.6)	-7.0%	101.2	0.3%
2017/18	45.4	0.1%	50.5	0.1%	181.2	0.4%	2.7	0.0%	70.0	0.2%	(128.9)	-0.3%	220.9	0.5%
2018/19	54.3	0.1%	494.9	1.0%	172.1	0.4%	10.0	0.0%	154.7	0.3%	27.9	0.1%	913.8	1.9%
2019/20	117.8	0.2%	160.5	0.3%	83.6	0.2%	4.0	0.0%	21.5	0.0%	35.0	0.1%	422.4	0.8%
2020/21	0.0	0.0%	310.0	0.5%	50.0	0.1%	0.0	0.0%	40.0	0.1%	0.0	0.0%	(850.0)	-1.5%

Note: Per cent denotes underspending as a proportion of total adjusted budget
Source: PBO calculations using National Treasury ENE data

Table 4 shows that by economic classification, underspending by the NDoH was driven by current payments and payments for capital assets. Under current payments, goods and services constituted a significant proportion of the underspending – except 2020/21. In 2013/14 and 2014/15, there was a significant underspending in buildings and other fixed structures. However, overspending in subsequent years does not make up for the underspending in the previous period.

Table 4: Deviation in adjusted budget versus audited expenditure by economic classification for health, (2011/12 - 2020/21)

R million	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Current payments	**254.1**	**207.3**	**470.2**	**505.0**	**336.1**	**106.8**	**108.8**	**640.8**	**388.2**	**-750.0**
Compensation of employees	24.3	20.7	3.8	-29.8	24.2	20.1	17.1	35.6	28.4	0.0
Goods and services	229.8	186.6	466.4	534.8	311.9	86.7	91.7	605.2	359.8	-750.0
Transfers and subsidies	**-4.3**	**-40.8**	**-61.8**	**20.5**	**37.0**	**4.6**	**27.5**	**33.9**	**-340.4**	**-150.0**
Provinces and municipalities	0.0	0.9	199.3	-7.0	0.0	0.0	0.0	0.0	-339.3	0.0
Departmental agencies and accounts	-12.3	-39.7	-249.6	34.8	-2.3	-2.7	-2.3	0.4	-7.6	-150.0
Higher education institutions	1.8	0.0	0.0	3.0	26.1	3.3	0.0	0.0	0.0	0.0
Foreign governments and international organisations	0.0	0.0	0.0	0.0	0.0	-1.7	0.0	0.0	0.0	0.0
Non-profit institutions	6.2	-0.9	-9.9	-6.9	16.1	5.6	38.4	34.7	7.8	0.0
Households	0.1	-1.1	-1.5	-3.5	-2.9	0.0	-8.6	-1.2	-1.3	0.0
Payments for capital assets	**7.1**	**15.4**	**293.4**	**261.5**	**-103.1**	**-9.8**	**84.8**	**239.0**	**374.6**	**50.0**
Buildings and other fixed structures	0.0	0.0	326.3	209.5	-116.0	-102.2	66.8	-47.0	222.1	50.0
Machinery and equipment	7.1	15.4	-32.9	42.3	17.1	94.5	12.9	285.9	152.0	0.0
Software and other intangible assets	0.0	0.0	0.0	9.6	-4.2	-2.2	5.0	0.0	i	0.0
Payments for financial assets	**-1.8**	**-5.7**	**-1.7**	**-0.9**	**-0.9**	**-0.4**	**-0.2**	**0.0**	**0.0**	**0.0**
Total	**255.1**	**176.3**	**700.1**	**786.1**	**269.1**	**101.2**	**220.9**	**913.8**	**422.4**	**-850.0**

Source: PBO calculations using National Treasury ENE data

At the provincial level, underspending generally falls below two per cent within our sample. An important insight we gain from our expenditure analysis of health departments is that 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. Therefore, rather than underspending in health, we conclude that if the resources were made available there could be significantly more much-needed spending on health.

