**Report of the Select Committee on Appropriations on the Division of Revenue Amendment Bill [B22 – 2022], Dated 22 November 2022**

The Select Committee on Appropriations having considered the *Division of Revenue Amendment Bill* [B22-2022] (National Assembly – section 76), reports as follows**:**

1. **Introduction**

The Minister of Finance tabled the Division of Revenue Amendment Bill (hereafter referred to as the Bill) in Parliament on 26 October 2022 during the presentation of the 2022 Medium Term Budget Policy Statement (MTBPS). The Bill was tabled in Parliament in terms of section 12(4) of the Money Bills and Related Matters Act No. 9 of 2009 (as amended by the Money Bills Amendment Procedure and Related Matters Amendment Act, No 13 of 2018). The Act requires the Minister of Finance to table a Division of Revenue Amendment Bill with a revised fiscal framework if the adjustments budget affects changes to the Division of Revenue Act for the relevant year.

The Bill and its annexures address the following:

* Changes to schedules.
* Changes to provincial allocations.
* Changes to local government allocations.
* Changes to gazetted conditional grant frameworks and allocations.
* Changes to Bill clauses.
1. **Process followed**

The Bill was transmitted to the National Council of Provinces (NCOP) and referred to the Committee on 16 November 2022 after the National Assembly adopted it. The Committee received a briefing from National Treasury on the Bill in its entirety on 10 November 2022. Provinces were invited to this meeting and were also individually briefed by Permanent Delegates on 17 November 2022. Negotiating mandates from provinces were submitted and considered on 21 November and final mandates on 22 November 2022.

1. **Public consultations and stakeholder engagements**

To facilitate public participation, the Committee published adverts in print media in all 11 official languages from 27 to 30 October 2022, in response to which the following stakeholders made submissions:

* Amandla.Mobi.
* Rural Health Advocacy Project.
* TB Advocacy and Accountability Consortium.
* SECTION27.
* Congress of South African Trade Unions (COSATU).

The above stakeholders also made oral presentations during a public hearing on 11 November 2022, held jointly with the Standing Committee on Appropriations. In compliance with Section 214(2) of the Constitution and Section 10(4) of the Intergovernmental Fiscal Relations Act No.97 of 1997, the Committee consulted the Financial and Fiscal Commission (FFC) and the South African Local Government Association (Salga) on the Bill, and was also briefed by the Parliamentary Budget Office (PBO).

1. ***Division of Revenue Amendment Bill* [B22 – 2022]**

The adjusted Budget proposes additional funds to national and provincial government for the 2022/23 financial year. As shown in Table 1, national government receives an additional R48.8 billion and provincial government an additional R48.5 million for 2022/23. These additions are mainly for disaster funding, to enable an appropriate response to the consequences of the April 2022 floods, and any potential disasters that may occur in the remaining months of the 2022/23 financial year, as well as, funding directed towards the state-owned entities (SOEs).

**Table 1:** Equitable division of revenue raised nationally among the three spheres of government

|  |  |
| --- | --- |
| **Spheres of government**  | **Column A** |
| **2022/23 Main Allocations** | **Adjustment**  | **2022/23 Adjusted Allocation** |
|  | **R’000** | **R’000** | **R’000** |
| **National1, 2, 3** | 1 327 188 238 | 48 840 148 | 1 376 028 384 |
| **Provincial**  | 560 756 789 | 48 500 | 560 805 289 |
| **Local**  | 87 311 493 | - | 87 311 493 |
| **Total**  | **1 975 256 520** | **48 888 646** | **2 024 145 166** |

1. *National share includes conditional allocations to provincial and local spheres, general fuel levy sharing with metropolitan municipalities, debt-service costs, the contingency reserve and provisional allocations*
2. *The direct charges for the provincial equitable share are netted out*

***Source: National Treasury (2022 Division of Revenue Amendment Bill)***

The additional R48.8 billion to national government is comprised of the following:

4.1An amount of R12.9 billionin additional funding is effected through adjustments to Votes including –

* R6.4 billion in unforeseeable and unavoidable expenditure directed towards the Department of Cooperative Governance and Traditional Affairs and the Department of Transport for disaster management following the April 2022 floods;
* R500 million earmarked in the 2022 Budget Speech for the Department of Home Affairs Digitisation Project;
* R990.5 million in roll-overs;
* R1.6 billion in self-financing expenditure from the revenue-generating activities of departments;
* R1.9 billion in declared unspent funds (this is a reduction to vote allocations) of which R1.8 billion is attributed to the Department of Social Development due to a lower-than-expected uptake of the COVID-19 Social Relief of Distress (SRD) Grant in 2022/23, due to more stringent qualification criteria being introduced;
* R7.2 billion in additional Direct charges against the National Revenue Fund than

anticipated at the time of the main Budget, which includes debt service costs of R5.9 billion; and

* R13.4 billion in provisional allocations not assigned to Votes.

The above amounts are offset by a R5 billion reduction in the contingency reserve; R3.9 billion in projected under-expenditure by government departments; R2 billion in local government repayments to the National Revenue Fund (NRF); and R4.2 billion in the Infrastructure Fund not assigned to Votes.

4.2 R30 billion is allocated in the Special Appropriation Bill for additional funding to the Department of Public Enterprises and the Department of Transport as follows:

* R23.7 billion for the South African National Roads Agency (SANRAL) for repayment of its maturing debt and debt related obligations.
* R3.4 billion for Denel for the implementation of its turnaround plan.
* R2.9 billion for Transnet for the acceleration of the repair and maintenance of locomotives.

The additional R48.5 million to the provincial equitable share (PES) is exclusively allocated to the KwaZulu-Natal Province for victims of the April 2022 floods and funds -

* The provision of formula and disposable nappies for babies;
* The provision of meals for people in the shelters;
* The payment of shelter-based Social Workers and Social Worker Supervisors; and
* The payment of the Shelters’ Tracking System that allows the monitoring of the progress of people within the shelters.

No adjustments are made to the 2022/23 local government equitable share (LGES).

1. **Changes to provincial conditional grants**

Proposed additions to the provincial conditional grant transfers amount to R2 billion and reductions amount to R48.4 million. The net effect is an additional R1.9 billion to provincial conditional grant transfers for the 2022/23 financial year.

