

BUDGET 2021

BUDGET REVIEW



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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Budget Review

2021

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#RSABUDGET2021 HIGHLIGHTS

ECONOMIC OUTLOOK

- Government will support the economic recovery by extending short-term economic support and undertaking reforms to lower the cost of doing business and stabilise the public finances.
- Real GDP is expected to grow at 3.3 per cent in 2021 and 2.2 per cent in 2022.
- The global economic outlook is uncertain; however, additional policy stimulus packages and successful rollout of COVID-19 vaccines will boost global growth.
- A successful rollout of COVID-19 vaccines will support the economic recovery and global trade.
- Government will take steps to promote faster growth by stabilising electricity supply, supporting industries with high employment potential and undertaking partnerships with the private sector.
- Operation Vulindlela is supporting the implementation of key structural reforms, but faster progress is needed to generate an economic recovery.

BUDGET FRAMEWORK

- The budget deficit has been revised to 14 per cent of GDP in 2020/21 in response to the spending and economic pressures of the COVID-19 pandemic.
- Gross debt has increased from 65.6 per cent to 80.3 per cent of GDP for the year 2020/21.
- The 2021 Budget proposes measures to narrow the main budget primary deficit from 7.5 per cent of GDP in the current year to 0.8 per cent in 2023/24.
- The proposed fiscal framework will stabilise debt at 88.9 per cent of GDP in 2025/26.
- Government will roll out a free mass COVID-19 vaccination campaign for which R9 billion has been allocated in the medium term.
- Over the medium term, debt-service costs are expected to average 20.9 per cent of gross tax revenue.

SPENDING PROGRAMMES

- Total consolidated spending amounts to R2 trillion each year over the medium term.
- The bulk of the spending is allocated to learning and culture (R402.9 billion), social development (R335.2 billion) and health (R248.8 billion) in 2021/22.
- The fastest-growing functions over the medium term are economic development, community development and general public services.
- The majority of funding for new and urgent priorities is provided through reprioritisation and reallocation of existing baselines.

TAX PROPOSALS

- To support economic recovery, government will not raise any additional tax revenue in this budget.
- The personal income tax brackets and rebates will increase above the inflation rate of 4 per cent.
- Government will increase excise duties on alcohol and tobacco by 8 per cent for 2021/22.
- Inflation-related increases of 15c/litre and 11c/litre will be implemented for the general fuel levy and the RAF levy, respectively, with effect from 7 April 2021.
- The UIF contribution ceiling will be set at R17 711.58 per month from 1 March 2021.

#RSABUDGET2021

KEY BUDGET STATISTICS

A full set of 2021 Budget data can be found in the statistical tables at the back of the *Budget Review*. The data on this page may differ from the statistical annexure due to classification, definition and rounding.

BUDGET REVENUE, 2021/22

R billion	
TAX REVENUE	1 365.1
of which:	
Personal income tax	516.0
Corporate income tax	213.1
Value-added tax	370.2
Taxes on international trade and transactions	54.0
Non-tax revenue	32.5
Less: SACU payments	-46.0
Main budget revenue	1 351.7
Provinces, social security funds and public entities	168.7
Consolidated budget revenue	1 520.4
As percentage of GDP	
Tax revenue	25.5%
Main budget revenue	25.3%

MACROECONOMIC PERFORMANCE AND PROJECTIONS

Percentage change	2017	2018	2019	2020	2021	2022	2023
	Actual			Estimate	Forecast		
Household consumption	2.1	1.8	1.0	-5.9	2.9	2.4	2.0
Gross fixed-capital formation	1.0	-1.4	-0.9	-18.4	-2.4	3.9	3.9
Exports	-0.7	2.6	-2.5	-10.9	5.7	3.0	2.8
Imports	1.0	3.3	-0.5	-16.5	6.3	4.6	2.5
Real GDP growth	1.4	0.8	0.2	-7.2	3.3	2.2	1.6
CPI inflation	5.3	4.6	4.1	3.3	3.9	4.2	4.4
Current account balance (% of GDP)	-2.5	-3.5	-3.0	1.7	-0.1	-1.0	-1.4

CONSOLIDATED FISCAL FRAMEWORK

R billion/percentage of GDP	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Outcome			Estimate	Medium-term estimates		
Revenue	1 350.3	1 447.8	1 530.5	1 362.7	1 520.4	1 635.4	1 717.2
	28.7%	29.4%	29.7%	27.7%	28.4%	28.9%	28.6%
Expenditure	1 540.9	1 643.6	1 822.3	2 052.5	2 020.4	2 049.5	2 095.1
	32.8%	33.4%	35.4%	41.7%	37.7%	36.2%	34.9%
Budget balance	-190.6	-195.7	-291.8	-689.8	-500.0	-414.1	-377.9
	-4.1%	-4.0%	-5.7%	-14.0%	-9.3%	-7.3%	-6.3%
Gross domestic product	4 698.7	4 924.0	5 148.9	4 921.0	5 352.2	5 666.3	5 997.2

DIVISION OF NATIONALLY RAISED REVENUE

R billion/percentage of GDP	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Outcome			Estimate	Medium-term estimates		
DIVISION OF AVAILABLE FUNDS							
National departments	592.6	634.3	749.7	804.5	763.3	736.3	739.0
Provinces	538.6	572.0	613.4	628.3	639.5	643.3	646.8
Local government	111.1	118.5	123.0	138.5	138.1	146.1	148.4
Non-interest allocation	1 242.3	1 324.8	1 486.2	1 571.3	1 552.5	1 557.8	1 567.5
PERCENTAGE SHARES							
National departments	47.7%	47.9%	50.4%	51.2%	49.5%	48.3%	48.2%
Provinces	43.4%	43.2%	41.3%	40.0%	41.5%	42.2%	42.2%
Local government	8.9%	8.9%	8.3%	8.8%	9.0%	9.6%	9.7%

CONSOLIDATED SPENDING BY FUNCTIONAL AND ECONOMIC CLASSIFICATION, 2021/22

R billion	Compensation of employees	Goods and services	Capital spending and transfers	Current transfers and subsidies	Interest payments	Total
Basic education	208.2	27.7	13.8	22.6	0.0	272.3
Post-school education and training	12.4	2.2	4.7	100.4	0.0	119.6
Arts, culture, sport and recreation	4.2	3.3	1.1	2.5	0.0	11.0
Health	150.7	80.1	12.2	5.8	0.0	248.8
Social protection	15.4	8.5	0.9	204.5	0.0	229.4
Social security funds	5.0	7.1	1.2	92.1	0.4	105.9
Community development	18.9	15.0	77.6	107.1	0.2	218.8
Industrialisation and exports	10.5	5.1	7.0	13.6	0.0	36.2
Agriculture and rural development	12.3	7.4	5.2	2.5	0.0	27.4
Job creation and labour affairs	4.6	19.6	0.8	8.4	0.0	33.4
Economic regulation and infrastructure	24.2	30.4	25.7	5.0	7.8	93.1
Innovation, science and technology	4.8	4.1	1.6	6.9	0.0	17.4
Defence and state security	27.1	12.2	1.3	6.1	0.0	46.7
Police services	80.6	18.3	3.8	1.9	0.0	104.6
Law courts and prisons	34.1	11.7	1.7	1.0	0.0	48.5
Home affairs	4.8	3.3	0.6	0.2	0.0	8.9
Executive and legislative organs	8.0	4.8	0.3	1.4	0.0	14.5
Public administration and fiscal affairs	21.7	16.4	2.0	5.9	0.0	46.1
External affairs	2.8	2.3	0.5	2.1	0.1	7.9
Payments for financial assets						48.2
Debt-service costs					269.7	269.7
Contingency reserve						12.0
Total	650.4	279.5	161.9	590.0	278.3	2 020.4

Note: Payments for financial assets are not shown in the table, but are included in the row totals.

BUDGET 2021/22

BUDGET EXPENDITURE

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CONSOLIDATED GOVERNMENT EXPENDITURE

R2.02 TRILLION

R1.21 TRILLION

SOCIAL SERVICES



R207.5 bn

ECONOMIC DEVELOPMENT

Economic regulation and infrastructure	R93.1bn
Industrialisation and exports	R36.2bn
Job creation and labour affairs	R33.4bn
Agriculture and rural development	R27.4bn
Innovation, science and technology	R17.4bn

Basic education	R255.1bn
University transfers	R45.6bn
National Student Financial Aid Scheme	R37.3bn
Skills development levy institutions	R21.3bn
Education administration	R19.6bn
Technical & vocational education and training	R13.0bn



R402.9bn

LEARNING AND CULTURE



R208.6 bn

PEACE AND SECURITY

Police services	R104.6bn
Defence and state security	R48.5bn
Law courts and prisons	R46.7bn
Home affairs	R8.9bn

District health services	R105.5bn
Other health services	R51.4bn
Central hospital services	R44.1bn
Provincial hospital services	R38.1bn
Facilities management and maintenance	R9.7bn



R248.8bn

HEALTH



R68.4 bn

GENERAL PUBLIC SERVICES

Public administration and fiscal affairs	R46.1bn
Executive and legislative organs	R14.5bn
External affairs	R7.9bn

Municipal equitable share	R78.0bn
Human settlements, water and electrification programmes	R52.9bn
Public transport	R45.0bn
Other human settlements and municipal infrastructure	R42.9bn



R218.8bn

COMMUNITY DEVELOPMENT



R269.7 bn

DEBT-SERVICE COSTS



R12.0 bn

CONTINGENCY RESERVE

Social security funds	R105.9bn
Old-age grant	R86.5bn
Child-support grant	R73.3bn
Other grants	R35.7bn
Provincial social development	R23.6bn
Policy oversight and grant administration	R10.2bn



R335.3bn

SOCIAL DEVELOPMENT

Foreword

All budgets are about balance – weighing the needs of the present and the future, assessing competing priorities for national development and, of course, managing revenue and expenditure.

This year we face an exceptionally difficult balancing act. On one side is a raging pandemic that has led to the most severe global economic contraction in nearly a century. At the time of writing, COVID-19 has claimed the lives of 2.5 million people, including about 50 000 South Africans. On the other side is a weak economy, with massive unemployment, that is burdened by ailing state-owned companies, the highest budget deficit in our history and rapidly growing public debt.

On this razor's edge, the 2021 *Budget Review* looks straight ahead. The 2020 *Medium Term Budget Policy Statement* set a course for economic recovery and fiscal consolidation. The 2021 Budget shows some progress: we are doing what we set out to do.

The budget funds a massive and free COVID-19 vaccination campaign. It adds R11 billion to the spending framework in 2021/22 for the public employment initiative. It exercises continued restraint in spending growth while ensuring that over the medium term nearly R3 trillion, or 56.6 per cent of public money, is allocated to learning and culture, health, and social development. It improves the composition of spending by shifting expenditure growth to investment rather than consumption. Finally, it avoids increasing the tax burden by withdrawing R40 billion in previously announced tax increases.

Government's fiscal strategy puts South Africa on course to achieve a sufficiently large primary surplus to stabilise debt. The consolidated budget deficit is projected at 14 per cent of GDP in 2020/21, narrowing to 6.3 per cent of GDP by 2023/24. Debt is now expected to stabilise at 88.9 per cent of GDP in 2025/26. Over time, debt stabilisation will reduce borrowing costs and the cost of capital, attracting investment that can support the economy. Government's chosen fiscal path is not easy, but it will support higher levels of economic growth and enable the country to avoid a debilitating debt spiral.

Apart from the immediate health benefits for millions of South Africans, a successful vaccination programme will allow the economy to fully reopen. Yet a faster recovery, characterised by growing investment and job creation, requires broader structural change. Government's economic reforms will remove barriers to growth, lower the cost of doing business, and bolster confidence and investment. A key reform is to restructure the electricity sector and ensure sufficient supply.

The National Treasury and the Presidency, through Operation Vulindlela, are working to ensure the rapid rollout of these reforms, including speeding up the release of digital spectrum, expanding the electronic visa system and waivers to support tourism, improving the efficiency and competitiveness of South Africa's ports, and strengthening the monitoring of water quality.

I would like to thank Cabinet, the Minister and Deputy Minister of Finance, Parliament's Portfolio Committee on Finance, the Standing Committee on Appropriations, the Budget Council and my government counterparts for their contributions to this budget. And I express my special appreciation to the National Treasury team. We have lost several colleagues and many family members to COVID-19 over the past year. Their loss is irreplaceable. But the National Treasury has not faltered, and has fulfilled its constitutional mandate, producing this 2021 Budget under extremely challenging conditions.



Dondo Mogajane

Director-General: National Treasury

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Renewing the economy and restoring the public finances

In brief

- Government's immediate priority is to support a rapid return to economic growth in the wake of the COVID-19 lockdowns. A mass vaccination programme, provided free of charge, will support a reopening of the economy and GDP growth of 3.3 per cent this year.
- Fiscal policy continues to focus on short-term economic support, pro-growth fiscal consolidation and debt stabilisation. The consolidated budget deficit, which reaches a record 14 per cent of GDP in 2020/21, will narrow to 6.3 per cent of GDP in 2023/24. Government remains on track to achieve a primary fiscal surplus by 2024/25 and stabilise debt in the following year.
- Tax revenue estimates, while higher than projected in October 2020, are R213.2 billion lower than projected in the 2020 Budget. To support the economy, R40 billion in previously proposed tax measures will be withdrawn.
- The 2021 Budget proposes total consolidated spending of R2.02 trillion in 2021/22, with 56.8 per cent of allocations going to learning and culture (R402.9 billion), health (R248.8 billion) and social development (R335.3 billion). Rising debt-service costs consume R269.7 billion, or 13.4 per cent of the budget.
- Excluding compensation reductions, real consolidated non-interest expenditure grows by an annual average of 0.4 per cent between 2020/21 and 2023/24.

Overview

The 2021 Budget is framed by the two policy objectives set out in the 2020 *Medium Term Budget Policy Statement* (MTBPS): promoting economic recovery and returning the public finances to a sustainable position.



The COVID-19 shock is estimated to have led to a 7.2 per cent contraction in GDP growth in 2020. The economy has started to recover in response to improved global conditions and the easing of lockdown restrictions – and in the months ahead, a mass vaccine rollout will support a full reopening



of the economy. GDP growth of 3.3 per cent is projected for 2021, moderating to an average of 1.9 per cent in 2022 and 2023.

Government's balanced and prudent fiscal strategy is designed to stabilise the public finances. The 2021 Budget provides continued support to the economy and public health in the short term without adding to long-term spending pressures. Capital spending is the fastest-growing component of non-interest spending. The main budget primary deficit narrows from 7.5 per cent of GDP in 2020/21 to 0.8 per cent of GDP in 2023/24, and gross government debt stabilises at 88.9 per cent of GDP in 2025/26. At the same time, the 2021 Budget avoids adding to the tax burden, withdrawing previously announced tax increases of R40 billion.

But the outlook remains highly uncertain and the economic effects of the pandemic are far-reaching. By the third quarter of 2020, there were 1.7 million fewer jobs than in the same period in 2019. Rising unemployment and income losses have entrenched existing inequalities. GDP is only expected to recover to pre-pandemic levels in late 2023. Given South Africa's structural constraints, its recovery will be slower than many of its developing-country peers.

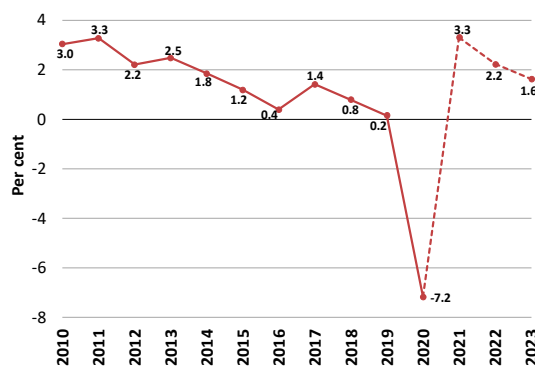


Alongside a robust public health response to the pandemic and immediate support to households and businesses, government's recovery plan focuses on raising the economy's long-term growth rate. Structural reforms will lower barriers to faster, inclusive growth by improving access to reliable electricity, water and sanitation services; enabling cost-effective digital services; promoting the green economy; and supporting industries with high employment potential, such as tourism and agriculture.

Given these circumstances, the 2021 Budget strikes a difficult balance between providing immediate support for the economy and shoring up the country's public finances. Medium-term fiscal policy focuses on:

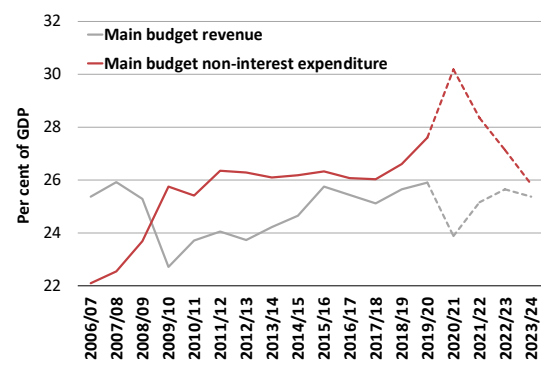
- Extending temporary support in response to COVID-19
- Narrowing the budget deficit and stabilising debt
- Exercising continued restraint in non-interest expenditure growth while improving the composition of expenditure.

Figure 1.1 Real GDP growth and projections



Source: Statistics South Africa, National Treasury forecast

Figure 1.2 Main budget revenue and expenditure*



*Excludes Eskom financial support and transactions in financial assets and liabilities

Source: National Treasury

Promoting economic recovery: COVID-19 and beyond

The 2021 Budget addresses urgent economic needs while targeting long-term structural shortcomings.

As an immediate priority, government will roll out a mass COVID-19 vaccination campaign to the public free of charge. This will save many lives and support a full reopening of the economy. Over time, as global lockdowns are phased out in response to vaccination efforts, South Africa will benefit from the resumption of international goods trade and a resurgence in tourism.



Government is also continuing temporary support for low-income households and unemployed workers. The *special COVID-19 social relief of distress grant* is extended for an additional three months, as are unemployment benefits under the temporary employment relief scheme. To boost short-term employment, R11 billion is added to the spending framework in 2021/22 to fund the public employment initiative.

Financing and rolling out the COVID-19 vaccination programme

Vaccines will play a pivotal role in saving lives and livelihoods, and supporting economic recovery. Ensuring access to COVID-19 vaccines is government's immediate priority. As announced by the Minister of Health in January 2021, South Africa's three-phase vaccine rollout strategy aims to vaccinate 67 per cent of the population over 12 months.

Access to vaccinations will be provided free of charge, in line with need and the rollout schedule. Funding for vaccine procurement and rollout is drawn from the national budget. Since the state is procuring vaccines on behalf of both the public and private sectors, some revenue will return to the fiscus when private providers buy vaccines from the state.

Over the medium term, R9 billion is allocated for vaccine rollout. Of this amount, the Department of Health is allocated R6.5 billion to procure and distribute vaccines. An amount of R100 million will be transferred to the South African Medical Research Council for vaccine research. Provincial health departments are allocated R2.4 billion to administer vaccines. The Government Communication and Information System is allocated R50 million for an associated communications campaign. National department allocations are ring-fenced. Additional allocations are made through the COVID-19 component of the *HIV, tuberculosis, malaria and community outreach grant* introduced in the June 2020 special adjustments budget.

Government allocated R1.3 billion in the current year for vaccine purchases. Given uncertainty around final costs, an estimated R9 billion could be drawn on from the contingency reserve and emergency allocations, bringing total potential funding for the vaccination programme to about R19.3 billion.

Funding vaccine rollout

R million	2021/22	2022/23	2023/24	Total	Funding mechanism
	Medium-term estimates				
Department of Health	4 350	2 100	–	6 450	Main budget
Provincial departments of health	1 500	900	–	2 400	HIV, TB, malaria and community outreach grant
South African Medical Research Council	100	–	–	100	Department of Health
Government Communication and Information System	50	–	–	50	Main budget
Total allocated	6 000	3 000	–	9 000	
Additional potential funding				9 000	Contingency reserve and emergency allocations

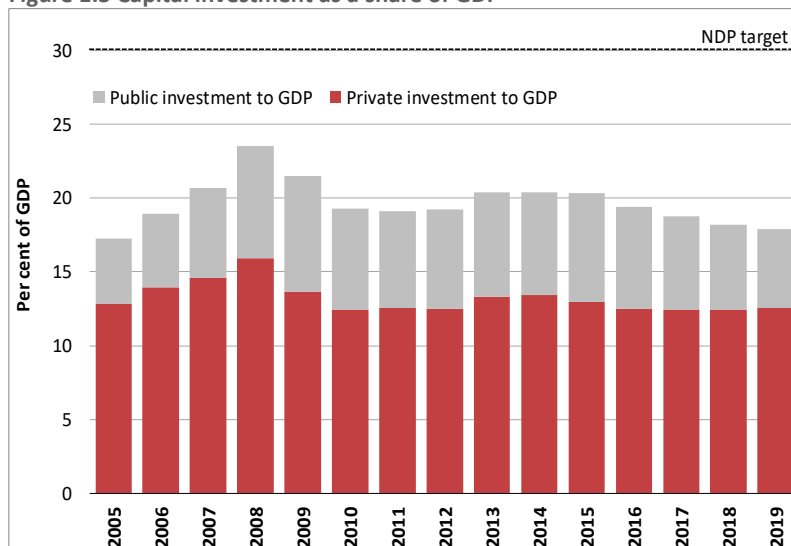
Source: National Treasury

Beyond the pandemic: lifting barriers to growth

South Africa faces severe economic challenges. Real GDP per person has been falling since 2013/14, meaning that the average South African is becoming poorer, despite high and rising fiscal deficits. Private and public

investments are lower than at any time since 2005, having declined to 12.5 per cent and 5.4 per cent of GDP, respectively, in 2019.

Figure 1.3 Capital investment as a share of GDP



Source: Reserve Bank



The 2021 Budget boosts infrastructure spending. Government will partner with the private sector, multilateral development banks and development finance institutions to augment its skills, expertise and funding. The Infrastructure Fund will enhance collaboration and attract private-sector investment. Government is providing initial support of R18 billion over the medium-term expenditure framework (MTEF) period. The fund has begun work on three projects in student housing, digital infrastructure and water infrastructure. But fiscal resources are not enough: bold reforms are needed to lift private-sector investment.



Confidence and investment remain low. The focus of economic policy, therefore, is to remove structural constraints that obstruct faster growth. These constraints include the high cost of doing business in South Africa, low levels of competitiveness and a weak public-sector balance sheet. Correcting these problems can unlock large-scale investment by the private sector, which will be the primary source of growth and job creation, with the public sector playing an enabling role.

The economic recovery plan emphasises reforms on a broad scale rather than a narrow focus on government spending programmes. These reforms will raise potential output, make growth more inclusive and reduce fossil fuel dependence by promoting the green economy.

Returning the public finances to sustainability

South Africa provided one of the largest fiscal responses to the pandemic among developing countries. As a result, consolidated government spending has reached a record 41.7 per cent of GDP, compared with 29.6 per cent in 2008/09. To support households, businesses and the public health sector, the consolidated budget deficit widened from 5.7 per cent in 2019/20 to an estimated 14 per cent in 2020/21.



While a temporary increase in spending was necessary to combat the spread and impact of COVID-19, the medium-term policy stance is focused on repairing the public finances. The 2020 MTBPS noted that, over the past decade, increased government spending has failed to promote growth. Since 2008, real spending growth has averaged 4.1 per cent annually, well above annual real GDP growth of 1.5 per cent. Despite high levels of expenditure, supported by increased debt accumulation, growth has not recovered to pre-2008 levels.

The fiscal position, which was already weak before the current crisis, has deteriorated sharply, requiring urgent steps to avoid a debt spiral. For several years, increasing debt-service costs have exceeded nominal GDP growth – a trend expected to continue over the medium term. If this course is not reversed, the economy will not be able to generate sufficient revenue for the state to service debt. Were that to occur, government would lose the ability to control debt and debt-service costs, as investors conclude that lending rates do not adequately compensate them for risk, leading to greater currency volatility and a protracted capital flow reversal.



Gross loan debt is expected to increase from R3.95 trillion, or 80.3 per cent of GDP, in 2020/21 to R5.23 trillion, or 87.3 per cent of GDP, by 2023/24. Debt-service costs will rise from R232.9 billion in 2020/21 to R338.6 billion in 2023/24. These costs, which were already the fastest-rising item of spending, now consume 19.2 per cent of tax revenue. Funds that could be spent on economic and social priorities are being redirected to pay local and overseas bondholders. Over the next three years, annual debt-service payments exceed government spending on most functions, including health, economic services, and peace and security.



Update on fiscal consolidation measures

Narrowing the budget deficit and stabilising the debt-to-GDP ratio requires continued restraint in expenditure growth. These efforts remain on course:

- Compared with the 2020 Budget, main budget non-interest expenditure will be reduced by R264.9 billion, or 4.6 per cent of GDP, over the MTEF period. Most of these adjustments are to the wage bill. Excluding compensation reductions, consolidated non-interest expenditure grows by an annual average of 0.4 per cent in real terms.
- Tax revenue estimates for 2020/21 are R213.2 billion below the 2020 Budget estimate, but R99.6 billion above the 2020 MTBPS estimate. Revenue growth is expected to slow over the medium term. To support the economy, no additional tax measures are included in the MTEF period, and tax increases proposed earlier will be withdrawn.
- The fiscal framework reduces growth in the wage bill and the share of spending on wages, while sustaining real spending increases on capital payments, specifically for buildings and other fixed structures.
- The consolidated budget deficit, which reaches 14 per cent of GDP in 2020/21, narrows to 6.3 per cent by 2023/24.



Government is projected to achieve a primary surplus in 2024/25 – meaning that total revenue will exceed non-interest expenditure – and stabilise the debt ratio at 88.9 per cent of GDP in the following year.



Wage bill restraint

Public-service compensation absorbed 41 per cent of government revenues in 2019/20 and 47 per cent of revenue in 2020/21. Allowing the wage bill to continue rising in line with recent trends is not sustainable. It would require a substantial reduction in funding for capital investment, and critical public goods and services.

In December 2020, following government's decision to not implement a wage increase in 2020/21, the Labour Appeal Court reaffirmed the National Treasury's constitutional role in safeguarding the public finances. In this regard, the approach to future wage negotiations will align with the fiscal position and prevailing economic conditions. As outlined in Chapter 3, the 2021 Budget proposes a significant moderation in spending on the consolidated wage bill, which grows by an average of 1.2 per cent over the medium term.



Risks to the fiscal outlook

Over the medium term, the risks are significant:

- The fiscal framework assumes compensation budget ceilings are maintained. A departure from this assumption in the forthcoming wage agreement will be unaffordable and compromise debt stabilisation.
- The financial positions of public entities and local government remain weak as a consequence of poor financial management.
- Medium-term debt redemptions of state-owned companies total R182.8 billion. Without rapid improvements in financial management and the resolution of longstanding policy disputes – including the user-pay principle – they will continue to put pressure on public finances.

Government has been working to address these risks with the broader public service and social partners – including forums with trade unions and the private sector, the Presidency, the Budget Council and the Budget Forum. These efforts are underpinned by a fiscal policy stance that aims to reduce fiscal risks while supporting growth. A longer-term fiscal risk statement appears annually in the MTBPS.



Budget reforms for greater efficiency

South Africa does not get good value for money in public spending. Waste and inefficiency reduce developmental impact, and become a glaring problem in the context of limited state resources.



In April 2020 government launched a series of spending reviews, 30 of which have been conducted to date. They have highlighted significant restructuring opportunities – including merging or closing entities to reduce duplication of functions – and noted massive inefficiencies in some infrastructure programmes. The reviews have revealed the limits of incremental budgeting, especially where technology has the potential to transform service delivery. And they have observed cases where guaranteed budget increments create perverse incentives to enter into contracts that have high unit costs for the delivery of certain services.

These reviews will help improve the efficiency of spending as part of adopting zero-based budgeting principles. During 2021/22, the Department of Public Enterprises and the National Treasury will be the first departments to pilot a new budgeting methodology, with the intention of producing significantly re-costed budgets from 2022/23.



Summary of the 2021 Budget

Economic outlook

The National Treasury projects real economic growth of 3.3 per cent this year, from a low base of -7.2 per cent in 2020. Growth in the outer two years of the forecast averages 1.9 per cent. Household consumption is expected to rebound in 2021/22, but investment is expected to decline for the third consecutive year as a result of persistent electricity interruptions, low confidence and low capital spending by public corporations. A recovery in global growth should support moderate improvements in exports. The commencement of the African Continental Free Trade Area bodes well for the trade outlook.



Table 1.1 Macroeconomic outlook – summary

	2020	2021	2022	2023
Real percentage growth	Estimate	Forecast		
Household consumption	-5.9	2.9	2.4	2.0
Gross fixed-capital formation	-18.4	-2.4	3.9	3.9
Exports	-10.9	5.7	3.0	2.8
Imports	-16.5	6.3	4.6	2.5
Real GDP growth	-7.2	3.3	2.2	1.6
Consumer price index (CPI) inflation	3.3	3.9	4.2	4.4
Current account balance (% of GDP)	1.7	-0.1	-1.0	-1.4

Across all tables in the Budget Review, the use of "0" refers to a value of small magnitude that is rounded up or down to zero. If a value is exactly zero, it will be denoted by "-". If data is not available, it is denoted by "N/A"

Source: National Treasury

Fiscal policy

In recent months, faster revenue growth has provided government with the space to support the economy and the health sector, while narrowing the consolidated budget deficit more rapidly than projected in October 2020. The consolidated budget deficit is projected to narrow from 14 per cent of GDP in 2020/21 to 6.3 per cent of GDP in 2023/24. Gross debt is projected to stabilise at a lower level of 88.9 per cent of GDP in 2025/26.

Table 1.2 Consolidated government fiscal framework

	2020/21 Revised estimate	2021/22	2022/23	2023/24
R billion/percentage of GDP		Medium-term estimates		
Revenue	1 362.7 27.7%	1 520.4 28.4%	1 635.4 28.9%	1 717.2 28.6%
Expenditure	2 052.5 41.7%	2 020.4 37.7%	2 049.5 36.2%	2 095.1 34.9%
Budget balance	-689.8 -14.0%	-500.0 -9.3%	-414.1 -7.3%	-377.9 -6.3%

Source: National Treasury

Revenue trends and tax proposals

Gross tax revenue for 2020/21 is expected to be R213.2 billion lower than projections in the 2020 Budget. However, due to a recovery in consumption and wages in recent months, and mining sector tax receipts, 2020/21 revenue collections are expected to be R99.6 billion higher than estimated in the 2020 MTBPS. As a result, government will not introduce measures to increase tax revenue in this Budget, and previously announced increases amounting to R40 billion over the next four years will be withdrawn. The main tax proposals include an above-inflation increase in personal income tax brackets and rebates, and an 8 per cent increase in alcohol and tobacco excise duties.

Table 1.3 Impact of tax proposals on 2021/22 revenue¹

R million	Effect on tax proposals
Gross tax revenue (before tax proposals)	1 365 124
Budget 2021/22 proposals	–
Direct taxes	-2 200
Personal income tax	
Increasing brackets by more than inflation	-2 200
Revenue if no adjustment is made	11 200
Higher-than-inflation increase in brackets and rebates	-13 400
Indirect taxes	
Taxes on international trade and transactions	2 200
Introduction of export tax on scrap metal	400
Specific excise duties	
Increase in excise duties on alcohol	1 100
Increase in excise duties on tobacco	700
Gross tax revenue (after tax proposals)	1 365 124

1. Revenue changes are in relation to thresholds that have been fully adjusted for inflation

Source: National Treasury

Medium-term spending plans

Consolidated expenditure over the 2021 MTEF period is projected to be R6.16 trillion. In line with pro-poor government policies, R987.1 billion or 56.8 per cent of the allocations in 2021/22 go to social services in learning and culture, health and social development. Improved economic growth and revenue projections in recent months have provided space to meet urgent pandemic-related spending pressures, such as procuring vaccines, and continued social and economic relief.



Table 1.4 Consolidated government expenditure by function

	2020/21	2021/22	Average growth
R billion	Revised estimate	Budget estimate	2020/21 – 2023/24
Learning and culture	387.2	402.9	2.4%
Health	247.0	248.8	-0.3%
Social development	413.3	335.3	-7.7%
Community development	211.5	218.8	4.4%
Economic development	191.9	207.5	4.2%
Peace and security	218.6	208.6	-0.8%
General public services	62.5	68.4	3.4%
Payments for financial assets	87.6	48.2	
Allocated expenditure	1 819.6	1 738.6	
Debt-service costs	232.9	269.7	13.3%
Contingency reserve	–	12.0	
Consolidated expenditure¹	2 052.5	2 020.4	0.7%

1. Consisting of national, provincial, social security funds and selected public entities

See Annexure W2 on the National Treasury website for a full list of entities included

Source: National Treasury

Division of revenue

Over the 2021 MTEF period, after budgeting for debt-service costs, the contingency reserve and provisional allocations, 48.7 per cent of nationally raised funds are allocated to national government, 41.9 per cent to provinces and 9.4 per cent to local government. Because reductions to the public-service wage bill affect only national and provincial government, local government's share of revenue has risen in relative terms.

**Table 1.5 Division of revenue**

R billion	2020/21	2021/22	2022/23	2023/24
National allocations	804.5	763.3	736.3	739.0
Provincial allocations	628.3	639.5	643.3	646.8
Equitable share	520.7	523.7	524.1	525.3
Conditional grants	107.6	115.8	119.3	121.5
Local government allocations	138.5	138.1	146.1	148.4
Provisional allocations not assigned to votes	–	11.6	32.1	33.2
Total allocations	1 571.3	1 552.5	1 557.8	1 567.5
Percentage shares				
National	51.2%	49.5%	48.3%	48.2%
Provincial	40.0%	41.5%	42.2%	42.2%
Local government	8.8%	9.0%	9.6%	9.7%

Source: National Treasury

Government debt and contingent liabilities

In 2020/21, government's gross borrowing requirement increased from R432.7 billion to R670.3 billion, or from 8 to 13.6 per cent of GDP. Gross loan debt is expected to increase from R3.95 trillion, or 80.3 per cent of GDP, in 2020/21 to R5.23 trillion, or 87.3 per cent of GDP, by 2023/24. Over the same period, net loan debt – gross loan debt less cash balances – will increase from R3.66 trillion, or 74.3 per cent of GDP, to R5.09 trillion, or 84.9 per cent of GDP. Contingent liabilities are projected to reach R1.11 trillion by 2020/21.



Better-than-expected revenue collection since the 2020 MTBPS projections increased government's cash balances. Over the medium term, this cash will be used to reduce the borrowing requirement and, consequently, debt issuance. Cash balances are expected to decline over the next three years.

Table 1.6 Projected state debt and debt-service costs

R billion/percentage of GDP	2020/21	2021/22	2022/23	2023/24
Gross loan debt	3 949.7	4 382.8	4 819.9	5 234.5
	80.3%	81.9%	85.1%	87.3%
Debt-service costs	232.9	269.7	308.0	338.6
	4.7%	5.0%	5.4%	5.6%

Source: National Treasury

Financial position of public-sector institutions

The COVID-19 pandemic disrupted the plans of state-owned companies, curtailing revenue growth and the collection of arrears while many operational costs remained inflexible. Many state-owned companies that were already in financial distress are at risk of defaulting on their debts. The Land Bank, which defaulted on its debt in April 2020, will receive R7 billion in recapitalisation over the medium term to put it on a stable and sustainable development path. The net asset value of development finance institutions fell by 27 per cent to R100.3 billion in 2019/20, mostly due to losses at the Industrial Development Corporation and the Land Bank.

Table 1.7 Combined financial position of public institutions

R billion/net asset value	2017/18	2018/19	2019/20 ¹
State-owned companies	362.1	342.0	353.0
Development finance institutions	132.6	137.8	100.3
Social security funds	-27.0	-79.6	-147.6
Other public entities ²	719.0	724.7	793.3

1. Due to the COVID-19 pandemic, many entities have not released audited financial statements, therefore unaudited financials or last quarter reports were used for 2019/20

2. State-owned institutions without a commercial mandate and listed in either schedule 1 or 3 of the PFMA such as the National Library of South Africa

Source: National Treasury

Budget documentation

The 2021 *Budget Review* accompanies several other documents and submissions tabled in Parliament on Budget Day. These include:

- The Budget Speech
- The Division of Revenue Bill
- The Appropriation Bill
- The Estimates of National Expenditure.

These and other fiscal and financial publications are available at www.treasury.gov.za.

2

Economic outlook

In brief

- The National Treasury projects real economic growth of 3.3 per cent in 2021, from a low base of -7.2 per cent in 2020. Growth is forecast to moderate to 2.2 per cent in 2022.
- Global growth prospects have been boosted by additional policy stimulus and expectations that the rollout of COVID-19 vaccines will turn the tide against the pandemic and allow for greater economic activity.
- A successful vaccine rollout is likely to boost domestic economic growth, enabling renewed trade and releasing pent-up demand. Conversely, a slow, stuttering rollout poses the most significant threat to economic recovery.
- Operation Vulindlela is supporting the implementation of key structural reforms, but faster progress is required to generate an economic recovery.

Overview

The South African economy contracted by an estimated 7.2 per cent in 2020 compared with the 7.8 per cent contraction projected in the 2020 *Medium Term Budget Policy Statement* (MTBPS). The revised estimate is the result of the easing of lockdown restrictions in the third quarter and a faster-than-expected resumption of global growth, especially in China. Although economic recovery is expected to continue, output and employment will remain well below pre-pandemic levels until 2023, with considerable uncertainty surrounding the outlook.

The global economic effects of the COVID-19 pandemic are far-reaching and will likely be long-lasting. In South Africa, the large increase in unemployment and income losses has entrenched existing inequalities. Although government will conduct a mass vaccination campaign, the threat of resurgent waves of infection lingers, and the rollout is only expected to gather pace in the second half of 2021.

In the context of elevated uncertainty, the 2021 *Budget Review* supports economic recovery through immediate fiscal support and medium-term fiscal reforms. Government continues to provide relief to households and





businesses. The composition of spending shifts from consumption towards capital investment. And over time, the stabilisation of debt will reduce borrowing costs and the cost of capital, providing greater incentive for investment that can support the economy.

Apart from the direct health benefits, a successful vaccination programme will allow for the economy to fully reopen. Yet a faster recovery, characterised by growing investment and job creation, requires broader structural reforms to reverse the pattern of the last decade. Government's economic reforms are designed to remove barriers to growth, lower the cost of doing business, bolster confidence and boost investment. A central reform is to restructure the electricity sector and ensure that sufficient electricity is generated to supply businesses and households. Unreliable electricity supply continues to throttle economic activity.

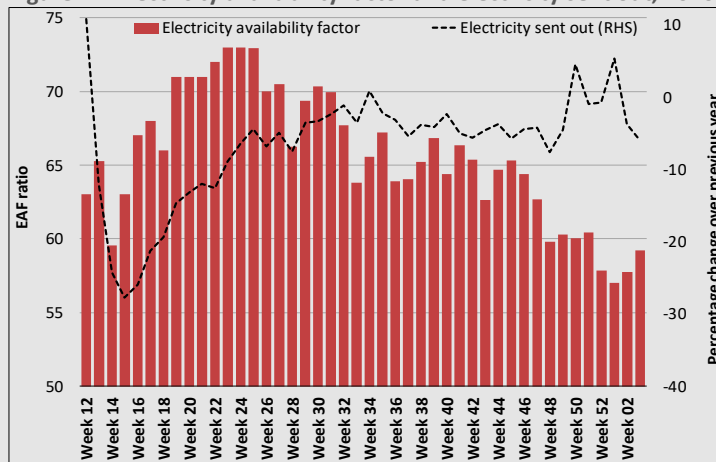
Accelerating electricity reform to ensure sufficient power supply

Comparing the difference in energy sent out¹ between 2020 and 2019 provides some indication of lower levels of electricity use in 2020 as a result of the lockdown, since businesses that consume a high percentage of electricity were not operating. Despite reduced economic activity, Eskom has been unable to meet demand. In 2020, load-shedding reached the highest levels since 2015, with a cumulative 52 days of Eskom power cuts (relative to 103 in 2015). The electricity availability factor (EAF), which measures plant availability, mostly remained below 2019 levels to average 65, relative to 67 in 2019, reflecting a deterioration in plant performance. Eskom is implementing a maintenance programme to improve generation performance, but significant improvements are only expected by September 2021.

As economic activity resumes, unreliable electricity supply is constraining recovery. Urgent reforms are required to alleviate this constraint. Operation Vulindlela is working to accelerate the following interventions:

- Reducing the administrative burden for generation projects under 50 megawatts (MW) while ensuring they meet the necessary environmental approvals and do not pose risks to the stability of the grid.
- Fast-tracking the procurement of additional electricity in line with the Integrated Resource Plan 2019.
- Improving municipal distribution infrastructure through private-sector investment and implementing a national programme to support electricity planning and procurement.

Figure 2.1 Electricity availability factor and electricity sent out, 2020



Source: Eskom

¹ Electricity sent out measures the percentage difference of energy sent out by Eskom – in this case between 2020 and 2019. A negative percentage indicates that energy sent out in 2020 was below energy sent out in the same period in 2019.

■ Structural reforms to promote economic recovery

Government's economic recovery plan, announced in October 2020, includes a comprehensive health response to save lives and curb the spread of the pandemic; interventions to restore economic activity while controlling the health risks; and reforms to support a sustainable, resilient and inclusive economy.



In the short term, the plan focuses on high-impact reforms: speeding up the expansion of electricity generation; creating jobs to sustain livelihoods; rolling out infrastructure aligned with the National Development Plan; and supporting manufacturing, localisation and beneficiation. Operation Vulindlela, a joint initiative of the Presidency and the National Treasury, is accelerating implementation of a key subset of these reforms.

Progress on the economic recovery plan

Generating electricity

- Government will relieve the short-term electricity constraint by amending schedule 2 of the Electricity Regulation Act (2006) to ease embedded generation regulations for firms and municipalities. This will be done within three months.
- The Independent Power Producer Office will announce successful bids received for emergency power to compensate for Eskom's capacity shortfall in the coming few weeks. Projects are expected to generate power from July 2022.
- Divisional managers and boards of directors have been appointed to support the restructuring of Eskom.
- Government will initiate the procurement of 11 813 MW of new electricity capacity from independent power producers (IPPs) in the coming weeks, including 6 800 MW to be generated from renewable energy sources. In October 2020, electricity regulations were amended to enable municipalities to procure power from IPPs.

Creating employment

- By the end of January 2021, over 430 000 jobs of varying duration had been supported through the public employment initiative and an additional 180 000 jobs are in the recruitment process. Placements are in education, in programmes to reduce landfill waste, in the creative and cultural sector, and in business services.

Supporting industrial growth

- Investments have been made to support production in the poultry sector (R800 million); in clothing, textiles, footwear and leather (R500 million); and in the automotive sector (R16 billion). In addition, large users of sugar have agreed to procure at least 80 per cent of their supply from local growers.
- The Small Enterprise Finance Agency has provided R233 million in support to 26 small-scale local manufacturers and non-financial support to 66 local enterprises.

Infrastructure rollout

- An infrastructure investment project pipeline worth R340 billion in network industries such as energy, water, transport and telecommunications has been developed. The blended finance Infrastructure Fund is preparing investments in student housing, digital communications, and water and sanitation.

Creating an enabling business environment

- In the past year, 125 000 new companies have been registered through the BizPortal platform, which makes it easier to register a business online.
- Transnet is taking steps to ease congestion at the Port of Durban and reposition it as a southern hemisphere hub. It has begun improving port access roads, increased skills and capacity, and expanded operating hours.

Decisive action on reforms will inspire confidence

While some progress has been made, decisive action on structural reforms is critical to strengthen the economic recovery, inspire investor and public confidence, and improve South Africa's growth trajectory. In addition to electricity reforms, Operation Vulindlela currently focuses on the following reforms:

- Ensuring that households using analogue televisions switch to digital signals by March 2022 so that there is sufficient spectrum to meet demand. Additional spectrum will reduce the cost and improve the quality of digital communications.
- Finalising policy to enable the rapid rollout of 5G infrastructure.
- Expanding the electronic visa system and waivers to support tourism.
- Reviewing the regulatory framework and processes that make it difficult to import scarce skills, including finalising the critical skills list.
- Finalising the draft White Paper on National Rail Policy to improve freight and commuter rail services.
- Corporatising the National Ports Authority and taking other measures to increase the efficiency and competitiveness of the ports.
- Reviving the Green Drop and Blue Drop programmes to strengthen water quality monitoring.

Operation Vulindlela will provide periodic progress reports on these reforms.



Global outlook

The International Monetary Fund (IMF) expects global economic growth to rebound to 5.5 per cent in 2021 and 4.2 per cent in 2022, buoyed by additional policy stimulus and the expected rollout of COVID-19 vaccines. While these growth rates appear robust, they are largely a recovery following a 3.5 per cent contraction in 2020, and the recovery is expected to remain fragile and uneven across countries and regions.

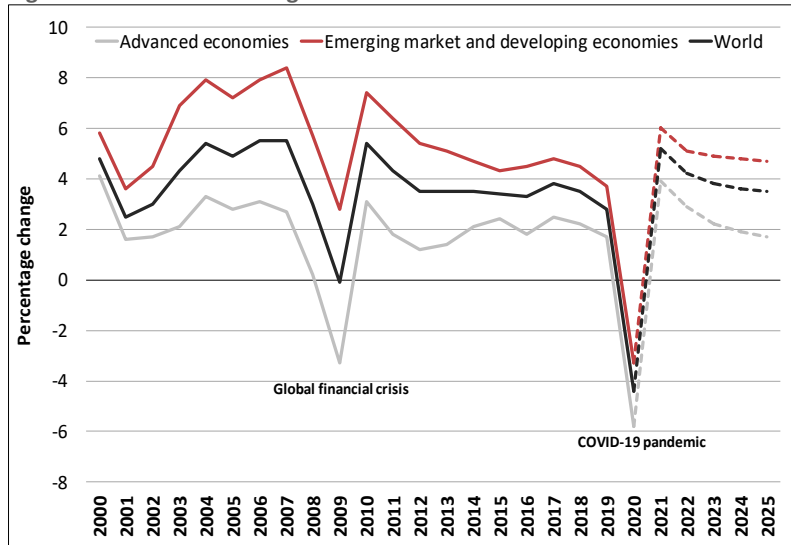
Resurgent spikes in infection rates have either halted or threaten the momentum from stronger-than-expected growth in the second half of 2020. Some countries have had to reimpose COVID-19 containment measures and several large economies – including the United States, the European Union, Japan and India – have recently announced additional stimulus measures.

Economic growth is expected to gain momentum during the second half of this year, but much depends on the efficacy of the vaccine rollout and the impact of stimulus measures.



Economic disruption from the pandemic is evident in the near 10 per cent decline in global trade volumes estimated for 2020 – the largest drop since the 2008 global financial crisis. Trade volumes are forecast to grow by 8.1 per cent this year before growth settles around 6 per cent in 2022. Subdued cross-border tourism and business travel means that a recovery in services trade will lag behind that of goods trade until virus transmission rates sustainably decline. Oil prices will be supported by rising demand as growth recovers, but remain below 2019 levels, while gold prices will moderate as safe-haven demand eases.

Figure 2.2 Global real GDP growth



Note: Dotted lines refer to forecasts

Source: IMF

Among major economies:

- The US is expected to approach 2019 levels of activity this year, due to expansive fiscal stimulus and accommodative monetary policy.
- The Euro area and Japan are only expected to reach 2019 levels of economic activity by 2023 – despite large stimulus – owing to differing responses to COVID-19 infections, low adaptability to a low-mobility economy and other structural rigidities.
- China is expected to spearhead a recovery among developing economies, with 8.1 per cent GDP growth forecast in 2021, premised on its significant state-led investment drive, central bank liquidity support and effective COVID-19 containment measures.
- India's economy has recovered more quickly than anticipated, and is expected to post growth of 11.5 per cent in 2021.

Public debt, which was already at elevated levels before the pandemic, rose sharply in 2020 as a result of large fiscal stimulus measures and falling tax revenues. Global public debt grew from 83.5 per cent of GDP in 2019 to 97.6 per cent of GDP in 2020. Many developing countries are vulnerable to debt distress and capital flight, particularly if risk aversion grows in global markets. Governments confront the challenge of balancing the risks from large and growing debt burdens with those from prematurely withdrawing fiscal support.



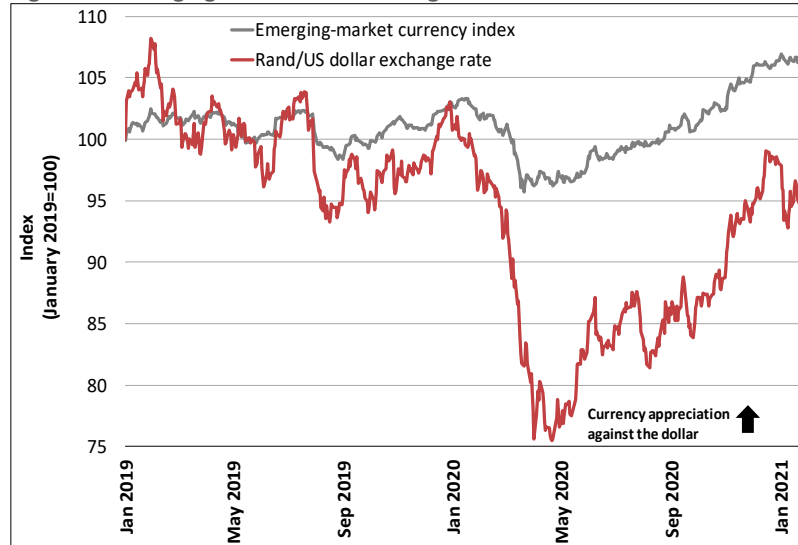
Table 2.1 Economic growth in selected countries

Region/country	2018	2019	2020	2021	2022
Percentage			Estimate	Forecast	
World	3.5	2.8	-3.5	5.5	4.2
Advanced economies	2.2	1.6	-4.9	4.3	3.1
United States	3.0	2.2	-3.4	5.1	2.5
Euro area	1.8	1.3	-7.2	4.2	3.6
United Kingdom	1.3	1.4	-10.0	4.5	5.0
Japan	0.3	0.3	-5.1	3.1	2.4
Emerging and developing countries	4.5	3.6	-2.4	6.3	5.0
Brazil	1.3	1.4	-4.5	3.6	2.6
Russia	2.5	1.3	-3.6	3.0	3.9
India	6.1	4.2	-8.0	11.5	6.8
China	6.8	6.0	2.3	8.1	5.6
Sub-Saharan Africa	3.3	3.2	-2.6	3.2	3.9
Nigeria	1.9	2.2	-3.2	1.5	2.5
South Africa ¹	0.8	0.2	-7.2	3.3	2.2
World trade volumes	3.9	1.0	-9.6	8.1	6.3

1. National Treasury forecast

Source: IMF World Economic Outlook, January 2021

Developing-country currencies have broadly recovered from the depreciation at the onset of the pandemic, supported by elevated global liquidity, but the rand is a notable exception. Country-specific risks, including weak pre-pandemic growth and fiscal sustainability concerns, have contributed to the rand's comparative underperformance.

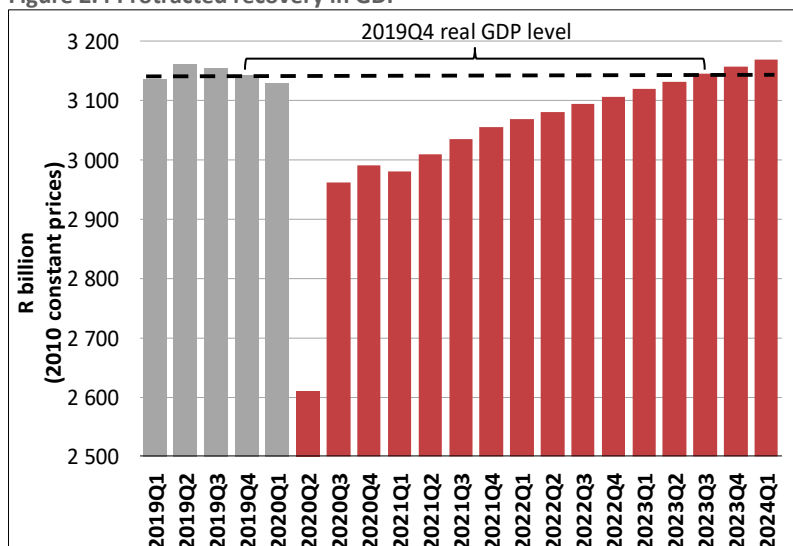
Figure 2.3 Emerging market currencies against the US dollar

Source: Bloomberg

Domestic outlook

Owing to the combined effect of the sharp contraction in 2020 and lingering structural constraints to growth, South Africa's real GDP is not expected to return to pre-pandemic levels before the latter part of 2023.

Figure 2.4 Protracted recovery in GDP



Source: National Treasury calculations

The National Treasury projects real economic growth of 3.3 per cent this year, from a low base of -7.2 per cent in 2020. Household consumption is expected to return to moderate growth. Gross fixed-capital formation continues to decline, albeit to a lesser degree.

Table 2.2 Macroeconomic performance and projections

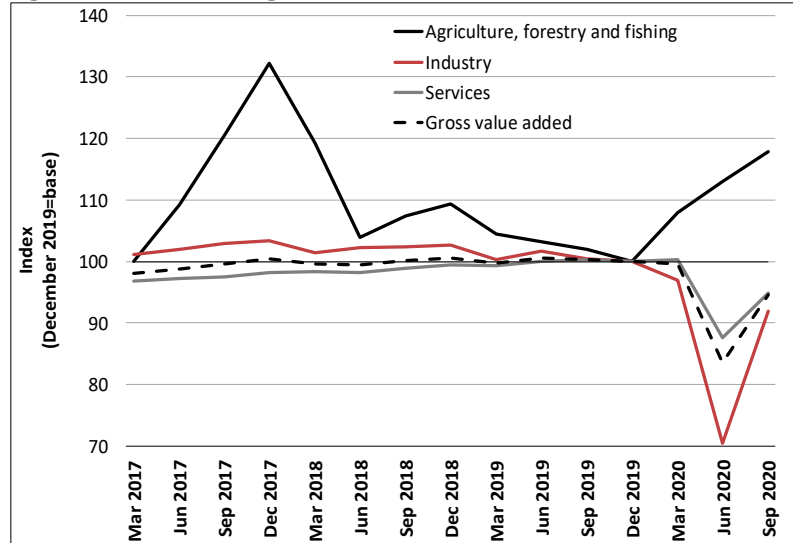
	2017	2018	2019	2020	2021	2022	2023
Percentage change		Actual		Estimate		Forecast	
Final household consumption	2.1	1.8	1.0	-5.9	2.9	2.4	2.0
Final government consumption	0.2	1.9	1.5	1.2	-0.1	-1.6	-1.7
Gross fixed-capital formation	1.0	-1.4	-0.9	-18.4	-2.4	3.9	3.9
Gross domestic expenditure	1.9	1.0	0.7	-8.9	3.5	2.7	1.6
Exports	-0.7	2.6	-2.5	-10.9	5.7	3.0	2.8
Imports	1.0	3.3	-0.5	-16.5	6.3	4.6	2.5
Real GDP growth	1.4	0.8	0.2	-7.2	3.3	2.2	1.6
GDP inflation	5.3	3.9	4.0	4.6	3.5	3.7	4.1
GDP at current prices (R billion)	4 654	4 874	5 078	4 935	5 273	5 590	5 915
CPI inflation	5.3	4.6	4.1	3.3	3.9	4.2	4.4
Current account balance (% of GDP)	-2.5	-3.5	-3.0	1.7	-0.1	-1.0	-1.4

Sources: National Treasury, Reserve Bank and Statistics South Africa

After a steep drop in the second quarter of 2020 due to lockdown restrictions, economic activity resumed in the third quarter. While GDP growth was higher than expected, output has yet to return to pre-pandemic levels. Industrial sectors (which include mining, manufacturing, construction and utilities) lagged substantially, undermined by structural constraints – including unreliable electricity supply and weak public investment – that preceded the pandemic.

Lingering economic constraints, such as the weak labour market, financially distressed public corporations, and fragile business and consumer confidence will contribute to domestic growth moderating to 2.2 per cent in 2022 and 1.6 per cent in 2023.

Figure 2.5 South African gross value added



Note: Industry includes mining, manufacturing, construction and utilities sectors. Services includes trade, transport, finance, general government and personal services sectors

Source: Statistics South Africa, National Treasury calculations

Macroeconomic assumptions

Table 2.3 outlines the macroeconomic assumptions underlying the forecast. The upturn in global activity is expected to spur global oil prices, raising South Africa's import bill and weakening the terms of trade. Higher nominal investment by public corporations is anticipated in line with government's stated intent to shift the composition of expenditure.

Table 2.3 Assumptions informing the economic forecast

Percentage change	2018	2019	2020	2021	2022	2023
	Actual	Actual	Estimate	Forecast		
Global demand ¹	4.6	3.2	-2.4	6.3	4.5	4.4
International commodity prices ²						
Oil	71.0	64.3	44.3	58.1	56.4	55.3
Gold	1 269.3	1 392.5	1 778.5	1 893.8	1 909.7	1 926.7
Platinum	880.7	863.8	914.1	1 086.2	1 100.2	1 115.8
Coal	95.0	69.2	67.2	76.3	74.0	73.5
Iron ore	65.1	94.6	116.6	148.6	123.7	108.7
Food and non-alcoholic beverages	3.6	3.4	4.5	4.8	4.5	4.7
Sovereign risk premium	3.1	3.2	4.9	4.2	3.9	3.6
Public corporation investment	-9.1	1.3	-25.6	5.5	8.8	6.5

1. Combined growth index of South Africa's top 15 trading partners (IMF World Economic Outlook, October 2020)

2. Bloomberg futures prices as at 21 January 2021

Source: National Treasury, Bloomberg and Statistics South Africa

Economic scenarios

The National Treasury has modelled two scenarios in addition to the baseline forecast:

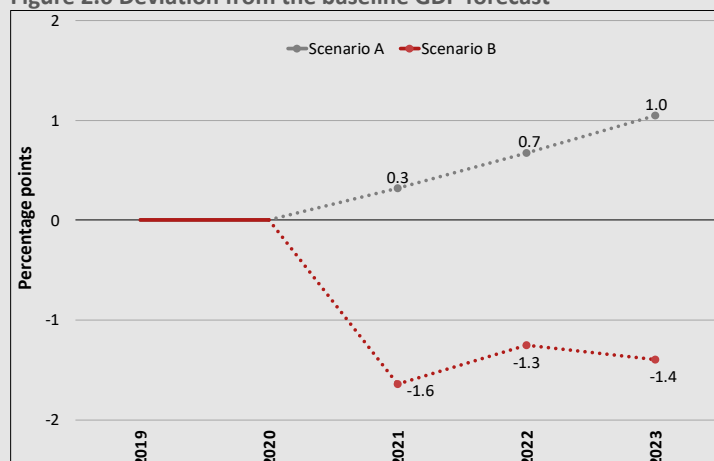
Rapid increases in electricity supply and faster reform implementation boost growth

In *Scenario A*, fiscal reforms discussed in Chapter 3 are complemented by essential economic reforms. Rapid regulatory adjustments, including raising licensing thresholds, could ease the impact of load-shedding on firms and households. Implementation of economic reforms improves confidence and the sovereign risk premium, lowering overall borrowing costs. Private-sector investment and consumption increase, reflecting more durable and sustained growth levels. Real GDP growth reaches 3.6 per cent in 2021. The long-run gains accumulate over time as the reforms are entrenched.

Additional COVID-19 waves and associated mitigation measures throttle the economy

Scenario B reflects the effects of two more waves of COVID-19 infections, assuming the vaccine rollout has a limited effect on stemming the spread of infections. This requires stricter mitigation measures that depress economic activity. In this scenario, vaccine rollout only gains traction in 2022. Economic recovery is delayed and the momentum from late 2020 is reversed, leading to long-lasting effects and further reducing growth potential. The hospitality and tourism, entertainment, trade, services and transport sectors are particularly negatively affected. The economy grows by only 1.6 per cent in 2021, with a base effect into 2022. Production levels remain lower than currently forecast over the long run.

Figure 2.6 Deviation from the baseline GDP forecast



Source: National Treasury calculations

Household consumption

Household consumption grew by 69.5 per cent in the third quarter compared with the previous quarter, but remains below pre-pandemic levels. Consumer confidence has partially recovered, but consumers remain apprehensive about making large, discretionary purchases. Despite the lowest nominal interest rates in decades, households appear reluctant to take up credit amid threats of job losses, dwindling future incomes and a reduced ability to service debts. Household credit growth in 2020 slowed to less than half of its 2019 rate. In addition, increases in nominal incomes were not fully spent, with household savings as a share of disposable income reaching a 15-year high.

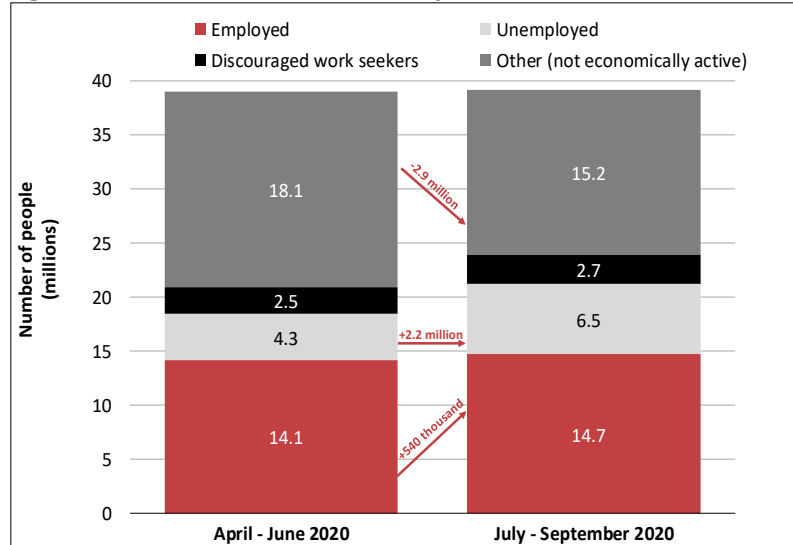


A durable recovery in household consumption depends on a sustained improvement in employment and incomes.

Employment

In the third quarter of 2020, the official unemployment rate rose to 30.8 per cent. The number of unemployed jumped from 4.3 million to 6.5 million, as many who were previously classified as “other not economically active” rejoined the labour force, but could not find work.

Figure 2.7 South African labour market dynamics



Source: Statistics South Africa



Despite easing lockdown restrictions, by the third quarter of 2020 there were 1.7 million fewer jobs than in the same period in 2019. Of the employed, 12 per cent of workers received no pay from their employers in the third quarter (from 17.6 per cent in the second quarter) of 2020. Furthermore, nearly one in five of the workers who did receive pay reported a reduced salary. The labour market effects stemming from COVID-19 are particularly severe for low-skilled workers in high-risk occupations, deepening existing inequalities across age, education, gender and race.

The third wave of the National Income Dynamics Study – Coronavirus Rapid Mobile survey showed large shifts in labour market participants during 2020. Half of the workers who lost jobs in April 2020 due to lockdown restrictions remained unemployed by October, while about a third of workers employed in October had been unemployed in February.

Competition can improve productivity and employment outcomes

Certain sectors have remained relatively concentrated since the end of apartheid, with newer and smaller firms unable to successfully compete against larger firms that benefit from scale and other advantages.

Recent research¹ suggests that larger companies, firms that export most of their products and those with a higher market share drove higher markups. These markups were associated with a significant, negative effect on productivity, employment and wage growth in manufacturing. These findings highlight the far-reaching effects that lack of competition has on economic outcomes and the importance of sound regulation.

To address these distortions, the Competition Commission is developing interventions such as eliminating exclusive leases, lowering data prices, monitoring prices of essential goods and investigating price gouging. The economic recovery plan, in line with these findings, recommends support for small and medium-sized enterprises, cooperatives and startups to facilitate inclusive growth. A more competitive economy will enable higher growth and job creation while providing consumers with lower prices and more product choice.

1. S. Dauda, S. Nyman and A. Cassim (National Treasury). 2019. *Product Market Competition, Productivity, and Jobs: The Case of South Africa*. Policy Research Working Paper, No. 9084. World Bank, Washington, DC.

A broad economic recovery remains a necessary – but not sufficient – condition for sustained improvement in labour market conditions. Without accelerating the implementation of growth- and employment-enabling

reforms, job growth will remain very low in line with modest average GDP growth over the medium term.

Inflation

Lower fuel and services inflation have helped to contain inflation and inflation expectations well below the midpoint of the Reserve Bank's 3 to 6 per cent inflation target range, preserving household purchasing power. Headline inflation averaged 3.3 per cent in 2020, its lowest annual rate since 2005. Risks to the inflation outlook are relatively balanced. While food, electricity and administrative prices are forecast to rise, inflationary pressure will be contained by low levels of domestic demand.



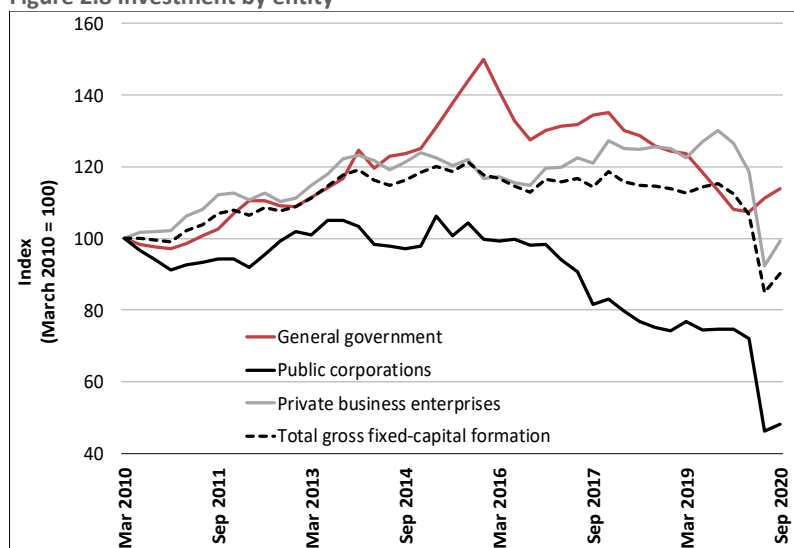
Investment

After contracting by 59.8 per cent in the second quarter, gross fixed-capital formation rebounded by 26.5 per cent in the third quarter, spurred by the resumption of residential, non-residential and construction works. Nonetheless, investment spending remains below the levels that preceded the pandemic, and 2020 will mark the third consecutive year of decline.



Persistent electricity interruptions, low confidence and low capital spending from public corporations contribute to the expected decline in 2021. While state-owned companies have attributed recent contractions in investment to COVID-19-related restrictions in the construction sector, longstanding project delays and credit rating downgrades will significantly slow their capital expenditure programmes. The implementation of outstanding policy initiatives, energy investments and a gradual improvement in confidence will boost investment in 2022 and 2023.

Figure 2.8 Investment by entity



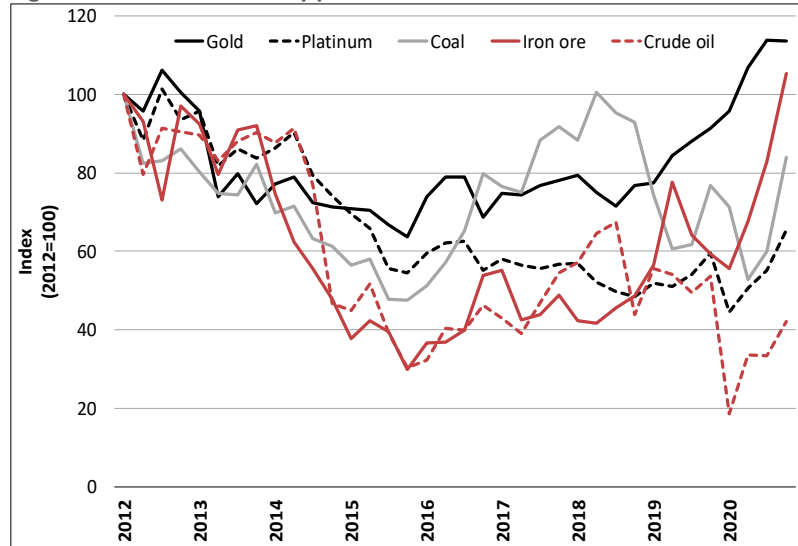
Source: Statistics South Africa, National Treasury calculations

Current account

Exports were an economic bright spot in the third quarter, buoyed by higher demand and prices for key commodities – including gold, which benefited from safe-haven status (Figure 2.9). As global trade picked up, COVID-19 restrictions on domestic production were reduced and economic activity started to recover among key trading partners. Coupled with

reduced spending on imports, supported by softer oil prices, South Africa is projected to record a 2020 current account surplus of 1.7 per cent of GDP – the first surplus in nearly 20 years.

Figure 2.9 Global commodity prices



Source: Bloomberg, National Treasury calculations

A recovery in global growth bodes well for sustained improvements in exports. But the current account is projected to return to a small deficit in 2021: import prices are expected to increase faster than export prices due to higher oil and food import prices, which worsen the terms of trade.

Strong export performance does not depend solely on the rand exchange rate

Export-led growth has been identified as a key driver for economic growth and employment. The real exchange rate has historically been an important factor in driving growth of exports and imports. A weaker real exchange rate is expected to boost the value of exports while reducing the value of imports, improving the trade balance. However, its effectiveness depends on the responsiveness of exports and imports to a depreciating domestic currency.

Using detailed transaction data based on customs records, research¹ finds evidence of a low export response among South African manufacturers to the sustained rand depreciation between 2010 and 2014. This demonstrates that the economy cannot rely solely on currency depreciation to boost export performance and competitiveness. In particular, a weaker export relationship is found for exporters of resource-based manufactured products and those that export outside Africa. Small firms and non-resource-based exporters tended to be more responsive to the exchange rate.

To promote exports, support should be provided by improving the quality of and access to infrastructure; implementing new and renegotiated agreements in key markets; increasing awareness of South African products abroad; and improving access to export credit and credit insurance. These recommendations are in line with the National Treasury's paper, *Economic Transformation, Inclusive Growth, and Competitiveness: Towards an Economic Strategy for South Africa*.

1. L. Edwards and A. Hlatshwayo (National Treasury). 2020. *Exchange Rates and Firm Export Performance in South Africa*. SA-TIED Working Paper 89. Helsinki: UNU-WIDER.

The recent launch of the African Continental Free Trade Area may improve the trade outlook. This milestone agreement is intended to boost comparatively low levels of intra-African trade by lowering tariff and non-tariff barriers, and improving infrastructure to reduce red tape and lower costs. The World Bank estimates that full implementation of the trade pact may raise real incomes on the continent by 7 per cent (about US\$450 billion), with real income gains of about 4 per cent for South Africa specifically, by 2035.

Risks to the growth outlook

The negative risks to the outlook continue to outweigh the positive, with new waves of COVID-19 infections and associated disruptions to economic activity posing the most serious risk to growth. Effective collaboration is required to ensure a fair and effective vaccine rollout. Conversely, a successful rollout will provide a significant boost to economic growth.

Without implementation of structural reforms, private investment and economic growth are likely to grow slowly. Additional risks stem from years of low growth and rising public debt. These trends have raised the cost of borrowing, and contributed to the rand's divergence from otherwise improving emerging market currencies against the US dollar.

Further deterioration in the public finances would raise the risk of additional credit rating downgrades, which would increase borrowing costs and hamper government investment.



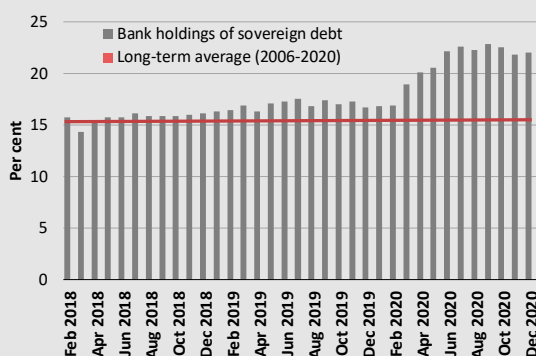
Managing risk from higher bank holdings of government debt

Government borrows most of the financing it needs by issuing bonds. Purchasers of these bonds include foreign investors, banks, insurers and pension funds.

Foreign investors, the largest holders of government bonds, have lowered their relative share of South African sovereign debt following the onset of COVID-19 and the March 2020 credit rating downgrades that led to South Africa's exit from the World Government Bond Index. Domestic banks in turn have increased their share of government bond holdings from 16.8 per cent in January 2020 to 22 per cent in December 2020.

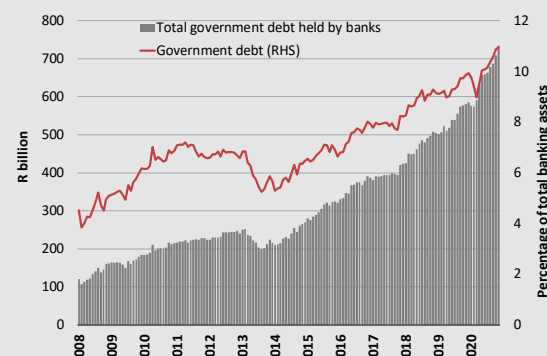
Any deterioration in the quality of this government debt would expose the banking sector to systemic risks. The fiscal consolidation measures (Chapter 3) and debt strategy (Chapter 7) proposed in the 2021 Budget will work to contain any such risks.

Figure 2.10 Bank holdings of government debt



Source: National Treasury calculations, Reserve Bank, STRATE

Figure 2.11 Debt as a share of banking assets



Sector performance and outlook

Agriculture

The agriculture sector recorded strong growth in 2020, with an annual gross value added of 11.3 per cent in the first three quarters of 2020 relative to the same period in 2019. Growth in each quarter was underpinned by production recoveries in horticulture, grain and livestock.

The outlook for 2021 is positive, although growth is not expected to match that of 2020. Favourable weather conditions and strong international demand for agricultural exports will continue to support production growth. Trade disruptions, for example through resummptions of global lockdowns, could threaten the sector's strong export performance. Over



the medium term, policy uncertainty and non-tariff barriers such as quotas and quality standards pose challenges to the sector.

Mining



Mining production contracted by 12.6 per cent in the first three quarters of 2020 compared to the same period in 2019. The sector posted a strong third-quarter recovery, following the easing of domestic and global lockdown restrictions. Higher commodity prices, particularly for gold and platinum group metals, and a weaker rand have improved profitability. Mining is likely to contract overall for a third consecutive year in 2020. Regulatory uncertainty, lack of investment and electricity shortages continue to hamper investment and output.

Manufacturing



Manufacturing production contracted by 14 per cent in the first three quarters of 2020 compared with the same period a year earlier. Despite signs of recovery in the third quarter of 2020, weak demand continues to hamper performance, with year-on-year production declining for the eighteenth consecutive month in November 2020. Recurring load-shedding has limited output. The Bureau for Economic Research's manufacturing business confidence index rose between the third and fourth quarters of 2020, but remains below 50, indicating uncertainty around future business conditions.

Transport and telecommunications

In the first three quarters of 2020, real value added in the transport and telecommunications sector contracted by 15.6 per cent compared to the same period in 2019. Lockdown restrictions on the movement of passengers and freight restricted transport activity and overall performance. The auction and licensing of high-demand spectrum is expected to support the sector, although load-shedding presents risks.

Construction



Construction was hard hit by the lockdown regulations, with real value added falling by 20 per cent in the first three quarters of 2020. The outlook remains muted in the context of weak infrastructure investment and continued low confidence. The sector is expected to grow as government's initiatives to ramp up capital spending gather pace.

Finance

Financial and business services contracted by 3.4 per cent in the first three quarters of 2020 compared with the same period in 2019. The sector's strong recovery in the third quarter of 2020 reflects easing financial conditions and reduced lockdown restrictions. While the sector is expected to remain resilient, worsening economic conditions could necessitate a reduction in the supply of credit to households and firms.

Sector performance

Percentage change	2015	2016	2017	2018	2019	2020 ¹
Agriculture, forestry and fishing	-5.9	-10.1	21.1	-4.8	-6.9	11.3
Mining and quarrying	3.3	-3.9	4.2	-1.7	-1.9	-13.8
Manufacturing	-0.4	0.8	-0.2	1.0	-0.8	-14.9
Electricity, gas and water	-1.9	-2.1	0.6	0.9	-2.0	-6.5
Construction	1.8	1.2	-0.6	-1.2	-3.3	-20.0
Trade, catering and accommodation	2.1	1.7	-0.3	0.6	–	-10.7
Transport, storage and communication	1.4	1.1	1.4	1.6	-0.4	-15.6
Finance, real estate and business services	2.1	1.9	2.1	1.8	2.3	-3.4
General government services	0.8	0.6	0.3	1.3	1.7	0.8
Personal services	0.9	1.8	1.3	1.0	1.0	-3.4
Gross domestic product	1.2	0.4	1.4	0.8	0.2	-7.9

1. First three quarters

Source: Statistics South Africa

Conclusion

The economic growth outlook remains highly uncertain. Short-term growth is highly dependent on the rollout of COVID-19 vaccines. Over the next several years, the country requires the implementation of long-standing structural reforms to sustainably move to a higher growth path.



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3

Fiscal policy

In brief

- The public finances remain under severe strain, but faster-than-expected revenue growth enables government to support the economy and the health sector, while narrowing the deficit more rapidly than projected in October 2020.
- Over the medium term, continued expenditure restraint is required for fiscal sustainability, defined as stabilisation of the debt-to-GDP ratio. Efforts to narrow the budget deficit and improve the composition of spending – primarily through restraining wage bill growth – remain on course.
- Tax revenue estimates have been revised up strongly in the current year, and by smaller amounts over the medium term. No additional tax revenue is raised.
- The consolidated deficit is projected to narrow from 14 per cent of GDP in the current year to 6.3 per cent in 2023/24. Gross national debt is projected to stabilise at a lower level of 88.9 per cent of GDP in 2025/26.
- Large risks remain. The global and domestic recovery remains highly uncertain, while spending pressures from state-owned companies continue to exert upward pressure on the expenditure ceiling. During 2021, a new round of public-service wage negotiations will take place.

■ Overview

Since the 2020 *Budget Review*, the budget deficit has doubled and the in-year revenue shortfall is estimated at R213.2 billion. These changes reflect the impact of the COVID-19 pandemic, as well as government's response, which prioritised relief for households and businesses, alongside a major effort to protect public health. The consolidated deficit in the current year – estimated at 14 per cent of GDP – is the largest on record. Gross national debt is projected to rise from 80.3 per cent of GDP in 2020/21 to 87.3 per cent of GDP by 2023/24, with debt-service costs reaching R338.6 billion in that year.

In recent months, as the economy has started to reopen, the outlook has improved somewhat. Revenue estimates are higher than projected in the 2020 *Medium Term Budget Policy Statement* (MTBPS), enabling government to provide immediate support for urgent public health and



social needs, while improving the debt-to-GDP outlook. Returning the public finances to a sustainable position will require ongoing restraint in expenditure growth and implementation of structural reforms to support economic growth. In this context, the fiscal strategy aims to:

- Narrow the deficit and stabilise the debt-to-GDP ratio, primarily by controlling non-interest expenditure growth.
- Provide continued support to the economy and public health services in the short term, without adding to long-term spending pressures.
- Improve the composition of spending, by reducing growth in compensation while protecting capital investment.



Given the continuing pandemic, the fiscal framework provides short-term support to low-income households and funding for the health policy response. Changes since the 2020 MTBPS include three-month extensions of the *special COVID-19 social relief of distress grant* and the Unemployment Insurance Fund's Temporary Employer/Employee Relief Scheme, and funding for the public employment initiative and for provincial hospitals in 2021/22. Up to R10.3 billion is provided for vaccine rollout for the current year and over the next two years. Given uncertainty around vaccination campaign costs, the contingency reserve has been increased from R5 billion to R12 billion in 2021/22. These interventions do not add to longer-term expenditure.

Efforts to reduce growth in the public-service wage bill remain on course, with the Labour Appeal Court of South Africa confirming that the National Treasury must certify the affordability and sustainability of wage agreements prior to their implementation.



The consolidated deficit is projected to narrow from 14 per cent of GDP in 2020/21 to 6.3 per cent of GDP by 2023/24. Gross debt-to-GDP is now projected to stabilise at 88.9 per cent of GDP in 2025/26.

Significant risks remain. The global outlook is highly uncertain, with the economic recovery largely dependent on responses to COVID-19. Several state-owned companies are requesting additional funding. Negotiations on a new public-service wage agreement are set to take place this year.

