

Parliamentary

Briefing on 2020 Appropriation Bill
Select Committee on
Appropriations
10 June 2020

Budget
Office



Outline

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- Preliminary provisions and possibilities for reprioritisation within the 2020/21 allocations
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Introduction

- Parliament must 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 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 of 2009, including the Appropriations Bill, which amongst others provides for the:
 - Appropriation of money from the National Revenue Fund for the requirements of the State in the 2020/21 financial year to the main divisions within a vote for the purposes that are specified per programme
 - The spending of funds withdrawn from the National Revenue Fund before this Act takes effect

Background to the development of the 2020 Appropriations Bill

- The 2020 Budget proposed a significant reduction in growth of expenditure to reduce the budget deficit and level of debt
- Lower debt requires targeted spending cuts of specific programmes
- Steps proposed in the 2020 budget included:
 - Reduction of the public wage bill
 - Reform of state-owned companies and the Road Accident Fund
 - Across-the-board cuts that affect core government programmes
- These steps will moderate spending as a share of GDP and adjust the composition of expenditure, but will not reduce the debt level
- Further expenditure cuts could severely harm service delivery
- Critical factors include:
 - Efficiency and effectiveness, together with monitoring and evaluation
 - Discussions on increased taxes in the current economic environment

Changes to the economic outlook since the tabling of the 2020 Budget

	2020	2021	2022
National Treasury Budget Review 2020	0.9%	1.3%	1.6%
International Monetary Fund - April 2020	-0.7%	3.8%	-
South African Reserve Bank - May 2020	-5.8%	4.0%	-
Bureau for Economic Research - 2Q 2020	-9.5%	-	-
Rand Merchant Bank - 2Q 2020	-12%	-	-

- SA was already on a slow growth path, with rising socio-economic demands, record-high unemployment, and concerns over sustainability of national debt
- Covid-19 and policy responses to reduce and contain spread (lock-down, travel restrictions) will push the world and SA economy into a deep and prolonged recession
- Forecasts during a recession are especially uncertain and varied
- SA will (almost) certainly experience a recession, with large losses to income and employment

Broad impact of Covid-19 on the South African Economy

- Channels by which the national lockdown and efforts to contain the spread of Covid-19 impact on economic activity:
 - A forced reduction in production and other restrictions on non-essential business operations;
 - A large, but indeterminate reduction in household demands for goods, especially, services (travel and movement restrictions affect tourist and related activities);
 - The disruption in global production and supply chains which could greatly affect South African exports;
 - The effect of uncertainty on business investment; and
 - As businesses open, employers and workers fear growing infections and further disruptions.

Impact of Covid-19 on South African Households

* The national lockdown in the graphs refers to its first 6 weeks, beginning on the 26th of March 2020 to the 6th of May 2020.

Figure 1: Percentage change in income source for respondents, before and during the national lockdown*.

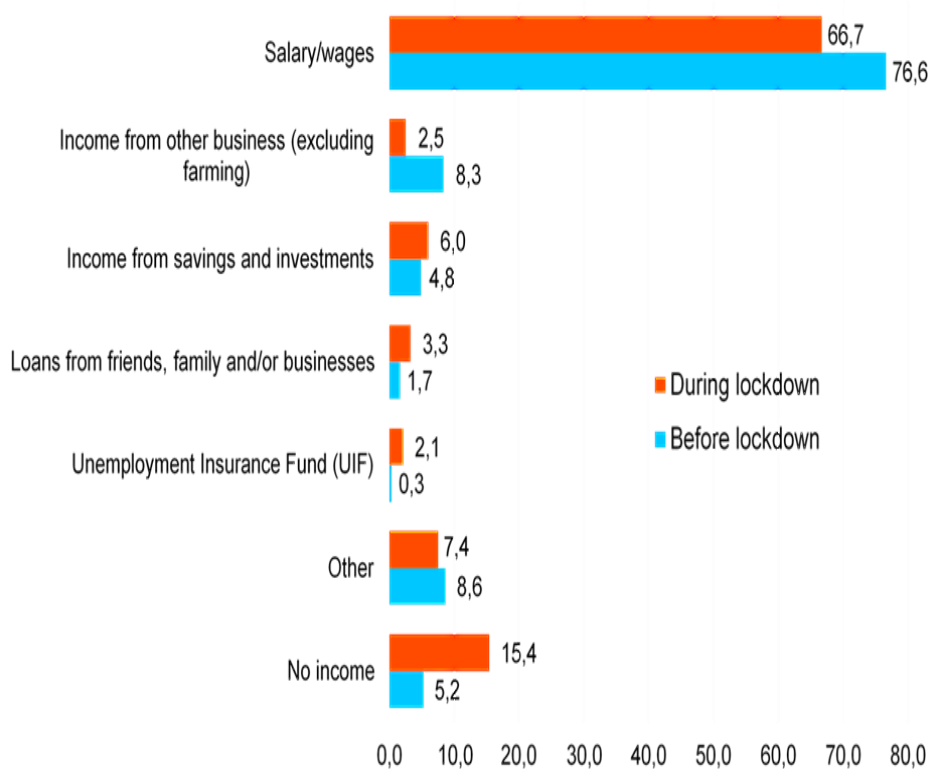
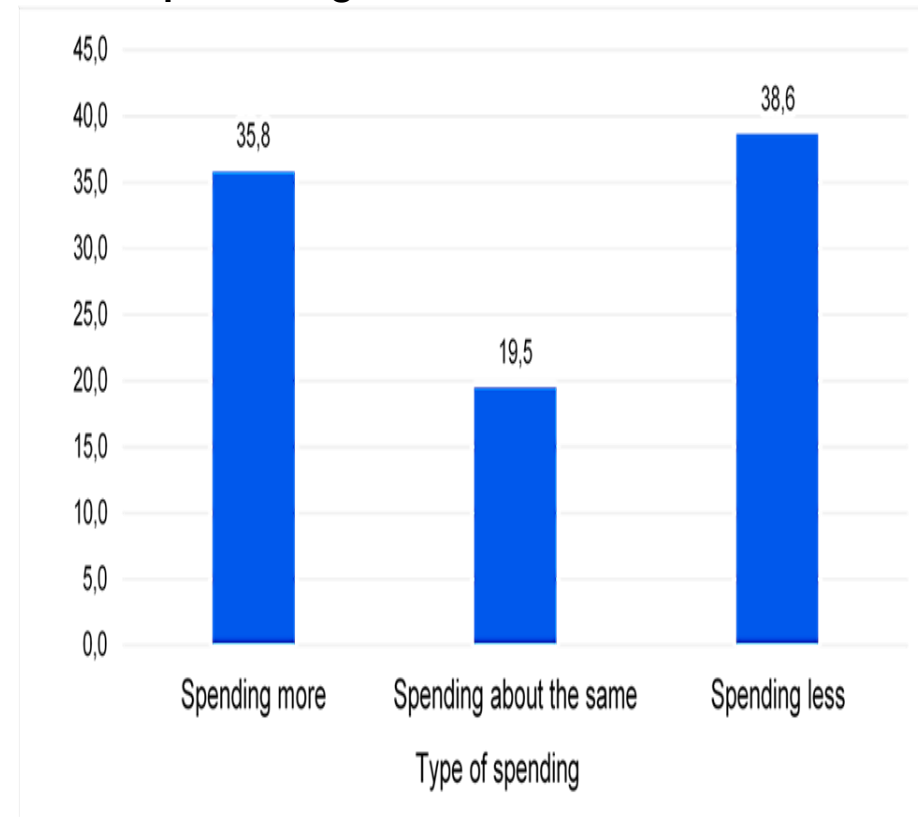
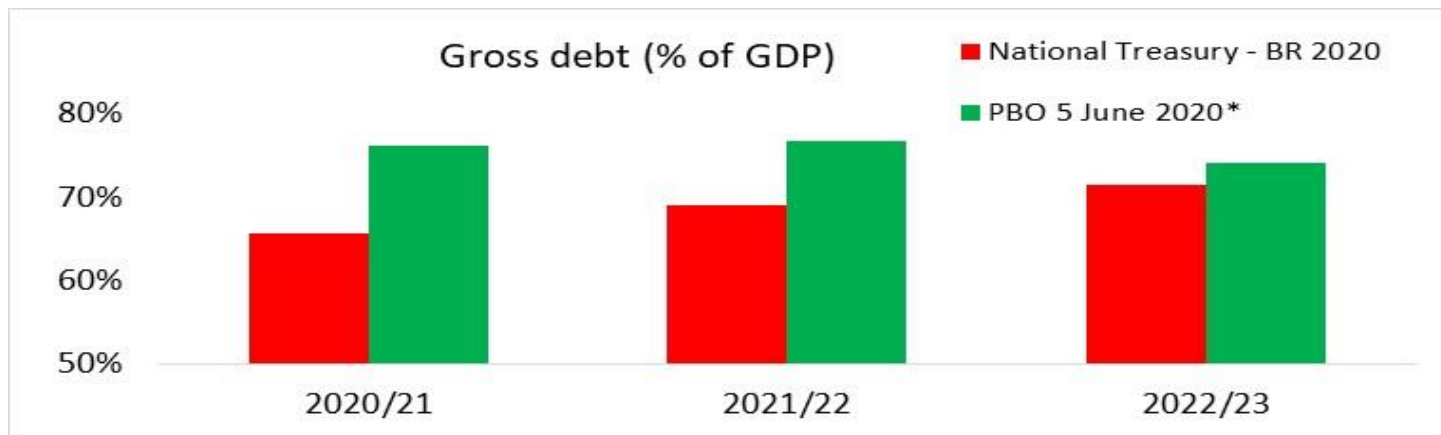
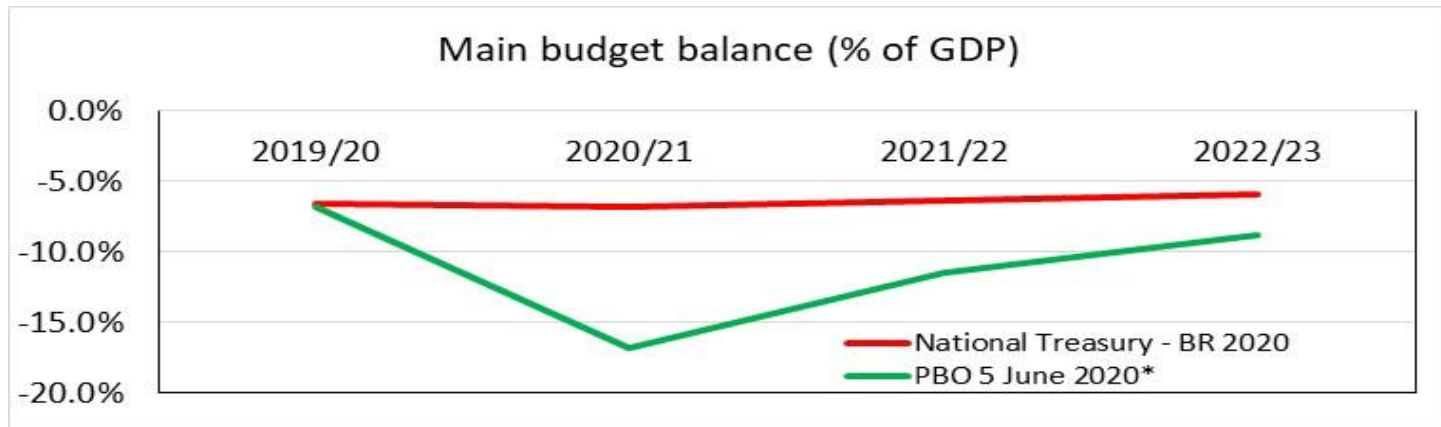


