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Revisions to in-year spending plans and the division of revenue

In brief

- Since the tabling of the 2020 Budget, in-year spending priorities have changed significantly due to the emergence and spread of COVID-19.
- This special adjustments budget revises government's spending plans for 2020/21 in line with the fiscal relief package announced in April 2020. Consolidated spending for 2020/21 has been revised from R1.95 trillion as tabled in February to R2.04 trillion, mainly due to additional funding of R145 billion allocated for government's COVID-19 response.
- Net in-year suspensions of spending amounting to R100.9 billion have been implemented for national departments, provinces and local government. Further suspensions may be announced in the October 2020 *Medium Term Budget Policy Statement* (MTBPS).
- Provinces will reallocate at least R20 billion to the COVID-19 response in their own budgets.

Overview

Since the 2020 Budget, responding to the COVID-19 pandemic has become government's central priority. The crisis has required frontline functions – primarily health, peace and security, and social development – to focus and scale up their efforts. Other departments have been required to reprioritise funding to complement these efforts and roll out their own responses. At the same time, restricted economic activity has caused sharp declines in revenue across general government.

This special adjustments budget outlines immediate revisions to the 2020/21 spending plans set out in the 2020 *Budget Review*. More details will be presented in the October 2020 MTBPS.

Elements of the COVID-19 fiscal relief package

In April, government announced a R500 billion relief package to support the economy, and to provide a safety net for households and businesses to cushion the impact of restrictions on economic activity. The measures are temporary and provide support where it is needed most. Government aims to spend these funds efficiently and effectively, avoiding waste.

While government moved quickly to redirect funding to support COVID-19 interventions, the trajectory and effects of the virus remain highly uncertain. In this context, government is adjusting the allocation of funding to respond to new data and accompanying adjustments to policy. The allocation of funding in this special adjustments budget reflects the reorganisation of the initial package proposed in April based on subsequent shifts in spending needs related to COVID-19.

Funding has been secured by shifting resources from existing programmes and drawing down surplus funds from institutions such as the Unemployment Insurance Fund (UIF). Budget allocations across national, provincial and local government fund R145 billion of government's response. Details of departmental allocations are provided in the Explanatory Memorandum to the Adjustments Appropriation Bill (Annexure B).

Table 2.1 Main budget non-interest expenditure increases

R million	2020/21
Support to vulnerable households for 6 months	40 891
Health	21 544
Support to municipalities	20 034
Other frontline services	13 623
Basic and higher education	12 541
Small and informal business support, and job creation and protection	6 061
Support to public entities	5 964
Other COVID-19 interventions	1 766
Allocated for COVID-19 fiscal relief package	**122 425**
Land Bank equity investment	3 000
Provisional allocations for COVID-19 fiscal relief	19 575
Total	**145 000**

Source: National Treasury

Various functions have different timeframes for implementing interventions; as a result, R19.6 billion is provisionally set aside, mainly for job creation and protection. Some interventions will be phased in through upcoming budget announcements, including the October 2020 MTBPS and the February 2021 *Budget Review*.

Rollout has been rapid in programmes that use existing infrastructure, such as the *child support grant* and tax relief programmes. In contrast, those such as the *social relief of distress grant* have taken somewhat longer to reach recipients. The COVID-19 loan guarantee scheme had provided more than R10 billion in loans to businesses for operational expenses by 13 June. Amendments to improve access to the scheme will be enacted, including a "business restart loan".

Because the required health response is larger than originally anticipated, R21.5 billion is allocated to the function. In addition, resources will be provided through internal reprioritisation in the education sector to fund COVID-19-related spending and catch-up programmes in the basic and higher education and training sectors.

Local government support of R20 billion is provided for, including an increase of R11 billion in the local government equitable share. A number of public entities, including South African National Parks and the Passenger Rail Agency of South Africa, require substantial support to replace revenue lost during the lockdown and prevent large job losses.

Over the next several months, further spending pressures are likely to emerge. Accordingly, the unallocated portion of R19.6 billion is set aside as a provisional allocation towards the COVID-19 response.

In-year spending adjustments

Main budget non-interest spending has increased by a net R36 billion in the current year. This amount consists of R145 billion added to spending for the fiscal response to the pandemic. This amount is partially offset by R109 billion from the items shown in Table 2.2. The expenditure ceiling, which excludes adjustments to the skills development levy, increases by R44.1 billion in 2020/21 compared with the 2020 Budget estimate.