Table 3.1 Macroeconomic performance and projections

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Percentage change	Actual			Estimate	Forecast		
Real GDP growth	1.3	0.6	0.2	-8.3	5.4	1.9	1.6
Nominal GDP growth	6.3	4.8	4.6	-4.4	8.8	5.9	5.8
CPI inflation	4.7	4.6	4.2	3.0	4.2	4.2	4.4
GDP at current prices (R billion)	4 698.7	4 924.0	5 148.9	4 921.0	5 352.2	5 666.3	5 997.2

Source: National Treasury

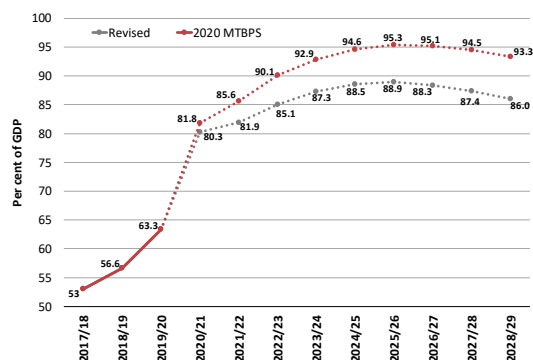
Fiscal outlook

South Africa's fiscal challenge is to balance the immediate need for support to the economy during the pandemic with ongoing efforts to close a large, pre-existing budget deficit. Prior to the outbreak of COVID-19, economic growth had slowed to less than 1 per cent per year and the consolidated deficit was approaching 7 per cent of GDP. Gross national debt was

projected to grow continuously over the longer term, despite 2020 Budget proposals to reduce expenditure growth.

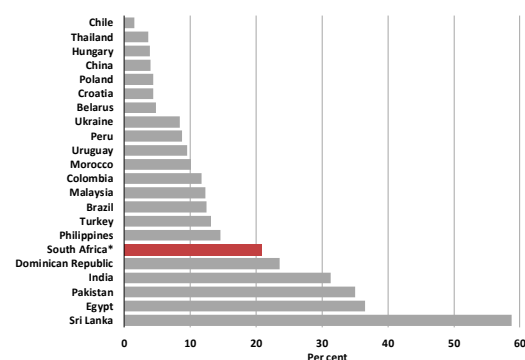
The pandemic and associated lockdowns led to a severe contraction in GDP and tax revenue. In response, the June 2020 special adjustments budget and the 2020 MTBPS proposed a combination of short-term measures to support the economy, while stabilising the debt-to-GDP ratio through reductions to expenditure. The majority of these reductions applied to compensation budgets.

Figure 3.1 Gross debt-to-GDP outlook



Source: National Treasury

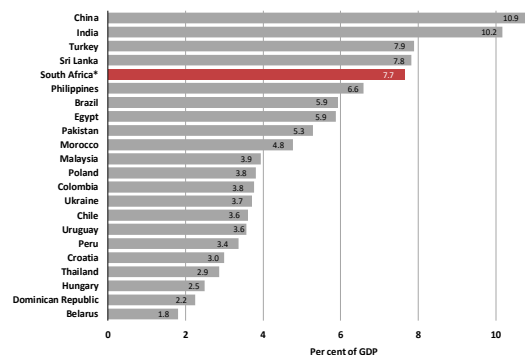
Figure 3.2 Average debt-service costs as a share of revenue, 2021–2023



*South African data reported in fiscal years

Source: IMF World Economic Outlook, October 2020

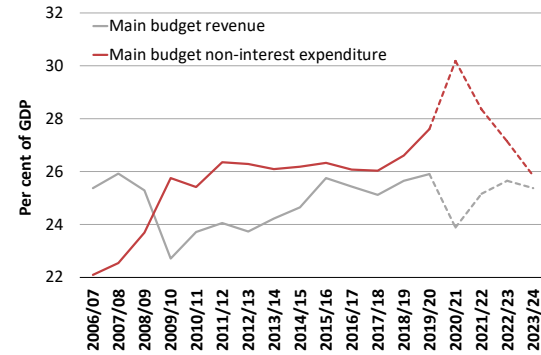
Figure 3.3 Average budget deficit, 2021–2023



*South African data reported in fiscal years

Source: IMF World Economic Outlook, October 2020

Figure 3.4 Main budget revenue and expenditure*



*Excludes Eskom financial support and transactions in financial assets and liabilities

Source: National Treasury

Over the medium term, debt-service costs are expected to average 20.9 per cent of gross tax revenue. This is twice as large as the median for South Africa's peer group over the period. Similarly, South Africa's borrowing remains large by developing-country standards, and debt is projected to grow by 7 per cent of GDP over the next three years.

Reversing these trends will require continued restraint in expenditure growth, supported by measures to raise economic growth. In the short term, funding for the vaccine rollout will play a crucial role in controlling the pandemic, while supporting increased economic activity. The *special COVID-19 social relief of distress grant* and the Temporary Employer/Employee Relief Scheme, which were respectively initiated to

provide short-term support for low-income households and unemployed workers in 2020, will be extended through the end of April 2021. At the same time, fiscal policy will remain focused on stabilising the public finances over the longer term, thereby contributing to economic stability and sustainable growth.



Government's fiscal strategy is supported by an improved growth and revenue outlook. Relative to the 2020 MTBPS projection, the deficit is expected to narrow at a slightly faster pace, while improved cash balances reduce the borrowing requirement and debt issuance over the medium term. Debt is projected to stabilise at 88.9 per cent of GDP in 2025/26.

Implications of the fiscal strategy for expenditure growth

Over the past decade, government spending excluding interest on debt has grown sharply in real terms, primarily because of increases in public-service compensation. The current fiscal measures aim to correct this imbalance by reducing growth in the compensation bill and reducing the share of spending on public-service wages over the medium term, while sustaining small real spending increases on other items. These measures will improve the composition of spending by reallocating resources towards growth-enhancing infrastructure investment.

Table 3.2 Real consolidated non-interest expenditure

Real consolidated non-interest expenditure by function	2011/12	2020/21 ¹	2023/24	Change 2011/12 to 2020/21	Change 2020/21 to 2023/24	Percentage change 2020/21 to 2023/24	Average annual change 2020/21 to 2023/24
Learning and culture	310.4	389.8	366.8	79.3	-22.9	-5.9%	-2.0%
Health	176.3	227.7	216.1	51.3	-11.6	-5.1%	-1.7%
Social development	211.6	280.4	286.8	68.8	6.4	2.3%	0.8%
Community development	186.6	204.2	212.2	17.5	8.1	4.0%	1.3%
Economic development	189.8	187.7	191.5	-2.1	3.8	2.0%	0.7%
Peace and security	210.5	214.0	188.2	3.5	-25.8	-12.1%	-4.2%
General public services	67.7	62.4	61.0	-5.4	-1.4	-2.3%	-0.8%
Contingency reserve	–	–	4.4	–	4.4		
Consolidated non-interest expenditure	1 353.1	1 566.1	1 527.1	213.0	-39.0	-2.5%	-0.8%
Including state-owned companies and reserves	1 357.8	1 662.7	1 557.9	304.9	-104.8	-6.3%	-2.1%
Consolidated non-interest expenditure excluding compensation of employees	814.5	935.5	945.7	121.0	10.3	1.1%	0.4%

1. Excludes allocations for COVID-19 response

Source: National Treasury

Table 3.2 shows the effect of these trends, excluding the impact of COVID-19 allocations in the current year. Between 2011/12 and 2020/21, real annual non-interest spending rose by R213 billion, and compensation accounted for almost half of this increase. Over the next three years, total consolidated non-interest expenditure is projected to decline in real terms by 0.8 per cent per year. Excluding compensation, however, real non-interest spending continues to grow by 0.4 per cent over the period. Functions where compensation accounts for very large proportions of spending – for example, teacher and other salaries make up over

70 per cent of learning and culture spending – see the largest real declines in expenditure.

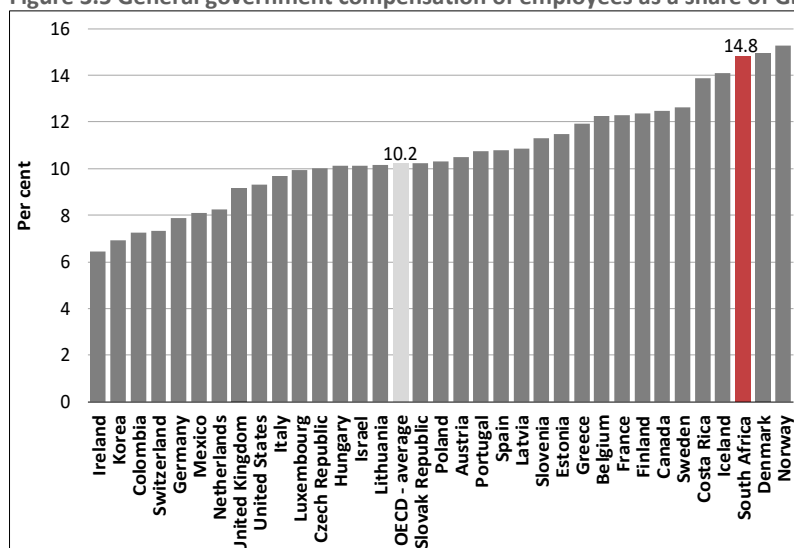
Ensuring an affordable public-service wage bill

The sustainability of the public finances will depend heavily on government's ability to reduce growth in the public-service wage bill.

Compensation accounted for about 34 per cent of consolidated spending in 2019/20. Between 2006/07 and 2019/20, compensation was one of the fastest-growing spending items, increasing faster than GDP growth. As outlined in previous editions of the *Budget Review* and MTBPS, by 2019/20 rising compensation spending had become unaffordable and was the main expenditure risk to the sustainability of the public finances. At the general government level (which includes municipalities), South Africa's wage bill as a share of output is approximately 5 percentage points higher than the Organisation for Economic Co-operation and Development average – and on par with Iceland and Denmark.



Figure 3.5 General government compensation of employees as a share of GDP



Source: OECD

The 2020 Budget proposed compensation reductions totalling R160.2 billion for 2020/21 to 2022/23, relative to the pre-Budget baseline. The 2020 MTBPS proposed further downward adjustments to compensation, amounting to R143.2 billion for 2021/22 to 2023/24.

Including COVID-19 adjustments, compensation at the consolidated budget level is projected to grow by 2.1 per cent in the current year and 1.2 per cent per year over the medium term. These growth rates can be achieved through, for example, doing away with annual cost-of-living adjustment in the public service up until 2023/24, together with measures to reduce headcounts – a combination of early retirement and natural attrition, as well as freezing or abolishing of non-critical posts.

In addition, government is exploring measures such as harmonising allowances and benefits, reconsidering pay progression rules and reviewing occupation-specific dispensations. Performance bonuses are

already being phased out and careful consideration is being applied to amend or abolish some allowances and benefits.

Wage negotiations will take place in the Public Service Co-ordinating Bargaining Council. Government will negotiate on the basis of fairness, equity and affordability. A pact that exceeds budgeted amounts would present a risk to the fiscal framework. For example, a three-year inflation-linked agreement would raise the total shortfall to R112.9 billion by 2023/24. And an agreement similar to the one achieved in 2018 – 1 percentage point higher than inflation – would create a compensation shortfall of R132.7 billion (or 2.2 per cent of GDP) by 2023/24.

Wage bill court case affirms the National Treasury's constitutional role in safeguarding public finances

In late 2019/20, government did not implement public-service salary increases for 2020/21 – which would have added over R37 billion to the 2020/21 wage bill – and tried to renegotiate terms. No agreement had been reached, however, when a number of unions took government to court to compel implementation of the increase.

Government argued against this application on two main grounds:

- The original agreement was unlawful, because the National Treasury had never written to confirm that funding for its implementation would be provided, as required by the relevant regulations.
- Implementing the agreement, even if valid, would require reducing funding for activities that government is constitutionally obliged to deliver.

Ultimately, the court accepted the argument that the original agreement was invalid and unlawful, and affirmed the National Treasury's constitutional role in safeguarding the public finances. While government remains committed to collective bargaining and healthy labour relations, this decision helps to maintain an appropriate balance between government's responsibilities as an employer and as a provider of basic services.

Changes in tax revenue and expenditure

Tax revenue



COVID-19 has resulted in elevated levels of uncertainty in economic and fiscal forecasting. This is reflected in large revisions to tax revenue. Relative to the 2020 Budget, gross tax revenue for 2020/21 is R213.2 billion below projections. At the time of the 2020 MTBPS, this shortfall was projected at R312.8 billion. The upward revision reflects improvements in personal and corporate income taxes, value-added tax, fuel levies and customs duties.

Table 3.3 Revised gross tax revenue projections

R million	2019/20	2020/21	2021/22	2022/23	2023/24
Revised estimate	1 355 766	1 212 206	1 365 124	1 457 653	1 548 512
<i>Buoyancy</i>	<i>1.16</i>	<i>2.39</i>	<i>1.44</i>	<i>1.15</i>	<i>1.07</i>
2020 MTBPS	1 355 749	1 112 579	1 279 528	1 392 161	1 503 186
<i>Elasticity</i>	<i>1.16</i>	<i>3.18</i>	<i>1.59</i>	<i>1.50</i>	<i>1.35</i>
2020 Budget	1 358 935	1 425 418	1 512 194	1 609 657	
<i>Elasticity</i>	<i>1.15</i>	<i>0.93</i>	<i>1.00</i>	<i>1.01</i>	
Projected improvement against 2020 MTBPS	17	99 627	85 597	65 492	45 326
Projected shortfall against 2020 Budget	-3 168	-213 212	-147 070	-152 004	

Source: National Treasury

The faster-than-expected recovery in the current year implies that revenue is likely to grow more slowly over the medium term. Government will not implement the additional tax revenue measures announced in the 2020 MTBPS – R5 billion for next year, R10 billion per year in the following two

years and R15 billion in 2024/25. Overall, tax revenue projections are higher than the 2020 MTBPS estimates by R85.6 billion in 2021/22, R65.5 billion in 2022/23 and R45.3 billion in 2023/24.

Main budget non-interest expenditure adjustments

Compared with the 2020 Budget, main budget non-interest expenditure increases by R34.6 billion in 2020/21, largely due to net additions made for the COVID-19 fiscal relief package, as discussed in the June 2020 special adjustments budget. New proposed allocations in the 2020 MTBPS were financed through reallocations and baseline reductions. Since the 2020 MTBPS, further projected underspending in national departments has offset spending additions mainly for rollout of COVID-19 vaccines and the extension of the *special COVID-19 social relief of distress grant*.

Table 3.4 Adjustments to main budget non-interest expenditure since 2020 Budget

R million	2021/22	2022/23	2023/24	MTEF total
2020 Budget non-interest expenditure	1 592 186	1 650 080	1 722 433	4 964 699
<i>Less: Contingency reserve</i>	<i>5 000</i>	<i>5 000</i>	<i>5 000</i>	<i>15 000</i>
Allocated expenditure (2020 Budget)	1 587 186	1 645 080	1 717 433	4 949 699
Skills development levy adjustments	-2 772	-2 740	-936	-6 448
Baseline reductions	-65 349	-90 122	-152 326	-307 797
Programme baseline reductions and use of reserves	-39 043	-43 983	-80 311	-163 337
Wage bill reductions	-26 306	-46 139	-72 015	-144 460
Baseline allocations	22 446	4 602	2 283	29 332
COVID-19 response	15 345	3 000	—	18 345
Other allocations ¹	7 101	1 602	2 283	10 987
Provisional allocations	11 000	1 000	1 000	13 000
Allocated in 2021 Budget	1 552 511	1 557 821	1 567 455	4 677 786
<i>Plus: Contingency reserve</i>	<i>12 000</i>	<i>5 000</i>	<i>5 000</i>	<i>22 000</i>
2021 Budget non-interest expenditure	1 564 511	1 562 821	1 572 455	4 699 786
<i>Change in non-interest expenditure since 2020 Budget</i>	<i>-27 675</i>	<i>-87 259</i>	<i>-149 978</i>	<i>-264 913</i>

1. Includes the New Development Bank, financial support to state-owned companies and public entities and the rescheduling of some infrastructure reductions introduced in the 2020 MTBPS

Source: National Treasury

Over the medium term, main budget non-interest spending is significantly lower than the 2020 Budget estimates, reflecting large reductions – mainly in compensation – to stabilise the debt-to-GDP ratio. Relative to the 2020 MTBPS, however, spending has been revised up over the next two years, mainly for additional COVID-19-related spending such as vaccine rollout, as well as job creation initiatives.

Net reductions to main budget non-interest spending from the 2020 Budget to the 2021 Budget amount to R264.9 billion over the medium-term expenditure framework (MTEF) period. In aggregate, these measures are expected to narrow the consolidated budget deficit from 14 per cent of GDP in 2020/21 to 6.3 per cent of GDP in 2023/24. Gross national debt is estimated to increase from 80.3 per cent of GDP in 2020/21 to 87.3 per cent of GDP in 2023/24, and to stabilise at 88.9 per cent of GDP in 2025/26.

Table 3.5 Consolidated fiscal framework

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Outcome			Revised estimate	Medium-term estimates		
R billion/percentage of GDP							
Revenue	1 350.3	1 447.8	1 530.5	1 362.7	1 520.4	1 635.4	1 717.2
	28.7%	29.4%	29.7%	27.7%	28.4%	28.9%	28.6%
Expenditure	1 540.9	1 643.6	1 822.3	2 052.5	2 020.4	2 049.5	2 095.1
	32.8%	33.4%	35.4%	41.7%	37.7%	36.2%	34.9%
<i>Non-interest expenditure</i>	<i>1 368.0</i>	<i>1 451.5</i>	<i>1 608.5</i>	<i>1 810.8</i>	<i>1 742.0</i>	<i>1 733.1</i>	<i>1 747.8</i>
	29.1%	29.5%	31.2%	36.8%	32.5%	30.6%	29.1%
Budget balance	-190.6	-195.7	-291.8	-689.8	-500.0	-414.1	-377.9
	-4.1%	-4.0%	-5.7%	-14.0%	-9.3%	-7.3%	-6.3%

Source: National Treasury

Fiscal framework

Between the 2020 Budget and the 2021 Budget, the consolidated budget deficit for 2020/21 doubled. It is now estimated at 14 per cent of GDP, up from 6.8 per cent a year ago – and wider by an average of 2.4 percentage points over the next two years compared with the 2020 estimate. The main drivers of the widening deficits are lower tax revenue and higher estimated deficits for social security funds, partially offset by higher projected surpluses of public entities. The consolidated deficit is projected to narrow from 9.3 per cent of GDP in 2021/22 to 6.3 per cent of GDP in 2023/24.

Table 3.6 Consolidated operating and capital accounts

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Outcome			Revised estimate	Medium-term estimates		
R billion/percentage of GDP							
OPERATING ACCOUNT							
Current revenue	1 330.6	1 432.0	1 511.1	1 332.8	1 511.0	1 629.6	1 711.5
Current payments	1 370.8	1 485.1	1 618.9	1 825.2	1 798.2	1 838.3	1 877.1
Compensation of employees	547.9	584.4	623.8	637.0	650.4	656.0	659.3
Goods and services	220.6	233.8	253.2	269.9	279.5	273.4	275.0
Interest payments	172.9	192.0	213.7	241.6	278.3	316.4	347.3
Current transfers and subsidies	429.4	474.8	528.1	676.7	590.0	592.5	595.5
Current balance	-40.2	-53.1	-107.7	-492.5	-287.2	-208.8	-165.6
	-0.9%	-1.1%	-2.1%	-10.0%	-5.4%	-3.7%	-2.8%
CAPITAL ACCOUNT							
Capital receipts	0.5	0.6	0.4	0.2	0.3	0.2	0.2
Capital payments	77.5	70.1	62.3	74.8	83.0	92.7	97.4
Capital transfers	72.3	72.6	75.0	64.8	78.9	86.3	90.7
Capital financing requirement	-149.3	-142.1	-136.9	-139.4	-161.7	-178.7	-187.9
	-3.2%	-2.9%	-2.7%	-2.8%	-3.0%	-3.2%	-3.1%
Financial transactions ¹	-1.1	-0.5	-47.1	-57.9	-39.1	-21.6	-19.4
Contingency reserve	–	–	–	–	12.0	5.0	5.0
Budget balance	-190.6	-195.7	-291.8	-689.8	-500.0	-414.1	-377.9
	-4.1%	-4.0%	-5.7%	-14.0%	-9.3%	-7.3%	-6.3%

1. Balance of transactions in financial assets and liabilities

Source: National Treasury

Over the MTEF period, consolidated non-interest spending will contract at an annual real average rate of 5.2 per cent. Spending on current transfers and subsidies as a share of total current spending increases significantly in 2020/21 in line with government efforts to support vulnerable households.

The composition of spending improves over the three-year period. The current deficit – the gap between revenue and current spending – is projected to narrow from 10 per cent of GDP in 2020/21 to 2.8 per cent of GDP in 2023/24. Over the same time period, capital payments and transfers grow by a nominal annual average of 10.5 per cent, with the capital financing requirement stable at about 3 per cent of GDP.

■ Elements of the consolidated budget

The consolidated budget includes the main budget framework and spending by provinces, social security funds and public entities financed from their revenue sources.

Main budget framework

Spending financed from the National Revenue Fund is summarised in Table 3.7. The 2019/20 main budget deficit reached 6.7 per cent of GDP, compared with the 6.5 per cent projected in the 2020 Budget. In 2020/21, the deficit is expected to deteriorate to 12.3 per cent of GDP before narrowing to 6.5 per cent by 2023/24. Since the 2020 MTBPS, in addition to tax revenue adjustments noted earlier, non-tax revenue estimates have also been revised upwards by R16 billion over the MTEF period, driven by higher mineral and petroleum royalties and interest on investments. The R3.5 billion projected revenue from the sale of non-core assets in 2020/21 has been reversed.

Projections of National Revenue Fund receipts have been lowered over the medium term compared with 2020 MTBPS estimates due to lower expected revaluation profits on foreign-currency transactions. Payments to the Southern African Customs Union (SACU) have been revised upwards by R1.9 billion in 2022/23 and R15.5 billion in 2023/24 mainly due to an improved GDP growth outlook and better performances in customs, specific excise duties and ad-valorem excise duties.



Table 3.7 Main budget framework

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Outcome			Revised estimate	Medium-term estimates		
R billion/percentage of GDP							
Revenue							
Gross tax revenue after proposals	1 216.5	1 287.7	1 355.8	1 212.2	1 365.1	1 457.7	1 548.5
Non-tax revenue	19.2	23.9	27.6	26.4	27.7	28.6	30.4
SACU ¹	-56.0	-48.3	-50.3	-63.4	-46.0	-33.4	-58.0
National Revenue Fund receipts	16.6	12.0	12.8	25.6	4.9	0.8	1.1
Main budget revenue	1 196.4	1 275.3	1 345.9	1 200.8	1 351.7	1 453.7	1 522.0
	25.5%	25.9%	26.1%	24.4%	25.3%	25.7%	25.4%
Expenditure							
National departments	592.6	634.3	749.7	804.5	763.3	736.3	739.0
Provinces	538.6	572.0	613.4	628.3	639.5	643.3	646.8
Local government	111.1	118.5	123.0	138.5	138.1	146.1	148.4
Contingency reserve	–	–	–	–	12.0	5.0	5.0
Provisional allocation not assigned to votes	–	–	–	–	11.6	32.1	33.2
Non-interest expenditure	1 242.3	1 324.8	1 486.2	1 571.3	1 564.5	1 562.8	1 572.5
Debt-service costs	162.6	181.8	204.8	232.9	269.7	308.0	338.6
Main budget expenditure	1 404.9	1 506.6	1 690.9	1 804.2	1 834.3	1 870.8	1 911.0
	29.9%	30.6%	32.8%	36.7%	34.3%	33.0%	31.9%
Main budget balance	-208.6	-231.3	-345.1	-603.4	-482.6	-417.2	-389.0
	-4.4%	-4.7%	-6.7%	-12.3%	-9.0%	-7.4%	-6.5%
Primary balance	-45.9	-49.5	-140.3	-370.5	-212.8	-109.2	-50.4
	-1.0%	-1.0%	-2.7%	-7.5%	-4.0%	-1.9%	-0.8%

1. Southern African Customs Union. Amounts made up of payments and other adjustments. The estimates for the outer two years include projected forecast error adjustments for 2020/21 and 2021/22, respectively

Source: National Treasury

Main budget non-interest expenditure is projected to peak at 31.9 per cent of GDP in 2020/21 due to significantly lower nominal GDP and higher spending for COVID-19 fiscal relief. Real main budget non-interest expenditure is projected to contract in each year of the next three years. As a share of GDP, non-interest expenditure will moderate from 29.2 per cent in 2021/22 to 26.2 per cent by 2023/24.



Table 3.8 shows revisions to the main budget revenue and expenditure estimates since the 2020 Budget. Debt-service costs are higher than the 2020 Budget estimates by R3.6 billion in 2020/21, R11.3 billion in 2021/22 and R17.9 billion in 2022/23. Due to the higher budget deficit, coupled with fluctuations in interest, inflation and exchange rates, debt-service costs will continue to rise over the medium term.

Table 3.8 Revisions to main budget revenue and expenditure estimates

R billion/percentage of GDP	2020/21		2021/22		2022/23	
	2020 Budget	2021 Budget	2020 Budget	2021 Budget	2020 Budget	2021 Budget
Revenue						
Gross tax revenue	1 425.4	1 212.2	1 512.2	1 365.1	1 609.7	1 457.7
Non-tax revenue	30.0	26.4	27.9	27.7	29.3	28.6
SACU ¹	-63.4	-63.4	-60.6	-46.0	-63.4	-33.4
National Revenue Fund receipts	6.0	25.6	4.8	4.9	5.3	0.8
Main budget revenue	1 398.0	1 200.8	1 484.3	1 351.7	1 580.9	1 453.7
	25.8%	24.4%	25.8%	25.3%	25.8%	25.7%
Expenditure						
Current payments	495.0	490.0	542.4	529.5	583.7	565.6
<i>of which:</i>						
<i>Compensation of employees</i>	187.7	176.7	200.1	175.0	208.7	175.4
<i>Goods and services</i>	77.9	80.2	83.6	84.6	84.6	81.9
<i>Debt-service costs</i>	229.3	232.9	258.5	269.7	290.1	308.0
Transfers and subsidies	1 215.9	1 214.2	1 294.0	1 219.3	1 367.5	1 249.0
Payments for capital assets	15.3	13.4	15.8	15.0	16.5	15.7
Payments for financial assets	42.6	86.5	9.5	46.8	2.4	3.4
Provisional allocation not assigned to votes	-7.8	–	-16.1	11.6	-34.9	32.1
Contingency reserve	5.0	–	5.0	12.0	5.0	5.0
Total expenditure	1 766.0	1 804.2	1 850.7	1 834.3	1 940.2	1 870.8
	32.5%	36.7%	32.1%	34.3%	31.7%	33.0%

1. Southern African Customs Union. Amounts made up of payments and other adjustments

Source: National Treasury

Social security funds, public entities and provincial balances

Social security funds are projected to run a large cash deficit in the current year as a result of higher spending by the Unemployment Insurance Fund in response to COVID-19.

Table 3.9 Consolidated budget balances

R billion	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Main budget	-208.6	-231.3	-345.1	-603.4	-482.6	-417.2	-389.0
Social security funds	9.3	8.8	5.3	-89.6	-36.0	-11.9	-4.5
Provinces	0.8	1.0	5.1	-6.8	-0.6	-1.1	-2.6
Public entities	8.1	26.0	43.5	9.9	19.3	16.2	18.2
RDP Fund ¹	-0.3	-0.2	-0.6	0.0	-0.1	-0.1	-0.0
Consolidated budget balance	-190.6	-195.7	-291.8	-689.8	-500.0	-414.1	-377.9

1. Reconstruction and Development Programme Fund

Source: National Treasury

Over the medium term, social security funds and provinces are expected to have combined cash deficits, partially offset by public entities. Public entities recorded a cash surplus of R43.5 billion in 2019/20, mainly as a result of higher revenue received by the South African National Roads Agency Limited (SANRAL), the Water Services Trading Entity and the Trans-Caledon Tunnel Authority, as well as lower capital spending by the Passenger Rail Agency of South Africa. SANRAL also spent less than projected on repairs and maintenance on the national road network.

Public-sector borrowing requirement

The public-sector borrowing requirement increased sharply during 2020/21 as a result of the pandemic. In-year borrowing requirements are

now projected at R748.9 billion, or 15.2 per cent of GDP. The higher borrowing requirement is mainly the result of the larger main budget deficit. State-owned companies, including Eskom and Transnet, reduced their borrowing plans, as discussed in Chapter 8.

Table 3.10 Public-sector borrowing requirement¹

R billion/percentage of GDP	2017/18	2018/19	2019/20	2020/21		2021/22	2022/23	2023/24
	Outcome			Budget 2020	Budget 2021	Medium-term estimates		
Main budget	208.6	231.3	345.1	368.0	603.4	482.6	417.2	389.0
Social security funds	-9.3	-8.8	-5.3	9.1	89.6	36.0	11.9	4.5
Provinces	-0.8	-1.0	-5.1	0.4	6.8	0.6	1.1	2.6
Public entities	-8.1	-26.0	-43.5	-7.1	-9.9	-19.3	-16.2	-18.2
RDP Fund	0.3	0.2	0.6	0.1	-0.0	0.1	0.1	0.0
Consolidated government	190.6	195.7	291.8	370.5	689.8	500.0	414.1	377.9
	4.1%	4.0%	5.7%	6.8%	14.0%	9.3%	7.3%	6.3%
Local authorities²	6.3	5.8	7.0	10.4	11.4	13.4	13.1	13.2
	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%
State-owned companies³	99.4	77.1	54.1	73.2	47.7	51.2	52.5	37.0
	2.1%	1.6%	1.1%	1.3%	1.0%	1.0%	0.9%	0.6%
Borrowing requirement	296.3	278.7	352.8	454.1	748.9	564.6	479.7	428.1
	6.3%	5.7%	6.9%	8.4%	15.2%	10.5%	8.5%	7.1%

1. A negative number reflects a surplus and a positive number a deficit

2. 2018/19 is a pre-audit outcome as at 30 June 2019. 2019/20-2021/22 figures are budgeted estimates adjusted in line with historical borrowing outcomes

3. Includes Eskom, South African Airways, Transnet, Airports Company South Africa and Denel

Source: National Treasury



Risks to the fiscal framework

There continue to be significant risks to the fiscal outlook.

- The fiscal framework assumes compensation budgets ceilings are maintained. A departure from this assumption in the forthcoming wage agreement will be unaffordable and compromise debt stabilisation.
- The financial position of public entities and local government remains weak as a consequence of poor financial management.
- The medium-term debt redemptions of state-owned companies total R182.8 billion. Without rapid improvements in financial management and the resolution of longstanding policy disputes – including the user-pay principle – they will continue to put pressure on the public finances.

More detail is provided on the financial position of state-owned companies and other major public entities in Chapter 8.

Conclusion

Government's pro-growth fiscal consolidation aims to narrow the deficit and stabilise debt. These policy objectives are on course, but will require ongoing restraint in spending growth and the implementation of economic reforms.

4

Revenue trends and tax proposals

In brief

- Gross tax revenue for 2020/21 is expected to be 10.6 per cent lower than in the previous fiscal year and R213.2 billion lower than projected in the 2020 Budget, but higher than estimated in the October 2020 MTBPS.
- Government will not introduce measures to increase tax revenue in the 2021 Budget; previously announced increases amounting to R40 billion will also be withdrawn. This change is expected to support economic recovery by reducing financial pressure on households and businesses.
- A gradual recovery in revenue is expected over the medium term. The tax-to-GDP ratio now stands at 24.6 per cent. A strong and sustained economic rebound is required for this ratio to return to pre-COVID-19 levels of 26.3 per cent of GDP.
- The main tax proposals for 2021/22 include above-inflation increases in personal tax brackets and rebates, and an 8 per cent increase in excise duties on tobacco and alcohol products.

Overview

The COVID-19 pandemic has had a severe impact on tax revenue collection. Given large predicted shortfalls in revenue for 2020/21 and over the next three years, the 2020 *Medium Term Budget Policy Statement* (MTBPS) confirmed that tax increases totalling R40 billion would be required over the next four years to help stabilise public debt and return the public finances to a sustainable position. These increases were first announced in the June 2020 special adjustments budget.

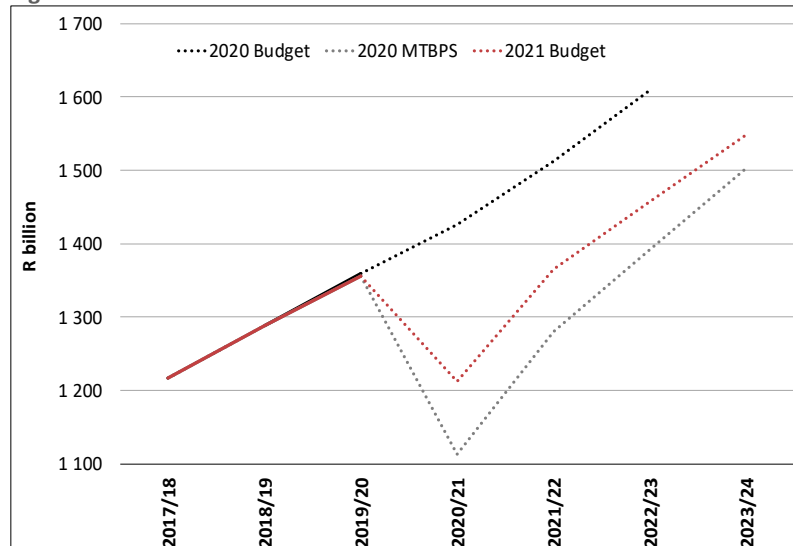
Gross tax revenue for 2020/21 is now expected to be 10.6 per cent lower than in the previous fiscal year and R213.2 billion lower than projected in the 2020 Budget due to the pandemic. However, as a result of the recovery in consumption and wages between October and December 2020, and a boost to corporate income tax receipts from the mining sector, 2020/21 revenue collections are expected to be R99.6 billion above the 2020 MTBPS estimate.

COVID-19 has led to many business closures and job losses. To support households, businesses and the economy in the context of relatively high



income tax rates, government will not introduce measures to increase tax revenue in the 2021 Budget, and previously announced increases over the next three years will be withdrawn.

Figure 4.1 Forecast tax revenue collections



Source: National Treasury



The main tax proposals for 2021/22 are:

- An above-inflation increase of 5 per cent in personal income tax brackets and rebates.
- An inflation-linked general fuel levy increase of 15c/litre for petrol and diesel, and an above-inflation increase of 11c/litre in the Road Accident Fund levy.
- An 8 per cent increase in alcohol and tobacco excise duties.

Revenue collection and outlook



Shortly after the 2020 Budget was tabled, South Africa entered a strict lockdown to contain the pandemic, severely limiting economic activity. Government provided relief for households and businesses, including through tax deferrals and direct tax relief. In combination, these dynamics led to a steep downward revision to tax estimates. Compared with the 2020 Budget estimate, the projected revenue shortfall for 2020/21 is R213.2 billion. The revised revenue estimate is, however, not as large as the R312.8 billion shortfall estimated in the 2020 MTBPS.

The revenue outcome highlights the severe economic impact of COVID-19 on a struggling economy. As a result, expectations of tax base growth have deteriorated significantly since the 2020 Budget. Personal income tax collection has been affected by rising job losses and lower earnings for those who are employed. Corporate income tax collections have been contracting since 2018/19 and will continue to fall this year. Specific excise duties are expected to fall by nearly 50 per cent as a result of restrictions on trading activity and tax deferrals.

Table 4.1 Budget estimates and revenue outcomes¹

R million	2019/20			2020/21			Percentage change ³
	Budget ²	Outcome	Deviation	Budget ²	Revised	Deviation	
Taxes on income and profits	778 280	772 685	-5 595	813 588	700 050	-113 539	-9.4%
Personal income tax	527 584	527 633	48	546 771	482 143	-64 628	-8.6%
Corporate income tax	216 718	211 522	-5 196	230 226	188 801	-41 425	-10.7%
Dividends tax	29 144	27 930	-1 215	31 169	22 980	-8 189	-17.7%
Other taxes on income and profits ⁴	4 833	5 600	767	5 422	6 126	704	9.4%
Skills development levy	18 576	18 486	- 90	19 413	10 175	-9 238	-45.0%
Taxes on property	16 038	15 980	- 58	17 510	15 480	-2 029	-3.1%
Domestic taxes on goods and services	488 711	492 283	3 572	514 267	440 888	-73 379	-10.4%
Value-added tax	344 202	346 761	2 559	360 555	324 554	-36 000	-6.4%
Specific excise duties	46 765	46 827	62	48 836	24 694	-24 142	-47.3%
Health promotion levy	2 590	2 446	- 144	2 860	1 952	- 909	-20.2%
Ad valorem excise duties	4 112	4 124	12	4 328	3 252	-1 077	-21.2%
Fuel levy	79 277	80 175	898	83 441	75 236	-8 206	-6.2%
Other domestic taxes on goods and services ⁵	11 764	11 950	186	14 246	11 201	-3 046	-6.3%
Taxes on international trade and transactions	57 330	56 322	-1 007	60 640	45 613	-15 027	-19.0%
Customs duties	56 325	55 428	- 897	59 500	45 218	-14 282	-18.4%
Health promotion levy on imports	54	67	12	75	56	- 19	-15.8%
Diamond export levy	90	95	4	101	54	- 47	-42.5%
Miscellaneous customs and excise receipts	860	733	- 127	964	285	- 679	-61.2%
Gross tax revenue	1 358 935	1 355 766	-3 168	1 425 418	1 212 206	-213 212	-10.6%
Non-tax revenue ⁶	36 142	40 384	4 242	35 973	51 975	16 002	28.7%
of which:							
Mineral and petroleum royalties	11 952	11 830	- 122	12 697	14 343	1 647	21.2%
Less: SACU ⁷ payments	-50 280	-50 280	-	-63 395	-63 395	-	26.1%
Main budget revenue	1 344 796	1 345 870	1 074	1 397 996	1 200 786	-197 210	-10.8%
Provinces, social security funds and selected public entities	172 192	184 615	12 423	185 910	161 883	-24 026	-12.3%
Consolidated budget revenue	1 516 988	1 530 485	13 497	1 583 905	1 362 669	-221 236	-11.0%

1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure

2. 2020 Budget Review estimates

3. Percentage change between outcome in 2019/20 and revised estimate in 2020/21

4. Includes interest on overdue income tax, interest withholding tax and small business tax amnesty

5. Includes turnover tax for micro businesses, air departure tax, plastic bag levy, electricity levy, CO₂ tax on motor vehicle emissions, incandescent light bulb levy, Universal Service Fund, tyre levy, carbon tax and International Oil Pollution Compensation Fund

6. Includes mineral and petroleum royalties, mining leases, departmental revenue and sales of capital assets

7. Southern African Customs Union. Amounts made up of payments and other adjustments

Source: National Treasury

Since October 2020, there has been a stronger-than-expected rebound in domestic value-added tax (VAT) and customs duties flowing from the rise in consumption once lockdown restrictions eased. Monthly domestic VAT collections since August were higher than the corresponding months in 2019, and fuel levy collections have also improved.



A surge in provisional corporate tax payments in December exceeded expectations. This was primarily driven by the mining sector, with companies benefiting from high commodity prices and a favourable

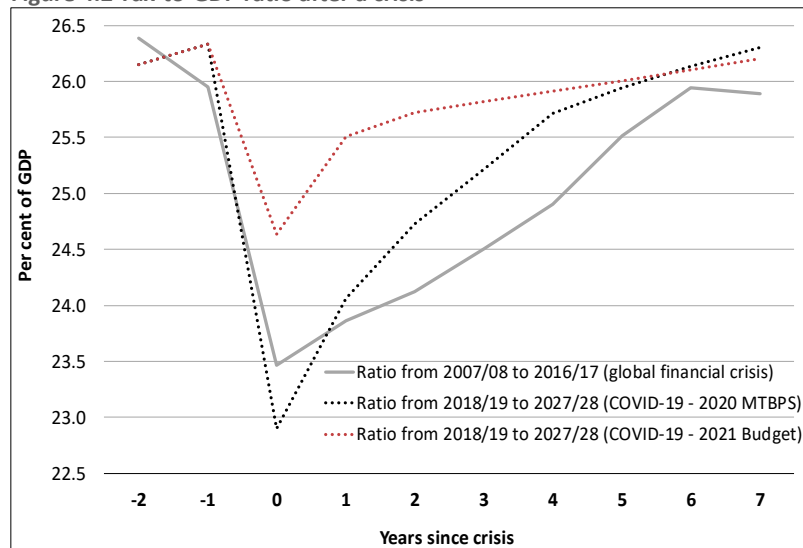
exchange rate. Personal income tax collections remain under pressure due to the elevated levels of unemployment flowing from the pandemic.

Performance of COVID-19 tax measures

The take-up of tax deferral measures for provisional tax and specific excise duties, and those granted on a case-by-case basis, were higher than expected for these categories, providing cash flow relief of over R28 billion. Some corporate, individual and trust provisional tax deferrals may still be claimed. There was lower take-up of the PAYE tax deferral: companies used only R1.9 billion of the projected R19 billion. An additional R4 billion in tax deferral relief has been provided to the alcohol industry in the past month through case-by-case applications. These deferrals will flow through to the next fiscal year.

For the direct tax relief measures, the exemption from the skills development levy provided relief of about R5.9 billion, in line with estimates. Companies could choose to benefit from either the Temporary Employer/Employee Relief Scheme (TERS) or the expanded employment tax incentive, and claimed R57.3 billion from the TERS against only R1.4 billion from the employment tax incentive. By mid-February 2021, of the total R70 billion in estimated tax relief from the COVID-19 measures, R40 billion had been taken up.

Figure 4.2 Tax-to-GDP ratio after a crisis



Source: National Treasury and SARS

A gradual recovery in revenue is expected over the medium term. Personal income tax will respond to employment growth, which is expected to be slow; and the pace of corporate income tax growth will be affected by assessed losses likely to have occurred in 2020. However, the upward revisions to revenue estimates in 2020/21 flow through to higher medium-term revenue projections in almost all tax categories.

The tax-to-GDP ratio now stands at 24.6 per cent. A strong and sustained economic rebound is required for this ratio to return to pre-COVID-19 levels of 26.3 per cent of GDP. Given the uncertain economic outlook, there is a risk that revenue may underperform estimates.

Table 4.2 Budget revenue¹

R million	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Outcome			Revised	Medium-term estimates		
Taxes on income and profits ²	711 703	738 741	772 685	700 050	761 978	810 850	861 047
of which:							
Personal income tax	460 953	492 083	527 633	482 143	515 957	551 393	587 800
Corporate income tax	217 412	212 046	211 522	188 801	213 114	224 899	236 826
Skills development levy	16 012	17 439	18 486	10 175	17 813	19 230	20 763
Taxes on property	16 585	15 252	15 980	15 480	16 837	17 685	18 714
Domestic taxes on goods and services	422 248	460 545	492 283	440 888	514 530	552 448	587 079
of which:							
VAT	297 998	324 766	346 761	324 554	370 177	399 577	425 422
Taxes on international trade and transactions	49 939	55 723	56 322	45 613	53 967	57 440	60 910
Gross tax revenue	1 216 464	1 287 690	1 355 766	1 212 206	1 365 124	1 457 653	1 548 512
Non-tax revenue ³	35 849	35 869	40 384	51 975	32 514	29 380	31 497
of which:							
Mineral and petroleum royalties	7 617	8 612	11 830	14 343	15 937	16 819	17 710
Less: SACU ⁴ payments	-55 951	-48 289	-50 280	-63 395	-45 966	-33 363	-57 974
Main budget revenue	1 196 362	1 275 271	1 345 870	1 200 786	1 351 672	1 453 669	1 522 035
Provinces, social security funds and selected public entities	153 931	172 560	184 615	161 883	168 695	181 739	195 199
Consolidated budget revenue	1 350 293	1 447 830	1 530 485	1 362 669	1 520 367	1 635 408	1 717 234
As percentage of GDP							
Tax revenue	25.9%	26.2%	26.3%	24.6%	25.5%	25.7%	25.8%
Main budget revenue	25.5%	25.9%	26.1%	24.4%	25.3%	25.7%	25.4%
GDP (R billion)	4 698.7	4 924.0	5 148.9	4 921.0	5 352.2	5 666.3	5 997.2
Tax buoyancy	1.00	1.22	1.16	2.39	1.44	1.15	1.07

1. A more disaggregated view is presented in Tables 2 and 3 of the statistical annexure

2. Includes secondary tax on companies/dividends tax, interest withholding tax and interest on overdue income tax

3. Includes mineral and petroleum royalties, mining leases, departmental revenue and sales of capital assets

4. Southern African Customs Union. Amounts made up of payments and other adjustments

Source: National Treasury and SARS

Rebuilding the South African Revenue Service

The Commission of Inquiry into Tax Administration and Governance by SARS (the Nugent Commission) made 27 recommendations to address governance failures at the institution. To date, the Commissioner for SARS has implemented 14 of these recommendations, including re-establishing the Large Business Centre, and units focusing on litigation, compliance and integrity. The performance of the previous executive committee was reviewed, and operational policies related to VAT refunds, settlements and debt collection contracts are being amended.



This year, SARS has started legal processes to recover unwarranted expenditure and handed over case files on persons identified in the Nugent report. The inter-agency working group on criminal and illicit economic activities completed 117 investigations, yielding revenue of R2.7 billion. Customs and excise operations are reducing the illicit movement of goods across borders, assisted by specialised cargo scanners, resulting in 3 393 seizures valued at R1.5 billion for the fiscal year to January 2021.



Following the recommendations of the Davis Tax Committee, SARS will focus on consolidating wealth data for taxpayers through third-party information. This will assist in broadening the tax base, improving tax compliance and assessing the feasibility of a wealth tax.

As noted in the 2020 *Budget Review*, the Minister of Finance is responsible for implementing Nugent Commission policy recommendations. A National Treasury discussion document proposing legislative amendments to SARS governance, delayed by COVID-19, will soon be published. The document outlines processes to appoint and remove a commissioner, and the establishment of at least two deputy commissioners and an executive committee. It also considers measures to improve governance and integrity oversight processes, including the feasibility of a governance board, an inspector-general and mechanisms to account to the Minister of Finance.

An additional spending allocation of R3 billion will be provided to SARS to modernise its technology infrastructure and systems, expand and improve the use of data analytics and artificial intelligence capabilities, and participate meaningfully in global tax compliance initiatives. A digitalised SARS is intended to lower costs of compliance, simplify tax administration and improve collections.



Tax policy

The tax system raises revenue to fund government expenditure. Tax rates are influenced by projections of government spending and borrowing, and the nation's debt stock. Within this framework, tax policy must also consider the effect of taxes on economic growth, the behavioural response of taxpayers, inequality and fairness, and revenue administration capacity. Short-term tax policy changes factor in the state of the economy.

Over the medium term, tax policy changes seek to create an environment that is conducive to broad-based economic growth, and that avoids complicated incentives for specific sectors or groups of taxpayers. Progressivity will be enhanced by restricting deductions for the wealthy and increasing overall collections through improved administration.

Tax policy also needs to consider the tax regime in potential competitor and neighbouring countries. South African income tax rates are relatively high compared to peer countries, while the VAT rate is relatively low. Lowering South Africa's tax rates will increase its competitiveness.

Recent research by Southern Africa – Towards Inclusive Economic Development (Kemp, 2020) shows that tax increases have a larger negative effect on growth than spending reductions, and these effects are more pronounced during a downturn. Given the smaller revenue shortfall compared with October 2020 estimates, the previously announced tax increases of R40 billion have been withdrawn to support the economy.

Corporate income tax and tax incentive reforms

Government is reducing the number of tax incentives, expenditure deductions and assessed loss offsets, with the aim of lowering the corporate income tax rate over the medium term. These changes are expected to enhance efficiency, transparency and fairness in the business tax system, while facilitating economic growth through improved investment and competitiveness.



Although corporate income tax is paid by the business, the burden of this tax is ultimately borne by three parties – the owners of capital, labour (through wages) and consumers (through prices). By implication, reducing the rate can have a positive effect on wages and employment, while promoting additional investment.

As discussed in the 2020 *Budget Review*, South Africa has a relatively high corporate tax rate in comparison with similar countries and trading partners. High tax rates reduce competitiveness and create an incentive for profit shifting to lower-tax jurisdictions.

Tax incentives are public subsidies to the private sector. They illustrate a persistent trade-off in tax policy: the narrower the tax base, the higher the tax rate required to raise a given level of revenue. For example, many African countries have corporate income tax rates similar to or higher than South Africa, but raise lower levels of revenue because their tax bases are often narrower due to generous incentives, exemptions and tax holidays. Tax incentives often undermine the principles of a good tax system, which should be simple, efficient, equitable and easy to administer.

Reducing the extent of tax incentives for individuals and companies will provide the fiscal room to lower the corporate tax rate, which is aimed at benefiting all businesses, employees and consumers. Tax incentives and some expenditure deductions provide favourable tax treatment to certain taxpayers or groups of taxpayers, and inevitably result in the creation of vested interests and lobby groups. The 2021 Budget proposes to either limit or let lapse those tax incentives that erode the equity of the tax system or do not meet their intended objectives.

Personal income tax

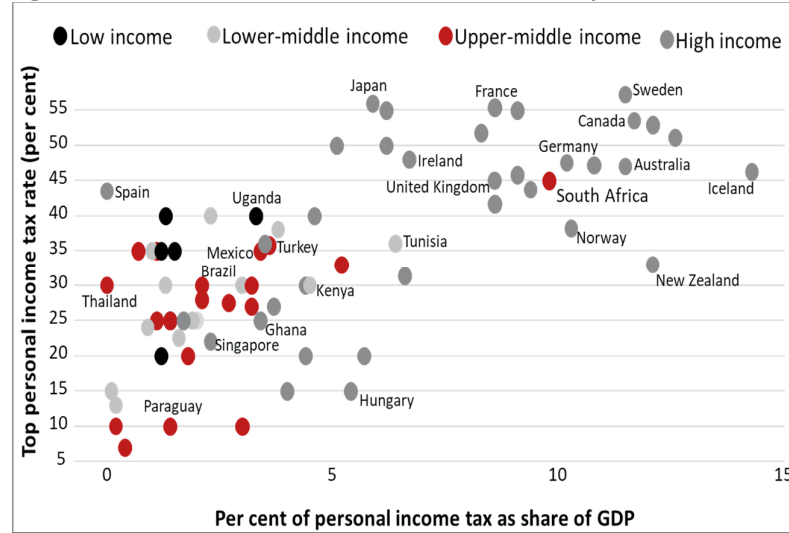
Personal income tax accounts for about 40 per cent of total tax revenue. In response to extreme levels of inequality, South Africa's rate structure is highly progressive and covers tax residents' worldwide income.

South Africa has the highest personal income tax share among upper-middle-income countries, alongside one of the highest top personal income tax rates, as shown in Figure 4.3.

Personal income tax rate increases are often advocated when higher revenues are needed. Over the past six years, these taxes have been adjusted upwards five times to raise more revenue. Recent increases include the introduction of a new top rate of 45 per cent in 2017, and below-inflation adjustments in the brackets and rebates for a number of years. Further increases in personal income taxes would put additional pressure on households that have been negatively affected by the pandemic and undermine the chance of a stronger economic recovery. There is no compelling case for increasing these rates at this time. Instead,

government aims to reduce the rate over time by increasing the tax base through greater economic growth, employment and enforcement.

Figure 4.3 Personal income tax as a share of GDP and top rates



Source: OECD, IMF

Base erosion, profit shifting and digital services taxation

For any tax system to be effective, it needs to take into account the globalised nature of trade, investment and technological change. South Africa is party to many multinational tax processes and agreements, including international negotiations to finalise a treaty on base erosion and profit shifting. This initiative aims to reduce tax avoidance by multinational companies, and ensure that national tax bases are not eroded. As of January 2021, 92 countries, including 13 African states, had signed the relevant agreement. South Africa has signed but not ratified its participation, which requires parliamentary approval. In addition, government proposes to renegotiate some existing bilateral tax treaties with those countries that are not signatories to the agreement.

South Africa is a member of the Steering Group of the Inclusive Framework, which is examining income tax challenges associated with digitalisation of the economy. In June 2019, the Group of 20 endorsed a work programme with the commitment to deliver a consensus-based solution by the end of 2020. However, the pandemic has delayed this process. Work continues towards developing a consensus by mid-2021. Should these efforts fail, South Africa will consider the appropriateness of a unilateral approach.

Tax proposals

To support the economic recovery, government will not raise any additional tax revenue in this Budget (Table 4.3). Substantial tax increases in previous years have raised less revenue than anticipated due to their impact on taxpayer behaviour and growth. Tax increases initially proposed in the June 2020 special adjustments budget are withdrawn. Given the better-than-expected revenue performance in the second half of 2020/21, there is no longer a need to implement these measures and their withdrawal will not widen the budget deficit.



The 2021 Budget includes a higher-than-inflation adjustment to the personal income tax brackets. The expected revenue loss will be offset by an increase in excise duties on tobacco and alcohol.

Table 4.3 Impact of tax proposals on 2021/22 revenue¹

R million	Effect on tax proposals
Gross tax revenue (before tax proposals)	1 365 124
Budget 2021/22 proposals	-
Direct taxes	-2 200
Personal income tax	
Increasing brackets by more than inflation	-2 200
Revenue if no adjustment is made	11 200
Higher-than-inflation increase in brackets and rebates	-13 400
Indirect taxes	2 200
Taxes on international trade and transactions	
Introduction of export tax on scrap metal	400
Specific excise duties	
Increase in excise duties on alcohol	1 100
Increase in excise duties on tobacco	700
Gross tax revenue (after tax proposals)	1 365 124

1. Revenue changes are in relation to thresholds that have been fully adjusted for inflation

Source: National Treasury

Corporate income tax

The 2020 Budget Review stated that government intends to restructure the corporate income tax system in a revenue-neutral manner. This requires broadening the tax base through limiting assessed losses and interest expense deductions to ensure the proposals are affordable. Since February 2020, many businesses have either closed down or are in financial distress as a result of pandemic-related restrictions on economic activity. Government has therefore postponed the introduction of these two measures until 2022.

In February 2020, a discussion document on limiting excessive interest deductions was released for public comment, followed by public consultation. After assessing the comments, government proposes to expand the scope of the current interest limitation rules to include some similar interest items; to adjust the fixed-ratio limitation for net interest expense to 30 per cent of earnings; and to restrict only connected-party interest rather than total interest.



Personal income tax and medical tax credits

The personal income tax brackets and rebates will increase by 5 per cent, providing relief to households by ensuring that inflation does not automatically increase the individual tax burden. This adjustment will reduce tax revenue by R2.2 billion. Most of the relief benefits lower- and middle-income households (Table 4.5). If the tax tables were not adjusted, this would have raised R11.2 billion. An inflationary adjustment will apply to the value of medical tax credits, which will increase from R319 to R332 for the first two members, and from R215 to R224 for all subsequent members. The minimum value for paid-up retirement annuities has not been adjusted since 2007/08. This value will increase from R7 000 to R15 000 from 1 March 2021.

Table 4.4 Personal income tax rates and bracket adjustments

2020/21		2021/22	
Taxable income (R)	Rates of tax	Taxable income (R)	Rates of tax
R0 - R205 900	18% of each R1	R0 - R216 200	18% of each R1
R205 901 - R321 600	R37 062 + 26% of the amount above R205 900	R216 201 - R337 800	R38 916 + 26% of the amount above R216 200
R321 601 - R445 100	R67 144 + 31% of the amount above R321 600	R337 801 - R467 500	R70 532 + 31% of the amount above R337 800
R445 101 - R584 200	R105 429 + 36% of the amount above R445 100	R467 501 - R613 600	R110 739 + 36% of the amount above R467 500
R584 201 - R744 800	R155 505 + 39% of the amount above R584 200	R613 601 - R782 200	R163 335 + 39% of the amount above R613 600
R744 801 - R1 577 300	R218 139 + 41% of the amount above R744 800	R782 201 - R1 656 600	R229 089 + 41% of the amount above R782 200
R1 577 300 and above	R559 464 + 45% of the amount above R1 577 300	R1 656 600 and above	R587 593 + 45% of the amount above R1 656 600
Rebates		Rebates	
Primary	R14 958	Primary	R15 714
Secondary	R8 199	Secondary	R8 613
Tertiary	R2 736	Tertiary	R2 871
Tax threshold		Tax threshold	
Below age 65	R83 100	Below age 65	R87 300
Age 65 and over	R128 650	Age 65 and over	R135 150
Age 75 and over	R143 850	Age 75 and over	R151 100

Source: National Treasury

Table 4.5 Estimates of individuals and taxable income, 2021/22

Taxable bracket	Registered individuals		Taxable income		Income tax payable before relief		Income tax relief after proposals		Income tax payable after proposals	
	Number	%	R billion	%	R billion	%	R billion	%	R billion	%
R0 - R80 ¹	7 183 913	—	256.2	—	—	—	—	—	—	—
R80 - R150	1 855 292	26.7	211.1	8.6	15.7	3.0	-1.3	9.4	14.5	2.8
R150 - R250	1 691 889	24.3	329.3	13.4	29.5	5.6	-1.8	13.4	27.7	5.4
R250 - R350	1 283 954	18.4	378.4	15.4	54.5	10.3	-2.3	16.8	52.2	10.1
R350 - R500	981 993	14.1	409.1	16.6	76.6	14.5	-2.6	19.5	74.0	14.3
R500 - R750	612 177	8.8	369.1	15.0	88.4	16.7	-2.4	18.1	86.0	16.7
R750 - R1 000	262 643	3.8	226.2	9.2	65.1	12.3	-1.3	10.0	63.8	12.4
R1 000 - R1 500	159 127	2.3	191.1	7.8	61.9	11.7	-0.8	6.1	61.0	11.8
R1 500 +	113 192	1.6	346.3	14.1	137.7	26.0	-0.9	6.6	136.8	26.5
Total	6 960 267	100.0	2 460.7	100.0	529.4	100.0	-13.4	100.0	516.0	100.0
Grand total	14 144 180		2 716.8		529.4		-13.4		516.0	

1. Registered individuals with taxable income below the income-tax threshold

Source: National Treasury

Tax incentives

The sunset date for the venture capital company (VCC) incentive, which was initiated in 2009 to encourage retail investments in smaller businesses, will not be extended beyond 30 June 2021. A National Treasury assessment determined that the incentive did not sufficiently achieve its objectives of developing small businesses, generating economic activity and creating jobs. Instead, it provided a significant tax deduction to wealthy taxpayers. The majority of investments supported by the incentive seem to be in low-

risk or guaranteed return ventures that would have attracted funding without the incentive.

Assessing the venture capital company incentive

Over the past year, the National Treasury solicited information from 100 VCCs and 360 qualifying companies on the performance of the VCC incentive.

The results showed that R11.5 billion had been invested at VCC level (on which a 100 per cent tax deduction was applicable), with R4.2 billion invested at qualifying company level. The total tax contribution from qualifying companies was R207 million for 2019/20, half of which was VAT. Qualifying companies employed 8 239 people, of which 4 035 people were in direct employment. In total, only 37 per cent of qualifying companies added new jobs after receiving VCC funding. Over 50 per cent of the investments appeared to be in low-risk moveable asset rental structures, low-risk income-producing investments and guaranteed-return real estate investments.

The National Treasury findings broadly correspond with the 12J Association's own survey, but differ from modelled predictions on job creation and tax estimates, with the association's estimates more optimistic than the actual responses.

Since 2015/16, total tax revenue foregone due to the incentive was R1.8 billion, of which R1.7 billion went to individuals who had a taxable income and VCC investment above R1.5 million per year. Revenue foregone in 2018/19 was R745 million before the deduction cap of R2.5 million was introduced. Based on this information, the incentive seems to give a significant tax deduction to high net-worth taxpayers that cannot be justified given its limited economic impact.

As announced in the 2020 Budget, a sunset date of 28 February 2022 has been introduced for tax incentives dealing with airport and port assets, rolling stock, and loans for residential units. Together with the incentive providing exemptions for films, these incentives will lapse once they reach their respective sunset dates. The National Treasury is accepting detailed submissions from affected stakeholders who wish to retain these provisions in the tax code. The submission deadline is 31 March 2021. The urban development zones and learnership tax incentives will be extended for two years while their reviews are completed.

Fuel levies

Government proposes an inflation-related increase of 15c/litre in the general fuel levy and a higher-than-inflation increase of 11c/litre in the Road Accident Fund levy, with effect from 7 April 2021.

Table 4.6 Total combined fuel taxes on petrol and diesel

Rands/litre	2019/20		2020/21		2021/22	
	93 octane petrol	Diesel	93 octane petrol	Diesel	93 octane petrol	Diesel
General fuel levy	3.54	3.39	3.70	3.55	3.85	3.70
Road Accident Fund levy	1.98	1.98	2.07	2.07	2.18	2.18
Customs and excise levy	0.04	0.04	0.04	0.04	0.04	0.04
Carbon tax ¹	0.07	0.08	0.07	0.08	0.08	0.09
Total	5.63	5.49	5.88	5.74	6.15	6.01
Pump price ²	15.88	14.64	14.06	12.47	15.50	13.58
<i>Taxes as percentage of pump price</i>	35.5%	37.5%	41.8%	46.0%	39.7%	44.3%

1. The carbon tax on fuel became effective from 5 June 2019

2. Average Gauteng pump price for the 2019/20 and 2020/21 years. The 2021/22 figure is the Gauteng pump price in February 2021. Diesel (0.05% sulphur) wholesale price (retail price not regulated)

Source: National Treasury



Carbon tax

The carbon tax rate increased by 5.2 per cent, from R127 to R134 per tonne of carbon dioxide equivalent, from 1 January 2021. The levy for 2021 will increase by 1c to 8c/litre for petrol and 9c/litre for diesel from 7 April 2021. To support South Africa's climate change commitments under the Paris Agreement, the Department of Environment, Forestry and Fisheries is considering enhancing the carbon budgeting system to regulate greenhouse gas emissions by imposing caps on companies for a five-year period. Once legislation on carbon budgets is enacted, government will phase out the carbon budget allowance of 5 per cent provided under the carbon tax.

Excise duties on alcohol and tobacco

Taxes on alcohol and tobacco are guided by a policy framework that targets the excise duty burden. The current targeted excise duties for wine, beer and spirits are set at 11, 23 and 36 per cent respectively. Excise duties have been increasing above inflation in most recent years, resulting in a higher tax incidence. Government will increase excise duties on alcohol by 8 per cent for 2021/22. The excise incidence will move further above the policy guidelines for each category. Tobacco product excise duties will also increase by 8 per cent in 2021/22. The policy framework for both alcohol and tobacco will be reviewed during 2021/22.

Tax and public health

The purpose of excise taxes on alcoholic beverages is to reflect the harmful external costs related to excessive consumption and raise tax revenue. The World Health Organization (WHO) recognises these measures as one of the most cost-effective policy approaches to reducing overall alcohol consumption and improving population health.

Harmful use of alcohol is a leading global health risk and directly affects many health-related targets of the Sustainable Development Goals, including those for maternal and child health, infectious and non-communicable diseases, and mental health. Each year, harmful consumption of alcohol, such as heavy and binge drinking, causes about 3 million deaths worldwide (WHO, 2020). In South Africa, recent studies have shown the harm generated by alcohol in society (Barron *et al*, 2020) and the effect on public health (Matzopoulos *et al*, 2020) when alcohol sales were restricted.

The WHO also endorses excise taxes on tobacco products to reduce consumption and improve public health. It recommends an excise incidence of at least 70 per cent in final consumer price of tobacco products. South Africa's targeted incidence, last revised in 2015, is set at 40 per cent of the retail selling price of the most popular brand in each category. Although excise rates have increased by more than inflation over the last couple of years, the relative affordability of tobacco products has not been taken into consideration. The 2019 WHO report on the global tobacco epidemic says that, on a per person basis, South Africa's cigarettes were more affordable in 2018 than in 2008.

In the 2020 Budget, an excise duty was introduced for heated tobacco products. To more appropriately tax these products, excise duties will be differentiated by product type. Products comparable to cigarettes that are normally sold in packs of 10 or 20 sticks will be taxed accordingly, while other products will be taxed by weight. The rate (75 per cent of the rate applied to a pack of cigarettes) is unchanged from the 2020 Budget. The National Treasury will soon publish a discussion paper on proposals to tax electronic nicotine and non-nicotine delivery systems. An excise duty will be introduced later this year, following public consultations.

Table 4.7 Changes in specific excise duties, 2021/22

Product	Current excise duty rate	Proposed excise duty rate	Percentage change	
			Nominal	Real
Malt beer	R106.56 / litre of absolute alcohol (181,15c / average 340ml can)	R115.08 / litre of absolute alcohol (195,64c / average 340ml can)	8.0	3.8
Traditional African beer	7,82c / litre	7,82c / litre	–	-4.2
Traditional African beer powder	34,70c / kg	34,70c / kg	–	-4.2
Unfortified wine	R4.39 / litre	R4.74 / litre	8.0	3.8
Fortified wine	R7.34 / litre	R7.92 / litre	8.0	3.8
Sparkling wine	R14.36 / litre	R15.51 / litre	8.0	3.8
Ciders and alcoholic fruit beverages	R106.56 / litre of absolute alcohol (181,15c / average 340ml can)	R115.08 / litre of absolute alcohol (195,64c / average 340ml can)	8.0	3.8
Spirits	R213.13 / litre of absolute alcohol (R68.73 / 750ml bottle)	R230.18 / litre of absolute alcohol (R74.23 / 750ml bottle)	8.0	3.8
Cigarettes	R17.40 / 20 cigarettes	R18.79 / 20 cigarettes	8.0	3.8
HTPs sticks		R14.09 / 20 sticks	8.0	3.8
Cigarette tobacco	R19.55 / 50g	R21.12 / 50g	8.0	3.8
Pipe tobacco	R5.79 / 25g	R6.26 / 25g	8.0	3.8
Cigars	R96.45 / 23g	R104.16 / 23g	8.0	3.8

Source: National Treasury

Clarifying the taxation of bio-based plastic bags

Following the 2020 Budget announcement of the tax treatment of compostable bags, the National Treasury reviewed the treatment of alternative bio-based plastic bags. These bags, made from renewable feedstocks such as sugarcane and food residue, emit less greenhouse gas but still contribute to littering and marine pollution. To support the shift to a greener economy, government will differentiate levies on fossil-based and bio-based plastic bags. Plastic bags are currently taxed at 25c/bag. A reduced levy of 12.5c/bag will apply to bio-based plastic bags. The implementation date and technical specifications will be included in the Taxation Laws Amendment Bill.

UIF contribution ceiling

The ceiling for contributions to the Unemployment Insurance Fund (UIF) has not been increased in the last four years, despite the increase in the benefit ceiling. The UIF's benefit provision in the last year has assisted 13.9 million workers. In these circumstances, the continued relief for employees who retain jobs and higher salaries is no longer appropriate. The contribution ceiling will therefore return to be in line with the benefit ceiling and set at R17 711.58 per month from 1 March 2021.



Financial sector levies

With the implementation of the Twin Peaks regulatory system since 1 April 2018, regulated companies in the financial sector will be expected to pay a levy towards the regulatory costs. A bill to impose levies on the financial sector is expected to be tabled in early 2021, and the resulting revenue will fund the Prudential Authority, the Financial Sector Conduct Authority and other entities and activities outlined in the Financial Sector Regulation Act (2017).

Tax research and reviews

Reviewing the tax regime for the upstream petroleum industry

Two large gas finds near Mossel Bay underline the potential for additional exploration, development and production of South African petroleum resources. To move towards a fairer and more certain fiscal and regulatory regime, the National Treasury and the Department of Mineral Resources and Energy will publish a discussion paper on potential tax reforms.

Reviewing the research and development tax incentive

The research and development tax incentive has evolved since it was introduced in 2006, and expires on 1 October 2022. The National Treasury and the Department of Science and Innovation will in 2021 publish a discussion paper inviting public comment on the future of the incentive.

Reviewing tax provisions for travel and working from home

In light of the large-scale migration to working at home over the past year, the National Treasury will review current travel and home office allowances to investigate their efficacy, equity in application, simplicity of use, certainty for taxpayers and compatibility with environmental objectives. In recognition of the potential effect on salary structuring, this will be a multi-year project, starting with consultations during 2021/22.

Conclusion

Tax policy design will complement efforts to roll out economic reforms that boost growth. No new tax measures are introduced in the 2021 Budget, and previously announced increases are withdrawn.

5

Consolidated spending plans

In brief

- Total consolidated spending amounts to R2 trillion each year over the medium term, the majority of which goes towards social services. Debt-service costs increase at an annual average rate of 13.3 per cent and will reach R338.6 billion in 2023/24.
- To reduce growth in the public-service wage bill, proposed reductions to consolidated compensation spending amount to R303.4 billion from 2020/21 to 2023/24. This consists of R160.2 billion announced in the 2020 Budget and an additional R143.2 billion over the medium term.
- Main budget non-interest expenditure will grow from R1.56 trillion in 2021/22 to R1.57 trillion in 2023/24. The majority of funding for new and urgent priorities is provided through reprioritising and reallocating existing baselines. Overall, baselines will be reduced by R264.9 billion over the medium-term expenditure framework (MTEF) period.
- In 2020/21, R12.6 billion was allocated to various sectors to create about 694 000 short-term jobs. The programme is expected to continue in 2021/22.

Overview

Over the next three years, government's consolidated spending is projected to amount to R6.16 trillion. This chapter outlines spending plans and shows net changes to medium-term allocations and functional priority spending trends since the 2020 *Budget Review*. More than half of the budget is allocated to the learning and culture, health and social development functions to support vulnerable and low-income households.

The 2021 Budget meets urgent pandemic-related spending pressures, such as procuring COVID-19 vaccines, expanding the public employment initiative, and continuing social and economic relief measures. This support includes:

- Provisional allocations of R11 billion for the public employment initiative in 2021/22. By January 2021, the initiative had created



430 000 jobs of varying duration. It aims to create another 180 000 such jobs by March 2021.

- An extension of unemployment insurance benefits through the Unemployment Insurance Fund (UIF) for another three months to April 2021. This will increase spending on the COVID-19 Temporary Employer/Employee Relief Scheme to R73.6 billion in 2021/22. As at end-January 2021, the UIF had paid R57.3 billion to 13.9 million workers.
- A recapitalisation of R5 billion in 2021/22, to be funded through reprioritisation, and another R2 billion in both 2022/23 and 2023/24 for the Land Bank. The 2021 *Medium Term Budget Policy Statement* (MTBPS) will confirm the sources of reprioritisation to accommodate this requirement.



Other cost pressures are funded through a combination of reallocations and reprioritisations over the MTEF period. Notwithstanding these fiscal measures, government debt as a share of GDP remains high at 87.3 per cent by 2023/24. Debt-service costs increase at an annual average rate of 13.3 per cent and will reach R338.6 billion in 2023/24.

Revisions to main budget spending plans

Total baseline reductions proposed in the 2021 Budget amount to R307.8 billion over the medium term, as shown in Table 5.1. Reductions were partially offset by additional allocations for measures to combat the COVID-19 pandemic and to fund the South African Revenue Service. This resulted in net reductions of R264.9 billion over the medium term. State-owned companies will be funded through reprioritisations.

Table 5.1 Adjustments to main budget non-interest expenditure since 2020 Budget

R million	2021/22	2022/23	2023/24	MTEF total
2020 Budget non-interest expenditure	1 592 186	1 650 080	1 722 433	4 964 699
<i>Less: Contingency reserve</i>	<i>5 000</i>	<i>5 000</i>	<i>5 000</i>	<i>15 000</i>
Allocated expenditure (2020 Budget)	1 587 186	1 645 080	1 717 433	4 949 699
Skills development levy adjustments	-2 772	-2 740	-936	-6 448
Baseline reductions	-65 349	-90 122	-152 326	-307 797
Programme baseline reductions and use of reserves	-39 043	-43 983	-80 311	-163 337
Wage bill reductions	-26 306	-46 139	-72 015	-144 460
Baseline allocations	22 446	4 602	2 283	29 332
COVID-19 response	15 345	3 000	–	18 345
Other allocations ¹	7 101	1 602	2 283	10 987
Provisional allocations	11 000	1 000	1 000	13 000
Allocated in 2021 Budget	1 552 511	1 557 821	1 567 455	4 677 786
<i>Plus: Contingency reserve</i>	<i>12 000</i>	<i>5 000</i>	<i>5 000</i>	<i>22 000</i>
2021 Budget non-interest expenditure	1 564 511	1 562 821	1 572 455	4 699 786
<i>Change in non-interest expenditure since 2020 Budget</i>	<i>-27 675</i>	<i>-87 259</i>	<i>-149 978</i>	<i>-264 913</i>

1. Includes the New Development Bank, financial support to state-owned companies and public entities, and the rescheduling of some infrastructure reductions introduced in the 2020 MTBPS

Source: National Treasury

Since the 2020 Budget, consolidated compensation reductions of more than R303 billion from 2020/21 to 2023/24 have been proposed. Chapter 3 discusses the public-service wage bill in more detail. Over the 2021 MTEF

period, compensation ceilings are lowered to slow growth in the public-service wage bill and shift the composition of spending towards investment. The wage bill accounts for R1.97 trillion or 32 per cent of consolidated government expenditure over the medium term.

Over the MTEF period, R29.3 billion is added to baselines from reprioritisations and additional funding. Table 5.1 shows additional funding of R18.3 billion to manage further waves of COVID-19, extend the *special COVID-19 social relief of distress grant* in 2021/22 and roll out the vaccination programme. Other allocations totalling R11 billion include payments to the New Development Bank and public entities. Additions to baselines are shown in greater detail in Table 5.2.

Table 5.2 2021 Budget additions

R million	2021/22	2022/23	2023/24	MTEF total
2021 Budget additions to baseline	22 446	4 602	2 283	29 332
COVID-19: Vaccine rollout	5 200	3 000	–	8 200
COVID-19: Managing second and third wave	8 000	–	–	8 000
Extension of the special COVID-19 social relief of distress grant	2 145	–	–	2 145
Other adjustments ¹	7 101	1 602	2 283	10 987

1. Includes the New Development Bank, financial support to state-owned companies and public entities, and the rescheduling of some infrastructure reductions introduced in the 2020 MTBPS

Source: National Treasury

Table 5.3 shows that non-compensation baseline reductions mainly affect conditional grants to provinces and municipalities, and national and provincial programme spending.

Table 5.3 Baseline reductions by economic classification over the MTEF period

R million	2020/21	2021/22	2022/23	2023/24	MTEF total
Economic classification					
Current payments		-35 896	-51 926	-80 904	-168 726
Compensation of employees ¹		-26 306	-46 139	-72 015	-144 460
Goods and services		-9 583	-5 779	-8 874	-24 236
Interest and rent on land		-6	-8	-15	-30
Transfers and subsidies		-27 832	-36 872	-66 790	-131 494
Provinces and municipalities ²		-13 274	-17 640	-31 993	-62 908
Departmental agencies and accounts ³		-3 245	-4 112	-7 375	-14 731
Higher education institutions		-1 712	-2 250	-4 081	-8 043
Foreign governments and international organisations		-98	-131	-238	-468
Public corporations and private enterprises		-729	-949	-1 720	-3 398
Non-profit institutions		-347	-452	-820	-1 619
Households		-8 428	-11 337	-20 562	-40 327
Provisional allocations and use of reserves		-1 620	-1 324	-4 633	-7 577
Consolidated expenditure		-65 349	-90 122	-152 326	-307 797
Total reduction to allocations for compensation of employees	-36 511	-81 236	-113 599	-72 015	-303 360
Announced in 2020 Budget	-37 807	-54 929	-67 460	—	-160 196
Further reduction in 2021 Budget		-26 197	-46 021	-72 015	-144 233
Other adjustments	1 296	-109	-118	—	1 068

1. Provincial compensation of employees reduction moved from transfers to compensation of employees

2. Excludes compensation of employees, with the balance to be allocated to spending items at the provincial level

3. Excludes compensation of employees, balance to be allocated to spending items at the public entity level

Source: National Treasury

Provisional allocations

Provisional allocations are only confirmed once certain requirements have been met. The 2021 Budget includes provisional allocations of R82 billion over the MTEF period as shown in Table 5.4.

Table 5.4 Provisional allocations not assigned to votes

R million	2021/22	2022/23	2023/24	MTEF total
2020 Budget including baseline adjustments	5 645	31 093	32 219	68 958
Infrastructure Fund	4 000	6 000	8 000	18 000
Eskom	–	21 857	21 015	42 872
Public entity: South African Social Security Agency	480	498	500	1 478
Broadband (South Africa Connect Phase 2)	–	1 225	1 230	2 455
Roads asset management for the secondary and strategic road network	768	996	999	2 763
Construction of the Tygerberg hospital	169	218	204	591
Construction of the Klipfontein hospital	115	160	131	406
Other ¹	113	140	140	393
2021 Budget	11 000	1 000	1 000	13 000
Public employment initiative	11 000	–	–	11 000
South African Revenue Service	–	1 000	1 000	2 000
Total	16 645	32 093	33 219	81 958

1. Includes provisional allocation for the Municipal Demarcation Board

Source: National Treasury

Consolidated government expenditure

Total consolidated government spending is expected to grow at an average annual growth rate of 0.7 per cent, from R2.05 trillion in 2020/21 to R2.1 trillion in 2023/24. Current payments, driven by compensation of employees, account for R3.74 trillion or 60.8 per cent of consolidated spending over the MTEF period. Compensation spending amounts to R1.97 trillion or 32 per cent over the medium term, growing at an annual average rate of 1.2 per cent.



Debt-service costs, estimated at R916 billion over the MTEF period, exceed all individual consolidated spending items by function, except social development, and learning and culture. They are also the fastest-growing item of spending by function.

The COVID-19 fiscal response added significant resources in 2020/21 to various government functions and spending items. To present a more coherent view of government spending trends, Tables 5.5 and 5.6 show growth rates that exclude the COVID-19 response. Both reductions and additional allocations announced in the 2020 special adjustments budget and the 2020 MTBPS have been reversed to provide a more comparable base for calculating these growth rates.

Table 5.5 Consolidated government expenditure by economic classification¹

	2020/21 Revised estimate	2021/22	2022/23	2023/24	Percentage of total MTEF allocation	Average annual MTEF growth	Average annual MTEF growth excluding COVID-19
R million							
Economic classification							
Current payments	1 148 546	1 208 223	1 245 844	1 281 571	60.8%	3.7%	4.7%
Compensation of employees	636 958	650 404	656 021	659 269	32.0%	1.2%	1.5%
Goods and services	269 944	279 474	273 394	274 975	13.5%	0.6%	3.7%
Interest and rent on land	241 644	278 345	316 429	347 327	15.3%	12.9%	12.9%
of which:							
Debt-service costs	232 852	269 741	308 013	338 591	14.9%	13.3%	13.3%
Transfers and subsidies	741 494	668 910	678 769	686 282	33.1%	-2.5%	2.9%
Municipalities	151 431	150 662	159 590	161 865	7.7%	2.2%	4.3%
Departmental agencies and accounts	28 006	23 699	23 702	23 892	1.2%	-5.2%	-6.0%
Higher education institutions	46 619	49 116	50 186	50 811	2.4%	2.9%	2.3%
Foreign governments and international organisations	2 279	2 802	2 947	2 977	0.1%	9.3%	7.6%
Public corporations and private	28 804	38 864	43 671	47 416	2.1%	18.1%	12.6%
Non-profit institutions	44 231	40 667	42 064	43 462	2.1%	-0.6%	-0.3%
Households	440 124	363 100	356 610	355 860	17.5%	-6.8%	2.5%
Payments for capital assets	74 817	82 987	92 653	97 393	4.4%	9.2%	12.5%
Buildings and other capital assets	54 083	63 087	68 861	71 703	3.3%	9.9%	0.0%
Machinery and equipment	20 734	19 900	23 792	25 690	1.1%	7.4%	12.3%
Payments for financial assets	87 594	48 240	27 221	24 900			
Total	2 052 452	2 008 360	2 044 487	2 090 146	100%	0.6%	
Contingency reserve	–	12 000	5 000	5 000			
Consolidated expenditure	2 052 452	2 020 360	2 049 487	2 095 146		0.7%	3.3%

1. The main budget and spending by provinces, public entities and social security funds financed from own revenue

Source: National Treasury

Transfers and subsidies, including transfers to local government and public entities, account for R2.03 trillion or 33.1 per cent of total spending over the medium term.

■ Spending priorities by function

Spending across functions supports the implementation of the National Development Plan and government priorities. New and urgent priorities are funded by reprioritising spending. Efficient and effective spending is central to achieving these priorities. As noted in Chapter 1, government is reviewing spending across sectors to improve its efficiency.