5.1 The proposed additions are as follows:

* R116.8 million is added to the Education Infrastructure Grant for the Eastern Cape and KwaZulu-Natal for the reconstruction and rehabilitation of schools damaged by floods in December 2021 and April 2022.
* R1.4 billion is added to the Provincial Road Maintenance Grant of which R1 billion is allocated to the Eastern Cape, KwaZulu-Natal and the North West Province for the repair of provincial roads damaged by the April 2022 floods; and R389 million is allocated to the Eastern Cape and Limpopo for the construction of modular steel bridges under the Welisizwe Rural Bridges Programme, to assist with the movement of people in rural areas.
* R470 million is added to the Provincial Emergency Housing Grant of which R120 million was shifted from the Municipal Emergency Housing Grant through a gazette in August 2022 to allow for an adequate response to the April 2022 floods; and R350 million is added to replenish the Grant funding in order to respond to housing emergencies that result from the occurrence of a disaster.

5.2 A proposed net reduction of R48.4 million is effected to the 2022/23 Provincial Disaster Response Grantallocation, of which –

* R145.3 million was reduced through a gazette in August 2022 and shifted to the Municipal Disaster Response Grant to allow for an adequate response to the April 2022 floods; and
* R97 million in additional funds is allocated to replenish Grant funding in order to respond to any new disasters that may occur in the remaining months of the 2022/23 financial year.

**6. Changes to local government conditional grants**

Proposed additions to local government conditional grant transfers amount to R3.9 billion, and total reductions amount to R220 million. The proposed adjustments therefore result in a net addition of R3.7 billion for the 2022/23 financial year.

6.1 The proposed additions are as follows:

* R92 million is added to the Informal Settlements Upgrading Partnership Grant:

Municipalities for the eThekwini Metropolitan Municipality, for the purchase of land identified for the relocation of flood victims, who previously resided in informal settlements that were washed away by the April 2022 floods.

* R3.3 billion is added to the Municipal Disaster Recovery Grant for the reconstruction and rehabilitation of municipal infrastructure damaged by flash floods in the Western Cape (Overberg District Municipality, Cape Winelands District Municipality and Garden Route District Municipality) in December 2021; and the April 2022 floods in the Eastern Cape (Winnie Madikizela-Mandela Local Municipality) and KwaZulu-Natal (eThekwini Metropolitan Municipality, uMhlathuze Local Municipality, uThukela District Municipality, uMgungundlovu District Municipality and iLembe District Municipality).
* A total of R393 million is added to the Municipal Disaster Response Grant, comprised of R145.3 million gazetted in August 2022, to allow for an adequate response to the April 2022 floods; and R247.6 million in additional funds to replenish the Grant funding in order to respond to any new disasters that may occur in the remaining months of the 2022/23 financial year.

6.2 The proposed reductions are as follows:

* A reduction of R100 million is effected to the direct Neighbourhood Development Partnership Grant and reprioritised towards the indirect Neighbourhood Development Partnership Grant to undertake the implementation of projects on behalf of municipalities experiencing implementation challenges.
* A reduction of R120 million is effected to the Municipal Emergency Housing Grant and shifted to the Provincial Emergency Housing Grant. These funds were shifted between the disaster grants through a gazette in August 2022, to allow for an adequate response to the April 2022 floods.

6.3 The following roll-overs are affected:

* R1 million is rolled over in the Integrated National Electrification Programme (Municipal) Grant to fund 50 electrification connections in the Dikgatlong Local Municipality.
* R15 million is rolled over in the indirect Regional Bulk Infrastructure Grant to fund operational payments for the Vaal River Pollution Remediation Project in the Emfuleni Local Municipality.

6.4 Reprioritisation

R100 million within the Neighbourhood Development Partnership Grant is shifted from the direct Grant to the indirect Grant to fund project preparation, planning and implementation for municipalities that are having administrative and financial challenges affecting project implementation. The R100 million will continue to fund the projects that were allocated for in the direct component in the Mogale City Local Municipality, KwaDukuza Local Municipality and Emfuleni Local Municipality.

**7. Changes to conditional grant frameworks**

The following changes are proposed to conditional grant frameworks, for approval by Parliament in terms of the process set out in Section 15(4) of the Division of Revenue Act:

* The Provincial Roads Maintenance Grant framework is amended to allow for spending on disaster response in relation to the April 2022 floods and for spending on rural bridges under the Welisizwe Rural Bridges Programme.
* The Education Infrastructure Grant framework is amended to allow for spending to respond to the disasters that occurred in December 2021 and April 2022.
* The Municipal Disaster Recovery Grant framework is amended to allow for spending to respond to the disasters that occurred in December 2021 and April 2022.
* The Informal Settlements Upgrading Partnership Grant: Municipalities framework is amended to ring-fence funds for the purchase of land identified for the relocation of flood victims who previously resided in informal settlements that were washed away by the April 2022 floods, in the eThekwini Metropolitan Municipality.

**8. Stakeholder comments**

**8.1 Financial and Fiscal Commission**

The Financial and Fiscal Commission (FFC) submitted that over the 2023 MTEF, the average growth in the total allocation to provinces remained at 2.8 percent, with a decrease of 0.03 percent between 2022/23 and 2023/24 and marginal growth over the MTEF. The FFC was of the view that this would negatively impact provinces as provincial funding had been affected by fiscal consolidation in recent years. The FFC further submitted that the equitable share to provinces (PES) was expected to decrease by 0.8 percent from R560.8 billion in 2022/23 to R556.4 billion in 2023/24. It was projected to increase by 2.5 percent in nominal terms over the 2023 MTEF, which was insignificant and would negatively affect the provinces' finances.

The FFC submitted that over the 2023 MTEF, provincial conditional grants would increase and reach R401.4 billion in 2025/26. On average, the conditional grant growth rate was expected to increase marginally by 4.3 percent in nominal terms over the MTEF. An additional R116.8 million had been made available to the Eastern Cape and KwaZulu-Natal, through the Education Infrastructure Grant for repairs to schools affected by floods. Furthermore, an additional R1 billion had been allocated through the Provincial Roads Maintenance Grant to repair road infrastructure damaged by floods. While the FFC supported additional funding to restore essential and basic infrastructure, it emphasised the need to develop or update climate change and adaptation strategies, particularly for provinces and areas prone to natural disasters.

