



PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

2014 Budget Analysis

Parliamentary Budget Office | 12th March 2014

Outline

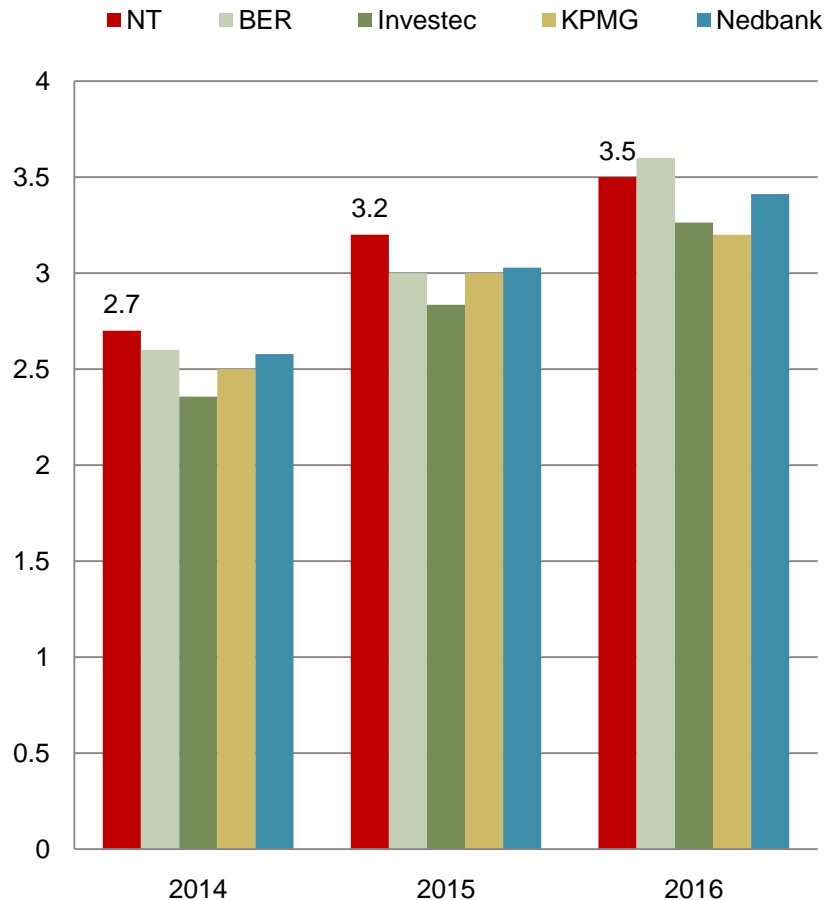
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- Factors influencing revenue and expenditure estimates
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- Budget deficit country comparison
- Expenditure by economic classification
- Infrastructure spending
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- Efficiency, Effectiveness and Economic spending of funds
- Summary

Factors influencing revenue and expenditure estimates

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GDP forecast comparison

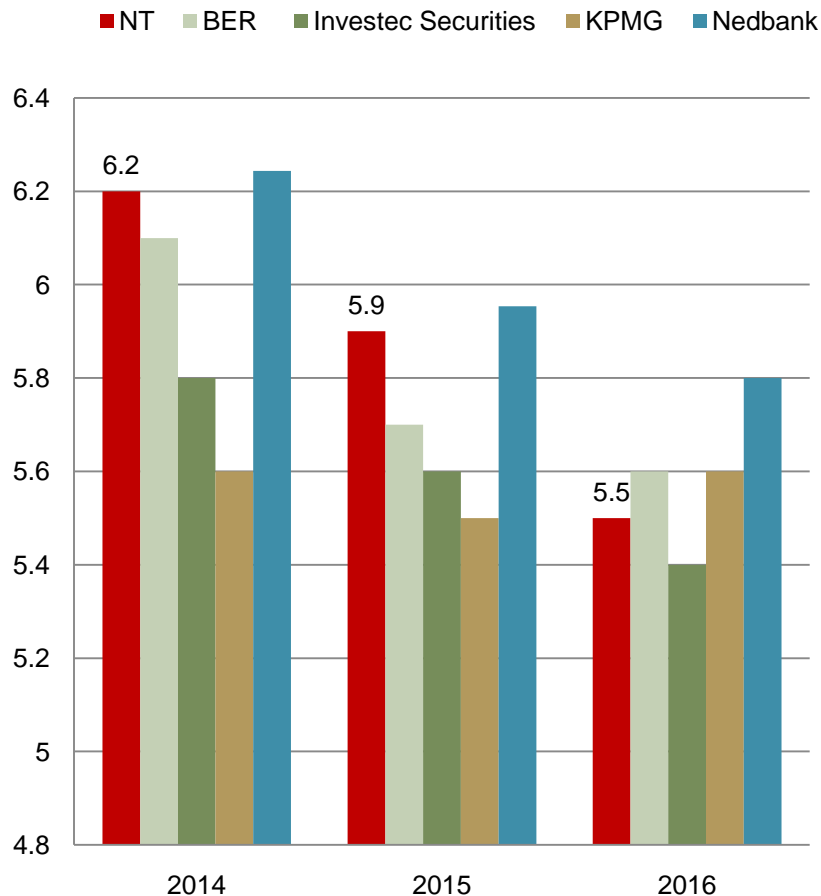


- GDP growth determines revenue
- NT GDP forecast:
 - 2.7% in 2014
 - 3.2% in 2015
 - 3.5% in 2016
- NT forecasts generally higher than other organisations
- Slower GDP growth means slower growth in revenue
- The NDP targets 5.4% growth to reduce unemployment

Factors influencing revenue and expenditure estimates (cont.)

