

BUDGET

CHILDREN AND THE SOUTH AFRICAN BUDGET: THE MACRO PICTURE



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KEY MESSAGES

- The nearly 20 million children in South Africa account for more than a third of the country's population.
- South Africa does not have a single official poverty line. However, all measures indicate that children are more likely than adults to live in poor households.
- If government had fully adjusted tax brackets for inflation every year since 1990, the tax percentage would now be about 29% of gross domestic product instead of 27%, and taxation would generate more revenue.
- Provincial budgets are especially important for children because provinces bear the main responsibility for delivering education (other than tertiary), health and social development services.
- Debt service costs require almost as much funding as social development, with each at about 10% of the combined national and provincial budgets.

This brief is one of four that explore the extent to which government budgets in South Africa address the needs of children under 18 years in the country. The briefs aim to describe the shape and size of the relevant budgets, and highlight some of the key funding-related issues. The objective is to contribute to informed advocacy and decision-making.

This brief presents the macro picture of government budgets in South Africa. It first presents and describes

a set of key indicators. It then describes how national, provincial and municipal budgets are funded, and the transfers between the three spheres. The brief then highlights what proportions the three key sectors – education, health and social assistance and welfare – constitute of the combined national and provincial budgets. Finally, there is a short description of the budget process.

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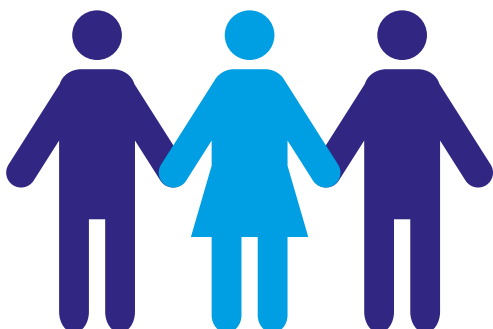
Children account for just over a third of South Africa's population of nearly 55 million people



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Key indicators

| | |
|--|--------------|
| Total population, 2015 | 55.0 million |
| Child population, 2015 | 19.7 million |
| Children as % of population, 2015 | 36% |
| GDP per capita, 2015 | R73,061 |
| Poverty rate, 2011 | 37% |
| Child poverty rate, 2014 | 46% |
| Budget deficit, 2016/17 | 3.2% |
| Donor funding as % of revenue, 2015/16 | 0.8% |
| Taxation as % of GDP, 2015/16 | 27% |
| Public debt as % revenue, 2016/17 | 44% |
| Headline inflation, April 2016 | 6.3% |
| Food inflation, April 2016 | 11.0% |



Children account for just over a third of South Africa's population of nearly 55 million people. Statistics South Africa estimates that the population is currently increasing by about 1.6% per year. The gross domestic product (GDP) per capita, at R73,061 in 2015 (USD 5,940),¹ confirms that South Africa is an upper middle income country. However, GDP is growing at less than 1% per year. This is lower than both inflation – at 6% – and the annual increase in the population. GDP per capita is therefore on a downward trend.

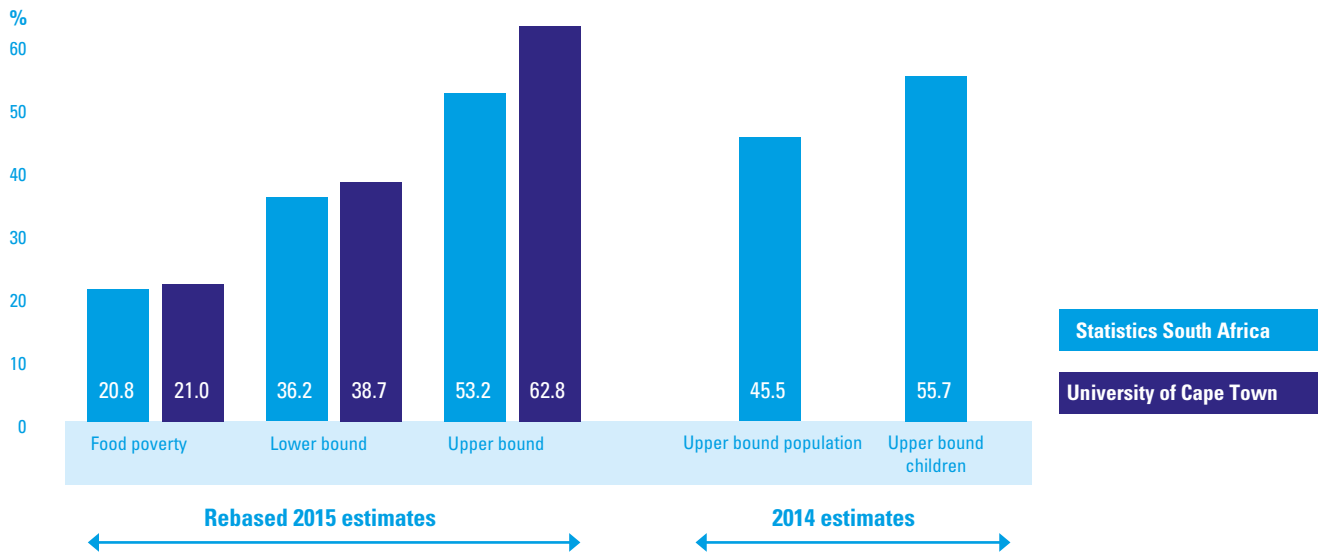
Food inflation is substantially higher than overall inflation, at 11%. This has particularly negative effects on the poor, who spend the bulk of their money on food. It is also especially negative for children, given the importance of good nutrition for their development.