Figure 2: Weekly spending behaviour of respondents during the national lockdown*, as a percentage.



Source: StatsSA, "Results from Wave 2 survey on the impact of the COVID-19 pandemic on employment and income in South Africa", 2020.

Implications for Budget and 2020 MTEF

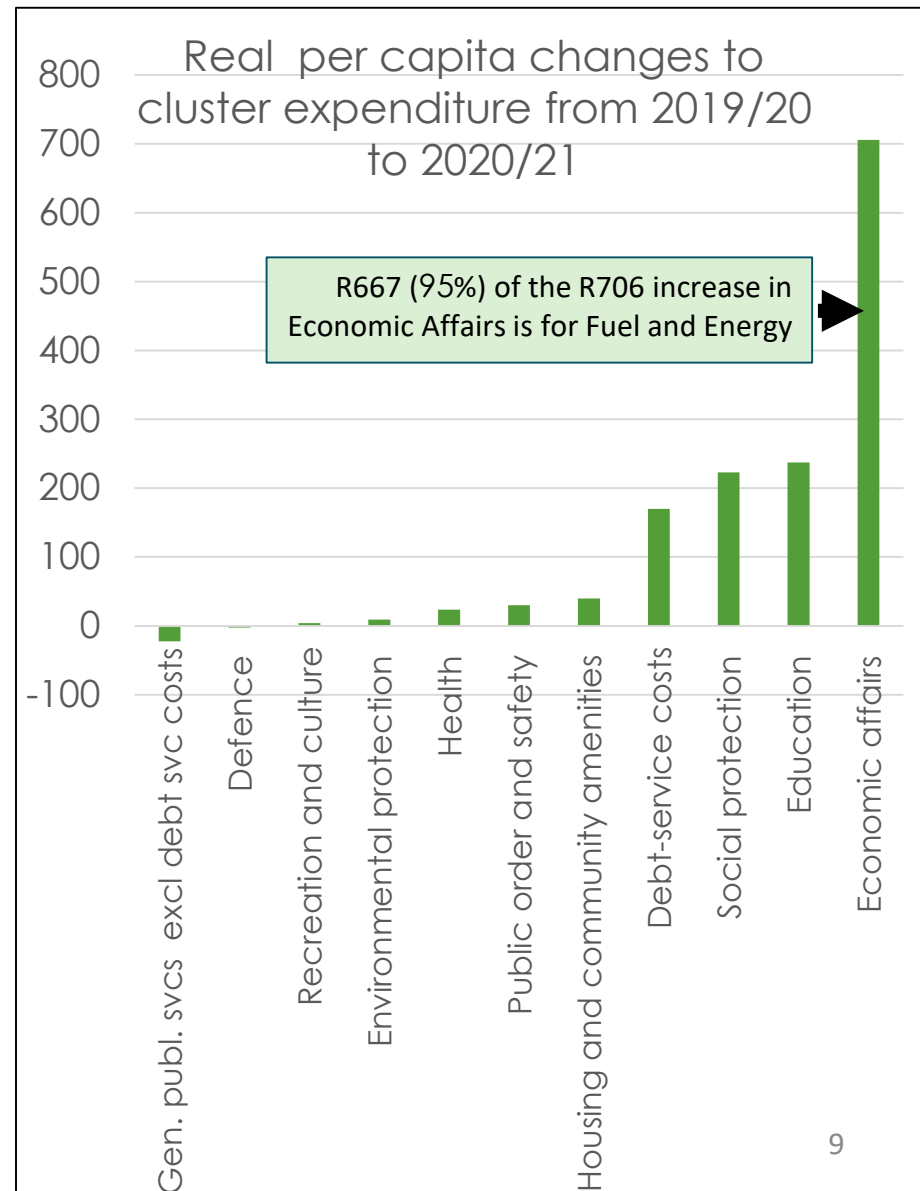


*PBO scenario based on median outlook of forecasts

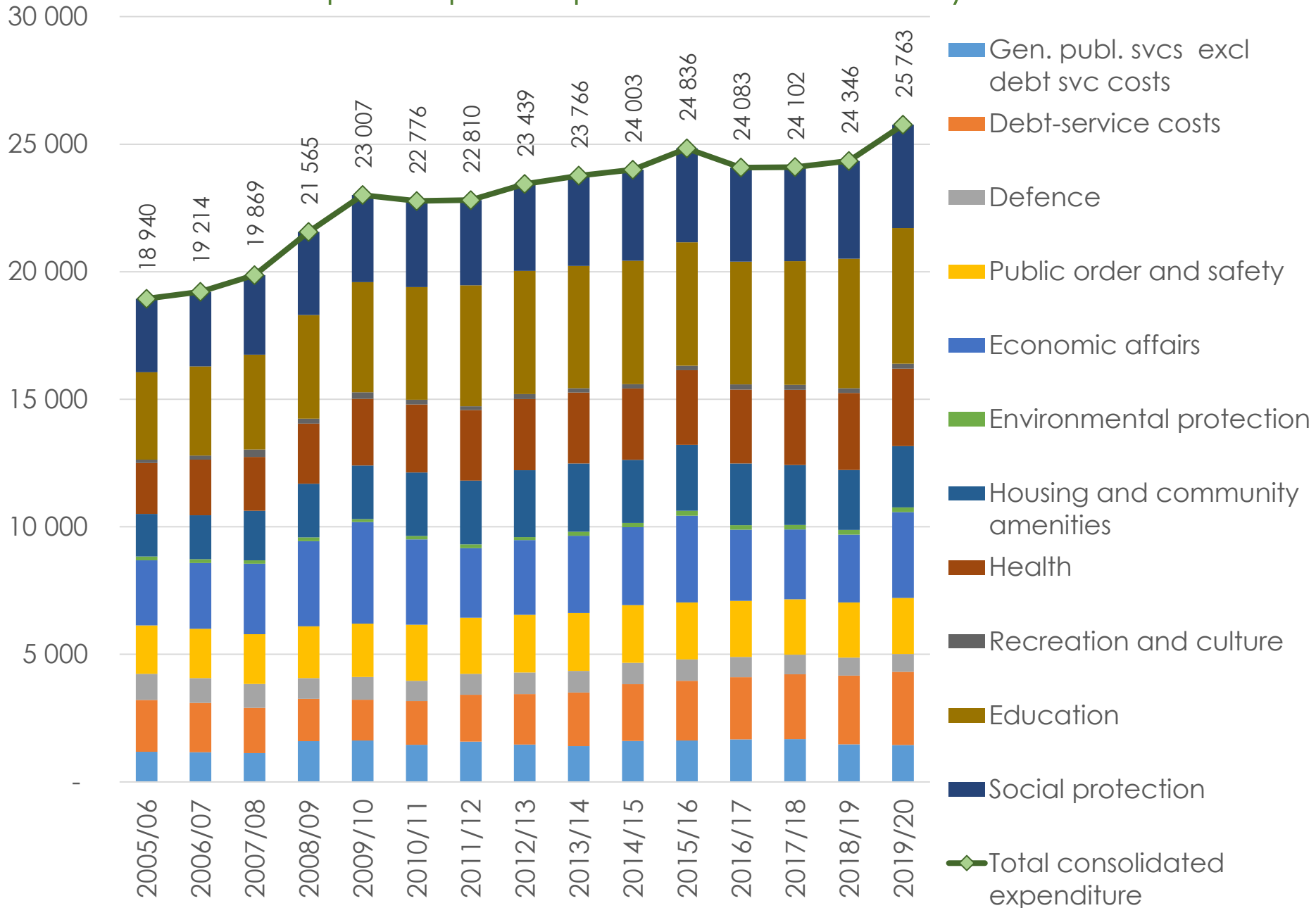
- Data for April shows a 9.1% fall in gross revenue collected compared with the previous year (CIT: -66.6% PIT: -4.9% VAT: -1.6%)
- This trend is likely to worsen over the rest of the year
- Revisions to budget are necessary to take account of the changed outlook, and finance measures to respond to the crisis, and stimulate economy ⁸

