

2019 Appropriation Bill

Select Committees on Appropriations

Presented by Dondo Mogajane: DG National Treasury

24 July 2019



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2019 Appropriation Bill

- The Money Bills Amendment Procedure and Related Matters Amendment Act, 2018 requires that after the tabling of a national budget:
 - Section 8(3) – Committees on finance must within 16 days or as soon as reasonably possible thereafter, submit a report to the National Assembly and the National Council of Provinces on the fiscal framework and revenue proposals
 - Section 9(3) – The Division of Revenue Bill (DORA) must be passed within 35 days after the adoption of the fiscal framework by Parliament, or as soon as reasonably possible thereafter
 - Section 10(7) – Parliament must pass the Appropriation Bill with or without amendments, within four months after the start of the financial year, namely 31 July 2019

2019 Appropriation Bill

- The Appropriation Bill is the legislation that provides for the appropriation of money by Parliament from the National Revenue Fund in terms of section 213 of the Constitution, 1996 and section 26 of the Public Finance Management Act (PFMA), 1999
- Spending is subject to the PFMA and the provisions of the Appropriation Bill itself
- For transfers to sub-national government, the 2019 Division of Revenue Bill also contains provisions in terms of which specific spending must take place
- The committees on appropriations may not consider amendments to the Appropriation Bill prior to the passing of the Division of Revenue Bill
- Any amendment to the Appropriation Bill must be consistent with the adopted fiscal framework and Division of Revenue Bill passed by Parliament.
- The Appropriation Bill was tabled in Parliament at the time of the Budget – 20 February 2019

2019 Appropriation Bill

- Appropriation Bill, 2019 lapsed on the last day of sitting of the National Assembly prior to the national elections
- The National Assembly revived the Bill on 27 June 2019
- Prior to the 2019 Appropriation Bill being promulgated, departments will incur expenditure in terms of section 29 of the PFMA, which makes provision for spending before an annual budget is passed:
 - Up to end July, expenditure may not exceed 45 per cent of the 2018/19 financial year annual budget
- Promulgation of the 2019 Appropriation Act is necessary:
 - To allow for monthly expenditure above the transitional provisions contained in the PFMA
 - To ensure expenditure in accordance with the vote and programme purposes as stated in the Act

2019 Appropriation Bill

A report of the Committee on Appropriations to the House that proposes amendments to the main Appropriation Bill must, in respect of each amendment—

- Indicate the reason for such proposed amendment;
- Demonstrate how the amendment takes into account the broad strategic priorities and allocations of the relevant budget;
- Demonstrate the implications of each proposed amendment for an affected vote and the main divisions within that vote;
- Demonstrate the impact of any proposed amendment on the balance between transfer payments, capital and recurrent spending in an affected vote;
- Set out the impact of any proposed amendment on service delivery; and
- Set out the manner in which the amendment relates to prevailing departmental strategic plans, reports of the Auditor General, committee reports adopted by
- a House, reports in terms of section 32 of the Public Finance Management Act, annual reports and any other information submitted to a House or committee in terms of the standing rules or

Structure of the Bill

- The Bill is divided by vote and by main division within a vote (i.e. by programme and / or transfer and subsidy to a national department within a vote)
- A purpose is set out for each vote, programme and transfer and subsidy to a national department within a vote
- Allocations are categorised in terms of:
 - Current payments
 - Compensation of employees
 - Goods and services
 - Interest and rent on land
 - Transfers and subsidies
 - Payments for capital assets
 - Payments for financial assets
- Allocations marked with a single asterisk refer to specifically and exclusively appropriated allocations, including, but not limited to:
 - all vote and national departments compensation of employees appropriations;