Regarding local government, the FFC submitted that it was important to note that multiple risks impacted on municipalities’ ability to deliver services. These challenges were further exacerbated by COVID-19, which related to access to basic services and highlighted fiscal gaps. The FFC made reference to research conducted by the Bureau of Economic Research (BER) and submitted that during 2022, government had focused on mitigating the challenges experienced by local government and develop key policy recommendations. In order to achieve the objectives of local economic development and improve municipal service delivery, municipalities had to focus on strengthening municipal finance and investments. These underpin the ability to broaden economic activity and reverse unemployment trends by creating a conducive economic environment to facilitate and promote social and economic development activities. The FFC welcomed the approval of the Municipal Fiscal Powers and Functions Amendment Bill as it would strengthen municipal revenue through development charges which played a critical role in financing infrastructure-related projects to boost economic growth.

Given the insufficient capacity and challenges faced by municipalities in fulfilling their mandates, the FFC welcomed the review of the conditional grant system concerning infrastructure development, building capacity and providing operational support. This review would enhance municipal performance and capabilities if they were comprehensively applied. For the 2022 MTEF, local government was expected to receive a total of R523 billion from the nationally raised revenue. The total allocation to local government therefore increased by an average growth rate of 6 percent over the MTEF. While noting the additional allocations to local government, the FFC emphasised the importance of strengthening municipal revenue through improved revenue management and reviewing alternative revenue streams.

The FFC submitted that the local government equitable share (LGES) allocation was estimated to be R306.9 billion over the 2022 MTEF, with the unconditional part of the allocation increasing by about 3 percent. While noting the proposed increase in the total allocation to the LGES over the medium term, the FFC indicated that the marginal increase placed added pressure on municipalities' ability to deliver services, given the economic backdrop. In addition, the sufficiency of the allocations became a concern, with many cost drivers of service delivery increasing by more than inflation.

The FFC welcomed the sharp increase in conditional grants in the 2022/23 financial year, given that the bulk of local government conditional grants were for infrastructure-related projects and programmes. According to the FFC, this approach was in line with government’s economic growth and development strategies. However, this would be short-lived as conditional grants exhibited downward trends and negative growth rates over the 2022 MTEF. While it supported, in principle, the additional disaster grants funding through the shifting of funds away from the Provincial Disaster Response Grant and the Municipal Emergency Housing Grant, the FFC cautioned that this process did not resolve challenges facing the financing and management of disasters in the intergovernmental relations system, as conditional grants for disasters were ex-post allocations. Considering the recent floods, the FFC reiterated its previous recommendation that government should consider providing municipalities with performance-based conditional grants, rewarding or incentivising actions that were environmentally efficient and responsive to the adaptation and mitigation of the challenges of climate change. The FFC noted with concern the reprioritisation and shifting of R100 million from the Neighbourhood Development Partnership Grant direct component to the indirect component of the Grant; emphasising its previous stance on this matter on the need for principles and a systematic and transparent process to guide the reclassification and shifting of grants from direct to indirect and *vice versa*.

The FFC made the following recommendations in respect of the Bill:

Provinces

* The Commission reiterated its recommendation made in its 2021 MTBPS submission that, given expenditure moderation, comprehensive reports should be compiled by affected government departments indicating how such moderation was likely to affect the delivery of basic services and how tighter budgets would be managed.
* While the FFC supported the amendments for provinces in the Bill, it recommended that the grant framework for the Provincial Disaster Response Grant be examined to improve its efficiency, appropriateness and effectiveness, in light of the recent flood disasters.

Local Government

* A fundamental review should be conducted in respect of local government transfers, especially from a vertical perspective of the division of revenue, taking into account the factors of geography, rurality and the nature of local development to ensure proper equitable sharing of nationally raised revenue amongst the three spheres of government. This must include a proper re-examination of the assumptions in the Local Government White Paper.
* The FFC re-emphasised its previous recommendation for government to develop a policy framework for municipal disaster risk financing; and supported a systematic review of the design of conditional grants based on an assessment of the respective municipalities.

**8.2 South African Local Government Association (Salga)**

The South African Local Government Association (Salga) indicated that public sector capital investment remained below the 20 percent target of the National Development Plan (NDP). Salga further reported that higher inflation levels would negatively affect municipal revenue collection with households compelled to prioritise food consumption over payment of municipal services. Salga was concerned that the MTBPS made little mention of the critical network of infrastructure municipalities were responsible to uphold, despite the fact that electricity supply was deemed a growth priority reform. While the MTBPS outlined fiscal risks at national and provincial levels, those risks had the most detrimental effect on municipalities and their ability to deliver on their constitutional mandate to provide basic services.

Salga welcomed the 2.4 percent upward adjustment of the gross allocation to local government for the 2022/23 financial year; as well as the upward adjustments of 2.7 percent and 2.6 percent in the 2023/24 and 2024/25 financial years, respectively. However, it was concerned about the 0.1 percent decrease in the local government share of nationally raised revenue in the 2023/24 financial year when compared to the 2022 Budget. Salga indicated that there was disequilibrium in the allocation of resources versus the allocation of functions; quoting a study by the Public Affairs Research Institute, which found that local government was under-funded by an inflation-adjusted amount of approximately R67.1 million (lower shortfall) and R81.5 million (upper shortfall) for the 2022/23 financial year. Salga supported the refinement of the local government equitable share (LGES) formula in an effort to arrive at a cost-reflective basis for rendering basic services as articulated in the 2022 MTBPS; and indicated that by the end of the third quarter of 2021/22, 43 municipalities had been experiencing financial and service delivery crises.

Salga made the following recommendations:

* Government should implement economic recovery strategies that assist businesses in distress and address the Eskom crisis.
* The Ease of Doing Business reform project should be rolled out to other non-metropolitan municipalities.
* Any envisaged bail-out to Eskom should be comprehensive enough to also consider the debt owed by municipalities to the entity. In the 2023 Budget, government should consider offsetting any Eskom debt of municipalities in financial distress against any bail-out appropriated to Eskom with conditions.
* A concerted effort, similar to SOE bail-outs, should be made to alleviate the challenges experienced by municipalities in financial distress. A portion of the higher-than-anticipated revenues should be utilised to alleviate financial pressures for those municipalities. Such an intervention should be accompanied by stringent conditions.