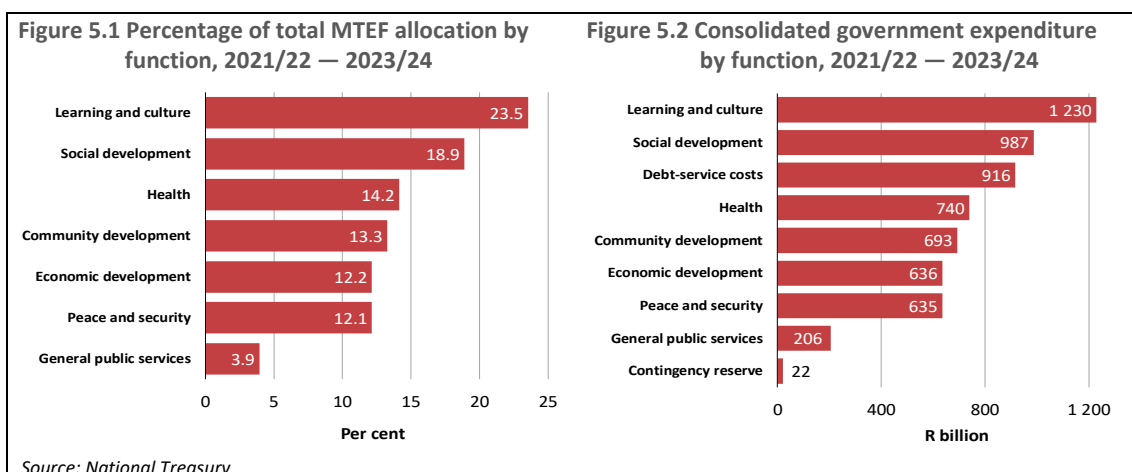
To reduce poverty and inequality, the consolidated budget continues to prioritise social objectives, with 56.6 per cent of allocations going to the learning and culture, health, and social development functions over the medium term. Spending on economic development, community development, and peace and security remain important for socioeconomic transformation and public safety.

Table 5.6 Consolidated government expenditure by function¹

	2020/21 Revised estimate	2021/22 Medium-term estimates	2022/23	2023/24	Percentage of total MTEF allocation	Average annual MTEF growth	Average annual MTEF growth excluding COVID-19
R million							
Learning and culture	387 209	402 929	411 027	415 972	23.5%	2.4%	2.7%
Basic education	266 341	272 340	276 982	279 520	15.9%	1.6%	2.3%
Post-school education and training	111 664	119 587	122 824	124 973	7.0%	3.8%	3.3%
Arts, culture, sport	9 204	11 001	11 221	11 479	0.6%	7.6%	6.5%
Health	247 009	248 839	245 893	245 019	14.2%	-0.3%	2.5%
Social development	413 313	335 290	326 176	325 248	18.9%	-7.7%	2.4%
Social protection	256 813	229 354	239 579	240 845	13.6%	-2.1%	3.1%
Social security funds	156 500	105 936	86 597	84 404	5.3%	-18.6%	0.6%
Community development	211 473	218 795	233 966	240 671	13.3%	4.4%	5.6%
Economic development	191 931	207 529	210 871	217 187	12.2%	4.2%	5.0%
Industrialisation and exports	33 089	36 176	36 780	37 148	2.1%	3.9%	1.3%
Agriculture and rural development	25 326	27 400	28 142	28 432	1.6%	3.9%	1.6%
Job creation and labour affairs	31 585	33 396	23 997	24 229	1.6%	-8.5%	3.5%
Economic regulation and infrastructure	86 499	93 144	103 963	109 513	5.9%	8.2%	8.3%
Innovation, science and technology	15 431	17 412	17 988	17 866	1.0%	5.0%	2.1%
Peace and security	218 615	208 570	212 853	213 417	12.1%	-0.8%	-0.1%
Defence and state security	53 968	46 656	47 811	48 132	2.7%	-3.7%	-2.6%
Police services	106 603	104 570	105 946	105 994	6.1%	-0.2%	1.0%
Law courts and prisons	48 263	48 482	49 632	49 919	2.8%	1.1%	0.8%
Home affairs	9 780	8 862	9 463	9 372	0.5%	-1.4%	-3.2%
General public services	62 458	68 429	68 467	69 141	3.9%	3.4%	3.5%
Executive and legislative organs	14 368	14 476	14 818	14 998	0.8%	1.4%	1.2%
Public administration and fiscal affairs	40 934	46 066	45 417	45 853	2.6%	3.9%	4.4%
External affairs	7 156	7 886	8 233	8 291	0.5%	5.0%	3.0%
Payments for financial assets	87 594	48 240	27 221	24 900			
Allocated by function	1 819 600	1 738 619	1 736 474	1 751 555	100%	-1.3%	1.6%
Debt-service costs	232 852	269 741	308 013	338 591		13.3%	
Contingency reserve	—	12 000	5 000	5 000			
Consolidated expenditure	2 052 452	2 020 360	2 049 487	2 095 146		0.7%	3.3%

1. The main budget and spending by provinces, public entities and social security funds financed from own revenue

Source: National Treasury



Learning and culture

Over the medium term, the learning and culture function accounts for R1.23 trillion or 23.5 per cent of consolidated expenditure. The function will continue to receive the largest share of government spending over the period, rising from R387.2 billion in 2020/21 to R416 billion in 2023/24. Expenditure in this function is driven by the basic education sector.

In the basic education sector, compensation of employees in provincial education departments remains the largest spending category, representing 51.2 per cent of total functional expenditure. Low compensation growth of 0.8 per cent over the MTEF period, combined with early retirements, will reduce the number of available teachers. This, coupled with a rising number of learners, implies larger class sizes, especially in no-fee schools, which is expected to negatively affect learning outcomes.



Over the medium term, an allocation of R36.7 billion to the *education infrastructure grant* will be used to roll out new school infrastructure and maintain existing infrastructure. Projects funded by the *school infrastructure backlog grant* will end in 2022/23 and the funds will become part of the *education infrastructure grant* from 2023/24. This will consolidate school infrastructure spending within provincial education departments. To maintain meals for about 9 million learners at 19 950 schools each year, the *national school nutrition programme grant* will cost R25.5 billion over the medium term.

In the post-school education and training sector, slower growth in subsidies and grants for universities, technical and vocational education and training colleges, and the National Student Financial Aid Scheme will require a review of student enrolment growth and bursary allowances. Institutions will need to contain costs, including staff numbers and salaries, and develop ways of using information and communication technology more effectively to enhance blended learning.

Table 5.7 Learning and culture expenditure

R million	2020/21 Revised estimate	2021/22	2022/23	2023/24	Percentage of total MTEF allocation	Average annual MTEF growth
		Medium-term estimates				
Basic education	266 341	272 340	276 982	279 520	67.4%	1.6%
Compensation of employees	206 810	208 199	211 443	212 008	51.4%	0.8%
of which:						
Provincial compensation of employees	206 071	207 453	210 691	211 244	51.2%	0.8%
Goods and services	29 468	27 683	27 416	28 175	6.8%	-1.5%
of which:						
Property payments	3 927	4 494	3 778	4 176	1.0%	2.1%
Workbooks and LTSM ¹	5 928	5 038	5 259	5 402	1.3%	-3.1%
National school nutrition programme	7 666	8 115	8 504	8 879	2.1%	5.0%
Transfers and subsidies	26 444	23 949	24 470	25 828	6.0%	-0.8%
of which:						
Subsidies to schools ²	21 984	19 363	20 448	21 559	5.0%	-0.6%
Education infrastructure grant	8 787	11 689	12 229	12 768	3.0%	13.3%
School infrastructure backlogs grant	1 929	2 037	2 038	1 714	0.5%	-3.9%
Post-school education and training	111 664	119 587	122 824	124 973	29.9%	3.8%
of which:						
University subsidies	43 071	45 562	47 269	47 711	11.4%	3.5%
of which:						
University infrastructure	1 693	2 321	2 245	2 180	0.5%	8.8%
National Student Financial Aid Scheme ³	36 732	37 269	38 354	38 618	9.3%	1.7%
Technical and vocational education and training	12 540	13 045	13 360	13 216	3.2%	1.8%
of which:						
Compensation of employees	7 010	7 509	7 920	8 002	1.9%	4.5%
Subsidies	5 315	5 182	5 011	4 787	1.2%	-3.4%
Community education and training	2 224	2 418	2 482	2 569	0.6%	4.9%
of which:						
Compensation of employees	2 060	2 206	2 260	2 354	0.6%	4.5%
Skills development levy institutions ⁴	17 098	21 293	21 359	22 859	5.3%	10.2%
Arts and culture, sport and recreation	9 204	11 001	11 221	11 479	2.7%	7.6%
Total	387 209	402 929	411 027	415 972	100.0%	2.4%

1. Learner and teacher support material

2. Includes some provision for LTSM and property payments for schools that manage their own budgets

3. Total payments made from all income sources, including Funza Lushaka teacher bursaries and debt repayments from students

4. Spending of the 21 SETAs and the National Skills Fund

Source: National Treasury

Spending from the skills development levy is projected to increase by 10.2 per cent annually over the medium term. Sector education and training authorities will fund skills programmes, learnerships, internships and apprenticeships, and workplace experience. Over the period,

R65.5 billion will help an estimated 89 000 new artisans to register for training, develop 71 500 qualified artisans and provide more than 320 000 work-based learning opportunities.

The sports, arts and culture sector will continue to focus on social cohesion. An allocation of R33.7 billion over the medium term will support community library services, heritage legacy and job creation projects, school sport and indigenous games, and help drive transformation in sport.

Social development

This function aims to reduce poverty and inequality by providing social welfare services and grants, and to empower women, youth and people with disabilities.

Table 5.8 Social protection expenditure

R million	2020/21 Revised estimate	2021/22	2022/23	2023/24	Percentage of total MTEF allocation	Average annual MTEF growth
Social protection expenditure	256 813	229 354	239 579	240 845	100.0%	-2.1%
<i>of which:</i>						
<i>Social grants</i>	<i>220 607</i>	<i>195 516</i>	<i>205 295</i>	<i>206 083</i>	<i>85.5%</i>	<i>-2.2%</i>
<i>of which:</i>						
<i>Child support</i>	<i>84 886</i>	<i>73 318</i>	<i>77 224</i>	<i>77 019</i>	<i>32.1%</i>	<i>-3.2%</i>
<i>Old age¹</i>	<i>83 107</i>	<i>86 488</i>	<i>93 147</i>	<i>95 101</i>	<i>38.7%</i>	<i>4.6%</i>
<i>Disability</i>	<i>24 390</i>	<i>23 579</i>	<i>24 704</i>	<i>24 301</i>	<i>10.2%</i>	<i>-0.1%</i>
<i>Foster care</i>	<i>5 046</i>	<i>4 338</i>	<i>4 057</i>	<i>3 575</i>	<i>1.7%</i>	<i>-10.9%</i>
<i>Care dependency</i>	<i>3 569</i>	<i>3 658</i>	<i>3 875</i>	<i>3 890</i>	<i>1.6%</i>	<i>2.9%</i>
<i>Grant-in-aid</i>	<i>1 632</i>	<i>1 600</i>	<i>1 901</i>	<i>1 810</i>	<i>0.7%</i>	<i>3.5%</i>
<i>Social relief of distress</i>	<i>17 977</i>	<i>2 536</i>	<i>387</i>	<i>388</i>	<i>0.5%</i>	<i>-72.2%</i>
Provincial social development	22 998	23 644	23 875	24 233	10.1%	1.8%
Women, youth and persons with disabilities	621	764	778	782	0.3%	8.0%
<i>of which:</i>						
<i>Women</i>	<i>231</i>	<i>264</i>	<i>266</i>	<i>268</i>	<i>0.1%</i>	<i>5.1%</i>
<i>Youth</i>	<i>377</i>	<i>483</i>	<i>494</i>	<i>496</i>	<i>0.2%</i>	<i>9.6%</i>
<i>Persons with disabilities</i>	<i>13</i>	<i>17</i>	<i>18</i>	<i>18</i>	<i>0.0%</i>	<i>11.5%</i>
Total	256 813	229 354	239 579	240 845	100.0%	-2.1%
<i>Social grants as percentage of GDP</i>	<i>4.5%</i>	<i>3.7%</i>	<i>3.6%</i>	<i>3.4%</i>		
Social grant beneficiary numbers by grant type (thousands)						
Child support	13 009	13 261	13 515	13 767	71.5%	1.9%
Old age ¹	3 741	3 860	3 978	4 098	21.0%	3.1%
Disability	1 001	999	996	993	5.3%	-0.3%
Foster care	315	284	255	229	1.4%	-10.0%
Care dependency	151	156	162	167	0.9%	3.3%
Total	18 218	18 559	18 905	19 256	100.0%	1.9%

1. Includes war veterans

Source: National Treasury

Over the medium term, social development spending is the second-largest spending priority, accounting for 18.9 per cent of consolidated government expenditure. Over the MTEF period, the budgets for provincial departments of social development include R2.3 billion in allocations earmarked for specific purposes. This includes R1.2 billion to continue to employ social workers and R603.3 million for programmes to mitigate the social effects of HIV, gender-based violence and substance abuse.

Provinces will also receive R3.5 billion from the Department of Social Development through the *early childhood development grant* to improve access to quality early childhood development services. In addition, R678.3 million is earmarked for provincial departments of social development and basic education to continue rolling out free sanitary products for learners from low-income households.

Social grants



Over the MTEF period, the social grants budget is reduced by 2.2 per cent. In 2021/22, the *special COVID-19 social relief of distress grant* is allocated R2.1 billion to extend it until the end of April 2021. Total social grants are reduced by R5.8 billion in 2021/22, R10.7 billion in 2022/23 and R19.5 billion in 2023/24. All grant values will increase by less than inflation. The number of beneficiaries is expected to increase by about 300 000 people over the period.

Table 5.9 Average monthly social grant values

Rand	2020/21	2021/22	Percentage increase
Old age	1 860	1 890	1.6%
Old age, over 75	1 880	1 910	1.6%
War veterans	1 880	1 910	1.6%
Disability	1 860	1 890	1.6%
Foster care	1 040	1 050	1.0%
Care dependency	1 860	1 890	1.6%
Child support	445	460	3.4%

Source: National Treasury

Women, youth and persons with disabilities

Over the medium term, the Department of Women, Youth and Persons with Disabilities is allocated R15 million to establish and operationalise a national council for gender-based violence and femicide. The council will provide strategic leadership and guidance on planned interventions. The National Youth Development Agency will receive R1.4 billion for its operations and youth employment support programmes.

Health



The health function promotes health and ensures equitable access to caring and high-quality healthcare services. Expenditure on this function over the medium term will make up 14.2 per cent of total government spending, declining from R247 billion in 2020/21 to R245 billion in 2023/24. Provincial health departments receive about 92 per cent (R678.7 billion) of these medium-term allocations.

Reductions to the sector, mostly focused on compensation spending, are estimated at about R50.3 billion over the 2021 MTEF period. The other budget reductions require health departments to increase efficiency, for example, by generating savings through centralised procurement of certain goods, reducing variations in unit costs in HIV programmes and improving management of overtime costs.

The COVID-19 pandemic has had a massive impact on the South African health system. As at 16 February 2021, the country had 1.5 million confirmed cases and over 137 000 excess deaths as reported by the South African Medical Research Council. During 2020/21, government responded by allocating approximately R20 billion to the health sector, enabling it to expand prevention, screening, testing and hospital capacity. To enable the sector to sustain these activities and respond to possible future waves of COVID-19 infection, an additional R8 billion will be allocated to provincial health departments through the provincial equitable share in 2021/22.



Over the MTEF period, R29.4 million is allocated to Tygerberg Regional Hospital and R100 million to Klipfontein Regional Hospital in the Western Cape through the *health facility revitalisation grant*.

Table 5.10 Health expenditure

R million	2020/21 Revised estimate	2021/22	2022/23	2023/24	Percentage of total MTEF allocation	Average annual MTEF growth
Health expenditure	247 009	248 839	245 893	245 019	100.0%	-0.3%
<i>of which:</i>						
Central hospital services	44 649	44 084	45 133	46 552	18.4%	1.4%
Provincial hospital services	37 158	38 126	39 108	39 032	15.7%	1.7%
District health services	106 127	105 512	107 880	107 617	43.4%	0.5%
<i>of which:</i>						
HIV, TB, malaria and community outreach	27 410	27 827	28 151	27 331	11.3%	-0.1%
Emergency medical services	7 273	7 831	8 083	8 133	3.3%	3.8%
Facilities management and maintenance	14 414	9 738	10 417	10 616	4.2%	-9.7%
Health science and training	5 160	5 765	5 960	5 721	2.4%	3.5%
National Health Laboratory Service	8 703	9 778	9 628	10 021	4.0%	4.8%
National Department of Health ¹	6 646	10 167	8 588	6 769	3.5%	0.6%
Total	247 009	248 839	245 893	245 019	100.0%	-0.3%
<i>of which:</i>						
Compensation of employees	145 098	150 744	149 840	149 179	60.8%	0.9%
Goods and services	72 814	80 105	75 440	74 223	31.1%	0.6%
Transfers and subsidies	6 511	6 518	7 580	8 264	3.0%	8.3%
Buildings and other fixed structures	9 853	6 445	8 249	8 675	3.2%	-4.2%
Machinery and equipment	7 781	5 007	4 767	4 662	2.0%	-15.7%

1. Excludes grants and transfers reflected as expenditure in appropriate sub-functional areas

Source: National Treasury

Community development

This function facilitates access to housing and basic services and affordable public transport. It also supports spatial transformation and urban development. Over the medium term, total expenditure is expected to grow from R211.5 billion in 2020/21 to R240.7 billion in 2023/24.

Water, sanitation, electricity, housing and public transport functions are delivered by municipalities, provinces and public entities. As a result, transfers and subsidies are the largest share of expenditure in this function. Transfers to the local government equitable share remain the largest spending item, in order to fund municipalities to provide free basic services for low-income households and subsidise poorer municipalities. As a result of once-off allocations to support municipalities in 2020/21 and spending



reductions, the equitable share will decline by 0.4 per cent over the medium term.

The Passenger Rail Agency of South Africa faces significant financial imbalances. Persistent capital budget underspending and growing operational deficits as a result of vandalism of rail infrastructure, alongside a significant decline in passenger ridership, mean the agency has large cash balances for infrastructure with insufficient funds to run reliable services. As a result, capital transfers are reduced by R5.4 billion over the medium term to allow the use of existing capital funds.

New conditional grants to provinces and municipalities to upgrade informal settlements are introduced in 2021/22. Communities and community-based organisations will lead the planning and design of upgrades, with R24.8 billion allocated over the medium term to secure tenure and provide basic services in 900 informal settlements by 2024.

Table 5.11 Community development expenditure

	2020/21 Revised estimate	2021/22	2022/23	2023/24	Percentage of total MTEF allocation	Average annual MTEF growth
R million		Medium-term estimates				
Community development	211 473	218 795	233 966	240 671	100.0%	4.4%
of which:						
Human settlements	34 892	36 492	38 035	39 437	16.4%	4.2%
Public transport, including commuter rail	39 258	44 987	50 171	52 938	21.4%	10.5%
Local government equitable share	84 483	77 999	83 085	83 570	35.3%	-0.4%
Municipal infrastructure grant	14 491	15 593	16 852	17 595	7.2%	6.7%
Regional and local water and sanitation services	10 873	11 248	11 756	12 245	5.1%	4.0%
Electrification programmes	3 610	5 147	6 071	6 309	2.5%	20.5%
Total	211 473	218 795	233 966	240 671	100.0%	4.4%
of which:						
Compensation of employees	18 031	18 899	19 529	19 998	8.4%	3.5%
Goods and services	14 851	14 986	15 801	16 029	6.8%	2.6%
Transfers and subsidies	168 894	173 142	182 766	186 803	78.3%	3.4%
Buildings and other fixed structures	5 631	6 814	7 204	7 572	3.1%	10.4%
Machinery and equipment	2 717	4 668	8 382	9 987	3.3%	54.3%

Source: National Treasury

Economic development

This function promotes faster and sustained inclusive economic growth to address unemployment, poverty and inequality. Expenditure in the function will rise from R191.9 billion in 2020/21 to R217.2 billion in 2023/24.

The baseline for this functional group is reduced by R11 billion over the medium term. This mainly affects compensation of employees, transfers and subsidies, and selected goods and services including in the Expanded Public Works Programme. The reductions affected allocations to entities and incentive programmes such as the Comprehensive Agriculture Support Programme, manufacturing development, the Clothing and Textile Competitiveness Programme, global business processing, film and television, tourism and small business support.

Over the medium term, R14.6 billion is allocated to finalise outstanding land restitution claims and support land reform initiatives, including for subsistence and smallholder farmers. An additional R1.2 billion in the blended finance programme is earmarked for emerging commercial farmers.



An allocation of R81.6 billion over the medium term will support the expansion of public employment programmes. A total of R1 billion is set aside to enhance accountability for waste management. This funding will support the development of a new tyre waste industry plan, the review of producer responsibility regulations and the development of a Waste Economy Master Plan. The Tourism Equity Fund is established with R540 million to support black-owned and commercially viable enterprises to acquire shares in tourism enterprises.

Over the medium term, the Department of Science and Innovation has set aside R5.3 billion to scale up interventions supporting the local production of ventilators, nano satellites, hydrogen fuel cell technologies, and renewable energy research development and pilots such as the KwaZulu-Natal Research Innovation and Sequencing Platforms. The Small Enterprise Finance Agency is allocated R885.3 million over the same period for a blended finance model to support small and medium enterprises, and allocated R2.9 billion under the Township and Rural Entrepreneurship Fund to support small businesses in rural areas and townships.

To support industry, R17.1 billion is allocated to the Department of Trade, Industry and Competition for business incentives including manufacturing, special economic zones, the clothing and textile sector and services sector development. These incentives will support the national industrial strategy.



The Department of Environment, Forestry and Fisheries has set aside R1.2 billion over the MTEF period to support climate resilience initiatives, including a legislative framework, intergovernmental coordination and job resilience plans.

Table 5.12 Economic development expenditure

R million	2020/21 Revised estimate	2021/22 Medium-term estimates	2022/23	2023/24	Percentage of total MTEF allocation	Average annual MTEF growth
Economic regulation and infrastructure	86 499	93 144	103 963	109 513	48.2%	8.2%
of which:						
Water resource and bulk infrastructure	28 581	25 730	30 622	30 013	13.6%	1.6%
Road infrastructure	40 134	46 889	49 647	53 249	23.6%	9.9%
Environmental programmes	8 052	6 944	7 007	7 035	3.3%	-4.4%
Job creation and labour affairs	31 585	33 396	23 997	24 229	12.8%	-8.5%
of which:						
Employment programmes ¹	21 539	33 396	23 997	24 229	12.8%	4.0%
Industrialisation and exports	33 089	36 176	36 780	37 148	17.3%	3.9%
of which:						
Economic development and incentive programmes	17 773	18 057	18 219	18 474	8.6%	1.3%
Innovation, science and technology	15 431	17 412	17 988	17 866	8.4%	5.0%
Agriculture and rural development	25 326	27 400	28 142	28 432	13.2%	3.9%
of which:						
Land reform	1 005	1 107	1 127	1 132	0.5%	4.0%
Agricultural land holding account	1 579	1 159	1 234	1 138	0.6%	-10.3%
Restitution	2 922	3 487	3 818	3 969	1.8%	10.7%
Farmer support and development	2 168	2 447	2 509	2 583	1.2%	6.0%
Total	191 931	207 529	210 871	217 187	100.0%	4.2%
of which:						
Compensation of employees	55 036	56 427	57 040	58 684	27.1%	2.2%
Goods and services	61 383	66 538	62 439	62 043	30.1%	0.4%
Transfers and subsidies	47 598	42 513	46 357	47 820	21.5%	0.2%
Buildings and other fixed structures	22 001	29 157	32 679	35 344	15.3%	17.1%
Machinery and equipment	3 602	3 709	3 758	4 206	1.8%	5.3%

1. Includes the Expanded Public Works Programme, the Community Works Programme and the Jobs Fund

Source: National Treasury

Economic regulation and infrastructure

Road infrastructure is the largest spending programme in the economic development function. Total expenditure is expected to grow at an average annual growth rate of 8.2 per cent from R86.5 billion in 2020/21 to R109.5 billion in 2023/24. This is largely due to underspending on capital expenditure programmes in 2020/21, which is expected to recover over the medium term. In addition, capital programmes are protected from budget reductions in line with government's commitment to investing in infrastructure.



To fund new bulk water projects and maintain raw water infrastructure, spending on national water resource management is expected to grow from R28.6 billion in 2020/21 to R30 billion in 2023/24. Planned expenditure over the medium term includes phase 2 of the Lesotho Highlands Water Project and the Mokolo Crocodile Water Augmentation Project.

The Independent Communications Authority of South Africa will start auctioning high-demand spectrum in 2021. To unlock spectrum currently taken up by broadcasting for high-speed internet, the Universal Services Access Agency of South Africa will issue vouchers to 2.8 million low-income

households by 31 March 2022, to allow analogue televisions to receive digital signals.

Peace and security

The peace and security function aims to ensure the safety of the country, in particular through an efficient and effective criminal justice system. The function accounts for 12.1 per cent of consolidated expenditure, declining from R218.6 billion in 2020/21 to R213.4 billion in 2023/24.



Most departments in this function are labour intensive, which means that spending reductions primarily affect personnel. This requires rationalising organisational structures to avoid compromising frontline services and operations. Over the medium term, compensation of employees decreases by R64.7 billion, implying a reduction in personnel.

The Department of Justice and Constitutional Development is allocated R1.8 billion over the medium term to improve business processes. Through the Justice Modernisation Programme, the department aims to develop electronic systems to improve service delivery. Various court administration processes will be provided online. A further R105 million is set aside for the Information Regulator to appoint 54 new personnel to enforce compliance with the Protection of Personal Information Act (2013) and the Promotion of Access to Information Act (2000).



The President recently assented to the Border Management Authority Act (2020), which establishes the Border Management Authority as a schedule 3A public entity. It will cooperate and coordinate border law enforcement functions with other organs of state and border communities, among other functions. A total of R124.9 million is allocated over the medium term to operationalise this entity. Border safeguarding efforts will be bolstered by R3.6 billion in the Department of Defence's baseline over the medium term.

Table 5.13 Peace and security expenditure

R million	2020/21 Revised estimate	2021/22	2022/23	2023/24	Percentage of total MTEF allocation	Average annual MTEF growth
		Medium-term estimates				
Defence and state security	53 968	46 656	47 811	48 132	22.5%	-3.7%
Police services	106 603	104 570	105 946	105 994	49.9%	-0.2%
Law courts and prisons	48 263	48 482	49 632	49 919	23.3%	1.1%
Home affairs	9 780	8 862	9 463	9 372	13.4%	-1.4%
Total	218 615	208 570	212 853	213 417	100.0%	-0.8%
<i>of which:</i>						
<i>Compensation of employees</i>	<i>146 621</i>	<i>146 573</i>	<i>146 811</i>	<i>147 190</i>	<i>69.4%</i>	<i>0.1%</i>
<i>Goods and services</i>	<i>51 637</i>	<i>45 567</i>	<i>47 584</i>	<i>48 591</i>	<i>22.3%</i>	<i>-2.0%</i>
<i>Transfers and subsidies</i>	<i>13 924</i>	<i>9 455</i>	<i>10 438</i>	<i>10 139</i>	<i>4.7%</i>	<i>-10.0%</i>
<i>Buildings and other fixed structures</i>	<i>1 570</i>	<i>2 682</i>	<i>3 204</i>	<i>3 011</i>	<i>1.4%</i>	<i>24.3%</i>
<i>Machinery and equipment</i>	<i>4 549</i>	<i>4 179</i>	<i>4 707</i>	<i>4 431</i>	<i>2.1%</i>	<i>-0.9%</i>

Source: National Treasury

General public services

This function aims to build a capable, ethical and developmental state, which requires professional and responsive public servants, as well as engaged citizens.



The Department of Public Service and Administration is developing measures to reduce an unsustainable public-service wage bill. The department will reprioritise R19 million to conduct personnel expenditure reviews from 2021/22 to 2022/23. The reviews will encompass national, provincial and state-owned enterprises. The Department of Public Enterprises will reprioritise R40.9 million to operationalise the Presidential State-Owned Enterprises Council, an advisory body that will help government reposition state-owned companies, and develop legislation over the medium term to strengthen governance of these companies.

Over the MTEF period, the Department of Planning, Monitoring and Evaluation has reprioritised R20.6 million to revise the framework for strategic and annual performance plans, and enhance the quarterly performance reporting system.

Table 5.14 General public services expenditure

	2020/21 Revised estimate	2021/22	2022/23	2023/24	Percentage of total MTEF allocation	Average annual MTEF growth
R million		Medium-term estimates				
Executive and legislative organs	14 368	14 476	14 818	14 998	21.5%	1.4%
Public administration and fiscal affairs	40 934	46 066	45 417	45 853	66.7%	3.9%
External affairs	7 156	7 886	8 233	8 291	11.8%	5.0%
Total	62 458	68 429	68 467	69 141	100.0%	3.4%
<i>of which:</i>						
Compensation of employees	30 432	32 634	33 433	33 667	48.4%	3.4%
Goods and services	20 349	23 484	22 739	23 086	33.6%	4.3%
Transfers and subsidies	1 695	9 548	9 757	9 668	14.1%	78.7%
Buildings and other fixed structures	1 395	1 348	1 242	1 302	1.9%	-2.3%
Machinery and equipment	866	1 051	877	1 120	1.5%	8.9%

Source: National Treasury

Conclusion

While including significant spending reductions to consolidate the public finances, the 2021 Budget continues to allocate a majority of spending to social priorities. Emerging cost pressures, including new and urgent priorities, are funded through additional funding, baseline reallocations and reprioritisations over the medium term. Government is prioritising access to the COVID-19 vaccine to support health and economic activity. Debt-service costs increase at an annual average rate of 13.3 per cent, reaching R338.6 billion in 2023/24.

6

Division of revenue and spending by provinces and municipalities

In brief

- Over the next three years, after providing for debt-service costs, the contingency reserve and provisional allocations, 48.7 per cent of nationally raised funds are allocated to national government, 41.9 per cent to provincial government and 9.4 per cent to local government.
- Provinces and municipalities play a critical role in the public health response to the COVID-19 pandemic in line with their spending capacity. As of January 2021, provinces had spent R12.8 billion, or 60.2 per cent, of additional COVID-19 funds provided by government. Between March 2020 and February 2021, municipalities spent R4.2 billion of a budgeted R11 billion added to the local government equitable share.
- The National Treasury continues to expand the tools available for provinces and local government to improve spending, with funds provided through the 2021 Budget. Where they fail to meet basic standards, national government is prepared to impose consequences, including intervening and withholding transfers.

Overview

Over the next three years, provinces and municipalities will have to adjust to significant changes in expenditure plans, while improving accountability. The 2021 Budget protects transfers that focus on infrastructure, service delivery and COVID-19 spending, while reducing those spent less effectively.

Provincial governments receive an additional R8 billion in 2021/22 to continue the public health response to the pandemic, and the potential for additional waves of infection. Provinces can mitigate the negative impact of COVID-19 and the associated lockdowns on their revenues by improving efficiency, particularly in the procurement of health equipment. Local governments, many of which have experienced a severe deterioration in



basic services in recent years, need to institute financial management reforms where there is significant underspending.

National government continues to expand programmes and tools to build capacity in provincial and local government. Where provinces and municipalities fail to meet basic standards, national government will intervene. For example, this chapter reports on the progress of government's continuing intervention in North West province.

In March 2020, the National Treasury halted grants to 47 municipalities where significant problems were evident. These funds are being reallocated to municipalities that have fast-tracked projects and shown an ability to spend their allocations. The 2021 Budget includes funding for initiatives to improve municipal revenue collection and support financially distressed municipalities.



Division of revenue

Over the medium-term expenditure framework (MTEF) period, after budgeting for debt-service costs, the contingency reserve and provisional allocations, 48.7 per cent of nationally raised funds are allocated to national government, 41.9 per cent to provinces and 9.4 per cent to local government. Because reductions to the public-service wage bill affect only national and provincial government, local government's share of revenue has risen in relative terms.

Transfers to provinces grow by an annual average of 1 per cent over the medium term, with equitable share transfers growing by 0.3 per cent and conditional grants by 4.1 per cent. Local government transfers grow by an annual average of 2.3 per cent; the equitable share declines by 0.4 per cent and conditional grants grow by 7.3 per cent.

The division of revenue is redistributive. Allocations through the intergovernmental fiscal system provide higher per capita allocations to rural provinces and municipalities. Government is developing indicators focused specifically on rural areas for the provincial equitable share formula to strengthen the equity of intergovernmental transfers.

The Explanatory Memorandum to the Division of Revenue, published on the National Treasury website as Annexure W1 to the *Budget Review*, sets out the provincial and municipal allocations, details the equitable share formulas, and explains how the division incorporates the recommendations of the Financial and Fiscal Commission.

Reductions to transfers



Last year, government announced that it would not implement the final increase of the three-year public-service wage agreement. Because most government employees are employed in provinces, the impact of this decision is most noticeable in provincial transfers. The provincial equitable share is reduced by R58.3 billion in 2021/22, R83.5 billion in 2022/23 and R64.1 billion in 2023/24. Downward adjustments to compensation account for about 85 per cent of these amounts. In addition, conditional grants are reduced by a net R10.9 billion over the MTEF period.

As part of government's fiscal consolidation policies over the medium term, transfers to local government are reduced by R19.4 billion, including R14.7 billion from the local government equitable share, R2.7 billion from the general fuel levy and R2 billion in direct conditional grants.

Table 6.1 Division of nationally raised revenue

	2017/18	2018/19 Outcome	2019/20	2020/21 Revised estimate	2021/22	2022/23	2023/24	Average annual MTEF growth
R billion								
Division of available funds								
National departments	592.6	634.3	749.7	804.5	763.3	736.3	739.0	-2.8%
<i>of which:</i>								
<i>Indirect transfers to provinces</i>	3.8	3.9	3.9	4.2	4.4	4.9	4.9	5.5%
<i>Indirect transfers to local government</i>	7.8	7.9	7.0	6.9	7.1	8.2	8.5	7.3%
Provinces	538.6	572.0	613.4	628.3	639.5	643.3	646.8	1.0%
Equitable share	441.3	470.3	505.6	520.7	523.7	524.1	525.3	0.3%
Conditional grants	97.2	101.7	107.9	107.6	115.8	119.3	121.5	4.1%
Local government	111.1	118.5	123.0	138.5	138.1	146.1	148.4	2.3%
Equitable share	55.6	60.8	65.6	84.5	78.0	83.1	83.6	-0.4%
Conditional grants	43.7	45.3	44.2	40.0	45.5	47.7	49.4	7.3%
General fuel levy sharing with metros	11.8	12.5	13.2	14.0	14.6	15.3	15.4	3.2%
Provisional allocation not assigned to votes ¹	–	–	–	–	11.6	32.1	33.2	
Non-interest allocations	1 242.3	1 324.8	1 486.2	1 571.3	1 552.5	1 557.8	1 567.5	-0.1%
<i>Percentage increase</i>	7.2%	6.6%	12.2%	5.7%	-1.2%	0.3%	0.6%	
Debt-service costs	162.6	181.8	204.8	232.9	269.7	308.0	338.6	13.3%
Contingency reserve	–	–	–	–	12.0	5.0	5.0	
Main budget expenditure	1 404.9	1 506.6	1 690.9	1 804.2	1 834.3	1 870.8	1 911.0	1.9%
<i>Percentage increase</i>	7.6%	7.2%	12.2%	6.7%	1.7%	2.0%	2.1%	
<i>Percentage shares</i>								
<i>National departments</i>	47.7%	47.9%	50.4%	51.2%	49.5%	48.3%	48.2%	
<i>Provinces</i>	43.4%	43.2%	41.3%	40.0%	41.5%	42.2%	42.2%	
<i>Local government</i>	8.9%	8.9%	8.3%	8.8%	9.0%	9.6%	9.7%	

1. Includes support to Eskom, amounts for Budget Facility for Infrastructure projects and other provisional allocations

Source: National Treasury

The reduction to direct conditional grants includes R329 million from the *municipal infrastructure grant* and R21 million from the *integrated urban development grant*. These amounts have been reprioritised from underspending grants to fund a once-off councillor gratuity for non-returning councillors. The largest proportional reduction of R1.3 billion to local government grants has been made in the *public transport network grant*, because only six of the 13 cities receiving the grant have successfully launched public transport systems. Indirect conditional grants are reduced by R286 million over the period.



Building capability for service delivery

The National Treasury continues to expand the tools available for provinces and municipalities to improve spending and build operational and technical capacity.

In 2020, the National Treasury and the Government Technical Advisory Centre helped train provincial officials to conduct spending reviews to address inefficiency and poor financial management. In 2021, the Government Technical Advisory Centre and provincial treasuries will assess programme relevance, effectiveness and efficiency to improve value for money in selected provincial departments.

National government provides a range of capacity-building grants and programmes for local government. These are under review, with reforms likely to be implemented in 2022/23.

The Infrastructure Delivery Management System has helped provinces to build infrastructure units with qualified staff and institutionalise best practices. This system will be rolled out to municipalities to build capacity, reduce the reporting burden and standardise the system across spheres.



The poor financial position of many municipalities – a consequence of weak financial management – has been exacerbated by COVID-19. According to the Auditor-General's 2018/19 report on local government finances, about 47 per cent of municipalities incurred a deficit, and total deficits grew from R669 million in 2017/18 to R2.3 billion in 2018/19. The audit deadline has been extended for 2019/20 and that report will only be available in March 2021. In the year to June 2020, uncollected municipal revenues grew by 16.3 per cent to R171.9 billion.

Above-inflation wage increases in local government will add to the financial pressure on local government. In July 2020, most municipalities implemented the first year of a three-year wage agreement, negotiated separately from the national agreement, that raises wages by 6.25 per cent per year. Not all municipalities have budgeted for these increases. Unless municipalities rapidly improve efficiency, this agreement will compromise the local government fiscal framework and service delivery.

Past performance

Underspending has stabilised across national and provincial government. In 2019/20, national expenditure, excluding direct charges to the National Revenue Fund, amounted to R945 billion out of a total adjusted appropriation of R941 billion. This amounted to overspending of 0.4 per cent. Provincial government underspent its adjusted budget of R638.6 billion for 2019/20 by R9.8 billion (1.5 per cent), compared with R7.7 billion (1.3 per cent) in the prior year. Spending on provincial conditional grants improved, from 96.6 per cent in 2018/19 to 99.1 per cent in 2019/20.



Because the local government financial year ends in June, strict restrictions on activity to contain COVID-19 affected 2019/20 outcomes. Spending outcomes varied across the 257 municipalities, which spent 79.9 per cent of the adjusted expenditure budget of R481.2 billion. Most of the

underspending was concentrated in capital expenditure, where municipalities spent only R41.2 billion or 59.9 per cent of the adjusted budget of R68.8 billion.

Of the R32.2 billion in specific purpose conditional grants transferred to municipalities in 2019/20, R22.5 billion (68.2 per cent) was spent – down from the 80.1 per cent spent in 2018/19. This was mainly a result of restrictions on activity that prevented construction and maintenance work. For example, the *municipal infrastructure grant* only spent 73.5 per cent of transferred funds, compared with an average of over 90 per cent for the past five financial years.

■ Provincial revenue and spending

Provinces are responsible for providing social services, including public basic education for 13.2 million learners and healthcare for 49.8 million South Africans who do not have private insurance. Most recipients access these services free of charge or at very low cost. Provinces do not have significant taxation powers, so the division of revenue compensates them for the cost of the services they provide through transfers, which account for about 95 per cent of provincial revenues.



The equitable share accounts for 81.6 per cent of transfers to provinces. It is calculated using a formula based on demographic factors that affect demand for services, such as the school-age population. The underlying data is updated each year. Provinces are responsible for drawing up their own budgets and prioritising the use of these funds to meet their mandates.

Table 6.2 Provincial equitable share

R million	2020/21	2021/22	2022/23 Medium-term estimates	2023/24	Average annual MTEF growth
Eastern Cape	69 195	68 060	67 428	66 899	-1.1%
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Gauteng	108 310	111 429	112 561	113 870	1.7%
KwaZulu-Natal	107 608	107 126	106 928	106 895	-0.2%
Limpopo	60 299	60 028	59 621	59 306	-0.6%
Mpumalanga	42 637	42 828	42 798	42 835	0.2%
Northern Cape	13 749	13 919	13 928	13 959	0.5%
North West	36 307	36 793	36 939	37 144	0.8%
Western Cape	53 677	54 448	54 876	55 390	1.1%
Total	520 717	523 686	524 088	525 304	0.3%

Source: National Treasury

Although wages account for a growing share of provincial budgets, provinces generally manage to remain within their planned spending for compensation. Over the past three financial years, provinces have on aggregate spent less than they budgeted on wages, and in 2019/20 only the Eastern Cape exceeded its compensation budget.

The proposed wage bill adjustment will reverse the four-year trend of compensation growing as a share of provincial budgets. Over the MTEF period, spending on compensation of employees is likely to decrease from 61.1 per cent of provincial budgets to 60.8 per cent. Reducing the proportion of budgets spent on salaries will allow provinces to expand the

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Progress in improving financial management in North West province

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Following successful completion of the first and second phases, the audit results for 2019/20 show a turnaround after five years of decline and stagnation. The province reported a decrease in annual irregular expenditure from R4.7 billion in 2018/19 to R3.5 billion in 2019/20. Departments that were placed under intervention as reported in the 2020 Budget show lower irregular and wasteful spending.

The National Treasury has conducted training and built capacity across departments to strengthen supply chain management. Irregular project management units and outsourcing arrangements have been terminated. Investigating authorities, including the National Prosecuting Authority, are looking into over 50 criminal cases and attempting to recover funds related to financial mismanagement.

Provincial departments have been reconfigured in line with their mandates. Several senior personnel, including the director-general, and the heads of the health, social development, and agriculture and rural development departments have left their posts. New leadership is expected to be in place by the start of 2021/22. The national departments involved will recommend to the National Council of Provinces that the intervention ends by March 2021. The National Treasury and relevant national departments will continue to monitor developments in their provincial counterparts and provide support where needed.

In 2021, the National Treasury will review provincial infrastructure sector funding policies and propose how grants, incentives and other funding can best be structured to coordinate planning and budgeting. This is in line with the Cabinet-approved district development model, which is intended to improve coordination between national, provincial and local government – including state entities – to strengthen accountability and service delivery. The model focuses on 52 district and metropolitan spaces as convergence points for public- and private-sector investment, supported by joint planning, budgeting and implementation processes.

Update on provincial and municipal COVID-19 spending

In 2020, government supplemented funding reprioritised by provincial and local governments to mitigate the effects of the COVID-19 pandemic.

Government provided R21.2 billion for provinces, with the largest allocation going to KwaZulu-Natal (R5.3 billion) and the smallest allocation going to the Northern Cape (R490.2 million). At the beginning of the final quarter of 2020/21, provinces had spent R12.8 billion, or 60.2 per cent, of the additional funding, signalling that the allocations were adequate. Provinces spent most of this on compensating employees, increasing hospital bed capacity in existing facilities, building field hospitals, purchasing and distributing personal protective equipment and medical supplies, and paying for laboratory services. Between April and December 2020, provinces employed almost 17 000 additional health professionals to manage the pandemic. Over 3 million, or 42 per cent, of the country's COVID-19 tests were conducted in public health facilities. According to the National Institute for Communicable Diseases, public health facilities admitted about 115 000 patients with COVID-19-related illnesses by mid-February 2021, representing 52 per cent of the country's total admissions.

Municipalities also seem to have sufficient financial support in line with their spending capacity during the pandemic. COVID-19 reports from March 2020 to February 2021 show that municipalities spent R4.2 billion of a budgeted R11 billion that was added to the local government equitable share. In 2021/22, several conditional grants to municipalities will retain provisions for COVID-19-related programmes to continue supporting these municipal services.

Government continues to increase direct conditional grant funding to provinces. An additional R430 million is reprioritised to the *national school nutrition programme grant* in 2023/24 to maintain meals for about 9 million learners at 19 950 schools.

Provinces have had to prioritise COVID-19-related programmes in their budgets, particularly in 2021/22. Government's COVID-19 response has shifted the focus of healthcare services towards pandemic-related interventions, including protecting health workers from infection, ensuring the availability of personal protective equipment, and prevention and contact tracing.



Changes in conditional grants

If a province or municipality is not spending its allocated funds or does not comply with grant conditions, then further transfers can be withheld or reallocated to another recipient. In 2019/20, the National Treasury withheld six conditional grants from four provinces, pending the resolution of outstanding problems, and stopped one conditional grant from one province, which was then reallocated to another province.

In March 2020, the National Treasury stopped grants to 47 municipalities for the same reasons. These funds are being reallocated to municipalities that have fast-tracked projects and shown an ability to spend their allocations. In February 2020, the National Treasury placed Nelson Mandela Bay Municipality under intervention, as authorised by the Constitution, due to persistent non-compliance and mismanagement of funds. The National Treasury will stop all transfers to the municipality until its finances have been stabilised. The provincial treasury and department of cooperative governance are managing this intervention.

Proposed changes to the structure of conditional grants are designed to align them with evolving policy objectives. From 2021/22, a standalone *informal settlement upgrading grant* for provinces and municipalities will be introduced. This grant is made up of components previously within the *human settlements development grant* and the *urban settlements development grant* for provinces and municipalities. Lessons learnt from the components will inform the implementation of the standalone grants.



The *title deeds restoration grant* was introduced for a specific period to eradicate the backlogs in the title deeds registrations for projects completed before 31 March 2014. In 2021/22, this grant is reincorporated into the *human settlements development grant*. The COVID-19 component within the *HIV, tuberculosis, malaria and community outreach grant* will continue in 2021/22.

Other changes aim to improve the effectiveness of conditional grant spending. The 2021 Division of Revenue Bill will enhance responsiveness by allowing for disaster grant funding to flow more rapidly following a disaster declaration.

Table 6.3 Conditional grants to provinces

	2020/21 Revised estimate	2021/22	2022/23	2023/24	MTEF total
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Ilima/Letsema projects	423	597	610	620	1 828
Community library services	1 153	1 496	1 554	1 571	4 620
Education infrastructure	8 787	11 689	12 229	12 768	36 687
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Indirect transfers	4 160	4 401	4 944	4 882	14 227
School infrastructure backlogs	2 415	2 284	2 403	2 079	6 765
National health insurance indirect	1 710	2 118	2 541	2 803	7 462
Ilima/Letsema projects	36	–	–	–	–

Source: National Treasury



Municipal revenue and spending

Local government budgets are dominated by electricity, water and sanitation, and refuse collection, which are trading services to be funded primarily by revenue collection. National transfers to local government supplement municipal revenue, primarily subsidising the operational and capital costs of providing services to the poor. The provision of services to all other consumers should be funded through cost-reflective tariffs.

South Africa's municipalities range from large cities that can raise substantial revenue and poor rural municipalities where budgets are primarily funded from transfers. The largest transfer is the local government equitable share, which is allocated through a progressive formula that incorporates the number of poor households in each municipality and the cost of free basic services. The equitable share decreases by 1 per cent over the next three years to support fiscal consolidation.

Municipalities also earn revenue from levying charges on developers to connect new developments to municipal services. The National Treasury is addressing comments received on the draft Municipal Fiscal Powers and Functions Amendment Bill, which is designed to strengthen the revenue-raising framework for municipalities. The bill will be submitted to Cabinet and Parliament for consideration in 2021.

Initiatives to improve municipal revenue collection and support financially distressed municipalities are funded through the 2021 Budget. In addition, revenue advisors appointed by the National Treasury will train provincial

treasuries on municipal revenue enhancement initiatives, and help municipalities set cost-reflective tariffs and improve revenue collection.

Government continues to reform the system of conditional grant transfers to local government based on the principles set out in the 2019 *Budget Review*. In 2021, government will expand the scope of the *municipal infrastructure grant* to allow municipalities to use up to 5 per cent of their allocation to develop infrastructure asset management plans. This change addresses poor asset management in municipalities.



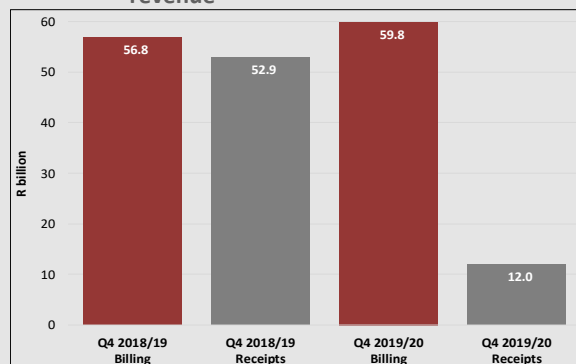
In December 2020, the Minister of Finance hosted a special lekgotla of the Budget Forum – the intergovernmental structure established to facilitate formal consultation on local government finances – to review the municipal funding model. The meeting resolved that the National Treasury, the Department of Cooperative Governance and the South African Local Government Association should collaborate on all matters related to the local government fiscal framework. This will help to resolve contentious issues and build consensus.

Impact of COVID-19 on municipal revenues

The full effect of the COVID-19 lockdowns on municipal revenues will only become clear in March 2021, when reporting for the municipal financial year is complete. Restrictions on activity are likely to have shifted some business expenses to households and the contraction in GDP growth may have longer-term effects on revenue items such as property rates.

Early indications are that the effect will be significant. Figure 6.1 shows a sharp drop in revenue collection in the fourth quarter of the 2019/20 municipal fiscal year (April to June 2020), implying that many municipal customers were unable to pay for services. Only 20 per cent of billed revenue was collected in the quarter, compared with 93 per cent of billed revenue collected in the same period of the previous year.

Figure 6.1 COVID-19 impact on municipal operating revenue



Source: National Treasury

Table 6.4 Transfers to local government

	2020/21 Revised estimate	2021/22	2022/23	2023/24	MTEF total
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Equitable share and related	84 483	77 999	83 085	83 570	244 654
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The National Treasury's Cities Support Programme helps metropolitan municipalities coordinate public investment in infrastructure, housing and transport to build more inclusive, productive and sustainable cities.

Since December 2019, six metros have launched pilot initiatives to develop the economic potential of underperforming and degraded industrial parks, townships, inner cities and regional economic spaces through integrated planning, investment and management. Developing these spaces requires coordination by metros, government departments and other stakeholders.

In 2020, the *integrated city development grant* was repurposed to assist cities to build internal capacity or obtain technical support to prepare and package key infrastructure projects. This will continue in 2021 and private-sector participation will be encouraged in these projects. In addition, the eThekweni metropolitan municipality is piloting a programmatic city-wide informal settlement upgrading project.

Conclusion

Provinces and municipalities are responsible for providing social and economic services and infrastructure, which requires a balance of revenue and expenditure responsibilities. National government continues to support them to deliver their mandates and impose consequences where there is evidence that public finance laws have been violated.

underspending was concentrated in capital expenditure, where municipalities spent only R41.2 billion or 59.9 per cent of the adjusted budget of R68.8 billion.

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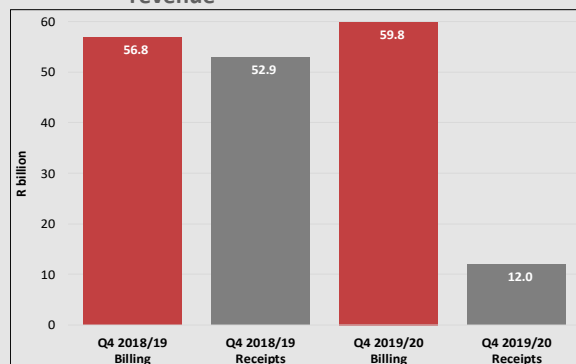
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7

Government debt and contingent liabilities

In brief

- Government's response to the COVID-19 pandemic resulted in the gross borrowing requirement increasing by R237.6 billion to R670.3 billion in 2020/21. The borrowing requirement is expected to decline to R541.7 billion in 2023/24.
- The increase has been financed in a manner that minimises its effect on government borrowing costs and debt stock.
- Gross loan debt is expected to increase to R5.23 trillion (87.3 per cent of GDP) by 2023/24, and to stabilise at 88.9 per cent of GDP in 2025/26.
- Contingent liabilities are expected to increase from R1.11 trillion in 2020/21 to R1.23 trillion by 2023/24.
- Additional credit rating downgrades would increase South Africa's cost of funding. Narrowing the budget deficit and implementing structural reforms to boost growth will strengthen government's credit rating over time.

Overview

The 2020/21 fiscal year coincided with the accelerated global spread of COVID-19. The resulting volatility and uncertainty in financial markets contributed to heightened risk aversion, leading to a large-scale sell-off of developing-country assets by international investors.

Globally, central banks took steps to maintain financial market liquidity and anchor stability in the financial system. In South Africa, the Reserve Bank conducted a bond-buying programme in the government bond secondary market. This step, announced in March 2020, contributed to continued market liquidity and stabilised government bond yields.

In 2020/21, government's gross borrowing requirement – the budget deficit plus maturing loans – increased significantly, from R432.7 billion to R670.3 billion, or from 8.0 to 13.6 per cent of GDP. This borrowing enabled government to finance essential health and economic measures to contain and mitigate the effects of the pandemic.





Gross loan debt is expected to increase from R3.95 trillion, or 80.3 per cent of GDP, in 2020/21 to R5.23 trillion, or 87.3 per cent of GDP, by 2023/24. Over the same period, net loan debt – gross loan debt less cash balances – will increase from R3.66 trillion, or 74.3 per cent of GDP, to R5.09 trillion, or 84.9 per cent of GDP. Contingent liabilities are projected to increase from R1.11 trillion in 2020/21 to R1.23 trillion in 2023/24.

Over the years, the National Treasury's prudent debt management strategy has enabled government to meet its borrowing requirement in a responsible, efficient and cost-effective manner. Large and persistent increases in budget deficits – resulting in higher debt and debt-service costs – compromise the sustainability of the public finances. Chapter 3 discusses the measures government is taking to consolidate the fiscus. These measures will contribute to gross loan debt stabilising at 88.9 per cent of GDP by 2025/26.

During 2020, two rating agencies (Moody's and Fitch) downgraded government's credit rating, and three agencies have the country on a negative outlook due to high and rising government debt, exacerbated by the negative economic effects of COVID-19. Additional downgrades would increase the cost of funding. Narrowing the budget deficit and addressing other challenges, such as structural reforms to boost growth, will contribute to improved credit ratings over time.

Financing strategy



The financing strategy is designed to ensure that government can meet its borrowing requirement, at reasonable cost, under changing conditions. The strategy prioritises funding liquidity – the ability to make agreed-on payments on time – while minimising refinancing and currency risk, and without compromising efficient functioning in the domestic bond market.

In 2020/21, government adjusted the strategy to reduce the effect of higher borrowing on the stock of state debt and debt-service costs. It drew down its cash deposits held with the Reserve Bank, increased short-term borrowing (Treasury bills and bridging finance from the Corporation for Public Deposits) and obtained loans from international financial institutions. These actions eased the burden in domestic capital markets, which were under pressure from rating downgrades and debt sales by international investors.

In 2021/22, the R547.9 billion borrowing requirement will be funded from short- and long-term borrowing in the domestic market, and foreign-currency loans. Government will continue its bond-switch programme over the medium term, switching shorter-dated for longer-dated bonds and using surplus cash balances from borrowing to reduce refinancing risk.

Better-than-expected revenue collection since the October 2020 projections increased government's cash balances. Over the medium term, this cash will be used to reduce the borrowing requirement and, consequently, debt issuance. Cash balances are expected to decline over this period.

Long-term loans include fixed-rate, inflation-linked and retail savings bonds. Government will consider issuing bonds across a range of maturities – over the yield curve – based on investor demand and borrowing costs. National Treasury analysis indicates that increasing issuance for bonds maturing between three and 17 years may reduce borrowing costs, and that maintaining an average term to maturity of 9.5 years to 14 years reduces refinancing risk.



Following a successful issuance in global capital markets in 2014, the National Treasury will issue a domestic rand-denominated Islamic sukuk bond in 2021/22 to diversify funding sources and reach new investors. In addition, the National Treasury is in the process of listing retail savings bonds to improve their accessibility and funding levels.

Government's strategic portfolio risk benchmarks help to ensure that the debt structure is configured to minimise risk. The debt portfolio is expected to remain within its current benchmarks during 2021/22.

Table 7.1 Performance against strategic portfolio risk benchmarks

Description	Benchmark range or limit	2020/21 Estimates	2021/22 Estimates
Treasury bills as % of domestic debt ¹	15	12.7	12.8
Long-term debt maturing in 5 years as % of bonds	25	14.4	13.8
Inflation-linked bonds as % of domestic debt	20-25	22.4	19.4
Foreign debt as % of total debt	15	10.6	11.0
Weighted term-to-maturity of fixed-rate bonds and Treasury bills (years)	10-14	11.7	11.4
Weighted term-to-maturity of inflation-linked bonds (years)	14-17	13.2	13.0
Other indicators (weighted average)			
Term-to-maturity of total debt (years)		12.2	11.8
Term-to-maturity of foreign debt (years)		13.5	13.1

1. Excludes borrowing from the Corporation for Public Deposits and retail savings bonds

Source: National Treasury

Risks to the financing strategy

The main risks to the financing strategy are:

- A widening budget deficit. A rising budget deficit would likely increase the cost of funding alongside the stock of debt.
- Inflation and exchange-rate risks. Unanticipated increases in inflation or depreciation in the rand exchange rate would increase the cost of outstanding inflation-linked or foreign-currency debt.
- Sovereign credit ratings. Further downgrades deeper into sub-investment territory would result in a higher budget deficit, rising debt levels and weak economic growth.



Borrowing performance and projections

Government's gross borrowing requirement consists of the budget deficit and maturing loans. As a result of the COVID-19 pandemic, the 2020/21 budget deficit increased by R235.4 billion relative to the 2020 Budget estimate. Loan redemptions increased, mainly due to the weaker currency. As a result, the gross borrowing requirement rose from a projected R432.7 billion to R670.3 billion for 2020/21, or from 8.0 to 13.6 per cent of GDP. The borrowing requirement is expected to decline

over the medium term, as shown in Table 7.2, reaching 9.0 per cent of GDP in the outer year. Over the same period, loan redemptions will increase from R66.9 billion to R152.7 billion.

Table 7.2 Financing of national government gross borrowing requirement¹

R million	2019/20	2020/21		2021/22	2022/23	2023/24
	Outcome	Budget	Revised	Medium-term estimates		
Main budget balance	-345 053	-367 999	-603 388	-482 580	-417 164	-389 011
Redemptions	-70 657	-64 699	-66 881	-65 280	-144 797	-152 657
Domestic long-term loans	-19 428	-52 465	-52 465	-60 815	-129 357	-112 428
Foreign loans	-51 229	-12 234	-14 416	-4 465	-15 440	-40 229
Total	-415 710	-432 698	-670 269	-547 860	-561 961	-541 668
Financing						
Domestic short-term loans	36 078	48 000	97 184	9 000	52 000	56 000
Treasury bills (net)	26 001	48 000	124 539	9 000	52 000	56 000
Corporation for Public Deposits	10 077	–	-27 355	–	–	–
Domestic long-term loans	305 449	337 700	518 457	380 000	440 800	396 900
Market loans	305 738	337 700	518 500	380 000	440 800	396 900
Loans issued for switches	-289	–	-43	–	–	–
Foreign loans	76 052	29 260	107 070	46 260	46 320	62 600
Market loans	76 052	29 260	107 070	46 260	46 320	62 600
Loans issued for switches	–	–	–	–	–	–
Change in cash and other balances²	-1 869	17 738	-52 442	112 600	22 841	26 168
Cash balances	2 474	12 596	-58 957	107 876	17 544	19 219
Other balances ³	-4 343	5 142	6 515	4 724	5 297	6 949
Total	415 710	432 698	670 269	547 860	561 961	541 668
<i>Percentage of GDP</i>	<i>8.1%</i>	<i>8.0%</i>	<i>13.6%</i>	<i>10.2%</i>	<i>9.9%</i>	<i>9.0%</i>

1. A longer time series is presented in Table 1 of the statistical annexure at the back of the Budget Review

2. A positive value indicates that cash is used to finance part of the borrowing requirement

3. Differences between funds requested and actual cash flows of national departments

Source: National Treasury

Domestic short-term borrowing

During 2020/21, government issued an additional R76.5 billion in Treasury bills (relative to 2020 Budget projections) to partly finance the higher gross borrowing requirement and to reduce domestic bond issuance. As a result, Treasury bills increased from 12.4 to 15.8 per cent of domestic debt issuance.

Table 7.3 Domestic short-term borrowing

R million	2020/21			2021/22		2020/21	2021/22
	Opening balance	Net change	Closing balance	Net change	Closing balance	Weekly auction estimates	
Corporation for Public Deposits	27 355	-27 355	–	–	–		
Treasury bills	333 360	124 539	457 899	9 000	466 899	12 950	12 330
91-days	10 601	7 102	17 703	727	18 429	1 400	1 310
182-days	57 368	16 027	73 395	7 321	80 716	3 070	2 940
273-days	109 293	44 211	153 504	-4 693	148 811	4 040	3 840
364-days	156 098	57 200	213 298	5 645	218 942	4 440	4 240
Total	360 715	97 184	457 899	9 000	466 899		

Source: National Treasury

In addition, borrowing from the Corporation for Public Deposits was reduced by R27.4 billion. In 2021/22, net Treasury bill issuance will amount to R9.0 billion, while borrowing from the Corporation for Public Deposits

will remain unchanged. Over the medium term, Treasury bill issuance will average R39.0 billion, or 8.4 per cent of total domestic borrowing.

Domestic long-term borrowing

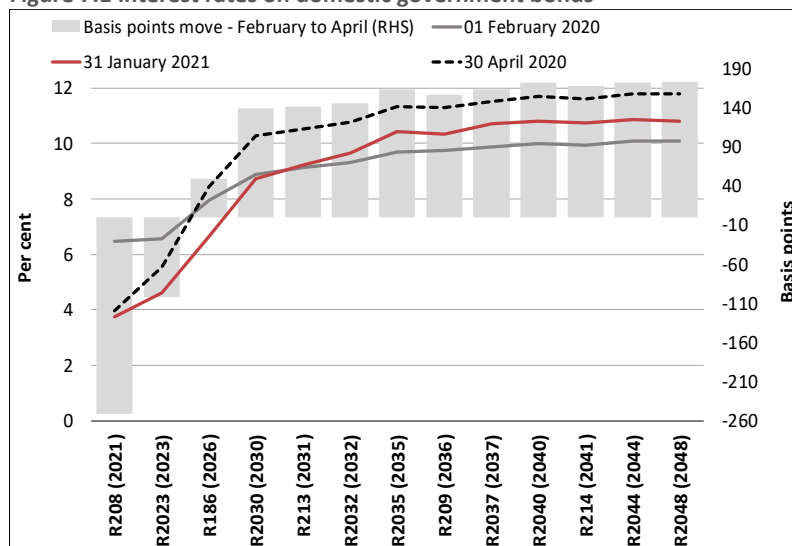
In 2020/21, domestic long-term borrowing relative to the 2020 Budget estimate increased by R180.8 billion to R518.5 billion. Between April 2020 and January 2021, government raised R438.8 billion by issuing domestic long-term debt. Fixed-rate bonds accounted for 81.5 per cent of bond issuances, with inflation-linked bonds making up the remainder. In 2020/21, retail savings bonds raised R7.6 billion compared with R3.6 billion in the previous year. This increase reflects the sound value proposition offered by retail savings bonds, and the National Treasury's commitment to enhancing their visibility and diversifying funding sources.

In 2020/21, government bond yields rose substantially compared with the previous year. While demand was concentrated in shorter-dated debt, the reduction in the repo rate and the increase in the budget deficit contributed to a particularly steep yield curve – the relationship between bonds of different maturities – as the risk premium is much higher for long-term debt. This is shown in the difference between the February and April 2020 yield curves in Figure 7.1. Government adjusted its issuance strategy by issuing more bonds in the short-to-medium term, lowering its average borrowing costs.

Between April 2020 and January 2021, yields over most of the fixed-rate bond yield curve declined. This reflects improved confidence in the bond market. However, relative to February 2020 – before the COVID-19 pandemic reached South Africa – borrowing is still more expensive.

Over the medium term, domestic long-term borrowing will average R405.9 billion.

Figure 7.1 Interest rates on domestic government bonds



Source: National Treasury



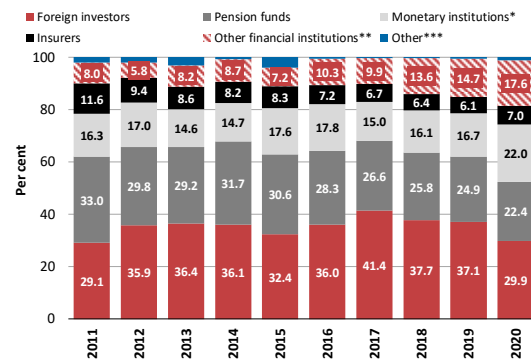


Investor trends in government bond holdings

International investors hold 29.9 per cent of government's domestic bond portfolio. Their holdings fell by R8 billion in 2020 relative to an increase of R95 billion in 2019, reflecting concerns about sovereign credit risk and uncertainty around the pandemic. As a result of the sudden sell-off by foreign investors and the reduction in the short-term interest rates by the Reserve Bank, domestic banks and other financial institutions increased their holdings significantly, from 16.7 per cent and 14.7 per cent in 2019 to 22 per cent and 17.6 per cent in 2020 respectively. Pension funds, which are driven by the longer-term outlook, reduced their holdings in response to increased short- and medium-term bond issuance.

International investors remain the largest category of domestic bondholders. The National Treasury continues to engage regularly with global investors, although its meetings and roadshows are now virtual in light of the pandemic.

Figure 7.2 Ownership of domestic bonds



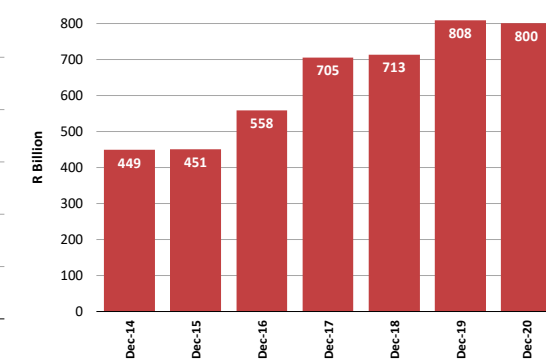
*South African registered banks, mutual banks and South African branches of foreign banks.

**Unit trusts, financial companies and holding companies.

***Public sector, private non-financial corporates, households and nominee companies.

Source: Share Transactions Totally Electronic

Figure 7.3 Domestic bonds held by foreign investors



International borrowing

Government's foreign-currency bonds – mainly denominated in dollars and euros – are issued to meet foreign-currency commitments. In 2020/21, given unfavourable conditions, government did not issue any bonds in global capital markets. Instead, it raised US\$5.6 billion from the International Monetary Fund, the New Development Bank, and the African Development Bank. Of this amount, US\$4.6 billion has been converted into rands to partially fund domestic commitments. Government will continue to explore lower-cost funding from international financial institutions to meet foreign-currency commitments.

Table 7.4 Borrowing from international finance institutions

Institutions	Disbursement date	Interest rate	Terms (years)	Grace period ¹ (years)	Amount billions
New Development Bank	20 July 2020	6-month LIBOR ² plus 1.25%	30	5	US\$1.0
International Monetary Fund	29 July 2020	1.0660%	5	3	US\$4.3
African Development Bank	15 October 2020	3-month JIBAR ³ plus 0.8%	20	5	R5.0 ⁴

1. A period after the disbursement where no capital repayments are required

2. LIBOR (London Interbank Offered Rate)

3. JIBAR (Johannesburg Interbank Average Rate)

4. The US dollar equivalent is US\$0.29 billion

Source: National Treasury

Over the medium term, government will raise an additional US\$10 billion in global capital markets, as shown in Table 7.5.

Table 7.5 Foreign-currency commitments and financing

	2019/20	2020/21	2021/22	2022/23	2023/24
US\$ million	Outcome	Estimate	Medium-term estimates		
Opening balance	8 727	8 489	7 620	7 748	7 260
Commitments	-5 660	-7 573	-2 937	-3 504	-5 341
Redemptions	-3 427	-824	-289	-1 000	-2 571
Interest	-1 173	-1 154	-1 338	-1 484	-1 690
Departments	-1 060	-5 595	-1 310	-1 020	-1 080
Financing	5 422	6 704	3 065	3 016	4 015
Loans	5 000	6 570	3 000	3 000	4 000
Purchases	–	–	–	–	–
Interest	422	134	65	16	15
Closing balance	8 489	7 620	7 748	7 260	5 934

Source: National Treasury

Cash balances

Government's total cash holdings consist of deposits held at the commercial banks and the Reserve Bank. The latter consist of sterilisation deposits – deposits that neutralise excess cash created in the money market – and foreign-currency accumulation deposits, relating to all proceeds from foreign loans.

Historically, sterilisation deposits were used as bridging finance to cover obligations over the short term. In 2020/21, government decided to use these deposits to partly finance the higher gross borrowing requirement. The funds will be drawn down in the current fiscal year and over the next two years in line with cash flow requirements.

At the end of 2020/21, total cash balances stood at R294.6 billion. Over the medium term, foreign currency deposits will average US\$7.0 billion.

Table 7.6 Change in cash balances

R million	2019/20 Outcome	2020/21 Budget Revised		2021/22	2022/23	2023/24
				Medium-term estimates		
Rand currency						
Opening balance	120 575	117 157	111 693	175 509	60 815	50 000
Closing balance	111 693	117 157	175 509	60 815	50 000	50 000
of which:						
Tax and loan accounts	44 536	50 000	134 352	50 000	50 000	50 000
Change in rand cash balance¹ (opening less closing balance)	8 882	–	-63 816	114 694	10 815	–
Foreign currency²						
Opening balance	117 560	121 628	123 968	119 109	125 927	119 198
Closing balance	123 968	109 032	119 109	125 927	119 198	99 979
US\$ equivalent	8 489	7 142	7 620	7 748	7 260	5 934
Change in foreign currency cash balance¹ (opening less closing balance)	-6 408	12 596	4 859	-6 818	6 729	19 219
Total change in cash balances¹	2 474	12 596	-58 957	107 876	17 544	19 219
Total closing cash balance	235 661	226 189	294 618	186 742	169 198	149 979

1. A positive value indicates that cash is used to finance part of borrowing requirement

2. Rand values at which foreign currency was purchased or borrowed

Source: National Treasury

Government debt and debt-service costs

National government debt



Table 7.7 summarises the distribution and stock of national government debt. Debt is now expected to stabilise at 88.9 per cent of GDP in 2025/26 – down from a projected 95.3 per cent of GDP estimated in the 2020 MTBPS. This is as a result of a decline in the tax revenue shortfall since the tabling of the MTBPS, which resulted in improved cash balances. Over the medium term, these cash balances and reduced budget deficits will be used to lower the government's gross borrowing requirement, resulting in reduced debt issuances. Gross loan debt is expected to increase to R5.23 trillion, or 87.3 per cent of GDP, by 2023/24, with net debt reaching 84.9 per cent of GDP over the same period.

Table 7.7 Total national government debt¹

End of period	2019/20	2020/21	2021/22	2022/23	2023/24
R billion	Outcome	Estimate	Medium-term estimates		
Domestic loans²	2 874.1	3 529.1	3 916.7	4 322.3	4 707.8
Short-term	360.7	457.9	466.9	518.9	574.9
Long-term	2 513.4	3 071.2	3 449.8	3 803.4	4 132.9
Fixed-rate	1 863.2	2 287.6	2 615.0	2 845.1	3 161.5
Inflation-linked	650.2	783.6	834.8	958.3	971.4
Foreign loans²	387.2	420.6	466.1	497.6	526.7
Gross loan debt	3 261.3	3 949.7	4 382.8	4 819.9	5 234.5
Less: National Revenue Fund bank balances ²	-263.6	-292.0	-180.3	-162.1	-142.9
Net loan debt	2 997.7	3 657.7	4 202.5	4 657.8	5 091.6
<i>As percentage of GDP:</i>					
Gross loan debt	63.3	80.3	81.9	85.1	87.3
Net loan debt	58.2	74.3	78.5	82.2	84.9

1. A longer time series is given in Table 10 of the statistical annexure at the back of the Budget Review

2. Estimates include revaluation based on National Treasury's projections of inflation and exchange rates

Source: National Treasury

Government debt levels are affected by changes in inflation and exchange rates. For example, rand appreciation decreases the value of outstanding foreign debt. Foreign-currency-denominated debt will average R496.8 billion, or 10.3 per cent, of gross debt over the medium term. Government's foreign-currency exposure is partly offset by foreign-currency investments, which in 2020/21 amount to US\$7.6 billion.

Table 7.8 Analysis of annual increase in gross loan debt

	2019/20	2020/21	2021/22	2022/23	2023/24
R million	Outcome	Estimate	Medium-term estimates		
Budget deficit	345 053	603 388	482 580	417 164	389 011
Discount on loan transactions	31 415	72 524	26 873	6 886	2 305
Revaluation of inflation-linked bonds ¹	23 618	19 313	32 520	35 314	42 645
Revaluation of foreign-currency debt ¹	71 088	-59 275	3 673	676	6 697
Change in cash and other balances ²	1 869	52 442	-112 600	-22 841	-26 168
Total	473 043	688 392	433 046	437 199	414 490

1. Revaluation based on National Treasury projections of inflation and exchange rates

2. A negative value indicates that cash is used to finance part of the borrowing requirement

Source: National Treasury

In 2020/21, the stock of debt increased by R688.4 billion. The main budget deficit accounted for 87.7 per cent of this increase, while interest and inflation rate changes explain much of the rest.

National government debt-service costs

Debt-service costs are determined by debt stock, new borrowing and macroeconomic variables such as interest, inflation and exchange rates. In 2020/21, debt-service costs were revised upwards by R3.6 billion due to the higher borrowing requirement. Short-term borrowing costs were lower than projected due to a significant decline in short-term rates following the Reserve Bank's lowering of the repo rate. As a share of GDP, debt-service costs are projected to average 5.3 per cent over the medium term.



Table 7.9 National government debt-service costs

R million	2019/20	2020/21		2021/22	2022/23	2023/24
	Outcome	Budget	Revised	Medium-term estimates		
Domestic loans	187 276	211 144	213 794	249 054	285 056	312 096
Short-term	32 096	25 441	21 133	18 025	21 802	25 566
Long-term	155 180	185 703	192 661	231 029	263 254	286 530
Foreign loans	17 493	18 126	19 058	20 687	22 957	26 495
Total	204 769	229 270	232 852	269 741	308 013	338 591
<i>As percentage of:</i>						
GDP	4.0	4.2	4.7	5.0	5.4	5.6
Expenditure	12.1	13.0	12.9	14.7	16.5	17.7
Revenue	15.2	16.4	19.4	20.0	21.2	22.2

Source: National Treasury

Contingent liabilities

Contingent liabilities are state obligations that will result in expenditure only if a specific event occurs. Government closely monitors the status of these liabilities and other fiscal obligations. These include guarantees to state-owned companies, independent power producers, public-private partnerships, and provisions for multilateral institutions.

Chapter 8 discusses the financial position of state-owned companies. Details of contingent liabilities and other obligations are shown in Table 11 of the statistical annexure.



Government guarantees

State-owned companies

Government's guarantee exposure consists of the sum of the outstanding value of a loan, accrued interest and adjustments to inflation-linked bonds. The guarantee amount, however, reflects only the capital value of the loan. As a result, exposure may exceed the approved guarantee amount.

The total amount for approved guarantees is expected to increase by R96.2 billion to R581 billion by the end of March 2021, with associated exposure estimated to decrease by R3.4 billion to R410.3 billion. Eskom constitutes the largest exposure, at 77.2 per cent of guarantees.

In 2020/21, the following were major changes to the guarantee profile:

- Eskom's guarantee exposure decreased by R10.1 billion due to maturing guaranteed debt.
- A loan guarantee scheme was introduced to support certain businesses affected by COVID-19 and associated lockdown measures. The National Treasury provided a R100 billion guarantee to the Reserve Bank with the option to extend to R200 billion. By 11 February 2021, loans of R89.8 billion had been approved with drawdowns of R13.3 billion.

Table 7.10 Government guarantee exposure¹

R billion	2018/19		2019/20		2020/21	
	Guarantee	Exposure ²	Guarantee	Exposure ²	Guarantee	Exposure ²
Public institutions	487.7	368.1	484.8	413.7	581.0	410.3
<i>of which:</i>						
Eskom	350.0	285.6	350.0	326.9	350.0	316.8
SANRAL	38.9	39.5	37.9	39.0	37.9	45.3
Trans-Caledon Tunnel Authority	43.0	14.3	43.0	13.6	43.0	13.4
South African Airways	19.1	15.3	19.1	17.9	19.1	6.2
Land and Agricultural Bank of South Africa	9.6	1.0	9.6	2.6	9.6	2.6
Development Bank of Southern Africa	11.4	4.3	10.0	4.7	10.2	4.7
South African Post Office	2.9	–	–	–	–	–
Transnet	3.5	3.8	3.5	3.8	3.5	3.8
Denel	3.4	3.4	6.9	4.4	5.9	3.4
South African Express	2.8	0.2	1.9	0.2	0.2	0.1
Industrial Development Corporation	0.5	0.1	0.6	0.2	0.6	0.2
South African Reserve Bank	0.3	–	–	–	100.0	13.3
Independent power producers	200.2	146.9	200.2	161.4	200.2	176.7
Public-private partnerships³	10.5	10.5	8.7	8.7	8.0	8.0

1. A full list of guarantees is given in Table 11 of the statistical annexure in the Budget Review

2. Total amount of borrowing, adjustments to inflation-linked bonds as a result of inflation rate changes and accrued interest

3. These amounts only include national and provincial PPP agreements

Source: National Treasury

Other guarantees

Contingent liability risks for independent power producers are very low. Government has committed to procure up to R200 billion in renewable energy from these projects. The value of signed agreements, which represents government's exposure, is expected to amount to R176.7 billion by March 2021. This exposure is expected to decrease to R137.5 billion in 2023/24.

In 2020/21, government's exposure to public-private partnerships decreased by R0.7 billion to R8.0 billion, as a number of projects reached maturity. Total exposure is expected to reach R5.2 billion in 2023/24.

Reinforcing criteria for guarantee applications

Over the past several years, as financial performance and governance deteriorated in public entities and state-owned companies, requests for government guarantees and assistance have increased. Most of these requests from state-owned companies have not been in line with Cabinet-approved guidelines. As part of its efforts to reduce the level of guarantees and improve their quality, government published an instruction note in December 2020 outlining minimum criteria for guarantee applications from public entities and their shareholder departments. Public entities and state-owned companies cannot apply for guarantees they cannot afford to repay.

Other contingent liabilities

Table 7.11 shows government's exposure to multilateral institutions and other implicit contingent liabilities. South Africa subscribes to shares in these institutions but does not pay the full amount. Government's commitments represent the unpaid portion of the share subscribed to in the unlikely event these institutions run into financial difficulty. Chapter 8 discusses the Road Accident Fund.

Table 7.11 Provision for multilateral institutions and other contingent liabilities

R billion	2018/19	2019/20	2020/21
Multilateral institutions	260.7	341.9	381.6
<i>of which:</i>			
<i>New Development Bank</i>	<i>57.9</i>	<i>93.0</i>	<i>100.9</i>
<i>African Development Bank</i>	<i>53.9</i>	<i>66.5</i>	<i>56.8</i>
<i>International Monetary Fund</i>	<i>85.9</i>	<i>111.8</i>	<i>159.3</i>
<i>World Bank Group</i>	<i>29.5</i>	<i>36.4</i>	<i>30.4</i>
Other contingent liabilities	303.1	472.4	510.3
<i>of which:</i>			
<i>Export Credit Insurance Corporation of South Africa</i>	<i>20.5</i>	<i>20.5</i>	<i>15.6</i>
<i>Post-retirement medical assistance</i>	<i>69.9</i>	<i>69.9</i>	<i>69.9</i>
<i>Road Accident Fund</i>	<i>173.6</i>	<i>332.2</i>	<i>375.0</i>

Source: National Treasury

Membership in international financial institutions

South Africa is a member of the African Development Bank, International Monetary Fund, New Development Bank and World Bank Group. Membership incurs certain financial obligations, some of which are categorised as contingent liabilities. These obligations are capital and quota contributions to maintain the country's shareholding in the institutions and strengthen the global safety net that they support. South Africa's membership in these institutions has enabled it to obtain more competitive financing over the past years (see Table 7.4, for example). In the early stages of the coronavirus pandemic, access to private capital had been unreliable, limited and costly. Lending by the international financial institutions has helped South Africa to cope with volatile capital markets and high borrowing costs.



Net valuation profits and losses

Government's largest contingent asset is the Gold and Foreign Exchange Contingency Reserve Account. It reflects profits and losses on gold and foreign exchange reserves, held by the Reserve Bank, to meet foreign exchange obligations and to maintain liquidity in the presence of external shocks. Due to the appreciation of the rand, unrealised gains are expected to amount to R332.6 billion by end-March 2021, a decrease of R103.5 billion compared with 2019/20. In 2020/21, government settled a realised loss of R111.3 million. Losses of R59.6 million are projected for 2021/22.

