

Parliamentary

Pre-Budget Briefing 2021

Budget
Office



Outline

- Introduction
- Policy progress and outlook
- Economic context for the development of the budget
- The fiscal framework
- Expenditure trends
- In summary

Introduction

- The PBO was established to support the Finance and Appropriations Committees in both Houses of Parliament with the implementation of the Money Bills and Related Matters Act
- The purpose of the presentation is to assist members in preparing for the legislative stage in the budget process which started with the tabling of the 2020 Medium Term Budget Policy Statement, which provided for:
 - Adjustments to the 2020/21 estimates
 - Funding priorities for the formulation of the 2021 budget
 - An amended fiscal framework for the 2020 MTEF
- The presentation provides Member with:
 - Progress in the implementation of specific policies
 - The Presidential priorities to be considered for future funding
 - An update on the socio -and macro economic situation in the country, which informs planning and budgeting decisions on policy priorities, and revenue and expenditure estimates
 - Progress with the implementation of the 2020 Budget

Policy progress and outlook

- Progress on the 2020 priorities
- SONA: strategic direction for planning and budgeting

Progress on the 2020 priorities

- Progress on the Social and Economic Relief Package introduced in April 2020:
 - 18 million people received additional grant payments
 - More than 5 million people were lifted above the food poverty line
- More than R57 billion in wage support has been paid to over 4.5 million workers through the Special UIF TERS scheme
- More than R1.3 billion has been provided in support mainly for small- and medium-sized businesses
- Over R70 billion in tax relief was extended to businesses in distress
- Around R18.9 billion in loans have been approved for 13 000 businesses through the loan guarantee scheme

Progress on the Economic Reconstruction and Recovery Plan

Priority Interventions

Progress to date

A massive rollout of infrastructure throughout the country

- The development of an infrastructure investment project pipeline worth R340 billion in network industries such as energy, water, transport and telecommunications
- The launch of two major human settlements projects that will provide homes to almost 68 000 households in the Gauteng province
- Progress is being made on several major water infrastructure projects: Phase 2A of the Mokolo and Crocodile River project, and the uMkhomazi Water Project
- The Infrastructure Investment Plan identifies roads projects worth R19 billion covering the spine of the South African road network
- Resources have been committed from the fiscus to support the construction and rehabilitation of the N1, N2, and N3 highways
- The R100 billion Infrastructure Fund is now in full operation:
 - The Fund will blend resources from the fiscus with financing from the private sector and development institutions
 - Its approved project pipeline for 2021 is varied and includes the Student Housing Infrastructure Programme, which aims to provide 300 000 student beds
- Another approved project is SA Connect, a programme to roll out broadband to schools, hospitals, police stations and other government facilities

A massive increase in local production

- Cabinet approved the SMME Focused Localisation Policy Framework which identified the 1 000 products
- Through the implementation of the poultry master plan, the industry has invested R800 million to upgrade production
 - South Africa now produces an additional one million chickens every week
- The sugar master plan was signed during the lockdown, with a commitment from large users of sugar to procure at least 80% of their sugar needs from local growers
 - Through the implementation of the plan, 2020 saw a rise in local production and a decline in imported sugar, creating stability for an industry which employs some 85 000 workers
- Since the signing of the clothing, textile, footwear and leather masterplan in November 2019, the industry has invested over R1 billion in new production capacity

Progress on the Economic Reconstruction and Recovery Plan

Priority Interventions	Progress to date
<p>An employment stimulus to create jobs and support livelihoods</p>	<ul style="list-style-type: none"> • By the end of January 2021, over 430 000 opportunities have already been supported through the Presidential Employment Stimulus and a further 180 000 opportunities are currently in the recruitment process • The National Youth Development Agency and the Department of Small Business Development had to be put on hold due to the coronavirus restrictions • It nevertheless managed to reach its target of 1 000 businesses by International Youth Day on 12 August 2020 • This provides a firm foundation for our efforts to support 15 000 start-ups by 2024
<p>The rapid expansion of our energy generation capacity</p>	<ul style="list-style-type: none"> • In December 2020, government and its social partners signed the historic Eskom Social Compact, which outlines the necessary actions to be taken, collectively and as individual constituencies, to meet the country's energy needs • The Department of Mineral Resources and Energy will soon be announcing the successful bids for 2 000 megawatts of emergency power • The necessary regulations have been amended and the requirements clarified for municipalities to buy power from independent power producers. Systems are being put in place to support qualifying municipalities

Towards improved health services

What does the oversight mechanisms available to Parliament and the public show?

- Better health outcomes and impact of health service can be achieved only by:
 - Ensuring that a high proportion of people receive care that is effective
- Improving coverage and quality of care will require system-wide action, which include:
 - Reliable clinical care aligned to norms and standards as set out by the office of Health Standard Compliance (OHSC)
 - A system that is positively perceived by patients (NDH: 31% of complaints are in terms of waiting times, 29% on patients care and 26% are in terms of staff attitude)
- The National Department of Health (NDH) leads and coordinates health:
 - With R58.1 billion or almost 6 per cent of the total allocations per vote in 2020/21
 - On average the Department transfers almost 93 per cent of the allocated amount to other institutions of which almost 89 per cent is transferred to provinces in the form of conditional grants

An analysis of the audited performance of the Health Conditional Grants in 2019/20 shows that:

- **The National Tertiary Service Grant:**
 - Underspending due to delays in delivery of equipment
 - All performance outputs have exceeded the targets

Towards improved health services (cont.)

- **HIV, TB, Malaria and Community Outreach Grant now also include Covid-19**
 - Underspensing of 0.8 per cent (due to: NHLS and ARVs invoices not paid by KZN, misallocation of expenditure by FS & GP)
 - Underperformance on TB, HIV and Malaria targets
- **The Health Facility Revitalisation Grant (Direct Grant)**
 - Underspensing by 3.0 per cent of the transferred amount
 - Only three of five planned new facilities were completed
- **National Health Insurance Grant: Health Facility Revitalisation Component (Indirect)**
 - There was under-spending of 22 per cent on the original budget allocated for the NHI Grant
 - Two of six facilities were completed, 39 of 45 planned facilities were maintained and two of the planned 10 facilities were upgraded or renovated
- **Health Professional Training and Development Grant (Direct Grant)**
 - Almost the full transferred amount for the conditional grant was spent
 - Slow recruitment of specialists and other staff was. This was due to the need to obtain approval from Provincial Treasury or Premiers Offices for these appointments in some provinces
 - This grant planned to employ 23 staff members to administer the grant
 - Full expenditure without performance raises questions about the credibility of the budget and whether there was efficient expenditure of the funds

Towards improved health services (cont.)

- **Human Papilloma Virus**

- There was underspending of 19 per cent on the original budget
- 76.7 per cent of the 80 per cent planned vaccination of 9-year old girls was achieved
- This conditional grant has now been merged with the HIV, TB, Malaria and Community Outreach Grant

- **National Health Insurance Grant: Personal Services Component (Indirect)**

- The department spent 13 per cent of the budget
- No district level observations for psychiatric services, clinical psychological services and forensic mental services were provided
- There was no spending on General Practitioner Contracting due to non-compliance of health professionals to SCM requirements. A capitation model was developed but not implemented due to capacity challenges to implement the reimbursement model. (In future the contracting of health professionals will be decentralised to the Provincial Departments of Health.

- **National Health Insurance Grant: Non-Personal Services Component (Indirect)**

- The Department has spent only 64 per cent of the original budget
- The Department performed or over-performed on the planned outputs

Although a phased implementation of national health insurance is proposed, a current review of the performance outputs or the budget for this grant could ensure the implementation of stock, dispensing, registration, recruiting, etc. systems that are required for the implementation of a proper national health service and to prevent under-spending or over budgeting for services that are already provided by the health sector.

Towards economic growth and job creation: immediate interventions

Government plans to implement the South African Economic Reconstruction and Recovery Plan (ERRP) in three phases:

- Immediate: focuses on the protection of the supply base and livelihoods
- Medium-term: focuses on recovery of the economy
- Long-term: focuses on growing and transforming the economy.

Monthly reports on the implementation of the plan to the Presidential Coordinating Committee (PCC) are not available to Parliament. Selected quarterly performance data on the implementation of Annual Performance Plans of lead departments were consulted by the PBO to determine the progress with the implementation of the immediate interventions on the priority areas identified by the ERRP:

Ensuring energy security: The Department of Mineral Resources planned to, amongst others:

- To develop several frameworks for the transition to a low carbon economy, municipal infrastructure asset management, an integrated energy plan as well as legislation to improve the electricity policy and a regulatory framework
- A draft national energy regulatory bill has been submitted to the State Law Adviser
- The planned output for the development of an integrated energy plan and others have been postponed due to lack of resources (Software and Human). Another reason for not achieving some of the other planned outputs are, delays in procurement of a service provider for the task

Towards economic growth and job creation: immediate interventions (cont.)

Industrialisation/growing the productive economy: The Department of Trade, Industry and Competition is the lead department

- Indications are the discontinuation of the planned outputs, such as:
 - Financial support to 100 enterprises/projects
 - Support to retain 2500 jobs from approved enterprises/projects
 - Support for 1500 new jobs from enterprises/projects
 - R3 billion of projected investments to be leveraged from projects/enterprises
 - Export Development and Support (EDS) inclusive of WYPD to Companies
- Several analysis reports on public interest have been produced
- It is not clear whether the Department's interventions addressed the needs of the ERRP such as the:
 - Sustainable increase in state procurement from local manufacturers
 - Diversion of firms in distress from closure/retrenchments
 - Improved turnaround times and investor confidence rankings

Employment protection and stimulation through mass public employment interventions. The Departments of Public Works; Environment, Forestry and Fisheries; Higher Education; Basic Education; Agriculture, Land Reform and Rural Development; Sport, Art and Culture are all leading departments on interventions to protect and stimulate employment.

