

Parliamentary

# 2022 Appropriations Bill assessment 25 May 2022

Budget  
Office



# Outline

- Introduction
- Background
- Pressures on the budget
- Macroeconomic developments since 2022 Budget
- Policy priorities
- The 2022 Appropriations Bill
- Risks to the 2022 Appropriations
- Second Adjustments Appropriation Bill, 2021/22

# Introduction

- Parliament is, in terms of the Money Bills and Related Matters Act, required to pass, with or without amendments, or reject the Appropriation Bill within four months after the start of the financial year to which it relates
- The Parliamentary Budget Office was established to support the Finance and Appropriations Committees in both Houses of Parliament with the implementation of their responsibilities in terms of the Money Bills and Related Matters Act of 2009
- This presentation focuses on the assessment of the Appropriations Bill and informs Members of Parliament on:
  - The object of the Bill
  - How departmental appropriations link with policy priorities
  - Departmental responsibilities in realising policy priorities
  - Changes to the appropriations since the 2021/22 financial year
  - Key risks in realising fiscal policy objectives over the medium term
  - The call for action on accountability on use of public finances (AGSA)
  - Second Adjustments Appropriation Bill, 2021/22

# Social and economic situation: Context for 2022 Appropriations

Social needs

Economic: Growth outlook

# Social needs

Social Protection and Safety and security are the two largest expenditure functions of the national sphere of government

- Statistics South Africa (Stats SA) estimated that by mid 2021 the population was at 60.14 million people
- For adults aged 15 - 49 years, an estimated 19.5 per cent (8.2 million) of the population is HIV positive
- About 28.3 per cent of the population is aged younger than 15 years (17.04 million) of which an estimated number of 13.3 million received an child support grant
- Approximately 9.2 per cent (5.51 million) is 60 years or older of which an estimated number 3.9 million received an old age grant
- An estimated 96.6 per cent (R684.4 billion) of the Department of Social Development's budget are appropriated for the payment of social grants
- The department expects to pay social grants to 18.6 million beneficiaries (excluding recipients of the special COVID-19 social relief of distress grant) in 2022/23
- A New allocations in this budget include R44 billion to extend the special COVID-19 social relief of distress grant until March 2023

# Social needs

The South African Police Services and Justice system is mandated to reduce and respond to criminal activity, which continues to remain unacceptably high

- Contact crimes increased by 25 per cent, from 223 705 during the 1st semester in 2020/21 to 279 624 during the 1st semester in 2021/22. The target of a 7.48 per cent reduction has not been achieved
- Contact crimes against women, increased by 4.3 per cent from 66 203 during the 1st semester of 2020/21 to 69 063 during the 1st semester of 2021/22
- Although contact crimes against children decreased by 7.9 per cent from 17 047 during the 1st semester of 2020/21 to 15 704 during the 1st semester of 2021/22, it is still a high number and a concerted response is required from the police service and the justice system

# Global macroeconomic outlook


- Since the 2022 Appropriation was proposed, outlook for the global and SA economy has deteriorated
- Ongoing disruptions caused by Covid-19 has increased global unemployment and negatively affected global output and value chains
- Negative effects of climate change events, including extreme weather, cause suffering and negatively impacts global growth and inflation
- The Russian invasion and continued war in Ukraine has exacerbated supply chain disruptions, increased global shortages and prices of food and fuel
- Strict lockdown protocols in major cities in China have negatively affected its real GDP growth and further exacerbated global supply chain disruptions
- Much of current international inflation is due to supply-side difficulties
- Household finances and poor investment levels globally still constrain demand, therefore interest rate increases are a blunt instrument
- Developed countries have increased interest rates but their real interest rates generally remain negative indicating hopes for a 'soft landing'
  - The US Fed raised interest rates in May but the real interest rate remains negative
  - The ECB has not increased interest rates, their nominal rate is -0.5 per cent

# South African macroeconomic outlook

- Domestically, several constraints add additional downward pressure to key macroeconomic variables, such as inequality, unemployment, inflation and growth:
  - Continued fiscal consolidation
  - The latest resurgence in COVID-19 infections that exacerbate its ongoing impact
  - The impact of climate change and severe weather events, such as the adverse impact on health, education and economic activity of the recent devastating floods in KZN and the drought in Nelson Mandela Bay
  - Rising unemployment rates that worsen structural inequality
  - Increased incidences of load-shedding and continued poor service delivery
  - Downward pressures on household aggregate demand, which has been negatively affected by declining real aggregate disposable incomes due to weaker labour markets, public sector wage freezes, higher inflation and interest rates and minimal increases in child support and old age grants
- Some sectors of the SA economy, most notably mining, may still be benefitting from higher commodity prices (including those caused by the war in Ukraine) but global demand and price outlook remain uncertain



# Growth outlook

<b>GDP growth outlook - calender*</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
National Treasury - Budget 2022	2.1%	1.6%	1.7%
South African Reserve Bank - Mar 2022	2.0%	1.9%	1.9%
South African Reserve Bank - May 2022	 1.7%	1.9%	1.9%
IMF - World Economic Outlook - Jan 2022	1.9%	1.4%	-
IMF - World Economic Outlook - April 2022	1.9%	1.4%	-

\* Growth projections correspond to publication date and not forecast date

Data: National Treasury, SARB, IMF

# Policy priorities

Linking the budget to policy priorities

Budgeting by function

# Linking the budget to policy priorities

## Pronouncements from SONA

## Budget Response

### Economic development

**Job creation:** The Presidential Employment Stimulus programmes supported over 850 000 opportunities so far

- Government to increase the value and expanding the criteria for participation in the Employment Tax Incentive
- The SAYouth.mobi platform now has more than 2.3 million young South Africans registered
- Through master plans, business, government and labour are working together to increase production and create more jobs in the sector
- The global business services sector is on track to create 500 000 new jobs over the next few years
- The gas industry holds huge potential for job creation and broader economic development

**Infrastructure:** Government has prioritised infrastructure projects to support economic growth and better livelihoods, especially in energy, roads and water management

- Government is introducing an innovative social infrastructure delivery mechanism to address issues that afflict the delivery of school infrastructure