Conclusion

Over the past year, government adjusted its financing strategy to ensure that commitments were met in a way that minimised the impact on the stock of debt and the cost of borrowing. Debt is expected to stabilise in 2025/26. Large and persistent increases in budget deficits – resulting in higher debt and debt-service costs – compromise fiscal sustainability.

8

Financial position of public-sector institutions

In brief

- In 2020/21, the financial performance of state-owned companies deteriorated. The Land Bank defaulted on its debt and several other companies are at risk of default. Denel, Eskom and South African Airways remain reliant on state support, including guarantees that enable them to access funding.
- The combined net asset value of the three largest development finance institutions declined in 2019/20. Most of the deterioration was experienced by the Industrial Development Corporation and the Land Bank; the Development Bank of Southern Africa recorded a profit.
- Among the social security funds, the Unemployment Insurance Fund has played a key role in supporting unemployed workers and businesses during the COVID-19 pandemic. While its net asset value declined in response to higher payouts, it expects to recover over the medium term. The Compensation Fund remains in a relatively strong position. These assets are outweighed by the accumulated and growing deficit of the Road Accident Fund.
- As announced in the 2021 State of the Nation Address, the mandates of all state-owned enterprises are being re-evaluated as part of a rationalisation process to ensure they are responsive to national development needs.

Overview

Well-governed and financially sustainable public entities play a vital role in national development. In recent years, however, the combined results of financial mismanagement and corruption have led to a severe deterioration in the financial position of many public entities, leaving them unable to deliver on their mandates. A growing number have required state guarantees or bailouts to remain afloat – straining national budgets, draining resources that could be spent on social and economic needs, and setting back economic recovery.

Over the past year, COVID-19 and associated lockdowns upended the plans of state-owned companies, curtailing revenue growth and collection of arrears, even as many operational costs remained inflexible. Higher



borrowing costs – the result of the March 2020 downgrade of government debt, high levels of leverage and deteriorating financial performance – further limited access to capital. As a result, many state-owned companies are at risk of defaulting on their debts. The Land Bank defaulted on its debt obligations on 1 April 2020 and is renegotiating its repayment terms.

This chapter reviews the financial position of state-owned companies, development finance institutions and social security funds. As announced in the 2021 State of the Nation Address, the mandates of all state-owned companies are being re-evaluated to ensure they are responsive to national development needs. Government intends to table overarching legislation for these companies in Cabinet during 2021/22.

State-owned companies

The Public Finance Management Act (PFMA) requires state-owned companies to generate sufficient financial resources from their operations to meet obligations to employees, tax authorities, the public and debt holders. Several entities cannot meet these obligations.

Table 8.1 Combined balance sheets of state-owned companies¹

R billion/per cent growth	2015/16	2016/17	2017/18	2018/19 ²	2019/20 ³
Total assets	1 178.6	1 224.3	1 263.2	1 269.0	1 311.6
	13.6%	3.9%	3.2%	0.5%	3.4%
Total liabilities	818.2	870.3	901.1	927.0	958.6
	10.7%	6.4%	3.5%	2.9%	3.4%
Net asset value	360.4	354.0	362.1	342.0	353.0
	20.8%	-1.8%	2.3%	-5.5%	3.2%
Return on equity (average)	0.6%	0.7%	-0.8%	-8.0%	-7.9%

1. State-owned companies listed in schedule 2 of the PFMA, excluding development finance institutions

2. Numbers may differ from earlier publications due to restatement or error

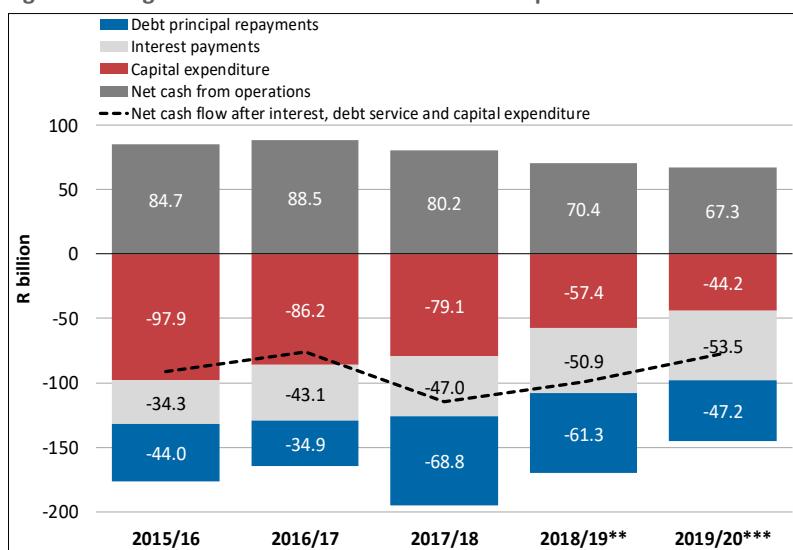
3. The COVID-19 pandemic has delayed the release of audited financial statements, therefore unaudited financials (Denel, South African Post Office) or last-quarter reports for 2019/20 (Central Energy Fund, South African Nuclear Energy Corporation, Alexkor, South African Forestry Companies Limited) were used. Management accounts were used for South African Airways.

Source: National Treasury

Financial results for 2019/20 only marginally reflect the effect of the pandemic on state-owned companies, given that strict restrictions on activity started in the final week of the fiscal year. In 2020/21, financial performance appears to have deteriorated, with many entities operating below capacity, and facing subdued demand for goods and services. The implementation of turnaround plans has also been delayed.

Average profitability, measured by return on equity, has remained relatively unchanged at -7.9 per cent. The negative return on equity is largely the result of weak revenue growth, high costs – driven by large compensation bills – and elevated debt-service costs. Figure 8.1 shows the combined negative cash flow of state-owned companies listed in schedule 2 of the PFMA, which includes the Airports Company of South Africa (ACSA), Denel, Eskom, South African Airways (SAA), the South African Broadcasting Corporation (SABC), Transnet and smaller entities. Several state-owned companies use debt to finance operations, leaving little or no room for capital investment.



Figure 8.1 Negative cash flows at state-owned companies*

*Companies listed in schedule 2 of the PFMA, excluding development finance institutions

**Numbers may differ from earlier publications due to restatement or error

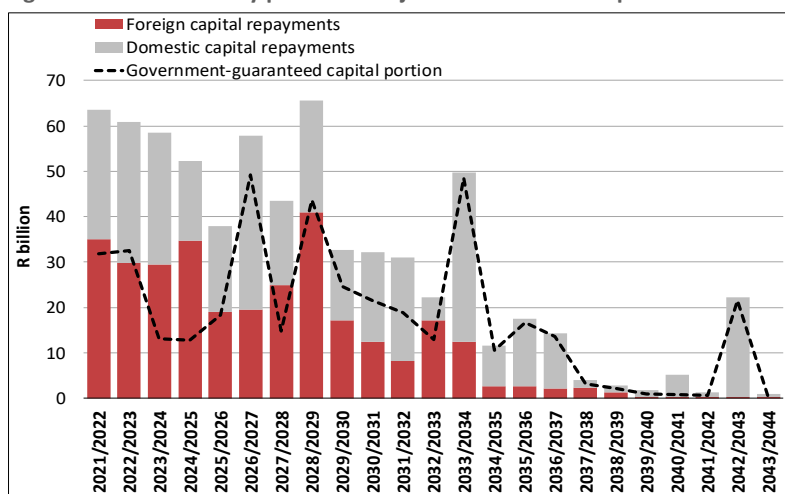
*** Due to the COVID-19 pandemic, many entities have not released audited financial statements, therefore unaudited financials or last quarter reports were used for 2019/20

Source: National Treasury

State-owned companies in financial distress will need to expedite the implementation of reforms, which include facilitating private-sector participation, costing developmental mandates and streamlining operations to focus on core mandates. Several reviews are under way that will inform the shape of legislative reforms announced by the President.

Debt obligations

Figure 8.2 shows the long-term debt maturity profile for the seven largest state-owned companies by borrowing.

Figure 8.2 Debt maturity profile of major state-owned companies*

*ACSA, Denel, Eskom, SAA, South African National Roads Agency Limited (SANRAL), Transnet and Trans-Caledon Tunnel Authority

Source: National Treasury

Total debt amounts to R692.9 billion, of which 60 per cent (R415.5 billion) is guaranteed by government. Over the next three years, debt repayments total R182.8 billion, of which R102.5 billion is payable by Eskom.

Table 8.2 shows the borrowing requirement of selected state-owned companies. In 2019/20, these companies moved closer to meeting their borrowing targets, partly because they had reduced them relative to the previous year. Eskom accounted for 57 per cent of borrowings in 2019/20. As in previous years, much of this new debt was used to pay for maturing debt. Debt worth R62.8 billion is expected to be sourced in 2021/22, with an identical amount in 2022/23.

Table 8.2 Borrowing requirement of selected state-owned companies¹

R billion	2018/19		2019/20		2020/21	2021/22	2022/23	2023/24 ³
	Budget	Outcome	Budget	Outcome	Revised	Medium-term estimates ²		
Domestic loans (gross)	61.8	46.1	46.6	55.6	34.0	44.9	48.9	20.8
Short-term	20.1	13.9	13.2	14.8	7.3	8.9	12.0	3.4
Long-term	41.7	32.2	33.4	40.8	26.7	36.0	36.9	17.4
Foreign loans (gross)	52.0	39.7	37.7	11.0	22.1	17.9	13.9	16.2
Long-term	52.0	39.7	37.7	11.0	22.1	17.9	13.9	16.2
Total	113.8	85.8	84.3	66.6	56.1	62.8	62.8	37.0
Percentage of total:								
Domestic loans	54.3%	53.7%	55.3%	83.5%	60.6%	71.5%	77.8%	56.2%
Foreign loans	45.7%	46.3%	44.7%	16.5%	39.4%	28.5%	22.2%	43.8%

1. ACSA, Eskom, South African National Roads Agency Limited, SAA, Transnet, Trans-Caledon Tunnel Authority and Denel

2. SAA is excluded because no forecast was provided

3. ACSA, SANRAL and Trans-Caledon Tunnel Authority did not provide forecasts for 2023/24, which reflects the significant decline in planned debt funding activities for 2023/24

Source: National Treasury

Poor financial performance and governance problems were already limiting access to funding – especially at affordable interest rates – for major state-owned companies. High levels of uncertainty flowing from the COVID-19 pandemic will exacerbate these difficulties.

Eskom



Eskom remains dependent on government support and continues to use debt to pay operational costs. It does not generate sufficient cash to meet its commitments, which include high levels of debt and debt-service costs. In addition, the utility faces serious operational challenges and is unable to meet the country's electricity demand. Delayed and inadequate maintenance, alongside faults detected in major new units, have contributed to deteriorating fleet performance.

Government's immediate focus is to stabilise Eskom's operations and improve energy availability, while implementing the 2019 roadmap released by the Department of Public Enterprises. Eskom is exploring short-term energy purchases to reduce load shedding and offset planned maintenance outages. The Independent Power Producer (IPP) Office within the Department of Mineral Resources and Energy is evaluating bids for the procurement of 2 000 megawatts of emergency power from IPPs to compensate for Eskom's capacity shortfall. In addition, the department will soon initiate a fifth bid window to buy 2 600 megawatts of wind and solar power from renewable energy IPPs.



Government provided R56 billion to Eskom for 2020/21 and allocated R31.7 billion for 2021/22, subject to compliance with the conditions of the Special Appropriation Act (2019). This allocation is meant to stabilise the utility while government restructures it into three separate entities (generation, transmission and distribution) under Eskom Holdings SOC Ltd. Government and Eskom have agreed on an implementation plan and timelines for this separation: by December 2021, the transmission division will be legally separated, and separation of the generation and distribution divisions will be completed by December 2022. Divisional boards have been appointed and are accountable for strategy, business performance and functional compliance.

The directors-general of the National Treasury, the Department of Mineral Resources and Energy and the Department of Public Enterprises, and Eskom's chief executive officer are overseeing the implementation plan.

Transnet

In 2019/20, Transnet reported a net profit of R3.9 billion, down from R6 billion in the prior year as the value of its property investment portfolio declined. As a result of trade restrictions associated with COVID-19, the company recorded reduced rail, port and pipeline sales for the period 1 April 2020 to 31 December 2020, leading to low revenue collections. The pandemic also affected capital investment, with spending of R9.6 billion at 31 December 2020 against a budgeted R15.6 billion, amounting to underspending of 38 per cent.

South African Airways

SAA was placed in voluntary business rescue in 2019. The stated purpose of the business rescue plan, as reported to Parliament in November 2020, is "to create a value proposition within the restructured SAA which would make it an attractive proposition for a potential partner".

In the 2020 *Budget Review*, R16.4 billion was set aside for SAA over the MTEF period to settle legacy state-guaranteed debt and associated interest costs. Of this amount, R10.3 billion was allocated in 2020/21, with R4.3 billion and R1.8 billion to be allocated in 2021/22 and 2022/23 respectively. The 2020 MTBPS included an allocation of R10.5 billion for SAA in 2020/21.

In September 2020, the business rescue plan was amended, and the identified funding requirement was increased to 19.3 billion. Of this amount, R14 billion was envisaged to come from government (including the R10.5 billion allocated in 2020/21), with the remainder sourced from strategic equity partnerships.

A demand of R267 million for SAA's government guaranteed letters of credit was made and settled in 2020/21.

Denel

Denel recorded a loss of R2 billion in 2019/20. Despite state funding, the military and aerospace equipment company has made little progress in its turnaround and continues to deteriorate financially. In 2019/20, Denel used a recapitalisation of R1.8 billion to restart operations, repay some legacy creditors, and settle interest and bridging loans. Additional funds of

R576 million defrayed in 2020/21 were largely used to settle interest and repay government-guaranteed debt. Declining revenues, and high expenses and debt-service costs, mean little cash is available for operations. Unless funding challenges are resolved, the company will continue to find it difficult to meet financial obligations as they fall due. Denel and government are discussing how to implement the turnaround plan.

Airports Company South Africa



In 2019/20, ACSA, which operates nine airports in South Africa, reported a net profit of R1.2 billion and reduced its debt exposure. However, it has been severely affected by COVID-19. During 2019/20, 20.9 million passengers departed from ACSA airports. Between April 2020 and January 2021, this dropped to 3.3 million passengers as a result of the pandemic and restrictions on domestic and global activity.

ACSA negotiated new loans with commercial banks and requested financial support from its shareholders owing to the steep decline in passenger revenue. Commercial banks increased their borrowing facilities from R1.5 billion to R3 billion, while government, as the majority shareholder, purchased R2.3 billion in preference shares to support ACSA, as outlined in the Second Adjustment Appropriation Act (2020), which was gazetted on 20 January 2021. Minority shareholders have also indicated their willingness to purchase preference shares. In addition, ACSA is selling its non-core assets to raise cash.

South African Broadcasting Corporation

The SABC recorded a loss of R511.4 million in 2019/20. After receiving an equity injection of R3.2 billion in the 2019/20 Adjustments Budget, the corporation has moved to ensure that it acquires content based on a projected return on investment and has made progress in identifying non-core assets that can be disposed of to meet funding requirements. The SABC is reducing its operational costs, including through staff retrenchments.



Development finance institutions

Development finance institutions play a critical role in enhancing inclusive growth and achieving the objectives of the National Development Plan. They can also support economic recovery by channelling private investments into new technologies and projects that promote sustainable development.



The financial position of the three largest development finance institutions – the Development Bank of Southern Africa (DBSA), the Industrial Development Corporation (IDC) and the Land Bank – deteriorated sharply in 2019/20. This was mainly a result of the reduction in the repurchase rate and interest income, increased impairments and projected or actual investment losses due to the effect of COVID-19 on financial markets. The net asset value of development finance institutions fell by 27 per cent to R100.3 billion in 2019/20, mostly due to losses at the IDC and the Land Bank.

Table 8.3 Financial position of selected development finance institutions

R billion	2017/18 ¹	2018/19 ¹	2019/20
IDC			
Total assets	137.0	144.6	109.6
Loan book	30.7	27.1	29.1
Equity and other investments	106.3	117.5	80.5
Total liabilities	44.9	49.3	49.4
Net asset value	92.1	95.3	60.2
DBSA			
Total assets	89.2	89.5	100.5
Loan book	75.0	77.1	86.2
Equity and other investments	14.2	12.4	14.3
Total liabilities	54.9	52.3	62.9
Net asset value	34.3	37.2	37.6
Land Bank			
Total assets	49.2	51.1	46.2
Loan book	43.1	43.2	41.6
Equity and other investments	6.1	7.9	4.6
Total liabilities	43.0	45.8	43.7
Net asset value	6.2	5.3	2.5

1. Numbers may differ from earlier publications due to restatement or error

Source: National Treasury

Development Bank of Southern Africa

The DBSA provides financing for large-scale infrastructure projects. During 2019/20, its financing for energy, water, sanitation and road projects improved access to these services for over 143 000 households, while more than 67 000 learners benefited from education infrastructure projects it financed.



During the latter part of the financial year, the pandemic led to a steep rise in non-performing loans and impairments as clients are expected to struggle to service their debts. As a result, net profit fell by 84 per cent from R3.1 billion in 2018/19 to R504 million in 2019/20. This was mainly due to expected credit losses of R3.6 billion and lower valuations on equity investments, amounting to R371 million.

The DBSA approved loans to the value of R31.5 billion compared with R39.7 billion in 2018/19. Commitments for projects that were assessed and considered bankable amounted to R27.2 billion (R17 billion in 2018/19). Disbursements amounted to R15.4 billion (R9 billion in 2018/19).

Industrial Development Corporation

The IDC finances industrial development across Africa through profits it generates and borrowed funds. It recorded a loss of R3.8 billion in 2019/20. The IDC's balance sheet, which grew steadily between 2015/16 and 2018/19, declined sharply in 2019/20 due to market volatility. Total assets fell, for the first time in four years, by 24 per cent. This decline was largely attributed to a 55 per cent decrease in the IDC's listed shares portfolio from R56 billion to R24 billion. These losses were a direct result of poor investment performance, market volatility and uncertainty stemming from COVID-19. The IDC's gearing ratio – the ratio of debt to capital – rose during 2019/20, as equity fell and debt remained stable.



During the pandemic, the IDC has intervened to assist its clients, approving deferments exceeding R760 million in existing debt-service requirements. Although funding activity has declined, the IDC approved R3.4 billion of funding to existing and new clients during the year.



Land Bank

The Land Bank plays an important role in social and economic development by advancing loans in the agricultural sector. Historically, it has supported commercial agriculture. By 2019/20, 18.5 per cent of the Bank's asset base was focused on transformation and development. Funding of emerging farmers constituted 5.9 per cent of the loan book.

The Land Bank is in financial distress. At the end of 2019/20, total assets amounted to R46.2 billion, with liabilities of R43.7 billion and a loss of R2.1 billion. Sustained droughts, combined with a higher frequency of livestock and crop disease, contributed to a cost-to-income ratio of 114 per cent and non-performing loans of 18.1 per cent. The 2020 special adjustments budget included an allocation of R3 billion for Land Bank in 2020/21, while the 2020 MTBPS noted that an additional R7 billion would be required to support the restructuring of the entity. Proposed allocations are R5 billion in 2021/22, and R1 billion in each of the two subsequent years. The Minister of Finance will impose appropriate conditions on the equity support to put the Land Bank on a stable and sustainable development path.

In its audit of the 2019/20 financial statements, the Auditor-General highlighted inadequate internal controls. The Land Bank has provided a remedial plan to address these adverse findings.

Development finance borrowing requirement

The development finance institutions borrow to finance lending in line with their mandates. In 2019/20, they borrowed more than anticipated: R70.8 billion compared with a planned R57.8 billion.

Table 8.4 Borrowing requirement for development finance institutions¹

	2018/19		2019/20		2020/21	2021/22	2022/23	2023/24 ²
R billion	Budget	Outcome	Budget	Outcome	Revised	Medium-term estimates		
Domestic loans (gross)	36.2	50.6	39.8	54.0	9.7	10.9	21.4	7.3
Short-term	23.9	23.1	20.3	35.5	2.5	1.8	4.6	0.8
Long-term	12.3	27.5	19.5	18.5	7.2	9.1	16.8	6.5
Foreign loans (gross)	9.2	5.7	18.0	16.8	6.4	4.2	4.1	1.4
Long-term	9.2	5.7	18.0	16.8	6.4	4.2	4.1	1.4
Total	45.4	56.3	57.8	70.8	16.1	15.1	25.5	8.7
Percentage of total:								
Domestic loans	79.7%	89.9%	68.9%	76.3%	60.2%	72.2%	83.9%	83.9%
Foreign loans	20.3%	10.1%	31.1%	23.7%	39.8%	27.8%	16.1%	16.1%

1. Land Bank, DBSA and IDC

2. DBSA has been excluded as no forecast was provided

Source: National Treasury

Domestic funding accounted for 76.3 per cent of this amount. In 2020/21 planned borrowing is expected to decline by 72 per cent to R16.1 billion because of challenging market conditions. Over the medium term, these institutions will adjust their borrowing plans in response to changing market conditions.

Social security funds

The social security funds provide compensation or income support for workers and road users who are out of work or injured. The funds collectively held R238.5 billion in assets and R386.1 billion in liabilities in 2019/20. The Unemployment Insurance Fund (UIF) held R152.8 billion, or 64.1 per cent, of the assets, and the Road Accident Fund (RAF) held R332.6 billion, or 86.1 per cent, of the liabilities.

Table 8.5 Financial position of social security funds

Table 6.5 – Financial position of social security funds							
R billion	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Outcome			Estimate	Medium-term estimates		
Unemployment Insurance Fund							
Total assets	159.3	165.4	152.8	122.8	131.5	140.7	147.1
Total liabilities	13.4	10.5	9.8	102.5	48.7	26.2	19.9
Net asset value	145.9	154.9	143.0	20.2	82.8	114.5	127.1
Compensation Fund¹							
Total assets	72.0	75.4	75.0	82.8	87.0	91.1	95.2
Total liabilities	38.5	47.7	43.7	51.8	54.2	56.6	59.2
Net asset value	33.5	27.6	31.3	31.0	32.8	34.5	36.0
Road Accident Fund							
Total assets	9.8	11.2	10.7	7.7	10.3	11.0	11.9
Total liabilities	216.1	273.3	332.6	375.3	425.7	470.4	530.5
Net asset value	-206.3	-262.1	-321.9	-367.6	-415.4	-459.4	-518.6

1. Compensation Commissioner for Occupational Diseases in Mines and Works
Source: National Treasury

The overall financial position of the funds has declined in line with the UIF's drawdown to provide COVID-19-related benefits. The large net deficit of the social security funds flows from the liabilities of the RAF. The net asset position is expected to strengthen over the medium term as restrictions on economic activity ease and the financial position of the UIF improves.

Unemployment Insurance Fund

The UIF provides short-term unemployment benefits for qualifying workers. In 2020/21, it established the Temporary Employee/Employer Relief Scheme to provide immediate financial support to workers and firms affected by the pandemic. As at end-January 2021, the scheme has provided R57.3 billion in relief to over 13 million workers.

Total benefits paid by the fund in 2020/21 are expected to amount to R101.9 billion, a 533 per cent increase compared with R16.1 billion paid out in 2019/20. In the three years to 2019/20, the UIF paid out R36.3 billion in benefits; over the next three years, it expects to pay out R92.9 billion. As a consequence, the fund will run an average deficit of R19.7 billion. Despite this, the fund expects its net asset position to improve as the labour market strengthens, reducing unemployment claims.



Compensation Fund

The Compensation Fund provides medical care or income benefits to employees who have been injured, disabled or killed in the workplace. In 2019/20, the fund collected R7.8 billion in contributions and paid out R3.2 billion in benefits. The financial position of the fund remains relatively strong and it expects to pay out R4.2 billion in benefits in 2020/21. Over

the medium term, the fund's surplus is expected to average R2.8 billion, so its net asset position will improve from R31.3 billion in 2019/20 to R36 billion in 2023/24.



Road Accident Fund

The RAF, which compensates road users for losses and damages incurred due to motor vehicle accidents, is government's largest contingent liability. In 2019/20, it held liabilities of R332.6 billion against assets of R10.7 billion. The RAF's accumulated deficit is projected to rise from R322 billion in 2019/20 to R518.7 billion by 2023/24. Benefits paid out in cash by the RAF are expected to increase from R36.5 billion in 2021/22 to R42.9 billion in 2023/24, but, over the same period, claims filed by victims of motor vehicle accidents against the fund are projected to increase from R86.8 billion to R102.9 billion.

Nineteen years ago, the Road Accident Fund Commission recommended moving to a no-fault system that would provide equitable, sustainable and affordable support to accident victims. In September 2020, Parliament rejected the Road Accident Benefit Scheme, which aimed to reform the RAF to a no-fault system. During 2021, government will table revised legislation to replace the RAF with the new system. The National Treasury is considering options to address the RAF's accumulated liability. The intention is to pay down claims over a reasonable period of time.



Government Employees Pension Fund

The Government Employees Pension Fund (GEPF) provides retirement security to 1.3 million employees and over 480 000 pensioners. Total contributions to the fund in 2019/20 increased by R5.2 billion to R80.3 billion, mainly due to higher salaries. The fund paid out R110.9 billion in benefits during 2019/20, an increase of 8.2 per cent compared to R102.5 billion paid out in the prior year. Pensions increased by 3.6 per cent from April 2019, in line with the policy of granting inflation-related increases if affordable.

Table 8.6 Selected income and expenditure of GEPF

R billion	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Revenue								
Employer contributions	17.1	18.7	20.3	21.7	23.4	25.1	26.9	28.6
Employee contributions	30.8	33.5	36.1	38.6	42.1	45.3	48.2	51.7
Investment income ¹	55.0	57.7	64.1	73.4	73.7	77.3	84.8	88.6
Expenditure								
Benefits paid	43.2	57.9	85.8	83.1	88.3	94.9	102.5	110.9

1. Dividends on listed equities, interest on bonds and money market instruments and income from unlisted properties and unlisted investments excludes adjustments for value of financial assets

Source: Government Pensions Administration Agency

Public Investment Corporation

The Public Investment Corporation invests the excess funds accumulated by the GEPF and the social security funds. At end-March 2020, it managed R1.9 trillion in assets, relative to R2.13 trillion in assets managed at the end of 2018/19.

Table 8.7 Breakdown of assets under management by PIC, 2019/20

R billion	Government Employees Pension Fund	Unemployment Insurance Fund	Compensation Fund¹	Other	Total
Asset class					
Equity	861.9	34.3	13.0	0.3	909.5
Bonds	566.7	81.7	39.4	12.2	700.0
Money market	64.3	19.8	11.2	36.9	132.3
Property	73.9	2.5	0.7	0.2	77.3
Unlisted investments	66.4	13.1	2.1	–	81.6
Total	1 633.2	151.5	66.5	49.6	1 900.7

1. Includes the Compensation Pension Fund

Source: Public Investment Corporation and National Treasury

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ANNEXURES

Two annexures are available on the National Treasury website (www.treasury.gov.za):

- Annexure W1: *Explanatory memorandum to the division of revenue*
- Annexure W2: *Structure of the government accounts*



Report of the Minister of Finance to Parliament

Introduction

This annexure fulfils the requirement of section 7(4) of the Money Bills and Related Matters Act (2009), which prescribes that the Minister of Finance submit a report to Parliament at the time of the budget explaining how the Division of Revenue Bill and the national budget give effect to, or the reasons for not taking into account, the recommendations contained in:

- Budgetary review and recommendation reports submitted by committees of the National Assembly in terms of section 5 of the act.
- Reports on the fiscal framework proposed in the *Medium Term Budget Policy Statement* (MTBPS) submitted by the finance committees in terms of section 6 of the act.
- Reports on the proposed division of revenue and the conditional grant allocations to provinces and local governments set out in the MTBPS submitted by the appropriations committees in terms of section 6 of the act.

Budgetary review and recommendation reports

Section 5 of the act sets out the procedure that the National Assembly committees must follow when assessing the performance of each national department before the budget is introduced. This procedure provides for committees to prepare budgetary review and recommendation reports, which:

- Must provide an assessment of the department's service delivery performance given available resources.
- Must provide an assessment on the effectiveness and efficiency of the department's use and forward allocation of available resources.
- May include recommendations on the future use of resources.

This annexure provides responses to the portfolio committees' recommendations where they relate to the National Treasury.

A number of committees recommended making additional budget allocations available for certain programmes, sub-programmes or other budget items. Due to the constrained fiscal outlook, there is limited scope to do so. Departments, public entities and other institutions are required to reprioritise existing funds for emerging priorities.

Portfolio Committee on Employment and Labour

The committee recommends engagement with the National Treasury to afford preferential procurement status by government departments and state-owned entities to supported employment enterprises. This should be concluded without delay and a follow up with the National Treasury should be made regarding the process of developing a preferential framework for government entities to ensure finalisation of this matter.

The Office of the Chief Procurement Officer in the National Treasury agrees with the recommendation and looks forward to the proposed engagement.

The funding challenges of Productivity South Africa should be addressed to enable it to execute its mandate, which includes assisting the turnaround of companies in distress.

The Department of Trade, Industry and Competition and the Unemployment Insurance Fund have not yet provided funding owed for programmes within Productivity South Africa. In line with the budgeting guidelines issued on 17 August 2020 and taking into account the country's serious fiscal constraints, the Department of Trade, Industry and Competition needs to reprioritise its budget in this regard. In addition, entities should ensure they collect the revenue due to them.

Portfolio Committee on Higher Education, Science and Technology

The Department of Higher Education and Training should engage the National Treasury with respect to the need for additional baseline funding to support the Community Education and Training (CET) programme to fulfil its mandate and to address infrastructure-related challenges.

The National Treasury agrees that the programme may be supported. In this regard, the department has been working to identify the funds that can be reprioritised within its budget.

Consideration for additional funding to the Council on Higher Education should be made, given that the confirmed R25 million has been withdrawn and the planned activities would have to be scaled down due to funding constraints.

The National Treasury agrees that the council needs additional funding to fulfil its expanded mandate. Over the 2021 medium-term expenditure framework (MTEF) period, the Department of Higher Education and Training will increase its transfer to the council by R60 million, made up of R16 million in 2021/22, R19 million in 2022/23 and R25 million in 2023/24. These funds will be used for goods and services to implement the mandate of the council.

The Minister of Higher Education, Science and Innovation should further engage with the South African Qualifications Authority (SAQA) so that a solution can be found to avoid the looming retrenchments of 71 employees. Furthermore, funding should be provided to the SAQA to enable it to buy time to implement its planned strategies that will sustain the entity going forward.

The Department of Higher Education and Training will reprioritise funds within its baseline to increase the transfer to SAQA by R5 million in 2021/22. This will offset the decline in SAQA revenue collections due to reduced activities because of COVID-19 restrictions.

The Minister of Higher Education, Science and Innovation further advises against the proposed funding reductions by the National Treasury, based on the key motive that economic transformation and growth are strategically linked to our investment in science, technology and innovation.

As noted at the beginning of this section, fiscal constraints are serious and reprioritisation is the main policy tool for making funding available. The National Treasury recognises the importance of science, technology and innovation and will continue to work with the Department of Science and Innovation and its entities to strengthen public-led research and development spending.

Portfolio Committee on Health

National and provincial treasuries should assist provincial departments in dealing with accruals and medico-legal claims which are depleting departments' budgets.

Over the 2021 MTEF period, the National Treasury has earmarked (allocated for a specific purpose) R73.1 million in the national Department of Health's budget to continue funding medico-legal experts and financial management support for provinces. Where medico-legal claims are merited, experts will assist provinces through mediation or litigation, including with actuarial evaluation of the claim. Separately, support is provided to strengthen general financial management in provinces, including verifying invoices and training officials in areas such as procurement.

Portfolio Committee on Women, Youth and Persons with Disabilities

The committee requests a briefing from the National Treasury on the financial implications of establishing the National Council on Gender-Based Violence and Femicide and the Gender-Based Violence and Femicide Fund.

The National Treasury awaits an invitation to brief the committee. Over the medium term, R5 million has been allocated per year for the council's operations.

The committee requests the National Treasury to provide a detailed report on the funding of the Sanitary Dignity Programme and any investigations in this regard.

In 2020/21, R209 million was allocated to this programme. Of this amount, R116.4 million was allocated to provincial departments of basic education, which implement the programme in five provinces, and the remaining R92.6 million was allocated to provincial departments of social development, which implement the programme in the other four provinces. Provincial departments of basic education and social development are best placed to provide more information on funding for these programmes.

Portfolio Committee on Tourism

The committee recommends that the National Treasury should reimburse the R1 billion surrendered to the national fiscus when the world imposed travel restrictions. This budget is critical in ensuring that the country is marketed to defend the market share and take advantage of the new norm in travel as influenced by the COVID-19 pandemic.

The tourism sector is an important contributor to economic recovery, GDP growth and job creation. As noted at the beginning of this section, however, there is little scope to provide additional funding at this time and departments need to identify areas of reprioritisation.

The committee recommends that the National Treasury should assist South African Tourism on compliance with the procurement processes on transactions conducted in foreign country offices.

The National Treasury agrees with this recommendation. It will include South African Tourism in the list of organs of state that are supported by the Office of the Chief Procurement Officer to assess the causes of non-compliance.

The committee recommends that the National Treasury assist South African Tourism with determining the process to be followed to maximise Tourism Marketing South Africa levy collection from the tourism businesses.

The National Treasury is willing to engage with South African Tourism to discuss ways to improve the collection of the tourism levy.

The committee recommends that the National Treasury provides ring-fenced funding to promote tourism development in villages, townships and small towns.

The Department of Tourism has reprioritised R540 million over the medium term to support black-owned and commercially viable enterprises to acquire shares in new or existing tourism enterprises. The beneficiaries are expected to include tourism enterprises from villages, townships and small towns.

Portfolio Committee on Defence and Military Veterans

The committee welcomes the provision of additional funds for the use of technology to augment border safeguarding. However, the Minister of Finance should consider an additional ring-fenced allocation to gradually increase the number of sub-units from 15 to at least 22 sub-units for border safeguarding by the South African National Defence Force (SANDF). This increase will assist the SANDF in countering cross-border crime and adhering to its legislated function to effect national border control.

Border security remains a government priority. Over the 2021 MTEF period, R3.2 billion is earmarked to safeguard borders. As noted earlier, there is little scope to provide additional funding at this time and fiscal constraints require departments to identify opportunities for reprioritisation.

The Minister of Finance should consider an additional ring-fenced allocation to fund the midlife upgrades of the South African Navy vessels in need of such upgrades. The upgrade of the South African Navy's frigate and submarine fleet is essential to ensure that the Navy maintains its patrol capabilities and thereby fulfil its constitutional requirement to ensure the territorial integrity of South Africa.

As noted at the beginning of this section, there is little scope for additional funding and departments are advised to identify areas of reprioritisation, including by improving their internal efficiency.

The Minister of Finance and the Minister of Defence and Military Veterans are encouraged to find means to salvage the Special Defence Account. This will be essential to ensure that the Department of Defence can continue to maintain critical capabilities and provide continued indirect support to the defence industry.

As noted at the beginning of this section, there is little scope to provide additional funding at this time.

The Minister of Finance should indicate to the committee his willingness to fund, in addition to the Department of Defence's main allocation, a workable and humane exit mechanism for personnel over the medium term. This will assist the committee in its planned engagement with the department going forward.

The National Treasury agrees that the department requires a long-term plan to manage compensation spending pressures. In the 2019 Budget, the National Treasury provided funding to implement early retirement without penalties, as part of an effort to reduce the growth of public-service compensation. Unlike other departments, the Department of Defence chose not to participate in this initiative. As noted at the beginning of this section, there is little scope to provide additional funding at this time.

The Standing Committee on the Auditor-General

The committee supports the retention of the total surplus of R190 million generated in 2019/20 as a general reserve.

The National Treasury will provide comments on the Auditor-General's 2019/20 surplus, in line with the Public Audit Act (2004), which the Auditor-General can consider when deciding on retention.

The committee notes with concern that the commitments made by the National Treasury during the consultations prior to the passing of the Public Audit Amendment Act (2018), with regard to the funding of the additional powers to the Auditor-General of South Africa (AGSA), have still not materialised. It was agreed then that the funding for this purpose (to the tune of R50 million) would be allocated to the AGSA during the 2019/20 financial year. The committee thus recommends that the National Treasury facilitates this outstanding payment with immediate effect.

The National Treasury will reprioritise R50 million within its 2020/21 budget in order for the Auditor-General to fund requirements related to the additional powers conferred by the act.

Considering the scourge of corruption that is ravaging our country, there might be an increase in the request for special audits. If a further consideration is given to our country's slow economic growth prospects and its financial impact thereof, thus, there is a high possibility of an increase in special audit requests and some special auditees may not be able to bear the full costs of their special audits. Therefore, the committee recommends that the entity should be given an additional allocation for the 2021/22 budget.

As noted at the beginning of this section, there is little scope to provide additional funding at this time and state institutions are advised to identify areas of reprioritisation within their budgets.

Portfolio Committee on Public Service and Administration

The Minister in the Presidency for Planning, Monitoring and Evaluation and the Minister of Finance should urgently resolve the budget shortfall on compensation of employees and critical surveys at Statistics South Africa so that crucial and quality statistics get generated for the country and government's benefit. If an ideal resolution cannot be found, the Minister for Planning, Monitoring and Evaluation is requested to escalate the matter to the Presidency.

The National Treasury continues to engage with Statistics South Africa on employee compensation matters. The National Treasury recently reviewed spending on provincial and district offices, which account for the bulk of the department's staff and personnel expenditure, and will discuss the findings with the department to help find efficiencies that may reduce funding pressures.

Portfolio Committee on Transport

The National Treasury should assist the department and its entities in strengthening their supply chain management (SCM) policies and compliance thereto, as well as providing training to staff on compliance with Public Finance Management Act (1999) provisions and Treasury Regulations and report to the committee on this assistance by the end of January 2021.

Accounting officers and executive authorities are responsible for managing their supply chains. In addition, the National Treasury provides support through toolkits to assess skills development areas, a certificate learnership programme, a curriculum for tertiary sector training on supply chain management, a recommended functional structure for finance officers and provincial treasuries, and a competency framework defining the knowledge and skills required.

The National Treasury should assist the department with providing clarity regarding the way forward with the Moloto Rail Corridor and report to the committee on this matter by the end of January 2021 (following the statement by the Minister of Transport in his July 2019 Budget Speech that the finalisation of the feasibility study would be prioritised compared to the 2020 responses by the Minister to other committee recommendations that the rail corridor is not feasible and that the funding would be directed towards the Moloto Road Programme).

The National Treasury's evaluation of the feasibility study concluded that a railway link through the Moloto Corridor route would be unaffordable and unsustainable for both commuters and the fiscus. However, the feasibility study did provide grounds for improvements to the road infrastructure and transport services along the route, which has led to accelerated work on the Moloto development corridor. A more detailed response has also been provided to the Select Committee on Appropriation in its recommendation on the 2019 Division of Revenue Amendment Bill.

The National Treasury should assist the department to address the liquidity and funding concerns raised by the AGSA specifically for the Road Accident Fund (RAF), South African National Roads Agency Limited (SANRAL), Passenger Rail Agency of South Africa (PRASA) and its subsidiaries, and report on this assistance by the end of January 2021.

The RAF faces several challenges that supersede its funding shortfall and require a range of interventions. This includes the implementation of the Road Accident Benefit Scheme Policy to shift the current system from a liability insurance scheme to one based on social security principles. The committee should reconsider the Road Accident Benefit Scheme Bill in order to implement a sustainable, affordable and equitable system of motor vehicle accident compensation.

PRASA has experienced governance challenges for a number of years. As at 31 December 2020, the entity had about R24 billion in unspent capital allocations intended to modernise its passenger rail services. Decisions by previous boards have left PRASA assets severely vandalised – a trend that worsened with the onset of the COVID-19 pandemic. A new permanent board is expected to bring about substantive changes within the entity.

Until the user-pay policy for roads is fully implemented, SANRAL will continue to have limited access to capital markets to fund its toll roads. Shifts in transfers to SANRAL in previous years ensured that it met its financial obligations, but compromised the quality of the non-toll network.

Recommendations of the Standing Committee on Appropriations on the 2020 MTBPS

The Minister of Finance ensures that the National Treasury provides a comprehensive analysis and details of all outstanding invoices per province and national government departments, as well as their maturity profile. This will allow the committee to consider all the information before it and report to the National Assembly in terms of section 4(4)(a) of the Money Bills Amendment Procedure and Related Matters Act, No 9 of 2009. The National Treasury admits in the 2020 MTBPS that these unpaid invoices present a serious risk to government finances, therefore the committee cannot allow this situation to escalate to the levels where Eskom finds itself in regarding the municipal debt. The committee is also of the view that if this problem is not addressed, it has a potential to compromise the credibility of government budget.

The National Treasury will provide the information as captured by national and provincial departments in the annual financial statements that are submitted to the Auditor-General.

The Minister of Finance ensures that the National Treasury provides the committee with the set of conditions that must be met for the provisional funding to be made available in 2021/22 to build the Tygerberg Regional Hospital and Klipfontein Hospital in the Western Cape.

The National Treasury agrees with the recommendation and will provide the information directly to the committee.

Report of the Standing and Select Committees on Finance on the 2020 Revised Fiscal Framework

The special adjustments budget does not provide enough clarity on infrastructure development projects – and this is utterly crucial to our economic recovery. The National Treasury needs to report on this at its next quarterly briefing. The Appropriations Committee also needs to consider taking this forward.

A detailed pipeline of bankable projects is shared in the 2020 *Budget Review*. The National Treasury has been working with the Development Bank of Southern Africa (DBSA) and the Department of Public Works and Infrastructure to operationalise the Infrastructure Fund. A briefing should ideally be provided by all three parties, and in this regard, an opportunity to brief the committee will be welcome.

We recommend that the Minister of Finance reports quarterly on the effectiveness of the National Treasury's debt management strategies that would ensure that the level of debt stabilises over the medium term and avoids a sovereign debt crisis.

The National Treasury welcomes this recommendation and will provide quarterly reports. It publishes a public debt management report every year.

The Minister of Finance should brief the committee on progress made with the development of the State Bank.

The National Treasury will endeavour to brief the committee. There are currently several state banks in existence, often with overlapping mandates. The key challenge is to rationalise and consolidate these banks, and ensure they are able to generate sufficient revenue to fund their operations without relying on government funding. The National Treasury is also considering how best to address market failures and gaps in the current banking system, given the need to prioritise financial inclusion.

The committee notes that the National Treasury is working on the details of the R100 billion set aside as one of the economic support measures for job creation, to ensure proper processes are in place to roll out

projects over the medium term. The National Treasury should provide the committee with more detail regarding how the money will be spent, in which sectors, and what type of jobs will be created.

The Presidency oversees the programme and reports are consolidated therein. Departments will also submit spending and performance information in line with requirements of the National Treasury regulations.

The committee requires the National Treasury to brief it on why “zero-based budgeting” is being proposed, how will it be implemented and what its implications are.

The National Treasury welcomes the opportunity to brief the committee at its earliest convenience. Since June 2020, the National Treasury has been reviewing government spending to improve efficiency. More than 30 spending reviews across all functions have been conducted to understand service-delivery outcomes and how these might change under different scenarios. These reviews will be used to inform the development of zero-based budgeting.

Report of the Standing and Select Committees on Finance on the 2020 second Revised Fiscal Framework

While the committee notes that the assigning of the high-demand digital spectrum and reducing the cost of broadband and other costs of doing business forms part of the measures of the Economic Reconstruction and Recovery Plan, it is still concerned at the slow pace of the auctioning of the digital spectrum and persistent high costs of broadband to consumers. The committee reiterates that the National Treasury needs to engage with the Department of Telecommunications and Postal Services on this. Given the desperate need for revenue, the committee urges government to accelerate the auctioning of the digital spectrum.

The National Treasury agrees with the committee and engagements are ongoing. In the 2020 MTBPS, government allocated an additional R84.7 million to the Independent Communications Authority of South Africa in 2020/21 for the licensing of high-demand spectrum. The amount of revenue collected will depend on the design of the auction process and how mobile operators respond.

The committee reiterates its disappointment that there has only been 8 per cent take up of the loan guarantee scheme of R200 billion. The committee requires the National Treasury to report to it on its renegotiation of the lending criteria with the participating commercial banks. The committee recommends that the Minister of Finance considers the expansion of this loan guarantee scheme to directly include development financial institutions being able to provide liquidity to projects that they are directly funding.

The National Treasury welcomes the opportunity to brief the committee at its earliest convenience.

The committee reiterates its view expressed in its special adjustment budget report that: “Government should engage with all stakeholders, including the private sector on how to unlock domestic investment through impact investments and Regulation 28 of the Pension Funds Act [1956]. NT needs to consider creating the necessary regulatory mechanisms to ensure increased pension fund investments directly into infrastructure projects including real estate, which can unlock capital that currently is not finding its way into projects. The majority in the Committee believes there should be more engagement on the feasibility of prescribing assets for pension funds and will request a presentation by the Financial Sector Conduct Authority (FSCA) and NT on this when the FSCA releases the policy paper as announced by the Minister of Finance in his post-adjustment budget briefing to the Committee. National Treasury should also consider how pension fund members can leverage their retirement fund assets to improve their personal financial circumstances...”

Alongside the 2020 MTBPS, the National Treasury released an explanatory note on financial sector updates including the review of Regulation 28 – to allow retirement funds to invest more in infrastructure – and, under certain conditions, early access to retirement savings. Annexure F provides an update on these matters.

The committee requires the National Treasury (and SARS) to update it in the 2021 Budget Review on the developments in resolving the impasse on the taxing rights of countries when it comes to income derived from digital activities. The committee is aware that South Africa is one of the few countries that are already collecting VAT from the digital economy and commends this. The committee recommends that while the National Treasury participates in the Organisation for Economic Co-operation and Development (OECD), it should work in collaboration with the African Tax Administration Forum on the digital tax framework.

The National Treasury welcomes the opportunity to brief the committee at its earliest convenience. As a member of the Steering Group of the Inclusive Framework on Base Erosion and Profit Shifting, the African Tax Administration Forum and G24, South Africa is actively involved in finding a consensus-based solution on addressing the income tax challenges arising from the digitalisation of the economy.

Recommendations of the Standing Committee on Appropriations on the Adjustments Appropriation Bill

That the Minister of Finance ensures that the National Treasury provides a comprehensive report on how it plans to fund infrastructure spending aimed at reconstruction, rehabilitating and maintaining social and economic infrastructure such as schools, roads and other government infrastructure assets post COVID-19. The committee is concerned that a lack of a detailed and proper infrastructure recovery plan will lead government to the same path it is currently experiencing with Eskom infrastructure maintenance-related challenges. This plan should signal the National Treasury's commitment on funding public infrastructure for reconstruction, maintenance and rehabilitation, while also outlining potential future costs escalations due to delays in funding these key government infrastructure activities and estimated costs overruns of delayed infrastructure projects. This report should be submitted to the committee before the tabling of the 2020 MTBPS.

Government has radically restructured its infrastructure delivery model. A new institution, Infrastructure South Africa, has been established by Cabinet to oversee and coordinate public infrastructure delivery. In February 2020, the Minister of Finance announced that government is expected to spend R815 billion on infrastructure over the next three years. Of this, spending on economic infrastructure, mainly by state-owned companies, accounted for 75.1 per cent, while spending on social infrastructure accounted for 20.9 per cent of the total.

The Infrastructure Fund is a key element of the economic recovery plan. It aims to diversify government funding sources available for infrastructure by combining capital from the public and private sectors, development finance institutions and multilateral development banks. It will harness skills and capacity from the private sector to improve the quality of planning, enhance the speed and quality of spending, and reduce the cost of infrastructure. This in turn will contribute to the growth of the economy and to increased productivity and employment creation.

In line with the pronouncements made by the President on infrastructure investments for both economic growth stimulation and job creation, the Minister of Finance should ensure that the National Treasury provides a comprehensive report on how this bill responds to the pronouncements made by the President on infrastructure investment. This report should be submitted to the committee before the tabling of the 2020 MTBPS.

The National Treasury can submit a report in this regard. Government has allocated a total of R625 million to the DBSA, the Presidential Infrastructure Coordinating Commission and the Government Technical Advisory Centre to help government institutions plan and package infrastructure projects for submission to the National Treasury for funding. Projects that are viable and shown to grow the economy, create jobs and crowd in private investment will be allocated funding through the R100 billion that has been set aside for blended infrastructure projects through the Infrastructure Fund.

The Minister of Finance should ensure that stringent measures are put in place to ensure that procurement processes are transparent and credible, including the attainment of value for money.

The National Treasury welcomes this recommendation and will provide Parliament with a detailed report on these measures at its earliest convenience.

Recommendations of the Standing Committee on Appropriations on the second Adjustments Appropriation Bill

That the Minister of Finance ensures that the National Treasury reports to the committee on the disbursement and utilisation of the R12.6 billion proposed allocation for the presidential employment interventions. The committee wants to exercise its oversight function on this expenditure and the number of employment opportunities it creates for South Africans who have been hit hard by the COVID-19 pandemic.

The National Treasury agrees with this recommendation and has submitted a spreadsheet prepared by the Presidency alongside the 2021 Budget.

That the Minister of Finance ensures that the National Treasury provides a detailed report on the uptake of the Government Loan Guarantee Scheme, the banks that have provided loans to businesses and the list of the companies who have benefited from the scheme. The committee wants to understand the overall framework that governs the loan guarantee scheme and examine whether small, medium and micro enterprises are benefiting from the scheme.

The National Treasury will provide a detailed report to the committee.

That the Minister of Finance ensures that the Chief Procurement Officer provides a comprehensive report on government high spending areas like infrastructure, information communication and technology. The committee wants to understand how much government is paying in comparison with the private sector for similar services.

The National Treasury can provide spending reports as captured by departments in public financial management systems. The procurement decisions made by accounting officers determine unit costs for a service.

That the Minister of Finance should consider allocating additional funding to Council for Scientific and Industrial Research (CSIR) to enable the entity to carry out its important legislative mandate.

At the time of the 2020 Budget, the National Treasury allocated an additional R220 million over the 2020 MTEF period for various infrastructure projects. These include facilities that will strengthen the CSIR's ability to help local industries improve their competitiveness by providing access to specialised skills and facilities. As noted earlier, there is limited scope for additional funding due to fiscal constraints. Departments, public entities and other institutions are required to reprioritise existing funds for emerging priorities.

While reluctantly agreeing to the R10.5 billion allocation to South African Airways (SAA), the committee strongly recommends that the Minister of Finance ensures that the National Treasury reviews in the 2021 Appropriations Bill the sources from which this money has been drawn and find alternative sources that do not undermine crucial service delivery and development programmes. The committee will pay very keen attention to this in processing the 2021 Appropriations Bill.

The National Treasury broadly agrees with the committee and alternatives will be considered where necessary. The R10.5 billion allocation to SAA does not affect allocations over the 2021 MTEF period as it was shifted from funds allocated in 2020/21.

Recommendations of the Select Committee on Appropriations on the Division of Revenue Amendment Bill (2020)

When the Minister of Finance gazettes the conditional grant frameworks in terms of section 16 of the 2020 Division of Revenue Act, the adjustments of certain grant frameworks proposed to the committee, to expedite the release of the much-needed funds for expenditure to strengthen the implementation of the lockdown regulations and rapid response to the COVID-19 pandemic, should be included. This will be in addition to the provisions which have already been activated to respond to the pandemic in terms of the 2019 Division of Revenue Act.

The National Treasury supports the recommendation. These additional conditions will enable the funds to be used to respond to COVID-19 rapidly rather than waiting for their inclusion in the Division of Revenue Amendment Bill. The updated frameworks were gazetted on 3 July 2020.

While the committee welcomes the expansion of access to early childhood development services, which will reach almost 700 000 children under the age of four years in 2022/23, and the additional R1.4 billion for the early childhood development grant to increase the subsidy per child from R15 per day to R17 per day in 2020/21, increasing to R18.57 per day by 2022/23, the committee is of the view that this is a crucial conditional grant for early childhood development and therefore recommends that the Minister of Finance, together with the Minister of Social Development and provincial treasuries, ensure that proper mechanisms are developed and put in place to comply with the grant framework, improve the grant expenditure and grant performance, given the 2019/20 grant performance picture demonstrated by some provinces.

The National Treasury supports this recommendation. The Department of Social Development is responsible for administering this grant and ensuring that its conditions are met. The National Treasury will continue to work with the department and provincial treasuries to oversee grant spending. This recommendation is also referred to the Minister of Social Development and provincial treasuries.

Due to the importance of education in our country which aims to empower citizens to fight unemployment, inequalities and poverty as well as the need to address education infrastructure backlogs in certain areas, especially in schools where the state of infrastructure poses a danger to pupils, the National Treasury should review the baseline reduction of the education infrastructure grant and the school infrastructure backlogs grant for the MTEF period and, furthermore, the national electrification programme grants should also be considered based on their evidence and merits.

To manage the effect on services, the amount reduced from each grant considered past spending and performance; whether it funds salaries, medicines and food; and whether there has been significant real growth in allocations in recent years. It is anticipated that, although these reductions might delay the start of new infrastructure projects this year, provinces and municipalities will be able to implement existing projects with the remaining allocation.

Both the National Treasury and the Department of Cooperative Governance, together with provincial treasuries and the South African Local Government Association (SALGA), should intensify efforts to support local government interventions to improve revenue collection, such as the pilot project to retrofit smart meters, and report the progress to Parliament in the next budget cycle; as this requires sector committees also to play their oversight role. Furthermore, sound debt recovery strategies and mechanisms are required to improve revenue collection.

The National Treasury agrees with this recommendation. Managing municipal revenue is a shared responsibility. Government is strengthening national coordination through the single and integrated revenue management framework, which improves collaboration between the National Treasury and the Department of Cooperative Governance as they enter a municipality. The framework will assist with planning and budgeting, programme design and implementation. The National Treasury has also placed revenue advisors at each provincial treasury. These advisors will help capacitate the provincial treasuries on revenue initiatives for municipalities and assist municipalities to address inefficiencies in revenue management.

In addition, a Multidisciplinary Revenue Committee has been established to strengthen collaboration and address fragmentation on revenue issues. The committee includes the National Treasury, the Department of Cooperative Governance, the Department of Public Enterprises, the Department of Mineral Resources and Energy, the Department of Public Works and Infrastructure, the Department of Water and Sanitation, Eskom, SALGA and the National Energy Regulator of South Africa. The committee will focus on four recommendations that Cabinet approved in 2018: a national campaign to pay for services, the introduction of smart meters for electricity and water, the restructuring of arrear debt for Eskom and water services, and the development of a process to deal with defaulting municipalities. In addition, it will proactively address shortfalls within municipal revenues.

The National Treasury, together with the Department of Cooperative Governance, provincial treasuries and SALGA, should ensure that municipalities develop and provide proper plans and mechanisms in line with the COVID-19 interventions for the additional R20 billion allocation proposed by government for municipalities, to avoid wasteful and fruitless expenditure, and such mechanisms should ensure that consequence management prevails wherever there is corruption and mismanagement of funds. The committee believes that this will go a long way in addressing issues such as additional responsibilities posed by COVID-19 regulations, unemployment, irrecoverable debts and budget shortfalls.

The National Treasury agrees that municipalities should avoid wasteful and fruitless expenditure. The COVID-19 pandemic required flexibility to adapt to rapidly evolving circumstances. Of the R20 billion provided for municipalities, R11 billion was added through the local government equitable share to allow municipalities discretion to respond to local conditions. The remaining funds were provided through existing conditional grants with specific conditions. Additional conditions were added to some grants to allow for spending in response to COVID-19.

With regard to the suspension of the public transport network grant for Buffalo City metropolitan municipality, Mbombela and Msunduzi local municipalities, and given the fact that this is a much needed programme to improve public transport networks, address commuter inequalities and reduce road fatalities; the Minister of Finance, together with the Minister of Cooperative Governance and Traditional Affairs and the Minister of Transport, relevant provincial treasuries and SALGA should take drastic measures to ensure that adequate support and capacity development interventions are tailored to resolve the matter speedily and ensure that, once restored, the conditional grant achieves its intended outcomes. The committee will continue to monitor progress in this regard.

The National Treasury agrees with this recommendation and will continue supporting the cities to realise the objectives of the grant.

With regard to the baseline reduction of the provincial roads maintenance grant, the Minister of Finance and the Minister of Transport should thoroughly assess and consider the service delivery implications, given the poor status of road maintenance in some provinces and the level of road carnage which ultimately cost the state a lot of money, before the baseline reduction of R2.8 billion over the medium term is effected.

To manage the effect on services, the amount reduced from each grant considers past spending and performance; whether it funds salaries, medicines and food; and whether there has been significant real growth in allocations in recent years. This grant is intended to supplement transfers from the provincial equitable share to fund the maintenance and upgrading of provincial roads. Provinces are expected to fund the construction of new roads from their own budgets.

The Department of Transport should expedite the finalisation of the transport subsidy policy which will include improving public transport for rural commuters and address inequalities. On the other hand, the National Treasury should support government efforts to intensify rural development intervention programmes to ensure that public service centres are geared towards local people, particularly townships and poor rural communities. The sector committees should monitor progress on the policy development front, while the Select Committee on Appropriations will monitor budget implementation once such a policy is concluded.

This recommendation has been referred to the Minister of Transport.

The committee notes the views suggesting that the local equitable share of 9 per cent of the nationally raised revenue is not cost-reflective and, therefore, not adequate to fund local government functions. The committee is of the view that SALGA, together with the National Treasury, the Department of Cooperative Governance and the Financial and Fiscal Commission (FFC), should work together to consider scientific evidence available to help review the local government equitable share formula in a fair and equitable manner. The committee will continue to monitor progress in this regard.

This recommendation is in effect. The National Treasury, together with the other specified departments and entities, is part of a standing technical committee that regularly discusses issues relating to the local government equitable share. In 2013/14, a new equitable share formula was introduced based on work by committee members. This formula is updated annually through the committee.

While the committee understands the need for budget reprioritisation over the 2020 MTEF, due to the current economic outlook, the committee is of the firm view that these budget cuts should not compromise provincial and local government frontline service delivery points, especially where more human capital is required, and personnel at lower levels should continue to be protected.

The National Treasury notes this recommendation. It is important that service delivery implications are considered alongside the need to balance the fiscal framework. Reductions to provincial and local government conditional grants were necessary to meet urgent spending needs related to the COVID-19 pandemic. To manage the effect on services, the amount reduced from each grant considers past spending and performance; whether it funds salaries, medicines and food; and whether there has been significant real growth in allocations in recent years.

Given the underexpenditure and underperformance of certain conditional grants such as the human papillomavirus grant; the maths, science and technology grant; the learners with profound intellectual disabilities grant; the title deeds restoration grant; and the comprehensive agricultural support programme grant; as reported during the in-year monitoring for 2019/20, and the committee's firm view that these are very important grants to improve the socioeconomic situations of the vulnerable and the poor; the Ministers of finance, health, basic education, human settlements and agriculture should ensure that concrete steps are taken to address challenges which impact grant expenditures and performance

intending to improve service delivery and ensure that there is full compliance with each conditional grant framework.

This recommendation has been referred to the Minister of Agriculture, Land Reform and Rural Development; the Minister of Basic Education; the Minister of Health; and the Minister of Human Settlements, Water and Sanitation.

The Minister of Finance should ensure that additional allocations for drought relief for all provinces are considered during the 2020 adjustments budget, in light of the fact that the Minister of Cooperative Governance and Traditional Affairs declared South Africa a disaster-drought area on 26 February 2020.

This recommendation has been referred to the Minister of Cooperative Governance and Traditional Affairs.

Recommendations of the Select Committee on Appropriations on the Division of Revenue Amendment Bill (2020)

Government must improve and strengthen its financial management systems and internal controls units; appoint proper audit committees; and design and develop focused, properly aligned monitoring and evaluation systems with credible strategic plans across government to ensure that allocated resources are spent effectively and strictly according to the framework of the Division of Revenue Amendment Bill [2020] in order to prevent wasteful and fruitless expenditure, irregularities and corruption with COVID-19 relief funds. Parliament, provincial legislatures and municipal councils should monitor the implementation through rigorous oversight and in-year monitoring programmes.

The National Treasury agrees with this recommendation. Provincial and municipal spending related to COVID-19 is monitored through a range of mechanisms. The National Treasury also issued additional regulatory requirements in May 2020 to balance the need for flexibility with internal controls and risk management. Ultimately, municipal accounting officers are accountable for how funds are used. Municipalities are responsible for informing their communities of COVID-19-related spending and communities can monitor municipalities to ensure that the funds are spent as intended.

The Department of Basic Education (DBE), together with provincial education departments, should address the issues around the shortage of teachers due to co-morbidities and the shortage of personal protective equipment as this puts the lives of learners and teachers at high risk. Furthermore, the DBE and provincial education departments should expedite the process of implementing proper permanent structures for water provision in schools, given that the trucking system is an expensive option.

This recommendation has been referred to the Minister of Basic Education and provincial departments of education.

The National Disaster Management Centre, together with the provincial departments of agriculture, should expedite the finalisation of research to establish the appropriate figure for the amounts required for national disasters, especially for provinces that are severely affected. Such relief will protect food security and jobs, given the state of national disaster declared by government in February this year. The committee also believes that more allocations are required to be earmarked for the comprehensive agricultural support programme grant to further enhance food security and jobs for poor and vulnerable South Africans, especially during the COVID-19 pandemic.

This recommendation has been referred to the Minister of Cooperative Governance and Traditional Affairs and the Minister of Agriculture, Land Reform and Rural Development.

With regard to the additional R3.4 billion for the COVID-19 component of the HIV, tuberculosis, malaria and community outreach grant, the committee acknowledges that provincial governments have a prerogative to decide how to spend the allocated funds; however, the National Treasury, together with the Department of Health, should ensure that these funds are spent according to the requirements of the Division of Revenue Amendment Bill [2020] framework and ensure that section 38(1)(b) and (c) of the Public Finance Management Act (1999), and other proper governance measures are properly implemented by provincial health departments to safeguard the management of the allocation. Provinces should further expedite the process of determining appropriate criteria to reprioritise the R20 billion within their allocated resources without disadvantaging the most rural and poor areas.

This recommendation has been referred to the Minister of Health.

The National Treasury, together with the Department of Health, should ensure that adequate resources are made available to expedite the implementation of national health insurance (NHI) to ensure that the implementation of the much needed universal access to healthcare services is achieved for the benefit of the poor and vulnerable, especially during the COVID-19 pandemic.

This recommendation has been referred to the Minister of Health.

While acknowledging the importance of fighting the COVID-19 pandemic successfully, the committee is also of the view that National Treasury should ensure that a balanced approach is implemented, wherein efforts tailored to fight COVID-19 do not undermine the much needed economic resuscitation, social transformation interventions and goals and targets of the National Development Plan. Reprioritisation of funds should not be to the detriment of core business and frontline service delivery and programmes aimed at economic recovery, such as infrastructure projects, which will ultimately compromise government efforts to resuscitate the economy.

The National Treasury agrees with this recommendation and looks forward to engaging with the committee on the details of measures to support economic recovery and service delivery.

The National Treasury, the Department of Cooperative Governance and SALGA should ensure that municipalities implement consequence management and hold those who have transgressed accountable and recover any funds lost as a result of corruption before and during the COVID-19 pandemic. They should further ensure that proper governance and financial control systems, as well as effective supply chain management are in place to prevent financial mismanagement and wasteful and fruitless expenditure and to safeguard the additional allocations to local government, while at the same time improving municipal audit outcomes. This should assist municipalities to provide personal protective equipment and ensure the sanitisation of taxi ranks. The extraction of political and administrative accountability as part of enforcing consequence management for municipalities by SALGA should be supported.

This recommendation has been referred to the Minister of Cooperative Governance and Traditional Affairs and SALGA.

The National Treasury, the Department of Cooperative Governance and SALGA should work together to strengthen the level of support given to municipalities who are struggling to address revenue shortfalls as a result of the COVID-19 pandemic; and the circulars issued by the National Treasury as standard guidelines for municipal procurement and reporting for COVID-19 should be enforced to ensure that proper management of expenditure for COVID-19 is achieved. Furthermore, the allocation for implementing the district development model, to ensure alignment and avoid duplication across spheres, should be clearly reflected in the budget.

This recommendation has been referred to the Minister of Cooperative Governance and Traditional Affairs and SALGA.

The National Treasury, the Department of Cooperative Governance and SALGA should ensure that all municipalities owing Eskom settle their financial obligations and all government departments owing municipalities also settle their obligations to assist in addressing municipal revenue shortfalls as a result of COVID-19. They should further ensure that debt collection and credit control mechanisms are properly implemented.

This recommendation has been referred to the Minister of Cooperative Governance and Traditional Affairs and SALGA.

The National Treasury should conduct proper impact assessment to identify and address the root causes of underspending before taking away or reprioritising resources from underspending programmes. The committee believes that this can only be used as a last resort as it negatively affects the poorer communities who depend on government services at a local government level. Different types of constructive interventions, including addressing the root causes of underexpenditure, should be identified and implemented to support struggling municipalities to ensure effective and efficient spending, and ultimately, value for money.

The National Treasury supports this recommendation. Two of the main reasons for underspending are poor project preparation and frequent changes in the authorities. The budget allocates substantial resources to build capacity. Withholding funds is always implemented as a last resort.

The National Treasury, the Department of Public Service and Administration and SALGA should ensure that wage negotiations are conducted fairly; and urgently resolve all labour-related matters without creating instability, especially on local government level and in frontline services, which will compromise the much-needed delivery of basic services to poor and vulnerable South Africans during this time of COVID-19.

This recommendation has been referred to the Minister of Public Service and Administration and SALGA.

The Minister of Finance and the National Treasury should ensure that adequate consultation is conducted with both the provincial and local government spheres, as part of improving intergovernmental relations, prior to any reprioritisation of funds. The committee will monitor this in future and require the National Treasury to report on the extent of its consultation with the provinces and local government on budgets.

The National Treasury consults extensively with provinces, municipalities and SALGA through the Budget Council, Budget Forum and other engagements.

Recommendations of the Select Committee on Appropriations on the Division of Revenue Second Amendment Bill (2020)

The Minister of Finance should ensure that the National Treasury gazettes the corrections to the following conditional grant frameworks, as set out in the bill in accordance with section 16(4) of the Division of Revenue Act (2020) as soon as possible:

- *The health facility revitalisation component of the NHI indirect grant*
- *The framework of the rural roads asset management systems grant*
- *Allocations for ring-fenced sport projects in the municipal infrastructure grant.*

These corrections were gazetted shortly after the bill was tabled.

The National Treasury, together with the Department of Cooperative Governance and Traditional Affairs, should conduct a service delivery impact assessment emanating from the proposed budget cuts in local and provincial government to raise R10.5 billion for the SAA business rescue plan. This should demonstrate

how these cuts will affect the implementation of the National Development Plan and the medium-term strategic framework, and poor and vulnerable South Africans. This report should include measures taken by government to mitigate the possible impact on the poor and vulnerable. Furthermore, the Minister of Finance, together with Cabinet, should ensure that appropriate measures are taken to prevent the movement of funds from already distressed and dysfunctional municipalities and infrastructure programmes to bail out mismanaged state-owned entities at the expense of service delivery. The movement of funds should not infringe on the constitutional rights of poor and vulnerable South Africans. The National Treasury should report on this during the 2021 Budget tabling.

The National Treasury agrees that it is important to consider the effect of reductions on service delivery. The recommendation has been referred to the sector departments that are administering the grants as the assessment of service delivery falls within their mandate. To manage the effect on services, the amount reduced from each grant considers past spending and performance; whether it funds salaries, medicines and food; and whether there has been significant real growth in allocations in recent years.

While the committee welcomes the additional R1.5 billion in response to job losses resulting from the COVID-19 pandemic, allocated as part of the stimulus package to create job opportunities through labour intensive projects; the committee is of the view that the culture of poor planning, the lack of clear reporting frameworks and of timeous expenditure in such initiatives should be urgently addressed by government to avoid a repeat of the challenges reported in the Jobs Fund. The committee is of the view that lessons learned from the nine years of implementing the Jobs Fund can assist to improve the work of the Presidential Employment Initiative to achieve better results. Parliament and provincial legislatures will continue to monitor progress.

The National Treasury agrees with this recommendation. The Presidency has developed reporting requirements for this programme and requires monthly reporting. Moreover, funding was provided for projects that were ready for implementation, based on the strength of the application submitted.

In order to prevent wasteful and fruitless expenditure, the Minister of Finance, together with the Minister of Basic Education and the affected provincial departments of education and provincial treasuries, should ensure that concrete steps are taken to build and demonstrate the required capacity to spend the proposed addition of R7 billion to the provincial equitable share to employ education assistants at schools and to save governing body posts, as well as the R500 million added for food relief in response to COVID-19. These steps should include developing clear systems to monitor and evaluate such expenditure to ensure that unnecessary problems are eliminated during food parcel distribution. The National Treasury should report on this during the tabling of the 2021 Budget.

The National Treasury agrees with this recommendation. The Presidency has developed reporting requirements for this programme and requires monthly reporting.

With regards to the COVID-19 economic relief package, the committee is mindful that the provincial sphere has committed to reprioritise R20 billion from its own provincial equitable share to the COVID-19 response. However, the committee strongly recommends that all healthcare and frontline services budgets should be protected and provincial treasuries should put in place clear monitoring and evaluation mechanisms for expenditure and performance, to ensure that mismanagement of funds is prevented at all times. Parliament, together with provincial legislatures, should monitor progress through effective oversight and in-year monitoring. The National Treasury should report on this during the tabling of the 2021 Budget.

The National Treasury welcomes this recommendation and has referred it to the provincial treasuries.

The Minister of Finance should ensure that the National Treasury approves the roll-overs for the following provincial and local government grants contained in the bill for all projects near completion timeously, in accordance with the necessary financial management prescripts:

- *The school infrastructure backlogs grant for the completion of projects that are part of the sanitation appropriate for education initiative earmarked for Eastern Cape, KwaZulu-Natal and Limpopo schools*
- *The urban settlements development grant to fund commitments for bulk infrastructure-related projects in the Nelson Mandela Bay metropolitan municipality*
- *The public transport network grant to continue with the roll-out of integrated public transport network infrastructure in the Nelson Mandela Bay metropolitan municipality*
- *The regional bulk infrastructure grant for drought and COVID-19 water and sanitation interventions nationwide.*

The National Treasury only recommends rollovers where there is compliance with the legal regulations and practice notes. The rollovers mentioned above were approved before the Division of Revenue Second Amendment Bill was tabled.

While the committee has noted the proposed reduction of R25.3 billion as part of the overall wage bill reduction of R160 billion to ensure fiscal consolidation and economic reconstruction and recovery; the committee recommends that the issue of the public wage bill should be discussed and concluded fairly and amicably in the Public Service Co-ordinating Bargaining Council, as the most appropriate platform; and that such reductions should not affect the frontline service delivery workers, especially in poor municipalities and the departments of health, education and social development.

The National Treasury notes this recommendation and it has been forwarded to the Minister of Public Service and Administration.

While the allocation of R12 million, reprioritised into the indirect component of the water services infrastructure grant, for the implementation of various water services interventions, is a step in the right direction; the committee recommends that more resources should be found for the Department of Water and Sanitation and the Department of Agriculture, Rural Development and Land Reform to address the persistent water crisis and drought affecting some provinces, in order to protect food security.

Both water and agricultural grants can be used to respond to drought. Additional funding can be allocated through disaster grants once a disaster is declared. As noted at the beginning of this section, there is little scope to provide additional funding at this time.

The finalisation of the draft Public Procurement Bill should be expedited to ensure that the majority of South Africans participate in the economic mainstream. The Minister of Finance, together with the Ministers of economic development; trade, industry and competition; and employment and labour, should address the economic barriers, social inequality, and societal polarisation by adopting a localised product value chain approach. The expression of this approach should also be found in the incentive frameworks of both provincial and local conditional grants as hard conditions to permit procurement of goods only if they are made or assembled locally within the South African borders; to stimulate the domestic economy and inclusive growth and encourage local opportunities while taking international trade agreements into consideration.

The economic recovery plan announced by the President in October 2020 largely addresses this recommendation.

The committee appeals to the National Treasury, the Department of Cooperative Governance and Traditional Affairs and SALGA to continue to support municipalities to resolve the Eskom and water boards debt issue; and to ensure that the matter of provincial and national departments owing municipalities are also expeditiously addressed to bolster municipal finances, as opposed to implementing budget cuts in local government. They should further ensure that municipalities create credible credit control measures,

debt management policies and effective revenue collection strategies; and should provide a progress report in this regard during the tabling of the 2021 Budget.

The National Treasury agrees with this recommendation. Managing municipal revenue is a shared responsibility. Government is strengthening national coordination through the single and integrated revenue management framework, which improves collaboration between the National Treasury and the Department of Cooperative Governance as they enter a municipality. The framework will assist with planning and budgeting, programme design and implementation. The National Treasury has also placed revenue advisors at each provincial treasury. These advisors will help capacitate the provincial treasuries on revenue initiatives for municipalities and assist municipalities to address inefficiencies in revenue management.

The Minister of Finance and Cabinet should take concrete steps to prevent the mismanagement of COVID-19 funds and to ensure that consequence management is enforced for corruption and malfeasance during personal protective equipment procurement processes. The National Treasury, together with the Department of Health, should table a detailed COVID-19 expenditure and performance report in Parliament, including how the remaining funds will be appropriated. The Minister of Finance and other Ministers should also ensure that the National Treasury and other departments avail the necessary performance information when requested by oversight and government advisory bodies, such as the FFC, to conduct impact assessments.

The National Treasury agrees that this information should be provided when requested for oversight.

The National Treasury issued additional requirements in a May 2020 circular to balance the need for flexibility with sufficient internal controls and risk management in responding to COVID-19. Information on companies that were awarded the personal protective equipment tenders has been published on the National Treasury website.

The Ministers of social development and basic education, together with the Minister of Finance, should ensure that proper financial management mechanisms are put in place to prevent wastage and fruitless expenditure of the funds allocated to early childhood development (R496 million) and school sanitation (R475 million); and further explore ways to retain the long term unemployment grant of R350 for unemployed individuals between the ages of 18 and 59. This could provide a safety net for the poorest of the poor, even though it will never be enough to cater for all, considering the current economic situation across South Africa.

The National Treasury agrees that the funds should be used efficiently. The Presidency has developed reporting requirements for this programme and requires monthly reporting.

Given the current economic situation, with declining revenue collection and a rising budget deficit, the committee recommends that government should continue to make use of all legislative measures at its disposal to fight corruption, including recovering monies which have been lost as a result of wrongdoing, whether in state capture, personal protective equipment procurement projects or government officials who contravene public finance management and supply chain management prescripts.

The National Treasury agrees with the recommendation.

While the committee appreciates that COVID-19 challenges led to the MTBPS being introduced in Parliament a week later, it has meant that the usual tight time frame for processing the bill was intensified this year, and the committee and the provincial legislatures would have wanted to give more rigorous attention to the bill. We urge the Minister of Finance to introduce the MTBPS timeously in future. The committee believes that the House Chairpersons of both the National Assembly and the National Council of Provinces need to look into the possibilities of giving the council more time and space to process the MTBPS in future.

The National Treasury notes this concern.

While recognising the specific time constraints this year, and other stresses of the National Treasury, the committee believes that the National Treasury's responses to the concerns of the provincial legislatures were inadequate and recommends that it provide more effective responses in future.

The National Treasury notes the recommendation. It responds within its mandate.

The committee believes that the reviews of the provincial and local government equitable shares need to be finalised urgently, as it has been on the agenda for a long time and numerous recommendations have repeatedly been made by the committee, SALGA, the FFC and other stakeholders. The matter is now even more urgent, given the impact of COVID-19 on the provinces and, particularly local government, whose finances are in a perilous state anyway. These reviews need to involve all three spheres of government and other relevant stakeholders, as well as independent technical experts.

The National Treasury, together with the Department of Cooperative Governance, SALGA and the FFC, is part of a standing technical committee that regularly discusses issues relating to the local government equitable share. In 2013/14, a new local equitable share formula was introduced based on work by committee members. This formula is updated annually through the committee. In December 2020, the Budget Forum agreed that all matters relating to the local government fiscal framework will be managed collaboratively between the National Treasury, the department and SALGA.

The National Treasury, provincial treasuries, the FFC, other national departments and independent technical experts are reviewing the provincial equitable share and will publish the results as soon as they are available.

Recommendations of the Standing Committee on Appropriations on the Division of Revenue Bill (2020)

That the Minister of Finance and the Minister of Transport provide a report on the possible impact of the R2.8 billion reductions on the provincial roads maintenance grant. Considering the poor state of the provincial road network, the Ministers must provide the committee with alternative viable solutions on how to fund the maintenance of the provincial road network in all the provinces affected by these cuts, the poor provinces in particular.

The grant is intended to supplement transfers from the provincial equitable share to fund the maintenance and upgrading of provincial roads. Provinces are expected to fund the construction of new roads from their own budgets.

That the Minister of Finance and Minister of Basic Education provide a report on the implications of the R1.9 billion reductions in the education infrastructure grant. The committee views this grant as critical in providing education infrastructure in particular to the previously disadvantaged communities. Each Ministry should report the rationale and implications of the R1.9 billion reductions in this grant given its importance in providing education infrastructure.

To manage the effect on services, the amount reduced from each grant considers past spending and performance; whether it funds salaries, medicines and food; and whether there has been significant real growth in allocations in recent years. The *education infrastructure grant* was allocated R35 billion, and grows at an average annual rate of 5.2 per cent over the 2020 MTEF period, including the reductions. While these reductions will delay the delivery of infrastructure projects, all planned projects are still expected to be completed.

The Minister of Basic Education should report on the implications of these budget reductions on the education infrastructure grant and provide a list of the affected provinces and the list of the education infrastructure projects affected.

This recommendation has been referred to the Minister of Basic Education.

That the Minister of Basic Education provides a comprehensive report on the impact of the R123 million reduction over the MTEF period on the school infrastructure backlogs grant which is meant for the eradication and replacement of inappropriate schools and related school furniture.

This recommendation has been referred to the Minister of Basic Education.

That the Minister of Finance, the Minister of Transport, the Minister of Cooperative Government and Traditional Affairs, SALGA, and the Msunduzi, Buffalo City, and Mbombela municipalities should report on the possible financial and service delivery implications resulting from the R4.3 billion reductions in the public transport network grant over the MTEF period. The aforementioned parties should report to the committee as follows:

The Minister of Finance should demonstrate how, over the years, this grant has underperformed in these affected municipalities, what has been the expenditure patterns versus infrastructure investment as required by the grant framework. The Minister should also provide demonstrable evidence that the National Treasury has over time assisted these affected cities without success.

In 2019/20, Mbombela, Buffalo City and Msunduzi were suspended from the *public transport network grant*. This decision was made on the basis of consistent underperformance. Although the grant was initiated in 2006/07, the three cities have not moved past the planning stage of their public transport projects. By the end of 2019/20, about R861 million had been allocated to Buffalo City, R1.7 billion to Mbombela and R1.4 billion to Msunduzi under this grant. To date, the cities have not delivered any public transport services with these funds.

The Department of Transport is responsible for administering this grant, therefore it would be best placed to provide data showing spending patterns against infrastructure investment. The National Treasury has supported cities participating in this grant by procuring transport experts to assist the cities with financial planning to ensure their transport systems are fiscally and financially sustainable, and by offering support through relevant experts such as the Office of the Chief Procurement Officer.

The Minister of Transport should explain the steps that the department had taken to assist these cities who are currently suspended from the grant. Furthermore, the Minister of Transport should provide a report on the possible implications for the suspension of these cities from the grant in light of what the Department of Transport's public transport strategy envisages.

This recommendation has been referred to the Minister of Transport.

The Minister of Cooperative Government and Traditional Affairs (COGTA) should clarify the steps that the department implemented over time in order to fast-track the implementation of this grant and what appears to be the challenges in these cities and how COGTA was assisting these municipalities through available intergovernmental processes.

This recommendation has been referred to the Department of Cooperative Governance.

SALGA clarifies its role in assisting municipalities and cities with the implementation of the public transport network grant and what has been done to address the challenges faced by these cities in spending this grant according to the grant framework. SALGA should also clarify the service delivery implications of the immediate suspension of these cities in this grant.

This recommendation has been referred to SALGA.

That the Mbombela, Buffalo City, and Msunduzi municipalities should appear before the committee to explain in detail the challenges faced by these cities in spending and implementing the public network grant according to the grant framework. These municipalities should provide evidence on where they have solicited assistance in from other government structures in order to spend this grant and provide these important services to the communities in these cities. The implications on service delivery and job creation in these cities should also be highlighted.

This recommendation has been referred to the Mbombela, Buffalo City and Msunduzi municipalities.