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CPI forecast comparison



- CPI drives expenditure
- NT CPI forecast:
 - 6.2% in 2014
 - 5.9% in 2015
 - 5.5% in 2016
- NT forecast in general is higher than other organisations
- Inflation reduces the scope for real expenditure increases
- Main expenditure drivers:
 - Public wage bill ($\pm 35\%$)
 - Transfers and subsidies

Consolidated fiscal framework

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Table 1: Consolidated fiscal framework, 2012/13 – 2016/17

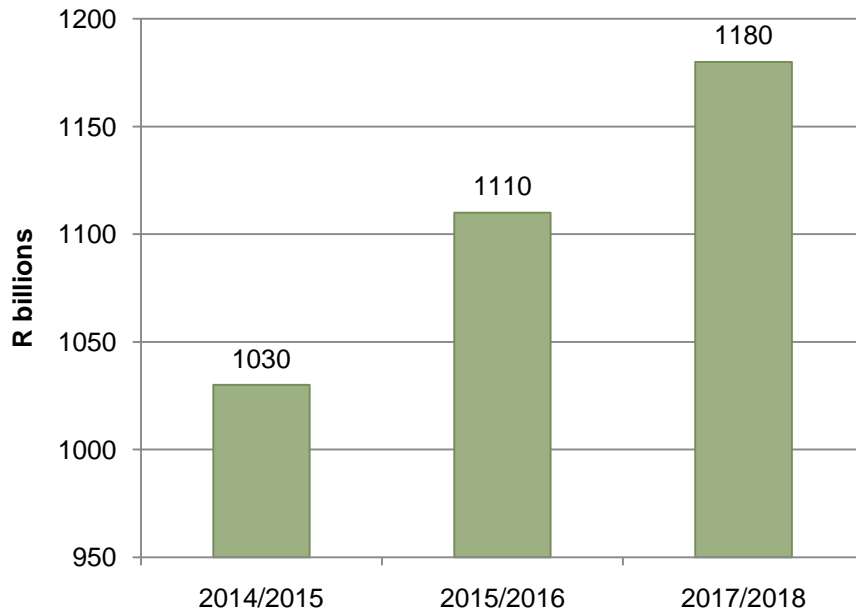
	2012/13	2013/14	2014/15	2015/16 Medium-term estimates		2016/17	
R' billion as % of GDP		Estimate		Growth	Growth		Growth
GDP at current prices (R billion)	3 198	3 465	3 790	9.37%	4 151	4 553	9.69%
Revenue	909.3 28.4%	1 010.5 29.2%	1 099.3 29.0%	8.78%	1 201.3 28.9%	1 324.7 29.1%	10.27%
CPI inflation		5.80%		6.23%	5.69%		5.45%
Expenditure	1 045.2 32.7%	1 149.3 33.2%	1 252.3 33.1%	8.96%	1 351.6 32.6%	1 451.7 31.9%	7.40%
Budget balance	-135.9 -4.3%	-138.8 -4.0%	-153.1 -4.0%	10.27%	-150.3 -3.6%	-126.9 -2.8%	-15.54%

- Estimated growth in revenue collection is slightly lower than the forecast GDP growth.
- Revenue growth is not tracking GDP growth in the outer year.
- Estimated expenditure increases are higher than the increase in the CPI (real growth).
- Expenditure growth is slower than revenue growth due to the expenditure ceiling/limit maintained over the MTEF since 2012.
- Budget balance/deficit is declining over the MTEF.