Overview of public expenditure during the period of fiscal consolidation

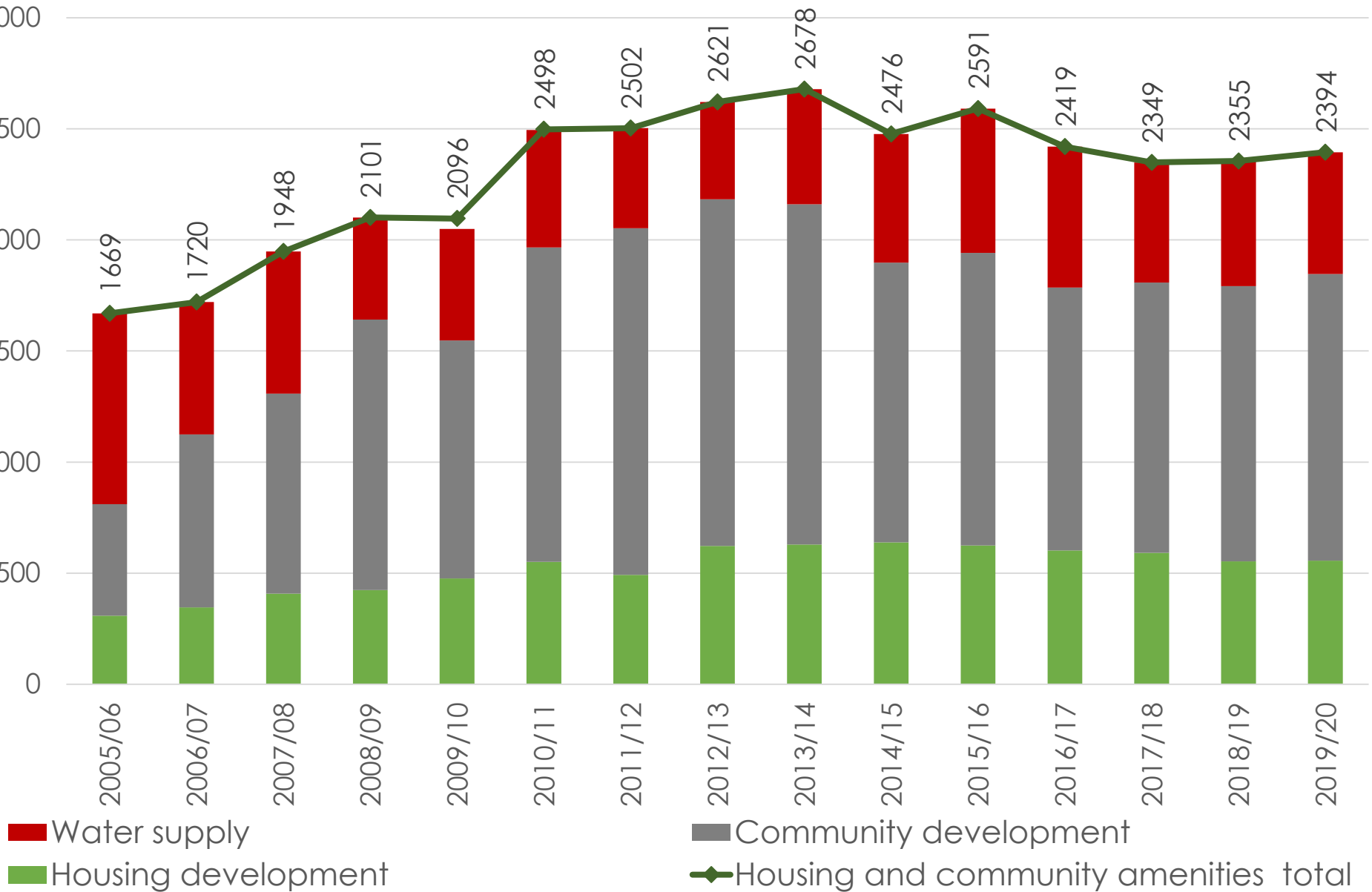
- Real government expenditure per capita has been slow during the fiscal consolidation era
- It was lower in each of the years 2016/17, 2018/19 and 2019/20 than it was in 2015/16
- There was a significant reduction in real per capita expenditure on housing and community amenities
- Real per capita expenditure on Health and Education was very slow
- Social Protection expenditure was flat until there were slightly bigger increases in 2019/20
- Most of the increase in expenditure from 2019/20 to 2020/21 was to assist Eskom