Recommendations of the Standing Committee on Appropriations on the Division of Revenue Amendment Bill (2020)

That the Minister of Finance ensures that the National Treasury provides a socioeconomic and service delivery impact assessment of the overall suspensions of grants before the tabling of the 2020 MTBPS.

The National Treasury welcomes the opportunity to report to the committee at its earliest convenience. The National Treasury worked closely with departments to minimise the negative effects of these reductions. These are temporary suspensions to spending for 2020/21 to provide funds for the COVID-19 response, including a social and economic relief package. Accordingly, no significant effect on service delivery is expected as most affected programmes are delayed.

The Minister of Finance ensures that the National Treasury provides a comprehensive report on how the National Treasury plans to fund infrastructure spending aimed at reconstruction, rehabilitating and maintaining social and economic infrastructure such as schools, roads and other government infrastructure assets after COVID-19. The committee is concerned that a lack of a detailed and proper infrastructure recovery plan will lead government to the same path as is currently experienced with Eskom infrastructure maintenance related challenges. This plan should signal the National Treasury's commitment on funding public infrastructure for reconstruction, maintenance and rehabilitation, while also outlining potential future costs escalations due to delays in funding these key government infrastructure activities and estimated costs overruns of delayed infrastructure projects. This report should be submitted to the committee before the tabling of the 2020 MTBPS.

The 2020 MTBPS provided a description of the measures to support economic growth, including the funding for infrastructure and the economic development function.

In line with the pronouncements made by the President on infrastructure investments for both economic growth stimulation and job creation, the Minister of Finance should ensure that the National Treasury provides a comprehensive report on how this bill responds to the pronouncements made by the President on infrastructure investment. This report should be submitted to the committee before the tabling of the 2020 MTBPS.

The 2020 MTBPS provided a description of the measures to support economic growth, including the funding for infrastructure and the economic development function.

The Minister of Basic Education ensure that the Department of Basic Education submit a detailed report to the committee on the impact of reducing the education infrastructure grant and detailed recovery plan for school infrastructure reconstruction, rehabilitation and maintenance. Given the reports on the number of schools vandalised and destroyed during the lockdown period, the department must also include a detailed list of these schools per province and present a detailed maintenance recovery plan of these schools.

This recommendation has been referred to the Minister of Basic Education.

That the Minister of Finance and the Minister of Cooperative Governance and Traditional Affairs facilitates and ensure engagements between the National Treasury and SALGA so as to resolve the revenue and capacity challenges at the local sphere of government. The committee should be provided with a report on the outcomes of these engagements before the tabling of the 2020 MTBPS.

The National Treasury is implementing this recommendation, as outlined in a previous response above.

The Minister of Finance jointly with the Minister of Cooperative Governance and Traditional Affairs provide a comprehensive report on how all the municipalities placed under section 139 interventions were monitored and assisted in responding to the COVID-19 pandemic. Considering that some of these municipalities were showing slow to no signs of improvements, this report must be submitted to the committee before the tabling of the 2020 MTBPS.

The National Treasury will provide this report. On a monthly basis, the National Treasury monitors these municipalities if they have financial recovery plans. This practice continued during the COVID-19 pandemic. Many municipalities under intervention do not implement their financial recovery plans as required and are advised to do so. Municipalities under intervention were generally unable to quantify the effect of the pandemic on their financial position. In most cases, the effect on municipal revenues tended to be overstated in anticipation of additional financial relief. These municipalities will be assisted through revised financial recovery plans focusing on adjustments to their expenditure.

That National Treasury reconsiders the approach of reprioritisation of funds away from the urban settlements development grant in particular and focus more on enhancing the capacity at local government level to effectively, efficiently and economically spend the grant allocations.

The National Treasury notes the recommendation. Government spends approximately R2.5 billion per year on building capacity in local government and is reviewing the effectiveness of these capacity-building programmes.

That the relevant Parliamentary portfolio committees should also follow up on issues of poor performance and underspending on key infrastructure grant allocations which have been raised in this report.

The National Treasury supports this recommendation. Departments are accountable for spending and performance on grant allocations that they administer.

Recommendations of the Standing Committee on Appropriations on the Division of Revenue Second Amendment Bill (2020)

In relation to the proposed R1.3 billion reduction in provincial conditional grants allocation to fund the SAA business rescue plan, the Minister of Finance must ensure that the National Treasury provides the committee with an impact assessment report on all provincial conditional grants allocations which were reduced to fund the SAA business rescue plan. The report must highlight the service delivery implications for these proposed grants allocation reduction.

The National Treasury looks forward to reporting to the committee at its earliest opportunity.

Similarly to the recommendation above and in relation to the R613 million proposed reduction on local government conditional grants allocation, the Minister of Finance must ensure that the National Treasury provides the committee with a comprehensive impact assessment report on each of the local government conditional grants allocations that were reduced to accommodate the SAA business rescue plan. In that report, service delivery implications must be highlighted per conditional grant. The committee wants to

evaluate the impact of these grants. The committee also wants to evaluate the scientific manner in which these budget reductions were effected.

The National Treasury looks forward to reporting to the committee at its earliest opportunity. To manage the effect on services, the amount reduced from each grant considers past spending and performance; whether it funds salaries, medicines and food; and whether there has been significant real growth in allocations in recent years.

The Minister of Finance must ensure that the National Treasury provides the committee with a detailed report of all the municipalities whose conditional allocations were reduced to fund the SAA business rescue plan. In that report, the National Treasury must indicate how much each of these affected municipalities owes Eskom for electricity services and the water boards for water.

The National Treasury has provided these details.

All the reports requested above be submitted to the committee before the tabling of the 2021 Budget to allow the committee sufficient time to analyse the information before the consideration and reporting on the 2021 Budget bills.

The National Treasury has provided the information for which it is responsible, and relevant departments have been informed of this request when recommendations were referred.

B

Tax expenditure statement

■ Introduction

The primary aim of the tax system is to raise sufficient revenue for government spending. It can also promote socioeconomic objectives through targeted tax exemptions, deductions or credits. Tax expenditures are estimates of the total revenue foregone as a result of this preferential tax treatment. This annexure presents government's latest estimates of the fiscal cost of tax expenditures, as well as the methodology used to produce these estimates.

Tax expenditure documents promote transparency and accountability. They help government and the public assess the costs, benefits and overall effectiveness of this expenditure. The National Treasury has enhanced its tax expenditure reporting and evaluation in recent years by adding several new expenditure estimates based on tax administrative data. Including more estimates and improving evaluation methodologies will largely depend on the availability of quality data.

In 2018/19 – the latest year for which data is available – tax expenditures were estimated at R249 billion or 5.1 per cent of GDP. For that year, 35 tax expenditures were calculated compared to 34 in 2015/16, and the largest five expenditures accounted for more than half of the total. These relate to deductions for employers' pension contributions, vehicle manufacturer incentives, value-added tax (VAT) relief for basic food items and petrol fuel sales, and medical tax credits on contributions to medical schemes.

■ Tax expenditure estimates

The estimates presented in Table B.3 are calculated using the "revenue foregone" method. This entails comparing actual revenue collections with revenue that would have been collected without the incentive in place.

Most of the personal income tax and corporate income tax estimates are calculated using administrative data from the South African Revenue Service (SARS), which allows expenditure estimates to be accounted for on an accrual basis.

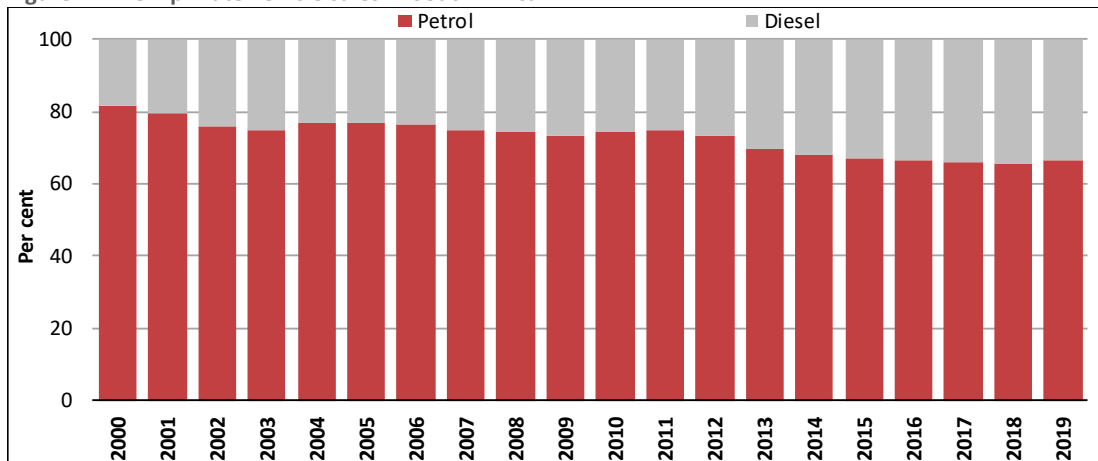
Changes to estimation methods since the 2020 Budget

The most significant change to the tax expenditure methodology since the 2020 Budget relates to the calculation of expenditure estimates for VAT zero-rated fuel levy goods. VAT zero-rating in this context means the supplies of petrol and diesel purchased by private consumers and businesses are levied VAT at 0 per cent instead of 15 per cent.

Fuel purchases used for private purposes represent a significant share of the total tax expenditure, as VAT input credits cannot be claimed, unlike for commercial purchases. An increase in private diesel-fuelled vehicle sales has necessitated a change in the tax expenditure formula used to calculate the revenue foregone.

Analysis of data from the National Association of Automobile Manufacturers of South Africa (NAAMSA) indicates that the market share of vehicle types sold in South Africa has changed significantly over time (see Figure B.1), in line with international trends. Consumer preferences have been shifting in favour of diesel- rather than petrol-fuelled vehicles for private use. Since 2000, new diesel-fuelled vehicle sales increased by 15 percentage points, reaching 33 per cent in 2019.

Figure B.1 New private vehicle sales in South Africa



Source: NAAMSA

The analysis shows that the fuel use by private diesel vehicles can no longer remain at 10 per cent as assumed in the previous VAT zero-rating tax expenditure formula for fuel levy goods. As such, the formula has been changed to more accurately represent the current market structure of at least 30 per cent for private diesel-fuelled vehicle sales since 2013.

Since 2005/06, the tax expenditure formula has always assumed that 20 per cent of petrol sales and 90 per cent of diesel sales are for business purposes by VAT vendors, and would have qualified for VAT input credits. Therefore, the foregone revenue was based on the assumed market share of 80 per cent for petrol-fuelled vehicles and 10 per cent for diesel-fuelled vehicles, respectively.

These assumptions underlying the formula have been amended, with an increase in the private diesel portion of fuel use from 10 per cent to 30 per cent from 2013/14. The higher share of diesel-fuelled vehicles increases the amount of foregone revenue on diesel fuel sales. As shown in Table B.1, this increases the total diesel fuel tax expenditures between 2015/16 and 2018/19 by about 200 per cent.

Table B.1 Diesel fuel tax expenditure estimates

R million	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Share of private diesel fuel use						
10 per cent	2 101	2 146	1 911	1 842	2 049	2 696
30 per cent	6 304	6 437	5 733	5 525	6 147	8 089

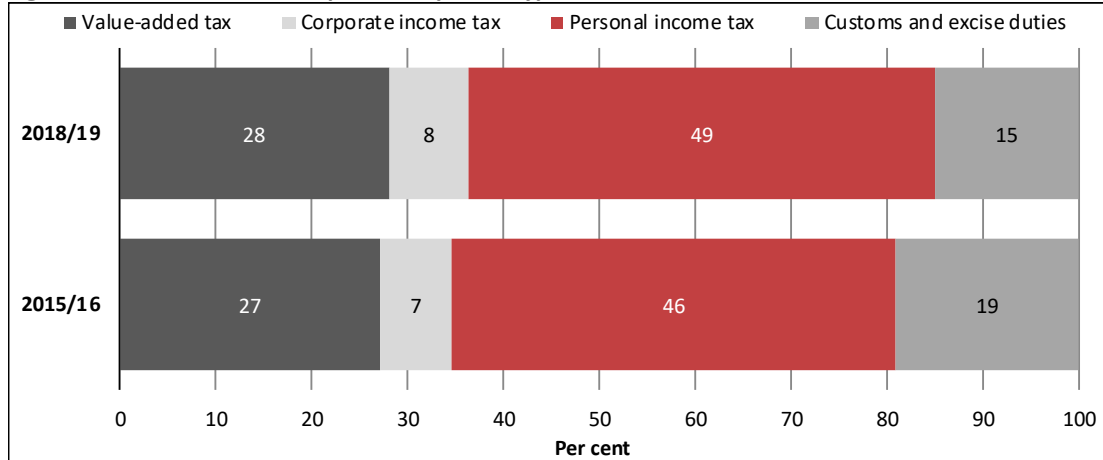
Source: National Treasury

More accurate data and estimation methodologies have prompted revisions to the historical tax expenditure estimates in Table B.3. For example, estimates for the tax expenditure on donations for 2015/16 to 2018/19 were revised after a calculation error was discovered in 2020.

Trends in tax expenditure: 2015/16 – 2018/19

This section uses historical data to analyse trends in tax expenditure between 2015/16 and 2018/19. The total value of tax expenditures grew by R54 billion or 6.3 per cent over the period, which exceeds nominal GDP growth of 4.5 per cent. As a result, tax expenditures increased as a share of nominal GDP, reaching 5.1 per cent by the end of the period.

Figure B.2 Share of total tax expenditure per tax type



Source: National Treasury

Compared with the 2020 Budget, expenditure estimates for employers' pension and provident fund contributions were revised upwards by about R11 billion for 2016/17. This is likely due to salary restructuring in light of changes made to the personal income tax system in 2016, and the inclusion of additional assessments filed after the deadline. Personal income tax expenditures accounted for just under half of total tax expenditures in 2018/19.

VAT expenditures grew by 7.1 per cent between 2015/16 and 2018/19 on a compound annual basis. This significant increase in the cost of VAT relief was primarily due to the 1 percentage point increase in the VAT rate in 2018, along with moderate growth in household consumption expenditure. Compared with 2020 Budget estimates, VAT expenditures were on average 7.5 per cent higher between 2015/16 and 2017/18 due to the change in the VAT zero-rating formula for fuel levy goods.

The majority of corporate tax expenditures trended downwards between 2015/16 and 2018/19, in line with slowing economic activity. Its share of total tax expenditure increased, however, as participation exemption expenditures more than doubled in 2018/19, primarily due to one large claim.

■ Evaluation of tax expenditures

Government views the monitoring and evaluation of tax expenditures as an important component of ensuring transparency and accountability. As recommended by the Davis Tax Committee, government is systematically reviewing all business tax incentives in order to repeal those that are redundant, inefficient or inequitable.

During 2020, sunset clauses – or end dates – were included for the tax incentives presented in Table B.2. Barring section 120, none of these incentives previously had sunset dates. Without end dates, tax incentives become entrenched in the tax system, while often not being evaluated regularly to determine their efficacy.

Table B.2 Tax expenditures to lapse in 2022

Income Tax Act	Effective date	Current deduction	Number of beneficiaries and tax expenditure (R million)					Sunset date
			2014/15	2015/16	2016/17	2017/18	2018/19	
Section 12F	01/01/01	5% for 20 years	< 10 146.4	< 10 157.3	10 173.8	10 210.4	< 10 220.2	28/02/2022
Section 12DA	01/01/08	20% for 5 years	< 10 9.6	< 5 0.1	< 5 2 726.1	< 10 2 756.1	< 5 2 693.7	28/02/2022
Section 13sept	21/10/08	10% for 10 years	< 10 0.79	< 10 0.56	< 5 0.42	10 1.29	< 10 1.64	28/02/2022
Section 12O	01/01/12	Exemption	< 10 13.9	< 10 13.2	< 10 16.2	< 10 5.6	< 5 0.1	01/01/2022

Source: National Treasury

As part of the review of the incentives listed in Table B.2, stakeholders are invited to motivate why these incentives should not be allowed to lapse on reaching their respective sunset dates. These motivations should be submitted to the National Treasury by 31 March 2021.

In 2021, tax incentive reviews will continue for:

- *Section 11D (research and development)* – Introduced in 2006, the research and development tax incentive provides government support to reduce the cost of research and development for private companies. The public is encouraged to provide comment on a joint discussion paper to be released by the National Treasury and the Department of Science and Innovation during 2021.
- *Section 13quat (urban development zones)* – The urban development zones tax incentive was introduced in 2003 to encourage property investment in the central business districts of 16 designated municipalities. Its main objective is to promote urban renewal by stimulating investment in the construction and renovation of commercial and low-cost residential buildings. The incentive will be extended for a further two years beyond its current sunset date of 31 March 2021 as the review process continues. Stakeholders will be invited to answer a questionnaire in 2021.

The review process for *section 12J (venture capital companies)* has concluded. Government introduced the venture capital company tax incentive in 2008 to encourage the establishment and growth of small, medium and micro enterprises. The incentive aims to help them obtain funding that would otherwise not be available. Taxpayers investing in a venture capital company are allowed an upfront deduction for their investment, whereas most equity investments are not tax deductible.

The National Treasury has determined that the incentive has not adequately achieved its objectives. The incentive has instead provided a generous tax deduction to wealthy taxpayers and most support has gone to low-risk ventures that would have attracted funding without the incentive. The incentive will therefore not be extended beyond its current sunset date of 30 June 2021.

Table B.3 Tax expenditure estimates

R million	2015/16	2016/17	2017/18	2018/19
Personal income tax				
Retirement fund contributions ¹	59 587	87 187	80 450	87 290
<i>Pension contributions – employees</i>	14 391	16 018	17 626	18 962
<i>Pension contributions – employers</i>	26 348	34 474	32 018	34 825
<i>Provident contributions – employees</i>	–	4 066	4 645	5 202
<i>Provident contributions – employers</i>	11 129	17 744	13 528	15 751
<i>Retirement annuity</i>	7 719	14 885	12 633	12 550
Medical	23 860	26 296	27 631	25 021
<i>Medical tax credits on contributions</i>	19 384	20 978	21 661	18 698
<i>Medical tax credits on out-of-pocket expenditure</i>	4 476	5 318	5 970	6 323
Interest exemptions	2 846	3 269	3 409	3 363
Secondary rebate (65 years and older)	2 881	3 361	3 273	3 504
Tertiary rebate (75 years and older)	252	322	295	318
Donations	261	318	357	366
Capital gains tax (annual exclusion)	536	696	656	482
Venture capital companies	263	309	538	745
Total personal income tax	90 485	121 758	116 609	121 089
Corporate income tax				
Small business corporation tax savings	2 900	3 008	3 014	2 420
<i>Reduced headline rate</i>	2 856	2 964	2 969	2 386
<i>Section 12E depreciation allowance</i>	44	44	45	34
Research and development	277	233	262	172
Learnership allowances	1 072	1 079	717	442
Strategic industrial projects (12I)	461	693	599	344
Film incentive ²	12	15	5	0
Urban development zones	259	276	314	205
Employment tax incentive	4 314	4 656	4 317	4 512
Energy-efficiency savings	1 058	1 201	600	1 804
Participation exemption ³	4 198	5 483	5 094	11 010
Total corporate income tax	14 551	16 644	14 923	20 909

Table B.3 Tax expenditure estimates (continued)

R million	2015/16	2016/17	2017/18	2018/19
Value-added tax				
Zero-rated supplies	51 763	54 204	58 352	68 345
19 basic food items ⁴	22 793	24 411	26 023	29 390
Petrol ⁵	15 901	16 150	17 080	20 259
Diesel ⁵	5 733	5 525	6 147	8 089
Paraffin ⁵	536	569	665	931
Municipal property rates	6 567	7 285	8 130	9 342
Reduced inclusion rate for commercial accommodation	233	263	307	334
Exempt supplies (public transport and education)	1 332	1 426	1 520	1 603
Total value-added tax	53 095	55 630	59 872	69 947
Customs duties and excise				
Motor vehicles (MIDP/APDP, including IRCCs) ⁶	26 936	28 362	28 754	31 250
Textile and clothing (duty credits – DCCs) ⁶	788	725	712	734
Furniture and fixtures	217	181	198	178
Other customs ⁷	1 040	963	875	600
Diesel refund ⁸	8 175	3 762	2 165	4 623
Total customs and excise	37 156	33 993	32 704	37 385
Total tax expenditure	195 287	228 025	224 108	249 330
Tax expenditure as % of total gross tax revenue	18.3%	19.9%	18.4%	19.4%
Total gross tax revenue	1 069 983	1 144 081	1 216 464	1 287 690
Tax expenditure as % of GDP	4.7%	5.2%	4.8%	5.1%

1. Some of this tax expenditure is recouped when amounts are withdrawn as either a lump sum or an annuity. From 2016/17 onwards provident fund employee contributions became deductible and a higher percentage contribution for all retirement funds was allowed, alongside a monetary cap of R350 000. The estimate for the tax expenditure of provident fund employer contributions (for all years) was included for the first time in the 2019 Budget

2. Tax expenditure for all years is attributable to allowances under section 24F and exemptions under section 12O

3. Tax expenditure only attributable to foreign dividends. Capital gains tax on share sales not included

4. VAT relief in respect of basic food items based on 2010/11 Income and Expenditure Survey data

5. Based on fuel volumes and average retail selling prices

6. Motor Industry Development Programme (MIDP), replaced in 2013 by the Automotive Production Development Programme (APDP); import rebate credit certificate (IRCC); duty credit certificate (DCC)

7. Goods manufactured exclusively for exports, television monitors and agricultural goods exempted

8. Diesel refund previously offset against domestic VAT has been added

Source: National Treasury

C

Additional tax policy and administrative adjustments

This annexure should be read with Chapter 4 of the *Budget Review*. It elaborates on some of the proposals contained in the chapter, clarifies certain matters and presents additional technical proposals arising from the annual tax policy process.

Personal income tax

The proposed tax schedule in Table 4.4 in Chapter 4 more than compensates individuals for the effect of inflation. The effects of these proposals are set out in tables C.1, C.2 and C.3.

Table C.1 Annual income tax payable and average tax rates, 2021/22 (taxpayers below 65)

Taxable income (R)	2020/21 rates (R)	Proposed 2021/22 rates (R)	Tax change (R)	% change	Average tax rates	
					Old rates	New rates
85 000	342	–	-342	-100.0%	0.4%	0.0%
90 000	1 242	486	-756	-60.9%	1.4%	0.5%
100 000	3 042	2 286	-756	-24.9%	3.0%	2.3%
120 000	6 642	5 886	-756	-11.4%	5.5%	4.9%
150 000	12 042	11 286	-756	-6.3%	8.0%	7.5%
200 000	21 042	20 286	-756	-3.6%	10.5%	10.1%
250 000	33 570	31 990	-1 580	-4.7%	13.4%	12.8%
300 000	46 570	44 990	-1 580	-3.4%	15.5%	15.0%
400 000	76 490	74 100	-2 390	-3.1%	19.1%	18.5%
500 000	110 235	106 725	-3 510	-3.2%	22.0%	21.3%
750 000	205 313	200 817	-4 496	-2.2%	27.4%	26.8%
1 000 000	307 813	302 673	-5 140	-1.7%	30.8%	30.3%
1 500 000	512 813	507 673	-5 140	-1.0%	34.2%	33.8%
2 000 000	734 721	726 409	-8 312	-1.1%	36.7%	36.3%

Source: National Treasury

Table C.2 Annual income tax payable and average tax rates, 2021/22 (taxpayers aged 65 to 74)

Taxable income (R)	2020/21 rates (R)	Proposed 2021/22 rates (R)	Tax change (R)	% change	Average tax rates	
					Old rates	New rates
120 000	—	—	—	—	0.0%	0.0%
150 000	3 843	2 673	-1 170	-30.4%	2.6%	1.8%
200 000	12 843	11 673	-1 170	-9.1%	6.4%	5.8%
250 000	25 371	23 377	-1 994	-7.9%	10.1%	9.4%
300 000	38 371	36 377	-1 994	-5.2%	12.8%	12.1%
400 000	68 291	65 487	-2 804	-4.1%	17.1%	16.4%
500 000	102 036	98 112	-3 924	-3.8%	20.4%	19.6%
750 000	197 114	192 204	-4 910	-2.5%	26.3%	25.6%
1 000 000	299 614	294 060	-5 554	-1.9%	30.0%	29.4%
1 500 000	504 614	499 060	-5 554	-1.1%	33.6%	33.3%
2 000 000	726 522	717 796	-8 726	-1.2%	36.3%	35.9%

Source: National Treasury

Table C.3 Annual income tax payable and average tax rates, 2021/22 (taxpayers aged 75 and over)

Taxable income (R)	2020/21 rates (R)	Proposed 2021/22 rates (R)	Tax change (R)	% change	Average tax rates	
					Old rates	New rates
150 000	1 107	—	-1 107	-100.0%	0.7%	0.0%
200 000	10 107	8 802	-1 305	-12.9%	5.1%	4.4%
250 000	22 635	20 506	-2 129	-9.4%	9.1%	8.2%
300 000	35 635	33 506	-2 129	-6.0%	11.9%	11.2%
400 000	65 555	62 616	-2 939	-4.5%	16.4%	15.7%
500 000	99 300	95 241	-4 059	-4.1%	19.9%	19.0%
750 000	194 378	189 333	-5 045	-2.6%	25.9%	25.2%
1 000 000	296 878	291 189	-5 689	-1.9%	29.7%	29.1%
1 500 000	501 878	496 189	-5 689	-1.1%	33.5%	33.1%
2 000 000	723 786	714 925	-8 861	-1.2%	36.2%	35.7%

Source: National Treasury

■ Customs and excise duty

Government proposes that the customs and excise duties in the Customs and Excise Act (1964, section A of part 2 of schedule 1) be amended with effect from 24 February 2021 to the extent shown in Table C.4.

Table C.4 Specific excise duties, 2020/21 – 2021/22¹

Tariff item	Tariff subheading	Article description	2020/21 Rate of excise duty	2021/22 Rate of excise duty
104.00		PREPARED FOODSTUFFS; BEVERAGES, SPIRITS AND VINEGAR; TOBACCO		
104.01	19.01	Malt extract; food preparations of flour, groats, meal, starch or malt extract, not containing cocoa or containing less than 40 per cent by mass of cocoa calculated on a totally defatted basis, not elsewhere specified or included; food preparations of goods of headings 04.01 to 04.04, not containing cocoa or containing less than 5 per cent by mass of cocoa calculated on a totally defatted basis not elsewhere specified or included:		
104.01.10	1901.90.20	Traditional African beer powder as defined in Additional Note 1 to Chapter 19	34,7c/kg	34,7c/kg
104.10	22.03	Beer made from malt:		
104.10.10	2203.00.05	Traditional African beer as defined in Additional Note 1 to Chapter 22	7,82c/li	7,82c/li
104.10.20	2203.00.90	Other	R106.56/li aa	R115.08/li aa
104.15	22.04	Wine of fresh grapes, including fortified wines; grape must (excluding that of heading 20.09):		
104.15.01	2204.10	Sparkling wine	R14.36/li	R15.51/li
104.15	2204.21	In containers holding 2 li or less:		
104.15	2204.21.4	Unfortified wine:		
104.15.03	2204.21.41	With an alcoholic strength of at least 4.5 per cent by volume but not exceeding 16.5 per cent by vol.	R4.39/li	R4.74/li
104.15.04	2204.21.42	Other	R213.13/li aa	R230.18/li aa
104.15	2204.21.5	Fortified wine:		
104.15.05	2204.21.51	With an alcoholic strength of at least 15 per cent by volume but not exceeding 22 per cent by vol.	R7.34/li	R7.92/li
104.15.06	2204.21.52	Other	R213.13/li aa	R230.18/li aa
104.15	2204.22	In containers holding more than 2 li but not more than 10 li:		
104.15	2204.22.4	Unfortified wine:		
104.15.13	2204.22.41	With an alcoholic strength of at least 4.5 per cent by volume but not exceeding 16.5 per cent by vol.	R4.39/li	R4.74/li
104.15.15	2204.22.42	Other	R213.13/li aa	R230.18/li aa
104.15	2204.22.5	Fortified wine:		
104.15.17	2204.22.51	With an alcoholic strength of at least 15 per cent by volume but not exceeding 22 per cent by vol.	R7.34/li	R7.92/li
104.15.19	2204.22.52	Other	R213.13/li aa	R230.18/li aa
104.15	2204.29	Other:		
104.15	2204.29.4	Unfortified wine:		
104.15.21	2204.29.41	With an alcoholic strength of at least 4.5 per cent by volume but not exceeding 16.5 per cent by vol.	R4.39/li	R4.74/li
104.15.23	2204.29.42	Other	R213.13/li aa	R230.18/li aa
104.15	2204.29.5	Fortified wine:		
104.15.25	2204.29.51	With an alcoholic strength of at least 15 per cent by volume but not exceeding 22 per cent by vol.	R7.34/li	R7.92/li
104.15.27	2204.29.52	Other	R213.13/li aa	R230.18/li aa
104.16	22.05	Vermouth and other wine of fresh grapes flavoured with plants or aromatic substances:		
104.16	2205.10	In containers holding 2 li or less:		
104.16.01	2205.10.10	Sparkling	R14.36/li	R15.51/li

Table C.4 Specific excise duties, 2020/21 – 2021/22 (continued)

Tariff item	Tariff subheading	Article description	2020/21 Rate of excise duty	2021/22 Rate of excise duty
104.16	2205.10.2	Unfortified:		
104.16.03	2205.10.21	With an alcoholic strength of at least 4.5 per cent by volume but not exceeding 15 per cent by vol.	R4.39/li	R4.74/li
104.16.04	2205.10.22	Other	R213.13/li aa	R230.18/li aa
104.16	2205.10.3	Fortified:		
104.16.05	2205.10.31	With an alcoholic strength of at least 15 per cent by volume but not exceeding 22 per cent by vol.	R7.34/li	R7.92/li
104.16.06	2205.10.32	Other	R213.13/li aa	R230.18/li aa
104.16	2205.90	Other:		
104.16	2205.90.2	Unfortified:		
104.16.09	2205.90.21	With an alcoholic strength of at least 4.5 per cent by volume but not exceeding 15 per cent by vol.	R4.39/li	R4.74/li
104.16.10	2205.90.22	Other	R213.13/li aa	R230.18/li aa
104.16	2205.90.3	Fortified:		
104.16.11	2205.90.31	With an alcoholic strength of at least 15 per cent by volume but not exceeding 22 per cent by vol.	R7.34/li	R7.92/li
104.16.12	2205.90.32	Other	R213.13/li aa	R230.18/li aa
104.17	22.06	Other fermented beverages (for example, cider, perry, mead, saké); mixtures of fermented beverages and mixtures of fermented beverages and non-alcoholic beverages, not elsewhere specified or included:		
104.17.03	2206.00.05	Sparkling fermented fruit or mead beverages; mixtures of sparkling fermented beverages derived from the fermentation of fruit or honey; mixtures of sparkling fermented fruit or mead beverages and non-alcoholic beverages	R14.36/li	R15.51/li
104.17.05	2206.00.15	Traditional African beer as defined in Additional Note 1 to Chapter 22	7,82c/li	7,82c/li
104.17.07	2206.00.17	Other fermented beverages, unfortified, with an alcoholic strength of less than 2.5 per cent by volume	R106.56/li aa	R115.08/li aa
104.17.09	2206.00.19	Other fermented beverages of non-malted cereal grains, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 9 per cent by vol.	R106.56/li aa	R115.08/li aa
104.17.11	2206.00.21	Other mixtures of fermented beverages of non-malted cereal grains and non-alcoholic beverages, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 9 per cent by vol.	R106.56/li aa	R115.08/li aa
104.17.15	2206.00.81	Other fermented apple or pear beverages, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 15 per cent by vol.	R106.56/li aa	R115.08/li aa
104.17.16	2206.00.82	Other fermented fruit beverages and mead beverages, including mixtures of fermented beverages derived from the fermentation of fruit or honey, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 15 per cent by vol.	R106.56/li aa	R115.08/li aa
104.17.17	2206.00.83	Other fermented apple or pear beverages, fortified, with an alcoholic strength of at least 15 per cent by volume but not exceeding 23 per cent by vol.	R85.25/li aa	R92.07/li aa
104.17.21	2206.00.84	Other fermented fruit beverages and mead beverages including mixtures of fermented beverages derived from the fermentation of fruit or honey, fortified, with an alcoholic strength of at least 15 per cent by volume but not exceeding 23 per cent by vol.	R85.25/li aa	R92.07/li aa
104.17.22	2206.00.85	Other mixtures of fermented fruit or mead beverages and non-alcoholic beverages, unfortified, with an alcoholic strength of at least 2.5 per cent by volume but not exceeding 15 per cent by vol.	R106.56/li aa	R115.08/li aa

Table C.4 Specific excise duties, 2020/21 – 2021/22 (continued)

Tariff item	Tariff subheading	Article description	2020/21 Rate of excise duty	2021/22 Rate of excise duty
104.17.25	2206.00.87	Other mixtures of fermented fruit or mead beverages and non-alcoholic beverages, fortified, with an alcoholic strength of at least 15 per cent by volume but not exceeding 23 per cent by vol.	R85.25/li aa	R92.07/li aa
104.17.90	2206.00.90	Other	R213.13/li aa	R230.18/li aa
104.21	22.07	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 per cent vol. or higher; ethyl alcohol and other spirits, denatured, of any strength:		
104.21.01	2207.10	Undenatured ethyl alcohol of an alcoholic strength by volume of 80 per cent vol. or higher	R213.13/li aa	R230.18/li aa
104.21.03	2207.20	Ethyl alcohol and other spirits, denatured, of any strength	R213.13/li aa	R230.18/li aa
104.23	22.08	Undenatured ethyl alcohol of an alcoholic strength by volume of less than 80 per cent vol.; spirits, liqueurs and other spirituous beverages:		
104.23	2208.20	Spirits obtained by distilling grape wine or grape marc:		
104.23	2208.20.1	In containers holding 2 li or less:		
104.23.01	2208.20.11	Brandy as defined in Additional Note 7 to Chapter 22	R191.82/li aa	R207.17/li aa
104.23.02	2208.20.19	Other	R213.13/li aa	R230.18/li aa
104.23	2208.20.9	Other:		
104.23.03	2208.20.91	Brandy as defined in Additional Note 7 to Chapter 22	R191.82/li aa	R207.17/li aa
104.23.04	2208.20.99	Other	R213.13/li aa	R230.18/li aa
104.23	2208.30	Whiskies:		
104.23.05	2208.30.10	In containers holding 2 li or less	R213.13/li aa	R230.18/li aa
104.23.07	2208.30.90	Other	R213.13/li aa	R230.18/li aa
104.23	2208.40	Rum and other spirits obtained by distilling fermented sugarcane products:		
104.23.09	2208.40.10	In containers holding 2 li or less	R213.13/li aa	R230.18/li aa
104.23.11	2208.40.90	Other	R213.13/li aa	R230.18/li aa
104.23	2208.50	Gin and Geneva:		
104.23.13	2208.50.10	In containers holding 2 li or less	R213.13/li aa	R230.18/li aa
104.23.15	2208.50.90	Other	R213.13/li aa	R230.18/li aa
104.23	2208.60	Vodka:		
104.23.17	2208.60.10	In containers holding 2 li or less	R213.13/li aa	R230.18/li aa
104.23.19	2208.60.90	Other	R213.13/li aa	R230.18/li aa
104.23	2208.70	Liqueurs and cordials:		
104.23	2208.70.2	In containers holding 2 li or less:		
104.23.21	2208.70.21	With an alcoholic strength by volume exceeding 15 per cent by vol. but not exceeding 23 per cent by vol.	R85.25/li aa	R92.07/li aa
104.23.22	2208.70.22	Other	R213.13/li aa	R230.18/li aa
104.23	2208.70.9	Other:		
104.23.23	2208.70.91	With an alcoholic strength by volume exceeding 15 per cent by vol. but not exceeding 23 per cent by vol.	R85.25/li aa	R92.07/li aa
104.23.24	2208.70.92	Other	R213.13/li aa	R230.18/li aa
104.23	2208.90	Other:		
104.23	2208.90.2	In containers holding 2 li or less:		
104.23.25	2208.90.21	With an alcoholic strength by volume exceeding 15 per cent by vol. but not exceeding 23 per cent by vol.	R85.25/li aa	R92.07/li aa
104.23.26	2208.90.22	Other	R213.13/li aa	R230.18/li aa
104.23	2208.90.9	Other:		
104.23.27	2208.90.91	With an alcoholic strength by volume exceeding 15 per cent by vol. but not exceeding 23 per cent by vol.	R85.25/li aa	R92.07/li aa
104.23.28	2208.90.92	Other	R213.13/li aa	R230.18/li aa

Table C.4 Specific excise duties, 2020/21 – 2021/22 (continued)

Tariff item	Tariff subheading	Article description	2020/21 Rate of excise duty	2021/22 Rate of excise duty
104.30	24.02	Cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes:		
104.30	2402.10	Cigars, cheroots and cigarillos containing tobacco:		
104.30.01	2402.10.10	Imported from Switzerland	R4193.62/kg net	R4528.85/kg net
104.30.03	2402.10.90	Other	R4193.62/kg net	R4528.85/kg net
104.30	2402.20	Cigarettes containing tobacco:		
104.30.05	2402.20.10	Imported from Switzerland	R8.70/10 cigarettes	R9.39/10 cigarettes
104.30.07	2402.20.90	Other	R8.70/10 cigarettes	R9.39/10 cigarettes
104.30	2402.90.1	Cigars, cheroots and cigarillos of tobacco substitutes:		
104.30.09	2402.90.12	Imported from Switzerland	R4193.62/kg net	R4528.85/kg net
104.30.11	2402.90.14	Other	R4193.62/kg net	R4528.85/kg net
104.30	2402.90.2	Cigarettes of tobacco substitutes:		
104.30.13	2402.90.22	Imported from Switzerland	R8.70/10 cigarettes	R9.39/10 cigarettes
104.30.15	2402.90.24	Other	R8.70/10 cigarettes	R9.39/10 cigarettes
104.35	24.03	Other manufactured tobacco and manufactured tobacco substitutes; "homogenised" or "reconstituted" tobacco; tobacco extracts and essences:		
104.35	2403.1	Smoking tobacco, whether or not containing tobacco substitutes in any proportions:		
104.35.01	2403.11	Water pipe tobacco specified in Subheading Note 1 to Chapter 24	R231.69/kg net	R250.22/kg net
104.35	2403.19	Other:		
104.35.02	2403.19.10	Pipe tobacco in immediate packings of a content of less than 5 kg	R231.69/kg net	R250.22/kg net
104.35.03	2403.19.20	Other pipe tobacco	R231.69/kg net	R250.22/kg net
104.35.05	2403.19.30	Cigarette tobacco	R391.06/kg	R422.34/kg
104.35	2403.91	"Homogenised" or "reconstituted" tobacco:		
104.35	2403.91.1	Imported from Switzerland:		
104.35.06	2403.91.11	Products intended for inhalation without combustion, put up for retail sale in the form of sticks		R7.05/10 sticks
104.35.08	2403.91.13	Other		R880.88/kg
104.35	2403.91.9	Other:		
104.35.10	2403.91.91	Products intended for inhalation without combustion, put up for retail sale in the form of sticks		R7.05/10 sticks
104.35.12	2403.91.93	Other		R880.88/kg
104.35	2403.99	Other:		
104.35.14	2403.99.05	Products intended for inhalation without combustion, put up for retail sale in the form of sticks		R7.05/10 sticks
104.35.15	2403.99.30	Other cigarette tobacco substitutes	R391.06/kg	R422.34/kg
104.35.17	2403.99.40	Other pipe tobacco substitutes	R231.69/kg net	R250.22/kg net
104.35.19	2403.99.90	Other	R815.63/kg	R880.88/kg

1. The chapter references in this table refer to chapters of the schedule to the Customs and Excise Act (1964)

Source: National Treasury

Additional tax amendments

Additional tax amendments proposed for the upcoming legislative cycle are set out below. In terms of section 48 of the Customs and Excise Act, part 1 of schedule 1 is amended to the extent set out in Table C.5.

Table C.5 Amendments to part 1 of Schedule No. 1

By deletion of the following:									
Heading / subheading	CD	Article description	Statistical unit	Rate of duty					
				General	EU	EFTA	SADC	MERCOSUR	AfCFTA
2403.91.10	8	Imported From Switzerland	kg	15%	free	free	free	15%	15%
2403.91.90	8	Other	kg	15%	free	15%	free	15%	15%

By insertion of the following:									
Heading / subheading	CD	Article description	Statistical unit	Rate of duty					
				General	EU	EFTA	SADC	MERCOSUR	AfCFTA
2403.91.1		Imported from Switzerland:							
2403.91.11	8	Products intended for inhalation without combustion, put up for retail sale in the form of sticks	kg	15%	free	free	free	15%	15%
2403.91.13	4	Other	kg	15%	free	free	free	15%	15%
2403.91.9		Other:							
2403.91.91	6	Products intended for inhalation without combustion, put up for retail sale in the form of sticks	kg	15%	free	15%	free	15%	15%
2403.91.93	2	Other	kg	15%	free	15%	free	15%	15%
2403.99.05	4	Products intended for inhalation without combustion, put up for retail sale in the form of sticks	kg	45%	free	45%	free	45%	45%

Source: SARS

In terms of section 48 of the Customs and Excise Act, part 2A of schedule 1 is amended to the extent set out in Table C.6.

Table C.6 Amendments to part 2A of Schedule No. 1

By deletion of the following:			
Tariff item	Tariff subheading	Article description	Rate of excise duty
104.35.11	2403.91.10	Imported from Switzerland Other	R815.63/kg
104.35.13	2403.91.90	Other	R815.63/kg

By the insertion of the following:			
Tariff item	Tariff subheading	Article description	Rate of excise duty
104.35	2403.91.1	Imported from Switzerland:	
104.35.06	2403.91.11	Products intended for inhalation without combustion, put up for retail sale in the form of sticks	R7.05/10 sticks
104.35.08	2403.91.13	Other	R880.88/kg
104.35	2403.91.9	Other:	
104.35.10	2403.91.91	Products intended for inhalation without combustion, put up for retail sale in the form of sticks	R7.05/10 sticks
104.35.12	2403.91.93	Other	R880.88/kg
104.35.14	2403.99.05	Products intended for inhalation without combustion, put up for retail sale in the form of sticks	R7.05/10 sticks

Source: SARS

In terms of section 75 of the Customs and Excise Act, part 1E of schedule 6 is amended to the extent set out in Table C.7.

Table C.7 Amendments to part 1E of Schedule No. 6

By deletion of the following:						
Rebate item	Tariff item	Rebate code	CD	Description	Extent of rebate	Extent of refund
622.07	104.35.11	05.01	71	Imported From Switzerland	Full duty	
622.07	104.35.13	06.01	76	Other	Full duty	
622.07	104.35.15	07.01	78	Other cigarette tobacco substitutes	Full duty	
622.07	104.35.17	08.01	76	Other pipe tobacco substitutes	Full duty	
622.07	104.35.19	09.01	74	Other	Full duty	
622.12	104.35.11	05.01	70	Imported from Switzerland	Full duty	
622.12	104.35.13	06.01	79	Other	Full duty	
622.12	104.35.15	07.01	77	Other cigarette tobacco substitutes	Full duty	
622.12	104.35.17	08.01	75	Other pipe tobacco substitutes	Full duty	
622.12	104.35.19	09.01	73	Other	Full duty	
622.22	104.35.11	05.01	79	Imported from Switzerland		As provided in Note 4 to this Section
622.22	104.35.13	06.01	77	Other		As provided in Note 4 to this Section
622.22	104.35.15	07.01	75	Other cigarette tobacco substitutes		As provided in Note 4 to this Section
622.22	104.35.17	08.01	73	Other pipe tobacco substitutes		As provided in Note 4 to this Section
622.22	104.35.19	09.01	71	Other		As provided in Note 4 to this Section
By insertion of the following:						
Rebate item	Tariff item	Rebate code	CD	Description	Extent of rebate	Extent of refund
622.07	104.35.06	05.01	72	Products intended for inhalation without combustion, put up for retail sale in the form of sticks	Full duty	
622.07	104.35.08	06.01	70	Other	Full duty	
622.07	104.35.10	07.01	79	Products intended for inhalation without combustion, put up for retail sale in the form of sticks	Full duty	
622.07	104.35.12	08.01	77	Other	Full duty	
622.07	104.35.14	09.01	75	Products intended for inhalation without combustion, put up for retail sale in the form of sticks	Full duty	
622.07	104.35.15	10.01	77	Other cigarette tobacco substitutes	Full duty	
622.07	104.35.17	11.01	78	Other pipe tobacco substitutes	Full duty	
622.07	104.35.19	12.01	76	Other	Full duty	
622.12	104.35.06	05.01	71	Products intended for inhalation without combustion, put up for retail sale in the form of sticks	Full duty	
622.12	104.35.08	06.01	76	Other	Full duty	
622.12	104.35.10	07.01	78	Products intended for inhalation without combustion, put up for retail sale in the form of sticks	Full duty	
622.12	104.35.12	08.01	76	Other	Full duty	
622.12	104.35.14	09.01	74	Products intended for inhalation without combustion, put up for retail sale in the form of sticks	Full duty	
622.12	104.35.15	10.01	79	Other cigarette tobacco substitutes	Full duty	
622.12	104.35.17	11.01	77	Other pipe tobacco substitutes	Full duty	
622.12	104.35.19	12.01	75	Other	Full duty	
622.22	104.35.06	05.01	78	Products intended for inhalation without combustion, put up for retail sale in the form of sticks		As provided in Note 4 to this Section
622.22	104.35.08	06.01	78	Other		As provided in Note 4 to this Section
622.22	104.35.10	07.01	76	Products intended for inhalation without combustion, put up for retail sale in the form of sticks		As provided in Note 4 to this Section
622.22	104.35.12	08.01	74	Other		As provided in Note 4 to this Section
622.22	104.35.14	09.01	72	Products intended for inhalation without combustion, put up for retail sale in the form of sticks		As provided in Note 4 to this Section
622.22	104.35.15	10.01	77	Other cigarette tobacco substitutes		As provided in Note 4 to this Section
622.22	104.35.17	11.01	75	Other pipe tobacco substitutes		As provided in Note 4 to this Section
622.22	104.35.19	12.01	73	Other		As provided in Note 4 to this Section

Source: SARS

Individuals, employment and savings

Reviewing the nature of long-service awards for fringe benefit purposes

The Income Tax Act (1962) permits an employer to grant a long-service award (in the form of an asset or a non-cash benefit) to an employee as a no value fringe benefit provided that the value of this award does not exceed R5 000. Currently, employers recognise long service through awards in a variety of forms that could be considered non-cash benefits in terms of the act. Therefore, it is proposed that the current provisions of the act be reviewed to consider other awards within the same limit granted to employees as long-service awards.

Curbing abuse in the employment tax incentive

The employment tax incentive (ETI) is aimed at reducing the cost of hiring youth between the ages of 18 and 29 years old. It allows employers to reduce their pay-as-you-earn (PAYE) tax payments to the South African Revenue Service (SARS) for the first two years in which they employ qualifying employees with a monthly remuneration of less than R6 500, subject to certain limitations. Some taxpayers have devised certain schemes using training institutions to claim the ETI for students. To counter this abuse, it is proposed that the definition of an “employee” be changed in the Employment Tax Incentive Act (2013) to specify that work must be performed in terms of an employment contract that adheres to record-keeping provisions in accordance with the Basic Conditions of Employment Act (1997). These amendments will take effect from 1 March 2021.

Clarifying the timing of disposal rules in respect of an asset acquired from a deceased estate

When a person dies, the Estate Duty Act (1955) provides for the assets of the person to be transferred to the estate of the deceased before the assets are distributed to their heirs. The act also provides for the executors to administer this estate, which includes preparing and submitting the liquidation and distribution account to the Master of the High Court Office, and submitting the relevant tax returns – including payment of the estate duty – to SARS.

Legally, the liquidation and distribution account must remain open for inspection in the Master of the High Court Office for 21 business days. Once the liquidation and distribution account is finalised, the personal right of the heirs to claim delivery of the assets is triggered. At present, there is timing uncertainty around when the heirs are regarded as having acquired an asset from the estate of the deceased. To clarify the time of disposal of this personal right, government proposes that the legislation be changed so that the disposal by the estate occurs on the date when the liquidation and distribution account becomes final.

Tax treatment of the cession of a right to receive an asset

The Income Tax Act specifies certain amounts to be included in “gross income”, which is defined in section 1, and certain disposals that are regarded as donations in terms of section 56. Some taxpayers have devised schemes to undermine both the abovementioned provisions. These schemes entail a service provider (for example, an employee or independent contractor) ceding the right to receive or use an asset to be received from the person to whom the services are rendered or are to be rendered. The right is generally ceded to a family trust for no consideration. In these instances, the service provider will be able to circumvent the gross income provisions as the asset would have been ceded to the trust before a value can be attached to it. In addition, the service provider will not be liable for donations tax, as it appears as though they are disposing of a worthless asset and are therefore not liable for donations tax until the services have been rendered and the employer transfers the asset to the cessionary. Moreover, the service provider will not be entitled to the asset and therefore cannot be regarded as having disposed of it. In order to address these kinds of schemes, it is proposed that changes be made to the abovementioned tax provisions.

Strengthening anti-avoidance rules in respect of loan transfers between trusts

Anti-avoidance measures were introduced in 2016 to curb the transfer of growth assets to trusts using low-interest or interest-free loans, which was done to avoid estate duty on the asset's subsequent growth in value. In 2017 and in 2020, further changes were made to the tax legislation to counter new attempts to undermine these rules. Some taxpayers may continue to undermine the current rules by transferring loans – which finance high-value assets – between trusts, where the founder of one trust is related to one or more beneficiaries of the other trust. To curb this abuse, it is proposed that further changes be made to these anti-avoidance rules.

Retirement provisions*Allowing members to use retirement interest to acquire annuities on retirement*

On retirement, a member of a retirement fund may receive an annuity. The annuity is to be provided with the balance of the member's retirement interest following commutation (where the member is allowed to take, or commute, a lump sum equal to a maximum of one-third of the retirement interest on retirement). The retirement fund can provide the annuity by paying it directly to the member, or purchasing it from a South African registered insurer in the name of the fund or purchasing it in the name of the retiring member. If a member opts to receive an annuity, the full value of their retirement interest following commutation must be used to provide either of the abovementioned annuities. Therefore, a member is prohibited from using their retirement interest to acquire various annuities. To increase flexibility for a retiring member and maximise the retirement capital available to provide for an annuity, government proposes expanding the amount of retirement interest that may be used to acquire annuities.

Applying tax on withdrawals of retirement interest when an individual ceases to be a tax resident

When an individual ceases to be a South African tax resident, retirement funds are not always subject to withdrawal tax in terms of the act. At issue is the tax treatment of retirement interest when an individual ceases to be a South African tax resident, but retains his/her investment in a South African retirement fund, and only withdraws from the retirement fund when he/she dies or retires from employment. Section 9(2)(i) of the act deems such amounts to be from a South African source, thus remaining within South African tax jurisdiction despite the individual no longer being a South African tax resident.

The challenge arises when the individual ceases to be a South African tax resident before he/she retires and becomes a tax resident of another country. When that individual withdraws from the retirement fund, due to the application of the tax treaty between South Africa and the other country, the retirement fund interest will be subject to tax in the other country as the individual will, in terms of the tax treaty, be regarded as a tax resident in that other country. The provisions of the tax treaty between South Africa and the new resident country will result in South Africa forfeiting its taxing rights. To address this anomaly, government proposes changing the legislation as follows.

When the individual ceases to be a South African tax resident, the retirement fund interest will form part of the assets that are subject to retirement withdrawal tax. The individual will be deemed to have withdrawn from the fund on the day before he/she ceases to be a South African tax resident.

If the individual ceases to be a South African tax resident but leaves his/her investment in a South African retirement fund and only withdraws from the retirement fund when he/she dies or retires from employment, then the retirement withdrawal tax (including associated interest) payment will be deferred until payments are received from the retirement fund or as a result of retirement. When the individual eventually receives payments from the fund, the tax will be calculated based on the prevailing lump sum tables or in the form of an annuity. A tax credit will be provided for the deemed retirement withdrawal tax as calculated when the individual ceased to be a South African tax resident.

Transfers between retirement funds by members who are 55 years or older

The Income Tax Act stipulates that any transfer by a member of a pension, provident or retirement annuity fund (who has opted to retire early) into a similar fund would be considered a taxable transfer. The policy in this regard is not intended to tax transfers from a less to a more restrictive fund, or between similar funds. To address this anomaly, government proposes allowing tax-free transfers into more or similarly restrictive funds by members who have already opted to retire.

Clarifying the calculation of the fringe benefit in relation to employer contributions to a retirement fund

From 1 March 2016, all employer contributions to a retirement fund on behalf of employees were considered taxable fringe benefits for the employees. If the contribution contains a defined benefit component, the fringe benefit is to be calculated in accordance with the seventh schedule of the act and the employer must provide the employee with a contribution certificate. An anomaly arises in instances where a retirement fund provides both a retirement benefit in relation to the defined contribution component and a self-insured risk benefit. The current interpretation of the legislation would result in the classification of the total contribution to the fund as a defined benefit component because self-insured risk benefits are not considered a defined contribution component. It is proposed that self-insured risk benefits be classified as a defined contribution component to ensure that retirement funds that provide both defined contribution component retirement benefits and self-insured risk benefits can provide the fringe benefit value based on the actual contribution.

Business (general)*Clarifying the definition of contributed tax capital*

Contributed tax capital (CTC) is a notional and ring-fenced amount derived from contributions made as consideration for the issue of a class of shares by a company. It is reduced by any capital amount that the company subsequently transfers back to one or more shareholders of that class of shares (commonly known as a capital distribution) using the CTC received. No shareholder within a particular class of shares may receive CTC in excess of an amount per share that is derived by dividing the total CTC by the number of shares in that class immediately before the capital distribution. Some companies are allocating CTC on the basis of an alleged “share premium” contributed by a particular shareholder but not by all shareholders within the same class of shares. To curb this abuse, it is proposed that changes be made to clarify the principle that shareholders within the same class of shares should share equally in the allocation of CTC as a result of a distribution.

Limiting potential for double taxation under the hybrid debt anti-avoidance rules

Hybrid debt anti-avoidance rules aim to curb the unfair use of hybrid debt instruments or hybrid interest to gain tax benefits. To ensure that instruments that exhibit equity features or returns that exhibit dividend features do not benefit from interest deduction, the Income Tax Act deems any returns to be *in specie* dividends paid by the issuer on which the issuer must pay dividends tax if no dividends tax exemption applies. The provision does not deem the return to be an *in specie* dividend for the recipient of the return. These anti-avoidance rules may be overreaching as the return would be regarded as interest and thus also be taxable for the recipient, leading to economic double taxation. It is proposed that the tax legislation be amended to address this concern.

Clarifying the meaning of “interest” under the debt relief rules

The Income Tax Act contains debt relief rules that trigger tax consequences for a waiver, cancellation, reduction or discharge of a debt owed by a taxpayer. In 2017, rules dealing with the tax treatment of converting debt into equity were introduced, along with changes to ensure that the debt relief rules apply in all instances where a debt is settled by a debtor and the creditor received inadequate consideration for the debt claim. However, amounts of interest that are waived, cancelled, extinguished or converted

to shares are excluded from the application of the debt relief rules as it is anticipated that normal recoupment rules would apply to unpaid interest that was previously deducted. To clarify this exclusion, it is proposed that a definition of interest be included in these debt relief rules.

Refinements to the corporate reorganisation rules

Refining the interaction between anti-value shifting rules and corporate reorganisation rules

The Income Tax Act curbs the use of structures that shift value between taxpayers free of tax. The anti-value shifting rules apply to transactions involving asset-for-share exchanges. Asset-for-shares base cost rules prescribe that a base cost for assets acquired by a company in exchange for its shares be equal to the sum of the market value of the shares it issued and the amount of the capital gain triggered by the application of the anti-value shifting rule to ensure that there is no double taxation on the future disposal of the assets.

Corporate reorganisation rules allow for the tax-neutral transfer of assets between companies and qualifying persons. Qualifying asset-for-share transactions are subject to the anti-value shifting rules and such transfers are also subject to the rollover base cost rules within the corporate reorganisation rules. This raises an anomaly in the application of these rules as the capital gain triggered under the anti-value shifting rules is only added to the base cost outside of the corporate reorganisation rules. To address this anomaly, it is proposed that the tax legislation be changed to allow taxpayers to treat the capital gain as an additional base cost when applying the corporate reorganisation rules.

Clarifying the rules that trigger additional consideration in asset-for-share transactions when a debt is assumed by a company

The Income Tax Act allows for the tax-neutral transfer of assets that are disposed of to a company in return for shares in that company or the assumption of qualifying debt by that company. The asset-for-share transaction rules contain an anti-avoidance measure aimed at preventing a permanent loss to the fiscus (instead of a tax deferral) when a person disposes of an asset that was acquired using debt and the debt is assumed by the company acquiring that asset. For example, when a person disposes of a high-value asset and the company assumes the debt used to acquire the asset from that person, that person can only anticipate the receipt of shares up to the market value of the asset transferred net of the debt assumed. However, due to the application of the asset-for-share transaction rules, the person will have a base cost that is higher than the market value of the shares held after the transaction, thus creating a permanent loss position instead of a tax-neutral position.

To remedy this permanent loss, the anti-avoidance rule deems the person to have received additional consideration equal to the amount of the debt assumed by the company when the person subsequently disposes of the shares. However, the rules that trigger additional consideration on disposal are undermined when the shares are subsequently transferred in terms of corporate reorganisation transactions because the applicable corporate reorganisation rules will enforce the rolled-over base cost of the previous asset-for-share transaction. To prevent the rule from being undermined, it is proposed that the additional consideration be taken into account during all corporate reorganisation transactions until the shares are disposed of in a transaction that falls outside the corporate reorganisation transactions.

Clarifying the early disposal anti-avoidance rules in intra-group transactions

The intra-group transaction rules in the Income Tax Act allow tax to be deferred when assets are disposed of between intra-group companies. Early disposal rules apply when an acquirer disposes of an asset it acquired through an intra-group transaction within 18 months of the acquisition. The early disposal anti-avoidance rules reverse the deferral benefit by ring-fencing the gain or loss arising from the early disposal of an asset to ensure that the gain or loss is not offset against other gains and losses. In some instances, a capital gain may have been anticipated to arise from the disposal of an asset at the date of the intra-

group transaction, but a capital loss arises when the asset is disposed of early. The difference in the resultant tax consequences (capital gain or loss) of these disposals creates ambiguity in the application of the early disposal anti-avoidance rules. To address this ambiguity, it is proposed that the resultant tax consequences of an early asset disposal be clarified.

Clarifying the interaction between early disposal anti-avoidance rules and de-grouping anti-avoidance rules in intra-group transactions

In addition to the early disposal anti-avoidance rules outlined above, the intra-group transaction rules contain de-grouping anti-avoidance rules, which apply when the acquirer and the party disposing of an asset in terms of an intra-group transaction cease to form part of the same group of companies within six years of the transaction. The de-grouping anti-avoidance rules apply to reverse the tax benefit that was obtained in terms of the intra-group transaction by triggering the greatest capital gain, gross income or taxable income that would have arisen between the date of the intra-group transaction and the date of de-grouping. Because both of these anti-avoidance rules apply to reverse the deferred tax benefit of an intra-group transaction, it is proposed that changes be made to the tax legislation so that if one of the anti-avoidance rules applies in respect of an asset, the other will not subsequently apply.

Extending the reversal of the nil base cost rules to apply on the sixth anniversary of an intra-group transaction

In 2020, the intra-group transaction rules were amended to remove the potential for double taxation due to the interaction between the nil base cost anti-avoidance rules, which aim to limit the ability of taxpayers to cash out on the sale consideration from a tax-deferred intra-group transaction, and the de-grouping anti-avoidance rules, which aim to curb the possibility of group companies de-grouping soon after a tax-deferred intra-group transaction. This was achieved by reversing the nil base cost rule if the de-grouping anti-avoidance rules have applied. Like the de-grouping anti-avoidance rules, the effect of nil base cost anti-avoidance rules should not apply beyond the sixth year from the date of an intra-group transaction. It is proposed that the tax legislation be changed so that the nil base cost anti-avoidance rules only apply for six years after an intra-group transaction.

Clarifying the interaction between the early disposal anti-avoidance rules and the nil base cost anti-avoidance rules

Early disposal anti-avoidance rules apply when an acquirer under an intra-group transaction disposes of an asset it acquired in terms of that transaction within 18 months of acquiring it. The nil base cost anti-avoidance rules apply to limit the ability of taxpayers to cash out on the sale consideration from a tax-deferred intra-group transaction. Because the early disposal anti-avoidance rules reverse the deferral benefit of acquiring an asset through an intra-group transaction, it is proposed that the intra-group transaction rules be amended so that the nil base cost anti-avoidance rules are reversed when the early disposal anti-avoidance rules are triggered.

Refining the provisions applicable to unbundling transactions

The corporate reorganisation rules provide rollover relief where shares of a resident company (referred to as an unbundled company) that are held by another resident company (referred to as an unbundling company) are distributed to the shareholders of that unbundling company in accordance with their shareholding. However, these unbundling transactions are subject to anti-avoidance rules aimed at limiting tax avoidance by taxpayers when distributing shares on a tax-neutral basis. Following amendments to these rules in 2020, there is no tax deferral for an unbundling transaction of an equity share that is distributed by an unbundling company to a shareholder that is a disqualified person and holds at least 5 per cent of the equity shares in the unbundling company immediately before that unbundling transaction. Based on the “pro-rata” application of the rules, it is proposed that the tax legislation make provision for shareholders in an unbundling company that only qualifies for tax deferral

to receive an increase in the base cost of the shares in the unbundled company (in accordance with their respective shareholding) to the extent that the unbundling company did not qualify for tax deferral.

In addition, it is proposed that the limitation of expenditure incurred by a taxpayer for shares held in an unbundling company should apply only to shares that are acquired through an unbundling transaction.

Clarifying rehypothecation of collateral within collateral arrangement provisions

The Income Tax Act contains tax relief rules that allow for the tax-neutral transfer of collateral (listed equity shares and listed South African and foreign government bonds) between the parties to a collateral arrangement, provided that certain requirements are met. At issue is the rehypothecation, where the bank or broker-dealer (collateral taker) reuses collateral received for trading or as security for its own borrowing through a tax-neutral collateral arrangement. It is proposed that changes be made to the legislation to clarify the policy intention that further rehypothecation of the collateral received by the collateral taker can only form part of subsequent collateral arrangement transactions.

Business (financial sector)

Clarifying the transfer of a policy or insurance book of business between short-term insurers

Section 28 of the Income Tax Act, which deals with the tax treatment of short-term insurers, does not specifically address all the tax consequences that arise from the sale of an insurance book of business, so the general provisions of the act apply. However, the interpretation of the general provisions, read with section 28, may result in inequitable tax treatments of the parties to the transaction. It is proposed that these provisions be changed to address the tax treatment of transfer of liabilities as part of a short-term insurance business.

Refining a deduction formula for taxable long-term insurer policyholder funds

The act contains provisions in section 29A that deal with the tax treatment of long-term insurers. In 2012, changes were made to these provisions by inserting a wholly revised deduction formula for selling, administration and indirect expenses for long-term insurers. In general, this formula is based on taxable income divided by net economic income. The concept of “net economic income” for purposes of the denominator is intended to reflect total taxable income without a reduction of non-includible dividends, foreign dividends and capital gains. However, unrealised gains to be accounted for in the denominator do not specifically refer to aggregation of unrealised gains and losses and are inconsistent with dividends, foreign dividends and capital gains, which refer to an aggregation of amounts. To address this anomaly, it is proposed that these provisions be changed so that unrealised gains and losses explicitly are aggregated for all assets.

Tax treatment of deposit insurance scheme

In 2020, government committed to establishing a deposit insurance scheme to protect depositors in the event of a bank failure, which in turn will contribute to the stability of the South African financial system. It is also envisaged that each bank will make stipulated contributions to the scheme. Parliament has yet to pass legislation making provision for the establishment of a deposit insurance scheme. It is proposed that as soon as that legislation is passed by Parliament, changes be made to the tax legislation relating to the tax implications of the deposit insurance scheme.

Business (incentives)

Amending the timeframes of compliance requirements for industrial policy projects

Industrial policy projects approved in terms of section 12I of the Income Tax Act must comply with specific requirements within specified timeframes. The impact of the COVID-19 pandemic has hindered these projects from meeting the compliance criteria within the required time periods. Government will, therefore, consider amending the time period within which assets must be brought into use, along with the section 12I compliance period. This is aimed at accommodating approved industrial policy projects that have *bona fide* reasons for non-compliance with section 12I requirements due to business-related disruptions caused by the COVID-19 pandemic.

International

Clarifying the controlled foreign company diversionary rules

In 2011, the diversionary rules governing the outbound sale of goods by a controlled foreign company (CFC) were abolished because the transfer pricing rules could be applied instead. In 2016, government reinstated the diversionary rules for CFC outbound sale of goods due to their effectiveness in preventing base erosion and profit shifting. The 2016 diversionary rules for CFC outbound sale of goods now provide for an exemption if similar goods are purchased by the CFC, from unconnected persons to that CFC, mainly within the country in which the CFC is resident. Certain taxpayers are circumventing these rules by merely entering into a contract of purchase and sale that implies that the purchase of goods took place in the country of residence of the CFC, when this is not the case. To curb this abuse, it is proposed that these diversionary rules be amended.

Clarifying the interaction between provisions dealing with a CFC ceasing to be a CFC and the participation exemption

In 2020, changes were made to the Income Tax Act to reduce tax planning opportunities that may emerge from loop structures as a result of the relaxation of the approval requirement by the Reserve Bank. An amendment was made in relation to gains on the disposal of shares in a non-resident company to a non-resident that was not taxed because of the participation exemption in paragraph 64B of the eighth schedule. This amendment has the effect that the participation exemption does not apply to the disposal of shares in a CFC to the extent that the value of the CFC's assets is derived from South African assets. However, section 9H provides that where a CFC ceases to be a CFC as a direct or indirect result of the disposal of all or some of the equity shares in that CFC, the capital gain or loss realised in respect of such disposal is disregarded if the participation exemption under paragraph 64B of the eighth schedule applies. To address the interaction between section 9H and paragraph 64B, it is proposed that section 9H be amended so that a partial participation exemption in terms of paragraph 64B(6) of the eighth schedule would not affect the exclusion under section 9H(5).

Clarifying the rules dealing with withholding tax exemption declaration

The act contains provisions in part IV A and part IV B for withholding tax on royalties and interest respectively. According to the rules dealing with withholding tax on interest, no withholding tax on interest applies if the foreign person submits a declaration that he/she is – in terms of an agreement for the avoidance of double taxation – exempt from the tax. A similar declaration does not exist for withholding tax on royalties. To address the anomaly, it is proposed that the tax legislation be amended.

Value-added tax*Zero-rating of super fine maize meal*

Schedule 2 part B of the Value-Added Tax (VAT) Act (1991) provides for a list of zero-rated items, which include the following grades of maize meal: super maize meal, special maize meal, sifted maize meal or unsifted maize meal. The grading of maize products is regulated by Agricultural Products Standards Act (1990), which allows for 18 grades of maize products, including those mentioned above to be zero rated. In 2016, another grade of maize meal, super fine maize meal, was added to the list regulated by the Agricultural Products Standards Act. To align the VAT Act with the Agricultural Products Standards Act, it is proposed that schedule 2 part B of the VAT Act be amended to include super fine maize meal in the list of grades of maize meal that qualify for zero rating.

Introducing measures to address undue VAT refunds on gold

The 2020 *Budget Review* noted that schemes and malpractice to claim undue VAT refunds have been detected in the value chain relating to gold exports. It is proposed that regulations providing for a domestic reverse charge mechanism for industry, under section 74(2) of the VAT Act, be issued. It is also proposed that the mechanism be included in the VAT Act to deal with such malpractice. Under the mechanism, a vendor that acquires gold from another vendor would declare and pay to SARS the VAT charged on the acquisition.

Aligning the provisions of the VAT Act with the New Insurance Act

The New Insurance Act (2017) categorises insurance policies into life and non-life policies, and makes provision for micro-insurance. The VAT Act currently provides for the VAT treatment of both life (referred to as “long-term insurance policy” in the VAT Act) and non-life (referred to as “insurance” in the VAT Act) policies. However, the VAT Act does not make provision for micro-insurer conducting a micro-insurance business. It is proposed that the VAT Act be amended to make provision for the VAT treatment of micro-insurance.

VAT treatment of temporary letting of residential immovable property

Property developers are entitled to deduct input tax on the VAT costs incurred to build residential property for sale. However, where the developer is unable to sell the residential property and temporarily leases it out until a buyer is found, the developer is required to make an output tax adjustment based on the open market value of the property when the property is let for the first time. An announcement was made in the 2010 *Budget Review* to investigate and determine an equitable value and rate of claw-back for developers as the current treatment is disproportionate to the exempt temporary rental income. However, no subsequent changes were made to the VAT Act. It is proposed that the VAT Act be amended to resolve this matter.

Carbon tax*Clarifying renewable energy premium beneficiaries*

In the first phase of the carbon tax until 31 December 2022, renewable electricity purchases can be offset against the carbon tax liability of electricity generators that are liable for the carbon tax. Concerns have been raised that the Carbon Tax Act (2019) is unclear about who is eligible for the renewable energy premium tax deduction. To address this concern, it is proposed that changes be made to section 6(2)(c) of the Carbon Tax Act to clarify that only entities that conduct electricity generation activities and purchase additional primary renewable energy directly under the Renewable Energy Independent Power Procurement Programme or from private independent power producers with a power purchase agreement are eligible to claim the tax deduction for their renewable energy purchases. The amendment will take effect from 1 January 2021.

It is also proposed that changes be made in the Carbon Tax Act to include a formula for calculating the amount of the renewable energy premium, which will be deducted as follows:

Renewable energy deduction = quantity of renewable energy purchased (kilowatt hour) × rate (rand) for technology, as per the renewable energy notice gazetted in June 2020.

Aligning fugitive emissions activities covered under Carbon Tax Act

The Carbon Tax Act defines the tax base in terms of section 4(1), where companies use company-specific emission methodologies to calculate their greenhouse gas emissions, and section 4(2), where country-specific emission factors or default emissions factors prescribed by the Intergovernmental Panel on Climate Change (IPCC) in its 2006 guidelines can be used to calculate emissions. In 2019, changes were made in the Carbon Tax Act to replace section 4(2)(b)(iii), which provides the formula and applicable emission factors to be used to calculate fugitive emissions. This covered emission activities, IPCC Code 1B1 for solid fuels including coal mining and handling, and IPCC Code 1B2 for oil and natural gas in the 2006 guidelines. However, IPCC activity Code 1B3 for other emissions from energy production was unintentionally excluded from section 4(2). To ensure alignment between the greenhouse gas emissions covered under sections 4(1) and 4(2) of the Carbon Tax Act, it is proposed that an additional category be included under the Carbon Tax Act to cover the IPCC code 1B3 activities for other emissions from energy production.

Clarifying the definition of carbon capture and sequestration

The Carbon Tax Act allows taxpayers to deduct sequestered emissions as verified and certified by the Department of Environment, Forestry and Fisheries from their fuel combustion-related greenhouse gas emissions for a tax period. This covers carbon capture and storage in geological reservoirs and biological sequestration. Government has clarified that for combustion activities where carbon capture and storage technologies are used, the net greenhouse emissions should be reported to the Department of Environment, Forestry and Fisheries. To address possible double benefits for the same sequestered emissions, it is proposed that the definition of greenhouse gas emissions sequestration be amended to remove carbon capture and storage in geological reservoirs from the scope of the deduction.

In November 2020, the Department of Environment, Forestry and Fisheries published a methodological guideline for quantifying greenhouse gas emissions sequestration in the forestry industry. Due to concerns about the permanence of sequestered emissions in harvested wood products and the robustness of the available emissions calculation methodologies, it is proposed that only actual forestry plantation sequestered emissions should be eligible for the deduction under the Carbon Tax Act.

Clarifying the carbon budget allowance

The Department of Environment, Forestry and Fisheries has gazetted the extension of the voluntary carbon budget system, which became effective from 1 January 2021 and ends on 22 December 2022, and the piloting of new methodologies for determining company-level carbon budgets. Section 12(1) of the Carbon Tax Act permits a taxpayer to claim a carbon budget allowance of 5 per cent if they participate in the carbon budget system during or before the tax period. To address any ambiguity due to the new voluntary carbon budget system, it is proposed that reference to “before the tax period” be replaced with the specific timeframe for the carbon budget (that is, 1 January 2021 to 31 December 2022), as determined by the department.

Progress on waste tyre greenhouse gas emissions

The Carbon Tax Act covers greenhouse gas emissions from waste incineration emissions and the relevant emission factors for different types of waste fuels are set out in schedule 1 of the act. At issue is whether emissions due to the use of waste tyres are subject to the carbon tax as schedule 1 does not include a waste tyre fuel type and the relevant emission factors. The schedule is aligned with the technical

guidelines of the Department of Environment, Forestry and Fisheries, which do not include emission factors for waste tyres. The Department of Environment, Forestry and Fisheries will develop appropriate emission factors for waste tyres for possible inclusion in the 2022 *Budget Review*.

Aligning schedule 2 emissions activities and thresholds with the greenhouse gas emission reporting regulations of the Department of Environment, Forestry and Fisheries

In September 2020, the Department of Environment, Forestry and Fisheries gazetted the amended National Greenhouse Gas Emission Reporting Regulations, including new activities required to report emissions and changes to emissions reporting thresholds. To ensure alignment between the activities covered under the Carbon Tax Act and the amended regulations, the following changes are proposed in schedule 2 of the Carbon Tax Act. These amendments will take effect from 1 January 2021.

Table C.8 Activities to be amended in schedule 2

Changes in regulations	IPCC activities
Change to the threshold	1A2m brick manufacturing: threshold change from 4 million to 1 million bricks/month Emissions now reportable: 2A4a ceramics, 2A4b soda ash, and 2A4d other (production capacity $\geq$ 50 tonnes/month) 2B10 chemicals industry other (production capacity $\geq$ 20 tonnes/month) 2C7 metal industry other (production capacity $\geq$ 50 tonnes/month) 2G1B electrical equipment (production capacity $\geq$ 50 kilograms/year)
Inclusion of new activities	1A2n manufacture of ceramic products by firing, in particular roofing tiles, tiles, stoneware or porcelain (production capacity $\geq$ 5 tonnes/day)
Exempted activities now reportable to the Department of Environment, Forestry and Fisheries (thresholds)	3A2 manure management (threshold: 40 000 places for poultry) 3C1a biomass burning in forest lands, 3C4 direct nitrous oxide emissions from managed soils, and 3C5 indirect nitrous oxide emissions from managed soils (owning $\geq$ 100 hectares of plantation) 3D1 harvest wood products (harvest wood products produced from timber harvested from forest owner registered for reporting [see threshold defined in 3B1a and 3B1b]) 5B other (none)

Source: SARS

Customs and excise duty

Postponing the collection of export taxes on scrap metal

In 2020, export tax on scrap metals was introduced in the Customs and Excise Act (1964). It was envisaged that this export tax would take effect from 1 March 2021. The export tax on scrap metals was aimed at replacing the current price preference system, which was introduced in 2013. It is proposed that the effective date of the export tax on scrap metals be postponed to 1 August 2021 to allow SARS and taxpayers' systems to be ready and because the price preference system has been extended to 31 July 2021 or the date on which the export tax is fully implemented at a rate that is higher than 0 per cent, whichever date comes first.

Clarifying the regulation and reporting of consolidated air cargo for exports

Section 6(1)(hC) of the Customs and Excise Act authorises the Commissioner to make rules prescribing the places where de-grouping depots may be established, to which air cargo may be removed from a transit shed before due entry for certain activities. The provisions, however, do not currently contemplate the consolidation of air cargo at de-grouping depots for export. It is proposed that section 6(1)(hC) be amended to regulate the consolidation of air cargo for export at de-grouping depots.

Amending the accreditation system

SARS is amending the current accreditation system to more closely reflect the requirements of the SAFE Framework of Standards issued by the World Customs Organisation. In light of these developments, it is proposed that the Customs and Excise Act be amended accordingly.

Adjusting the minimum thresholds for payment of refunds and underpayments of duties

Section 76(5) of the Customs and Excise Act makes provision for the minimum thresholds for the payment of refunds by SARS, which are 50 cents for goods imported by post, R5 for goods imported and R2 in the case of excisable goods. In turn, section 47(1) provides for the same minimum thresholds in respect of underpayments of customs duties by taxpayers. To ease the administrative burden on SARS and taxpayers, it is proposed that these minimum thresholds be increased.

Clarifying provisions dealing with less serious offences and punishment

Under section 79(1)(e) of the Customs and Excise Act, anyone who pretends to be an officer is guilty of an offence and liable on conviction to a fine or imprisonment. The act does not specifically deal with the unlawful use or possession of a customs uniform as an offence. It is proposed that section 79 be amended to include this as an offence.

Progress with the review of the diesel refund administration

The 2020 *Budget Review* announced the intention to refine the first draft of the diesel refund notes and rules to the Customs and Excise Act that was published for public comment in early 2020, based on the outcome of further industry engagements. These public consultations were postponed as a result of the COVID-19 pandemic and resultant lockdown restrictions. To maintain the momentum of the review process, SARS revised the draft legislation to incorporate relevant comments and technical inputs received from various stakeholders. The second draft was published on 9 February 2021 for public comment and will, where necessary, be informed by virtual industry-specific consultations during the year.

Tax administration*Tax-deductible donations*

The information required by law in the receipts issued for tax-deductible donations is limited and entities issuing the receipts are not required to provide third-party data on the donations to SARS on a systematic basis. SARS has detected that receipts are being issued by entities that are not approved to do so. To ensure that only valid donations are claimed and to enhance SARS' ability to pre-populate individuals' returns, it is proposed that the information required in the receipts be extended and third-party reporting be extended in future to cover the receipts issued.

Aligning periods for refunds of dividends tax for cash and in-kind dividends

SARS will only pay a valid refund of dividends tax if the claim is submitted within three years from the date of payment of a cash dividend. However, the corresponding period for a dividend in kind ends three years from the date of payment of the tax. It is proposed that the period within which a taxpayer may claim a dividends tax refund for in-kind dividends also be determined with reference to the date of payment of the dividend.

Aligning the period allowed for farmers to replace livestock sold and tax administration rules

Farmers are allowed to deduct the cost of livestock purchased, within a fixed period, to replace livestock sold in a previous year of assessment on account of drought, fire or other specified reasons, by reopening the assessment for the previous year of assessment. It is proposed that the period during which assessments may be reopened and document retention requirements be aligned.

Administrative non-compliance penalties for non-submission of six-monthly employees' tax returns

SARS may impose a penalty for the non-submission of the six-monthly employees' tax returns by employers. The penalty is calculated as a percentage of the employees' tax for the period covered by the return. Where the employees' tax for the period is not known to SARS, due to the non-submission of monthly or six-monthly returns, the penalty can only be imposed retrospectively. This undermines the purpose and deterrent effect of the non-compliance penalty. It is proposed that SARS be enabled to raise the penalty on an alternative basis in such cases, for example through an estimate of the employees' tax with an adjustment once the actual employees' tax is known.

Provisional taxpayers with years of assessment of six months or shorter

Provisional taxpayers are required to make provisional tax payments within six months after the commencement of a year of assessment and then again by the end of the year of assessment. Currently, no provision is made for instances where a taxpayer has a short year of assessment, whether by reason of death, ceasing to be a tax resident, a company being incorporated during a year or a change of a company's financial year. It is proposed that a first provisional tax payment and return not be required when the duration of a year of assessment does not exceed six months.

Review of advance tax ruling system

Taxpayers may approach SARS to obtain advance rulings on proposed transactions, which are binding on SARS, to enhance taxpayer certainty. In line with its strategic objectives, SARS has invited public comment on the advance tax ruling process for binding rulings to assess whether it can be improved. Legislative amendments may be required to give effect to improvements identified during the consultation process.

Review of voluntary disclosure programme

Taxpayers may approach SARS to regularise their tax affairs to avoid criminal prosecution, understatement penalties and certain administrative non-compliance penalties. The voluntary disclosure provisions will be reviewed in 2021 to ensure that they align with SARS' strategic objectives and the policy objectives of the programme.

Technical corrections

In addition to the amendments described above, the 2021 tax legislation will make various technical corrections, which mainly cover inconsequential items – typing errors, grammar, punctuation, numbering, incorrect cross-references, updating and removing obsolete provisions, removing superfluous text, and incorporating regulations and commonly accepted interpretations into formal law. Technical corrections also include changes to effective dates and the proper coordination of transitional tax changes.

Other technical corrections relate to modifications following the implementation of the tax law. Although tax amendments go through an intensive comment and review process, new issues arise once the law is applied (including obvious omissions and ambiguities). These issues typically arise when tax returns are prepared for the first time after the tax legislation is applied. These technical corrections are limited to recent legislative amendments.



