

Public Budgeting Processes; South Africa

The South African National Budget Process

ICPAK: 4th Chapter Seminar – South Africa
28 August 2019



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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National Treasury Budget Office

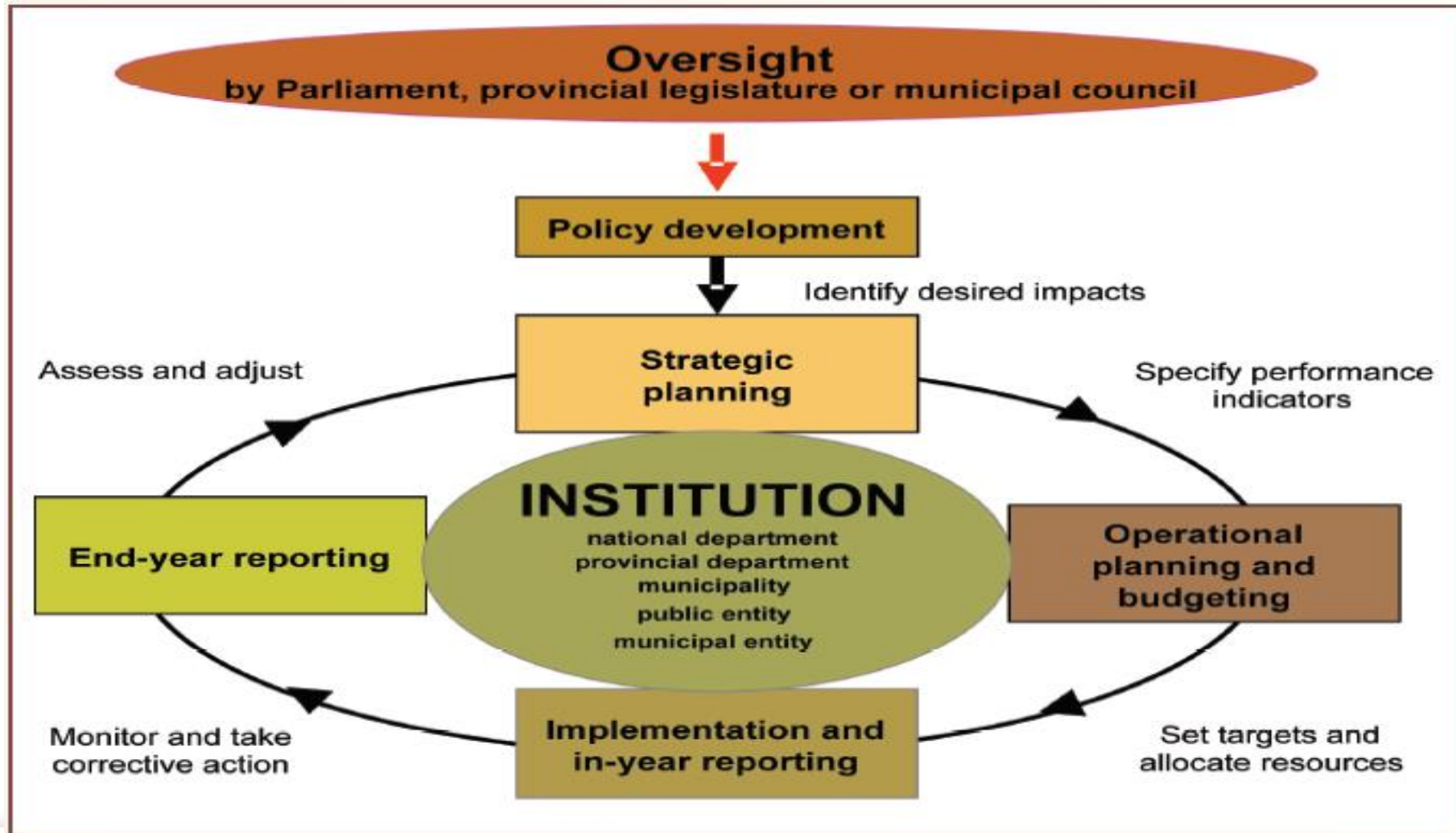
Purpose of the Budget

The budget is the key statement of policy of the government and the process through which choices have to be made about competing priorities

- **The budget must meet 3 functions**
 - Spending, taxation and borrowing must support economic objectives
 - Resources must be allocated to political priorities
 - The Budget and budget information must be tools to improve quality and effectiveness of spending
- **The budget must be comprehensive in covering the public sector; must include**
 - All government departments
 - Public entities and agencies
 - State-owned enterprises
 - Donor receipts (both cash and in-kind)



Planning, Budgeting and Reporting Cycle



Spheres of government

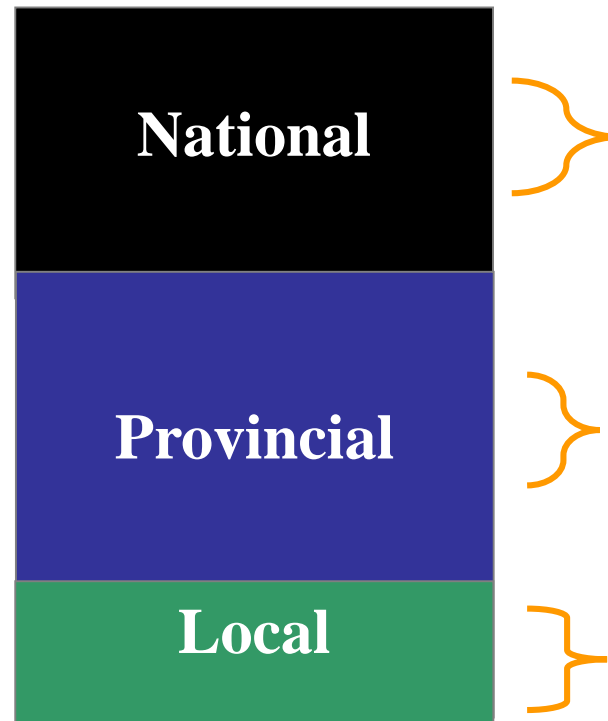
The Constitution provides for the division of revenue between and among the three spheres of government on an annual basis (Sections 214(1)(a) to (c)).

Allocation of revenue sources:

E.g.: Income tax, VAT, customs duties

E.g.: vehicle licenses, hospital charges and gambling taxes

E.g.: rates on property, surcharges on service fees like electricity



National government:

- Delivers functions like policing, international cooperation, defence, higher education etc.
- Responsible for policy development & oversight
- Sets priorities through legislation, norms and standards or political statements

Provinces:

- Deliver functions like basic education, health, social development, agriculture etc.
- Generally fund national priorities

Municipalities:

- Delivers functions like water, sanitation, refuse removal
- Have more autonomy on what their resources are spent on

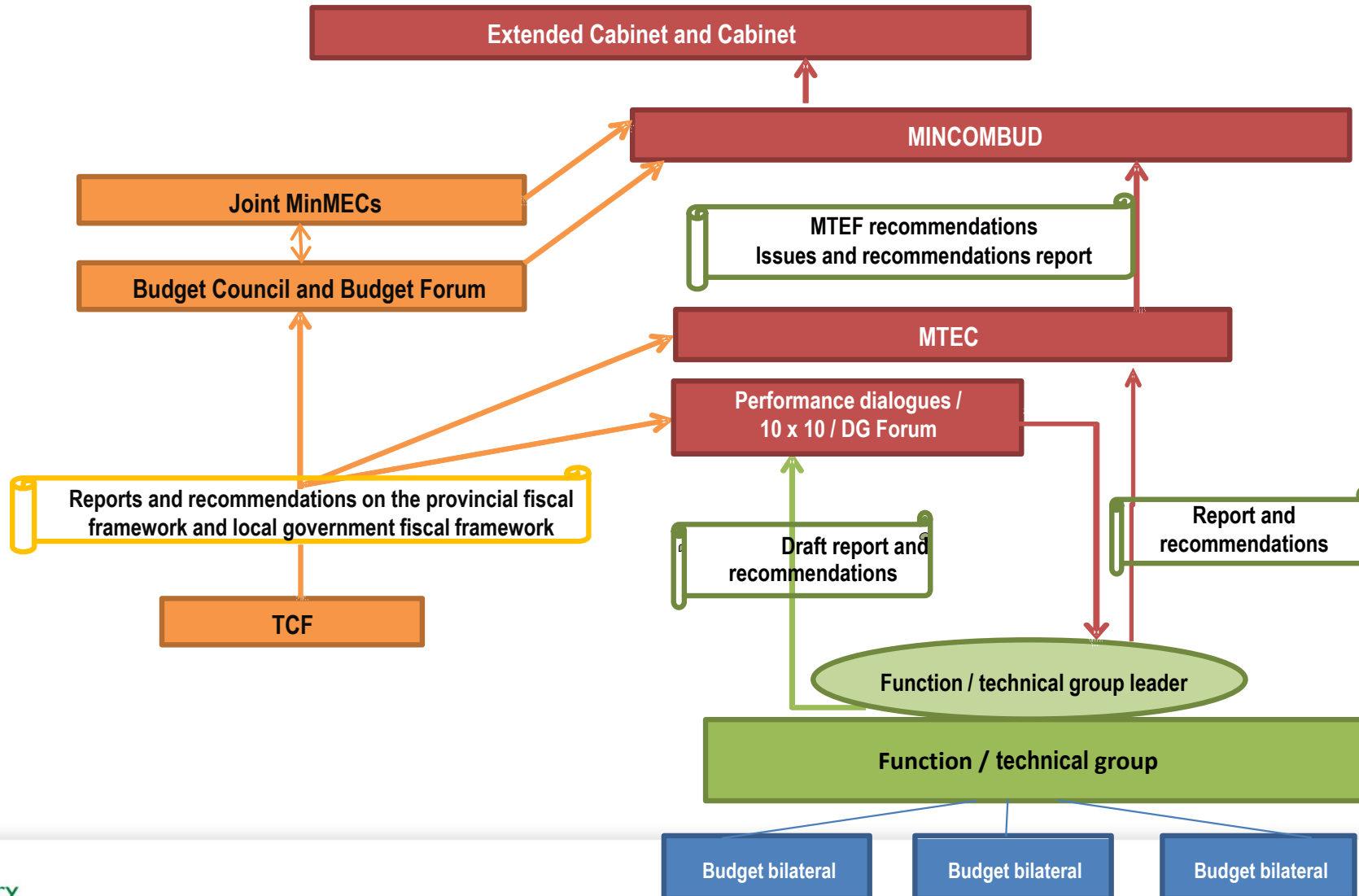
Overview of the Budget

- Budgeting is a political exercise that starts with **political choices about priorities** and ends with political choices about which programmes and projects get funded.
- **Objectives** of the budget include achieving: fiscal sustainability, allocative efficiency, value for money and service delivery.
- The **vertical division of revenue** shows resources allocated to the three spheres of government to provide for delivery of services including concurrent functions.
- The Constitution provides Parliament with **powers to amend the budget** – realised through the Money Bills Amendment Procedure and Related Matters Act, 2009.