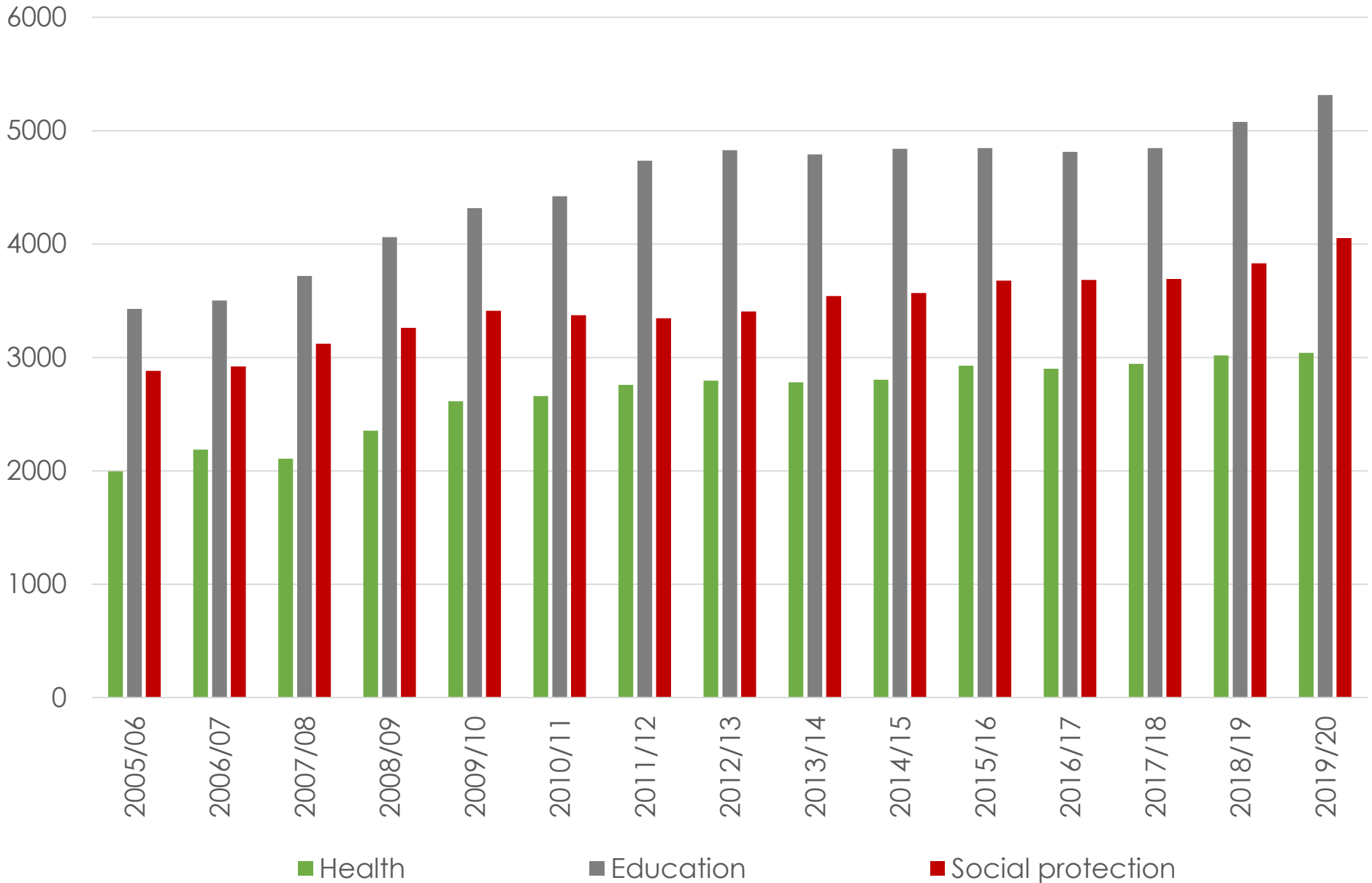
Real per capita expenditure in Rands by cluster



Real per capita expenditure in Rands for Housing and community amenities



Real per capita expenditure in Rands for Health, education and Social protection clusters



Departments Expenditure outcomes between 2017/18 and 2019/20

- Average expenditure on current expenditure amounts to 92% over the three year period. Departments with below 85% expenditure on current expenditure are:
 - Communication
 - Cooperative Governance and Traditional Affairs
 - National Treasury
- Average expenditure on capital assets amounts to 69% over the three-year period. Departments with below 65% expenditure on capital assets are:
 - International Relations and Cooperation
 - National Treasury
 - Higher Education and Training
 - Social Development
 - Economic Development
 - Energy
 - Telecommunications and Postal Services
 - Arts and Culture

Adjustments to main budget non-interest expenditure since 2019 Budget

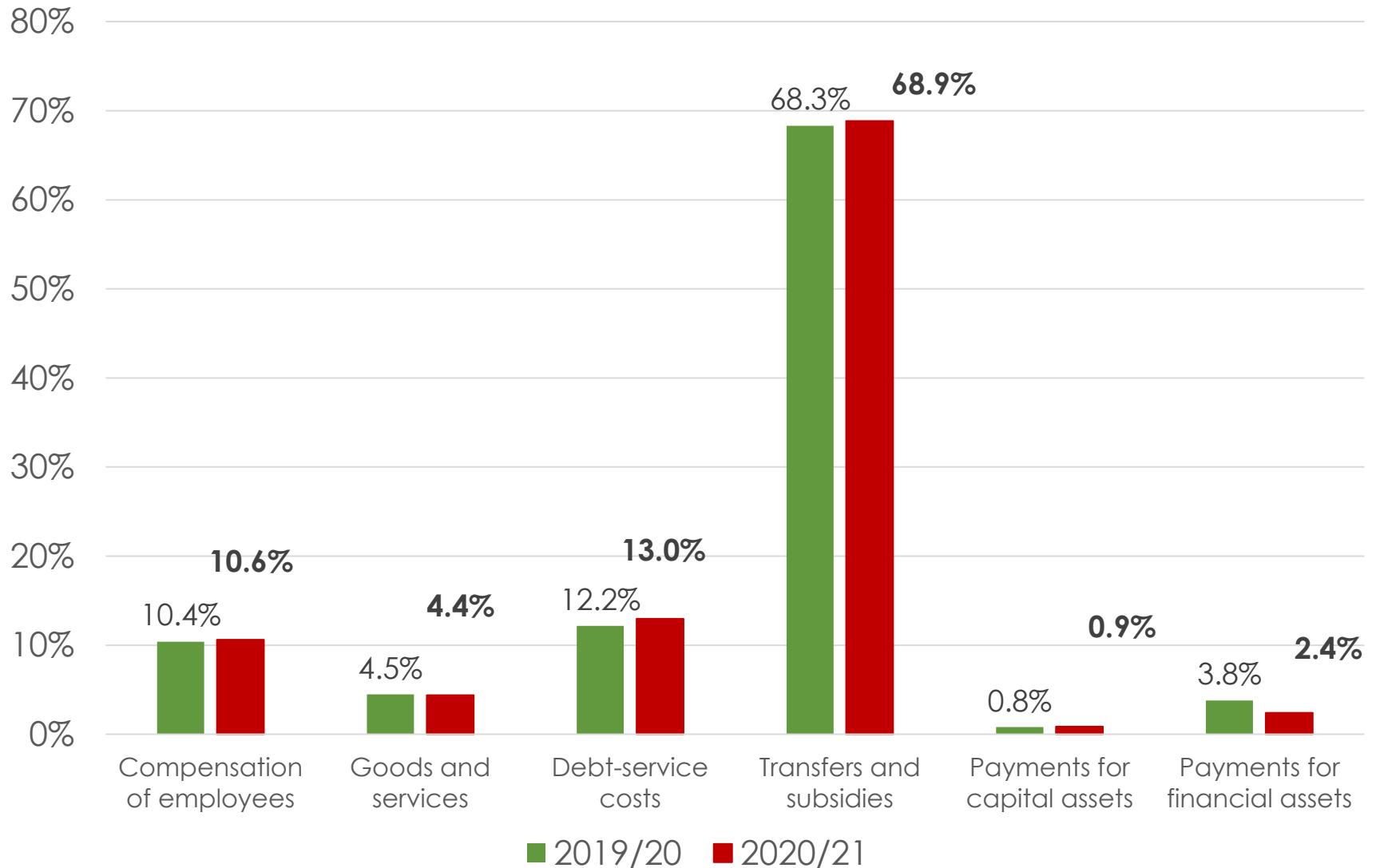
R million	2020/21
2019 Budget non-interest expenditure	1 545 500
Skills development levy adjustments	-1 025
Change in contingency reserve	-1 000
Baseline reductions and reallocations	-66 045
Programme baseline reductions (based on slow spending)	-28 238
Wage bill reductions	-37 807
Baseline allocations	59 293
Financial support for state-owned companies	44 042
Net change in adjustments announced in 2019 Budget ¹	7 753
Programme re-allocations	7 499
2020 Budget non-interest expenditure	1 536 724

Source: National Treasury

2020 Appropriations per vote compared with preliminary outcome for 2019/20

	Revised Estimates per Vote	% Preliminary spending end March	Current payments	Transfers and subsidies	Payments for capital assets	To be appropriated
R million	2019/20	2019/20		2020/21		
3 Cooperative Governance	90 347	95.9	4 956	91 273	5	96 234
8 National Treasury	30 692	97.2	232 184	577 879	34	33 123
10 Public Enterprises	56 883	99.9	306	0	3	37 849
16 Basic Education	24 465	97.0	2 669	21 150	1 509	25 328
17 Higher Education and Training	89 040	99.7	10 989	105 851	16	97 444
18 Health	51 195	99.2	3 009	51 272	1 235	55 516
19 Social Development	184 722	107.9	940	196 767	12	197 718
22 Correctional Services	25 317	99.5	25 325	666	810	26 800
23 Defence	50 888	100.0	44 574	7 091	774	52 439
25 Justice and Constitutional Development	18 782	96.4	18 096	3 250	1 064	19 861
28 Police	96 827	99.3	96 876	1 498	3 337	101 711
29 Agriculture, Land Reform and Rural Development	7 612	97.8	8 034	8 411	365	16 810
33 Human Settlements	33 862	98.5	948	30 374	4	31 325
40 Transport	64 205	99.2	1 450	60 592	5	62 036
41 Water and Sanitation	16 467	90.8	3 636	8 974	4 606	17 216
Total	941 169	100.5	494 990	1 215 936	15 303	963 114