Estimates of National Expenditure (ENE) publications

- The abridged ENE publication is the explanatory memorandum to the Appropriation Bill
 - A set of more detailed e-publications on each vote are also available online at www.treasury.gov.za
 - The ENE publications contain information on:
 - what institutions aim to achieve over the MTEF, and why;
 - how institutions plan to spend their budget allocations in support of this; and what outputs and outcomes the spending is intended to produce;
 - how institutions have spent their budgets in previous years;
 - performance data and targets;
 - detailed expenditure trends and estimates by programme, subprogramme, significant spending item and economic classification for each department and selected entities;
 - the institution's mandate, purpose (and that of its programmes), together with programme-level objectives and descriptions of subprogrammes;
 - infrastructure spending;
 - personnel spending;
 - provincial and municipal conditional grants;
 - departmental public private partnerships;
 - donor funding; and
- expenditure at the level of site service delivery, where applicable.

Background

The 2019 Budget outlines a series of economic and fiscal measures intended to move the economy onto a new trajectory and reduce the long-term risks

Government's central economic policy goal is to accelerate inclusive growth and create jobs

Its main fiscal objective is to ensure sustainable finances by containing the budget deficit and stabilising public debt

This budget confronts a difficult environment in which economic growth remains weak, public debt and debt-service costs have accelerated, and governance and operational concerns are manifest across the public sector

Weak economic performance and residual problems in tax administration have resulted in large revenue shortfalls. The deteriorating financial position of state-owned companies has put additional pressure on the public finances

In light of these considerations, the 2019 Budget priorities are to:

- Narrow the budget deficit and stabilise the national debt-to-GDP ratio
- Support restructuring of the electricity sector, and reduce the immediate risks Eskom poses to the economy and the public finances
- Renew economic growth by strengthening private-sector investment, improving the planning and implementation of infrastructure projects, and rebuilding state institutions

Background

- **Expenditure reprioritisation**
 - Baseline reductions of R50.3 billion over the next three years, with about half of this amount relating to compensation
 - These reductions are offset by provisional allocations of R75.3 billion over the next three years, of which:
 - Eskom's reconfiguration (R69 billion)
 - Infrastructure fund (R5 billion) and
 - 2021 Census (R1.3 billion)
- The contingency reserve is increased by R6 billion in 2019/20 (to respond to possible requests for financial support by SOCs), and is lowered by R8 billion in the two outer years of the framework
 - Any financial support agreed on will be raised from the sale of non-core assets and will be excluded from the expenditure ceiling
- The above spending adjustments increase main budget non-interest expenditure by R25 billion over the medium term, compared with 2018 Budget estimates

Appropriation Bill budget allocations

Budget spending for 2019/20 as in the Appropriation Bill

Economic classification	R million	Share of total
Current payments	245 297	27%
<i>of which:</i>		
Compensation of employees	170 933	19%
Goods and services	74 217	8%
Interest and rent on land	147	0%
Transfers and subsidies	615 237	68%
Payments for capital assets	15 413	2%
Payments for financial assets	22 360	2%
Parliament*	1 993	0%
Total spending in Appropriation Bill	900 300	100%

** The economic classification of the vote budget to be determined by Parliament in terms of the Financial Management of Parliament Act, 2009, as amended*

Appropriation Bill budget allocations: Compensation

Compensation of employees (departments accounting for 84% of the CoE budget)

Department	R million	Share of total
Police	76 358	45%
Defence and Military Veterans	29 194	17%
Correctional Services	18 214	11%
Higher Education and Training	9 638	6%
Justice and Constitutional Development	9 576	6%

- Peace and security departments tend to be labour intensive and hence compensation of employees is the largest spending item.
- Higher Education and Training – for the salaries of over 16 000 Technical and Vocational Education and Training (TVET) and over 9 000 the Community Education and Training (CET) college lecturers

Appropriation Bill budget allocations: Goods and services

Goods and services (departments accounting for 83% of the G&S budget)

Department	R million	Share of total
Police	16 659	22%
Defence and Military Veterans	12 934	17%
Correctional Services	6 408	9%
Justice and Constitutional Development	5 010	7%
Environmental Affairs	4 703	6%
Cooperative Governance and Traditional Affairs	4 427	6%
Home Affairs	2 592	3%
Health	2 409	3%
International Relations and Cooperation	2 281	3%
Rural Development and Land Reform	2 260	3%
Basic Education	1 947	3%