Role-players in the budget process

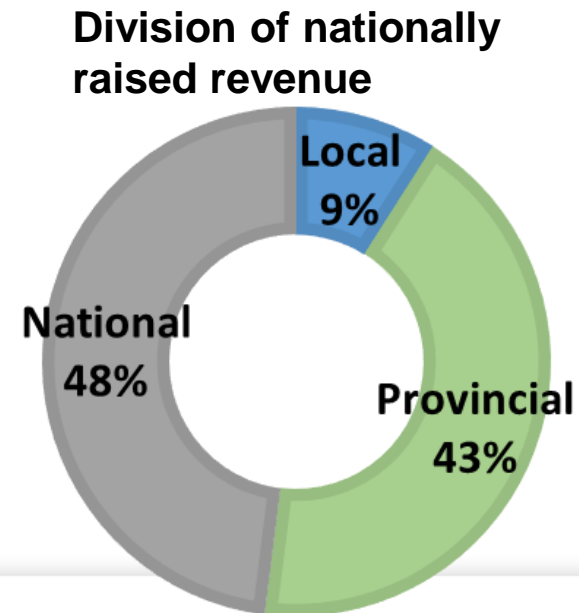
- **Legislatures**
 - National Assembly and the National Council of Provinces
 - Appropriations Committees; Finance Committees; Portfolio Committees
 - Provincial Legislatures
- **Executive - Political**
 - Extended Cabinet
 - Cabinet
 - Minister's Committee on the Budget (MINCOMBUD)
- **Executive – Technical**
 - Minister's Committee on the Budget Technical Committee
 - National Treasury
 - Departments and public entities
- **Required by the Constitution and Intergovernmental Fiscal Relations Act:**
 - Financial and Fiscal Commission (FFC)
 - Provincial governments - the Budget Council
 - Organised local government - the Budget Forum
 - Various intergovernmental forums exist at both the political and technical level to give effect to the constitutional imperative for cooperative governance

Executive: technical and political structures



How funds are allocated between the 3 spheres

- South Africa has a **3 year budget framework**:
 - The annual budget appropriates the first year and gives “forward estimates” of the next 2 years’ allocations
 - Allows provinces and municipalities to plan ahead
- SA Constitution requires an annual Division of Revenue Act to allocate funds raised by national government between the three spheres and sets parameters for ensuring the division is **equitable**
- Priorities set nationally through: legislation, norms and standards or political statements
- Provinces and municipalities can receive either conditional or unconditional allocations through the annual Division of Revenue Act
- Executives in each sphere decide on where to allocate resources



Alignment between planning and the national budget process



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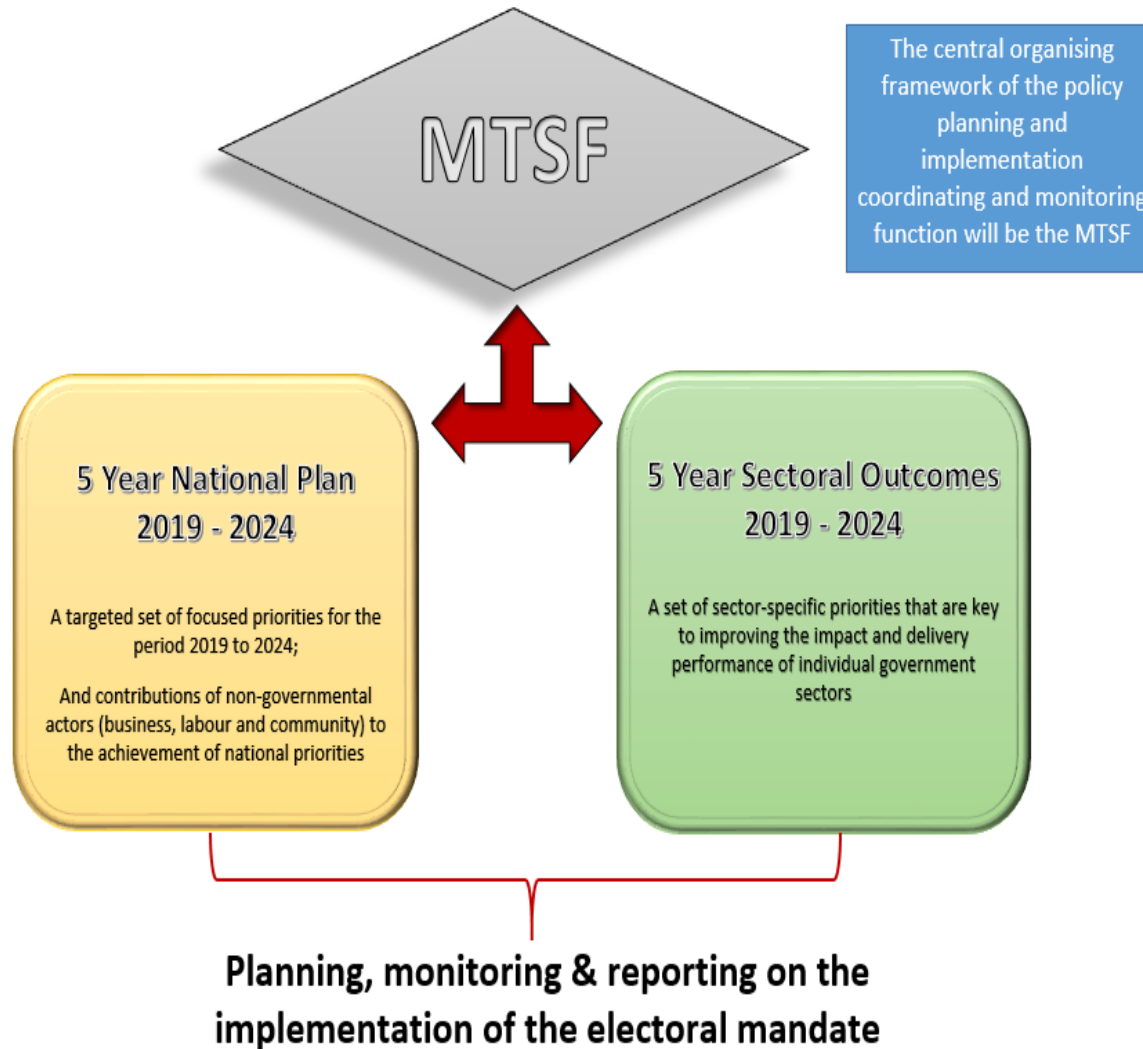
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Influencing decisions in the budget process

- Government's priorities are reflected in the **Medium Term Strategic Framework** (MTSF) and **National Development Plan** (NDP)
- The **function approach** to budgeting allows for proper resource allocation within the expenditure ceiling
- Institutions are organised by function across the three spheres for **effective comparison** of resource allocations with service delivery trends
- Discussion are held for changes to delivery models, institutional arrangements and policy frameworks to accommodate spending **pressures within budget baselines**



Medium Term Strategic Framework (MTSF)



MTSF is a high-level strategic document to guide the 5 year implementation and monitoring of the NDP 2030

The MTSF identifies the priorities to be undertaken during 2019-2024 to put the country on a positive trajectory towards the achievement of the 2030 vision