Fiscal framework decisions

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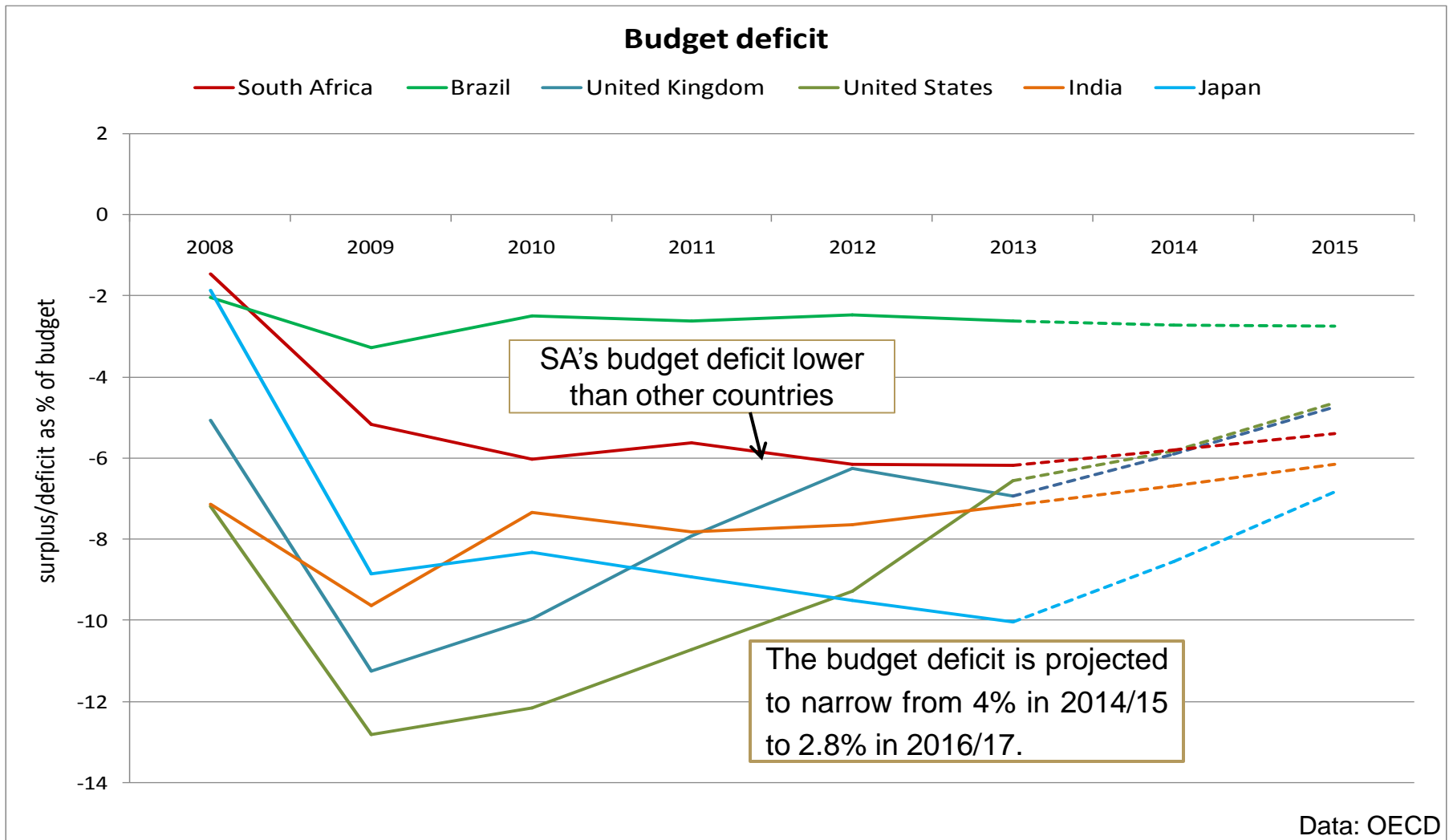
Expenditure ceiling



- NT has committed SA to an expenditure ceiling of R1.03 trillion in 2014/15, R1.11 trillion in 2015/16 and R1.18 trillion in 2016/17.
- The objective of the expenditure ceiling is to reduce the budget deficit and debt levels.