Towards economic growth and job creation: immediate interventions (cont.)

Infrastructure that meets NDP 2030 intermediate targets are mainly lead by the Departments of Transport, Communication and Digital Technologies, and Water and Sanitation.

- The outputs of the Department of Transport involves the development of several reports and frameworks such as:
 - A National Household Travel Survey, an initial draft of the High-Speed Rail (HSR) Corridor Framework, an Analysis Report on the PRASA Modernisation Programme, as at end of September 2020 [a total of eight new trains (against a targeted 15 for the period under review) were provisionally accepted for delivery], the revision of the Public Transport Funding Model developed, job creation through the SANRAL Road Maintenance Programme, progress with the cities operating integrated public transport networks, etc.
 - A Quarterly Analysis Report on the jobs created through the Deep Rural Roads Maintenance Programme was not compiled
 - Preliminary analysis on provincial road maintenance in two provinces were reported on
 - A total of 522 old taxi vehicles were scrapped against a target of 350 per quarter.
- The Department of Communication and Digital Technologies is responsible for an intervention to implement digital migration and committed to subsidise 4.7 million indigent households in the first phase of implementation
 - A monitoring report was developed on the implementation of the Broadcasting Digital Migration Programme. No numbers were, however, indicated in the quarterly performance report.
- The Department of Water and Sanitation is responsible for bulk water infrastructure, which they indicated that are not fully funded.
 - The completion of construction tender evaluations for bulk raw water projects were not ready for implementation by the end of the second quarter as planned; therefore, the construction contracts will also not be awarded by the third quarter as planned.

Towards economic growth and job creation: immediate interventions (cont.)

Immediate Macro-economic interventions and enablers for economic growth are mainly lead by the National Treasury, Departments of Justice and Constitutional Development, Higher Education, Employment and Labour, Human Settlements, Small Business Development and Public Service and Administration

- The Department of Justice and Constitutional Development
 - Achieved most of the targets for conviction rates by the second quarter of 2020/21
 - Delays were experienced in high value cases. Justice recovered R2.6 million (target R350 million) and R500 000 (Target R600 million) worth of freezing orders were obtained for corruption or offences relating to corruption
- Department of Employment and Labour continues to protect workers through the UIF
 - Registered 405 523 work-seekers were registered on the Employment Services of South Africa database against a target of 187 500
 - Registered 43 881 employment opportunities and 18 971 employment opportunities were filled by registered work seekers

Towards economic growth and job creation: immediate interventions (cont.)

- The Department of Human Settlements committed to interventions in the form of gap housing products.
 - The quarterly performance report (QPR) mainly reflects progress on research, and monitoring and evaluation reports of the respective programmes. A quarterly performance assessment report was compiled on the number of households that received financial assistance and purchased units through the Finance Linked Individual Subsidy Programme (FLISP), while a report on the subsidies allocated to approved beneficiaries is outstanding for quarters one and two
 - Outputs in terms of Gap housing could not be detected in the QPR. The QPR does not reflect any progress on service delivery performance
- To date the Department of Small Business Development
 - R316 million of the R513 million has been disbursed, and supported the maintenance of 23 254 jobs in the economy
 - Did not report on the 10 000 competitive SMMEs and Co-operatives supported as planned
 - Most of the financial support to SMMEs, informal businesses and cooperative was diverted/reprioritised to newly-developed Covid-19 Relief programmes

Towards economic growth and job creation: immediate interventions (cont.)

Green economy

- The Department of Environment, Forestry and Fisheries is leading the interventions that will make an impact on the green economy relating to waste management and climate change
 - Progress is reported as part of the QPR. Although the lockdown had an effect on the progress, progress has been made in programmes such as chemicals and waste management.

Agriculture and food security is mainly funded by conditional grants on a provincial level. The national department included indicators in the APP that can be used to monitor food security. The monitoring of progress with the implementation of conditional grants will, however, be more useful.

- Outputs by the Department of Agriculture Land Reform and Redistribution has been affected by the lockdown and the loss of technical advisors:
 - Most of the targets for rural development, land redistribution and capital projects were not achieved or moved to the remainder of the financial year

Reviving the tourism sector

- The Department of Tourism does not report directly on the number of domestic and international holiday trips, but are in the process of developing a concept document for the development of a National Tourism Analytics System Framework. Other indicators that could be useful to monitor the progress with the revival of the tourism sector are:
 - The Department ensure the maintenance of infrastructure in SANParks
 - They finalised the terms of records for the appointment of Service Provider to develop project concepts for five community-based tourism projects
 - Domestic Tourism Scheme was implemented in Drakensberg, KwaZulu-Natal on 10-11 November 2020

Towards improved local government service delivery: The DDM

- The District Development Model (DDM) aims to accelerate, align and integrate service delivery in the local sphere of government to address the triple challenges of poverty, unemployment and inequality.
- It is an intervention of government focusing on the municipal districts and metropolitan spaces to ensure joint planning, budgeting and implementation.
- A district approach is also an advantage to strategically coordinated responses to service delivery, development and disaster management in the context of each districts' specific circumstances.
- The DDM has been rolled out in three pilot sites
- Despite different understandings, of government role players, regarding the intent of the DDM a monitoring and evaluation report by the Department of Planning, Monitoring and Evaluation has indicated that:
 - Communities whom have suffered spatial disadvantage have been exposed to vulnerabilities of the current disaster (Covid-19 pandemic) e.g. particularly access to water, shelter, economic activity, spatial mapping of the Covid-19 outbreaks, health interventions, and health system readiness (ward profiles)

Strategic direction for planning and budgeting

- **Defeat the coronavirus pandemic**

- Intensifying prevention efforts and strengthening the health system
- Undertake a massive vaccination programme to save lives and dramatically reduce infections across the population
- The success of the vaccination programme will rely on active collaboration between all sectors of society

- **Implement the Economic Reconstruction and Recovery Plan:**

- Accelerate economic recovery (medium-term)
- Implement economic reforms to create sustainable jobs and drive inclusive growth (long-term)

Strategic direction for planning and budgeting

- **Fight corruption and strengthen the state (immediate)**
 - Cooperation and sharing of resources between the respective law enforcement agencies, enabling a more integrated approach to investigations and prosecutions
 - The implementation of the National Anti-Corruption Strategy, which lays the basis for a comprehensive and integrated society-wide response to corruption have started
 - Members of the National Anti-Corruption Advisory Council will be appointed shortly, which is:
 - A multi-sectoral body that will oversee the initial implementation of the strategy and the establishment of an independent statutory anti-corruption body that reports to Parliament

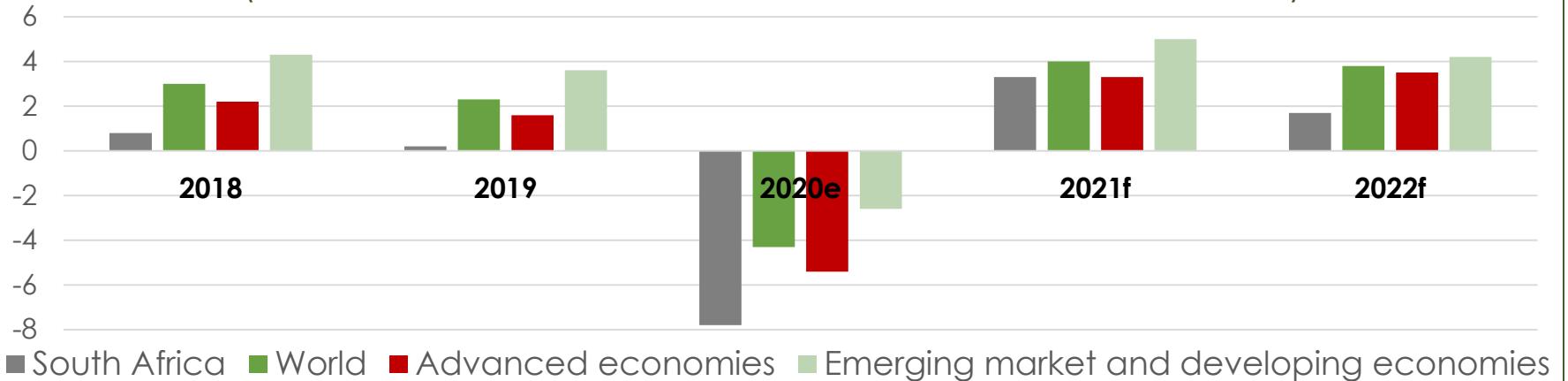
Economic context for the development of the budget

The global economy

Global economic outlook

Annual percentage economic growth

(2018 and 2019 actual, 2020 estimate and 2021 and 2022 forecast)



Source: 2021 World Bank World Economic Outlook

- The World economy is estimated to have contracted by 4.3 per cent in 2020
- The world economy is forecast to grow by 4 per cent in 2021 but there is much uncertainty and risks associated with the Covid-19 pandemic
- The South Africa economy has performed below the averages for the world economy and emerging markets and developing economies
- This poor performance is forecast to continue through to 2022
- While government has attempted to address the economic impact of the pandemic, global macroeconomic experience is that more stimulus is needed to support the large impact of the pandemic on South Africa's GDP growth