Statistics South Africa's recalculations of the poverty line in 2011 suggested that 37% of the population was poor. This estimate is based on the lower-bound poverty line (R501 in 2011 rands after the recalculation) that is used in the National Development Plan. The percentage is higher than calculations done by Statistics South Africa several years earlier. More recent research at the University of Cape Town (UCT) highlights that households at the lower-bound poverty line will usually not meet their food needs.² It is only at the upper-bound line (R779) that this is likely to happen. The research also comes up with higher poverty lines after correcting for perceived weaknesses in Statistics South Africa's methodology. The UCT researchers estimate that 39% of the population was poor in 2011 using the lower-bound

1 Conversion based on exchange rate as of end June 2015.

2 Budlender J, Leibbrandt M & Woolard I. (2015) "South African poverty lines: a review and two new money-metric thresholds." Working paper 151. Southern Africa Labour and Development Research Unit, University of Cape Town.

Figure 1. Poverty lines: Different measures and child poverty (2011 rands)



measure, and 63% using the upper-bound one. Statistics South Africa’s own calculations reveal that children are substantially more likely than adults to live in poor households.³

The 2016/17 national budget documents report donor funding of R9,766 million for 2015/16. This is equivalent to less than 1% of government revenue for that year. The actual amount may be higher, as recording of donor funds is not always complete and accurate. However, the relative amount is very low.

The main source of revenue for the South African government is taxation. In 2015/16, taxation stood at 27% of GDP. If government had fully adjusted tax brackets for inflation every year since 1990, the tax:GDP ratio would now be about 29% because more people would be paying tax, and the income of the wealthiest has increased faster than inflation.⁴ The South African Customs Union (SACU) contribution is shown as a negative amount of R39,448 million in South Africa’s revenue estimates for 2016/17 because South Africa pays over to other SACU countries part of the customs and excise revenue that it collects on their behalf.

The target budget deficit for 2016/17 is 3.2% of GDP. This is less than the 2012/13 deficit of 4,1%. However, government debt has increased from 41% of GDP in 2012/13 to 51% of GDP in 2016/17. It will cost government R148 billion to pay interest on this debt in 2016/17.

3 Statistics South Africa (2014) *Poverty Trends in South Africa: An examination of absolute poverty between 2006 and 2011*.

4 Forslund D. (2012) *Personal Income Taxation and the struggle against inequality and poverty: Tax policy and personal income taxation in South Africa since 1994*. Alternative Information Development Centre: Cape Town.