Table 2.2 Revisions to main budget non-interest expenditure

R million	2020/21
Main budget non-interest expenditure (2020 Budget Review)	**1 536 724**
Proposed upward expenditure adjustments	**145 000**
Proposed downward expenditure adjustments	**-100 885**
National departments' baseline suspensions	-54 403
Repurposing of provincial equitable share	-20 000
Provincial conditional grant suspensions	-13 848
Local government conditional grant suspensions	-12 633
Other adjustments	**-8 109**
National Revenue Fund payments	13
Downward revisions to skills development levy	-2 122
Lower skills development levy due to 4-month holiday	-6 000
Revised non-interest expenditure	**1 572 730**
Change in non-interest expenditure from 2020 Budget	36 006

Source: National Treasury

Most of the targeted reprioritisation is provided by a R80.9 billion temporary suspension of baseline allocations. This suspension consists of R54.4 billion in national departmental allocations, R13.8 billion in provincial conditional grants and R12.6 billion in local conditional grants. Provincial suspensions include R20 billion funded from the provincial equitable share. Further suspensions will be considered as additional COVID-19 spending pressures emerge. These will be effected in the October adjustments budget.

The Land Bank

The Land and Agricultural Development Bank of South Africa holds 29 per cent of South Africa's agricultural debt. The bank's main source of revenue – net interest income – has declined over several years because lending rates have not increased alongside rising funding costs. The cost of funding increased as the Land Bank tried to reduce liquidity risk caused by the mismatch in its long-dated assets and short-term liabilities. In addition, impairment charges have been increasing, primarily due to persistent drought, further reducing profitability.

In January 2020, Moody's downgraded the Land Bank's credit rating, citing its deteriorating financial position, a constrained agricultural sector and fiscal constraints that may reduce financial support.

The downgrade led to a significant liquidity shortfall as numerous investors did not refinance debt. Despite government guarantees of R5.7 billion, the Land Bank could not raise adequate funding and defaulted on its debt obligations on 1 April 2020. The National Treasury is supporting the Land Bank and its corporate finance advisors as it engages its lenders to negotiate solutions to its default position and craft a long-term restructuring plan to ensure sustainability.

The Land Bank seeks an emergency liquidity bridge facility of R3 billion while the restructuring plans are finalised. Government is allocating R3 billion as an equity investment to recapitalise the Land Bank, enabling the settlement of this facility. The restructuring plan will inform possible further funding requirements to ensure the Land Bank's sustainability.

Updated fiscal framework for 2020/21

As outlined above, government's R145 billion COVID-19 response is sourced mainly from within existing allocations for 2020/21. This includes R109 billion in temporary suspension of baseline allocations and adjustments to the skills development levy. The balance of R36 billion is financed through an increase in the main budget deficit.

Main budget fiscal framework

Table 2.3 summarises spending financed from the National Revenue Fund. Main budget revenue is projected to decline as a share of GDP from 26.2 per cent in 2019/20 to 22.6 per cent in the current year.

Table 2.3 Main budget framework

	2019/20	2020/21	
R billion/percentage of GDP	**Preliminary**	**Budget 2020**	**Revised**
Main budget revenue	**1 345.3**	**1 398.0**	**1 099.5**
	26.2%	*25.8%*	*22.6%*
Main budget expenditure	**1 690.6**	**1 766.0**	**1 809.2**
	32.9%	*32.5%*	*37.2%*
Non-interest expenditure	1 485.8	1 536.7	1 572.7
	28.9%	*28.3%*	*32.4%*
Debt-service costs	204.8	229.3	236.4
	4.0%	*4.2%*	*4.9%*
Main budget balance	**-345.3**	**-368.0**	**-709.7**
	-6.7%	*-6.8%*	*-14.6%*
Primary balance	**-140.5**	**-138.7**	**-473.2**
	-2.7%	*-2.6%*	*-9.7%*

Source: National Treasury

Main budget expenditure is projected to increase to 37.2 per cent of GDP in 2020/21, reflecting support provided to state-owned companies in the 2020 Budget, COVID-19 spending and higher debt-service costs.

Projected tax revenue shortfalls, lower GDP and higher spending as a result of the pandemic will lead to a significant increase in the main budget deficit in the current year. The main budget deficit, estimated at 6.8 per cent of GDP in the 2020 Budget, is now projected to reach 14.6 per cent of GDP.