**8.3 Parliamentary Budget Office**

The Parliamentary Budget Office (PBO) provided an overview of the division of nationally raised revenue between the three government spheres, with national receiving 49.7 percent, provincial 41.2 percent and local government 9.1 percent to fulfil their respective responsibilities. While the Bill provided additional funds to national and provincial government, the PBO submitted that there would be a decline over the MTEF in the allocations to provinces and the PBO was concerned that the 2.4 percent annual average growth over the 2022 MTEF was still below the projected average of 5.5 percent of the consumer price index (CPI). The PBO further submitted that spending per capita declined in the medium term. While Health and Education had been cited as areas that would be prioritised, the PBO was of the view that there would be a decline over the medium term for both functions.

The PBO outlined the shifting of funds between grants in order to assist in the response to the April 2022 floods as well as the additions to grants to enable provinces and municipalities to respond adequately should additional disasters occur. However, the PBO quoted the Auditor-General of South Africa (AGSA) that disaster spending was “too slow and inadequate” and made the following recommendations in this regard:

* Government had to shift from being reactive to being proactive.
* Robust needs assessments needed to be done.
* A systemic review of past disaster spending and outcomes should be undertaken.
* Backlogs should be addressed.
* Government had to adequately prepare for and address disasters to avoid cumulative build-up of burdens for communities, rendering them increasingly vulnerable to future events.
* Social security and services should be improved in order to build societal resilience to disasters and act as automatic economic stabilisers during economic downturns and disasters, as households had money to keep spending.

**8.4 Amandla.Mobi**

The Amandla.Mobi community welcomed the extension of the R350 Social Relief of Distress (SRD) Grant to March 2024, commenting that this intervention, while not enough, showed that the demands of the people were taken into consideration by government. Amandla.Mobi argued that government saw it fit to find a budget of R23 billion to pay off the South African National Roads Agency's (Sanral’s) e-tolls debt but failed to find the budget to increase the SRD Grant; adding that this was not a matter of whether there was money or not; it was simply a lack of political will. Furthermore, Amandla.Mobi expressed its disappointment that there was no intention to convert the SRD Grant into a permanent basic income grant (BIG).

In addition, Amandla.Mobi expressed displeasure at the fact that the Minister of Finance had not mentioned the intention to increase taxes for the rich, but that National Treasury had instead proposed increases to Value Added Tax (VAT) or Personal Income Tax (PIT). Amandla.Mobi strongly emphasised that any increase in VAT would negatively impact on the poor and middle income earners, who were already struggling.

**8.5 Rural Health Advocacy Project**

The Rural Health Advocacy Project (RHAP) submitted that health care services were funded primarily through provincial equitable share (PES) allocations. RHAP noted that PES allocations rose in the outer years after a reduction in the 2023/24 financial year. However, it suggested that service capacity in health departments might decline further if economic conditions continued to deteriorate and public sector wages increased above 3 percent. The Constitution required the State to progressively expand access to health care and Parliament had a duty to protect access to health, especially in times of fiscal constraints. The RHAP called for better investment in primary healthcare (PHC) services and focus on rural areas, which suffered historical and ongoing low service coverage. In order to improve the country’s universal health coverage (UHC) and attain the goal of full coverage by 2030, the RHAP was of the view that South Africa needed a human rights budgeting framework. This would require immediate steps towards realising ethical and efficient budget prioritisation.

RHAP submitted that South Africans’ access to healthcare was profoundly unequal, due not only to resource constraints, but also to highly skewed resource distribution, both between the public and private sector, and within the public sector. Internal distributive disparities created substantial inefficiencies due to little correlation between budget allocations and local population needs, driving inequity in access to healthcare and health outcomes. The impact of and response to the COVID-19 pandemic had illustrated that without having built a more equitable health system prior to the pandemic, and in the absence of effective regulation, inequality of access had defined the COVID-19 response; including diagnoses, treatment, and mortalities. Once set, unequal resource distribution would not naturally shift towards equity and efficiency. In light of this, the RHAP recommended as follows:

* A joint committee should be set up temporarily to review and interrogate provincial departments’ budgetary decisions for 2022/23, in accordance with most optimally aligning allocation of available resources to meeting existing needs.
* This committee should be jointly comprised of the national Department of Health, the Portfolio Committee on Health, the National Council of Provinces, and civil society actors in the scope of health.
* Appropriate representatives from provincial departments, such as the heads of department, should engage with this committee to explain how their allocations and their annual performance plan intentionally prioritised efficient coverage for the most vulnerable.

**8.6 TB Advocacy and Accountability Consortium**

The TB Advocacy and Accountability Consortium (TBAAC) reported that the COVID-19 pandemic had had a negative impact of on TB programmes globally. In South Africa TB testing had declined by 23 percent and the number of laboratory-diagnosed individuals by 25 percent. In 2020, only 41 percent of the estimated 328 000 patients had been successfully treated, and almost 120 000 people with TB had not been diagnosed or started on treatment while 73 000 had failed to complete their treatment. The TBAAC submitted that TB mortality has increased for the first time since 2005. In response to this crisis, the Department of Health, prompted by civil society, has released a TB recovery plan to reverse the losses incurred during the pandemic and to accelerate efforts towards attaining its targets.

The TBAAC was of the view that the implementation of this recovery plan was at risk. As compensation of employees (COE) accounted for between 60 and 70 percent of provincial health budgets, paying for increases from existing allocations would reduce funding for service delivery. TB case finding and retention required sufficient health workers at the appropriate level of care; but current funding allocations maintained, rather than expanded, the existing health workforce despite an estimated 28 000 health vacancies. Increasing COE and medico-legal settlements could impact on the consistent availability of medicines required to achieve the recovery plan targets.