Estimated proportions allocated per economic classification



Examples of how the appropriations are structured

Public Works and Infrastructure
R8 billion

Transfers 87%

Current 13%

Property Management Entity
62% (R4.4 billion)

EPWP
34% (R2.4 billion)

COE 55% (R594 million)

G&S 43% (R460 million)

Cooperative Governance
R96 billion

Transfers 94.8%

Current 5.1%

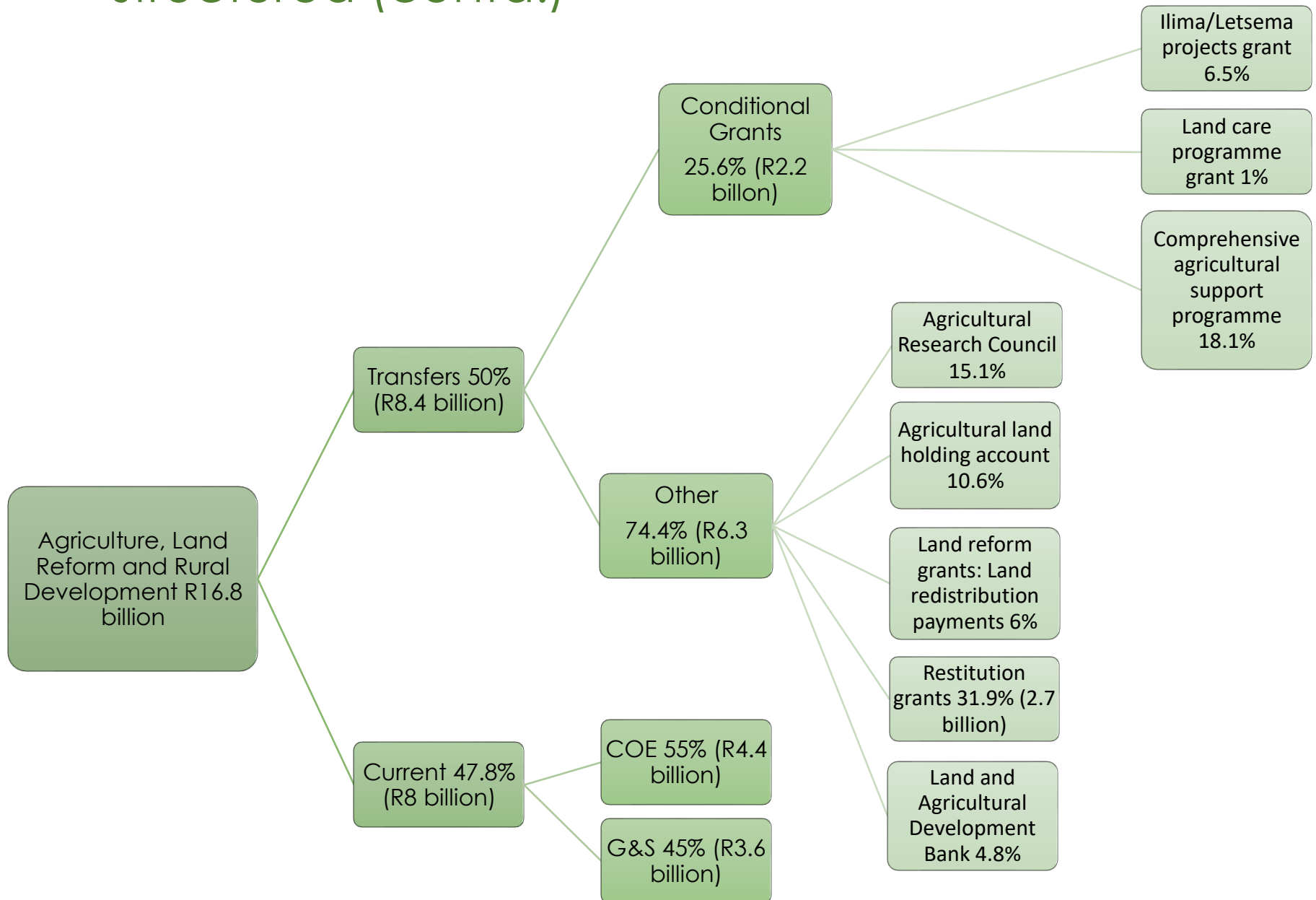
LGES 81.8%

Conditional Grants

COE 8% (R395 million)

G&S 92% of which CWP (R3.6 billion)

Examples of how the appropriations are structured (contd.)



The unforeseen and unavoidable: Covid-19

- The coronavirus not only exposes long-standing deep underlying problems such as inequality, failure to deliver key services and a failing health system.
- It requires:
 - Government to act immediately with funds provided for disasters
 - Reprioritise plans and budgets tabled to provide:
 - Fiscal support
 - Preventative measures
 - Policing
 - New programmes with new objectives
 - Recovery plans for fiscal sustainability and economic growth

Disaster Relief Funds of R982 million in the 2020/21 Budget for immediate response

- R138 million: Provincial Disaster Relief Grant: To provide for the immediate release of funds for disaster response
- R295 million: Provincial Emergency Housing Grant: Provides funding to provinces for the provision of temporary shelter assistance to households affected by disasters or a housing emergency
- R354 million: Municipal Disaster Relief Grant: To provide for the immediate release of funds for disaster response
- R195 million: Municipal Emergency Housing Grant: Provides funding to municipalities for the provision of temporary shelter assistance to households affected by disasters or a housing emergency

Programmes available in the 2020/21 Budget to respond to disasters

- Cooperative Governance: National Disaster Management Centre
- Health: Communicable and Non- Communicable Diseases
- Social Development:
 - Social Assistance
 - Welfare Services Policy and Implementation Support
- Defence: Military Health Support
- Police: Visible Policing
- Housing: Informal Settlements (temporary housing)
- Science and Innovation: Technology Innovation (health research)
- Trade, Industry and Competition: Industrial Financing
- Water and Sanitation: Water Infrastructure Development

Outputs of Conditional Grants require amendments

NT suggests changes to grant frameworks to accommodate spending on additional needs of Covid-19 (for example the purchasing of personal protective equipment):

- **School Infrastructure Backlogs Grant**
 - The trucking of water to fill tanks
 - Conditions must allow for the submission of an amended business plan
- **Education Infrastructure Grant**
 - Allow the grant to fund the costs to connect to local water supplies or drill and equip boreholes
 - Allow the grant to be used to truck water to schools for a limited period of time, subject to approval by the Department of Basic Education

Outputs of Conditional Grants require amendments (contd.)

- **National School Nutrition Programme Grant**

- Add a condition that personal protective equipment (PPE) and sanitation equipment may be funded from the grant
- Add a condition that if schools are closed due to a declared state of disaster, funds from the grant that would have been spent on providing meals in schools may instead be used to provide meals to learners through alternative means

- **Maths, Science and Technology Grant**

- Add conditions to allow funds to be used to support catch up activities.
- Add provision for provinces to be exempted from percentage spending restrictions prescribed for existing business plans.

Outputs of Conditional Grants require amendments (contd.)

- **Learners with Profound Intellectual Disabilities Grant**
 - Add a condition to allow purchase of PPE and sanitizer.
- **HIV, Aids Life Skills Grant**
 - Add conditions to allow funds to be used to support catch up activities and to provide education on measures to respond to the pandemic.
- **Community Library Services Grant**
 - Add a condition to allow purchase of PPE and sanitizer from the grant and to pay for the deep cleaning of libraries.
- **Early Childhood Development Grant**
 - Add a condition that allows the maintenance component of the grant to be used to install additional hand washing facilities and to provide PPE for ECD practitioners.

Outputs of Conditional Grants require amendments (contd.)

