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# SUMMARY AND ANALYSIS OF THE 2019 ADJUSTED APPROPRIATION BILL

27 November 2019

## INTRODUCTION

The brief provides a summary of the 2019 Adjusted Appropriations Bill. The brief further outlines key matters and questions for consideration for Members of the Select and Standing Committees on Appropriations. This is in preparation for a briefing by National Treasury on the key aspects of the 2019 Adjusted Appropriation Bill. This is a crucial occasion and it forms part of the Committees' mandate as spelt out in section 4(3) of the Money Bills Amendment Procedures and Related Matter Act (2009).

## 1. PRINCIPLES UNDERLYING BUDGET ADJUSTEMENTS

The adjustments budget process happens in the middle of the financial year along with the Medium Term Budget Policy Statement (MTBPS). The process provides an opportunity for the Minister of Finance to table proposed revisions to the budget table at the start of the financial year (and subsequently approved by Parliament). Such revisions are in response to changes that have affected planned government spending in first six months of the relevant financial year.

The adjusted budget may allocate unused funds, mainly from the contingency reserve, and additional amounts that have been approved for particular types of spending. The proposed adjustments, which have to be considered by Parliament, are reflected in the Adjusted Appropriation Bill[1] and the Adjusted Estimate of National Expenditure (AENE[2]).

The Adjusted Estimates of National Expenditure (AENE) describes in detail the revisions to spending plans for the first year of the MTEF period: the current financial year. It also includes revised spending and departmental revenue projections for the current financial year, and any revisions to performance projections emanating from the technical financial amendments tabled in the AENE[3].

[1] This is the bill that either approves, amendments (the AENE simply provides additional information to this Bill)

[2] The AENE provides detailed information of the proposed budget adjustments.

[3] National Treasury (2019)

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## 2. LIST OF DEPARTMENT WITH VIREMENTS THAT REQUIRE APPROVAL FROM PARLIAMENT

**Table 1 Department with Virements that Require Approval from Parliament**

| | DEPARTMENT | VOTE NUMBER |
|---|---|---|
| 1 | The presidency | (VOTE 1) |
| 2 | Communication | (VOTE 3) |
| 3 | COGTA | (VOTE 4) |
| 4 | Planning, Monitoring and Evaluation | (VOTE 8) |
| 5 | Public Enterprises | (VOTE 9) |
| 6 | Women | (VOTE 13) |
| 7 | Higher Education and Training | (VOTE 15) |
| 8 | Health | (VOTE 16) |
| 9 | Social Development | (VOTE 17) |
| 10 | Independent Policy Investigative Directorate | (VOTE 20) |
| 11 | Justice and Constitutional Development | (VOTE 21) |
| 12 | Agriculture, Fisheries and Forestry | (VOTE 24) |
| 13 | Labour | (VOTE 28) |
| 14 | Small Business Development | (VOTE 31) |
| 15 | Telecommunications and Postal Services | (VOTE 32) |
| 16 | Trade and Industry | (VOTE 34) |

Source: National Treasury (2019)

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**Table 1. General Provisions for Budget Adjustments as Per the Public Finance Management Act (PFMA)**

| | |
|---|---|
| **Significant and unforeseeable economic and financial events** | When unforeseeable economic and financial events affect the fiscal targets set by the budget, adjustments<br>1 Section 30(2).<br>2 Section 76.<br>2019 Adjusted Estimates of National Expenditure might need to be made. An example of such an event is inflation that is significantly higher than anticipated in the budget estimates projected for the MTEF period. |
| **Unforeseeable and unavoidable expenditure** | This expenditure could not be anticipated at the time of the budget. The Treasury Regulations 3 specify that the following may not be regarded as unforeseeable and unavoidable expenditure: spending that was known when the budget was being finalised but could not be accommodated in the allocations at the time; spending increases due to tariff adjustments and price increases; and spending to extend existing services or create new services that are not unforeseeable and unavoidable. An example of unforeseeable and unavoidable expenditure is spending that is necessary to deal with the effects of adverse weather conditions. |
| **Section 16 of the PFMA** | The Minister of Finance may approve the use of unappropriated funds if it is for spending of an exceptional nature. This happens if postponing the spending to a future parliamentary appropriation would seriously prejudice the public interest. The Minister of Finance must subsequently provide a report to Parliament and to the Auditor-General. |
| **Appropriation of expenditure earmarked in the budget speech for future allocation:** | In certain instances, an amount to be allocated for a specific purpose will be announced by the Minister of Finance in the budget speech, with the details of the annual allocations to be decided later. This is usually when plans have not been finalised in time to decide on the specific allocation amounts for the budget. |
| **Virements** | The use of unspent funds from amounts appropriated under one main division (programme) 4 to defray excess expenditure under another main division (programme) within the same vote/department. |

