



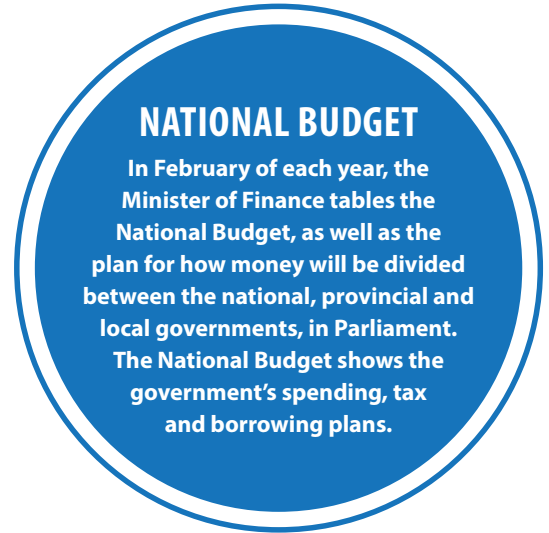
THE PEOPLE'S ADJUSTED BUDGET 2018/19

WHAT IS THE ADJUSTED BUDGET?

Six months after the beginning of the financial year, an Adjusted Budget is tabled which shows how government is planning to change its spending plans to deal with any unexpected circumstances. Unused funds, including the money from its rainy day fund and money which departments do not think that they are going to spend, are moved or removed through the Adjusted Budget.

WHY THE ADJUSTED BUDGET MATTERS

The Adjusted Budget changes the National Budget passed by Parliament earlier in the financial year. It changes the amounts of money allocated to each department and programme. Some get more, some get less. It is important to ask whether these changes in the departments' budgets could affect their ability to provide goods and services to the public.



ADJUSTMENTS TO VOTE APPROPRIATIONS ARE AS FOLLOWS:

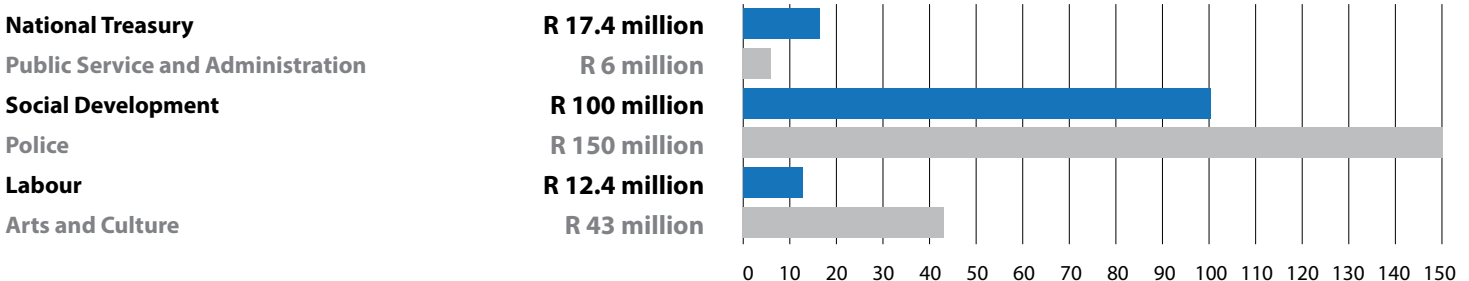
| | 2018/19 | 2017/18 |
|---|--------------------------|--------------------------|
| Unforeseeable and unavoidable expenditure | R 668.6 million | R 586.0 million |
| Expenditure in terms of section 16 of the PFMA | - | R 5 207.9 million |
| Expenditure earmarked in Budget speech for future allocation | R 9 687.9 million | R 8 609.1 million |
| Roll-overs | R 258.0 million | R 216.9 million |
| Self-financing expenditure | R 1 777.5 million | R 1 546.8 million |
| Declared unspent funds (reductions to vote allocations) | (R 328.8 million) | (R 1 668.0 million) |
| TOTAL | R12 063.2 million | R14 498.7 million |

ADJUSTMENTS TO ESTIMATES OF DIRECT CHARGES AGAINST THE NATIONAL REVENUE FUND AMOUNTS WERE LESS THAN ANTICIPATED AT THE TIME OF THE MAIN BUDGET. THIS IS MADE UP OF:

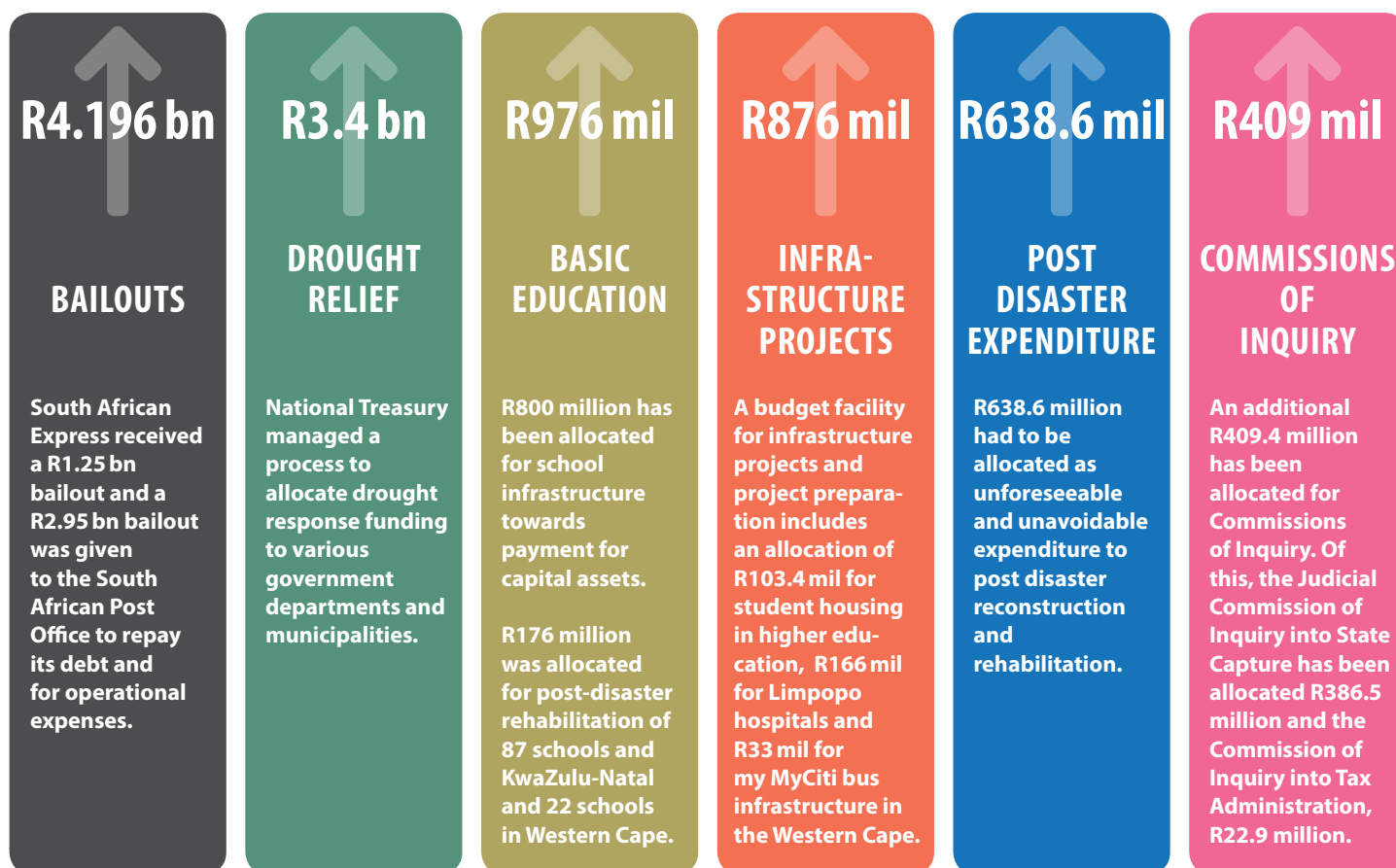
| | | |
|--|-------------------------|--------------------------|
| Debt-service costs | R 975.0 million | R 994.8 million |
| National Revenue Fund payments | R 14.9 million | (R 137.6 million) |
| Skills levy and sector education and training authorities | R 382.8 million | (R 870.9 million) |
| Magistrates' salaries | | (R 100.0 million) |
| TOTAL | R1 372.7 million | R113.7 million |

DECLARED UNSPENT FUNDS:

R328.8 million



SIX NOTABLE CHANGES IN THE ADJUSTED BUDGET



FINANCIAL YEAR: The South African government's financial year runs for the 1st of April to the 31st of March the next year.