Public-sector infrastructure update

■ Introduction

This annexure provides an overview of reforms to manage and deliver public infrastructure, and an update on the status of major infrastructure projects.

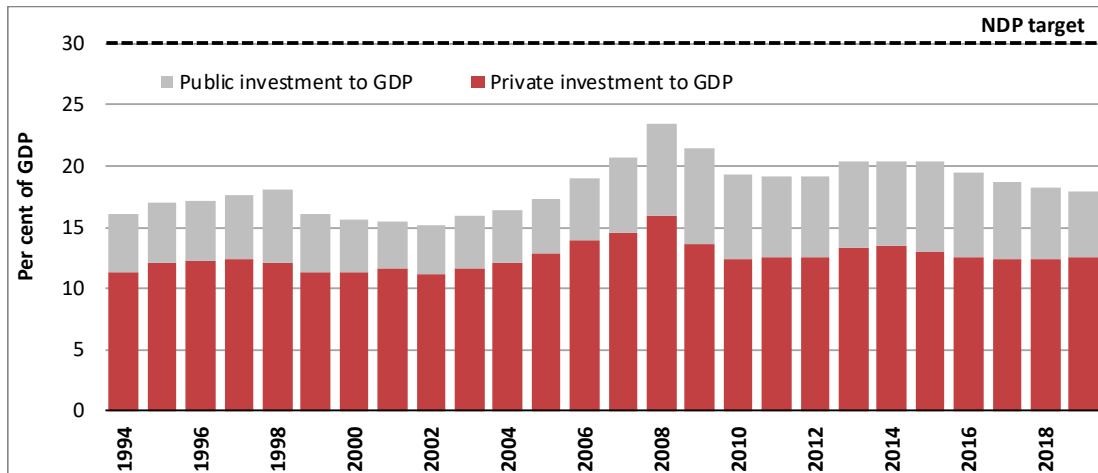
The economic recovery plan announced in October 2020 prioritises infrastructure spending to support the economy in the short term, and longer-range reforms to boost the potential growth rate. Many of these reforms involve pooling resources with the private sector, multilateral development banks and development finance institutions to fund infrastructure investment more effectively. A comprehensive project pipeline appears at the end of the annexure.

■ Trends in public and private capital investment

To grow the economy and reduce unemployment and poverty, capital investment by the public and private sectors, which amounted to 17.9 per cent of GDP in 2019, needs to increase. Over the past decade, the public finances have deteriorated, mainly due to low growth and tax revenue and the need for increased support for state-owned companies. Revenue shortfalls and rising spending pressures threaten government's ability to invest in new infrastructure. The National Development Plan targets capital investment of 30 per cent of GDP. To reach that goal, public-sector investment would need to grow from 5.4 per cent of GDP in 2019 to 10 per cent of GDP by 2030, while private-sector investment in infrastructure would need to grow from 12.5 per cent of GDP in 2019 to 20 per cent in 2030.

Between 2009 and 2019, public-sector capital investment averaged 6.7 per cent of GDP, while private capital investment averaged 12.8 per cent of GDP (Figure D.1). Not only is total investment well below the National Development Plan target, it has also been continuously declining over the past few years. Between 2007 and 2009, public and private capital investment as a percentage of GDP increased in response to construction for the 2010 FIFA World Cup. Since then, public capital investment has been declining, averaging 6.6 per cent of GDP between 2010 and 2019.

Figure D.1 Public- and private-sector capital investment as a share of GDP, 1994–2019



Source: Reserve Bank

Public-sector infrastructure spending highlights

Table D.1 summarises government's infrastructure spending plans for the next three years. The data combines infrastructure spending estimates at national, provincial and local government level, including state-owned companies and other public entities. Public-sector infrastructure spending over the medium-term expenditure framework (MTEF) period is estimated at R791.2 billion. State-owned companies continue to be the largest contributor to capital investment, spending a projected R293.7 billion over the next three years. Provinces are expected to spend R181.9 billion on infrastructure over the same period, while municipalities are forecast to spend R190.8 billion.

Public housing built through the *human settlements development grant* in provinces is expected to total R41.7 billion. Although these assets are transferred to homeowners, this spending is a substantial government contribution to the built environment. Spending on economic infrastructure, mainly by state-owned companies, accounts for 78.2 per cent of the medium-term estimate. These funds are used to expand power-generation capacity, upgrade and expand the transport network, and improve sanitation and water services. Social services infrastructure accounts for 18 per cent of the total, of which health and education account for 5 per cent and 7 per cent respectively. In 2020/21, the public sector is estimated to spend R226.1 billion on infrastructure, an increase of 20.6 per cent relative to 2019/20.

It is evident that government does not have sufficient financial resources to meet the growing infrastructure need. To help close this gap, government's economic recovery plan emphasises collaboration with business, labour and civil society. The plan includes immediate measures to boost investor confidence and longer-term reforms to promote sustained economic growth. Higher and more effective infrastructure spending is central to this plan. The Infrastructure Fund will play a pivotal role in enhancing collaboration and attracting private-sector investment for infrastructure projects.

Table D.1 Public-sector infrastructure expenditure and estimates

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	MTEF total
	Outcomes			Revised estimate	Medium-term estimates			
R billion								
Energy	55.1	39.9	26.2	31.3	44.2	50.3	55.4	149.9
Water and sanitation	26.8	27.1	22.5	34.8	36.0	40.8	43.2	120.0
Transport and logistics	75.4	74.4	70.5	76.5	92.7	96.1	98.3	287.0
Other economic services	17.1	13.5	5.7	23.4	20.7	20.9	19.9	61.5
Health	9.7	11.3	12.2	17.7	12.4	12.2	12.8	37.4
Education	17.6	17.2	17.4	16.5	18.7	19.5	19.3	57.5
Human settlements ¹	14.3	15.0	20.9	14.9	13.4	13.9	14.5	41.7
Other social services	11.2	10.1	4.7	2.0	1.6	1.8	1.9	5.3
Administration services ²	9.1	7.7	7.4	9.2	9.9	10.4	10.5	30.8
Total	236.3	216.2	187.4	226.1	249.6	265.8	275.7	791.2
National departments	14.9	13.6	13.8	12.6	14.7	15.1	15.3	45.1
Provincial departments	62.3	59.5	61.0	63.0	59.2	60.6	62.1	181.9
Local government	58.8	61.0	41.2	63.1	60.8	63.6	66.4	190.8
Public entities ³	13.2	9.6	14.5	18.2	19.3	20.9	21.5	61.7
Public-private partnerships	4.8	4.9	5.6	6.6	6.1	5.5	6.3	17.9
State-owned companies ³	82.2	67.5	51.2	62.6	89.5	100.0	104.2	293.7
Total	236.2	216.2	187.4	226.1	249.6	265.8	275.7	791.2

1. Human settlements includes public housing amounting to R41.7 billion over the MTEF period

2. Administration services includes infrastructure spending by the departments of International Relations and Cooperation, Home Affairs, and Public Works and Infrastructure, Statistics South Africa and their entities

3. Public entities are financed by capital transfers from the fiscus and state-owned companies are financed from a combination of own revenue and borrowings

Source: National Treasury

Public-sector infrastructure reforms

Government is transforming its approach to the planning and implementation of capital projects. It is bringing in more private-sector skills and expertise, while increasing the resources available to fund infrastructure. And it is reconfiguring its infrastructure value chain, involving the Department of Public Works and Infrastructure (DPWI), Infrastructure South Africa, the National Treasury and key infrastructure departments and institutions.

Through the Infrastructure Fund, government will collaborate with the private sector. The National Treasury is also undertaking budget reforms to improve business confidence and the regulatory environment for public-private partnerships (PPPs) to promote private-sector participation.

Department of Public Works and Infrastructure

The DPWI is working with the Infrastructure and Investment Office in the Presidency to build a pipeline of infrastructure projects. Infrastructure South Africa, housed within the DPWI, is primarily responsible for coordinating the development, management and monitoring of a comprehensive infrastructure pipeline, as well as the promotion of infrastructure investment. Part of its work involves unblocking policy and regulatory obstacles to investment, and facilitating policy certainty to build investor confidence.

A total of 50 strategic integrated projects were gazetted in 2020 in terms of the Infrastructure Development Act (2014), with an estimated combined capital investment value of R340 billion. Details appear in the sector updates below.

The DPWI has also gazetted 12 special projects that aim to create jobs and develop skills – particularly in network industries that have significant multiplier effects across the economy. These projects are in the

water and sanitation, energy, transport, digital infrastructure, agriculture and agro-processing, and human settlements sectors.

Sector updates

Water and sanitation

To achieve water security, South Africa needs to close an estimated capital funding gap of about R33 billion per year for the next 10 years through cost-reflective tariffs. At present, governance structures are weak, cost recovery is low, and institutional and regulatory frameworks are inadequate.

In the water sector, 11 strategic projects with an estimated value of R105 billion have been prioritised. The projects are expected to create about 20 000 temporary jobs during construction and 14 000 jobs once projects are operating. The projects that are ready for investment include:

- Lesotho Highlands Water Project Phase 2
- uMkhomazi Water Project
- Berg River Voëlvlei Augmentation Scheme
- Mokolo Crocodile River Water Augmentation Project Phase 2.

Some projects require support to advance through the development stages, while others are being considered for funding. Infrastructure South Africa is addressing delays in implementation.

Energy

Three energy projects have been gazetted: the Emergency/Risk Mitigation Power Purchase Procurement Programme, the Small Independent Power Producer Programme (Small IPP Programme) and the Embedded Generation Investment Programme. The projects will create an estimated 2 569 megawatts (MW) of electricity generating capacity. Total investments, to be funded by the private sector, amount to R52.4 billion. These projects aim to:

- Alleviate electricity supply constraints
- Reduce the use of diesel-based peaking electrical generators
- Support broad-based black economic empowerment initiatives, including ownership and localisation.

The Risk Mitigation Power Purchase Procurement Programme, sponsored through the Department of Mineral Resources and Energy and implemented through the IPP Office, involves the development, installation and operation of up to 2 000 MW at an estimated capital cost of R40 billion. The IPP Office accepted 28 submissions for evaluation in December 2020. The programme is expected to be operational by the second half of 2022.

The Small IPP Programme involves the development, installation and operation of a total of 100 MW of generating capacity at an estimated cost of R2.7 billion. The programme offers opportunities for small and medium-sized enterprises and new developers in the renewable energy sector. The target capacity for these projects is to generate and provide between 1 MW and 5 MW of energy from solar photovoltaic, wind and biomass power. The programme is expected to be operational towards the end of 2022.

The Embedded Generation Investment Programme involves the development, installation and operation of up to 469 MW of solar photovoltaic and wind generation projects. The Development Bank of Southern Africa (DBSA) and the Green Climate Fund will administer and manage this programme.

Transport and logistics

The transport sector has a total of 15 gazetted projects to the value of R47 billion. The South African National Roads Agency Limited is improving the capacity of several routes on toll and non-toll networks. Thirteen projects with a combined value of about R19 billion have been prioritised and will create nearly 10 000 jobs during construction.

Construction has been completed on the N1 Windburg Interchange to Windburg Station and the N1 Ventersburg to Kroonstad – both in the Free State; the N2 Mtunzini Toll Plaza to Empangeni T-Junction in KwaZulu-Natal; and more recently the second phase of the N1 Polokwane Eastern Ring Road in Limpopo.

The N1 Musina Ring Road in Limpopo is still under construction, while construction on the N3 Paradise Valley to Mariannhill Toll Plaza and the N3 Mariannhill Toll Plaza to Key Ridge, both in KwaZulu-Natal, is due to commence in early 2021.

The Boegoebaai port and rail project in the Northern Cape aims to reduce the economic cost of moving cargo within the Northern Cape hinterland, optimise cargo distribution and stimulate regional and provincial socioeconomic development. This PPP project is expected to create about 2 900 jobs during construction, 400 direct jobs during operation and a further 13 900 indirect jobs once completed.

The Small Harbours Programme seeks to revitalise harbours in the Western Cape and develop new harbours in the Northern Cape, Eastern Cape and KwaZulu-Natal. The rollout of this programme is expected to create 5 750 jobs.

Digital infrastructure

Digital infrastructure provides the backbone for information and communications technology (ICT) services, and is a key factor in supporting economic growth. The digital sector includes the Space Infrastructure Hub, the digitisation of government records and SA Connect Phase 1. The strategic projects could create more than 10 000 job opportunities for unemployed graduates. A significant amount of work is required to advance these projects, as many of them are still in the pre-feasibility and feasibility stages of development.

The Space Infrastructure Hub is a South African National Space Agency programme that aims to use space data as a tool for national development and supporting commercial uses in areas such as remote sensing, navigation and space sciences. The hub will allow for the development of satellite infrastructure, satellite-based augmentation systems and earth observation satellites.

Agriculture and agro-processing

The special projects in agriculture and agro-processing fall under strategic integrated project 23. The marine tilapia project in the Eastern Cape's Mbhashe Municipal District was gazetted as project 23a under the sponsorship of the Eastern Cape Rural Development Agency. The initiative aims to establish a new, sustainable and inclusive green growth aquaculture industry along the east coast, producing low-cost whitefish protein. The rollout will begin with an incubator on the Mbhashe coastline.

The Mbhashe aquaculture incubator will evolve into one of three integrated aquaculture hubs in the Eastern Cape, along with two in KwaZulu-Natal, over 13 years. Each hub will produce 20 000 tonnes of fish per year, making a major contribution to domestic fish supply.

The positioning of these hubs is expected to provide a range of socioeconomic benefits for poor communities along the rural coastline. The total investment required is about R5.3 billion, raised from the public and private sectors.

Human settlements

Human settlements projects include six Integrated Residential Development Programmes, 10 social housing projects and two large-scale privately led developments. The 18 projects gazetted under the strategic integrated project 24 portfolio have a total investment value of R129 billion and will provide housing for over 170 000 people. The portfolio is projected to create over 358 000 jobs during construction and over 55 000 jobs during operation. Included under the special programmes are SIP 31, comprising the Removal of Alien Vegetation and Innovative Building Materials Programme; SIP 32, which includes the National Upgrading and Support Programme projects; and SIP 34, which focuses on student accommodation.

To fund the large-scale bulk infrastructure required, government is exploring alternative blended finance models to reduce pressure on the fiscus and provide additional support to municipalities. The DBSA is developing an implementation and financing structure that will help municipalities unlock private investment. Beyond this, there is a need to achieve greater scale in delivery and improved conditions for private-sector investment in social housing.

In response to rapid urban migration and an increase in the number of informal settlements around the country, from 2021/22, informal settlements projects will be funded from the newly created informal settlements upgrading partnership grants for provinces and municipalities. These grants are expected to be used to upgrade and formalise 400 settlements each year over the medium term and deliver 180 000 serviced sites.

Budget reforms

Budget Facility for Infrastructure

The Budget Facility for Infrastructure (BFI) supports the execution of national priority projects by establishing specialised structures, procedures and criteria for committing fiscal resources to public infrastructure. Since inception, there have been four annual BFI windows to support infrastructure projects. With the establishment of the Infrastructure Fund, the BFI will play an important role in evaluating and recommending state support for blended finance projects.

Infrastructure Fund blended finance projects that need fiscal support are linked to the budget process through the BFI. The facility enables fiscal control of a project pipeline that could present risks to the national budget. Fiscal liabilities arising from Infrastructure Fund projects will form part of government liabilities on the public-sector balance sheet. To mitigate risk, measures will be put in place to ensure that the appraisal and evaluation of these blended finance projects are integrated with the budget process and with fiscal risk management processes in the National Treasury.

The current project pipeline has projects that are commercial or self-funding, projects that require blended financing and social projects that mainly require funding through the budget. The budget process will ensure the selection of projects that balance the much-needed boost to economic development and job creation with the country's present debt-constrained fiscal position. Financing arrangements with the private sector will be done in such a way that they do not lead to further public debt escalation.

Review of procurement standards

Following a review of existing practices with public-and private-sector stakeholders, the National Treasury has developed a Framework for Infrastructure Delivery and Procurement Management that applies to national and provincial departments, public entities and municipalities. The framework promotes accountability and good governance by minimising control points, while allowing flexibility for local conditions.

Project planning and appraisal guideline

As part of establishing the BFI and enhancing procurement, the National Treasury is developing a government-wide project planning and appraisal guideline. This reform will help project owners plan and package their projects using standardised methodologies and techniques, which will ultimately contribute to a pipeline of well-prepared and packaged projects. The guideline includes simple and uniform methodologies and criteria for planning and appraising infrastructure projects. It guides public-sector institutions on how to determine the feasibility of their project. The National Treasury will create a web-based tool to provide parameters and economic values with the aim of increasing transparency and consistency across appraisals.

The Public Procurement Bill

The draft Public Procurement Bill was gazetted for public comment in February 2020. The bill addresses fragmentation in procurement legislation and will include regulatory aspects related to the procurement of PPPs and infrastructure. The Office of the Chief Procurement Officer is currently working through the public comments received on the bill.

Cities Support Programme and climate change

The National Treasury recognises the need to address environmental risks and is working to strengthen the role of fiscal policy in responding to climate change.

The Cities Support Programme is working with the eight metropolitan municipalities to enhance their capability to respond to climate impacts. The reforms being supported – at both metropolitan level and in the enabling policy, regulatory and financing environment – include:

- Working with cities to integrate climate change and resilience considerations into systems and tools that inform strategic city planning, budgeting, investment decision-making and reporting.
- Integrating climate change and resilience considerations into capital project appraisal, and the delivery and management of infrastructure assets.
- Working with cities to enhance resilience in the design of capital projects and the Catalytic Land Development Guideline.

The ability of public infrastructure to mitigate the effects of climate change depends not only on project design, but the extent to which they are repaired and maintained. To that end, the Cities Support Programme is delivering technical assistance to strengthen the resilience and sustainability of metro water, electricity and solid waste businesses.

Infrastructure Fund

The Infrastructure Fund will transform public infrastructure financing using blended finance – combining capital from the public and private sectors, development finance institutions and multilateral development banks such as the New Development Bank. It will also draw on the private sector for technical capacity and expertise. The Infrastructure Fund aims to support projects in the energy, water, transport, ICT and social sectors. Government has committed R100 billion to this fund over the next 10 years.

All funding proposals are analysed to ensure that they are feasible and bankable. Possible programmes and projects can be identified from a variety of sources, including Infrastructure South Africa, private associations, civil society, government, public entities and the DBSA.

In August 2020, the National Treasury, the DPWI and the DBSA signed an agreement committing to work together to support the establishment of the fund as a dedicated financing facility for blended finance

programmes and projects through a ring-fenced division within the DBSA. As reported in the 2019 *Budget Review*, the DBSA was allocated R400 million to build capacity and strengthen the preparation and planning of major infrastructure projects. To date, the fund has begun work on three programmes: the Student Housing Infrastructure Programme, South Africa Connect and the Water Infrastructure Programme.

Student Housing Infrastructure Programme

The programme aims to address the acute backlog of student housing in higher education. As part of the R400 million allocated to the DBSA, R30 million will be used for project planning and preparation. The Infrastructure Fund will assist with structuring, financing and fundraising for phase 2.

South Africa Connect

South Africa Connect will focus on providing broadband connectivity services to government facilities such as schools, health facilities, police stations and post offices. It was allocated R50 million to undertake a feasibility study, which it completed in December 2020. The Infrastructure Fund will provide financial structuring and financing approaches that attract private-sector capital to the programme.

Water Infrastructure Programme

This initiative aims to establish a national programme that supports government's Water and Sanitation Master Plan. The programme has been allocated R78 million for project preparation. A project management office will support municipalities with capacity building and expertise to develop their own blended finance water projects. Work is ongoing to provide support to the Department of Water and Sanitation to ensure the right mix of financing resources is adopted.

Infrastructure Fund project pipeline

Tables D.2 to D.5 provide a pipeline of projects at different stages of development. Some projects are still in the early stages of project preparation while others are advanced. These projects have not yet been approved for funding. Large projects have to go through a number of approval gates involving successively more detailed planning before being considered for funding through the budgeting process. Most of the proposed projects and programmes will be financed through partnerships between government, the private sector and development finance institutions.

Table D.2 Projects at advanced stages of preparation: Student Housing Infrastructure Programme

University name	Number of beds	Estimate of potential total investment (R million)	Progress to date
Tshwane University of Technology	3 500	910	Feasibility studies completed
University of KwaZulu-Natal	3 000	780	Feasibility studies completed
Gert Sibande TVET College	1 500	225	Feasibility studies completed
Majuba TVET College	1 500	225	Feasibility studies completed
King Hintsa TVET College	840	126	Funding for development
Total	10 340	2 266	

Source: Infrastructure Fund unit

Table D.3 Projects at advanced stages of preparation: South Africa Connect Programme

Project name	Project description	Estimate of potential	Progress to date
South Africa Connect Programme	The programme seeks to ensure universal access to broadband services for all South Africans, prioritising rural and underserved areas	R53 billion	The feasibility study for Phase 2 has been concluded

Source: Infrastructure Fund unit

Table D.4 Projects at conceptual stages of preparation: Student Housing Infrastructure Programme

University name	Number of beds	Estimate of potential total investment (R million)	Progress to date
Cape Peninsula University of Technology	2 150	559	Feasibility studies under way
Central University of Technology	2 000	520	Feasibility studies under way
University of Johannesburg	2 048	532	Feasibility studies under way
Walter Sisulu University	3 200	832	Feasibility studies under way
Lephalale TVET College	1 200	180	Feasibility studies under way
Northlink TVET College	1 500	225	Feasibility studies under way
Sekhukhune TVET College	1 500	225	Feasibility studies under way
Vhembe TVET College	1 300	195	Feasibility studies under way
Total	14 898	3 268	

Source: Infrastructure Fund unit

Table D.5 Projects at conceptual stages of preparation

Project name	Project description	Estimate of total investment (R million)	Project stage
Sekhukhune District Municipality			
Steelpoort Wastewater Treatment Works	Development of wastewater treatment works with the capacity estimated at 16 megalitres per day (ML/day)	220	Pre-feasibility
Jane Furse Wastewater Treatment Works	Development of wastewater treatment works with the capacity estimated at 16 ML/day	352	Pre-feasibility
Ugu District Municipality			
uMbango Wastewater Treatment Works	Increase the capacity of the existing wastewater treatment works by 5 ML/day	120	Pre-feasibility
New Melville Wastewater Treatment Works	Implementation of a new wastewater treatment works with the capacity of 1.5 ML/day	80	Pre-feasibility
Vhembe District Municipality			
Musina and Nancefield Wastewater Treatment Works	Implementation of a centralised wastewater treatment works with the capacity of 17.5 ML/day	385	Pre-feasibility
Musina	Implementation of bulk water supply for Musina areas	260	Pre-feasibility
iLembe District Municipality			
KwaDukuza Wastewater Treatment Works	Implementation of 12 ML/day capacity	159	Pre-feasibility
Maphumulo Wastewater Treatment Works and sewer reticulation	Implementation of 1.5 ML/day Maphumulo wastewater treatment works and sewer reticulation	76	Pre-feasibility
Sundumbili Wastewater Treatment Works	Implementation of 15 ML/day Sundumbili wastewater treatment works	190	Pre-feasibility
Sol Plaatje Local Municipality			
Bulk Water Supply Pipeline	Implementation of Riverton and Newton bulk water pipeline	60	Pre-feasibility
Ray Nkonyeni Local Municipality			
Oslo Beach Substation	Implementation of 20 megavolt amperes electricity substation	63	Pre-feasibility

Source: Infrastructure Fund unit

Pipeline of other major public-sector projects

Table D.6 summarises other major public infrastructure projects, some of which are PPPs.

Table D.6 Other major public-sector infrastructure projects

Project name	Project stage	Project description	Estimated project cost
uMkhomazi (KZN)	Various stages	Bulk water infrastructure development	R23 billion
Vaal River System Phase 2	Construction	Bulk water infrastructure development	R32 billion
Makhulu Crocodile Water Project	Feasibility	Bulk water infrastructure development	R15 billion
Olifants Economic Development project	Various stages	Bulk water infrastructure development	R20 billion

Table D.6 Other major public-sector infrastructure projects (*continued*)

Project name	Project stage	Project description	Estimated project cost
Salvakop Precinct PPP Project	Feasibility	Collaborative project between the three spheres of government to build four government headquarters, commercial buildings and a shelter for the vulnerable	R18 billion
Gauteng Schools PPP Programme	Feasibility	Construction, expansion, refurbishment and facilities management of 64 schools in Gauteng	R4.7 billion
One-stop Border Posts PPP Project	Procurement	Redevelopment of six ports of entry: Lebombo, Oshoek, Beitbridge, Maseru Bridge, Ficksburg and Kopfontein	R11 billion
Inkosi Albert Luthuli Central Hospital new PPP Project	Procurement	Design, construction, operation and provision of medical and ICT equipment	R10.4 billion
Procurement of emergency towing vehicles PPP Project	Feasibility	Procurement of two emergency towing ocean vessels	R5.3 billion
Kopanong Precinct PPP Project	Procurement	Construction of Gauteng Provincial Government office to consolidate administration function of 19 buildings in the Johannesburg CBD	R6.5 billion
Rural Bridges Programme	Feasibility	Construction of rural bridges in various parts of the country	R7.1 billion
Solar and Water Savings Programme	Feasibility	Installation of solar panels in government buildings	R25.7 billion
Comprehensive Urban Management Programme	Feasibility	Improvement and maintenance of public spaces in various cities and towns to promote economic growth	R3.3 billion
Limpopo Central Hospital PPP Project	Implementation	Construction of a new 488-bed central hospital in Polokwane, which will form part of an academic health complex attached to the University of Limpopo's medical school	R4.5 billion
Boegoebaai Port and Rail Development PPP Project	Feasibility	Port and rail development in Boegoebaai in the Northern Cape	R13 billion
Gauteng rapid rail network extension parts 1 and 2 (Gautrain 2) PPP Project	Feasibility	A two-phase extension of the existing Gautrain rail system	R65.4 billion
Student Housing Infrastructure Programme rollout	Feasibility	Provision of over 300 000 beds to institutions of higher learning	R96 billion
South Africa Connect Broadband Programme	Feasibility	Broadband infrastructure in areas where pure private provision thereof is not commercially viable	R79.4 billion
Midvaal Electricity Distribution Project	Procurement	Refurbishment and expansion of the existing distribution lines owned by the municipality	R1 billion
Solar Water Initiatives	Feasibility	Rollout of solar water heaters across the residential market through partnering with the insurance industry and banks	R6.8 billion
National Roads Programme – upgrades to existing non-concession national toll roads	Feasibility	Major upgrades to various sections of the N1, N2 and N3	R22 billion
Small Harbours Development Programme	Implementation	Upgrading and refurbishment of 12 proclaimed fishing harbours in the Western Cape, and nodal-based refurbishment and development of new harbours in the Northern Cape, Eastern Cape and KwaZulu-Natal	R7.1 billion
Expansion of the MyCiTi Bus Rapid Transport System in Cape Town	Implementation	Expansion of the MyCiTi bus rapid transit system network to areas including Langa, Mitchells Plain and Khayelitsha	R7.1 billion
Tygerberg Hospital	Implementation	Construction of a 550-bed regional hospital	R4.2 billion
Klipfontein Hospital	Implementation	Construction of a new hospital to replace the GF Jooste Hospital	R4.3 billion
Bravos - Berg River Voëlvelei Dam Pipeline (Western Cape)	Construction	Construction of a weir and abstraction works with a pump station on the Berg River, with a 6.3-km-long pipeline to the Voëlvelei Dam	R1 billion

Source: National Treasury

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Public-private partnerships

■ Introduction

To revitalise the economy and meet the goals of the National Development Plan, South Africa needs to establish a more competitive infrastructure base. However, government capital budgets have come under significant pressure in recent years due to weak economic growth and competing priorities, such as funding for higher education and compensation of employees. Greater use of well-managed public-private partnerships (PPPs) can improve planning and feasibility studies, resulting in more rigorous project assessment and accountability, and draw in private financing for public infrastructure projects.

The Infrastructure Fund, first announced in 2018, creates an opportunity for more partnerships between government and the private sector through the use of blended finance. A pipeline of economic and social projects, most of which are expected to be PPPs, is being developed with the private sector. The fund is discussed in more detail in Annexure D.

The difference between PPPs and traditional government infrastructure projects

A PPP is defined as a contract between a public-sector institution and a private party, where the private party performs a function that is usually provided by the public sector and/or uses state property in terms of the PPP agreement. Most of the project risk (technical, financial and operational) is transferred to the private party. The public sector pays for a full set of services, including new infrastructure, maintenance and facilities management, through monthly or annual payments. In a traditional government project, the public sector pays for the capital and operating costs, and carries the risks of cost overruns and late delivery.

■ Reviewing the regulatory framework for PPPs

To date, 34 PPP projects valued at R89.3 billion have been completed. PPPs have been successful in South Africa, although a number of challenges have arisen over the years. New PPP transactions have been declining, from an estimated R10.7 billion in 2011/12 to R5.6 billion in 2019/20, in part because these projects are perceived to involve high costs. In September 2019, the National Treasury initiated a review of the PPP regulatory framework to address these challenges and recommend changes to the framework to improve its effectiveness and encourage private-sector participation. With support from the World Bank, the National Treasury worked with experts on this review, which is nearing completion.

The regulatory framework includes PPPs regulated by the Public Finance Management Act (1999) and the Municipal Finance Management Act (2003). The public and private sectors have contributed important suggestions, which, alongside lessons learnt, have been incorporated into the draft final recommendations report. The National Treasury will present the recommendations at a validation workshop in March 2021 to stakeholders and PPP practitioners before formally adopting the recommendations. After the workshop, the approved recommendations will be published on the National Treasury website. These recommendations will be implemented in 2021/22.

The recommendations include:

- Integrating PPP policies into the infrastructure delivery management systems.
- Amending regulations and legislation to exempt smaller projects from onerous requirements, taking specific conditions into consideration.
- Centralising and improving the screening and assessment of projects and proposals.
- Establishing a PPP regulator, and country- and sector-specific benchmarks for cost and efficiency.
- Standardising project preparation requirements for certain smaller projects and contract templates across sectors.
- Building PPP capacity across government institutions including contract management practices.
- Setting out clear timeframes for different project phases to reduce the PPP project planning cycle.
- Building and retaining the skills required in the public sector to improve the planning and management of PPPs.
- Implementing measures that facilitate market consultation to obtain feedback on projects and inform the procurement strategy.
- Simplifying value-for-money assessments and introducing economic valuations of all projects above a certain threshold.
- Streamlining the procurement evaluation process for PPPs to reduce the time it takes to appoint a preferred bidder.
- Installing a system that monitors and evaluates projects to draw lessons for better project planning and implementation.

Most of these recommendations, focused on national and provincial PPPs, also apply to municipalities. In addition, the review of the municipal PPP framework specifically recommended reducing the number of public consultations, increasing the involvement of the Municipal Infrastructure Support Agency and simplifying the unsolicited proposal framework in line with municipal regulations.

Contingent liabilities

Most national and provincial PPPs are guaranteed by the Minister of Finance and create a contingent liability. Government incurs contingent liabilities only when a contract is terminated. PPP projects where a public-sector institution makes a unitary payment have contingent fiscal obligations to compensate the private sector if the contract is terminated before its expiry date. PPP agreements can also impose other fiscal obligations on government that are not defined as contingent liabilities. For example, where the private sector collects user charges from the public, government usually guarantees the minimum revenue, which imposes a fiscal obligation and requires budget allocations.

The National Treasury uses a four-stage approval process to ensure that contingent liabilities arising from contracts are acceptable and monitors these liabilities on an ongoing basis. There are various categories of contingent liabilities, depending on whether the termination is the result of private-sector default, government default or *force majeure* – an event beyond either party's control. Compensation depends on the reason the contract ended, but termination due to government default usually results in the greatest compensation. Table E.1 shows potential termination amounts per sphere of government.

Table E.1 Contingent liabilities by category

R million	Termination private party default		Termination force majeure		Termination government default	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
National departments' exposure	3 324.5	2 878.8	3 536.8	3 663.6	5 002.4	4 707.3
Provincial departments' exposure	3 159.3	2 649.3	1 889.1	1 263.4	4 514.0	4 151.2
Public entities' exposure	415.8	353.4	352.6	299.7	522.2	443.9
Total	6 899.6	5 881.5	5 778.5	5 226.7	10 038.6	9 302.4

Source: National Treasury

Estimated contingent liabilities for PPPs that are likely to accrue to government as a result of contracts terminating due to government default amount to R9.3 billion in 2020/21 – decreasing from R10 billion in 2019/20. This slight decrease was expected as government continues to pay off debt and equity owed to the private sector. Of the three spheres of government, national departments account for the greatest exposure, amounting to R4.7 billion in 2020/21. Head office accommodation projects and the Gautrain Rapid Rail Link project are the biggest contributors to government's exposure to contingent liabilities. Government manages the risk emanating from PPP contingent liabilities by closely monitoring each party's performance against their contractual obligations and enforcing regulatory requirements.

Impact of COVID-19 on PPPs

In late March 2020, government imposed strict restrictions on activities to contain the COVID-19 pandemic. These restrictions significantly affected revenues for several PPP projects. In April 2020, the National Treasury – supported by the World Bank – engaged with key stakeholders to assess potential PPP risks and contingent liabilities, and identify solutions to mitigate the effects of restrictions. The stakeholders included the Gautrain Management Agency, the Western Cape Department of Transport and Public Works, the Independent Power Producers (IPP) Office, the South African National Roads Agency Limited (SANRAL) and the PPP Unit in the Government Technical Advisory Centre.

At the moment, the effects on risks to the fiscus and contingent liabilities are considered manageable. Operational PPPs such as the Gautrain Rapid Rail Link project, SANRAL toll roads and Chapman's Peak have lost revenue. Other operational concessions such as the Renewable Energy IPP Programme¹ have not been affected by the pandemic and there is no risk that they may affect the fiscus. The project terms of IPPs that are in the construction stage have been extended, while PPPs in the planning stage may face delays in reaching financial closure as a result of the pandemic.

Gautrain

In November 2020, passenger demand was 30 per cent of pre-COVID-19 levels after a slow recovery from the shutdown of all rail transport during the strict lockdown. The Gautrain has a patronage guarantee² as part of the PPP agreement signed with the private operator, Bombela Concession Company. The private operator is partly liable for losses if revenue drops below a certain amount. In 2020/21, the private operator is expected to lose about R700 million and the provincial government's patronage guarantee is expected to exceed its current budget by R400 million. The Gauteng Department of Roads and Transport is expected to absorb this amount. The number of people using public transport is projected to remain below pre-COVID-19 levels for some time as a result of slow economic growth and the probability that more people will continue to work from home. The overall impact of COVID-19 on projects such as the Gautrain is unknown and will need to be assessed and quantified in future.

¹ Renewable energy independent power producers are not strictly PPPs. They are guaranteed by the fiscus and may pose a contingent liability if not managed.

² A patronage guarantee is a subsidy provided when the private operator's total revenue is below a contractually agreed amount.

Chapman's Peak toll road

Traffic volumes along Chapman's Peak toll road in Cape Town declined by 99 per cent in April 2020 compared to April 2019, recovering to 70 per cent of December 2019 levels by December 2020. The Western Cape Department of Roads and Transport, which guaranteed the private-sector debt payment, has had to pay about R14 million more to the private sector than budgeted for in 2020 as lower traffic volumes affected revenue collection.

Moreover, the department estimates that it will pay about R10 million more in 2021 due to reduced traffic. The decrease in tourism and increase in remote working will continue to affect traffic volumes and revenue. This is likely to increase the Western Cape's debt payments to the private sector. However, loans are expected to be fully repaid by 2023, after which the provincial government is expected to earn revenues from this road.

SANRAL toll roads

SANRAL is currently operating three PPPs: the N3 toll road, the N4 East toll road and the N4 West toll road. The effect of lower traffic volumes and revenue due to restrictions varies; however, all the PPP agreements specify that any loss emanating from traffic volumes is borne by the private operator.

Revenue collection on the N3 toll road (between Cedara interchange in KwaZulu-Natal and Heidelberg South interchange in Gauteng) has been affected by restrictions on interprovincial travel and the hospitality industry. Revenue losses have not yet been quantified. The private operator will claim these losses from its insurer.

Traffic volumes at N4 East toll plazas (between Pretoria and Maputo) dropped to 18 per cent of pre-COVID-19 levels during the strict lockdown imposed in March 2020 compared to the same period in 2019. Between March 2020 and January 2021, total traffic volumes were about 80 per cent compared to March 2019 and January 2020 levels, showing a gradual resumption of activity. Additional COVID-19 regulations imposed at borders caused delays and a reduction in traffic movement between South Africa and Mozambique during 2020, and the December 2020 closure of border posts is significantly affecting toll revenue collections. Between August 2019 and July 2020, the private operator estimated a revenue loss of R298.7 million.

Revenue for the N4 West Bakwena toll road (between Pretoria and Rustenburg) is estimated to have dropped to 20 per cent of pre-COVID-19 estimates in March and April 2020 compared to the same period in 2019. Between March and September 2020, revenue losses amounted to R371.3 million. The private operator is pursuing this claim from its insurer.

Improving the quantification of contingent liabilities

The 34 PPPs in operation account for 2 per cent of the total public-sector infrastructure expenditure budget, and therefore do not pose significant risks to the fiscus. Over the medium term, it is anticipated that this share will increase as projects are developed in partnership with the private sector through the Infrastructure Fund.

In anticipation of this increase, the National Treasury has partnered with the World Bank to improve the methodology used to quantify contingent liabilities. At present, institutions submit their contingent liabilities report as part of the process of obtaining approval before a PPP can be implemented. The National Treasury monitors these liabilities annually. Improvements that are being explored during 2021 include designing a guideline and template to help public-sector institutions report on contingent liabilities, as well as formulating measures to evaluate the private sector's ability to deliver on its contractual obligations and debt repayments.

PPP projects completed

Table E.2 shows a list of 34 concluded PPP projects undertaken since this type of partnership was first introduced in South Africa in 1998. The total value of all projects amounts to R89.3 billion. These projects are in the health, transport and roads, and tourism sectors, as well as for head office accommodation. They have been funded through a combination of equity, debt and, in some instances, government capital contributions. Most of these projects are operational, with a few having reached the end of their project term. In some instances, project durations have been extended.

Table E.2 List of PPP projects concluded in South Africa

Project name	Government institution	Type	Date of close ¹	Duration	Financing structure	Project value R million	Form of payment
Transport							
SANRAL N4 East Toll Road	SANRAL	DFBOT ²	Feb 1998	30 years	Debt: 80% Equity: 20%	3 200	User charges
SANRAL N3 Toll Road	SANRAL	DFBOT	Nov 1999	30 years	Debt: 80% Equity: 20%	3 000	User charges
SANRAL N4 West Toll Road	SANRAL	DFBOT	Aug 2001	30 years	Debt: 80% Equity: 20%	3 200	User charges
Northern Cape fleet	Northern Cape Department of Transport, Roads and Public Works	DFO ³	Nov 2001	5 years	Equity: 100%	181	Unitary payment
Chapman's Peak Drive Toll Road	Western Cape Department of Transport	DFBOT	May 2003	30 years	Debt: 44% Equity: 10% Govt: 46%	450	User charges and guarantee
Fleet management	Eastern Cape Department of Transport	DFO	Aug 2003	5 years	Debt: 100%	553	Unitary payment
National fleet management	Department of Transport	DFO	Sep 2006	5 years	Equity: 100%	919	Service fee
Tshwane fleet management	City of Tshwane	DFO	Nov 2015	5 years	Equity: 100%	1 612	Service fee
Roads							
Gautrain Rapid Rail Link	Gauteng Department of Public Transport, Roads and Works	DFBOT	Sep 2006	20 years	Debt 11% Equity: 2% Govt: 87%	31 800	User charges and patronage guarantee
SANRAL Gauteng Freeway Improvement Plan Toll Road	SANRAL	DFBOT	Oct 2007	20 years	Debt: 100%	20 000	User charges
Water and sanitation							
Dolphin Coast water and sanitation concession	KwaDukuza Local Municipality	DFBOT	Jan 1999	30 years	Debt: 21% Equity: 18% Govt: 61%	130	User charges
Mbombela water and sanitation concession	Mbombela Local Municipality	DFBOT	Dec 1999	30 years	Debt: 40% Equity: 31% Govt: 29%	189	User charges
Correctional services							
Mangaung and Makhado maximum security prisons	Department of Correctional Services	DFBOT	Aug 2000	30 years	Debt: 88% Equity: 12%	3 600	Unitary payment
Information technology							
Information systems	Department of Labour	DFBOT	Dec 2002	10 years	Equity: 100%	1 500	Unitary payment
Social grant payment system	Free State Department of Social Development	DFO	Apr 2004	3 years	Equity: 100%	260	Unitary payment
Office accommodation							
Head office accommodation	Department of Trade and Industry	DFBOT	Aug 2003	25 years	Debt: 80% Equity: 8% Govt: 12%	870	Unitary payment
Head office accommodation	Department of International Relations and Cooperation	DFBOT	Jan 2005	25 years	Debt: 81% Equity: 19%	1 959	Unitary payment
Head office accommodation	Department of Education	DFBOT	Aug 2009	27 years	Debt: 90% Equity: 10%	512	Unitary payment
Head office accommodation	Department of Environmental Affairs	DFBOT	May 2012	25 years	Debt 49% Equity: 15% Govt: 36%	2 731	Unitary payment
Head office accommodation	Statistics South Africa	DFBOT	Mar 2014	24 years	Debt 54% Equity: 9% Govt: 37%	2 533	Unitary payment
Head office accommodation	City of Tshwane	DFBOT	Mar 2015	25 years	Debt: 86% Equity: 14%	2 005	Unitary payment
Head office accommodation	Department of Rural Development	DFBOT	May 2017	27 years	Debt: 54% Equity: 10% Govt: 36%	3 991	Unitary payment

Table E.2 List of PPP projects concluded in South Africa (continued)

Project name	Government institution	Type	Date of close ¹	Duration	Financing structure	Project value R million	Form of payment
Health							
Inkosi Albert Luthuli Hospital	KwaZulu-Natal Department of Health	DFBOT	Dec 2001	15 years	Debt: 70% Equity: 20% Govt: 10%	4 500	Unitary payment
Universitas and Pelonomi Hospitals co-location	Free State Department of Health	DFBOT	Nov 2002	16.5 years	Equity: 100%	81	User charges
State Vaccine Institute	Department of Health	Equity partnership	Apr 2003	4 years	Equity: 100%	75	Once-off equity contribution
Humansdorp District Hospital	Eastern Cape Department of Health	DFBOT	Jun 2003	20 years	Equity: 90% Govt: 10%	49	Unitary payment
Phalaborwa Hospital	Limpopo Department of Health and Social Development	DFBOT	Jul 2005	15 years	Equity: 100%	90	User charges
Western Cape Rehabilitation Centre and Lentegeur Hospital	Western Cape Department of Health	Facilities management	Nov 2006	12 years	Equity: 100%	334	Unitary payment
Polokwane Hospital renal dialysis	Limpopo Department of Health and Social Development	DBOT ⁴	Dec 2006	10 years	Equity: 100%	88	Unitary payment
Port Alfred and Settlers Hospital	Eastern Cape Department of Health	DFBOT	May 2007	17 years	Debt: 90% Equity: 10%	169	Unitary payment
Tourism							
SANParks tourism projects	SANParks	DFBOT	Apr 2000	Various years	Equity: 100%	270	User charges
Eco-tourism Manyeleti three sites	Limpopo Department of Finance, Economic Affairs and Tourism	DFBOT	Dec 2001	30 years	Equity: 100%	25	User charges
Cradle of Humankind Interpretation Centre Complex	Gauteng Department of Agriculture, Conservation, Environment and Land Affairs	DBOT	Oct 2003	10 years	Equity: 100% opex Govt: 100% capex	39	User charges
Western Cape Nature Conservation Board	Western Cape Provincial Government	DFBOT	Jul 2005	30 years	Equity: 100%	40	User charges

1. Refers to a phase in which all contract conditions of the financing established between government, private party and lenders are closed

2. Design, finance, build, operate and transfer

3. Design, finance and operate

4. Design, build, operate and transfer

Source: National Treasury



Financial sector update

This annexure provides an update on regulatory changes in the financial sector.

Response to COVID-19

Monetary, fiscal and regulatory authorities have taken steps to mitigate the effects of COVID-19 on the economy, mainly by providing financial assistance to companies and workers as well as reducing the regulatory burden on financial institutions in an effort to support economic activity. These policy interventions were designed to limit social distress and avert unnecessary bankruptcies.

In 2021, financial sector policy will focus on sustainably supporting the recovery. Effective policies to address structural challenges facing the sector could result in a faster and more durable economic recovery. These include harnessing financial technologies to broaden and deepen financial inclusion, and promoting the sector's contribution to a green economy.

Measures to ensure financial stability

To support the financial sector during the pandemic, the Prudential Authority – which regulates banks and the broader financial sector – announced a temporary relaxation of regulations to support businesses and regulated financial institutions. These measures included:

- Lowering the minimum capital and liquidity coverage ratio requirements for banks.
- Reducing capital requirements for loans that banks restructured to assist their customers and guiding banks on the application of expected credit loss provisioning and accounting practices.
- Advising banks to refrain from paying bonuses and dividends.
- Monitoring banks' operational risk and business continuity more closely to ensure the health and safety of staff and customers.
- Extending financial and regulatory reporting timelines for financial institutions affected by strict lockdown restrictions.

Measures to help customers

The Financial Sector Conduct Authority (FSCA), which regulates the market conduct of financial sector institutions, implemented measures to support customers and regulated entities. These measures included relaxing regulatory reporting timelines for entities.

To ensure that customers were treated fairly, the FSCA communicated its expectations of COVID-19-related conduct to financial institutions. In addition, the FSCA adjusted regulations to support insurance premium relief for policyholders, allowing them to still claim while minimising disruptions to the expected income of intermediaries.

The insurance industry has faced significant uncertainty over how to manage COVID-19-related claims. The FSCA communicated on specific issues, such as publishing its stance on business interruption cover. While industry participants sought legal certainty regarding their business interruption cover obligations through the courts, the FSCA obtained agreement from affected non-life insurers that they would provide interim relief – in the form of payments – to policyholders with the appropriate contagious disease extension.

In addition, the FSCA advised the boards of trustees for retirement funds and financially distressed employers to consider allowing the suspension or reduction of retirement contributions. Where funds did not have rules enabling this, they were requested to submit such rules for FSCA approval. The FSCA also encouraged employers and funds to continue paying full risk-benefit premiums for members to ensure that they and their families continued to be covered in the event of death or disability.

Measures to support small businesses

The National Treasury, in partnership with the Reserve Bank and the Banking Association South Africa, launched the COVID-19 loan guarantee scheme in May 2020, and revised it in July 2020. This arrangement was designed to enable commercial banks to support firms until economic activity could resume. The National Treasury guaranteed support of up to R100 billion (later increased to R200 billion) for this scheme.

To date, banks have provided R17.8 billion in relief to 13 173 approved beneficiaries. The arrangement is being expanded through non-bank financial institutions to reach a greater number of distressed firms, but the final outlay is expected to remain well below the guaranteed amount. At the height of the pandemic, banks provided R617 billion in restructuring of credit exposure following guidance from the Prudential Authority. A portion of this was provided to small businesses.

Fighting financial crime and corruption

South Africa's financial integrity system is undergoing a mutual evaluation by the Financial Action Task Force (FATF). This review, which takes place regularly in all FATF member countries, evaluates national systems against international standards to prevent money laundering, terror financing, and the financing of the proliferation of weapons of mass destruction. The COVID-19 pandemic delayed the completion of this review from September 2020 to 2021. The review will provide recommendations on how South African authorities can enhance the integrity of the financial system.

Simplifying cross-border trade and financial flows

In 2021, the National Treasury and the Reserve Bank will continue to develop the legislative framework for the new capital flow management system announced in the 2020 Budget. The system is expected to be substantively completed this year. The Reserve Bank will issue a new set of Capital Flows Management Regulations in terms of the Currency and Exchanges Act (1933). This framework is being developed with the Financial Intelligence Centre and the South African Revenue Service.

From 1 March 2021, specific rules for companies with a primary listing offshore, including dual-listed structures, will be aligned to current foreign direct investment rules. This change will be applied automatically to affected companies once the Reserve Bank has finalised these arrangements.

During 2021, government will continue working to implement reforms promoting South Africa as a financial hub for the continent in light of the African Continental Free Trade Agreement.

Supporting financial stability

In January 2021, the National Treasury and the Reserve Bank finalised the Financial Stability Framework that defines how the Reserve Bank will independently fulfil its financial stability responsibilities in terms of the Financial Sector Regulation Act (2017).

Promoting financial technology to improve financial inclusion

Financial technology (fintech) can provide greater access to cheaper, faster and more seamless services. However, it poses risks such as cybercrime, money laundering and misuse of consumer data.

Fostering innovation and promoting competition

To leverage fintech benefits and contain risks, the Intergovernmental Fintech Working Group launched an innovation hub in April 2020. To date, innovators have used the hub to engage regulators quickly and collectively on over 80 queries related to their innovations. The hub also provides a coordinated facility (or “sandbox”) to enable the live testing of new financial products or services in a controlled setting. Four products and services have been approved through this facility. Regulators are also using the hub to publish their policies and regulatory stances on crypto assets, open banking – the system and process of allowing third-party applications to access and control banking and related financial services – and the regulation of digital platforms (such as crowdfunding platforms).

Reimagining the financial sector for a more inclusive economy

In 2021, the Reserve Bank will review the feasibility of a retail central bank digital currency or digital cash, which is a digital form of currency that would be issued to the general public. The review, which will be published after completion, will assess potential effects on financial inclusion, monetary policy, financial stability and financial intermediation.

Responding to climate risks and building a sustainable economy

In May 2020, the National Treasury published a draft paper, *Financing a Sustainable Economy*, as a framework for financial institutions to disclose and report on issues related to climate risk, and highlighting opportunities for the sector to support the transition to a low-carbon and climate-resilient economy. The key recommendations include developing a green finance taxonomy, creating technical guidance for disclosures (such as the Task Force on Climate-related Financial Disclosures), and developing a climate risk scenario for use in stress tests.

Other reforms

International assessment of South Africa’s financial sector

In 2020, South Africa participated in a comprehensive review of the functioning of the financial sector through a G20-mandated Financial Sector Assessment Programme conducted by the International Monetary Fund and the World Bank. The review found that the country’s regulatory framework is operating effectively under the supervision of the Prudential Authority and the FSCA. The review also suggested areas that require strengthening – such as updating regulations on corporate governance, related entities and large exposures to align with current Basel Committee standards or guidance – and enhancing regulator independence and accountability. The review will be finalised by June 2021.

Broadening and deepening financial inclusion

In 2020, the National Treasury published a draft policy paper, *An Inclusive Financial Sector for All*, for public comment. It aims to establish a policy framework for financial inclusion in South Africa. Over

20 institutions provided comments. The National Treasury will facilitate workshops with stakeholders to discuss these comments before finalising the paper this year. It will also work with industry and civil society working groups and forums to develop a financial inclusion strategy, including a monitoring mechanism, to assess the state of financial inclusion and the impact of this policy.

The Conduct of Financial Institutions Bill

The second draft of the Conduct of Financial Institutions Bill was published in 2020 for public consultation. The National Treasury is engaging stakeholders to discuss and clarify comments received. A revised draft of the bill will be tabled in Parliament in 2021.

Transformation and financial inclusion

The Financial Sector Transformation Council established seven subcommittees to review the targets in the Financial Sector Code to strengthen transformation. The subcommittees are developing targets for management control and skills development, socioeconomic development and consumer education, retirement funds and ownership, access to financial services, preferential procurement and empowerment financing. This year, the subcommittees will finalise and submit the revised targets to the Financial Sector Transformation Council for approval and then to the Department of Trade, Industry and Competition to publish for public comment.

Financial markets legislation

Various reforms are under way to enhance competitiveness and dynamism in financial markets. In February 2020, the National Treasury published a discussion paper, *Building Competitive Financial Markets for Innovation and Growth – A Work Programme for Structural Reforms to South Africa's Financial Markets*, and it is reviewing comments received. During 2021, a draft bill will be published to adjust the Financial Markets Act (2012) in line with some of the received comments and recommended reforms aligned with international standards. The Prudential Authority and the FSCA are engaging with the financial sector and analysing the feasibility of regulatory instruments in response to the recommendations.

Retirement fund reform

The COVID-19 pandemic has influenced many countries to consider allowing individuals to access their retirement savings as an interim relief measure. Alongside the 2020 *Medium Term Budget Policy Statement*, the National Treasury published an explanatory note with financial sector updates that noted numerous requests to allow limited pre-retirement withdrawals from retirement funds under certain conditions, such as disasters. Government continues to engage with trade unions, regulators and other stakeholders to discuss how to allow these withdrawals, together with mandatory preservation requirements.

Annuity for provident funds takes effect from 1 March 2021. In addition, the National Treasury has published draft amendments to Regulation 28 of the Pension Funds Act (1956) for public comment. The proposed amendments seek to make it easier for retirement funds to increase investment in infrastructure and improve the measurement of infrastructure investment by the FSCA. The proposed amendments refer to infrastructure investment already permitted through various asset classes and suggest delinking the asset category related to “hedge funds, private equity funds and other assets not referred to in this schedule”. Delinking this asset category will make private equity a separate asset class with a higher investment limit.

Levies

The Financial Sector Levies Bill, to be submitted to Parliament in 2021, will provide for levies enabling financial sector regulatory bodies to carry out their duties. Details are contained in Chapter 4.

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Summary of the budget

Summary of the national budget

	2020/21		2021/22	2022/23	2023/24
	Budget estimate	Revised estimate	Budget estimate	Medium-term estimates	
R million					
REVENUE					
Estimate of revenue before tax proposals			1 365 124		
Budget 2021/22 proposals:			-		
Direct taxes			-2 200		
Personal income tax					
Increasing brackets by more than inflation			-2 200		
Revenue if no adjustment is made			11 200		
Higher-than-inflation increase in brackets and rebates			-13 400		
Indirect taxes			2 200		
Taxes on international trade and transactions					
Introduction of export tax on scrap metal			400		
Specific excise duties					
Increase in excise duties on alcohol			1 100		
Increase in excise duties on tobacco			700		
Estimate of revenue after tax proposals	1 397 996	1 200 786	1 351 672	1 453 669	1 522 035
Percentage change from previous year			12.6%	7.5%	4.7%
EXPENDITURE					
Direct charges against the National Revenue Fund	805 666	786 756	830 023	870 782	904 271
Debt-service costs	229 270	232 852	269 741	308 013	338 591
Provincial equitable share	538 472	520 717	523 686	524 088	525 304
General fuel levy sharing with metropolitan municipalities	14 027	14 027	14 617	15 335	15 433
Skills levy and sector education and training authorities	19 413	10 175	17 813	19 230	20 763
Other ¹⁾	4 485	8 986	4 165	4 116	4 180
Appropriated by vote	963 114	1 017 418	980 584	962 958	968 556
Current payments	261 551	248 862	255 691	253 453	252 049
Transfers and subsidies	644 025	669 325	663 138	690 360	698 618
Payments for capital assets	15 303	13 434	15 004	15 721	16 213
Payments for financial assets	42 236	85 797	46 751	3 424	1 675
Provisional allocations	-7 786	-	11 645	32 093	33 219
Provisional reduction allocation to fund the Land Bank	-	-	-5 000	-	-
Provisional allocation not assigned to votes	7 021	-	12 645	4 236	4 204
Provisional allocation for Eskom restructuring	23 000	-	-	21 857	21 015
Infrastructure Fund not assigned to votes	-	-	4 000	6 000	8 000
Compensation of employees adjustments	-37 807	-	-	-	-
Total	1 760 994	1 804 174	1 822 252	1 865 833	1 906 046
Plus:					
Contingency reserve	5 000	-	12 000	5 000	5 000
Estimate of national expenditure	1 765 994	1 804 174	1 834 252	1 870 833	1 911 046
Percentage change from previous year			1.7%	2.0%	2.1%
2020 Budget estimate of expenditure		1 765 994	1 850 668	1 940 225	
Increase / decrease (-)		38 180	-16 416	-69 392	
Gross domestic product	5 428 212	4 920 961	5 352 236	5 666 333	5 997 155

1) Includes direct appropriations in respect of the salaries of the President, Deputy President, judges, magistrates, members of Parliament, National Revenue Fund payments (previously classified as extraordinary payments), Auditor-General of South Africa, the International Oil Pollution Compensation Fund and sections 16 and 70 of the Public Finance Management Act (1999).
Source: National Treasury

Summary of the consolidated budget					
R million	2020/21		2021/22	2022/23	2023/24
	Budget estimate	Revised estimate	Budget estimate	Medium-term estimates	
National budget revenue ¹⁾	1 397 996	1 200 786	1 351 672	1 453 669	1 522 035
Revenue of provinces, social security funds and public entities	185 910	161 883	168 695	181 739	195 199
Consolidated budget revenue ²⁾	1 583 905	1 362 669	1 520 367	1 635 408	1 717 234
National budget expenditure ¹⁾	1 765 994	1 804 174	1 834 252	1 870 833	1 911 046
Expenditure of provinces, social security funds and public entities	188 450	248 278	186 108	178 653	184 100
Consolidated budget expenditure ²⁾	1 954 445	2 052 452	2 020 360	2 049 487	2 095 146
Consolidated budget balance	-370 539	-689 783	-499 994	-414 079	-377 912
<i>Percentage of GDP</i>	<i>-6.8%</i>	<i>-14.0%</i>	<i>-9.3%</i>	<i>-7.3%</i>	<i>-6.3%</i>
FINANCING					
Domestic loans (net)	332 286	562 235	336 798	360 862	336 648
Foreign loans (net)	18 815	94 355	42 992	33 619	25 239
Change in cash and other balances	19 438	33 192	120 203	19 598	16 026
Total financing (net)	370 539	689 783	499 994	414 079	377 912

1) Transfers to provinces, social security funds and public entities presented as part of the national budget.

2) Flows between national and provincial government, social security funds and public entities are netted out.

Source: National Treasury

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Glossary

Accounting officer	The public servant who is accountable to Parliament for financial management of a government department, usually the director-general at the national level or head of the department at the provincial level.
Accrual	An accounting convention by which payments and receipts are recorded as they occur, even if no cash flow takes place.
Acquisition debt	Debt used to buy shares or assets.
Adjustments estimate	Presentation to Parliament of the amendments to be made to the appropriations voted in the main budget for the year.
Administered prices	Prices set outside ordinary market processes through administrative decisions by government, a public entity or a regulator.
Ad valorem duties	Taxes levied on commodities as a certain percentage of their value.
Agro-processing	Manufacturing activities that transform raw materials and intermediary goods derived from agriculture into intermediate or final goods.
Allocated expenditure	The part of the national budget that can be divided between the national, provincial and local spheres of government, after interest and the contingency reserve have been taken into account.
Amortisation	The repayment of a loan by instalments over its duration.
Annuity	A fixed amount of money paid over a period of time as a return on an investment.
Anti-avoidance rule	A provision aimed at preventing tax avoidance. See principal purpose test.
Appreciation (exchange rate)	An increase in the external value of a currency.
Appropriation	The approval by Parliament of spending from the National Revenue Fund, or by a provincial legislature from a provincial revenue fund.
Asset price bubble	A condition occurring when prices for a category of assets rise above the level justified by economic fundamentals.
Balance of payments	A summary statement of all the international transactions of the residents of a country with the rest of the world over a particular period of time.
Base erosion and profit shifting	Corporate tax-planning strategies that exploit the gaps and mismatches in tax laws between countries to shift taxable income to lower- or no-tax jurisdictions. See also tax evasion and profit shifting.
Basel III	Reforms developed by the Basel Committee on Banking Supervision to strengthen the regulation, supervision and risk management of the banking sector.
Baseline	The initial allocations used during the budget process, derived from the previous year's forward estimates.
Basis point	One hundredth of one per cent.
Beneficiation	Manufacturing activities that transform raw minerals into higher-value products.
Blended finance	The combination of public, private, development and multilateral sources of financing to leverage funding for projects.

Bond	A certificate of debt issued by a government or corporation guaranteeing payment of the original investment plus interest by a specified future date.
Bond premium	Amount by which the purchase price of a bond is greater than its par value.
Bond spread	The difference in yield between two bonds.
Bond-switch programme	An auction that aims to ease pressure on targeted areas of the redemption profile by exchanging shorter-dated debt for longer-term debt. See switch auction.
Bracket creep	Increased real tax liability that arises when the personal income tax tables are not fully adjusted for inflation.
Budget balance	The difference between budgeted expenditure and budgeted revenue. If expenditure exceeds revenue, the budget is in deficit. If the reverse is true, it is in surplus.
Budget Facility for Infrastructure	A reform to the budget process that establishes specialised structures, procedures and criteria for committing fiscal resources to public infrastructure spending.
Capital asset	Property of any kind, including assets that are movable or immovable, tangible or intangible, fixed or circulating, but excluding trading stock held to realise a financial or economic return.
Capital expenditure	Spending on assets such as buildings, land, infrastructure and equipment.
Capital flow	A flow of investments in or out of the country.
Capital formation	A measure of the net increase in the country's total stock of capital goods, after allowing for depreciation.
Capital gains tax	Tax levied on the income realised from the disposal of a capital asset by a taxpayer. A capital gain is the excess of the selling price over the purchase price of the capital asset.
Capital goods	Durable goods used over a period of time to produce other goods. See also intermediate goods.
Capitalised interest	The cost of borrowing to construct a capital asset, which is then included in the cost of the asset.
Capital market	A financial market where individuals and institutions raise capital or funding in the form of debt or equities.
Carbon budgeting	The process of allocating a greenhouse gas emissions allowance to a company for a specific period of time.
Category A, B and C municipalities	Municipal categories established by the Constitution: Category A, or metropolitan municipalities; Category B, or local municipalities; and Category C, or district municipalities.
Collateral	An asset placed as a guarantee for the repayment of debt, to be recouped in the case of a default.
Commercial paper issuances	Debt issued by companies through short-term promissory notes.
Commission of inquiry	An expert panel established by the President to investigate a specific issue.
Commutation	When a member of a pension fund, pension preservation fund or retirement annuity fund retires, they are allowed to take (commute) a lump sum equal to a maximum of one-third of the retirement interest.
Conditional grants	Allocations of money from one sphere of government to another, conditional on certain services being delivered or on compliance with specified requirements.

Connected person debt/credit	Debt or credit granted by a person/entity to a connected person/entity. In the case of a holding company, for example, a subsidiary company would be a connected person.
Consolidated general government	National, provincial and local government, as well as extra-budgetary government institutions and social security funds.
Consolidated government expenditure	Total expenditure by national and provincial government, social security funds and selected public entities, including transfers and subsidies to municipalities, businesses and other entities.
Consumer price index	The measure of inflation based on prices in a basket of goods and services.
Consumption expenditure	Expenditure on goods and services that are used within a short period of time, usually a year.
Contingency reserve	An amount set aside, but not allocated in advance, to accommodate changes to the economic environment and to meet unforeseeable spending pressures.
Contingent liability	A government obligation, such as a guarantee, that will only result in expenditure if a specific event occurs. See government guarantee.
Controlled foreign company	A foreign business in which South Africans hold a greater than 50 per cent interest, usually of the share capital of a company.
Corporatisation	The transformation of state-owned enterprises into commercial entities, subject to commercial legal requirements and governance structures, while the state retains ownership.
Cost-push inflation	Inflation that is caused by an increase in production costs, such as wages or oil prices.
Countercyclical fiscal policy	Policy that has the opposite effect on economic activity to that caused by the business cycle, such as slowing spending growth in a boom period and accelerating spending in a recession.
Coupon (bond)	The periodic interest payment made to bondholders during the life of the bond. The interest is usually paid twice a year.
Covered person	Stock brokers that do not trade as a treasury operation; the Reserve Bank; banks and their controlling companies; and companies or trusts that form part of a banking group, excluding short- and long-term insurers, and these insurers' subsidiaries and companies in which they hold a controlling share.
Credit rating	An indicator of the risk of default by a borrower or the riskiness of a financial instrument.
Credit risk	The probability of financial loss resulting from failure to repay a loan or meet a contractual obligation.
Crowding-in	An increase in private investment through the income-raising effect of government spending financed by deficits.
Crowding-out	A fall in private investment or consumption as a result of increased government expenditure financed through borrowing, thereby increasing competition for loanable funds and raising the interest rate, which curtails private investment and consumption spending.
Cryptocurrency	A digital medium of exchange that uses cryptography to secure its transactions, control the creation of additional units and verify the transfer of assets.
Currency risk	The potential for a change in the price of a currency that would affect investors with assets, liabilities or operations denominated in other currencies.

Current account (of the balance of payments)	The difference between total imports and total exports, taking into account service payments and receipts, interest, dividends and transfers. The current account can be in deficit or surplus. See also trade balance.
Current balance	The difference between revenue and current expenditure, which consists of compensation of employees, goods and services, and interest and rent on land.
Current expenditure	Government expenditure on salaries and goods and services, such as rent, maintenance and interest payments. See also consumption expenditure.
Customs duties	A tax levied on imported goods.
Debenture	An unsecured debt instrument backed by general creditworthiness of the issuer rather than by specific assets.
Debt redemption profile	The set of fixed repayment dates and amounts to which an issuer of debt, such as a preferred stock or bond, has committed to meeting.
Debt-service costs	The interest on government debt and other costs directly associated with borrowing.
Debt-service coverage ratio	The ratio of cash from operating activities available to service debt payments.
Debt stock	The total value of debt owed to all lenders.
Decommissioning	The removal or dismantling of a facility from service.
Default regulations	Retirement funds' trustee boards must offer a default in-fund preservation arrangement to members who leave the services of their employer before retirement, and a default investment portfolio to contributing members who do not or cannot choose how their savings should be invested.
Deflation	A consistent decrease in the price of goods and services.
Deleveraging	The reduction of debt previously used to increase the potential return of an investment.
Depreciation (capital)	A reduction in the value of fixed capital as a result of wear and tear or redundancy.
Depreciation (exchange rate)	A reduction in the external value of a currency.
Derivative financial instrument	A financial asset that derives its value from an underlying asset, which may be a physical asset such as gold or a financial asset such as a government bond.
Designated countries	Foreign countries from which income may be exempt from South African tax under certain circumstances. See also double tax agreement.
Development finance institutions	State agencies that aim to meet the credit needs of riskier but socially and economically desirable projects that are beyond the acceptance limits of commercial banks.
Digital economy	An economy based on digital computing technologies – increasingly through internet-based markets.
Direct taxes	Taxes charged on taxable income or capital of individuals and legal entities.
Discouraged work seekers	See unemployment.
Discretionary trust	A trust where the executor has the choice of whether and how much of the trust's income or capital is to be distributed to beneficiaries. The beneficiaries have only provisional rights to the income or capital of the trust.
Disposable income	Total income less all taxes and employee contributions.
Dissaving	An excess of current expenditure, including the depreciation of fixed capital, over current income.
Dividend	The distribution of a portion of a company's earnings to a class of its shareholders.

Dividend withholding tax	A tax on dividends that is subtracted and withheld by a company or intermediary before the net dividend is paid to the shareholder. See also withholding tax.
Division of revenue	The allocation of funds between spheres of government, as required by the Constitution. See also equitable share.
Domestic demand	The total level of spending in an economy, including imports but excluding exports.
Double tax agreement	An agreement between two countries to prevent income that is taxed in one country from being taxed in the other as well. Double taxation is juridical when the same person is taxed twice on the same income by more than one state. Double taxation is economic if more than one person is taxed on the same item. See also designated countries and tax treaty.
Early childhood development	The development of children from birth until the year they enter formal schooling.
Economically active population	The part of the population that is of working age and is either employed or seeking work.
Economic cost	The cost of an alternative that must be forgone to pursue a certain action. In other words, the benefits that could have been received by taking an alternative action. Also known as opportunity cost.
Economic growth	An increase in the total amount of output, income and spending in the economy.
Economic rent	The difference between the return made by a factor of production (capital or labour) and the return necessary to keep the factor in its current occupation. For example, a firm making excess profits is earning economic rent.
Economic prices	Financial prices that are adjusted for market distortions such as import tariffs, taxes or subsidies.
Effective tax rate	Actual tax liability (or a reasonable estimate thereof) expressed as a percentage of a pre-tax income base rather than as a percentage of taxable income. In other words, tax rates that take into account not only the statutory or nominal tax rate, but also other aspects of the tax system (for example, allowable deductions) that determine the tax liability.
Embedded derivative	A provision in a contract modifying its cash flows by making them dependent on an underlying measure – such as interest or exchange rates, or commodity prices – the value of which changes independently.
Emerging economies	A name given by international investors to middle-income economies.
Employment coefficient	The ratio of employment growth to economic growth.
Equitable share	The allocation of revenue to the national, provincial and local spheres of government as required by the Constitution. See also division of revenue.
Equity finance	Raising money by selling shares of stock to investors, who receive an ownership interest in return.
Exchange control	Rules that regulate the flow of currency out of South Africa, or restrict the amount of foreign assets held by South African individuals and companies.
Exchange item	A foreign-currency amount relating to a debt, loan or foreign-exchange contract.
Exchange-traded funds	Funds that track indices, commodities or baskets of assets, and trade like stocks.

Excise duties	Taxes on the manufacture or sale of certain domestic or imported products. Excise duties are usually charged on products such as alcoholic beverages, tobacco and petroleum.
Expenditure ceiling	The maximum allowable level of expenditure to which government has committed itself.
Extra-budgetary institutions	Public entities not directly funded from the fiscus.
Fair-value adjustment	A change in the value of an asset or liability resulting from the periodic reassessment of its expected future economic in- or outflows.
Fee-free higher education and training	A government policy on higher education and training that makes provision for full-cost-of-study bursaries to students below a specified household-income threshold, covering tuition fees, prescribed study material, meals, and a certain level of accommodation and/or travel allowances.
Financial account	A statement of all financial transactions between the nation and the rest of the world, including portfolio and fixed-investment flows and movements in foreign reserves.
Financial and Fiscal Commission	An independent body established by the Constitution to make recommendations to Parliament and provincial legislatures about financial issues affecting the three spheres of government.
Financial Sector Conduct Authority	A body responsible for regulating and supervising the market conduct of financial institutions and market infrastructure.
Financial Services Board	An independent institution established by statute that regulates insurers, intermediaries, retirement funds, friendly societies, unit trust schemes, management companies and financial markets.
Financial year	The 12 months according to which companies and organisations budget and account. See also fiscal year.
Fintech	An abbreviation of “financial technology”, which refers to new technologies and innovations that aim to compete with traditional methods to deliver financial services more efficiently.
Fiscal consolidation	Policy aimed at reducing government deficits and debt accumulation.
Fiscal framework	The arrangements, procedures, rules and institutions underlying the conduct of government’s budgetary policies.
Fiscal incidence	The combined overall economic impact that fiscal policy has on the economy.
Fiscal leakage	The outflow of revenue from an economy through tax evasion and avoidance.
Fiscal marking	The process of marking a product with a prescribed identification (or chemical). Marking allows the South African Revenue Service to trace products back to the manufacturers in order to collect excise duties.
Fiscal policy	Policy on taxation, public spending and borrowing by government.
Fiscal space	The ability of government’s budget to provide additional resources for a desired programme without jeopardising fiscal or debt sustainability.
Fiscal year	The 12 months on which government budgets are based, beginning 1 April and ending 31 March of the subsequent calendar year.
Fixed investment/capital formation	Spending on buildings, machinery and equipment contributing to production capacity in the economy. See also gross fixed-capital formation.
Fixed-rate bond	A bond that pays a specific interest rate over a specified period of time.

Floating rate notes	A bond on which the interest rate is reset periodically in line with a money market reference rate.
Foreign currency swaps	The exchange of principal and/or interest payments in one currency for those in another.
Foreign direct investment	The acquisition of a controlling interest by governments, institutions or individuals of a business in another country.
Forward book	The total amount of contracts for the future exchange of foreign currency entered into by the Reserve Bank at any given point in time.
Forward cover	Transactions involving an agreed exchange rate at which foreign currency will be bought or sold at a future date.
Free-trade area	A geographical region in which a group of countries has signed an agreement and maintain few or no barriers to trade in the form of tariffs or quotas between them.
Fringe benefit	A benefit supplementing an employee's wages or salary, such as medical insurance, company cars, housing allowances and pension schemes.
Fuel levy	An excise tax on liquid fuels.
Fugitive emissions	Emissions that are unintentionally released into the atmosphere through, for example, leaks from industrial plants and pipelines.
Function shift	The movement of a function from one departmental vote or sphere of government to another.
Funded pension arrangements	A pension scheme in which expected future benefits are funded in advance and as entitlement accrues.
Gearing ratio	The ratio of company debt to equity capital.
Gold and foreign exchange reserves	Reserves held by the Reserve Bank to meet foreign-exchange obligations and to maintain liquidity in the presence of external shocks.
Government debt	The total amount of money owed by government as a consequence of its past borrowing.
Government guarantee	An assurance made by government to a lender that a financial obligation will be honoured, even if the borrowing government entity is unable to repay the debt. See contingent liability.
Government Technical Advisory Centre	An agency of the National Treasury that supports public finance management through professional advisory services, programme and project management and transaction support.
Green paper	A policy document intended for public discussion.
Gross borrowing requirement	The sum of the main budget balance, extraordinary receipts and payments (referred to as National Revenue Fund receipts and payments), and maturing debt. The amount is funded through domestic short- and long-term loans, foreign loans and changes in cash balances.
Gross domestic product	A measure of the total national output, income and expenditure in the economy. GDP per head is the simplest overall measure of welfare, although it does not take account of the distribution of income, or goods and services that are produced outside the market economy, such as work within the household.
Gross domestic product inflation	A measure of the total increase in prices in the whole economy. Unlike CPI inflation, GDP inflation includes price increases in goods that are exported and intermediate goods such as machines, but excludes imported goods.
Gross fixed-capital formation	The addition to a country's fixed-capital stock during a specific period, before provision for depreciation.

Gross loan debt	See government debt.
Gross value added	The value of output less intermediate consumption. It is also a measure of the contribution an industry or sector makes to the economy.
Group of Twenty (G20)	An international forum made up of finance ministers and central bank governors from 20 of the world's largest economies.
Hedging	An action taken by a buyer or seller to protect income against changes in prices, interest rates or exchange rates.
Horizontal equity	A principle in taxation that holds that similarly situated taxpayers should face a similar tax treatment or tax burden. In other words, taxpayers with the same amount of income or capital should be accorded equal treatment.
Impaired advances	Loans or advances that may not be collected in full.
Impairment	A reduction in the recorded value of a long-lived asset arising from circumstances that prevent the asset from generating the future economic benefits previously expected and recorded.
Import parity pricing	When a firm sells goods locally at the price customers would pay if they were to import the same goods from another country.
Inclusion rate	The portion of the net capital gain derived from the disposal of an asset that will be taxed at the applicable rate.
Independent power producer	A private-sector business that generates energy for the national grid.
Industrial development zone	Export-oriented manufacturing sites linked to an international air or sea port, supported by incentives to encourage investment and job creation.
Inflation	An increase in the overall price level of goods and services in an economy over a specific period of time.
Inflation targeting	A monetary policy framework intended to achieve price stability over a certain period of time.
Infrastructure Fund	A fund that will provide government support for the co-financing of programmes and projects that blend public and private resources.
Integrated Resource Plan	The Department of Energy's long-term plan for the country's energy mix and generation expansion in order to meet electricity demand.
Intergenerational equity	A value based on ensuring that future generations do not have to repay debts taken on today, unless they also share in the benefits of assets.
Intermediate goods	Goods produced to be used as inputs in the production of final goods.
Intra-state debt	Money that different organs of state owe to each other.
Inventories	Stocks of goods held by firms. An increase in inventories reflects an excess of output relative to spending over a period of time.
Investment grade	A credit rating indicating minimal risk to investors.
Islamic bond	A financial certificate that complies with Islamic religious law. It represents partial ownership of an asset. The issuer buys back the bond at a future date at par value.
Labour intensity	The relative amount of labour used to produce a unit of output.
Levelised cost of electricity	The estimated present value of the per-unit cost of electricity over the lifetime of a generating asset.
Liquidity	The ease with which assets can be bought and sold.
Liquidity requirements	The amount of liquid or freely convertible assets that banks are required to hold relative to their liabilities for prudential and regulatory purposes.

Liquidity risk	The risk that an asset might not easily and quickly be converted into cash through sale, or the risk to a debtor that it cannot meet its current debt obligations.
Load-shedding	A means of managing electricity supply when the power system is constrained by limiting the electricity supply to areas.
Loan covenant	A commitment, in a loan agreement, to certain activities. If violated, the covenant can trigger a default or penalties.
Loop structures	Structures that arise when private individuals are permitted by the Reserve Bank to acquire up to 40 per cent equity or voting rights in a foreign company, which may in turn hold investments and/or make loans in a Common Monetary Area country (South Africa, eSwatini, Lesotho and Namibia).
Lump-sum benefit	A one-time payment for the total or partial value of an asset, usually received in place of recurring smaller payments.
M3	The broadest definition of money supply in South Africa, including notes and coins, demand and fixed deposits, and credit.
Macroeconomics	The branch of economics that deals with the whole economy – including issues such as growth, inflation, unemployment and the balance of payments.
Macroprudential regulation	Rules that protect the stability of the financial sector and guard against systemic risk.
Marginal income tax rate	The rate of tax on an incremental unit of income.
Marginal lending rate	A penalty rate of interest charged by the Reserve Bank for lending to financial institutions in the money market in excess of the daily liquidity provided to the money market at the repurchase rate. See also repurchase agreements.
Marketable securities	Tradable financial securities listed with a securities exchange.
Means test	A method for determining whether someone qualifies for state assistance.
Medico-legal claims	A civil claim of alleged wrongful medical treatment against a health provider.
Medium Term Expenditure Committee	The technical committee responsible for evaluating the medium-term expenditure framework budget submissions of national departments and making recommendations to the Minister of Finance regarding allocations to national departments.
Medium-term expenditure framework	The three-year spending plans of national and provincial governments, published at the time of the Budget.
Microeconomics	The branch of economics that deals with the behaviour of individual firms, consumers and sectors.
Ministers' Committee on the Budget	The political committee that considers key policy and budgetary issues that pertain to the budget process before they are tabled in Cabinet.
Monetary policy	Policy concerning total money supply, exchange rates and the general level of interest rates.
Money supply	The total stock of money in an economy.
National budget	The projected revenue and expenditures that flow through the National Revenue Fund. It does not include spending by provinces or local government from their own revenues.
National Development Plan	A planning framework prepared by the National Planning Commission that aims to eliminate poverty and reduce inequality by 2030.
National Energy Regulator of South Africa	The authority that regulates electricity, piped-gas and petroleum pipelines industries in South Africa.

National Revenue Fund	The consolidated account of the national government into which all taxes, fees and charges collected by the South African Revenue Service and departmental revenue must be paid.
Negotiable certificate of deposit	Short-term deposit instruments issued by banks, at a variable interest rate, for a fixed period.
Net borrowing requirement	The main budget balance.
Net exports	Exports less imports.
Net loan debt	Gross loan debt less government's cash balances.
Net open foreign currency position	Gold and foreign exchange reserves minus the oversold forward book. The figure is expressed in dollars.
Net trade	The difference between the value of exports and imports.
New Development Bank	A multilateral lending institution established by Brazil, Russia, India, China and South Africa.
Nominal exchange rates	The current rate of exchange between the rand and foreign currencies. The "effective" exchange rate is a trade-weighted average of the rates of exchange with other currencies.
Nominal wage	The return, or wage, to employees at the current price level.
Non-competitive bid auction	An auction in which an investor agrees to purchase a certain number of securities such as bonds at the average price of all competitive bids over a given period of time.
Non-financial public enterprises	Government-owned or controlled organisations that deliver goods and non-financial services, trading as business enterprises, such as Eskom or Transnet.
Non-interest expenditure	Total expenditure by government less debt-service costs.
Non-tax revenue	Income received by government as a result of administrative charges, licences, fees, sales of goods and services, and so on.
Occupation-specific salary dispensation	Revised salary structures unique to identified occupations in the public service, including doctors, nurses and teachers.
Opportunity cost	The value of that which must be given up to achieve or acquire something. It is represented by the next highest valued alternative use of a resource.
Organisation for Economic Co-operation and Development	An organisation of 35 mainly industrialised member countries. South Africa is not a member.
PAYE	The pay-as-you-earn (PAYE) system of income tax withholding requires employers to deduct income tax, and in some cases, the employees' portion of social benefit taxes, from each paycheck delivered to employees.
Payroll tax	Tax an employer withholds and/or pays on behalf of employees based on employee wages or salaries.
Permanent establishment	A fixed place of business from which a company operates. When two countries have a tax treaty, the concept of "permanent establishment" is used to determine the right of one state to tax the profits of the business in the other state. See also anti-fragmentation rule.
Plastic bag levy	An environmental tax on certain types of plastic carrier and flat bags that is earmarked to establish recycling facilities.
Policy reserve	Additional money in the fiscus to fund new and crucial priorities.
Portfolio investment	Investment in financial assets such as stocks and bonds.