Table 5: Deviation in adjusted budget versus audited expenditure at the provincial level for health, (2013/14 - 2020/21)

Year	Gauteng		Free State		Eastern Cape		Western Cape	
R million	Under/(Over) spend	Per cent	Under/(Over) spend	Per cent	Under/(Over) spend	Per cent	Under/(Over) spend	Per cent
2013/14	1 354 984	4.7%	212 942	2.7%	135 291	0.8%	113 019	0.7%
2014/15	485 967	1.5%	36 718	0.4%	129 189	0.7%	124 615	0.7%
2015/16	472 533	1.3%	33 603	0.4%	79 758	0.4%	303 954	1.6%
2016/17	216 790	0.6%	-34 750	-0.4%	142 090	0.7%	66 361	0.3%
2017/18	-70 625	-0.2%	-65 035	-0.7%	63 902	0.3%	190 426	0.9%
2018/19	851 770	1.8%	141 764	1.4%	-446 794	-1.9%	56 386	0.2%
2019/20	905 156	1.8%	126 486	1.1%	-434 113	-1.7%	78 768	0.3%
2020/21	1 123 126	1.9%	-128 441	-1.1%	-610 392	-2.2%	250 013	0.9%

Source: PBO calculations using National Treasury EPRE data

It is important to highlight, again, that the analysis contained in this section does not reflect the quality of spending or compliance standards. The AGSA has continuously highlighted the issue of clean audits, particularly in the health portfolio[8].

6.4. Performance of conditional grants

Nationally raised government revenue is divided between the three spheres of government in the form of an equitable share and conditional grants for specific purposes. The equitable division of revenue (according to a formula) raised nationally among spheres of government is divided among the national, provincial and local spheres of government.

The conditional allocations to provinces from the national government's share of revenue are meant to supplement the funding of programmes or functions funded from provincial budgets; specific-purpose allocations to provinces; and allocations-in-kind to provinces for designated special programmes. In addition to directing funds for a specific purpose, conditional grants aim to achieve a particular outcome with a set of generic/common outputs for all provinces. Other conditional grants include funds that are not allocated to specific provinces, which would be allocated to provinces and municipalities to fund immediate responses to declared disasters or housing emergencies.

The quarterly reporting on conditional grants is, however, not institutionalised. This means government departments and entities may choose not to report on conditional grants separately. And many departments chose not to report. The performance targets on conditional grants are included in the schedules of the Division of Revenue Act (DORA), and the attainment of these targets is measured in annual performance outcomes are reported in annual reports for evaluation purposes.

The Provincial Equitable Share (PES) formula consists of six components that account for the relative demand for services and take into account the change of demographics in each of the provinces. Health is the second largest component after education weighted based on the demand and the need for health services. The other four components enable provinces to perform their other functions, taking into account the population size of each province, the proportion of poor residents in each province, the level of economic activity and the costs associated with running a provincial administration.

The health component is weighted 27 per cent, which is in line with historical expenditure patterns indicating relative needs. The allocations per province are based on each province's

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[8] AGSA. 2019. Audit outcome trends. https://static.pmg.org.za/1/191009AGSA.pdf

risk profile and health system caseload or outputs. The output component is therefore based on the number of patients visiting or treated at health facilities. The risk profile consists of a risk-adjusted capitation index and outputs data from public hospitals to estimate each province's share of the health components. The risk-adjusted capitation index uses mid-year population estimates and the number of insured populations to determine the health risk profile of the province. The health system caseload uses primary health care visits a hospital workload patient-day equivalents to determine the caseloads.

Numbers from Statistics South Africa's annual mid-year population estimates are used to update the equitable share formula annually.

6.5. Health Conditional Grants

An observation from comparing some of the data collected/outputs from the health grants showed that the data is similar to the information used in the equitable share formula to determine the proportions per province. The grant funding could therefore be included in the equitable shares to provinces. This will not only improve regular reporting on performance to Parliament but will also improve the efficiency of conditional grant spending.

- The conditional grants provided for by the National Department of Health:
- Statutory Human Resources & HP Training and Development
- National tertiary services
- HIV, TB, Malaria and Community Outreach Grant (Direct Grant)
- Health facility revitalisation
- National Health Insurance Grant: Health Facility Revitalisation Component
- National Health Insurance Grant: Personal Services Component
- National Health Insurance Grant: Non-Personal Services Component

All the conditional grants provided for by the National Department of Health recorded an underspending for the financial years under consideration, except the Human Resources Capacitation (HRC) Grant, which recorded an overspending, accompanied by over-performance in the financial year 2019/20.