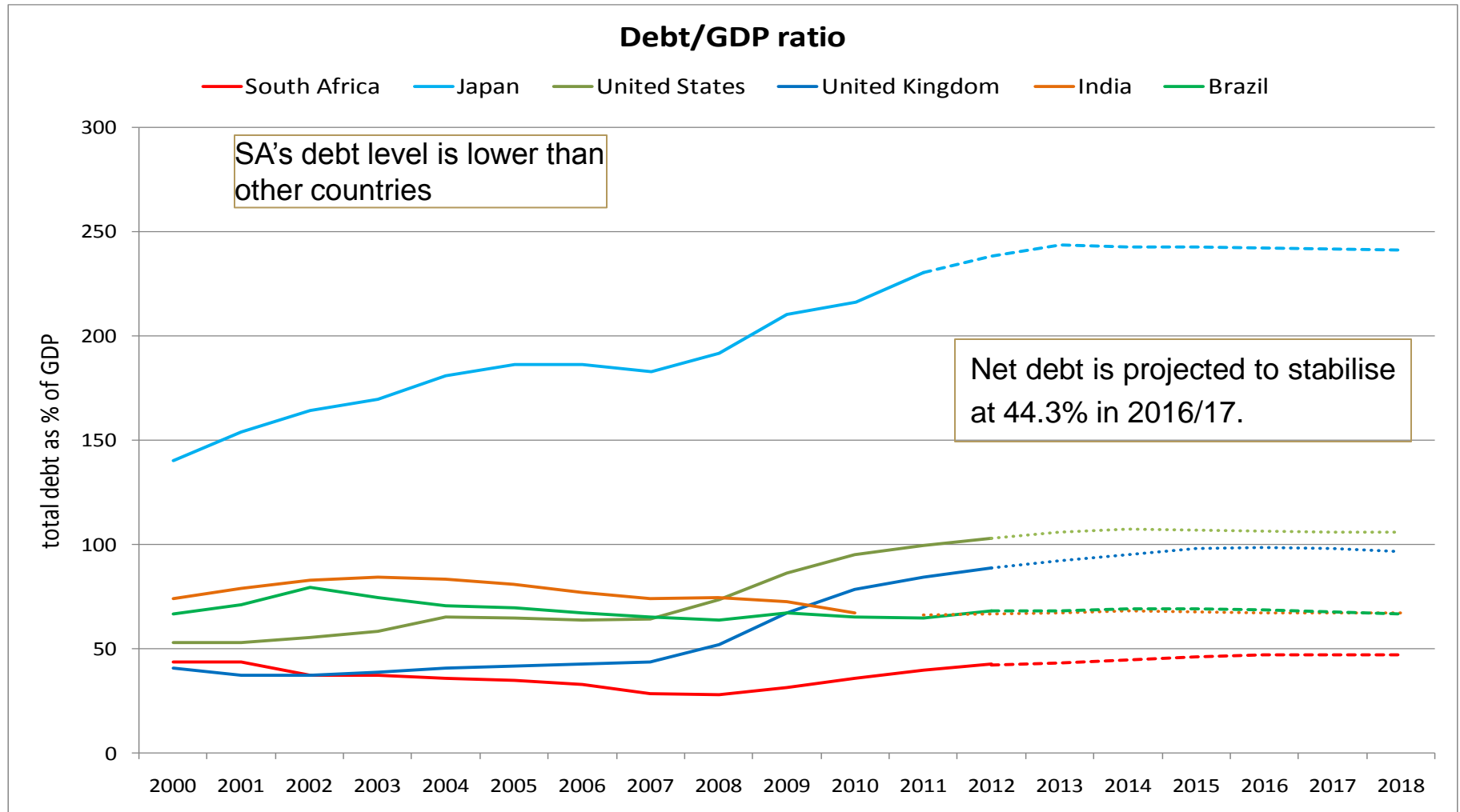
However SA's budget deficit is moderate

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Debt levels are relatively low

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Data: IMF

However...

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- *Putting a ceiling on spending is conservative.*
- *Good budgeting is about fiscal discipline, but also about allocative and distributive efficiency.*
- *Enhancing the institutional framework within which spending decisions are made should be a priority.*
- *What principle or fiscal rules determine the ceiling?*
- *What methodology was used to determine the ceiling?*
- *Is this an indication ceiling that can succumb to economic and political pressures?*

Why an expenditure ceiling and not a debt ceiling?

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- *Expenditure ceiling is a limit on government spending.*
- *Debt ceiling on the other hand is a cap on government borrowing.*
- *Finland, Sweden and the Netherlands set expenditure limits governed by fiscal rules.*
- *US and Denmark impose debt ceilings.*
- *The U.S. national debt ceiling was conceived almost a century ago to borrow money to finance their expenditure.*
- *Denmark sets the ceiling so high that they never approach it.*

Expenditure by economic classification

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Table 2: Consolidated operating accounts, 2012/13 – 2016/17

	2012/13	2013/14	2014/15	2015/16	2016/17
R billion		Estimate	Medium-term estimates		
Operating account					
Current revenue	908.9	1 010.3	1 099.1	1 201.2	1 324.5
Current payments	920.8	1 011.1	1 093.8	1 176.5	1 254.2
Compensation	375.0	411.3	439.4	468.7	498.9
Goods and services	167.9	180.0	189.7	199.7	211.4
Interest payments	93.5	107.7	121.2	133.5	145.1
Current transfers and subsidies	284.4	312.3	343.5	374.7	398.7
Current payments as % of total expenditure	88.09%	87.98%	87.34%	87.04%	86.40%
Compensation	35.9%	35.8%	35.1%	34.7%	34.4%
Goods and services	16.1%	15.7%	15.1%	14.8%	14.6%
Interest payments	8.9%	9.4%	9.7%	9.9%	10.0%
Current transfers and subsidies	27.2%	27.2%	27.4%	27.7%	27.5%
Total expenditure	1 045.2	1 149.3	1 252.3	1 351.6	1 451.7
Current payments as % of GDP	28.8%	29.2%	28.9%	28.3%	27.5%
Compensation	11.7%	11.9%	11.6%	11.3%	11.0%
Goods and services	5.3%	5.2%	5.0%	4.8%	4.6%
Interest payments	2.9%	3.1%	3.2%	3.2%	3.2%
Current transfers and subsidies	8.9%	9.0%	9.1%	9.0%	8.8%
GDP at current prices (R billion)	3 198	3 465	3 790	4 151	4 553

Expenditure by economic classification (cont.)