The primary deficit — the difference between revenue and non-interest spending — widens to 9.7 per cent of GDP in 2020/21.

Revisions to main budget spending plans for 2020/21

In preparing this special adjustments budget, the National Treasury and national departments recognised that certain spending commitments agreed to in the 2020 Budget can no longer be accommodated in the current economic context. Certain projects and programmes will also be postponed.

Table 2.4 shows major revisions to non-interest spending for 2020/21, relative to the 2020 Budget.

Table 2.4 Major revisions to non-interest spending plans

R million	Budget 2020	Reductions	Allocations	Other adjustments	Revised
General public services[1]	618 840	-24 310	25 055	13	619 599
Economic development	88 381	-12 145	4 649	–	80 886
Learning and culture	151 543	-15 617	10 560	-8 122	138 364
Health	55 516	-2 631	5 544	–	58 430
Peace and security	207 006	-4 185	10 170	–	212 991
Community development	219 727	-26 322	28 430	–	221 835
Social development[2]	198 497	-15 675	41 016	–	223 837
Provisional allocations: COVID-19 package	–	–	19 575	–	19 575
Provisional allocations not assigned to votes	-7 786	–	–	–	-7 786
Contingency reserve	5 000	–	–	–	5 000
Total	**1 536 724**	**-100 885**	**145 000**	**-8 109**	**1 572 731**

1. Includes the provincial equitable share that funds a range of functions including health and basic education
2. Includes Department of Women, Youth and Persons with Disabilities
Source: National Treasury

Spending was adjusted by:

- Removing funds underspent due to delays caused by the lockdown from the baselines of affected departments.
- Suspending allocations for capital and other departmental projects that could be delayed or rescheduled to 2021/22 or later.
- Suspending allocations to programmes with a history of poor performance and/or slow spending.
- Redirecting funds towards the COVID-19 response within functions, or towards government's fiscal relief package.

The majority of suspensions identified within conditional grants for COVID-19 interventions (Table 2.5) have been repurposed accordingly within the grants. The largest reprioritisations were to the *education infrastructure grant* to provide water, sanitation and personal protective equipment to schools, and construct temporary classrooms and fund continual deep-cleaning of facilities; and to the *municipal infrastructure grant* to provide water to households and sanitise public transport facilities in municipalities that do not receive the *public transport network grant*.

The net in-year suspension of R10.8 billion to the grants is temporary and only to provide emergency funds for the pandemic response.

Table 2.5 Suspension of conditional grants

R million	Total suspensions	Reprioritisation	Net suspensions
Municipal infrastructure	4 401	4 401	–
Urban settlements development	3 357	2 257	1 100
Public transport network	2 998	1 096	1 902
Water services infrastructure	689	689	–
Integrated national electrification programme (municipal)	500	–	500
Human settlements development	1 728	–	1 728
Provincial roads maintenance	1 756	–	1 756
Education infrastructure	6 621	4 400	2 221
Health facility revitalisation	1 066	1 066	–
Other grants	3 703	2 126	1 577
Total	**26 819**	**16 035**	**10 784**

Source: National Treasury

Main budget spending revisions by economic classification

Most of the main budget spending revisions by economic classification are in the transfers category, with R20 billion from transfers to provinces for the repurposing of the provincial equitable share, as well as suspensions in provincial and local conditional grants. These resources are mainly allocated to provincial health and education interventions, as well as providing funding for increased social payments to vulnerable households.

Table 2.6 Main revisions to non-interest spending plans by economic classification