Table 6: Performance of Health Conditional Grants, (2019/2020 - 2020/2021)

Grant	Expenditure Performance - 2019/20	Expenditure Performance - 2020/21
Statutory Human Resources & HP Training and Development	The conditional grant has almost spent the full transferred amount The recruitment of specialists and other staff was slow. The reason for the slow recruitment was due to the obtainment of the approval from Provincial Treasury or Premiers Office for appointments, in some provinces	Recorded an underspending of R811.73 million, due to delays in the delivery of equipment
National tertiary services	A slight underspending due to delays in the delivery of equipment. A rollover has been requested	Underspending on this conditional grant amounted to R231.33 million. The following provinces are underspent: • Gauteng by 7 per cent • Limpopo by 4 per cent • North West by 4 per cent
HIV, TB, Malaria and Community Outreach Grant (Direct Grant)	Underspending of 0.8 per cent (due to: NHLS and ARV invoices not paid by KZN, misallocation of expenditure by FS & GP)	An underspending of R192.29 million is attributed to the Community Outreach Services component which relates to the Presidential Employment Initiative allocation made in-year. Some

		provinces were unable to appoint the community health workers
Health facility revitalisation	An underspending of 3.0 per cent on the transferred amount is reflected	All planned new facilities were completed However, facilities that were not completed is due impact of the COVID–19 pandemic
National Health Insurance Grant: Health Facility Revitalisation Component	The grant shows underspending of 22 per cent on the original budget allocated, which was caused by invoices that were received late	The grant shows underspending of R50.43 million, due to delays in Limpopo Academic Hospital
National Health Insurance Grant: Personal Services Component	The department only spent 13 per cent of this budget No psychiatric services, clinical psychological services or forensic mental observations were provided on a district level. General Practitioner Contracting (Capitation) did not spend	The main reason for underspending is due to delays in the delivery of oncology equipment (Linac at North West province)
National Health Insurance Grant: Non-Personal Services Component	The department has spent 64 per cent of the original budget allocated for this conditional grant The department over-performed on the planned outputs - 381 731 more patients were enrolled in the chronic medicines dispensing and distribution (CCMDD) programme The performance outputs or the budget for this grant should be reviewed to prevent underspending or over budgeting	The underspending of almost R100 million is attributed to delays in the submission of invoices and subsequent errors in the basic accounting system (BAS) that prohibited the processing of payments on the last day of the financial year
Human Papilloma Virus	The grant shows underspending of 19 per cent on the original budget allocated	This conditional grant has been merged with the HIV, TB, Malaria and Community Outreach Grant (Direct Grant)
Human Resources Capacitation (HRC) Grant	Over expenditure as well as over performance on this conditional grant are due to the statutory obligation to place medical interns on completion of their studies	

6.6. Reasons for underspending

Data from annual reports by the NDoH shows that underspending is driven by:

- **Supply chain management problems:**
  - Delays in project completion/ implementation
    - Contracts issued but services not rendered. For example, in 2014/15, when there was a spike in underspending, contracts were issued but services were yet to be rendered.
    - Capital expenditure was underspent due to construction projects not being completed by the end of the financial year
  - Delays in invoices
    - For example, in 2014/15 Invoices for legal services, services rendered by the Department of International Relations and Co-operation and external audit fees could not be processed before the year's end. In 2017/18 there were delays in

    - the renewal of software licences from the supplier which resulted in non-payment by the end of the financial year.
    - In 2018/19, tender processes were not concluded in time for the awarding of bids for mental health and other priority in-kind grants.
- **Process delays**
  - For example, on the NHI funding received in 2011/12 as the legislative processes delayed the consultation processes.
  - In 2020/21 Implementation of the National Surveillance Centre was put on hold pending the relocation of the department.
- **Compensation of employees**
  - Vacant posts not being filled in multiple programmes. For example, in the years 2016/17 to 2019/20
  - Restructuring - for example in 2017/18
- **Non-implementation of projects/programmes**
  - The Diagnostic Related Grouping that could not be implemented in all the central hospitals
  - In 2019/20, General Practitioners' Contracting Capitation model could not be implemented during the financial year due to challenges experienced with the reimbursement model.
- **New programme implementation**
  - For example, the Human papillomavirus (HPV) grant
  - In 2017/18 the new in-kind grant for Medicine Stock System was experiencing initial difficulties to spend funds.
- **Transfer issues**
  - In 2014/15, the transfer payment to the Kidney Foundation could not be effected due to challenges with banking details.
  - Transfer payments to NPOs could not be made due to Service Level Agreements not being concluded before the end of the financial year in some years
- **Funding hurdles**
  - There were delays in negotiating additional funds for the South Africa Demographic and Health Survey and the processes involved in appointing General Practitioners in the National Health Insurance Pilot Districts in 2014/15
- **Unexpected savings**
  - Some years, the department had savings on the annual contribution to the World Health Organisation realized due to favourable exchange rates.