### Job creation:

- Over the medium-term, R76 billion is allocated for job creation programmes
- An additional R18.4 billion is made available for the Presidential Employment Initiative

### Infrastructure:

- SANRAL receives an additional R9.9 billion for maintaining the non-toll road network
- R2.1 billion is allocated for raising the Clan William Dam
- The Lepelle Water Board is allocated R1.4 billion for the Olifantspoort and Ebenezer plants
- The Umgeni Water Board is allocated R813 million for the Lower uMkhomazi Water Supply Scheme

# Linking the budget to policy priorities

## Pronouncements from SONA

## Budget Response

### Economic development

**SMEs:** A new, redesigned loan guarantee scheme is being introduced to enable small businesses to bounce back from the pandemic and civic unrest

**Business Environment:** Government working to improve the business environment for companies of all sizes to reduce red tape

**SOEs:** It is essential to reverse the decline, and position SOEs to contribute positively to the economy

**Agricultural sector:** In addition to specific crops, masterplans in the sugar and poultry industries are contributing significantly to increased investment, improved production and transformation

**Land Reform:** Establishment of the Agriculture and Land Reform Development Agency will be finalised this year

- The Department of Public Works and Infrastructure will finalise the transfer of 14 000 hectares of state land to the Housing Development Agency

### SMEs:

A new business bounce-back scheme will be launched:

- Small business loan guarantees of R15 billion will be facilitated through participating banks and development finance institutions
- A business equity-linked loan guarantee support mechanism (R20 billion), which will be facilitated through DFIs

**The importance of these announcements and allocations are to ensure that it is reflected in the standard statutory documents of departments to be able to hold them accountable to spend on these interventions**

# 2022 Appropriations Bill

Total appropriations in perspective

Appropriations by vote including direct charges

Proportions appropriated for current payments and transfers and subsidies

Appropriations: Detail of current payments by vote

Appropriations by economic classification

Appropriations for Compensation of employees

Additional funding

# Total Appropriations in perspective

- The total amount to be appropriated amounts to R1 959 billion. This amount excludes the provisional allocations and infrastructure fund not assigned to votes and the contingency reserve
- The National allocation includes the total vote appropriations, which includes all the conditional grants except for the local government equitable share
- The Provincial allocation only includes the PES
- The Local allocation includes the LGES
- Other includes, amongst others, the fuel levy and the skills levy

<b>R million</b>	<b>2022/23 Division of Revenue</b>	<b>2022/23 % of total</b>	<b>2022/23 Appropriations</b>	<b>2022/23 % of total</b>
National	1 327 188	67.2%	969 718	49.5%
Provincial	560 757	28.4%	560 757	28.6%
Local	87 311	4.4%	87 311	4.5%
Debt service costs			301 806	15.4%
Other			40 095	2.0%
<b>Total</b>	<b>1 975 257</b>	<b>100.0%</b>	<b>1 959 687</b>	<b>100.0%</b>

Source: National Treasury

# Appropriations by vote including direct charges

- Total appropriations by vote: R1 057.03 billion and Direct charges: R902.66 billion
- Appropriations Bill includes disaggregation per main division except for Parliament
- Compensation of Employees are specifically and exclusively appropriated
- Total increase since 2021/22: R149.08 billion

	Appropriated (including direct charges)	Current payments	Transfers and subsidies	Payments for capital assets	To be appropriated	Increase/ Decrease <sup>1</sup>
R thousand	2021/22	2022/23				
1 The Presidency	<b>599 863</b>	599 113	546	14 928	<b>614 587</b>	14 724
2 Parliament <sup>2</sup>	<b>2 615 858</b>	2 157 676	513 031	13 245	<b>2 683 952</b>	68 094
3 Cooperative Governance	<b>100 875 870</b>	5 062 976	106 259 832	42 053	<b>111 364 861</b>	10 488 991
4 Government Communication	<b>749 684</b>	461 795	255 004	3 112	<b>719 911</b>	-29 773
5 Home Affairs	<b>8 690 450</b>	6 798 053	2 593 641	14 264	<b>9 405 958</b>	715 508
6 International Relations and Cooperat	<b>6 452 372</b>	5 446 981	799 745	353 782	<b>6 600 508</b>	148 136
7 National School of Government	<b>210 189</b>	108 522	115 721	3 826	<b>228 069</b>	17 880
8 National Treasury	<b>849 230 119</b>	304 582 508	605 346 874	38 153	<b>911 965 823</b>	62 735 704
9 Planning, Monitoring and Evaluation	<b>453 950</b>	465 695	–	5 155	<b>470 850</b>	16 900
10 Public Enterprises	<b>36 291 819</b>	290 537	19	3 876	<b>23 928 918</b>	-12 362 901
11 Public Service and Administration	<b>526 192</b>	489 142	46 933	4 197	<b>540 272</b>	14 080
12 Public Service Commission	<b>282 405</b>	287 082	611	756	<b>288 449</b>	6 044
13 Public Works and Infrastructure	<b>8 343 204</b>	1 080 362	7 446 810	20 095	<b>8 547 267</b>	204 063
14 Statistics South Africa	<b>4 474 590</b>	2 441 913	93	316 540	<b>2 758 546</b>	-1 716 044
15 Traditional Affairs	<b>171 392</b>	128 201	46 830	2 000	<b>177 031</b>	5 639
16 Basic Education	<b>28 084 757</b>	2 836 768	24 662 313	2 061 086	<b>29 560 167</b>	1 475 410
17 Higher Education and Training	<b>115 596 868</b>	11 453 552	118 657 271	23 375	<b>130 134 198</b>	14 537 330
18 Health	<b>62 543 271</b>	4 772 177	58 329 780	1 429 020	<b>64 530 977</b>	1 987 706