R million	Budget 2020	Reductions	Allocations	Other adjustments	Revised
Current payments	**265 720**	**-10 791**	**12 614**	**–**	**267 544**
Compensation of employees	187 668	-1 429	837	–	187 077
Goods and services	77 891	-9 362	11 777	–	80 306
Rent on land	161	–	–	–	161
Transfers and subsidies	**1 215 936**	**-87 680**	**108 118**	**-8 122**	**1 228 251**
Provinces and municipalities	781 934	-46 482	49 921	–	785 373
Departmental agencies and accounts	143 296	-12 676	8 695	-8 122	131 193
Higher education institutions	44 803	-3 210	2 327	–	43 920
Foreign governments and international organisations	2 829	-109	1	–	2 721
Public corporations and private enterprises	32 525	-6 423	3 070	–	29 172
Non-profit institutions	9 073	-1 748	1 177	–	8 503
Households	201 477	-17 033	42 926	–	227 370
Payments for capital assets	**15 303**	**-2 414**	**1 692**	**–**	**14 582**
Payments for financial assets	**42 552**	**–**	**3 000**	**13**	**45 565**
Provisional allocations: COVID-19 package	**–**	**–**	**19 575**	**–**	**19 575**
Provisional allocations not assigned to votes	**-7 786**	**–**	**–**	**–**	**-7 786**
Contingency reserve	**5 000**	**–**	**–**	**–**	**5 000**
Total	**1 536 724**	**-100 885**	**145 000**	**-8 109**	**1 572 731**

Source: National Treasury

Consolidated spending plans

Consolidated budget framework

The consolidated budget includes the main budget and spending financed from revenues raised by provinces, social security funds and public entities.

In the current year, R40 billion will be drawn down from social security funds' cash surpluses to provide wage support to vulnerable employees due to the pandemic.

Public entities, social security funds and provinces are projected to have a combined cash deficit in 2020/21. This, together with the widening main budget deficit, results in the consolidated budget deficit more than doubling to a projected 15.7 per cent of GDP in the current year, compared with the 2020 Budget estimate of 6.8 per cent.

Figure 2.1 Change in share of expenditure by economic classification, 2020/21*

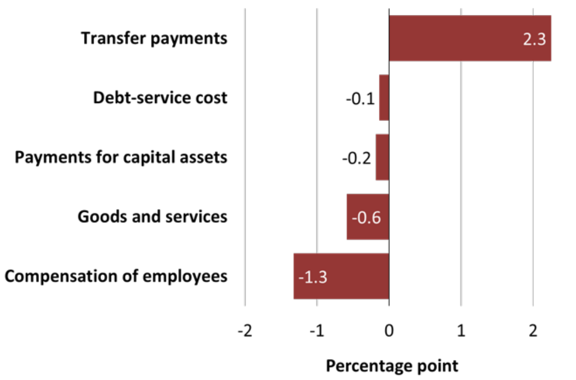


Figure 2.2 Change in share of expenditure by function, 2020/21*

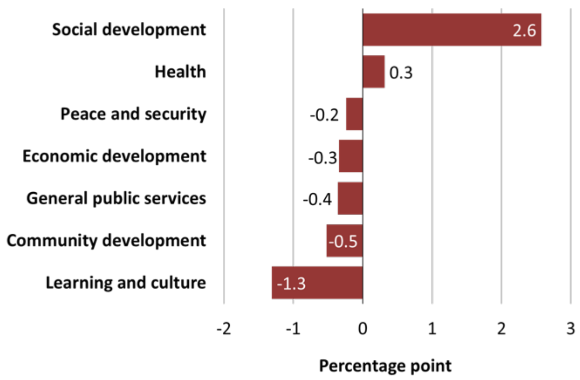


Figure 2.3 Share of consolidated expenditure by economic classification, 2020/21

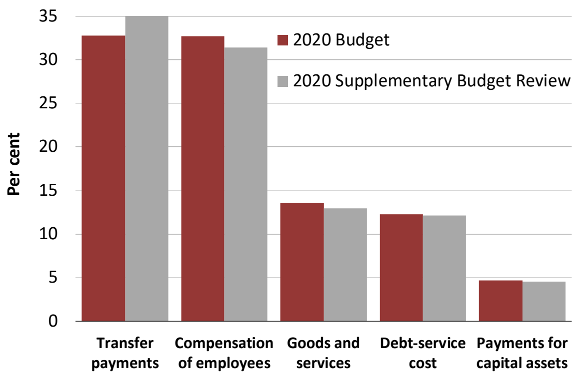
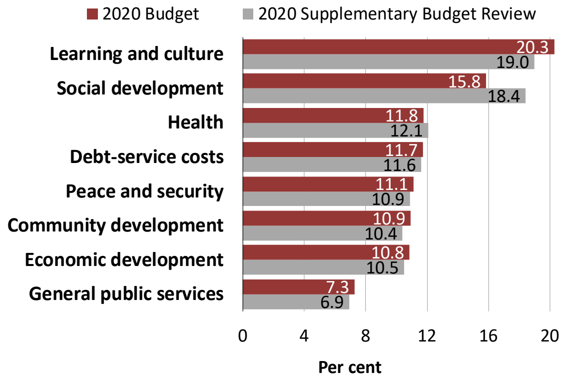


Figure 2.4 Share of consolidated expenditure by function, 2020/21



** Figures may not add up to zero due to rounding*
Source: National Treasury

Consolidated government spending is updated with allocations made as part of the COVID-19 response. Further adjustments will be made in October. The allocations increase spending on transfers to almost 35 per cent of total expenditure, while the share of all other components declines.