We observe that goods and services, as well as capital expenditure experience disproportionate underspending in the period under review. In more recent years, the compensation of employees has become a more salient issue. It is important that we also note that these drivers are not mutually exclusive. For example, vacant posts could be preventing certain expenditures from being undertaken. For example, in 2011/12 the under-expenditure can be ascribed to the late finalisation of the national condom tender awarded by National Treasury and the failure to appoint a communication consultant for HIV and AIDS could be reinforcing underspend for the different items.

At the provincial level, similar issues were observed. We highlight Gauteng as a case study because of the significantly different levels of underspending within our data set.

Table 7: Underspend in Gauteng Department of Health, (2014)

The 2013/14 underspend in Gauteng can be attributed to the following:	
Programme	**Reasons for underspending per programme**
Overview	There is an overall underspending of R1.3 billion which is attributed to underspending within the Conditional Grant Funds (Health Infrastructure Grant and Health Revitalisation Grant), payment to the Medical Supplies Depot that had been due in the 2012/13 financial year was made in 2013/14 and surrender payment for 2012/2013.
1	The underspending in this programme is due to non-spending on the ICT project that was budgeted for IT infrastructure upgrades for the whole department. There was also underspending on the compensation of employees due to a delay in the filling and non-filling of vacant funded posts
2	The programme was underspent due to the non-payment to NHLS. Due to NHLS being the highest cost driver, non-payment resulted in savings.
4	The programme is underspending due to the non-payment to NHLS following performance audit findings. Due to NHLS being the highest cost driver, non-payment resulted in savings
6	The underspending is a result of the budget for compensation of employees remaining at the colleges while staff were absorbed and paid by the institutions
7	The programme was underspent because the budget allocated for food, laundry services and other related goods and services items could not be spent due to the delay in the opening of Zola Jabulani Hospital (it opened in April 2014) and the non-filling of posts at Masakhane.
8	The programme underspent as a result of a delay in the approval of plans, medical equipment procured but not yet delivered, and a delay in the submission of the final account for Zola Jabulani and Natalspruit hospitals.

Source: Gauteng Department of Health annual report (2014)

The Provincial Department of Health drivers of underspending are highlighted below:

- **Medico-legal claims**, particularly in the Eastern Cape, have led to underspend in a number of programmes from 2017/18
- **Cash flow problems**
  - In Gauteng, in 2015/16, underspending was incurred within the Voted Funds on goods and services due to payment of the Medical Supplies Depot for accruals of 2014/2015 and surrender of the Voted Funds to the Provincial Treasury
  - In the Free State in 2016/17, they noted that underspending was caused by commitments that could not be processed due to cash flow inconsistencies
- **Increased efficiency**
  - In the Free State, the department reports that underspending in 2018/19 can be attributed to the implementation of efficiency and cost-containment measures to curtail excess expenditure. The Western Cape also reports that measures for efficiency have led to underspending.
- **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".

Interestingly, in the PBO's analysis of the departments of health, we observe only one instance where over-budgeting is cited as the reason for underspending. In the Western Cape, in 2019/20, the Department of Health notes that there was an over-allocation of budget for a limited number of EPWP interns the department could employ. In terms of Transfers and Subsidies, there were reduced Bursaries payments due to fewer (than expected) students being promoted to their next year of study.