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Table 3: Consolidated capital account, 2012/13 – 2016/17

	2012/13	2013/14	2014/15	2015/16	2016/17
R billion		Estimate	Medium-term estimates		
Capital account	119.9	134.5	152.1	166.0	179.4
Capital receipts	0.4	0.2	0.2	0.2	0.2
Capital payments	67.1	78.4	91.3	98.9	105.9
Capital transfers	52.4	55.9	60.6	66.9	73.3
Capital account as % of total expenditure	11.47%	11.70%	12.14%	12.28%	12.36%
Capital receipts	0.03%	0.02%	0.01%	0.01%	0.01%
Capital payments	6.42%	6.82%	7.29%	7.31%	7.30%
Capital transfers	5.01%	4.86%	4.84%	4.95%	5.05%
Total expenditure	1 045	1 149	1 252	1 352	1 452
Capital account as % of GDP	3.75%	3.88%	4.01%	4.00%	3.94%
Capital receipts	0.01%	0.01%	0.00%	0.00%	0.00%
Capital payments	2.10%	2.26%	2.41%	2.38%	2.33%
Capital transfers	1.64%	1.61%	1.60%	1.61%	1.61%
GDP at current prices (R billion)	3 198	3 465	3 790	4 151	4 553

Infrastructure spending

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Table 5: Public-sector infrastructure expenditure, 2012/13 – 2016/17

	2012/13	2013/14	2014/15	2015/16	2016/17
R billion		Estimates			
Energy	75.1	80.6	72.3	65.5	50.6
Water and sanitation	22.6	32.4	36.5	36.9	38.5
Transport and logistics	69.5	78.6	99.6	120.0	127.5
Other economic services	8.9	13.0	15.2	14.2	12.8
Health	9.7	9.8	10.6	11.3	11.6
Education	9.8	12.1	13.5	13.6	14.0
Other social services	10.7	13.9	12.5	13.0	15.9
Justice and protection services	4.4	4.9	4.9	5.0	6.5
Central government services	6.9	7.4	7.9	8.4	9.3
Total	217.7	252.6	272.9	287.8	286.6
National departments	9.6	11.4	14.1	14.3	16.7
Provincial departments	36.4	41.9	42.6	45.6	46.6
Local government	41.7	55.2	58.3	61.8	63.5
Public entities ¹	14.1	16.4	21.5	23.7	24.4
Public-private partnerships	2.6	3.0	3.1	3.3	3.5
Public enterprises ¹	113.4	124.8	133.4	139.1	132.0
Total	217.7	252.6	272.9	287.8	286.6
Percentage of total expenditure	20.8%	22.0%	21.8%	21.3%	19.7%
Percentage of GDP	6.8%	7.3%	7.2%	6.9%	6.3%

1. Public entities are financed by capital transfers from the fiscus and public enterprises are financed from a combination of own revenue, borrowings and private funding

- Total expenditure on infrastructure increases from R252.6 billion in 2013/14 to R286.6 billion in 2016/17.
- However total expenditure on infrastructure as a percentage of total expenditure decreases from 22.0% in 2013/14 to 19.7% in 2016/17.
- Total expenditure on infrastructure as a percentage of GDP also decreases from 7.3% in 2013/14 to 6.3% in 2016/17.
- NDP stresses the need to improve economic and public infrastructure.
- NDP targets gross fixed capital investment of 30% of GDP by 20130 to improve growth, of which 10% of GDP for the public sector .

Infrastructure spending

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Table 6: Public-sector infrastructure expenditure per sphere of government, 2012/13 – 2016/17