Potential growth	The fastest growth an economy can sustain without increasing inflation.
Presidential Infrastructure Coordinating Commission	A commission established by Cabinet to develop, review and coordinate a 20-year infrastructure plan.
Price discovery	The process of determining the price level of a commodity or asset, based on supply and demand factors.
Price sensitivity	The extent to which changes in price affect consumers' purchasing behaviour.
Primary bond auctions	The issuance of new bonds in the primary market by means of an auction.
Primary deficit/surplus	The difference between total revenue and non-interest expenditure. When revenue exceeds non-interest expenditure there is a surplus.
Primary market	The market where new securities (bonds or equities) are issued or sold by a company or government in the capital markets for the first time.
Primary sector	The agricultural, forestry, fishing, mining and quarrying sectors of the economy.
Principal purpose test	A test where the benefits of a tax treaty are denied if it is reasonable to conclude that obtaining the benefit was one of the principal purposes behind the arrangement or transaction.
Private-sector credit extension	Credit provided to the private sector. This includes all loans, credit cards and leases.
Privatisation	The full or partial sale of state-owned enterprises to private individuals or companies.
Producer price index	A measure of inflation based on the prices of production inputs as reported by producers across different sectors.
Productivity	A measure of the amount of output generated from every unit of input. Typically used to measure changes in labour efficiency.
Profit shifting	The allocation of income and expenses between related corporations or branches of the same legal entity to reduce overall tax liability.
Prudential Authority	The authority responsible for the prudential regulation of banks, insurers, cooperative financial institutions, financial conglomerates and certain market infrastructure.
Public-benefit organisations	Organisations that engage in social activities to meet the needs of the general public. They are mainly funded by donations from the public and other institutions.
Public entities	Companies, agencies, funds and accounts that are fully or partly owned by government or public authorities and are regulated by law.
Public Finance Management Act	The act regulating financial management of national and provincial government, including the efficiency and effectiveness of public expenditure and the responsibilities of those engaging with government financial management.
Public goods	Goods and services that would not be fully provided in a pure free-market system and are largely provided by government.
Public Investment Corporation	A government-owned investment management company that invests funds on behalf of public-sector entities. Its largest client is the Government Employees Pension Fund.
Public-private partnerships	A contractual arrangement in which a private party performs a government function and assumes the associated risks. In return, the private party receives a fee according to predefined performance criteria. See unitary payment.

Public sector	National government, provincial government, local government, extra-budgetary governmental institutions, social security funds and non-financial public enterprises.
Public-sector borrowing requirement	The consolidated cash borrowing requirement of general government and non-financial public enterprises.
Purchasing managers' index	A composite index measuring the change in manufacturing activity. An index value of 50 indicates no change in activity, a value above 50 indicates increased activity and a value below 50 indicates decreased activity.
Quarterly Employment Statistics	An establishment-based survey conducted by Statistics South Africa to obtain information about the number of employees and gross salaries paid.
Quarterly Labour Force Survey	A household-based survey conducted by Statistics South Africa to measure the dynamics of the labour market, producing indicators such as employment, unemployment and inactivity.
Rating agency	A company that evaluates the ability of countries or other borrowers to honour their debt obligations. Credit ratings are used by international investors as indications of sovereign risk. See also credit rating.
Real effective exchange rate	A measure of the rate of exchange of the rand relative to a trade-weighted average of South Africa's trading partners' currencies, adjusted for price trends in South Africa and the countries included.
Real expenditure	Expenditure measured in constant prices after taking account of inflation.
Real interest rate	The level of interest after taking account of inflation.
Real wage	The return, or wage, to employees, measured at a constant price level.
Recapitalisation	Injection of funds into a company or entity to aid liquidity, either as a loan or in return for equity.
Recession	A period in which national output and income decline. A recession is usually defined as two consecutive quarters of negative growth.
Redemption	The return of an investor's principal in a fixed-income security, such as a preferred stock or bond.
Refinancing	The repayment of debt at a scheduled time with the proceeds of new loans.
Refinancing risk	The risk that government will not be able to raise money to repay debt at any scheduled point, or that it will have to do so at a high cost.
Regional integration	An economic policy intended to boost economic activity in a geographical area extending beyond one country.
Remuneration	The costs of personnel, including salaries, housing allowances, car allowances and other benefits received by personnel.
Repurchase agreements	Short-term contracts between the Reserve Bank and private banks in the money market to sell specified amounts of money at an interest rate determined by daily auction.
Repurchase (repo) rate	The rate at which the Reserve Bank lends to commercial banks.
Reserves (foreign exchange)	Holdings of foreign exchange, either by the Reserve Bank only or by the Reserve Bank and domestic banking institutions.
Residence-based income tax system	A tax system in which the worldwide income accruing to a resident of a country is subject to the taxes of that country.
Retail bond	A fixed-income security issued by the National Treasury targeting retail investors. Two variants are offered: fixed-rate and inflation-linked retail bonds.

Revaluation gain/loss	The difference between the value of a foreign currency deposit from the original (historical) rate to execution of a trade based on the spot rate.
Risk premium	A return that compensates for uncertainty.
Saving	The difference between income and spending.
Seasonally adjusted	The removal of seasonal volatility (monthly or quarterly) from a time series dataset. This provides a measure of the underlying trend in the data.
Secondary market	A market where securities are bought and sold by participants in the capital market following primary market issuance.
Secondary market pricing	The price at which securities are bought and sold in the secondary market.
Secondary rebate	A rebate from income tax, in addition to the primary rebate, that is available to taxpayers aged 65 years and older.
Secondary sector	The part of the economy concerned with the manufacture of goods.
Secondary tax on companies	Tax on dividends declared by a company, calculated at the rate of 10 per cent of the net amount of dividends declared. This was discontinued in 2012 and replaced with a 15 per cent dividend withholding tax.
Section 21 company	Non-profit entities registered in terms of Section 21 of the Companies Act.
Sector education and training authorities	Institutions funded through skills development levies, responsible for learnership programmes and implementing strategic sector skills plans.
Secured debt instruments	Debt backed or secured by collateral to reduce the risk of lending.
Securitisation	The pooling of assets into a financial instrument to sell to different types of investors.
Service and transfer payments	Services involve transactions of non-tangible commodities, while transfers are unrequited transactions that do not generate a counter-economic value (for example, gifts and grants).
Significant owner	A person who directly or indirectly materially controls or influences the business or strategy of a financial institution.
Skills development levy	A payroll tax designed to finance training initiatives in terms of the skills development strategy.
Social infrastructure	Infrastructure that supports social services.
Social wage	Social benefits available to all individuals, funded wholly or partly by the state.
Source-based income tax system	A system in which income is taxed in the country where the income originates.
Southern African Customs Union agreement	An agreement between South Africa, Botswana, Namibia, Lesotho and eSwatini that allows for the unrestricted flow of goods and services, and the sharing of customs and excise revenue.
Southern African Development Community	A regional intergovernmental organisation that promotes collaboration, economic integration and technical cooperation throughout southern Africa.
Sovereign debt	Debt issued by a government.
Sovereign debt rating	An assessment of the likelihood that a government will default on its debt obligations.
Spatial planning	Planning to influence the geographic distribution of people and economic activity.
Special economic zone	A designated zone where business and trade laws incentivise trade, investment and employment.
Specific excise duty	A tax on each unit of output or sale of a good, unrelated to the value of a good.

Standing appropriations	Government's expenditure obligations that do not require a vote or statutory provision, including contractual guarantees and international agreements.
Statutory appropriations	Amounts appropriated to be spent in terms of statutes and not requiring appropriation by vote.
Sterilisation	Action taken by the Reserve Bank to neutralise excess cash created in the money market when purchasing foreign currency.
Structural budget balance	A representation of what government revenue and expenditure would be if output were at its potential level, with cyclical variations stripped out.
Structural constraints	Imbalances in the structure of the economy that hinder growth and development.
Structural reforms	Measures put in place to substantially change the economy, or the institutional and regulatory framework in which people and businesses operate.
Sunset clause	A clause in a public policy that allows for a law to cease being in effect after a specified date.
Switch auction	An auction to exchange bonds to manage refinancing risk or improve tradability.
Syndicated loan	A large loan in which a group of banks work together to provide funds, which they solicit from their clients for the borrower.
Tax amnesty	A period allowed by tax authorities during which taxpayers who are outside the tax net, but should be registered for tax purposes, can register for tax without incurring penalties.
Tax avoidance	When individuals or businesses legitimately use provisions in the tax law to reduce their tax liability.
Tax base	The aggregate value of income, sales or transactions on which particular taxes are levied.
Tax buoyancy	The relationship between total tax revenue collections and economic growth. This measure includes the effects of policy changes on revenue. A value above one means that revenues are growing faster than the economy and below one means they are growing below the rate of GDP growth.
Tax evasion	When individuals or businesses illegally reduce their tax liability.
Tax expenditure	Government revenue forgone due to provisions that allow deductions, exclusions or exemptions from taxable income. The revenue can also be forgone through the deferral of tax liability or preferential tax rates.
Tax gap	A measure of tax evasion that emerges from comparing the tax liability or tax base declared to the tax authorities with the tax liability or tax base calculated from other sources.
Tax incentives	Specific provisions in the tax code that provide favourable tax treatment to individuals and businesses to encourage specific behaviour or activities.
Tax incidence	The final distribution of the burden of tax. Statutory incidence defines where the law requires a tax to be levied. Economic incidence refers to those who experience a decrease in real income as a result of the imposition of a tax.
Tax loopholes	Unintended weaknesses in the legal provisions of the tax system used by taxpayers to avoid paying tax liability.
Tax morality	The willingness, or motivation, of citizens to pay tax. This is separate from the statutory obligation to pay taxes, but may influence tax compliance.
Tax-to-GDP ratio	The total tax payments for a particular fiscal year as a fraction or percentage of the GDP for that year.

Tax treaty	An agreement between two countries to resolve issues involving double taxation of income of their residents. See also double tax agreement.
Terms of trade	An index measuring the ratio of a country's export prices relative to its import prices.
Term-to-maturity	The time between issuance and expiry.
Tertiary sector	The part of the economy concerned with the provision of services.
Total factor productivity	An index used to measure the efficiency of all inputs that contribute to the production process.
Trade balance	The monetary record of a country's net imports and exports of physical merchandise and services. See also current account.
Trade regime	The system of tariffs, quotas and quantitative restrictions applied to protect domestic industries, together with subsidies and incentives used to promote international trade.
Trade-weighted rand	The value of the rand pegged to or expressed relative to a market basket of selected foreign currencies.
Transfer pricing	The setting of the price at which connected persons transfer goods or services between themselves.
Treasury bills	Short-term government debt instruments that yield no interest but are issued at a discount. Maturities vary from one day to 12 months.
Treaty shopping	When related companies in different countries establish a third entity in another location to take advantage of a favourable tax arrangement.
Trend GDP growth	The theoretical level of GDP growth, where growth above the trend rate results in macroeconomic imbalances such as rising inflation or a weakening of the current account.
Unallocated reserves	Potential expenditure provision not allocated to a particular use. It mainly consists of the contingency reserve and amounts of money left unallocated by provinces.
Unemployment (broad definition)	All those of working age who are unemployed, including those actively seeking employment and discouraged work seekers.
Unemployment (official definition)	Those of working age who are unemployed and actively seeking work (excludes discouraged work seekers).
Unitary payment	The payment made to a private party for meeting its obligations in a public-private partnership.
Unit labour cost	The cost of labour per unit of output, calculated by dividing average wages by productivity (output per worker per hour).
Unqualified audit	An assessment by a registered auditing firm or the Auditor-General of South Africa asserting that the financial statements of a department, entity or company are free of material misstatement.
Unsecured debt instruments	Debt not backed or secured by collateral to reduce the risk of lending.
Unsecured lending	A loan that is not backed or secured by any type of collateral to reduce the lender's risk.
VAT refund	The amount of value-added tax (VAT) repayable by the South African Revenue Service to a VAT vendor.
Venture capital company	In terms of South African regulation, a company whose sole objective is managing investments in qualifying companies (small businesses). Investments in venture capital companies are tax deductible.

Vertical equity	A principle in taxation that holds that differently situated taxpayers should be treated differently in terms of income tax provisions. In other words, taxpayers with more income and/or capital should pay more tax.
Vested right	The right to ownership of an asset that cannot be arbitrarily taken away by a third party.
Virement	The transfer of resources from one programme to another within the same department during a financial year.
Vote	An appropriation voted by Parliament.
Water trading account	A departmental account that ring-fences revenue from the sale of bulk water and related services to secure funding to manage the sustainability of water resources and infrastructure.
Weighted average cost of capital	The average rate of return an organisation expects to pay to investors in its securities, such as bonds, debt and shares. Each category of security is accorded a proportionate weight in the calculation.
White paper	A policy document used to present government policy preferences.
Withholding tax	Tax on income deducted at source. Withholding taxes are widely used for dividends, interest and royalties.
Yield	A financial return or interest paid to buyers of government bonds. The yield/rate of return on bonds includes the total annual interest payments, the purchase price, the redemption value and the time remaining until maturity.
Yield curve	A graph showing the relationship between the yield on bonds of the same credit quality but different years to maturity at a given point in time.
Zero-rated tax items	Consumable goods that are exempt from the 15 per cent VAT rate.

STATISTICAL ANNEXURE

Statistical annexure

- 1 Main budget: revenue, expenditure, budget balance and financing, 2014/15 to 2023/24
- 2 Main budget: estimates of national revenue – summary of revenue, 2003/04 to 2023/24
- 3 Main budget: estimates of national revenue – detailed classification of revenue, 2017/18 to 2021/22
- 4 Main budget: expenditure defrayed from the National Revenue Fund by vote, 2017/18 to 2023/24
- 5 Consolidated national, provincial and social security funds expenditure: economic classification, 2017/18 to 2023/24
- 6 Consolidated national, provincial and social security funds expenditure: functional classification, 2017/18 to 2023/24
- 7 Consolidated government revenue and expenditure: economic classification, 2017/18 to 2023/24
- 8 Consolidated government expenditure: functional classification, 2017/18 to 2023/24
- 9 Consolidated government revenue, expenditure and financing, 2017/18 to 2023/24
- 10 Total debt of government, 1996/97 to 2023/24
- 11 Net loan debt, provisions and contingent liabilities, 2010/11 to 2023/24

■ Explanatory notes

The statistical tables present details of the main budget; consolidated national, provincial and social security funds expenditure; consolidated government revenue and expenditure; consolidated government revenue, expenditure and financing; total debt of government; and net loan debt, provisions and contingent liabilities.

The tables are categorised according to government levels, from the main budget to the consolidated government account. The main budget consists of National Revenue Fund receipts, expenditure either voted by Parliament or allocated by statutory appropriation, and the financing of the deficit. This is the national budget, including transfers to other spheres of government.

Consolidated national, provincial and social security funds expenditure consists of the main (national) budget, and the provincial and the social security funds' budgets or expenditure. These budgets are aggregated and transfers between the three spheres of government are netted out to arrive at a total consolidated expenditure figure. The consolidated government revenue, expenditure and financing budget includes national, provincial and social security funds, the Reconstruction and Development Programme (RDP) Fund and national public entities. This is referred to as the consolidated budget.

While government revenues are concentrated at national level, a large proportion of expenditure has shifted to the provinces since 1994. Equitable share transfers to the nine provinces are included as a government statutory commitment on the National Treasury vote, while the local government equitable share is appropriated on the vote of the Department of Cooperative Governance. The consolidated government account consists of all the activities of national and provincial government, and includes most of the listed public entities. The consolidation also includes several national government business enterprises.

Since more than 50 per cent of total national expenditure on the 2021/22 main budget consists of transfer payments to other levels of general government, economic and functional classifications of national budget expenditure are not comprehensive. For the purposes of analysis, it would be preferable to present economic and functional classifications of general government expenditure, but this would require information on expenditure at all levels of

general government, its financing through revenue, balances brought forward and transfer payments (mainly from the national budget). This information is not readily available for local government. Historical data on general government finances is, however, published by the Reserve Bank in its *Quarterly Bulletin* and by Statistics South Africa.

Change in recording of extraordinary receipts and payments in the budget tables

Since 2014, the consolidated government account has been presented in a more transparent format in line with the International Monetary Fund's *Government Finance Statistics Manual* (2014). This format provides details of operating activities, capital and infrastructure investment, as well as transactions in financial assets and liabilities. The calculation of the budget balance includes all government transactions. Previously, extraordinary receipts and payments were added to the budget deficit to calculate government's net borrowing requirement. In the new format, there is no longer a difference between the budget balance and the net borrowing requirement. These transactions are now referred to as National Revenue Fund receipts and payments.

Treatment of foreign grants to the RDP Fund

All international technical assistance and other RDP-related grants are paid to the RDP Fund account, which is separated from government accounts. Departments incur expenditure on RDP-related projects through direct requisitions from this account. However, disbursements of foreign grants and technical assistance are included in the consolidated national and provincial expenditure estimates in Tables 5 and 6, and in the consolidated government expenditure in Table 7.

Adjustments due to transactions in government debt

As part of the state's active management of its debt portfolio, government bonds are repurchased or switched into new bonds. In the process, government may make a capital profit, which is a book entry change in the bond discount. This capital profit does not represent actual cash flow and is regarded as a "book profit", which lowers the outstanding debt.

A premium may also be accrued, or payable, in managing the debt portfolio or when entering into new loans. Under the new format, premiums paid or received are included as National Revenue Fund receipts and payments, and no longer categorised as extraordinary receipts and payments.

Sources of information

The information in Tables 1 to 11 on national and provincial government and public entity finances is obtained from the following sources:

- Reports of the Auditor-General on the Appropriation and Miscellaneous Accounts
- Printed estimates of revenue and expenditure for the national and provincial budgets
- The Reserve Bank
- The South African Revenue Service (SARS)
- Monthly press releases from the National Treasury, published in terms of section 32 of the Public Finance Management Act (1999).

Main budget: revenue, expenditure, budget balance and financing (Table 1)

Table 1 summarises the main budget balances since 2014/15 and medium-term estimates to 2023/24. In line with the economic reporting format introduced in 2009, the revenue classification shows departmental sales of capital assets separately.

Repayments of loans and advances, which were previously shown as negative expenditure, have been reclassified as revenue. The national budget deficit (negative budget balance) is due to a higher increase in expenditure relative to the revenue collected over the same period.

Appropriations by vote are divided into current payments, transfers and subsidies, payments for capital assets and payments for financial assets. Both current and capital transfers are included in transfers and subsidies, in line with the economic reporting format's requirements.

The deficit figures presented in this table differ from those presented in budgets before 1995/96 because a number of items that were previously regarded as “below-the-line” expenditure have been included in total expenditure. In addition, revaluations of foreign loan obligations are excluded from expenditure, in keeping with international practice.

Under the “financing” item, domestic short-term loans include net transactions in Treasury bills and borrowing from the Corporation for Public Deposits. Long-term loans include all transactions in domestic government bonds and foreign loans (new loan issues, repayments on maturity, buybacks, switches and reverse purchase transactions).

Main budget: estimates of national revenue (Tables 2 and 3)

Table 2 presents a summary of revenue and the details are set out in Table 3. Main budget revenue collections are recorded on an adjusted cash basis as the revenue is recorded in the SARS ledgers. Tax revenue is classified according to standard international categories and departmental receipts according to the economic reporting format’s requirements.

In Table 3, a large amount of data cannot be reclassified to align with the economic reporting format because departments capture these transactions in their ledgers as miscellaneous receipts.

Main budget: expenditure defrayed from the National Revenue Fund by vote (Table 4)

Table 4 contains estimates of expenditure on national budget votes for the period 2017/18 to 2023/24. In 2020/21, amounts included in the budget estimate, the adjusted appropriation and the revised estimate on each vote are shown. Historical data has been adjusted to account for function shifts between departments. As a result, the figures presented for some departments may differ from their financial statements. Total expenditure, however, is not influenced by these changes.

Consolidated national, provincial and social security funds expenditure (Tables 5 and 6)

Tables 5 and 6 show the economic and functional classification of payments for consolidated national and provincial government and social security funds, including the Unemployment Insurance Fund, the Road Accident Fund and the Compensation Fund. Provincial expenditure estimates are preliminary because their budgets are tabled after the national budget. As such, these estimates are subject to change before being tabled in provincial legislatures.

The functional classification

The functional classification in this annexure is aligned with the classification of government functions set out in the *Government Finance Statistics Manual*. The historical data published in these tables has been reclassified accordingly. Chapter 5 of the *Budget Review*, which sets out the medium-term expenditure framework, outlines the budget allocations across these function groups.

To support this approach, data at programme and entity level is aggregated into spending categories, which provides for a higher level of aggregation than in the functional classification. For example, functional classification tables include local development and social infrastructure as distinct functions. The fiscal statistics are an outcome of the budget process and can only be used as a guide to categorise expenditure for budgeting purposes.

Some of the most important differences between the key spending categories presented in Chapter 5 and the more detailed functional classification presented in the statistical tables are as follows:

- *Learning and culture:* Expenditure in this category includes spending related to school and tertiary education, as well as arts, culture, sport and recreation. In the statistical tables, this expenditure is included as part of either the education or recreation, culture and religion functions.
- *Economic development:* Expenditure related to innovation, science and technology is included in the economic development function group, while in the statistical tables it is classified as research and development according to the function to which it relates.
- *Peace and security:* This includes expenditure by defence, police, justice and home affairs. In the statistical tables, the bulk of this expenditure is included in the public order and safety function, with home affairs split between general public services and public order and safety.

- *General public services:* In the key spending categories, transfers made to international organisations are classified within the category of the paying department. In the statistical tables, they are classified under general public services.

Consolidated government revenue and expenditure (Tables 7 and 8)

Tables 7 and 8 show the economic and functional classification of payments for the consolidated government budget. This consists of the consolidated national, provincial and social security figures presented in Tables 5 and 6, combined with general government entities, as well as some government business enterprises.

The government budget consolidation includes all entities controlled and mainly financed by government revenue, where such revenue is defined as either taxes, levies and administrative or service fees prescribed by government, or direct budgetary support in the form of transfer payments. This consolidation also includes several government business enterprises, based on the principle that they either sell most of their goods and services to government institutions or departments at regulated prices, and are therefore not businesses in the true sense of the word, or they are directly involved in infrastructure financing and development.

Accordingly, state-owned entities are broadly identified as one of the following:

- Enterprises that sell mainly to government departments or institutions, have no clear competitors and whose prices are therefore not clearly market related.
- Science councils that conduct research or fulfil a regulatory or advisory function, with government-determined regulatory or administration fees.
- Government-regulated businesses that are primarily financed by a dedicated tax, administration fee or levy (the level of which is dictated by government), or that are directly involved in the maintenance or extension of critical infrastructure.

To present consolidated accounts, all units use the same accounting standards and policies. The format of the accounts, terminology used, classification, transaction coverage and accounting base (cash or accrual) must be the same. In this respect, the consolidated government budget is prepared on an adjusted cash basis of accounting. This is not strictly comparable to the financial information published in the consolidated financial statements, which has two components – a consolidation of departments using the modified cash basis of accounting and a separate consolidation of public entities that apply the accrual basis of accounting.

All transactions that occur between units being consolidated are eliminated. A transaction of one unit is matched with the same transaction recorded for the second unit and both transactions are eliminated from the consolidation. For example, if a public entity sells a service to a government department and data for the two units is being consolidated, neither the sale nor the purchase of the service is reported. In this way, only transactions between government and non-government entities are recorded, without inflating total government revenue as a result of internal transactions.

Not all intra-entity transactions are eliminated, however, because they are not always identifiable in the accounting systems of government and many of its agencies. Only those that can be identified have been eliminated. These broadly include:

- Transactions involving transfers from one government unit to another, including transfers made by national departments to public entities and transfers between public entities (such as Water Trading Entity transfers to water boards).
- Purchases of goods and services from other government units included in the consolidation (such as transactions between the Trans-Caledon Tunnel Authority, water boards and the Water Trading Entity).

As data collection and recording procedures for transactions improve, additional intra-entity transactions will be identified and removed from the consolidated government budget.

A total of 161 national and provincial departments and 186 entities are included in the 2021 consolidated government budget. The National Treasury is committed to presenting a full consolidation of the whole of general government over time. Considerable work has been done to align the local government accounts with national and

provincial accounts. A classification reporting framework has been developed for municipalities as a first step towards the consolidation of the financial information of all three spheres of government.

Consolidated government revenue, expenditure and financing (Table 9)

Table 9 presents the government account, which distinguishes between government's operating activities and its plans to invest in capital and infrastructure.

The balance on the operating account shows the outcome of government's operating activities, which is a measure of the cost of ongoing operations. It is calculated as the difference between current revenue and current expenditure, and the resulting balance shows how much government must borrow to run its operations. The current balance demonstrates the sustainability of government operations.

Capital investment activities are presented in the capital account. Government's capital financing requirement is the outcome of this account, which is calculated as the difference between capital revenue and capital expenditure. This account will mainly be in deficit due to continuous investment in infrastructure and substantial capital outlays.

Total debt of government (Table 10)

Table 10 shows the major components of government debt. Net loan debt consists of total domestic and foreign debt less the cash balances of the National Revenue Fund. The balances on the Gold and Foreign Exchange Reserve Account, which represent net revaluation profits and losses incurred on gold and foreign exchange transactions, are also disclosed.

Net loan debt, provisions and contingent liabilities (Table 11)

Provisions are liabilities with uncertain payment dates or amounts. The provisions for multilateral institutions are the unpaid portion of government's subscriptions to these institutions, which are payable on request. Contingent liabilities are obligations that only result in expenditure when an uncertain future event occurs. Both explicit and implicit contingent liabilities are disclosed. Implicit contingent liabilities are mostly the actuarial deficits of social security funds, while explicit contingent liabilities are mostly guarantees for state-owned companies, public-private partnership projects and the Renewable Energy Independent Power Producer Programme. In the case of guarantees for state-owned companies, the exposure disclosed is the amount borrowed against a guarantee, any related revaluation adjustments on inflation-linked bonds and any related interest on this amount, if guaranteed. The National Treasury published detailed information on provisions and contingent liabilities in the annual consolidated financial statements of national departments.

Table 1

Main budget: revenue, expenditure, budget balance and financing ¹⁾

		2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
		Actual outcome				Preliminary outcome	
R million							
Main budget revenue							
Current revenue		950 046.8	1 032 727.7	1 119 530.3	1 176 623.8	1 260 705.6	1 329 942.1
Tax revenue (gross)	2)	986 295.0	1 069 982.6	1 144 081.0	1 216 463.9	1 287 690.2	1 355 766.3
Less: SACU payments	3)	-51 737.7	-51 021.9	-39 448.3	-55 950.9	-48 288.6	-50 280.3
Non-tax revenue (departmental and other receipts)	4)	15 489.4	13 767.0	14 897.7	16 110.8	21 304.0	24 456.1
Financial transactions in assets and liabilities	5)	15 332.7	43 387.6	18 224.9	19 541.0	14 453.1	15 807.1
Sales of capital assets		77.4	121.1	149.2	197.5	111.9	120.7
Total revenue		965 456.9	1 076 236.4	1 137 904.4	1 196 362.3	1 275 270.6	1 345 869.9
Main budget expenditure							
Direct charges against the National Revenue Fund		503 253.9	544 848.0	588 731.7	636 337.0	685 914.8	746 065.8
Debt-service costs	6)	114 798.4	128 795.6	146 496.7	162 644.6	181 849.1	204 769.4
Provincial equitable share		359 921.8	386 500.0	410 698.6	441 331.1	470 286.5	505 553.8
General fuel levy sharing with metropolitan municipalities		10 190.2	10 658.9	11 223.8	11 785.0	12 468.6	13 166.8
Skills levy and SETAs		13 838.8	15 156.4	15 233.0	16 293.6	17 479.9	18 283.8
Other	7)	4 504.8	3 737.0	5 079.5	4 282.7	3 830.7	4 292.0
Appropriated by vote		628 646.2	699 774.9	716 658.5	768 602.9	820 690.4	944 857.1
Current payments	8)	184 544.7	196 320.3	210 088.3	218 942.9	229 519.4	244 857.7
Transfers and subsidies	9)	424 144.4	455 984.7	486 109.1	516 024.6	562 337.2	623 371.0
Payments for capital assets	10)	16 200.6	18 276.3	15 598.5	15 232.9	14 469.4	12 109.4
Payments for financial assets	11)	3 756.5	29 193.5	4 862.5	18 402.5	14 364.4	64 518.9
Provisional reduction to fund Land Bank allocation		–	–	–	–	–	–
Provisional allocations not assigned to votes		–	–	–	–	–	–
Provisional allocation for Eskom restructuring		–	–	–	–	–	–
Infrastructure Fund not assigned to votes		–	–	–	–	–	–
Compensation of employees adjustments		–	–	–	–	–	–
Total		1 131 900.1	1 244 622.9	1 305 390.1	1 404 939.9	1 506 605.2	1 690 922.9
Contingency reserve		–	–	–	–	–	–
Total expenditure		1 131 900.1	1 244 622.9	1 305 390.1	1 404 939.9	1 506 605.2	1 690 922.9
Main budget balance		-166 443.2	-168 386.4	-167 485.7	-208 577.7	-231 334.6	-345 052.9
Percentage of GDP		-4.3%	-4.1%	-3.8%	-4.4%	-4.7%	-6.7%
Financing							
Change in loan liabilities							
Domestic short-term loans (net)		9 569.0	13 075.0	40 507.1	33 407.0	14 060.6	36 077.5
Domestic long-term loans (net)		157 014.0	146 172.0	116 684.3	174 438.0	169 474.4	286 021.6
Market loans		192 414.0	176 795.0	175 070.5	200 200.0	183 503.3	305 738.5
Loans issued for switches		-1 160.0	-2 479.0	-1 036.4	-1 508.0	-500.3	-289.3
Redemptions		-34 240.0	-28 144.0	-57 349.8	-24 254.0	-13 528.7	-19 427.7
Foreign loans (net)		8 361.0	-3 879.0	36 380.7	29 774.0	23 216.4	24 823.0
Market loans		22 952.0	–	50 959.3	33 895.0	25 257.7	76 052.0
Loans issued for switches		–	–	1 111.4	–	–	–
Redemptions (including revaluation of loans)	12)	-14 591.0	-3 879.0	-15 690.0	-4 121.0	-2 041.3	-51 229.0
Change in cash and other balances (- increase)		-8 500.8	13 018.4	-26 086.4	-29 041.3	24 583.2	-1 869.3
Total financing (net)		166 443.2	168 386.4	167 485.7	208 577.7	231 334.6	345 052.9
GDP		3 865 119.0	4 124 704.0	4 419 437.0	4 698 724.0	4 924 029.0	5 148 852.0
National Revenue Fund transactions	13)						
National Revenue Fund receipts		12 647.0	14 377.5	14 240.6	16 600.3	11 999.4	12 801.3
National Revenue Fund payments		-1 525.5	-681.7	-1 778.0	-587.1	-161.6	-468.5
Net		11 121.5	13 695.8	12 462.6	16 013.2	11 837.8	12 332.9

1) This table summarises revenue, expenditure and the main budget balance since 2014/15. As available data is incomplete, the estimates are not fully consistent with other sources, such as the Government Finance Statistics series of the Reserve Bank.

2) Mining leases and ownership have been reclassified as non-tax revenue (rent on land). Historical numbers have been adjusted for comparative purposes.

3) Payments in terms of Southern African Customs Union (SACU) agreements.

4) Excludes sales of capital assets, discount and revaluation of foreign loan repayments. Includes receipts for which a department serves as a conduit to deposit funds into the National Revenue Fund.

5) Includes National Revenue Fund receipts (previously classified as extraordinary receipts).

6) Includes interest, cost of raising loans and management cost but excludes discount on the issue of new government debt instruments and the revaluation of foreign loan repayments.

Source: National Treasury

Table 1

Main budget: revenue, expenditure, budget balance and financing ¹⁾

2020/21			2021/22	2022/23	2023/24	Main budget: revenue, expenditure, budget balance and financing 17
Budget estimate	Revised estimate	Deviation	Medium-term estimates			
						R million
						Main budget revenue
1 385 864.0	1 172 258.6	-213 605.4	1 344 235.9	1 451 848.1	1 519 858.7	Current revenue
1 425 417.6	1 212 205.9	-213 211.7	1 365 124.3	1 457 652.6	1 548 512.4	2) Tax revenue (gross)
-63 395.2	-63 395.2	–	-45 966.2	-33 363.1	-57 974.0	3) Less: SACU payments
23 841.6	23 447.9	-393.7	25 077.8	27 558.7	29 320.3	4) Non-tax revenue (departmental and other receipts)
12 002.3	28 398.7	16 396.4	7 303.8	1 686.3	2 038.6	5) Financial transactions in assets and liabilities
129.3	128.4	-0.9	132.4	134.8	137.6	Sales of capital assets
1 397 995.6	1 200 785.7	-197 209.9	1 351 672.1	1 453 669.2	1 522 034.9	Total revenue
						Main budget expenditure
805 666.3	786 756.4	-18 909.9	830 023.0	870 781.7	904 271.0	Direct charges against the National Revenue Fund
229 270.0	232 851.6	3 581.6	269 741.1	308 012.6	338 591.2	6) Debt-service costs
538 471.5	520 717.0	-17 754.5	523 686.4	524 088.0	525 303.7	Provincial equitable share
14 026.9	14 026.9	–	14 617.3	15 334.8	15 433.5	General fuel levy sharing with metropolitan municipalities
19 412.9	10 174.6	-9 238.3	17 812.9	19 230.1	20 762.7	Skills levy and SETAs
4 485.1	8 986.3	4 501.3	4 165.4	4 116.1	4 179.8	7) Other
963 114.2	1 017 417.7	54 303.5	980 583.9	962 958.3	968 555.6	Appropriated by vote
261 550.7	248 861.6	-12 689.0	255 690.6	253 452.9	252 049.4	8) Current payments
644 024.8	669 324.6	25 299.8	663 137.8	690 360.0	698 618.1	9) Transfers and subsidies
15 302.8	13 433.9	-1 868.9	15 004.1	15 721.5	16 212.9	10) Payments for capital assets
42 235.9	85 797.5	43 561.6	46 751.4	3 423.9	1 675.2	11) Payments for financial assets
–	–	–	-5 000.0	–	–	Provisional reduction to fund Land Bank allocation
7 020.6	–	-7 020.6	12 645.2	4 235.9	4 204.1	Provisional allocations not assigned to votes
23 000.0	–	-23 000.0	–	21 857.3	21 015.1	Provisional allocation for Eskom restructuring
–	–	–	4 000.0	6 000.0	8 000.0	Infrastructure Fund not assigned to votes
-37 806.7	–	37 806.7	–	–	–	Compensation of employees adjustments
1 760 994.4	1 804 174.1	43 179.6	1 822 252.2	1 865 833.3	1 906 045.8	Total
5 000.0	–	-5 000.0	12 000.0	5 000.0	5 000.0	Contingency reserve
1 765 994.4	1 804 174.1	38 179.6	1 834 252.2	1 870 833.3	1 911 045.8	Total expenditure
-367 998.9	-603 388.4	-235 389.5	-482 580.0	-417 164.1	-389 010.8	Main budget balance
-6.8%	-12.3%	-5.5%	-9.0%	-7.4%	-6.5%	Percentage of GDP
						Financing
						Change in loan liabilities
48 000.0	97 184.0	49 184.0	9 000.0	52 000.0	56 000.0	Domestic short-term loans (net)
285 235.0	465 992.0	180 757.0	319 185.0	311 443.0	284 472.0	Domestic long-term loans (net)
337 700.0	518 500.0	180 800.0	380 000.0	440 800.0	396 900.0	Market loans
–	-43.0	-43.0	–	–	–	Loans issued for switches
-52 465.0	-52 465.0	–	-60 815.0	-129 357.0	-112 428.0	Redemptions
17 026.0	92 654.0	75 628.0	41 795.0	30 880.0	22 371.0	Foreign loans (net)
29 260.0	107 070.0	77 810.0	46 260.0	46 320.0	62 600.0	Market loans
–	–	–	–	–	–	Loans issued for switches
-12 234.0	-14 416.0	-2 182.0	-4 465.0	-15 440.0	-40 229.0	12) Redemptions (including revaluation of loans)
17 737.9	-52 441.6	-70 179.5	112 600.0	22 841.1	26 167.8	Change in cash and other balances (- increase)
367 998.9	603 388.4	235 389.5	482 580.0	417 164.1	389 010.8	Total financing (net)
5 428 211.8	4 920 961.2	-507 250.6	5 352 236.3	5 666 333.3	5 997 155.5	GDP
6 005.0	25 590.6	19 585.6	4 856.0	806.0	1 144.0	13) National Revenue Fund transactions
-97.9	-480.4	-382.5	-59.6	–	–	National Revenue Fund receipts
5 907.1	25 110.2	19 203.1	4 796.4	806.0	1 144.0	National Revenue Fund payments
						Net

7) Includes direct appropriations in respect of the salaries of the President, Deputy President, judges, magistrates, members of Parliament, Auditor-General of South Africa, National Revenue Fund payments (previously classified as extraordinary payments), the International Oil Pollution Compensation Fund and section 16 and 70 of the PFMA.

8) Includes compensation of employees, payments for goods and services, interest and rent on land. Payment for medical benefits to former employees has been moved to transfers.

9) Includes current and capital transfers and subsidies to business, households, foreign countries and other levels and funds of general government.

10) Includes acquisition and own account construction of new assets and the cost of upgrading, improving and extending existing capital assets.

11) Consists mainly of lending to public corporations or making equity investments in them for policy purposes. Previously included in transfers and subsidies.

12) Revaluation estimates are based on the National Treasury's projection of exchange rates.

13) National Revenue Fund payments include premiums paid on loan transactions and revaluation adjustments when utilising foreign exchange deposits.

National Revenue Fund receipts include proceeds from the sale of state assets, premiums received on loan transactions and revaluation adjustments when utilising foreign exchange deposits.

Table 2
Main budget: estimates of national revenue
Summary of revenue

	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
R million							
Taxes on income and profits	171 962.8	195 219.1	230 803.6	279 990.5	332 058.3	383 482.7	359 044.8
Personal income tax	98 495.1	110 981.9	125 645.3	140 578.3	168 774.4	195 145.7	205 145.0
Corporate income tax	60 880.8	70 781.9	86 160.8	118 998.6	140 119.8	165 539.0	134 883.4
Secondary tax on companies/dividends tax and interest withholding tax	6 132.9	7 487.1	12 277.6	15 291.4	20 585.4	20 017.6	15 467.8
Tax on retirement funds	4 897.7	4 406.1	4 783.1	3 190.5	285.4	143.3	42.7
Other 1)	1 566.3	1 562.2	1 936.7	1 931.7	2 293.3	2 637.2	3 505.9
Taxes on payroll and workforce	3 896.4	4 443.3	4 872.0	5 597.4	6 330.9	7 327.5	7 804.8
Skills development levy 2)	3 896.4	4 443.3	4 872.0	5 597.4	6 330.9	7 327.5	7 804.8
Taxes on property	6 707.5	9 012.6	11 137.5	10 332.3	11 883.9	9 477.1	8 826.4
Donations tax	17.1	25.2	29.5	47.0	27.6	125.0	60.1
Estate duty	417.1	506.9	624.7	747.4	691.0	756.7	759.3
Securities transfer tax 3)	1 101.1	1 365.9	1 973.4	2 763.9	3 757.1	3 664.5	3 324.0
Transfer duties	5 172.1	7 114.6	8 510.0	6 774.0	7 408.2	4 930.9	4 683.0
Domestic taxes on goods and services	110 108.6	131 980.6	151 223.7	174 671.4	194 690.3	201 416.0	203 666.8
Value-added tax 4)	80 681.8	98 157.9	114 351.6	134 462.6	150 442.8	154 343.1	147 941.3
Specific excise duties	11 364.6	13 066.7	14 546.5	16 369.5	18 218.4	20 184.5	21 289.3
Health promotion levy	—	—	—	—	—	—	—
Ad valorem excise duties	1 016.2	1 015.2	1 157.3	1 282.7	1 480.5	1 169.5	1 275.9
Fuel levies	16 652.4	19 190.4	20 506.7	21 844.6	23 740.5	24 883.8	28 832.5
Air departure tax	367.2	412.2	458.2	484.8	540.6	549.4	580.3
Electricity levy	—	—	—	—	—	—	3 341.7
Other 5)	26.5	138.3	203.4	227.2	267.5	285.7	405.7
Taxes on international trade and transactions	8 414.3	13 286.5	18 201.9	24 002.2	27 081.9	22 852.4	19 318.9
Customs duties	8 479.4	12 888.4	18 303.5	23 697.0	26 469.9	22 751.0	19 577.1
Health promotion levy on imports	—	—	—	—	—	—	—
Import surcharges	—	—	—	—	—	—	—
Other 6)	-65.1	398.1	-101.6	305.2	612.0	101.4	-258.3
Stamp duties and fees	1 360.1	1 167.7	792.8	615.7	557.1	571.8	49.5
State miscellaneous revenue 7)	-7.1	-130.9	164.2	339.2	212.2	-27.4	-5.7
TOTAL TAX REVENUE (gross)	302 442.6	354 978.8	417 195.7	495 548.6	572 814.6	625 100.2	598 705.4
Non-tax revenue 8)	8 309.5	8 695.4	15 602.3	14 281.4	14 542.4	20 819.6	15 323.1
Less: SACU payments 9)	-9 722.7	-13 327.8	-14 144.9	-25 194.9	-24 712.6	-28 920.6	-27 915.4
Other adjustment 10)	—	—	—	—	—	—	—
TOTAL MAIN BUDGET REVENUE	301 029.4	350 346.5	418 653.1	484 635.1	562 644.4	616 999.2	586 113.1
Current revenue	301 012.9	350 316.3	418 573.8	484 596.3	562 414.2	616 868.0	586 076.8
Direct taxes	176 293.5	200 194.5	236 329.7	286 382.4	339 107.8	391 691.9	367 669.0
Indirect taxes	126 156.1	154 915.3	180 701.8	208 827.1	233 494.6	233 435.6	231 042.1
State miscellaneous revenue	-7.1	-130.9	164.2	339.2	212.2	-27.4	-5.7
Non-tax revenue (excluding sales of capital assets) 11)	8 293.0	8 665.2	15 523.0	14 242.6	14 312.2	20 688.4	15 286.8
Less: SACU payments	-9 722.7	-13 327.8	-14 144.9	-25 194.9	-24 712.6	-28 920.6	-27 915.4
Sales of capital assets	16.5	30.2	79.3	38.8	230.2	131.2	36.3
National Revenue Fund receipts 12)	1 598.2	2 492.0	6 905.2	3 438.1	1 849.8	8 203.4	6 428.6

1) Includes interest on overdue income tax and small business tax amnesty (in 2006/07, 2007/08 and 2008/09).

2) Levy on payroll dedicated to skills development.

3) The securities transfer tax replaced the uncertificated securities tax from 1 July 2008.

4) Value-added tax (VAT) replaced general sales tax in September 1991.

5) Includes plastic bag levy (from 2004/05), Universal Service Fund (from 1999/00), levies on financial services (up to 2004/05), CO₂ motor vehicle emissions (from 2010/11), incandescent light bulb levy (from 2009/10), turnover tax for micro businesses (from 2009/10), tyre levy and International Oil Pollution Compensation Fund (from 2016/17). Mining leases and ownership have been reclassified as non-tax revenue. The historical years from 2000/01 have been adjusted for comparative purposes.

Source: National Treasury

Table 2
Main budget: estimates of national revenue
Summary of revenue

2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	
Actual collections							R million
379 941.2	426 583.7	457 313.8	507 759.2	561 789.8	606 820.5	664 526.4	Taxes on income and profits
226 925.0	250 399.6	275 821.6	309 834.1	352 950.4	388 102.4	424 545.2	Personal income tax
132 901.7	151 626.7	159 259.2	177 324.3	184 925.4	191 151.6	204 431.8	Corporate income tax
17 178.2	21 965.4	19 738.7	17 308.8	21 247.3	24 152.8	31 575.7	Secondary tax on companies/dividends tax and interest withholding tax
2.8	6.7	0.2	—	—	—	—	Tax on retirement funds
2 933.6	2 585.3	2 494.1	3 292.0	2 666.7	3 413.7	3 973.8	1) Other
8 652.3	10 173.1	11 378.5	12 475.6	14 032.1	15 220.2	15 314.8	Taxes on payroll and workforce
8 652.3	10 173.1	11 378.5	12 475.6	14 032.1	15 220.2	15 314.8	2) Skills development levy
9 102.3	7 817.5	8 645.2	10 487.1	12 471.5	15 044.1	15 661.2	Taxes on property
64.6	52.7	82.1	112.8	167.0	134.8	280.3	Donations tax
782.3	1 045.2	1 013.0	1 101.5	1 488.6	1 982.2	1 619.5	Estate duty
2 932.9	2 886.1	3 271.9	3 784.3	4 150.1	5 530.7	5 553.2	3) Securities transfer tax
5 322.5	3 833.6	4 278.3	5 488.5	6 665.8	7 396.3	8 208.3	Transfer duties
249 490.4	263 949.9	296 921.5	324 548.2	356 554.4	385 955.9	402 463.9	Domestic taxes on goods and services
183 571.4	191 020.2	215 023.0	237 666.6	261 294.8	281 111.4	289 166.7	4) Value-added tax
22 967.6	25 411.1	28 377.7	29 039.5	32 333.6	35 076.7	35 773.8	Specific excise duties
—	—	—	—	—	—	—	Health promotion levy
1 596.2	1 828.3	2 231.9	2 363.3	2 962.3	3 014.1	3 396.2	Ad valorem excise duties
34 417.6	36 602.3	40 410.4	43 684.7	48 466.5	55 607.3	62 778.8	Fuel levies
647.8	762.4	873.1	878.7	906.6	941.2	1 003.9	Air departure tax
4 996.4	6 429.7	7 983.9	8 818.9	8 648.2	8 471.8	8 457.7	Electricity levy
1 293.3	1 895.8	2 021.4	2 096.5	1 942.5	1 733.5	1 886.8	5) Other
26 977.1	34 121.0	39 549.1	44 732.2	41 462.9	46 942.3	46 102.5	Taxes on international trade and transactions
26 637.4	34 197.9	38 997.9	44 178.7	40 678.8	46 250.1	45 579.1	Customs duties
—	—	—	—	—	—	—	Health promotion levy on imports
—	—	—	—	—	—	—	Import surcharges
339.7	-76.9	551.2	553.4	784.1	692.2	523.4	6) Other
3.1	-2.9	0.5	31.7	-1.2	0.4	-0.1	Stamp duties and fees
16.7	7.4	17.2	-19.1	-14.6	-0.8	12.2	7) State miscellaneous revenue
674 183.1	742 649.7	813 825.8	900 014.7	986 295.0	1 069 982.6	1 144 081.0	TOTAL TAX REVENUE (gross)
16 474.0	24 401.5	28 467.7	30 725.8	30 899.6	57 275.7	33 271.8	8) Non-tax revenue
-14 991.3	-21 760.0	-42 151.3	-43 374.4	-51 737.7	-51 021.9	-39 448.3	9) Less: SACU payments
-2 914.4	—	—	—	—	—	—	10) Other adjustment
672 751.5	745 291.3	800 142.2	887 366.2	965 456.9	1 076 236.4	1 137 904.4	TOTAL MAIN BUDGET REVENUE
672 716.0	745 176.5	800 047.9	887 329.2	965 379.5	1 076 115.3	1 137 755.2	Current revenue
389 440.5	437 854.7	469 787.4	521 449.0	577 477.5	624 157.7	681 741.0	Direct taxes
284 726.0	304 787.6	344 021.2	378 584.8	408 832.1	445 825.7	462 327.8	Indirect taxes
16.7	7.4	17.2	-19.1	-14.6	-0.8	12.2	State miscellaneous revenue
16 438.5	24 286.8	28 373.4	30 688.8	30 822.1	57 154.6	33 122.6	11) Non-tax revenue (excluding sales of capital assets)
-17 905.7	-21 760.0	-42 151.3	-43 374.4	-51 737.7	-51 021.9	-39 448.3	Less: SACU payments
35.4	114.7	94.3	37.0	77.4	121.1	149.2	Sales of capital assets
3 013.9	5 209.2	12 302.8	11 709.3	12 647.0	14 377.5	14 240.7	12) National Revenue Fund receipts

6) Includes miscellaneous customs and excise receipts, ordinary levy (up to 2004/05) and export duties (duty on scrap metal from 2021/22).

7) Includes revenue received by SARS that could not be allocated to a specific revenue type.

8) Includes sales of goods and services, fines, penalties and forfeits, interest, dividends and rent on land (including mineral and petroleum royalties and mining leases and ownership), sales of capital assets as well as transactions in financial assets and liabilities.

9) Payments in terms of SACU agreements.

10) Payment to SACU partners in respect of a previous error in calculation of the 1969 agreement.

11) Excludes sales of capital assets.

12) Previously classified as extraordinary revenue, includes sales of strategic fuel stocks, proceeds from sales of state assets and certain other receipts are, by law, paid into the National Revenue Fund.

Table 2
Main budget: estimates of national revenue
Summary of revenue

		2017/18	2018/19	2019/20	2020/21		2021/22	
		Actual collections			Revised estimates	% change on actual 2019/20	Budget estimates Before tax proposals After	
R million								
Taxes on income and profits		711 703.0	738 740.6	772 684.8	700 049.6	-9.4%	764 177.6	761 977.6
Personal income tax		460 952.8	492 082.9	527 632.5	482 143.1	-8.6%	518 157.3	515 957.3
Corporate income tax		217 412.0	212 046.1	211 522.2	188 800.8	-10.7%	213 114.2	213 114.2
Secondary tax on companies/dividends tax and interest withholding tax		28 559.6	30 523.1	28 526.4	23 456.5	-17.8%	26 714.7	26 714.7
Tax on retirement funds		—	—	—	—	—	—	—
Other 1)		4 778.6	4 088.6	5 003.7	5 649.2	12.9%	6 191.4	6 191.4
Taxes on payroll and workforce		16 012.4	17 439.0	18 486.3	10 174.6	-45.0%	17 812.9	17 812.9
Skills development levy 2)		16 012.4	17 439.0	18 486.3	10 174.6	-45.0%	17 812.9	17 812.9
Taxes on property		16 584.6	15 251.8	15 979.9	15 480.4	-3.1%	16 837.1	16 837.1
Donations tax		732.1	604.4	572.3	593.7	3.7%	645.7	645.7
Estate duty		2 292.0	2 069.3	2 047.8	2 353.0	14.9%	2 559.3	2 559.3
Securities transfer tax		5 837.5	5 334.8	6 240.2	5 604.1	-10.2%	6 095.3	6 095.3
Transfer duties 3)		7 723.0	7 243.2	7 119.6	6 929.6	-2.7%	7 536.9	7 536.9
Domestic taxes on goods and services		422 248.3	460 544.6	492 282.8	440 888.0	-10.4%	512 729.6	514 529.6
Value-added tax 4)		297 997.6	324 766.0	346 760.8	324 554.2	-6.4%	370 177.4	370 177.4
Specific excise duties		37 355.9	40 829.7	46 826.6	24 694.4	-47.3%	41 933.9	43 733.9
Health promotion levy		—	3 195.1	2 446.2	1 951.8	-20.2%	2 149.9	2 149.9
Ad valorem excise duties		3 780.9	4 191.9	4 124.2	3 251.5	-21.2%	3 536.5	3 536.5
Fuel levies		70 948.6	75 372.2	80 175.2	75 235.5	-6.2%	83 147.9	83 147.9
Air departure tax		1 086.0	1 082.9	1 068.3	134.4	-87.4%	140.0	140.0
Electricity levy		8 501.0	8 404.0	8 290.7	7 722.9	-6.8%	8 140.8	8 140.8
Other 5)		2 578.3	2 702.9	2 590.9	3 343.3	29.0%	3 503.2	3 503.2
Taxes on international trade and transactions		49 939.4	55 722.9	56 322.4	45 613.3	-19.0%	53 567.1	53 967.1
Customs duties		49 151.7	54 968.1	55 428.4	45 218.1	-18.4%	53 142.4	53 142.4
Health promotion levy on imports		—	53.1	66.6	56.1	-15.8%	65.1	65.1
Import surcharges		—	—	—	—	—	—	—
Other 6)		787.7	701.8	827.4	339.1	-59.0%	359.7	759.7
Stamp duties and fees		-0.3	0.0	—	0.0	—	0.0	0.0
State miscellaneous revenue 7)		-23.5	-8.7	10.0	—	—	—	—
TOTAL TAX REVENUE (gross)		1 216 463.9	1 287 690.2	1 355 766.3	1 212 205.9	-10.6%	1 365 124.3	1 365 124.3
Non-tax revenue 8)		35 849.3	35 869.0	40 384.0	51 975.0	28.7%	32 514.0	32 514.0
Less: SACU payments 9)		-55 950.9	-48 288.6	-50 280.3	-63 395.2	26.1%	-45 966.2	-45 966.2
Other adjustment 10)		—	—	—	—	—	—	—
TOTAL MAIN BUDGET REVENUE		1 196 362.3	1 275 270.6	1 345 869.9	1 200 785.7	-10.8%	1 351 672.1	1 351 672.1
Current revenue		1 196 164.8	1 275 158.7	1 345 749.2	1 200 657.3	-10.8%	1 351 539.7	1 351 539.7
Direct taxes		730 739.5	758 853.4	793 791.2	713 170.9	-10.2%	785 195.5	782 995.5
Indirect taxes		485 747.9	528 845.5	561 965.0	499 035.0	-11.2%	579 928.8	582 128.8
State miscellaneous revenue		-23.5	-8.7	10.0	—	—	—	—
Non-tax revenue (excluding sales of capital assets) 11)		35 651.8	35 757.1	40 263.2	51 846.6	28.8%	32 381.6	32 381.6
Less: SACU payments		-55 950.9	-48 288.6	-50 280.3	-63 395.2	26.1%	-45 966.2	-45 966.2
Sales of capital assets		197.5	111.9	120.7	128.4	6.3%	132.4	132.4
National Revenue Fund receipts 12)		16 600.3	11 999.4	12 801.3	25 590.6	99.9%	4 856.0	4 856.0

1) Includes interest on overdue income tax and small business tax amnesty (in 2006/07, 2007/08 and 2008/09).

2) Levy on payroll dedicated to skills development.

3) The securities transfer tax replaced the uncertificated securities tax from 1 July 2008.

4) Value-added tax (VAT) replaced general sales tax in September 1991.

5) Includes plastic bag levy (from 2004/05), Universal Service Fund (from 1999/00), levies on financial services (up to 2004/05), CO₂ motor vehicle emissions (from 2010/11), incandescent light bulb levy (from 2009/10), turnover tax for micro businesses (from 2009/10), tyre levy and International Oil Pollution Compensation Fund (from 2016/17). Mining leases and ownership have been reclassified as non-tax revenue. The historical years from 2000/01 have been adjusted for comparative purposes.

Source: National Treasury

Table 2
Main budget: estimates of national revenue
Summary of revenue

2021/22		2022/23		2023/24		R million
% change on revised 2020/21	% of total budget revenue	Estimates	% change after tax proposals 2021/22	Estimates	% change on 2022/23	
8.8%	56.4%	810 849.7	6.4%	861 046.8	6.2%	Taxes on income and profits
7.0%	38.2%	551 393.0	6.9%	587 799.9	6.6%	Personal income tax
12.9%	15.8%	224 898.7	5.5%	236 826.0	5.3%	Corporate income tax
13.9%	2.0%	28 057.6	5.0%	29 545.6	5.3%	Secondary tax on companies/dividends tax and interest withholding tax
–	–	–	–	–	–	Tax on retirement funds
9.6%	0.5%	6 500.4	5.0%	6 875.2	5.8%	1) Other
75.1%	1.3%	19 230.1	8.0%	20 762.7	8.0%	Taxes on payroll and workforce
75.1%	1.3%	19 230.1	8.0%	20 762.7	8.0%	2) Skills development levy
8.8%	1.2%	17 685.0	5.0%	18 713.8	5.8%	Taxes on property
8.8%	0.0%	683.6	5.9%	723.5	5.8%	Donations tax
8.8%	0.2%	2 668.0	4.2%	2 812.4	5.4%	Estate duty
8.8%	0.5%	6 354.2	4.2%	6 732.8	6.0%	3) Securities transfer tax
8.8%	0.6%	7 979.2	5.9%	8 445.0	5.8%	Transfer duties
16.7%	38.1%	552 447.9	7.4%	587 078.8	6.3%	Domestic taxes on goods and services
14.1%	27.4%	399 577.4	7.9%	425 422.2	6.5%	4) Value-added tax
77.1%	3.2%	46 747.0	6.9%	49 774.5	6.5%	Specific excise duties
10.2%	0.2%	2 298.0	6.9%	2 446.9	6.5%	Health promotion levy
8.8%	0.3%	3 744.0	5.9%	3 962.6	5.8%	Ad valorem excise duties
10.5%	6.2%	88 027.5	5.9%	93 166.9	5.8%	Fuel levies
4.2%	0.0%	145.9	4.2%	152.4	4.4%	Air departure tax
5.4%	0.6%	8 297.0	1.9%	8 431.9	1.6%	Electricity levy
4.8%	0.3%	3 611.0	3.1%	3 721.4	3.1%	5) Other
18.3%	4.0%	57 439.9	6.4%	60 910.3	6.0%	Taxes on international trade and transactions
17.5%	3.9%	56 403.8	6.1%	59 824.1	6.1%	Customs duties
15.9%	0.0%	69.0	6.1%	73.2	6.1%	Health promotion levy on imports
–	–	–	–	–	–	Import surcharges
124.0%	0.1%	967.1	27.3%	1 012.9	4.7%	6) Other
–	0.0%	0.0	1.9%	0.0	1.6%	Stamp duties and fees
–	–	–	–	–	–	7) State miscellaneous revenue
12.6%	101.0%	1 457 652.6	6.8%	1 548 512.4	6.2%	TOTAL TAX REVENUE (gross)
-37.4%	2.4%	29 379.8	-9.6%	31 496.5	7.2%	8) Non-tax revenue
-27.5%	-3.4%	-33 363.1	-27.4%	-57 974.0	73.8%	9) Less: SACU payments
–	–	–	–	–	–	10) Other adjustment
12.6%	100.0%	1 453 669.2	7.5%	1 522 034.9	4.7%	TOTAL MAIN BUDGET REVENUE
12.6%	100.0%	1 453 534.5	7.5%	1 521 897.3	4.7%	Current revenue
9.8%	57.9%	833 431.3	6.4%	885 345.4	6.2%	Direct taxes
16.7%	43.1%	624 221.2	7.2%	663 166.9	6.2%	Indirect taxes
–	–	–	–	–	–	State miscellaneous revenue
-37.5%	2.4%	29 245.0	-9.7%	31 358.9	7.2%	11) Non-tax revenue (excluding sales of capital assets)
-27.5%	-3.4%	-33 363.1	-27.4%	-57 974.0	73.8%	Less: SACU payments
3.1%	0.0%	134.8	1.8%	137.6	2.1%	Sales of capital assets
-81.0%	0.4%	806.0	-83.4%	1 144.0	41.9%	12) National Revenue Fund receipts

6) Includes miscellaneous customs and excise receipts, ordinary levy (up to 2004/05) and export duties (duty on scrap metal from 2021/22).

7) Includes revenue received by SARS that could not be allocated to a specific revenue type.

8) Includes sales of goods and services, fines, penalties and forfeits, interest, dividends and rent on land (including mineral and petroleum royalties and mining leases and ownership), sales of capital assets as well as transactions in financial assets and liabilities.

9) Payments in terms of SACU agreements.

10) Payment to SACU partners in respect of a previous error in calculation of the 1969 agreement.

11) Excludes sales of capital assets.

12) Previously classified as extraordinary revenue, includes sales of strategic fuel stocks, proceeds from sales of state assets and certain other receipts are, by law, paid into the National Revenue Fund.

Table 3

Main budget: estimates of national revenue
Detailed classification of revenue

	2017/18	2018/19	2019/20			
	Actual collections		Before tax proposals	After tax proposals	Revised estimate	Actual collection
R thousands						
Taxes on income and profits	711 703 019	738 740 597	806 541 612	820 341 612	778 280 105	772 684 806
Personal income tax	460 952 841	492 082 904	539 076 912	552 876 912	527 584 216	527 632 509
Tax on corporate income						
Corporate income tax	217 412 046	212 046 052	229 608 192	229 608 192	216 718 097	211 522 203
Secondary tax on companies/dividends tax	27 894 315	29 898 035	31 892 515	31 892 515	29 144 409	27 929 888
Interest withholding tax	665 250	625 055	702 368	702 368	597 334	596 498
Other						
Interest on overdue income tax	4 776 801	4 088 202	5 261 140	5 261 140	4 235 900	5 003 687
Small business tax amnesty	1 766	349	485	485	149	21
Taxes on payroll and workforce	16 012 406	17 438 989	18 758 510	18 758 510	18 576 305	18 486 280
Skills development levy	16 012 406	17 438 989	18 758 510	18 758 510	18 576 305	18 486 280
Taxes on property	16 584 607	15 251 778	17 158 872	17 158 872	16 037 771	15 979 940
Estate, inheritance and gift taxes						
Donations tax	732 086	604 447	576 793	576 793	563 283	572 261
Estate duty	2 292 015	2 069 332	2 028 737	2 028 737	2 071 076	2 047 843
Taxes on financial and capital transactions						
Securities transfer tax	5 837 511	5 334 752	6 485 122	6 485 122	6 162 990	6 240 209
Transfer duties	7 722 996	7 243 247	8 068 219	8 068 219	7 240 421	7 119 627
Domestic taxes on goods and services	422 248 282	460 544 575	503 448 985	504 648 985	488 710 646	492 282 788
Value-added tax						
Domestic VAT	336 279 470	378 732 651	406 966 584	406 210 232	399 432 700	399 288 366
Import VAT	152 788 760	175 184 585	187 765 494	187 421 846	182 666 047	179 987 357
Refunds	-191 070 644	-229 151 259	-233 160 795	-233 160 795	-237 896 832	-232 514 956
Specific excise duties						
Beer	13 172 996	13 781 537	14 582 852	14 969 269	15 420 222	15 524 759
Sorghum beer and sorghum flour	3 918	4 130	4 337	4 337	4 224	4 366
Wine and other fermented beverages	3 771 583	4 452 995	4 175 241	4 210 880	4 452 108	4 574 469
Spirits	6 442 619	7 759 815	7 132 148	7 310 092	8 927 713	8 994 734
Cigarettes and cigarette tobacco	11 067 422	12 090 765	12 251 926	12 627 469	14 406 843	13 969 782
Pipe tobacco and cigars	429 271	412 910	475 214	499 671	475 382	495 694
Petroleum products	829 790	838 362	918 599	918 599	870 038	825 673
Revenue from neighbouring countries	1 638 277	1 489 176	1 813 615	1 813 615	2 208 036	2 437 098
Health promotion levy	—	3 195 110	1 986 067	1 986 067	2 590 033	2 446 184
Ad valorem excise duties	3 780 887	4 191 871	4 454 487	4 454 487	4 112 466	4 124 241
Fuel levy	70 948 576	75 372 226	81 657 583	82 957 583	79 277 491	80 175 160
Taxes on use of goods or permission to use goods or to perform activities						
Air departure tax	1 086 040	1 082 862	1 159 215	1 159 215	1 030 853	1 068 258
Plastic bag levy	241 295	300 395	326 371	326 371	325 986	317 897
Electricity levy	8 500 970	8 403 962	8 562 485	8 562 485	8 025 000	8 290 676
Incandescent light bulb levy	55 359	40 719	41 359	41 359	32 529	33 963
CO ₂ tax - motor vehicle emissions	1 336 818	1 390 472	1 254 788	1 254 788	1 300 225	1 327 417
Tyre levy	715 997	730 204	790 583	790 583	817 542	708 018
International Oil Pollution Compensation Fund	3 019	5 481	6 030	6 030	3 170	3 093
Carbon tax	—	—	—	—	—	—
Turnover tax for micro businesses	33 504	12 938	19 149	19 149	19 267	8 450
Other						
Universal Service Fund	192 357	222 666	265 654	265 654	209 604	192 088
Taxes on international trade and transactions	49 939 408	55 722 906	61 300 363	61 300 363	57 329 668	56 322 406
Import duties						
Customs duties	49 151 743	54 968 076	60 029 486	60 029 486	56 325 208	55 428 360
Health promotion levy on imports	—	53 052	245 242	245 242	54 308	66 606
Other						
Miscellaneous customs and excise receipts	700 809	623 781	932 366	932 366	859 741	732 759
Diamond export levy	86 856	77 997	93 269	93 269	90 412	94 681
Export tax	—	—	—	—	—	—
Other taxes	-337	48	-344	-344	71	—
Stamp duties and fees	-337	48	-344	-344	71	—
State miscellaneous revenue	-23 511	-8 651	—	—	—	10 037
TOTAL TAX REVENUE (gross)	1 216 463 874	1 287 690 241	1 407 207 998	1 422 207 998	1 358 934 566	1 355 766 258
Less: SACU payments	-55 950 873	-48 288 636	-50 280 313	-50 280 313	-50 280 313	-50 280 313
Payments in terms of Customs Union agreements (sec. 51(2) of Act 91 of 1964)	-55 950 873	-48 288 636	-50 280 313	-50 280 313	-50 280 313	-50 280 313
TOTAL TAX REVENUE (net of SACU payments)	1 160 513 001	1 239 401 605	1 356 927 685	1 371 927 685	1 308 654 254	1 305 485 945

1) The securities transfer tax replaced the uncertificated securities tax from 1 July 2008.

2) Specific excise duties on petrol, distillate fuel, residual fuel and base oil.

Source: National Treasury

Table 3
Main budget: estimates of national revenue
Detailed classification of revenue

2020/21				2021/22		R thousands
Budget estimates Before	After tax proposals	Revised estimate	% change on 2019/20 actual	Before tax proposals	After tax proposals	
815 588 183	813 588 183	700 049 553	-9.4%	764 177 629	761 977 629	Taxes on income and profits
548 771 494	546 771 494	482 143 081	-8.6%	518 157 332	515 957 332	Personal income tax
						Tax on corporate income
230 225 625	230 225 625	188 800 786	-10.7%	213 114 219	213 114 219	Corporate income tax
31 169 089	31 169 089	22 980 114	-17.7%	26 172 131	26 172 131	Secondary tax on companies/dividends tax
638 701	638 701	476 356	-20.1%	542 524	542 524	Interest withholding tax
						Other
4 783 092	4 783 092	5 649 180	12.9%	6 191 383	6 191 383	Interest on overdue income tax
182	182	35	69.6%	40	40	Small business tax amnesty
19 412 896	19 412 896	10 174 611	-45.0%	17 812 864	17 812 864	Taxes on payroll and workforce
19 412 896	19 412 896	10 174 611	-45.0%	17 812 864	17 812 864	Skills development levy
17 509 810	17 509 810	15 480 407	-3.1%	16 837 117	16 837 117	Taxes on property
						Estate, inheritance and gift taxes
702 682	702 682	593 691	3.7%	645 722	645 722	Donations tax
2 320 507	2 320 507	2 353 031	14.9%	2 559 252	2 559 252	Estate duty
						Taxes on financial and capital transactions
6 865 932	6 865 932	5 604 106	-10.2%	6 095 252	6 095 252	Securities transfer tax
7 620 689	7 620 689	6 929 579	-2.7%	7 536 890	7 536 890	Transfer duties
512 266 829	514 266 829	440 888 045	-10.4%	512 729 587	514 529 587	Domestic taxes on goods and services
						Value-added tax
421 650 757	421 650 757	390 430 459	-2.2%	430 061 872	430 061 872	Domestic VAT
192 962 798	192 962 798	154 293 574	-14.3%	181 332 787	181 332 787	Import VAT
-254 058 947	-254 058 947	-220 169 837	-5.3%	-241 217 288	-241 217 288	Refunds
						Specific excise duties
16 484 000	16 484 000	8 352 403	-46.2%	14 154 251	14 764 311	Beer
4 939	4 939	3 230	-26.0%	4 241	4 241	Sorghum beer and sorghum flour
5 326 196	5 326 196	2 635 704	-42.4%	4 573 424	4 718 649	Wine and other fermented beverages
9 281 460	9 281 460	5 924 483	-34.1%	7 969 675	8 314 388	Spirits
14 461 679	14 461 679	5 779 528	-58.6%	12 417 753	13 089 833	Cigarettes and cigarette tobacco
493 879	493 879	384 753	-22.4%	424 077	451 997	Pipe tobacco and cigars
1 002 759	1 002 759	595 613	-27.9%	861 035	861 035	Petroleum products
1 781 193	1 781 193	1 018 716	-58.2%	1 529 450	1 529 450	Revenue from neighbouring countries
2 860 369	2 860 369	1 951 790	-20.2%	2 149 910	2 149 910	Health promotion levy
4 328 453	4 328 453	3 251 533	-21.2%	3 536 499	3 536 499	Ad valorem excise duties
83 441 153	83 441 153	75 235 524	-6.2%	83 147 932	83 147 932	Fuel levy
						Taxes on use of goods or permission to use goods or to perform activities
1 150 545	1 150 545	134 432	-87.4%	140 017	140 017	Air departure tax
360 782	610 782	537 577	69.1%	559 907	559 907	Plastic bag levy
8 100 339	8 100 339	7 722 883	-6.8%	8 140 779	8 140 779	Electricity levy
37 477	37 477	23 465	-30.9%	24 735	24 735	Incandescent light bulb levy
1 394 995	1 394 995	1 369 614	3.2%	1 443 726	1 443 726	CO ₂ tax - motor vehicle emissions
951 353	951 353	516 132	-27.1%	537 571	537 571	Tyre levy
3 548	3 548	2 872	-7.2%	3 027	3 027	International Oil Pollution Compensation Fund
-	1 750 000	630 035	-	656 206	656 206	Carbon tax
26 263	26 263	2 096	-75.2%	2 387	2 387	Turnover tax for micro businesses
						Other
220 839	220 839	261 468	36.1%	275 616	275 616	Universal Service Fund
60 639 807	60 639 807	45 613 301	-19.0%	53 567 108	53 967 108	Taxes on international trade and transactions
						Import duties
59 500 218	59 500 218	45 218 117	-18.4%	53 142 376	53 142 376	Customs duties
74 619	74 619	56 114	-15.8%	65 053	65 053	Health promotion levy on imports
						Other
963 645	963 645	284 585	-61.2%	299 984	299 984	Miscellaneous customs and excise receipts
101 324	101 324	54 486	-42.5%	59 694	59 694	Diamond export levy
-	-	-	-	-	400 000	Export tax
71	71	3	-	3	3	Other taxes
71	71	3	-	3	3	Stamp duties and fees
1 425 417 596	1 425 417 596	1 212 205 919	-10.6%	1 365 124 307	1 365 124 307	TOTAL TAX REVENUE (gross)
-63 395 241	-63 395 241	-63 395 241	26.1%	-45 966 211	-45 966 211	5) Less: SACU payments
-63 395 241	-63 395 241	-63 395 241	26.1%	-45 966 211	-45 966 211	Payments in terms of Customs Union agreements (sec. 51(2) of Act 91 of 1964)
1 362 022 355	1 362 022 355	1 148 810 678	-12.0%	1 319 158 095	1 319 158 095	TOTAL TAX REVENUE (net of SACU payments)

2) Specific excise duties on petrol, distillate fuel, residual fuel and base oil.

3) Excise duties that are collected by Botswana, Lesotho, Namibia and eSwatini.

4) Revenue received by SARS in respect of taxation that could not be allocated to specific revenue types.

5) Payments in terms of SACU agreements.

Table 3

Main budget: estimates of national revenue

Detailed classification of revenue

	2017/18	2018/19	2019/20			
			Before tax proposals	After tax proposals	Revised estimate	Actual collection
R thousands						
TOTAL TAX REVENUE (net of SACU payments)	1 160 513 001	1 239 401 605	1 356 927 685	1 371 927 685	1 308 654 254	1 305 485 945
Sales of goods and services other than capital assets	2 588 718	2 320 697	2 377 405	2 377 405	2 397 101	2 714 925
Sales of goods and services produced by departments						
Sales by market establishments	6) 55 913	59 041	72 146	72 146	63 678	61 365
Administrative fees	1 438 136	1 344 910	1 411 371	1 411 371	1 399 532	1 264 064
Other sales	1 082 556	902 244	882 933	882 933	923 544	1 350 454
Sales of scrap, waste, arms and other used current goods	12 113	14 502	10 955	10 955	10 347	39 042
Transfers received	330 504	386 234	602 202	602 202	660 345	388 444
Fines, penalties and forfeits	466 043	1 751 945	788 825	788 825	711 989	367 146
Interest, dividends and rent on land	12 725 550	16 845 115	13 911 644	13 911 644	19 675 226	20 985 598
Interest						
Cash and cash equivalents	3 484 812	6 833 636	3 771 836	3 771 836	6 789 432	8 276 106
Dividends						
Airports Company South Africa	266 854	109 989	297 194	297 194	100 000	42 293
South African Special Risks Insurance Association	242 979	80 000	171 305	171 305	171 305	171 305
Vodacom	—	32	32	32	—	—
Industrial Development Corporation	50 000	50 000	50 000	50 000	50 000	370
Reserve Bank (National Treasury)	—	—	—	—	—	—
Telkom	846 603	722 859	600 000	600 000	600 000	664 292
Other	—	—	1 046	1 046	3 500	—
Rent on land						
Mineral and petroleum royalties	7) 7 617 251	8 611 781	8 766 175	8 766 175	11 951 926	11 830 241
Mining leases and ownership	8) 179 777	413 477	217 547	217 547	-20 244	-25 187
Royalties, prospecting fees and surface rental	9) 23 387	19 000	24 677	24 677	24 677	21 160
Land rent	13 887	4 342	11 832	11 832	4 629	5 018
Sales of capital assets	197 491	111 917	129 597	129 597	113 599	120 742
Financial transactions in assets and liabilities	10) 19 540 965	14 453 119	13 727 018	13 727 018	12 583 757	15 807 133
TOTAL NON-TAX REVENUE	11) 35 849 271	35 869 027	31 536 691	31 536 691	36 142 017	40 383 988
TOTAL MAIN BUDGET REVENUE	1 196 362 272	1 275 270 632	1 388 464 376	1 403 464 376	1 344 796 270	1 345 869 933
National Revenue Fund receipts	16 600 255	11 999 374	4 488 000	4 488 000	10 020 079	12 801 333
Revaluation profits on foreign currency transactions	13 115 597	10 390 835	4 488 000	4 488 000	7 156 956	8 958 256
Premiums on loan transactions	1 132 995	1 161 388	—	—	2 483 353	3 462 654
Premiums on debt portfolio restructuring (switches)	—	—	—	—	378 078	378 078
Liquidation of South African Special Risks Insurance Association investment	—	—	—	—	—	—
Other	2 351 663	447 151	—	—	1 692	2 345

6) New item introduced on the standard chart of accounts from 2008/09.

7) Mineral royalties imposed on the transfer of mineral resources in terms of the Mineral and Petroleum Resources Royalty Act (2008), which came into operation on 1 May 2009.

8) Mining leases and ownership have been reclassified as non-tax revenue.

9) Royalties, prospecting fees and surface rental collected by the Department of Mineral Resources.

10) Includes recoveries of loans and advances.

11) Includes National Revenue Fund receipts previously accounted for separately.

Source: National Treasury

Table 3
Main budget: estimates of national revenue
Detailed classification of revenue

2020/21				2021/22		R thousands
Budget estimates Before tax proposals	After tax proposals	Revised estimate	% change on 2019/20 actual	Before tax proposals	After tax proposals	
1 362 022 355	1 362 022 355	1 148 810 678	-12.0%	1 319 158 095	1 319 158 095	TOTAL TAX REVENUE (net of SACU payments)
2 415 121	2 415 121	1 818 307	-33.0%	2 549 423	2 549 423	Sales of goods and services other than capital assets
71 051	71 051	63 276	3.1%	74 003	74 003	Sales of goods and services produced by departments
1 473 117	1 473 117	848 275	-32.9%	1 552 495	1 552 495	6) Sales by market establishments
860 207	860 207	897 859	-33.5%	911 865	911 865	Administrative fees
10 746	10 746	8 897	-77.2%	11 060	11 060	Other sales
						Sales of scrap, waste, arms and other used current goods
667 716	667 716	629 811	62.1%	634 488	634 488	Transfers received
874 175	874 175	622 404	69.5%	462 306	462 306	Fines, penalties and forfeits
19 884 602	19 884 602	20 377 390	-2.9%	21 431 580	21 431 580	Interest, dividends and rent on land
6 065 515	6 065 515	5 659 047	-31.6%	5 095 042	5 095 042	Interest
						Cash and cash equivalents
						Dividends
90 000	90 000	–	-100.0%	–	–	Airports Company South Africa
187 901	187 901	187 901	9.7%	198 048	198 048	South African Special Risks Insurance Association
32	32	–	–	32	32	Vodacom
50 000	50 000	55 000	14 764.9%	50 000	50 000	Industrial Development Corporation
–	–	–	–	–	–	Reserve Bank (National Treasury)
664 446	664 446	103 728	-84.4%	108 914	108 914	Telkom
1 200	1 200	1 200	–	1 200	1 200	Other
						Rent on land
12 696 862	12 696 862	14 343 373	21.2%	15 937 248	15 937 248	7) Mineral and petroleum royalties
90 200	90 200	–	-100.0%	–	–	8) Mining leases and ownership
26 034	26 034	14 729	-30.4%	27 466	27 466	9) Royalties, prospecting fees and surface rental
12 412	12 412	12 412	147.3%	13 630	13 630	Land rent
129 305	129 305	128 391	6.3%	132 422	132 422	Sales of capital assets
12 002 286	12 002 286	28 398 680	79.7%	7 303 810	7 303 810	10) Financial transactions in assets and liabilities
35 973 205	35 973 205	51 974 983	28.7%	32 514 029	32 514 029	11) TOTAL NON-TAX REVENUE
1 397 995 560	1 397 995 560	1 200 785 661	-10.8%	1 351 672 124	1 351 672 124	TOTAL MAIN BUDGET REVENUE
6 005 000	6 005 000	25 590 572	99.9%	4 856 000	4 856 000	National Revenue Fund receipts
6 005 000	6 005 000	11 191 606	24.9%	4 856 000	4 856 000	Revaluation profits on foreign currency transactions
–	–	14 000 000	304.3%	–	–	Premiums on loan transactions
–	–	397 236	5.1%	–	–	Premiums on debt portfolio restructuring (switches)
–	–	–	–	–	–	Liquidation of South African Special Risks Insurance Association investment
–	–	1 730	-26.2%	–	–	Other

Table 4
Main budget: expenditure defrayed from the
National Revenue Fund by vote

R million	2017/18			2018/19	
	Expenditure on budget vote outcome	of which transfers to provinces 1)	transfers to local government 2)	Expenditure on budget vote outcome	of which transfers to provinces 1)
1 The Presidency	485.2	–	–	465.2	–
2 Parliament	1 711.9	–	–	1 872.7	–
3 Cooperative Governance	76 209.5	82.3	72 012.2	81 755.1	139.0
of which: local government equitable share	–	–	55 613.7	–	–
4 Government Communication and Information System	619.3	–	–	643.7	–
5 Home Affairs	8 401.7	–	–	9 047.2	–
6 International Relations and Cooperation	5 996.9	–	–	6 370.2	–
7 National School of Government	153.7	–	–	166.8	–
8 National Treasury	39 595.8	–	1 592.7	28 554.6	–
9 Planning, Monitoring and Evaluation	425.6	–	–	384.6	–
10 Public Enterprises	250.4	–	–	6 474.8	–
11 Public Service and Administration	454.9	–	–	492.7	–
12 Public Service Commission	247.4	–	–	264.0	–
13 Public Works and Infrastructure	6 942.3	781.2	691.4	7 463.5	824.0
14 Statistics South Africa	2 195.5	–	–	2 311.1	–
15 Traditional Affairs	139.6	–	–	154.3	–
16 Basic Education	22 932.0	17 570.1	–	23 414.8	17 690.2
17 Higher Education and Training	52 256.8	–	–	72 866.3	–
18 Health	42 424.7	37 570.2	–	46 594.6	41 364.1
19 Social Development	159 379.0	524.4	–	172 562.6	776.9
20 Women, Youth and Persons with Disabilities	659.8	–	–	723.9	–
21 Civilian Secretariat for the Police Service	118.3	–	–	123.9	–
22 Correctional Services	22 757.3	–	–	23 775.8	–
23 Defence	48 355.1	–	–	47 865.0	–
24 Independent Police Investigative Directorate	255.3	–	–	314.8	–
25 Justice and Constitutional Development	16 607.2	–	–	17 182.1	–
26 Military Veterans	601.5	–	–	542.0	–
27 Office of the Chief Justice	997.5	–	–	1 092.0	–
28 Police	86 480.4	–	–	90 297.5	–
29 Agriculture, Land Reform and Rural Development	15 175.8	2 241.7	–	16 593.8	2 845.9
30 Communications and Digital Technologies	5 684.1	–	–	4 826.6	–
31 Employment and Labour	2 844.0	–	–	3 086.7	–
32 Environment, Forestry and Fisheries	7 906.3	–	–	7 992.0	–
33 Human Settlements	33 370.5	19 969.3	11 382.2	32 195.4	18 990.0
34 Mineral Resources and Energy	9 721.3	–	2 290.3	8 970.4	–
35 Science and Innovation	7 528.6	–	–	7 949.3	–
36 Small Business Development	1 459.5	–	–	1 419.5	–
37 Sports, Arts and Culture	5 201.9	2 005.8	–	5 314.0	2 011.1
38 Tourism	2 134.0	–	–	2 234.8	–
39 Trade, Industry and Competition	10 145.3	–	–	10 519.3	–
40 Transport	54 670.7	16 476.5	6 214.4	59 193.5	17 026.0
41 Water and Sanitation	15 106.3	–	5 134.2	16 619.4	–
Total appropriation by vote	768 602.9	97 221.5	99 317.5	820 690.4	101 667.1
Plus:					
Direct charges against the National Revenue Fund					
President and deputy president salaries (The Presidency)	5.7	–	–	5.7	–
Members' remuneration (Parliament)	556.3	–	–	493.2	–
Debt-service costs (National Treasury)	162 644.6	–	–	181 849.1	–
Provincial equitable share (National Treasury)	441 331.1	441 331.1	–	470 286.5	470 286.5
General fuel levy sharing with metropolitan municipalities (National Treasury)	11 785.0	–	11 785.0	12 468.6	–
National Revenue Fund payments (National Treasury)	587.1	–	–	161.6	–
of which:					
Defrayal of the Gold and Foreign Exchange Contingency Reserve Account losses	225.4	–	–	142.0	–
Revaluation losses on foreign currency transactions	–	–	–	–	–
Premiums on loan transactions	361.8	–	–	18.8	–
Other	-0.1	–	–	0.9	–
Auditor-General of South Africa (National Treasury)	196.3	–	–	97.7	–
Section 70 of the PFMA payment: Land and Agricultural Development Bank of South Africa (National Treasury)	–	–	–	–	–
Section 70 of the PFMA payment: South African Express Airways SOC Ltd (Public Enterprises)	–	–	–	–	–
Section 70 of the PFMA payment: South African Airways SOC Ltd (Public Enterprises)	–	–	–	–	–
Skills levy and sector education and training authorities (Higher Education and Training)	16 293.6	–	–	17 479.9	–
Section 16 of the PFMA payment: Covid-19 vaccine rollout (Health)	–	–	–	–	–
Section 16 of the PFMA payment: Social Relief of Distress grant (Social Development)	–	–	–	–	–
Magistrates' salaries (Justice and Constitutional Development)	1 933.5	–	–	2 047.4	–
Judges' salaries (Office of the Chief Justice and Judicial Administration)	998.4	–	–	1 022.2	–
International Oil Pollution Compensation Fund (Transport)	5.6	–	–	3.0	–
Total direct charges against the National Revenue Fund	636 337.0	441 331.1	11 785.0	685 914.8	470 286.5
Provisional reduction to fund Land Bank allocation	–	–	–	–	–
Provisional allocations not assigned to votes	–	–	–	–	–
Provisional allocation for Eskom restructuring	–	–	–	–	–
Infrastructure Fund not assigned to votes	–	–	–	–	–
Compensation of employees adjustment	–	–	–	–	–
Total	1 404 939.9	538 552.6	111 102.6	1 506 605.2	571 953.6
Contingency reserve	–	–	–	–	–
National government projected underspending	–	–	–	–	–
Main budget expenditure	1 404 939.9	538 552.6	111 102.6	1 506 605.2	571 953.6

1) Includes provincial equitable share and conditional grants allocated to provinces.