Appropriation Bill budget allocations: Goods and services

- Basic Education: mainly for printing and distributing workbooks for grade R to 9 learners at 23 000 schools: R1.2 billion
- For the security departments goods and services budgets are in line with their size with the main categories being:
 - Computer services, operating leases and fleet services (Police)
 - Contractors for the maintenance of main weapon systems and property payments (Defence)
 - Nutritional services for inmates and property payments (Correctional Services)
 - Computer services, operating leases and property payments (Justice)
- The large DCoG goods and services budget is largely related to the funding of the Community works programme.
- Rural Development and Land Reform Goods and Services (R2. 260 billion) is operational budget for administrative support (corporate services) to the entire functioning of the department.

Appropriation Bill budget allocations: Goods and services

- Department of Environmental Affairs (R4.703 billion) mainly provides for the expanded public works programme. Funding was reclassified from transfers and subsidies during the production of the 2020 Estimates of National Expenditure in order to align to the Standard Chart of Accounts and the Guidelines for Implementing the Economic Reporting Format
- Home affairs' main spending items include computer services, operating leases, and property payments
- Operational leases, travel and subsistence and operating payments take most of DIRCO's budget on good and services

Appropriation Bill budget allocations: Transfers and subsidies

Transfers and subsidies (departments accounting for 82% of the T&S budget)

Department	R million	Share of total
Social Development	183 836	30%
Cooperative Governance and Traditional Affairs	85 920	14%
Higher Education and Training	79 186	13%
Transport	62 741	10%
Health	46 987	8%
National Treasury	23 570	4%
Basic Education	20 081	3%

Appropriation Bill budget allocations: Transfers and subsidies

	R million	Share of category total
CONSTITUTIONAL INSTITUTIONS		
<i>of which:</i>		
The Independent Electoral Commission	2 013	60%
The Independent Communications Authority of South Afr	453	14%
The Public Protector of South Africa	321	10%
NATIONAL PUBLIC ENTITIES		
<i>of which:</i>		
National Student Financial Aid Scheme	30 822	34%
The South African National Roads Agency limited	21 177	23%
South African Revenue Service	9 529	11%
South African Social Security Agency	7 622	8%
National Research Foundation	3 199	4%
Legal Aid South Africa	1 958	2%
South African Tourism	1 254	1%
Agricultural Research Council	1 224	1%
Commission for Conciliation, Mediation and Arbitration	977	1%
The Social Housing Regulatory Authority	811	1%
NATIONAL GOVERNMENT BUSINESS ENTERPRISES		
<i>of which:</i>		
Passenger Rail Agency of south Africa	16 462	83%
Council for Scientific and Industrial Research	1 278	6%



Appropriation Bill budget allocations: Transfers and subsidies

Higher Education and Training:

- Subsidies for 26 public universities: R42.4 billion
- National Student Financial Aid scheme (NSFAS) for student financial aid for university and TVET college students: R30.8 billion
- Subsidies for 50 public technical and vocational education and training (TVET) colleges: R5.6 billion

Basic Education

- Education Infrastructure Grant to provinces for the construction of new schools as well as maintenance of existing schools: R10.5 billion
- National School Nutrition Programme Grant to provinces for the provision of a nutritious meal to all learners in quintile 1 to 3 schools: R7.2 billion
- National Student Financial Aid Scheme transfer for over 12 000 Funza Lushaka bursaries for prospective teachers: R1.2 billion

Appropriation Bill budget allocations: Transfers and subsidies

- In Cooperative Governance and traditional affairs, transfers are for:
 - Local Government Equitable Share (R69 billion) and the Municipal Infrastructure Grant (R14.8 billion)
- For Transport, large transfers are for
 - Roads;
 - South African National Roads Agency Limited (R21.3 billion)
 - Provincial Roads Maintenance Grant (R11.5 billion)
 - Public transport;
 - Passenger Rail Agency of South Africa (R16.5 billion)
 - Public Transport Operations Grant (R6.3 billion)
 - Public Transport Network Grant (R6.5 billion)