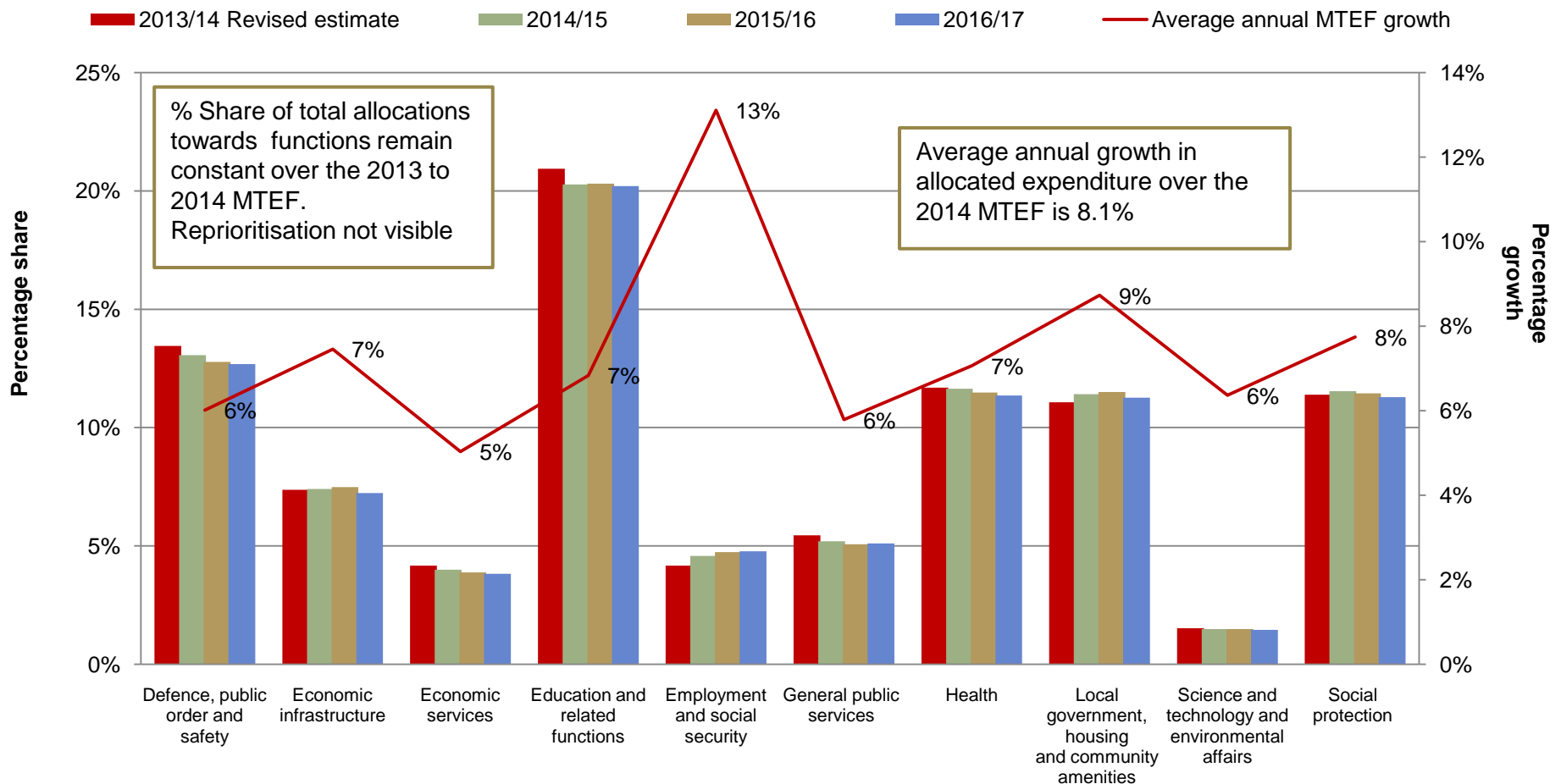
	2012/13	2013/14	2014/15	2015/16	2016/17
R billion	Estimates				
Total	217.7	252.6	272.9	287.8	286.6
Percentage of total					
National departments	4.4%	4.5%	5.2%	5.0%	5.8%
Provincial departments	16.7%	16.6%	15.6%	15.8%	16.2%
Local government	19.1%	21.9%	21.3%	21.5%	22.2%
Public entities ¹	6.5%	6.5%	7.9%	8.2%	8.5%
Public-private partnerships	1.2%	1.2%	1.1%	1.2%	1.2%
Public enterprises ¹	52.1%	49.4%	48.9%	48.3%	46.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

- Largest proportion of infrastructure expenditure:
 - ▣ Public enterprises
 - ▣ Local government
 - ▣ Provincial departments
- In 2012/13 municipalities spent 84.6% of infrastructure grants. Low spending due to:
 - ▣ Poor planning
 - ▣ Lack of project management skills
 - ▣ Inadequate oversight
- The reviews of the effectiveness of grants are important

Expenditure by function

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Percentage share of allocated expenditure



Division of revenue shows...