7. SPENDING TRENDS IN THE DEPARTMENT OF SOCIAL DEVELOPMENT

7.1. Overview: Social Development

The Social Security programmes have been proven as one of the most effective policies for addressing poverty, inequality and unemployment. The national and provincial governments, through the Department of Social Development, have tried to address poverty through social grant schemes aimed at poverty alleviation. Poverty appears to be worsening as approximately 55.5 per cent (30.3 million people) of the population is living in poverty while a total of 13.8 million people are experiencing food poverty[9]. As of 2019, approximately 18 million South Africans were vulnerable to poverty or in need of state support and received social grants, relief assistance or social relief paid by the government9. South Africa continues to grapple with increasing rates of domestic abuse, sexual violence and femicide. South Africa has notoriously high levels of violence against women. Over 13 000 women were victims of assault with intent to cause grievous bodily harm between July and September 2022. There are several services rendered by Social development in line with its mandate of providing psychosocial services. These include among others, services such as sheltering services, Gender Based Violence Command Centre (GBVCC) and National Emergency Response Team. The number of victims accessing the Gender-Based Violence Command Centre (GBVCC) continues to increase noticeably as the Centre received a total of 72 017 calls in 2021/2022. Furthermore, the Lack of adequate government funding to help overwhelmed nongovernmental organizations providing direct support to victims, including shelters continues to be the biggest problem in the country.

Universal access to social security is a fundamental right provided for in section 27(1) (c) of the Constitution of South Africa which states that "Everyone has the right to social security, including if they are unable to support themselves and their dependants, appropriate social assistance". Before the current Social Relief of Distress grant, there had been a long-standing gap in social protection for the 18-59 group in the context of high unemployment, poverty and inequality. This is despite Section 27(2) requiring for the State to "take reasonable legislative and other measures, within its available resources to achieve the progressive realisation of the right." Thus we must assess how available resources are being utilised to progressively realise this right. This report particularly focuses on whether departments are utilising their full allocations to progressively realise the right to social security. In other reports, the PBO has highlighted trends in allocations as well as performance.

7.2. Social Development funding and programmes

Social protection services are provided mainly by the national government. The provincial sphere is responsible for providing services and is funded through the Provincial Equitable Share (PES), which is allocated through the equitable share formula.

The National Department of Social Development has five programmes: Administration, Social Assistance, Social Security Policy and Administration, Welfare Policy Development and Implementation Support and Social Policy and Integrated Service Delivery. At the provincial level, the Department of Social Development consists of five programmes: Administration, Social Welfare Services, Children and Families, Restorative Services and Research and Development.

[9]World Bank Poverty and Equity Report (2020). https://databankfiles.worldbank.org/public/ddpext_download/poverty/33EF03BB-9722-4AE2-ABC7-AA2972D68AFE/Global_POVEQ_ZAF.pdf

7.3. Spending trends

Table 8 shows that 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 an overspending of 7.8 per cent.

Table 8: Deviation in adjusted versus audited spending outcomes by programme for Social Development, (2011/12 - 2020/21)

Year	Administration		Social Assistance		Social Security Policy and Administration		Welfare Services Policy Development and Implementation Support		Social Policy and Integrated Service Delivery		Total	
R million	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	Under/(Over) spending	Per cent
2011/12	(3.7)	-1.5%	1 130.2	1.2%	16.3	0.3%	1.1	0.2%	1.3	0.5%	1 145.2	1.1%
2012/13	(1.9)	-0.7%	989.1	0.9%	18.2	0.3%	29.5	5.3%	(0.0)	0.0%	1 034.9	0.9%
2013/14	7.1	2.6%	1 410.3	1.3%	17.5	0.3%	11.3	1.9%	(14.8)	-5.1%	1 431.3	1.2%
2014/15	(39.3)	-13.5%	707.3	0.6%	28.2	0.4%	40.6	6.3%	0.3	0.1%	737.2	0.6%
2015/16	(8.0)	-2.7%	1 484.9	1.1%	24.7	0.4%	1.0	0.1%	(14.6)	-4.1%	1 488.0	1.1%
2016/17	(11.2)	-3.3%	583.1	0.4%	16.1	0.2%	8.2	1.1%	(5.5)	-1.5%	590.6	0.4%
2017/18	(15.3)	-4.2%	893.5	0.6%	45.9	0.6%	38.9	3.7%	(1.7)	-0.5%	961.2	0.6%
2018/19	32.3	8.3%	150.9	0.1%	36.5	0.5%	535.4	41.2%	2.0	0.5%	757.1	0.4%
2019/20	(13.0)	-3.2%	(15 133.8)	-8.6%	54.6	0.7%	599.6	57.8%	7.2	1.7%	(14 485.4)	-7.8%
2020/21	35.1	8.2%	1 660.8	0.8%	37.3	0.5%	126.4	29.9%	27.8	8.0%	1 887.3	0.8%