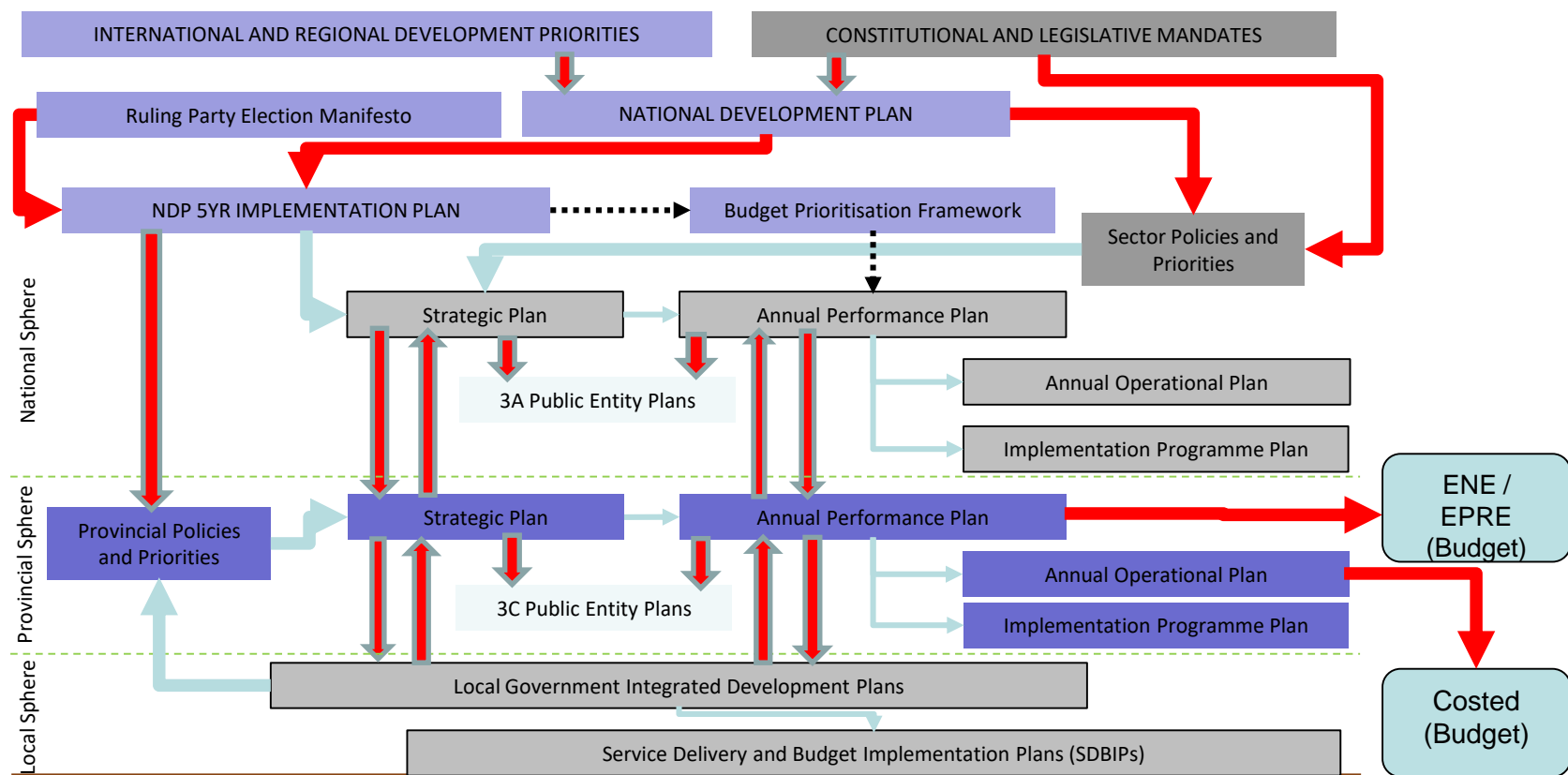
It sets targets for implementation of the priorities and interventions for the 5 year period, and states the outcomes and indicators to be monitored

Priorities for 2019-2024

The Seven Priorities derived from the Electoral Mandate + SONA:

- **Priority 1:** Economic Transformation and Job Creation
- **Priority 2:** Education, Skills and Health
- **Priority 3:** Consolidating the Social Wage through Reliable and Quality Basic Services
- **Priority 4:** Spatial Integration, Human Settlements and Local Government
- **Priority 5:** Social Cohesion and Safe Communities
- **Priority 6:** A Capable, Ethical and Developmental State
- **Priority 7:** A better Africa and World

Integrated Planning Framework



The National Budget



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Budget preparation summary

- July: Departments submit their estimates of expenditure for the MTEF based on their strategic plans
- July: Performance indicators contained in submissions are aligned to those reflected in strategic and annual performance plans as informed by the National Development Plan (NDP), the SoNA, the Medium Strategic Framework (MTSF) and the stated high level priorities
- Aug & Sept: The MTEC, an interdepartmental committee - comprising of the DG's of the National Treasury, Department of Public Service and Administration (DPSA), DPME, and Cooperative Governance and Traditional Affairs (CoGTA) - considers the allocation of funds in respect of each function in line with the priorities of government
- Sept: Medium Term Expenditure Committee (MTEC) makes recommendations to Ministers' Committee on the Budget, which recommends to Cabinet
- Oct: Medium Term Budget Policy Statement (MTBPS) tabled – highlighting key government priorities, fiscal framework and division of revenue
- Nov: Allocation letters are sent out, including the provision for earmarking certain amounts or set conditions
- Jan & Feb: Budget documents are then prepared
- End Feb: Budget document are tabled in the Legislature



Budget publications (Budget documents)

Budget documents tabled on budget day (February):

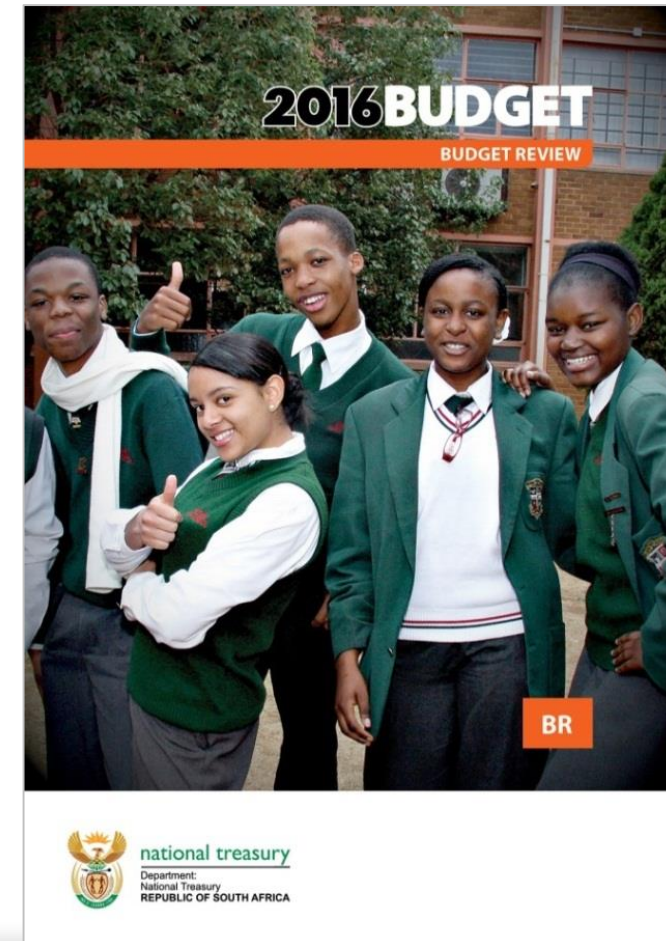
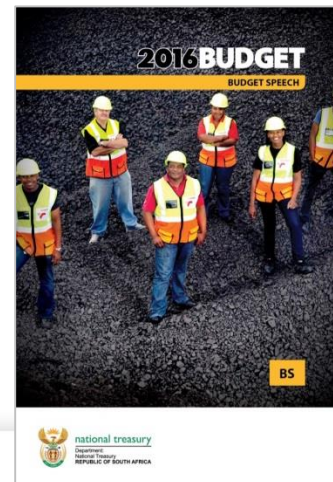
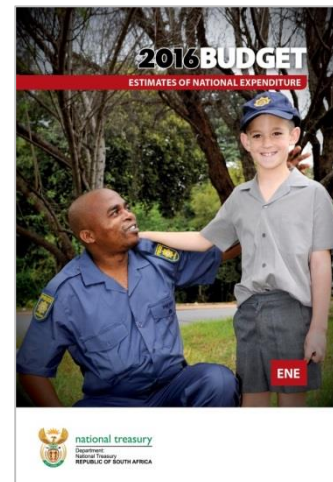
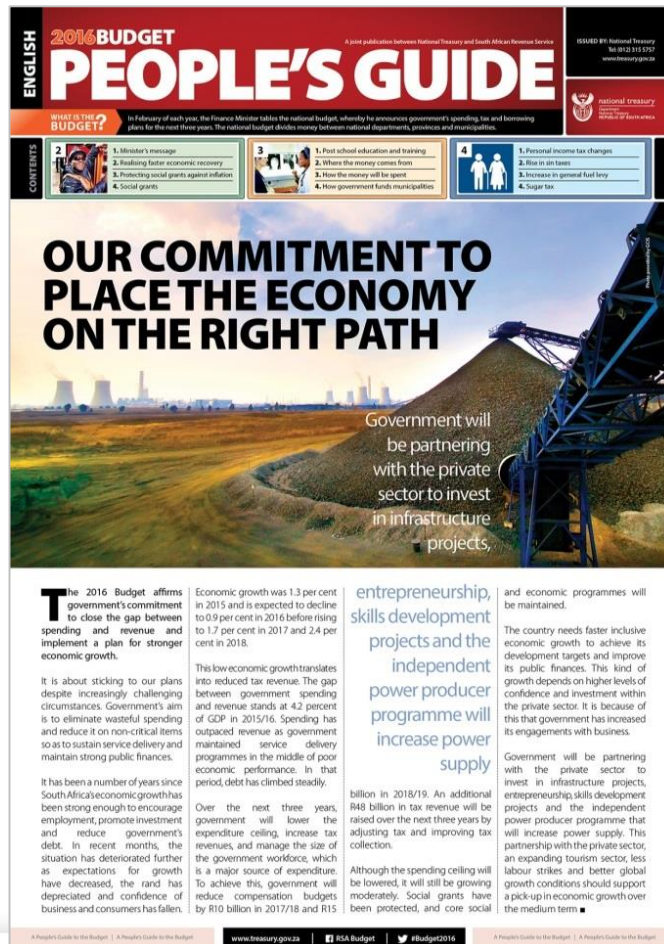
- Appropriation Bill
- Division of Revenue Bill
- Revenue Bills
- Budget Review
- Estimates of National Expenditure
- People's Guide

Budget documents tabled for medium term budget (October):