# Appropriations by vote including direct charges (cont.)

R thousand	Appropriated (including direct charges)	Current payments	Transfers and subsidies	Payments for capital assets	To be appropriated	Increase/ Decrease <sup>1</sup>
	2021/22	2022/23				
19 Social Development	<b>204 160 242</b>	922 791	256 065 389	13 181	<b>257 001 361</b>	52 841 119
20 Women, Youth and Persons with Di:	<b>763 539</b>	200 963	782 209	4 082	<b>987 254</b>	223 715
21 Civilian Secretariat for the Police Ser	<b>148 961</b>	147 088	129	5 094	<b>152 311</b>	3 350
22 Correctional Services	<b>25 218 129</b>	24 746 993	721 557	640 170	<b>26 108 720</b>	890 591
23 Defence	<b>46 268 680</b>	43 765 838	4 668 387	655 864	<b>49 090 089</b>	2 821 409
24 Independent Police Investigative Dire	<b>348 349</b>	350 227	826	6 174	<b>357 227</b>	8 878
25 Justice and Constitutional Developm	<b>21 546 285</b>	18 330 607	3 269 814	820 030	<b>22 420 451</b>	874 166
26 Military Veterans	<b>654 367</b>	436 932	209 206	20 238	<b>666 376</b>	12 009
27 Office of the Chief Justice	<b>2 330 257</b>	2 140 512	135 823	112 044	<b>2 388 379</b>	58 122
28 Police	<b>96 355 531</b>	95 873 612	1 259 399	3 562 304	<b>100 695 315</b>	4 339 784
29 Agriculture, Land Reform and Rural I	<b>16 920 399</b>	7 886 844	9 147 149	253 705	<b>17 287 698</b>	367 299
30 Communications and Digital Techno	<b>3 692 881</b>	743 279	1 960 420	13 483	<b>2 717 182</b>	-975 699
31 Employment and Labour	<b>3 505 713</b>	2 147 808	1 736 957	71 254	<b>3 956 019</b>	450 306
32 Forestry, Fisheries and the Environr	<b>8 716 848</b>	6 646 566	1 996 099	305 249	<b>8 947 914</b>	231 066
33 Human Settlements	<b>31 657 958</b>	945 049	32 072 583	7 084	<b>33 024 716</b>	1 366 758
34 Mineral Resources and Energy	<b>9 180 764</b>	2 068 376	8 263 833	13 462	<b>10 345 671</b>	1 164 907
35 Science and Innovation	<b>8 933 315</b>	577 594	8 552 691	3 015	<b>9 133 300</b>	199 985
36 Small Business Development	<b>2 538 288</b>	253 054	2 305 319	4 736	<b>2 563 109</b>	24 821
37 Sport, Arts and Culture	<b>5 693 941</b>	1 008 690	5 080 208	206 230	<b>6 295 128</b>	601 187
38 Tourism	<b>2 429 627</b>	921 130	1 565 615	4 835	<b>2 491 580</b>	61 953
39 Trade, Industry and Competition	<b>9 736 573</b>	1 923 917	8 911 612	23 774	<b>10 859 303</b>	1 122 730
40 Transport	<b>66 703 368</b>	1 462 716	67 669 422	5 791	<b>69 137 929</b>	2 434 561
41 Water and Sanitation	<b>16 910 080</b>	3 607 301	10 528 115	4 404 253	<b>18 539 669</b>	1 629 589
<b>Total</b>	<b>1 810 606 948</b>	<b>566 570 940</b>	<b>1 351 977 816</b>	<b>15 505 515</b>	<b>1 959 687 045</b>	<b>149 080 097</b>

Source: National Treasury



# Proportions appropriated for current payments and transfers and subsidies

- Compensation of employees: 17.3 per cent excluding direct charges
- Goods and services: 7.7 per cent excluding direct charges
- Transfers and subsidies: 69 per cent of total appropriations including direct charges and Conditional Grants

Department	Current payments			Total
	COE: Percentage of total	G&S Percentage of total	Transfers:Percentage of total	
1 The Presidency	62.1%	35.3%	0.1%	614 587
2 Parliament	53.3%	27.1%	19.1%	2 683 952
3 Cooperative Governance	0.3%	4.2%	95.4%	111 364 861
4 Government Communication and Information System	39.2%	25.0%	35.4%	719 911
5 Home Affairs	41.3%	31.0%	27.6%	9 405 958
6 International Relations and Cooperation	43.3%	37.2%	12.1%	6 600 508
7 National School of Government	26.2%	21.4%	50.7%	228 069
8 National Treasury	0.1%	0.2%	66.4%	911 965 823
9 Planning, Monitoring and Evaluation	66.7%	32.2%	0.0%	470 850
10 Public Enterprises	0.7%	0.5%	0.0%	23 928 918
11 Public Service and Administration	54.4%	36.1%	8.7%	540 272
12 Public Service Commission	75.1%	24.4%	0.2%	288 449
13 Public Works and Infrastructure	6.8%	5.8%	87.1%	8 547 267
14 Statistics South Africa	59.0%	29.5%	0.0%	2 758 546
15 Traditional Affairs	48.9%	23.5%	26.5%	177 031
16 Basic Education	1.9%	7.6%	83.4%	29 560 167
17 Higher Education and Training	8.3%	0.5%	91.2%	130 134 198
18 Health	1.2%	6.2%	90.4%	64 530 977

# Appropriations: Detail of current payments by vote (cont.)

Department	Current payments			Total
	COE: Percentage of total	G&S Percentage of total	Transfers:Percentage of total	
19 Social Development	0.2%	0.2%	99.6%	257 001 361
20 Women, Youth and Persons with Disabilities	11.5%	8.9%	79.2%	987 254
21 Civilian Secretariat for the Police Service	70.4%	26.2%	0.1%	152 311
22 Correctional Services	68.5%	26.3%	2.8%	26 108 720
23 Defence	62.5%	26.7%	9.5%	49 090 089
24 Independent Police Investigative Directorate	67.1%	31.0%	0.2%	357 227
25 Justice and Constitutional Development	57.0%	24.7%	14.6%	22 420 451
26 Military Veterans	19.5%	46.1%	31.4%	666 376
27 Office of the Chief Justice	74.1%	15.6%	5.7%	2 388 379
28 Police	78.6%	16.6%	1.3%	100 695 315
29 Agriculture, Land Reform and Rural Development	23.6%	22.0%	52.9%	17 287 698
30 Communications and Digital Technologies	11.1%	16.2%	72.1%	2 717 182
31 Employment and Labour	36.2%	18.1%	43.9%	3 956 019
32 Forestry, Fisheries and the Environment	21.7%	52.1%	22.3%	8 947 914
33 Human Settlements	1.2%	1.6%	97.1%	33 024 716
34 Mineral Resources and Energy	10.0%	10.0%	79.9%	10 345 671
35 Science and Innovation	4.0%	2.3%	93.6%	9 133 300
36 Small Business Development	7.4%	2.5%	89.9%	2 563 109
37 Sport, Arts and Culture	6.0%	10.0%	80.7%	6 295 128
38 Tourism	14.9%	22.1%	62.8%	2 491 580
39 Trade, Industry and Competition	9.6%	8.1%	82.1%	10 859 303
40 Transport	0.8%	1.3%	97.9%	69 137 929
41 Water and Sanitation	9.9%	9.6%	56.8%	18 539 669
<b>Total</b>	<b>9.3%</b>	<b>4.2%</b>	<b>69.0%</b>	<b>1 959 687 045</b>