| | |
|---|---|
| | Legislation5 and the Treasury Regulations6 set the parameters within which virements may take place. |
| **Shifts within votes/departments:** | The use of unspent funds to defray increased expenditure within a main division (programme) of a vote/department by shifting funds between different segments (sub programmes and economic classifications) of the main division (programme). Shifts may include the reallocation of funds incorrectly allocated in the ENE process. Legislation5 and the Treasury Regulations6 set the parameters within which shifts may take place. |
| **Shifts between votes/departments:** | The use of unspent funds in a vote to defray increased expenditure in another vote/department. Such shifts include functions being shifted to another vote or institution in terms of legislation and/or following the reassignment of responsibility for the functions. The associated assets, including personnel, and liabilities also need to be shifted. |
| **Roll-overs** | Unspent funds from the previous financial year may be rolled over into the current financial year when activities planned to be completed by the end of the previous year have not been completed but are close to completion. The Treasury Regulations8 restrict roll-overs as follows: compensation of employees funding may not be rolled over; a maximum of 5 per cent of a department's budget for goods and services may be rolled over; funding for transfers and subsidies may not be rolled over for any purpose other than what the funds were originally allocated for; and unspent funds on payments for capital assets may be rolled over only to finalise projects or the acquisition of assets already in progress. |
| **Self-financing expenditure** | Spending financed from revenue derived from a vote/department's specific activities. This revenue is paid into the National Revenue Fund. If self-financing expenditure is approved, these funds are allocated to the vote/department. |
| **Declared unspent funds** | Unspent amounts that will not be spent in the current financial year, explicitly indicated as a reduction to the vote allocation. |
| **Direct charges against the National Revenue Fund:** | An amount spent in terms of a statute and that is not budgeted for in any programme in a particular vote. These amounts are shown |

| | |
|---|---|
| | as separate items, such as expenditure on debt-service costs. |
| **Gifts, donations and sponsorships** | Cash amounts exceeding R100 000 per beneficiary are included in the Adjustments Appropriation Bill. |

**Source: National Treasury (2019)**

## 3. SUMMARY OF ADJUSTMENTS FOR 2019/20

**Summary of adjustments for 2019/20**
Adjustments to vote appropriations amount to an increase of R14 868.7 million, of which:

- R 16 777.8 million for expenditure earmarked in the 2019 Budget speech for future allocation
- R 344.9 million for rollovers
- R 1 655.3 million for self-financing expenditure
- R 3 909.3 million reduction to vote allocations as the funds have declared as unspent (department will not be able to spend by the end of the financial year)

Adjustments to estimates of direct charges against the National Revenue Fund amount to R1 517.9 million more than anticipated at the time of the budget, of which:

- R 1 522.9 million for debt-service costs
- R 224.2 million for National Revenue Fund payments
- R 73.0 million for Members' remuneration
- R 182.2 million reduction from the skills levy and sector education and training authorities
- R 120.0 million reduction from magistrates' salaries

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## 4. POSSIBLE QUESTIONS AND ISSUES FOR CONSIDERATION

- Some of the proposed budget cuts and reprioritisation have significant economic impact, and Parliament would like to get an assurance that such impact will be well managed and mitigated before it triggers a technical recession

- Some of the proposed budget cuts affect infrastructure investment and the Committee is concerned about the negative effect it has on employment creation, skills transfer and the broader economic growth

- The Committee is concerned about the proposed budget reduction from the skills levy and sector education and training authorities:

- Is this triggered by the constraint fiscal environment?
- Is this not likely to negatively affect skills development in the country?
- How is this likely to impact on South Africa's response to the need for greater skills development as part of the Fourth Industrial Revolution?

- What prompted the R 120.0 million reduction from magistrates' salaries?

- In most instances, the budget cuts and reprioritisations from Departments such as Cooperative Governance results to reduction of budget for filling vacant positions.

- The concern for Parliament is that non-filling of critical positions diminishes the capacity of departments to deliver basic services like health, waster, sanitations and others

- Another concern relates to the effect to which non-filling of vacant positions has on the general capacity of government to deliver on its developmental agenda as set out in the National Development Plan-Vision 2030

- Various stakeholders have raised concerns about funding shortages caused by the ongoing fiscal consolidation, has National Treasury conducted any comprehensive assessment to determine the extent of underfunding in critical departments like health, education, water and sanitation etcetera.

- National Treasury should provide assurance that Departments have the necessary capacity to implement and spend the budgets for which roll-over of funds have been requested?