- Medium Term Budget Policy Statement
- Division of Revenue Amendment Bill
- Adjustments Appropriation Bill
- Adjusted Estimates of National Expenditure

Refer to Annexure for details

Examples of some publications: People's Guide



Public participation



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National Treasury participation initiatives

- Extensive budget information is published as evidenced by South Africa's very high ranking on international surveys such as the **Open Budget Survey**
- It is however recognised that this information is not used as extensively as it should be by the public
- The National Treasury is thus undertaking several initiatives to change this and increase public participation



Legislated budget participation opportunities

Legislation provides for public involvement in budget processes

- Constitution states that the National Assembly and provincial legislatures must facilitate public involvement in the legislative and other processes of the legislature and its committees
- Parliament makes formal calls for written or oral submissions on a draft law
- Section 8(5)(b) of the Money Bills Amendment Procedure and Related Matters Act makes provision for public hearings by committees on appropriations
- These provide opportunities for any interested parties to put forward their views and recommendations on budgets

Public submissions / requests

- Inputs can also be submitted to a committee of Parliament or the Provincial Legislature (depending on the issue and the level of responsibility). This can happen at any point in the budget calendar
- A formal request can also be written directly to the head of a relevant government department requesting a meeting to discuss matters relating to the performance or service delivery and use of resources by that department
- Communities may invite a government representative to listen to their particular issues

National Treasury participation initiatives (1)

CSO WORKSHOPS



UNIVERSITY OUTREACH



- University outreach and civil society workshops provide opportunities to engage
- National Treasury's website has also had a TIPS facility since 1999 where budget suggestions can be recorded
- Assistance has also been provided to civil society organisations (CSOs) to publish citizen-friendly budget publications

National Treasury participation initiatives (2)

Vulekamali.gov.za: user-friendly budget portal developed in **partnership** with civil society.

Agile development in progress taking into account user needs (provincial visits open to all):

- civic information drives
- hackathons
- dataquests
- opportunity for public to engage with information, put forward their requirements, and also to contribute their own analysis



National Treasury participation initiatives (3)

- National Treasury meets with organised labour and business e.g. National Economic Development and Labour Council (NEDLAC)
- Also engaging with academics and policy experts to get fiscal policy views
- *Vulekamali* platform also used to communicate participation opportunities however challenges remain and participation opportunities in budget formulation phase not extensive

Budget process and participation videos

<https://vulekamali.gov.za/videos>



www.vulekamali.gov.za

info@vulekamali.gov.za



THANK YOU



For additional information on national and provincial budgets, please visit our new budget data portal: <https://vulekamali.gov.za>

www.municipalmoney.gov.za

open **local government budget** data portal 

Explore easy-to-understand, verified financial information for **every single municipality** in South Africa in one place.

For information on local government finances, please visit: <https://municipalmoney.gov.za>

ANNEXURES / ADDITIONAL SLIDES



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Annexure: Legislative Requirements, Parliamentary Process and Roles and Responsibilities



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South African Constitutional Requirements

- **Section 213 requires:**
 - that there is a National Revenue Fund (NRF) into which all money received by the national government must be paid, except money reasonably excluded by an Act of Parliament; and
 - the withdrawal of money from the NRF only - (a) in terms of an appropriation by an Act of Parliament; or (b) as a direct charge against the NRF
- **Section 214 requires that an Act of Parliament must provide for:**
 - the equitable division of revenue raised nationally among the 3 spheres of government;
 - the determination of each province's equitable share of the provincial share of that revenue; and
 - any other allocations to provinces, local government/ municipalities from the national government's share of that revenue

Legislation and Policies

Various laws regulating budgets of National, Provincial and Local Government (three spheres of Government):

- South African Constitution, 1996
- Intergovernmental Fiscal Relations Act, 1997
- Public Finance Management Act (PFMA), 1999
- Municipal Finance Management Act (MFMA), 2003
- Money Bills Amendment Procedure and Related Matters Act, 2009

Legislation and Policies

Various laws regulating budgets of National, Provincial and Local Government (three spheres of Government), **updated annually:**

- Division of Revenue Act
- Appropriation Act
- Division of Revenue Amendment Act
- Adjustments Appropriation Act
- Taxation laws and amendments

Parliamentary process

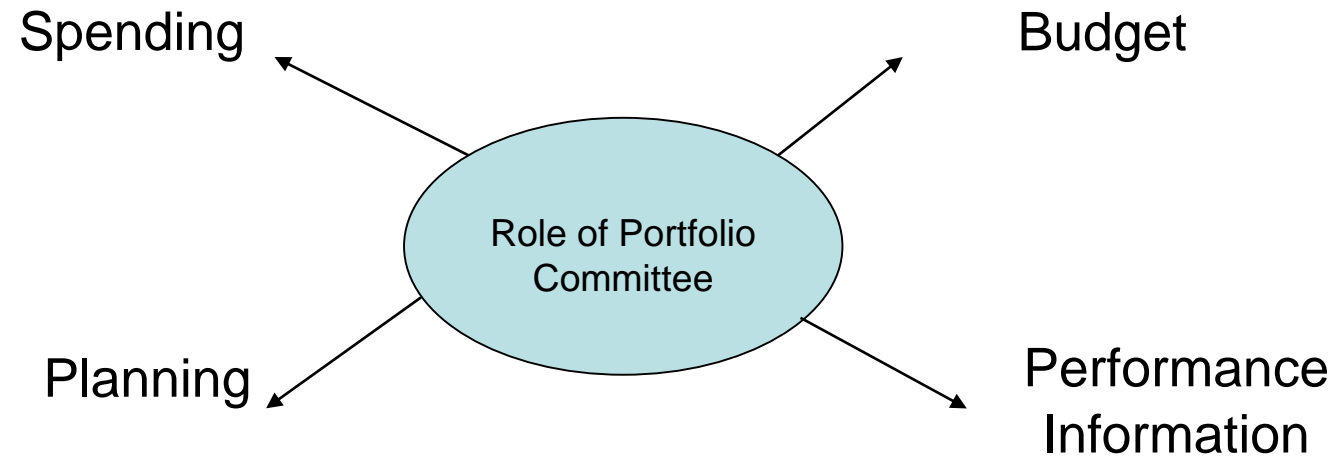
- Money Bills Amendments Procedure and Related Matters Act sets out **Parliament's** role in the budget process and enhances stakeholder participation and coordination
- The MTBPS, is discussed in **Parliament**
 - Report issued before Executive finalises the budget
- The Budget is dealt with by the **Standing Committees on Finance and Appropriations** comprising members of both houses
- Individual **Portfolio Committees** dissect the budget and strategic plan for each national department
- **Parliament** votes first on the Fiscal Framework, then Division of Revenue and then Appropriation Bill
- **Public Accounts Committee** deals with post-facto issues raised by Auditor General

Standing Committee on Appropriations

- SCOA Committee was established in terms of Section 4(3) of the Money Bills Amendment Procedure and Related Matters Act;
- Section 4(4) of the Act states that the Committee's powers and functions include considering and reporting on:
 - Spending issues;
 - Amendments to the Division of Revenue Bill, and all Appropriation Bills (Adjusted, Special or Supplementary)
 - Recommendations of the Financial and Fiscal Commission (FFC), including those referred to in the Intergovernmental Fiscal Relations Act, 1997 (Act No. 97 of 1997);
 - ***Reports on actual in-year expenditure published by the National Treasury***; and
 - Any other related matters
- The focus areas centre around the Section 32 Report on the expenditure of national departments
 - highlighting high level spending;
 - including a distinction between capital and current expenditure by vote, and
 - that cumulative spending data is included

Individual Sector Portfolio Committee

- The role of the Sector Portfolio Committee is described as considering bills, dealing with departmental budget votes, overseeing the work of the department they are responsible for, and enquiring and making recommendations about any aspect of the department, including its structure, functioning and policy
- This role differs from that of the SCoA by focusing on every aspect of a department which considers:



Individual Sector Portfolio Committee

- Sector Portfolio Committees interact with departments more frequently. The Committee is also required to understand how the spending, planning, budget and performance intersect holistically
- Portfolio Committee also engage with a variety of documentation such as strategic plans, annual performance plans, annual reports, site visits, and other reports
- It would be the responsibility of the relevant Sector Portfolio Committee to conduct in-depth investigations, understand the reasons why a department would require a substantial budgets for certain line items such as spending on consultants, and provide recommendations on how to address any shortcomings

Political Oversight

- **Ministers' Committee on the Budget (MINCOMBUD):**
 - constituted by the President as a Committee of Cabinet and chaired by the Minister of Finance;
 - may invite other members of Cabinet or senior officials to attend and/or present on issues of relevance to its mandate;
 - considers matters related to the determination of expenditure allocations, including the economic assumptions underpinning the budget, fiscal policy objectives and tax proposals;
 - attended by: political office bearers, senior officials, the Directors-General of National Treasury, the Presidency, and the Departments of Planning, Monitoring and Evaluation (DPME) and Cooperative Governance (DCoG); and
 - assisted by the National Treasury which provides administrative services for the proper functioning.

National Treasury's Technical Role

- Provide the overall Fiscal Framework based on the macroeconomic forecast.
- Propose the Division of Revenue between the three spheres based on the above and decisions made at a political level on priorities.
- Provide technical guidelines for budget submissions, evaluate budget submissions and ensure that they reflect key government priorities.
- Maintain on-going communication with other central government departments.
- Make recommendations to MTEC, Budget Council and MINCOMBUD, who in turn make recommendations to Cabinet and Extended Cabinet.
- Prepare and table budget documentation.
- Brief Parliamentary Committees in respect of budget documentation tabled.