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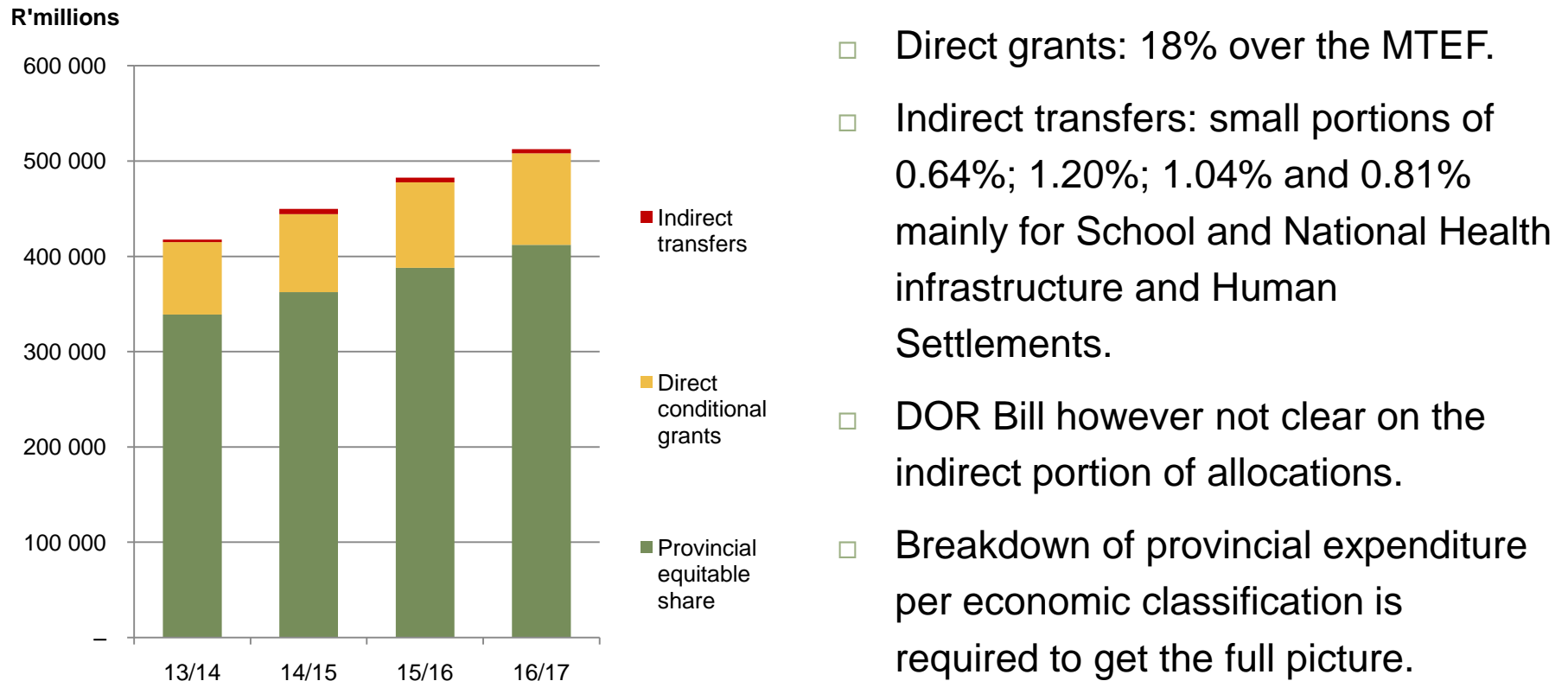
Table 7: Division of nationally raised revenue, 2012/13 – 2016/17

	2012/13	2013/14 Revised estimate	2014/15 Medium-term estimates	2015/16 Medium-term estimates	2016/17 Medium-term estimates
R million					
Division of available funds					
National departments	412 706	449 251	489 424	522 257	552 983
of which:					
<i>Indirect transfers to provinces</i>	<i>860</i>	<i>2 693</i>	<i>5 413</i>	<i>5 044</i>	<i>4 127</i>
<i>Indirect transfers to local</i>	<i>4 956</i>	<i>5 697</i>	<i>7 726</i>	<i>9 467</i>	<i>10 221</i>
Provinces	388 238	414 932	444 423	477 639	508 254
Equitable share	313 016	338 937	362 468	387 967	412 039
Conditional grants	75 222	75 995	81 955	89 672	96 215
Local government	76 430	83 670	90 815	100 047	105 187
Equitable share	37 139	39 789	44 490	50 208	52 869
Conditional grants	30 251	34 268	36 135	39 181	41 094
General fuel levy	9 040	9 613	10 190	10 659	11 224
Non-interest allocations	877 374	947 853	1 024 662	1 099 943	1 166 424
<i>Percentage increase</i>	<i>7.9%</i>	<i>8.0%</i>	<i>8.1%</i>	<i>7.3%</i>	<i>6.0%</i>
Debt-service costs	88 121	101 256	114 901	126 647	139 201
Contingency reserve	–	–	3 000	6 000	18 000
Main budget expenditure	965 496	1 049 109	1 142 562	1 232 590	1 323 624
<i>Percentage increase</i>	<i>8.5%</i>	<i>8.7%</i>	<i>8.9%</i>	<i>7.9%</i>	<i>7.4%</i>
<i>Percentage shares</i>					
<i>National departments</i>	<i>47.0%</i>	<i>47.4%</i>	<i>47.8%</i>	<i>47.5%</i>	<i>47.4%</i>
<i>Provinces</i>	<i>44.3%</i>	<i>43.8%</i>	<i>43.4%</i>	<i>43.4%</i>	<i>43.6%</i>
<i>Local government</i>	<i>8.7%</i>	<i>8.8%</i>	<i>8.9%</i>	<i>9.1%</i>	<i>9.0%</i>

Division of Revenue (cont.)