- **Public Transport Operations Grant**

- Add outputs for the number of vehicles and public transport facilities sanitized and personal protective equipment provided for drivers and other employees
- Add a condition that provinces may use funds from this grant to pay for the sanitizing of busses and public transport facilities and the provision of personal protective equipment for staff of the bus operators and provision for hand washing and sanitisation for passengers

- **HIV, TB, Malaria, Community Outreach Grant**

- Create a new COVID-19 component. The Department of Health has reallocated R452 million to this component.
- In the Community Outreach component, add outputs for number of people screened for COVID-19 and number of COVID-19 contacts traced

Preliminary provisions to address Covid-19 pandemic pressures

R500 billion fiscal support package combines revenue and spending measures, as well as loan guarantees:

- R200 billion: Credit Guarantee scheme
- R100 billion: Job creation and support for SME and informal businesses (R95 billion borrowing from multilateral finance institutions)
- R70 billion: Measures for income support (Tax deferrals, SDL holiday and ETI extension)
- R130 billion reprioritisation:
 - R50 billion support to vulnerable households for 6 month
 - R40 billion wage protection (UIF)
 - R20 billion to health and other frontline services
 - R20 billion to municipalities
- R15 billion in Social Development 2020/21 budget (social grant payments for April paid in March)

Authorisation of expenditure before the introduction of an Adjustments Appropriation Bill

- (1) The Minister may approve expenditure, if it cannot be delayed for:
 - (a) Unforeseeable and unavoidable
 - (b) Announced during the tabling of the 2020/21 national annual budget
 - (c) Was approved in the appropriation for the 2019/20 financial year and shall be proposed to be rolled over to the 2020/21 financial year in order to finalise expenditure that could not take place in the 2019/20 financial year as originally planned.
- The amount of expenditure approved in terms of subsection (1)
 - May not exceed the total amount for contingencies for the financial year
 - Any expenditure approved in terms of subsection (1)(b) may not exceed the amount announced by the Minister for a specific item during the tabling of the national annual budget
- Expenditure approved in terms of subsection (1)
 - Is a direct charge against the National Revenue Fund
 - May be made subject to conditions imposed by the Minister
 - Must be disclosed in the National Treasury's next quarterly report to the relevant Parliamentary Committees
 - Must be included in the Adjustments Appropriation Bill for the 2020/21 financial year

Responding to the COVID-19 pandemic in the 2019/20 municipal financial year

National Treasury has granted approvals that funds transferred to municipalities can be reallocated to be used to respond to the COVID-19 pandemic.

- **R2.4 billion** in Urban Settlements Development Grant: To provide water and sanitation, mainly in under-serviced informal settlements and to cover the increased costs of more frequent waste management and other services.
- **R1.5 billion** in Municipal Infrastructure Grant allocations can be reallocated: To provide for water and sanitation, including where urgent maintenance is needed to restore the functionality of water infrastructure.
- **R970 million** in Public Transport Network Grant allocations may be reallocated, mainly for sanitisation of public transport facilities.

Responding to the COVID-19 pandemic in the 2019/20 municipal financial year (contd.)

- **R306 million** in the indirect Regional Bulk Infrastructure Grant was reallocated at the end of the 2019/20 national financial year and transferred to Rand Water to fund the roll-out of water tanks to supply communities without reliable access to water services.
- **R151 million** from the Municipal Disaster Relief Grant to support non-metropolitan municipalities with the costs of sanitisation, and increased provision of other municipal services. Government is also supporting municipalities to reallocate funds from other conditional grants that are projected to be underspent.

Details of further support to municipalities in the 2020/21 municipal financial year will be announced when the Minister of Finance tables the special adjustment budget to respond to the COVID-19 pandemic that was announced by the President.

Expenditure by National Vote, April 2020

R thousand		Total	Current payments	Transfers and subsidies	Payments for capital assets	Total
3	Cooperative Governance	96 233 988	5.4%	0.00%	0.2%	0.28%
5	Home Affairs	9 029 629	6.0%	19.2%	583.4%	10.3%
10	Public Enterprises	37 849 355	4.6%	11.8%	0.4%	0.04%
13	Public Works and Infrastructure	8 070 796	5.1%	20.3%	0.0%	18.2%
15	Traditional Affairs	173 399	5.8%	25.0%	2.2%	11.0%
16	Basic Education	25 328 232	2.2%	14.7%	0.6%	12.5%
17	Higher Education and Training	97 443 993	6.4%	21.7%	0.1%	20.0%
18	Health	55 515 997	5.4%	9.9%	3.4%	9.5%
19	Social Development	197 718 275	4.7%	0.4%	0.0%	0.5%
24	Independent Police Investigative	355 667	16.7%	0.0%	52.0%	17.2%
31	Employment and Labour	3 637 749	5.3%	22.0%	0.5%	11.6%
33	Human Settlements	31 324 916	3.4%	3.3%	0.0%	3.3%
35	Science and Innovation	8 797 393	4.5%	11.1%	5.4%	10.6%
37	Sports, Arts and Culture	5 720 164	3.4%	14.9%	0.0%	12.3%
38	Tourism	2 480 984	4.6%	0.0%	28.4%	1.9%
39	Trade, Industry and Competition	11 082 138	6.4%	11.1%	0.0%	10.3%
40	Transport	62 036 252	3.6%	13.0%	0.0%	12.8%
41	Water and Sanitation	17 216 227	4.0%	0.1%	1.8%	1.4%
Total appropriation by vote		963 114 208	6.7%	7.0%	2.1%	6.6%

An example of a Goods and Services budget

	Adjusted appropriation	Appropriation	Average growth rate (%)	Average: Expen- diture/ Total Vote (%)
R thousand	2019/20	2020/21	2019/20 - 2022/23	
Administrative fees	10 966	11 918	6.5%	0.3%
Advertising	6 658	7 021	4.9%	0.2%
Audit costs: External	15 659	16 488	5.0%	0.4%
Catering: Departmental activities	14 688	14 369	2.2%	0.3%
Communication	12 600	13 281	1.1%	0.3%
Computer services	53 214	47 791	-1.3%	1.1%
Consultants: Business and advisory services	1 465 323	1 539 839	5.7%	34.5%
Contractors	1 592 658	1 895 391	8.6%	40.5%
Fleet services (GG)	4 025	4 235	5.5%	0.1%
Inventory: Materials and supplies	594 391	603 907	1.8%	13.1%
Consumable supplies	113 679	154 936	21.2%	3.6%
Stationery, printing and office supplies	20 339	21 383	4.7%	0.5%
Operating leases	7 278	3 458	-19.6%	0.1%
Property payments	49 204	51 911	5.7%	1.2%
Travel and subsistence	47 998	51 055	4.6%	1.1%
Training and development	104 022	104 241	3.1%	2.3%
Operating payments	1 935	2 042	4.9%	–
Venues and facilities	4 121	4 347	4.9%	0.1%

Adjustments

	2019/20	Total	Adjusted	2020/21	Growth rate
R thousand	Appropriation	adjustments appropriation	appropriation	Appropriations	from 2019/20
Current payments (27%)					
Compensation of employees (19%)	175 642 501	(980 958)	174 661 543	187 668 140	7.4%
Goods and services (8%)	74 874 673	497 310	75 371 983	77 891 353	3.3%
Interest and rent on land	202 354 362	1 536 108	203 890 470	229 430 481	12.5%
Total current payments	452 871 536	1 052 460	453 923 996	494 989 974	9.0%
Transfers and subsidies (67%)					
Provinces and municipalities	739 695 919	576 046	740 271 965	781 933 790	5.6%
Departmental agencies and accounts	135 813 451	221 485	136 034 936	143 295 898	5.3%
Higher education institutions	42 319 013	52 327	42 371 340	44 802 897	5.7%
Foreign governments and international	2 361 434	(26 001)	2 335 433	2 829 182	21.1%
Public corporations and private enterprises	36 452 320	(800 721)	35 651 599	32 524 790	-8.8%
Non-profit institutions	8 607 210	(377 953)	8 229 257	9 072 660	10.2%
Households	188 109 178	(306 583)	187 802 595	201 476 889	7.3%
Total transfers and subsidies	1 153 358 525	(661 400)	1 152 697 125	1 215 936 106	5.5%
Payments for capital assets (2%)					
Buildings and other fixed structures	10 360 186	(464 107)	9 896 079	10 681 203	7.9%
Machinery and equipment	4 555 423	(230 409)	4 325 014	4 262 174	-1.5%
Heritage assets	236 637	(27 846)	208 791	202 799	-2.9%
Software and other intangible assets	261 443	(847)	260 596	146 137	-43.9%
Total payments for capital assets	15 424 153	(719 773)	14 704 380	15 302 808	4.1%
Total payments for financial assets (4%)	22 495 211	16 715 363	65 210 574	42 551 631	-34.7%
Subtotal	1 644 149 425	16 386 650	1 686 536 075	1 763 780 519	4.6%
Provisional allocation not assigned to votes	10 000	(10 000)	–	7 020 587	
Infrastructure fund not assigned votes	1 000 000	(1 000 000)	–		
Provisional allocation for Eskom	5 348 000	(5 348 000)	–	23 000 000	
Compensation of Employees adjustment				(37 806 696)	
Contingency reserve	13 000 000	(13 000 000)	–	5 000 000	
Total estimated expenditure	1 658 707 425	(1 355 116)	1 683 352 309	1 760 994 410	