Note: Per cent denotes underspending as a proportion of total adjusted budget
Source: PBO calculations using National Treasury ENE data

At a programme level, the Social Assistance programme takes more than 90 per cent of the department's budget and has been underspending by less than 2 per cent for all other years except in 2019/20 where it overspent by 8.6 per cent (R15.1 billion). Consecutive years of underspending by more than two per cent were observed in the Welfare Services Policy Development and Implementation Support programmes. The level of underspending was volatile in the earlier years of analysis and swiftly rose in 2018/19 (41.2%), 2019/20 (57.8%), and 2020/21(29.9%).

Table 9 shows that at the economic classification level, the department's underspending was largely driven by transfers and subsidies and partly by current payments. Under transfers and subsidies, households are the main item level that always influences the department budget and spending outcomes. This is due to the fact that more than 90 per cent of the department's budget (or more than 95% of the transfers & subsidies budget) is allocated to households. Social Development underspent on households for most of the years except in 2019/20 where they overspent by 8.6 per cent (R15.1 billion) resulting in 8 per cent (R14.6 billion) underspending in transfers and subsidies. Under current payments, underspending was observed in the compensation of employees and goods and services.

Table 9: Deviation in adjusted budget versus audited expenditure by economic classification for Social Development, (2011/12 - 2020/21)

R million	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Current payments	**22.3**	**45.7**	**7.2**	**27.8**	**1.8**	**0.4**	**26.1**	**87.5**	**131.5**	**215.5**
Compensation of employees	6.8	23.8	8.9	2.6	3.7	0.2	15.7	23.5	-0.8	103.4
Goods and services	15.6	21.9	-1.7	25.2	-1.9	0.2	10.5	64.0	132.4	112.1
Interest and rent on land	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers and subsidies	**1 136.9**	**996.4**	**1 433.4**	**736.4**	**1 486.5**	**587.0**	**554.6**	**667.4**	**-14 623.4**	**1 668.0**
Provinces and municipalities	0.0	0.0	0.0	1.5	0.0	0.0	32.0	490.8	518.2	0.0
Departmental agencies and accounts	0.0	0.0	0.0	-1.1	276.2	290.9	0.1	0.2	0.2	0.2
Higher education institutions	0.0	0.0	0.0	0.0	0.0	0.1	-1.5	0.0	0.0	0.0
Foreign governments and international organisations	0.5	-0.1	0.0	-1.0	0.2	0.2	0.4	0.8	-11.3	3.5
Non-profit institutions	-2.3	-1.4	3.6	-21.5	-3.9	3.5	2.6	20.8	-24.3	3.8
Households	1 138.7	997.9	1 429.9	758.5	1 214.1	292.4	521.0	154.8	-15 106.1	1 660.4
Payments for capital assets	**-3.7**	**2.6**	**0.3**	**0.6**	**-0.3**	**3.2**	**8.6**	**3.5**	**4.1**	**3.9**
Buildings and other fixed structures	0.0	0.0	0.0	0.3	-0.3	-0.2	1.6	0.0	-1.0	0.0
Machinery and equipment	-3.2	6.4	1.4	-0.1	0.2	3.0	7.0	2.5	4.6	3.3
Software and other intangible assets	-0.5	-3.8	-1.1	0.3	-0.3	0.5	0.0	1.1	0.5	0.6
Payments for financial assets	**-10.2**	**-9.9**	**-9.7**	**-27.6**	**0.0**	**0.0**	**371.9**	**-1.3**	**2.4**	**0.0**
Total	**1 145.2**	**1 034.9**	**1 431.3**	**737.2**	**1 488.0**	**590.6**	**961.2**	**757.1**	**-14 485.4**	**1 887.3**

Source: PBO calculations using National Treasury ENE data

At the provincial level, we observe significant underspending (above our two per cent threshold). Provinces recorded the highest levels of underspending between 2018/19 to 2020/21.