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Transfers to Provinces

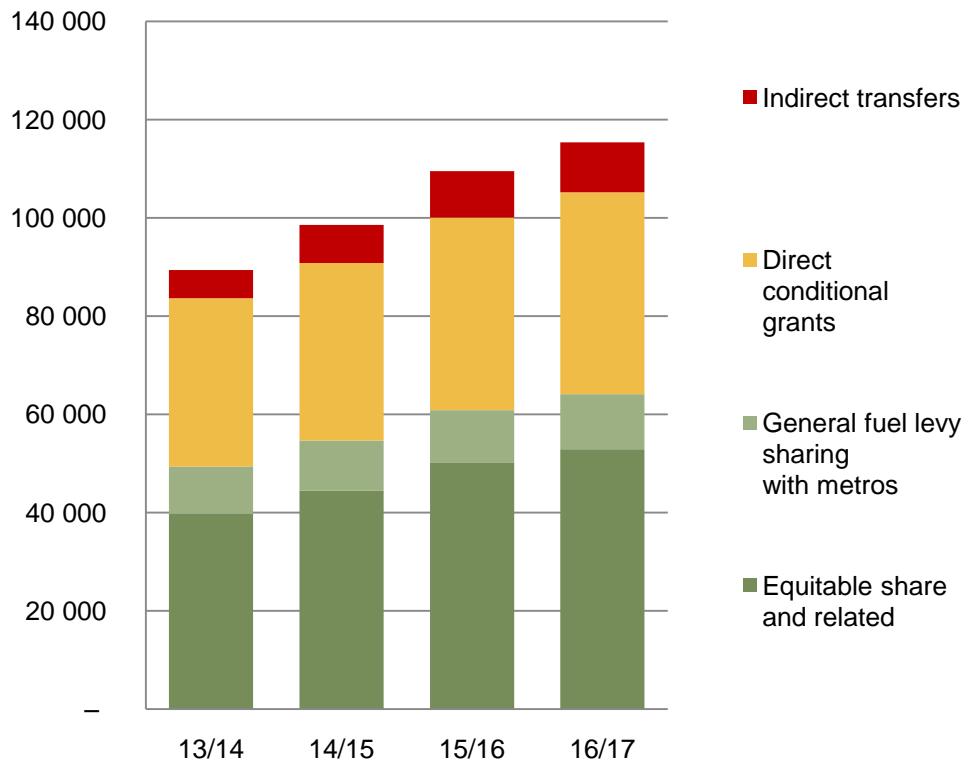


Division of Revenue (cont.)

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Transfers to Local Government

R'million



- PES: 45% of total transfers over the MTEF.
- Direct grants: from 38% in 13/14 to under 36% over the MTEF.
- Indirect transfers: from 6% in 13/14 to almost 9% in 2016/17 mainly for infrastructure:
 - Integrated national electrification programme,
 - Neighbourhood development partnership,
 - Regional bulk infrastructure,
 - Municipal water infrastructure,
 - Rural households infrastructure,
 - Other indirect grants.
- DOR Bill not clear on the indirect portion of the allocation.
- In 2012/13 municipalities spent 84.6% of infrastructure grants due to capacity constraints.

Division of Revenue (cont.)

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Table 8: Provincial equitable share, 2014 MTEF

R million	% share	% share	% share
Eastern Cape	14.39%	14.28%	14.05%
Free State	5.76%	5.73%	5.62%
Gauteng	18.95%	19.13%	19.47%
Kw aZulu-Natal	21.56%	21.48%	21.33%
Limpopo	11.94%	11.88%	11.80%
Mpumalanga	8.10%	8.11%	8.19%
Northern Cape	2.66%	2.65%	2.66%
North West	6.82%	6.84%	6.89%
Western Cape	9.83%	9.91%	10.00%
Total	100%	100%	100%

- The PES formula updates with 2011 Census data resulted in significant changes in the shares.
- Gauteng and Western Cape population numbers were under estimated.
- To give provinces time to adjust to their new allocations, the Census updates were phased in over three years.

Efficiency, Effectiveness and Economic spending of funds

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Table 6: Selected items of goods and services: national and provinces, 2013/14 – 2016/17

	2013/14	2016/17	Average growth
Estimate			
Share of total goods and services (15.1% of total exp.)			2013/14 – 2016/17
Travel and subsistence	6.3%	6.0%	-2.9%
Catering, entertainment and venue rental	1.5%	1.4%	-5.7%
Consultants	9.6%	8.5%	-5.5%
Stationery and printing	2.2%	2.0%	-4.8%
Administrative and operational payments	14.4%	14.0%	-2.4%
Medicine and medical supplies	11.3%	12.9%	3.1%
Learner and teacher support material	2.7%	3.3%	5.2%
Fuel, oil and gas (police vehicles)	2.3%	2.8%	4.2%
Total goods and services			-1.5%

- Slower growth on specific items is acknowledged.
- The actual amounts should be reflected as well as the per capita spend to determine efficiency gains.
- This measure should be extended to larger line items.

In summary

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- Revenue growth is tracking GDP growth except for the outer year of the MTEF.
- However, real growth in expenditure is slower than revenue.
- The expenditure ceiling will assist in reducing the budget deficit.
- Fiscal rules should be considered.
- Infrastructure spending as a percentage of GDP is declining over the MTEF.
- No noticeable reprioritisation between functional groups.
- Outputs for the indirect transfers not clear.
- Efficiency, effectiveness and economic spending should be implemented on all levels of expenditure.

Thank you

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