Global economic outlook

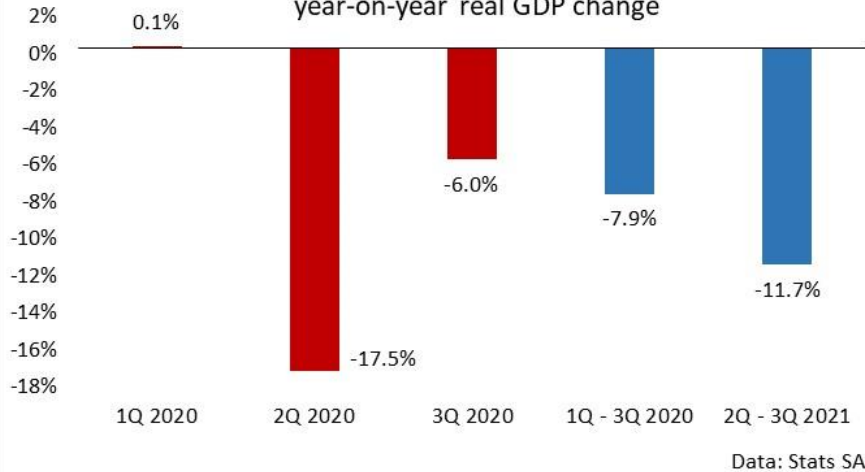
- Projected global economic growth is positive for 2021 but several risks indicate the need for continued fiscal action
- Uncertainty remains due to the impact of the current and future waves of the pandemic, successful rollout of vaccines and new strains of Covid-19
- The uneven global rollout of the vaccine increases inequality across countries and within countries and possibility of increased social and political instability
- Large-scale fiscal stimuli helped ease suffering but are generally unlikely to have supported longer-term investments and creation of new jobs; therefore
- The global economy may face a lower growth phase unless there is continued support for household incomes, jobs and investment
- Risks of financial market stress and crises have increased:
 - Many developing countries have had to increase debt and unless there is debt relief and forgiveness the likelihood of debt crises is high
 - The huge financial liquidity created by developed country central banks has led to under-pricing of risk and bubbles in financial markets

Global economy outlook

- There is a broad consensus amongst international agencies about the need for continued fiscal support to address the impact of the pandemic.
- The United Nations 2021 World Economic Situations and Prospects warns:
 - “The rise in public debt should not in itself be a concern as long as additional debt expands productive capacity and stimulates growth”
 - “A premature embrace of austerity will inevitably weaken the speed and quality of the recovery and undermine resilience to future shocks.”
- According to the World Bank 2021 World Economic Outlook, key immediate policy priorities are:
 - Limiting the spread of the virus,
 - providing relief for vulnerable populations, and
 - overcoming vaccine-related challenges.
- They also say, “As the crisis abates, policy makers need to balance the risks from large and growing debt loads with those from slowing the economy through premature fiscal tightening.”

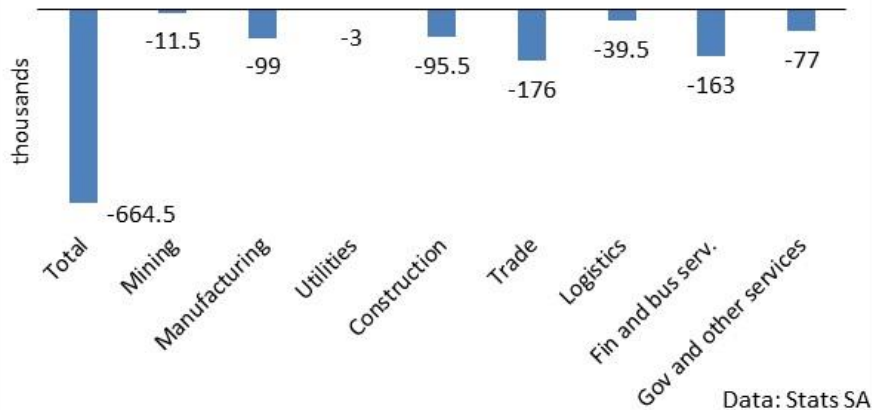
Economic performance to date

2020 economic performance to date
year-on-year real GDP change

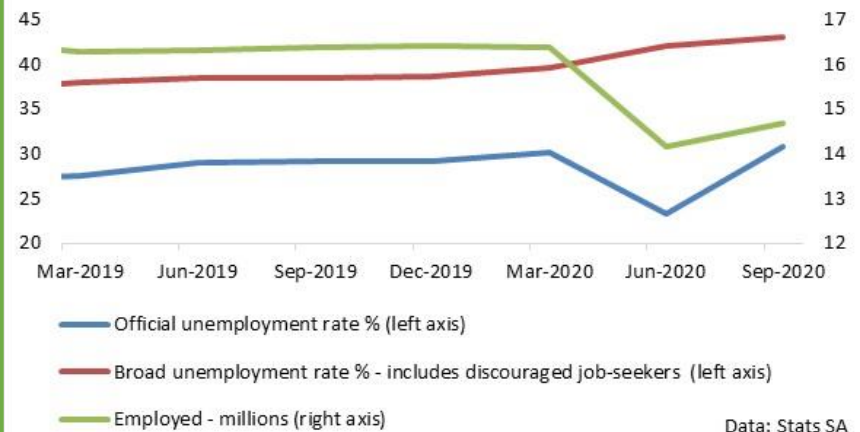


- The pandemic combined with measures to curb its spread has resulted in an unprecedented contraction of the SA and global economy
- Major disruption to economic activity, some permanent
- Large numbers of jobs lost, and record high unemployment
- Increased hunger and dependence on grants

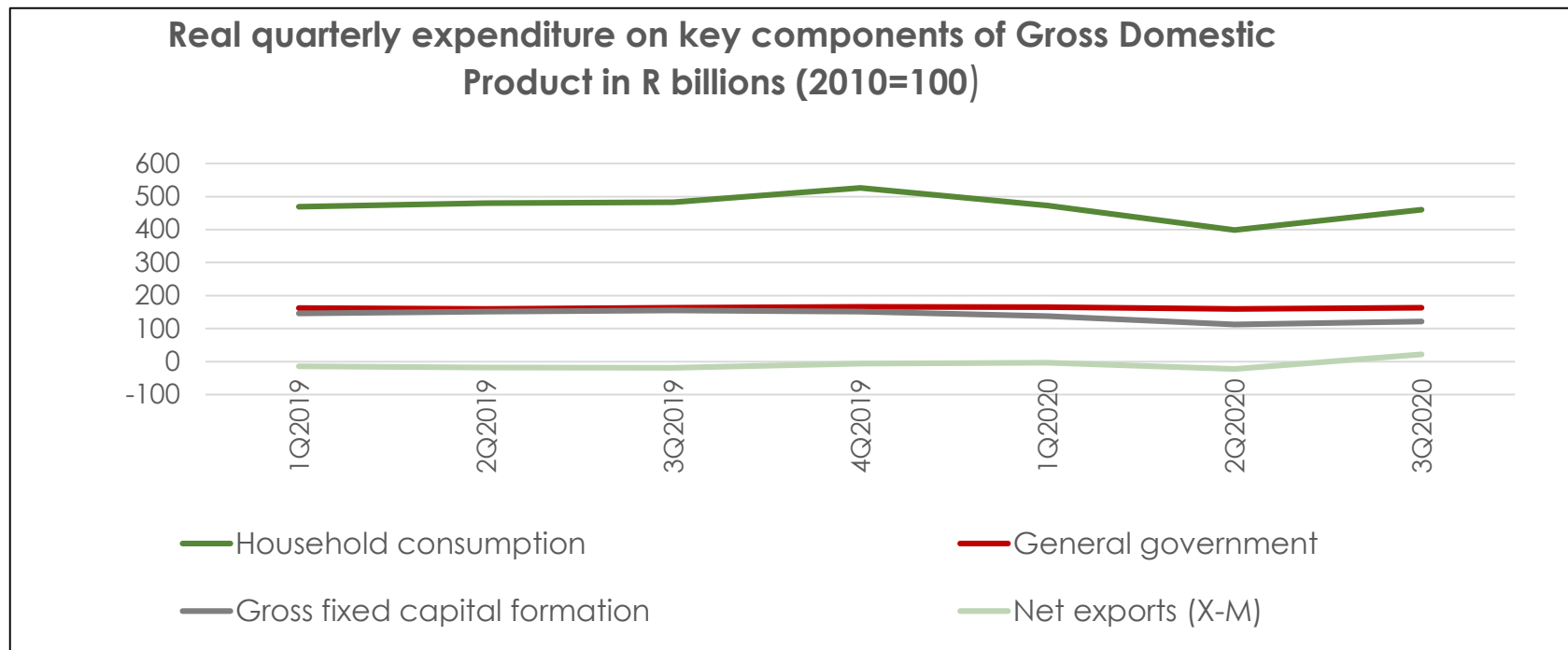
Formal sector employment change
April - September 2020 (year-on-year)