In order to address ongoing inequalities and inefficiencies in health spending, TBAAC made the following recommendations:

* Parliament should ensure that existing publicly funded health care capacity is optimised and prioritises those with the greatest need; as well as encourage provinces to ensure that the TB recovery plan is fully funded and implemented.
* A joint committee should be set up temporarily to review and interrogate provincial departments’ resource allocation decisions for 2022/23/24/25 to ensure that strategies are in place to ensure that priority health services like TB are not compromised by the fiscal squeeze.
* This committee should be comprised of the Standing Committee on Finance; the Standing Committee on Appropriations; the National Council of Provinces and the Portfolio Committee on Health.
* Appropriate representatives from provincial departments, such as the heads of department, should engage with this committee to explain how their allocations and their annual performance plans prioritised coverage for the most vulnerable.
* This committee should invite submissions from the National Institute of Communicable Diseases to gain insights into what is needed to strengthen data access and use for decision making and oversight; as TB data is currently recorded on two separate systems, making it difficult to track patients.

**8.7 SECTION27**

SECTION27 submitted that gender implications of the Budget continued to be ignored, with no mention made outside of referencing gender-based violence (GBV); and that adjustments to the PES and conditional grants were not made in a gender-responsive manner.

SECTION27 also commented that the Bill did not propose upwards adjustments to remedy the real decline in Health expenditure. For example, spending per healthcare user was cut from R5 267 in 2021/22, to R5 036 in 2022/23. In addition, SECTION27 lamented the fact that the Bill made no additional funding available to the following grants:

* The National Tertiary Services Grant remained unadjusted, exacerbating the real terms cuts and restricting the provision of Tertiary Health Services.
* No additions were proposed for the Health Facility Revitalisation Grant to repair health facilities destroyed by floods. For example, in KwaZulu-Natal, around 85 health facilities had been destroyed by floods. Despite this level of destruction, the province’s Department of Health had received no additional funds from the National Treasury and were forced to re-prioritise an estimated R200 million of its funds intended for other health priorities. The Eastern Cape also had 12 health facilities destroyed, but received no explicit additional allocations as per this MTBPS to support recovery of these facilities.
* No additions were proposed for the District Health Programmes Grant to equip provinces to achieve HIV/AIDS and TB targets and address backlogs in oncology.

SECTION 27 welcomed the 2022 MTBPS’s reprioritisation of Core Health Services and addressing accumulated backlogs occasioned by the response to the COVID-19 pandemic. However, it noted that this reprioritisation was not evident in the adjusted figures reflected in the Bill. Furthermore, the Bill made no changes in the allocation to the Human Resources for Health sub-programme for the current financial year. Additional funding commitments for healthcare personnel had been deferred to 2023/24, particularly for increasing their headcounts. According to SECTION 27, this deferral was likely to exacerbate the chronic human resource shortages currently being experienced in healthcare facilities across the provinces.

SECTION27 made the following recommendations:

* Expenditure allocations to Health and Basic Education should align with combined CPI inflation and service user growth. This equated to budget growth of 6.8 percent in 2022/23, 4.6 percent in 2023/24 and 4.6 percent in 2024/25, plus an additional 1.2 percent for service user growth in Health and 1.4 percent growth in enrolled learners for Basic Education.
* Parliament should reject further cuts to overall basic education and health care funding until it was satisfied that government had undertaken participatory human rights impact assessments of its decisions to cut funding for fundamental rights. These assessments must show that such measures were necessary and justified and had been taken with all constitutional implications considered.
* Parliament should insist that the Bill and related documents adhere to the Cabinet approved Gender Responsive Planning, Budgeting, Monitoring, Evaluation and Auditing Framework (GRPBMEAF) and that the National Treasury must abide by the FFC’s recommendations addressing gender inequality in this Bill.
* Allocations to compensation budgets should keep up not only with inflation, but projected increases in the demand for healthcare services. A clear, balanced and reasonable political position should be agreed upon and articulated on the proposed way forward regarding the public wage bill and the lagging headcounts.
* Either ring-fenced relief should be granted to ensure that health facilities affected by floods could be repaired, or the Health Facility Revitalisation Grant should be adjusted upwards to account for impact of extreme weather events in KwaZulu-Natal and the Eastern Cape.
* Immediate plans and budgets must be developed to fix problems in cancer care.; as patients reliant on time-sensitive oncology treatments could not wait until the February budget for bottlenecks in cancer care to be resolved.
* Parliament should reject proposed real term funding cuts to the basic education sector in the current financial year and over the MTEF; as these cuts would hamper the ability of provinces to deliver improved public schooling and infrastructure; provide adequate portions of nutritious meals to learners daily; and the roll-out of quality and universal early childhood development (ECD) programmes.
* Teaching posts must be protected and expanded, coupled with additional support to the Funza Lushaka Bursary to counteract the burgeoning teacher retirement crisis.
* Allocations to the Education Infrastructure Grant must be increased and historical reductions in spending on education infrastructure addressed, to support all disaster-struck schools.
* Funding for the National School Nutrition Programme should be linked to foodinflation, estimated at an annual 8.5 percent average.

**8.8 Congress of the South African Trade Unions (COSATU)**

The Congress of South African Trade Unions (COSATU) was deeply concerned by the MTBPS and the accompanying Bill tabled by the Finance Minister. In light of the fact that the South African economy had been stagnant for over a decade and the country was experiencing periodical riots because of desperation and hopelessness, COSATU was hoping for a bold MTBPS and Bill that would protect workers from inflation, rebuild the state, decisively tackle corruption, provide relief to the unemployed and put measures in place to stimulate the economy. However, COSATU acknowledged that there were some positive interventions in the policy statement. COSATU welcomed the additional allocation of R37 billion to help key frontline service departments, social security and SOEs; but was worried about the under-spending of R5.8 billion in a climate of scarce resources. COSATU submitted that suffocating the economy through budget cuts and scapegoating public servants had not worked, and government needed to focus more on addressing the fundamental causes of the fiscal crisis, namely a stagnant economy, rampant corruption, massive unemployment, load-shedding and limping SOEs.