Appropriation Bill budget allocations: Transfers and subsidies

- For the National treasury, the transfers of R23 billion comprises of the following:
 - Post-retirement medical scheme R2.9 billion
 - South African Revenue Services: Operations R7.8 billion
 - Secret Services R4.2 billion
 - South African Revenue Services: Machinery and Equipment R1.7 billion
 - Development Bank of Southern Africa R1 billion
 - Non-statutory forces R778.6 million
 - Government Technical Advisory Centre R758 million
 - Injury on duty R688.8 million
 - Local Government Financial Management Grant R532.8 million
 - Neighbourhood Development Partnership grant R621.2 million
 - Common Monetary Area compensation R849.9 million

Appropriation Bill budget allocations: Payment for capital assets

Payments for capital assets (departments accounting for 84% of the PCS budget)

Department	R million	Share of total
Water and Sanitation	3 843	25%
Police	3 367	22%
Basic Education	1 886	12%
Justice and Constitutional Development	1 210	8%
Health	1 184	8%
Defence and Military Veterans	763	5%
Rural Development and Land Reform	663	4%

Appropriation Bill budget allocations: Payment for capital assets

Payments for capital assets (departments accounting for 84% of the PCS budget)

- Basic Education: the school infrastructure backlogs grant which will focus on improving sanitation in schools by eradicating pit latrines: R1.87 billion
- For security departments, payments for capital assets is mainly for infrastructure building programme such as erection, refurbishment and rehabilitation of police stations, courts, army bases and military hospitals.
- Water and sanitation budget is driven by indirect grants: Regional Bulk Infrastructure Grant (R3.1 billion) and Water Services Infrastructure Grant (R557.6 million)
- Agricultural Research Council (ARC): R1.224 billion: Parliamentary grant (Transfers and Subsidies) allocation for operations – this amount includes R130 million for construction of the foot and mouth disease vaccine production facility - to ensure security of supply of vaccines during animal disease outbreak, and to ensure sustainability of vaccines production.
- Rural Development and Land Reform: R663 million is payment for capital assets which include budget for the acquisition of a new office accommodation (new building); and for machinery and equipment for recapitalisation and development programme (RECAP) infrastructure (providing support to land reform beneficiaries – to make sure the redistributed land remains productive).

Appropriation Bill budget allocations: Payment for financial assets

Payments for capital assets (departments accounting for 100% of the PCS budget)

Department	R million	Share of total
Public Enterprises	17 652	79%
National Treasury	4 658	21%
Human Settlements	50	0%

Appropriation Bill budget allocations: Payment for financial assets

Payments for capital assets (departments accounting for 100% of the PCS budget)

- R17.652 billion is for Eskom debt obligation and recapitalisation. It is a portion of the provisional allocation of R23 billion in 2019/20.
- Human Settlements provides R50 million towards the recapitalisation of the National Housing Finance Corporation (NHFC)
- National Treasury is allocated R4.7 billion for the following purposes:
 - R4.25 billion is for capital instalment to the New Development Bank
 - R382.279 million for acquisition of South Africa's shares in the African Development Bank
 - R25.279 million for acquisition of South Africa's shares in the World Bank

Specifically & exclusively appropriated amounts

An amount that is marked specifically and exclusively in Schedule 1 or 2 to this Act, may be used only for the purpose indicated, unless the amount or purpose, is amended by, or in terms of, an Act of Parliament. There are a large number of these items and they include:

- All conditional grants (direct and indirect)
- All compensation of employees
- All compensation linked to capital projects
- All funding allocated to national departments within a vote
- All funding allocated to constitutional institutions
- Social grants
- Contractual membership fees to multilateral institutions
- Commitments that binds the National Revenue Fund such as the rolling stock fleet renewal programme in PRASA and contributions to the reduced Gauteng Freeway Improvement Programme tariffs based on the 2015 new dispensation