Annexure: Budget Publications



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Budget Publications (Budget documents)

Budget documents tabled on budget day (February):

- Appropriation Bill
- Division of Revenue Bill
- Revenue Bills
- Budget Review
- Estimates of National Expenditure
- People's Guide

Budget documents tabled for medium term budget (October):

- Medium Term Budget Policy Statement
- Division of Revenue Amendment Bill
- Adjustments Appropriation Bill
- Adjusted Estimates of National Expenditure

Refer to Annexure for details

Publications (Budget documents) – tabled in February (1)

Appropriation Bill

To appropriate money from the National Revenue Fund (by vote - department, programme and main economic classification) for the requirements of the State for a financial year and to prescribe conditions for the withdrawal of funds

Division of Revenue Bill

- Division of revenue among the 3 spheres of government for the first year of the MTEF cycle – conditions are effected on certain types of allocations.
- 6 chapters highlighting the equitable division of revenue raised nationally among the national, provincial and local spheres of government and conditional grants allocations.

Revenue Bills

Presents the various tax laws to ensure government can raise money

Publications (Budget documents) – tabled in February (2)

Budget Review

8 Chapters highlighting economic overview, fiscal policy, revenue and trends tax policy, division of revenue and government debt

Estimates of National Expenditure (abridged + detailed ePubs)

- Explanatory memorandum to the Appropriation Bill which sets out the aggregate amount appropriated to each national government vote, by programme and main economic classification
- Policy developments, service delivery achievements and commitments alongside 7 year forecasts
- Includes information on public entities

People's Guide

Highlights of the budget in a simplified format with emphasis on the how the budget affects citizens. For example, a table on tax changes or social grant increases



Publications (Budget documents) – tabled in October

Medium Term Budget Policy Statement

A government policy document that communicates to Parliament and the country the economic context in which the forthcoming budget will be presented, along with fiscal policy objectives and spending priorities over the 3 year MTEF

Division of Revenue Amendment Bill

To effect current financial year adjustments to the Division of Revenue Bill

Adjustments Appropriation Bill

To effect adjustments to the appropriation of money from the National Revenue Fund in respect of the current financial year and to provide for matters incidental thereto

Adjusted Estimates National Expenditure

Reflects revisions to the main Budget, and provides detailed information on mid-year actual expenditure and performance as well as revised spending and performance projections for the rest of the current financial year.



Key Budget Cycle Milestones (1)

| | Policy Review | Departmental Planning and Budgeting | Parliament |
|------------------|---|---|--|
| April | Review, evaluate and decide on new major policy proposals MinComBud considers the proposed budget strategy | MTEF guidelines are issued to Depts. | Division of Revenue Act passed |
| May | | | |
| June | | | |
| July | Propose fiscal framework, and division of revenue for the planning baselines | Departments submit budgets, including detailed spending plans for new proposals | Appropriation Bill passed |
| August | Executive/s consider fiscal framework and division of revenue elements | Intergovernmental and technical forums Sector and focused budget hearings | |
| September | | | |
| October | Table MTBPS Fiscal Framework and Division of Revenue Table Adjusted Estimates of National Expenditure | | Table Division of Revenue Act Amendment Bill and Adjusted Appropriation Bill |

Key Budget Cycle Milestones (2)

| | Policy Review | Departmental Planning and Budgeting | Parliament |
|-----------------|---|---|--|
| November | Cabinet approves MTEF allocations for the National sphere of government | Departments finalise their budgets and budget documentation | Portfolio committees prepare Budget Review & Recommendations Reports (BRRRs), Reports on MTBPS Fiscal Framework and Division of Revenue Adjustments Appropriation Bill passed |
| December | | | |
| January | | | |
| February | National Budget tabled (includes response to Budget Review & Recommendations Reports (BRRRs), MTBPS Fiscal Framework and Division of Revenue) | Departments table strategic and annual performance plans | |
| March | Provincial budgets are tabled (14 days after National budget is tabled) | | Adoption of the fiscal framework |

The Budget Review

The Budget Review is a single document, typically comprising the following:

- An Economic Outlook chapter
- A Fiscal Policy chapter, which presents South Africa's consolidated fiscal framework, and the government's fiscal stance over the medium term
- A chapter on Revenue Trends and Tax Proposals
- A chapter on Consolidated Spending Plans, which outlines government's spending projections over the next three financial years by function and economic classification
- A Division of Revenue chapter, which outlines the division nationally raised revenue to national departments, provinces and municipalities through the equitable share and otherwise, as well as spending by provinces and municipalities
- A chapter on Government Debt and Contingent Liabilities
- A chapter of the Financial Position of Public Sector Institutions

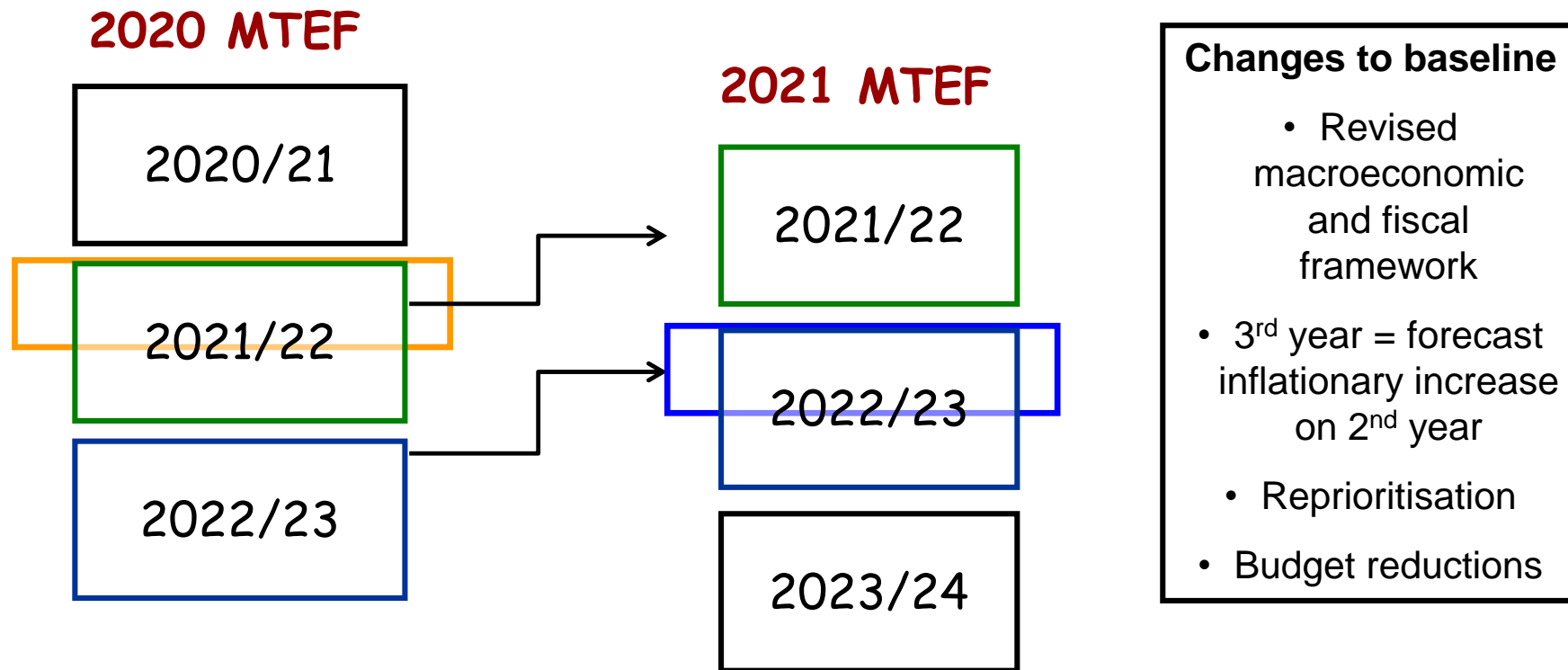
Multi-year Budget Projection

Section 28 of Public Finance Management Act (PFMA), Act 1 of 1999 states that:

- (1) The Minister and the MEC for finance in a province must annually table in the National Assembly and in that province's provincial legislature, respectively, a multi-year budget projection of -
 - a) the estimated revenue expected to be raised during each year of the multi-year period; and
 - b) the estimated expenditure expected to be incurred per vote during each year of the multi-year period, differentiating between capital and current expenditure.
- (2) A multi-year budget projection tabled by the Minister must contain the Minister's key macro-economic projections.