Table 10: Deviation in adjusted budget versus audited expenditure at the provincial level for Social Development, (2013/14 - 2020/21)

Year	**Gauteng**		**Free State**		**Eastern Cape**		**Western Cape**	
R million	Under/(Over) spend	Per cent	Under/(Over) spend	Per cent	Under/(Over) spend	Per cent	Under/(Over) spend	Per cent
2013/14	17 065	0,6%	2 385	0,2%	115 031	5,6%	7 101	0,4%
2014/15	25 557	0,7%	11 219	1,2%	22 482	1,0%	23 826	1,4%
2015/16	54 898	1,4%	15 122	1,5%	7 813	0,3%	6 857	0,4%
2016/17	19 799	0,5%	46 359	4,1%	43 308	1,8%	3 871	0,2%
2017/18	104 458	2,3%	57 344	4,8%	125 563	4,8%	6 404	0,3%
2018/19	767 106	15,3%	68 854	5,2%	136 948	4,8%	15 312	0,7%
2019/20	613 751	11,3%	91 062	6,4%	191 744	6,3%	72 005	2,9%
2020/21	891 569	15,4%	37 218	2,5%	520 345	16,7%	406 134	15,3%

Source: PBO calculations using National Treasury EPRE data

It is important to highlight, again, that the analyses contained in this section do not reflect the quality of spending or compliance standards. The AGSA has continuously highlighted the issue of clean audits[10].

7.4. Reasons for underspending

Data from annual reports by the National Department of Social Development shows that underspending was driven by:

- **Supply chain management problems:**
  - Appointment of service providers: For example, in 2014/15, the department delayed appointing the service provider to complete the two projects of the blueprint architectural designs for the four planned treatment centres and the audit of the existing treatment centres in substance abuse as well as less than anticipated expenditure for the Social Work Indaba Event that was held in March 2015
  - Procurement processes
    - For example, the delay in the procurement of white doors in provincial and district areas before the end of March 2018
  - Delays in project completion

[10] AGSA. 2019. Audit outcome trends. https://static.pmg.org.za/1/191009AGSA.pdf

        - During the 2018/19 fiscal year, for example, there were delays in delivering services and infrastructure linked to the Turnkey solution project with the State Information Technology Agency.
        - Underspending on capital can be ascribed to the suppliers not being able to deliver
    - Delays in invoices
        - For example, invoices not received for office accommodation before the end of March 2014
- **Compensation of employees**
    - Vacant posts not being filled in multiple programmes. For example, in the years 2017/18 to 2019/20
    - 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: Delays in finalising the ECD project in the 2012/2013 financial year

Data from annual reports by the Provincial Departments of Social Development shows that underspending is driven by:

Table 11: Underspend in Western Cape Department of Social Development, (2011/12 - 2019/20)

Western Cape Social Development's underspending can be attributed to the following:	
Programme	**Reasons for underspend per programme**
Overview	In the Western Cape Province overall under expenditure amounted to R72 005 million. This was largely due to the department's inability to fill vacant posts and the inability to complete the projects. For example, the Substance Abuse Research project in 2019/20 (delays associated with procurement of service provider).
1	The underspending in this programme is due to the non-filling of vacancies, a reduction in subsistence & travelling and low spending on training and development. Their programme underspent on payment for capital assets due to capital infrastructure projects not being concluded by the financial year-end. Furthermore, underspending occurred within the Goods and Services due to lower than anticipated expenditure on venues and facilities, training, transport and leases due to vehicles re-allocated to service delivery areas
2	The programme underspent due to the suspension of non-compliant Non-Profit Organisations funded by the department. There was a decrease in payments of Safety Parent fees. Capital projects were not completed.
3	This underspending is mainly due to the delayed implementation of the department's EPWP programme and research projects.

Source: Western Cape Department of Social Development annual report, 2011/12 to 2019/20

Table 12: Underspending in Free State Department of Social Development, (2017/18 - 2018/19)

Free State Social Development underspending can be attributed to the following:	
Programme	**Reasons for underspend per programme**
Overview	An overall amount of R300 837 million was underspent. In the 2017/18 to 2018/19 fiscal years, under expenditure is related to unspent ECD Maintenance Grant and Substance Abuse Treatment Grant.