COSATU made the following comments and proposals with regard to the Bill:

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| Public sector wage bill | * COSATU expressed their displeasure at government’s decision to announce its public sector wage offer outside the Public Service Coordinating Bargaining Council (PSCBC).
* COSATU highlighted the rapid shrinking headcount of the South African Police Service, which had moved from 208 000 in 2010 to 172 000 in 2022, with a further 10 000 expected to retire this year.
* In addition to the above, there might be resignations and deaths that could make the situation even worse.
* COSATU argued that the country remained far behind on the roll-out of infrastructure programmes.
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| Provincial and local government | * COSATU was concerned that the provincial governments had spent only 40 percent of their allocated budgets halfway through the financial year.
* The Auditor-General of South Africa (AGSA) had flagged the rapid decline in the functioning of municipalities, yet the Bill and MTBPS provided no details on what was being done to halt this.
* The number of financially distressed municipalities had risen from 10 to 90 percent over the past decade.
* The number of municipalities failing to pay workers on time as legally required, was also increasing.; and non-payment to medical aids, pension funds and tax authorities of monies deducted from workers was a criminal offence and those responsible must be arrested and charged for fraud and theft.
* Parliament needed to hold these offending municipalities and the non-responsive Department of Cooperative Governance and Traditional Affairs accountable.
 |
| Damage caused by floods in KwaZulu-Natal, Eastern Cape and other provinces | * COSATU welcomed the additional allocations and adjustments to provide for the massive damage caused by floods in 2022 in large parts of KwaZulu-Natal and the Eastern Cape as well as other floods experienced in the North West and the Western Cape previously.
* However, COSATU was concerned by continuous reports of monies not reaching provinces and municipalities timeously or filtering down to persons, families and communities affected by the floods.
* COSATU argued that government had not been effective in communicating what relief was provided, how and to whom and how to access it. In the era of state capture and corruption this fed into a culture of distrust; made worse by the easy dissemination of fake news over social media.
 |
| Departmental allocations | * The projected below-inflation increases in allocations to key frontline service departments, in particular Basic Education, Health, SAPS, Justice, Agriculture, and Employment and Labour; was alarming and would continue to cripple government’s ability to provide quality public services that workers and the economy depended upon.
* It was worrying that indicators showed that some departments were struggling to meet their targets halfway through the financial year, including Basic Education, Higher Education and Training, the National Prosecuting Authority, the Council for Commission for Conciliation, Mediation and Arbitration, Human Settlements, Mineral Resources and Energy, Small Business Development, Transport, and Water and Sanitation.
 |
| Presidential Stimulus Package  | * Government’s failure to commit to an increase in the funding for the Presidential Employment Stimulus was a let-down to the millions of unemployed young people.
* This also applied to the National Treasury’s failure to intervene with the banks to resolve the impediments that had led to less than 2 percent of the Bounce-Back Scheme funds being allocated to Small Medium and Micro Enterprises.
 |
| SRD Grant | * COSATU welcomed the extension of the SRD Grant that had provided relief to about 10 million people.
 |

**9. Provincial mandates**

The Committee met on 21 and 22 November 2022 to consider negotiating and final mandates from provinces.

**9.1 Negotiating mandates**

9.1.1 Eastern Cape abstained from offering a view, due to challenges experienced.

9.1.2 Free State supported the Bill and raised issues.

9.1.3 Gauteng supported the Bill and made recommendations.

9.1.4 KwaZulu-Natal supported the Bill.

9.1.5 Limpopo supported the Bill.

9.1.6 Mpumalanga supported the Bill and made recommendations.

9.1.7 Northern Cape supported the Bill and made recommendations.

9.1.8 North West supported the Bill and made recommendations.

9.1.9 Western Cape did not support the Bill.

**9.2 Final mandates**

9.2.1. Eastern Cape did not submit a final mandate.

9.2.2. Free State supported the Bill.

9.2.3. Gauteng supported the Bill.

9.2.4. KwaZulu-Natal supported the Bill.

9.2.5. Limpopo supported the Bill.

9.2.6. Mpumalanga supported the Bill.

9.2.7. Northern Cape supported the Bill.

9.2.8. North West supported the Bill.

9.2.9. Western Cape did not support the Bill.

**10. Findings and observations**

While deliberating and considering all the submissions made by stakeholders on the *Division of Revenue Amendment Bill* [B22-2022], the Committee made the following findings and observations:

* 1. The Committee welcomes the proposed additions to the provincial conditional grant transfers amounting to R2 billion, despite the reduction of R48.4 million, giving the net effect of an additional R1.9 billion for the 2022/23 financial year.
	2. The Committee welcomes the additional R48.5 million to the provincial equitable share, which is exclusively allocated to KwaZulu-Natal for victims of the April 2022 floods to provide for formula and disposable nappies for babies; meals for people in shelters; payment for shelter-based social workers and supervisors; as well as the payment for the Shelters’ Tracking System to allow for the monitoring of the progress of people.
	3. The Committee notes the proposed amendment to the Provincial Roads Maintenance Grant framework to allow for spending on disaster response in relation to the April 2022 floods and for spending on rural bridges under the Welisizwe Rural Bridges Programme.
	4. The Committee notes the proposed amendment to the Education Infrastructure Grant framework to allow for spending to respond to the disasters that occurred in December 2021 and April 2022 in various parts of the country.
	5. The Committee welcomes the proposed additions to local government conditional grant transfers amounting to R3.9 billion, despite the total reduction of R220 million, giving the net effect of an additional R3.7 billion for the 2022/23 financial year.
	6. The Committee welcomes the additional R3.3 billion to the Municipal Disaster Recovery Grant for the reconstruction and rehabilitation of municipal infrastructure damaged by floods in the Western Cape (Overberg District Municipality, Cape Winelands District Municipality and Garden Route District Municipality); the Eastern Cape (Winnie Madikizela-Mandela Local Municipality) and KwaZulu-Natal (eThekwini Metropolitan Municipality, uMhlathuze Local Municipality, uThukela District Municipality, uMgungundlovu District Municipality and iLembe District Municipality). However, the Committee remains concerned about the efficiency and effectiveness of implementation of the disaster response programmes in areas where disasters have occurred; including the slow process in transferring much needed relief funds to such areas.
	7. The Committee notes the proposed amendment to the Municipal Disaster Recovery Grant framework to allow for spending to respond to the disasters that occurred in December 2021 and April 2022. However, the Committee remains concerned about the reported slow and inadequate expenditure on disasters, as recently cited by the Auditor-General of South Africa (AGSA).
	8. The Committee notes that the framework of the Informal Settlements Upgrading Partnership Grant (ISUP): Municipalities is amended to ring-fence funds for the purchase of land identified for the relocation of flood victims who previously resided in informal settlements that were washed away by the April 2022 floods around eThekwini Metropolitan Municipality.
	9. The Committee notes the FFC recommendations around the need for principles and a systematic and transparent process to guide the reclassification and shifting of conditional grants from direct to indirect and *vice versa;* and that, given expenditure moderation, comprehensive reports should be compiled by affected departments indicating how such moderation is likely to affect the delivery of basic services and how tighter budgets would be managed; and that the grant framework for the Provincial Disaster Response Grant be examined to improve its efficiency, appropriateness and effectiveness, in light of the recent flood disasters.
	10. The Committee agrees with the FFC recommendation that a fundamental review should be conducted in respect of local government transfers, especially from a vertical perspective of the division of revenue, taking into account the factors of geography, rurality and the nature of local development to ensure proper equitable sharing of nationally raised revenue amongst the three spheres of government. Furthermore, this should include a proper re-examination of the assumptions in the Local Government White Paper.
	11. The Committee notes Salga’s recommendations that government should implement economic recovery strategies that will assist businesses in distress and address the Eskom crisis; that the Ease of Doing Business reform project should be rolled out to other non-metropolitan municipalities; and that any envisaged bail-out to Eskom should be comprehensive enough to also consider the debt owed by municipalities to the entity. Moreover, Salga’s concern around the disequilibrium in the allocation of resources versus the allocation of functions in local government is also noted.
	12. The Committee joins Amandla.Mobi in welcoming the extension of the R350 Social Relief of Distress (SRD) Grant to March 2024, which is indeed a reflection that the demands of the people were heard. However, the Committee remains concerned about the fact that this Grant is not going far enough, given the increasing unemployment, poverty and inequality in South Africa.
	13. The Committee notes the proposal from the Rural Health Advocacy Project (RHAP) regarding a temporary joint committee to review and interrogate provincial departments’ budgetary decisions in accordance with the most optimal allocation of available resources; to be comprised of the Department of Health; the Portfolio Committee on Health, the National Council of Provinces, and civil society actors within the scope of health. However, the Committee remains concerned about the legal standing of such a committee; and the duplication of roles that might arise, given that both provincial and national legislatures have sector committees assigned to perform the same function in the health sector.
	14. The Committee notes the TB Advocacy and Accountability Consortium’s concern that, while TB case finding and retention required sufficient health workers at the appropriate level of care, current funding allocations maintained rather than expanded the existing health workforce, despite an estimated 28 000 vacancies not being filled. Furthermore, the increasing compensation of employees and medico-legal claims could impact negatively on the consistent availability of medicines required to achieve government’s TB recovery plan targets.
	15. The Committee agrees with SECTION27 regarding the need for more funds for the Health Facility Revitalisation Grant to repair about 85 health facilities in KwaZulu-Natal and 12 in the Eastern Cape destroyed by floods; as provincial departments of health have been forced to re-prioritise an estimated R200 million from other health priorities to address this.
	16. The Committee shares COSATU’s concern about government’s failure to increase funding for the Presidential Employment Stimulus, given the high rate of unemployment amongst the youth; as well as the failure to promptly intervene and resolve the impediments that had led to less than 2 percent of the Bounce-Back Scheme funds being disbursed by banks to small, medium and micro enterprises (SMMEs).
	17. The Committee shares COSATU’s concern over developments at the Post Office, where 6 000 workers are about to lose their jobs, especially the effect this will have on families and rural economies. Furthermore, the Committee notes that the Post Office is experiencing the same crisis as local government, such as failure to pay workers and to transfer statutory payments to the Unemployment Insurance Fund (UIF), medical aid schemes and pension funds. The Committee views this as criminal neglect and calls for immediate consequence management against the perpetrators.
	18. The Committee remains concerned that there are still spending capacity challenges within municipalities, evidenced by the significant amounts being returned to the National Revenue Fund (NRF) unspent, such as the R2 billion of Municipal Infrastructure Grant (MIG) funds being returned. The Committee believes that failure to spend, due to poor planning and inadequate capacity, continues to undermine government commitments to make progress through an infrastructure-led economic recovery, particularly at local government.
	19. The Committee notes the R30 billion bail-out allocated through the 2022 Special Appropriation Bill for additional funding from the higher than anticipated revenues to the South African National Roads Agency (Sanral) for repayment of its maturing debt, to Denel to implement its turnaround plan and to Transnet to accelerate the repair and maintenance of locomotives. Whilst this might send a positive signal to investors that government is committed to resolve some of the problems of state-owned entities (SOEs), the Committee remains concerned when such financial support is not anchored in a sound and clear implementable turnaround strategy; as it may continue to compromise social programmes to alleviate poverty, unemployment and inequality.

**11. Recommendations**

The Select Committee on Appropriations, having considered submissions from various stakeholders on the *Division of Revenue Amendment Bill* [B22-2022], recommends as follows:

* 1. The Minister of Finance should gazette the adjustment allocations in the *Division of Revenue Amendment Bill* [B22 – 2022] as tabled together with the Medium Term Budget Policy Statement (MTBPS) on 26 October 2022. These include the roll-overs, unforeseen and unavoidable expenditure, declared unspent funds, provisional allocations not earmarked for specific Votes, and provincial and local government changes to conditional grants and the equitable share. Furthermore, the gazette should include the proposed amendments to the following specific grant frameworks to allow for spending on disaster response in relation to the December 2021 and April 2022 floods and disasters:
* Provincial Roads Maintenance Grant, to allow for spending on rural bridges under the Welisizwe Rural Bridges Programme.
* Education Infrastructure Grant framework.
* Municipal Disaster Recovery Grant framework.