SPECIAL FOCUS ON STATE OWNED COMPANIES

Some of the major risks that National Treasury is flagging are associated with State-Owned Companies. These risks are specifically related to the quality and quantity of state-owned companies' guarantee exposures and State-owned company debt obligations. The implication of a guarantee is that if the state-owned enterprise is not able to settle its loan by the date

it is due, then the creditors have recourse against the National Revenue Fund, which supersedes the payments relating to other government expenditure, including social grants, for example.

An examination of the mid-year performance in relation to the Oversight of State Owned Entities by the Departments which are their shareholders show that oversight is proving challenging.

 SOUTH AFRICAN AIRWAYS

R5 billion

is tabled in the Special Appropriation Bill 2018 for the recapitalisation of the South African Airways SOC Limited to settle debts due.

 SOUTH AFRICAN POST OFFICE

R2.947 billion

for the South African Post Office to defray debt and fund operational requirements.

 SOUTH AFRICAN EXPRESS AIRWAYS

R1.249 billion

has been allocated for South African Express Airways. However, at the same time, South African Express Airways shareholder compact was not finalised, which affected the finalisation of its corporate plan. The entity's first quarter financial review was not finalised due to the grounding of the airline in May 2018.

IMPORTANT CHANGES IN SERVICE DELIVERY DEPARTMENTS

These changes are shifts between items in departmental budgets and mostly do not result in an increase or decrease of the relevant department's budget.



EDUCATION

National Department of Basic Education received an in-year adjustment of R 997.1 million; from R 22.7 billion to R 23.7 billion.

R 68 million in virements were effected within programmes with the highest; R 47 million from the Curriculum, Policy, Support and Monitoring (Programme 2) to various programmes.

R 6 million was moved from Programme 2 towards paying staff to effect a Section 100 intervention in the North West province. This section of the Constitution provides for a national department to place a provincial department under administration under certain conditions such as when a department fails to deliver on its mandate.

R 175.8 million was allocated to schools in KwaZulu-Natal (87) and the Western Cape (22), increasing the Education Infrastructure Grant from R 9.9 billion to R 10.1 billion.



HEALTH

National Department of Health received an overall upward in-year adjustment of R365.5 million to its budget from R 47.1 billion to R 47.5 billion for the 2018/19 financial year.

Notably, R 546 million has been re-allocated from within the National Health Insurance indirect grant and has been put towards hiring specialists, doctors, nurses and other critical health personnel within this financial year, as well as to buy beds and linen for hospital and clinic upgrades.

The Health Facility Revitalisation Grant has been adjusted from R 5.8 billion to R6.05 billion.

The National Health Insurance Indirect Grant was adjusted upwards from R 2.30 billion to R 2.45 billion.

It is important to note that the ongoing protests at the National Department of health during the financial year have affected the procurement of consumables and the contracting of service providers for maintenance of equipment.



SOCIAL DEVELOPMENT

R100 million was declared unspent against Social Assistance on the child support grant.

R2.199 million in unforeseeable expenditure had to be made on post-disaster reconstruction and rehabilitation of three South Africa Social Security Agency buildings in the eThekweni municipality.



WATER AND SANITATION

R450 million in virements were made within programmes in the Water and Sanitation department; **R 5.9 million of which was made to the Bucket Eradication programme.**

SNAILS AND SPRINGBOKS

Which departments are spending slower or faster than last year?

The tables below show what share of their budget departments have spent in the first halves of this year and last year. While there may be good reasons for slow or fast spending, these Snails and Springboks provide an indication of where departments might run the risk of under- or overspending.

NATIONAL DEPARTMENTS

NATIONAL SNAILS

| | 2018/19 | 2017/18 |
|---|--------------|--------------|
| National Treasury | 37.5% | 41.2% |
| Planning, Monitoring and Evaluation | 40.6% | 49.8% |
| Independent Police Investigative Directorate | 43.5% | 54.1% |
| Office of the Chief Justice and Judicial Administration | 41.8% | 47.9% |
| Energy | 42.6% | 54.0% |
| Telecommunications and Postal Services | 13.9% | 14.2% |
| Trade and Industry | 35.8% | 40.6% |
| Transport | 37.0% | 46.2% |

NATIONAL SPRINGBOKS

| | | |
|-------------------------------|--------------|--------------|
| Basic Education | 57.3% | 54.9% |
| Higher Education and Training | 72.9% | 73.3% |
| Science and Technology | 57.8% | 42.1% |
| Tourism | 64.4% | 55.2% |