Quarterly employment performance

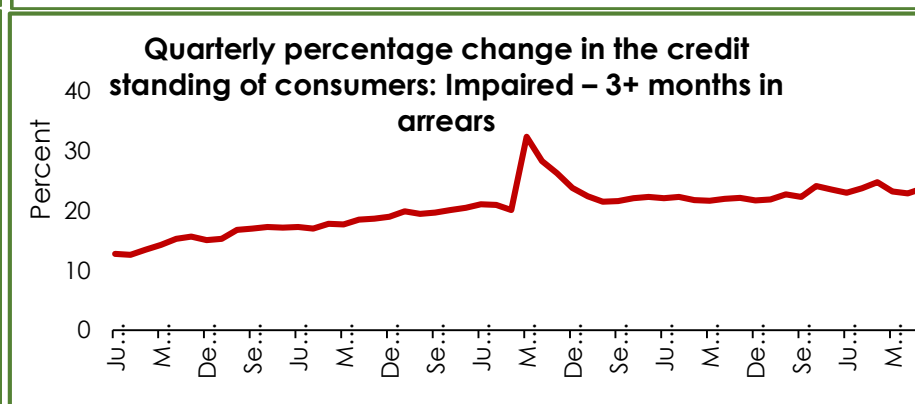
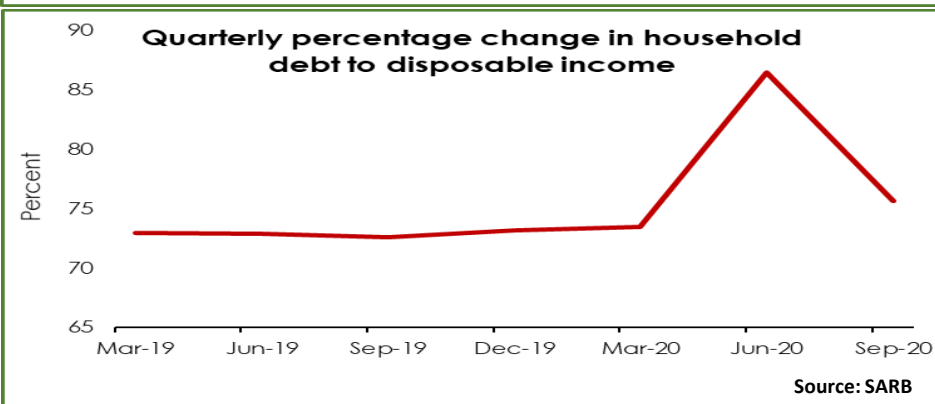
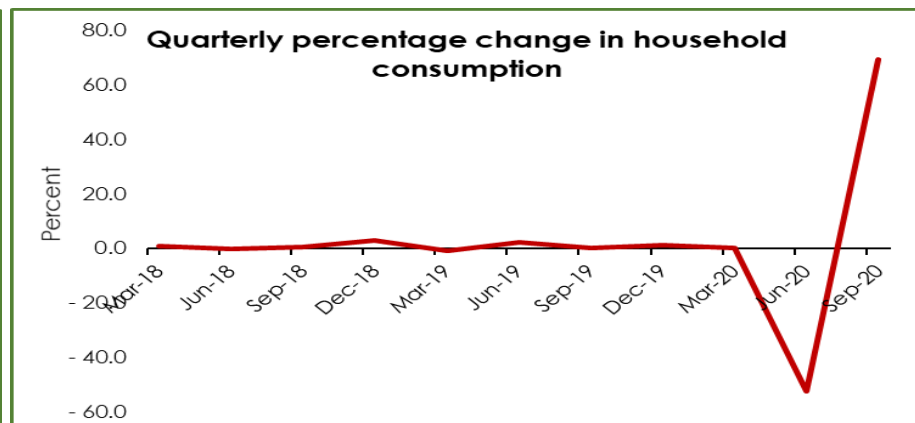
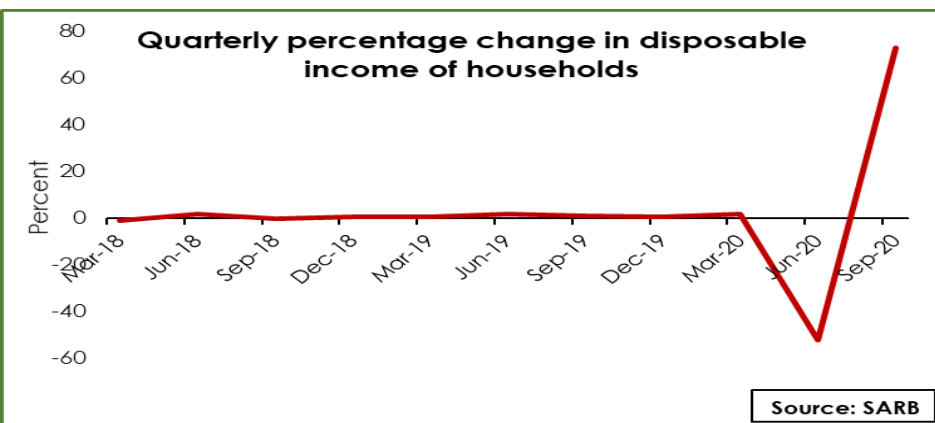


South African economy under Covid-19



- Large declines in real household consumption & investment were key drivers of the drop in GDP during 2020
- These large declines occurred in an economy that was already struggling where GDP per capita and real investment declined since 2015
- According to the General Household Survey of 2019, social grants remain a vital safety net
- Government's Covid-19 response included increased social assistance through a 6-month increase in all existing social grants and a Social Relief of Distress (SRD) grant
- The State of the Nation Address, announced that Social Relief of Distress (SRD) grant is extended to the end of April 2021
- The official unemployment rate rose to 30.8 per cent (6.5 million people) in the third quarter

Trends in household income, consumption and indebtedness



- Improvements in household consumption, income & debt levels are good
- But the impact of the pandemic will have a long lasting and damaging impact on household incomes and finances over a long period
- E.g., consumers more than three months in arrears increased between the second and the third quarter of 2020, from 22.9 per cent to 23.75 per cent.
- Continued extra fiscal support to poor household will be essential to support wellbeing of households and grow aggregate demand for more jobs, investment & growth

Growth Outlook

GDP growth outlook - calendar year*	2020	2021	2022	2023
National Treasury - Budget 2020	0.9% ↓	1.3% ↓	1.6% ↓	-
National Treasury - Supp Budget - June 2020	-7.2% ↓	0.3% ↓	1.5% ↓	-
National Treasury - MTBPS 2020	-7.8% ↓	3.3% ↑	1.7% ↑	1.5%
South African Reserve Bank - January 2020	1.2% ↓	1.6% ↑	1.9% ↑	-
South African Reserve Bank - September 2020	-8.2% ↓	3.9% ↑	2.6% ↓	-
South African Reserve Bank - January 2021	-7.1% ↑	3.6% ↓	2.4% ↓	2.5%
IMF - World Economic Outlook - January 2020	0.8% ↓	1.0% ↑	-	-
IMF - World Economic Outlook - October 2020	-8.0% ↓	3.0% ↑	1.5% ↓	-
IMF - World Economic Outlook - January 2021	-7.5% ↑	2.8% ↓	1.4% ↓	-

*Growth projections correspond to publication date and not forecast date

- The outlook for the SA economy seems to have improved marginally since the MTBPS (notwithstanding increased uncertainty)
- Revenue growth in the third fiscal quarter supports this view
- It will take more than 4-years for the SA economy to recover to pre-Coronavirus level
- Further waves, the efficacy of vaccines, and BR 2021 proposals will affect the outlook