2) Includes local government equitable share and conditional grants allocated to local government, as well as general fuel levy sharing with metropolitan municipalities.

3) Budget estimate adjusted for function shifts.

4) Provincial equitable share excluding conditional grants to provinces.

Source: National Treasury

Table 4
Main budget: expenditure defrayed from the
National Revenue Fund by vote

2018/19	2019/20		2020/21		
<i>of which transfers to local government 2)</i>	<i>Expenditure on budget vote outcome</i>	<i>of which transfers to provinces 1)</i>	<i>transfers to local government 2)</i>	<i>Budget estimate 3)</i>	<i>Adjusted appropriation</i>
					R million
–	639.3	–	–	611.6	572.9
–	1 993.5	–	–	2 180.5	2 015.8
77 220.2	86 782.0	466.4	81 433.5	96 234.0	106 942.8
60 757.9	–	–	65 627.3	–	–
–	675.6	–	–	720.5	725.1
–	9 527.5	–	–	9 029.6	8 787.4
–	6 310.0	–	–	6 850.2	6 315.0
–	183.0	–	–	206.6	227.4
1 508.8	29 771.2	–	1 584.0	33 123.2	34 525.7
–	439.2	–	–	500.0	400.0
–	56 846.4	–	–	37 849.4	77 606.9
–	488.8	–	–	565.7	468.9
–	274.5	–	–	297.6	273.8
692.9	7 820.2	868.2	730.0	8 070.8	7 724.4
–	2 553.5	–	–	3 452.2	3 131.6
–	160.7	–	–	173.4	161.7
–	23 851.6	18 560.8	–	25 328.2	23 395.0
–	88 783.5	–	–	97 444.0	94 094.9
–	50 772.8	45 863.4	–	55 516.0	58 052.6
–	199 708.4	518.2	–	197 718.3	230 807.3
–	730.9	–	–	778.5	621.0
–	137.4	–	–	156.3	137.2
–	25 186.1	–	–	26 800.0	25 596.8
–	50 229.7	–	–	52 438.6	54 201.3
–	336.6	–	–	355.7	341.0
–	18 187.8	–	–	19 860.6	18 666.3
–	477.2	–	–	683.1	480.3
–	1 133.9	–	–	1 259.8	1 188.1
–	96 930.2	–	–	101 711.0	99 560.9
–	16 948.1	2 157.5	–	16 810.1	15 247.6
–	5 663.8	–	–	3 394.5	3 280.9
–	3 215.9	–	–	3 637.7	3 299.3
–	8 691.4	–	–	8 954.7	9 937.8
11 343.9	33 345.6	19 572.3	11 802.5	31 324.9	29 079.0
2 119.5	8 915.5	–	2 086.9	9 337.0	7 567.1
–	8 081.4	–	–	8 797.4	7 278.3
–	2 228.8	–	–	2 406.8	2 277.8
–	5 468.5	2 121.2	–	5 720.2	5 310.7
–	2 384.4	–	–	2 481.0	1 426.9
–	10 876.0	–	–	11 082.1	9 273.3
6 394.2	63 888.6	17 768.2	6 484.0	62 036.3	57 354.7
6 740.3	15 217.6	–	5 697.8	17 216.2	16 994.3
106 019.7	944 857.1	107 896.2	109 818.7	963 114.2	1 025 349.7
					Total appropriation by vote
					Plus:
					Direct charges against the National Revenue Fund
					President and deputy president salaries (The Presidency)
					Members' remuneration (Parliament)
					Debt-service costs (National Treasury)
					4) Provincial equitable share (National Treasury)
					General fuel levy sharing with metropolitan municipalities (National Treasury)
					National Revenue Fund payments (National Treasury)
					of which:
					Defrayal of the Gold and Foreign Exchange Contingency Reserve Account losses
					Revaluation losses on foreign currency transactions
					Premiums on loan transactions
					Other
					Auditor-General of South Africa (National Treasury)
					Section 70 of the PFMA payment: Land and Agricultural Development Bank of South Africa (National Treasury)
					Section 70 of the PFMA payment: South African Airways SOC Ltd (Public Enterprises)
					5) Section 70 of the PFMA payment: South African Airways SOC Ltd (Public Enterprises)
					Skills levy and sector education and training authorities (Higher Education and Training)
					6) Section 16 of the PFMA payment: Covid-19 vaccine rollout (Health)
					7) Section 16 of the PFMA payment: Social Relief of Distress grant (Social Development)
					Magistrates' salaries (Justice and Constitutional Development)
					Judges' salaries (Office of the Chief Justice and Judicial Administration)
					International Oil Pollution Compensation Fund (Transport)
					Total direct charges against the National Revenue Fund
					Provisional reduction to fund Land Bank allocation
					Provisional allocations not assigned to votes
					Provisional allocation for Eskom restructuring
					Infrastructure Fund not assigned to votes
					Compensation of employees adjustment
118 488.3	1 690 922.9	613 449.9	122 985.5	1 760 994.4	1 807 867.0
					Total
					Contingency reserve
					National government projected underspending
118 488.3	1 690 922.9	613 449.9	122 985.5	1 765 994.4	1 805 758.4
					Main budget expenditure

5) R267 million included as part of the direct charges against the National Revenue Fund for the payment of the SAA guarantee in terms of section 70 of the Public Finance Management Act (1999).

6) R1.25 billion emergency funding included as part of the direct charges against the National Revenue Fund for the procurement of COVID-19 vaccines and related research project in terms of section 16 of the Public Finance Management Act (1999).

7) R2.83 billion emergency funding included as part of the direct charges against the National Revenue Fund for the extension of the special COVID-19 social relief of distress grant in terms of section 16 of the Public Finance Management Act (1999).

Table 4
Main budget: expenditure defrayed from the
National Revenue Fund by vote

R million	2020/21			2021/22		
	Revised estimate	of which transfers to provinces 1)	transfers to local government 2)	Budget estimate	of which transfers to provinces 1)	transfers to local government 2)
1 The Presidency	555.6	–	–	592.3	–	–
2 Parliament	2 015.8	–	–	2 144.1	–	–
3 Cooperative Governance	105 542.8	138.5	100 114.7	100 875.9	140.3	94 959.5
of which: local government equitable share	–	–	84 483.3	–	–	77 999.1
4 Government Communication and Information System	725.1	–	–	749.7	–	–
5 Home Affairs	8 787.4	–	–	8 690.5	–	–
6 International Relations and Cooperation	6 315.0	–	–	6 452.4	–	–
7 National School of Government	227.4	–	–	210.2	–	–
8 National Treasury	34 525.7	–	1 481.9	41 055.7	–	1 615.2
9 Planning, Monitoring and Evaluation	400.0	–	–	454.0	–	–
10 Public Enterprises	74 870.9	–	–	36 291.8	–	–
11 Public Service and Administration	468.9	–	–	526.2	–	–
12 Public Service Commission	273.8	–	–	282.4	–	–
13 Public Works and Infrastructure	7 649.4	834.3	748.0	8 343.2	836.9	758.7
14 Statistics South Africa	2 480.6	–	–	4 474.6	–	–
15 Traditional Affairs	142.1	–	–	171.4	–	–
16 Basic Education	23 094.0	17 215.7	–	27 018.1	20 701.0	–
17 Higher Education and Training	93 963.3	–	–	97 784.0	–	–
18 Health	57 652.6	52 106.6	–	62 543.3	52 061.6	–
19 Social Development	230 807.3	1 411.4	–	205 226.9	1 056.7	–
20 Women, Youth and Persons with Disabilities	619.3	–	–	763.5	–	–
21 Civilian Secretariat for the Police Service	135.8	–	–	149.0	–	–
22 Correctional Services	25 547.3	–	–	25 218.1	–	–
23 Defence	54 201.3	–	–	46 268.7	–	–
24 Independent Police Investigative Directorate	341.0	–	–	348.3	–	–
25 Justice and Constitutional Development	18 251.4	–	–	19 119.8	–	–
26 Military Veterans	430.3	–	–	654.4	–	–
27 Office of the Chief Justice	1 047.7	–	–	1 211.8	–	–
28 Police	99 560.9	–	–	96 355.5	–	–
29 Agriculture, Land Reform and Rural Development	15 247.6	1 695.1	–	16 920.4	2 238.0	–
30 Communications and Digital Technologies	3 269.0	–	–	3 692.9	–	–
31 Employment and Labour	3 240.6	–	–	3 505.7	–	–
32 Environment, Forestry and Fisheries	9 897.3	–	–	8 716.8	–	–
33 Human Settlements	29 050.5	15 454.5	10 730.9	31 658.0	17 603.8	11 517.7
34 Mineral Resources and Energy	7 567.1	–	1 554.9	9 180.8	–	2 224.0
35 Science and Innovation	7 278.3	–	–	8 933.3	–	–
36 Small Business Development	2 277.8	–	–	2 538.3	–	–
37 Sports, Arts and Culture	5 292.6	1 520.9	–	5 693.9	2 086.9	–
38 Tourism	1 426.9	–	–	2 429.6	–	–
39 Trade, Industry and Competition	9 273.3	–	–	9 736.6	–	–
40 Transport	56 769.7	17 216.9	4 497.5	66 691.8	19 057.4	6 624.4
41 Water and Sanitation	16 194.3	–	5 373.2	16 910.1	–	5 776.4
Total appropriation by vote	1 017 417.7	107 593.9	124 501.2	980 583.9	115 782.5	123 475.8
Plus:						
Direct charges against the National Revenue Fund						
President and deputy president salaries (The Presidency)	7.7	–	–	7.5	–	–
Members' remuneration (Parliament)	476.5	–	–	471.7	–	–
Debt-service costs (National Treasury)	232 851.6	–	–	269 741.1	–	–
Provincial equitable share (National Treasury)	520 717.0	520 717.0	–	523 686.4	523 686.4	–
General fuel levy sharing with metropolitan municipalities (National Treasury)	14 026.9	–	14 026.9	14 617.3	–	14 617.3
National Revenue Fund payments (National Treasury)	480.4	–	–	59.6	–	–
of which:						
Defrayal of the Gold and Foreign Exchange Contingency Reserve Account losses	111.3	–	–	59.6	–	–
Revaluation losses on foreign currency transactions	66.5	–	–	–	–	–
Premiums on loan transactions	302.6	–	–	–	–	–
Other	0.0	–	–	–	–	–
Auditor-General of South Africa (National Treasury)	120.0	–	–	70.0	–	–
Section 70 of the PFMA payment: Land and Agricultural Development Bank of South Africa (National Treasury)	74.4	–	–	–	–	–
Section 70 of the PFMA payment: South African Airways SOC Ltd (Public Enterprises)	143.4	–	–	–	–	–
Section 70 of the PFMA payment: South African Airways SOC Ltd (Public Enterprises)	266.9	–	–	–	–	–
Skills levy and sector education and training authorities (Higher Education and Training)	10 174.6	–	–	17 812.9	–	–
Section 16 of the PFMA payment: Covid-19 vaccine rollout (Health)	1 250.0	–	–	–	–	–
Section 16 of the PFMA payment: Social Relief of Distress grant (Social Development)	2 825.8	–	–	–	–	–
Magistrates' salaries (Justice and Constitutional Development)	2 212.3	–	–	2 426.5	–	–
Judges' salaries (Office of the Chief Justice and Judicial Administration)	1 117.9	–	–	1 118.4	–	–
International Oil Pollution Compensation Fund (Transport)	11.0	–	–	11.6	–	–
Total direct charges against the National Revenue Fund	786 756.4	520 717.0	14 026.9	830 023.0	523 686.4	14 617.3
Provisional reduction to fund Land Bank allocation	–	–	–	-5 000.0	–	–
Provisional allocations not assigned to votes	–	–	–	12 645.2	–	–
Provisional allocation for Eskom restructuring	–	–	–	–	–	–
Infrastructure Fund not assigned to votes	–	–	–	4 000.0	–	–
Compensation of employees adjustment	–	–	–	–	–	–
Total	1 804 174.1	628 310.9	138 528.0	1 822 252.2	639 468.9	138 093.1
Contingency reserve	–	–	–	12 000.0	–	–
National government projected underspending	–	–	–	–	–	–
Main budget expenditure	1 804 174.1	628 310.9	138 528.0	1 834 252.2	639 468.9	138 093.1

1) Includes provincial equitable share and conditional grants allocated to provinces.

2) Includes local government equitable share and conditional grants allocated to local government, as well as general fuel levy sharing with metropolitan municipalities.

3) Budget estimate adjusted for function shifts.

4) Provincial equitable share excluding conditional grants to provinces.

Table 4
Main budget: expenditure defrayed from the
National Revenue Fund by vote

2022/23			2023/24			R million
Budget estimate	of which		Budget estimate	of which		
	transfers to provinces 1)	transfers to local government 2)		transfers to provinces 1)	transfers to local government 2)	
599.8	–	–	602.6	–	–	1 The Presidency
2 180.2	–	–	2 185.9	–	–	2 Parliament
107 106.0	145.3	101 383.3	108 386.1	145.8	102 660.2	3 Cooperative Governance
–	–	83 084.5	–	–	83 570.0	of which: local government equitable share
710.0	–	–	711.9	–	–	4 Government Communication and Information System
8 829.1	–	–	8 875.1	–	–	5 Home Affairs
6 568.0	–	–	6 611.0	–	–	6 International Relations and Cooperation
213.9	–	–	214.7	–	–	7 National School of Government
32 004.8	–	1 679.6	32 147.3	–	1 724.4	8 National Treasury
460.3	–	–	461.3	–	–	9 Planning, Monitoring and Evaluation
2 071.6	–	–	297.6	–	–	10 Public Enterprises
535.2	–	–	543.5	–	–	11 Public Service and Administration
284.6	–	–	284.9	–	–	12 Public Service Commission
8 546.3	857.9	778.4	8 578.9	861.2	781.4	13 Public Works and Infrastructure
2 509.2	–	–	2 533.5	–	–	14 Statistics South Africa
175.7	–	–	180.0	–	–	15 Traditional Affairs
28 174.7	21 648.6	–	28 804.0	22 582.5	–	16 Basic Education
100 944.6	–	–	101 502.7	–	–	17 Higher Education and Training
61 655.4	53 067.8	–	59 386.5	52 617.3	–	18 Health
215 192.1	1 191.9	–	216 107.8	1 242.5	–	19 Social Development
778.3	–	–	781.9	–	–	20 Women, Youth and Persons with Disabilities
150.2	–	–	150.5	–	–	21 Civilian Secretariat for the Police Service
25 486.6	–	–	25 593.9	–	–	22 Correctional Services
46 777.0	–	–	47 159.8	–	–	23 Defence
351.8	–	–	358.0	–	–	24 Independent Police Investigative Directorate
19 383.5	–	–	19 511.2	–	–	25 Justice and Constitutional Development
663.4	–	–	663.0	–	–	26 Military Veterans
1 225.9	–	–	1 232.9	–	–	27 Office of the Chief Justice
96 857.6	–	–	97 083.6	–	–	28 Police
17 170.7	2 287.2	–	17 387.7	2 324.9	–	29 Agriculture, Land Reform and Rural Development
2 417.2	–	–	2 426.4	–	–	30 Communications and Digital Technologies
3 559.3	–	–	3 571.2	–	–	31 Employment and Labour
8 883.0	–	–	8 947.2	–	–	32 Environment, Forestry and Fisheries
32 619.3	18 304.8	11 708.2	33 982.6	19 111.5	12 224.2	33 Human Settlements
10 204.8	–	2 349.9	10 436.5	–	2 444.1	34 Mineral Resources and Energy
9 128.0	–	–	9 244.6	–	–	35 Science and Innovation
2 560.3	–	–	2 569.9	–	–	36 Small Business Development
5 828.3	2 155.7	–	5 886.5	2 174.8	–	37 Sports, Arts and Culture
2 483.9	–	–	2 492.3	–	–	38 Tourism
9 979.8	–	–	10 099.7	–	–	39 Trade, Industry and Competition
70 248.6	19 596.1	6 881.9	72 525.7	20 459.7	6 909.5	40 Transport
17 439.6	–	5 981.8	18 035.4	–	6 245.4	41 Water and Sanitation
962 958.3	119 255.4	130 763.1	968 555.6	121 520.3	132 989.4	Total appropriation by vote
						Plus:
						Direct charges against the National Revenue Fund
						President and deputy president salaries (The Presidency)
						Members' remuneration (Parliament)
						Debt-service costs (National Treasury)
						4) Provincial equitable share (National Treasury)
						General fuel levy sharing with metropolitan municipalities (National Treasury)
						National Revenue Fund payments (National Treasury)
						of which:
						Defrayal of the Gold and Foreign Exchange Contingency Reserve Account losses
						Revaluation losses on foreign currency transactions
						Premiums on loan transactions
						Other
						Auditor-General of South Africa (National Treasury)
						Section 70 of the PFMA payment: Land and Agricultural Development Bank of South Africa (National Treasury)
						Section 70 of the PFMA payment: South African Express Airways SOC Ltd (Public Enterprises)
						Section 70 of the PFMA payment: South African Airways SOC Ltd (Public Enterprises)
						5) Skills levy and sector education and training authorities (Higher Education and Training)
						6) Section 16 of the PFMA payment: Covid-19 vaccine rollout (Health)
						7) Section 16 of the PFMA payment: Social Relief of Distress grant (Social Development)
						Magistrates' salaries (Justice and Constitutional Development)
						Judges' salaries (Office of the Chief Justice and Judicial Administration)
						International Oil Pollution Compensation Fund (Transport)
						Total direct charges against the National Revenue Fund
						Provisional reduction to fund Land Bank allocation
						Provisional allocations not assigned to votes
						Provisional allocation for Eskom restructuring
						Infrastructure Fund not assigned to votes
						Compensation of employees adjustment
1 865 833.3	643 343.4	146 097.9	1 906 045.8	646 824.0	148 422.9	Total
5 000.0	–	–	5 000.0	–	–	Contingency reserve
–	–	–	–	–	–	National government projected underspending
1 870 833.3	643 343.4	146 097.9	1 911 045.8	646 824.0	148 422.9	Main budget expenditure

5) R267 million included as part of the direct charges against the National Revenue Fund for the payment of the SAA guarantee in terms of section 70 of the Public Finance Management Act (1999).

6) R1.25 billion emergency funding included as part of the direct charges against the National Revenue Fund for the procurement of COVID-19 vaccines and related research project in terms of section 16 of the Public Finance Management Act (1999).

7) R2.83 billion emergency funding included as part of the direct charges against the National Revenue Fund for the extension of the special COVID-19 social relief of distress grant in terms of section 16 of the Public Finance Management Act (1999).

Table 5
Consolidated national, provincial and social security
funds expenditure: economic classification ¹⁾

	2017/18		2018/19		2019/20		2020/21
	Outcome	% of total	Outcome	% of total	Outcome	% of total	Revised estimate
R million							
Current payments	839 109.3	56.7%	901 810.4	56.7%	976 404.4	55.0%	1 037 021.7
Compensation of employees	494 550.7	33.4%	527 991.4	33.2%	565 147.9	31.8%	574 356.0
Goods and services	181 431.8	12.3%	191 382.4	12.0%	205 976.9	11.6%	229 323.8
Interest and rent on land	163 126.9	11.0%	182 436.6	11.5%	205 279.6	11.6%	233 341.9
Transfers and subsidies	570 307.9	38.5%	625 520.9	39.3%	690 495.4	38.9%	815 579.4
Municipalities	118 344.7	8.0%	126 287.0	7.9%	131 724.9	7.4%	146 896.9
<i>of which: local government share</i> 2)	99 317.5	6.7%	106 019.7	6.7%	109 818.7	6.2%	124 501.2
Departmental agencies and accounts	113 712.2	7.7%	128 550.9	8.1%	145 690.4	8.2%	144 108.9
Higher education institutions	31 980.1	2.2%	37 436.8	2.4%	42 618.3	2.4%	43 334.7
Foreign governments and international organisations	1 971.9	0.1%	2 346.4	0.1%	2 467.5	0.1%	2 229.3
Public corporations and private enterprises	40 823.7	2.8%	42 679.7	2.7%	44 996.4	2.5%	35 116.2
Public corporations	32 640.7	2.2%	33 492.2	2.1%	34 468.4	1.9%	24 816.2
Subsidies on products and production	22 605.7	1.5%	23 641.0	1.5%	22 759.4	1.3%	14 463.3
Other transfers	10 035.0	0.7%	9 851.2	0.6%	11 709.0	0.7%	10 352.9
Private enterprises	8 183.0	0.6%	9 187.5	0.6%	10 528.0	0.6%	10 300.0
Subsidies on products and production	3 351.8	0.2%	3 631.0	0.2%	4 832.1	0.3%	4 285.8
Other transfers	4 831.2	0.3%	5 556.5	0.3%	5 695.8	0.3%	6 014.3
Non-profit institutions	28 900.5	2.0%	34 025.7	2.1%	36 636.3	2.1%	42 619.6
Households	234 574.9	15.9%	254 194.4	16.0%	286 361.5	16.1%	401 273.8
Social benefits	205 747.0	13.9%	226 195.5	14.2%	258 639.6	14.6%	375 093.6
Other transfers to households	28 827.9	1.9%	27 998.8	1.8%	27 721.9	1.6%	26 180.2
Payments for capital assets	50 677.8	3.4%	48 784.5	3.1%	44 791.4	2.5%	49 483.1
Buildings and other fixed structures	39 366.7	2.7%	37 942.3	2.4%	32 547.8	1.8%	34 324.1
Buildings	23 467.8	1.6%	23 132.9	1.5%	21 210.6	1.2%	21 534.5
Other fixed structures	15 899.0	1.1%	14 809.4	0.9%	11 337.2	0.6%	12 789.6
Machinery and equipment	10 371.4	0.7%	10 029.7	0.6%	11 231.6	0.6%	13 491.5
Transport equipment	4 455.1	0.3%	4 136.1	0.3%	4 216.5	0.2%	4 038.1
Other machinery and equipment	5 916.3	0.4%	5 893.6	0.4%	7 015.1	0.4%	9 453.4
Land and sub-soil assets	180.1	0.0%	102.5	0.0%	136.9	0.0%	957.3
Software and other intangible assets	678.7	0.0%	640.9	0.0%	804.1	0.0%	585.8
Other assets 3)	80.9	0.0%	69.1	0.0%	71.1	0.0%	124.4
Payments for financial assets 4)	19 309.1	1.3%	14 765.0	0.9%	65 075.6	3.7%	86 615.7
Subtotal: votes and direct charges	1 479 404.1	100.0%	1 590 880.7	100.0%	1 776 766.7	100.0%	1 988 700.0
Plus:							
Contingency reserve	—	—	—	—	—	—	—
Total consolidated expenditure	1 479 404.1	100.0%	1 590 880.7	100.0%	1 776 766.7	100.0%	1 988 700.0

1) These figures were estimated by the National Treasury and may differ from data published by Statistics South Africa and the Reserve Bank. The numbers in this table are not strictly comparable to those published in previous years due to the reclassification of expenditure items for previous years. Data for the previous years has been adjusted accordingly.

2) Includes equitable share and conditional grants to local government.

Source: National Treasury

Table 5
Consolidated national, provincial and social security
funds expenditure: economic classification ¹⁾

2020/21	2021/22		2022/23		2023/24		R million
% of total	Budget estimate	% of total	Budget estimate	% of total	Budget estimate	% of total	
52.1%	1 095 318.4	55.8%	1 127 905.5	56.9%	1 160 716.4	57.4%	Current payments
28.9%	583 816.2	29.7%	587 071.1	29.6%	587 873.2	29.1%	Compensation of employees
11.5%	241 162.8	12.3%	232 171.5	11.7%	233 774.9	11.6%	Goods and services
11.7%	270 339.5	13.8%	308 662.9	15.6%	339 068.3	16.8%	Interest and rent on land
41.0%	757 847.6	38.6%	770 675.5	38.9%	780 157.7	38.6%	Transfers and subsidies
7.4%	145 811.2	7.4%	154 414.1	7.8%	156 395.6	7.7%	Municipalities
6.3%	123 475.8	6.3%	130 763.1	6.6%	132 989.4	6.6%	2) of which: local government share
7.2%	151 473.3	7.7%	152 808.5	7.7%	155 943.6	7.7%	Departmental agencies and accounts
2.2%	45 802.8	2.3%	47 497.9	2.4%	47 936.6	2.4%	Higher education institutions
0.1%	2 748.7	0.1%	2 892.2	0.1%	2 919.3	0.1%	Foreign governments and international organisations
1.8%	48 785.9	2.5%	56 214.2	2.8%	59 572.3	2.9%	Public corporations and private enterprises
1.2%	37 779.3	1.9%	45 125.0	2.3%	48 043.4	2.4%	Public corporations
0.7%	22 699.2	1.2%	26 790.5	1.4%	27 680.3	1.4%	Subsidies on products and production
0.5%	15 080.1	0.8%	18 334.6	0.9%	20 363.1	1.0%	Other transfers
0.5%	11 006.6	0.6%	11 089.1	0.6%	11 528.9	0.6%	Private enterprises
0.2%	4 100.0	0.2%	4 179.1	0.2%	4 307.5	0.2%	Subsidies on products and production
0.3%	6 906.5	0.4%	6 910.0	0.3%	7 221.3	0.4%	Other transfers
2.1%	39 211.9	2.0%	40 514.0	2.0%	41 844.0	2.1%	Non-profit institutions
20.2%	324 013.8	16.5%	316 334.7	16.0%	315 546.3	15.6%	Households
18.9%	294 791.4	15.0%	286 056.9	14.4%	284 264.5	14.1%	Social benefits
1.3%	29 222.4	1.5%	30 277.8	1.5%	31 281.8	1.5%	Other transfers to households
2.5%	51 440.2	2.6%	53 406.5	2.7%	54 477.6	2.7%	Payments for capital assets
1.7%	39 657.8	2.0%	41 842.4	2.1%	42 741.8	2.1%	Buildings and other fixed structures
1.1%	22 982.3	1.2%	25 357.8	1.3%	25 694.6	1.3%	Buildings
0.6%	16 675.6	0.8%	16 484.7	0.8%	17 047.2	0.8%	Other fixed structures
0.7%	10 977.1	0.6%	10 865.9	0.5%	11 061.1	0.5%	Machinery and equipment
0.2%	4 106.0	0.2%	4 281.8	0.2%	4 451.2	0.2%	Transport equipment
0.5%	6 871.1	0.3%	6 584.0	0.3%	6 609.9	0.3%	Other machinery and equipment
0.0%	196.2	0.0%	105.3	0.0%	108.5	0.0%	Land and sub-soil assets
0.0%	349.7	0.0%	369.9	0.0%	335.1	0.0%	Software and other intangible assets
0.0%	259.3	0.0%	223.1	0.0%	231.1	0.0%	3) Other assets
4.4%	46 816.9	2.4%	25 287.3	1.3%	22 696.7	1.1%	4) Payments for financial assets
100.0%	1 951 423.1	99.4%	1 977 274.9	99.7%	2 018 048.3	99.75%	Subtotal: votes and direct charges
–	12 000.0	0.6%	5 000.0	0.3%	5 000.0	0.2%	Plus: Contingency reserve
100.0%	1 963 423.1	100.0%	1 982 274.9	100.0%	2 023 048.3	100.0%	Total consolidated expenditure

3) Includes biological, heritage and specialised military assets.

4) Includes National Revenue Fund payments previously accounted for separately.

Table 6
Consolidated national, provincial and social security
funds expenditure: functional classification 1)

R million	2017/18		2018/19		2019/20		2020/21
	Estimated outcome	% of total	Estimated outcome	% of total	Estimated outcome	% of total	Revised estimate
General public services 2)	262 757.7	17.8%	272 960.8	17.2%	297 622.9	16.8%	328 585.2
<i>of which: debt-service costs</i>	162 644.6	11.0%	181 849.1	11.4%	204 769.4	11.5%	232 851.6
Defence	48 939.2	3.3%	47 801.2	3.0%	50 000.7	2.8%	53 200.4
Public order and safety	137 491.0	9.3%	144 318.6	9.1%	152 997.4	8.6%	155 766.7
Police services	93 500.4	6.3%	98 421.6	6.2%	104 575.0	5.9%	106 932.2
Law courts	21 233.2	1.4%	22 121.1	1.4%	23 236.2	1.3%	23 287.2
Prisons	22 757.3	1.5%	23 775.8	1.5%	25 186.1	1.4%	25 547.3
Economic affairs	152 383.2	10.3%	166 016.6	10.4%	220 927.6	12.4%	219 629.6
General economic, commercial and labour affairs	24 919.4	1.7%	26 193.2	1.6%	28 618.2	1.6%	26 684.1
Agriculture, forestry, fishing and hunting	21 707.0	1.5%	23 302.0	1.5%	21 085.8	1.2%	19 084.4
Fuel and energy	8 327.8	0.6%	7 351.5	0.5%	56 178.0	3.2%	61 687.5
Mining, manufacturing and construction	1 509.7	0.1%	1 580.1	0.1%	1 628.1	0.1%	1 704.3
Transport	78 006.0	5.3%	89 491.2	5.6%	94 890.4	5.3%	96 682.7
Communication	5 713.5	0.4%	5 202.9	0.3%	6 033.5	0.3%	3 180.6
Other industries	3 667.4	0.2%	3 830.9	0.2%	3 628.3	0.2%	2 521.0
Economic affairs not elsewhere classified	8 532.5	0.6%	9 064.9	0.6%	8 865.3	0.5%	8 084.9
Environmental protection	9 349.0	0.6%	9 656.0	0.6%	9 855.0	0.6%	11 724.5
Housing and community amenities	128 021.7	8.7%	134 562.2	8.5%	147 361.6	8.3%	164 426.2
Housing development	36 347.4	2.5%	35 671.6	2.2%	42 241.9	2.4%	38 755.2
Community development	76 645.1	5.2%	82 349.2	5.2%	89 992.3	5.1%	109 572.5
Water supply	15 029.2	1.0%	16 541.3	1.0%	15 127.3	0.9%	16 098.5
Health	188 291.5	12.7%	203 178.4	12.8%	219 813.1	12.4%	244 281.8
Recreation and culture	12 086.0	0.8%	12 217.3	0.8%	12 695.1	0.7%	12 678.9
Education	304 812.6	20.6%	341 289.5	21.5%	373 003.4	21.0%	382 192.6
Social protection	235 272.2	15.9%	258 880.1	16.3%	292 490.0	16.5%	416 214.1
Subtotal: votes and direct charges	1 479 404.1	100.0%	1 590 880.7	100.0%	1 776 766.7	100.0%	1 988 700.0
Plus:							
Contingency reserve	–	–	–	–	–	–	–
Total consolidated expenditure	1 479 404.1	100.0%	1 590 880.7	100.0%	1 776 766.7	100.0%	1 988 700.0

1) These figures were estimated by the National Treasury and may differ from data published by Statistics South Africa. The numbers in this table are not strictly comparable to those published in previous years due to the allocation of some of the unallocable expenditure for previous years. Data for the previous years has been adjusted accordingly.

Source: National Treasury

Table 6
Consolidated national, provincial and social security
funds expenditure: functional classification ¹⁾

2020/21	2021/22		2022/23		2023/24		
% of total	Budget estimate	% of total	Budget estimate	% of total	Budget estimate	% of total	
							R million
16.5%	373 809.9	19.2%	404 023.6	20.4%	435 831.9	21.6%	2) General public services
11.7%	269 741.1	13.8%	308 012.6	15.6%	–	–	<i>of which: debt-service costs</i>
2.7%	45 939.6	2.4%	47 279.4	2.4%	47 684.9	2.4%	Defence
7.8%	154 113.4	7.9%	156 783.5	7.9%	156 932.5	7.8%	Public order and safety
5.4%	104 826.3	5.4%	106 316.2	5.4%	106 206.9	5.3%	Police services
1.2%	24 374.5	1.2%	24 980.7	1.3%	25 131.8	1.2%	Law courts
1.3%	24 912.5	1.3%	25 486.6	1.3%	25 593.9	1.3%	Prisons
11.0%	215 195.7	11.0%	201 312.4	10.2%	203 177.7	10.1%	Economic affairs
1.3%	39 186.2	2.0%	30 779.7	1.6%	32 048.2	1.6%	General economic, commercial and labour affairs
1.0%	20 716.2	1.1%	21 339.2	1.1%	21 583.0	1.1%	Agriculture, forestry, fishing and hunting
3.1%	39 016.5	2.0%	30 171.9	1.5%	29 562.8	1.5%	Fuel and energy
0.1%	1 698.1	0.1%	1 768.1	0.1%	1 773.0	0.1%	Mining, manufacturing and construction
4.9%	97 751.6	5.0%	99 212.4	5.0%	100 101.8	5.0%	Transport
0.2%	3 120.0	0.2%	4 260.6	0.2%	4 278.9	0.2%	Communication
0.1%	3 901.5	0.2%	3 764.1	0.2%	3 702.4	0.2%	Other industries
0.4%	9 805.5	0.5%	10 016.5	0.5%	10 127.4	0.5%	Economic affairs not elsewhere classified
0.6%	10 033.4	0.5%	10 590.4	0.5%	10 808.7	0.5%	Environmental protection
8.3%	162 426.5	8.3%	170 519.1	8.6%	173 902.9	8.6%	Housing and community amenities
1.9%	40 696.3	2.1%	41 878.7	2.1%	43 499.4	2.2%	Housing development
5.5%	105 021.8	5.4%	111 310.3	5.6%	112 477.3	5.6%	Community development
0.8%	16 708.4	0.9%	17 330.1	0.9%	17 926.2	0.9%	Water supply
12.3%	243 760.6	12.5%	240 572.8	12.2%	239 988.0	11.9%	Health
0.6%	14 041.2	0.7%	13 143.0	0.7%	13 322.0	0.7%	Recreation and culture
19.2%	392 416.8	20.1%	401 858.9	20.3%	406 157.9	20.1%	Education
20.9%	339 686.0	17.4%	331 191.8	16.7%	330 242.0	16.4%	Social protection
100.0%	1 951 423.1	99.4%	1 977 274.9	99.7%	2 018 048.3	99.8%	Subtotal: votes and direct charges
–	12 000.0	0.6%	5 000.0	0.3%	5 000.0	0.2%	Plus: Contingency reserve
100.0%	1 963 423.1	100.0%	1 982 274.9	100.0%	2 023 048.3	100.0%	Total consolidated expenditure

2) Mainly general administration, cost of raising loans and unallocable capital expenditure, as well as National Revenue Fund payments previously accounted for separately.

Table 7
Consolidated government revenue and expenditure:
economic classification 1)

	2017/18		2018/19		2019/20		2020/21
	Outcome	% of total	Outcome	% of total	Outcome	% of total	Revised estimate
R million							
Revenue							
Current revenue	1 349 753.2	100.0%	1 447 234.9	100.0%	1 530 114.3	100.0%	1 362 433.5
<i>Tax revenue (net of SACU)</i>	1 235 342.4	91.5%	1 321 756.8	91.3%	1 390 613.9	90.9%	1 232 781.0
<i>Non-tax revenue</i>	114 410.8	8.5%	125 478.1	8.7%	139 500.4	9.1%	129 652.4
2) Sales of capital assets	540.2	0.0%	595.5	0.0%	370.7	0.0%	235.6
Total revenue	1 350 293.4	100.0%	1 447 830.4	100.0%	1 530 485.0	100.0%	1 362 669.0
Expenditure							
Economic classification							
Current payments	941 390.3	61.1%	1 010 282.0	61.5%	1 090 734.6	59.9%	1 148 546.4
Compensation of employees	547 903.8	35.6%	584 410.8	35.6%	623 823.5	34.2%	636 958.2
Goods and services	220 568.0	14.3%	233 840.1	14.2%	253 188.9	13.9%	269 944.5
Interest and rent on land	172 918.5	11.2%	192 031.0	11.7%	213 722.2	11.7%	241 643.7
Transfers and subsidies	501 745.0	32.6%	547 444.7	33.3%	603 185.4	33.1%	741 494.4
Municipalities	121 803.8	7.9%	129 430.3	7.9%	135 194.8	7.4%	151 431.2
Departmental agencies and accounts	27 260.5	1.8%	25 215.7	1.5%	27 635.4	1.5%	28 005.7
Higher education institutions	36 809.4	2.4%	39 202.1	2.4%	43 559.8	2.4%	46 618.6
Foreign governments and international organisations	2 123.3	0.1%	2 386.1	0.1%	2 530.8	0.1%	2 279.4
Public corporations and private enterprises	31 560.1	2.0%	34 736.2	2.1%	36 090.7	2.0%	28 804.1
Non-profit institutions	31 013.9	2.0%	36 206.6	2.2%	38 750.7	2.1%	44 231.2
Households	251 174.0	16.3%	280 267.7	17.1%	319 423.2	17.5%	440 124.3
Payments for capital assets	77 477.4	5.0%	70 136.8	4.3%	62 262.0	3.4%	74 817.3
Buildings and other fixed structures	58 443.6	3.8%	52 927.2	3.2%	44 499.2	2.4%	50 259.5
Machinery and equipment	16 606.9	1.1%	14 748.0	0.9%	15 268.8	0.8%	20 733.9
Land and sub-soil assets	851.9	0.1%	784.2	0.0%	744.7	0.0%	1 166.0
Software and other intangible assets	1 423.9	0.1%	1 479.1	0.1%	1 579.8	0.1%	2 265.8
Other assets	151.1	0.0%	198.3	0.0%	169.5	0.0%	392.1
3) Payments for financial assets	20 322.7	1.3%	15 706.1	1.0%	66 069.0	3.6%	87 593.7
4) Subtotal: economic classification	1 540 935.3	100%	1 643 569.6	100.0%	1 822 251.1	100.0%	2 052 451.8
Contingency reserve	–		–		–		–
Total consolidated expenditure	1 540 935.3		1 643 569.6		1 822 251.1		2 052 451.8
Budget balance	-190 641.8		-195 739.2		-291 766.1		-689 782.8
<i>Percentage of GDP</i>	-4.1%		-4.0%		-5.7%		-14.0%
Financing							
Change in loan liabilities							
<i>Domestic short- and long-term loans (net)</i>	211 663.9		194 678.8		330 046.3		562 235.3
<i>Foreign loans (net)</i>	31 351.5		26 344.4		24 730.3		94 355.2
Change in cash and other balances (- increase)	-52 373.6		-25 283.9		-63 010.5		33 192.2
Borrowing requirement (net)	190 641.8		195 739.2		291 766.1		689 782.8
GDP	4 698 724.0		4 924 029.0		5 148 852.0		4 920 961.2

1) Consisting of national and provincial government, social security funds and public entities. Refer to Annexure W2 for a detailed list of entities included.

In some cases figures were estimated by the National Treasury and may differ from data published by Statistics South Africa and the Reserve Bank.

2) Includes National Revenue Fund receipts previously accounted for separately.

Source: National Treasury

Table 7
Consolidated government revenue and expenditure:
economic classification ¹⁾

2020/21	2021/22		2022/23		2023/24		
% of total	Budget estimate	% of total	Budget estimate	% of total	Budget estimate	% of total	
							R million
							Revenue
100.0%	1 520 101.7	100.0%	1 635 198.2	100.0%	1 717 017.7	100.0%	Current revenue
90.5%	1 403 774.7	92.3%	1 514 346.3	92.6%	1 589 716.1	92.6%	Tax revenue (net of SACU)
9.5%	116 326.9	7.7%	120 851.9	7.4%	127 301.6	7.4%	2) Non-tax revenue
0.0%	265.3	0.0%	209.9	0.0%	216.1	0.0%	Sales of capital assets
100.0%	1 520 367.0	100.0%	1 635 408.1	100.0%	1 717 233.8	100.0%	Total revenue
							Expenditure
							Economic classification
							Current payments
56.0%	1 208 223.3	60.2%	1 245 844.1	60.9%	1 281 571.3	61.3%	Compensation of employees
31.0%	650 404.4	32.4%	656 020.6	32.1%	659 269.0	31.5%	Goods and services
13.2%	279 473.6	13.9%	273 394.4	13.4%	274 975.1	13.2%	Interest and rent on land
11.8%	278 345.3	13.9%	316 429.1	15.5%	347 327.2	16.6%	Transfers and subsidies
36.1%	668 910.2	33.3%	678 768.7	33.2%	686 281.9	32.8%	Municipalities
7.4%	150 661.5	7.5%	159 589.5	7.8%	161 864.7	7.7%	Departmental agencies and accounts
1.4%	23 699.4	1.2%	23 701.6	1.2%	23 892.1	1.1%	Higher education institutions
2.3%	49 116.2	2.4%	50 185.7	2.5%	50 810.7	2.4%	Foreign governments and international organisations
0.1%	2 801.7	0.1%	2 947.1	0.1%	2 976.7	0.1%	Public corporations and private enterprises
1.4%	38 864.4	1.9%	43 671.1	2.1%	47 416.3	2.3%	Non-profit institutions
2.2%	40 666.9	2.0%	42 063.7	2.1%	43 461.7	2.1%	Households
21.4%	363 100.2	18.1%	356 610.0	17.4%	355 859.7	17.0%	Payments for capital assets
3.6%	82 987.4	4.1%	92 652.6	4.5%	97 393.4	4.7%	Buildings and other fixed structures
2.4%	60 572.3	3.0%	66 779.3	3.3%	69 796.3	3.3%	Machinery and equipment
1.0%	19 899.9	1.0%	23 792.0	1.2%	25 690.0	1.2%	Land and sub-soil assets
0.1%	340.6	0.0%	288.1	0.0%	266.4	0.0%	Software and other intangible assets
0.1%	1 360.0	0.1%	1 274.7	0.1%	1 127.6	0.1%	3) Other assets
0.0%	814.6	0.0%	518.4	0.0%	513.0	0.0%	4) Payments for financial assets
4.3%	48 239.6	2.4%	27 221.3	1.3%	24 899.7	1.2%	Subtotal: economic classification
100.0%	2 008 360.5	100.0%	2 044 486.7	100.0%	2 090 146.2	100.0%	Contingency reserve
	12 000.0		5 000.0		5 000.0		Total consolidated expenditure
	2 020 360.5		2 049 486.7		2 095 146.2		Budget balance
	-499 993.5		-414 078.6		-377 912.4		Percentage of GDP
	-9.3%		-7.3%		-6.3%		Financing
							Change in loan liabilities
	336 798.3		360 861.6		336 648.0		Domestic short- and long-term loans (net)
	42 992.0		33 619.3		25 238.7		Foreign loans (net)
	120 203.2		19 597.6		16 025.7		Change in cash and other balances (- increase)
	499 993.5		414 078.6		377 912.4		Borrowing requirement (net)
	5 352 236.3		5 666 333.3		5 997 155.5		GDP

3) Includes biological, heritage and specialised military assets.

4) Includes extraordinary payments previously accounted for separately.

Table 8
Consolidated government expenditure: functional classification ¹⁾

	2017/18		2018/19		2019/20		2020/21
	Outcome	% of total	Outcome	% of total	Outcome	% of total	Revised estimate
R million							
General public services ²⁾	271 744.8	17.6%	282 214.3	17.2%	306 481.5	16.8%	335 874.9
of which: debt-service costs	162 644.6	10.6%	181 849.1	11.1%	204 769.4	11.2%	232 851.6
Defence	48 860.7	3.2%	47 956.0	2.9%	50 000.3	2.7%	53 627.3
Public order and safety	138 788.4	9.0%	145 982.8	8.9%	154 692.2	8.5%	157 894.6
Police services	94 585.6	6.1%	99 749.8	6.1%	105 962.2	5.8%	108 212.0
Law courts	21 217.8	1.4%	22 215.2	1.4%	23 135.7	1.3%	23 811.1
Prisons	22 757.3	1.5%	23 775.8	1.4%	25 186.1	1.4%	25 547.3
Public order and safety not elsewhere classified	227.7		242.0		408.2		324.1
Economic affairs	173 805.8	11.3%	178 785.6	10.9%	227 350.9	12.5%	234 919.4
General economic, commercial and labour affairs	31 669.8	2.1%	33 022.6	2.0%	35 167.4	1.9%	34 383.4
Agriculture, forestry, fishing and hunting	20 951.3	1.4%	22 714.4	1.4%	20 798.7	1.1%	20 121.5
Fuel and energy	9 586.4	0.6%	9 590.8	0.6%	57 458.9	3.2%	63 148.7
Mining, manufacturing and construction	2 471.2	0.2%	2 440.4	0.1%	2 231.4	0.1%	2 189.9
Transport	87 232.5	5.7%	89 491.7	5.4%	90 391.9	5.0%	100 121.7
Communication	9 123.7	0.6%	8 568.5	0.5%	9 035.5	0.5%	4 636.1
Other industries	165.5	0.0%	176.2	0.0%	220.2	0.0%	199.0
Economic affairs not elsewhere classified	12 605.4	0.8%	12 780.8	0.8%	12 046.9	0.7%	10 119.2
Environmental protection	11 797.6	0.8%	12 302.2	0.7%	12 188.2	0.7%	14 183.9
Housing and community amenities	147 980.7	9.6%	157 162.7	9.6%	170 622.1	9.4%	191 132.1
Housing development	38 003.8	2.5%	37 633.2	2.3%	44 930.4	2.5%	41 357.5
Community development	77 604.5	5.0%	83 333.1	5.1%	91 090.0	5.0%	110 416.2
Water supply	32 372.3	2.1%	36 196.3	2.2%	34 601.8	1.9%	39 358.4
Health	188 673.2	12.2%	203 412.2	12.4%	219 933.7	12.1%	244 070.9
Recreation and culture	12 480.1	0.8%	12 663.8	0.8%	14 863.7	0.8%	12 707.4
Education	310 058.6	20.1%	345 031.8	21.0%	373 323.4	20.5%	389 706.3
Social protection	236 745.3	15.4%	258 058.3	15.7%	292 795.1	16.1%	418 335.0
Subtotal: functional classification	1 540 935.3	100%	1 643 569.6	100%	1 822 251.1	100%	2 052 451.8
Plus:							
Contingency reserve	—		—		—		—
Total consolidated expenditure	1 540 935.3		1 643 569.6		1 822 251.1		2 052 451.8

¹⁾ Consisting of national and provincial government, social security funds and public entities. Refer to Annexure W2 for a detailed list of entities included.

In some cases figures were estimated by the National Treasury and may differ from data published by Statistics South Africa and the Reserve Bank.

Source: National Treasury

Table 8
Consolidated government expenditure: functional
classification ¹⁾

2020/21	2021/22		2022/23		2023/24		
% of total	Budget estimate	% of total	Budget estimate	% of total	Budget estimate	% of total	
							R million
16.4%	381 603.0	19.0%	413 218.4	20.2%	444 928.3	21.3%	2) General public services
11.3%	269 741.1	13.4%	308 012.6	15.1%	338 591.2	16.2%	<i>of which: debt-service costs</i>
2.6%	46 316.1	2.3%	47 486.2	2.3%	47 802.9	2.3%	Defence
7.7%	156 220.6	7.8%	159 023.8	7.8%	159 286.0	7.6%	Public order and safety
5.3%	106 236.6	5.3%	107 867.4	5.3%	107 834.4	5.2%	Police services
1.2%	24 723.6	1.2%	25 324.0	1.2%	25 501.0	1.2%	Law courts
1.2%	24 912.5	1.2%	25 486.6	1.2%	25 593.9	1.2%	Prisons
	347.8		345.8		356.6	0.0%	Public order and safety not elsewhere classified
11.4%	227 563.9	11.3%	218 713.4	10.7%	225 680.4	10.8%	Economic affairs
1.7%	46 867.8	2.3%	38 462.5	1.9%	39 993.0	1.9%	General economic, commercial and labour affairs
1.0%	20 740.6	1.0%	21 406.0	1.0%	21 535.0	1.0%	Agriculture, forestry, fishing and hunting
3.1%	41 421.1	2.1%	32 991.0	1.6%	33 454.6	1.6%	Fuel and energy
0.1%	2 581.9	0.1%	2 661.7	0.1%	2 690.9	0.1%	Mining, manufacturing and construction
4.9%	98 221.3	4.9%	103 906.5	5.1%	108 558.5	5.2%	Transport
0.2%	4 274.2	0.2%	5 727.7	0.3%	5 836.7	0.3%	Communication
0.0%	212.0	0.0%	209.1	0.0%	211.4	0.0%	Other industries
0.5%	13 244.9	0.7%	13 348.8	0.7%	13 400.2	0.6%	Economic affairs not elsewhere classified
0.7%	12 402.5	0.6%	12 857.1	0.6%	13 087.5	0.6%	Environmental protection
9.3%	186 695.5	9.3%	200 044.0	9.8%	202 992.3	9.7%	Housing and community amenities
2.0%	43 765.6	2.2%	45 374.4	2.2%	47 212.8	2.3%	Housing development
5.4%	106 056.5	5.3%	112 401.2	5.5%	113 630.7	5.4%	Community development
1.9%	36 873.3	1.8%	42 268.4	2.1%	42 148.8	2.0%	Water supply
11.9%	245 468.1	12.2%	242 332.4	11.9%	241 774.3	11.6%	Health
0.6%	14 419.6	0.7%	13 569.4	0.7%	13 834.7	0.7%	Recreation and culture
19.0%	396 537.9	19.7%	404 562.2	19.8%	408 941.2	19.6%	Education
20.4%	341 133.3	17.0%	332 679.8	16.3%	331 818.7	15.9%	Social protection
100%	2 008 360.5	100%	2 044 486.7	100%	2 090 146.2	100%	Subtotal: functional classification
	12 000.0		5 000.0		5 000.0		Plus:
	2 020 360.5		2 049 486.7		2 095 146.2		Contingency reserve
							Total consolidated expenditure

2) Mainly general administration, cost of raising loans and unallocable capital expenditure, as well as National Revenue Fund payments previously accounted for separately.

Table 9
Consolidated government revenue, expenditure and financing

	2017/18	2018/19	2019/20	2020/21
	Outcome	Outcome	Outcome	Revised estimate
R million				
Operating account				
Current receipts	1 330 577.8	1 432 045.9	1 511 138.6	1 332 753.4
<i>Tax receipts (net of SACU transfers)</i>	<i>1 235 342.4</i>	<i>1 321 756.8</i>	<i>1 390 613.9</i>	<i>1 232 781.0</i>
<i>Non-tax receipts (including departmental receipts)</i>	<i>89 788.1</i>	<i>103 965.3</i>	<i>114 584.7</i>	<i>98 051.6</i>
<i>Transfers received</i>	<i>5 447.3</i>	<i>6 323.7</i>	<i>5 940.0</i>	<i>1 920.7</i>
Current payments	1 370 811.8	1 485 125.4	1 618 876.5	1 825 232.7
<i>Compensation of employees</i>	<i>547 903.8</i>	<i>584 410.8</i>	<i>623 823.5</i>	<i>636 958.2</i>
<i>Goods and services</i>	<i>220 568.0</i>	<i>233 840.1</i>	<i>253 188.9</i>	<i>269 944.5</i>
<i>Interest and rent on land</i>	<i>172 918.5</i>	<i>192 031.0</i>	<i>213 722.2</i>	<i>241 643.7</i>
<i>Transfers and subsidies</i>	<i>429 421.6</i>	<i>474 843.3</i>	<i>528 141.9</i>	<i>676 686.3</i>
Current balance	-40 234.1	-53 079.5	-107 737.9	-492 479.3
<i>Percentage of GDP</i>	<i>-0.9%</i>	<i>-1.1%</i>	<i>-2.1%</i>	<i>-10.0%</i>
Capital account				
<i>Capital receipts</i>	<i>540.2</i>	<i>595.5</i>	<i>370.7</i>	<i>235.6</i>
<i>Transfers and subsidies</i>	<i>72 323.4</i>	<i>72 601.3</i>	<i>75 043.5</i>	<i>64 808.1</i>
<i>Payments for capital assets</i>	<i>77 477.4</i>	<i>70 136.8</i>	<i>62 262.0</i>	<i>74 817.3</i>
Capital financing requirement	-149 260.6	-142 142.6	-136 934.8	-139 389.9
<i>Percentage of GDP</i>	<i>-3.2%</i>	<i>-2.9%</i>	<i>-2.7%</i>	<i>-2.8%</i>
Transactions in financial assets and liabilities	-1 147.2	-517.1	-47 093.3	-57 913.6
Contingency reserve	-	-	-	-
Budget balance	-190 641.8	-195 739.2	-291 766.1	-689 782.8
<i>Percentage of GDP</i>	<i>-4.1%</i>	<i>-4.0%</i>	<i>-5.7%</i>	<i>-14.0%</i>
Primary balance	-17 723.4	-3 708.2	-78 043.9	-448 139.1
<i>Percentage of GDP</i>	<i>-0.4%</i>	<i>-0.1%</i>	<i>-1.5%</i>	<i>-9.1%</i>
Financing				
Change in loan liabilities				
<i>Domestic short- and long-term loans (net)</i>	<i>211 663.9</i>	<i>194 678.8</i>	<i>330 046.3</i>	<i>562 235.3</i>
<i>Foreign loans (net)</i>	<i>31 351.5</i>	<i>26 344.4</i>	<i>24 730.3</i>	<i>94 355.2</i>
Change in cash and other balances (- increase)	-52 373.6	-25 283.9	-63 010.5	33 192.2
Borrowing requirement (net)	190 641.8	195 739.2	291 766.1	689 782.8
GDP	4 698 724.0	4 924 029.0	5 148 852.0	4 920 961.2

Source: National Treasury

Table 9
Consolidated government revenue, expenditure and financing

2021/22	2022/23	2023/24	
Budget estimate	Budget estimate	Budget estimate	R million
1 510 982.8	1 629 577.4	1 711 514.4	Operating account
1 403 774.7	1 514 346.3	1 589 716.1	Current receipts
102 270.8	110 148.6	119 668.0	<i>Tax receipts (net of SACU transfers)</i>
4 937.3	5 082.5	2 130.3	<i>Non-tax receipts (including departmental receipts)</i>
			<i>Transfers received</i>
1 798 203.5	1 838 340.4	1 877 106.0	Current payments
650 404.4	656 020.6	659 269.0	<i>Compensation of employees</i>
279 473.6	273 394.4	274 975.1	<i>Goods and services</i>
278 345.3	316 429.1	347 327.2	<i>Interest and rent on land</i>
589 980.2	592 496.3	595 534.7	<i>Transfers and subsidies</i>
-287 220.7	-208 763.0	-165 591.6	Current balance
-5.4%	-3.7%	-2.8%	<i>Percentage of GDP</i>
265.3	209.9	216.1	Capital account
78 930.0	86 272.4	90 747.2	<i>Capital receipts</i>
82 987.4	92 652.6	97 393.4	<i>Transfers and subsidies</i>
			<i>Payments for capital assets</i>
-161 652.1	-178 715.1	-187 924.4	Capital financing requirement
-3.0%	-3.2%	-3.1%	<i>Percentage of GDP</i>
-39 120.7	-21 600.5	-19 396.4	Transactions in financial assets and liabilities
12 000.0	5 000.0	5 000.0	Contingency reserve
-499 993.5	-414 078.6	-377 912.4	Budget balance
-9.3%	-7.3%	-6.3%	<i>Percentage of GDP</i>
-221 648.2	-97 649.5	-30 585.2	Primary balance
-4.1%	-1.7%	-0.5%	<i>Percentage of GDP</i>
			Financing
			Change in loan liabilities
336 798.3	360 861.6	336 648.0	<i>Domestic short- and long-term loans (net)</i>
42 992.0	33 619.3	25 238.7	<i>Foreign loans (net)</i>
120 203.2	19 597.6	16 025.7	Change in cash and other balances (- increase)
499 993.5	414 078.6	377 912.4	Borrowing requirement (net)
5 352 236.3	5 666 333.3	5 997 155.5	<i>GDP</i>

Table 10
Total debt of government 1)

		1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03
R million								
Domestic debt								
Marketable		290 424	318 773	344 938	354 706	365 231	349 415	350 870
<i>Government bonds</i>		276 124	301 488	325 938	332 706	339 731	331 505	328 820
<i>Treasury bills</i>		14 300	17 285	19 000	22 000	25 500	17 910	22 050
<i>Bridging bonds</i>		—	—	—	—	—	—	—
Non-marketable	3)	6 421	2 778	2 013	998	2 382	2 030	1 910
Gross loan debt		296 845	321 551	346 951	355 704	367 613	351 445	352 780
Cash balances	4)	-2 757	-4 798	-5 166	-7 285	-2 650	-6 549	-9 730
Net loan debt		294 088	316 753	341 785	348 419	364 963	344 896	343 050
Foreign debt								
Gross loan debt	5)	11 394	14 560	16 276	25 799	31 938	82 009	74 286
Cash balances	4)	—	—	—	—	—	—	—
Net loan debt		11 394	14 560	16 276	25 799	31 938	82 009	74 286
Gross loan debt		308 239	336 111	363 227	381 503	399 551	433 454	427 066
Net loan debt		305 482	331 313	358 061	374 218	396 901	426 905	417 336
Gold and Foreign Exchange Contingency Reserve Account	6)	2 169	73	14 431	9 200	18 170	28 024	36 577
Composition of gross debt (excluding deduction of cash balances)								
Marketable domestic debt		94.2%	94.8%	95.0%	93.0%	91.4%	80.6%	82.2%
<i>Government bonds</i>		89.6%	89.7%	89.7%	87.2%	85.0%	76.5%	77.0%
<i>Treasury bills</i>		4.6%	5.1%	5.2%	5.8%	6.4%	4.1%	5.2%
<i>Bridging bonds</i>		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Non-marketable domestic debt	3)	2.1%	0.8%	0.6%	0.3%	0.6%	0.5%	0.4%
Domestic debt		96.3%	95.7%	95.5%	93.2%	92.0%	81.1%	82.6%
Foreign debt	5)	3.7%	4.3%	4.5%	6.8%	8.0%	18.9%	17.4%
Total as percentage of GDP								
Gross domestic debt		45.5%	44.8%	44.7%	41.4%	37.6%	32.6%	28.2%
Net domestic debt		45.1%	44.1%	44.0%	40.6%	37.4%	31.9%	27.4%
Gross foreign debt		1.7%	2.0%	2.1%	3.0%	3.3%	7.6%	5.9%
Net foreign debt		1.7%	2.0%	2.1%	3.0%	3.3%	7.6%	5.9%
Gross loan debt		47.3%	46.8%	46.8%	44.4%	40.9%	40.1%	34.1%
Net loan debt		46.8%	46.2%	46.1%	43.6%	40.6%	39.5%	33.4%

1) Debt of the central government, excluding extra-budgetary institutions and social security funds.

2) As projected at the end of January 2021.

3) Includes non-marketable Treasury bills, retail bonds, loan levies, former regional authorities and Namibian loans.

4) Bank balances of the National Revenue Fund (balances of government's accounts with the Reserve Bank and commercial banks).

Bank balances in foreign currencies are revaluated using forward estimates of exchange rates.

Source: National Treasury and Reserve Bank

Table 10
Total debt of government 1)

2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	R million
388 300	428 593	457 780	467 864	478 265	527 751	700 532	Domestic debt
359 700	394 143	417 380	422 064	426 415	462 751	585 992	Marketable
28 600	34 450	40 400	45 800	51 850	65 000	114 540	Government bonds
—	—	—	—	—	—	—	Treasury bills
1 999	3 498	3 699	3 238	2 555	1 956	4 943	Bridging bonds
390 299	432 091	461 479	471 102	480 821	529 707	705 475	3) Non-marketable
-12 669	-30 870	-58 187	-75 315	-93 809	-101 349	-106 550	Gross loan debt
377 630	401 221	403 292	395 787	387 012	428 358	598 925	4) Cash balances
							Net loan debt
64 670	69 405	66 846	82 581	96 218	97 268	99 454	Foreign debt
—	—	—	—	—	—	-25 339	5) Gross loan debt
64 670	69 405	66 846	82 581	96 218	97 268	74 115	4) Cash balances
							Net loan debt
454 969	501 496	528 325	553 683	577 039	626 975	804 929	Gross loan debt
442 300	470 626	470 138	478 368	483 230	525 626	673 040	Net loan debt
18 036	5 292	-1 751	-28 514	-72 189	-101 585	-35 618	6) Gold and Foreign Exchange Contingency Reserve Account
85.3%	85.5%	86.6%	84.5%	82.9%	84.2%	87.0%	Composition of gross debt (excluding deduction of cash balances)
79.1%	78.6%	79.0%	76.2%	73.9%	73.8%	72.8%	Marketable domestic debt
6.3%	6.9%	7.6%	8.3%	9.0%	10.4%	14.2%	Government bonds
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Treasury bills
0.4%	0.7%	0.7%	0.6%	0.4%	0.3%	0.6%	Bridging bonds
							3) Non-marketable domestic debt
85.8%	86.2%	87.3%	85.1%	83.3%	84.5%	87.6%	Domestic debt
14.2%	13.8%	12.7%	14.9%	16.7%	15.5%	12.4%	5) Foreign debt
28.7%	28.6%	27.4%	24.7%	22.1%	22.0%	27.7%	Total as percentage of GDP
27.8%	26.6%	24.0%	20.7%	17.8%	17.8%	23.5%	Gross domestic debt
4.8%	4.6%	4.0%	4.3%	4.4%	4.0%	3.9%	Net domestic debt
4.8%	4.6%	4.0%	4.3%	4.4%	4.0%	2.9%	Gross foreign debt
33.5%	33.2%	31.4%	29.0%	26.6%	26.0%	31.5%	Net foreign debt
32.6%	31.2%	27.9%	25.0%	22.3%	21.8%	26.4%	Gross loan debt
							Net loan debt

5) Valued at appropriate foreign exchange rates up to 31 March 2020 as at the end of each period. Forward estimates are based on exchange rates prevailing at 31 January 2021, projected to depreciate in line with inflation differentials.

6) The balance on the Gold and Foreign Exchange Contingency Reserve Account on 31 March 2021 represents an estimated balance on the account. No provision for any profits or losses on this account has been made for subsequent years. A negative balance indicates a profit and a positive balance a loss.

Table 10
Total debt of government 1)

		2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
R million								
Domestic debt								
Marketable		869 588	1 045 415	1 210 834	1 409 718	1 601 499	1 782 042	1 981 627
<i>Government bonds</i>		733 438	890 256	1 038 849	1 217 512	1 399 282	1 572 574	1 731 657
<i>Treasury bills</i>		136 150	155 159	171 985	192 206	202 217	209 468	249 970
<i>Bridging bonds</i>		—	—	—	—	—	—	—
Non-marketable	3)	23 133	25 524	30 300	31 381	30 586	37 322	38 508
Gross loan debt		892 721	1 070 939	1 241 134	1 441 099	1 632 085	1 819 364	2 020 135
Cash balances	4)	-111 413	-130 450	-103 774	-120 807	-120 304	-112 250	-110 262
Net loan debt		781 308	940 489	1 137 360	1 320 292	1 511 781	1 707 114	1 909 873
Foreign debt								
Gross loan debt	5)	97 851	116 851	124 555	143 659	166 830	199 607	212 754
Cash balances	4)	-58 750	-67 609	-80 308	-84 497	-94 404	-102 083	-114 353
Net loan debt		39 101	49 242	44 247	59 162	72 426	97 524	98 401
Gross loan debt		990 572	1 187 790	1 365 689	1 584 758	1 798 915	2 018 971	2 232 889
Net loan debt		820 409	989 731	1 181 607	1 379 454	1 584 207	1 804 638	2 008 274
Gold and Foreign Exchange Contingency Reserve Account	6)	-28 283	-67 655	-125 552	-177 913	-203 396	-304 653	-231 158
Composition of gross debt (excluding deduction of cash balances)								
Marketable domestic debt		87.8%	88.0%	88.7%	89.0%	89.0%	88.3%	88.7%
<i>Government bonds</i>		74.0%	75.0%	76.1%	76.8%	77.8%	77.9%	77.6%
<i>Treasury bills</i>		13.7%	13.1%	12.6%	12.1%	11.2%	10.4%	11.2%
<i>Bridging bonds</i>		0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Non-marketable domestic debt	3)	2.3%	2.1%	2.2%	2.0%	1.7%	1.8%	1.7%
Domestic debt		90.1%	90.2%	90.9%	90.9%	90.7%	90.1%	90.5%
Foreign debt	5)	9.9%	9.8%	9.1%	9.1%	9.3%	9.9%	9.5%
Total as percentage of GDP								
Gross domestic debt		31.6%	34.8%	37.4%	39.9%	42.2%	44.1%	45.7%
Net domestic debt		27.7%	30.6%	34.3%	36.5%	39.1%	41.4%	43.2%
Gross foreign debt		3.5%	3.8%	3.8%	4.0%	4.3%	4.8%	4.8%
Net foreign debt		1.4%	1.6%	1.3%	1.6%	1.9%	2.4%	2.2%
Gross loan debt		35.1%	38.6%	41.1%	43.8%	46.5%	48.9%	50.5%
Net loan debt		29.0%	32.2%	35.6%	38.2%	41.0%	43.8%	45.4%

1) Debt of the central government, excluding extra-budgetary institutions and social security funds.

2) As projected at the end of January 2021.

3) Includes non-marketable Treasury bills, retail bonds, loan levies, former regional authorities and Namibian loans.

4) Bank balances of the National Revenue Fund (balances of government's accounts with the Reserve Bank and commercial banks).

Bank balances in foreign currencies are revaluated using forward estimates of exchange rates.

Source: National Treasury and Reserve Bank

Table 10
Total debt of government 1)

2017/18	2018/19	2019/20	2020/21 ²⁾	2021/22	2022/23	2023/24	R million
2 242 894	2 467 758	2 834 638	3 513 088	3 900 666	4 306 308	4 691 730	Domestic debt
1 949 573	2 160 398	2 501 278	3 055 189	3 433 767	3 787 409	4 116 831	Marketable
293 321	307 360	333 360	457 899	466 899	518 899	574 899	Government bonds
—	—	—	—	—	—	—	Treasury bills
29 013	29 228	39 479	16 045	16 045	16 045	16 045	Bridging bonds
2 271 907	2 496 986	2 874 117	3 529 133	3 916 711	4 322 353	4 707 775	3) Non-marketable
-123 241	-120 575	-111 693	-175 509	-60 815	-50 000	-50 000	4) Gross loan debt
2 148 666	2 376 411	2 762 424	3 353 624	3 855 896	4 272 353	4 657 775	Cash balances
							Net loan debt
217 811	291 314	387 225	420 603	466 072	497 627	526 695	Foreign debt
-106 110	-122 542	-151 879	-116 510	-119 474	-112 094	-92 867	5) Gross loan debt
111 701	168 772	235 346	304 093	346 598	385 533	433 828	4) Cash balances
							Net loan debt
2 489 718	2 788 300	3 261 342	3 949 736	4 382 783	4 819 980	5 234 470	Gross loan debt
2 260 367	2 545 183	2 997 770	3 657 717	4 202 494	4 657 886	5 091 603	Net loan debt
-193 917	-285 829	-436 062	-332 596	-332 596	-332 596	-332 596	6) Gold and Foreign Exchange Contingency Reserve Account
90.1%	88.5%	86.9%	88.9%	89.0%	89.3%	89.6%	Composition of gross debt (excluding deduction of cash balances)
78.3%	77.5%	76.7%	77.4%	78.3%	78.6%	78.6%	Marketable domestic debt
11.8%	11.0%	10.2%	11.6%	10.7%	10.8%	11.0%	Government bonds
0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	Treasury bills
1.2%	1.0%	1.2%	0.4%	0.4%	0.3%	0.3%	Bridging bonds
							3) Non-marketable domestic debt
91.3%	89.6%	88.1%	89.4%	89.4%	89.7%	89.9%	Domestic debt
8.7%	10.4%	11.9%	10.6%	10.6%	10.3%	10.1%	5) Foreign debt
48.4%	50.7%	55.8%	71.7%	73.2%	76.3%	78.5%	Total as percentage of GDP
45.7%	48.3%	53.7%	68.1%	72.0%	75.4%	77.7%	Gross domestic debt
4.6%	5.9%	7.5%	8.5%	8.7%	8.8%	8.8%	Net domestic debt
2.4%	3.4%	4.6%	6.2%	6.5%	6.8%	7.2%	Gross foreign debt
53.0%	56.6%	63.3%	80.3%	81.9%	85.1%	87.3%	Net foreign debt
48.1%	51.7%	58.2%	74.3%	78.5%	82.2%	84.9%	Gross loan debt
							Net loan debt

5) Valued at appropriate foreign exchange rates up to 31 March 2020 as at the end of each period. Forward estimates are based on exchange rates prevailing at 31 January 2021, projected to depreciate in line with inflation differentials.

6) The balance on the Gold and Foreign Exchange Contingency Reserve Account on 31 March 2021 represents an estimated balance on the account. No provision for any profits or losses on this account has been made for subsequent years. A negative balance indicates a profit and a positive balance a loss.

Table 11
Net loan debt, provisions and contingent liabilities 1)

		2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
R million								
Net loan debt	2)	820 409	989 731	1 181 607	1 379 454	1 584 207	1 804 638	2 008 274
Provisions	3)	73 693	98 593	116 231	134 045	160 383	217 960	210 974
African Development Bank		7 492	27 300	32 725	38 063	43 811	54 766	49 344
Development Bank of Southern Africa		4 800	4 800	4 800	4 800	20 000	20 000	20 000
Government employee leave credits		10 815	11 266	12 316	12 924	13 030	13 454	14 137
International Bank for Reconstruction and Development		10 360	11 703	15 935	19 407	23 579	29 028	26 527
International Monetary Fund		40 127	43 412	50 321	58 697	59 786	91 658	79 535
Multilateral Investment Guarantee Agency		99	112	134	154	177	215	193
New Development Bank		–	–	–	–	–	8 839	21 238
Contingent liabilities		301 789	342 484	433 047	490 503	575 317	601 380	664 197
Guarantees	4)	160 043	164 338	224 768	288 041	327 169	380 136	426 234
Agricultural cooperatives		94	94	93	93	93	93	93
Central Energy Fund		–	–	–	–	–	–	–
Denel		1 850	1 850	1 850	1 850	1 850	1 850	1 850
Development Bank of Southern Africa		25 713	25 554	25 497	25 635	4 030	4 258	3 993
Eskom	5)	67 057	77 230	103 523	125 125	149 944	174 586	202 825
Former regional authorities		154	138	124	112	105	98	93
Guarantee scheme for housing loans to employees		104	64	46	26	13	10	8
Guarantee scheme for motor vehicles – senior officials		3	2	1	1	1	1	–
Industrial Development Corporation of South Africa		740	646	575	504	344	243	138
Independent power producers		–	–	34 356	68 345	96 159	113 971	125 766
Irrigation boards		44	48	46	44	44	39	38
Kalahari East Water Board		16	15	6	–	–	–	–
Komati Basin Water Authority		1 340	1 247	1 190	1 148	986	889	785
Land Bank		1 750	1 000	800	1 004	2 005	5 211	3 712
Lesotho Highlands Development Authority		227	171	132	113	82	62	30
Nuclear Energy Corporation of South Africa		20	20	20	20	20	20	20
Passenger Rail Agency of South Africa		468	264	133	92	48	2	–
Public-private partnerships		10 443	10 414	10 172	10 127	10 107	10 337	10 049
South African Airways		1 916	1 300	2 238	5 010	8 419	14 394	17 819
South African Broadcasting Corporation		1 000	889	167	–	–	–	–
South African Express		–	–	–	539	539	539	827
South African National Roads Agency Limited		18 605	19 426	19 482	23 866	27 445	27 204	29 458
South African Post Office		–	–	–	–	270	1 270	3 979
Reserve Bank		–	–	–	–	–	–	–
Telkom South Africa		90	85	90	111	100	128	108
Trans-Caledon Tunnel Authority		18 489	19 886	20 460	20 516	20 807	21 173	20 886
Transnet		9 887	3 975	3 757	3 757	3 757	3 757	3 757
Universities and technikons		33	20	10	3	1	1	–
Other contingent liabilities	6)	141 746	178 146	208 279	202 462	248 148	221 244	237 963
Claims against government departments		31 310	42 969	43 628	45 131	48 726	30 601	29 481
Export Credit Insurance Corporation of SA Limited		9 614	10 025	12 482	13 780	15 308	16 395	14 015
Government Employees Pension Fund		–	–	–	–	–	–	–
Post-retirement medical assistance		65 348	65 348	65 348	69 938	69 938	69 938	69 938
Road Accident Fund		33 547	53 919	82 838	69 435	109 298	99 152	119 830
Other		1 927	5 885	3 983	4 178	4 878	5 158	4 699

1) Medium-term forecasts of some figures are not available and are kept constant.

2) Debt of the central government, excluding extra-budgetary institutions and social security funds.

3) Provisions are liabilities for which the payment date or amount is uncertain. The provisions for multilateral institutions are the unpaid portion of government's subscription to these institutions, payable on request.

Source: National Treasury

Table 11
Net loan debt, provisions and contingent liabilities ¹⁾

2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	R million
2 260 367	2 545 183	2 997 770	3 657 717	4 202 494	4 657 886	5 091 603	2) Net loan debt
211 480	260 682	341 883	381 585	406 128	406 610	411 676	3) Provisions
44 119	53 855	66 509	56 840	57 324	57 398	58 179	African Development Bank
20 000	20 000	20 000	20 000	20 000	20 000	20 000	Development Bank of Southern Africa
13 606	13 474	14 137	14 137	14 137	14 137	14 137	Government employee leave credits
23 993	29 287	36 169	30 127	30 383	30 423	30 836	International Bank for Reconstruction and Development
76 358	85 908	111 774	159 344	160 699	160 907	163 096	International Monetary Fund
173	211	261	223	225	225	228	Multilateral Investment Guarantee Agency
33 231	57 947	93 033	100 914	123 360	123 520	125 200	New Development Bank
723 400	828 703	1 056 174	1 105 299	1 094 649	1 155 956	1 234 209	Contingent liabilities
459 107	525 568	583 808	595 030	535 820	551 728	565 725	4) Guarantees
93	93	93	93	93	93	93	Agricultural cooperatives
–	–	–	–	–	–	–	Central Energy Fund
2 430	3 430	4 430	3 430	3 430	3 430	3 430	Denel
3 975	4 256	4 653	4 688	4 738	4 803	4 863	Development Bank of Southern Africa
250 648	285 587	326 868	316 871	312 100	300 103	321 130	5) Eskom
84	77	75	51	46	46	41	Former regional authorities
6	6	6	6	6	5	5	Guarantee scheme for housing loans to employees
–	–	–	–	–	–	–	Guarantee scheme for motor vehicles – senior officials
137	147	170	164	156	151	146	Industrial Development Corporation of South Africa
122 188	146 892	161 427	176 684	165 695	151 034	137 462	Independent power producers
37	36	36	34	32	32	30	Irrigation boards
–	–	–	–	–	–	–	Kalahari East Water Board
619	518	400	426	426	426	426	Komati Basin Water Authority
3 813	965	2 484	2 483	2 483	2 483	2 483	Land Bank
3	–	–	–	–	–	–	Lesotho Highlands Development Authority
20	20	20	20	20	20	20	Nuclear Energy Corporation of South Africa
–	–	–	–	–	–	–	Passenger Rail Agency of South Africa
9 580	10 464	8 654	8 001	8 089	7 495	5 152	Public-private partnerships
11 059	15 269	17 867	6 180	2 380	880	880	South African Airways
–	–	–	–	–	–	–	South African Broadcasting Corporation
867	163	163	11	–	–	–	South African Express
30 368	39 462	38 998	45 268	46 788	53 406	59 135	South African National Roads Agency Limited
400	–	–	–	–	–	–	South African Post Office
–	–	–	13 314	–	–	–	Reserve Bank
111	124	149	146	145	147	148	Telkom South Africa
18 912	14 302	13 558	13 356	20 763	23 370	26 477	Trans-Caledon Tunnel Authority
3 757	3 757	3 757	3 804	3 804	3 804	3 804	Transnet
–	–	–	–	–	–	–	Universities and technikons
264 293	303 135	472 366	510 269	558 829	604 228	668 484	6) Other contingent liabilities
31 807	32 945	41 374	41 374	41 374	41 374	41 374	Claims against government departments
18 192	20 454	20 451	15 645	13 808	14 571	18 719	Export Credit Insurance Corporation of SA Limited
–	–	–	–	–	–	–	Government Employees Pension Fund
69 938	69 938	69 938	69 938	69 938	69 938	69 938	Post-retirement medical assistance
139 204	173 559	332 242	374 951	425 348	469 984	530 092	Road Accident Fund
5 152	6 239	8 361	8 361	8 361	8 361	8 361	Other

4) Amounts drawn against financial guarantees, inclusive of revaluation adjustments on inflation-linked bonds and accrued interest. Numbers prior to 2018/19 exclude revaluation adjustment on inflation-linked bonds.

5) These estimates are based on Eskom's current structure.

6) Other contingent liabilities as disclosed in the consolidated financial statements of departments published annually by the National Treasury.