* 1. The KwaZulu-Natal Province should put proper mechanisms in place to ensure that the additional R48.5 million allocated reaches the intended beneficiaries who are mostly the victims of the April 2022 floods; to provide formula and disposable nappies for babies; meals for people in shelters; payment for shelter-based social workers and supervisors; and the payment for the Shelters’ Tracking System.
	2. The National Treasury, together with the Department of Cooperative Governance and Traditional Affairs, should ensure prompt response when disasters happen, including transfer of the much needed funds earmarked for disaster relief; and ensure the effective spending of the additional R3.3 billion to the Municipal Disaster Recovery Grant for the reconstruction and rehabilitation of municipal infrastructure damaged by floods in the Western Cape, the Eastern Cape and KwaZulu-Natal.
	3. The National Treasury, together with the Department of Human Settlements and the eThekwini Metropolitan Municipality, should expedite the process of relocating the victims of the April 2022 floods and disasters, which were residing in informal settlements in eThekwini. The Committee believes that the amendment of the framework of the Informal Settlements Upgrading Partnership Grant: Municipalities to ring-fence funds for the purchase of land identified for the relocation will assist to fast-track the process.
	4. Given the impact of the recent floods, the Committee recommends that government should consider providing municipalities with performance-based conditional grants, rewarding or incentivising programmes that are environmentally efficient and responsive to the adaptation and mitigation of the challenges of climate change.
	5. The National Treasury should correct the allocations and effect the required changes to the Municipal Disaster Recovery Grant (MDRG) framework to ensure that MDRG allocations are correctly allocated to the municipalities assigned for the function.
	6. The Committee believes that a proper review with respect to local government transfers is necessary, especially from a vertical perspective of the division of revenue; taking into account the increasing number of dysfunctional and financially distressed municipalities, the factors of geography and rurality and the nature of local development; to ensure proper equitable sharing of nationally raised revenue amongst the three spheres of government. Furthermore, this should include a proper re-examination of the assumptions in the Local Government White Paper, testing their applicability and relevancy, given the current situation.
	7. The Department of Health, together with its provincial counterparts, should ensure that the estimated 28 000 vacancies are filled, where funding is available, to address staff shortages in areas where sufficient health workers are required to be at an appropriate level of care. Furthermore, the departments should address the issues of increasing compensation of employees and medico-legal claims, given its negative impact on the consistent availability of medicines and other health essentials.
	8. While the National Treasury, together with the Department of Health, continue to find ways to improve grant expenditure trends, the Committee urges both Departments to make more funds available in the 2023 budget for the Health Facility Revitalisation Grant to repair the health facilities destroyed in KwaZulu Natal and the Eastern Cape during the April 2022 floods. A progress report should be provided in this regard in the next budget cycle.

11.10 The Department of Communications and Digital Technologies should ensure that a clear plan is developed and implemented to address the issue of 6 000 Post Office workers who are about to lose their jobs; and that the issue of statutory payments, such as to the Unemployment Insurance Fund (UIF), medical aid schemes and pension funds, is also addressed. The Committee is of the view that failure to transfer statutory payments is unacceptable and consequence management must be implemented immediately. A progress report should be provided in this regard in the next budget cycle.

11.11 The South African Local Government Association (Salga), together with the Department of Water Affairs, the Department of Cooperative Governance and Traditional Affairs, the University of Pretoria and the Development Bank of Southern Africa, should continue to intensify capacity building efforts to assist municipalities to address infrastructure repairs and maintenance challenges, particularly with regards to water treatment plants to address sewage spillage in certain areas.

11.12 With regards to the R30 billion bail-out to Sanral, Denel and Transnet, the Department of Public Enterprises, the Department of Transport and the National Treasury should be conscious of the fact that state-owned entities (SOEs) cannot rely on government financial support forever, even if it is financed through higher than anticipated revenues. The Committee is of the view that provision of continuous financial support to SOEs directly from the fiscus will continue to compromise social programmes for the poor and other developmental obligations. As part of the SOE turnaround strategy, the Committee is calling for concrete steps to be taken by the Department of Public Enterprise and the Department of Transport to strengthen oversight, leadership capacity/boards of directors and financial management capacity, and to ensure the appointment of suitably qualified and experienced officials to turn around the balance sheets of these entities within a reasonable period after the adoption of this Report by the House.

11.13 National Treasury, together with the Department of Women, Youth and Persons with Disabilities, should find a way to develop appropriate mechanisms to design and implement more gender-responsive budgeting, to address the scourge of gender-based violence in South Africa. This should include strengthening and capacitating gender-based violence desks at police stations, to ensure that such cases are resolved expeditiously.

11.14 Whilst the Committee welcomes the extension of the Social Relief of Distress (SRD) Grant with a clear understanding that this was introduced as a temporary measure during the COVID-19 pandemic; the Committee implores the Department of Social Development to ensure that proper internal control systems are put in place to effectively manage and distribute the Grant; that criteria to ensure the Grant reaches all intended beneficiaries are continuously improved, given the uncertainty in the job market; and that any allegations of corruption are investigated and law enforcement agencies allowed to deal with such matters expeditiously.

**12. Committee decision**

The Select Committee on Appropriations, having considered the *Division of Revenue Amendment Bill* [B22-2022] (National Assembly) referred to it and classified by the Joint Tagging Mechanism (JTM) as a Section 76 Bill, recommends that the Bill be adopted, without amendments.

**13. Conclusion**

The *Division of Revenue Amendment Bill* [B22 – 2022] fulfils the requirements set out in section 12(4) of the Money Bills and Related Matters Act, 2009 (Act 9 of 2009) that the Minister of Finance must table a division of revenue amendment Bill with the revised fiscal framework if the adjustments budget effects changes to the Division of Revenue. As such the proposed adjustments in the Bill has in the main focus on addressing the effects of floods and disasters which occurred in December 2021 and April 2022, causing significant damage to infrastructure. Therefore, all three spheres of government are now called upon to strengthen their monitoring mechanisms on grant spending to ensure value for money and a prompt response when disasters happen, including immediate transfer of the much needed relief funds to the affected areas.

Parliament and provincial legislatures are also called upon to strengthen their oversight role to ensure that these adjustment allocations are spent according to approved plans and the Bill framework. This calls for a collaborative and synergic effort from all stakeholders involved, be it internal or external oversight bodies, to work together to ensure that allocations are used effectively for their intended purpose to ensure a better life for all South Africans.

The Democratic Alliance (DA), the Economic Freedom Fighters (EFF) and the Freedom Front Plus (FF+) reserved their position on the Report.

Report to be considered.