Source: National Treasury

# Transfers and subsidies includes transfers for specific purposes

Appropriations for Emergency/disasters:

- Vote 3: Cooperative Governance
- Vote 29: Agriculture

## Vote 3: Cooperative Governance

R million	Adjusted appropriation	Medium-term expenditure estimate		
	2021/22	2022/23	2023/24	2024/25
<b>Conditional grants to provinces</b>				
Provincial disaster response grant	140	145	146	152
<b>Total</b>	<b>140</b>	<b>145</b>	<b>146</b>	<b>152</b>
<b>Conditional grants to municipalities</b>				
Integrated urban development grant	1 009.1	1 085.4	1 122.8	1 173.2
Municipal infrastructure grant	15 592.7	16 842.0	17 594.7	18 384.9
<b>National Disaster Management Centre</b>				
Municipal disaster response grant	358.5	371.4	372.7	389.5
Municipal disaster recovery grant	–	26.0	320.9	–
<b>Total</b>	<b>16 960.3</b>	<b>18 324.8</b>	<b>19 411.1</b>	<b>19 947.6</b>

## Vote 29: Agriculture, Land Reform and Rural Development

<b>Conditional grants to provinces</b>				
<b>Agricultural Production, Biosecurity and Resources Management</b>				
Land care programme grant	83	85	86	90
<b>Food Security, Land Reform and Restitution</b>				
Comprehensive agricultural support programme grant: Infrastructure	1 157	1 202	1 214	1 268
Comprehensive agricultural support programme grant: Extension recovery planning services	310	304	309	323
Comprehensive agricultural support programme grant: Upgrading of provincial agricultural colleges	90	93	95	99
Ilima/Letsema projects grant	597	610	620	648
Comprehensive agricultural support programme grant: Disasters: Flood damaged infrastructure	–	–	–	–
Comprehensive agricultural support programme grant: Disasters: Drought relief	–	–	–	–
<b>Total</b>	<b>2 238</b>	<b>2 294</b>	<b>2 325</b>	<b>2 429</b>

# Transfers and subsidies includes transfers for specific purposes

Appropriations for Emergencies/disasters:

- Vote 33: Human Settlements
- Vote 40: Transport

## **Vote 33: Human Settlements**

R million	Adjusted appropriation	Medium-term expenditure estimate		
	2021/22	2022/23	2023/24	2024/25
<b>Conditional grants to provinces</b>				
<b>Integrated Human Settlements Planning and Development</b>				
Human settlements development grant	13 403	14 256	14 944	15 118
<b>Informal Settlements</b>				
Provincial emergency housing grant	311	326	340	355
Informal settlements upgrading partnership grant: Provinces	3 890	4 121	4 303	4 496
<b>Total</b>	<b>17 604</b>	<b>18 702</b>	<b>19 586</b>	<b>19 970</b>
<b>Conditional grants to municipalities</b>				
Urban settlements development grant	7 404.7	7 352.3	7 676.3	8 021.1
<b>Informal Settlements</b>				
Municipal emergency housing grant	167.5	175.4	183.1	191.4
Informal settlements upgrading partnership grant: Municipalities	3 945.4	4 180.5	4 364.8	4 560.8
<b>Total</b>	<b>11 517.7</b>	<b>11 708.2</b>	<b>12 224.2</b>	<b>12 773.2</b>
<b>Vote 40: Transport</b>				
<b>Conditional grants to provinces</b>				
Provincial roads maintenance grant: Roads maintenance component	11 937	10 766	13 037	13 603
Provincial roads maintenance grant: Disaster relief component	–	490	–	–
<b>Public Transport</b>				
Public transport operations grant	7 121	7 090	7 403	7 735
<b>Total</b>	<b>19 057</b>	<b>17 857</b>	<b>20 440</b>	<b>21 339</b>
<b>Conditional grants to municipalities</b>				
Rural roads asset management systems grant	109.9	115.0	115.5	120.6
Public transport network grant	5 174.5	6 012.9	6 689.0	7 720.2
<b>Total</b>	<b>5 284.4</b>	<b>6 127.9</b>	<b>6 804.5</b>	<b>7 840.8</b>

# Appropriations: Proportions allocated for Programme 1: Administration

Votes that allocated more than 25 per cent on administration

Department	Allocation Programme 1	Total	Percentage of total
1 The Presidency	528 060	614 587	86%
2 Parliament	705 534	2 683 952	26%
4 Government Communication and Information System	177 251	719 911	25%
5 Home Affairs	2 609 824	9 405 958	28%
6 International Relations and Cooperation	1 732 100	6 600 508	26%
7 National School of Government	112 348	228 069	49%
9 Planning, Monitoring and Evaluation	190 415	470 850	40%
11 Public Service and Administration	245 152	540 272	45%
12 Public Service Commission	143 163	288 449	50%
14 Statistics South Africa	752 978	2 758 546	27%
15 Traditional Affairs	58 465	177 031	33%
21 Civilian Secretariat for the Police Service	68 755	152 311	45%
24 Independent Police Investigative Directorate	104 557	357 227	29%
31 Employment and Labour	1 044 005	3 956 019	26%