NATIONAL, PROVINCIAL AND LOCAL BUDGETS

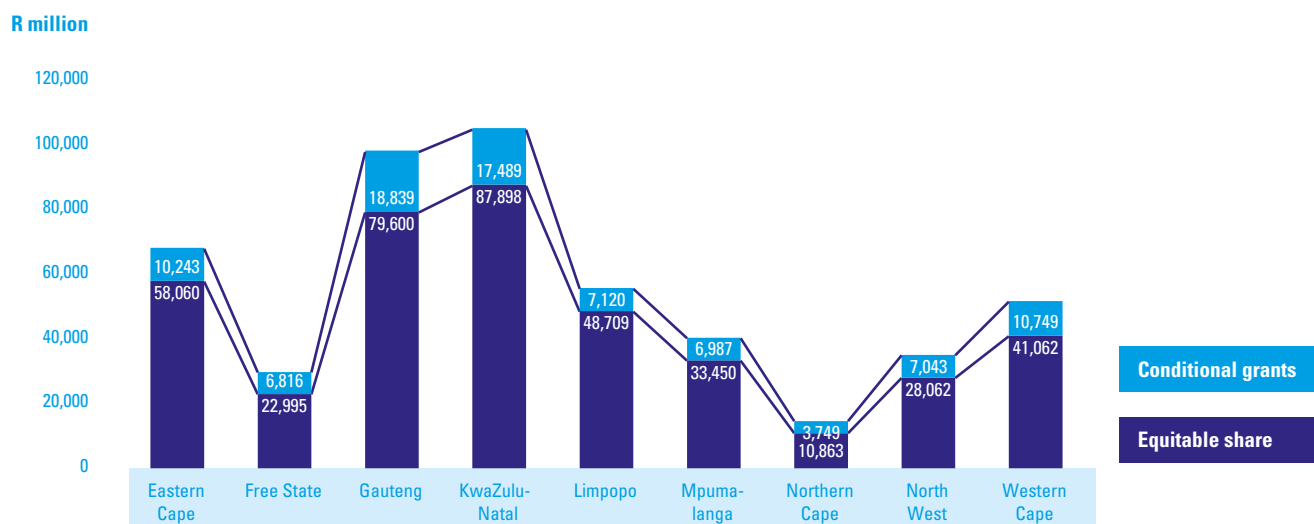
South Africa has three spheres of government – national, provincial and local. Provincial and local government have limited powers to raise revenue. Local government gets direct revenue mainly from property taxes and charges for electricity and water. This revenue can be substantial for the metros, but is very limited for the poorest municipalities. Provincial government gets direct revenue mainly from charges such as motor vehicle licences, but it is dependent on transfers from national government for about 97% of its revenue.

In 2016/17 national government is allocated 48.1% of all revenue collected at the national level, provinces receive 42.9% and local government receives 8.9%. Provincial budgets are especially important for children because provinces bear the main responsibility for delivering education (other than tertiary), health and social development services. National government is mainly responsible for policy-making, coordination and oversight of these basic social services.

Both provincial and local government receive funding from nationally collected revenue in two forms. Firstly, they receive a block grant in the form of the equitable share. The division of these funds between the nine provinces is determined by a formula. The formula is made up of six components. The largest component (48% of the total) relates to education and the second largest (27% of the total) to health. There is no component related to social development. Provinces can themselves decide how to spend the equitable share funds. They are not required to spend according to the formula.

Secondly, provinces receive conditional grants. These funds are given for a particular purpose. For example,

Figure 2. Grants to provinces, 2016/17 (Rm)



there are conditional grants for education infrastructure, the national school nutrition programme, HIV and AIDS and tuberculosis (in particular for antiretrovirals), and 'revitalisation' of health infrastructure.

In 2016/17, the equitable share amounts to R410.7 million across the nine provinces and conditional grants to R89.1 million. The equitable share is therefore 82% of the total. Figure 2 shows that the relative size of the two parts of the provincial allocation differs across provinces. At the extremes, in Limpopo conditional grants account for 13% of the two parts combined, while in Northern Cape conditional grants are 26% of the combination.

BUDGET COMPOSITION

In 2016/17, the consolidated budget⁵ (national and provinces, social security funds and public entities) amounts to R1,309.6 billion, with a further R147.7 billion for servicing of government debt and R6 billion for unplanned-for contingencies. Table 1 shows basic education accounting for 16% of the total, health for 12%, social protection for 11% and defence, public order and safety for 12%. Debt service costs require almost as much funding as social protection, at 10% of the total. In 2016/17, the basic education allocation amounts to 6% of GDP, while the health and social protection allocations each amount to 5%.

Figure 3 shows the share of expenditure going to servicing of government debt increasing from 8.4% to 10.6% over the period 2012/13 to 2018/19. However, it

Table 1. Consolidated government expenditure by function, 2016/17

| Function | R bn | % of total |
|----------------------------------|----------------|-------------|
| Basic education | 228.8 | 16% |
| Health | 168.4 | 12% |
| Social development | 167.5 | 11% |
| Defence, public order and safety | 181.5 | 12% |
| Other | 563.4 | 39% |
| Allocated expenditure | 1,309.6 | 89% |
| Debt service costs | 147.7 | 10% |
| Contingency | 6.0 | 0% |
| Consolidated expenditure | 1,463.3 | 100% |