Fiscal framework

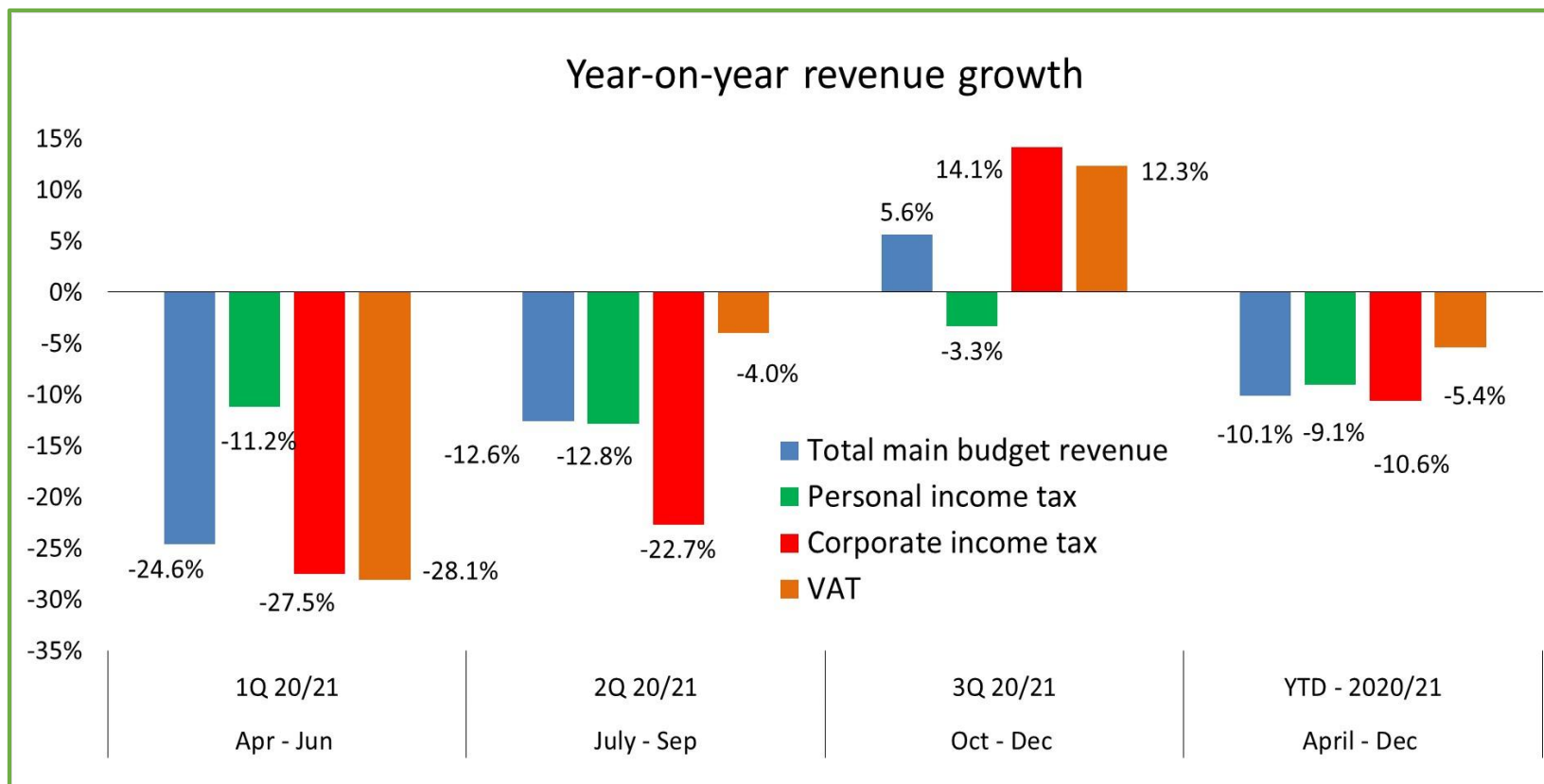
Fiscal framework over the medium term

Changes to the current fiscal framework

Fiscal slippage

Higher debt outlook and credit rating

Fiscal performance to date - revenue



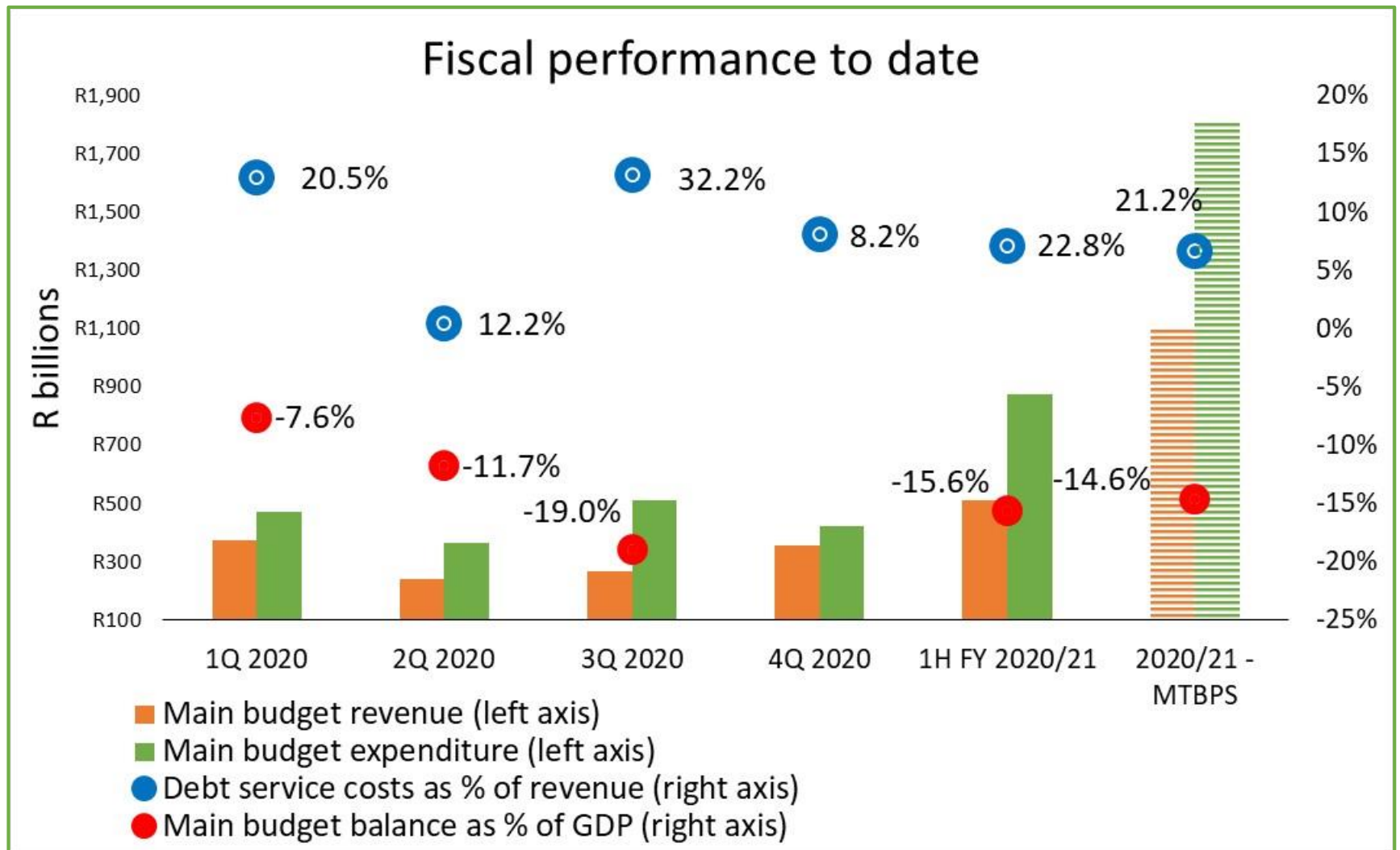
- In-line with expectations, revenue collection fell significantly compared with the previous year over the first two quarters
- The largest contraction was recorded in the first fiscal quarter – coinciding with the strictest levels of the lockdown
- Improvements were recorded for VAT and CIT over the third fiscal quarter

Status of the Tax Revenue Collection- 31 December 2020

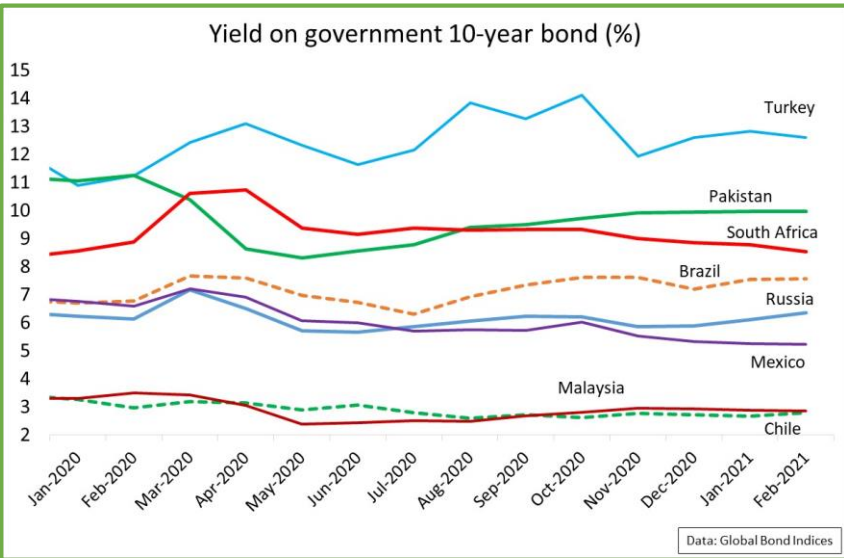
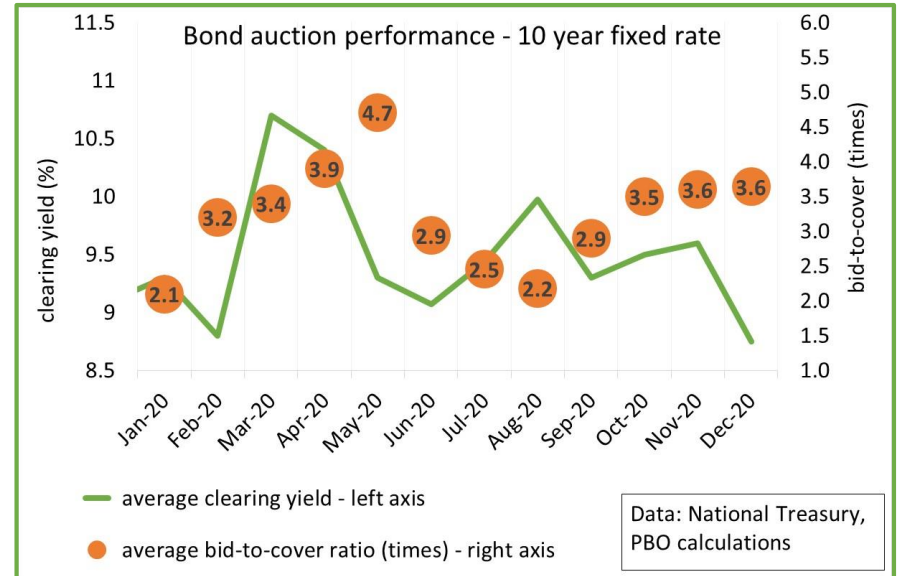
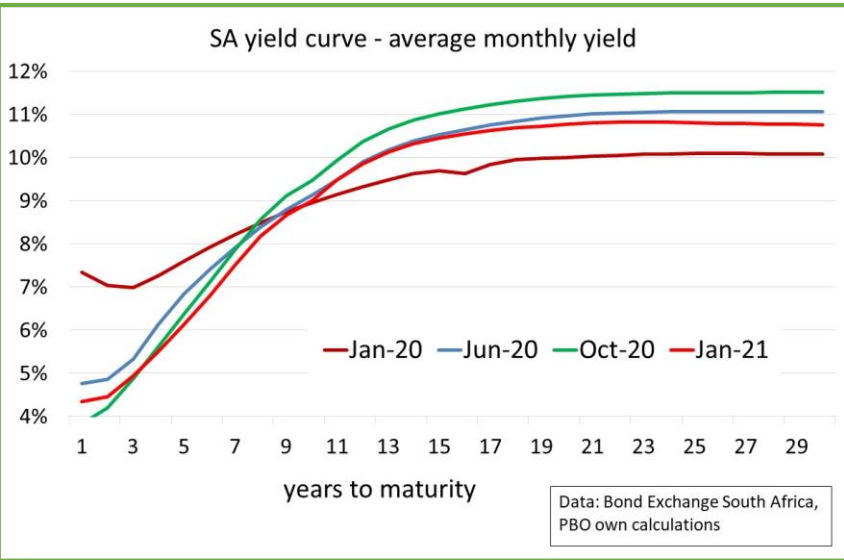
R million	2020/21				2019/20
	Revised Estimate	Actual collection as at Dec 2020	Collection rates as at end Dec 2020 (%)	Estimated collection rates on 2020 BR (%)	Collection rate as at end Dec 2019 (%)
Personal Income Tax	454 156	340 488	74.9	62.3	71.0
Value Added Tax	287 698	233 327	90.7	62.9	70.8
Corporate Income Tax	159 575	144 708	81.1	64.7	73.9
Fuel Levy	68 384	55 051	79.7	52.8	75.3
Dividend Withholding	20 651	16 467	57.6	39.9	67.4
Custom Duties	40 302	28 363	80.5	65.9	59.5
Specific Excise Duties	33 778	19 462	70.4	47.7	68.3
Ad-valorem	3 202	2 155	64.5	47.8	74.8