Source: National Treasury, PBO calculations

# Appropriations by economic classification

			Adjusted appropriation1	Revised estimate	Medium-term expenditure estimates	Increased from the revised estimates
R million	2019/20	2020/21	2021/22	2021/22	2022/23	2022/23
<b>Current payments</b>						
Compensation of employees	176 182	176 349	181 627	180 793	182 821	1.12%
Goods and services	72 311	65 188	89 887	87 029	81 730	-6.09%
Interest and rent on land	204 962	232 805	268 506	268 504	302 020	12.48%
<b>Total current payments</b>	<b>453 455</b>	<b>474 342</b>	<b>540 020</b>	<b>536 326</b>	<b>566 571</b>	<b>5.64%</b>
<b>Transfers and subsidies to:</b>						
Provinces	613 451	628 814	661 196	661 196	682 539	3.23%
Municipalities	123 286	137 334	137 788	135 513	150 923	11.37%
Departmental agencies and accounts	133 368	134 252	146 175	146 924	154 579	5.21%
Higher education institutions	47 568	48 644	48 354	48 354	52 982	9.57%
Foreign governments and international organisations	2 467	2 227	3 239	3 222	2 932	-8.99%
Public corporations and private enterprises	35 718	26 747	37 181	37 181	40 115	7.89%
Public corporations	31 305	23 141	33 408	33 408	36 031	7.85%
Private enterprises	4 413	3 606	3 773	3 773	4 084	8.23%
Non-profit institutions	3 206	2 729	3 412	3 426	3 436	0.30%
Households	201 311	232 300	239 354	239 365	264 472	10.49%
<b>Total transfers and subsidies</b>	<b>1 160 377</b>	<b>1 213 048</b>	<b>1 276 699</b>	<b>1 275 181</b>	<b>1 351 978</b>	<b>6.02%</b>
Buildings and other fixed structures	7 582	7 243	10 760	10 337	10 579	2.34%
Machinery and equipment	3 941	4 219	4 733	4 717	4 579	-2.92%
<b>Total payments for capital assets</b>	<b>12 108</b>	<b>11 960</b>	<b>15 784</b>	<b>15 318</b>	<b>15 506</b>	<b>1.23%</b>
Payments for financial assets	65 040	89 647	73 828	73 392	25 633	-65.07%
<b>Total to be appropriated from the NRF</b>	<b>1 690 980</b>	<b>1 788 996</b>	<b>1 906 332</b>	<b>1 900 217</b>	<b>1 959 687</b>	<b>3.13%</b>
<b>Total to be appropriated from the NRF plus provisional allocations</b>	<b>1 690 980</b>	<b>1 788 996</b>	<b>1 906 332</b>	<b>1 900 217</b>	<b>1 965 257</b>	<b>3.42%</b>
<b>Total expenditure by economic classification</b>	<b>1 690 980</b>	<b>1 788 996</b>	<b>1 900 057</b>	<b>1 895 954</b>	<b>1 975 257</b>	<b>4.18%</b>

# Appropriations for compensation of employees

NT Guidelines for the costing of compensation of employees, although subject to wage agreements which may need to be additionally incorporated into the compensation ceilings over the 2022 MTEF period include:

- The cost-of-living adjustment for employees on salary levels 1 to 12 over the 2022 MTEF is:
  - 0% in 2022/23
  - 0% in 2023/24
  - CPI in 2024/25
- Medical Subsidy:
  - 8.51% in 2021/22
  - CPI + 4.2% in 2022/23
  - CPI + 3.9% in 2023/24
  - CPI + 4.0% in 2024/25
- Housing Allowance
  - R1500 in 2021/22
  - CPI in 2022/23
  - CPI in 2023/24
  - CPI in 2024/25

- Performance bonus
  - 0% in 2021/22
  - 0% over the 2022 MTEF period
- Escalation factors for SMS and MMS:
  - 0%
- Progression rates (notch):
  - 1.5%
- Departments are expected to manage their headcount within the allocated ceilings. Only critical and core service delivery posts should be prioritised within the allocated budget
- Institutions are also expected to thoroughly explore strategies available for headcount management as provided in various circulars and policy documents issued by the DPSA
- NT CPI projections:
  - 4.4%: 2021/22
  - 4.2%: 2022/23
  - 4.5%: 2023/24
  - 4.5%: 2024/25

# Appropriations: compensation of employees

- Total increase from 2021/22 to 2022/23: 1.1 per cent
- Highest increase is in Small business development: 22.4 per cent, personnel numbers increase from 219 in 2021/22 to 272 in 2022/23
- COE in Higher education and training increases by 15.6 per cent, personnel numbers increase from 29 267 in 2021/22 to 29 334 in 2022/23, while only 23 931 post are funded and 213 positions additional to the establishment
- In total 2 940 positions are additional to national establishments

R million	Revised estimate	Medium-term expenditure estimates				Average personnel expenditure growth rate (%)
		2021/22	2022/23	2021/22 - 2022/23	2023/24	2024/25
5 Home Affairs	3 607.8	3 883.9	7.7%	3 781.8	3 951.6	4.5%
8 National Treasury	826.5	888.4	7.5%	890.0	902.0	1.3%
10 Public Enterprises	159.0	177.5	11.6%	180.0	188.1	4.5%
15 Traditional Affairs	82.5	86.6	4.9%	89.0	93.0	4.5%
17 Higher Education and Training	9 318.0	10 775.6	15.6%	10 962.6	11 454.9	4.5%
28 Police	78 668.3	79 137.4	0.6%	77 232.3	81 608.8	5.7%
29 Agriculture, Land Reform and Rural Development	4 112.9	4 078.8	-0.8%	3 856.5	4 029.7	4.5%
30 Communications and Digital Technologies	289.5	302.9	4.6%	291.3	304.4	4.5%
34 Mineral Resources and Energy	971.1	1 037.1	6.8%	1 037.1	1 083.7	4.5%
36 Small Business Development	155.2	190.0	22.4%	220.3	246.7	12.0%
38 Tourism	340.8	370.8	8.8%	363.5	379.8	4.5%
<b>Total</b>	<b>180 792.9</b>	<b>182 821.2</b>	<b>1.1%</b>	<b>178 114.7</b>	<b>186 991.9</b>	<b>5.0%</b>