How the Medium Term Expenditure Framework works

- MTEF approach adopted in 1997
- Budget compiled for three years but appropriated annually



Appropriation Bill (1)

Linked to Section 9, a report of the Committee on Appropriations to the House that proposes amendments to the main Appropriation Bill must, in respect of each amendment indicate the reason for such proposed amendment;

- Demonstrate how the amendment takes into account the broad strategic priorities and allocations of the relevant budget
- Demonstrate the implications of each proposed amendment for an affected vote and the main divisions within that vote
- Demonstrate the impact of any proposed amendment on the balance between transfer payments, capital and recurrent spending in an affected vote
- Set out the impact of any proposed amendment on service delivery
- Set out the manner in which the amendment relates to prevailing departmental strategic plans, reports of the Auditor General, committee reports adopted by a House, reports in terms of section 32 of the Public Finance Management Act, annual reports and any other information submitted to a House or committee in terms of the standing rules or on request
- When providing a motivation in this context, it would be necessary to link reports from other committees like SCOPA, Portfolio Committees, Auditor-General, SCOA report, Strategic Plans, Annual performance plans etc

Appropriation Bill (2)

- The Appropriation Bill is the legislation that provides for the appropriation of money by Parliament from the National Revenue Fund in terms of section 213 of the Constitution, 1996 and section 26 of the Public Finance Management Act (PFMA), 1999
- To appropriate money from the National Revenue Fund (by vote - department, programme and main economic classification) for the requirements of the State for a financial year and to prescribe conditions for the withdrawal of funds
- Spending is subject to the PFMA and the provisions of the Appropriation Bill itself
- For transfers to sub-national government, the 2019 Division of Revenue Bill also contains provisions in terms of which specific spending must take place
- The committees on appropriations may not consider amendments to the Appropriation Bill prior to the passing of the Division of Revenue Bill
- Any amendment to the Appropriation Bill must be consistent with the adopted fiscal framework and Division of Revenue Bill passed by Parliament.
- Prior to the 2019 Appropriation Bill being promulgated, departments will incur expenditure in terms of section 29 of the PFMA, which makes provision for spending before an annual budget is passed:
 - Up to end July, expenditure may not exceed 45 per cent of the 2018/19 financial year annual budget

The Division of Revenue Bill

The Division of Revenue Bill provides for the equitable division of revenue raised nationally among the national, provincial and local spheres of government. The Division of Revenue Bill comprises of:

- Equitable share allocations
- Conditional allocations to provinces and municipalities, including for each grant a framework outlining allocation criteria, conditions, etc.
- Matters relating to all allocations
- Duties and powers of municipalities, provincial treasuries and national treasury

The Estimates of National Expenditure

- This a detailed presentation of expenditure outcomes for the past three financial years, the revised estimate for the current financial year and expenditure estimates for the following three financial years
- The information is presented per government vote in accordance with each vote's budget programme structure, further broken down by economic classification
- The information is also presented in Excel format
- Each vote chapter includes a short analysis of expenditure trends and performance objectives over the medium term
- Includes personnel information for each vote, such as establishment structure and number of filled posts per programme and salary level
- Includes public entity budget information

Adjusted Estimates of Expenditure

In October each year, the Minister of Finance tables a “mini-budget” before Parliament, with the documents including:

- The Medium Term Budget Policy Statement Speech
- The Medium Term Budget Policy Statement
- The Adjusted Estimates of National Expenditure,
- The Division of Revenue Bill, and
- The Adjusted Appropriation Bill

Budget Process Video

vulekamali (South Africa's online budget data portal) provides an informative video on the South African budget process:

<https://www.youtube.com/watch?v=f8fkoWW33Gs>



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Transparency in budgeting is intended to enable the public to hold government accountable for the use of public funds

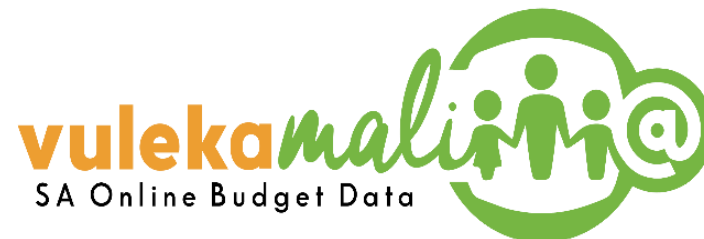
South Africa has been **RANKED FIRST**, alongside New Zealand, on the 2017 Open Budget Index. The survey evaluates **115 countries** on the **transparency** of their budgets, across a range of measures.

- Intergovernmental transfers are made in terms of the annual Division of Revenue Act, available at: [http://www.treasury.gov.za/legislation/bills/2019/\[B5-2019\]%20\(Division%20of%20Revenue\).pdf](http://www.treasury.gov.za/legislation/bills/2019/[B5-2019]%20(Division%20of%20Revenue).pdf)
- National budget policy is set out in the annual Budget Review, available at: <http://www.treasury.gov.za/documents/national%20budget/2019/review/FullBR.pdf>
- Monthly and quarterly budget data is reported by provinces and municipalities to National Treasury and published on the National Treasury website: www.treasury.gov.za
- We also publish 'user-friendly' budget data at: <https://vulekamali.gov.za> (for national and provincial budgets) and <https://municipalmoney.gov.za> for municipalities

www.municipalmoney.gov.za

open local government budget data portal

Explore easy-to-understand, verified financial
information for every single municipality
in South Africa in one place.



Annexure: Determining the Division of Revenue

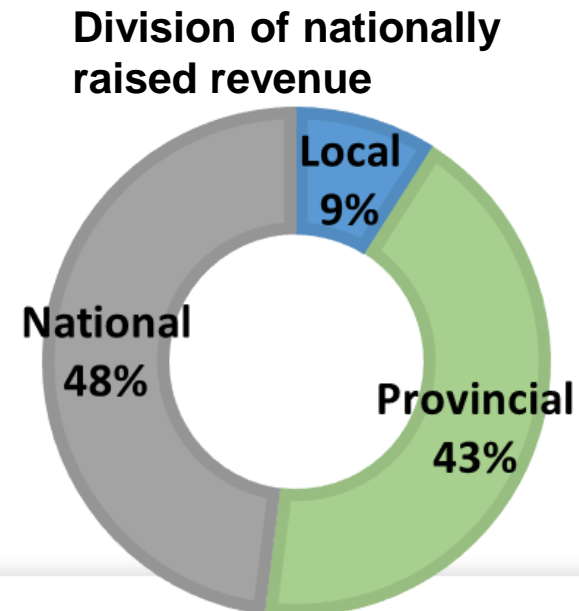


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How funds are allocated between the 3 spheres

- South Africa has a **3 year budget framework**:
 - The annual budget appropriates the first year and gives “forward estimates” of the next 2 years’ allocations
 - Allows provinces and municipalities to plan ahead
- SA Constitution requires an annual Division of Revenue Act to allocate funds raised by national government between the three spheres and sets parameters for ensuring the division is **equitable**
- Priorities set nationally through: legislation, norms and standards or political statements
- Provinces and municipalities can receive either conditional or unconditional allocations through the annual Division of Revenue Act
- Executives in each sphere decide on where to allocate resources



How is the Division of Revenue determined?

The share of national revenue allocated to each sphere is based on:


- The functions performed by the spheres (as set out in the Constitution):

National departments



Police and justice, higher education, social grants

Provincial governments



Basic education, health, social development

Municipalities



Basic services (water, sanitation, electricity, refuse removal)

- Other sources of revenue available to fund these functions:

National departments

Fully funded from national revenue

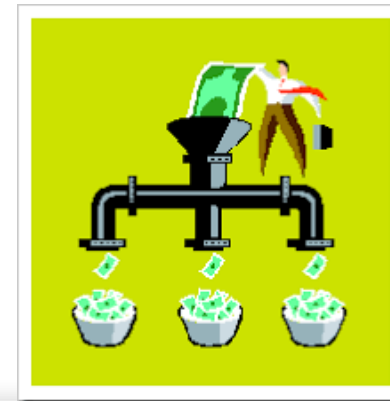
Provincial governments

Limited other revenue (vehicle and gambling licenses)
Mostly funded through transfers from fiscus

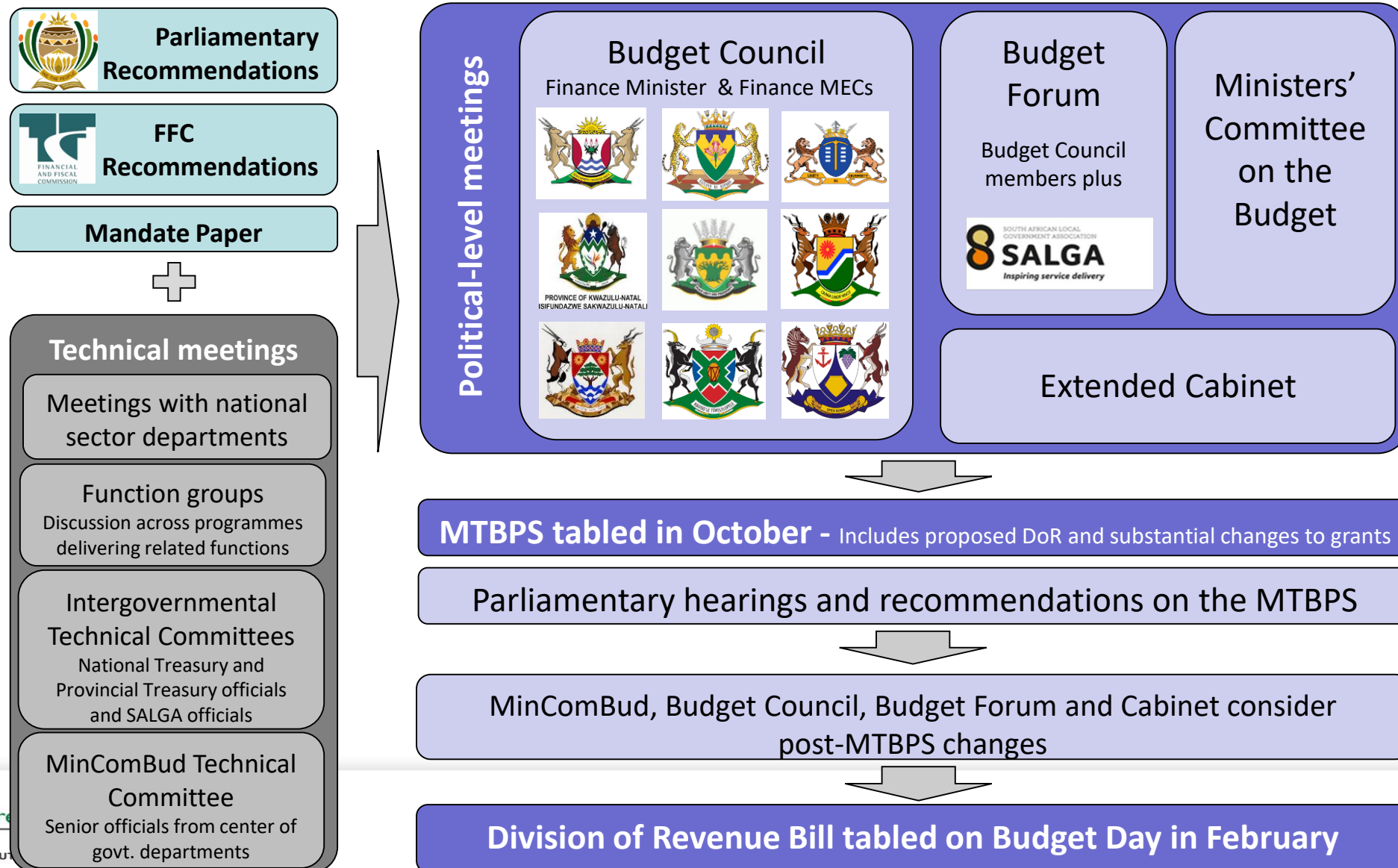
Municipalities

Substantial other revenue (Property rates, service charges)
Also receives funding from fiscus