- 9 months collection rates based on -Revised estimates
 - Tax revenue collection of all tax instruments were higher than the prior year, with exception of Ad-valorem which has seen a 10 per cent decline
 - VAT and CIT has seen faster collection than PIT, however they have both seen significant downward revision in 2021 estimates
- 9 months collection rates based on 2020 Budget estimates
 - Collection rate of 3 major tax instruments (PIT, VAT and CIT) were on average 10 per cent lower than the prior year collection in the same period
 - Collection rates on other tax instruments , with exception of custom duties, on average underperformed by more than 20 per cent compared to the prior year. Albeit their contribution to total tax revenue being less than 13 per cent

Fiscal performance to date: overall

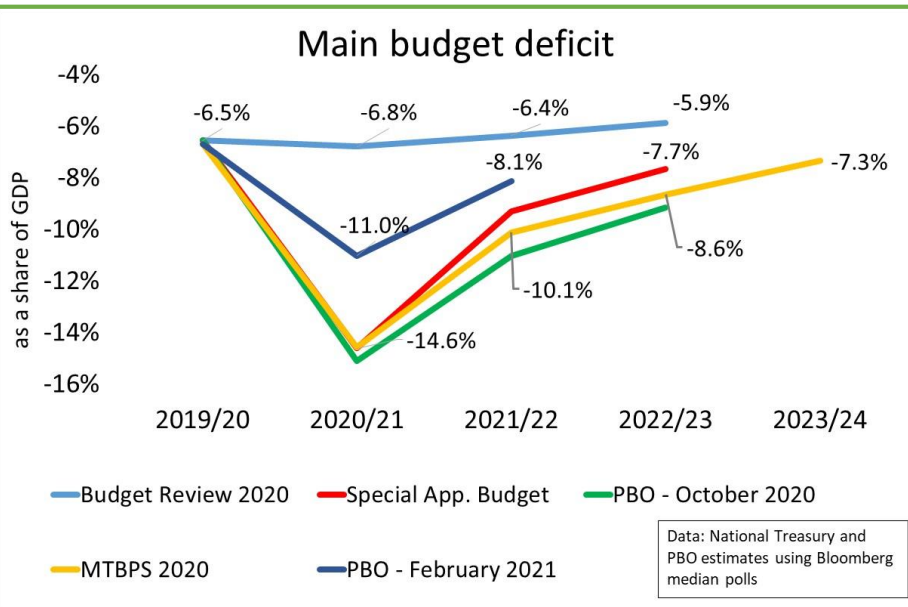


Fiscal performance to date: debt

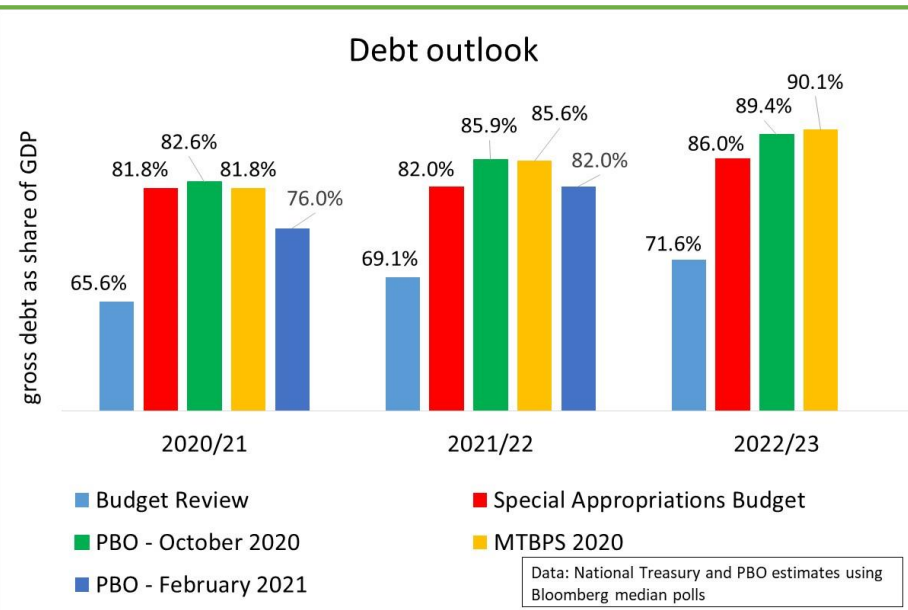


- Substantial increase in the borrowing requirement due to Covid-19-induced recession
- Demand for government debt is buoyant
- Interest expenditure increasing as a share of total expenditure
- SA has been active in shorter-term debt with lower rates

Fiscal Framework: outlook



- The 2020 Supplementary Budget and MTBPS projected significant deterioration in the country's fiscal situation, in-line with PBO projections
- Gross debt as a share of GDP was projected to peak at 95% in 2025/26 and decline thereafter
- To date, revenue shortfalls have not exceeded MTBPS projections
- The most recent fiscal forecasts suggest a modest improvement to the outlook (less worse) than at the time of the MTBPS
- PBO presents non-policy adjusted fiscal outlook
- Further waves, the efficacy of vaccines, the outcome of the public wage litigation and support to SOEs present risks to the fiscal outlook



Expenditure trends

National
Provincial and
Local government

Expenditure per vote as at end December 2020

R thousand	2020/21			2019/20
	Revised estimates	Total Year to date	Percentage of total	Percentage of total
1 The Presidency	572 920	331 429	57.8%	72.5%
2 Parliament	2 015 845	1 595 421	79.1%	74.8%
17 Higher Education and Training	94 094 944	87 412 821	92.9%	91.2%
18 Health	58 052 596	42 294 941	72.9%	73.9%
19 Social Development	230 807 298	176 197 651	76.3%	68.9%
20 Women, Youth and persons with Disabil	620 976	511 907	82.4%	76.4%
25 Justice and Constitutional Developmer	18 666 284	12 230 607	65.5%	70.2%
27 Office of the Chief Justice	1 188 121	749 718	63.1%	69.2%
29 Agriculture, Land Reform and Rural Development	15 247 613	9 759 381	64.0%	77.3%
31 Employment and Labour	3 299 305	2 330 505	70.6%	73.6%
32 Environment, Forestry and Fisheries	9 937 801	5 982 537	60.2%	64.7%
33 Human Settlements	29 079 019	18 340 388	63.1%	63.1%
36 Small Business Development	2 277 803	2 066 740	90.7%	83.5%
38 Tourism	1 426 860	800 545	56.1%	78.1%
39 Trade, Industry and Competition	9 273 272	5 101 022	55.0%	62.0%
40 Transport	57 354 735	42 399 666	73.9%	75.4%
41 Water and Sanitation	16 994 291	9 805 923	57.7%	64.0%
Total appropriation by vote	1 025 349 737	732 199 382	71.4%	71.4%

Expenditure: Supplementary provisions during 2020/21

- **The Department of Health**

- Government reprioritised funds amounting to R3.4 billion specifically for Covid-19 related needs. Indications of possible underspending (approximately R124.4 million) on consultants and advisory services will be reprioritised for the procurement of Covid-19 vaccines

- **The Department of Social Development**

- The original budget of R197.7 billion was adjusted during the 2020/21 financial year by R33.1 billion, which resulted in an adjusted budget of R230.8 billion
- Of this amount R220.6 billion is allocated for social assistance and is transferred to SASSA
- Most of the estimated numbers (original budget) for grant beneficiaries were achieved except for the foster care grant that supported more clients (Source: Adjustments budget)
- A higher than estimated expenditure in social development over the first nine months of the financial year was mainly due to a higher number of eligible beneficiaries of the R350 special Covid-19 social relief of distress grant (third quarter NT report). No reporting on the expenditure or number of beneficiaries is available
- No reporting by the department or SASSA is available on the performance management systems of government on grant beneficiaries

- **UIF TERS funding allocated for Covid-19 related support**

- According to the SIU, a total of R57.3 million was paid out by the UIF
- A total of 13 447 006 employees were linked to 1.5 million companies. These numbers could, however, not be verified with the in-year monitoring report (second quarter) and quarterly performance reports are not available on the Department of Planning, Monitoring and Evaluation's database on the UIF