Conclusion

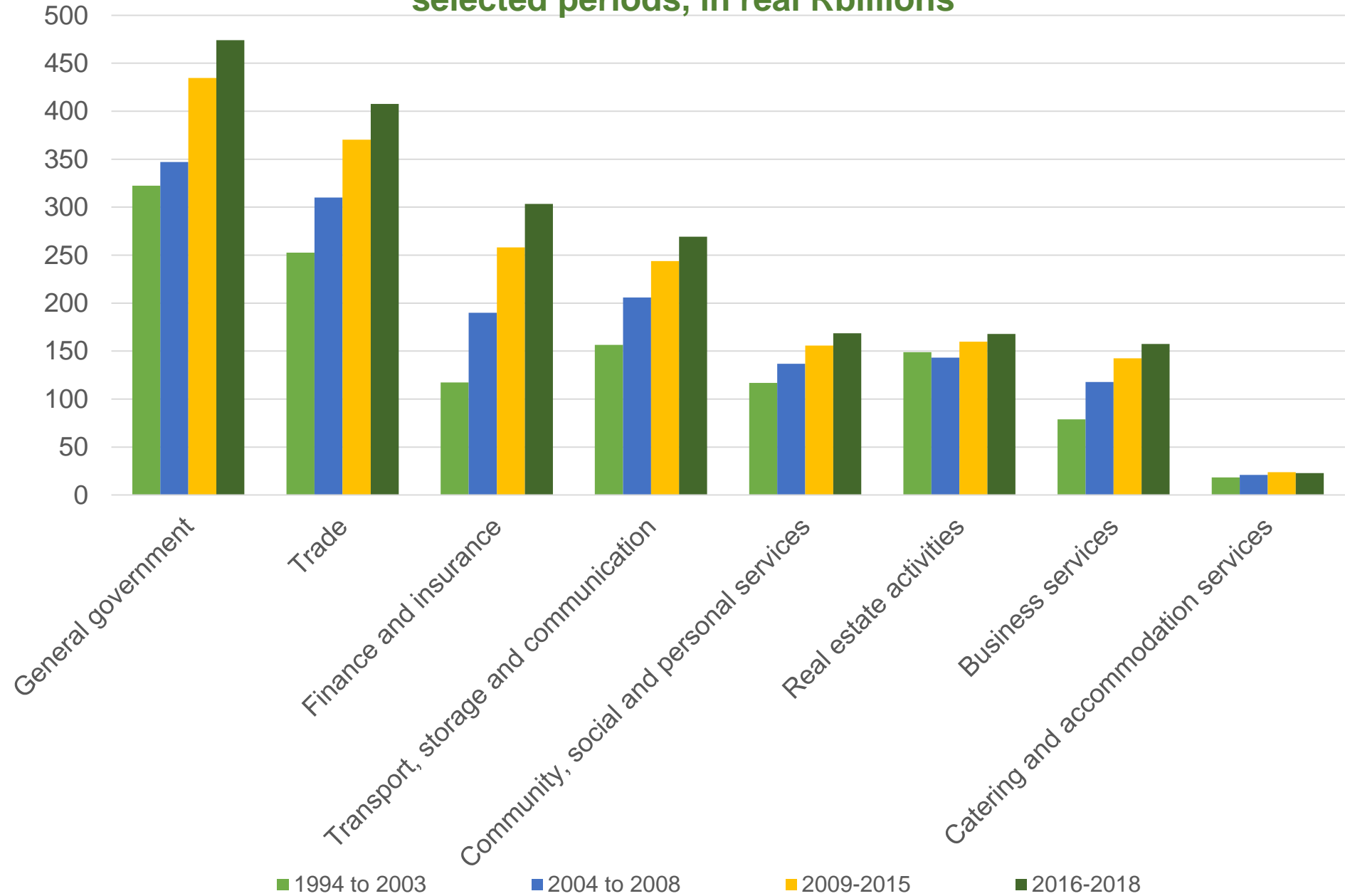
- The 2020 Budget proposes expenditure reductions based on economic and fiscal pressures on government
- The Covid-19 pandemic has put additional pressures on government not only to respond to the needs of the crisis, but also to ensure economic and fiscal sustainability
- Although current programmes and conditional funding to other spheres of government are available for immediate response, reprioritisation, additional funding and criteria for spending are required
- Legislation provides for the implementation of such measures as well as for the regular reporting and monitoring through the oversight processes

Thank You

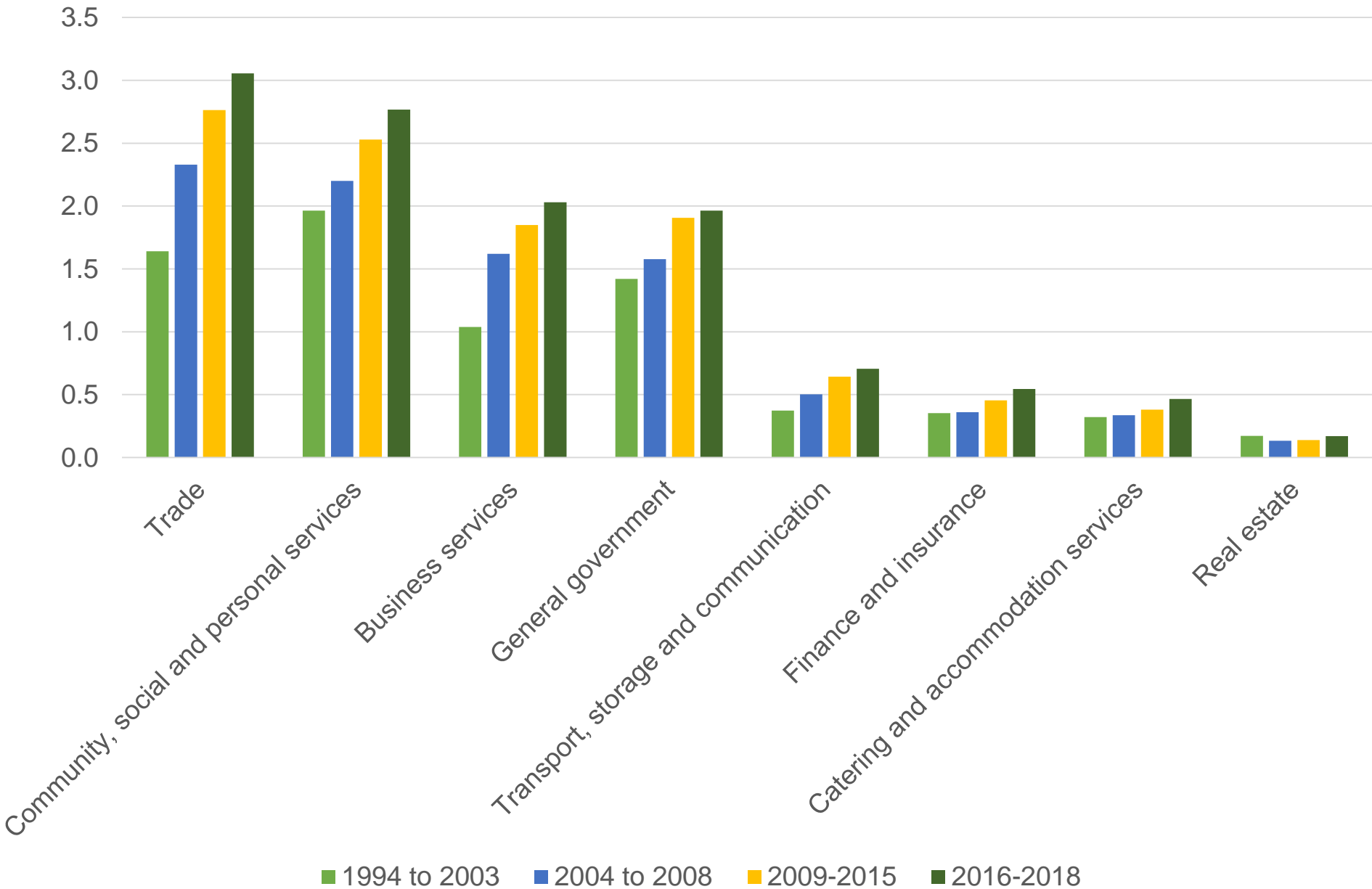
Economic impact of Covid-19

- Many developing countries' economic growth rates had already slowed by the final quarter of 2019 and several had entered into technical recessions.
- Conditions have deteriorated since then and the full effects of the Covid-19 pandemic have yet to be felt.
- Notable transmission mechanisms for the impact of Covid-19 developing economies are:
 - Businesses operations are constrained and lower demand
 - Reduced volumes of international trade and lower global demand
 - Financial pressures as a result of foreign capital outflows and domestic constraints related to efforts to deal with Covid-19's health and economic impacts
 - There is a huge impact on labour markets as millions of workers, particularly those with precarious employment, face job losses
- As countries open, employers and workers fear growing infections and further disruptions