Debt-service costs remain close to 12 per cent of total spending, which is more than double the share being spent on capital assets. Debt-service costs are now the fourth-largest spending item, similar in size to what government spends on health services.

In the functional breakdown, social development increases by 2.6 percentage points as a share of consolidated spending. This is driven by the support to vulnerable households and the interventions by the UIF.

Frontline functions

Health

Although the early lockdown helped to slow transmission of the novel coronavirus, infection rates and deaths are expected to continue to increase. Ahead of the expected peak in infections, the health sector is preparing for a rising number of cases, including expanding capacity and ensuring personnel are protected.

A total of R21.5 billion has been reprioritised to public health services, of which about R16 billion is for provinces and R5.5 billion for the national Department of Health, inclusive of conditional grants. Of the R5.5 billion, R2.6 billion has been reprioritised within the national department and R2.9 billion is additional funds. Allocations have been informed by epidemiological modelling, a national health sector COVID-19 cost model and provincial plans. A new R3.5 billion COVID-19 component has been formed in the *HIV, TB, malaria and community outreach grant*.

The public health response to COVID-19

South Africa is at a relatively early stage of the pandemic. The health sector interventions implemented to date have focused mainly on behaviour change (for example, social distancing, wearing masks and not going to work when sick), early detection of cases through community screening and testing, contact tracing, disease surveillance and public health campaigns to reduce transmission of the virus in communities.

As the pandemic evolves, the focus of interventions will shift towards managing the increased volumes of patients that require hospital care. The sector is preparing to rapidly scale up the capacity of hospitals to treat COVID-19 patients, including within intensive-care units. This will involve setting up field hospitals and other temporary facilities, procuring equipment, recruiting staff and buying medicines. The sector is also initiating the contracting of private hospitals to supplement public-sector capacity. Tariffs have already been agreed on.

To protect health workers from infection, government is obtaining a large supply of personal protective equipment such as masks, gloves, aprons and face shields. The sector is also managing quarantine and isolation, ensuring that primary healthcare facilities can care for milder COVID-19 cases without infecting other patients, and strengthening health screening at airports and borders.

Expenditure and progress will be continuously monitored to determine the need for further in-year adjustments. The main spending areas include:

- Public health interventions, including testing and support to the National Institute for Communicable Diseases. Community health workers have played an important role in screening and tracing, especially in hotspots.
- Expanding hospital capacity to care for larger volumes of patients, including intensive care, field hospitals and high care.
- Procuring personal protective equipment, hospital beds, linen, oxygen and ventilators, and hiring new staff.

Social development

This function is focused on scaling up and maintaining social assistance interventions for distressed and vulnerable households. These include monthly increases to existing social grants for six months (until October 2020) and a special *social relief of distress grant* over the same period to partially compensate for income lost as a result of restrictions on economic activity. In addition, the function is reprioritising funding to prepare social facilities for safe reopening and service delivery, and to fund psychosocial services for people affected by the pandemic.

Additional spending on social grants is partly funded through reprioritising R15.4 billion realised because social grant payments for April 2020 were moved to March 2020, as a result of which they were accounted for in the previous financial year. An additional R25.5 billion is allocated in this budget, although the final amount will depend on the number of applications approved for the *social relief of distress grant*.

Income and other support for vulnerable households

The economic restrictions imposed to slow the spread of COVID-19 have led to severe distress for households that lack income and savings, as shown by long queues for food parcels. Between three and five million informal-sector workers and their families are particularly vulnerable. As many of these workers live with grant recipients, government has used the existing grant system to support those most vulnerable. About 64 per cent of individuals who live with an informal worker also reside with *child support grant* recipients, and 25 per cent live with an *old-age pension grant* recipient. The numbers rise to about 80 and 28 per cent respectively for the poorest 50 per cent of households.