# Additional funding in 2022/23

- Adjustments to the main budget were made possible by an improved revenue outlook:
- Upward adjustments include compensation of employees specifically for:
  - Health
  - Education
  - Police
- Other increases include transfers to:
  - Municipalities (LGES)
  - Households
- Increases to the local government, however, does not guarantee that the needs of indigent households will be sufficiently met especially if the systemic financial and operational challenges are not addressed
- Any new spending commitments, such as additional social protection, must be fully financed by tax measures or spending cuts
- Any shortfall in revenue collection, affecting expenditure will have to be absorbed within existing baselines

# Additional funding over the 2022 MTEF

<b>Social welfare interventions and free basic services</b> (R87 billion over the MTEF)	<ul style="list-style-type: none"><li>• R44 billion to extend the special COVID-19 social relief of distress grant for 12 months</li><li>• R28.9 billion for the local government equitable share</li><li>• R14.7 billion for social grant CPI shortfall and double orphans provision</li></ul>
<b>Health</b> (R21 billion over MTEF)	<ul style="list-style-type: none"><li>• R15.6 billion allocated to provincial health departments to support their continued response to the COVID-19 pandemic, and to bridge shortfalls in essential goods and services.</li><li>• R2.3 billion to further support COVID-19 vaccination programme</li><li>• R3.3 billion towards appointing medical interns and community service doctors</li></ul>
<b>Education</b> (R57 billion over MTEF)	<ul style="list-style-type: none"><li>• R24.6 billion for provincial education departments mainly to address the shortfall in compensation budgets.</li><li>• R32.6 billion for the National Student Financial Aid Scheme.</li></ul>
<b>Infrastructure investments and employment</b> (R27 billion over MTEF)	<ul style="list-style-type: none"><li>• R18.4 billion for the presidential employment initiative</li><li>• R7 billion for the rehabilitation of the national non-toll road network: SANRAL</li><li>• R2.5 billion towards disaster recovery due to storms and floods</li></ul>
<b>Peace and security</b> (R7.4 billion over MTEF)	<ul style="list-style-type: none"><li>• R7.4 billion to capacitate the SAPS (12 000 entry-level constables to be recruited and trained).</li></ul>
<b>Other priorities</b> (R26.3 billion over MTEF)	<ul style="list-style-type: none"><li>• R20.5 billion to provide for wage bill adjustments</li><li>• R5.8 billion for other spending pressures</li></ul>

# Risks to the 2022 Appropriations

Contingent liabilities

Support for SOEs

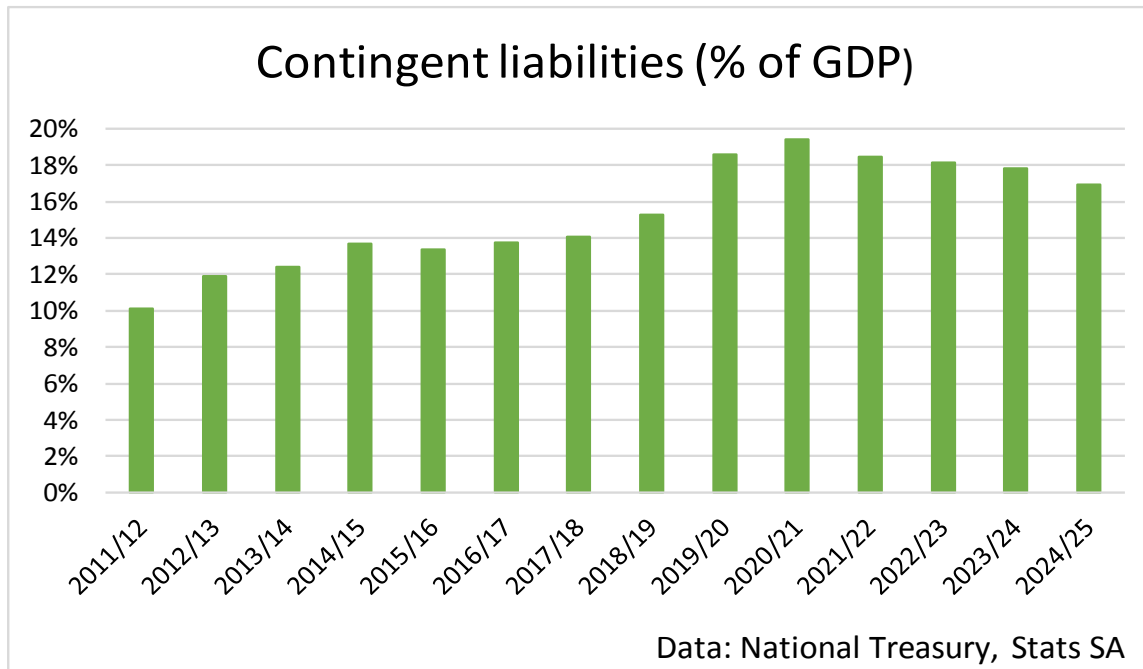
Risks: State Owned Enterprises (SOEs)

Key financial health indicators at departments – sustainability

AGSA calls for action on accountability for the use of public finances

# Contingent liabilities

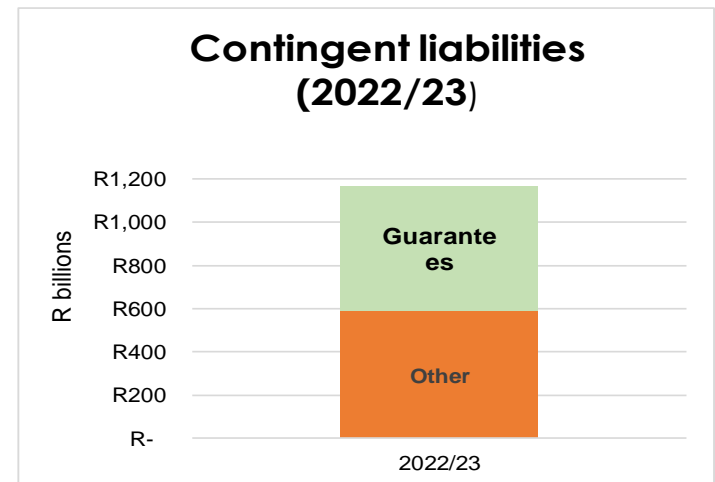
- Contingent liabilities refer to financial obligations on government that arise from specific events occurring (e.g. having to pay an SOE's creditors of government guaranteed debt if SOE can't)
- Materialising of contingent liabilities places significant pressure on public finances, diverting resources away from spending priorities and harming the sustainability of public finances
- Critical that government monitor and update contingent liabilities
- Contingent liabilities have been growing (R1.17 trillion in 2022)