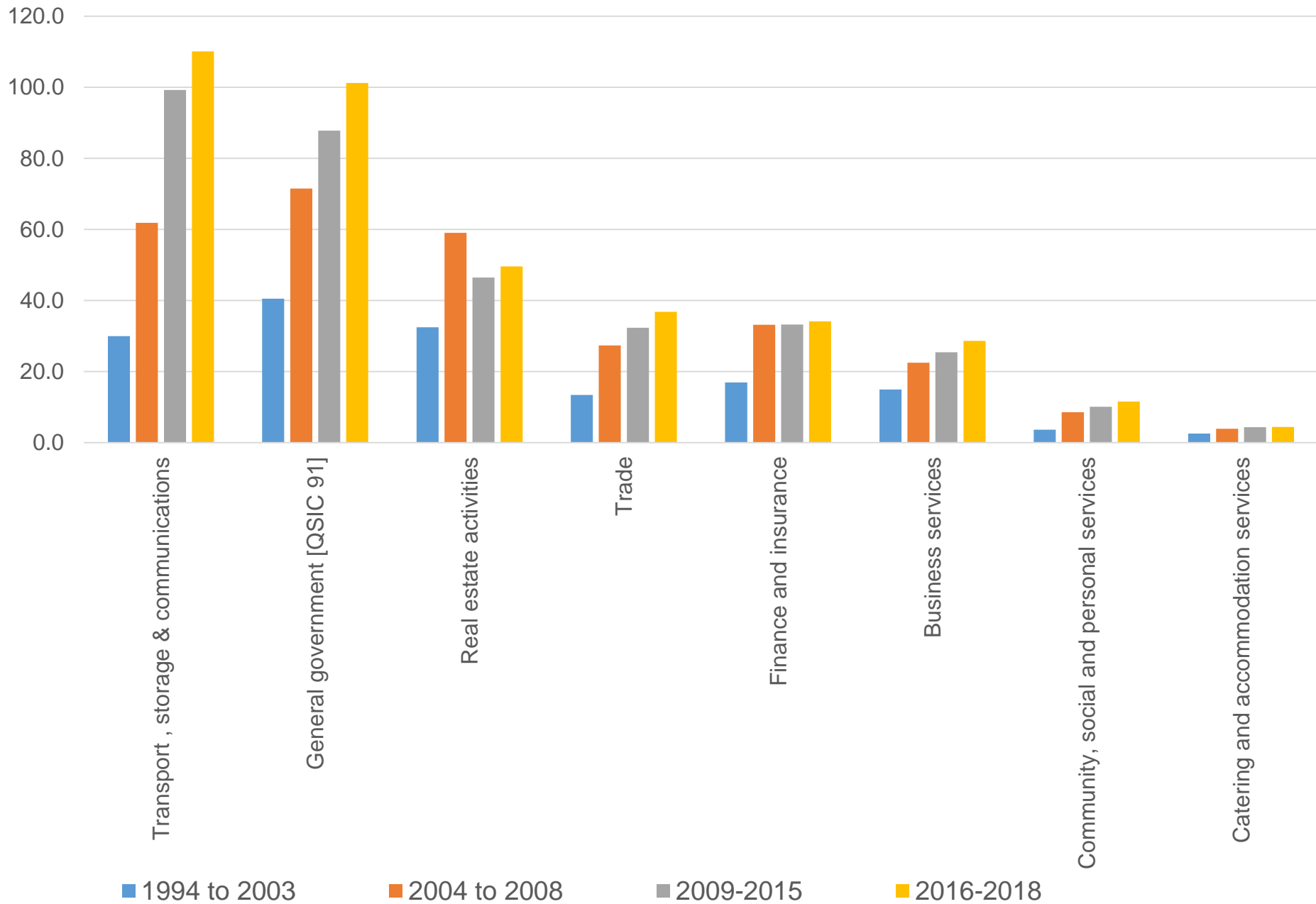
Value Added for services subsectors, annual averages for selected periods, in real Rbillions



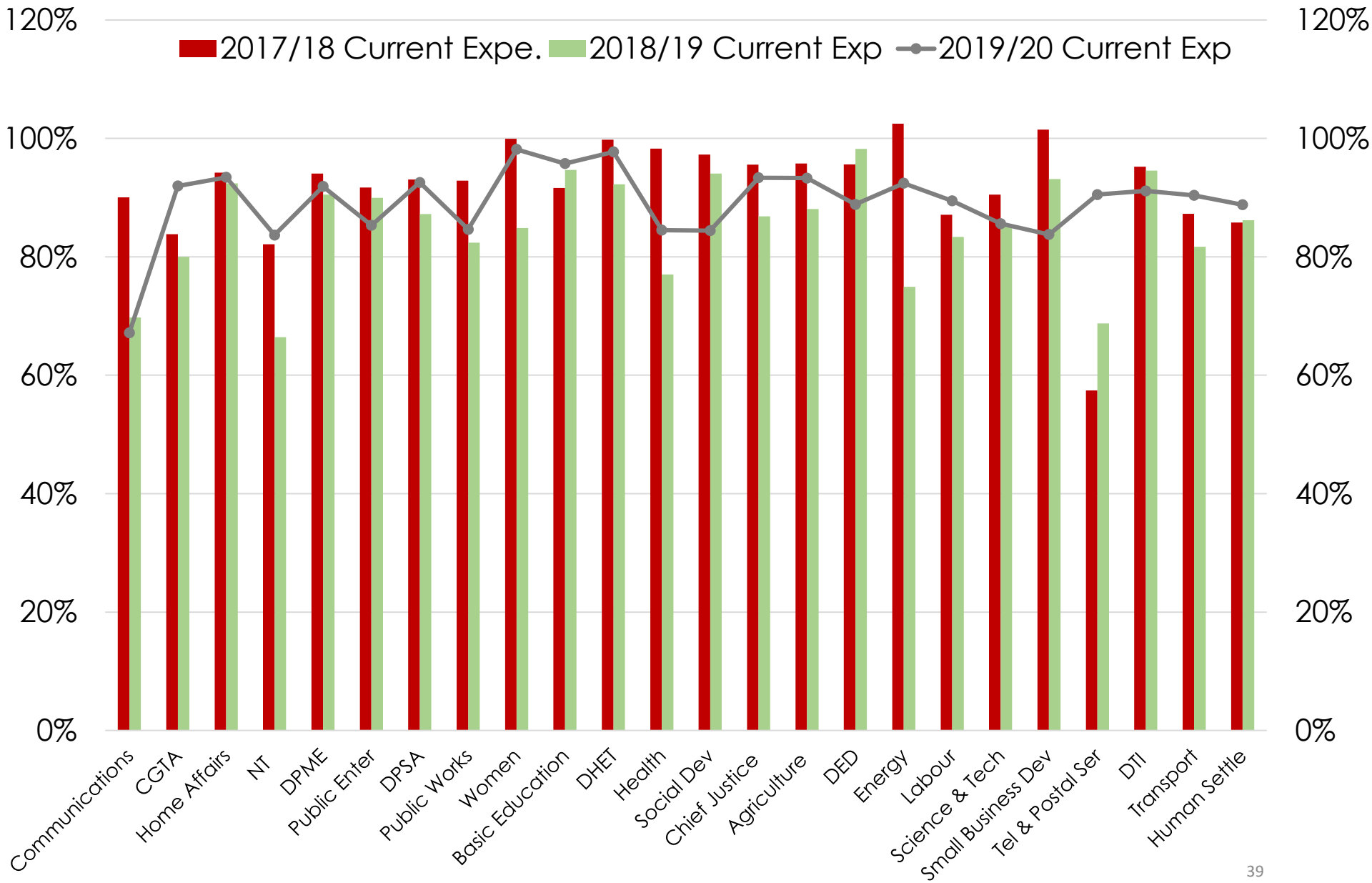
Employment for services subsectors, annual averages for selected periods, in millions



Fixed investment (GFCF) for services subsectors, annual averages for selected periods, in real Rbillions



Current Expenditure Outcomes – 2017/18 to 2019/20



Capital Assets Outcomes – 2017/18 to 2019/20