PROVINCIAL DEPARTMENTS in the first five months: April to August

PROVINCIAL SNAILS

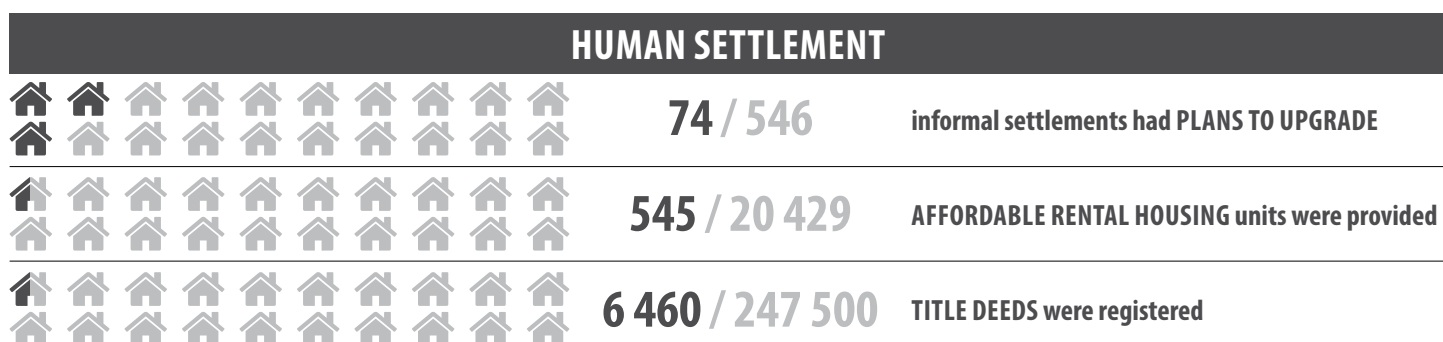
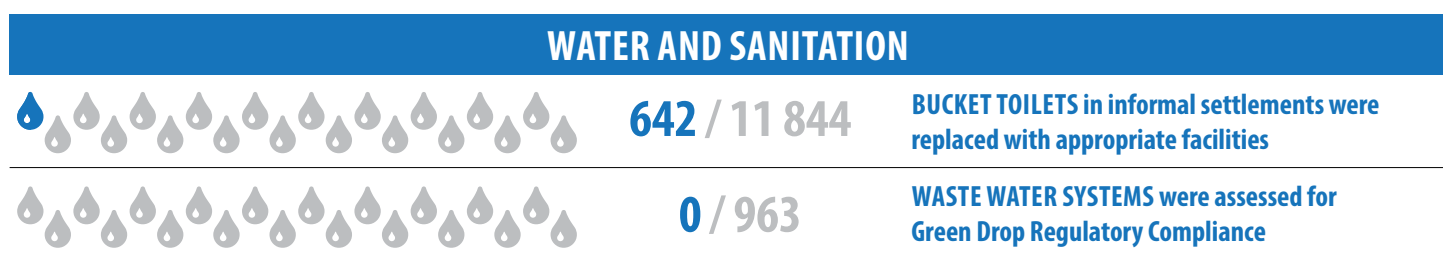
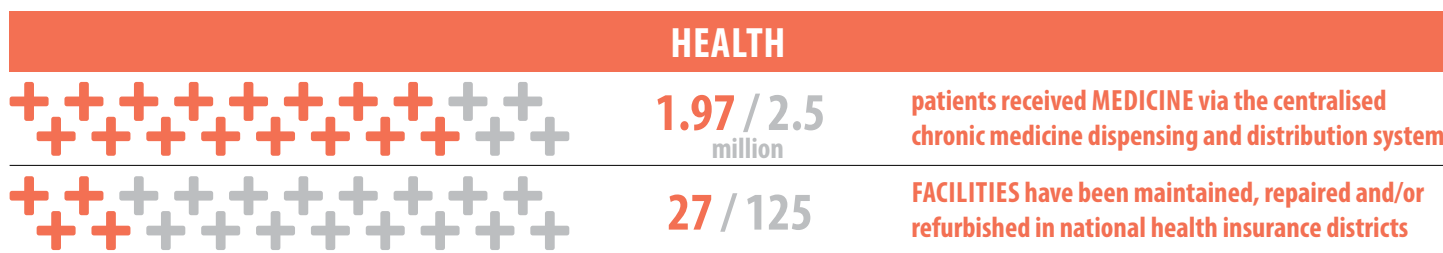
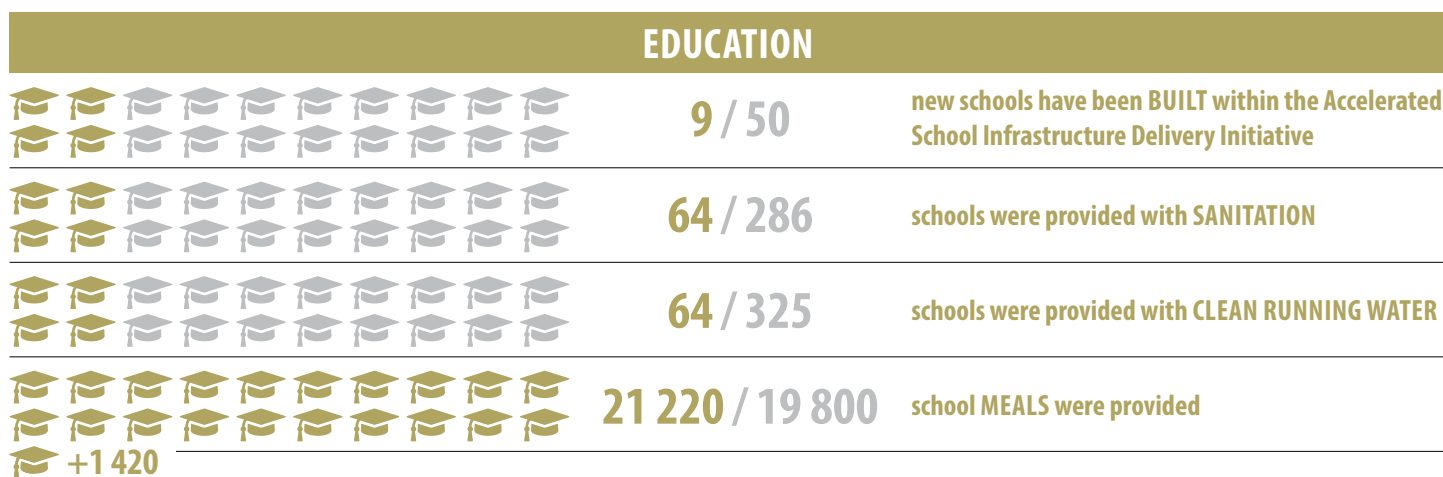
| | 2018/19 | 2017/18 |
|---------------------------------------|--------------|--------------|
| Eastern Cape Other Departments | 37.5% | 41.7% |
| Gauteng Health | 42.9% | 45.7% |
| Gauteng Social Development | 34.6% | 39.8% |
| North West Health | 39.3% | 42.9% |
| Gauteng Education | 40.7% | 42.5% |