Government has made funds available to support vulnerable groups, including temporarily increasing existing social grant payments and introducing a new *social relief of distress grant* for unemployed adults. Estimates of uptake for the new grant remain uncertain but the 2020 MTBPS will provide further clarity in this regard. Lengthy administrative procedures, such as registering new beneficiaries and checking their incomes, are required before the new grant can be paid.

Within the Department of Social Development, funds from delaying infrastructure upgrades in the *early childhood development grant* will be used for health and hygiene measures to support the reopening of about 7 000 early childhood development centres. Other reprioritised funds will fund the appointment of about 1 800 social workers to provide psychosocial services to people affected during the pandemic.

Table 2.7 Adjustments to social grant spending: 2020/21

	Baseline per month (Rand)	Number of beneficiaries	Top-up (Rand)	Top-up %
Child support[1]	445	12 811 209	300	67.4%
Old age	1 860	3 672 552	250	13.4%
Disability	1 860	1 045 388	250	13.4%
Foster care	1 040	339 959	250	24.0%
Care dependency	1 860	155 094	250	13.4%

1. Reaches largest number of households. After month one changed to caregiver grant

Source: National Treasury

Table 2.8 New social assistance grants

	Amount per month (Rand)	Number of beneficiaries
Social relief of distress	350	700 000 - 8 million
Caregiver[1]	500	7 167 022

1. Replaces child support grant top-up from second month

Source: National Treasury

Peace and security

This function is performing essential services relating to the COVID-19 response. It has reprioritised R3.3 billion to support these interventions, primarily in the departments of Police and Defence. Additional funding of R6.7 billion is provided to support the COVID-19 response and increased deployment of the police service and national defence force during the lockdown. These funds are provided mainly for the procurement of personal protective equipment, and operational costs associated with roadblocks and air support.

Other functions

All function groups are affected by government's COVID-19 response. Each function is adjusting spending plans and considering how to adapt over the medium term to a combination of lower allocations, unexpected spending pressures and urgent (sometimes new) policy priorities. Over the next four months, function groups will adjust plans and priorities to this new reality. The 2020 MTBPS will provide more details on individual functions. Significant function adjustments for 2020/21 include:

- Learning and culture – The Department of Basic Education and provincial departments are reprioritising funding to ensure schools can reopen safely and finish the 2020 year. Just over R5 billion is reprioritised from provincial conditional grants and the *schools backlog grant* to provide water and sanitation to schools, construct temporary classrooms, provide personal protective equipment, deep-clean facilities and assist with the catch-up programme. About R5 billion is reprioritised from university subsidies and National Student Financial Aid Scheme bursaries to help reopen the sector and ensure that infrastructure and devices for students are available for virtual learning. The Department of Sport, Arts and Culture has reprioritised over R170 million to a relief fund for artists and sportspeople to compensate for loss of earnings from events cancelled during the lockdown.
- Community development – Allocations are reprioritised within municipal grants to provide access to water for households and sanitise public transport facilities. To assist the minibus taxi industry to provide safe and reliable services, government proposes a once-off payment for all licensed taxi operators, provided that they are tax-registered and drivers are registered for unemployment insurance. A total of R1.1 billion has been set aside for this purpose. An amount of R600 million is provided for social housing institutions and affordable rental housing financed through the Social Housing Regulatory Authority and the National Housing Finance Corporation.
- Economic development – Reprioritisation amounting to R3.4 billion will support interventions such as providing relief for small businesses, small-scale farmers and distressed firms. The reprioritisation will also focus on developing data and information on human settlements, enabling science and innovation research, and assisting public entities in financial distress (including South African National Parks).
- General public services – The function is supporting the provision of quarantine sites for people who test positive for COVID-19 and repatriation of South Africans stranded abroad. Since the lockdown, government has repatriated more than 6 300 South Africans by air.

The Unemployment Insurance Fund COVID-19 benefit

The UIF is compensating affected workers through a new national disaster benefit called the COVID-19/Temporary Employer/Employee Relief Scheme Benefit. It covers people who test positive for COVID-19 or need to be quarantined as a result of exposure, reduced work time and unemployment benefits. This benefit is applicable to employers registered with the UIF and who make monthly contributions as required by law.