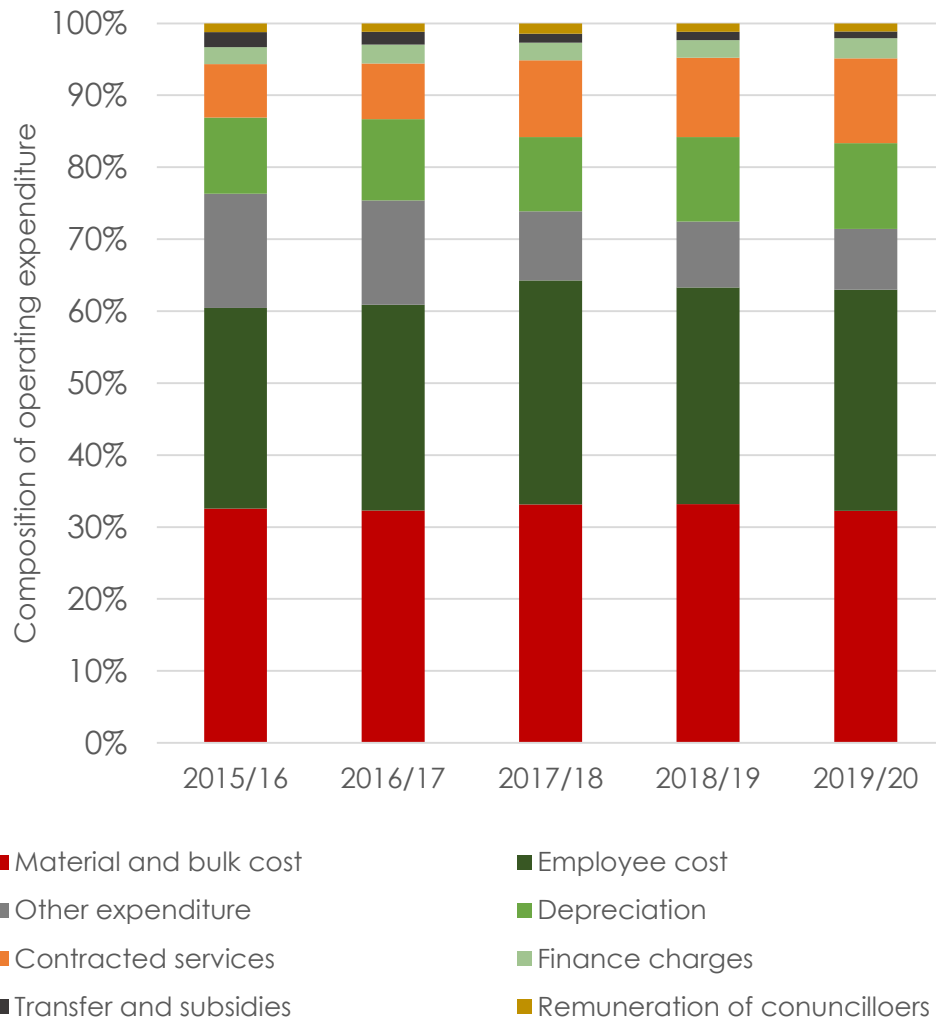
Provincial expenditure as at end September 2020

	2020/21			2019/20	
R million	Main budget	Adjusted budget	Actual spending April to September	Actual spending April to September	Actual spending April to September
Eastern Cape	85 908	85 406	40 590	47.2%	51.8%
Free State	39 055	39 055	17 681	45.3%	48.3%
Gauteng	142 367	146 389	62 596	44.0%	46.2%
KwaZulu-Natal	138 182	140 005	62 350	45.1%	47.2%
Limpopo	72 796	71 609	32 473	44.6%	48.1%
Mpumalanga	54 019	53 579	23 954	44.3%	48.7%
Northern Cape	19 147	18 450	8 646	45.2%	49.4%
North West	46 513	45 895	19 990	43.0%	46.4%
Western Cape	71 664	72 791	32 543	45.4%	47.9%
Total	669 652	673 179	300 822	44.9%	48.0%

Provincial expenditure per sector, as at end September 2020

	2020/21			2019/20	
R million	Main budget	Adjusted budget	Actual spending April to September	Actual spending April to September	Actual spending April to September
Education	272 271	270 877	122 136	44.9%	48.8%
Health	225 406	242 133	113 386	50.3%	49.5%
Social development	24 094	23 701	10 136	42.1%	46.6%
Other functions	147 881	136 468	55 164	37.3%	44.3%
Total	669 652	673 179	300 822	44.9%	48.0%

Local government: composition of operating expenditure, 2015/16 – 2019/20



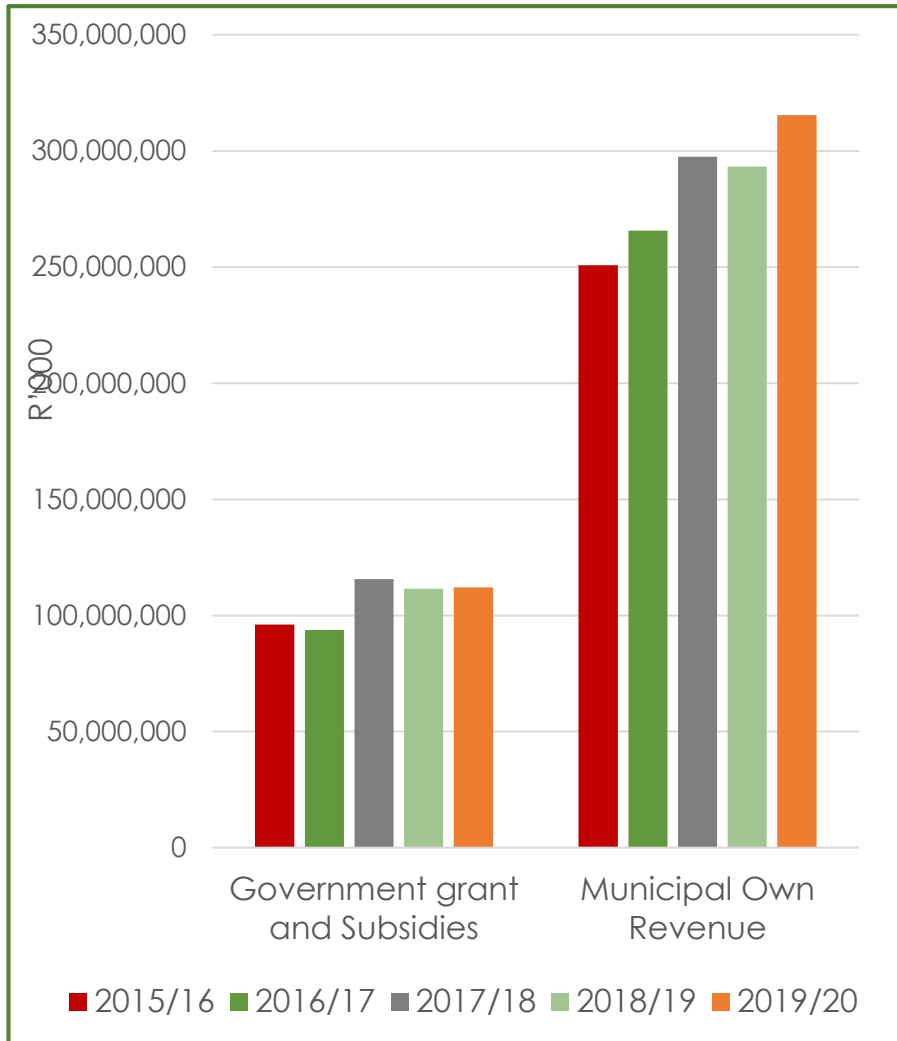
Changes to the composition of operating budgets:

- Employee cost and Material and bulk purchases constitute more than 60 per cent of operating expenditure
- Expenditure related to contracted services has also been increasing while other expenditure decreases

Operating budget spending trends:

- Underspending on repairs and maintenance
 - Deteriorating reliability and quality of services
 - Increasing the future cost of maintenance and refurbishment
- Spending on non-priorities
 - Excessive sponsorships for music festivals, beauty pageants and sporting event
 - Excessive catering for meetings and other events
 - Excessive councilor and staff perks