PROVINCIAL SPRINGBOKS

| | | |
|---|--------------|--------------|
| KwaZulu-Natal Social Development | 39.7% | 35.6% |
| Limpopo Social Development | 39.6% | 35.8% |
| Northern Cape Health | 44.1% | 40.9% |
| Northern Cape Other Departments | 39.0% | 35.4% |

SERVICE DELIVERY PERFORMANCE TO DATE

Half way through the financial year, this is how key pro-poor departments are tracking with their delivery against performance targets.



DISASTER RECOVERY AND DROUGHT RELIEF

A TOTAL OF
R3.4 BILLION
HAS BEEN ALLOCATED
TOWARDS DEALING WITH
DISASTER RECOVERY AND
DROUGHT RELIEF

R1.38 BILLION

The Department of Cooperative Governance and Traditional Affairs received an overall upward in-year adjustment of R1.38 billion from R83.65 billion to R85.03 billion.

R1.226 BILLION was allocated for immediate disaster relief, and drought relief initiatives in various provinces and municipalities. These funds had been earmarked in the 2018 Budget speech for future allocation.

MUNICIPAL DISASTER RECOVERY GRANT

R1.16 BILLION

This grant received an overall upward in-year adjustment of R1.16 billion from R21.31 million to 1.19 billion.

Information provided on specific allocations as tabled in the Division of Revenue Amendment Bill Annexure 5:

| | |
|---------------------------|------------------------|
| Nelson Mandela Bay | R233.40 million |
| Mangaung | R239.03 million |
| eThekwini | R100.84 million |
| Ugu District Municipality | R37.89 million |
| City of Cape Town | R553.05 million |
| Bitou | R4.58 million |

PROVINCIAL DISASTER RECOVERY GRANT

R16 MILLION was allocated to this grant but this did not form part of the Division of Revenue Act 2018 and is being gazetted in-year for the 2018/19 financial year.