- The Constitution (S228 & S229) reserves the most significant revenue sources for NG: income tax, VAT, customs duties
- Nationally raised revenue shared between national, provincial and local spheres based on functional allocations and own sources at their disposal
- The Division of Revenue (vertical division) is determined politically through various consultation structures

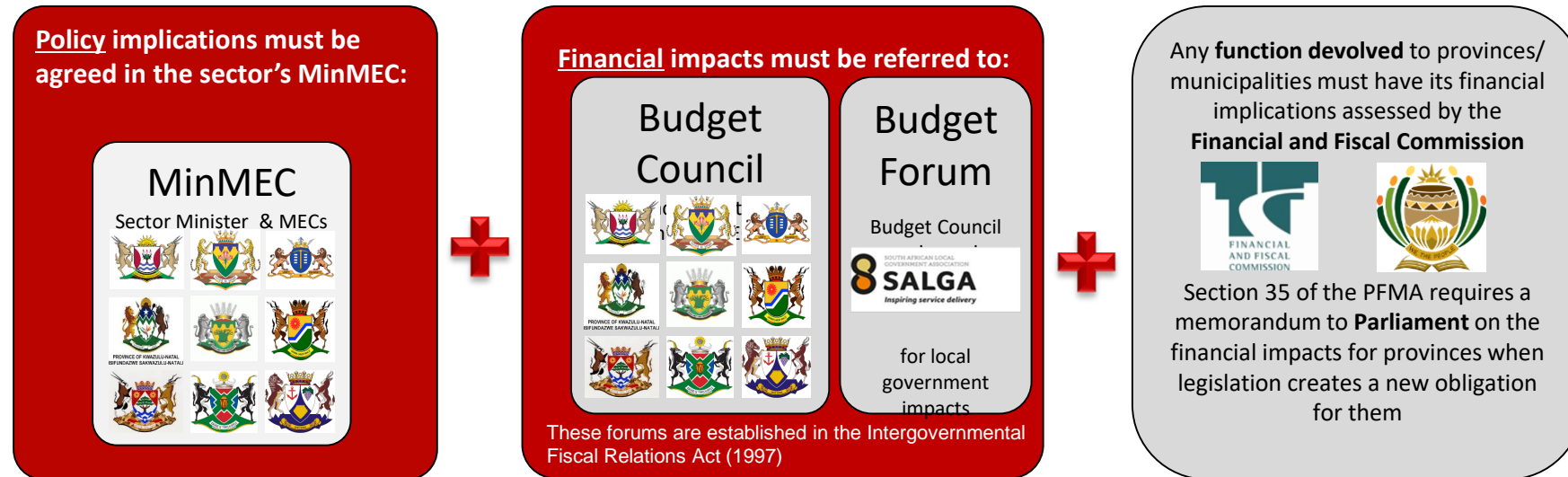


Consultation process before the Division of Revenue Bill is tabled *(summarised)*



Changes to policies that impact Concurrent Functions require consultation and agreement

In addition to policy discussions in sector structures, financial impacts must be referred to Budget Council and Budget Forum



- A JOINT MinMEC (combining the sector MinMEC and Budget Council) can be held to facilitate agreement
- If all processes are followed properly, unfunded mandates will be avoided

Annexure: Provincial Fiscal Framework



national treasury

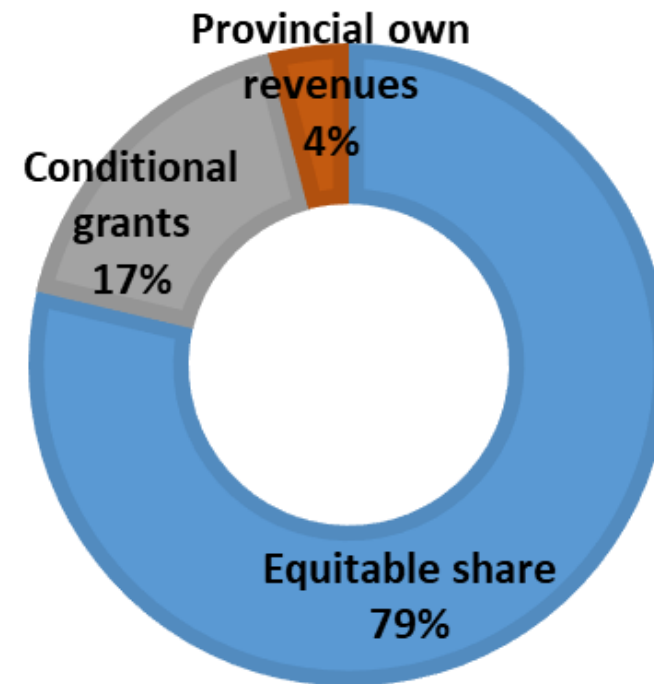
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Structure of the provincial fiscal framework

Refers to all the revenues available to fund provincial expenditures

- The largest provincial functions (in spending terms) are all social services, with little own revenue potential
- The distribution of demand for public schooling and healthcare across provinces is not aligned to the economic base in provinces
- As a result, provinces are mainly funded through transfers. This allows revenues raised across the whole economy to be transferred to the provinces where it needs to be spent

Shares of different sources of provincial revenue (aggregate for all 9 provinces)



Differences between our 9 provinces

| | Population (2018, Thousand s) | Land area (Thousand square km) | Economy size (2018 GVA, Rand millions) | Poverty (% below food poverty line, 2015) |
|----------------------------|--|---|---|---|
| Eastern Cape | 6 523 | 169 | 331 093 | 41% |
| Free State | 2 954 | 130 | 217 849 | 21% |
| Gauteng | 14 717 | 18 | 1 507 082 | 9% |
| Kw aZulu-Natal | 11 385 | 94 | 692 222 | 34% |
| Limpopo | 5 797 | 126 | 311 686 | 40% |
| Mpumalanga | 4 524 | 76 | 323 722 | 26% |
| Northern Cape | 1 226 | 373 | 90 883 | 24% |
| North West | 3 979 | 105 | 279 733 | 29% |
| Western Cape | 6 621 | 129 | 596 043 | 10% |
| South African total | 57 726 | 1 221 | 4 350 314 | 25% |



Provincial Equitable Share (PES) formula

- The PES accounts for 82,5% of transfers to provinces and is allocated through a formula based primarily on demand for public services in each province
- The data used is updated annually to reflect changes in relative demand across provinces

Provincial equitable share allocations

| R million | 2019/20 | Average annual MTEF growth |
|---------------|----------------|----------------------------|
| Eastern Cape | 68 824 | 5,2% |
| Free State | 28 187 | 7,4% |
| Gauteng | 102 448 | 8,9% |
| KwaZulu-Natal | 106 014 | 6,6% |
| Limpopo | 58 965 | 6,6% |
| Mpumalanga | 41 428 | 7,2% |
| Northern Cape | 13 424 | 7,1% |
| North West | 34 973 | 7,6% |
| Western Cape | 51 291 | 7,6% |
| Total | 505 554 | 7,2% |

How the PES formula accounts for demand for services



Education (48%)

Allocated based on:

- School aged population (updated*)
- Enrolled pupils (updated LURITS data from DBE)



Health (27%)

Allocated based on:

- Population without medical aid, adjusted for health risk (updated*)
- Hospital and clinic use (updated DoH data)



Basic Share (16%)

Allocated based on:

- Share of population*



Poverty (3%)

Allocated based on:

- Share of poverty* (IES and mid-year estimates)



Institutional (5%)

Same allocation to each province



Economic activity (1%)

Based on share of GDP-R (updated StatsSA data)

* Updated with data from StatsSA's mid-year population estimates

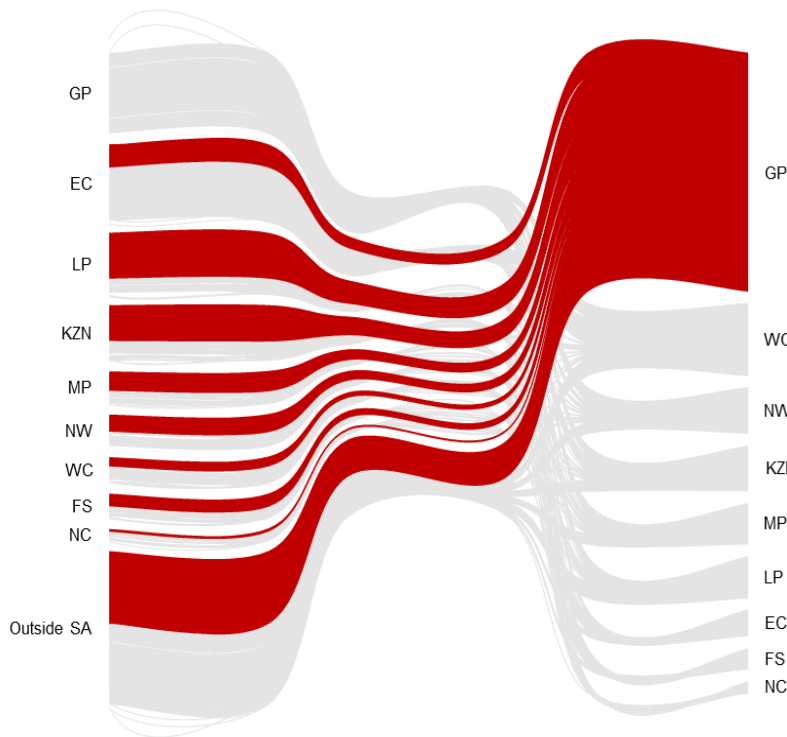


Annual data updates to the PES formula (1 of 2)