# Contingent liabilities (cont.)

- Contingent liabilities include
  - Guarantees to state-owned companies
  - Independent power producers
  - Public-private partnerships
  - Provisions for multilateral institutions
- Guarantees to SOEs and Road Accident Fund (90% of total)
- Improved reporting requirement for PPPs is welcome
- Imperative to improved management of SOEs to profitability and self-sufficiency
- Road Accident Fund – Road Accident Fund Benefit bill rejected by parliament

Contingent liabilities	Share of total (2022/23)
Eskom	28%
Independent power producers	13%
South African National Roads Agency	4%
Road accident fund	40%
Other guarantees	4%
Other contingent liabilities	10%



# Support for SOEs

- Department of Public Enterprises receives R33.9 billion, to settle government guaranteed debt:
  - Eskom: R21.9 billion (91.3%)
  - SAA: R1.8 billion (7.4%) (Progress has ben made with the partial sale of SAA to an identified strategic equity partner)
- Denel: R3 billion to meet its general obligations
- SASRIA: R22 billion to settle the high volume of claims and ensure that the insurer has sufficient capital to meet regulatory requirements

# Risks: State Owned Enterprises

- The financial position of major state-owned companies remains under pressure
- To meet short-term obligations in 2020/21, most of these companies deferred their capital investment projects to preserve cash
- This deferrals resulted in a 6.2 per cent decline in their consolidated asset base
- Continuous delay and underspending on infrastructure projects hampers capital investment

## Combined balance sheets of state-owned companies<sup>1</sup>

R billion/per cent growth	2016/17	2017/18	2018/19	2019/20	2020/21
Total assets	1 224.3 3.9%	1 263.2 3.2%	1 276.8 0.5%	1 313.4 2.9%	1 232.1 -6.2%
Total liabilities	870.3 6.4%	901.1 3.5%	933.0 2.9%	960.7 3.0%	853.4 -11.2%
Net asset value	354.0 -1.8%	362.1 2.3%	343.8 -5.5%	352.7 2.6%	378.7 7.4%
Return on equity (average)	0.7%	-0.8%	-8.0%	-9.8%	-14.6%

1. State-owned companies listed in schedule 2 of the PFMA

# Key financial health indicators at departments – sustainability

The sustainability indicators and the high unauthorised expenditure paint a picture of departments unable to operate within their budgets, resulting in deficits, cash shortfalls and bank overdrafts.

Indicator	2020/21
<b>Deficit</b> (expenditure exceeded revenue)	R41.74 billion
<b>Number of departments with deficit</b>	32% (50)
<b>Cash shortfall</b> (bank overdraft less prepaid expenses/advances plus money to be surrendered to treasury)	R33.29 billion
<b>Number of departments with cash shortfall</b>	61% (89)
>10% of following year's budget (excluding employee cost and transfers) will fund current year's shortfall	18% (27)
<b>Bank in overdraft</b>	19% (30)
<b>Estimated settlement value of claims against the state</b> at year-end	R166.07 billion
<b>Number of departments with unsettled claims</b>	94% (138)
<b>Claims settlement value &gt;10% of following year's budget</b> (excluding employee cost and transfers)	37% (55)

Source: AGSA



# Second Adjustments Appropriation Bill: 2021/22 financial year

- Purpose of the Bill: To effect adjustments to the appropriation of money from the National Revenue Fund for expenditure approved in the 2021/22 financial year
- Adjustments to appropriations of money to the vote of Health
  - An amount of R500 million is appropriated to procure COVID-19 vaccines
- Adjustments to appropriations of money to the vote of National Treasury
  - An amount of R18.1 billion is appropriated to purchase equity from the South African Special Risks Insurance Association

Thank You

# AGSA calls for action on accountability for the use of public finances

Key governance failures that could affect the implementation of the 2022 Appropriation Bill:

- Low levels of accountability among accounting officers and accounting authorities
- Lack of internal controls, in particular the implementation of preventative controls
- Control weaknesses in government's information systems results in project failures and financial loss
- Poor decision-making, neglect or inefficiencies which continues to result in high levels of fruitless and wasteful expenditure
- Lack of oversight, monitoring and assurance
- Lack of material compliance with legislation – not paying creditors on time

# Objects of the 2022 Appropriation Bill and the Second Adjustments for 2021/22

- The 2022 Appropriations Bill: To appropriate money from the National Revenue Fund for the requirements of the State for the 2022/23 financial year; to prescribe conditions for the spending of funds withdrawn for the 2023/24 financial year before the commencement of the Appropriation Act for the 2023/24 financial year; and to provide for matters incidental thereto
  - It reflects a summary of the appropriations per main division of votes, of which
  - The detail is presented in the 2022 Estimates of National Expenditure (ENE)
  - To note that the detail of Parliament is excluded from this bill and the ENE
- Second Adjustments Bill, 2021/22: To effect adjustments to the appropriation of money from the National Revenue Fund for expenditure approved in the 2021/22 financial year; and to provide for matters incidental thereto for:
  - National Treasury to purchase equity in SASRIA: R18.1 billion
  - Health to purchase goods and services to address the needs of Covid-19: R500 million

# Legislative mandate of the three spheres of government

- National government mainly provides: (National share and transfers to other institutions reflected in the Appropriations Bill)
  - Central Government Administration
  - Justice & Protection Services
  - Financial & Administration Services
  - Economic Services & Infrastructure Development
  - Social Services
- Provinces are responsible for: (Provincial Equitable Share)
  - Basic education
  - Health services
  - Roads
  - Housing
  - Social development
- Municipalities provide basic services such as: (Local Government Equitable Share)
  - Water
  - Sanitation
  - Electricity reticulation
  - Roads
  - Community services