3	Underspending on Goods & Services in the ECD Conditional Grant is the main contributor to the under-expenditure of the programme.
4	The main contributor to 2017/18 and 2018/19 under expenditure in the Substance Abuse Treatment Grant, challenges were experienced with the previous contractor appointed for the construction of Botshabelo Substance Abuse Treatment Centre who was subsequently replaced in December 2018 with a new contractor.
5	Free State Department of Social Development underspending in the 2018/19 financial year is the compensation of employees.

Source: Free State Department of Social Development annual report, 2017/18 to 2018/19

Table13: Underspending in Eastern Cape Department of Social Development, (2011/12 - 2013/14)

Eastern Cape Social Development's underspending can be attributed to the following:	
Year	**Reasons for underspend as per economic classification**
2011/12	The area of underspending is the Capital payments which were a result of the delays in the momentum of construction due to weather conditions, contractors performing below par and late submission of invoices. Further, underspending has been experienced in house Holds under programmes 2 and 3 due to the delays in the transfer of second tranches. The function for procurement of items under machinery was outsourced to State Information Technology Services (SITA) which is a government agency. The procurement process at SITA was centralised and this resulted in delays in the delivery of goods as invoices were late.
2012/13	Delays in the filling of attrition posts, savings in the payment of performance bonuses to levels below 13, Under expenditure on infrastructure was due to the following reasons: Burgersdorp secure care centre, contractor underperformance and labour disputes. Libode service office, the delay was a result of the site disputes (the contractor was awarded a contract and when arrived on site, the site dispute arose). Underspending on Machinery and equipment was due to the SITA contracted for the procurement of IT equipment not performing as expected. The Department had balances that were not moving on its debts account which relates to people who are deceased and elderly people over the age of 60 years' conditions of services for the senior management as well as their performance bonuses were only paid in April 2013. The underspending on goods and services was mainly due to the late submission of invoices for contractual obligations.
2013/14	There were delays in getting the allocation letter and terms of reference for the implementation which resulted in the underspending on the EPWP Integrated Grants. Computer equipment and licencing were received in March 2015, the invoices were only processed in April 2015.

Source: Eastern Cape Department of Social Development annual report, 2011/12 to 2013/14.

8. SOME CONSIDERATIONS IN DEALING WITH UNDERSPENDING

The analysis above can be summarised into the following key issues for further consideration by Parliament:

- Government underspending is not unique to South Africa. The literature shows that other countries do struggle with budget underspending as well. The literature further shows that weaknesses in budget planning and execution processes and procedures are a critical contributor to the underspending of government budgets.
- Complex procurement processes (e.g. issues relating to non-compliance to SCM policy and regulations and inadequate monitoring and evaluation of SCM) have been cited by

many government entities as reasons for underspending. Promoting procurement best practices of supply chain management systems should be prioritized within government departments and entities.

- Delays in payment of suppliers invoices or claims by government departments and entities, are one of the major reasons for underspending in government. This is despite Treasury Regulation which states that "[u]nless determined otherwise in a contract or other agreement, all payments due to creditors must be settled within 30 days from receipt of an invoice or, in the case of civil claims, the date of settlement or court judgement".
- Unfilled vacancies in government departments and entities have contributed to delays in spending budgets. The compensation of employees' expenditure is linked to government service delivery. Therefore, failure to fill critical posts has a direct impact on government's ability to use the budget to deliver much-required government services. For instance, it would be difficult to complete a project without having appointed a project manager to run and oversee the project implementation.
- Interdepartmental systemic issues which drive inefficiencies in Interdepartmental projects, particularly infrastructure, need to be addressed.
- The failure to comply with conditional grant conditions has led to the grants and funds being returned to the national department.
- Inadequate needs assessment and project planning, ineffective monitoring of project milestones and contractors/ implementing agents have all led to underspending.

9. CONCLUSION

Overall, our analysis does not show significant levels of underspending in the departments of health and social development. The reasons for the underspending that exists highlight some systemic issues in the public financial management system that need to be tackled. The adequacy of budgets is also an important consideration. 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 significantly more spending by departments. There are issues of spending capacity that can be resolved by additional allocations. Therefore, underspending should not be weaponized to justify austerity.

Subsequent briefs will provide analyses of other votes.