- SA has fast population growth and significant migration (typical of a developing country). This leads to changes in the demand for services in different regions
- Data that informs PES allocations is updated annually with the most recent data
- New data is phased-in over 3 years to allow time to adapt to funding changes

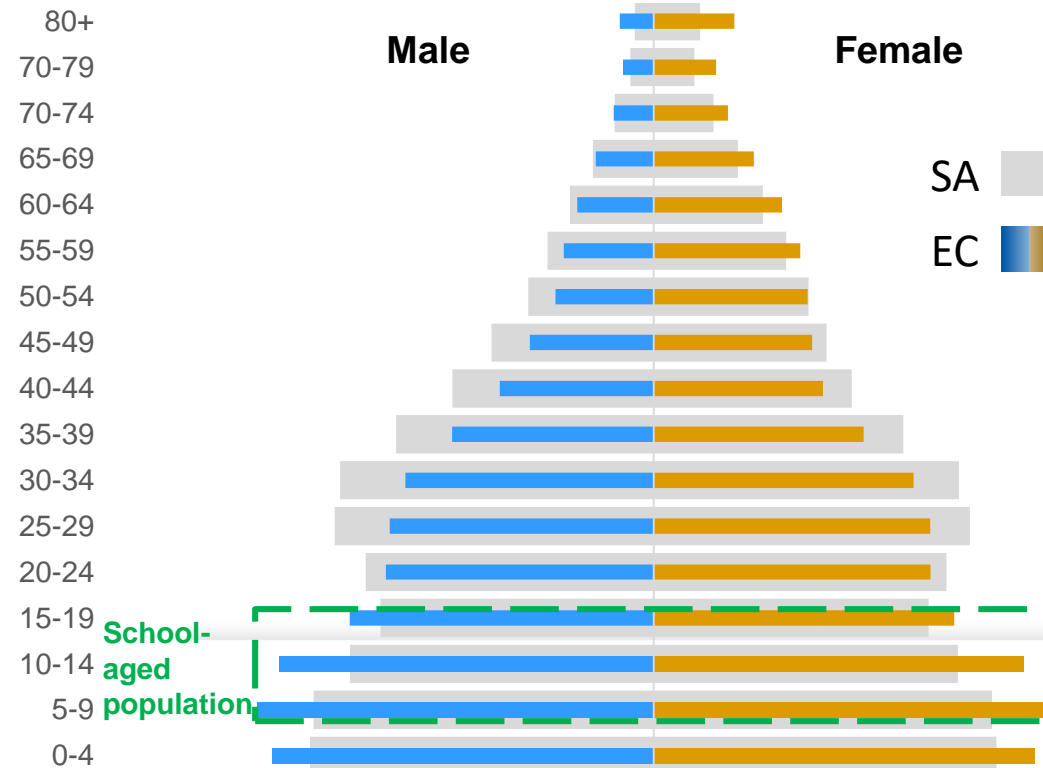
Migration flows

Example of migration to Gauteng



Age-structure of the population

Example comparing SA to the Eastern Cape



Annual data updates to the PES formula (2 of 2)

- There are two main types of data sources for the provincial equitable share formula:
 - Official data from StatsSA accounts for two-thirds of the formula data and includes:
 - Population projections (which draw from the migration and age structure information shown on the previous slide)
 - Surveys showing poverty per province
 - Economic data
 - Administrative data from national departments accounts for one third of the data, including:
 - Records on the number of hospital and clinic visits
 - The number of learners enrolled in schools (captured in the new LURITS system)
- **All data updates are reviewed by the Technical Committee on Finance and approved by Budget Council**



stats sa

Department:
Statistics South Africa
REPUBLIC OF SOUTH AFRICA



health

Department:
Health
REPUBLIC OF SOUTH AFRICA



basic education

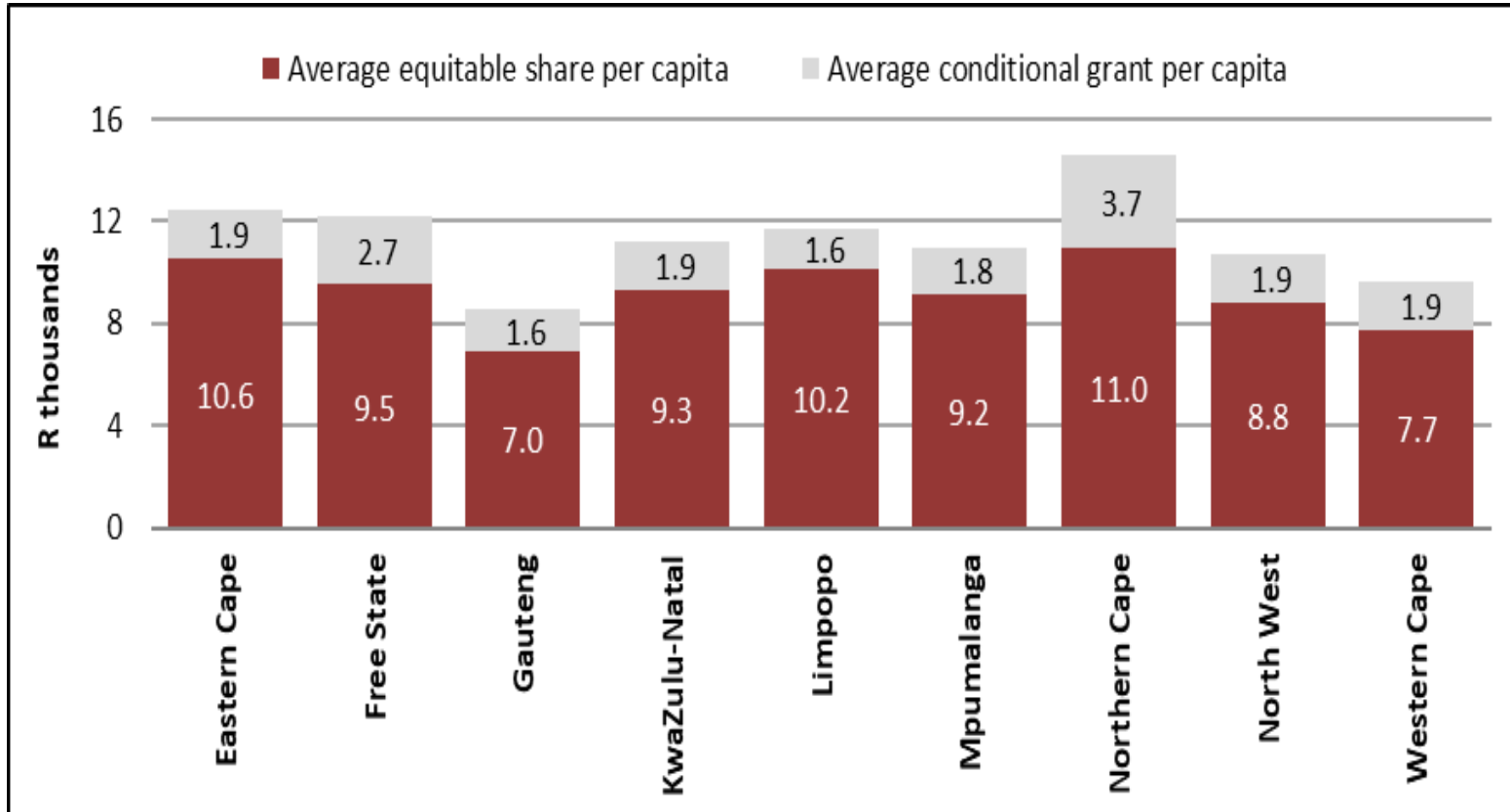
Department:
Basic Education
REPUBLIC OF SOUTH AFRICA

Conditional Grants

- Several large functions (and several smaller ones) are funded through conditional grants, including:
 - HIV medication
 - Libraries
 - Bus subsidies
- Some grants are intended to fully fund a function, others supplement provincial funding
- Each grant is administered by a national department that is responsible for monitoring performance and adherence to the grant rules gazetted in terms of the Division of Revenue Act
- Provinces submit financial and non-financial performance reports
- If there is non-compliance or underspending funds can be:
 - Withheld
 - Stopped
 - Reallocated

The Division of Revenue is highly redistributive in favour of more rural provinces

Provincial transfers per capita, 2019/20



- South Africa's tax base is concentrated in urban areas. However, the allocations through the Division of Revenue transfer higher per capita amounts to rural areas
 - E.g. Limpopo contributes 4% of income taxes, but receives 12% of transfers

Provincial own revenues

- Provinces have limited own revenue powers
- Main sources of provincial revenue are:
 - Vehicle licence fees
 - Gambling taxes
 - Fees for services (e.g. hospital fees)
- Provinces can apply for new tax powers (must be approved by the Minister of Finance)
 - One province applied for a provincial fuel levy, although the application was approved the tax was never implemented
- Provinces can only borrow through national government as they have limited own revenues they could borrow against