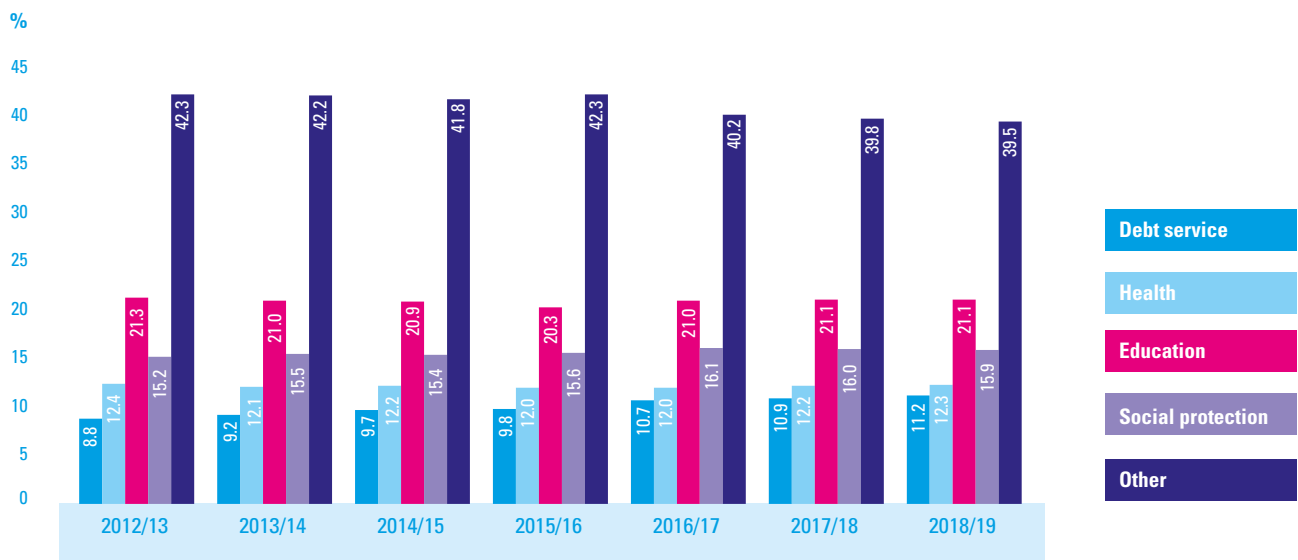
also shows that the expenditure shares of the three key social sectors of health, education and social protection are protected.

BUDGET PROCESS

The fiscal (budget) year in South Africa is from 1 April of one year to 31 March of the next year. The national budget process starts in June, when the National Treasury issues technical guidelines and information to all government agencies that must compile budgets. This document guides the agencies on how to compile their estimates for the three-year medium-term expenditure framework (MTEF) that starts in the following April. The estimates for the first year of the MTEF constitute the budget that the national parliament and provincial legislatures will vote on. The estimates for the next two 'outer' years show how much agencies plan to allocate in the following years.

⁵ The consolidated budget excludes municipal budgets except where these are funded through transfers and other payments from the national and provincial sphere. Inclusion of municipal budgets is complicated because municipal accounts operate on an accrual basis. Municipal budgets would probably add around 10% to the consolidated budget, if included.

Figure 3. Distribution of consolidated expenditure by function, 2012/13–2018/19



Important further dates are:

- **July:** National agencies submit their first draft budgets to National Treasury.
- **October:** The Minister of Finance tables the Medium Term Budget Policy Statement in parliament. This statement gives the overall size and composition of the budget for the next year.
- **November:** Cabinet approves final allocations for each agency.
- **December:** National agencies submit revised budget votes to National Treasury.
- **February:** The Minister of Finance tables the national budget in parliament.

Important dates in the provincial sphere are as follows:

- **August:** Provincial treasuries submit their first draft budgets to National Treasury.
- **October:** National Treasury informs provinces as

to how much money they are likely to receive from national revenue in conditional and unconditional transfers.

- **November:** Provincial treasuries submit their second draft budgets to National Treasury.
- **January/February:** National Treasury confirms how much money each province will receive from national revenue.
- **February/March:** The Members of the Executive Council (MECs) – equivalent to ministers in the provincial sphere – table the provincial budgets in the legislatures.

The Money Bills Amendment Procedure and Related Matters Act of 2009 gives the national parliament powers to amend the budget tabled in parliament by the executive. To date, parliament has not used these powers. Provincial legislatures do not yet have the powers to amend tabled budgets.