# Budgeting by function

FUNCTION GROUP	TECHNICAL GROUP OR FUNCTION SUB-GROUP	KEY DEPARTMENTS AND OTHER INSTITUTIONS CONTRIBUTING TO THE OUTCOMES
<b>1. Learning and culture</b>	Basic education	Basic Education, Provincial Education departments
	Post-school education and training	Higher Education and Training, Sector Education and Training Authorities, National Skills Fund, National Student Financial Aid Scheme, Quality Council for Trades and Occupations, Council for Higher Education, South African Qualifications Authority
	Arts, culture, sport and recreation	Sport, Arts and Culture, Provincial and Local Arts, Culture, Sport and Recreation
<b>2. Health</b>	Health	Health, Provincial Health departments, National Health Laboratory Service
<b>3. Social development</b>	Social protection	National Social Development, South African Social Security Agency, National Development Agency, Provincial Social Developments, Women, Youth and Persons with Disabilities, National Youth Development Agency, Commission for Gender Equality
	Social security funds	Road Accident Fund, Unemployment Insurance Fund, Compensation Fund development
<b>4. Community development</b>	Community development	Cooperative Governance (limited to conditional grant and urban development programmes), Human Settlements, Water and Sanitation (water services), Public Transport, Mineral Resources and Energy (energy functions), Provincial Human Settlements, Provincial Public Transport, Local Governments
<b>7. General public services</b>	Executive and legislative organs	Presidency, Government Communications and Information System, Parliament, Provincial Legislatures, Planning, Monitoring and Evaluation

# Budgeting by function

FUNCTION GROUP	TECHNICAL GROUP	KEY DEPARTMENTS AND OTHER INSTITUTIONS
<b>5. Economic development</b>	Industrialisation and exports	Trade, Industry and Competition, Mineral Resources and Energy (mineral resources functions), Tourism, Small Business Development, Public Works and infrastructure (Programme 4) provincial economic development
	Agriculture & RD	Environment, Forestry, Fisheries and the Environment, Agriculture, Land Reform and Rural Development South African Forestry Company;
	Job creation and labour affairs	Employment and Labour, Public Works and Infrastructure (Programme 3), Expanded Public Works Programmes, Cooperative Governance, Employment Creation Facilitation Fund and National Treasury (Programme 7)
	Economic regulation and infrastructure	Mineral Resources and Energy (remaining energy functions), Transport, Environment, Forestry, Fisheries and the Environment (environmental regulation), Communications and Digital Technologies, Water and Sanitation (water services), Provincial (Roads only) and Local Governments, <b>Transnet, Eskom, Alexkor, South African Express, Telkom SA Limited, South African Airways</b>
	Innovation, science and technology	Science and Innovation
<b>6. Peace and security</b>	Defence and state security	Defence, Military Veterans, Financial Intelligence Centre, State Security, Armscor and the Castle Control Board, Denel
	Police services	Police, Independent Police Investigative Directorate, Civilian Secretariat for the Police Service
	Law courts and prisons	Justice and Constitutional Development, Correctional Services, Office of the Chief Justice, Legal Aid South Africa, Public Protector of South Africa, South African Human Rights Commission
	Defence and state security	Defence, Military Veterans, Financial Intelligence Centre, State Security, Armscor and the Castle Control Board, Denel
	Police services	Police, Independent Police Investigative Directorate, Civilian Secretariat for the Police Service

# Budgeting by function

- Budget discussions take place within function groups, which comprise various institutions across the 3 spheres of government grouped according to the objectives or activities they are mandated to perform
- These function groups are: learning and culture, social development, community development, health, general public services, economic development, and peace and security
- These function groups are strategically grouped to facilitate subject-specific discussions targeting service delivery requirements and policy priorities such as the seven priorities of the 2019-2024 MTSF
- It is then expected that service delivery are also monitored in terms of these function or sub-function groups
- The initial idea with the arrangement of the function groups was to align the budget with the NDP and the 2014-2019 MTSF



# Appropriations: Change in personnel numbers

	Number of posts estimated for 31 March 2022											
	Number of funded posts	Number of posts additional to the establishment	Revised estimate		Medium-term expenditure estimate				Average personnel growth rate (%)	Average unit cost growth rate (%)		
			2021/22		2022/23		2023/24		2024/25		2021/22 - 2024/25	
			Number	Unit cost	Number	Unit cost	Number	Unit cost	Number	Unit cost		
5 Home Affairs	8 623	35	8 374	431	8 661	448	8 482	446	8 396	471	0.1%	3.0%
7 National School of Government	85	-	91	657	90	664	76	775	75	825	-6.2%	7.9%
8 National Treasury	1206	131	1045	791	1090	815	1075	828	1041	866	-0.1%	3.1%
15 Traditional Affairs	105	6	101	820	103	843	107	831	107	869	2.1%	2.0%
17 Higher Education and Training	23 931	213	29 267	318	29 334	367	29 336	374	29 319	391	0.1%	7.1%
18 Health	1484	80	1410	637	1198	657	1173	648	1167	681	-6.1%	2.2%
28 Police	191763	-	176 708	445	178 708	443	178 708	432	178 708	457	0.4%	0.9%
29 Agriculture, Land Reform and Rural Development	7 940	516	6 916	595	6 673	611	6 238	618	6 222	648	-3.5%	2.9%
30 Communications and Digital Technology	365	32	379	765	389	779	377	773	376	809	-0.2%	1.9%
34 Mineral Resources and Energy	1596	140	1493	650	1710	607	1666	623	1663	652	3.7%	0.1%
36 Small Business Development	229	21	219	710	272	699	331	666	374	660	19.6%	-2.4%
38 Tourism	494	33	487	700	508	730	499	728	498	763	0.7%	2.9%
<b>Total</b>	<b>410 132</b>	<b>2 940</b>	<b>394 496</b>	<b>26 794</b>	<b>395 744</b>	<b>27 211</b>	<b>392 241</b>	<b>27 318</b>	<b>391 688</b>	<b>28 581</b>	<b>-0.2%</b>	<b>2.2%</b>