Largest positive reallocation and funding additions

Largest baseline reductions in Appropriation Bill (R million)		Largest additions to baselines in Appropriation Bill (R million)	
Transport - Passenger Rail Agency of South Africa: Other capital programmes	-2 404	Public Enterprises - Eskom: Debt obligations and recapitalisation	17 700
Transport - Passenger Rail Agency of South Africa: Rolling stock fleet renewal programme	-1 800	Transport - South African National Roads Agency Limited: Non-toll network infrastructure	2 000
Cooperative Governance and Traditional Affairs - Municipal infrastructure grant	-918	Basic Education - Education infrastructure grant: Construction of schools, repairs and maintenance and school refurbishment	1 000
Health: National health insurance indirect grant: Personal services component	-686	Cooperative Governance and Traditional Affairs - Integrated urban development grant: Creation of	857
Social Development - South African Social Security Agency: Funding providing for one free ATM withdrawal per month for social grant beneficiaries shifted to provincial government	-574	Basic Education - School infrastructure backlogs indirect grant: Eradication of pit latrines	700
Social Development - Social assistance grants: Reduced estimates of grant requirements	-500	Health - Human resources capacitation grant: Creation of	606
Police: Goods and services	-312	Transport - Passenger Rail Agency of south Africa: Rail maintenance operations and inventories	404
Trade and Industry - Special Economic Zones: Infrastructure investment support	-300	National Treasury - South African Revenue Service: Goods and services	399
Human settlements - Human settlements development grant	-300	Transport - Public transport network grant: City of Cape Town for phase 2A of the integrated public transport network	354
Energy - Integrated national electrification programme grant	-265	Trade and Industry - Industrial Development Corporation (customised sector programmes): Increased uptake of the clothing and textile incentive support	300
Social Development - Social worker employment grant: Function shifted to provincial government	-213	Agriculture, Forestry and Fisheries - Land and Agricultural Development Bank: Blended finance programme	272

Largest positive reallocation and funding additions

- Total Bill appropriation amounts to R900.3 billion in 2019/20, excluding direct charges such as the provincial equitable share and debt-service costs
- The following represent the largest positive reallocation and funding additions to budget baselines, in 2019/20:
 - **Public Enterprises**
 - R17.7 billion to Eskom for debt obligations and recapitalisation
 - **Transport**
 - R2 billion for the South African National Roads Agency, for non-toll network infrastructure
 - R354 million to the City of Cape town, through the Public transport Network conditional Grant for phase 2A of the integrated public transport network
 - **Basic Education**
 - R700 million to the School infrastructure Backlogs Indirect Grant, for the eradication of pit latrines
 - R200 million to the Education Infrastructure Grant, for repair of schools damaged by floods in KwaZulu Natal

Largest positive reallocation and funding additions

- **Cooperative Governance and Traditional Affairs**
 - R856.9 million for the creation of the Integrated Urban Development Conditional Grant
- **National Treasury**
 - R398.7 million to the South African Revenue Service, for goods and services
- **Health**
 - R605.6 million for the creation of the Human Resources Capacitation Conditional Grant
 - R247million added to the National Health Insurance: Health Facility Revitalisation component for the Limpopo Academic hospital and a portion of these funds will be used to improve the nearby Pietersburg and Mankweng hospitals
- **Trade and Industry**
 - R300 million to the Industrial Development Corporation (customised sector programmes), for increased uptake of the clothing and textile incentive support

Largest positive reallocation and funding additions

- **Agriculture, Forestry and Fisheries**
 - R271.5 million to the Land and Agricultural Development Bank, for the blended finance programme
- **Justice and Constitutional Development**
 - R272.9 million for Judicial Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in the Public Sector (the “State Capture Commission”), as the duration of the Commission has been extended

Thank you