The minimum benefit payable is equal to the national minimum wage of R3 500 per employee, or the sectoral minimum wage and a maximum benefit of R6 370. It is payable for the duration of the national lockdown or up to three months, whichever period is the shortest. At the start of the scheme, only employers could claim for their employees and employees were paid either through the employer or the relevant Bargaining Council. Effective from June 2020, all employees can claim the benefit directly, including workers not registered with the UIF. As at mid-June 2020, the UIF had paid a total of R23 billion to over 4.7 million employees under this benefit.

Changes to the division of revenue

Proposed adjustments to the division of revenue address the immediate health, social and economic implications of COVID-19, as reflected in government's relief package. As a result, relative to the shares tabled in the February *Budget Review*, the national share for 2020/21 increases from 49.2 per cent to 50.1 per cent, the provincial share decreases from 42.2 per cent to 41 per cent, and the local government share increases from 8.6 per cent to 8.9 per cent.

Table 2.9 Division of revenue framework

R billion	2019/20 Revised	Budget 2020	2020/21 Revised	% change
Division of available funds				
National departments[1]	**749.4**	**757.7**	**790.3**	**4.3%**
Provinces	**613.1**	**649.3**	**645.3**	**-0.6%**
Equitable share	505.6	538.5	538.5	–
Conditional grants	107.6	110.8	106.8	-3.6%
Local government	**123.3**	**132.5**	**139.9**	**5.6%**
Equitable share	65.6	74.7	85.7	14.7%
Conditional grants	44.5	43.8	40.2	-8.2%
General fuel levy sharing with metros	13.2	14.0	14.0	–
Provisional allocation not assigned to votes[2]	–	-7.8	-7.8	–
Contingency reserve	–	5.0	5.0	–
Non-interest expenditure	**1 485.8**	**1 536.7**	**1 572.7**	**2.3%**
Debt-service costs	204.8	229.3	236.4	3.1%
Main budget expenditure	**1 690.6**	**1 766.0**	**1 809.2**	**2.4%**
Percentage shares				
National departments	*50.4%*	*49.2%*	*50.1%*	
Provinces	*41.3%*	*42.2%*	*41.0%*	
Local government	*8.3%*	*8.6%*	*8.9%*	

1. Includes provisional allocation for the COVID-19 relief package

2. Includes proposed compensation reductions, support to Eskom, amounts for Budget Facility for Infrastructure projects and other provisional allocations

Source: National Treasury

Provinces and municipalities are reallocating their own budgets to complement this national adjustments budget. These changed budgets are the result of adjustments to transfers from national government in the Division of Revenue Amendment Bill, significant declines in own revenue collections and new expenditure priorities.

Conditional grant transfers, many of which were reduced in February 2020, are also adjusted to fund the pandemic response. The current adjustments are structured to balance the large amounts required to respond to COVID-19 while minimising the negative impact on planned services. Grant funds that are less likely to be spent, due to construction and other delays caused by the lockdown, have been suspended first.

Additional suspensions are made where grant spending can be delayed and projects can be postponed for a year. Some suspensions will result in the cancellation or scaling back of projects in 2020/21. Further details of changes to conditional grants are provided in Annexure A, the Explanatory Memorandum to the Division of Revenue Amendment Bill.

Provinces

Provincial governments are responsible for most of the public health system that provides care for COVID-19 patients. Provinces also have to manage the reopening of schools and the provision of social welfare services. They will fund this work primarily through reprioritisations.

Provinces have committed to reprioritise at least R20 billion within their own budgets. These funds will come from cancelling activities that cannot be undertaken while economic activity is restricted (including travel and venue hire) and postponing implementation of early-stage projects until 2021/22. Most of the funds to be reprioritised come from the public works, roads and transport sectors, and the postponement of planned sports, arts and culture events.

Details of the provincial reprioritisations will be included in provincial adjustments budgets. At least R15 billion is expected to be reprioritised to increase capacity in the public health system, and at least R5 billion will be used to augment the education catch-up plan, social welfare support for communities, provision of quarantine sites by public works departments and responses in other sectors.