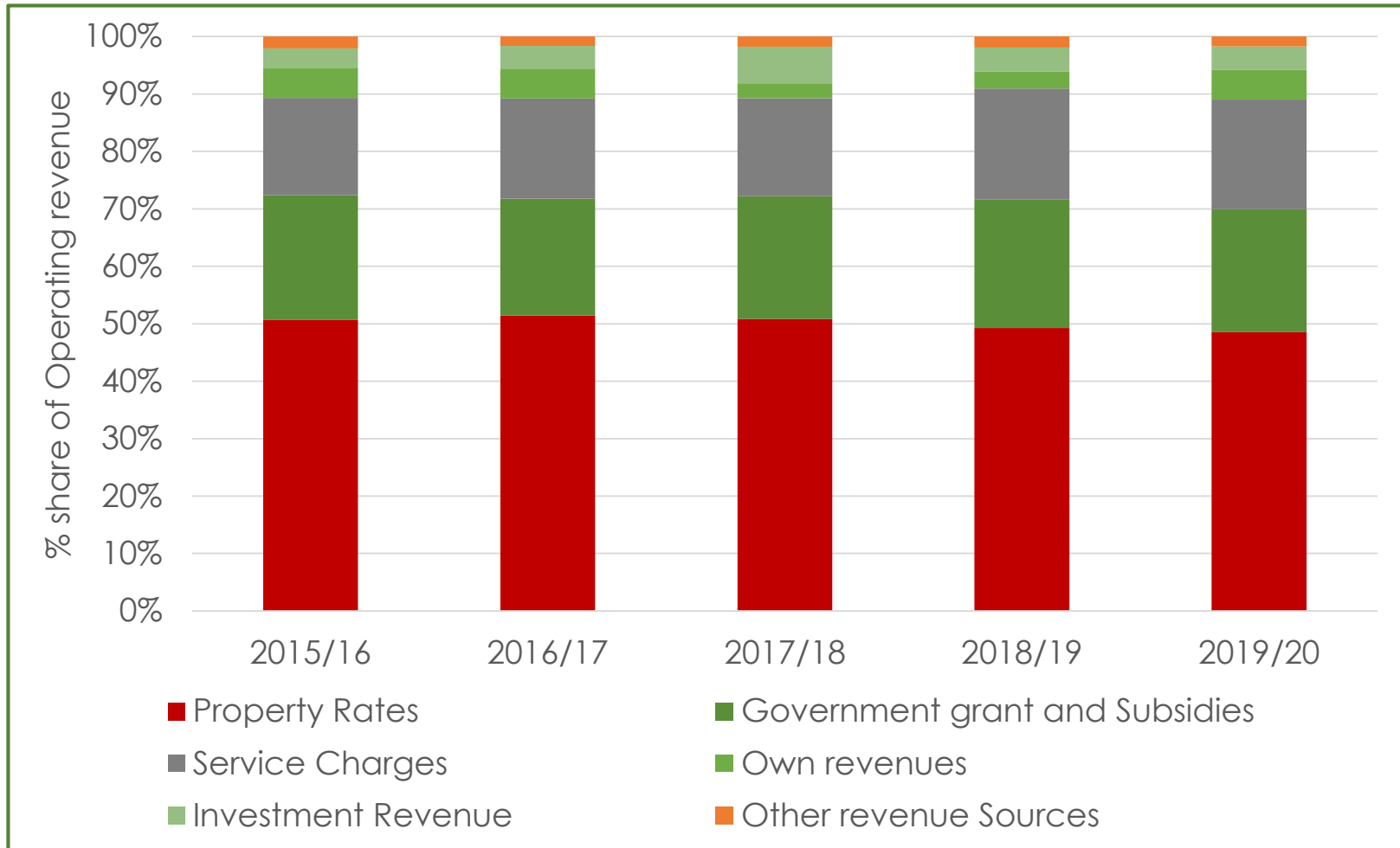
Local government: main sources of local government revenue, 2015/16 – 2019/20



Municipalities rely on two main sources of revenue:

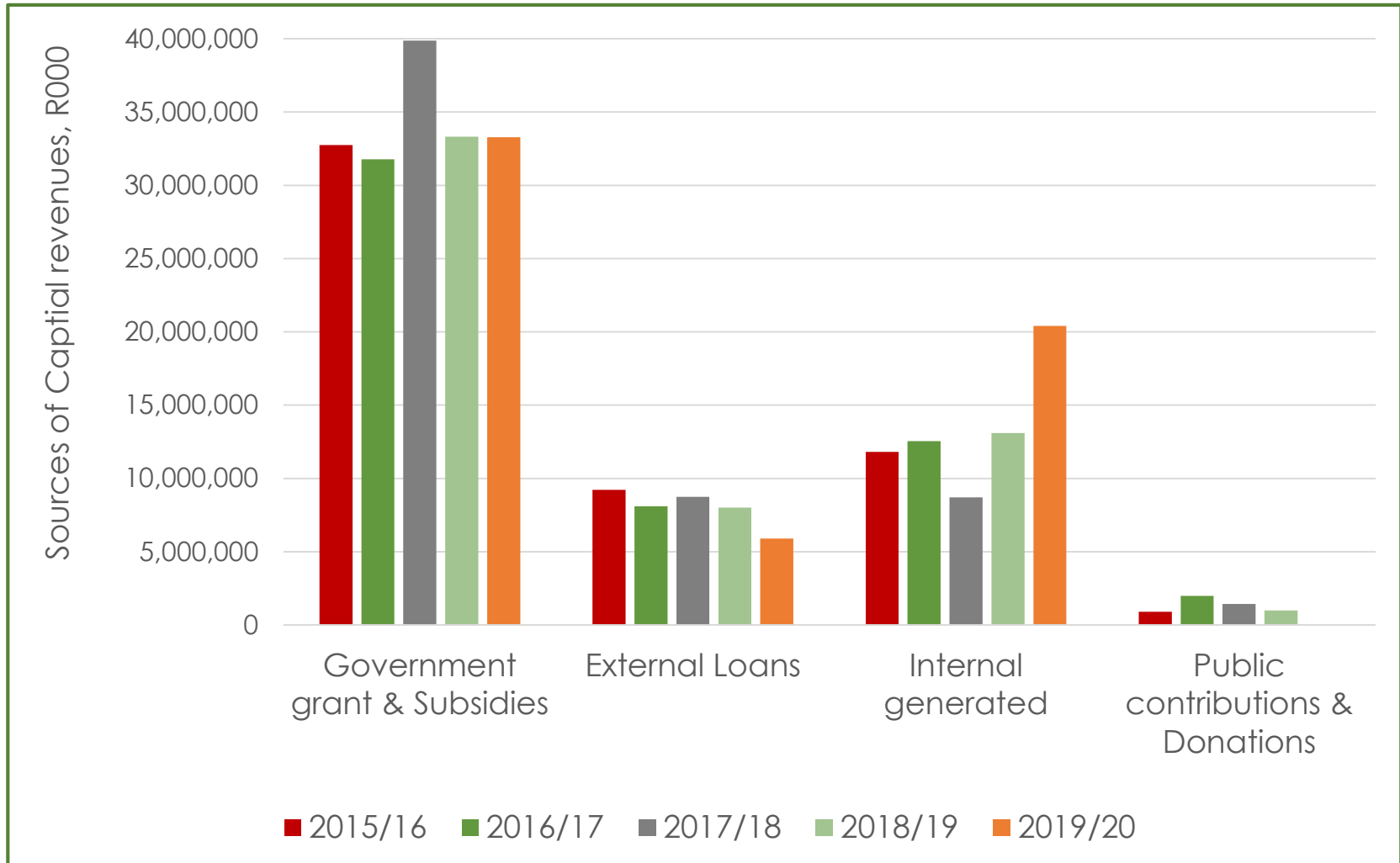
- Own revenue, on average, amounts to 73 per cent of total real operating revenue and has grown in real terms by 6.0 per cent
- Intergovernmental fiscal transfers contributes, on average, 27 per cent to total municipal revenue and has grown in real terms by 4.5 per cent
- Municipal ability to collect own revenue involves all aspects of the revenue management value chain, specifically:
 - The integrity of the billing information
 - Accuracy of billing systems

Local government: composition of operating revenue, 2015/16 – 2019/20



- Property rates is the main source of operating revenues
- Government transfers are the third largest sources of operating revenue

Local government: composition of capital revenue, 2015/16 – 2019/20



Source: National Treasury (BR, ENE, DORA, Appropriations Bill)

In summary

- Government has made progress in implementing the Social and Economic Relief Package introduced in April 2020
- However, strong signs show that more support is still required to support households, SMMEs and the economy at large
- It is difficult to determine the progress made in ERRP, given that interventions are capital in nature and requires more time to measure
- Some of the government role players still lack understanding or appreciation of the goals and objectives of the District Development Model (DDM)
- The District Development Model has been piloted in 3 districts (Waterberg, OR Tambo and EThekweni), and DPME is still to provide an evaluation of the outcomes of the pilots. In the meantime government plans to implement the DDM across the country
- An analysis of health conditional grants for the 2019/20 financial year, shows underspending in some of the grants and a mixed outcome in performance
- There is generally positive sentiments around the global economic outlook, however the role of the fiscus in stimulating the economies remain important over the medium term

In summary

- As countries continue to fight the pandemic and its social and economic impact, public debt is expected to increase over the medium term, and therefore public debt should be used for productive expenditures to stimulate economic growth
- Large declines in South African real household consumption & investment were key drivers of the drop in GDP during 2020
- The outlook for the SA economy seems to have improved marginally since the MTBPS (notwithstanding increased uncertainty)
- It will take more than 4-years for the SA economy to recover to pre-Coronavirus levels
- In-line with expectations, revenue collection fell significantly compared with the previous year over the first two quarters. However, 9 months tax revenue collections outperformed expectation
- The 2020 Supplementary Budget and MTBPS showed a substantial increase in the borrowing requirement for the 2020/21 fiscal year
- Government spending for the 9 months of the financial year is, on average, in line with prior year patterns

In summary

- Slow spending in Tourism, Trade, Industry and Competition, Water and Sanitation
- Faster spending experienced in Parliament, Higher Education, Social Development, Women Youth and Persons with Disabilities, and Small Business Development
- Reprioritisation of spending were made for Healthcare and social services, indications are that:
 - Possible underspending in Health (approximately R124.4 million) on consultants and advisory services will be reprioritised for the procurement of Covid-19 vaccines
 - A higher than estimated expenditure in social development over the first nine months of the financial year was mainly due to a higher number of eligible beneficiaries of the R350 special Covid-19 social relief of distress grant
- As expected, 6 months expenditure of provinces is slightly slower than the prior year in the same period. Health has seen slightly higher spending than the prior year
- Covid-19 and related lockdown affected local government's performance, with low revenue collection and further slow spending in infrastructure and capacity building

Thank You

Appendices