The purpose of the grant is to address the provincial buildings damaged by heavy storms and floods in KwaZulu-Natal.

R11.3 million was allocated to repair the provincial department of CoGTA buildings

R5 million was allocated to repair the provincial department of Social Development buildings

THE PEOPLE'S ADJUSTED BUDGET 2018/19



By law, government is only allowed to make the following types of changes to its spending plans in the Adjusted Budget:

- **Roll-overs:** Money can be moved from the previous to the current financial year when an activity which was supposed to be finished in the previous financial year can only be completed in the current financial year.
- **Appropriation of expenditure earmarked in the budget speech for future allocation:** In certain instances, an amount to be allocated for a specific purpose will be announced by the Minister of Finance when the budget is tabled, with the details of the annual allocations to be decided later. This is usually when plans have not been finalised in time to decide on the specific allocation amounts for the budget.
- **Unforeseeable and unavoidable expenditure:** This is spending that government did not expect was going to be necessary when the National Budget was tabled, for example spending to deal with destruction resulting from a natural disaster.
- **Function Shifts:** This is when specific government functions are moved from one department to another or from one programme to another. The money to fund these functions is then shifted to the new department.
- **Unappropriated funds:** In terms of Section 16 of the PFMA, the Minister of Finance may approve the use of unappropriated funds if it is for spending of an exceptional nature. This happens if postponing the spending to a future parliamentary appropriation would seriously prejudice the public interest. The Minister of Finance must subsequently provide a report to Parliament and to the Auditor-General. This is sometimes also referred to as unallocated amounts.
- **Adjustments due to significant and unforeseeable economic and financial events:** Changes to the budget are sometimes necessary when unforeseeable economic and financial events affect the revenue and spending plans set out in the National Budget. An example is when inflation is higher than expected and departments find that they have to pay more than expected for goods and services.
- **Emergencies:** The Minister of Finance can approve the use of funds to deal with an emergency situation.
- **Self-financing expenditure:** If a department earns income from its activities, this money is paid into the National Revenue Fund. Such funds may be sent back to the department.
- **Declared unspent funds:** Departments can indicate that they will not spend a specific part of their budget as planned. These funds are returned to the National Revenue Fund.
- **Direct charges against the National Revenue Fund:** Certain additional expenditure does not need to be approved by Parliament, for example spending on state debt costs.
- **Any Gifts, donations and sponsorships of more than R100 000** by a Department have to be included in the Adjusted Budget.
- **Payments for financial assets:** This item includes lending to public corporations or making equity investments in them for policy purposes. The reason for expensing this payment rather than treating it as financing is that, unlike other financial transactions, the purpose of the transaction is not market oriented.
- **Virements and shifts within votes:**
 - » **Virements:** The use of unspent funds from amounts appropriated under one main division (programme) to defray excess expenditure under another main division (programme) within the same vote. Section 43 of the PFMA, Section 5 of the Appropriation Act 4 of 2018 and Treasury Regulation 6.3 set the parameters within which virements may take place. Funds vired from a programme may not exceed 8 per cent of the total amount appropriated, in the main appropriation as well as in any other subsequent adjustment/ special appropriations, for a programme for the 2018/19 financial year.
 - » **Shifts:** The use of unspent funds to defray increased expenditure within a main division (programme) of a vote by shifting funds between the different segments (sub-programme and economic classification) of the main division (programme). Shifts may include the reallocation of funds incorrectly allocated in the 2018 ENE process. Section 43 of the PFMA, Section 5 of the Appropriation Act 4 of 2018 and Treasury Regulation 6.3 set the parameters within which shifts may take place. Departments require approval before a virement or shift can take place from either their own Accounting Officer, the National Treasury, or from Parliament. The level of approval depends on the nature of the virement or shift.

For more information on the People's Adjusted Budget, please contact

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 **HEINRICH BÖLL STIFTUNG**
SOUTHERN AFRICA



With thanks to National Treasury's Budget Office for technical advice.

An electronic version of The People's Adjusted Budget 2018/19

is available for download from www.vulekmamali.gov.za.

You can also share your own analyses and budget data sets and access a range of national and provincial data.

Engaging Parliament (www.parliament.gov.za)

If you would like to comment on the 2018/19 Adjusted Budget, you can write to:

Ms Zandile Hulley, the Secretary of the Standing Committee on Appropriations (zhulley@parliament.gov.za) or

Mr Lubabalo Nodada, the Secretary of the Select Committee on Appropriations (Lnodada@parliament.gov.za).