Table 2.10 Provincial equitable shares: 2020/21

R thousand	Equitable share	Funds reprioritised to:		Total
		Health	Other sectors	
Eastern Cape	13.3%	1 988 374	662 791	2 651 165
Free State	5.6%	835 589	278 530	1 114 119
Gauteng	20.8%	3 126 485	1 042 162	4 168 647
KwaZulu-Natal	20.7%	3 105 174	1 035 058	4 140 231
Limpopo	11.6%	1 735 434	578 478	2 313 913
Mpumalanga	8.2%	1 228 288	409 429	1 637 718
Northern Cape	2.6%	396 847	132 282	529 130
North West	7.0%	1 045 383	348 461	1 393 844
Western Cape	10.3%	1 538 426	512 809	2 051 234
Total	**100.0%**	**15 000 000**	**5 000 000**	**20 000 000**

Source: National Treasury

Provincial reprioritisations will be complemented by over R7 billion in reprioritisations within provincial conditional grants. The gazetted frameworks for conditional grants include provisions that allow grant funds to be used for COVID-19 response activities. These additional conditions include allowing education grants to be used to support the catch-up programme, employ temporary workers to assist in screening learners for signs of fever and sanitise schools, and ensure that all schools have water for handwashing. Health conditional grants include a new COVID-19 component in the *HIV, TB, malaria and community outreach grant*. Funds from the *public transport operations grant* will be used to sanitise buses and provide protective equipment for public transport workers.

Provinces are anticipating a decline in their own revenues of approximately R4 billion, or 18.7 per cent of the amount tabled in their 2020/21 budgets. Tax receipts from casinos and horse racing have declined. Fees paid for public health services have also fallen, as fewer patients are accessing non-COVID-19-related health services.

Local government

Municipalities are responsible for implementing many aspects of the COVID-19 response. These include providing improved access to water and sanitation in informal settlements and rural areas, providing temporary shelter for homeless people, and sanitising public transport facilities. An amount of R20 billion has been made available for municipalities to provide these services in 2020/21. This will consist of:

- An additional R11 billion allocated through the local government equitable share, allowing them to respond to local needs, including the provision of temporary homeless shelters. Two-thirds of this amount will be allocated through the basic services component of the equitable share formula, providing for a temporary increase in the number of households funded for free basic services by 1.4 million, or 13.9 per cent. The remainder will be allocated through the community services component to support the additional costs for municipalities to safely maintain service delivery during the pandemic. Most of the funds in this component are allocated to poorer municipalities.
- R9 billion in reprioritisations within conditional grants already allocated to municipalities. These grants will fund additional water and sanitation provision and sanitisation of public transport.

Municipalities, which depend largely on their own revenues, face significant financial stresses. Metropolitan municipalities reported that their revenue collected in April fell by about 30 per cent on average. This decline is due to a combination of lower demand for services such as electricity and water, and significantly higher non-payment rates for municipal bills. The extent to which municipal bills are paid in the months ahead will depend on the duration of restrictions on economic activity, the pace of recovery and the application of revenue collection measures. Many local governments were already in financial distress. Now the risks posed by their failure to adhere to funding benchmarks – such as retaining one to three months’ worth of cash coverage – are materialising.

Municipal spending of COVID-19-related funds will be monitored through the recently introduced municipal Standard Chart of Accounts. Municipalities are responsible for ring-fencing and classifying their COVID-19 funding and expenditure correctly. Conditional grants will also be monitored through the conditional grant reports required by the Division of Revenue Act. Each municipality is expected to inform its community about its COVID-19-related spending, allowing for local oversight.

The National Treasury has proposed to the South African Local Government Association that, considering the decline in municipal revenues, municipalities should apply for an exemption from implementing wage increases for municipal employees in 2020/21.

Immediate relief provided through the 2019 Division of Revenue Act

Since government declared a national disaster on 15 March 2020, it has invoked provisions in the Division of Revenue Act to facilitate the immediate release of disaster funds. These included the release of R466 million from the *provincial disaster relief grant* to fund the purchase of personal protective equipment by provincial health departments and R150.2 million from the *municipal disaster relief grant*, mainly for sanitisation in municipalities. The relevant provisions were invoked on five grants, allowing the use for disaster alleviation of more than R5 billion in potential underspending. From this, the National Treasury has approved the reallocation of over R4 billion for the provision of emergency water and sanitation, sanitisation and other COVID-19-related activities. As announced in the 2020 *Budget Review*, the National Treasury still intends to review and improve the disaster funding system.

Conclusion

The spread of COVID-19 has required significant adjustments to align 2020/21 spending plans and the division of revenue with core health and economic relief priorities. More details will be presented in the 2020 MTBPS, which will also cover any additional spending pressures that arise in the next several months